



PKO BANK POLSKI
SPÓŁKA AKCYJNA

PKO BANK POLSKI SA
DIRECTORS' REPORT FOR THE YEAR 2011



TABLE OF CONTENTS:

1. INTRODUCTION	4
1.1 PKO BANK POLSKI SA – HISTORICAL BACKGROUND	4
1.2 PKO BANK POLSKI SA IN YEARS 2009-2011	5
1.3 GENERAL INFORMATION	6
1.4 SELECTED FINANCIAL DATA OF PKO BANK POLSKI SA	7
1.5 PKO BANK POLSKI SA AGAINST ITS PEER GROUP	8
2. EXTERNAL BUSINESS ENVIRONMENT	9
2.1 MACROECONOMIC ENVIRONMENT	9
2.2 THE SITUATION ON THE STOCK EXCHANGE	9
2.3 THE MARKET OF TREASURY DEBT SECURITIES	10
2.4 THE CURRENCY MARKET	10
2.5 THE SITUATION OF THE POLISH BANKING SECTOR	10
2.6 REGULATORY ENVIRONMENT	11
3. FINANCIAL RESULTS OF PKO BANK POLSKI SA	13
3.1 FACTORS INFLUENCING RESULTS OF PKO BANK POLSKI SA IN 2011	13
3.2 KEY FINANCIAL INDICATORS	13
3.3 INCOME STATEMENT	13
3.4 STATEMENT OF FINANCIAL POSITION OF PKO BANK POLSKI SA	17
4. BUSINESS DEVELOPMENT	21
4.1 DIRECTIONS OF DEVELOPMENT OF PKO BANK POLSKI SA	21
4.2 MARKET SHARE OF PKO BANK POLSKI SA	22
4.3 BUSINESS SEGMENTS	22
4.3.1 RETAIL SEGMENT	22
4.3.2 CORPORATE SEGMENT	26
4.3.3 INVESTMENT SEGMENT	28
4.4 INTERNATIONAL COOPERATION	31
4.5 ISSUANCE OF OWN DEBT SECURITIES AND EURO BONDS	31
4.6 ACTIVITIES IN THE AREA OF PROMOTION AND IMAGE BUILDING	31
5. INTERNAL ENVIRONMENT	36
5.1 ORGANISATION OF PKO BANK POLSKI SA	36
5.2 PRINCIPLES OF RISK MANAGEMENT	36
5.2.1 CREDIT RISK	38
5.2.2 INTEREST RATE RISK	39
5.2.3 CURRENCY RISK	40
5.2.4 LIQUIDITY RISK	40
5.2.5 THE PRICE RISK OF EQUITY SECURITIES	41



5.2.6	DERIVATIVE INSTRUMENTS RISK	41
5.2.7	OPERATIONAL RISK	42
5.2.8	COMPLIANCE RISK	42
5.2.9	STRATEGIC RISK	43
5.2.10	REPUTATION RISK	43
5.2.11	CAPITAL ADEQUACY	43
5.3	ORGANISATIONAL AND CAPITAL STRUCTURE	45
5.4	HUMAN RESOURCES MANAGEMENT IN PKO BANK POLSKI SA	51
5.4.1	INCENTIVE SYSTEM IN PKO BANK POLSKI SA	51
5.4.2	REMUNERATION POLICY	51
5.4.3	BENEFITS FOR EMPLOYEES	52
5.4.4	NUMBER OF EMPLOYEES	53
5.4.5	TRAINING POLICY	53
6.	CORPORATE GOVERNANCE	55
6.1	INFORMATION FOR INVESTORS	55
6.1.1	SHARE CAPITAL AND SHAREHOLDING STRUCTURE OF PKO BANK POLSKI SA	55
6.1.2	INFORMATION CONCERNING DIVIDEND	55
6.1.3	SHARE PRICE OF PKO BANK POLSKI SA AT WARSAW STOCK EXCHANGE	56
6.1.4	ASSESSMENT OF FINANCIAL CREDIBILITY OF PKO BANK POLSKI SA	57
6.1.5	INVESTOR RELATIONS	57
6.2	COMPLIANCE WITH THE RULES FOR CORPORATE GOVERNANCE	58
6.2.1	THE RULES FOR CORPORATE GOVERNANCE AND THE SCOPE OF USE	58
6.2.2	CONTROL SYSTEMS IN FINANCIAL STATEMENTS PREPARATION PROCESS	59
6.2.2.1	INTERNAL CONTROL AND RISK MANAGEMENT	59
6.2.2.2	ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS	60
6.2.3	SHARES AND SHAREHOLDERS OF PKO BANK POLSKI SA	61
6.2.4	LIMITATIONS ON THE SHARES OF PKO BANK POLSKI SA	62
6.2.5	THE MEMORANDUM OF ASSOCIATION AND MANNER OF FUNCTIONING OF ANNUAL GENERAL MEETING OF PKO BANK POLSKI SA	62
6.2.5.1	PRINCIPLES FOR AMENDING THE MEMORANDUM OF ASSOCIATION OF PKO BANK POLSKI SA	62
6.2.5.2	CHANGES IN THE MEMORANDUM OF ASSOCIATION IN 2011	62
6.2.6	ANNUAL GENERAL MEETING, ITS MANNER OF FUNCTIONING AND FUNDAMENTAL POWERS	63
6.2.7	THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD OF PKO BANK POLSKI SA IN THE REPORTING PERIOD	65
6.2.7.1	THE SUPERVISORY BOARD OF PKO BANK POLSKI SA	65
6.2.7.2	THE MANAGEMENT BOARD OF PKO BANK POLSKI SA	69
6.3	ADDITIONAL INFORMATION ABOUT MANAGERS AND SUPERVISORS	76
6.3.1	SHARES OF PKO BANK POLSKI SA HELD BY THE BANK'S AUTHORITIES	76
6.3.2	AGREEMENTS CONCLUDED BETWEEN THE ISSUER AND MANAGING PERSONS	76
6.3.3	BENEFITS FOR SUPERVISORS AND MANAGERS	77
7.	OTHER INFORMATION	78



1. INTRODUCTION

1.1 PKO Bank Polski SA – historical background

PKO Bank Polski SA - historical background	1919-1938	<ol style="list-style-type: none"> Pocztowa Kasa Oszczędności was established through a decree signed by the Head of the country Józef Piłsudski, prime minister Ignacy Paderewski and founder, and the first president Hubert Linde Pocztowa Kasa Oszczędności vested with legal personality as a state institution, operating under the supervision and with guarantee of the State first local branch of Pocztowa Kasa Oszczędności was founded in Poznań Pocztowa Kasa Oszczędności started to run Szkolne Kasy Oszczędności (School Savings Unions) with the initiative of Pocztowa Kasa Oszczędności, Treasury Ministry has decided to set up Bank Polska Kasa Opieki (today Pekao SA) as a public company to facilitate the Polish Diaspora the transfer of Polish foreign currencies to the country Pocztowa Kasa Oszczędności strongly contributed to the development of non-cash transactions - every other larger industrial plant and any large company had a cheque account in Pocztowa Kasa Oszczędności, and cheque turnover in Poland was half as much greater than the cash
	1939-1945	years of war were time of huge losses and standstill in the activity of Pocztowa Kasa Oszczędności
	1949-1988	<ol style="list-style-type: none"> Pocztowa Kasa Oszczędności transformed as Powszechna Kasa Oszczędności Banking Law introduced privilege of saving deposits held in Powszechna Kasa Oszczędności, they were covered by the State guarantee Powszechna Kasa Oszczędności introduced a modern product: current account Powszechna Kasa Oszczędności merged into the structures of the National Bank of Poland (NBP); yet retains its identity (1975) Powszechna Kasa Oszczędności was separated from the National Bank of Poland (1988)
	1991-2000	<ol style="list-style-type: none"> the first card 'PKO Ekspres', which served only to cash withdrawals from ATMs, was issued the Memorandum of Association granted to Bank by the Council of Ministers include a modified name of Powszechna Kasa Oszczędności - Bank Państwowy (a state bank); PKO BP in the short form the first Supervisory Board of PKO BP was appointed IT departmental system ZORBA3000, which automated all banking operations performed in a branch was implemented the mortgage loan 'Alicja' with deferred payment of a part of receivables was the most popular housing loan in country the first internet information portal of the Bank was launched a package of mortgage loans 'Własny Kąt' for individual clients, and a loan 'Nowy Dom' for corporate clients appeared in the PKO BP's offer e-PKO Internet banking was launched the Bank was transformed into a wholly-owned subsidiary of the State Treasury under the name of PKO Bank Polski Spółka Akcyjna
	2004-2010	<ol style="list-style-type: none"> successful Bank's flotation took place - at the end of the first day of quotations, shares of the Bank reached a price of PLN 24.50 per unit against the issue price fixed at PLN 20.50 a consumer loan 'Szybki Serwis Kredytowy' due to its innovativeness proved to be one of the highest rated in the market rollout of Integrated IT System O-ZSI in the Bank's network was completed successful rights issue of 250 000 000 D series shares was conducted within public offering, which resulted in the Bank's capital increase from PLN 1 000 000 000 to PLN 1 250 000 000 (2009) 'Lider' development strategy of PKO Bank Polski SA for years 2010-2012 was adopted commercial scale issuance of EMV technology compliant contactless smart Visa cards commenced PKO Bank Polski SA (through its subsidiary PKO Finance AB) issued 5-year Eurobonds with value EUR 800 million
	2011	<ol style="list-style-type: none"> a new, innovative offer of current accounts (ROR), diversified in terms of customer preferences, was added to the Bank's offer: SUPERKONTO Oszczędne, PKO Konto za Zero, PKO Konto dla Młodych, PKO Konto Pogodne, PKO Konto Pierwsze PKO Bank Polski SA reached the highest ever value of amounts due from corporate clients, by which it became a leader in corporate entities loans PKO Bank Polski SA reached a record net profit of PLN 3 953.6 million



1.2 PKO Bank Polski SA in years 2009-2011

	2011	2010	2009
Statement of financial position (in PLN million)			
Total assets*	188 373	167 239	153 647
Equity*	22 802	21 202	20 180
Loans and advances to customers*	140 059	128 933	114 426
Amounts due to customers*	150 031	135 289	124 044
Income statement (in PLN million)			
Net profit*	3 954	3 311	2 432
Net interest income*	7 505	6 384	4 842
Net fee and commission income*	2 873	2 938	2 364
Result on business activities*	10 785	9 792	8 354
Net impairment allowance and write-downs*	(1 812)	(1 767)	(1 393)
Administrative expenses*	(4 058)	(3 902)	(3 905)
Financial indicators			
ROE net**	18.3%	15.5%	15.9%
ROA net**	2.2%	2.1%	1.7%
Interest margin**	4.6%	4.3%	3.8%
Capital adequacy ratio*	11.93%	11.99%	14.28%
C/I*	37.6%	39.8%	46.7%
Operational data			
Number of branches (in number of units)	1 198	1 208	1 228
Number of employees (in number of full-time equivalents)	25 908	26 770	27 846
Number of current accounts (in thousand of units)	6 182	6 150	6 212
Number of clients (in thousand)			
Retail clients	7 225	7 126	7 089
Inteligo	645	632	618
Small and medium entities	309	310	315
Housing market	44	38	32
Corporate clients	11	12	11
Data on shares			
Capitalisation of the stock exchange (in PLN million)	40 150	54 188	47 500
Number of shares (in million of units)	1 250	1 250	1 250
Dividend per share (in PLN) <i>(paid in the particular year from the profit for the previous year)</i>	1.98	1.90	1.00
Share price (in PLN)	32.12	43.35	38.00

* Data based on standalone financial statements for the particular year.

** Data brought to comparability



1.3 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. Therefore, PKO Bank Polski SA consistently takes measures in order to consolidate perception of the Bank as an institution:

- 1) secure, strong and competitive,
- 2) modern and innovative, client-friendly and efficiently managed,
- 3) socially responsible, concerned about the development of the cultural awareness of Poles.

In 2011 the Bank continued strengthening its position as the leader. Total assets increased by almost 13% reaching the level of PLN 188.4 billion, what accounted for 14.5%¹ of Polish banking sector's total assets as at the end of 2011.

Thanks to the accumulation of earnings and increase of net profit, equity increased by 7.5% to PLN 22.8 billion as at the end of the 2011 (17.7% of the equity of the entire sector). This enabled the Bank to achieve a capital adequacy ratio of 11.93% which ensured security for its operations. The well-proven through stable financial situation clients' trust translated into a 10.9% increase in amounts due to customers which reached PLN 150.0 billion, and the Bank's share in the sector's deposits amounted to 17.8%.

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 is also a leading bank for corporate clients and small and medium entities in Poland – especially with regard to financing their operations. The high client service standards as regards customer service and effective credit risk assessment procedures enabled the Bank to increase its gross loan portfolio by 8.9% to the level PLN 145.0 billion in 2011, what translated into high market share in loans at the level of 16.2%.

In 2011, the Bank continued its activities concerning the efficiency of the expenditure and costs incurred, which manifested in a selective approach towards development of distribution network. As at the end of 2011, the largest network of branches in Poland comprised of 1 198 branches and 1 400 agencies. The Bank's clients can use the e-banking services offered under the iPKO brand, the range of which is expanded regularly. They also have an increasing number of ATMs at their disposal – as at the end of 2011, there were 2 457 ATM machines. The Bank's services are used by 7.6 million clients in the retail sector, 0.6 million Inteligo clients and 11.4 thousand clients in the corporate sector.

PKO Bank Polski SA is one of the largest employers in Poland. At the end of 2011, the Bank employed 26.5 thousand people. The comprehensive learning and education offer was aimed at building loyal and competent staff, providing increasingly higher standard of providing services to the clients and achieving high performance.

Apart from the strictly banking operations, PKO Bank Polski SA also conducts brokerage activities and 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.

The activities of the PKO Bank Polski SA Foundation for the public good in the widest possible range are the expression of the PKO Bank Polski SA social responsibility.

¹ Source: data from Polish Financial Supervision Authority



1.4 Selected financial data of PKO Bank Polski SA

	2011		2010		Change 2011/2010
NET PROFIT	3 953.6	PLN million	3 311.2	PLN million	19.4%
RESULT ON BUSINESS ACTIVITIES*	10 784.5	PLN million	9 792.1	PLN million	10.1%
ADMINISTRATIVE EXPENSES	(4 058.5)	PLN million	(3 902.1)	PLN million	4.0%
NET IMPAIRMENT ALLOWANCE AND WRITE-DOWNS	(1 812.1)	PLN million	(1 767.0)	PLN million	2.6%
C/I	37.6%		39.8%		-2.2 pp.
ROE NET	18.3%		15.5%		2.8 pp.
ROA NET	2.2%		2.1%		0.1 pp.

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

Financial results of PKO Bank Polski SA in 2011 reached record level and dynamics of the business volumes were highest among main institutions of banking sector in Poland. In 2011 it was recorded a continuation of the economic recovery faced with a high uncertainty due to the prolonged crisis in the euro zone and the deteriorating prospects for growth in the following year. The net profit of the Polish banking sector grew gradually in 2011 and was the highest one to have been earned so far. Record level of net profit reached by banking sector resulted among the other from high increase in net interest income, and the stable pace of growth in the operating expenses being maintained.

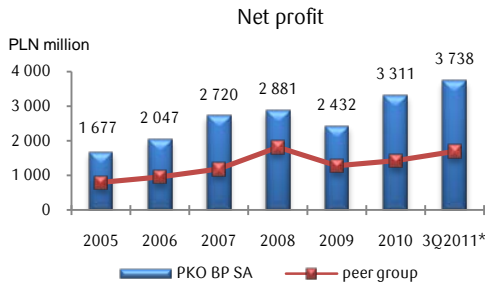
The objective of PKO Bank Polski SA in 2011 was the dynamic development of business activity based on a stable structure of financing. The task was performed having in mind their effectiveness including effective control over the costs incurred. In 2011, net profit of the PKO Bank Polski SA amounted to PLN 3 953.6 million, which constitutes an increase of PLN 642.4 million, i.e. 19.4% as compared with the previous year results. Such a financial result was determined by the following factors:

- result on business activities, which amounted to PLN 10 784.5 million (an increase by 10.1% y/y), result of increase in net interest income,
- increase in net interest income, mainly due to increase in interest income related to loans to customers (+16.2% y/y) and increase in interest income related to investment securities,
- further efficiency enhancement in cost management; the C/I ratio decreased by 2.2 pp. to 37.6% and was much higher than the average in the Polish banking sector,
- result on net impairment allowances was lower by PLN 45.1 million than that achieved in 2010, mainly as a result of an increase in allowances for business loans, accompanied by an improved result on consumer loans,
- significant increase of total assets by PLN 21.1 billion (to PLN 188.4 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 of costs of issuance of own debt securities in issue,
- secure and effective structure of the statement of financial position – significant increase in amounts due to customers of PKO Bank Polski SA by PLN 14.7 billion enabled a dynamic growth of business activities; as at the end of 2011, the ratio of loans to deposits (amounts due to customers) amounted to 93.4% (ratio of loans to stable sources of financing² amounted to 88.5%).

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, issue of own securities and amounts due to financial institutions.

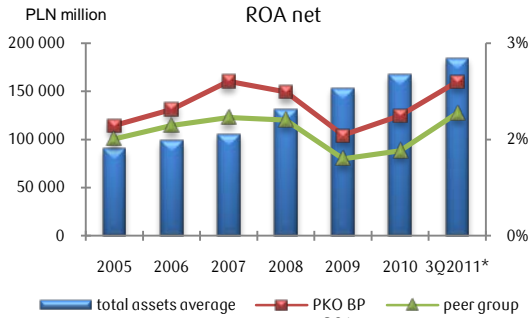


1.5 PKO Bank Polski SA against its peer group³

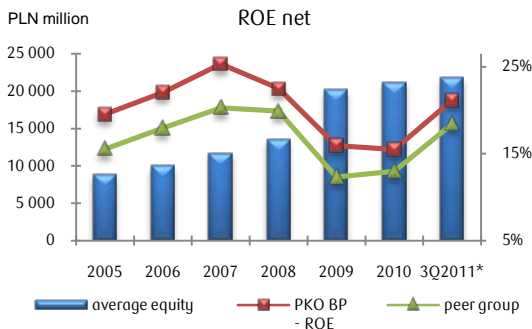


The relatively favourable macroeconomic environment in the Polish economy, the increase of interest rates and the stabilisation in costs of credit risk, translated into the increase of the profits recorded by banks in 2011. In 2011, PKO Bank Polski SA achieved record high financial results, significantly better than the average for its peers.

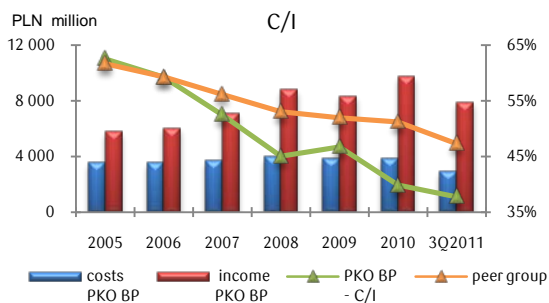
* The value of net profit in 3Q 2011 for particular banks was adopted as a sum of net profit recognised in 3Q 2011 and in 4Q 2010.



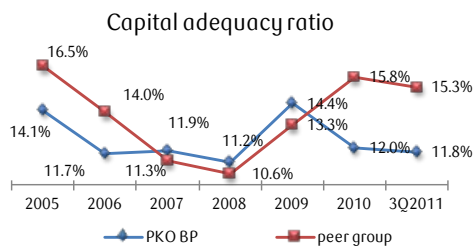
In 2011, financial results were influenced by favourable macroeconomic condition, accompanied by increase in net interest income of banks and lower than in 2010 level of costs of credit risk. At the same time, active policy of PKO Bank Polski SA contributed to a significant increase in its total assets and financial result accompanied by maintaining a high return on assets.



The rate of the increase in net profit of the entire banking sector in 2011, compared with that achieved in 2010, resulted in an increase of return on equity. In 2011, PKO Bank Polski SA maintained its profitability at high level (considerably above the average level of the peer group).



In 2011, Polish banking sector continued its activities aiming at reducing administrative expenses. Banks kept on selective approach towards the development of the branch network and an intensive growth of e-banking. In 2011, PKO Bank Polski SA maintained the relation of costs to income at a very low level – the growth rate of administrative expenses was significantly lower than the growth rate of business activities.



The capital adequacy of the banking sector in 2011 remained stable, as a result, capital adequacy ratio remained on a high level in the whole sector.

The level of capital adequacy ratio in PKO Bank Polski SA remained also at a safe level – significantly 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 2005-2010), and due to lack of publications of some of the banks from the peer group annual reports for 2011 before publication date of PKO Bank Polski SA financial statements, data from 3 quarters 2011 of these banks, as data representing trends in 2011, was adopted. All data is weighted by total assets.



2. EXTERNAL BUSINESS ENVIRONMENT

2.1 Macroeconomic environment

In 2011, a continuation of the economic recovery faced with a high uncertainty due to the prolonged fiscal crisis in the euro zone and the deteriorating prospects for growth in the following year was recorded. In 2011, the GDP in Poland increased by 4.3% y/y, compared with 3.9% in 2010. The GDP growth rate was largely affected by private consumption and to a slightly smaller but significant extent by investments (mainly stimulated by public spending on infrastructure, accompanied by conservative investing activities of enterprises as a result of the high uncertainty as to the prospects for the demand for their products). The inventory rebuilding process weakened slightly due to the weakening of economic activity, and in the second half of the year the role of net exports increased as a result of the depreciation of the Polish zloty, with lower growth rate of export and import volumes than a year ago.

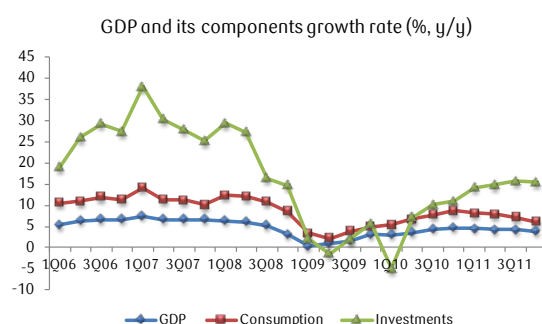
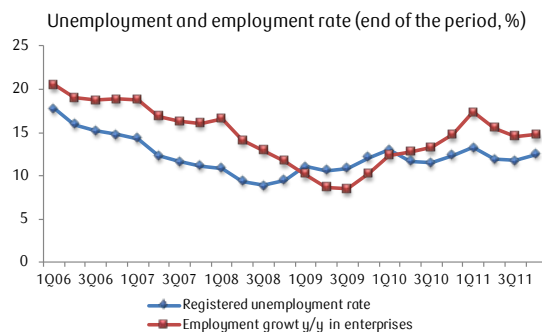
The accelerating growth of GDP in 2011 was accompanied by employment growth in the corporate sector of 3.2% y/y, compared with 0.8% in 2010, and an annual registered unemployment rate increased by 0.1 pp. to 12.5% in December 2011. The salary growth in the corporate sector amounted to 5.0% in 2011 compared with 3.3% in 2010. The annual growth rate in employee pensions and disability benefits amounted to 5.2% in 2011 compared with 6.5% in 2010.

In 2011, the average annual inflation rate measured with the consumer price index increased to 4.3% y/y from 2.6% y/y in 2010. At the beginning of the year, the inflation rate accelerated significantly mainly as a result of the changes in the VAT rates and the increase in food prices (supply shocks) and reached its peak at the level of 5% y/y in May 2011. In the following months, the growth in prices of consumer goods and services decreased to a level slightly below 4% y/y in September, after which it began accelerating again in the last quarter of 2011 as a result of the strong depreciation of zloty and the introduction of new decrees on reimbursed drugs.

In accordance with the 'Monetary Policy Guidelines for 2011', the monetary policy objective was to maintain inflation at the level of 2.5%, with a symmetrical tolerance range for deviations of +/- 1 pp. In first half of 2011 with the continuation of the economic recovery and the strong growth in the inflation rate, beyond the upper bound of the permissible deviations from the NBP target, the Monetary Policy Council (RPP – Rada Polityki Pieniężnej) increased interest rates by 100 b.p. in total to 4.5%. In second half of 2011 interest rates remained unchanged.

2.2 The situation on the stock exchange

The situation on the Polish Stock Exchange was chiefly affected by external factors, in particular the progressing crisis in the euro zone. Investors were afraid that the problems of the most indebted countries from the South of Europe may spread via the financial sector to the entire continent, and then affect the entire global economy. In the case of Poland, the fears mainly related to the effect of the deteriorated economic position of commercial partners on the level of export and increased costs of financing our economy which were related to risk aversion among international investors. Thus, in spite of Poland's relatively good economic condition, the Warsaw Stock Exchange gave in to the global trends.





2.3 The market of Treasury debt securities

In 2011, the market of Treasury debt securities was characterised by high volatility of quotations. In the first half of the year, RPP increased interest rates by a total of 100 b.p. causing a noticeable price reduction in bonds. Later on in the year fears of an economic downturn in Europe prevailed. They intensified the expectations of an expansive monetary policy, which in effect led to a drop in the profitability of debt securities. As at the end of the year, compared with the beginning of the year, the profitability of 2-year bonds increased by 7 b.p. to 4.85% and the profitability of 5- and 10-year bonds dropped by 20 b.p. to 5.35% and 5.89% respectively. There was also an observable systematic growth in credit risk premium in Europe and the quotations for the 5-year CDS contract for Poland increased by 140 b.p. reaching the level of 280 b.p.

2.4 The currency market

In 2011, the factors affecting the changes on the currency market were as follows: the sovereign debt crisis in the euro zone and a slowing down in economic growth globally. In the first months of 2011, the Euro strengthened noticeably – the EUR/USD exchange rate reached a local peak of 1.48 in May. Expected interest rate increases in Europe were the main factor which upheld the single currency. During that time a side trend became visible on the EUR/PLN market with a local peak above 4.12.

The second half of 2011 was already dominated by the sovereign debt crisis in the euro zone. As of May, there was a clear change in the trends on the currency market. The risk aversion was strengthened by the progressing global economic slowdown, also in the American economy. The uncertainty affected the markets practically until the end of the year, and in December the Euro depreciation process was at its peak, leading to the weakening of the single currency to 1.30 to the US dollar. In spite of the relatively good foundations, the Polish zloty also deteriorated significantly. Over the entire 2011, the Polish currency weakened by 15% compared with the US dollar and by ca. 12% compared with the Euro. In the case of the CHF/PLN exchange rate, an important role was played by the National Bank of Switzerland which in fear of the negative effects of the heavy strengthening of the Swiss franc set an emergency minimum EUR/CHF exchange rate at the level of 1.20. This resulted in the stabilisation of the zloty against the Swiss currency, in spite of the continuing uncertainty in the euro zone. The CHF/PLN exchange rate which increased to more than 4.10 by August, oscillated within the range 3.45-3.75 in the following months.

2.5 The situation of the Polish banking sector

In 2011, the situation of the Polish banking sector improved. Net profit amounted to PLN 15.7 billion. It was 37.5% higher than as at the end of 2010 and the highest ever achieved by the banking sector. This growth was mainly due to:

- lower net impairment allowance (by about 29.5% y/y) which was a result of improvement in the loan portfolio quality,
- high increase of net interest income (by about 13.1% y/y),
- maintaining the stable growth of administrative expenses (4.8% y/y).

Operational efficiency of the banking sector improved: C/I ratio amounted to 51% compared with 52.4% in previous year. Capital adequacy ratio for the banking sector amounted to 13.1%.

The growth in impaired loans slowed down, and their share in total loans stabilised and amounted to 8.3% as at the end of 2011 compared with 8.8% as at the end of 2010. This situation was due to a slight increase in non-performing corporate loans (by 2.3% y/y), which share in total corporate loans decreased to 10.5% as at the end of 2011 from 12.4% as at the end of 2010. Deterioration in the quality of household loans continued, though it was much slower than in 2010. The share of impaired household loans amounted to 7.2%. Non-performing housing loans were increasing the fastest, and their share in total housing loans increased to 2.3% from 1.8% as at the end of 2010.

The situation on the loan and deposit market was affected by:

- an improvement of loan activity on the corporate loans market,
- a decrease of mortgage loans growth rate,
- limited lending activity on the consumer loan market,
- an accelerating increase in deposits.

The changes in the volumes of loans, mainly housing loans in foreign currencies, were affected by changes in exchange rates, including depreciation of the Polish currency to the Swiss franc (exchange rate has



increased by 14.8% y/y) to the Euro (exchange rate has increased by 11.5% y/y) increasing the value of loans in PLN.

In 2011 growth of the total loan portfolio was almost 70% higher than in 2010. Loans increased by ca. PLN 120 billion and their growth rate amounted to 15.2% y/y compared with 9.5% in 2010. However, about 33% of the increase in loans was a result of depreciation of the Polish currency. After adjustment for changes in exchange rates, the increase in loans would amount to ca. PLN 79 billion and growth rate would amount to 11% y/y.

An improvement in the situation on the corporate loans market had a significant effect on the increase in loans. The amount of corporate loans increased by ca. PLN 42 billion in 2011 compared with a decrease by PLN 3.7 billion as at the end of 2010. The growth rate of loans amounted to 19.4% y/y compared with a decrease by 1.7% y/y as at the end of 2010. Loans for small and medium entities amounted to about 60% of the increase in loans. According to a survey conducted by the NBP, the banks continued their gradual liberalisation of the loan granting criteria and conditions, which was due to the competitive pressure and an increase in demand for all types of corporate loans.

The growth of mortgage loans portfolio slowed down. As at the end of 2011 mortgage loans growth rate decreased to 19% y/y from 23% y/y as at the end of 2010. The growth rate of mortgage loans amounted to PLN 51 billion, though half of this increase was a result of depreciation of the Polish currency. After eliminating the changes in exchange rates, the actual increase in loans in 2011 would amount to ca. PLN 26 billion and it would be ca. 17% lower than in 2010. After eliminating the changes in exchange rates, growth rate of loans decreased to 11.5% y/y compared with 16% y/y as at the end of 2010. The negative influence on sale of loans had a lower demand related to limiting of 'Rodzina na swoim' programme, as well as a stricter credit policy of banks caused by new legal regulations and the deterioration of the mortgage loans portfolio quality.

The banks' lending activities in the area of consumer loans were limited. In 2011 the amount of such loans decreased by PLN 3 billion compared with a growth of PLN 2.6 billion in 2010. An influence on such situation had low demand on consumer loans and a stricter credit policy of banks resulting from new legal regulations.

In 2011 the increase in total deposits was higher than in 2010. Their amount increased by ca. PLN 80 billion compared with ca. PLN 60 billion in 2010 and growth rate was accordingly 11% y/y and 9.1% y/y. The main source of this growth were deposits of households, which increased by ca. PLN 56 billion, i.e. 13.4% y/y mainly due to savings outflow from the capital market and an increase of interest rates on bank deposits. Corporate deposits increased by PLN 23.5 billion, i.e. 12.5% y/y.

At the end of 2011 a gap between loans and deposits in banking sector increased and reached PLN 100 billion comparing to ca. PLN 62 billion as at the end of 2010.

2.6 Regulatory environment

In 2011 significant regulatory changes influenced banking sector in Poland. The financial and organisational situation at PKO Bank Polski SA in 2011 was affected i.a. by:

- Resolution of the Monetary Policy Council (RPP) No. 9/2010 of 27 October 2010 (Official Journal of NBP No. 15, item 16) increasing the mandatory reserve rate for banks to 3.5% from 3.0% as of 31 December 2010,
- Resolutions of RPP of January, April, May and June 2011 increasing the reference rate to 4.5% from 3.5%, the interest rate on refinancing loans secured with a pledge on securities to 6% from 5%, the interest rate of fixed-term deposits placed by banks with the National Bank of Poland to 3% from 2% and the rediscount rate for bills of exchange accepted by the National Bank of Poland from banks for rediscounting to 4.75% from 3.75%,
- Resolution of the Bank Guarantee Fund (BGF) Council of 17 November 2010 increasing the interest rate used to calculate the mandatory annual fee payable by banks to the BGF for 2011 more than two-fold,
- Resolutions of the Polish Financial Supervision Authority (PFSA) No. 367/2010 of 12 October 2010 (Official Journal of PFSA No. 8, item 36) and No. 434/2010 of 20 December 2010 (Official Journal of PFSA No. 1 of 2011, item 36) introducing changes in items included in the banks' share capital and supplementary capital as of 31 December 2010,
- Resolution No. 369/2010 of PFSA of 12 October 2010 (Official Journal of PFSA No. 8, item 38) introducing changes in the determination of capital requirements for different types of risk as of 31 December 2010,
- Resolution No. 52/2010 of PFSA of 23 February 2010 (Official Journal of PFSA No. 2, item 12) which required banks to comply, as of 23 December 2010, with all rules of Recommendation T in respect of



retail loan exposure risk management: (which affected the level of lending activity in banks in retail segment),

- Resolution No. 18/2011 of PFSA of 25 January 2011 (Official Journal of PFSA No. 3, item 6) which required banks to comply Recommendation S concerning good practices related to credit exposures secured by mortgage; the resolution put banks under an obligation to comply from 25 July 2011 with the quality requirements and to introduce by 31 December 2011 quantity requirements related to exposures secured by mortgage; affected the creditability of customers intending to draw loans and as a result the value of mortgage loans granted,
- the Act of 29 July 2011 called the Anti-spread Act (Journal of Laws No. 165, item 984) amending, from 26 August 2011, the rules concerning repayment of foreign currency loans under which banks are obliged to accept, in the case of mortgage loans denominated in foreign currencies, the repayment of principal and interest in the loan's currency and which forbids restricting the consumers' right to obtain this currency from any source; the Act came into force on 26 August 2011; affected i.a. non-interest income of banks,
- the Act of 15 July 2011 amending from 31 August 2011 the Act on financial support to families purchasing their own homes (Journal of Laws, No. 168, item 1006), which envisages gradually extinguishing by 31 December 2012, the 'Rodzina na Swoim' programme, the Act specified the changes in the criteria for granting preferential loans, thus affecting the level of lending activity in banks; the Act came into force on 30 August 2011,
- the Act of 12 May 2011 on consumer credit (Journal of Laws no. 126, item 715) introduced significant changes to granting consumer loans as of 18 December 2011, which is going to affect the business activities of banks in 2012,
- Resolution No. 208/2011 of PFSA of 22 August 2011 introducing, as from 14 October 2011, changes in the principles and conditions for taking into account exposures in determining concentration limits (Official Journal of the PFSA No. 9, item 34); the resolution, i.a. unified the level of exposure concentration limits,
- the Act of 16 December 2010 amending the Act on Public Finance (Journal of Laws 257, item 1726) requiring that public sector entities transfer, as from June 2011, surplus cash to the Minister of Finance for management or deposit purposes, which affected the level of deposits of this segment with commercial banks,

The business activities of banks in 2011 were also affected by the prepared amendments to the Tax Ordinance relating to the principles for calculating tax on income from deposits, which will come into force on 1 April 2012.



3. FINANCIAL RESULTS OF PKO BANK POLSKI SA⁴

PKO Bank Polski SA did not release financial results forecasts for 2011.

3.1 Factors influencing results of PKO Bank Polski SA in 2011

In 2011, relatively favourable macroeconomic conditions and an increase of interest rates translated into positive financial results of the Polish banking sector. In 2011, credit portfolio quality stabilised as well as the level of costs of credit risk decreased.

Actions undertaken by PKO Bank Polski SA allowed to generate the record net profit for 2011 higher by 19.4% than the result for 2010.

PKO Bank Polski SA maintained its high efficiency – the ROE net ratio amounted to 18.3% as at the end of 2011.

High level of deposit base and equity of PKO Bank Polski SA, funds from issuance of own debt securities and the Eurobonds issue, constituted a stable source of financing, enabling further stable growth of business operations. As at the end of 2011, the solvency ratio was 11.93%, 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 2011, is represented by the level of the following key financial efficiency indicators, which are shown in the table below.

Table 1. Key financial indicators of PKO Bank Polski SA

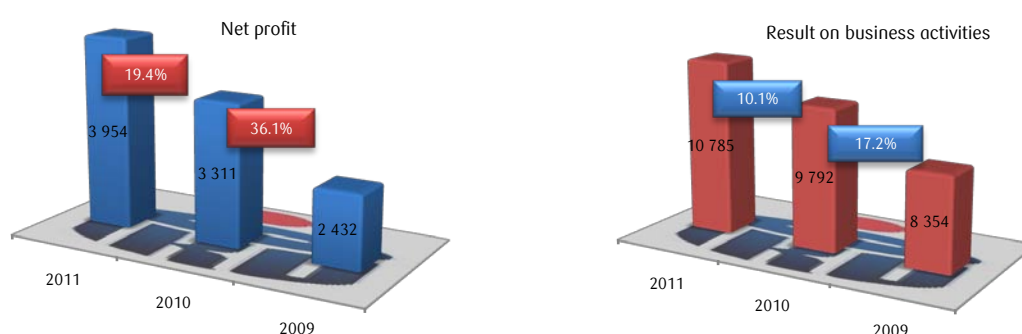
Items	31.12.2011	31.12.2010	Change 2011-2010
ROA net (net profit/average total assets)	2.2%	2.1%	0.1 pp.
ROE net (net profit/average total equity)	18.3%	15.5%	2.8 pp.
C/I (cost to income ratio)	37.6%	39.8%	-2.2 pp.
Interest margin (net interest income/average interest-earning assets)	4.6%	4.3%	0.3 pp.
The share of impaired loans*	7.2%	7.1%	0.04 pp.
The coverage ratio of impaired loans**	47.9%	44.9%	3 pp.

* 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.

** calculated by dividing the balance of impairment allowances on loans and advances to customers by the gross carrying amount of impaired loans and advances to customers.

3.3 Income statement

In 2011, PKO Bank Polski SA ('the Bank') recorded the net profit of PLN 3 953.6 million (+19.4% y/y).



The sum of income-generating items in the income statement of PKO Bank Polski SA amounted to PLN 10 784.5 million and was by PLN 992.5 million, i.e. 10.1% higher than in 2010.

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



PKO Bank Polski SA Directors' Report for the year 2011

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

	2011	2010	Change (in PLN million)	Change 2011/2010
Interest and similar income	11 818.1	10 107.6	1 710.5	16.9%
Interest expense and similar charges	(4 313.1)	(3 723.8)	(589.3)	15.8%
Net interest income	7 505.0	6 383.8	1 121.2	17.6%
Fee and commission income	3 621.9	3 678.5	(56.6)	-1.5%
Fee and commission expense	(749.1)	(740.9)	(8.2)	1.1%
Net fee and commission income	2 872.8	2 937.6	(64.8)	-2.2%
Dividend income	94.0	109.9	(15.9)	-14.4%
Net income from financial instruments at fair value	(78.5)	(56.5)	(22.0)	39.0%
Gains less losses from investment securities	16.3	71.3	(55.0)	-77.1%
Net foreign exchange gains	331.4	341.3	(10.0)	-2.9%
Other operating income	110.8	48.0	62.8	2.3x
Other operating expenses	(67.2)	(43.3)	(23.9)	55.1%
Net other operating income and expense	43.6	4.7	38.9	9.3x
Net impairment allowance and write-downs	(1 812.1)	(1 767.0)	(45.1)	2.6%
Administrative expenses	(4 058.5)	(3 902.1)	(156.4)	4.0%
Operating profit	4 913.9	4 122.9	791.0	19.2%
Profit (loss) before income tax	4 913.9	4 122.9	791.0	19.2%
Income tax expense	(960.3)	(811.7)	(148.6)	18.3%
Net profit (loss)	3 953.6	3 311.2	642.4	19.4%

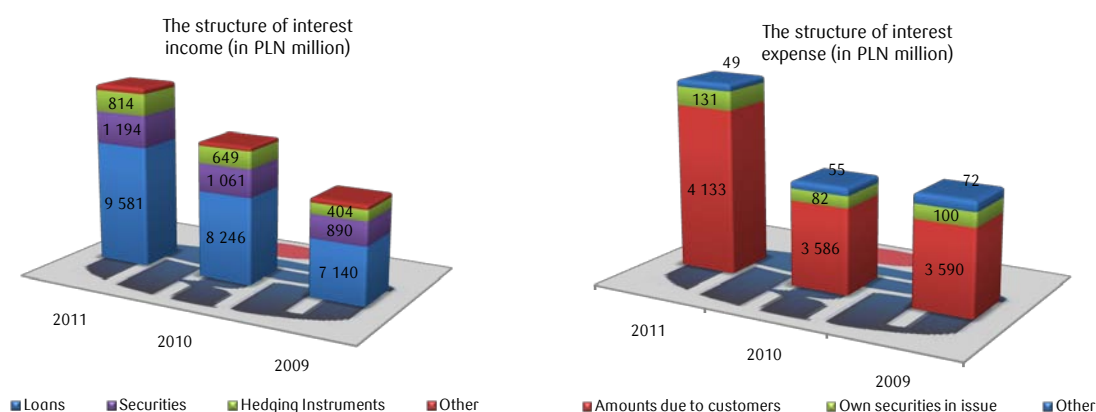
Net interest income

In 2011, net interest income was PLN 1 121.2 million higher than in the previous year, mainly due to interest income growth by PLN 1 710.5 million.

In 2011, interest income amounted to PLN 11 818.1 million and in comparison with 2010 increased by 16.9%, mainly as a result of an increase in:

- revenue from loans and advances granted to customers (+)16.2% y/y – the effect of high growth in the net credit portfolio (+8.6% y/y), with an increase of interest rates in 2011,
- revenue from derivative hedging instruments (+) 25.4% y/y; (as a result of an increase in the volume of CIRS transactions denominated in PLN – an increase in the average CHF exchange rate, and as a result of an increase in net CIRS coupons – an increase in the average 3M WIBOR rate in annual terms),
- revenue from investment securities available for sale ((+) 27.6% y/y) – the effect of volume growth.

The rate of growth in interest expense amounted to (+)15.8% y/y mainly due to an increase in the costs of amounts due to customers (including service costs of loans received from non-monetary financial institutions), due to dynamic growth of amounts due to customers as well as increase in interest rates of clients deposits.





PKO Bank Polski SA Directors' Report for the year 2011

In 2011, the average interest rate on loans in PKO Bank Polski SA amounted to 7.1% whereas the average interest rate on deposits amounted in total to 2.9%, as compared with 6.8% and 2.8% in 2010 respectively.

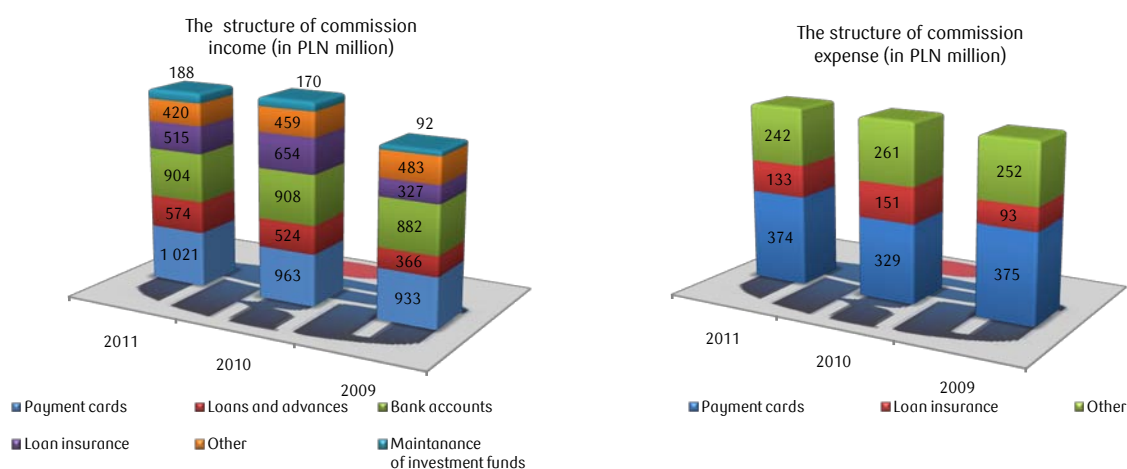
The Bank's margin in 2011 was at a level of 4.6%, which indicates a change of 0.3 pp. (y/y), mainly as a result of the dynamic increase in net interest income.

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

Items	2011	Structure 2011	2010	Structure 2010	Change 2011/2010
Interest income, of which:	11 818.1	100.0%	10 107.6	100.0%	16.9%
Loans and advances to customers	9 581.3	81.1%	8 246.2	81.6%	16.2%
Derivative hedging instruments	814.3	6.9%	649.1	6.4%	25.4%
Financial assets designated upon initial recognition at fair value through profit and loss	561.8	4.8%	494.7	4.9%	13.6%
Investment securities available for sale	557.8	4.7%	437.1	4.3%	27.6%
Placements with banks	218.7	1.9%	147.7	1.5%	48.1%
Securities held to maturity	74.8	0.6%	128.9	1.3%	-42.0%
Other	9.4	0.1%	3.8	0.0%	2.4x
Interest expense, of which:	(4 313.1)	100.0%	(3 723.8)	100.0%	15.8%
Amounts due to customers	(4 133.4)	95.8%	(3 586.3)	96.3%	15.3%
Debt securities in issue	(130.6)	3.0%	(82.2)	2.2%	58.9%
Deposits from other banks	(45.7)	1.1%	(31.2)	0.8%	46.3%
Other	(3.4)	0.1%	(24.0)	0.6%	-85.8%
Net interest income	7 505.0	x	6 383.8	x	17.6%

Net fee and commission income

In 2011, net fee and commission income remained stable and amounted to PLN 2 872.8 million ((-) 2.2% y/y).



Net fee and commission income in 2011 was mainly affected by:

- a decrease in commission income in respect of loan insurance (-21.1% y/y) - effect of the decrease in sale of consumer loans with optional insurance, along with:
- an increase in commission income in respect of servicing payment cards (+5.9% y/y), mainly as a result of an increase in card transactionability,
- an increase in commission income in respect of loans and advances granted (+9.5% y/y),
- an increase in commission income in respect of the servicing of investment funds (+10.2% y/y).



PKO Bank Polski SA Directors' Report for the year 2011

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

Items	2011	Structure 2011	2010	Structure 2010	Change 2011/2010
Fee and commission income, of which:	3 621.9	100.0%	3 678.5	100.0%	-1.5%
Payment cards	1 020.6	28.2%	963.4	26.2%	5.9%
Maintenance of bank accounts	904.0	25.0%	908.2	24.7%	-0.5%
Loans and advances granted	574.0	15.8%	524.1	14.2%	9.5%
Loan insurance	515.5	14.2%	653.5	17.8%	-21.1%
Maintenance of investment funds (of which management fees)	187.6	5.2%	170.3	4.6%	10.2%
Cash transactions	148.3	4.1%	165.4	4.5%	-10.3%
Securities operations	70.3	1.9%	73.2	2.0%	-4.0%
Other*	201.6	5.6%	220.4	6.0%	-8.5%
Fee and commissions expenses, of which:	(749.1)	100.0%	(740.9)	100.0%	1.1%
Payment cards	(373.7)	49.9%	(329.4)	44.5%	13.5%
Loan insurance	(133.5)	17.8%	(150.8)	20.4%	-11.5%
Acquisition services	(117.6)	15.7%	(133.9)	18.1%	-12.2%
Other**	(124.3)	16.6%	(126.8)	17.1%	-2.0%
Net fee and commission income	2 872.8	x	2 937.6	x	-2.2%

* Included in 'Other' are i.a. commissions received 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 (the Brokerage House of PKO Bank Polski SA, DM) for servicing Initial Public Offering issue, commissions for servicing loans granted by the State budget.

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

Administrative expenses

In 2011, administrative expenses remained at the stable level as compared to the previous year (an increase of 4.0% y/y).



Administrative expenses in 2011 were mainly determined by:

- increase in overheads and other – mainly due to an increase of the contribution and payments to the BGF and promotion and advertising costs,
- increase in staff costs by PLN 26.8 million (+1.2% y/y), affected mainly by increase in remuneration expenses of PLN 22.2 million (+1.2% y/y).

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

Items	2011	Structure 2011	2010	Structure 2011	Change 2011/2010
Employee benefits	(2 224.0)	54.8%	(2 197.3)	56.3%	1.2%
Overheads and other, of which:	(1 381.8)	34.0%	(1 258.9)	32.3%	9.8%
Contribution and payments to the Bank Guarantee Fund	(136.7)	3.4%	(53.4)	1.4%	2.6x
Depreciation and amortisation	(452.7)	11.2%	(446.0)	11.4%	1.5%
TOTAL	(4 058.5)	100.0%	(3 902.1)	100.0%	4.0%



A stable level of administrative expenses accompanied by increase in the income of PKO Bank Polski SA by 10.1% as compared with 2010, resulted in maintaining high operating efficiency of PKO Bank Polski SA, measured via the C/I ratio, which amounted to 37.6% (-2.2 pp. compared with 2010).

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 2011 amounted to (-) PLN 1 812.1 million and was (-) PLN 45.1 million lower than in 2010, mainly due to an increase in impairment allowances on corporate loans, with improvement of the result on consumer loans at the same time.

The share of impaired loans ratio increased by 0.04 pp. to 7.2% as at the 31 December 2011. Maintaining the ratio at a similar level to the previous year is a result of the consistent use of stricter credit quality assessment criteria by the Bank and a policy in dealing with bad debts.

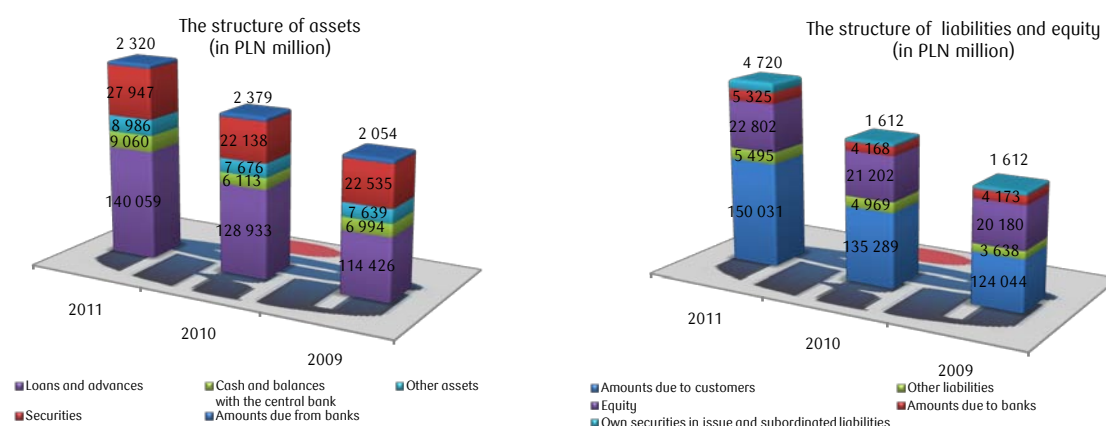
Table 6. Net impairment allowance of PKO Bank Polski SA (in PLN million)

	2011	Structure 2011	2010	Structure 2010	Change 2011/2010
Net impairment allowance, of which:					
Loans and advances to customers measured at amortised cost	(1 731.4)	95.5%	(1 600.7)	90.6%	8.2%
non-financial sector	(1 725.3)	95.2%	(1 606.5)	90.9%	7.4%
consumer loans	(662.4)	36.6%	(809.1)	45.8%	-18.1%
mortgage loans	(379.0)	20.9%	(258.1)	14.6%	46.8%
corporate loans	(683.9)	37.7%	(539.3)	30.5%	26.8%
financial sector	(3.4)	0.2%	(2.6)	0.1%	33%
budget sector	(2.6)	0.1%	8.4	-0.5%	-131.7%
intangible assets	-	0.0%	(2.6)	0.1%	x
investment in subsidiaries, jointly controlled entities and associates	(24.7)	1.4%	(15.1)	0.9%	63.9%
tangible fixed assets	1.0	-0.1%	(29.4)	1.7%	x
other	(57.0)	3.1%	(119.2)	6.7%	0.5x
Impairment allowance - total	(1 812.1)	100%	(1 767.0)	100%	2.6%

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 2011 to PLN 188.4 billion and increased by PLN 21.1 billion (+12.6% y/y) as compared to 2010. 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 11.1 billion compared with the prior year (+8.6% y/y), as well as securities portfolio - increase of 26.2% y/y.



PKO Bank Polski SA Directors' Report for the year 2011

The increase in total assets was financed mainly by an increase in amounts due to customers by PLN 14.7 billion as (+10.9% y/y) compared with the year 2010 – an increase in a volume of deposits and additional funds obtained by the Bank from bonds issue under the EMTN programme (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	31.12.2011	Structure 2011	31.12.2010	Structure 2010	Change 2011/2010
Cash and balances with the central bank	9 060.3	4.8%	6 112.6	3.7%	48.2%
Amounts due from banks	2 320.2	1.2%	2 379.2	1.4%	-2.5%
Loans and advances to customers	140 058.6	74.4%	128 933.1	77.1%	8.6%
Securities	27 947.2	14.8%	22 138.2	13.2%	26.2%
Other assets	8 986.3	4.8%	7 675.8	4.6%	17.1%
Total assets	188 372.7	100.0%	167 238.9	100.0%	12.6%
Amounts due to banks	5 324.8	2.8%	4 167.6	2.5%	27.8%
Amounts due to customers	150 030.7	79.6%	135 289.1	80.9%	10.9%
Own debt securities in issue and subordinated liabilities	4 720.0	2.5%	1 611.8	1.0%	2.9x
Other liabilities	5 494.8	2.9%	4 968.7	3.0%	10.6%
Total liabilities	165 570.3	87.9%	146 037.1	87.3%	13.4%
Total equity	22 802.4	12.1%	21 201.8	12.7%	7.5%
Total liabilities and equity	188 372.7	100.0%	167 238.9	100.0%	12.6%
Loans/Deposits (amounts due to customers)	93.4%	x	95.3%	x	-1.9 pp.
Loans/stable sources of financing*	88.5%	x	92.2%	x	-3.6 pp.
Interest bearing assets/Assets	90.4%	x	91.8%	x	-1.3 pp.
Interest paying liabilities/Liabilities	85.0%	x	84.3%	x	0.6 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 and issue of own debt securities.

The return on assets ratio (ROA) increased by 0.1 pp. to 2.2% in effect of the strong growth in net profit (+19.4% y/y), with an increase in average assets of 10.7% y/y, whereas the return on equity ratio (ROE) increased by 2.8 pp. to 18.3%, in effect of an increase in net profit.

Loans and advances to customers

The volume of loans and borrowings granted to customers amounted to PLN 140.1 billion at the end of December 2011 and increased by PLN 11.1 billion (+8.6% y/y) compared with the prior year, which was caused by an increase in loans to the non-financial sector (+PLN 10.9 billion), mainly mortgage loans – an increase of PLN 8.2 billion (+13.3% y/y) and corporate loans – an increase of PLN 4.1 billion (+11.5% y/y) compared with 2010.

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

Structure by type	31.12.2011	Structure 2011	31.12.2010	Structure 2010	Change 2011/2010
Loans and advances to customers net	140 058.6	100.0%	128 933.1	100.0%	8.6%
Financial sector (without banks)	3 211.6	2.3%	4 247.2	3.3%	-24.4%
Non-financial sector	131 796.4	94.1%	120 848.6	93.7%	9.1%
<i>Consumer Loans</i>	<i>22 797.2</i>	<i>16.3%</i>	<i>24 061.8</i>	<i>18.7%</i>	<i>-5.3%</i>
<i>Mortgage Loans</i>	<i>69 645.9</i>	<i>49.7%</i>	<i>61 495.6</i>	<i>47.7%</i>	<i>13.3%</i>
<i>Corporate Loans</i>	<i>39 353.3</i>	<i>28.1%</i>	<i>35 291.2</i>	<i>27.4%</i>	<i>11.5%</i>
Public sector	5 050.7	3.6%	3 837.4	3.0%	31.6%

Detailed information on loans and advances granted to customers of PKO Bank Polski SA is presented in financial statements of PKO Bank Polski SA for the year 2011.

Amounts due to customers

In 2011 amounts due to customers increased by 10.9%, i.e. by PLN 14.7 billion. A significant increase on that had an increase of customer deposits.

In the structure of amounts due to customers by types, the main item were amounts due to retail clients (+9.6% y/y) whose share in the structure as compared to the previous 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 2.7 pp. y/y, together with a decrease in amounts due to state budget entities by 1.9 pp. y/y.



PKO Bank Polski SA Directors' Report for the year 2011

Table 9. Amounts due to customers of PKO Bank Polski SA – structure by type (in PLN million)

Structure by type	31.12.2011	Structure 2011	31.12.2010	Structure 2010	Change 2011/2010
Amounts due to retail clients	103 424.1	68.9%	94 347.1	69.7%	9.6%
Amounts due to corporate entities	42 784.3	28.5%	34 895.1	25.8%	22.6%
Amounts due to state budget entities	3 822.2	2.5%	6 046.8	4.5%	-36.8%
Total amounts due to customers	150 030.7	100.0%	135 289.1	100.0%	10.9%

In 2011, the term structure of amounts due to customers slightly changed. Liabilities with maturity to 3 months amounted to 70.6% of total amounts due to customers as at 31 December 2011, which meant a change in the structure of (-)1.5 pp. as compared to the end of 2010, whereas its volume increased by PLN 8.3 billion y/y. A decrease in the share of subjective amounts due to customers was offset by an increase in the share of deposits with longer maturity,

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

Term structure	31.12.2011	Structure 2011	31.12.2010	Structure 2010	Change 2011/2010
Up to 1 month	92 633.3	60.7%	82 185.3	59.6%	12.7%
Over 1 month up to 3 months	15 019.1	9.8%	17 198.8	12.5%	-12.7%
Over 3 months up to 1 year	35 092.3	23.0%	31 504.8	22.9%	11.4%
Over 1 year up to 5 years	8 059.4	5.3%	5 437.9	3.9%	48.2%
Over 5 years	1 715.0	1.1%	1 523.2	1.1%	12.6%
Value adjustments and interest	(2 488.5)	x	(2 560.9)	x	-2.8%
Total amounts due to customers	150 030.7	x	135 289.1	x	10.9%

As at the end of 2011, the following regions had the largest share in the geographical structure of the deposit base⁵ (excluding interbank deposits): Mazowiecki Region (26.9%), Śląsko-Opolski Region (12.0%) and Wielkopolski Region (9.9%). Their overall share in total deposits of PKO Bank Polski SA amounted to 48.9%.

Equity and capital adequacy ratio

Equity of PKO Bank Polski SA increased by 7.5% y/y and accounted for 12.1% of total liabilities and equity of PKO Bank Polski SA as at the end of 2011. The share of equity in the structure of liabilities and equity decreased slightly by 0.6 pp. as compared with the previous year.

The Capital adequacy ratio of PKO Bank Polski SA amounted to 11.93% as at the end of 2011 and reached a high level, similar to the level as at the end of 2010 (-0.06 pp. y/y). Capital adequacy remained at a safe level with the payment of dividend from net profit for 2010 at the level of 74.7% and an increase of the loan portfolio.

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



PKO Bank Polski SA Directors' Report for the year 2011

Table 11. Equity and capital adequacy ratio of PKO Bank Polski SA (in PLN million)

Items	2011	Structure 2011	2010	Structure 2010	Change 2011/2010
Equity, of which:	22 802.4	100.0%	21 201.8	100.0%	7.5%
Share capital	1 250.0	5.5%	1 250.0	5.9%	0.0%
Reserve capital	12 898.1	56.6%	12 098.1	57.1%	6.6%
Other reserves	3 319.6	14.6%	3 283.4	15.5%	1.1%
General banking risk fund	1 070.0	4.7%	1 070.0	5.0%	0.0%
Financial assets available for sale	(51.2)	-0.2%	(28.8)	-0.1%	77.6%
Unappropriated profits	-	0.0%	-	0.0%	x
Cash flow hedges	362.2	1.6%	217.9	1.0%	66.2%
Net profit for the period	3 953.6	17.3%	3 311.2	15.6%	19.4%
Own funds	17 347.9	x	16 562.9	x	4.7%
Capital adequacy ratio	11.93%	x	11.99%	x	-0.06 pp.



4. BUSINESS DEVELOPMENT

4.1 Directions of development of PKO Bank Polski SA

The directions of development of PKO Bank Polski SA are set by development strategy for years 2010 – 2012 which was adopted by the Bank's Management Board and approved by the Bank's Supervisory Board in February 2010. The key strategic goals of the Bank, consistent with its mission, stipulate:

- maintaining the universal bank with tradition, Polish nature, perceived as both modern and safe Bank,
- achieving sustainable competitive advantages and strengthen the leading position in all major market segments,
- focusing services on clients' needs in order to build strong, long-term relationships,
- maintaining sustainable, organic growth in scale of operations and results, while improving efficiency,
- maintaining stable profitability and ensuring constant growth of the company's value, according to the expectations of shareholders,
- engaging in prudent risk management policy,
- obtaining the opinion of the best employer in the Polish financial sector.

The operations under the Bank's Strategy cover several initiatives aimed at the full and effective use of the potential of the Bank and the subsidiaries of the Bank's Group. These operations are aimed at achieving the synergy effect and optimising the business advantage relating to the preparation of a complementary service offer. The strategic initiatives implemented in this regard are related to, in particular, operations aimed at optimising the Bank's Group model, comprising, i.a. working out new development strategies for particular companies. The development of the Bank and its Group also assumes intensive work aimed at increasing cost effectiveness. As a result of the strategic operations undertaken, PKO Bank Polski SA is becoming an increasingly stronger, central entity in an efficient and effective Group, offering a modern, comprehensive product offer to its customers.

The Bank's stable and increasingly strong position on the financial services market is an important, measurable effect of the process of implementing the Bank's strategy, in particular from the point of view of its shareholders. The investors' trust in the Bank is reflected in the stable level of the value of the share price, in particular with reference to stock exchange indices (WIG 20, Euro STOXX Banks), in particular bearing in mind the macroeconomic limitations resulting from the on-going economic crisis. The investors' trust is additionally strengthened by the recorded, gradual increase in the level of customer satisfaction, which shows that the system changes which are being implemented are correct.

In business level, the strategy of the Bank is based on three main business pillars, which are: retail banking, corporate banking and investment banking. The implementation of strategic business objectives is strongly aimed at meeting the needs of the Bank's clients, both individual as well as corporate, taking into consideration the specific needs of particular segments, eg.: the small and medium entities sector, institutions operating on behalf of households, and central and local government institutions.

In order to realise business and client-oriented operations, work related to revitalising the product offer, adapting the Bank's services to the clients' needs and expectations is performed. The best service standards in force on the financial services market are being implemented. The pursuit of these objectives is related to both initiatives in the area of retail banking, taking into account, in particular, private banking and personal banking clients, as well as initiatives in the areas of corporate and investment banking, and in particular taking into account the adaptation of the offer and the service model to the development potential of the Bank's largest, strategic clients.

Within the adopted timeframe for implementation of the strategy, significant quality changes are stipulated not only in the offer or the process and standard of service, but also in the development, modernisation, fittings and visualisation of the branch network. At the same time, operations aimed at improving the functionality of serving customer accounts via remote access channels are conducted. In order to support the implementation of the business initiatives, PKO Bank Polski SA continues work on the implementation of system changes with regard to back office processes and activities. This will contribute to the significant simplification and shortening the period of execution of sales activities.



The Bank also undertakes initiatives aimed at unifying and developing transaction platforms supporting the sales processes within the branch network.

With regard to supporting business processes, the centralisation of operations and analyses, based on the development of a uniform Management Information System of the Bank, is carried on consistently. Moreover, a platform providing comprehensive support for HR processes is being implemented. The trend in changes in the IT area is related to changes in the operating systems, the reconstruction of front office processes, as well as changes in the processes which support managing the Bank.

The main business effect of implementing the strategy will be a visible increase in the scale of the operations of the Bank, which will be demonstrated by an increase in assets. According to the adopted assumptions, they are going to increase by approx. 35%, reaching approx. PLN 200 billion as at the end of 2012, with the value of the loan portfolio at the level exceeding PLN 160 billion (increase by approx. 45%).

The sustainable Bank's 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 costs to income (C/I) ratio is 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

After four quarters of 2011 the Bank maintained its leading position in the banking sector in respect of its share in the loan market, which amounted to 16.2 pp. As regards deposits, market share was stable and amounted to 17.8% along with an increase in shares in respect of corporate customers (+0.4 pp.).

*Table 12. Market share of PKO Bank Polski SA (in %)**

	2011	2010	2009	Change 2011/ 2010
Loans	16.2	17.2	16.6	-1 pp.
retail clients	19.2	20.0	19.5	-0.8 pp.
mortgage	19.9	20.9	21.0	-1 pp.
<i>in Polish zloty</i>	<i>30.6</i>	<i>33.1</i>	<i>33.3</i>	<i>-2.5 pp.</i>
<i>in foreign currencies</i>	<i>13.2</i>	<i>13.7</i>	<i>14.3</i>	<i>-0.5 pp.</i>
<i>consumer and other</i>	17.6	18.2	17.1	-0.6 pp.
corporate clients	13.1	14.1	13.8	-1 pp.
Deposits	17.8	17.9	18.5	-0.1 pp.
retail clients	22.3	23.2	23.4	-0.9 pp.
corporate clients	12.1	11.7	12.9	0.4 pp.

* Data source: NBP reporting system - Webis

4.3 Business segments⁶

4.3.1 Retail segment

In 2011, 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. Efforts to improve the quality of the service, i.a. by improving the standard of providing services to the clients and enhancing the skills of employees (product training courses) were also performed. 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.



PKO Bank Polski SA Directors' Report for the year 2011

Table 13. Loan products available in retail segment

Products and services	Activity
Cash loan	In order to make the cash loan offer more attractive, in 2011 promotional product offers were carried out periodically i.a. for customers opting for product with extended insurance package, for customers opening current accounts from the Bank's new offer while concluding a loan agreement and at the same time arrange for their salary/pension to be transferred to the newly opened current account and arrange for the loan to be repaid from that account. Within iPKO new remote loan sale campaigns were carried out (February 2011). The chief asset of the campaign was the ability to benefit from reduced commission compared with the standard offer.
SME Loans	The SME credit offer for current and potential clients of PKO BP SA, with loans in other banks, the possibility to benefit from special loan pricing conditions in PKO BP SA to repay debt in other banks (withdrawal from a commission for accepting the request, a very low commission for granting a loan, ranging from 0.1% and decreased by 1 pp. of the margin level). Promotion was valid from 1 June 2011 to 1 August 2011.
Mortgage loan	In 2011 the Bank PKO BP SA remained the market leader in sales of mortgage loans. In order to support sales, promotional activities were carried out in respect of two loans: the 'WŁASNY KĄT hipoteczny' loan and the Preferential housing loan with interest subsidised by BGK. Moreover, a special offer was launched for clients who purchase real estate as part of investments realised by selected developers (comprising a list of ca. 219 developers) and for employees of selected corporations (comprising 16 offers), as well as a special offer for clients of industry fairs - in respect of ca. 93 fairs organised. On 15 and 16 December 2011, open days were organised in relation to mortgage loans as part of which the customers who visited one of the Bank's branches and enrolled to a special list and then applied for a loan until 13 January 2012, and had or opened any current account with PKO BP SA, were granted preferential loan terms.
Credit cards	In the 1st quarter of 2011 PKO BP SA's credit card offer was reorganised in a comprehensive manner, which involved inter alia: - expanding the insurance offer for credit cards, - introducing a new functionality (<i>Instalment</i>) for PKO Bank Polski SA's credit cards which allows splitting non-cash credit card transactions into instalments, - introducing a new, attractive designs for credit cards issued with the Visa logo from the so-called gallery, - introducing a possibility of obtaining a credit card without the first annual fee for the card on condition that the user opens a current account under the new offer, and applies for the card, - introduction a new, free service for credit card holders - every customer who gave the mobile phone number gets a text message receives with a repayment term debt. Additionally, in August and September were carried out promotional campaigns supporting the sale of blue, silver and gold credit cards and it consisted in ceasing to charge an annual fee for newly issued credit cards. From 1 November 2011 to 1 January 2012 the Bank participated in a promotion organised by the Visa organisation connected with the Olympic Games in London in 2012.

The above mentioned changes in the loan offer resulted in an increase by 7.8% y/y i.e. PLN 8.0 billion in the volume of retail segment loans. The increase related mainly to mortgage loans - PLN 7.6 billion. PKO Bank Polski SA maintained its leading position in the market of the mortgage loans sale.

Table 14. Loans and advances in retail segment (in PLN million)

Items	31.12.2011	31.12.2010	Change 2011/2010	Change (in PLN million)
Gross loans and advances, of which:*				
- retail and private banking	21 550	23 046	-6.5%	(1 495)
- small and medium enterprises	15 345	14 340	7.0%	1 005
- mortgage banking	65 342	57 765	13.1%	7 577
- housing market (of which refinanced by the State budget)	7 887	6 971	13.1%	916
Total	110 124	102 122	7.8%	8 002

* Change in relation to business volumes previously presented results from a change in presentation; i.a. volumes currently presented include also valuation adjustments.

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



PKO Bank Polski SA Directors' Report for the year 2011

Table 15. Deposit products available in retail segment

Products and services	Activity
Current account in the 'Superkonto' Group	<p>On 14 March, a new, innovative offer of current accounts diversified in terms of customer preferences, was added to the Bank's offer: SUPERKONTO Oszczędne, PKO Konto za Zero, PKO Konto dla Młodych, PKO Konto Pogodne, PKO Konto Pierwsze.</p> <p>From 16 May 2011, 3 new types of accounts have been introduced, in which two of them dedicated to private banking clients: PKO Konto bez Granic, PKO Konto Aurum, PKO Konto Platinum II.</p> <p>The sale of new accounts was supported by an intensive advertising campaign.</p> <p>Under iPKO services, new accounts were made available to clients: Konto Pierwsze, Konto dla Młodych, Superkonto Oszczędne, Konto za Zero, PKO Konto Pogodne, PKO Konto bez Granic, PKO Konto Aurum, PKO Konto Platinum II. In respect of all the new packages, the monthly fee for using iPKO service is PLN 0.</p>
'PLUS' Savings Account	<p>On 18 August 2011 the Bank implemented a new product - 'PLUS' Savings Account with progressive interest rate (9 quota intervals). The product was offered:</p> <ul style="list-style-type: none"> - in the standard option - with monthly capitalisation, available to all interested customers, - in the promotional option - with daily capitalisation (up to 29 December 2011) for owners of current accounts at PKO BP SA. Interest rate 3.90% corresponded to 4.80% on the standard deposit subject to the income tax. <p>In connection with the amendment to the Tax Ordinance Act, the account with daily capitalisation was withdrawn from the offer as of 31 December 2011.</p>
Deposit linked to investment funds (Lokata Inwestycyjna Akcji Plus/Stabilnego Wzrostu Plus)	<p>Offered in the period from 16 March to 31 December 2011. The third edition of a product popular among the customers of the Bank. The product combines guaranteed profit from a high interest rate deposit with an investment portion in the form of investment fund participation units. Clients could choose from 2 subfunds in PKO TFI offer: Akcji PLUS or Stabilnego Wzrostu PLUS.</p> <p>The deposit is a product characterised by high interest on the deposit portion reaching 6.66% (deposit period - 12 months) and 5.55% (deposit period - 6 months), a low minimum amount of investment - PLN 2 000, and no fees for redemption of participation units after 12 months.</p>
Deposit linked to funds (PKO Zrównoważony Plus)	<p>Introduced to the offer from 12 September to 31 December 2011 was addressed to private banking clients. The deposit account was opened for a contractual period of 12 months. The recommended investment horizon for the investment component for PKO Zrównoważony Plus subfund was 4 years, profit is dependent on the results of PKO Zrównoważony Plus subfund. The fixed interest rate of the deposit component was 7% per annum. The minimum deposit payment was PLN 50 000.</p>
Fixed-term deposit 2M, 3M with daily capitalisation of interest	<p>From 18 August of the previous year very attractive 2- and 3-month fixed-term deposits with daily capitalisation of interest and 2- and 3-month fixed-term deposits with daily capitalisation of interest for new funds were introduced. The interest rate on deposits amounted to 4.05% and corresponded to the interest rate of 4.50% on the standard deposit subject to the income tax. The interest rate for new funds amounted to 4.50% and corresponded to the interest rate of 5.56% on the deposit subject to the 'Belka' tax. The minimum deposit payment was PLN 1 000. The deposit withdrawn from the offer on 31 December 2011.</p>
Fixed-term deposit 5M, 10M, 15M with daily capitalisation of interest	<p>From November a very attractive 5-, 10-, 15-month fixed-term deposit with daily capitalisation of interest and a 5-, 10-, 15-month fixed-term deposit with daily capitalisation of interest for new funds were introduced. The interest rate on deposits amounted respectively to 4.10%, 4.20% and 4.30% per annum and corresponded to the interest rate of 5.10%, 5.27% and 5.45% on the standard deposit subject to the income tax, while the interest rate for new funds amounted respectively to 4.50%, 4.60% and 4.70% per annum and corresponded to the interest rate of 5.60%, 5.79%, 5.97% on the deposit subject to the 'Belka' tax. The minimum payment - PLN 1 000. The deposit withdrawn from the offer on 31 December 2011.</p>
Insurance Policy with PZU Życie	<p>Offered to the Bank's customers in II editions from 26 April to 30 June 2011, from 11 July to 5 August 2011. The insurance policy is a group life and endowment insurance in PZU Życie SA (Insurer) with an attractive level of profit per annum of 4.05%, which corresponds to the profit of a deposit with an interest rate of 5.00% per annum. The term of the savings policy in all editions was 12 months.</p>
Housing Savings Book (Oszczędnościowa Książeczka Mieszkaniowa)	<p>In 2011, 'Oszczędnościowa Książeczka Mieszkaniowa' was revitalised.</p> <p>In January 2011 the deposit and investment product called 'Oszczędnościowa Książeczka Mieszkaniowa powiązana z funduszami inwestycyjnymi PKO' was introduced. The launch of the new version of the housing savings book is aimed at modernising the product offer of PKO BP SA and once again drawing the clients' attention to this form of savings. The product is meant for clients expecting higher profits in a longer time horizon, which would not be charged with the tax on capital income on the deposit portion of the product.</p> <p>In July the savings account 'Oszczędnościowa Książeczka Mieszkaniowa' was modified (two additional saving thresholds were added). The characteristic of the product is an attractive interest rate on the deposit portion, preferences in drawing the mortgage loan 'Własny Kąt' in PKO BP SA, possibility of additional gains on the investment portion linked to PKO funds, exemption from personal income tax of interest obtained from the deposit portion.</p> <p>The 'Oszczędnościowa Książeczka Mieszkaniowa' with a fixed interest rate where the interest is 4.25% was introduced in August of the previous year.</p>
SKO' circulating savings books (Obiegowe książeczki oszczędnościowe SKO)	<p>In 2011, interest rates on funds accumulated on circulating savings books with a-vista deposits, issued for School Savings Accounts (Szkolne Kasy Oszczędności) were changed twice by the Bank.</p> <ul style="list-style-type: none"> - in period from 3 January to 31 May 2011, current interest rates was increased from 0.01% to 3.5% and applied a promotional interest rate of 4.5%, - on 1 September interest rate was increased from 3.5% to 5%. <p>This change resulted from promoting by the Bank a positive image of School Savings Accounts (Szkolne Kasy Oszczędności), whose activity is based on the education of pupils in saving and entrepreneurship.</p>
Biznes Waluta Package	<p>The Package, introduced to the Bank's offer in March 2011, is a tool for attracting dynamically developing companies from SME sector which carry out regular foreign transactions (export, import, foreign exchange). The basis of the package is 'Internetowa Platforma Transakcyjna iPKO dealer' (an internet transactional platform iPKO dealer).</p>
SME Business Deposit	<p>New editions of SME Business deposit (26 April and 17 October 2011) were introduced into Bank's offer. This is a deposit with progressive interest rate for periods of 6 or 12 months.</p> <p>Since April 2011 SME Business Deposit with iPKO service is available in the Bank's offer.</p>
Pakiet Biznes Debiut 18	<p>Pakiet Biznes Debiut 18, an attractive package for companies from the SME segment was introduced into the Bank's offer (19 September 2011). The package is addressed to customers who have conducted business activities for no more than 12 months and are interested in a cheap offer of daily services.</p>
Nasza Wspólnota Plus Package	<p>Making the offer more attractive and enhancing competitive position on the housing community market by introducing the Nasza Wspólnota Plus (sale from 18 April 2011). The fee for maintaining the account of PLN 12 includes domestic transfers through iPKO or iPKO Biznes.</p> <p>Moreover, the account holders pay lower rates for maintaining the repair fund account, subscription for iPKO Biznes service and open cash payments in PLN.</p> <p>Additionally, the new offer supports the sale of investor loans from the 'Nasz Remont' group by decreasing the fee by 50% for maintaining the basic current account in the period of the first four years of crediting.</p>



PKO Bank Polski SA Directors' Report for the year 2011

2+3M Deposit	The Offer introduced on 14 November of the previous year was addressed to the customers of the housing market. The contractual period of the deposit is 5 months and the interest rate is up to 4.6%. In case of withdrawing funds after 2 months but before the expiry of 5 months, the customer shall receive interest at the level of 4.3%.
2-year Structured Bank Securities (BS) based on S&P 500 index	The product combines guaranteed profit from a high interest rate deposit with an investment portion in the form of investment fund participation units. Clients can choose from 2 subfunds in PKO TFI offer: Akcji PLUS or Stabilnego Wzrostu PLUS. The deposit is a product characterised by high interest on the deposit portion (reaching 6.66% for deposit period - 12 months and 5.55% for deposit period - 6 months), a low minimum amount of investment - PLN 2 000, and no fees for redemption of participation units after 12 months.
Structured Bank Securities based on the price of copper	In the Bank's offer from 29 August to 23 September 2011. BS based on the price of copper (listed on the London Metal Exchange (LME)) is a 2-year investment product with 100% guarantee of principal on the redemption date. An investor obtains a profit equal to a percentage change in the value of copper regardless of the direction of the change, provided that the price never reaches or exceeds the specified barriers. If the barrier is reached or exceeded the premium will be 3% for the investment term. The minimum investment amount is PLN 5 000.
Structured Bank Securities based on the price of gold	Introduced into the offer from 24 October 2011 to 18 November 2011. BS is an investment product with 100% guarantee of principal on the redemption date. The minimum investment amount is PLN 5 000. The premium value denominated in PLN will be dependent on changes in gold prices expressed by GOLDLPM fixing performed by The London Gold Market Fixing Ltd.
Structured gold-based deposit (Investors' gold, Gold's Price III)	A two-year structured deposit based on the gold price (Investors' gold, Gold's Price III) offered to customers in II editions from 30 May to 24 June and from 21 November to 16 December 2011. It is an investment product which guarantees full protection of capital on the maturity date and the possibility of obtaining higher profits than from a standard fixed-term deposit. The minimum amount of deposit is PLN 5 000. In exchange for maintaining the deposit until the end of the contractual period, the client received an amount based on the current gold price.
INTELIGO	Under the Inteligo account a debit card MasterCard PayPass in the EMV standard was launched which enabled making payments using the PayPass contactless technology. The card is offered both in the segment of individual clients (from February 2011) and in the SME segment (since March 2011). From May, the clients who have Individual Pension Accounts - Bonds maintained by the Brokerage House of PKO BP SA can have permanent access to information on their account balance through the Inteligo webpage.
Dobolokata	In July 2011, the interest on fixed-interest deposits with daily interest payment was increased to 3.70% - for 1M deposits, 4.20% for 3M deposits and 4.45% for 6M deposits. From September, the offer of a fixed-term deposit with daily payment of interest as part of the Inteligo Account was extended for two new terms of 9M and 12M, with nominal interest rates of 5.24% and 5.59% respectively (communicated respectively 6.47% and 6.90%). The deposit was withdrawn by the end of 2011.
IGO deposit with daily capitalisation of interest	From 9 September 2011, a new attractive deposit product with daily capitalisation of interest (to 5.52%, communicated 7.0%) - IGO deposit was introduced. The minimum amount of one deposit was PLN 1 000. Tenors and nominal interest rates of IGO-deposit were as follows: - 3M - 4.45%, 6M - 5.00%, 9M - 5.22%, 12M - 5.52%. The deposit was withdrawn as of 31 December 2011.

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 (+9.7% y/y).

Table 16. Deposits in retail segment (in PLN million)

Items	31.12.2011	31.12.2010	Change 2011/2010	Change (in PLN million)
Client deposits, of which*:				
- retail and private banking	99 631	90 860	9.7%	8 771
- small and medium enterprises	8 932	8 593	4.0%	340
- housing market clients	5 406	5 083	6.3%	322
Total	113 969	104 536	9.0%	9 432

* Change in relation to business volumes previously presented results from a change in presentation; volumes currently presented include also balance sheet interest and valuation adjustments.

Current accounts, Inteligo and banking cards

PKO Bank Polski SA remains the market leader in terms of the number of accounts maintained, which amounted to 6.2 million as at the end of 2011. In 12-month period of the previous year the Bank's activities were focused on the execution of the 'Nowa oferta ROR' (New Current Account Offer) strategic programme at PKO Bank Polski SA. 8 new current account packages were offered to clients with different preferences. The diversity of the accounts offered allows the clients to choose the most attractive options. The offer is directed to both retail customers and private and personal banking clients.

Table 17. Accounts and banking cards in PKO Bank Polski SA (in thousands of units)

Items	31.12.2011	31.12.2010	31.12.2009	Change 2011/2010	Change 2011-2010
Total number of current accounts, of which:	6 182	6 150	6 212	0.5%	32
- Inteligo current accounts	671	655	639	2.5%	16
Total number of banking cards, of which:	7 166	7 171	7 456	-0.1%	(5)
- credit cards	1 009	1 063	1 106	-5.1%	(54)



As at the end of 2011, PKO Bank Polski SA serviced 7.6 million customers in the retail segment and 0.6 million Inteligo clients.

Own network of ATMs reached the number of 2 457 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. 1.4 thousand locations) continues to complement significantly the network of branches and ATMs.

Table 18. Operational data in retail segment – branches and ATMs and agencies

Items	31.12.2011	31.12.2010	31.12.2009	Change 2011/2010	Change 2011-2010
Total number of branches	1 198	1 208	1 228	-0.8%	(10)
- in the retail segment:	1 131	1 140	1 160	-0.8%	(9)
regional retail branches	12	12	12	0.0%	-
regional branches	475	475	475	0.0%	-
subordinated branches	644	653	673	-1.4%	(9)
Number of ATMs	2 457	2 419	2 388	1.6%	38
Number of agencies	1 400	1 942	2 175	-27.9%	(542)

Additionally, based on the contracts signed between the Bank and external entities, the Bank's customers can use free of charge an additional network of ATMs belonging to other entities, i.e.:

- banku BZWBK SA – 1 046 ATMs,
- eService – 141 ATMs.

In 2011 The Bank continued to develop access by electronic channels: iPKO, Inteligo. Customers using the service iPKO have the opportunity to join the pension fund PKO Bankowy BP OFE through iPKO. With the new functionality, directly from iPKO clients can:

- set up a pension account in PKO BP Bankowy OFE,
- change the current pension fund for PKO BP Bankowy OFE,
- activate access to the account in PKO BP Bankowym OFE.

Clients who have Individual Pension Accounts – Bonds maintained by the PKO Bank Polski SA Brokerage House can have permanent online access to information on their account balance through the Inteligo webpage.

4.3.2 Corporate segment

2011 saw a continuation in the growth path of the corporate segment of PKO Bank Polski SA commenced in the previous years. Operations in the previous year were focused on comprehensive development in all aspects of the operations, i.e. results, volumes, products, organisational improvements and on flexible adaptation to current client needs and the changing economic conditions. All initiatives – commenced and completed in 2011 – led, in consequence, to PKO Bank Polski SA maintaining its position as the leader of the banking sector in financing business entities. In spite of another crisis on the financial markets (the public finance crisis), the corporate segment of PKO Bank Polski SA successfully implemented the strategy it had adopted, deriving measurable benefits for the Bank. Throughout 2011 PKO Bank Polski SA participated in projects of huge importance to Polish entrepreneurship and, consequently, to the Polish economy. Last year PKO Bank Polski SA financed several significant transactions on the Polish market, both of an investing nature and supporting corporate recovery processes. PKO Bank Polski SA participated in, amongst others, a material acquisition on the telecommunications market, and it took part in the consolidation of the Polish chemical industry, thanks to which the largest fertilizer concern in Poland was established.

The next stage of the PKO Bank Polski SA corporate segment development was meeting high standards and gaining as a customer the largest financial entity in Poland – the Social Security Institution. For the period of four coming years the Bank will be providing services to the largest public sector entity in Poland.

In 2011, there was a noticeable improvement in the corporate loan market. Lending activities accelerated significantly. According to NBP data, the corporate loan market grew by 19.4% per annum. The business activity of enterprises improved, which resulted in an increased demand for loans and, in response, an increase in the availability of this product on the part of banks.



PKO Bank Polski SA was an active market player in another year, dynamically developing the sales of its products, which resulted in the volume of loans to corporate clients increasing by more than 17% in 2011 compared with 2010. As at the end of 2011, the corporate segment achieved a record loan volume of PLN 33.6 billion.

2011 was a period of intense competition on the financial services market, both in terms of loan products and deposit products, which caused the migration of customers among individual entities of the banking sector. During that time the corporate segment of PKO Bank Polski SA took intensive measures to strengthen the customers' relationships with the Bank by means of, amongst others, a loyalty programme and the flexible adaptation of the current product offer to client needs, which allowed the Bank's corporate client base to be maintained at a level in excess of 11.4 thousand at the end of 2011.

The development of the corporate segment in 2011 can be seen not only on the side of the loan base but also the deposit base. The funds raised from corporate customers amounted to almost PLN 29 billion as at the end of 2011, which allowed a 14.8% y/y increase to be achieved.

Table 19. Loans and advances to customers and deposits in the corporate segment (in PLN million)

Items	31.12.2011	31.12.2010	Change 2011/2010	Change (in PLN million)
Gross corporate loans *)	33 636	28 703	17.2%	4 933
Corporate deposits**	28 874	25 154	14.8%	3 720

* change in relation to business volumes previously presented results from a change in presentation; i.a. volumes currently presented include also valuation adjustments.

** change in relation to business volumes previously presented results from a change in presentation; volumes currently presented include also balance sheet interest and valuation adjustments.

In 2011, PKO Bank Polski SA also conducted several internal operations and external operations aimed at improving the functioning of the corporate segment (client-oriented operations).

An important project initiated in 2011 was the centralisation of strategic client service. The Bank's largest clients will be served by a dedicated specialised entity. This will contribute greatly to raising the standard of service offered to these clients, and it will strengthen the clients' relationships with the Bank.

Other important projects which were carried out within the corporate segment in 2011 included first of all: optimising the lending process – improving the lending process, implementation of the CRM system for the purposes of planning and monitoring sales, and the continuation of the project consisting of centralising corporate operations, as well as the expansion and modernisation of the network of night drop boxes.

2011 was yet another period of improving and developing the Bank's products and services which are, on the one hand, very important to meeting the needs of corporate clients and which, on the other hand, allow the Bank to participate actively in business. Last year the development of corporate products comprised, i.a. expanding the functionality and revitalising the internet platform iPKO Biznes, implementing a new platform enabling direct contact with the client, and modernising products such as, i.a. mass disbursements.

In 2011, several product-related operations were also conducted, which were aimed at supporting sales and increasing the profitability of the transaction products of the corporate segment. The automation of operating processes for transaction products was conducted. Another type of payment card was included in the package offer for the corporate client – a PKO MasterCard Corporate charge card.

Over the last year (2011) PKO Bank Polski SA gradually increased its business activities on the transaction banking side, which was expressed as an increase in the result achieved on such operations and an increase in the number of transactions (an increase of more than 9% y/y).

The on-going strengthening of relationships with corporate clients was no less important than the above-mentioned operations carried out in 2011. Last year was the first annual period of the functioning of the Loyalty Programme in which more than 500 clients participate. The non-loan results earned on the surveyed group of clients participating in the programme increased by an average of 11%, and the introduction of the programme contributed to a nearly twofold decrease in the level of clients' resignations from the Bank's transaction banking services.



Table 20. Significant activities in the loan activity

Scope of activity	Activity
loan activity	<p>In 2011 the following events took place:</p> <ol style="list-style-type: none"> 1) a master agreement for providing bank guarantees and letters of credit in EUR 57.4 million was concluded with a company in the shipbuilding industry, 2) granted a bridge investment loan of PLN 400 million to a chemical industry, 3) signed a bank guarantee agreement in the amount of up to EUR 45 million with a power company, 4) concluded a master agreement for granting bank guarantees of PLN 200 million with a company in the power industry (in the first quarter of 2011, an agreement for PLN 150 million, and then an annex to the agreement based on which the contractual amount was increased to PLN 200 million), 5) increasing the working capital financing to PLN 500 million (an increase by PLN 160 million) to a company from the petroleum industry, 6) setting a guarantee limit of PLN 200 million to a customer from the petroleum industry, 7) granted a working capital loan (in the form of a Multi-purpose Loan Limit) in the amount of PLN 300 million to companies from petroleum industry, 8) a master agreement for providing bank guarantees in the amount of USD 491 million, to a company from gas industry, 9) granted an investment loan of PLN 200 million to a construction company, 10) increasing the working capital financing (a loan in the form of a Multi-purpose Loan Limit) from PLN 150 million to PLN 250 million to a company in the food industry, 11) granted a working capital loan of PLN 400 million to a financial institution, 12) signed an investment financing agreement for PLN 300 million with a municipal company working for local administration entities and other municipal legal persons, 13) granting an overdraft facility of PLN 300 million to a local government unit,

The sales network of the corporate segment includes regional corporate branches and subordinated corporate centres – altogether 67 branches as at 31 December 2011.

Table 21. Operational data in the corporate segment – number of branches

Items	31.12.2011	31.12.2010	31.12.2009	Change (in %)	Change 2011-2010
Total number of branches	1 198	1 208	1 228	-0.8%	(10)
- in the corporate segment:	67	68	68	-1.5%	(1)
regional corporate branches	13	13	13	0.0%	-
corporate centers	54	55	55	-1.8%	(1)

4.3.3 Investment segment

Despite the unfavourable and extremely volatile market environment, in 2011 the Bank consistently pursued its strategic goals in respect of the development of the investment banking segment.

In its treasury operations, the Bank focused on developing cooperation with corporate clients in respect of investing free cash flows, transactions on the currency market and managing market risk. The importance of electronic distribution channels for treasury products increased. Trading operations on the money, currency and debt markets concentrated on *market making* of PLN instruments while applying a conservative approach to market risk in conducting operations on its own account.

The Bank optimised the sources and costs of financing its operations, and specifically in respect of loans denominated in foreign currencies. To this end apart from continuing the issuance of debt on the Euro market (via the subsidiary PKO Finance AB), issues of short-term debt on the domestic market was also started addressed mainly to the financial institutions segment.

In respect of brokerage activities, the network of customer service points of the Brokerage House was further developed, restructured and modernised. The network of brokerage service points located in the Bank's branch offices was significantly expanded, which together with the POS of the Brokerage House enabled offering brokerage services in over 1 000 locations, which is the largest number of locations among all the financial institutions operating in Poland. The Brokerage House also attached a lot of weight to the development of remote distribution channels for brokerage services – preparations were under way for a new internet transaction system for customers. Capital market risk analysis competencies were reconstructed and institutional sales were reinforced for the purpose of improving the position of the Brokerage House in the institutional clients segment. The Brokerage House continued its activities on the primary market and in financial advisory services. Operations on its own account focused on *market making* on the equity markets (WSE, *New Connect*) and derivative financial instruments (*futures*, index options).



PKO Bank Polski SA Directors' Report for the year 2011

In respect of trusteeship operations, the Bank concentrated on acquiring assets from Polish institutional clients and on offering its services in the area of Polish asset classes to foreign customers.

The Bank maintained its leading position in respect of the issuance of debt instruments for the local government segment, actively participating in transactions on the syndicated loans markets and in issuance of debt for corporate clients.

Other business priorities in the area of investment banking on which the Bank concentrated in 2011 comprised strengthening relations and developing cooperation with banking and non-banking financial institutions, and the dynamic development of structured investment instruments earmarked for individual customers, which widened and enriched the deposit offer of the Bank's investment segment.

Reorganisation of the Group, and implementation of consistent methods of supervision and cooperation of the subsidiaries with the Bank continued in the area of corporate supervision. The above activities enabled the Bank to strengthen its position in all the key business lines of the investment segment.

Table 22. Achievements of PKO Bank Polski SA in the investment segment - treasury activities

Investment activity	Activity
	<i>Development strategy and achieved results</i>
	Treasury instruments are sold to individual and institutional clients via a network of the Bank's branches and dedicated Treasury <i>dealers</i> .
Treasury products sales	In 2011, further increase in sales of traditional Treasury products trading such as foreign exchange SPOT and FORWARD transactions, and OPTIONS were achieved. Compared with 2010, the value of SPOT and FORWARD transactions, and OPTIONS turnover was higher by 5%, 9% and 6% respectively.
	In November 2010, the Bank offered the Internet Transaction Platform to its institutional clients, which enables exercising foreign exchange transactions. Number of clients who used this distribution channel during a month increased from 69 in December 2010 to 552 in December 2011.
	<i>Risk</i>
	Automation of the simulation process of a price of the underlying change effect was introduced for customers - in accordance with the provisions of PFSA A Recommendation.
	<i>Achieved results</i>
Treasury activities	The Bank is the Treasury Securities <i>Dealer</i> ; it holds a high level of trading in the interest rate and foreign exchange market. In 2011 in the Ministry of Finance's contest for the Treasury Securities <i>Dealer</i> , which assessed activity on the interest rate market, PKO BP SA took the 1 st place again. According to the data for the end of December 2011, the Bank's share (cumulatively) in FRA transactions was 25% in the previous year, and 18.5% in 2010, while in the IRS market remained at the previous year level, i.e. about 21%. The Bank is still one of the primary <i>market-makers</i> in the foreign exchange market. In 2011, the share of PKO BP SA in the spot foreign exchange market amounted to 9%. Bank is also an active participant in the money market and it acts as a Money Market <i>Dealer</i> . In 2011, the Bank took the 2 nd place in the IAD (<i>Dealer Activity Index</i>) assessment of market activity conducted by NBP.
Interbank market	Own securities issues of PKO BP SA are conducted from August 2011, PLN 4.9 billion was placed in the market as at the end of 2011.
	<i>Risk</i>
	In order to secure its trading, in 2011 the Bank concluded 1 framework agreement (with a domestic bank) and 3 hedging agreements to framework agreements, moreover 4 ISDA agreements (with foreign banks) and 5 CSA <i>Annex</i> , as well as one GMRA agreement were concluded. The Bank actively managed the financial risk (liquidity, interest rate and currency), focusing on the exposure minimising.



PKO Bank Polski SA Directors' Report for the year 2011

Table 23. Achievements of PKO Bank Polski SA in the investment segment – brokerage activities

Investment activity	Activity
Brokerage activities	<p>shares' market</p> <p>In 2011 the value of turnover of the Brokerage House in the share market amounted to PLN 28.8 billion, which represents an increase of 3% compared with 2010. The share of the Brokerage House in the turnover amounted to 5.05%, giving 7th position in ranking.</p>
	<p>In 2011 the Brokerage House was active on the primary market and it was another very good year for the Brokerage House. The value of public offers, in which the Brokerage House participated, amounted nearly to PLN 5 683.5 million, which makes Brokerage House one of the leaders on the primary market by value of initial public offerings (IPO) carried out. Brokerage House ranks among the top three most active brokerage houses by scale of initial offerings on the share market in 2011 (<i>source: Parkiet 09.01.2012</i>). Jastrzębska Spółka Węglowa SA (the greatest IPO offer on the Polish market in 2011) and Bank Gospodarki Żywnościowej SA debuted on the market with the participation of DM. DM participated in secondary public offerings (SPO) of: Ciech, Zakłady Azotowe w Tarnowie – Mościcach, Cersanit.</p> <p>In 2011 the Brokerage House introduced the bonds of the City of Warsaw, the company Multimedia Polska SA and Bank Pocztowy SA to the <i>Catalyst</i> market. The value of bonds introduced amounted to about PLN 754 million. Brokerage House participated in the sales consortium of the following companies: MEGARON, Kredyt Inkaso, Kino Polska, Industrial Milk Company, Enel-Med, Toya, AC.</p>
	<p>primary market</p> <p>Brokerage House also participated in other transactions on the capital market. The Brokerage House acted as, i.a. an offering party in public offerings of shares in connection with the merger of the Tauron Group companies (EnergiaPro SA and PEC Katowice SA) with a total value of about PLN 319 million and the function of the offer or in the share sale transaction in the privatisation of Krajowa Spółka Cukrowa SA with a total value of over PLN 1.2 billion. It also participated in the transaction of buying up own shares of Multimedia Polska SA (value of approx. PLN 83 million) and in the transaction of buying up bonds of Polkomtel SA (value of over PLN 1 billion). In 2011, the Brokerage House also serviced the consecutive steps of the incentive plans for TIM SA and ELEKTROTIM SA.</p> <p>In 2011, as part of the services on the primary market, Brokerage House also handled Subscription Warrants of TIM SA and subscriptions to shares as part of the Incentive Plan for employees of and persons related to SELENA FM SA.</p> <p>At the same time, in 2011, a new product in the Bank's offer was successfully launched, i.e. the Structured Bank Securities (BS). This resulted in 3 issues of the BS, i.e. Structured United Finance BS, Structured BS based on the price of copper, Structured BS based on the price of gold.</p> <p>Also in 2011, the subscriptions and payments to the first issue of non-public A-series corporate bonds of Lokaty Budowlane SA were carried out.</p> <p>As at the end of 2011, the Brokerage House serviced the units of 162 funds and subfunds managed by 12 Fund Management Companies.</p>
	<p>NewConnect market</p> <p>In 2011, in the NewConnect market, Brokerage House achieved a turnover of more than PLN 391 million and took the 4th place with a 10.01% market share. Brokerage House was the market maker in the NewConnect market for 52 companies, which gives it 2nd place in the market.</p>
	<p>bonds' market</p> <p>DM maintains its leading position in the market with a 45.17% share.</p>
	<p>futures/forward market</p> <p>In 2011, the fastest growth of turnover was recorded on the options market. In spite of high volatility in the second half of 2011, the market was developing in a stable manner. Brokerage House executed 5% of turnover on the market and ranked 1st in the market ranking with a share of 14.92%.</p> <p>On the contracts market, due to the high operational risk in this market segment, the turnover of Brokerage House dropped by more than 22%, which was reflected in falling to the 10th position on the market and the decrease of the share in turnover to 3.66%.</p> <p>In 2011, the value of turnover of Brokerage House on the contracts market amounted to over 1 070 thousand of items, and nearly 268 thousand of items on the options market.</p> <p>At the end of 2011 the number of signed agreements on acting as the market maker by Brokerage House amounted to 49 (3rd position on the market) and 19 agreements on acting as the issue underwriter (5th position on the market).</p>
	<p>number of accounts</p> <p>As at the end of 2011, as part of its operations, Brokerage House maintained 155.1 thousand securities and cash accounts and 153.4 thousand registration accounts. The over 25% increase in the number of securities accounts maintained enabled Brokerage House to rise to the 4th position among the 45 participants of the National Depository for Securities (KDPW).</p>
	<p>development</p> <p>The planned replacement of the transaction system of the Stock Exchange with the UTP system will be of crucial importance to the development of the brokerage services market in Poland, including the DM's customers. Modernisation of the IT infrastructure of the Brokerage House carried out in parallel to the above replacement will enable the customers to avail themselves of, i.a. the increased speed and efficiency of the stock exchange system and new types of orders.</p>

Table 24. 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>The Bank is a direct participant in the National Depository for Securities and the Securities Register (NBP) and a member of the Council of Depository Banks and the Non-Treasury Debt Securities Council of the Polish Banks Association. The Bank maintains securities accounts and handles transactions on the domestic and the foreign markets. It also provides fiduciary services and acts as a depository for pension and investment funds and actively participates in creating market regulations and standards.</p>
	<p>value of fiduciary assets</p> <p>As at the end of December 2011, as part of its fiduciary function the Bank maintained around 1.7 thousand securities accounts.</p> <p>The Bank continued activities aimed at optimising the structure of clients' securities handled as part of the fiduciary services and the revenue generated therefrom. The Bank's acquisition activities focused on gaining customers with large portfolios of assets and settlement potential. As a result of these efforts, the value of customer assets kept as part of the fiduciary services increased by 48% from nearly PLN 33.5 billion as at the end of December 2010 to PLN 49.4 billion as at the end of December 2011.</p>



<p>issue of non-treasury debt securities</p>	<p>The Bank has a wide offer of products addressed to corporate clients. One of its components is the offer of comprehensive credit support to large investment projects, characterised by a wide scope of services, flexibility, diversity of solutions and methods of financing, and primarily an individual approach to each project.</p> <p>The Bank remains among the leading financial institutions which arrange issues of non-Treasury debt securities in Poland. In 2011, the Bank concluded 109 contracts for issuing municipal bonds with a total value of PLN 1.6 billion and 5 contracts for issuing corporate bonds with a guarantee of closing the issue with a total value of PLN 2.2 billion, and 2 annexes to previously concluded contracts as part of bank consortiums for issuing corporate bonds with a guarantee of closing the issue, which increased the value of the programmes by PLN 5 billion, with the Bank's share amounting to PLN 820 million. Additionally, the Bank concluded 7 programmes for issuing corporate bonds without a guarantee of closing the issue, with a value of PLN 1.0 billion.</p>
<p>Structural financing</p>	<p>In 2011, the Bank concluded:</p> <ul style="list-style-type: none"> <input type="checkbox"/> 15 loans as part of a bank consortium with a total value of PLN 14.8 billion with the total share of the Bank of PLN 2.5 billion, and 2 loan agreements designated for syndication to banks on the secondary market in the total amount of PLN 831.9 million, <input type="checkbox"/> 19 bilateral loans with a total value of PLN 1.0 billion, including 15 loans to entities directly related to the Bank and operating in the financial and banking sector, of USD 50 million and PLN 349 million – the transactions were concluded on an arm's length basis, - <input type="checkbox"/> 4 agreements for granting a bank guarantee to entities directly related to the Bank and operating in the financial and banking sector, with a total value of PLN 436.6 million – the transactions were concluded on an arm's length basis, <input type="checkbox"/> a loan agreement to an entity directly related to the bank and operating in the financial sector, in the amount of USD 63.1 million.
<p>loans in form of a consortium</p>	

4.4 International cooperation

Co-operation with other foreign institutions

Under the *2020 European Fund for Energy, Climate Change and Infrastructure*, PKO Bank Polski SA increased its capital involvement in the above mentioned fund from EUR 1 200 thousand as at the end of 2010 to EUR 7 100 thousand as at the end of December 2011.

PKO Bank Polski SA participates in the above mentioned project as the only Bank operating in one of the new European Union Member States which was awarded the status of 'Core sponsor'. The *Marquerite* Fund was established in 2009 for 20 years and is currently at the stage of building its investment portfolio.

4.5 Issuance of own debt securities and Eurobonds

- On 5 July 2011 the Bank concluded a loan agreement with its subsidiary, PKO Finance AB pursuant to which the Bank would borrow from lender certain funds representing proceeds from the issue of Eurobonds by the Issuer under EMTN programme. According to loan agreement the Issuer grants a loan of CHF 250 million intended to be used for general financing purposes of the Bank. The loan bears interest at a fixed rate of 3.538% p.a. Interest is paid annually. The Loan Agreement was concluded for the term of 5 years. The loan is not secured.
- On 21 June 2011, PKO Bank Polski SA passed a resolution on granting consent for the opening of a programme for issuing the Bank's bonds on the domestic market ('Programme'). The Issue Programme amount is PLN 5 billion or its equivalent in other currencies. The funds obtained as a result of the issue of bonds under the Issue Programme will be used for the general purposes of financing the Bank's operations. The term of the Programme is unlimited. Due to the above-mentioned Programme having been opened, on 12 August 2011 and 9 September 2011 the Bank issued short-term bonds totalling PLN 1.95 billion. Moreover, on 10 November 2011 and 9 December 2011 the Bank issued short-term bonds under the Programme totalling PLN 2.95 billion, including bonds rolling the debt resulting from the previously issued bonds. The total debt due to the bonds issued under the Programme amounted to PLN 2.95 billion as at 31.12.2011.

4.6 Activities in the area of promotion and image building

Sponsorship activities

Realised sponsoring activities in 2011 were aimed at building 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.



PKO Bank Polski SA Directors' Report for the year 2011

Table 25. The Main sponsorship areas

Area	2011		2010	
	Number of projects	Share in budget	Number of projects	Share in budget
Image sponsorship	322	40%	291	82%
Sector sponsorship	157	60%	136	18%
Total	479	100%	427	100%

40% of the budget spent in 2011 was dedicated to sponsoring activities which shape the image of the brand. The majority of the projects sponsored related to culture, the protection of the national heritage, sports and education.

The leading project **in the area of culture and national heritage** was the patronage taken up by the Bank over the Polish Presidency in the European Union, which included participation in a number of nationwide and local artistic events anticipated in the Presidency programme.

In 2011, large sponsorship projects initiated in 2010 were continued: commemoration of the Anniversary of the Katyń Massacre and of the Anniversary of the Outbreak of the Warsaw Uprising.

The most important projects in the group of undertakings **in the area of education** included: continuing cooperation with the Planetarium at the Copernicus Science Centre in Warsaw and supporting initiatives of universities throughout the country, including i.a. the Warsaw School of Economics, Cracow University of Economics, Bialystok University, Gdansk University of Technology, Adam Mickiewicz University in Poznan.

Thanks to the activities **as part of the PKO Blisko Ciebie ('PKO Close to You') programme**, the Bank was visible in all areas of social life. Hence, its presence in a number of festivities, picnics and public events throughout the country. The Bank commenced cooperation with the SPINKA Association by financing driving courses for persons with motion, speech and hearing dysfunctions.

The largest undertaking **in the area of sports sponsorship** was the support granted to the events in the cycle 'Zabiegaj o pamięć' ('Run to Commemorate'): 21st Warsaw Uprising Race and 23rd Independence Race, 35th Piasts' Race and 12th Maciej Frankiewicz Poznan Marathon.

The Bank is involved in leading **undertakings related to the sector**, thus intensifying its promotional activities supporting sales of the offered products and services. The purpose of the supported initiatives was to present the Bank as the financial market leader. The main examples of such initiatives included the sponsorship of: the Most Valuable Polish Brands competition, the '100 Businesswomen' Ranking, Pillars of the Polish Economy, the European Economic Congress in Katowice, CEE IPO SUMMIT Conference in Warsaw, 2nd Innovative Economy Congress, 4th Retail Banking Congress, Stock Exchange Company of the Year

Charity activities

Charity activities play an important role in forming image of PKO Bank Polski SA as a socially sensitive institution. Apart from the image issues, participation in charity activities creates also the possibility of contacts with opinion-setting circles. In 2011 the charity activity was run by both the Bank and by the PKO Bank Polski SA Foundation, which will take over all tasks related to realisation of charity projects from 2012.

Table 26. Main areas of charity activities

Area	2011		2010	
	Number of donations	Share in budget	Number of donations	Share in budget
Social aid	85	24%	188	40%
Life and health rescue	61	29%	122	15%
Sport and leisure	48	13%	87	19%
Education and entrepreneurship	36	9%	62	8%
Culture and national heritage	13	12%	20	4%
Help to victims of natural calamities and disasters	6	1%	20	13%
Other	33	10%	18	3%
Total	282	100%	517	100%



In the area of social aid, the Bank supported the campaigns to the benefit of children from poor and dysfunctional families, from children's homes and handicapped children and adults in difficult life situations.

Again, the support from PKO Bank Polski SA enabled children and young people to participate in rehabilitation cycles. PKO Bank Polski SA helped finance summer and winter holidays for children and young people, organise sports camps, purchase food, supplementary meals in schools and purchase of teaching materials. PKO Bank Polski SA supported the activities related to education of children and young people which would enable them to gain practical knowledge and skills. It supported undertakings in the area of culture as well.

As in previous years, the support from PKO Bank Polski SA helped purchase different kinds of equipment and medical apparatuses for hospitals and foundations operating in the area of life and health rescuing. Moreover, the Bank continued granting financial support to flood victims.

Activities of PKO BP SA Foundation

The objective of the PKO Bank Polski Foundation is acting for the public interest to the widest possible extent, giving each employee of the Bank an opportunity to join a specific project or indicate a problem that needs solving.

In 2011, the PKO Bank Polski Foundation allocated PLN 7.0 million, gross, for programme-related activities, including PLN 6.0 million for strategic projects and PLN 1.0 million for local and individual projects. In the period from April to the end of December 2011, the Foundation received 1 104 applications, out of which the Foundation's team analysed 869 applications during 29 meetings, making 547 positive decisions and 322 refusals.

In 2011, the Foundation's achievements included i.a. the following:

- forming a strategic partnership with the Siemach Association which pursues an original educational programme focused on personal development of children and young people in difficult life situation,
- cooperating with the WIOSNA Association which organises the Noble Parcel nationwide campaign. The project consists of granting systemic aid to families afflicted by non-culpable poverty, it is executed throughout the year and ends two weeks before Christmas. The Foundation, as one of the two project sponsors, together with the organiser, partners and the whole Polish society, participated in granting aid to 11 884 families,
- supporting the circle of Polish IT specialists, mathematicians and programmers (teachers and students) through the execution of joint projects and scholarship programmes with selected partners: the Warsaw University, the Foundation for Information Technology Development and the Strategic Solutions Centre,
- continuing the cooperation formed in 2002 with the Professor Zbigniew Religa Cardiac Surgery Development Foundation which realises the Polish Artificial Heart project, the objective of which is to support the efforts of Polish cardiac surgeons to construct an extrasomatic artificial heart separately for adults and for children,
- participating in the Polish Humanitarian Action project which consists of supporting the families of Polish Repatriates within the territory of the Republic of Poland,
- independently organising annual 'Stanta Claus' Day Integration Meetings – a Christmas party for children from care and education centres which are under the supervision of the Bank's regional branches, and for children of the employees of PKO Bank Polski SA. More than 6 thousand children participated in 36 events organised in 29 cities in Poland.

Prizes and awards granted to PKO Bank Polski SA

In 2011, PKO Bank Polski SA has been granted numerous prizes and awards, including the following:

1. 'Ten, który wspiera Polski Przemysł' ('Polish Industry Supporter') A.D. 2010 – PKO Bank Polski SA was awarded this title for its role of an active financial market stabiliser and for maintaining healthy, open and pro-development relations with business in a difficult economic time. The title has been awarded by *Miesięcznik Gospodarczy Nowy Przemysł*.
2. 'Najlepiej prosperujący krajowy bank komercyjny' ('The most flourishing domestic commercial bank') – PKO Bank Polski was the winner of the *Book of Lists 2011* ranking, prepared by the editor of *Warsaw Business Journal*, in the category 'Commercial Banks'.
3. Złoty Bankier (Golden Banker) – PKO Bank Polski SA won a prize for the best cash loan in the market 'Max Pożyczka Mini Rata' and the best working capital loan for small and medium enterprises.
4. Europrodukt – PKO Bank Polski SA won the 16th issue of the national competition EUROPRODUKT. The Bank was awarded three prestigious statues in the category of services for accounts for corporate

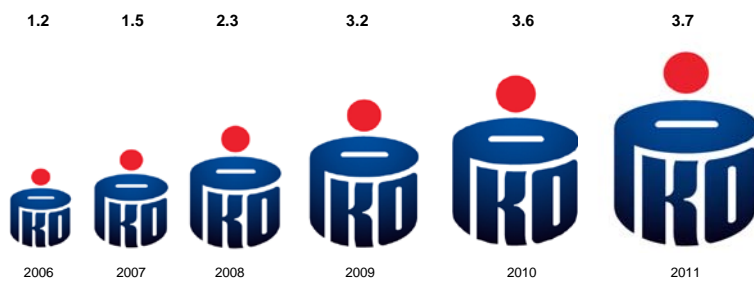


- clients: payroll account, ESCROW contingent settlement account, consolidated account.
5. 'Złote Godło Zaufania' (Gold Emblem of Trust) – PKO Bank Polski SA brand was chosen by readers of Reader's Digest monthly as the most trusted one: PKO Bank Polski SA received Złote Godło (Gold Emblem) of European Trusted Brand, as well as the title of the Most Environment Friendly Brand.
 6. Ranking '100 najlepszych instytucji finansowych' ('100 best financial institutions') – PKO Bank Polski SA won the ranking organised by Gazeta Finansowa. The Bank was also ranked first in the banks and brokerage house ranking. The purpose of the project is to present *and promote the key* Financial Institutions in Poland, which despite the difficult market conditions in the previous year maintained stable position and demonstrated dynamic development.
 7. Ambasador Polskiej Gospodarki ('Ambassador of the Polish Economy') – in the 3rd edition of the competition organised by *Business Center Club* PKO Bank Polski SA received the title of Ambassador in the category European Brand. The main objective of the competition is to increase the involvement of Polish entrepreneurs in the promotion of Poland on the international scene as a reliable economic partner. The Minister of Foreign Affairs became the honorary patron of the event.
 8. Best Macroeconomic Analyst – PKO Bank Polski SA ranked second in category 'Investments' in the competition 'Best Macroeconomic Analyst'. Those economic analysts are awarded in the competition whose forecasts from the prior year proved to be most accurate. The awards are granted by NBP, Rzeczpospolita daily and Parkiet, the daily exchange publication.
 9. Benefactor of the Year 2010 – in the 14th edition of the competition organised by the Academy for the Development of Philanthropy in Poland, PKO Bank Polski SA together with Inteligo Financial Services SA received the title of 'Benefactor of the Year 2010' in the category 'A firm's cooperation with a non-governmental organisation. A large firm'.
 10. Mistrz Biznesu 2011 (Business Master 2011) – PKO Bank Polski was awarded a honourable mention in the category Finance and Banking, in the competition organised by *Businessman.pl*. It has been awarded not only for economic performance, but also i.a. for boldness of economic vision, expertise in management, facing adversities, talent in the selection of personnel, and for the social responsibility of business.
 11. An honourable mention from the Chapter of the Congress of Electronic Economy – during the 6th Congress of Electronic Economy PKO Bank Polski SA received an honourable mention in the category 'Project of the Year' for the massive replacement of payment cards. The awards granted by the Chapter of the Congress of Electronic Economy are aimed at honouring people, projects and activities promoting the development of the electronic economy in Poland.
 12. Solidny Pracodawca 2010 (Reliable Employer 2010) – in the competition organised by Grupa Media Partner PKO Bank Polski SA was awarded the title of a 'Reliable Employer'. The purpose of the competition Reliable Employer is to promote the best firms in Poland which distinguish themselves from others by model human resources management policy which translate into high quality of the products and services offered.
 13. Perły Rynku FMCG 2011 (Pearls of the Market FMCG 2011) – PKO Bank Polski won in the category 'Best Banking Service'. The award was granted for the card in the EMV technology with the *paywave* proximity feature.
 14. 'Najwyższa Jakość *Quality International 2011*' – the chapter of the competition appreciated two products of PKO Bank Polski SA addressed to corporate customers: highest quality service – electronic banking system iPKO biznes, and highest quality product – payroll account.
 15. 'Bank of the Year' – in the competition organised by the monthly *The Banker*, PKO Bank Polski SA was honoured with the prize 'Bank of the Year in Poland'. It received recognition for both its financial results and its comprehensive modernisation.
 16. 50 largest banks in Poland 2011 – PKO Bank Polski SA was awarded the main prize in the ranking prepared by 'Miesięcznik finansowy BANK' (monthly publication), published by Związek Banków Polskich (Polish Banks Association). The ranking 50 largest banks in Poland reflects the market position of the financial institutions.
 17. Best financial institution of 'Rzeczpospolita in 2010' – in the 9th edition of best financial institutions ranking, organised by Rzeczpospolita weekly, PKO Bank Polski SA ranked second in the commercial banks and brokerage houses category.
 18. The strongest financial brand – in the ranking of Rzeczpospolita, in the financial institutions category, PKO Bank Polski SA was recognised as the strongest brand. It also took 2nd place in terms of brand value. The total value of 330 brands in yet another edition of the ranking amounted to PLN 57 billion. The PKO Bank Polski SA brand was valued at PLN 3.78 billion, which represents a 3% increase compared with 2010. 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.



PKO Bank Polski SA Directors' Report for the year 2011

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.

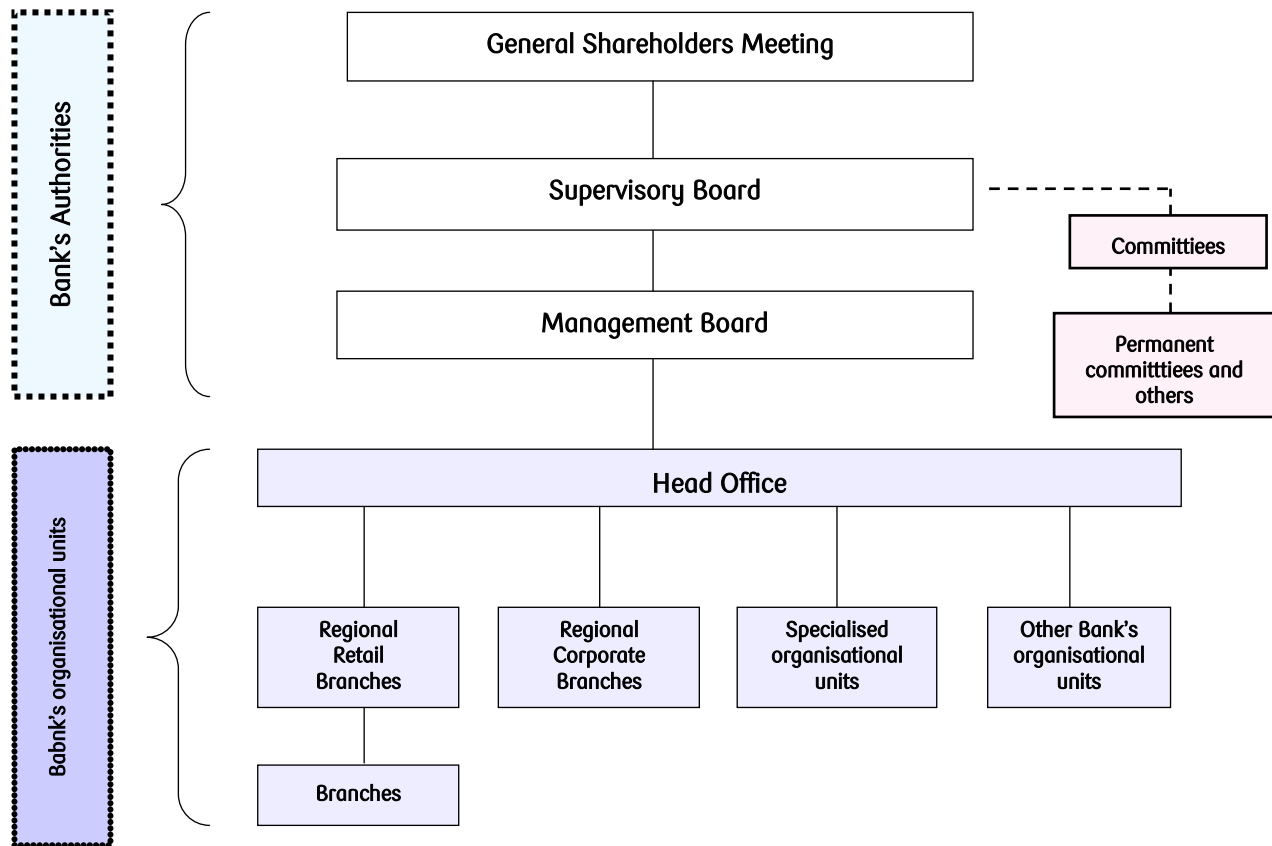
19. 1st position in the competition for the Best Annual Report for 2010 - PKO Bank Polski SA became the winner of the competition for the Best Annual Report for 2010 in the category 'Banks and financial institutions' organised by the Accounting and Taxation Institute under the honorary sponsorship of, i.a. the Warsaw Stock Exchange. The Bank received also an honourable mention in the category 'Directors' report' in the competition in question.
20. Title of IT leader of financial institutions 2010 - PKO Bank Polski SA was awarded the title in the 9th edition of the 'Gazeta Bankowa' competition, while Inteligo Financial Services SA, the virtual branch of PKO Bank Polski SA, was selected as the 'IT Leader' in the category 'electronic banking and e-finance'.



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 organisation of the Bank conducted in 2011 were concentrated on enhancement of Bank's structures dedicated to accomplishment of priority tasks of the the Bank and risk management.

5.2 Principles of risk management

Risk management is one of the most important internal processes of PKO Bank Polski SA. The objectives of risk management are to ensure an adequate level of security and profitability of business operations in the changing legal and economic environment. The level of risk plays an important role in the planning process.

The following types of risk which are subject to risk management have been identified in PKO Bank Polski SA: 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.

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

- the Bank manages all the identified types of banking risk,
- the risk level is monitored on a current basis,
- the risk management process is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to new risk factors and sources on a current basis,
- the risk management methods (in particular the models and their assumptions) and the risk measurement systems are tailored to the scale and complexity of the risk and verified and validated on a periodical basis,
- the risk management process supports the pursuit of the Bank's strategy in keeping with the risk management strategy, in particular with regard to the level of tolerance of the risk,
- the area of risk and debt collection remains organisationally independent of business activities,
- risk management is integrated with the 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 level 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:

- 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,
- the second line of defence, which is the risk management system, including risk management methods, tools, process and risk management organisation,
- the third line of defence, which is an internal audit.

The independence of the lines of defence consists of preserving organisational 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 of the Bank.

PKO Bank Polski SA's priority is to maintain its strong capital position and to increase its stable sources of financing, which constitute a basis for the stable development of business activity, while maintaining the priorities of efficiency and effective cost control.

In consequence, in 2011 the Bank:

- in the methods applied to measuring banking risks, took into account the conditions arising from the financial crisis (i.a. in the scope of stress test scenarios),
- in June, obtained through the intermediation of PKO Finance AB funds from the issue of 5-year bonds as part of the EMTN programme in the amount of CHF 250 million,
- began issuing short-term bonds (in the fourth quarter of 2011 the Bank obtained funds in the amount of PLN 2 950 million).

Moreover, in 2011 the Bank gradually implemented the requirements arising from Recommendation S, in particular with regard to:

- separating the functions relating to the acquisition of customers and the sale of the products offered, the direct analysis of loan applications, risk assessment and making a loan granting decision, and monitoring the loan exposure financing real estate during its term,
- ensuring that independence and objectivity are maintained during the process of assessing the value of the real estate accepted as collateral – the persons assessing the value of real estate should be independent of the employees of the sales units, and in banks with significant loan exposures financing real estate and loans exposures secured by mortgage – also of the employees of the risk acceptance units,
- changing the method of determining disposable income for foreign currency loan transactions drawn to finance real estate and foreign currency loan transactions secured by mortgage,
- changing (shortening) the maximum lending period adopted in the assessment of creditability,
- taking into account the probability that the level of the borrower's income will change after he/she acquires the pension entitlement in the assessment of creditability,
- introducing new principles for assessing the collateral accepted as a security for loan transactions conducted with individual customers, taking into account the liquidity of the collateral, its value, access to the collateral and control during the lending period,

Additionally, in the third quarter of 2011, Bank participated in stress tests arranged by the EBA⁷ and the PSFA. The results of both these tests confirmed the strong capital position of PKO Bank Polski SA and the Bank's considerable immunity to the realisation of negative market scenarios. In each of the scenarios

⁷EBA (European Banking Authority)



developed by the PFSA, the Bank recorded a net profit and the value of capital adequacy measures remained above the external limits.

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 minimise the risk of loans with impairment, while maintaining an expected level of yield and loan portfolio value.

The Bank 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 within their authority,
- 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 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 records 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. 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. This method is available next to the rating method. Its implementation resulted in shortening the assessment process of loan applications as well as improvement of credit risk management effectiveness. As a result of positive assessment of corporate client portfolio scoring in November 2011, the range of use of scoring has been extended.

In 2011 the Bank added to its rating system the identification of events of default, i.e. events whose occurrence, in the Bank's opinion, would make it impossible to collect receivables without using such measures as cashing the security or restructuring. The rating scale was extended as follows: 10 rating classes were introduced in place of the former 8 rating classes (7 classes of clients who are in compliance with their obligations and 3 classes of clients who are not in compliance) and, in principle, the conditions of availability of financing were maintained.

Information on ratings and scoring is widely used in 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.



PKO Bank Polski SA Directors' Report for the year 2011

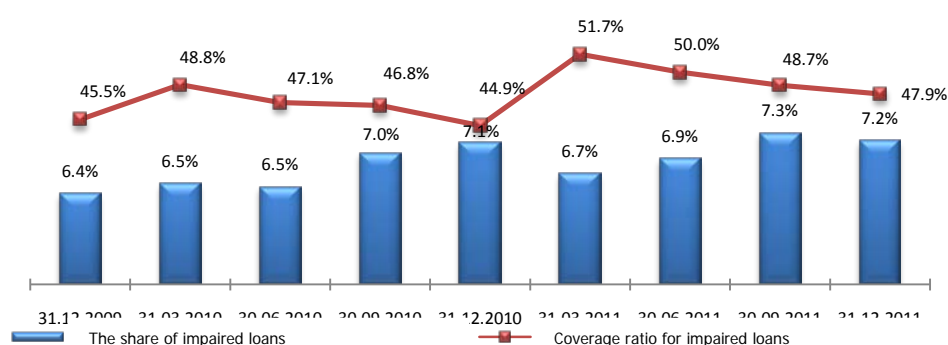
In 2011 the EWS (Early Warning System – a tool for reduce the response time to warning signs indicating the elevated credit risk levels) application has been developed, in result of which in June 2011 the automatic identification of adverse events was implemented.

Table 27. The structure of loan portfolio and impairment allowances of PKO Bank Polski SA (in PLN million)

	31.12.2011	31.12.2010	Change 2011/2010
Loans and advances to customers			
Valued with the individual method	5 145.4	5 059.6	1.7%
<i>Impaired</i>	4 459.5	4 686.4	-4.8%
<i>Not impaired</i>	685.9	373.2	83.8%
Valued with the portfolio method	5 936.2	4 803.6	23.6%
Valued with the group method (IBNR)	133 959.8	123 335.4	8.6%
Loans and advances to customers - gross	145 041.4	133 198.6	8.9%
Impairment allowances on exposures valued with the individual method	(1 498.1)	(1 276.8)	17.3%
Impairment allowances on exposures valued with the portfolio method	(2 832.2)	(2 508.8)	12.9%
Impairment allowances on exposures valued with the group method (IBNR)	(652.5)	(479.9)	36.0%
Impairment allowances – total	(4 982.8)	(4 265.5)	16.8%
Loans and advances to customers – net	140 058.6	128 933.1	8.6%

The chart below presents the share of impaired loans and their coverage ratio.

Chart 2. Share of impaired loans and the coverage ratio for impaired loans



The share of loans with recognised impairment in PKO Bank Polski SA gross loan portfolio as at 31 December 2011 amounted to 7.2%, compared with 7.1% as at 31 December 2010 i.a. due to selling debts.

Coverage ratio for loans with recognised impairment⁸ for PKO Bank Polski SA as at 31 December 2011 amounted to 47.9%, compared with 44.9 % as at 31 December 2010.

5.2.2 Interest rate risk

The interest rate risk is a risk of incurring losses on balance and off-balance sheet items of the Bank 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 statement of financial position and off-balance sheet items.

⁸ Calculated as the amount of impairment allowance on loans and advances to customers divided by the amount of loans and advances with recognised impairment.



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 2011, the Bank was mainly exposed to the Polish zloty interest rate risk which was responsible for ca. 77% 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 the Bank exposure to the interest rate risk are presented in the following table.

Table 28. VaR and stress test analysis of PKO Bank Polski SA's exposure to interest rate risk (in PLN thousand)

Name of sensitivity measure	31.12.2011	31.12.2010
VaR for a 10-day time horizon	62 661	39 004
Parallel movement of the interest rate curves by 200 b.p. (stress-test)	486 121	475 091

As at 31 December 2011, the Bank's interest rate VaR for 10-day time horizon amounted to PLN 62 661 thousand, which accounted for approximately 0.36% of the value of the Bank's own funds. As at 31 December 2010, VaR for the Bank amounted to PLN 39 004 thousand, which accounted for approximately 0.24% of the Bank's own funds⁹.

5.2.3 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. 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 statement of financial position and off-balance sheet items.

The Bank measures currency risk using the Value at Risk model and stress tests. VaR of the Bank and stress-testing of the Bank's exposure to currency risk are stated cumulatively for all currencies in the table below:

Table 29. VaR and stress tests of PKO Bank Polski SA exposure to currency risk (in PLN thousand)

Name of sensitivity measure	31.12.2011	31.12.2010
VaR for a 10-day time horizon (at 99% confidence level)	1 470	3 171
Change in CUR/PLN by 20% (stress test)*	2 969	5 272

* The table presents the value of the most adverse stress test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%. Data as at the end of 2010 was brought to the comparability.

The level of the currency risk was low both as at 31 December 2011 and as at 31 December 2010.

Table 30. PKO Bank Polski SA's currency position for particular currencies (in PLN thousand)

Currencies	Currency position as at 31.12.2011	Currency position as at 31.12.2010
USD	(13 151)	(60 735)
GBP	49	48 110
CHF	(36 795)	(19 038)
EUR	70 224	(13 120)
Other (Global Net)	10 985	18 424

5.2.4 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 withdrawal 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.

⁹ Own funds calculated in accordance with regulations concerning calculation of the capital adequacy ratio.



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 short, medium and long-term liquidity risk.

The table below presents liquidity reserve of PKO Bank Polski SA as at 31 December 2011 and 31 December 2010:

Table 31. Liquidity reserve of PKO Bank Polski SA (in PLN million)

	31.12.2011	31.12.2010
Liquidity reserve up to 1 month*	17 723	10 151

* 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 2011, the level of permanent balances on deposits constituted approximately 94.8% 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 2010.

5.2.5 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 BP 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 optimising 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 BP SA broken down into the banking portfolio and the trading portfolio, and by monitoring the utilisation thereof.

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

5.2.6 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) 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 i.a., the Value at Risk (VaR) model.

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



Framework 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).

5.2.7 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 optimise 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 organisational 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 qualifications of employees, motivation packages),
- setting threshold values of Key Risk Indicators (KRI),
- strategic tolerance limits and limits on operational risk losses,
- contingency plans,
- insurance,
- outsourcing,
- business continuance plans.

On 21 June 2011 PKO Bank Polski SA obtained the consent of the Polish Financial Supervision Authority (PFSA) for applying statistical methods to calculate capital requirements for operational risk (AMA) as of 30 June 2011, with a temporary limitation (until the conditions set by the PFSA have been met) on the drop of the capital requirement by not more than up to a level of 75% of the requirement calculated under the standardised approach.

The back test performed in respect of operating risk measurement results for 2011 confirmed the prudent nature of the estimates of the LDA measurement results – which is the basis for calculating the capital requirement in respect of operating risk as part of the AMA approach.

5.2.8 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 an 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,
- conflict of interest management,
- preventing situations where the Bank's employees could be perceived as pursuing their own interest in the professional context,
- development of ethical standards and monitoring of their application,
- professional, fair and transparent formulation of offers of products, advertising and marketing messages,
- ensuring data protection,
- 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 elimination of this risk.

5.2.9 Strategic risk

The strategic risk is defined as a risk related to the possibility of negative financial consequences resulting from bad decisions, decisions made on the basis of an incorrect assessment or failing to make appropriate decisions to the direction of strategic development of the Bank.

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 to 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 activities,
- factors related to the management of human resources,
- factors related to investment activities,
- factors related to the organisation's culture.

5.2.10 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 minimising the scale and the scope of image-related events, as well as selection of effective tools for protective measures aimed at eliminating, mitigating or minimising the unfavourable effect of image-related events on the image of the Bank.

5.2.11 Capital adequacy¹⁰

Capital adequacy is the maintenance of own funds by PKO Bank Polski SA which exceeds 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:

- identifying and monitoring significant types of risks,
- assessing internal capital to cover the individual risk types and total internal capital,
- monitoring, reporting, forecasting and limiting of capital adequacy,
- performing internal capital allocations to business segments, client segments and entities in the Group in connection with profitability analyses,
- using tools affecting the capital adequacy level (of which: 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:

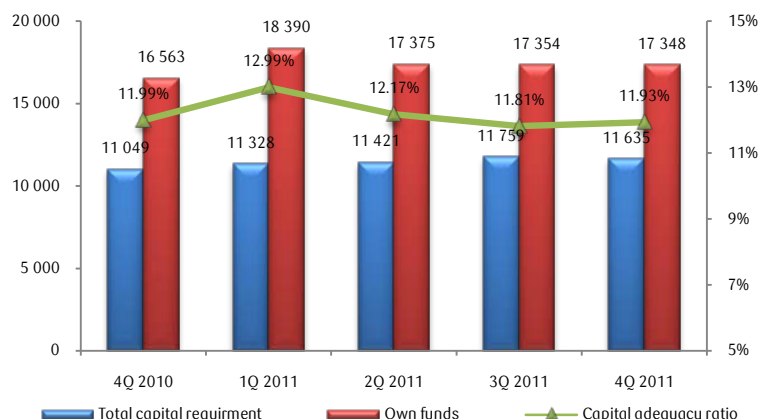
- the capital adequacy ratio, of which minimum level in accordance with the Banking Law is 8%,
- the ratio of equity to internal capital, of which acceptable minimum level in accordance with the Banking Law is 1.0.

¹⁰ Own funds for the purposes of capital adequacy are calculated based on the provisions of the Banking Law and Resolution No. 325/2011 of the Polish Financial Supervision Authority dated 20 December 2011 on other deductions from the primary funds - their value, scope and methods of application; other balance sheet items included in complementary funds - their value, scope and methods of allocation to the bank's additional funds; deductions from the additional funds - their value, scope and methods of application; the scope and method of considering the bank's activities in groups while calculating own funds (Financial Supervision Authority's Journal of Laws No 13*, item 49 dated 30 December 2011).



The capital adequacy level of the PKO Bank Polski SA in 2011 remained on a safe level and was significantly above the statutory limits.

Chart 3. Capital adequacy of PKO Bank Polski SA



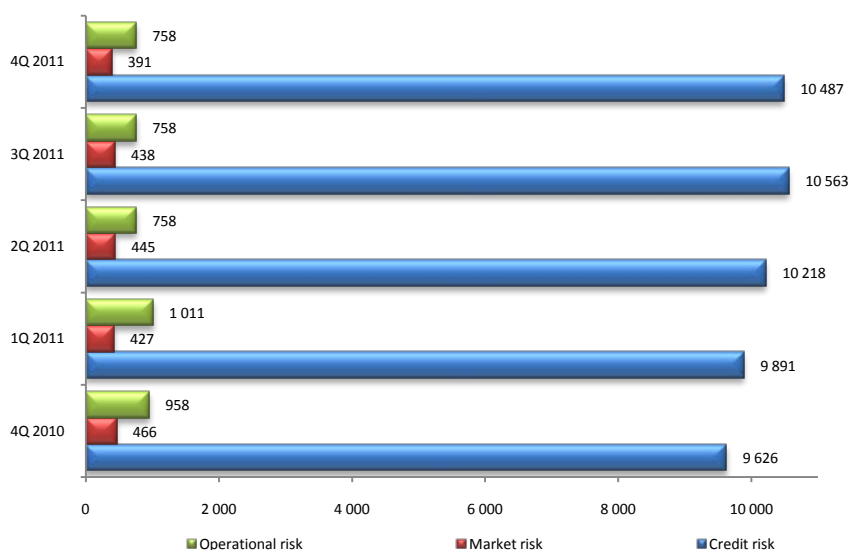
On 31 December 2011, compared with 31 December 2010, the Bank's capital adequacy ratio decreased by 0.06 pp. to 11.93%, which was mainly caused by an increase in total capital requirement of the Bank for credit risk and decrease of market and operating risk capital requirement which was accompanied by the increase in the Bank's equity. As compared to 31 December 2010 the Bank's equity increased by PLN 785.0 million mainly due to the accumulation of profit.

PKO Bank Polski SA calculates capital requirements in accordance with Resolution No. 76/2010 of the Polish Financial Supervision Authority dated 10 March 2010 (Basel II) with subsequent amendments¹¹: in respect of credit risk - using the standardised approach, in respect of operating risk - using the advanced approach (AMA) since 30 June 2011, in respect of market risk - using the basic approach.

¹¹ Amendments to the Resolution No. 76/2010 were introduced by following Resolutions of PFSA: Resolution No. 369/2010 dated 12 October 2010, Resolution No. 153/2011 dated 7 June 2011, Resolution No. 206/2011 dated 22 August 2011 and Resolution 324/2011 dated 20 December 2011



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



The increase of credit risk capital requirement by PLN 860.6 million (an increase of ca. 8.9%) to PLN 10 486.6 million was mainly due to the loan portfolio increase in 2011.

The decrease of market risk capital requirement by 16.1% to PLN 391.0 million was mainly due to the decrease of liabilities due to corporate bonds underwriting agreements with a simultaneous increase of the corporate bonds' value (total decrease of bonds' requirement by ca. 28%).

The Bank capital requirement in respect of operational risk for the first half of 2011 was calculated under the standardised approach (TSA). On 21 June 2011, the Bank obtained approval from the PFSA to apply the AMA approach, with a temporary (until the conditions set by the PFSA have been met) limitation on the drop of the capital requirement by not more than up to a level of 75% of the requirement calculated under the standardised approach (TSA). The Bank's requirement in respect of operating risk compared to 2010 decreased by PLN 199.6 million (a decrease of ca. 20.8% y/y) to the amount of PLN 757.9 million as a result of the change in the method of capital requirement calculation.

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 exposures of the Bank are presented below.



PKO Bank Polski SA Directors' Report for the year 2011

Table 32. Subsidiaries, jointly controlled entities and associates of PKO Bank Polski SA

No.	Entity Name	The value of exposure at acquisition cost (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	Qualia Development Sp. z o.o.*	183 393	100
5	Centrum Finansowe Puławska Sp. z o.o. - in liquidation	167 288	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. * ¹	51 599	99.9885
10	Bankowe Towarzystwo Kapitałowe SA	21 566	100
11	PKO BP Finat Sp. z o.o.	11 693	100
12	Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	1 482	100
13	PKO Finance AB	172	100
Jointly controlled entities			
14	CENTRUM HAFFNERA Sp. z o.o.	44 371	49.43
15	Centrum Obsługi Biznesu Sp. z o.o.	17 498	41.44
Associates			
16	Bank Pocztowy SA	146 500	25.0001
17	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	33.33
18	Agencja Inwestycyjna CORP-SA SA	29	22.31

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

¹ - the second shareholder of the Company is Qualia Development Sp. z o.o.

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 recognised 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 the Bank and increase of the Bank's share in the international financial markets.



PKO Bank Polski SA Directors' Report for the year 2011

Table 33. Indirect subsidiaries of PKO Bank Polski SA

No.	Entity Name	The value of exposure at acquisition cost (in PLN thousand)	Voting rights in General Meeting /Shareholders' Meeting (%)
Subsidiaries of Qualia Development Sp. z o.o.¹			
1	Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k. ²	82 980	-
2	Qualia - Residence Sp. z o.o.*	42 030	100
3	Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k. ³	19 000	-
4	Sarnia Dolina Sp. z o.o.* ⁴	8 187	56
5	Qualia - Rezydencja Flotylla Sp. z o.o.* ⁵	7 575	100
6	Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	4 700	-
7	Fort Mokotów Sp. z o.o. - w liquidation *	2 040	51
8	UKRPOLINWESTYCJE Sp. z o.o.	519	55
9	Qualia Hotel Management Sp. z o.o. ⁶	50	99.9
10	Qualia Sp. z o.o.*	30	100
11	Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	1	-
12	Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Sp. k.	1	-
Subsidiary of Bankowy Fundusz Leasingowy SA			
13	Bankowy Leasing Sp. z o.o.	57 424	100
Subsidiary of Bankowe Towarzystwo Kapitałowe SA			
14	PKO BP Faktoring SA ⁷	13 329	99.9889
Subsidiaries of CENTRUM HAFFNERA Sp. z o.o.			
15	Sopot Zdrój Sp. z o.o.*	67 126	100
16	Promenada Sopotcka Sp. z o.o.	10 058	100
17	Centrum Majkowskiego Sp. z o.o.	3 833	100
18	Kamienica Morska Sp. z o.o.	976	100
Subsidiaries of Bank Pocztowy SA			
19	Centrum Operacyjne Sp. z o.o.	3 284	100
20	Spółka Dystrybucyjna Banku Poczтового Sp. z o.o.	2 680	100

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

1 - in limited partnerships of the Qualia Development Group, the limited partner is Qualia Development Sp. z o.o. and the general partner is Qualia Sp. z o.o., in the position of value of exposure, value of contributions made by the limited partner is presented.

2 - the Company was established as a result of transformation of the company PKO BP Inwestycje - Nowy Wilanów Sp. z o.o., in the position of value of exposure, acquisition cost of shares and the value of capital contributions before transformation into limited partnership is presented.

3 - the the Company was established as a result of transformation of the company PKO BP Inwestycje - Neptun Park Sp. z o.o., in the position of value of exposure, acquisition costs of shares and the value of capital contributions before transformation into limited partnership is presented.

4 - former name PKO BP Inwestycje - Sarnia Dolina Sp. z o.o.

5 - former name PKO BP Inwestycje - Rezydencja Flotylla Sp. z o.o.

6 - the second shareholder of the Company is Qualia Sp. z o.o.

7 - PKO Bank Polski SA holds 1 share in the Entity

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 2011, the structure of the PKO Bank Polski SA Group was affected by the following events:

1. Taking up shares in the increased share capital of Bankowe Towarzystwo Kapitałowe SA

Taking up shares in the increased share capital of Bankowe Towarzystwo Kapitałowe SA in the total amount of PLN 3 000 thousand. As at 31 December 2011, PKO Bank Polski SA held a total of 100% of the Company's share capital and of voting rights at the Company's General Shareholders' Meeting.



2. Taking up shares in the increased share capital of PKO BP Faktoring SA

Taking up shares in the increased share capital of PKO BP Faktoring SA by Bankowe Towarzystwo Kapitałowe SA – a subsidiary of PKO Bank Polski SA in the total amount of PLN 3 000 thousand, with PLN 1 500 thousand included in the reserve capital of the Company. After the registration of the issue mentioned above, BTK SA held a total of 99.9889% of the share capital and of voting rights at the General Shareholders' Meeting of the Company.

3. Activities carried out under the liquidation of the company Centrum Finansowe Puławska Sp. z o.o.

Activities carried out under the liquidation of the company Centrum Finansowe Puławska Sp. z o.o. of which:

- taking up shares in the increased share capital of Centrum Finansowe Puławska Sp. z o.o. by PKO Bank Polski SA in the nominal value of PLN 39 000 thousand. The funds raised as a result of the above-mentioned capital increase were used for early repayment of the loan with PKO Bank Polski SA. As at 31 December 2011, PKO Bank Polski SA held a total of 100% of the Company's share capital and of voting rights at the Company's General Shareholders' Meeting,
- on 1 July 2011, PKO Bank Polski SA, as the sole shareholder of Centrum Finansowe Puławska Sp. z o.o., passed a Resolution on the Company's winding up and opening its liquidation. The relevant motion was filed with the National Court Register. The Bank carries out activities related to the acquisition of management of the Centrum Finansowe Puławska building in Warsaw together with the property, which is the main activity conducted by the Company.

4. Purchase of shares of PKO BP Finat Sp. z o.o. by PKO Bank Polski SA

Purchase of shares of PKO BP Finat Sp. z o.o. by PKO Bank Polski SA, of which:

- shares with a total nominal value of PLN 7 599.9 thousand for the price of PLN 9 392.7 thousand from Inteligo Financial Services,
- shares with a total nominal value of PLN 1 861 thousand for the price of PLN 2 300 thousand from PKO BP BANKOWY Powszechnie Towarzystwo Emerytalne SA.

As part of the process related to the takeover of direct control of PKO BP Finat Sp. z o.o. by the Bank, on 12 September 2011, PKO BP Finat Sp. z o.o. repaid to PKO BP BANKOWY Powszechnie Towarzystwo Emerytalne SA capital contribution in the amount of PLN 2 500 thousand.

On 31 December 2011, PKO Bank Polski SA held shares of PKO BP Finat Sp. z o.o. which represented 100% interest in the share capital of the Company and entitled to 100% of the voting rights at the General Shareholders' Meeting.

5. Selling of 1 share in the following companies: Bankowy Leasing Sp. z o.o. and BFL Nieruchomości Sp. z o.o.

PKO Bank Polski SA selling to Bankowy Fundusz Leasingowy SA – a subsidiary of PKO Bank Polski SA – 1 share in the following companies: Bankowy Leasing Sp. z o.o. and BFL Nieruchomości Sp. z o.o. As a result of the above-mentioned transactions, Bankowy Fundusz Leasingowy SA became the sole shareholder in the above-mentioned Companies.

6. Taking up shares in the increased share capital of Bankowy Leasing Sp. z o.o.

Bankowy Fundusz Leasingowy SA – a subsidiary of PKO Bank Polski SA – taking up shares in the increased share capital of Bankowy Leasing Sp. z o.o. with a total nominal value of PLN 34 714.5 thousand, including shares with a value of PLN 15 414.5 thousand issued as part of the merger of Bankowy Fundusz Leasingowy SA's subsidiaries. As at 31 December 2011, Bankowy Fundusz Leasingowy SA's interest in the share capital and its share of votes at the Shareholders' Meeting of the Company amounted to 100%.

7. Taking up shares in the increased share capital of BFL Nieruchomości Sp. z o.o.

Bankowy Fundusz Leasingowy SA – a subsidiary of PKO Bank Polski SA – taking up shares in the increased share capital of BFL Nieruchomości Sp. z o.o. with a total nominal value of PLN 8 000 thousand, as part of the issue conducted before the commencement of the process of merging Bankowy Fundusz Leasingowy SA's subsidiaries.



8. Completion of the merger of the subsidiaries of Bankowy Fundusz Leasingowy SA

On 30 December 2011, the merge of the subsidiaries of Bankowy Fundusz Leasingowy SA was registered by National Court Register, whereby all the assets of BFL Nieruchomości Sp. z o.o. were transferred to Bankowy Leasing Sp. z o.o., and BFL Nieruchomości Sp. z o.o. was removed from the register.

9. Acquiring a new company, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.

PKO Bank Polski SA acquiring 1 share in a new company, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., with a nominal value of UAH 3 101 thousand representing 100% of the Company's share capital and carrying 100% of votes at the Shareholders' Meeting; the acquisition price amounted to PLN 1 482 thousand. On 29 November 2011, PKO Bank Polski SA was registered with the State Ukrainian Register of Businesses as the Company's sole shareholder. The Company's operations comprise conducting factoring activities. The Company purchased loan liabilities portfolio from KREDOBANK SA.

10. Development of Qualia Development Sp. z o.o. Group

Development of Qualia Development Sp. z o.o. Group (appearing under the name of PKO BP Inwestycja Sp. z o.o. Group until 10 May 2011) including a new concept of conducting development activity using limited partnerships, of which:

- establishing a new company Qualia Sp. z o.o., whose role is to act as a general partner in limited partnerships of the Group; as at 31 December 2011 all shares in the above-mentioned Company with nominal value of PLN 5 thousand was held by Qualia Development Sp. z o.o. - a subsidiary of the Bank,
- establishing a new company Qualia spółka z ograniczoną odpowiedzialnością - Sopot Spółka komandytowa, whose role is preparation and execution of the investment project in Sopot at Bohaterów Monte Cassino street; as at 31 December 2011 the total amount of contributions made by shareholders was PLN 4 701 thousand,
- repurchasing 1 share by Qualia Sp. z o.o. from PKO Bank Polski SA in companies: PKO BP Inwestycje - Nowy Wilanów Sp. z o.o. and PKO BP Inwestycje - Neptun Park Sp. z o.o.,
- transformation of PKO BP Inwestycje - Nowy Wilanów Sp. z o.o. into a limited partnership and change of its name to Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Spółka komandytowa; as at 31 December 2011 the total amount of contributions made by shareholders was PLN 4 000 thousand,
- transformation of PKO BP Inwestycje - Neptun Park Sp. z o.o. into a limited partnership and change its name to Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Spółka komandytowa; as at 31 December 2011 the total amount of contributions made by shareholders was PLN 4 000 thousand,
- establishing a new company Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Spółka komandytowa; as at 31 December 2011 the total amount of contributions made by shareholders was PLN 2 thousand,
- establishing a new company Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Spółka komandytowa; as at 31 December 2011 the total amount of contributions made by shareholders was PLN 2 thousand,
- establishing a new company Qualia - Residence Sp. z o.o.; as at 31 December 2011 all shares in the above-mentioned Company with nominal value of PLN 5 thousand was held by Qualia Development Sp. z o.o.
- establishing a new company Qualia Hotel Management Sp. z o.o., whose role is operating activity in the area of hotel suites; as at 31 December 2011 shares with nominal value of PLN 49.95 thousand was held by Qualia Development Sp. z o.o., and 1 share with nominal value of PLN 50 was held by Qualia Sp. z o.o.
- commencing the liquidation process of Fort Mokotów Sp. z o.o. - a subsidiary of Qualia Development Sp. z o.o. on 28 July 2011; the liquidation is carried out in connection with completing the execution of a development project,
- change names of the following companies:
 - a) PKO BP Inwestycje Sp. z o.o. to Qualia Development Sp. z o.o.,
 - b) PKO BP Inwestycje - Sarnia Dolina Sp. z o.o. to Sarnia Dolina Sp. z o.o.,
 - c) PKO BP Inwestycje - Rezydencja Flotylla Sp. z o.o. to Qualia - Rezydencja Flotylla Sp. z o.o.,



- making additional contributions to companies of Qualia Development Sp. z o.o. Group:
 - a) PKO Bank Polski SA made additional contributions to Qualia Development Sp. z o.o. in the total amount of PLN 65 580 thousand,
 - b) Qualia Development Sp. z o.o. made an additional contribution to Qualia Sp. z o.o. of PLN 25 thousand,
 - c) Qualia Development Sp. z o.o. made an additional contribution to Qualia Residence Sp. z o.o. of PLN 42 025 thousand.

In 2011 the following event took place in jointly controlled entities: a decrease in the share capital of Centrum Majkowskiego Sp. z o.o. was registered in the National Court Register. The company is a subsidiary of Centrum Haffnera Sp. z o.o. (a jointly controlled entity of PKO Bank Polski SA). The share capital was reduced from PLN 6 609 thousand to PLN 3 833.2 thousand by reducing the nominal value of each share.

Investment plans

Building a strong financial group is one of the main development objectives of PKO Bank Polski SA. Subsidiaries of the Bank, as product centers are supplementing its basic financial services offer. Particular companies provide specialist financial services in respect of leases, factoring, investment funds, pension funds, online banking services as well as handling and clearing of cards transactions. The PKO Bank Polski SA Group also includes KREDOBANK SA which conducts its activities in Ukraine.

The Group strategy assumes focusing on the core banking activities, supplemented with an offer of complementary financial products and services. The Group's objective is to simplify and optimise the structure of the Group, increase efficiency in the Group and achieve full consistency of the operating model adopted. The key strategic initiatives in this respect include:

- integration of the Group companies, primarily 'product factories', with the Bank through among others centralisation of the support function or a complete transfer of the companies' operations to the Bank,
- sale of assets which are not related to the Group's core activities,
- implementation of a new development strategy for KREDOBANK SA focused mainly on services to retail clients and SMEs operating chiefly in Western Ukraine,
- strengthening the Group's market position in selected market segments, including through acquisitions of companies,
- increasing the efficiency of property management.

In 2011, the Bank, in line with the Group strategy, took actions aimed at simplifying the Group structure and optimising its operating expenses (including those related to taking over the operations of Centrum Finansowe Puławska Sp. z o.o. and the change of the ownership structure of PKO BP Finat Sp. z o.o. from an indirect subsidiary to a direct subsidiary of the Bank), as well as establishing within the Group a single centre responsible for asset and investment management (through integrating the operations of the Brokerage House of PKO Bank Polski SA with the operations of the subsidiary PKO TFI SA). As part of the implementation of the development strategy of KREDOBANK SA, a factoring and debt collection company was acquired in the Ukraine, the purpose of which is to finalise the restructuring of KREDOBANK SA's loan portfolio (with the process of acquiring the debt collection company has been finalised in January 2012).

The activities related to the implementation of the key strategic initiatives directed at strengthening the effectiveness of the activities of the PKO Bank Polski SA Group will be continued in 2012.

Related party transactions

In 2011, PKO Bank Polski SA provided the following services to its related (subordinated) entities at arm's length: keeping bank accounts, accepting deposits, granting loans and advances, issuing debt securities, providing guarantees and spot exchange transactions. In addition, PKO Bank Polski SA offered participation units of investment funds, leasing products, lease of terminals and payment transactions clearing services provided by 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 outstanding loans obtained from the Bank, as at 31 December 2011, is presented in the financial statements of PKO Bank Polski SA for 2011.



5.4 Human resources management in PKO Bank Polski SA

5.4.1 Incentive system in PKO Bank Polski SA

PKO Bank Polski SA has 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 organisational units and individual employees.

Three pillars of the remuneration and incentive system:

I Pillar, the so-called Management by Objectives (MbO), covers managers for which specific individual 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 depend on the degree of completion of specific tasks in the areas of sales and effectiveness. The system covers those employees who are completing business tasks, mainly in retail branches and corporate centres, 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 (SBS), includes other employees not covered by the system MbO and IBS. 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 a 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 organisation as such, and thus participate in the results achieved by the Bank. It is also possible to define separate team targets (for an internal organisational unit). In this case, the Support Bonus System is a bonus which depends on the quality and degree of completion of the tasks assigned to a team – solidarity-related targets.

5.4.2 Remuneration policy

The basic internal regulation regard of remuneration policy is the Collective Labour Agreement (ZUZP) concluded with the company trade union organisations on 28 March 1994 (with subsequent amendments), under which employees of the Bank receive the following remuneration components:

- the base remuneration,
- additional remuneration for working overtime, as well as under conditions which are especially onerous and detrimental to health,
- long service bonuses,
- one-off cash bonuses in connection with retiring on a pension or a disability pension due to a complete or partial inability to work,

and in addition, based on the separate resolutions passed by the Management Board of the Bank as a result of a recommendation of ZUZP in consultation with the trade union organisations, bonuses and awards for special achievements in work.

Up until 2010, annual bonuses for the results of operations achieved by the Bank were paid on the basis of a resolution of the Bank's Management Board. As a result of consultation with the trade union organisations, the annual bonus was cancelled, and the funds budgeted for paying the bonus for the 2011 results were earmarked for:

- increasing the employees' base salary from 1 May 2011,
- paying one-off additional remuneration in an amount corresponding to a proportionate recalculation of the bonus funds for the period from 1 January to 30 April 2011.

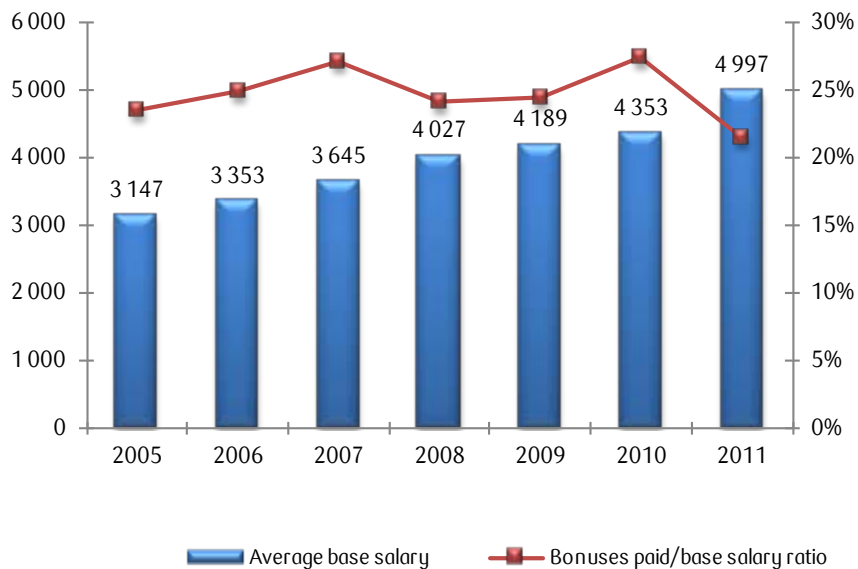
As a result of the abovementioned consultation, an additional protocol to ZUZP was signed, deleting the provisions relating to the bonus.



In 2011, a unified employee remuneration system was also implemented, based on the values of individual workplaces, which was aimed at: creating a transparent remuneration policy, the rational planning and spending of funds earmarked for base salaries, and encouraging the employees to plan their own development in a more conscious manner.

All positions were grouped according to their role in the implementation of the Bank's business strategy by comparing and valuing the scope of tasks and competencies. Individual groups were assigned market pay reference levels.

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



Change in the level of the base remuneration in 2011 results (mainly) from the inclusion of bonus to the base remuneration starting from 1 May 2011.

5.4.3 Benefits for employees

Medical care

The Bank ensures its employees additional, besides occupational health services (resulting from the regulations of the Polish Labour Code), medical care owed to employees according to various packages, addressed to particular groups of jobs as well. All packages enabled employees to have unlimited number of doctors' consultations in all areas of specialisation and to diagnostic tests ordered by them.

In 2011, the medical care for the employees was extended to include a health promotion programme called 'Zdrowie jak w Banku', covering, amongst others, a preventive health check and activities directed at health-oriented education and promoting a healthy life style.

Providing broad range of charge medical services for all employees constitutes a significant element of additional benefits provided for the employed in the Bank.



Social Benefits

Table 34. Benefits granted by Company Social Benefits Fund in 2011 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*	5 361	72 260 200
Non-refundable benefits**	47 216	21 482 377
Total	52 577	93 742 577

* Mortgage loans.

** Including aids, organised and non-organised 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 2011, PKO Bank Polski SA employed 26 453 persons (i.e. 25 908 full-time equivalents).

Table 35. Number of employees in PKO Bank Polski SA in years 2005-2011

Entity	Employment as at 31 December 2011 (full-time equivalents)						
	2005	2006	2007	2008	2009	2010	2011
Retail branches	22 968	22 264	18 103	17 749	17 563	16 896	16 245
Corporate branches	780	748	634	598	595	568	556
Headquarters	1 972	1 873	2 084	2 261	2 995	3 122	3 119
Specialised Organisational Units	7 760	7 070	9 838	8 588	6 694	6 184	5 988
The Bank - total	33 479	31 955	30 659	29 196	27 846	26 770	25 908
<i>employment reduction</i>	-	1 524	1 296	1 463	1 350	1 076	862

In the course of 2011, layoffs for reasons unrelated to the employees comprised 1 253 people. Group layoffs conducted in 2011 in the Bank resulted from the following reasons:

- the increase in the work effectiveness of the Bank's employees,
- adopting the number of employees to the changes in the manner or scope of tasks realised in the Bank's particular organisational entities and in the organisational units of the Head Office,
- implementing organisational changes, including the centralisation of functions and processes resulting in changes of the scope of tasks realised,
- implementing new IT technologies supporting cost reduction activities,
- needs of employment restructuring to adopt the qualification of the employed to changes in the manner of performing and in the quality of tasks realised by the Bank's organisational entities.

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 2011, the training activities supported the pursuit of the Bank's strategic objectives, by supporting the development of the employees, providing standardised tools for analysing their needs and effectiveness, as well as on-going professional training for the employees.

The issues covered during training courses were focused on developing the professional competencies of the employees, in particular for:

- supporting campaigns for the implementation of new products,
- implementing modern customer service standards,
- building a culture of a learning organisation creating conditions for a positive attitude to changes and identification with the Bank's strategic objectives, team work and a feeling of responsibility and commitment.



Conducting the training courses was supported by an appointed team of internal trainers within the structures of the area of retail, corporate and investment banking. Establishing the trainer structures was aimed at ensuring a significant increase in the effectiveness of the functioning of training courses in the Bank and implementing system solutions relating to internal training courses in the organisation, as well as ensuring the standardisation of knowledge, an increase in skills relating to sales techniques, and a significant improvement in the quality of customer service by the Bank's employees within the Bank's network.

All employees of the Bank took part in training courses carried out in 2011. These training courses were conducted in the following forms:

- in-house, as internal or external trainings,
- *e-learning* – on average one employee took part in 13 this type of training courses.

In 2011, the Bank carried out the 'Akademia Menedżera' project that is a comprehensive programme for the development of managerial skills in the form of workshops and training courses, co-financed by the European Union as part of the European Social Fund. The 'Akademia Menedżera' was a response to strategic challenges included in the Bank Development Strategy 'Lider' planned for the years 2010-2012. The aim of the project is to ensure an increase in management competencies which translates into an improvement in the Bank's operation, including:

- supporting the implementation of Bank Development Strategy for the years 2010-2012,
- orientation management towards innovation and effectiveness,
- expanding skills which improve communication, the organisation of work and managing teams of employees, and developing tools supporting team management,
- shaping attitudes among managers directed at meeting customer needs, building long-term relationships and improving the quality of service.

The Academy of Competence programme was launched as a competence development programme directed at the key managers of PKO Bank Polski SA – TOP 150. The programme is addressed to the managers responsible for the most essential tasks from the perspective of the implementation of the strategy 'Lider'. The aim of the programme is to support top management in improving their skills in the area of leadership. The programme will be continued in 2012.



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 2011, the share capital of PKO Bank Polski SA amounted to PLN 1 250 000 thousand and consisted of 1 250 000 thousand shares with nominal value of PLN 1 each – shares are fully paid. In relation to the end of 2010 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.

Effective 24 November 2011, 197 500 000 registered A series shares of the Bank were converted into bearer shares. The conversion was performed as a result of the request of the shareholder – the State Treasury for an exchange and due to an amendment to the Bank's Memorandum of Association by means of Resolution No. 26/2011 of the Ordinary General Shareholders' Meeting of the Bank dated 30 June 2011 on amending the Bank's Memorandum of Association. The Bank's other A series shares (312 500 000 shares) still have the status of registered shares.

Table 36. Share capital structure in PKO Bank Polski SA

Series	Type of share	Number of shares	Nominal value of 1 share	Issue amount by nominal value
Series A	ordinary, registered shares	312 500 000	PLN 1	PLN 312 500 000
Series A	ordinary, bearer shares	197 500 000	PLN 1	PLN 197 500 000
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 (BGK), holding as at 31 December 2011, respectively 512 406 277 and 128 102 731 of PKO Bank Polski SA's shares.

The share of the State Treasury and BGK 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 37. Shareholding structure of PKO Bank Polski SA

Shareholders	As at 31.12.2011		As at 31.12.2010		Change in the number of votes on GSM (pp.)
	Number of shares	Share in the votes on GSM	Number of shares	Share in the votes on GSM	
The State Treasury	512 406 277	40.99%	512 406 277	40.99%	0.00
Bank Gospodarstwa Krajowego	128 102 731	10.25%	128 102 731	10.25%	0.00
Other shareholders	609 490 992	48.76%	609 490 992	48.76%	0.00
Total	1 250 000 000	100.00%	1 250 000 000	100.00%	0.00

6.1.2 Information concerning dividend

On 30 June 2011 General Shareholders' Meeting of PKO Bank Polski SA took up resolution concerning dividend payout for the year 2010 in the amount of PLN 1.98 per share. List of shareholders entitled to receive dividend for the year 2010 was set on 31 August 2011 and the dividend was paid out on 15 September 2011.

The dividend policy assumes that the Management Board recommends that the General Shareholders' Meeting adopt resolutions concerning the payment of the dividend, taking into account the factors specified below, in an amount representing ca. 40% of the separate net profit of the Bank for a given financial year.

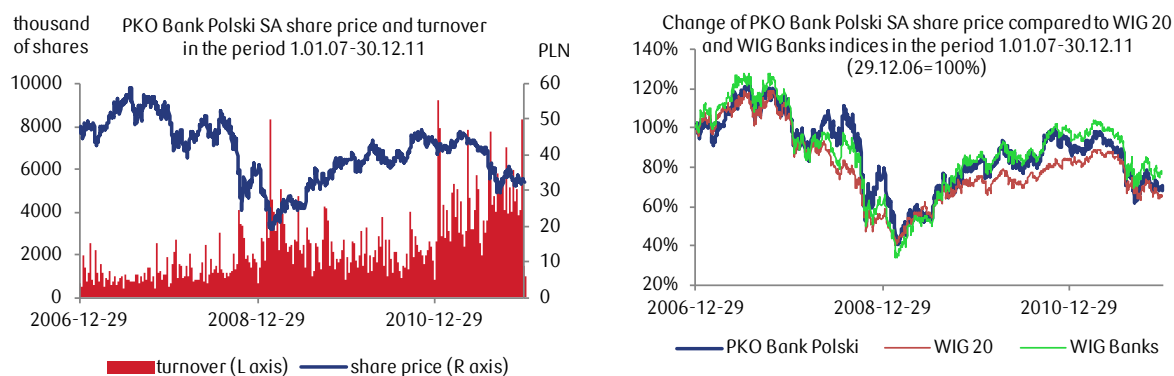


The overall assumption behind the Bank's policy for the payment of the dividend is that payments be made in proportion to the amount of the profit generated and the Bank's financial capabilities. When putting forward proposals concerning the payment of the dividend, the Management Board is guided by the need to ensure an appropriate level of the capital adequacy ratio of the Group and the capital necessary for developing its activities.

However, the policy for the payment of the dividend may, if necessary, be reviewed by the Management Board, and decisions in this matter will be made taking into account several different factors relating to the Group, including the prospects for its future activities, future profits, cash needs, financial position, the level of the capital adequacy ratio, expansion plans and the legal requirements in this regard. Each time the final decisions on the payment of the dividend are made by the General Shareholders' Meeting.

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

Share price of PKO Bank Polski SA



In 2011:

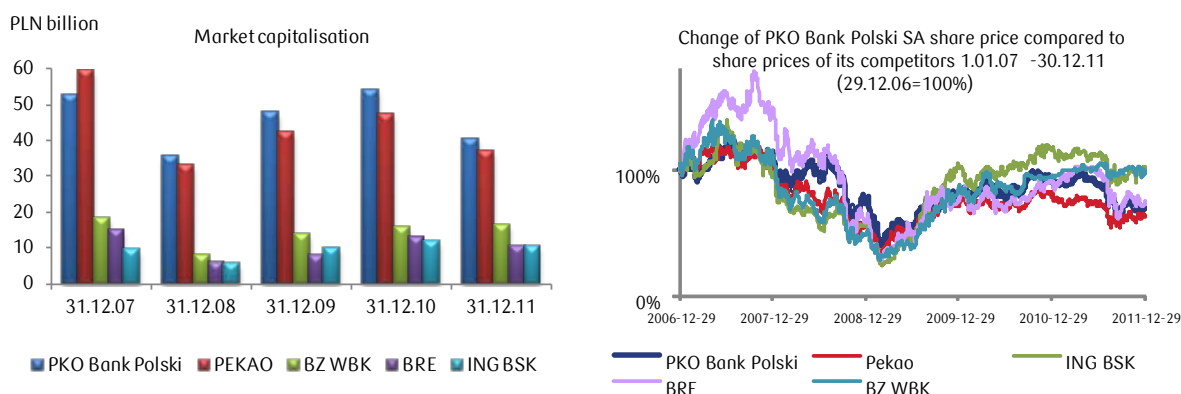
- the price of PKO Bank Polski SA shares decreased by 25.9% (PLN -11.23) from PLN 43.35 at the end of 2010 to PLN 32.12 at the end of 2011,
- the average price of the Bank's shares amounted to PLN 39.05 per share and was lower by 4.1% (PLN - 1.67) than in 2010,
- the share price fluctuated in the range from PLN 46.30 (13.04) to PLN 29.22 (12.09),
- the average daily volume of trading in the Bank's shares amounted to 3 002 thousand shares and fluctuated from 449 thousand shares (29.04) to 9 259 thousand shares (10.01).

In 2011, the share prices of the companies listed on the Warsaw Stock Exchange significantly fluctuated with a clear downward trend, which is illustrated by a drop in the WIG and WIG20 indices of 20.8% and 21.9% per annum respectively. This was mainly due to sales on the international financial markets, especially in the second half of 2011, as a result of the crisis deepening in the euro zone and the deteriorating economic activity in Europe, as well as serious problems in the US economy.

In 2011, the price of PKO Bank Polski SA's shares recorded a relatively bigger drop compared with the other largest banks (the WIG Banks index decreased by 21.7%), which, in the light of the above-mentioned factors, was due to the high liquidity of the shares and the fact that the relatively larger blocks of the Bank's shares are held in the portfolios of foreign institutional investors. In addition, the trends in the price of PKO Bank Polski SA's shares in 2011 were affected by the publication of information about the planned public offering of the Bank's shares by the State Treasury and BGK, which may have prevented investors from purchasing the shares.



Share prices and market capitalisation of PKO Bank Polski SA and 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 three leading 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* 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.

Ratings awarded to Bank by above-mentioned agencies did not change in 2011.

Table 38. Ratings as at 31 December 2011

Rating with a charge	
<i>Moody's Investors Service</i>	
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	
<i>Fitch Ratings</i>	
Support Rating	2
<i>Standard and Poor's</i>	
Long-term rating for liabilities in a domestic currency	A-pi

6.1.5 Investor relations

In 2011, 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, financial 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,
- organising the General Shareholders' meeting and providing information to the Bank's shareholders,
- ensuring the Bank's cooperation with appropriate governmental bodies, organisations 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 and debt securities analysts, organised 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 2011, there were ca. 80 meetings on the Bank's premises, ca. 100 meetings during 8 investor conferences and 6 *roadshows* projects and ca. 80 teleconferences. However, in assessing the Bank's activity it should be taken into account that in 2011, especially in the third quarter, the participation of the Bank's representatives in investor conferences was limited due to the planned public offering of the Bank's shares by the State Treasury and BGK,
- 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.

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

PKO Bank Polski SA makes every effort to ensure the ultimate quality of periodic reports, so that they present the Bank's results in a complete and transparent manner and are as useful as possible to institutional investors, analysts and individual shareholders. In October 2011 the Accounting and Taxation Institute honoured the Annual Report of PKO Bank Polski SA for the year 2010 with the Main Prize in 'The Best Annual Report' competition in the category 'Banks and financial institutions'. Winning the competition is a proof of the Report's highest value in use for shareholders and investors. In the competition the Bank received also an honourable mention in the category 'Directors' report'. The aim of 'The Best Annual Report' competition is the creation of recognised standards of annual reports' preparation according to IFRS/IAS, in accordance with IFAC recommendations and good practices in this area.

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 Bank 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 (Resolution No.12/1170/2007) with subsequent amendments.

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 companies listed on Warsaw Stock Exchange.

In 2011, the Bank took necessary actions with an aim to fully obey the rules included in the document 'Good Practices of Warsaw Stock Exchange Companies'. In the opinion of the Management Board in 2011 PKO Bank Polski SA did not depart from application of rules specified in the above mentioned document.

On 19 May 2010, the Warsaw Stock Exchange SA (by Resolution of the Supervisory Board of the WSE No. 17/1249/2010) introduced changes in the 'Good Practices of Companies Listed on the WSE'. One of the changes (discussed in point 10 of Chapter IV) related to enabling the shareholders of companies listed on the WSE to participate in general shareholders' meetings using electronic communication tools, starting from 1 January 2012 at the latest. This principle was covered by the obligation to apply it in accordance with the formula 'comply or explain'. Adopting the application of this good practice by PKO Bank Polski SA required introducing changes in the Bank's Memorandum of Association and in the Rules and Regulations of the General Shareholders' Meeting before the above-mentioned date, so as to enable general shareholders' meetings to be conducted using electronic communication tools. In order to enable this rule to be complied with, the Bank's Management Board in the draft resolutions submitted for consideration by the Annual General Shareholders' Meeting convened for 30 June 2011, proposed draft resolutions of the General Meeting concerning changes in the Bank's Memorandum of Association and changes in the Rules and Regulations of the General Meeting, which would enable General Meetings to be conducted using electronic communication tools. None of the above resolutions was passed at the Annual General Meeting held on 30 June 2011.

Based on the amendment to the 'Good Practices of Companies Listed on the WSE' introduced by a resolution of the Supervisory Board of the WSE of 31 August 2011 (no. 15/1282/2011), the deadline for applying the principle referred to above was rescheduled for one year later, and should therefore be applied starting from 1 January 2013 at the latest.



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 organisational entities, organisational 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 PKO Bank Polski SA. Within the system of internal control the Bank identifies risk: connected with every action, transaction, product and process, resulting from the organisational 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 organisational units and Head Office's units are obliged to perform their tasks 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 adequate control mechanisms within internal regulations which guarantee a proper execution of processes and tasks,
- by employees in the course of their activities concerning the scope of business of organisational teams and units,
- at the stage of verification, by management and persons authorised by above mentioned employees, the correctness of performed tasks by employees, especially its compliance with binding laws and regulations, internal regulations and prudence norms.

General principles, described above, are also used in the process of financial statements preparation.

The operation of internal control system and risk management in respect of the process of preparation of the financial statements is based on:

- control mechanisms embedded in the functionality of the reporting systems and
- 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 Supervisory Board's 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 interim financial statements. The information referred to above comprises:

- credit risk (including the risk of 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 with subsequent amendments of the Polish Financial Supervision Authority. At the website of the PKO Bank Polski SA (in the section 'Investor Relations') the last report 'Capital Adequacy and Risk Management (Pillar III) in the PKO Bank Polski SA Group as at 31 December 2010' 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, § 3 clause 5, PKO Bank Polski SA applies the following rules:

It is assumed that:

- the maximum period of uninterrupted cooperation with the same audit company is 6 years,
- contracts for audits and reviews of the financial statements are concluded for the maximum period of 3 years,
- 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 28 March 2011, the Supervisory Board of PKO Bank Polski SA selected PricewaterhouseCoopers Sp. z o.o. as the entity authorised to audit and review the Bank's financial statements and the consolidated financial statements of the Bank's Group. PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw, Al. Armii Ludowej 14, has been entered to the list of registered auditors maintained by the National Council of Registered Auditors with No. 144. The Bank's Supervisory Board appointed the auditor authorised to audit and review financial statements in accordance with applicable laws and professional requirements, on the basis of § 15 clause 1 point 3 of the Bank's Memorandum of Association.

On 14 April 2011, 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 respectively 31 December 2011, 2012 and 2013 and for a review of standalone and consolidated financial statements for the six-month periods ended respectively 30 June 2011, 2012, 2013. In the past, the Bank used the services of PricewaterhouseCoopers Sp. z o.o. for the purpose of auditing and reviewing the financial statements of PKO Bank Polski SA and the PKO Bank Polski SA Group for the years 2008-2010, and for related services.

Total fees payable to PricewaterhouseCoopers Sp. z o.o. under the contracts concluded by PKO Bank Polski SA amounted to PLN 5 080.5 thousand net for the financial year of 2011 and of PLN 2 765.9 thousand net for the financial year of 2010.



PKO Bank Polski SA Directors' Report for the year 2011

Table 39. Fee for entity authorised to audit financial statements (in PLN thousand)

No.	Title	2011	2010
1.	Audit of standalone and consolidated financial statements	1 140.0	1 140.0
2.	Authenticating services, including a review of financial statements	1 910.0	560.0
3.	Tax consulting services	0.0	0.0
4.	Other services	2 030.5	1 065.9
TOTAL		5 080.5	2 765.9

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 directly as at 31 December 2011, respectively 512 406 277 and 128 102 731 of PKO Bank Polski SA's shares.

The share of the State Treasury and BGK 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.

On 21 April 2010, the State Treasury and BGK concluded an agreement for cooperation in the joint exercise of the ownership rights arising from holding shares.

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

The public offering of sale of the Bank's shares by the State Treasury and BGK planned in 2011:

- On 19 April 2011, the Management Board of PKO Bank Polski SA informed that it had received a letter from the State Treasury and from BGK acting as shareholders of the Bank, informing of the State Treasury's and BGK's intention to sell the Bank's shares, and containing a request for commencing activities aimed at preparing the Bank for participation in the transaction. The shareholders intending to sell shares assumed that the transaction would take the form of a public offering, which would require preparing a prospectus and its approval by the Polish Financial Supervision Authority. According to the initial assumptions the transaction was to be executed in September 2011. Therefore, on 19 April 2011 the Bank's Management Board took the decision to undertake actions aimed at preparing the Bank for participation in the transaction.
- On 18 July 2011, the application for the approval of the Bank's prospectus prepared in connection with a public offering for sale of up to 190 602 731 of the Bank's shares (i.e. up to 15.25% of the Bank's share capital) and seeking approval for the admission and introduction of 197 500 000 A-series shares of the Bank to trading on the primary market at the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie SA) was filed with the Polish Financial Supervision Authority (PFSA). In accordance with the Prospectus, the Bank's shareholders, i.e. Bank Gospodarstwa Krajowego and the State Treasury, were about to offer jointly up to 165 602 731 A and D-series ordinary bearer shares of the Bank with PLN 1 nominal value each (i.e. up to 13.25% of the Bank's share capital), where BGK was about to offer up to 128 102 731 D-series ordinary bearer shares (i.e. 10.25% of the Bank's share capital) and the State Treasury up to 37 500 000 A-series ordinary bearer shares (i.e. up to 3% of the Bank's share capital).
- Not later than on the date of setting the share selling prices and the final number of the shares offered, the State Treasury could decide to offer additional 25 000 000 A-series ordinary bearer shares (i.e. up to 2% of the Bank's share capital). Due to the above, the maximum number of shares sold as part of the public offering could be 190 602 731 ordinary bearer shares with a PLN 1 nominal value each (i.e. 15.25% of the Bank's share capital).
- The application and the prospectus also deal with the admission of 197 500 000 A-series ordinary bearer shares with PLN 1 nominal value each to trading on the regulated market. Before implementing the public offering and admission and introduction of A-series ordinary shares of the Bank to trading on the Warsaw Stock Exchange primary market, 197 500 000 A-series ordinary registered shares of the Bank will be transformed into A-series ordinary bearer shares, in accordance with Resolutions No. 25/2011 and No. 26/2011 of the Ordinary General Shareholders' Meeting of the Bank dated 30 June 2011.



5. On 23 August 2011, the Bank's Management Board received a letter from the State Treasury and BGK, informing of suspending the work on preparing and carrying out the sale of the Bank's shares through a public offering. The shareholders asked PKO Bank Polski SA to suspend its activities in preparation for this sale and asked the Bank to submit an application for suspending the administrative proceedings before the Polish Financial Supervision Authority related to the approval of the prospectus prepared in connection with the sale of the Bank's shares. On receiving the above-mentioned letter, on 23 August 2011 the Management Board of the Bank decided to suspend the activities related to preparing and carrying out the sale of the Bank's shares through a public offering and a decision to agree to sign on behalf of the Bank and submit an application to suspend the administrative proceedings before the PFSA related to approval of the prospectus.
6. On 24 November 2011, 197 500 000 registered A-series shares of the Bank were converted to bearer shares. The conversion was carried out based on the motion to convert submitted by a shareholder – the State Treasury, and in connection with the amendment to the Bank's Memorandum of Association introduced by resolution No. 26/2011 of the Annual General Shareholders' Meeting of the Bank dated 30 June 2011 on amending the Bank's Memorandum of Association. The remaining 312 500 000 A-series shares of the Bank still have the status of registered shares.
7. On 16 December 2011, the Management Board of PKO Bank Polski SA received letters from the State Treasury and BGK in which they informed it about the decision to resign from carrying out the joint sale of the Bank's shares through a secondary public offering and discontinuing work on the offering.

6.2.4 Limitations on the shares of PKO Bank Polski SA

All the shares of PKO Bank Polski SA carry the same rights and obligations. None of the shares are preference shares, in particular in relation to voting rights and dividends. The Memorandum of Association of PKO Bank Polski SA restrict the voting rights of shareholders holding more than 10% of the total number of votes at the General Meeting and forbids those shareholders to execute more than 10% of the total number of votes at the General Meeting. The above limitation does not apply to: (i) those shareholders who on the date of passing the resolution of the General Meeting introducing the limitation of the voting rights had rights from the shares representing more than 10% of the total number of votes at the Bank (i.e. the State Treasury and BGK); (ii) shareholders who have the rights from A-series registered shares (the State Treasury); and (iii) the shareholders acting jointly with the shareholders referred to in point (ii) based on an agreement concerning the joint execution of voting rights from shares. Moreover, limitation of the voting rights shall expire when the share of the State Treasury in the Bank's share capital drops below 5%.

In accordance with § 6 clause 2 of the PKO Bank Polski SA's Memorandum of Association, the conversion of A-series registered shares into bearer shares and the transfer of these shares requires an approval of the Council of Ministers in the form of a resolution. Conversion into bearer shares or transfer of A-series registered shares, after getting above mentioned approval, results in the expiry of the above restrictions in respect of shares subject to conversion into bearer shares or transfer, to the extent to which this approval was given.

6.2.5 The Memorandum of Association and manner of functioning of Annual General Meeting of PKO Bank Polski SA

6.2.5.1 Principles for amending the Memorandum of Association of PKO Bank Polski SA

Principles for amending the Memorandum of Association of PKO Bank Polski SA comply with the provisions of the Commercial Companies Code and the Banking Law.

Resolutions of the Annual General Meeting relating to share preference and to issues of the Bank's merger by transferring all of its assets to another company, its liquidation, reduction of share capital by cancelling a part of the shares without increasing it at the same time or changing the scope of the Bank's operations which would lead to the Bank ceasing its banking activities - all require a 90% majority of the cast votes.

6.2.5.2 Changes in the Memorandum of Association in 2011

1. On 14 April 2011, the Extraordinary General Shareholders' Meeting passed Resolution No. 3/2011 on amending the Memorandum of Association of PKO Bank Polski SA (the content of the resolution passed was published by the Bank in the current report no. 13/2011). The proposed amendments to the Bank's Memorandum of Association were presented by the State Treasury – the Bank's shareholder. The amendments referred to in the Resolution related to:
 - restricting the voting rights of the shareholders along with adopting rules for cumulating and reducing votes,



- the statutory number of members of the Supervisory Board,
- the agenda for the first meeting of the new term of office of the Supervisory Board,
- the definition of the parent company and subsidiary.

The amendments to the Memorandum of Association of PKO Bank Polski SA referred to above, implemented by Resolution No. 3/2011 of the Extraordinary General Shareholders' Meeting of the Bank on 14 April 2011, were registered with the National Court Register by the Registration Court for the Capital City of Warsaw, the XIII Business Department of the National Court Register (KRS).

On 30 June 2011, the Ordinary General Shareholders' Meeting passed the following resolutions, published by the Bank in its current report No. 35/2011:

- No. 26/2011 on the amendment to the PKO Bank Polski SA's Memorandum of Association relating to transforming 197 500 000 A-series registered shares into bearer shares,
- No. 27/2011 on the amendment to the PKO Bank Polski SA's Memorandum of Association aimed at specifying in more detail the powers to establish and carry out cooperation between the Bank and the Bank Group entities, in particular providing services to those entities.

On 25 August 2011 The District Court for the Capital City of Warsaw, XIII Business Department of the National Court Register registered in the National Court Register changes to the Memorandum of Association of PKO Bank Polski SA introduced by Resolution No. 26/2011 passed by the Ordinary General Shareholders' Meeting of the Bank on 30 June 2011.

On 29 September 2011 the Polish Financial Supervision Authority (PFSA) did not allow changes in the Bank's Memorandum of Association consisting of the addition of § 3a. clause 2 and 3, and discontinued the proceedings on changing the wording of clause 1 of the added § 3a as in the Annual General Meeting Resolution No. 27/2011 on the amendment of the Memorandum of Association of PKO Bank Polski SA. Entry into force of the above amendments to the Bank's Memorandum of Association (concerning clarification of competencies associated with cooperation of the Bank with the Group's entities), made by the Annual General Meeting of 30 June 2011 was dependent on the permission of PFSA, which was a condition of the registration of these changes by the registry court.

Amendments to the Bank's Memorandum of Association in 2011 were disclosed in detail in the resolutions of Extraordinary General Shareholders' Meeting and Ordinary General Shareholders' Meeting on amendments to the Memorandum of Association of PKO Bank Polski SA published on the Bank's website (web addresses, respectively):

http://www.pkobp.pl/index.php/id=rel_wal/akt_id=9522/source=rel_wal/section=ri

http://www.pkobp.pl/index.php/id=rel_wal/akt_id=9782/source=rel_wal/section=ri

6.2.6 Annual General Meeting, 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 Memorandum of Association, and based on the policies defined in the by-laws of the Annual General Meeting.

The fundamental powers of the Annual General Meeting, 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, provided that the value of the real property or the right being subject to such an act exceeds 1/4 of the share capital,
- issuance of convertible bonds or other instruments giving the right to acquire or take up the PKO Bank Polski SA shares.

Allowed to participate in the Annual General Meeting are beneficiaries of rights attached to registered shares, as well as pledges and usufructuaries having voting rights, who have been entered in the Register of Shares at the day of registration and 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 Annual General Meeting and exercise his voting right in person or by proxy. The shareholder who is not a natural person may participate in the Annual General Meeting and exercise his voting right through a proxy authorised to file declarations of will on his behalf, or by proxy.

An authorisation 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 natural person 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 authorisations. The person(s) granting an authorisation on behalf of a shareholder who is not natural person should be listed in an up-to-date excerpt from the relevant register of a given shareholder.

Management Board Member and an employee of the PKO Bank Polski SA may serve as proxy of shareholders at the Annual General Meeting 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 one twentieth 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 twenty one 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 shareholders of PKO Bank Polski SA representing at least one twentieth 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 agenda or desisting, at the request of shareholders, from further discussing the matter included in the Annual General Meeting agenda requires that the Annual General Meeting resolution is adopted by the majority of $\frac{3}{4}$ votes, after prior consent of all those shareholders present at the Annual General Meeting who applied for including the matter in the agenda.

Resolutions of the Annual General Meeting are adopted by an absolute majority of votes, unless the binding laws or the Memorandum of Association of PKO Bank Polski SA provide otherwise.

The Annual General Meeting 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 PKO Bank Polski SA's authorities or liquidators,
- applications for bringing members of PKO Bank Polski SA's authorities or liquidators to justice,
- in staff matters,
- on demand of at least one shareholder present or represented at the Annual General Meeting,
- 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 fulfilment of his duties, release of any of his duties towards PKO Bank Polski SA, or any dispute between him and PKO Bank Polski SA.

Shareholders have the right to ask questions, through the Chairman of the Annual General Meeting, to the Members of PKO Bank Polski SA's Management or Supervisory Boards and the PKO Bank Polski SA'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.

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




6.2.7.1 The Supervisory Board of PKO Bank Polski SA

The Supervisory Board is composed of 5 to 13 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 30 June 2011 the State Treasury, as the Eligible Shareholder, on the basis of § 11 clause 1 of the Bank's Memorandum of Association determined the number of the Supervisory Board members to include 9 persons, of which the Bank informed in a Current Report No. 36/2011.

The current term of office of all the Supervisory Board members started on 30 June 2011. The mandates of all the current Supervisory Board members shall expire at the latest on the date of holding the General Shareholders' Meeting to approve the financial statements for the financial year ended 31 December 2013.

Table 40. Composition of the Supervisory Board of PKO Bank Polski SA as at 31 December 2011

Positions	Competences
	<p>Cezary Banasiński – Chairman of the Bank's Supervisory Board On 20 April 2009 appointed until the end of the previous term of the Supervisory Board On 30 June 2011 reappointed for the current term of the Supervisory Board</p>
	<p>He is the doctor of laws, assistant professor at the Faculty of Law and Administration of the Warsaw University. Graduate of Faculty of Management and Faculty of Law and Administration of the Warsaw University. From 2001 to 2007 he was the President of the Office of Competition and Consumer Protection. He was responsible for the state of the competition in the Polish market and the legal protection of consumers and monitoring the provision of public aid. From 2006 to 2007 he was a member of Coordination Commission for Financial Conglomerates. From 2005 to 2006 he was a member of the Securities and Exchange Commission and of the Insurance and Pension Fund Supervisory Commission. From 2002 to 2004 he was the head of the Negotiation Team for Poland's membership in the European Union responsible for the negotiation area 'Competition policy'. From 1999 to 2001 he held the position of the undersecretary of state at the Office of the Committee for European Integration, where he was responsible for harmonisation of the Polish law with the EU law. From 1997 to 2000 he was a counsel at the Office of Jurisdiction at the Constitution Tribunal responsible for analysing the jurisdiction of the European Court of Justice. Scholar of, among others, the Faculty of Law at the University in Vienna, Humboldt Foundation at Universities in Konstanz and Munich. He is the author and co-author of many publications, books, articles, commentaries for acts and judgments of the Court of Justice in the scope of the administration and economic law and the European economic law. Member of the supervisory board of PKN Orlen SA.</p>
	<p>Tomasz Zganiacz – Deputy-Chairman of the Bank's Supervisory Board On 31 August 2009 appointed until the end of the previous term of the Supervisory Board On 30 June 2011 reappointed for the current term of the Supervisory Board</p>
<p>Mirosław Czekał – Secretary of the Bank's Supervisory Board On 31 August 2009 appointed until the end of the previous term of the Supervisory Board On 30 June 2011 reappointed for the current term of the Supervisory Board</p>	<p>An experienced manager, currently Director of the Capital Markets Department within the Ministry of the Treasury. Until June 2009, President of TRITON DEVELOPMENT SA, a development company listed on the stock exchange. Before that, his positions included among others that of Vice-President and Financial Director of ARKSTEEL SA (listed company), credit department manager at SOCIETE GENERALE, and member of the academic and teaching staff of the Institute of Production Systems Organisation of the Warsaw University of Technology. He took part in the National Investment Funds programme. He has taken part in numerous projects implemented by business entities operating in various sectors by cooperating with among others commercial and investment banks, brokerage houses and other players on the capital markets. He has been responsible for managing finances and preparing and implementing investment projects, and has co-created development strategies. He has a wealth of experience in supervising commercial law companies, and was a member of the Supervisory Board of the Warsaw Stock Exchange. He graduated as an engineer, and also completed MBA postgraduate studies.</p>
<p>PhD in Economics, a graduate of the Nicolaus Copernicus University in Toruń. Registered Auditor. In January 2007, he was elected by the Council of the City of Warsaw to the position of City Treasurer. Between 2004 and 2006, he was Vice-President of Bank Gospodarstwa Krajowego, responsible for the commercial activities of the bank and for supervising its branches. Previously, he was responsible for public sector and corporate finances. From 1992 to 2009, he held positions on the supervisory boards of numerous companies, including that of Chairman of the Supervisory Board of Remondis - Szczecin Sp. z o.o., Chairman of the Supervisory Board of Fundusz Wspierania Rozwoju Gospodarczego Miasta Szczecina, Chairman of the Supervisory Board of Szczecińskie Centrum Renowacji Sp. z o.o., Chairman of the Supervisory Board of MPT Sp. z o.o. in Warsaw. He was also a Supervisory Board Member of Pomorski Bank Kredytowy SA in Szczecin. He is the author and co-author of finance-related publications.</p>	

PKO Bank Polski SA Directors' Report for the year 2011



Jan Bossak - Member of the Supervisory Board On 26 February 2008 appointed for the term, which has terminated on 19 May 2008 and for the term prior to the current term of the Supervisory Board On 30 June 2011 reappointed for the current term of the Supervisory Board

Professor at the Warsaw School of Economics (SGH), Department of International Comparative Studies. He specialises in international economic relations, institutional economics and economic systems, corporate finance and value management, international competitiveness as well as European integration. Holder of a grant from the Japanese government, PhD student at the Osaka Imperial University (1972-74). Visiting professor at universities in the United States (*Seton Hall University*), Japan (Kyoto Imperial University - 1980-81 and Ryukoku University - 1985-86), Great Britain (*Buckinghamshire-College - 1977*) and Belgium (the University of Brussels - 1978). Research fellowship at the Vienna Institute for International Economic Studies (1983). He completed the *Executive Corporate Finance* course at the University of Minnesota (1991) and the *International Finance* course at LSE (1995) in London. In the years 1991-1992, he was the President of the Polish-American Enterprise Fund, in the years 1995-1997 he was the President of the Second National Investment Fund, and from 1999 to 2003 he was the President of the Erste Securities Polska SA investment bank. In the years 1990-93, he was the director of the World Economy Research Institute at the Warsaw School of Economics. He is a co-founder (in 2000) and Vice-Chairman of the Poland-Japan Economic Committee. He was the chairman of supervisory boards of Pierwszy Polsko-Amerykański Bank w Krakowie, Stilon SA, Famur SA, Tarbud SA, Milmet SA. He acted as adviser to a number of companies, including Petrochemia Płock SA, Techmex SA, Jelfa SA, NSK Polska SA, Sumitomo Polska SA, Mitsui Polska SA and Nichimen Trading SA. An author of over 25 books which were published in Poland and abroad, also by the World Bank, the Japanese government agency APO and the Silk Road Institute of the Jiatong University in Xi'an in China. The most recent publications include 'International Competitive Ability of Poland and Enterprises. Challenges on the Eve of the 21st Century', 'Economic Systems and Global Competition', 'Institutions, Market and Competition in the Contemporary World'.



Krzysztof Kilian - Member of the Supervisory Board On 30 June 2011 appointed for the current term of the Supervisory Board

He graduated from the Gdansk University of Technology where he obtained a higher technical education and a degree of MSc in mechanics. He started his professional career in the 'Wista' Shipyard in Gdansk. In 1991, he held position of the Head of the Minister's Office in the Ministry of Privatisation, and later he was a General Director at the Office of the Prime Minister and the Minister of Telecommunications. Later, he was an Advisor to the Chairman in Bank Handlowy and a Senior Adviser in *Morgan Stanley* (in London). In the years 1999 - 2008 he worked in his own consulting company cooperating with TDA Capital, Prokom Software, Asseco. From 2008 till 31 December 2011 he occupied a position of the 1st Vice-President of the Management Board, he also worked at the position of the Director of Marketing and Customer Relations Department in Polkomtel SA. He has experience in the field of supervisory bodies' activities - he was a member of the supervisory boards in the following entities: PI 2012, PKO Bank Polski SA, TFI PZU SA, PGF SA, Poczta Polska, Foundation for Banking Education, Privatisation Fund at the Ministry of Privatisation, KGHM SA, and BPH SA.



Piotr Marczak - Member of the Supervisory Board On 25 June 2010 appointed until the end of the previous term of the Supervisory Board On 30 June 2011 reappointed for the current term of the Supervisory Board

He graduated from Warsaw School of Economics (earlier the Main School of Planning and Statistics). He has worked for the Ministry of Finance since 1992, now he is the director of the Public Debt Department and his main tasks include, for instance, preparation of public debt management strategies, the State Treasury risk and debt management, management of the state budget liquidity, consolidation of liquidity of the entities of the public finance sector. He is the author of dozens of papers and articles on the public debt and the market of treasury securities in Poland, and he was also a lecturer in Dolnośląska Szkoła Bankowa (Banking School of Lower Silesia). At the moment he is a member of the Supervisory Board of Polskie Koleje Linowe SA, and previously he was a member of the supervisory boards of, for instance, Bank Gospodarstwa Krajowego, Huta Będzin SA, Huta Stalowa Wola SA, Stomil Poznań SA.



Ewa Miklaszewska - Member of the Supervisory Board On 30 June 2011 appointed for the current term of the Supervisory Board

Habilitated doctor, professor of Cracow University of Economics. In 1980 she graduated from Cracow University of Economics and in 1986 from *The Johns Hopkins University, School of Advanced International Studies, M.A. in International Affairs (Bologna Center)*. In 1989 she obtained the degree of a doctor of economics and in 2004 the degree of habilitated doctor at Cracow University of Economics. She started her professional career in 1980 at the Pedagogical University of Cracow, in years 1983-2000 she was a research fellow at the Jagiellonian University (Faculty of Law, Department of Economics). Moreover, in 1994 she was employed by the Ministry of Finance in the Department of Financial Institutions as the Minister's advisor, in 1995 in the National Bank of Poland in the Research and Analysis Department. Since 2000 she has worked at Cracow University of Economics where she is now the head of the Banking Section (Faculty of Finance, Department of Finance) and in the Department of Economics and Management in the Jagiellonian University. She is an author of numerous research works, she has participated in post-graduate studies and internships in Europe and the US (HBS, MIT). Her research interests focus on the problems of the development of Polish and global financial markets, in particular in terms of strategies executed by financial institutions and the regulatory policy.



Marek Mroczkowski - Member of the Supervisory Board On 30 June 2011 appointed for the current term of the Supervisory Board

He graduated from the Warsaw School of Economics (previously SGPIS). He completed postgraduate studies on the Faculty of Law and Administration at the University of Wrocław, as well as postgraduate studies - *Advanced Management Programme in INSEAD Fontainebleau, France*. Since 2009, he has been providing consultancy services in the field of management in MRM Finance. In the years 2007-2009 he was a President of the Management Board and General Director of MAZEIKIU NAFTA AB in Lithuania. In the years 2005 - 2006 he was a Vice-President of the Management Board and Financial Director of UNIPETROL A.S. in Czech Republic (from September 2005 to April 2006 he was also a President of the Management Board and General Director). In the years 2003-2004 he was a President of the Management Board and General Director of ELANA SA in Toruń. In the years 2001-2002 he was a President of the Management Board and General Director of POLKOMTEL SA, and from 1994 to 2001 he was a Vice-President of the Management Board and Financial Director of PKN ORLEN SA. Also, he was a Member of the Management Board and Financial Director of Eda Poniatowa SA (1986-1994). He has experience in the field of supervisory bodies' activities - he was a member of the supervisory boards of the following companies: ZCH POLICE, IMPEXMETAL SA, ENERGO MONTAŻ PÓLNOĆ SA, POLKOMTEL SA, ANWIL SA, MOSTOSTAL Kraków SA. Currently, he is a Chairman of the Supervisory Board of AZOTY TARNÓW.



Ryszard Wierzb - Member of the Supervisory Board On 30 June 2011 appointed for the current term of the Supervisory Board

Professor of the Gdańsk University, head of Department of Finance. He graduated from the Faculty of Finance and Statistics at the Main School of Planning and Statistics (currently Warsaw School of Economics). In 1973, he got a PhD in economics at the Department of Production Economics at the University of Gdańsk, and in 1981 a PhD in economics at the Faculty of Finance and Statistics at the Main School of Planning and Statistics. In 1991, he became a professor of economics. He started his professional career in 1966 in Bank Inwestycyjny county (Branch in Gdańsk), where he worked until 1969 as an Inspector. In 1972 he pursued doctoral studies at the University of Gdańsk and since 1972 he has been working as a research fellow at that university, where he completed consecutive stages of scientific career: from senior assistant in the years 1972-1973, through adjunct in the years 1973-1982, docent (academic appointment below that of a professor) in the years 1982-1991, associate professor in the years 1991-1999, and full professor and head of Department of Finance since 1999 until now. Moreover, since 1993 he is a Deputy Director of Gdańsk Academy of Banking at the Institute of Market Economy Research in Gdańsk. He is an author of more than 180 scientific publications, member of scientific organisations, as well as he completed numerous international traineeships. Since 1991 he has been a member of the supervisory boards of several big companies, including Bank Gdański SA (1991-1996), Bank Handlowy w Warszawie SA (1998-2002), Polskie Sieci Elektro - Energetyczne SA in Warsaw (2005-2007), and PKO Bank Polski SA (2008-2009).



Changes in the composition of the Supervisory Board in 2011:

1. On 30 June 2011, the General Shareholders Meeting appointed to the Supervisory Board of the Bank:
 - 1) Cezary Banasiński,
 - 2) Tomasz Zganiacz,
 - 3) Jan Bossak,
 - 4) Mirosław Czekaj,
 - 5) Krzysztof Kilian,
 - 6) Ewa Miklaszewska,
 - 7) Piotr Marczak,
 - 8) Marek Mroczkowski,
 - 9) Ryszard Wierzba.

In accordance with passed resolutions, all above mentioned people were appointed for the term of the Supervisory Board which began on 30 June 2011.

The State Treasury, as the Eligible Shareholder, appointed on the basis of par. 12 clause 1 of the Bank's Memorandum of Association:

- 1) Mr. Cezary Banasiński as Chairman of the Bank's Supervisory Board,
- 2) Mr. Tomasz Zganiacz – as Deputy-Chairman of the Bank's Supervisory Board.

2. In connection with the end of term, on 30 June 2011 the mandates of the Members of Supervisory Board Błażej Lepczyński and Alojzy Zbigniew Nowak expired.

The Supervisory Board manner of functioning

The Supervisory Board acts based on the by-laws passed by the Supervisory Board and approved by the Annual General Meeting. 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 Supervisory Board Members, including the Chairman or Deputy-Chairman 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 Memorandum 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:
 - a) the Supervisory Board,
 - b) 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 organisation,
 - c) using the reserve capital,
- appointing and dismissing the President of the Management Board and, at the request of the President of the Management 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 Organisational 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 Polish Financial Supervision Authority for granting consent to appointing two Members of the Management Board, including the President of the Management 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 fulfil selected supervisory activities in the Bank.

In 2011, the following Permanent Committees of the Supervisory Board operated:

1. The Remuneration Committee (appointed on 2 November 2011), which is responsible in particular for executing the following tasks:
 - assessing the remuneration system and policy for people holding managerial positions at the Bank,
 - giving opinions on the types and levels of goals on which variable salary components will depend and giving opinions on evaluations of goal execution,
 - giving opinions on the variable salary components policy for persons holding managerial positions, as defined in § 28 clause 1 of Resolution No. 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on detailed principles for the functioning of the risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital, and the principles for determining the variable salary components policy for persons holding managerial positions at the bank, including the amount and components of the salaries, based on prudent and stable risk management, capital and liquidity and special care about the long-term interests of the Bank and the interests of shareholders, the Bank's investors,
 - giving opinions on and monitoring variable salary components of persons holding managerial positions at the Bank, related to risk management and maintaining compliance of the Bank's actions with the provisions of the law and internal regulations,
 - analysing and giving opinions on the principles for remunerating Management Board members and the level of their basic salaries,
 - giving opinions on motions for approval for a member of the Management Board to become involved in competitive business activities or participate in a competitive company as a shareholder of a civil law company, a partnership or as a member of a body in a corporation, or participate in another competitive legal person as a member of its body,
 - giving opinions on a review report concerning the implementation of the variable salary components policy carried out by the Internal Audit Department.
2. The Audit Committee whose tasks include, in particular:
 - 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),
 - 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 Bank's 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,
- 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, level of fee and supervision of work performed,
 - 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.
- monitoring the independence of a registered auditor and a registered audit company and on the services referred to in § 48, clause 2 of the Act of 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 § 48, clause 2 of the Act of 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision, provided to the Bank.

As at 31 December 2011, the Remuneration Committee consisted of 5 members:

- 1) Krzysztof Kilian (President of the Committee),
- 2) Cezary Banasiński (Member of the Committee),
- 3) Jan Bossak (Member of the Committee),
- 4) Marek Mroczkowski (Member of the Committee),
- 5) Tomasz Zganiacz (Member of the Committee).

As at 31 December 2011, the Audit Committee consisted of 3 members:

- 1) Mirosław Czekaj (President of the Committee),
- 2) Jan Bossak (Vice-President of the Committee),
- 3) Ewa Miklaszewska (Member of the Committee).

All the members of the Audit Committee fulfilled the independence requirements in accordance with § 86 clause 4 of the Act on Registered Auditors. Additionally, the Chairman of the Audit Committee Mirosław Czekaj has qualifications in accounting and financial auditing.

6.2.7.2 The Management Board of PKO Bank Polski SA

Pursuant to § 19 clause 1 and 2 of the PKO Bank Polski SA Memorandum of Association, members of the Management Board are appointed by the Supervisory Board for a joint term of office of three years. Pursuant to § 19 clause 4 of the PKO Bank Polski SA Memorandum 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 of the Polish Financial Supervision Authority. As at 31 December 2011, the Management Board of the Bank was composed of 7 members.

Current joint term of office of the Bank's Management Board began on 30 June 2011. The mandates of all current Management Board members shall expire at the latest on the date of holding the General Shareholders' Meeting to approve the financial statements for the financial year ended 31 December 2013.



PKO Bank Polski SA Directors' Report for the year 2011

Table 41. The Management Board of PKO Bank Polski SA as at 31.12.2011

Functions	Competences	
	<p>Zbigniew Jagiełło President of the Bank's Management Board On 1 October 2009 appointed until the end of the previous term of the Bank's Management Board On 30 June 2011 reappointed for the current term of the Bank's Management Board</p>	<p>Graduated from the Faculty of Information Technology and Management of Wrocław University of Technology and he completed post-graduate studies organised by Gdansk Fundacja Kształcenia Menedżerów (Gdańsk Foundation for Education of Managers) and University of Gdańsk where he was granted <i>Executive MBA</i> title certified by Rotterdam School of Management, Erasmus University. In 1995 started working at Pioneer Pierwsze Polskie Towarzystwo Funduszy Inwestycyjnych SA, then, first as a sales and distribution director and since 1998 as the Vice-President of the Management Board he was one of the builders of PKO/Credit Suisse TFI SA. In July 2000 he took the position of the President of the Management Board of Pioneer Pekao TFI SA, and, at the same time, since 2005 he held the position of the President of the Management Board of Pioneer Pekao Investment Management SA. In the global structure of Pioneer Investments, he had the function of the Head of Distribution in Central and Eastern Europe Region (CEE). He was the Chairman of the Board of the Chamber of Funds and Assets Managers. He is the Member of the Board of the Polish Banks Association and of the <i>Institute International D'Etudes Bancaires</i> - the international organisation; he holds the position of the President of the Program Board of the Retail Banking Congress. He has 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 and the Gold Banker award in the category Personality of the Year 2011.</p>
	<p>Piotr Stanisław Alicki Vice-President of the Bank's Management Board in charge of IT and Services On 2 November 2010 appointed until the end of the previous term of the Bank's Management Board On 30 June 2011 reappointed for the current term of the Bank's Management Board</p>	<p>A graduate of the Mathematics and Physics Department of Adam Mickiewicz University in Poznan. 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 - from 1997 as its Director, where he was responsible for designing, development, implementation and operation of the Bank's transaction systems. In the period 1999-2010 he worked for Bank Pekao SA - at first as the Assistant Manager and then the Manager of the IT Systems Maintenance and Development Department, and during the last four years he managed the Information Technology Division. He was responsible, among other things, 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 1999-2010, Piotr Alicki took part in the work of the Polish Banks' Association in: Steering Committee for the Development of Bank Infrastructure, the Payments System Committee, the Problem Committee for Banking and Bank Financial Services, and the Electronic Banking Council. Since 2000 he has been a member of the Supervisory Council of the Krajowa Izba Rozliczeniowa SA (National Clearing Chamber Ltd.), and since 2005 until 2010 he was its President. In 2002-2010 he represented Bank 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 has been awarded by President of the National Bank of Poland with a honour distinction for the merits for Polish Banking. He is also the winner of the 'IT Leader 1997'. Since 1st May 2011 is the member of Visa Europe Limited Board where he represents PKO Bank Polski, another banks from Poland and seven countries of the Subregion 5.</p>
	<p>Bartosz Drabikowski Vice-President of the Bank's Management Board in charge of Finance and Accounting On 20 May 2008 appointed until the end of the previous term of the Bank's Management Board On 30 June 2011 reappointed for the current term of the Bank's Management Board</p>	<p>A graduate of 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: at Deutsche Bundesbank, Deutsche Börse AG, Deutsche Ausgleichsbank and Rheinische Hypothekbank. He received scholarship from The German Marshall Fund of the United States and participated in many trainings organised by the European Commission and the International Monetary Fund among others. He started his professional career at the Ministry of Finance, where he was responsible among others for regulation and supervision over financial market institutions, the banking sector and the capital market in the particular. He also prepared development strategies for the financial services sector development both for Poland and the European Union common market. At the Ministry of Finance he was subsequently employed as 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, where he was responsible for finance, new electronic payment products, security and risk management as well as analysis and administration. For several years he served as member of the Commission for Banking Supervision, member of the Polish Securities and Exchange Commission and deputy member of the Payment System Board at the National Bank of Poland. He also served as member of many institutions of the European Union, including the Financial Services Committee (European Council), the European Banking Committee and the European Securities Committee (European Commission). He has a wealth of experience in managing financial institutions. He served as member of the Supervisory Board of the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych), member of the Bank Guarantee Fund Council and member of the Supervisory Board of the Polish Security Printing Works (Polska Wytwórnia Papierów Wartościowych). Currently he acts as Chairman of the Supervisory Board of Inteligo Financial Services SA and Member of the Supervisory Board of Polish Association of Stock Exchange Issuers.</p>
	<p>Andrzej Kołatkowski Vice President of the Management Board responsible for Risk and Debt Collection On 30 June 2011 appointed for the current term of the Management Board of the Bank On 9 August 2011 the PFSA approved his appointment</p>	<p>A graduate of the Main School of Planning and Statistics, Faculty of Finance and Statistics. In 1980 - 1988 he worked in the Institute of Economics of the Chemical Industry and the Institute of National Economy. In the period of 1988 - 1989 he worked in the Planning Commission by the Council of Ministers. Since 1991 he has been a member of supervisory boards of a number of companies, including the Warsaw Stock Exchange. In the period of 1989 - 1992 he was director of the Financial Policy and Analyses Department in the Ministry of Finance. At that time he was among people who organised the first issues of treasury securities. In 1992-1998 he occupied a position of a Member of the Management Board of Bank Handlowy SA in Warsaw. In 1998 - 2001 he was the President of the Management Board of Towarzystwo Funduszy Inwestycyjnych Banku Handlowego SA (Investment Fund Company). Simultaneously he was also the president of the Association of Investment Fund Companies in Poland. In 2002 - 2003 he was the President of the Management Board of Bank Współpracy Europejskiej SA. Since October 2003 he has worked at various positions in PKO Bank Polski, in the following order: Director of the Office of Credit Application Assessment, Plenipotentiary for Centralisation of Credit Risk Assessment, Director of Credit Risk Assessment Department. Since September 2009 until 8 August 2011 he was the Managing Director of the Credit Risk Sector and an in period of July 2011 till 8 August 2011 - the acting Managing Director of the Restructuring and Debt Collection Sector. He has thorough theoretical and practical knowledge on functioning of the financial markets, investment products related to investment funds and life insurance, experience in financial management of the bank and enterprises and in executing capital investments.</p>
	<p>Jarosław Myjak Vice-President of the Bank's Management Board in charge of corporate market On 15 December 2008 appointed until the end of the previous term of the Bank's Management Board On 30 June 2011 reappointed for the current term of the Bank's Management Board</p>	<p>A graduate of the Faculty of English Philology (1978) and Law (1981) from the Law and Administration Department at the Adam Mickiewicz University in Poznań. He studied Economics at University of Toronto (1976-1977). He graduated from programmes: General Management Programme (1998-1999), INSEAD-CEDEP Fontainebleau, Columbia Business School (2002-2003). He gained 17 years of experience being a manager in financial institutions. Since 1994 the member of a Management Board, a Vice-President, and from 1998 to 2004 the President of the Management Board of Commercial Union Towarzystwo Ubezpieczeń na Życie SA. He co-established the Commercial Union Group in Poland, of which he was also the President in 2000-2004 in Poland and Lithuania. The member of <i>European Board Aviva plc</i>, the Chairman of the supervisory boards of CU companies in Poland and Lithuania: PTE, TFI, Asset Management, Transfer Agent and CU Lithuania. 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 Vice-Chairman of the Supervisory Board of PZU Życie SA. He is the Chairman of the supervisory boards of Bankowy Fundusz Leasingowy SA and of PKO BP Faktoring SA. In 2006 and since 2008 the Vice-President of the Management Board of PKO Bank Polski SA in charge of corporate banking. In 2009-2011 has successfully led to the corporate banking's leading position in companies' financing in Poland. He was a legal adviser (<i>Alzheimer&Gray</i>), a member of the Polish Business Council, the Vice-President of PIU, the Vice-President of PKPP 'Lewiatan' and the Manager of the Year 2002 in Poland.</p>



PKO Bank Polski SA Directors' Report for the year 2011



Jacek Obłękowski
Vice-President of the Bank's Management Board in charge of Retail Market
On 30 June 2011 appointed for the current term of the Bank's Management Board

A graduate of the Higher School of Pedagogy (Wyższa Szkoła Pedagogiczna) in Olsztyn, speciality - history and diplomacy. He completed broker course. He also graduated from the University of Navara - AMP. He started his professional career at Powszechny Bank Gospodarczy SA in 1991, where he worked until 1998, initially as a trainee and, following several promotions, as a director of the Network Management Department. Since September 1998, he started working at the PKO Bank Polski as director of the Retail Banking Department, director of the Marketing and Sales Department, acting director of the Office for Servicing Compensation Payments, managing director of the Network Division. Between December 2000 and June 2002, he acted as the director responsible for supervision of the business aspects of implementing the central IT platform. Until 2004 was the Chairman of the Supervisory Board of Inteligo Financial Services. He was also the Chairman of KredytBank Ukraina. Since 2002 to 2007 was a Vice-President of the Bank's Management Board responsible for the retail market area and marketing. At this time he was a Chairman of the Bank's Credit Committee, the Member of the Council of Directors of VISA EUROPE and was responsible for the acquisition of Inteligo. Since 2007 was the President of the Management Board of Dominet Bank SA and from 2009 to 2011, after merger, in BNP Paribas/Fortis Bank Polska SA was at the position of Vice-President of the Management Board responsible for the Division of Servicing Small Enterprises and Individual Clients.



Jakub Papierski
Vice-President in charge of Investing Banking
On 22 March 2010 appointed until the end of the previous term of the Bank's Management Board
On 30 June 2011 reappointed for the current term of the Bank's Management Board

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. Between 1995 and 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. Between November 2001 and September 2003, he worked for Bank Pekao SA 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 took the position of the president of the Management Board for Centralny Dom Maklerski Pekao SA in October 2003. In September 2006, he also took up the position of a Deputy-Chairman of the Supervisory Board of Pioneer Pekao TFI SA. Since May 2009, he served as the President of the Management Board of Allianz Bank Polska SA and in October 2009 he became the President of the Management Board. Between 2005 and 2009, Jakub Papierski was a chairman in the Programme Council of Akademia Liderów Rynku Kapitałowego established at the Lesław Paga Foundation; at the present moment, he is a member of the Programme Council.

Table 42. Other functions performed by the Management Board Members of PKO Bank Polski SA in 2011

No.	Member of the Bank's Management Board	Function
1.	Zbigniew Jagiełło President of the Bank's Management Board	President of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' President of the Risk Committee President of the Assets and Liabilities Management Committee President of the Steering Committee for private banking model
2.	Piotr Alicki Vice-President of the Bank's Management Board	Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' President of the Bank Polski SA IT Architecture Committee President of the Steering Committee for the Integrated IT system 1st Vice-President of the Operational Risk Committee Member of the Risk Committee Vice-President of the Steering Committee for the Project 'New Operational Model of Retail Sales Support' (NeMO)
3.	Bartosz Drabikowski Vice-President of the Bank's Management Board	President of the Expenses Committee President of the Bank's Credit Committee 1st 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 Member of the Risk Committee Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' President of the Steering Committee for the Project 'New Operational Model of Retail Sales Support' (NeMO)
4.	Andrzej Kołatkowski Vice-President of the Bank's Management Board	Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' President of the Bank's Credit Committee 2nd Vice-President of the Assets and Liabilities Management Committee Vice-President of the Risk 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) Member of the Steering Committee for the Project 'New Operational Model of Retail Sales Support' (NeMO)
5.	Jarosław Myjak Vice-President of the Bank's Management Board	Member of the Risk Committee 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



PKO Bank Polski SA Directors' Report for the year 2011

6.	Jacek Obłəkowski Vice-President of the Bank's Management Board	Member of the Risk Committee 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 system Vice-President of the Steering Committee for Private Banking Model Member of the Steering Committee for the Project 'New Operational Model of Retail Sales Support' (NeMO)
7.	Jakub Papierski Vice-President of the Bank's Management Board	Member of the Risk Committee Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012'
8.	Krzysztof Dresler Vice-President of the Bank's Management Board Performed the function until 30 June 2011	Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' until 30 June 2011 President of the Bank's Credit Committee until 30 June 2011 President of the Assets and Liabilities Management Committee until 14 June 2011 2nd Vice-President of the Assets and Liabilities Management Committee from 15.06.2011 to 30.06.2011 Vice-President of the Risk Committee until 30 June 2011 President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of IAS 39 until 30 June 2011 Vice-President of the Steering Committee for the Integrated IT system until 30 June 2011 President of the Operational Risk Committee until 30 June 2011 President of the Steering Committee for the MIFID Project until 30 June 2011 President of the Steering Committee for the Project of implementation of Internal Ratings-Based Approach (IRB) until 30 June 2011 President of the Steering Committee for the IT Platform until 30 June 2011
9.	Wojciech Papierak Vice-President of the Bank's Management Board Performed the function until 30 June 2011	Member of the Steering Committee for implementation of 'PKO Bank Polski SA development strategy for 2010-2012' until 30 June 2011 Vice-President of the Steering Committee for the Integrated IT system until 30 June 2011 Vice-President of the Steering Committee for Private Banking Model until 30 June 2011 Member of the Risk Committee until 30 June 2011

Changes in the composition of the Management Board in 2011:

1. On 2 March 2011, the Supervisory Board of PKO Bank Polski SA reappointed Mr Zbigniew Jagiełło as President of the Management Board of PKO Bank Polski SA for a joint term of office of the Bank's Management Board which commenced on the date of holding the Annual General Shareholders' Meeting of PKO Bank Polski SA approving the financial statements of PKO Bank Polski SA for 2010, i.e. from 30 June 2011.
2. On 1 April 2011, Supervisory Board of PKO Bank Polski SA passed resolutions appointing:
 - 1) Mr. Piotr Stanisław Alicki to the position of Vice-President of the Bank's Management Board,
 - 2) Mr. Bartosz Drabikowski to the position of Vice-President of the Bank's Management Board,
 - 3) Mr. Jarosław Myjak to the position of Vice-President of the Bank's Management Board,
 - 4) Mr. Jacek Obłəkowski to the position of Vice-President of the Bank's Management Board,
 - 5) Mr. Jakub Papierski to the position of Vice-President of the Bank's Management Board.

In accordance with the resolutions passed, the above-mentioned persons were appointed to the specified positions at PKO Bank Polski SA for the joint term of office of the Bank's Management Board which commenced on 30 June 2011.

3. On 16 May 2011, the Supervisory Board of PKO Bank Polski SA passed a resolution appointing Mr. Andrzej Kołatkowski Vice-President of the Bank's Management Board responsible for risk and debt collection area for the joint term of office of the Bank's Management Board, which commenced on 30 June 2011, provided that the approval of the Polish Financial Supervision Authority is obtained. On 9 August 2011, the Polish Financial Supervision Authority has approved unanimously Mr. Andrzej Kołatkowski as Vice-President of the Management Board of PKO Bank Polski SA. responsible for risk and debt collection area.
4. In connection with the expiry of the term of office, on 30 June 2011 the mandates of the Vice-President of the Bank's Management Board Krzysztof Dresler and the Vice-President of the Bank's Management Board Wojciech Papierak also expired, and both of them informed the Bank that they were resigning from applying for appointment to the Bank's Management Board for the next term of office.

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 as resolutions. The resolutions of the Management Board are passed by an absolute majority of the votes of those present at the meeting of the Management Board, except for the resolution on appointing a proxy, which requires the unanimous vote of all the Management Board members. In the case of a voting tie, the President of the Management Board has the casting vote.

Statements on behalf of the Bank are made by: (i) President of the Management Board independently, (ii) two members of the Management Board together or one member of the Management Board together with a proxy, or (iii) proxies acting independently or jointly within the limits of granted authorisation.

The Management Board competencies

In accordance with § 20 clause 1 of the Memorandum 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 Memorandum 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 § 9 clause 1 item 5 of the Memorandum of Association of PKO Bank Polski SA.

In accordance with § 20 clause 2 of the Memorandum 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 equity, without prejudice to the competences of the General Shareholders' Meeting specified in § 9 of the Memorandum of Association of PKO Bank Polski SA or the competences of the Supervisory Board specified in § 15 of the Memorandum 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 Memorandum 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 organisational 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 PKO Bank Polski SA in other companies and organisations,
- it determines the principles of operation of the internal controls and annual control plans,
- it establishes, transforms and liquidates organisational 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 2011, there were the following committees in which Members of the Management Board operated:

I. Permanent committees

1. The 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) and investment limits, as well as the values of the coefficients adjusting the transfer prices,
 - issuing recommendations in respect of:
 - a) forming the statement of financial position structure, the financial model and the assumptions for the financial plan of PKO Bank Polski SA and the capital requirements in the light of prudence standards,
 - b) the principles of risk management (market, liquidity, settlement and pre-settlement) and real and economic capital of the Bank,



- c) the value of the cut-off points and minimum scores used in assessing credit risk,
 - d) the principles of the pricing policy in particular business areas and the level of interest rates and minimum credit margins.
2. The Risk Committee, the objective of which is to design strategic directions and tasks in the scope of banking risk in the context of the Bank's strategy and conditions arising from the macroeconomic situation and the regulatory environment, analysing periodic reports related to the banking risks and developing appropriate guidance on their basis, as well as preparing the banking risk management strategy and its periodic verification. The tasks of the Committee include, in particular:
 - monitoring the integrity, adequacy and effectiveness of the banking risk management system, capital adequacy and allocation of internal capital to individual business lines and implementing the risk management policy executed as part of the Bank's adopted Strategy,
 - analysing and evaluating the utilisation of strategic risk limits set in the Banking Risk Management Strategy,
 - giving opinions on cyclical risk reports submitted for approval to the Supervisory Board and taking into account the information from the reports when issuing opinions.
 3. 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, managing bad debts, industry and client limits, and securing the liabilities 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, specifying list of industries covered by the limits of bad debt management, equity exposure in the PKO Bank Polski SA Group entity.
 4. 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 entities of the PKO Bank Polski SA Group,
 - determining measures to be taken in case of an emergency which exposes the Bank to reputational risk and results in financial losses.
 5. The Expenses Committee of PKO Bank Polski SA, whose tasks include specifically:
 - approval of expenditure related to the on-going operations costs arising from new agreements or annexes to agreements concluded, which give rise to an increase in the costs of the Bank's on-going operations, and approval to exceed the annual cost budget within the specified ranges, and giving opinions on expenditure and exceeding of the budget above the upper limit of the range,
 - approval of project applications,
 - approval of project plans with budgets up to a specified limit and giving opinions on project plans subject to approval by the Bank's Management Board,
 - initiating activities in the scope of cost-cutting,
 - making decisions on suspending the execution of projects, closing of projects and significant changes in projects with budgets up to a specified limit - in accordance with the internal regulations of the Bank concerning cost management and project and investment management.
 6. The IT Architecture Committee of 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.



II. Non-permanent committees

1. The 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. The 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 organisational 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 private banking model in the Bank 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 about 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 2011 are presented in the table below. The nominal value of each share is PLN 1.

Table 43. Shares of PKO Bank Polski SA held by the Bank's authorities

No.	Name	Number of shares as at 31 December 2011	Purchase	Disposal	Number of shares as at 31 December 2010
I. The Management Board of the Bank					
1.	Zbigniew Jagiełło, President of the Bank's Management Board	9 000	4 000	0	5 000
2.	Piotr Alicki, Vice-President of the Bank's Management Board	2 627	0	0	2 627
3.	Bartosz Drabikowski, Vice-President of the Bank's Management Board	0	0	0	0
4.	Andrzej Kołatkowski ¹⁾ , Vice-President of the Bank's Management Board	0	x	x	x
5.	Jarosław Myjak, Vice-President of the Bank's Management Board	0	0	0	0
6.	Jacek Obłękowski ¹⁾ , Vice-President of the Bank's Management Board	512	x	x	x
7.	Jakub Papierski, Vice-President of the Bank's Management Board	3 000	3 000	0	0
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.	Jan Bossak, Member of the Bank's Supervisory Board	0	0	0	0
4.	Mirosław Czekał, Secretary of the Bank's Supervisory Board	0	0	0	0
5.	Krzysztof Kilian ¹⁾ , Member of the Bank's Supervisory Board	0	x	x	x
6.	Piotr Marczak, Member of the Bank's Supervisory Board	0	0	0	0
7.	Ewa Miklaszewska ¹⁾ , Member of the Bank's Supervisory Board	0	x	x	x
8.	Marek Mroczkowski ¹⁾ , Member of the Bank's Supervisory Board	0	x	x	x
9.	Ryszard Wierzba ¹⁾²⁾ , Member of the Bank's Supervisory Board	2 570	x	x	x

1) Members of the Bank's Management Board and the Supervisory Board that assumed functions after 31 December 2010.

2) On 7 July 2011, Professor Ryszard Wierzba transferred all of his PKO Bank Polski SA shares to a 'blind portfolio' managed by DM of PKO Bank Polski SA. As a result of termination of the 'blind portfolio', PKO Bank Polski SA shares held by Professor Ryszard Wierzba, in the number indicated above, have been credited on his investment account on 8 September 2011.

As at 31 December 2011, Members of the Supervisory Board and the Bank's Management Board did not hold shares in companies related to PKO Bank Polski SA.

6.3.2 Agreements concluded between the issuer and managing persons

Within the meaning of § 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 2011, 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 of the Management Board members

In 2011 members of the Bank's Management Board were paid according to the principles implemented by the Supervisory Board 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 of 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:

- President of the Bank's Supervisory Board – PLN 16 000,
- Vice-President of the Bank's Supervisory Board – PLN 14 000,
- The Secretary of the Bank's Supervisory Board – PLN 12 000,
- member of the Bank's Supervisory Board – PLN 10 000.

Supervisory Board members are entitled to remuneration regardless of the frequency of meetings convened. Regardless of the remuneration, the Members of the Supervisory Board are entitled to reimbursement of the costs incurred in connection with performing the function, and in particular travel costs from the place of residence to the location of the Supervisory Board's meeting and back, costs of accommodation and board.

Table 44. Remuneration received by managers and supervisors (in PLN thousand)

Specification	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 31.12.2011	8 597	40
Remuneration of Members who ceased to be entrusted with the duties in the course of 2011	2 340	7
Total remuneration in 2011	10 937	47
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
The Bank's Supervisory Board		
Remuneration of Members who were entrusted with the duties as at 31.12.2011	948	-
Remuneration of Members who ceased to be entrusted with the duties in the course of 2011	140	-
Total remuneration in 2011	1 088	-
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	-

* 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 the financial statements of PKO Bank Polski SA for the year 2011.



7. OTHER INFORMATION

Off-balance sheet commitments granted

At the end of 2011, guarantees and other financial off-balance sheet commitments granted with respect to related parties amounted to PLN 1 712.6 million and remained stable as compared to the end of 2010.

The largest commitments related to the following entities:

- Bankowy Fundusz Leasingowy SA – PLN 1 043.2 million,
- Bankowy Leasing Sp. z o.o. – PLN 224.5 million,
- KREDOBANK SA – PLN 172.3 million.

All transactions with related parties were concluded at an arm's length. The details of related party transactions are presented in the financial statements of PKO Bank Polski SA for the year 2011

Reacquisition of own shares

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

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

1. In 2011, PKO Bank Polski SA 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 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 2011, 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 30 June 2011 the Bank concluded the agreements for opening letters of credit, concerning the opening for the Client of letters of credit totalling PLN 2 258 million for financing the Client's activities. These agreements were concluded for a period from 30 June 2011, and the longest validity period of the letters of credit opened in accordance with the Agreement for opening letters of credit cannot be longer than until 30 June 2021. The Agreements for opening letters of credit were secured by paying a certain amount of money (deposit) to the Bank's account. The amount of such a deposit shall be equal to the maximum combined amount of the letters of credit opened by the Bank for the Client under the Agreement for opening letters of credit, which are valid at the same time.
5. On 30 June 2011 the Bank signed a syndicated loan agreement concerning a syndicated loan granted to the Client by a consortium of five banks including PKO Bank Polski SA, which includes i.a. a tranche of an amortised investment loan of PLN 3.4 billion, a tranche of a non-amortised investment loan of EUR 448 million and PLN 600 million, and a tranche of revolving working capital loan of PLN 600 million. The share of PKO Bank Polski SA in these tranches amounts to PLN 600 million, PLN 510 million and PLN 90 million respectively. The participation of PKO Bank Polski SA in the syndicated loan is limited to the above-mentioned tranches.

The term of the syndicated loan provided by PKO Bank Polski SA is up to 6.5 years. The tranches bear interest based on the WIBOR/EURIBOR rate plus the Bank's margin. In accordance with the Agreement, the margin depends on the selected financial ratio of the Client. The liability resulting from the loan granted under the Syndicated Loan Agreement was secured with registered pledges and transfers of receivables (among other things).

In connection with a syndicated loan agreement referred to above, on 3 November 2011 the Bank signed an annex as part of which an additional tranche of the investment loan in the amount of PLN 1.75 billion was introduced, and as part of the syndication process the Bank concluded an exposure transfer agreement resulting in increasing the exposure by PLN 400 million. At the same time, the Bank's share in the remaining tranches decreased from PLN 1.2 billion to PLN 1.0 billion. The Bank's total exposure in respect of the agreements concluded with the clients is PLN 1.4 billion. The lending period as part of the Additional Tranche is up to 84 months from the date of launching the Additional Tranche for the first time. The interest rate of the Additional Tranche is based on WIBOR plus the Bank's margin.



Guarantees and financial commitments

As at 31 December 2011, the total value of guarantees and financial commitments granted amounted to PLN 38.1 billion with financial commitments making up 80.6% of this amount. Total rate of growth of guarantees and financial commitments granted amounted to (-) 0.3% (y/y).

Table 45. Off-balance sheet items (PLN million)

Items	31.12.2011	31.12.2010	Change (in PLN million)	Change (%)
Granted loan commitments	30 671.7	29 935.5	736.2	2.5%
financial entities	1 609.6	1 139.6	470.0	41.2%
non-financial entities	28 238.3	27 790.4	447.9	1.6%
State budget entities	823.9	1 005.6	(181.7)	-18.1%
<i>of which: irrevocable</i>	<i>6 569.0</i>	<i>7 001.3</i>	<i>(432.3)</i>	<i>-6.2%</i>
Guarantees issued	7 404.1	8 252.8	(848.8)	-10.3%
financial entities	1 214.7	2 504.5	(1 289.8)	-51.5%
non-financial entities	6 014.9	5 494.6	520.3	9.5%
State budget entities	174.5	253.8	(79.3)	-31.3%
Total	38 075.8	38 188.4	(112.6)	-0.3%

Loans and advances taken, guarantees and suretyships agreements

In 2011, 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

On 10 November 2011, PKO Bank Polski SA signed another Underwriting Agreement of a Bond Issuance Program with Bankowy Fundusz Leasingowy SA ('the Agreement'). The Agreement was concluded for the period ending 10 November 2016. In accordance with the above-mentioned agreement, on each day of the Agreement's validity the total nominal value of bonds issued and not redeemed by the Company based on the current and the previous Agreement dated 14 December 2006, will not exceed PLN 600 million.

As at 31 December 2011, Bankowy Fundusz Leasingowy SA issued bonds for a total amount of PLN 345 million, including bonds with a value of PLN 191 million which were sold on the secondary market, and bonds with a value of PLN 154 million were included in the portfolio of PKO Bank Polski SA.

In 2011, PKO Bank Polski SA granted:

1. guarantees to Bankowy Fundusz Leasingowy SA:
 - up to the amount of PLN 179 thousand to the benefit of Centrum Finansowe Puławska Sp. z o.o. in respect of a rental agreement; the guarantee was issued for the period to 3 August 2012,
 - up to the amount of EUR 46 000 thousand to the benefit of Europejski Bank Inwestycyjny as a guarantee of loan repayment; the guarantee was issued for the period to 17 June 2019,
 - up to the amount of EUR 57 500 thousand to the benefit of the Council of Europe Development Bank (CEB) as a guarantee of loan repayment; the guarantee was issued for the period to 30 June 2020,
2. guarantees to Centrum Elektronicznych Usług Płatniczych eService SA:
 - up to the amount of PLN 240 thousand to the benefit of Garrick Investments Sp. z o.o. in respect of a rental agreement; the guarantee was issued for the period to 31 December 2012,
 - up to the amount of PLN 250 thousand to the benefit of P4 Sp. z o.o. in respect of a trade agreement concluded; the guarantee was issued for the period to 30 September 2014,
 - up to the amount of PLN 500 thousand to the benefit of Polska Telefonía Cyfrowa SA in respect of a trade agreement concluded; the guarantee was issued for the period to 30 September 2012,
 - up to the amount of PLN 650 thousand to the benefit of Polkomtel SA in respect of a trade agreement concluded; the guarantee was issued for the period to 30 September 2014,
 - up to the amount of PLN 1 050 thousand to the benefit of Polska Telefonía Komórkowa – Centertel Sp. z o.o. in respect of a trade agreement concluded; the guarantee was issued for the period to 30 September 2014,



3. a guarantee up to the amount of PLN 593 thousand to PKO BP Finat Sp. z o.o. to the benefit of Salzburg Center SA in respect of a rental agreement; the guarantee was issued for the period to 31 July 2018.
4. a guarantee up to the amount of PLN 105 thousand to PKO Towarzystwo Funduszy Inwestycyjnych SA to the benefit of Centrum Finansowe Puławska Sp. z o.o. in respect of a rental agreement; the guarantee was issued for the period to 31 December 2011.
5. a guarantee up to the amount of PLN 820 thousand to Qualia Spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k. to the benefit of the Commune of the City of Gdansk in respect of a contract for building a road, the guarantee was issued for the period to 31 December 2013.

In 2011, according to the annexes signed by PKO Bank Polski SA with KREDOBANK SA 2 guarantees provided in 2010 by PKO Bank Polski SA on securitisation of bad debts has expired

Enforceable titles issued by the Bank

From 1 January 2011 to 31 December 2011, PKO Bank Polski SA issued 39 795 banking enforceable titles for a total amount of PLN 2 123 071 466.77.

Debt write-offs

In 2011, impairment write-downs on loans and borrowings granted to customers were reduced by PLN 1 078.0 million.

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

As at 31 December 2011, the total value of court proceedings against the Bank amounted to PLN 337 557 thousand, while the total value of proceedings initiated by the Bank amounted to PLN 135 358 thousand. 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 6 proxies on 1 January 2011; one proxy was appointed during the year and one was dismissed. As at 31 December 2011, the Bank had 6 proxies. In 2011, the Bank's Management Board held 63 meetings and adopted 644 resolutions.

Resolutions of the General Meeting adopted in 2011, 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.

Post balance sheet significant events

1. On 9 January 2012, in the Qualia Development Sp. z o.o. Group were concluded new companies agreements: Qualia Spółka z ograniczoną odpowiedzialnością - Władysławowo Spółka Komandytowa, Qualia Spółka z ograniczoną odpowiedzialnością - Zakopane Spółka Komandytowa, Qualia Spółka z ograniczoną odpowiedzialnością - Jurata Spółka Komandytowa. These companies were created in order to realisation of investment projects. Ongoing registration of above-mentioned companies in the National Court Register.
2. On 10 January 2012, the Bank signed an agreement with one of the client of PKO Bank Polski SA ('the Customer') for opening and maintaining consolidated accounts and execution of mass payments for a period of 4 years. As part of the agreement, the Bank will grant an intra-day credit limit of up to PLN 2.1 billion. In the event of failing to repay the debit balance arising on a given day, the Bank will be entitled to suspend the execution of the Customer's orders until the debit balance is covered in full. In such case, the Bank shall be entitled to default interest in the amount of statutory interest. The total exposure of the Bank in respect of the agreements concluded by the Bank with the Customer and its subsidiaries in the last 12 months is PLN 4.6 billion.



3. On 16 January 2012, PKO Bank Polski SA was registered with the State Ukrainian Register of Businesses as the sole shareholder of 'Inter-Risk Ukraina' Spółka z dodatkową odpowiedzialnością (additional liability company) with its seat in Kiev (the additional liability means that the shareholder is responsible for the company's liabilities up to 103% of its share). PKO Bank Polski SA acquired 1 share constituting 100% of the Company's share capital which entitles it to 100% of votes at the shareholders' meeting. The acquisition cost was PLN 2 500 thousand. On 30 January 2012, the Bank made capital injection of UAH 43 million (PLN 17 212.9 thousand) to the above mentioned Companies. The main purpose of acquiring and then the operation of the Company is to use it to perform effective debt collection of the impaired loans portfolio of KREDOBANK SA and the impaired loans portfolio purchased by Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.
4. On 27 January 2012 Qualia Development Sp. z o.o. made an additional payment to the company Qualia Residence Sp. z o.o. amounted to PLN 13 000 thousand.
5. On 31 January 2012 was signed a sales agreement of a Holiday and Recreation Center 'Daglezja' in Zakopane by the Bank with the company Qualia Residence Sp. z o.o.
6. On 31 January 2012, the increase in the share capital of Bankowy Leasing Sp. z o.o. in the total amount of PLN 9 500 thousand, was registered with the National Court Register. All the shares were taken up by Bankowy Fundusz Leasingowy SA – the Bank's subsidiary- for the price equal to the nominal value of the shares taken up.
7. On 10 February 2012, the Bank carried out an issue of own bonds on the basis of the programme for issuing bonds on the domestic market. The nominal value of bonds issued as a part of the programme amounted to PLN 1.5 billion. The nominal value of one bond amounted to PLN 100 thousand. Bonds issued as a part of the programme are bearer, zero coupon and discount. Redemption of bonds issued as a part of the programme will be carried out at the nominal value.
8. In January and February 2012, PKO Bank Polski SA made a capital contribution to Qualia Development Sp. z o.o. in the total amount of PLN 35 319 thousand.
9. In February 2012, PKO Bank Polski SA carried out a transaction consisting of selling 2% interest in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. to 'Inter-Risk Ukraina' Additional Liability Company. The above-mentioned transaction was carried out as part of the process of transforming Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. into a subsidiary of 'Inter-Risk Ukraina' Additional Liability Company.
10. In 2012 during the period to the publication of the report the Bank conducted activities connected with the liquidation of Centrum Finansowe Puławska Sp. z o.o., PKO Bank Polski SA took over the Company's assets. On 1 March 2012, in order to take over its assets, including property, in which is the Bank's Head Office registered office is located.



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 authorised 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 auditors performing the audit fulfilled all criteria for providing unbiased and independent audit opinion in compliance with applicable laws and professional requirements.

The Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Directors' Report for the year 2011 consists of 82 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
Andrzej Kołatkowski

Vice-President of the Management Board
Jarosław Myjak

Vice-President of the Management Board
Jacek Obłąkowski

Vice-President of the Management Board
Jakub Papierski