

**REPORT
ON THE SUPERVISORY BOARD ACTIVITY IN 2010**

Warsaw, March 2011

I. BOARD COMPOSITION & MANNER OF DISCHARGE DUTIES & RESPONSIBILITIES

1. As at the 1st of January 2010, the Supervisory Board had the following composition:

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| ▪ Chairman of the Supervisory Board | - Mr Aleksander Szwarc |
| ▪ Deputy Chairman of the Supervisory Board | - Mr Gerry Byrne |
| ▪ Members of the Supervisory Board: | - Mr Waldemar Frąckowiak |
| | - Mr Aleksander Galos |
| | - Mr Maeliosa OhOgartaigh |
| | - Mr John Power |
| | - Mr Jacek Ślotała |

2. Changes in the Supervisory Board composition

On the 21st of April of 2010, BZWBK Annual General Meeting appointed Ms Anna Maher and Mr Piotr Partyga to sit on the Supervisory Board. The composition of the Supervisory Board for the rest of 2010 was the following:

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|--|---------------------------|
| ▪ Chairman of the Supervisory Board | - Mr Aleksander Szwarc |
| ▪ Deputy Chairman of the Supervisory Board | - Mr Gerry Byrne |
| ▪ Members of the Supervisory Board: | - Mr Waldemar Frąckowiak |
| | - Mr Aleksander Galos |
| | - Ms Anne Maher |
| | - Mr Maeliosa OhOgartaigh |
| | - Mr Piotr Partyga |
| | - Mr John Power |
| | - Mr Jacek Ślotała |

3. Independence of the Supervisory Board Members

All Members of the Supervisory Board submitted written statements on their independence as well as their personal, factual and organizational connections with the Bank's shareholders. As stated, the following Supervisory Board Members have the independence status:

- Mr Waldemar Frąckowiak,
- Mr Aleksander Galos,
- Mr Piotr Partyga,
- Mr John Power (Chairman of the Audit Committee and Chairman of the Risk Oversight Committee),
- Mr Aleksander Szwarc (Chairman of the Supervisory Board),
- Mr Jacek Ślotała.

4. The Supervisory Board activities and manner of discharging its duties and responsibilities are regulated by the SB Terms of Reference available on the Bank's internet site.

II. STATISTICAL DATA ON THE SUPERVISORY BOARD'S ACTIVITY IN 2010

In the period from 1 January to 31 December 2010, the Supervisory Board held 9 meetings and adopted 41 resolutions. The Board Members' average attendance rate was 97.5%.

III. MAJOR AREAS OF THE SUPERVISORY BOARD'S ACTIVITY IN 2010

Much like in previous years, in 2010 the Board focused both on strategic matters as well as the supervision of the Bank's day-to-day business:

- The Supervisory Board undertook its duties in line with the adopted schedule of meetings and the annual work programme. The agenda of each meeting was extended (if appropriate) by current business issues, issues submitted for the Management Board's consideration and any other issues the Board deemed necessary to be covered by the agenda.
- The Supervisory Board requested and received from the Bank's Management Board exhaustive material and reports on issues covered by the agenda of meetings as well as those pertaining to other matters important to the Bank's operations.
- Discharging its duties arising from §32 of the Bank's Statutes, the Supervisory Board conducted on-going assessment of the financial performance of the Bank and BZ WBK Group as well as current projections prepared on that basis, taking account of the business and operating tendencies in place, opportunities and challenges as well as variances against the Plan. The evaluation was based on financial reports presented by the Management Board.
- The Supervisory Board followed monitored current macroeconomic and market forecasts, their impact on the Polish economy, operations, financial and business performance of the Bank and BZWBK Group.
- The Supervisory Board requested information and was advised on an ongoing basis by the Bank's Management Board about current priorities and approach to challenges relating to funding, capital management, risk management, in particular credit risk management and cost management.
- As part of the overall supervision of the internal capital measurement processes, the Supervisory Board approved, based on Audit Committee reviews and recommendations, ICAAP policies and reports. In addition, the Supervisory Board familiarised itself with the new Capital Adequacy Directive (Basel III) and preliminary assessment of its impact on BZWBK Group.
- As part of the supervision exercised over the risk management process, the Supervisory Board undertook reviews of the main risk areas, focusing on the oversight of individual risks, compliance with applicable policies and internal procedures, KNF recommendations and risk identification and agreeing of management action plans.
The Supervisory Board reviewed the tools used in the operational risk management process, risk analysis process, operational incident analysis and the lessons learnt process.
- Based on the conducted reviews and Audit Committee recommendations, the Supervisory Board approved the acceptable risk level expressed as limits set out in the "Risk Appetite Statement". In line with the agreed process, the Supervisory Board supervised and monitored the level of internal limit utilization.
In the Supervisory Board's opinion, the Bank's risk appetite statement is updated and matches the current market conditions.
- As part of the supervision of the credit risk management process, the Supervisory Board was informed about the current lending strategy and performed quarterly reviews of the loan portfolio to ensure compliance with the Regulatory Recommendations, changes in credit policies and key credit risk factors.
In addition, the Supervisory Board was provided with information about credit portfolios by

products/customer segments focusing on their quality and profitability.

- The Supervisory Board undertook a review of the strategy and different areas of the Bank paying particular attention to areas for improvement, high and steady income streams, their diversification and market share growth.

IV. OPERATIONS OF THE SUPERVISORY BOARD COMMITTEES

Independently of the SB meetings, Supervisory Board Members sat on the following Board committees:

- Nominations & Remuneration Committee;
- Audit Committee;
- Risk Oversight Committee;
- Social Responsibility Committee.

The composition of the committees was set by the Supervisory Board's resolution. The scope of their duties and manner of operation are regulated by the Terms of Reference adopted by force of the Board resolutions and available at the Supervisory Board Secretariat. The members of individual Committees have knowledge and experience appropriate for their roles and responsibilities.

The Committees contribute a lot to improving the effectiveness of the Board work by supporting it in the discharge of its statutory duties as well as by preparing recommendations and proposed decisions relating to the Board's motions as well as those submitted by the Bank's Management Board.

In order that the Supervisory Board is kept fully apprised of the Committees' work, their Chairmen report at the subsequent meeting of the Supervisory Board and Board members receive a copy of the minutes of each meeting of the Committees.

Individual Committees received sufficient, reliable and timely information from the Management Board to enable them to fulfil their responsibilities in 2010.

- **THE NOMINATIONS & REMUNERATION COMMITTEE** - the Committee's activities aim to demonstrate the Supervisory Board's determination to adhere to corporate governance principles covering independence, responsibility and transparency of information in matters such as recommending the nomination of Management Board members to the Board and setting the remuneration of the Management Board Members and senior management. Dealing with such matters, the Committee members have no personal financial interest other than that of the Bank's shareholders and are driven by the best interest of the Bank and its shareholders.

The Committee assists the Supervisory Board in:

1. succession planning at the Bank's Management Board level;
2. issuing recommendations for the SB with regard to the composition of the Management Board;
3. overall monitoring of the market remuneration practices and levels;
4. preparing decision recommendations for the Supervisory Board as to fair and competitive remuneration policies and practices, ensuring adequate motivation for the Management Board Members and senior management to continuously improve the Bank's performance.

The Nominations & Remuneration Committee's composition in 2010 was:

- Mr Gerry Byrne (Chairman),
- Mr Aleksander Szwarc,
- Mr Jacek Ślotąła.

The Committee usually invites the President of the Management Board, the Head of the HR Management Division and other persons, as deemed relevant to considered matters, to its meetings.

In 2010, the Committee focused on the following issues:

- Consideration of the MB's proposal on the annual salary review and preparation of a recommendation concerning the review for the SB.
- Preparation of a recommendation concerning 2009 bonus payment to Management Board members based on adopted remuneration policies.
- Launch of the annual review of the bonus scheme for Management Board Members and the senior management and submission to the SB of a recommendation re. 2011 bonus allocation and bonus pool determination ensuring an adequate level of motivation in the current market environment and reflecting the 2011 Financial Plan targets.
- The Committee considered and recommended to the Supervisory Board changes to the bonus schemes for some business units in the Bank and subsidiaries to more effectively motivate staff to achieve agreed targets and reflect the specific business profile and market standards.
- Succession planning for the Management Board functions and senior management positions – as in the previous years, this issue was one of the Committee and Supervisory Board's priorities in 2010; actions in this area involved the provision of adequate development programs for individuals subject to succession planning, both at the Bank and its subsidiaries.
- In view of the AIB's decision to sell the BZWBK stake, the Committee monitored the impact that the decision had on the turnover and attrition of the managerial cadre and keymen at the Bank and its subsidiaries. To ensure that the organization's potential for strong performance does not reduce by the time the bidding process is finished and the new owner comes, the Committee recommended that the Supervisory Board should adopt the staff retention plan.

Preparing recommendations for the Supervisory Board, the Committee followed regulatory recommendations concerning salaries in the banking sector and used current results of the banking sector's salary survey carried out by an independent agency.

▪ **AUDIT COMMITTEE**

The Audit Committee's role is to assist the Board in discharging its oversight responsibilities to shareholders and other stakeholders in relation to:

1. the quality and integrity of the accounting policies, financial statements and disclosure practices;
2. the monitoring of compliance with relevant laws and regulations, taxation obligations and relevant Codes of Conduct and good business ethics;
3. the monitoring of independence and performance of the internal and external Auditors; and
4. the assessment of the effectiveness of the system of internal controls and management of financial and non-financial risks.

The Audit Committee is composed of the following members:

- Mr John Power (Chairman)
- Mr Waldemar Frąckowiak
- Mr Aleksander Galos
- Mr Maeliosa OhOgartaigh
- Mr Piotr Partyga – joined 21st April 2010

Both the Audit Committee's scope of duties and composition are in accordance with the Polish Chartered Auditors Act of 7 May 2009.

The Committee operates under a written Terms of Reference, which were updated and approved by the Supervisory Board on the 21 October 2009. The Committee undertakes its duties in line with an agreed annual work programme that allows the committee to monitor (and seek assurance on) the management of the financial risks identified in the company's business plan.

The Committee met 8 times during the course of the 2010 and reviewed key areas of material controls, including financial, operational, regulatory compliance and risk management systems. On a regular basis it receives reports on risk management, fraud, anti money laundering, legal, regulatory and corporate governance matters in order to assess the effectiveness of the risk management and control frameworks. Again in 2010, these reports included material/significant notifications arising under the Group policy on "whistle blowing", updates on significant projects in the Bank, detailed analysis of capital ratios, adequacy of provisioning including IBNR provisions, the implementation of EU Directives, Sarbanes Oxley compliance, Basel II compliance and IT system implementations.

The independent Auditors, KPMG Audyt sp. z o.o. sp. komandytowa (KPMG Audyt), the Bank's Internal Auditor, the Chief Risk Officer, the Head of Compliance and the President were invited to attend all meetings. Other members of the Supervisory Board and Management Board are also invited to attend as appropriate in order to present reports.

The Committee, through the Group Internal Auditor, receives objective independent reports on the operation of internal controls in the Group. The Committee reviewed the plans and work undertaken during the year in addition to the level and skills of the resources of the internal audit function. During 2010 the Group continued its Internal Audit Quality Assurance reporting in accordance with the International auditing standards and the committee is satisfied that where improvements were identified that they were incorporated into future reports and audit processes.

The Committee has reviewed and discussed the Company's audited financial statements with Management, which has primary responsibility for preparing the financial statements. It placed particular emphasis on their fair presentation and the reasonableness of the judgemental factors in particular the level of IBNR provisions for each loan portfolio and the appropriateness of significant accounting policies used in their preparation. The Committee also reviewed and discussed with KPMG Audyt their independent review of the financial statements and issues raised with management.

In addition, the Committee continued its detailed reviewed the Group's capital, liquidity and risk frameworks against the requirements of the KNF stress test scenarios, Basel II and the volatility in the global financial markets. The Committee considered the proposed assumptions, methodology and process followed in determining the amount of capital and liquidity required to support the Group's business plans and the adequacy of its capital resources.

In reliance of these reviews and discussions, the Committee recommended that the Supervisory Board approve the audited financial statements for inclusion in the Company's annual report for the year ended 31st December 2010, and the Board accepted the Committee's recommendations.

The Committee recommended to the Board, subject to shareholder approval, the election of KPMG Audyt as the Company's independent accountants. There is a process in place by which the Audit Committee reviews and, if considered appropriate, approves, within parameters approved by the Supervisory Board, any non-audit services undertaken by the

Auditors, and the related fees. This ensures that the objectivity and independence of the Auditors is safeguarded.

The Group paid Pln 2.3m to KPMG Audyt for audit services in 2010, relating to the statutory audit of the Group and Company financial statements and the audit of Group subsidiaries and associates pursuant to legislation. The fees for other services which included advice on accounting and regulatory matters were Pln 1.4m giving a total fee to KPMG Audyt of Pln 3.7m. We are satisfied that the Group's external auditor provides effective, independent challenge to management and that their management letter provides valuable recommendations for improvement of internal controls.

The Committee conducts a continuous review of its process and performance. The form of the review involved a discussion on the format of the meetings and the effectiveness of the reporting processes. In addition the members of the Audit Committee completed an Effectiveness Evaluation. The report was reviewed and approved by the Supervisory Board.

▪ **RISK OVERSIGHT COMMITTEE**

The Risk Oversight Committee is appointed by the Supervisory Board of Bank Zachodni WBK to assist the Board in discharging its oversight responsibilities to shareholders and other stakeholders and to protect the Group from future events that impede the sustainable achievement of its performance objectives in relation to:

1. Appropriate Risk philosophy, as articulated in Risk Principles;
2. Risk appetite, as reflected in policies and risk limits;
3. A sharpened focused oversight on the more significant business risks undertaken by the bank and;
4. The appropriateness of the overall risk governance framework

The Risk Oversight Committee is composed of the following members:

- Mr John Power (Chairman)
- Mr Waldemar Frackowiak
- Mr Aleksander Galos
- Mr Maeliosa OhOgartaigh
- Mr Piotr Partyga – joined 21st April 2010

The Committee is conscious, when undertaking its duties that the Bank is in the business of taking risk but at a level that is appropriate relative to the Group's scale and type of business undertaken.

The Committee operates under a written Terms of Reference updated and approved by the Supervisory Board in September 2010. The Committee undertakes its duties in line with an agreed annual work programme that allows the committee to review the effectiveness of the risk philosophy and the appropriateness of the overall risk governance framework.

The Committee met 5 times during the course of the 2010 and reviewed key areas of the business including Treasury, Corporate Banking, Retail Banking and the Investment Banking Divisions. On a regular basis it receives reports on the Group's risk profile and key performance indicators, particular in relation to (a) the Top 5 risks, (b) performance vs. risk appetite and tolerance, (c) risk trends, (d) risk concentrations. The Risk Oversight Committee took a forward looking risk assessment approach in each of these business lines and seeks to identify the risks associated with their respective five year strategies.

A key element of the Risk Oversight Committee's work is the oversight of the stress testing undertaken by the bank in accordance with its own assumptions and benchmarked against the requirements set by the KNF. The results of the stress testing are linked closely with the

Committee's review of the Group's Risk Appetite Statement and policies appropriate to the overall strategy adopted by the Supervisory Board.

The independent Auditors, KPMG Audyt, the Bank's Internal Auditor, the Chief Risk Officer, the Head of Compliance and the President were invited to attend all meetings. Other members of the Supervisory Board and Management Board are also invited to attend as appropriate in order to present reports.

The Committee conducts a continuous review of its process and performance. The form of the review involved a discussion on the format of the meetings and the effectiveness of the reporting processes.

- **SOCIAL RESPONSIBILITY COMMITTEE** – the Committee is responsible for overseeing the development and execution of a corporate responsibility strategy and policy in order to ensure that BZWBK is perceived as a responsible corporate citizen by all stakeholders. In particular, the Committee takes actions and initiatives that, being consistent with the Bank's vision, its values, objectives and strategy, allow the organization to create a brand with the desired value.

In 2010, the Social Responsibility Committee was composed of:

- Mr Gerry Byrne (Chairman),
- Mr Jacek Ślotała.

The Management Board President, the Head of Brand Management Area, Head of PR Department and, depending on the agenda, Management Board Members and employees directly responsible for the execution of the brand communication strategy and policy are invited to take part in the Committee meetings.

In 2010, the Committee focused on the following issues:

- Consistent pursuit of the strategy of strengthening the BZWBK Group's market position by leveraging the extended branch network, supported by actions aimed at strengthening the Bank's brand and its recognition as a Poland-wide financial institution.
- Use of econometric models for promotional campaign optimization - the work focused on cash loan, personal account and deposit models. Third party service providers were hired; the findings and conclusions were used in the Brand Management & Investor Relations Area's day-to-day business and projects.
- BZWBK charity foundation – "Bank of Children Smiles" programme that provided financial aid to organizations from poor and disadvantaged families. In addition, the foundation supported almost 60 "Ambitious Youth Bank" projects aimed at inspiring young people, encouraging them to show social and civic engagement and supporting their education. The foundation supports corporate volunteering projects.

V. ASSESSMENT OF THE SUPERVISORY BOARD ACTIVITY IN 2010

The Supervisory Board assessed its performance in accordance with point 1, item 2, section 3 of the "Best practice for companies listed on WSE."

Accordingly, the Board states that it has discharged its duties & responsibilities set out in the Commercial Companies Code and the BZWBK Statutes with due care holding meetings at a frequency ensuring that all matters within the Board's remit were addressed. The Supervisory

Board Members were guided by the interest of the Bank and the independence of judgements and opinions. Both the composition of the Board as well as the knowledge and experience of its Members ensured adequate and efficient performance of the Board and its effective supervision of the Bank's operations.