

**REPORT  
ON THE SUPERVISORY BOARD ACTIVITY IN 2009**

**2010 February – Warsaw,**

## **I. COMPOSITION OF THE SUPERVISORY BOARD AND MANNER OF DISCHARGING ITS DUTIES & RESPONSIBILITIES**

1. As at 1 January 2009, the Supervisory Board operated in the following composition:

- |  |                            |
|--|----------------------------|
| ▪ Chairman of the Supervisory Board      | - Mr. Aleksander Szwarc    |
| ▪ Vice Chairman of the Supervisory Board | - Mr. Gerry Byrne          |
| ▪ Members of the Supervisory Board       | - Mr. Waldemar Frąckowiak  |
|  | - Mr. Aleksander Galos     |
|  | - Mr James Edward O’Leary  |
|  | - Mr. Maeliosa OhOgartaigh |
|  | - Mr. John Power           |
|  | - Mr. Jacek Ślotała        |

2. Changes in the Supervisory Board composition

Mr James Edward O’Leary resigned from the function of the Supervisory Board Member as of 21 April 2009. The composition of the Supervisory Board for the rest of 2009 was as follows:

- |  |                           |
|--|---------------------------|
| ▪ Chairman of the Supervisory Board      | - Mr Aleksander Szwarc    |
| ▪ Vice 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        |

3. Independence of the Supervisory Board Members

All Members of the Supervisory Board submitted written statements on their independence status as well as their personal, factual and organizational connections with the Bank’s shareholders. The status of an independent Supervisory Board Member is held by:

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

4. The principles of the Supervisory Board operations and manner of performing its activities are defined by the SB Terms of Reference available on the Bank’s internet sites.

## **II. STATISTICAL DATA ON THE SUPERVISORY BOARD ACTIVITY IN 2009**

In the period from 1 January to 31 December 2009, the Supervisory Board held 9 meetings and adopted 51 resolutions. The Board Members' average attendance was 95.3%.

## **III. MAIN AREAS OF THE SUPERVISORY BOARD'S ACTIVITY IN 2009**

- The Supervisory Board worked pursuant to the adopted schedule of meetings and the operational framework. Agenda of each meeting was expanded if appropriate by current business issues, issued brought in for discussion by the Management Board 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 materials and reports on issues covered by the agenda of meetings as well as those pertaining to other matters important for the Bank in relation to the conducted operations.
- As part of its responsibilities arising from §32 of the Bank's Statutes, the Supervisory Board conducted on-going assessment of financial performance of the Bank and BZ WBK Group as well as current projections prepared on its basis, taking account of the business and operating tendencies in place, opportunities and threats as well as variances against the Budget. The evaluation was based on financial reports presented by the Management Board.
- Given the situation on the global markets, the Supervisory Board followed through the 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 of current priorities and approach to challenges related to funding, capital management, risk management, credit risk management in particular and cost management.
- As part of the supervision exercised over the risk management process, the Supervisory Board performed reviews of the main risk areas, focusing on the manner of exercising the oversight of individual risks, compliance with applicable policies and internal procedures, appropriate mode of identifying threats and agreeing on management actions.
- Based on the conducted reviews and Audit Committee recommendations, the Supervisory Board approved the acceptable risk level expressed as limits defined in the "Risk Appetite Statement". As per the agreed process, the Supervisory Board has also exercised supervision and monitored the level of utilizing internal limits. In the Supervisory Board's opinion, the Bank's acceptable risk level is revised and adequate to the current market conditions.
- As part of the supervision exercised over the credit risk management, the Supervisory Board was informed about the current credit strategy and performed quarterly reviews of the loan portfolio to ensure compliance with the Banking Supervision's Recommendations, changes in credit policies & the key factors of the credit risk. Independently, the Supervisory Board was informed about individual loan portfolios with

a breakdown by products/customer segments focusing on issues related to their quality and profitability.

- In addition, the Supervisory Board was advised on a quarterly basis of the property loan portfolio and progress in the execution of the adopted portfolio management strategy. The strategy aimed at reducing the share of the property loans and improving the portfolio profitability in order to reflect deposit raising costs, level of market interest rates and growth of risk on that portfolio.  
In addition, the Board held meetings with external experts and obtained their explanations/comments on the commercial property market in Poland, including current trends and projections with regard to demand, supply, prices/valuations and specific conditions of the major local markets.
- The Supervisory Board made a review of the strategy and different areas of the Bank's operations paying special attention to the possibility of generating high and sustainable income streams, their diversification and market share growth.

#### **IV. OPERATIONS OF THE SUPERVISORY BOARD COMMITTEES**

Independently of the meetings, Supervisory Board Members worked in the following internal Board committees:

- The Nominations & Remuneration Committee
- Audit Committee,
- Corporate Responsibility Committee.

The composition of individual committees was defined by force of the Supervisory Board resolution. The scope of their operations and mode of work are defined by Terms of Reference adopted by force of the Board resolutions and available in the Supervisory Board Secretariat.

The operations of the Committees contribute materially to boosting the effectiveness of the Board work by way of supporting it in delivering its statutory tasks as well as by preparing recommendations and proposed decisions in relation to the Board own motions as well as those submitted by the Bank's Management Board.

To allow the Supervisory Board fully assess the Committees' operations, their Chairmen present reports on their activities at the Board meetings and the Supervisory Board Members receive copies of the minutes from all the Committees' meetings.

- **THE NOMINATIONS & REMUNERATION COMMITTEE** - the Committee's activities aim to demonstrate the Supervisory Board's determination in adherence to the corporate governance principles covering independence, responsibility and transparency in relation to recommending to Board the candidates to the Management Board and setting up the remuneration of the Management Board Members and Executives. The Committee members have no personal financial interest, other than that of the Bank's shareholders, in these matters and are driven by the best interest of the Bank and its shareholders.

The Committee assists the Supervisory Board with:

1. succession planning at the Bank's Management Board level;
2. preparing 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 recommendations for the Supervisory Board decisions as to fair and competitive Remuneration policies and practices, ensuring adequate motivation for the Management Board Members and senior management to constantly improve the Bank's performance.

In 2009, the composition of the Nominations & Remuneration Committee was as follows:

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

The Committee normally invites the President of the Management Board, the Head of the HR Management Division and other persons, as it deems necessary, to its meetings.

In 2009, the Committee's activities focused on the following issues:

- Delivery of the Regulator's recommendations re. compensation in the banking sector in the context of the relevant draft European Commission's Directive – the Committee reviewed the applicable Remuneration Policy for Bank Zachodni WBK Management Board Members in terms of its compliance with the business strategy, objectives, values and long-term interests of the Bank and on that basis it established that the document clearly defined responsibility for designing rules of the Management Board Member's compensation and control of adherence to those rules in practice. The Committee informed the Supervisory Board about the outcome of the review.
- Appointment of the Bank's Management Board for a new term of office – the Committee recommended to the Supervisory Board the existing personal composition and allocation of functions among the Bank's Management Board Members. The following Management Board Members appointed to the new term of office held consents of the Financial Supervision Commission:
  - Mr Mateusz Morawiecki – to perform the function of the Management Board President,
  - Mr Justyn Konieczny – to perform the function of the Management Board Member.
- Preparation of a template of an employment contract with the Management Board Member – the contract template for the new term of office recommended to the Supervisory Board was based on the existing template and adjusted to the applicable legislation and current judicature. An agreement on the competition ban was entered into with all the Management Board Members.
- 3-year Incentive Scheme commenced in 2006. The Committee recommended to the Supervisory Board the commencement of the second stage of the Scheme and confirmation of the entitlement of its participants to take up an agreed number of series H shares of Bank Zachodni WBK in relation to:
  - completion of the Scheme as of the day the AGM of Bank Zachodni WBK approved the 2008 financial statements, i.e. the last year from the 3-year period of its validity.

- meeting the criteria of exercising the award under the Incentive Scheme as regards the compounded EPS growth over the life of the Scheme.
- Conducting an annual review of the bonus system for Management Board Members and the senior executive population and tabling the recommendations re. rules of granting and determining the bonus pool for 2010 driving an adequate motivation in the volatile market environment.
- Considering and recommending to the Supervisory Board changes to the bonus schemes of some business units in the Bank to adjust them even better to the specific nature of their operations and market conditions.
- Planning succession of the Management Board functions and senior executive positions – this issue was one of the Committee and Supervisory Board priorities in 2009; actions in this area comprise also assurance of adequate development programs for individuals subject to succession planning, both in the Bank and in its subsidiaries.
- **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.

Audit Committee is composed of the following members:

- Mr John Power (Chairman)
- Mr Waldemar Frackowiak
- Mr Aleksander Galos
- Mr Maelosia O’Hogartaigh

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 eight times during the course of the 2009 and reviewed key areas of material controls, including financial, operational, regulatory compliance and risk management systems. On a regular basis, the Committee 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. In 2009, these reports included material notifications arising under the Group policy on “whistleblowing”, updates on significant projects in the Bank, detailed analysis of capital and liquidity ratios, the implementation of EU Directives, Sarbanes Oxley compliance, Basel II compliance and IT system implementations.

The independent Auditors (KPMG), 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 receives reports from the external auditor and regularly holds discussions with both the internal and external auditors in the absence of Management Board representatives.

Through the Group Internal Auditor, the Committee receives objective independent reports on the operation of internal controls in the Group. The plans and level of resources of the internal audit function are reviewed each year by the Committee. During 2009 the Group continued to monitor the quality of the internal audit function in accordance with the International auditing standards. The Committee reviews the outcome of annual monitoring with the management.

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

In addition, the Committee reviewed the Group’s capital and risk frameworks against the ongoing implementation of Basel II and in light of the current challenges 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 and liquidity resources.

On the basis of these reviews and discussions, the Committee recommended the Supervisory Board approve the audited financial statements for inclusion in the Company’s annual report for the year ended 31 December 2009, and the Board accepted the Committee’s recommendations.

The Committee recommended to the Board, subject to shareholder approval, the election of KPMG as the Company’s independent accountants. There is a process in place whereby 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 for audit services in 2009, 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 of PLN 3.7m.

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 questionnaire. The report was reviewed and approved by the Supervisory Board on 27 February 2009. A further review will be carried out in 2010.

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

In 2009, the composition of the Corporate Responsibility Committee was as follows:

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

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

In 2009, the Committee’s activities focused on the following issues:

- Consistent pursuit of the strategy of growing the BZWBK Group market position by leveraging the extended branch network, supported by actions aimed at strengthening the Bank’s brand and its awareness as of the country-wide financial institution with the following distinctive features:
  - a) Taking better care of customers than other market players.
  - b) Stable financially and ensuring safety of entrusted funds.
  - c) Offering price-attractive products that are simple and easy to use.
  - d) Leveraging modern and pioneering solutions.
- Activity of the Bank’s charity foundation – “Bank of Children's Smiles” – provides assistance to children from destitute families. In 2009, it comprised educational programs and support for talented pupils by granting them scholarships and holding actions promoting their talent (musical concerts, participation in international scientific projects).
- Review and Approval of Marketing, Promotion, Sponsorship and Corporate Giving Plans / Budgets.

- **APPOINTMENT OF THE RISK OVERSIGHT COMMITTEE**



In September 2009, following the review of the corporate governance, the Supervisory Board approved the establishment of the Risk Oversight Committee. This decision reflects the approach to responsibility and exercise of the proper supervision by the Supervisory Board over the risks.

The Committee is responsible for the oversight and advice to the Supervisory Board on the current risk exposures of the Bank and the future risk strategy. The Committee commenced its formal operations in January 2010 and pursuant to the Supervisory Board Resolution its composition is as follows:

- Mr John Power (Chairman),
- Mr Waldemar Frąckowiak
- Mr Aleksander Galos
- Mr Maeliosa OhOgartaigh

## **V. ASSESSMENT OF THE SUPERVISORY BOARD ACTIVITY IN 2009**

Pursuant to item 1, sub-item 2, part 3 of the “Best practices of companies listed on WSE”, the Supervisory Board assessed its work.

Accordingly, it stated that it duly discharged its responsibilities & responsibilities holding meetings at frequency ensuring that all matters within the Board’s remit were addressed. Both the composition of the Board, knowledge and experience of its individual Members ensured due and efficient work of the Board and its supervision over the Bank’s operations.