

## REPORT ON THE ACTIVITY OF THE GETIN NOBLE BANK S.A. SUPERVISORY BOARD IN 2017 WITH THE ASSESSMENT OF THE COMPANY'S SITUATION

This report includes a summary of the activities of the Supervisory Board of Getin Noble Bank S.A. in 2017 and its committees: the Audit Committee, the Personnel Committee and the Risk Committee together with the Board's self-assessment, in accordance with principle II.Z.10.2. "Best practice for GPW listed companies 2016" (hereinafter also "Best Practice") as well as the company's situation prepared in accordance with Best Practice and "Corporate governance principles for supervised institutions" (hereinafter also "Principles") adopted by the Polish Financial Supervision Authority ("KNF"), constituting an attachment to this report.

### PERFORMANCE OF SUPERVISION

The Supervisory Board of Getin Noble Bank S.A. ("Company"; "Bank"), based on the rights and obligations provided for by the provisions of the Commercial Companies Code, banking law, the Bank's Articles of Association and the Rules adopted by the Supervisory Board, exercised continuous supervision over the Bank's activities in all its areas. As part of its activities, the Supervisory Board focused both on the strategic issues of the Bank and the Bank's on-going operations.

In the financial year, the Supervisory Board held 8 meetings and adopted 159 resolutions as part of its supervisory and control tasks, which in particular included:

- a) strategic matters for the Bank, including:
  - introduction of an update of the plan for a sustainable improvement in profitability of Getin Noble Bank S.A.;
  - approval of the "Financial Plan of Getin Noble Bank S.A. for 2017";
  - giving consent to the Bank's Management Board adopting a resolution to increase the Bank's share capital as part of the authorized capital by subscribing to a private series B share;
  - giving consent to the issue of bonds by the Bank as part of the Public Issuance Program for subordinated bonds;
- b) matters related to the approval of the financial statements for 2016 and plans for 2017, including:
  - analysis of the financial statements and assessment of the current financial results of the Company and the Getin Noble Bank S.A. Group, as part of the financial plan for 2017, as well as the capital adequacy ratios and the Bank's capital requirements;
  - assessing the Directors' report and the standalone and consolidated financial statements for the financial year 2016, as well as evaluating the allocation of profit for the financial year 2016 under the adopted Dividend policy;
- c) matters related to making changes to the Bank's Management Board and appointing the Management Board for a new term;
- d) current issues, including periodic reports and current decisions and ongoing control of the GNB, in particular:
  - constant assessment of the Company's current situation and factors affecting it, including operational risk factors;
  - analysis of the periodic information of the Management Board regarding the current and planned operations of the Company, in particular the assessment of the effects of the Bank's Strategy implementation and the plan of sustainable improvement in profitability, as well as actions taken by the Management Board in relation to the situation in the banking sector;
  - acceptance of changes in the Organizational structure of Getin Noble Bank S.A. and approval of the scope of activities of the Members of the Bank's Management Board;
  - giving opinions on changes in the Articles of Association of Getin Noble Bank S.A.;
  - selecting an audit firm to audit the financial statements for the years 2017-2019;
  - approving procedures/ changes of procedures and regulations for which such a mode is reserved in the provisions of the resolutions of the Polish Financial Supervision Authority or the Bank's Articles of Association;
  - implementation of the tasks of the Audit Committee, the Personnel Committee and the Risk Committee;
  - appointment of the Audit Committee and determination of its regulations, in accordance with the amended Act on certified auditors;
  - approval of the rules for the acceptance and processing of whistleblowing applications;

- giving consents in matters subject to the provisions of the Article 79a of the Banking Law Act and issuing opinions on matters subject to the recommendations of the Supervisory Board for the Management Board regarding the Bank's credit policy;
- expressing consent to the acquisition and sale by the Bank of company shares and concluding significant transactions by the Bank.
- granting consents to the Management Board's actions, requiring such consent in accordance with the Bank's Articles of Association, Supervisory Board Regulations or in accordance with Supervisory Board resolutions, including consents for the Company to incur liabilities related to the development of the Group and issuing consents to acquire and subscribe for shares in other entities;
- analysis of reports on internal control, compliance risk management, operational and credit risk.

The Supervisory Board was also informed about the results of the Bank's implementation of recommendations following inspections of the Polish Financial Supervision Authority.

## COMPOSITION OF THE SUPERVISORY BOARD AND ITS COMMITTEES

The composition of the Supervisory Board at the end of 2017 was as follows:

1. Leszek Czarnecki – President of the Supervisory Board,
2. Krzysztof Bielecki – Vice President of the Supervisory Board,
3. Remigiusz Baliński – Member of the Supervisory Board,
4. Mariusz Grendowicz – Member of the Supervisory Board,
5. Jacek Lisik - Member of the Supervisory Board,
6. Barbara Bakalarska - Member of the Supervisory Board.

In 2017 Mr. Leszek Czarnecki, Mr. Krzysztof Bielecki, Mr. Remigiusz Baliński, Mr. Mariusz Grendowicz and Mr. Jacek Lisik were appointed to perform the indicated functions for a joint term, which began on the day the resolutions were adopted by the General Shareholders Meeting of the Bank, i.e. from 9 May 2017.

At the meeting of 12 June 2017 the Supervisory Board, acting pursuant to §13 point 1 of the Bank's Articles of Association and §3 point 6 of the Rules of the Supervisory Board, adopted resolutions on appointing Mr. Leszek Czarnecki as the President of the Supervisory Board, and the election of Mr. Krzysztof Bielecki as the Vice President of the Supervisory Board.

On 10 October 2017 the Extraordinary General Meeting of the Bank adopted a resolution on appointment of Ms Barbara Bakalarska as a Member of the Supervisory Board, that fulfills the independence conditions in accordance with the Article 129 par. 3-4 of the Act of 11 May 2017 on statutory auditors, auditing companies and public supervision.

At the same time, in accordance with the Best Practice, at least two Supervisory Board members meet the independence criteria.

The Supervisory Board confirms that its composition provides a guarantee of high qualifications, professional experience and knowledge of the Polish financial market, as well as the versatility and diversity of the Supervisory Board, among others in terms of the education and professional experience. Professional CVs of the Supervisory Board members are available on the Bank's website.

In 2017 the following committees operate within the Supervisory Board:

- **Audit Committee**, whose tasks until 18 October 2017 were performed by the entire Supervisory Board of the Bank. On 19 October 2017 the Bank's Supervisory Board appointed the Audit Committee. The Audit Committee is a part of the Supervisory Board of the Company and acts as a consultancy and advisory function for it. The Audit Committee consists of at least 3 members appointed for a joint term, which coincides with the term of office of the members of the Supervisory Board. A member of the Committee with appropriate competences, knowledge and experience of a candidate for a member of the Audit Committee. The members of the current Committee include Ms. Barbara Bakalarska, Mr. Mariusz Grendowicz and Mr. Krzysztof Bielecki.
- **Personnel Committee** consisting of two members of the Supervisory Board appointed by the Supervisory Board from among its members. During the entire reporting period, Mr. Remigiusz Baliński and Mr. Jacek Lisik sat on the Committee.
- **Risk Committee** composed of three members of the Supervisory Board appointed by the Supervisory Board from among its members. Throughout the reporting period Mr. Remigiusz Baliński, Mr. Krzysztof Bielecki and Mr. Mariusz Grendowicz sat on the Committee.

## SUMMARY OF ACTIVITIES IN 2017 OF THE SUPERVISORY BOARD AND ITS COMMITTEES

In 2017 the Supervisory Board monitored the implementation of the Strategy and the Plan for a sustainable improvement in profitability of Getin Noble Bank S.A. for the years 2017-2021 Update of the Recovery Program for 2016-2019 ("Plan", "Updated PPN") and objectives adopted in the financial plan for 2017, control of the Bank's image improvement, as well as the Bank's support in the scope of actions affecting the strengthening of the Bank's capital position. The Board focused on the analysis of the development and effectiveness of the Bank's operations, ensuring adequate security at levels determined by supervisory requirements. Therefore, the Board supported actions aimed at strengthening the Bank's position on the market.

In 2016 the Supervisory Board focused on current issues related to the Bank's operations, as well as activities related to the introduction and monitoring of the Updated PPN. The Supervisory Board also reviewed, analyzed and approved materials provided to it on an ongoing basis by the Management Board and assessed its performance and the work of the Management Board on an ongoing basis. The cooperation of the Supervisory Board with the Bank's Management Board was correct and was conducted as part of the relationships of supervisory activities both during regular meetings and in the period between them as face-to-face meetings.

Until 18 October 2017 **the Supervisory Board** performed the tasks of the Audit Committee. Its tasks included performing supervisory duties as part of financial reporting processes, risk management, internal control system and audit process. The Supervisory Board appointed a coordinator for performing the tasks of the Audit Committee and a permanent advisor to the Supervisory Board, who was obliged to support the Supervisory Board in matters related to the performance of tasks of the Audit Committee by the Supervisory Board, including: monitoring the financial reporting process, monitoring the effectiveness of internal control and risk management systems, monitoring the internal audit work, monitoring the performance of auditing activities in the company and monitoring the independence of the auditor and the entity authorized to audit financial statements.

On 19 October 2017 the Bank's Supervisory Board appointed the Audit Committee, which is a part of the Supervisory Board and performs a consultancy and advisory function. The Supervisory Board, when appointing members of the Audit Committee, took into account the competences, knowledge and experience of the candidate as a member of the Audit Committee and at least one of the Audit Committee members had knowledge and skills in accounting or auditing. Most members of the Audit Committee, including its Chairman, are independent of the Bank. The purpose of the Audit Committee is to advise the Supervisory Board on matters related to standalone and consolidated financial reporting, internal control and risk management, as well as cooperation with statutory auditors. The main tasks of the Audit Committee include in particular: monitoring the financial reporting process, monitoring the effectiveness of internal control systems, risk management systems and internal audit, including financial reporting, controlling and monitoring the independence of the statutory auditor and the audit firm, developing a policy for selecting an audit firm for conducting an audit.

**Personnel Committee** in its activities is guided by prudent and stable risk, capital and liquidity management, as well as by special care for the Bank's long-term interests, the interest of the Bank's shareholders, investors and shareholders. Its tasks include issuing opinions on the functioning of the variable remuneration policy for persons holding managerial positions at the Bank, including, in particular, amounts and components of remuneration. The Committee's tasks also include monitoring and issuing opinions on the variable remuneration components of persons holding managerial positions at the Bank related to risk management and compliance of the Bank's operations with the law and internal regulations, as well as assessing persons appointed to act as Management Board members, including principles of succession and evaluation of candidates' qualifications, as well as current evaluation of persons performing the functions of Management Board members. The Committee issued opinions on changes in employment contracts with the Management Board members, establishing the process of setting individual quantitative and qualitative targets for the Management Board members, rules for assessing the achievement of these objectives, including the measures used and the scale of evaluations and the remuneration principles. The Committee issued opinions on updating the list of persons covered by the policy of variable remuneration components occupying managerial positions at the Bank, as well as assessing candidates for the position of Management Board members and on-going assessment of the Bank's Management Board members for 2017, as well as the Bank's Management Board.

**Risk Committee** performs primarily a consulting and advisory function for the Supervisory Board. Its work mainly consists of issuing opinions on the Bank's current and future readiness to take risks and risk management strategies in the Bank's operations. In addition, the Risk Committee verifies the manner of reflecting the Bank's business model and its risk strategy in the prices of liabilities and assets offered to clients. Information on risk management was subject to periodic analyzes at Committee meetings. In particular, the key elements of risk were analyzed: credit risk and risk

parameters, "risk appetite" for the main business segments, market and interest rate risks, operational risk and liquidity and capital management.

Taking into account the supervisory activities carried out and the fact that the Audit Committee controlled the quality of the internal control system on a reasonable basis, the Supervisory Board ensures that the Bank's internal control system complies with regulatory requirements and is adequate to the size of the Bank and exposure to risks associated with operations carried out by the Bank.

In line with the Best Practice and Principles, the Supervisory Board assessed its operations in 2017. As a result of this assessment, the Supervisory Board stated that its members performed fair, reliable and due diligence in both the work of the Supervisory Board and its Committees. In the Board's opinion, in the reporting period covering 2017, its work was characterized by high efficiency, transparency and was in line with the best market standards of listed companies and contributed to the Bank's value growth and increased shareholder confidence. In the opinion of the Supervisory Board, its composition in 2017 was in accordance with the law and the requirements set for public companies. The members of the Supervisory Board were persons with various competences and experience, related to and not related to other entities within the capital group to which the Bank belongs. In view of the above, **the Supervisory Board requests that all members of the Bank's bodies be discharged of performing their duties in 2017.**

#### **REPORT ON ASSESSMENT OF THE DIRECTORS' REPORT ON ACTIVITIES OF THE BANK AND ITS CAPITAL GROUP AND THE FINANCIAL STATEMENTS OF THE BANK AND ITS CAPITAL GROUP FOR THE YEAR 2017**

The Bank's financial statements were audited in accordance with the applicable regulations by an independent certified auditor - Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, which issued unqualified opinions. In accordance with the Article 382 § 3 of the Code of commercial companies, the Supervisory Board assessed the Company's financial statements for 2017 and the consolidated financial statements of the Capital Group for 2017 in respect of compliance with the accounting books and documents and the actual state of affairs, as well as the proposal of the Company's Management Board to cover the loss for 2017 and losses from prior years.

I. Financial statements of Getin Noble Bank S.A. for 2017 include:

- 1) income statement for the period from 1 January 2017 to 31 December 2017 showing a net loss of PLN 566,732 thousand,
- 2) statement of comprehensive income for the period from 1 January 2017 to 31 December 2017 showing total comprehensive losses of PLN 477,149 thousand,
- 3) statement of financial position as at 31 December 2017, showing total assets and total liabilities and equity of PLN 60,259,446 thousand,
- 4) statement of changes in equity for the period from 1 January 2017 to 31 December 2017 showing a decrease in the equity by PLN 427,149 thousand,
- 5) statement of cash flows for the period from 1 January 2017 to 31 December 2017 showing a net increase in cash and cash equivalents by PLN 201,644 thousand,
- 6) accounting principles (policy) and additional explanatory notes.

II. Financial statements of the Getin Noble Bank S.A. Capital Group for 2017 include:

- 1) income statement for the period from 1 January 2017 to 31 December 2017 showing a net loss of PLN 573,325 thousand,
- 2) statement of comprehensive income for the period from 1 January 2017 to 31 December 2017 showing total comprehensive losses of PLN 483,172 thousand,
- 3) statement of financial position as at 31 December 2017, showing total assets and total liabilities and equity of PLN 59,835,536 thousand,
- 4) statement of changes in equity for the period from 1 January 2017 to 31 December 2017 showing a decrease in the equity by PLN 441,595 thousand,
- 5) statement of cash flows for the period from 1 January 2017 to 31 December 2017 showing a net increase in cash and cash equivalents by PLN 341,174 thousand,
- 6) accounting principles (policy) and additional explanatory notes.

The Supervisory Board got acquainted with the opinion of the certified auditor dated 24 April 2018 regarding the standalone financial statements of the Bank for 2017 and the consolidated financial statements of the Group for 2017, which stated that the financial statements were prepared, in all material respects, in a correct manner and that they give a true and fair view of the financial position of the Bank and the Group as at 31 December 2017 and its financial

performance and cash flows for the year from 1 January to 31 December 2017, and that they comply with relevant applicable regulations concerning standalone and consolidated financial statements, and the Supervisory Board stated that the above financial statements were prepared correctly in terms of content and form, in accordance with the accounting books and the Board's best knowledge about the actual state of affairs.

## **ASSESSMENT OF THE COMPANY'S SITUATION IN 2017**

In accordance with the Article 382 § 3 of the Codes of commercial companies, the Supervisory Board assessed the Directors' report on activities of the Getin Noble Bank S.A. Capital Group and the Bank in the year 2016 together with "The statement on non-financial information of the Getin Noble Bank S.A. Capital Group and Getin Noble Bank S.A. for the year 2017". The Board stated that the above report was correctly prepared and in accordance with the law. The Directors' report contains the necessary synthetic information on activities of the Company and the Getin Noble Bank Group in the reporting period. The financial data presented in the report are consistent with the data contained in the Financial Statements.

The Supervisory Board assesses the abovementioned report positively, at the same time stating that the actions taken by the Bank's Management Board in 2017 fall within the adopted strategy of the Bank and the Plan for a sustainable improvement in profitability of Getin Noble Bank S.A. for 2017-2021. Update of the Recovery Program for 2016-2019 (a recovery program within the meaning of Article 142 of the Banking Law), taking into account general trends on the financial market as well as specific conditions in the banking sector. During this period, the Management Board undertook all activities aimed at implementing the Plan. Therefore, they are fully supported by Members of the Supervisory Board.

## **ASSESSMENT OF THE MANAGEMENT BOARD'S PROPOSAL TO COVER THE LOSS OF GETIN NOBLE BANK S.A. FOR THE YEAR 2017 AND LOSSES FROM PRIOR YEARS.**

The Supervisory Board gives a positive opinion on the Bank Management Board's proposal for allocation of PLN 688,078,905.53 (in words: six hundred eighty eight million seventy eight thousand nine hundred and five zloty and fifty three groszes) from the reserve capital of Getin Noble Bank S.A. to cover:

- a) a loss for 2017 of PLN 566,732,466.34 (in words: five hundred sixty six million seven hundred thirty two thousand four hundred sixty six zlotys and thirty four groszes),
- b) losses from prior years of PLN 121,346,439.19 (in words: one hundred twenty one million three hundred and forty six thousand four hundred and thirty nine zlotys and nineteen groszes).

## **RECOMMENDATIONS**

The Supervisory Board, having regard to the information presented in this report, positively assesses the Company's activity in 2017 and the financial statements submitted for the assessment of the Board, and recommends to the Company's shareholders the approval of the following:

1. "Report on the activity of the Getin Noble Bank S.A. Supervisory Board in 2017 with the assessment of the Company's situation" including an assessment of the Directors' report on activities of the Company's and financial statements for the year 2017,
2. The financial statements of Getin Noble Bank S.A. for the year 2017,
3. The financial statements of the Getin Noble Bank S.A. Capital Group for the year 2017,
4. Proposal of the Management Board of Getin Noble Bank S.A. to cover the loss of Getin Noble Bank S.A. for the year 2017 and losses from prior years.

and giving Mr. Krzysztof Rosiński, Mr. Artur Klimczak, Mr. Jerzy Pruski, Mr. Krzysztof Basiaga, Mr. Maciej Szczechura, Mr. Karol Karolkiewicz, Mr. Radosław Stefurak, Mr. Marcin Dec, Mr. Maciej Kleczkiewicz, Mr. Marcin Kuksinowicz, Mr. Marcin Romanowski discharge in respect of their duties in 2017.

The Supervisory Board, taking into consideration the information presented in this report, asks the General Meeting to adopt this report on the activity of the Board with the assessment of the Company, enclosed as an appendix to this report.

*Warsaw, 14 May 2018*

REPORT ON THE ACTIVITY OF THE GETIN NOBLE BANK S.A. SUPERVISORY BOARD IN 2017  
WITH THE ASSESSMENT OF THE COMPANY'S SITUATION

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*President of the  
Supervisory Board*

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*Leszek Czarnecki*

*Vice President of the  
Supervisory Board*

.....  
*Krzysztof Bielecki*

*Member of the  
Supervisory Board*

.....  
*Remigiusz Baliński*

*Member of the  
Supervisory Board*

.....  
*Mariusz Grendowicz*

*Member of the  
Supervisory Board*

.....  
*Jacek Lisik*

*Member of the  
Supervisory Board*

.....  
*Barbara Bakalarska*

*Appendix to the Report of the Getin Noble Bank S.A. Supervisory Board  
for 2017 with the assessment of the company's situation*

The Supervisory Board of Getin Noble Bank S.A. ("Company"; "Bank"), implementing the provisions of "Best practice for GPW listed companies" (hereinafter also "Best Practice") and "Corporate governance principles for supervised institutions" (hereinafter also "Principles") adopted by the Polish Financial Supervision Authority ("KNF") submits:

- Evaluation of the Getin Noble Bank S.A. standing in 2017, including evaluation of the internal control system, risk management system, compliance system and the internal audit function, pursuant to rule II.Z.10.1. of the Best Practice,
- Assessment of the application of the "Corporate governance principles for supervised institutions", adopted by the KNF in accordance with § 27 of the Principles and assessment of the satisfaction of disclosure requirements related to the application of the "Best practice for GPW listed companies 2016", pursuant to rule II.Z.10.3. of the Best Practice,
- Assessment of the reasonability of the Company's policy related to sponsorship activities, charitable activities or other activities of a similar nature, pursuant to rule II.Z.10.4 of the Best Practice,
- Evaluation of the remuneration policy in the Bank pursuant to § 28 items 3 and 4 of the Principles.

**EVALUATION OF GETIN NOBLE BANK IN 2017 INCLUDING EVALUATION OF THE INTERNAL CONTROL SYSTEM, RISK MANAGEMENT SYSTEM, COMPLIANCE SYSTEM AND THE INTERNAL AUDIT FUNCTION, PURSUANT TO RULE II.Z.10.1. OF THE BEST PRACTICE.**

**I. Evaluation of the Company and its financial statements for 2017**

Getin Noble Bank is a universal bank, which has a wide product offer addressed to retail clients, small and medium enterprises, local government units (JST), healthcare entities, developers and large corporations, adjusted to the preferences and needs of clients on an ongoing basis. The broad and diverse product range of the Bank includes products related to financing, saving and investing, and provides a wide range of additional services available using various channels of contact with the client, including in traditional bank branches, as well as through online banking. As part of the credit offer, the Bank focuses mainly on the sale of cash, car and company loans, as well as on the financing of local government units and related entities, housing communities and cooperatives. The Bank's own offer is supplemented with the products of other companies belonging to the Capital Group: Noble Securities S.A., Noble Concierge sp. o.o.

In 2017 the Bank implemented the Strategy for 2016-2018 and Plan for a sustainable improvement in profitability of Getin Noble Bank S.A. for the years 2017-2021 Update of the Recovery Program for the years 2016-2019 ("Plan", "Updated PPN"), being a recovery program within the meaning of art. 142 of the Banking Law. It consistently implemented the assumptions of the new Strategy, including the reconstruction of retail banking, maintaining the leading position in the automotive segment, as well as digitization of services, which in turn is to contribute to the sustainable growth of the Bank's business efficiency and thereby improve its profitability.

The main activities, initiated in 2016 and continued in 2017, include:

- reduction of cost of deposits in relation to the market – the Bank gradually reduces the cost of obtaining deposit funds,
- transformation of the service network – implementation of the adopted product strategies, optimization of the sales network, sales optimization based on the existing customers of the Bank, increase in service quality, optimization of internal and external communication, development of mobile banking.
- continuation of cooperation with the Idea Getin Leasing S.A. Group, which includes purchase of debts as well as intermediation in the sale of car loans,
- business development in the local government units (JST) sector.

In 2017 the Bank's standalone net result amounted to PLN -566.7 million. The level of the financial result obtained by the Bank in 2017 was affected by:

Events adversely affecting the Bank's result:

- net write-offs for impairment of credit assets and other financial assets – charging the Bank's financial result before tax in this respect in the amount of PLN 1.092 million,
- recognition of impairment allowances for investments in subsidiaries and associates for the total amount of PLN 260 million,

- increase in the charges for the benefit of the Bank Guarantee Fund due to the contribution to the forced restructuring fund – charging the Bank's financial result in this respect in the amount of PLN 49 million.

Events positively affecting the Bank's result:

- result on a settlement of the loss of control over one of the subsidiaries – as a result of the merger of Open Finance Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw with Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw and corporate changes made in the merged TFI, the Bank lost control over Noble Funds TFI S.A. and recognised in the standalone income statement of the Bank a profit in the amount of PLN 121 million net of tax.
- reduction of the cost of financing customer deposits – in 2017 interest expenses on amounts due to customers decreased by nearly PLN 0.3 billion, i.e. by 19.6%.

In 2017 the Getin Noble Bank S.A. Capital Group noticed a net loss in the amount of PLN -573.3 million. The level of the financial result obtained by the Group in 2017 was affected by:

Events adversely affecting the Group's result:

- net write-offs for impairment of:
  - credit assets and other financial assets – charging the Group's financial result before tax in this respect in the amount of PLN 1.092 million,
  - available-for-sale financial instruments in the amount of PLN 31 million,
  - and assets held for sale in total amount of PLN 138 million,
- increase in the charges for the benefit of the Bank Guarantee Fund due to the contribution to the forced restructuring fund – charging the Group's financial result in this respect in the amount of PLN 49 million.

Events positively affecting the Group's result:

- result on a settlement of the loss of control over one of the subsidiaries – as a result of the merger of Open Finance Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw with Noble Funds Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw and corporate changes made in the merged TFI, the Bank lost control over Noble Funds TFI S.A. and recognised in the consolidated income statement of the Group a profit in the amount of PLN 153 million net of tax.
- reduction of the cost of financing customer deposits – in 2017 interest expenses on amounts due to customers decreased by nearly PLN 0.3 billion.

In 2017 the Bank was awarded many times for both attractive offers and high quality of service. In April 2017 Getin Bank took the third place in the prestigious "Złoty Bankier" ranking in the main category "The highest quality of service in all channels of contact with the customer". The Bank also took second place in the "Credit card" category. In September 2017 Getin Bank was once again honored in the Newsweek's Friendly Bank ranking. He won in the category of "Banks on the Internet" and took second and third place respectively in the categories "Mobile banking" and "Bank for Kowalski". In 2017 Getin Bank took the second place in the first and second edition of the Institution of the Year 2017 ranking organized by the MojeBankowanie.pl portal. The ranking distinguishes pro-client companies that provide customer-friendly solutions. For the fifth time in a row, the Bank was recognized by the Polish Association of Real Estate Developers (PZFD) as the best bank financing housing investments. In November 2017 the Bank took the third place in the Laur CESSIO project in the Cessio Outsourcing category. In the fourth quarter of 2017 Getin Bank was also awarded the title "Bank appreciated by customers", awarded on the basis of the results of the Satisfaction Survey of Individual Customers of Banks 2017, carried out by ARC Rynek i Opinia. In 2017 Getin Bank was repeatedly awarded in prestigious rankings prepared by independent financial comparison websites and industry portals, including TotalMoney.pl, Comperia.pl and Bankier.pl. Throughout 2017 the car loan offer of Getin Bank remained at the first place in the regular ranking of car loans, TotalMoney.pl.

The Supervisory Board assessed the Bank's financial statements for 2017 in accordance with applicable law, prepared by a certified auditor. After hearing the auditor's opinion dated 24 April 2018 on the Company's standalone financial statements for 2017 and the consolidated financial statements of the Group for 2017, there were no comments or objections of the Board to the financial statements. The Supervisory Board approved the proposal of the Management Board to cover the loss for 2017 and previous years in the amount of PLN 688,078,905.53 (in words: six hundred and eighty eight million seventy eight thousand nine hundred and five zlotys and fifty three groszes) by the Bank's reserve capital.

## **II. Evaluation of the internal control system and compliance**

In order to ensure the effectiveness and efficiency of the Bank's operations, reliability of financial reporting, compliance with the Bank's risk management principles and compliance of the Bank's operations with the law, prudential regulations, internal regulations and market standards, the Bank has an internal control system that is adapted to the Bank's organizational structure and includes organizational units of the Bank's head office, Bank's branches and subsidiaries.



The internal control system consists of the following elements: risk control mechanisms, examination of compliance of the Bank's operations with the provisions of law and internal regulations, internal audit.

An important task of the internal control system is to secure assets, review of credit exposures, prevent errors and detect errors in data processing, ensure credibility of financial records, improve operational efficiency and stimulate compliance with the Bank's established strategy and policy. The functioning of the internal control system is based on the reporting systems and control mechanisms embedded in the functionality. Control mechanisms include the manner of performing tasks at the Bank, in particular: competences, principles, limits and procedures related to the activities carried out by the Bank, as well as control activities performed by employees and their supervisors regarding their operations. The mechanisms are of control nature and are embedded in both the internal regulations and the Bank's IT system. In addition, the Bank's Management Board takes measures to ensure the continuity of monitoring the effectiveness of internal control mechanisms and identifies areas of activities, operations, transactions and other tasks designed for continuous monitoring.

Taking the above into account and in particular:

- 1) the opinion of the Audit Committee, which is responsible for monitoring the effectiveness of the internal control system,
- 2) information on the scale and nature of significant and critical irregularities and the most important actions aimed at removing these irregularities, ensuring independence for the compliance and internal audit unit, ensuring adequate human resources necessary for effective performance of tasks and necessary financial resources for systematic improvement of qualifications, gaining experience and skills by the employees of the compliance and internal auditors,
- 3) periodical reports of the compliance unit and the internal audit unit,
- 4) significant (from the point of view of adequacy and effectiveness of the internal control system) information obtained from subsidiaries,
- 5) conclusions made by the statutory auditor,
- 6) conclusions resulting from supervisory activities, in particular performed by the Office of the Polish Financial Supervision Authority and the Office of Competition and Consumer Protection.

The Supervisory Board positively assesses the internal control system and approves the principles of functioning of the Bank's internal control system – in particular taking into account changes resulting from the implementation of H Recommendation issued by the KNF regarding the internal control system in the Bank.

### **III. Assessment of the compliance system**

The Bank uses the experience gained on the financial market, conducts ongoing analyzes of the changing legal and regulatory environment and takes into account market practices as a benchmark for making decisions about the level of its readiness and ability to bear the risk of non-compliance. The compliance risk management process includes risk identification, risk profile assessment, its monitoring and mitigation, and risk reporting.

In the process of compliance risk identification the Bank performs current analyses of law provisions in force, cautionary regulations, internal rules and regulations, as well as the Bank's conduct standards, and gathers information on the cases of non-conformity and their reasons. Performing the risk assessment, the Bank specifies the character and the potential range of financial losses, or potential legal sanctions. Compliance risk monitoring is aimed at identifying critical areas of the Bank's operations from the point of view of the negative effects of non-compliance risk, allowing for taking preventive remedial actions. The process of mitigating the compliance risk includes the following aspects: preventive i.e. limiting the risk by introducing solutions and elements to ensure compliance, and mitigation, i.e. risk management after identifying a case of non-compliance to mitigate the negative effects of the risk. In the process of compliance risk management the Bank takes into account risks resulting from activities performed by entities of the Capital Group.

The report on compliance risk management at the Bank and the Capital Group is periodically submitted for approval to the Supervisory Board to assess the effectiveness of compliance risk management. For 2017, the Supervisory Board, after receiving the recommendation of the Audit Committee, issued a positive assessment for the effectiveness of compliance risk management in 2017 and a positive assessment of the adequacy and effectiveness of the compliance unit (Compliance Department).

### **IV. Assessment of the risk management system significant for the Company**

Significant risk management in the Bank is governed by internal procedures, as well as by regulations for markets in which the Bank operates and the requirements of relevant supervisory institutions, especially the PFSA. The goal of risk management is stabilization of the Bank's and Group's financial result in the long-term and, in the short-term, maintaining

the assumed value of asset quality parameters and the desired balance sheet structure and off-balance sheet items, as well as the quality of operational processes to achieve the assumed income to risk ratio. At the operational level, risk management committees have been established that are responsible for recommendations and decisions as well as monitoring of individual types of risk. These are: the Credit Committee, the Assets and Liabilities Committee and the Operational Risk, Quality and Processes Committee.

**Credit risk management** aims to build and maintain credit portfolios with expected by the Bank level of risk expressed by risk costs averaged for individual portfolios, understood as the relation of loan impairment losses recognised in a given analytical period to the average balance of credit exposures. To reach this goal, the Bank manages credit risk at all stages of the life of loan portfolios/ transactions, i.e.: customer acquisition and lending process, monitoring the credit exposures and the financial situation of clients, monitoring the risk parameters of individual loan portfolios, restructuring and recovery of credit exposures. Risk management tools are credit policies, including industry-specific ones, acceptance rules, scoring and rating models for transaction selection and creditworthiness assessment, scoring models for the use of recovery paths, credit process organization, including rules and decision-making competences included in operational procedures, etc. As mentioned earlier, in 2017 significant changes were made in the credit and acceptance policy, and from the fourth quarter of 2017 began the restructuring of the credit risk management function, which will be continued and completed in 2018. The previous organizational structure was characterized by the dominance of the product approach, and the organizational division followed the division of functions within the credit process. The organizational changes implemented are based, on the one hand, on reflecting the transition of sales model of the Bank from a product model towards a relational model, based on a customer approach, and on the other hand, a permanent modification of the quality of credit risk management, which should provide primarily: improved ability to day-to-day management of credit portfolios by enabling a faster response to changes in the quality of loan portfolios and events in the Bank's environment, including the economic situation, enabling early identification of endangered exposures, increased efficiency of recovery of receivables as part of restructuring and debt collection activities.

**Operational risk** is the risk of loss resulting from inadequate or failed internal procedures, human and system errors or from external events, including legal risk. The operational risk category does not include strategic risk and reputation risk. The strategic goal of operational risk management is to optimize internal business and non-business processes, allowing limiting costs and losses as well as increasing operational security and limiting reputational risk. Operational risk management is targeted to prevent threats, effective decision making, set priorities and resources allocation, ensuring better understanding of potential risk and possible undesirable consequences. The main operational goal of operational risk management is to complete identification of operational risk and possibly most precise measurement of its size and assessment of its profile. For this purpose, solutions within measurement and operational risk management model are improved, enabling in the future the application of advanced measurement methods, sensitive to operational risk, considering factor and parameters of operational risk specific for the Bank, i.e. strictly related to its operating profile. In operating risk management, the Bank's governing bodies – the Supervisory Board and the Bank's Management Board - play the leading role. The activities of the Bank's Management Board, at the operational level, are carried out by the Operational Risk Committee – its task is to monitor operational risk, provide opinions on regulations related to operational risk management and recommend risk measures and standards. Operational risk management is a process that includes activities in the area of risk identification, measurement, mitigation, monitoring and reporting. It covers all processes and systems, with particular emphasis on those related to the performance of banking activities that provide clients with financial services. The Bank manages operational risk in accordance with the "Strategy for operational risk management" established by the Bank's Management Board and approved by the Supervisory Board of the Bank.

**Liquidity risk** is defined as the potential inability of the Bank to fail to meet its current and future financial obligations in accordance with contractual deadlines. Liquidity management is an obvious, key element of the Bank's risk management. The objective of liquidity risk management is to ensure the possibility of meeting obligations in the day horizon, the ability to maintain liquidity in the short, medium and long term both under normal conditions and in the event of crisis events. In order to effectively manage liquidity, the Bank appropriately shapes the structure of assets and liabilities through deposit and credit policies, product price structure, etc. In this activity, the Bank is guided, on the one hand, by current short-term liquidity needs, as well as a long-term strategy to build a Bank's liquidity profile based on growing stable sources of financing. This was reflected in the Bank's reconstruction strategy, the important element of which is the implementation of the relational model, which will, inter alia, ensure the growth of stable sources of financing in the form of deposits on current accounts and saving accounts of retail clients and the segment of small and medium enterprises, reducing the importance of term deposits in the Bank's financing. The strategy of liquidity risk management is defined in the "Strategy of the Bank", and the Bank's approach to risk management is defined in the "Policy of liquidity risk management". These documents define the level of risk appetite understood as the expected level of risk exposure and the scope of tolerance, i.e. the maximum, impassable risk levels. The Bank's liquidity risk management process, both at the strategic and operational level, is adapted to the requirements of Recommendation P.

Basic measures, key liquidity measures and the level of utilization of liquidity limits (including compliance with the supervisory liquidity standards and LCR ratio) are subject to daily monitoring and reporting to the Bank's Management Board. In 2017 the Bank complied with the requirement to maintain a LCR ratio at an adequate level.

**Currency risk** is regarded as negative impact of foreign exchange rates change on financial results. The main objective of currency risk management is to manage the Bank's currency position structure in order to minimize the sensitivity to exchange rate volatility. A tool for this purpose is a system for monitoring internal limits and those resulting from prudential norms set forth by supervisory provisions. The Bank's currency position results from transactions concluded with the Bank's clients. The Bank does not conduct trading positions related to currency risk. The Treasury Department monitors the level of the open currency position on an on-going basis and regulates its volume through currency transactions concluded on the interbank market. These are predominantly spot transactions. Apart from them, the Bank makes derivative transactions with limited internal limits. A separate issue is the management of currency risk resulting from the existing portfolio of mortgage loans indexed to CHF and EUR. In this respect, the volatility of cash flows of these portfolios is hedged through the portfolio of CIRS transactions. The analysis of the Bank's exposure to currency risk takes place on the basis of market-based methods based on estimation of the impact of volatility on the financial result and on the use of the Bank's own funds. The Bank's exposure to currency risk and the calculation of the capital requirement necessary to cover foreign exchange risk is implemented on a daily basis and is part of the daily set of management information provided to the Bank's management, including the Management Board.

In 2017 the average share of total currency position (sum of long positions or net short positions in individual currencies – depending on which of these sums is higher) in the regulatory own funds of the Bank amounted to 0.07%, while the maximum share in 2017 amounted to 0.90% of the funds. During the reporting period, the currency risk was on the level which did not require maintaining capital for its coverage.

The Bank's **interest risk** results from the negative effects of changes in market interest rates that are negative for the financial results. Its size is determined by the size of open balance sheet and off-balance items sensitive to changes in market interest rates. The Treasury Department monitors the term structure of assets and liabilities on an ongoing basis by making adjustments in accordance with the established policy of interest rate risk management, maintaining within internally determined prudential norms. The basic tools in this regard are transactions in securities and derivatives. The Bank complies with the EBA Guidelines on interest rate risk management resulting from activities included in the non-trading portfolio published on 5 October 2015. The process of managing and measuring the interest rate risk, its control and monitoring is supported by a number of IT tools whose key element is the Market Risk Analysis and Liquidity System (SARRP). The Bank tests changes in the structure of assets and liabilities by taking into account the risk of the client options and potential changes in the Bank's income and changes in the economic value of the portfolio assuming a "shocking" changes of interest rates, for the revised structure of the portfolio.

The primary objective of **capital management** strategy in the Getin Noble Bank S.A. Group is to have an adequate level of capital hedging the taken risk, which would allow safe functioning of the Bank and other Group companies and increase the value for their shareholders. The capital is managed at the level of individual entities of the Group and management control is exercised by the functions of the supervisory boards of these entities. Total capital ratio is a measure of the capital adequacy, which expresses the ratio of own funds (after mandatory reductions) to the sum of assets and off-balance sheet items weighted by risk. The capital ratio assigns the percentage weights to assets and off-balance sheet items according to the degree of credit risk, market risk, currency risk or interest rate risk. The Bank adjusts the level of own capital to profile, scale and complexity of risk present in its operations. Within the level of maintained capital and capital adequacy calculation, the Bank complies with the applicable legal regulations and set strategic goals. Within preferred capital structure, the Bank assumes maintaining the structure with prevailing share of the core capital (Tier 1), which is essential to meet the requirements specified in the *Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR)*.

The Supervisory Board positively assesses the risk management system at the Bank, stating that it covers all material risks to which the Bank is exposed.

**ASSESSMENT OF THE APPLICATION OF THE "CORPORATE GOVERNANCE PRINCIPLES FOR SUPERVISED INSTITUTIONS", ADOPTED BY THE KNF IN ACCORDANCE WITH § 27 OF THE PRINCIPLES AND ASSESSMENT OF THE SATISFACTION OF DISCLOSURE REQUIREMENTS RELATED TO THE APPLICATION OF THE "BEST PRACTICE FOR GPW LISTED COMPANIES 2016", PURSUANT TO RULE II.Z.10.3. OF THE BEST PRACTICE**

In December 2015 according to the provisions of the Principles, the Bank informed about the waiver from the rule described in §8 par. 4 of the *Principles of corporate governance for supervised institutions* adopted by the Polish Financial Supervision Authority with Resolution No. 218/2014 of 22 July 2014 – “A supervised institution, when justified by the number of shareholders, should strive for facilitating the participation of all shareholders in the meeting of the General Meeting of the supervised institution, among others, through ensuring the possibility of electronic active participation in the meetings of the General Meeting”.

In 2017 the Bank complied with the corporate governance rules as described in “Best Practice for GPW Listed Companies 2016” (“Best Practice 2016”) launched by Resolution No. 26/1413/2015 of the Warsaw Stock Exchange Supervisory Board dated 13 October 2015, with the exclusion of the recommendations described below.

*IV.R.2. If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:*

- 1) *real-life broadcast of the general meeting;*
- 2) *real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;*
- 3) *exercise of the right to vote during a general meeting either in person or through a plenipotentiary.*

*IV.R.3. Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.*

The document can be accessed at the official website of the Warsaw Stock Exchange under <http://www.gpw.pl/dobre-praktyki>.

Having regard to the above and having read the relevant information, the Supervisory Board positively assesses fulfillment of the disclosure requirements by the Bank in 2017 and stated that the Bank properly implemented the Principles, within the scope determined by the resolutions of the Bank's bodies.

#### **ASSESSMENT OF THE REASONABILITY OF THE COMPANY'S POLICY RELATED TO SPONSORSHIP ACTIVITIES, CHARITABLE ACTIVITIES OR OTHER ACTIVITIES OF A SIMILAR NATURE, PURSUANT TO RULE II.Z.10.4 OF THE BEST PRACTICE.**

Both the Bank and other Group companies engage in social activities. The Group's employees willingly participate in all pro-social actions as part of corporate social responsibility (CSR). The social involvement of employees of the Bank and the Group is described in more detail in the document "Statement on non-financial information of the Getin Noble Bank S.A. Capital Group and Getin Noble Bank S.A. for 2017".

The Supervisory Board positively assesses the charity and sponsoring activities carried out by the Bank.

#### **EVALUATION OF FUNCTIONING OF THE BANK'S REMUNERATION POLICY IN ACCORDANCE WITH "CORPORATE GOVERNANCE PRINCIPLES FOR SUPERVISED INSTITUTIONS"**

Remuneration of the Bank's employees is shaped in accordance with the scope of tasks performed in a given organizational unit, the level of responsibility of employees and based on the analysis of payroll information presented in the remuneration research on the financial market. The remuneration principles for Members of the Bank's Management Board and key managers are specified in the "Remuneration policy for persons holding managerial positions at Getin Noble Bank S.A." ("the Policy"), which meet the criteria of the Principles. The goal of the Policy is to strengthen the tendency of the management to care for the Bank's long-term interests, to protect the interests of clients and investors and to avoid excessive exposure to risk.

The Personnel Committee of the Supervisory Board as part of its tasks assessed the rules for granting variable remuneration components and reviewed the "Policy of the variable components of remuneration of persons holding managerial positions at Getin Noble Bank S.A.", which included its adjustment to the applicable law and recommendations of supervisory bodies and rules for forming the total remuneration amount. A review of people holding managerial positions ("Risk Takers") was also made. The Committee evaluates persons appointed to perform the function of a member of the Bank's Management Board, including the principles of succession and assessment of

candidates' qualifications as well as current evaluation of persons holding the functions of a member of the Bank's Management Board and the Bank's Management Board.

The Supervisory Board states that the current variable remuneration management practice complies with the objectives set in the Policy as well as the development and security of the Bank, in accordance with the "Principles of corporate governance for supervised institutions".