

## **REPORT OF THE SUPERVISORY BOARD OF GETIN NOBLE BANK S.A. FOR THE FINANCIAL YEAR 2016 TOGETHER WITH THE ASSESSMENT OF THE COMPANY'S SITUATION**

This report is the summary of the activities of the Supervisory Board of Getin Noble Bank S.A. in the financial year 2016 and its committees: Audit Committee, Personal Committee and Risk Committee together with the self-assessment of the Supervisory Board operations according to Rule No. II.Z.10.2. of the "Best Practices of GPW Listed Companies 2016" ("Best Practices") as well as the assessment of the Company's situation drawn up according to the "Rules of Corporate Governance for the Supervised Institutions" ("Rules") adopted by the Polish Financial Supervisory Authority ("KNF"), as attached to this report.

### **EXERCISE OF SUPERVISION**

The Supervisory Board of Getin Noble Bank S.A. ("Company", "Bank"), on the basis of its rights and duties stipulated in the Polish Code of Commercial Companies and Partnerships, Banking Law Act, the Articles of Association of the Bank and adopted Rules of the Supervisory Board adopted by the Supervisory Board exercised permanent supervision over the activities of the Bank in all fields. The Supervisory Board focused both on strategic matters of the Bank and on current business activities of the Bank.

In the financial year 2016 the Supervisory Board held 9 meetings and adopted 128 resolutions while exercising its supervisory and control duties, that included in particular as follows:

- a) strategic matters of the Bank, including:
  - introduction of the permanent improved profitability plan for Getin Noble Bank S.A.;
  - approval of the "Financial Plan of Getin Noble Bank S.A. for the year 2017";
  - approval of the Bank's Strategy for the years 2016-2018;
- b) matters connected with the approval of financial statements for the year 2015 and plans for the year 2016, including:
  - analyses of periodic financial statements and current assessment of the financial results of the Company and Capital Group of Getin Noble Bank S.A. within the implemented financial plan for the year 2016, as well as analyses of solvency ratio and capital requirements of the Bank,
  - assessment of the report of the Management Board activities and unit and consolidated financial statements for the financial year 2015, as well as assessment of the way of distribution of profit for the financial year 2015 according to the adopted Dividend Policy;
- c) matters connected with the changes in the composition of the Management Board of the Company;
- d) current matters, including periodic reports and current decisions and current control over Getin Noble Bank S.A., in particular:
  - permanent assessment of the current situation of the Company as well as factors affecting this situation, including operational risk factors;
  - analyses of periodic Management Board's reports regarding current and planned activities of the Company, including the assessment of the results of the implemented Bank's strategy and the permanent improved profitability plan as well as the implemented actions of the Management Board connected with the situation of the banking sector;
  - choice the audit company to examine the financial statements for the financial year 2016;
  - approval of procedures/amendments to procedures and rules, provided such course was reserved by the resolutions of the Polish Financial Supervision Authority and the Articles of Association of the Bank,
  - execution of tasks of the Audit Committee and the Remuneration Committee,
  - establishment of the Risk Committee and create its rules;
  - approval of rules of accepting and considering of whistleblowing applications;
  - giving consent to sell the Company's properties;
  - giving consent in matters which are subject to Article 79a of the Banking Law Act and give opinions in matters which are subject to Supervisory Board's recommendations to the Management Board regarding the Bank's credit policy
  - giving consent to purchase and sale of companies' shares by the Bank and to conclude essential transactions by the Bank;
  - giving consent to the Management Board's actions provided such consent was required by the Articles of Association of Getin Noble Bank S.A., the Rules of the Supervisory Board or by the resolutions of the Supervisory Board including consent to assume obligations by the Company, including obligations regarding the development of Getin Noble Bank S.A. Capital Group and acquisition and taking up stocks/shares in other entities;
  - analyses of reports regarding internal control, non-compliance risk management, operational and credit risk;

The Supervisory Board was also informed of the results of implementing recommendations of the Polish Financial Supervision Authority.

## **COMPOSITION OF THE SUPERVISORY BOARD AND ITS COMMITTEES**

The composition of the Supervisory Board at the end of 2016 was as follows:

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

In the financial year 2016 the composition of the Supervisory Board remained unchanged.

The following members of the Supervisory Board met the criteria of independency according to the Article 86(4) of the Act of 7 May 2009 on Statutory Auditors, Their Self-Governing Organisation, Entities Authorised to Audit Financial Statements and on Public Oversight: Mr. Jacek Lisik, Mr. Mariusz Grendowicz and Mr. Krzysztof Bielecki. According to Best Practices the Supervisory Board composed of at least two members that meet the criteria of independency.

The Supervisory Board confirms that its composition guarantees high qualifications, professional experience, knowledge of the Polish financial market, as well as versatility and diversity due to different education and age of the Supervisory Board members. The resumes of the Supervisory Board members are available at the Bank's website.

In the financial year 2016 the following committees operated within the Supervisory Board:

- **Audit Committee**, that tasks are exercised by all members of the Supervisory Board. The Supervisory Board may appoint the Audit Committee Tasks Coordinator and Permanent Advisor of the Supervisory Board that is obliged to support the Supervisory Board as regards matters connected with exercising Audit Committee tasks by the Supervisory Board;
- **Personal Committee** is composed of two members of the Supervisory Board elected by the Supervisory Board from among its members. In the financial year 2016 Mr. Remigiusz Baliński and Mr. Jacek Lisik sit on Personal Committee;
- **Risk Committee** is composed of three members of the Supervisory Board elected by the Supervisory Board from among its members. In the financial year 2016 Mr. Remigiusz Baliński, Mr. Krzysztof Bielecki and Mr. Mariusz Grendowicz sit on Risk Committee;

## **SUMMARY OF THE ACTIVITIES OF THE SUPERVISORY BOARD IN THE FINANCIAL YEAR 2016 AND ITS COMMITTEES**

In the financial year 2016 the Supervisory Board set itself a goal to monitor implementation of the Strategy, including tasks adopted in the financial plan for the year 2016 as well as to control the improvement of the Bank's image and to support the Bank's operations as regards strengthening the capital position of the Bank. The Supervisory Board focused on analyzing the development and effectiveness of the Bank's operations, ensuring the operation safety on the level indicated by the supervisory requirements and therefore strengthening the position of Getin Noble Bank S.A.

In the financial year 2016 the Supervisory Board focused on current problems connected with the Bank's activities and further development strategy as well as activities connected with implementation and monitoring of the permanent improved profitability plan at the Bank. The Supervisory Board gave opinions on, analyzed and approved materials submitted by the Management Board as regards the financial results of the Bank and its current situation. The Supervisory Board assessed the results and the work of the Management Board. The cooperation of the Supervisory Board and Management Board did not raise any reservations. The Boards cooperated within supervisory activities both during regular meetings and in the period between the meetings. While monitoring the financial results, the Supervisory Board fully supported the Management Board in its actions aiming at rebuilding the retail banking including among others keeping the leading position in automotive segment and further digitalization of the Bank's services. The Bank's new projects and initiatives shall improve the business effectiveness of the Bank and its profitability.

The Supervisory Board exercises the **Audit Committee** tasks, which aim is to exercise by the Supervisory Board its supervisory duties within the process of financial reporting, risk management, internal control system and audit process. The Audit Committee performed the following tasks: (i) monitor different risks management processes including areas exposed to risk on the basis of periodic reports as regards credit risk, market risk, operational risk and non-compliance risk; (ii) review periodic and annual financial statements of the Bank and the Bank's Capital Group including meetings with the external auditor of the Bank in order to discuss comments to the financial statements of the Bank; (iii) regularly monitor the implementation of KNF recommendations issued after KNF inspections; (iv) regularly monitor the clients complaints filed directly at the Bank or through KNF; (v) monitor essential court and explanatory proceedings conducted against the Bank; (vi) monitor data transmission safety including incident analyses; (vii) adopt Report on Internal Audit Department for the financial year 2015, including internal audit quality assessment and internal control system efficiency.

The activities of the **Personal Committee** are based on rules of cautious and stable risk management, capital management, liquidity management, particular care of long-term interests of the Bank, of its shareholders, investors and creditors. The Committee gave opinion on the policy of variable elements of remuneration of persons holding managerial positions at the Bank, amendments thereto resulting from recommendations of KNF, in particular as regards the amount and elements of remuneration. Due to introduction of the "Policy of eligibility assessment of persons holding managerial positions at Getin Noble Bank S.A.", the Committee was entrusted tasks to assess persons appointed members of the Management Board of the Bank, including succession rules, rules of qualification assessment of candidates and current assessment of present members of the Management Board. Due to broader scope of tasks within the "Policy of eligibility assessment of persons holding managerial positions at Getin Noble Bank S.A." the Remuneration Committee was transformed in 2016 into Personal Committee. The Committee gave opinion on amendments to the employment contracts with the Management Board Members, process of setting individual quality and quantity targets for the Management Board members, rules of verification of implementing targets, including applied measures and scales as well as rules of remuneration for achieving targets. The Committee also assessed the update of list of persons covered by the policy of variable elements of remuneration of persons holding managerial positions at the Bank connected with risk management and compliance of the Bank's activities with binding laws and internal regulations.

**Risk Committee** was established in 2016 and performs advisory function for the Supervisory Board of the Bank. Its task is to give opinion as regards present and future readiness of the Bank to take risk and strategy of risk management in the operations of the Bank. The Risk Committee verified the reflection of the Bank's business model and its strategy in the price of assets and liabilities offered to the clients. Information on the risk management was periodically analyzed at the Committee's meetings. That concerned especially key risk elements: credit risk and its parameters, risk appetite for main segments and the activities, market risk and interest rate risk, operational risk and liquidity and capital management.

Taking into account the supervisory activities and the fact that the Audit Committee of the Supervisory Board permanently monitored the quality of the internal control system, the Supervisory Board assures that the internal control system meets the regulatory requirements and is adequate to the Bank's size and its exposure to risks connected with the Bank's activities.

According to the recommendations of the Best Practices and the Rules, the Supervisory Board assessed its activities in the financial year 2016. In the opinion of the Supervisory Board, the Supervisory Board effectively and reliably performed its tasks within the work of Supervisory Board and its Committees. In the opinion of the Supervisory Board, in the financial year 2016 its work was effective, transparent and compliant with the best market standards of public companies and contributed to the improvement of the value of the Bank and enhancement of the shareholders confidence in the Bank's actions. In the opinion of the Supervisory Board, its composition in the financial year 2016 met legal and public companies requirements. The position of members of the Supervisory Board was held by persons of diverse competences and experience gained in the group entities and entities outside the group. Taking into consideration the above, **the Supervisory Board recommends acknowledgement of fulfillment of duties by all members of statutory bodies of Getin Noble Bank S.A. in the financial year 2016.**

#### **REPORT OF THE SUPERVISORY BOARD ON ASSESSMENT OF THE MANAGEMENT BOARD'S REPORT ON THE OPERATIONS OF THE COMPANY AND OF THE CAPITAL GROUP, ASSESSMENT OF THE FINANCIAL STATEMENTS OF THE COMPANY AND OF THE CAPITAL GROUP FOR THE FINANCIAL YEAR 2016**

The financial statements were audited in accordance with binding laws by an independent statutory auditor Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k with its registered office in Warsaw, that gave positive qualified opinion. According to Article 382(3) of the Polish Code of Commercial Companies and Partnerships, the

Supervisory Board evaluated the financial statements of the Company for the financial year 2016 and consolidated financial statements of the Capital Group of the Bank for the financial year 2016 with regard to their conformity with the books and documents, as well as with the actual state of affairs, and proposals of the Management Board concerning the division of profit for the financial year 2016.

- I. Getin Noble Bank S.A. unit financial statements for the financial year 2016 contain as follows:
  - 1) profit and loss statements for the period starting on 1 January 2016 and ending on 31 December 2016, which shows net profit of PLN 109,003 thousand,
  - 2) statements on the total revenue for the period starting on 1 January 2016 and ending on 31 December 2016, which show total net revenue of PLN 44,745 thousand,
  - 3) statements on the financial situation as at 31 December 2016, which assets and liabilities equal PLN 66 878 359 thousand,
  - 4) statements on the changes in equity for the period starting on 1 January 2016 and ending on 31 December 2016, which shows the net increase in equity at PLN 44,745 thousand,
  - 5) cash flow statements for the period starting on 1 January 2016 and ending on 31 December 2016, which shows the net decrease of cash at PLN 418,117 thousand,
  - 6) accounting principles and additional information ("attached financial statements").
- II. Getin Noble Bank S.A. Capital Group consolidated financial statements for the financial year 2016 contain as follows:
  - 1) consolidated profit and loss statements for the period starting on 1 January 2016 and ending on 31 December 2016, which shows net profit of PLN 38,648 thousand,
  - 2) consolidated statements on the total revenue for the period starting on 1 January 2016 and ending on 31 December 2016, which show total net revenue of PLN 102,771 thousand,
  - 3) consolidated statements on the financial situation as at 31 December 2016, which assets and liabilities equal PLN 66,517,146 thousand,
  - 4) consolidated statements on the changes in equity for the period starting on 1 January 2016 and ending on 31 December 2016, which shows the net increase in equity at PLN 49,411 thousand,
  - 5) consolidated cash flow statements for the period starting on 1 January 2016 and ending on 31 December 2016, which shows the net decrease of cash at PLN 278,786 thousand,
  - 6) accounting principles and additional information ("attached financial statements").

The Supervisory Board studied the statutory auditor's opinion dated 13 March 2017 as regards the unit financial statements for the financial year 2016 as well as consolidated financial statements of the Group for the financial year 2016 and stated that the documentation was prepared correctly in all essential aspects, reflects reliably and clearly the financial position of the Company and of the Group as at 31 December 2016 as well as financial results and cash flow for the period starting on 1 January 2016 and ending on 31 December 2016, consistent with regulations regarding unit and consolidated financial statements and stated that the above statements were drawn up correctly in terms of their form and content, in consistency with the books and state known to the Supervisory Board.

#### **ASSESSMENT OF THE COMPANY'S OPERATIONS IN THE FINANCIAL YEAR 2016**

According to Article 382(3) of the Polish Code of Commercial Companies and Partnerships, the Supervisory Board evaluated the Management Board's report on the Bank's activities and on the activities of the Bank's Capital Group in the financial year 2016. The Supervisory Board stated that the report was prepared correctly in accordance with binding laws. The Management Board's report contains necessary synthetic information on the operations of the Company and Getin Noble Bank Group in the financial year 2016. The financial data presented in the report are compliant with the data presented in the financial statements.

The Supervisory Board positively assesses the report and states that the activities of the Management Board in the financial year 2016 were taken within the adopted business plan of the Company, its strategy and reflect the general trends on the financial market, as well as specific conditions of the banking sector. The Management Board took all necessary actions to implement the permanent improved profitability plan for Getin Noble Bank S.A. Taking into consideration the above, the members of the Supervisory Board declare their full support for the actions of the Management Board.

#### **ASSESSMENT OF THE MOTION OF THE MANAGEMENT BOARD ON DISTRIBUTION OF PROFIT FOR THE FINANCIAL YEAR 2016**

The Supervisory Board positively assesses the motion of the Management Board of Getin Noble Bank S.A. to assign the net profit of Getin Noble Bank S.A. for the financial year 2016 in the amount of PLN 109 003 471,24 (in words: one hundred and nine million three thousand four hundred and seventy-one zloty and twenty-four) to the reserve fund increase.

According to the "Dividend Policy of Getin Noble Bank S.A. for the years 2015-2017" adopted by the Supervisory Board on 10 April 2015 as well as the standpoint of the Polish Financial Supervision Authority of 6 December 2016 on dividend policy of the banks (and other entities) in 2017, The Management Board of the Bank recommended to retain the net profit generated in the financial year 2016 in the Bank's equity.

## **RECOMMENDATIONS**

The Supervisory Board of Getin Noble Bank S.A. taking into account the information presented in this report positively assesses the activities of the Company in the financial year 2016 and the reports submitted for its assessment hereby recommends the Annual General Meeting of Getin Noble Bank S.A. to approve:

1. The Management Board's report on the activities of Getin Noble Bank S.A. and Getin Noble Bank Capital Group in the financial year 2016.
2. The financial statements of Getin Noble Bank S.A. for the financial year 2016.
3. The financial statements of Getin Noble Bank S.A. Capital Group for the financial year 2016.
4. The motion of the Management Board of Getin Noble Bank S.A. regarding allocation of profit for the financial year 2016

and to acknowledge fulfillment of duties in the financial year 2016 by Mr. Krzysztof Rosiński, Mr. Artur Klimczak, Mr. Krzysztof Basiaga, Mr. Marcin Dec, Mr. Maciej Szczechura, Mr. Karol Karolkiewicz, Mr. Radosław Stefurak and Mr. Grzegorz Tracz.

The Supervisory Board taking into account the information presented in this report, hereby turn to the Annual General Meeting to adopt this report on the activities of the Supervisory Board together with the assessment of the Company's activities, as attached to this report.

*Warsaw, 11 April 2017*

*Chairman  
of the Supervisory Board*

.....  
*Leszek Czarnecki*

*Deputy Chairman  
of the Supervisory Board*

.....  
*Remigiusz Baliński*

*Member  
of the Supervisory Board*

.....  
*Mariusz Grendowicz*

*Member  
of the Supervisory Board*

.....  
*Krzysztof Bielecki*

*Member  
of the Supervisory Board*

.....  
*Jacek Lisik*

*Attachment to the Report of the Supervisory Board of Getin Noble Bank S.A.  
for the financial year 2016 together with the assessment of the Company's situation*

The Supervisory Board of Getin Noble Bank S.A. ("Bank", "Company") in order to implement provisions of the "Best Practices of GPW Listed Companies 2016" ("Best Practices") and the "Rules of Corporate Governance for the Supervised Institutions" ("Rules") adopted by the Polish Financial Supervisory Authority ("KNF"), hereby submits:

- the assessment of Getin Noble Bank S.A. situation in the financial year 2016 including the assessment of the internal control system, risk management system, compliance system and internal audit according to Rule No. II.Z.10.1. of the Best Practices,
- the assessment of implementing the "Rules of Corporate Governance for the Supervised Institutions" adopted by the Polish Financial Supervisory Authority as well as assessment of performance of information obligations as regards Best Practices of GPW Listed Companies 2016, according to Rule No. II.Z.10.3. of the Best Practices,
- the assessment of rationality of the Company's charity and sponsor work or other similar work according to Rule No. II.Z.10.4. of the Best Practices,
- the assessment of Remuneration Policy at the Bank according to Article 28(3,4) of the Rules.

**THE ASSESSMENT OF GETIN NOBLE BANK S.A. SITUATION IN THE FINANCIAL YEAR 2016 INCLUDING THE ASSESSMENT OF THE INTERNAL CONTROL SYSTEM, RISK MANAGEMENT SYSTEM, COMPLIANCE SYSTEM AND INTERNAL AUDIT ACCORDING TO RULE NO. II.Z.10.1. OF THE BEST PRACTICES**

**I. The assessment of the Company and financial statements for the financial year 2016**

Getin Noble Bank S.A. is a universal bank that directs its rich product offer to individual clients, small and medium enterprises, local government units, health service entities, developers and large corporations. The Bank has a wide range of products adapted to the clients' needs and preferences as regards financing, saving and investing, as well as a wide range of additional services. The products are offered by large variety of distribution channels like traditional bank outlets and e-banking. Credit offer of the Bank is focused on cash credits, car purchase credits, business credits, as well as financing local government units and associated entities, communities and housing cooperatives. Getin Noble Bank S.A. own offer is completed by products of the entities associated with the Company, such as Noble Funds TFI S.A., Noble Securities S.A., Noble Concierge sp. z o.o. Within the cooperation with the abovementioned companies, Getin Noble Bank S.A. provides its clients with brokerage services, participation units, mutual funds certificates and concierge services.

In the financial year 2016 the Bank adopted and implemented the new Strategy for the years 2016-2018 and the "Plan for sustainable improvement in profitability of Getin Noble Bank S.A. for the years 2016-2019" ("Plan"), i.e. Reorganization Program in the meaning of Article 142 of the Banking Law Act. The Bank successively implements its Strategy including rebuilding the retail banking, optimization of sale network, keeping the leading position in automotive segment and further digitalization of the Bank's services. The main activities of the Bank implemented in 2016 are as follows:

- reduction of deposit costs towards the market – the Bank successively reduced the margin paid for new deposit funds,
- transformation of service network based on new segmentation of clients – implementation of new initiatives resulting from new product strategies, organizing of product portfolio offered in particular segments, optimization of sales network, better quality of services, optimization of internal and external communication, development of mobile banking,
- continuity of cooperation with Getin Leasing S.A. that covers both receivables purchasing and providing car purchase credit agency services,
- development of activities in local government units sector.

One of the main targets implemented within the Bank's Strategy is to strengthen the capital position of the Bank and the Bank's Group according to the guidelines of KNF. As at 31 December 2016 the Bank kept required levels of capital rate with a surplus.

In 2016 the unit net profit of the Bank amounted 109.0 mm PLN and was higher than the profit gained for the financial year 2015 by 96.2 mm PLN. The following events influenced the level of financial results gained in the financial year 2016:

- a) positively:

- sale of 50,72% of shares of Getin Leasing S.A. – the Bank's net profit amounted 134.1 mm PLN,
  - sale of 29,97% of shares of Noble Funds TFI S.A. – the Bank's net profit amounted 35.6 mm PLN,
  - settlement of transaction of takeover of Visa Europe Limited by Visa Inc. - the Bank's net profit amounted 18.1 mm PLN
  - sale of 10,93% of shares of BIK S.A. - the Bank's net profit amounted 39 mm PLN
  - reduction of financing cost of client deposits – in 2016 the costs were reduced by 300 mm PLN, i.e. by 15,7%.
- b) negatively:
- additional payment to the Bank Guarantee Fund due to the bankruptcy of Cooperative Bank in Nadarzyn – the Bank's gross financial result was reduced by 7.7 mm PLN,
  - creating revaluation write-offs due to a permanent loss of value of investments in the Bank's subsidiaries and affiliated entities of the joint amount of 55.2 mm PLN,
  - payment of tax on financial institutions in the amount of 38.3 mm PLN (February and March 2016) – starting from April 2016 the Bank got exempt from tax due to reorganization program,
  - reduction of investment product sale income.

In 2016 the loss of the Bank's Capital Group amounted 38.6 mm PLN and was lower than the loss gained for the financial year 2015 by 93.0 mm PLN. The following events influenced the level of financial results gained in the financial year 2016:

- c) positively:
- sale of 50,72% of shares of Getin Leasing S.A. – the Group's net profit amounted 39.7 mm PLN,
  - settlement of transaction of takeover of Visa Europe Limited by Visa Inc. - the Bank's net profit amounted 18.1 mm PLN
  - sale of 10,93% of shares of BIK S.A. - the Bank's net profit amounted 39 mm PLN
  - reduction of financing cost of client deposits – in 2016 the costs were reduced by 300 mm PLN, i.e. by 18,7%.
- d) negatively:
- additional payment to the Bank Guarantee Fund due to the bankruptcy of Cooperative Bank in Nadarzyn – the Bank's gross financial result was reduced by 7.7 mm PLN,
  - creating revaluation write-offs due to a permanent loss of value of investments in the Bank's subsidiaries and affiliated entities of the joint amount of 34.8 mm PLN,
  - payment of tax on financial institutions in the amount of 38.3 mm PLN (February and March 2016) – starting from April 2016 the Bank got exempt from tax due to reorganization program,
  - reduction of investment product sale income.

In the financial year 2016 Getin Bank occupied the first place in a prestigious ranking "Newsweek Friendly Bank" in the category "Bank for an Average Consumer" ["Bank dla Kowalskiego"]. The experts evaluating retail banking appreciated engagement and competence of advisors and effectiveness of basic banking operations. Getin Bank was also awarded in the category „E-banking” and won third prize. The experts appreciated the ease of navigation, effectiveness of contact channels with the bank and transaction system as well as new services and functionality. Newsweek Friendly Bank is the most prestigious ranking of the banking quality in Poland. The first place in the category of traditional banking means advancement by 13 positions in comparison to the last year list. The Bank won first place in the ranking prepared by Polish Association of Property Developers. Moreover, products offered by the Bank occupied leading positions in many other prestigious ranking organized by Rzeczpospolita, Wprost, bankier.pl, totalmoney.pl. In June 2016 Getin Bank was awarded with "Portfolio of the Year 2016 of Wprost" ["Portfel Roku Wprost 2016"] for the best personal account for individual clients.

The Supervisory Board evaluated the financial statements of the Company for the financial year 2016 in accordance with binding laws by an independent statutory auditor. The Supervisory Board did not submit any comments or reservations to the financial statements. The Supervisory Board confirmed the motion of the Management Board of Getin Noble Bank S.A. to assign the net profit of Getin Noble Bank S.A. for the financial year 2016 to the reserve fund increase.

## **II. The assessment of the internal control system and functioning of internal audit**

The internal control system is a part of the managing system of the Company and is aimed at providing reliable and correct information to the financial statements and it is adjusted to its organizational structure and includes organizational units of the Bank, its outlets and subsidiaries. The internal control system consists of the following elements: risk control mechanism, functional control, institutional control – exercised by independent unit – Internal Audit Department whose task is to recognize and assess risk in all areas of the Bank's activities.

The essential task of the internal control system is to secure the assets, audit credit exposures, prevent errors and detect errors in data processing, ensure reliability of financial evidence, improve effectiveness of actions and stimulate observing the strategy and policy of the Bank.

The functioning of the internal control system is based on a built-in reporting systems and control mechanism. The control mechanisms include manner of task performance at the Bank, and in particular: competences, rules, limits and procedures regarding Bank's activities and control activities performed by employees and their supervisors regarding the Bank's operations. The mechanisms are of control nature and are incorporated into internal regulations as well as IT system of the Bank. The Management Board of the Bank takes actions in order to ensure the continuity of monitoring of effectiveness of internal control mechanisms and identifies areas of operations, transactions and other activities to be monitored.

The Supervisory Board positively assessed the internal control system and approves the functioning of the internal control system at the Bank.

### **III. The assessment of the compliance system**

The Bank uses its experience gained at financial market, currently analyzes the legal and regulatory environment as well as takes into account market practices as reference point for making decisions on the level of its readiness and ability to take non-compliance risk. The non-compliance risk management process includes risk identification, assessment of risk profile, its monitoring and reduction and reporting on risk.

In the process of identification of non-compliance risk the Bank conducts current analyzes of binding laws, regulations, internal provisions and practices adopted by the Bank, gathers information on non-compliance events and identifies reasons of their occurrence. While assessing the risk the Bank describes its character, potential scale of financial losses or legal sanctions. Monitoring of non-compliance risk aims to identify sensitive from the point of view of non-compliance risk areas of the Bank's activities and take remedial actions. The process of non-compliance risk reduction includes the following aspects: preventive, i.e. reducing the risk by introducing solutions and elements ensuring compliance and mitigating, i.e. managing risk after identification of non-compliance event in order to ease negative results of risk occurrence. In the process of non-compliance risk management the Bank takes into account risk resulting from the activities of the entities of Getin Noble Bank Group.

The report on non-compliance risk management in the Bank and in the Bank's Capital Group is periodically submitted to the Supervisory Board for approval in order to assess the effectiveness of non-compliance risk management. In the financial year 2016 the Supervisory Board positively assessed the efficiency of the Management Board activities as regards non-compliance risk management.

### **IV. The assessment of the risk management essential for the Company**

The management of the risk essential for the Company is governed in Getin Noble Bank S.A. by internal procedures and market regulations as well as includes restrictions required by appropriate supervisory institutions, in particular by the Polish Financial Supervision Authority. While operating, the Bank is exposed to the following risks: credit risk, liquidity risk, market risk (including currency risk and interest rate risk), solvency risk, operational risk and non-compliance risk. The goal of the assets and liabilities management policy is to optimize balance sheet and off-balance sheet structure in order to gain the expected relation of revenue to borne risk. The Management Board of the Bank and Management Boards of the Group companies are responsible for the risk management on the strategy level. Depending on the level and character of the risk in each company, the Company may appoint special advisory committees responsible for separated types of risks.

**Credit risk management** at the Bank aims to secure the safety of the Bank's credit activities keeping at the same time rational approach towards risk. It is indicated that the credit risk is potential loss of the entity connected with non-performance of obligations or their part by the client within the time limits set out in the credit agreement. The process of credit risk management is a continuous process that aims to:

- stabilize the risk of new sales action in the areas (products) where the level of risk is satisfactory,
- reduce the risk of new sales action in the areas (products) where the level of risk needs to be reduced,
- improve the quality of present credit portfolio.

The credit risk management is implemented according to the internal procedures regarding identification, measurement, monitoring and controlling of the risk. The methods used to identify and measure the risk are



expressed in particular rate of credit portfolio risk measurement and are adapted to the profile, scale and complexity of the risk.

In 2016 the Bank introduced regulations as regards model risks in the area of credit risk resulting from Recommendation W. The Bank took steps to reduce credit risk resulting from variation in interest rates and increased the safety buffer to cover risk in the situation of record low interest rates. The Bank decided to grant solely fixed interest bearing credits. In the area of retail and car purchase loans, while assessing credit worthiness the level of minimum expenses was diversified dependent on the credit period. The Bank set limits in order to reduce credit risk of credit exposures granted using simple rules of assessment of credit worthiness regarding the whole credit portfolio and individual commitment of a client. The actions taken by the Bank have measurable effects on keeping risk level within so called risk appetite accepted by the Management Board and the Supervisory Board of the Bank. Improving of quality of new generated credit portfolio is visible on the NPL level – sales generated since the Banks merger is characterized by much lower credit risk level.

**Market risk** is defined as uncertainty whether interest rates, exchange rates or prices of securities or other financial instruments held by the Group will have the value other than expected, which may lead to unexpected profits or losses. The market risk management strategy is recognized in the Strategy of the Bank accepted by the Supervisory Board of the Bank and defines the market risk appetite. The main goal of assets and liabilities management policy is to optimize the balance sheet structure as well as off-balance sheet items to keep the assumed ratio of income to the risk incurred. The Management Board is responsible for the market risk management on the strategic level.

The main goal of the **currency risk** management is to create the structure of assets and liabilities in currency, as well as off-balance sheet items within binding cautious norms determined by the Banking Law Act and internal limits. In order to secure credit currency risk the Company applies cash flow hedge accounting. The Bank secures the cash flow variability for the portfolio of mortgage loans indexed to CHF or EUR by a separate portfolio of secure hedging arrangements of CIRS float-to-fixed CHF/PLN and EUR/PLN and secures the cash flow variability for the PLN deposit portfolio by a portfolio separated from real CIRS transactions of secure hedging arrangements of IRS fixed-to-float. The supervision over cautious norms and internal limitations is exercised by the Assets and Liabilities Management Committee. As at 31 December 2016 the overall net foreign-exchange position of total funds of the Group amounted 0,65% (0,54% as at 31 December 2015). During the reporting period, the level of currency risk did not require the Bank to hold capital for the risk coverage.

The **interest rate management risk** is to minimize the risk of negative influence of changes in the market interest rate on the Company's situation by:

- setting and observing the limits of the acceptable level of the interest rate risk,
- drawing up periodic analyzes of level of the interest rate risk and sensitivity of profit and loss account to changes in the interest rate,
- entering into transactions reducing the risk exposure (derivatives, sale/purchase of fixed securities).

The effectiveness of the risk management is assessed on the basis of limits that reduce the credit risk exposure. The Bank takes actions to reduce the influence of the abovementioned changes on the financial results.

In order to limit the interest rate risk the Bank applied in 2016 limits within VaR (1 day; 99,9%) in its entity and share of EaR in the planned interest outcome for a given year – interest rate risk was kept within limits. The Bank is testing changes to the structure of the Bank's assets and liabilities by taking into account the client's risk and potential changes of the Bank's income as well as changes of the economic value of the portfolio taking into account "shocking" interest rates changes and changed portfolio structure.

The goal of the **liquidity risk** management is to provide that the Company performs its obligations on a daily basis, maintain short-, middle- and long-term liquidity both in normal conditions and in case of emergency regarding either the Bank or the market and restrict access to secured and unsecured sources of financing. The strategy of liquidity risk management is set in the Strategy of the Bank and the approach of the Bank to the liquidity risk management is set in the "Policy of liquidity risk management". Both documents were approved by the Supervisory Board. Liquidity is defined as the ability to optimally meet current and future obligations. Liquidity risk is the risk of failure to meet those obligations. The basis source of liquidity risk of the Group are items of Getin Noble Bank S.A. The Bank observes supervisory recommendations, Regulations of the European Union, acts and implementing acts, ordinance of the President of the National Bank of Poland, precautionary regulations and recommendations of the Polish Financial Supervision Authority. The process of liquidity risk management, both on strategic and operational level is compliant with Recommendation P issued by KNF. According to the supervisory recommendations the Bank measures the supervisory liquidity norms on a daily basis. In 2016 the norms exceeded the minimum level set by KNF. In 2016 the Bank's policy was to keep liquidity at optimal levels as regards liquidity indicators and the Bank's

profitability. The level of M1 amounted at the end of 2016 5.65 billion PLN and was higher than the level reached in 2015 by 5,5%. The level of M2 amounted at the end of 2016 1,96.

The **operating risk** is a risk of loss resulting from inadequate or defective internal procedures, human or system errors or external events including legal risk. The operational risk includes legal risk but does not include strategic risk or reputational risk. The operating risk is managed by the "Strategy of operating risk management" adopted by the Management Board and approved by the Supervisory Board. The Strategy includes precautionary regulations resulting from banking law, resolutions and recommendations of the banking supervision. The Strategy includes description of principles already applied by the Company or in stage of development and planned in the future. The Bank implements middle- and long-term strategic goals and short-term operational goals that serve achieving strategic goals. The main goal of operating risk management is to identify operational risk, to measure the risk and to assess its profile. The Bank improves its solutions of model measurement and operational risk management enabling using more advanced methods in the future, sensitive to operational risk taking into account factors and parameters of the operational risk specific to the Group and in particular to the Bank, i.e. strictly connected with the Bank's profile.

The process of **non-compliance risk** management includes: risk identification, risk profile assessment, risk monitoring, risk reduction and reporting on risk. In the risk identification process, the Bank conducts analyzes of binding laws, precautionary regulations, internal regulations and standards of performance adopted by the Bank, gathers information on non-compliance reports and reasons for their occurrence.

The **capital management** is the top priority of the Bank's strategy and involves keeping capital on an adequate level to secure the risk and to ensure safe operations of the Bank and other entities of the Group and to increase value for the shareholders. According to the decision of KNF dated 18 October 2016, KNF recommended the Bank and the Group to keep additional capital requirements to secure the risk resulting from currency mortgage loans at the level of 1,89 pp for the Bank and 1,87 pp for the Group over the value of TCR. The additional capital requirement consists in 75% of Tier 1 (corresponding to the capital requirement at the level of 1,42 pp for the Bank and 1,40 pp for the Group) and in 56% of Tier 2 (corresponding to the capital requirement at the level of 1,06 pp for the Bank and 1,05 pp for the Group). In 2016 the level of Tier 1 increased in the total capital of the Bank and at the end of 2016 amounted 78%. The main component of Tier 1 of the Bank as at 31 December 2016 was capital stock (49%). At the end of 2016 the value of issued subordinated debt amounted 2.4 billion PLN. In 2016 the Bank issued 340 mm PLN. 300 mm PLN was transferred to Tier 2 in 2016 and 40 mm PLN in January 2017. At the same time according to the rules of subordinated debt amortization due to maturity date of securities, the funds of Tier 2 were reduced by 408 mm PLN.

The Supervisory Board positively assessed the risk management system at the Bank and stated that the system includes all essential risks that the Bank is exposed to.

#### **THE ASSESSMENT OF IMPLEMENTING THE "RULES OF CORPORATE GOVERNANCE FOR THE SUPERVISED INSTITUTIONS" ADOPTED BY THE POLISH FINANCIAL SUPERVISORY AUTHORITY ACCORDING TO ARTICLE 27 OF THE RULES AS WELL AS ASSESSMENT OF PERFORMANCE OF INFORMATION OBLIGATIONS AS REGARDS BEST PRACTICES OF GPW LISTED COMPANIES 2016, ACCORDING TO RULE NO. II.Z.10.3. OF THE BEST PRACTICES**

In 2016 the Bank observed the rules of corporate governance included in the Best practices except for Rule No. IV.R.2. and IV.R.2. The Bank waived the application of the above Rules. The documents are available at GPW website at [http://www.gpw.pl/dobre\\_praktyki\\_spolek\\_regulacje](http://www.gpw.pl/dobre_praktyki_spolek_regulacje). Since 1 January 2016 the Bank presents at its website information on implementation of rules and recommendations included in the Best practices (<http://www.gnb.pl/lad-korporacyjny>). The information is drawn up on the form established by GPW and includes detailed information on implementing or not implementing of each recommendation as indicated in Rule No. I.Z.1.13.

The Bank analyzed the Rules and adjusted internal regulations to the requirements indicated by the supervisor. As a consequence, all bodies of the Bank adopted resolution on implementation of the Rules in relation to their activities (Resolution No. XXII/12/05/2015 of the General Meeting dated 12 May 2015, Resolution No. 125/2014 of the Supervisory Board dated 23 December 2014 and Resolution No. 2556/2014 of the Management Board of the Bank dated 10 December 2014). In December 2015 the Bank convened Extraordinary General Meeting and according to the Rules informed that it waives to apply rule described in Article 8(4). The Bank explained that due to the fact that there are no verified technical solutions and there is a risk of occurrence of disruptions during the Meeting (as regards identification of shareholders, connection stability, validity of adopted resolutions), there was no possibility to express opinions during the Extraordinary General Meeting using means of electronic communication. The Bank had to limit

those risks as the resolutions were essential for the Bank's operations. However, the Bank enabled to follow the Meeting live and the records are available at [www.gnb.pl](http://www.gnb.pl).

The Bank takes care of good, timely and effective communication with the participants of the capital market taking into account its influence on the market value of the Bank's shares. The Company provides necessary information to the shareholders taking care of general and equal access to the information according to the market standards. The Bank created website dedicated to investor relations (<http://gnb.pl/>) and it is one of tools to communicate current information on the Company, its activities and activities of the Group to capital market participants.

Taking into consideration the above and information presented to the Supervisory Board, the Supervisory Board positively assessed implementing information duties in 2016 by the Company and stated that the Bank correctly implemented Rules in the scope indicated by resolutions of the Bank's bodies.

#### **THE ASSESSMENT OF RATIONALITY OF THE COMPANY'S CHARITY AND SPONSOR WORK OR OTHER SIMILAR WORK ACCORDING TO RULE NO. II.Z.10.4. OF THE BEST PRACTICES**

The Bank actively involves its employees in social actions within Corporate Social Responsibility. One of such events is Fair Play Run. This year's run took place in Katowice. Over 1800 employees and Bank's friends participated in the event. The event supported treatment and rehabilitation of children of the Bank's employees. Promotion of healthy lifestyle and sport inspires also official Bank's Run Representation, that comprises over 100 people that participate in the greatest run events in Poland. In 2016 the employees engaged in voluntary blood donation Getin Crew and bone marrow registry. The event was organized together with Regional Blood Donation and Transfusion Center in three offices of the Bank – in Warsaw, Katowice and Warsaw. In 2016 one more action was organized, i.t. "Be the Santa". The participants prepared over 700 Christmas packages for needy children living in care and upbringing establishments. For the fourth time the Bank's employees organized collections for local animal shelters.

The Supervisory Board positively assessed the Company's charity and sponsor work.

#### **THE ASSESSMENT OF REMUNERATION POLICY AT THE BANK ACCORDING TO ARTICLE 28(3,4) OF THE RULES**

The remuneration of the Bank's employees is fixed according to tasks realized in each organizational unit, level of responsibility and is based on analyzes of the remuneration on the financial market. The remuneration of the Management Board members and key managers are described in the "Policy of variable elements of remuneration of persons holding managerial positions at the Bank" ("Policy") that meet the criteria of the Rules. The goal of the Policy is to strengthen the managerial staff to take care of long-term interests of the Bank, to protect the interests of clients and investors and to avoid excessive exposure to risk.

Personal Committee of the Supervisory Board assessed principles of awarding variable elements of remuneration and reviewed the "Policy of variable elements of remuneration of persons holding managerial positions at the Bank" in order to adjust the Policy to binding laws and recommendations of the supervisor. The Bank also reviewed persons holding managerial positions at the Bank ("Risk Takers"). Due to introduction of the "Policy of eligibility assessment of persons holding managerial positions at Getin Noble Bank S.A." the Committee was entrusted tasks to assess eligibility of members of the Management Board, including succession rules, rules of qualification assessment of candidates and current assessment of present members of the Management Board. In 2016 the Remuneration Committee was transformed into Personal Committee.

The Supervisory Board that the current practice of variable elements of remuneration is compliant with the rules set in the Policy as well as with development and safety of the Bank, according to the "Rules of Corporate Governance for the Supervised Institutions".