

# REPORT ON ACTIVITIES OF THE SUPERVISORY BOARD OF BANK BGŻ BNP PARIBAS S.A. AND ITS COMMITTEES IN 2017

together with the assessments indicated in rule II.Z.10 of the Best Practices of WSE Listed Companies 2016 and assessment of the Bank's compliance with the Principles of Corporate Governance for the Supervised Institutions of 22 July 2014 issued by the Polish Financial Supervision Authority

WARSAW, 13.03.2018

**BGŻ BNP PARIBAS**

Bank  
zmieniającego  
się świata

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## 1. COMPOSITION OF THE SUPERVISORY BOARD IN 2017

The composition of the Supervisory Board of Bank BGŻ BNP Paribas S.A. as at 1 January 2017 was as follows:

Name and surname	Office held in the Supervisory Board of the Bank
Józef Wancer	Chairman of the Supervisory Board
Jarosław Bauc	Vice-Chairman, Independent Member of the Supervisory Board
Jean-Paul Sabet	Vice-Chairman of the Supervisory Board
Stefaan Decraene	Member of the Supervisory Board
Jacques d'Estais	Member of the Supervisory Board
Alain Van Groenendael	Member of the Supervisory Board
Thomas Mennicken	Member of the Supervisory Board
Piotr Mietkowski	Member of the Supervisory Board
Monika Nachyła	Member of the Supervisory Board
Mariusz Warych	Independent Member of the Supervisory Board

Changes in the composition of the Bank's Supervisory Board in 2017:

- On 16 May 2017 Mr Thomas Mennicken stepped down as the member of the Supervisory Board of the Bank effective the day of the Ordinary General Meeting of the Bank (22 June 2017).
- On 22 June 2017, the Ordinary General Meeting of the Bank appointed Mr Yvan De Cock - representing the BNP Paribas Group, to the Bank's Supervisory Board.

The composition of the Supervisory Board of Bank BGŻ BNP Paribas S.A. as at 31 December 2017 was as follows:

Name and surname	Office held in the Supervisory Board of the Bank
Józef Wancer	Chairman of the Supervisory Board
Jarosław Bauc	Vice-Chairman, Independent Member of the Supervisory Board
Jean-Paul Sabet	Vice-Chairman of the Supervisory Board
Yvan De Cock	Member of the Supervisory Board
Stefaan Decraene	Member of the Supervisory Board
Jacques d'Estais	Member of the Supervisory Board
Alain Van Groenendael	Member of the Supervisory Board
Piotr Mietkowski	Member of the Supervisory Board
Monika Nachyła	Member of the Supervisory Board
Mariusz Warych	Independent Member of the Supervisory Board

## 2. INDEPENDENCE OF THE SUPERVISORY BOARD MEMBERS

There are two independent members of the Supervisory Board:

Name and surname	
Jarosław Bauc	Vice-Chairman of the Supervisory Board
Mariusz Warych	Member of the Supervisory Board

Pursuant to the provisions of the Articles of Association, at least two members should be independent. Mr Jarosław Bauc and Mr Mariusz Warych meet the statutory requirements concerning independent members of the Supervisory Board, including among others:

- they do not hold and have not held, for the last five years, the function of a member of the Management Board or another managerial function, regardless of the legal form of employment, whether in the Bank, its subsidiaries or parent entity;
- they are not and have not been employed in the Bank, its subsidiaries or parent entity, or in associated entities of the Bank, for the last three years;
- they have not received any additional remuneration apart from the compensation due for the membership in the Supervisory Board, or any other financial benefits from the Bank, its subsidiaries or parent entity, with the exception of benefits due to the Supervisory Board member as a consumer who has entered into an agreement on standard terms with the Bank, its subsidiary or parent entity;
- they have not been shareholders or members of the management, managerial personnel or employees of the shareholder holding shares representing more than 5% of the total number of votes at the General Meeting of the Bank, nor have been members of the management, managerial personnel or employees of the shareholder of the Bank holding such number of shares which allows for effective control over the Bank;
- in the year preceding the election for the Supervisory Board, they did not have or do not currently have, any material commercial or business connections with the Bank, its subsidiaries or parent entity which could significantly affect their independence;
- they are not and have not been for the last three years statutory auditors or employees, members of the management, managerial personnel or shareholders of an entity providing statutory auditor's services to the Bank, its subsidiaries or parent entity;
- they are not members of a management board in another company in which a member of the Bank's Management Board is a member of the supervisory board;
- they do not have any material connections with members of the Bank's Management Board manifested in the joint shareholding in other companies or governing bodies of those companies;
- they are not and have not been, for the last three years, a spouse, partner or a relative of a member of the Bank's Management Board, or an employee holding a position in the Bank which is directly subordinated to the Bank's Management Board or a member of the Bank's Management Board.

## 3. ACTIVITIES OF THE SUPERVISORY BOARD IN 2017

The Supervisory Board of Bank BGŻ BNP Paribas SA has permanently supervised the Bank's business activity in all its areas.

In 2017, seven meetings of the Supervisory Board were held. Furthermore, the Supervisory Board passed resolutions in writing. The Supervisory Board adopted a total of 109 resolutions in 2017.

In 2017, the Supervisory Board addressed the following issues:

- passed resolutions regarding the supervision over the implementation of the Polish Financial Supervision Authority Guidelines concerning brokerage services on OTC derivatives markets.
- passed resolution regarding the assessment of the degree of implementation of IT Guidelines in the Brokerage House of Bank BGZ BNP Paribas S.A.
- passed resolution on the approval of the Recovery Plans for Bank BGŻ BNP Paribas S.A. and the Capital Group of Bank BGŻ BNP Paribas S.A.
- assessed and provided the Ordinary General Meeting with a written report on the results of the assessment of the Bank's financial statements, including the Brokerage House, the Management Board's report on the activity of the

Bank, including the Brokerage House, consolidated financial statements of the Bank's Capital Group and the Management Board's Report on the activity of the Bank's Capital Group for 2016; the Supervisory Board also carried out the assessment of the Management Board's conclusions on the distribution of profit for 2016 along with assessment of adequacy and effectiveness of the Bank's internal control, and recommended that the Ordinary General Meeting should approve the discharge of duties performed by the Bank's Management Board Members in 2016,

- discussed the Bank's interim financial statements and results of each business line.
- passed resolution on the approval of the Internal Capital Adequacy Assessment Process (ICAAP) Methodology at Bank BGŻ BNP Paribas S.A.
- passed resolution on the approval of the updated Liquidity emergency plan.
- passed resolution on the approval of the updated Methodology of analysing stress tests on the sensitivity of IR position, currency position, liquidity position and capital position.
- passed resolution on the approval of the Bancassurance Policy in Bank BGŻ BNP Paribas S.A. and adopted periodic reports on implementation of the Bancassurance Policy and Accounting Policy Principles for this area.
- passed resolution on the consent to conclude an agreement on the services provided by BNP Paribas S.A. (IRB).
- passed resolution on the approval of Policy on managing the compliance risk in Bank BGŻ BNP Paribas S.A.
- passed resolution on acceptance of the Assessment of the rationality of sponsorship, philanthropic and CSR activity of Bank BGŻ BNP Paribas S.A. in 2015 and 2016
- passed resolutions on the sale of the Bank's real estate whose value equalled at least PLN 5,000,000.00.
- passed resolutions on internal division of competence in the Management Board of Bank BGŻ BNP Paribas S.A.
- passed resolution on the approval of the Rules of formulation, monitoring of execution and updating of strategy of Bank BGŻ BNP Paribas S.A.
- passed resolution on the approval of Compliance Policy and the Regulation for the operation of Compliance & Fraud Prevention Line.
- passed resolution on the approval of Strategy for operational risk management in Bank BGŻ BNP Paribas S.A.
- passed resolution on adherence to the "Principles of Corporate Governance For Supervised Institutions" issued by the Polish Financial Supervision Authority.
- passed resolution regarding the review of the IT systems of Bank BGŻ BNP Paribas S.A. after migration.
- passed resolution on approval of the targets to be achieved by the Members of the Management Board of Bank BGŻ BNP Paribas SA in 2017.
- passed resolution on the assessment of the functioning of the Remuneration Policy in Bank BGŻ BNP Paribas SA in 2016.
- passed resolution regarding the sale of shares of PBG SA.
- passed resolution on the approval of the Policy of selecting auditors at Bank BGŻ BNP Paribas S.A., Policy of providing permitted non-audit services at Bank BGŻ BNP Paribas SA, by auditors, entities affiliated with auditors and members of the auditor's network, and the Procedure of selecting auditors at Bank BGŻ BNP Paribas S.A.
- passed resolution regarding the extension of the agreement with Deloitte Polska Sp. z o.o. Sp. k for review and audit of the financial statements of Bank BGŻ BNP Paribas S.A. and the consolidated financial statements of the Bank's Capital Group for the years 2018-2019.
- passed resolution on the approval of the updated Bank BGŻ BNP Paribas S.A. Risk Strategy.
- passed resolution on the approval of the updated Internal Capital Adequacy Assessment Process (ICAAP) Methodology at Bank BGŻ BNP Paribas S.A.
- passed resolution on the approval of the Rules of review of the internal capital adequacy assessment and maintenance process (ICAAP).
- passed resolution on the approval of the updated Capital Management Policy at Bank BGŻ BNP Paribas S.A.
- passed resolution regarding the approval of the "Long-term plan to raise and maintain stable external funds from Financial Entities".
- passed resolution on the consent to Bank BGŻ BNP Paribas S.A. to sell 100 % shares of BGŻ BNP Paribas Faktoring Sp. z o.o. to BNP Paribas S.A., Branch in Poland.
- passed resolutions on the consent to enter into the Amendment Agreement to the Subordinated Loan Agreement dated November 15, 2012 of CHF 60,000,000 and of EUR 60,000,000 concluded with BNP Paribas S.A.

- passed resolution regarding the sale of receivables of Bank BGŻ BNP Paribas Spółka Akcyjna under a securitization transaction.
- discussed and passed resolution regarding adoption of the 2018 financial plan and financial assumptions for the years 2019 – 2021.
- discussed and passed resolution on the approval of the Bank BGŻ BNP Paribas Capital Plan for 2018-2021.
- passed resolution on the approval of the updated Bank's BGŻ BNP Paribas Capital Management Policy.
- passed resolution on the approval of the Bank BGŻ BNP Paribas Capital Contingency Plan.
- passed resolution on the approval of the Brokerage House Audit Plan for 2018.
- on the approval of the categorization of irregularities detected by the internal control system and criteria of assessment of the adequacy and effectiveness of the internal control system at Bank BGŻ BNP Paribas S.A.
- passed resolution on the approval of the Internal Audit Charter of Bank BGŻ BNP Paribas S.A.
- passed resolution on the approval of Strategy of Internal Audit Line for the years 2018-2020.
- passed resolution regarding the approval of model risk tolerance.
- passed resolution on the approval of the "Policy on the assessment of suitability of members of the Supervisory Board, members of the Management Board and key function holders at Bank BGŻ BNP Paribas S.A."
- passed resolution on Remuneration policy for the members of the Supervisory Board of BGŻ BNP Paribas S.A.
- passed resolution on the approval of the Remuneration Policy for persons having material impact on the risk profile of Bank BGŻ BNP Paribas S.A.
- passed resolution on the approval of the "Regulations of allocation and payment of variable remuneration components to members of the Management Board of Bank BGŻ BNP Paribas S.A."
- passed resolution on the approval of the draft By-Laws of the General Meeting of Bank BGŻ BNP Paribas S.A. pertaining to amendments to the By-Laws of the Supervisory Board of Bank BGŻ BNP Paribas S.A. and approval of the By-Laws of the Audit Committee of Bank BGŻ BNP Paribas S.A., likewise the approval of the By-Laws of the Management Board of Bank BGŻ BNP Paribas S.A.
- passed resolutions on changes in the composition of the Bank's Management Board and formulation of the principles and amount of remuneration as well as variable remuneration for the members of the Management Board of Bank BGŻ BNP Paribas S.A., likewise the resolution on determination of the degree to which targets were met by the Management Board.
- acquainted itself with the topics discussed during the meetings of the Audit Committee and Risk Committee.
- acquainted itself with the annual reports on activities of the Compliance Line and Internal Audit Line.

The Supervisory Board monitored the financial results and capital situation of the Bank. The great emphasis was placed on the level of the capital ratios of the Bank and measures aimed at maintaining the capital ratios at the required level, taking into consideration new regulatory requirements.

#### 4. COMMITTEES AT THE SUPERVISORY BOARD IN 2017

There are internal committees of advisory and consulting character operating at the Supervisory Board:

- Audit Committee,
- Risk Committee
- Human Resources and Remuneration Committee,

##### 4.1. **Audit Committee**

Number of meetings held: 8

In line with its competences, in 2017, the Audit Committee acquainted itself with, among others, financial reports of the Bank and the Bank's Capital Group for the year 2016, quarterly and half-year reports for 2017, reviewed and assessed the adopted accounting policy, including the changes introduced over the year, likewise it reviewed and assessed the process of financial information communication. Furthermore, the Committee approved the Policy and procedure of selecting auditors at Bank BGŻ BNP Paribas S.A., the Policy of providing permitted non-audit services at Bank BGŻ BNP Paribas SA, by auditors, entities affiliated with auditors and members of the auditor's network, assessed the independence of the

statutory auditor reviewing financial statements and recommend to the Supervisory Board the extension of the agreement with the statutory auditor for the next two years. The Audit Committee assessed any threats and security measures regarding the independence of the statutory auditor and agreed to provision of additional non-audit services by the statutory auditor. Furthermore, the Audit Committee carried out activities that entailed monitoring of the effectiveness of the internal control system and risk management system as it analysed the Report on internal control mechanisms and procedures functioning in the Bank in 2016, gave its approval and recommendation to the Supervisory Board for adopting the updated Compliance Policy and the Rules of Operation of the Compliance & Fraud Prevention Line, reviewed the Annual report on the Compliance & Fraud Prevention Line's activities as well as Quarterly reports on the Compliance & Fraud Prevention Line's activities, including information on compliance risk.

The Committee examined and approved the Report on the Internal Audit Line activity for 2016 and Periodic Reports on Internal Audit Line activity, periodic information on recommendations under scrutiny and the execution of recommendations issued by the Polish Financial Supervision Authority (KNF). In addition, the Audit Committee reviewed and recommended adoption of the Audit Charter and Audit Strategy to the Supervisory Board; it also examined the Report on Brokerage House Audit and Compliance activities for 2016. Moreover, the Audit Committee pondered over the information on adherence to the Best Practice for GPW Listed Companies 2016 by the Bank and information on implementation of IRFS 9, IFRS 15 and IFRS 16.

Composition of the Audit Committee of the Bank in 2017:

- Mariusz Warych - Chairman
- Jarosław Bauc - Member
- *Monika Nachyła* - Member until 21 October 2017 (on 21 October 2017 Ms Monika Nachyła submitted her resignation from the function of the Audit Committee member)
- Jean-Paul Sabet - Member

#### **4.2. Risk Committee**

Number of meetings held: 4

Performing its tasks in 2017, the Risk Committee familiarised itself and approved the following documents: Quarterly Credit and Operational Risk Dashboards, ALMT Risk Dashboard together with information on market risk, liquidity and counterparty risk, likewise capital requirements. The Committee examined and recommended to the Supervisory Board passing the relevant resolutions with respect to the updated Methodology of analysing stress tests on the sensitivity of IR position, currency position, liquidity position and capital position, approval of the model risk tolerance level, Methodology of Internal Liquidity Adequacy Assessment Process in Bank BGŻ BNP Paribas SA, and ILAAP Review Rules, Risk Management Strategy in Bank BGŻ BNP Paribas SA, Capital Management Policy at Bank BGŻ BNP Paribas S.A., Liquidity Emergency Plan at Bank BGŻ BNP Paribas S.A., Rules of review of the internal capital adequacy assessment and maintenance process (ICAAP) and Report on the review of Bank's internal capital assessment process (ICAAP).

Composition of the Risk Committee in 2017:

- Jean-Paul Sabet – Chairman
- Monika Nachyła – Member
- Mariusz Warych – Member

#### **4.3. Human Resources and Remuneration Committee**

Number of meetings held: 6

When performing its tasks in 2017, the Human Resources and Remuneration Committee, among others, discussed the changes in the composition of the Management Board, acquainted itself with the new terms and conditions for employing the Management Board members, discussed the principles and amount of compensation for the members of the Management Board, talked through proposals of financial targets and the level of target realization by the specific Management Board members, and it determined the base amount of variable remuneration as well as the long-term incentive programme. The Committee reviewed the Remuneration Policy and the variable remuneration at managerial positions in the risk and compliance functions. Furthermore, the Committee discussed and provided the Supervisory Board with recommendation for approval of the Policy regarding adequacy of the Supervisory Board Members, Management Board Members and persons holding key functions at Bank BGŻ BNP Paribas S.A.

Composition of the Human Resources and Remuneration Committee of the Bank in 2017:

- Jean-Paul Sabet - Chairman
- Stefaan Decraene - Member
- Józef Wancer - Member

## 5. SELF-ASSESSMENT OF THE SUPERVISORY BOARD WORK IN 2017

The Supervisory Board of Bank BGŻ BNP Paribas SA states that in 2017 it adequately supervised the Bank's business activities in all its areas in a continuous manner, pursuant to the applicable law and the Bank's Articles of Association.

It is the view of the Supervisory Board that it fulfils its obligations diligently and effectively, constantly overseeing the Company's operations and development in all areas of its activity. In the opinion of the Supervisory Board, professional experience and diversified competences of the members of the Supervisory Board enable them to scrutinize and provide opinions on presented issues, and to express a wide range of views while assessing the work of the Management Board and functioning of Bank BGŻ BNP Paribas S.A.

The Supervisory Board positively assessed the cooperation with the Management Board, stressing reliability and accuracy of the information provided by the Management Board. Furthermore, the Supervisory Board recognized active participation of the Management Board in meetings of the Supervisory Board (presentation of motions submitted to the Supervisory Board and provision of relevant clarifications).

In 2017 all the Members of the Supervisory Board actively participated in the Board's meetings and showed commitment to duly perform their duties, whilst the current situation of the company, market changes as well as best practices and standards were taken into consideration during discussions.

The number and duration of meetings, paired with access to resources, were sufficient for the Supervisory Board to fully meet its obligations, whilst the documents prepared for the Supervisory Board contained important information and were provided for the meetings sufficiently in advance.

The value of the documents submitted for meetings of the Supervisory Board, in terms of their substance, was assessed highly.

## 6. ASSESSMENTS PERFORMED BY THE SUPERVISORY BOARD IN 2017

### **6.1. Assessment of the company's standing including an assessment of the internal control, risk management and compliance systems and the internal audit function; such assessment should cover all significant control mechanisms, in particular financial reporting and operational activity**

The Supervisory Board positively assessed the Bank's standing.

At the same time, the Supervisory Board states that the system of internal control mechanisms, risk management, compliance and internal audit function, including control mechanisms covering financial reporting and operational activity, is working well and matches the Bank's activity level and complexity, as well as it complies with the adopted principles.

### **6.2. Assessment of the Bank's compliance with the Principles of Corporate Governance for the Supervised Institutions of 22 July 2014 issued by the Polish Financial Supervision Authority.**

In the opinion of the Supervisory Board, the Bank and its authorities complied with the adopted Principles of Corporate Governance for the Supervised Institutions. The Supervisory Board did not identify any violations by the Bank of the Principles of Corporate Governance for the Supervised Institutions in the period covered by this report.



### **6.3. Assessment of the Bank's compliance with the disclosure obligations concerning compliance with the corporate governance principles specified in the Best Practices of Companies listed on Warsaw Stock Exchange 2016**

In the opinion of the Supervisory Board, the Bank's Management Board adequately performed disclosure obligations under the principles specified in the Best Practices of Companies Listed on Warsaw Stock Exchange 2016, duties defined in the Stock Exchange By-laws and provisions on disclosure obligations by companies traded on the public market.

### **6.4. Assessment of the rationality of sponsorship, philanthropic and CSR activity pursued by the Company**

The Supervisory Board positively assessed the rationality of the sponsorship policy, philanthropic and CSR activity pursued by Bank BGŻ BNP Paribas S.A. The activity that is conducted rationally enables the company to accomplish its mission and business strategy, and it accommodates needs of the company's stakeholders (clients, employees, local communities, business partners and sector organisations etc.).

### **6.5. Assessment of the policy regarding the election of Members of the Bank's Management Board or Supervisory Board as regards ensuring versatility and diversity of such authorities, including with respect to gender, education, age and professional experience.**

The Supervisory Board positively assessed best practices adopted by the Bank in the field of diversity policy with respect to all the Bank's employees, regardless of their position, with particular emphasis on the Bank's authorities and its key managers.

As regards the appropriate composition of the Management Board and Supervisory Board in terms of education and experience, in 2017 the Bank applied the rules arising from the Bank's Articles of Association, that is:

- 1) at least two Management Board Members, including the President, should have knowledge and experience that allow for a stable and prudent management of the Bank. While at least half of the Bank's Management Board Members have good knowledge of the banking market in Poland, i.e. they have permanent residence in Poland, have a good command of Polish and appropriate experience on the Polish market (Article 21 para. 3-4 of the Bank's Articles of Association).
- 2) at least half of the Bank Supervisory Board members have good knowledge of the banking market in Poland, i.e. they have a good command of Polish and appropriate experience on the Polish market (Article 16 para. 1 of the Bank's Articles of Association).