

*Appendix*

*to the Resolution of the Supervisory Board 26/2019 of 29 May 2019*

**The Supervisory Board of mBank Hipoteczny S. A. by the Resolution 26/2019 approved the assessment of application by mBank Hipoteczny S.A. in 2018 of the Principles of Corporate Governance for Supervised Institutions introduced by the Polish Financial Supervision Authority (“Principles of Corporate Governance for Supervised Institutions”). The Supervisory Board approves the implementation and application of the Principles of Corporate Governance for Supervised Institutions at mBank Hipoteczny S.A.**

According to § 27 of the *Principles of Corporate Governance for Supervised Institutions*, the supervising body performs a regular assessment with respect to the application of the principles, and the results of this assessment are made available on the website of the supervised institution and transferred to the remaining bodies of the supervised institution.

By way of Resolution No 247/2014 of 16 December 2014, the Management Board of mBank Hipoteczny S.A. has adopted the application of the *Principles of Corporate Governance for Supervised Institutions*, save for the principles set out in:

- a) §8(4) — shares of mBank Hipoteczny S.A. are acquired indirectly or directly by one shareholder i.e. mBank S.A. General Meetings shall take place without a formal convocation, and always 100% of the capital shall be represented at the General Meetings. Accordingly, the number of shareholders does not justify the necessity of organizing meetings by use of electronic devices;
- b) §25(1) — the withdrawal from the said principle is dictated by the close cooperation with the shareholder, in particular within the scope of the consolidated supervision, large exposure risk management, application of statistical methods, area of risk, compliance, internal audit, as well as by the extensive cyclical reporting. In view of the above, the Supervisory Board sessions held 3 times per year are sufficient for keeping the Bank secure;

- c) §29 — the remuneration for holding the position of a Supervisory Board Member is awarded by the General Meeting to an independent member. The remaining Board Members do not receive remuneration;
- d) §53-57 — the withdrawal from the said principles is dictated by the fact that the Bank as a specialist institution does not carry out an activity within the field of asset management at the customer's own risk.

The Supervisory Board of mBank Hipoteczny S.A. has adopted the *Principles of Corporate Governance for Supervised Institutions* by way of Supervisory Board Resolution No 1/2015 of 19 January 2015, save for the aforementioned principles.

By way of OGM Resolution No 15 of 22 April 2015, the Ordinary General Meeting of mBank Hipoteczny S.A. has adopted the *Principles of Corporate Governance for Supervised Institutions* to the extent that they are related to the general meeting, save for the principle specified in § 29 — the remuneration for holding the position of a Supervisory Board Member is awarded by the General Meeting to an independent member.

The Principles of Corporate Governance for Supervised Institutions have been introduced to the Rules of Procedure of the Management Board, the Supervisory Board and to the Articles of Association.

#### **ASSESSMENT OF APPLICATION OF THE *PRINCIPLES OF CORPORATE GOVERNANCE***

The Supervisory Board approves the implementation and application of the Principles of Corporate Governance for Supervised Institutions at mBank Hipoteczny S.A.

The Bank's structure allows for the achievement of long-term goals of the conducted activity. The Bank acts on the basis of written formal regulations covering the management and the exercise of control, internal reporting systems, the flow and protection of information, as well as document circulation.

The Bank has a transparent organisational structure and the tasks of its individual organisational units are clearly defined.

The Bank manages the compliance risk for the purpose of ensuring the conformity of the activities with the applicable legal regulations, internal regulations and market standards.

The Bank's business activity is carried out on the basis of the long-term operations strategy with due consideration for the rules of risk management specified in the Risk-Management Strategy.

The rules of the Management Board's activity have been set out in the *Rules of Procedure of the Management Board*.

The Supervisory Board has approved the division of competencies between the Management Board Members adopted by the Management Board, thus ensuring the appropriate distribution of responsibilities for the operating activities, risk-monitoring activities and control activities. The Bank has defined the rules for limiting the conflict of interest among the Members of the Management Board and Bank's employees.

The Supervisory Board acts under the Rules of Procedure of the Supervisory Board adopted by the Annual General Meeting.

The Bank has implemented a staff policy adequate to the scale of operations and defines the rules of employment, remuneration, assessment and employee development.

The Bank has introduced the principles of determining variable components of the remuneration of persons in positions having a material impact on the risk profile of the Bank, specified in the "Remuneration policy for persons having a material impact on the risk profile in mBank Hipoteczny S.A., hereinafter referred to as the "Policy".

The new Policy has been adopted by the Resolution of the Supervisory Board No 7/2019 dated 11 February 2019 and stems from the following regulations:

- 1/ The EBA (European Banking Authority) guidelines on sound remuneration policies referred to in Article 74(3) and 75(2) of Directive 2013/36/UE and disclosure in accordance with Article 450 of Regulation (EU) No 575/2013 – EBA (European Banking Authority) guidelines on sound remuneration policies EBA/GL/2015/22 of 27 June 2016;
- 2/ The Banking Law of 29 August 1997 and the Minister for Development and Finance Regulation of 6 March 2017 on risk management system and internal control system, remuneration policy and the detailed manner of assessing internal capital at banks.

The adopted Policy aims at supporting proper and efficient risk management, ensuring that decisions made are not burdened with excessive risk, i.e. risk beyond the Bank's risk appetite accepted by the Supervisory Board, and supporting implementation of the strategy and limiting conflicts of interest.

*Regulation of the Minister of Development and Finance of 6 March 2017<sup>1</sup> on anonymous notification of irregularities entered into force on 1 May 2017 and in Chapter 5 it imposed a number of obligations on the Bank related to procedures for anonymous reporting of violations of the law and procedures and ethical standards applicable at the Bank.*

Under adaptation to the Regulation, in 2017 the Bank introduced the relevant internal procedures, whereas in 2018 it implemented the BKMS system — an IT tool devised for reporting, including anonymous reporting, of violations of laws and procedures and ethical standards applicable at the Bank.

Key assumptions to the BKMS system include ensuring anonymity of the reporting person, verification of each notification and the possibility to provide feedback to an anonymous e-mail address.

The Bank has an *Instruction on reporting of infringements at mBank Hipoteczny S.A.*, approved by the Supervisory Board, which sets out the principles of anonymous reporting of infringements and the procedures and ethical standards in force at the Bank.

The Supervisory Board by way of a resolution approved the division of competencies according to which the President of the Management Board is responsible for receiving anonymous reports of violation of the law and ethical standards by employees.

As regards the notifications concerning members of the Management Board, the Supervisory Board authorised the Chairman of the Supervisory Board to receive the notifications.

Furthermore, an e-learning training for employees on reporting violations of laws and procedures and ethical standards applicable at the Bank,

in particular taking into account the rules for the use of the BKMS system, was prepared and made available.

The sole shareholder of mBank Hipoteczny S.A. is mBank S.A. The Principles of Corporate Governance are followed in relations with the parent entity.

---

<sup>1</sup> *Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, the remuneration policy and the detailed manner of assessing internal capital at banks (Journal of Laws 2017.637)*

It has to be stressed that mBank as the sole shareholder ensures adequate level of equity, *inter alia* through appropriate dividend policy and the renewal of a subordinate loan in 2018 as well as by granting financing in the form of stand-by credit lines, which were fully approved by the Polish Financial Supervision Authority to be included in the calculation of LCR.

Within the framework of the information policy, according to Resolution of the Management Board of mBank Hipoteczny S.A. No 94/2018 of 21 December 2018 and Resolution of the Supervisory Board No 43/2018 of 27 December 2018, mBank Hipoteczny S.A., guided by the principle of transparency, will individually make disclosures, although there is no such requirement according to the Capital Requirement Regulation. The information policy is made available on the Bank's website.

The Bank has regulated rules regarding promotional activities and relationships with customers. In accordance with internal regulations, prior to publication, the advertisement message passes an acceptance process which involves also a legal opinion and an opinion of the Compliance Department.

The Bank has also implemented respective procedures pertaining to informing customers about offered products. The information was presented before the customer takes a decision. Due to the withdrawal of credits offered to consumers and entrepreneurs the procedures mentioned above will apply to a limited extent and in practice will apply to the takeover of debt or debt accession.

As regards the internal control system, the provisions of Recommendation H issued by the Polish Financial Supervision Authority, in accordance with Clause 5 of the Introduction thereof, introduced at mBank Hipoteczny S.A., take precedence over the principles laid down in Section 8 of the Principles of Corporate Government "Key systems and internal functions".

The internal control system adopted by the Bank shall include:

- 1) A control function intended to ensure compliance with the mechanisms pertaining, in particular, to the risk management at the Bank. The control function comprises all controls within the processes applicable at the Bank, independent monitoring of compliance with such controls and reporting within that function. The manner of operation of this function is defined in the Internal Control System Rules of Procedure, adopted by Resolution of the Management Board No 83/2017 of 14

November 2017 and approved by Resolution of the Supervisory Board No 1/2018 of 22 February 2018.

Internal controls are an integral part of the Bank's day-to-day operations and comprise:

- a) internal procedures on the Bank's operations,
- b) reviews of reports by the Management Board of the Bank,
- c) inspections conducted by the directors of departments and offices,
- d) tangible collaterals,
- e) a system of limits and rules for controlling them,
- f) rules for taking credit decisions and the system of authorisations,
- g) principles of verifying the transaction details and activities, and results of risk management models,
- h) activities aimed at controlling the quality and accuracy of the implemented tasks.

The control of accurate operation of the internal controls is made on an ongoing basis by each employee as part of their functions, and periodically, as part of horizontal and vertical testing, by heads of organisational units or their appointees.

- 2) The Compliance Department — a compliance unit whose task is to identify, assess, control and monitor the risk of non-compliance of the bank operations with the laws, internal regulations and market standards and presentation of reports in this respect.
- 3) The Internal Audit Department — an independent internal audit unit whose task is to audit and assess on an independent and objective basis the adequacy of the risk management and internal control systems.

Warsaw, 29 May 2019

Supervisory Board

of mBank Hipoteczny S.A.