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Group's Risk Management Rules

Risk Management is one of the crucial features that determines the risk profile of a financial institution. Efficient risk management requires a consistent risk management system, which is a collection of rules and mechanisms that regulate all the activities involving identification, measurement, mitigation, monitoring and reporting of individual risk types. Such rules also include a broad range of methods, both qualitative and quantitative, including advanced mathematical and statistical tools supported by adequate IT systems (see also "*Risk management framework*" in part of Board Report).

The results of risk measurement are regularly reported within the management information system.

Important principle of risk management is the optimization of the risk and profitability trade-off – the

Group pays special attention to ensure that its business decisions balance risk and profit adequately.

When defining the business and profitability targets, the Group takes into account the specified risk framework (Risk Appetite) in order to ensure that business structure and growth will respect the risk profile that is targeted and that will be reflected in several indicators such as:

- Loan growth in specific products / segments
- Structure of the loan portfolio
- Asset quality indicators
- Cost of risk
- Capital requirements / Economic capital
- Amount and structure of liquidity needed

The Risk Appetite of the Group is mainly defined through the principles and targets defined in the Group internal document *"Risk Strategy 2014-2016"*, approved by the Management Board and Supervisory Board, and complemented in more detail by the principles and qualitative guidelines defined in the following internal documents, approved by the Management Board:

- Capital Management and Planning Framework
- Credit Principles and Guidelines
- Credit Concentration Risk Management Principles
- Principles and Rules of Liquidity Risk Management
- Principles and Guidelines on Market Risk Management on Financial Markets
- Principles and Guidelines for Market Risk Management in Banking Book
- Investment Securities Policy
- Principles and Guidelines for the Management of Operational Risk

Another major rule on the risk management framework in the Group is the segregation of duties between risk origination, risk management and risk control. The split of competence in the field of risk management is as follows:

- The Supervisory Board is responsible for overseeing the compliance of the Group's risk-taking policy with the Group's strategy and its financial plan;
- The Management Board is responsible for the effectiveness of the risk management system, internal control system, internal capital estimation process, for reviewing the internal capital calculation and maintenance process and the internal control systems;
- The Credit Committee, the Capital, Assets and Liabilities Committee, and the Liabilities at Risk Committee are responsible for current management of different areas of banking risk, within the framework determined by the Management Board;
- The Risk Committee and the Processes and Operational Risk Committee are responsible for defining the policy and for monitoring and control of different areas of banking risk, within the framework determined by the Management Board;
- The Validation Committee is responsible for confirmation of risk models validation results and follow-up in the implementation of the measures defined by the Models Validation Office;
- The Risk Department is responsible for risk management, including identifying, measuring, analyzing,

monitoring and reporting on risk within the Bank. The Risk Department also prepares risk management policies and procedures as well as provides information and proposes courses of action necessary for the Risk Committee and the Management Board to make decisions with respect to risk management;

- The Rating Department is mainly responsible for risk rating assignment for Corporate clients (based on the evaluation of clients' creditworthiness) as well as for rating monitoring and potential revision during the period of its validity. Rating assignment process is independent from credit decision process;
- The Corporate Credit Underwriting Department and the Retail Credit Underwriting Department have responsibility, within the Corporate Customer segment and Retail Customer segment, respectively, for the credit decision process, including analyzing customers' financial situation, preparing credit proposals for the decision-making levels and making credit decisions within specified limits;
- The Retail Liabilities Collection Department has responsibility for monitoring repayment of overdue debts by retail customers and their collection;
- The Corporate Recovery Department develops specific strategies with respect to each debtor from recovery portfolio, which aims to maximize timely collection of the outstanding debt and minimize the risk incurred by the Group. This approach is constantly revised to reflect updated information, and the best practices and experiences regarding collection of overdue debts;
- The Treasury Control and Analyses Office has responsibility for monitoring the use of part of the Group's limits, including counterparty and stop-loss limits, the Group's FX position, results of active trading and control of operations of the treasury segment;
- The Models Validation Office has responsibility for qualitative and quantitative models validation, independent from the function of models development; development of the models validation and monitoring tools; activities connected with issuing opinions on the adequacy of the models for the segment, for which they were developed; preparing reports for the Validation Committee needs.
- Fraud Risk Management Office has responsibility for implementation and monitoring Bank policy execution in the scope of fraud risk management in cooperation with others Bank units. Bureau constitutes a competence centre for anti-fraud process.

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