



Bank Polski

**REPORT  
“ASSESSMENT OF THE  
FUNCTIONING OF THE  
REMUNERATION POLICY  
AT PKO BANK POLSKI S.A.  
IN 2016”**

**REPORT ADOPTED BY THE BANK'S SUPERVISORY BOARD FOR SUBMISSION  
TO THE ANNUAL GENERAL MEETING**

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## INTRODUCTION

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The report "Assessment of the Functioning of the Remuneration Policy at PKO Bank Polski S.A. in 2016" was developed with a view to meeting the requirements of:

- § 15(1)(14) of the Bank's Articles of Association:
  - 14) *Besides the rights and obligations provided for by the generally applicable laws and the provisions of these Articles of Association, the Supervisory Board shall adopt resolutions concerning the assessment of the functioning of the remuneration policy in place at the Bank and submit the relevant report to the Annual General Meeting,*
- § 28(3) and (4) of the "Principles of Corporate Governance for Supervised Institutions" that constitute an appendix to Resolution No 218/2014 of the Polish Financial Supervision Authority of 22 July 2014 on the publication of the "Principles of Corporate Governance for Supervised Institutions":
  3. *The supervisory body shall annually develop and submit, to the decision-making body, a report on the assessment of the functioning of the remuneration policy at the supervised institution".*
  4. *The decision-making body shall evaluate whether the remuneration policy in place promotes the development and operational security of the supervised institution.\**

*\*Disclaimer: The Annual General Meeting of the Bank that was held on 25 June 2015 declared that acting within its powers it will be guided by the "Principles of Corporate Governance for Supervised Institutions" but it departed from the application of the principle laid down in § 28(4) of the above-mentioned Principles.*

This report fulfils the aforementioned requirements as at 31 December 2016.

## ASSESSMENT SUMMARY

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1. THE DEVELOPMENT AND OPERATIONAL SECURITY OF THE BANK ARE ENSURED IN THE REMUNERATION POLICY THROUGH THE FOLLOWING ACTIVITIES:
  - MOTIVATING EMPLOYEES TO ACTIVITIES COINCIDING WITH THE BANK'S INTERESTS
  - LINKING THE AMOUNT OF REMUNERATION PAID WITH THE BANK'S POSITION
  - ENSURING THE APPROPRIATE LEVEL OF CONTROL OF FIXED AND VARIABLE REMUNERATION AMOUNTS, AND OF NON-WAGE BENEFITS
  
2. THE BANK APPLIES THE POLICY OF REMUNERATING MEMBERS OF THE SUPERVISORY BOARD AND OF THE MANAGEMENT BOARD, AS WELL AS KEY MANAGERS, AS SPECIFIED IN THE APPLICABLE INTERNAL REGULATIONS THAT HAVE BEEN REVIEWED IN TERMS OF CONSISTENCY AND TRANSPARENCY
  
3. MEMBERS OF THE SUPERVISORY BOARD RECEIVE REMUNERATION THAT IS ADEQUATE TO THEIR FUNCTION AND THE SCALE OF OPERATIONS OF THE BANK
  
4. THE SUPERVISORY BOARD HAS INTRODUCED REGULATIONS LAYING DOWN THE RULES OF REMUNERATING MEMBERS OF THE MANAGEMENT BOARD. THE SUPERVISORY BOARD ALSO SUPERVISES COMPLIANCE WITH THESE RULES, SETS CRITERIA AND CONDITIONS JUSTIFYING ELIGIBILITY FOR VARIABLE REMUNERATION AND REVIEWS THEM PRIOR TO THE PAYMENT OF VARIABLE REMUNERATION
  
5. VARIABLE REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD AND KEY MANAGERS IS DEPENDENT ON THE FULFILMENT OF PERSONAL OBJECTIVES RELATED TO THE BANK'S STRATEGY. THESE OBJECTIVES INCLUDE QUANTITATIVE AND QUALITATIVE CRITERIA. THEY ALSO GUARANTEE GIVING MEMBERS OF THE MANAGEMENT BOARD INCENTIVES TO WORK AND OBSERVE THE MODELS OF CONDUCT SO THAT THE BANK MAY ACHIEVE ITS GOALS
  
6. THE AMOUNT OF VARIABLE REMUNERATION OF ALL EMPLOYEES IS DEPENDENT ON THE LEVEL OF FULFILMENT OF THE OBJECTIVES

## REMUNERATION POLICY DESCRIPTION

### 1. COLLECTIVE LABOUR AGREEMENT

The Collective Labour Agreement (CLA) concluded with the company trade union organisations on 28 March 1994 (as amended) constitutes the basic internal regulation regarding the remuneration policy. Under the CLA, Bank employees are entitled to the following remuneration components:

- 1) base remuneration,
- 2) additional remuneration for working overtime, as well as under conditions which are especially onerous and detrimental to health,
- 3) bonuses and awards for special achievements in their professional work.

The CLA determines the minimum guaranteed base remuneration assigned to individual categories of posts in accordance with the evaluation process:

Category of post by post evaluation	Rate of the minimum base remuneration – the percentage ratio of the minimum remuneration determined under generally applicable provisions
A1	700%
A2	550%
A3	400%
B1	300%
B2	230%
B3	180%
C1	150%
C2	120%
C3	100%

### 2. EVALUATION OF POSTS

Post are evaluated by the **Evaluation Board** in the composition determined by the Director of the Personnel Management Division in accordance with job descriptions, organisational regulations and presentation of individual structures.

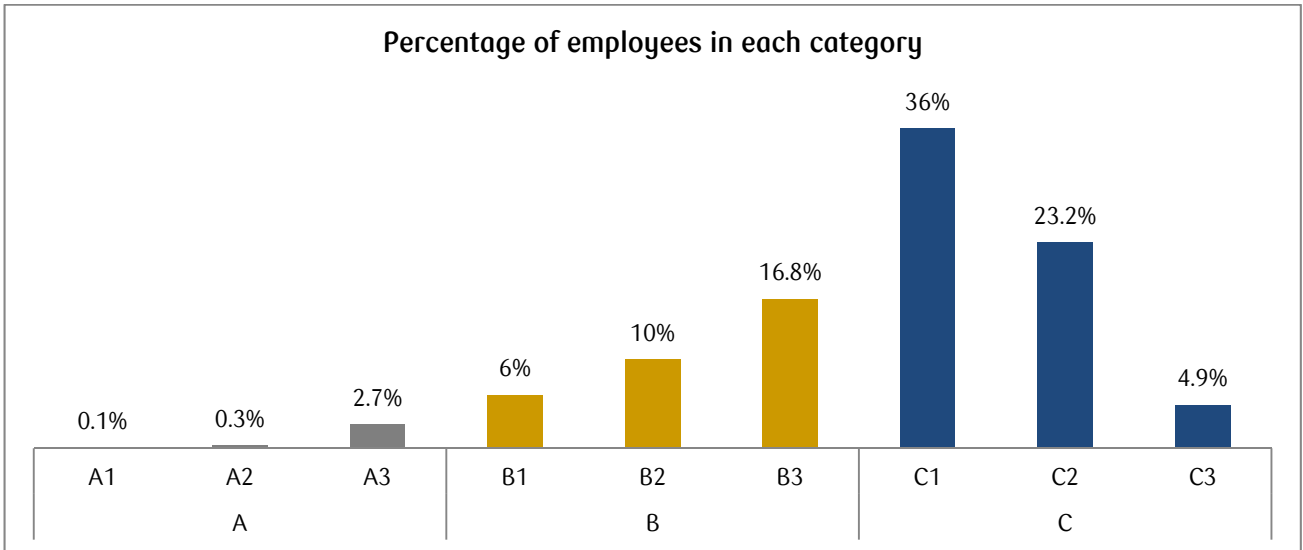
The evaluation changes of there are significant changes in the tasks carried out on a post.

The evaluation process resulted in **three groups of post categories**:

- 1) A – managers (strategic, crucial and senior),
- 2) B – officers and experts (key officers and others),
- 3) C – specialists.

Each of the above groups was further divided into 3, which yielded 9 categories of posts:

Group of post category	Post category
A	A1 – Strategic management
	A2 – Key management
	A3 – Senior management
B	B1 – Sales managers and key experts
	B2 – Middle-rank managers, experts
	B3 – Line managers, key specialists
C	C1 – Bank specialists, bank analysts
	C2 – Specialists, analysts
	C3 – lower-level posts, support.

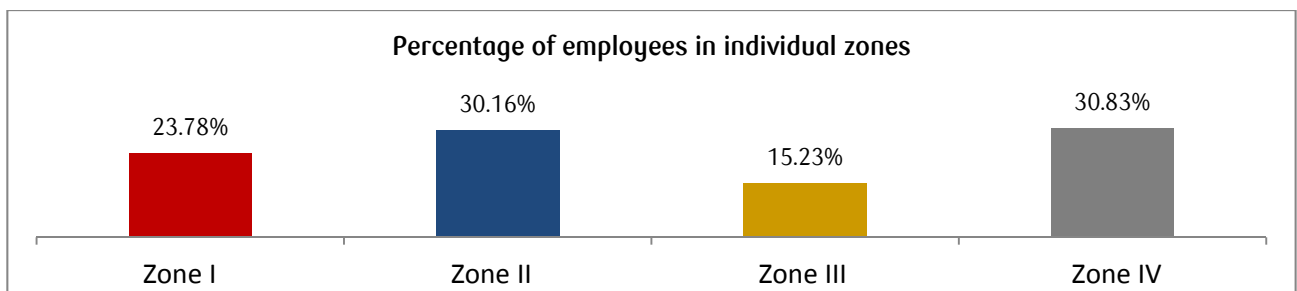


While evaluating posts, the Evaluation Board takes into account the table of posts issued under the Collective Labour Agreement and agreed with the trade unions, which guarantees minimum categories assigned to the list of individual posts.

### 3. BASE REMUNERATION MANAGEMENT

The base remuneration (as well as additional benefits such as medical care) is awarded based on the post categories assigned to individual organisational posts and the analysis of market-based salaries in the banking sector (taking into account regional differences).

<b>ZONE I</b>	Warsaw
<b>ZONE II</b>	Katowice (extended metropolitan area), Kraków, Łódź, Poznań, Rzeszów, Szczecin, Trójmiasto, Wrocław, Piaseczno, Łomianki, Pruszków, Czeladź, Mikołów
<b>ZONE III</b>	the Warsaw region (other than the cities mentioned above), Białystok, Bydgoszcz, Gorzów Wlkp., Kielce, Lublin, Olsztyn, Opole, Toruń, Zielona Góra, Bielany Wrocławskie, Pabianice, Konstancin, Aleksandrów Łódzki, Zgierz, Częstochowa, Radom, Stargard, Police, Żyrardów, Grodzisk Maz., Grójec, Koszalin, Wieliczka, Skawina, Rybnik, Wodzisław Śląski, Jastrzębie Zdrój, Tarnowskie Góry, Knurów, Pyskowice, Będzin, Bielsko-Biała
<b>ZONE IV</b>	Other locations



The base remuneration is subject to change based on a case-by-case examination process (taking into account the work performance and the results of the employee periodic evaluation). This can be done within the process of:

- 1) pay rises in the whole Bank,
- 2) pay rises resulting from the promotion panels within the career paths for a group of posts,
- 3) remuneration modifications linked to specific reorganisation projects for individual structures or processes.

#### 4. VARIABLE REMUNERATION COMPONENTS FOR MEMBERS OF THE MANAGEMENT BOARD AND KEY MANAGERS HAVING A MATERIAL IMPACT ON THE BANK'S RISK PROFILE (MATERIAL RISK TAKERS – MRT)

In keeping with the requirements of the CRD IV and the Commission Delegated Regulation (EU) No 604/2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile of 4 March 2014, the Bank operates on the basis of the rules of determining variable remuneration components for the members of the Management Board and MRTs, through the following resolutions:

- 1) of the Supervisory Board – the policy of variable remuneration components entitled the "Rules of variable remuneration components for persons holding managerial positions at the Bank" (which rules are the basis for issuing subsequent regulations) and the "Rules of variable remuneration components for members of the Management Board",
- 2) of the Management Board – the "Rules of variable remuneration components for persons holding managerial positions."

The Supervisory Board reviews the above-mentioned Rules periodically. In accordance with the outcome of those reviews and the reports of the Internal Audit Department on the implementation of the Rules, the Supervisory Board may recommend their update. Neither prior reviews nor amendments to the Rules and Regulations of variable remuneration components made on the basis of such reviews were of a nature that would significantly affect the main assumptions and tools of the incentive system.

The list of MRTs is determined by the Management Board. As at 31 December 2016, there were 37 posts included in the list (the number of employees is higher due to the fact that some posts from the List are staffed by several employees; this applies to Directors of Divisions, Macroregions Corporate Directors, Directors of Branches abroad).

Bank functional area	Number of MRT posts
Risk Management	13
Corporate and Investment Banking	12
Management Board President	4
International Banking and Transactions and Cooperation with Local Government and Government Agencies	3
Finance and Accounting	2
Information Technology and Services	1
Retail Market	1
+ the Director of Division post in every area	1

The rules and the Remuneration Regulations issued on the basis thereof set out the procedure for granting MRTs variable remuneration components in connection with the performance and work results, namely bonuses and awards for special achievements.

The variable remuneration components are awarded primarily on the basis of bonus objectives assigned as part of Management by Objectives (**MbO**). The assigned MbO objectives are designed to take account of the Bank's business cycle and the risks associated with its operations. This risk is taken into account by establishing relevant, risk-sensitive criteria for the assessment of MRT performance.

Once it has been verified whether the bonus objectives have been met, variable remuneration components for a given assessment period (calendar year) are awarded in the following forms:

- 1) in non-deferred form – in the amount of 60% of the variable remuneration (in the first year after the assessment period),
- 2) in deferred form – in the amount of 40% of the variable remuneration (in equal instalments over the next three years after the first year following the assessment period);

both non-deferred and deferred remuneration is awarded in equal parts in cash and in the form of a financial instrument, i.e. phantom shares (whose conversion into cash at the updated price of the Bank's shares is performed following the retention period, and for deferred remuneration – following the deferment period).

In the event that the amount of variable remuneration for the year has exceeded PLN 1 million, PLN 400 thousand plus 60% of the excess over the amount of PLN 1 million is subject to deferral.

The variable remuneration may not exceed 100% of the annual fixed remuneration for managerial positions and 70% for the members of the Bank's Management Board. At the request of the Supervisory Board, the above limit of variable remuneration for employees other than members of the Bank's Management Board can be raised up to 200% of fixed remuneration for investment banking posts, subject to approval by the General Meeting.

Each of the accrued components of variable remuneration **may be reduced** as a consequence of:

- 1) a breach of the employee's duties,
- 2) non-compliance with legal regulations or customer service standards,
- 3) inadequate performance of assigned professional duties,
- 4) violation of the principles of community life in relation to other employees.

The amount of the bonus:

- 1) for a member of the Management Board may be **adjusted downwards or upwards** by a specified rate, depending on the financial performance of the Bank, as specified in the annual Note of the Bank (a set of key management indicators specified for the calendar year),
- 2) for an MRT other than a member of the Management Board may be **adjusted upwards** by a specified rate depending on the financial performance of the Bank, as specified in the annual Note of the Bank.

For members of the Management Board, the granting and payment of variable remuneration are subject to approval by the General Meeting of the financial statements for the assessment period.

Prior to each payment of variable remuneration with reference to the Management Board members the Supervisory Board can also decide – and with reference to persons holding managerial positions the Management Board can decide – whether to reduce the amount of funds for the remuneration, while taking into account the following:

- 1) the impact on the Bank's regulatory capital, adequacy ratio and equity so that the payment of variable remuneration does not restrict the possibilities of their strengthening,
- 2) the impact on the capital cost so that the payment of variable remuneration does not restrict the possibility of maintaining an adequate capital base,
- 3) the desired risk profile of the Bank,
- 4) the Bank's financial performance vis-à-vis its long-term development plans.

If:

- 1) the Bank's financial performance suffered a material deterioration,
- 2) it is found that there has been a material negative change in equity,
- 3) an employee violated the law or committed gross errors,
- 4) the performance and the degree of performance of the employee's outcomes or objectives has been adjusted,
- 5) the performance of the structures supervised or managed by the above-mentioned persons has deteriorated,
- 6) variable remuneration has been granted on the basis of incorrect or misleading information or as a result of employee fraud

the Supervisory Board or the Management Board, as the case may be, may employ a malus-type solution reducing the amount of deferred variable remuneration due to a member of the Management Board or MRT in subsequent assessment periods.

MRTs can take advantage of the Bank-funded health care, Employee Benefit Fund and Employee Pension Scheme. Furthermore, members of the Management Board are entitled to Bank-funded insurance – in the event of death, grave illness, permanent disability, permanent or long-term damage to health, incapacity to work.

If a **severance pay** related to the dismissal from the office is awarded to an MRT, which is coupled with the termination of employment (other than a severance pay resulting from generally applicable provisions of law), the amount of the severance pay shall reflect the assessment of performance over the last three years of employment. Furthermore, the Bank's regulations stipulate the maximum amount of a severance pay.

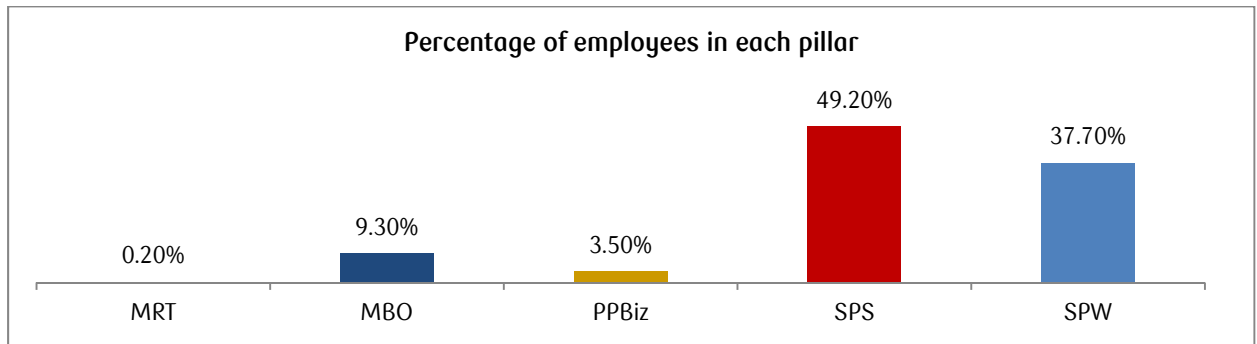
Both members of the Management Board and selected MRTs are also covered by **non-competition agreements**. These provide for the payment of compensation required by the labour law in respect of refraining from undertaking employment with a competitor after the termination of employment with the Bank.

## 5. VARIABLE REMUNERATION COMPONENTS FOR EMPLOYEES OTHER THAN MRTs

### 1) BONUSSES

PKO Bank Polski S.A. has a bonus system in place which consists of four pillars:

- MbO (Management by Objectives) – covers managerial and expert positions which pursue key objectives for the Bank, including the strategic ones; MbO is a bonus dependent on the quality and degree of implementation of the assigned objectives,
- PPBiz (Business Bonus Programme) – is a bonus pillar, in which the bonus depends on the completion of specific sales or efficiency tasks; it includes employees performing business tasks, mainly sales tasks, in the area of corporate and investment banking and debt collection,
- SPS (Sales Bonus System) – targets retail branch posts where banking products are sold,
- SPW (Bonus Support System) – covers other employees whose posts are not subject to the MBO, PPBiz or SPS pillar.



The bonus is linked to the assessment of the employee performance. The work performance is evaluated on the basis of achievement of individual or team objectives – a specific performance level entitles to a specified bonus indicator in an amount specified by the President of the Management Board.

Bonus objectives correspond to the Bank's key management ratios taken into account in bonus objectives set for the individual units of the Bank. According to the cascade principle included in the bonus rules, whose observance is monitored, the objectives should be assigned to employees employed under individual structures.

Additionally, each objective is set according to the SMART principle (S-specific, M-measurable, A-ambitious, R-realistic, T-time-bound), which is also subject to cyclical monitoring.

The correctness of setting objectives and of verifying whether the objectives have been met is supported by dedicated applications for these processes – through the system validations contained in the applications.

Each bonus may be reduced if, by the date of its payment, the following events relating to an employee took place:

- a breach of the employee's duties,
- non-compliance with legal regulations or customer service standards,
- inadequate performance of assigned professional duties,
- violation of the principles of community life in relation to other employees.

In addition, the bonus adjusting indicators are applied depending on the work quality assessment (MbO) and business performance (PPBiz and MbO in corporate centres). In the retail network, solidarity objectives are applied, which may increase individual bonuses.

## 2) AWARDS

Apart from the bonus system, there are the rules of awarding Bank employees in place at the Bank. These rules provide for the creation of an award fund for the purpose of:

- individual discretionary awards for Bank employees with outstanding performance or with achievements that resulted in important effects for the Bank,
- awards in performance-related competitions (in particular competitions concerning sales of selected retail products).

The Bank also gives special awards for preventing activities undertaken to the detriment of the Bank. These are granted to:

- employees,
- intermediary entities,

- persons other than the above if they directly helped to disclose and prevent activities undertaken to the detriment of the Bank.

## 6. NON-SALARY BENEFITS AND PRIVILEGES AVAILABLE TO EMPLOYEES OF PKO BANK POLSKI S.A.

### 1) MEDICAL CARE

Apart from the occupational medicine benefits, for the provision of which an employer is responsible under Labour Code provisions, the Bank provides its employees with additional medical care available under different benefit packages to the dedicated specific groups of positions, depending on the post category. The employees may also join the "Zdrowie jak w Banku" prevention programme aimed at early detection of diseases and promoting healthy lifestyles.

### 2) EMPLOYEE PENSION SCHEME

The Bank has been operating the Employee Pension Scheme since July 2013. Under the Scheme, the employees are entitled to a long-term savings option with a view to supplementing retirement income drawn from the mandatory parts of the pension scheme. The Employee Pension Scheme has been in place at the Bank in the form of an agreement whereby the Bank pays, to the Investment Funds managed by PKO TFI, the Basic Contribution (3% of each element of remuneration being the base for the retirement and pension contribution), and possibly Additional Contribution incurred by employees.

In connection with the acquisition of Nordea Bank Polska S.A. on 31 October 2014 and the acquisition of SKOK "Wesoła" on 1 August 2015, the following schemes also functioned at the Bank: Employee Pension Scheme created in Nordea Bank Polska (NoBP EPS) for employees who were participants of NoBP EPS at the date of acquisition, and the Employee Pension Scheme created in SKOK "Wesoła" (SKOK EPS) for employees who were participants of the SKOK EPS at the date of acquisition.

On 30 April 2016, these acquired Employee Pension Schemes were removed from the register of the Polish Financial Supervision Authority, at the request of the Bank, due to the necessity to standardize the conditions of collecting funds in a single scheme. At the same time, participants of the liquidated schemes were allowed to join the Bank's EPS and thus to further accumulate funds under the terms of the Bank's EPS.

### 3) EMPLOYEE BENEFIT FUND

- The MyBenefit cafeteria system – an Internet platform where any Bank employee may independently dispose of the funds allocated to them from the Employee Benefit Fund. The cafeteria system allows the employees to select and purchase, for the monies from the Fund, attractive benefits relating in particular to leisure, recreation and culture (e.g. tours, stays in resorts in Poland and abroad, cinema tickets, sports events tickets, books, sports cards, concert tickets, purchase of sports equipment and sportswear).
- Social Fund beyond MyBenefit – non-repayable aid for employees in difficulty, housing loans, e.g. for the purchase of a first flat as well as funding for organized leisure journeys and childcare in nurseries, clubs for children, kindergartens and other forms of preschool education and care provided by a babysitter (which are funded under the cafeteria scheme).

### 4) SUPPORT FOR REASSIGNED EMPLOYEES

The employees reassigned within the Bank for reasons not attributable to them are entitled to special financial benefits to the extent to which the distance between the place of residence entered in the personnel files and the new place of work increases by a certain number of kilometres. As a result, employees are motivated to accept new job offers.

### 5) SPORTS CARDS

Thanks to the Multisport, OK. System, Calypso and Pure sports cards, Bank employees can attend programmes offered at sports facilities of their choice located throughout the country. Cards may be ordered via the MyBenefit platform. The card can be financed either from the funds allocated under the Social Fund or from their own funds.

### 6) BANK INDUSTRY SPECIAL OFFER

Employees of the banking sector can access the banking offer of ROR Konto Aurum BOS (personal banking) and loan products offered on favourable terms, including credit cards and the "Własny Kąt Hipoteczny" housing loan.

### 7) TRAINING AND EDUCATION CO-FINANCING

The Bank's employees may apply for the co-financing of education, in particular, postgraduate studies, the MBA programme, PhD studies and training for legal advisors.

**8) "PKO PO GODZINACH" PROGRAMME**

Co-financing of sports, recreational or cultural events by promoting common interests of employees: skiing, cross-country section, cycling, sailing, football, horse riding, basketball, volleyball, tennis, motorcycles, canoeing trips, art classes.

**9) REFUND OF PURCHASE OF GLASSES**

The Bank employees who need corrective lenses to work in front of a computer monitor can apply for a refund of the purchase of glasses or contact lenses in an amount specified by the Bank.

**10) COMPANY CARS**

Cars are available because of special employee duties and for persons in top positions. For key managerial positions, the make, model and colour of the company car are selected by the user (from the specified catalogue of makes and models).

**11) "MOJE NOWE AUTO" (MY NEW CAR) (MoNA) PROGRAMME**

The MoNA is an employee programme of acquiring new cars under a lease. Under the MoNa, a Bank employee is entitled to use the selected car for a certain period agreed in an individual contract with PKO Leasing SA, in exchange for fixed monthly payments, which are more favourable than the price offers available on the market. Once the agreed time has expired, the employee may purchase the car or resign from it and use another new car.

**12) CORPORATE LIFE INSURANCE**

The Bank employees may purchase insurance with PZU Życie S.A. or PKO Ubezpieczenia. Corporate insurance is offered on favourable terms as compared to the offers currently available in the retail market.

**13) SUPPORT FOR PERSONS TERMINATING EMPLOYMENT FOR REASONS NOT ATTRIBUTABLE TO THE EMPLOYEES**

The Bank offers various forms of support for its employees terminating their employment for reasons not attributable to them: a number of severance-pay packages, support in the process of retraining and access to internal vacancies with a view to finding another job in the Bank, support in looking for work outside the Bank (with the participation of specialised personnel advisors).

**7. RESPONSIBILITIES FOR DETERMINATION OF REMUNERATION**

The Management Board approves the Bank's internal rules on remuneration (the Supervisory Board approves the rules for the Management Board), whereas the President of the Management Board is responsible for setting bonus indicators and approving the evaluation of posts.

The Management Board authorised the following persons to enter, on behalf of the Bank, into legal transactions with reference to individual cases under labour law (and thus to conclude employment agreements and change remuneration in respect of the effective agreements):

- 1) the President of the Management Board,
- 2) the Director of the Personnel Management Division (PZP)
- 3) the Director of the Human Resources Department (DSR) – in the absence of the Director of PZP (with the possibility of granting permanent power of attorney)

provided that the powers of the President of the Management Board concern the senior management of the Bank.

The granting – in employment agreements, preliminary agreements or letters of intent – of benefits in respect of the employment relationship or the terms of the employment agreement going beyond the benefits or terms resulting from the generally applicable provisions of law or internal regulations requires the approval of the President of the Management Board.

Employing, dismissing or changing the employment agreement terms in respect of the position or with a view to reducing the base salary requires the prior approval of the Supervisory Board, if it is made at the initiative of the employer with respect to the director of the internal audit unit.

Employing, dismissing or changing the employment agreement terms in respect of the position requires the prior approval of the Supervisory Board, if it is made at the initiative of the employer in respect of the director of a Headquarters organizational unit competent for compliance risk management in the Bank.

Dismissing or changing the employment agreement terms in respect of the position or with a view to reduce the base salary requires the prior approval of the President of the Management Board, if it is made at the initiative of

the employer in respect of an employee of the internal audit unit or an employee of a Headquarters organizational unit competent for compliance risk management in the Bank.

## REMUNERATION POLICY ASSESSMENT FOR CONFORMITY WITH THE PFSA PRINCIPLES OF CORPORATE GOVERNANCE FOR SUPERVISED INSTITUTIONS (CHAPTER V OF THE PRINCIPLES – REMUNERATION POLICY)

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### § 28.

1. A supervised institution should have a transparent policy of remunerating members of the management body and the supervisory body, as well as persons holding key positions. The remuneration rules shall be defined by means of an appropriate internal regulation (the remuneration policy).

The Bank has a policy of remunerating members of the Supervisory Board, members of the Management Board and key managers in place. The policy is defined by the following internal regulations:

- 1) Collective Labour Agreement,
- 2) The rules of variable remuneration components for persons holding managerial positions at the Bank,
- 3) The rules of remunerating members of the Management Board,
- 4) The Regulations on variable remuneration components for members of the Management Board,
- 5) The Regulations on variable remuneration components for persons holding managerial positions,
- 6) The rules of awarding bonuses for the Bank employees,
- 7) Resolution of the General Meeting on the rules of remunerating members of the Supervisory Board.

These regulations have been reviewed for consistency with the "Principles of Corporate Governance for Supervised Institutions" and for transparency. They may be accessed by all employees of the Bank to whom individual regulations apply, mainly through the Bank's Intranet websites.

**2. When establishing the remuneration policy, the financial position of the supervised institution should be taken into account.**

According to the policy effective in the Bank, the amount of variable remuneration depends on the degree of fulfilment of objectives. These objectives are linked to the Bank's financial performance and financial position. They guarantee that both the Bank's business cycle and its business risk are taken account of. The business risk is taken into account either by establishing the relevant risk-sensitive criteria for performance assessment, or by a reduction in bonuses or no bonuses being granted in the event of the Bank's deteriorated performance, loss or deterioration of other variables.

Under § 13(1) of the Rules of variable remuneration components for persons holding managerial positions at the Bank, the formula for evaluating the conditions for a reduction in variable remuneration includes the review of:

- 1) significant deterioration of the Bank's financial performance as a result of:
  - a) the occurrence of the balance sheet loss or the occurrence of a risk thereof,
  - b) the occurrence of insolvency or liquidity risk,
- 2) a material adverse change in the Bank's equity,
- 3) violation of a provision of law, regulations, procedures or obligations arising from the relationship of employment of a person occupying a managerial position, or committing material errors by such persons, for example, non-compliance with the internal code of conduct, compliance guidelines or fundamental values, particularly in the risk management areas,
- 4) adjustment of attained results / the extent to which a person holding a managerial position attained their results,
- 5) granting variable remuneration on the basis of incorrect or misleading information or as a result of fraud committed by a person holding a managerial position.

Should any of the above-mentioned circumstances occur, a portion of or the whole deferred variable remuneration may be reduced for the period to which the circumstance refers.

**3. The supervisory body shall annually develop and submit, to the decision-making body, a report on the assessment of the functioning of the remuneration policy at the supervised institution".**

**4. The decision-making body shall evaluate whether the remuneration policy in place promotes the development and operational security of the supervised institution.**

The Supervisory Board fulfils its responsibilities relating to the preparation of this report on the assessment of the functioning of the remuneration policy in the Bank for the previous financial year for its submission to the Annual General Meeting.

### § 29.

**1. Remuneration of the members of the supervisory body shall be established appropriately to their functions and appropriately to the scale of operations of the supervised institution. Supervisory body members appointed to work in committees, including the audit committee, should be remunerated appropriately to the additional tasks they perform within the relevant committee.**

The Supervisory Board members are remunerated for the tasks entrusted to them. The amount of remuneration is set at a level commensurate with their tasks (determined proportionately to the number of days served as the Supervisory Board member in a month and taking into account their participation in the Supervisory Board meetings/ their absence from such meeting). It varies depending on the functions performed within the Supervisory Board. The Bank carries out comparative analyses on a regular basis to confirm that the amounts paid correspond to the salaries of supervisory board members in institutions of a similar size and profile. In 2016, no decision to change the amount of the remuneration for members of the Supervisory Board was made. The remuneration granted by the Bank reflects jointly the performance of the supervisory functions and the work in the committees. Members of the Supervisory Board appointed for work in the committees are entitled to reimbursement of expenses incurred in the performance of additional responsibilities.

**2. Remuneration of members of the supervisory body, unless regulations prohibit the payment of such remuneration, should be set by the decision-making body.**

As specified in § 15 of the Rules of the Supervisory Board of PKO Bank Polski S.A., which have been approved by the General Meeting, for their participation in the work of the Supervisory Board, members of the Supervisory Board shall receive remuneration in an amount and on terms specified by the General Meeting.

**3. The rules of remunerating members of the supervisory body should be transparent and included in the relevant internal regulations of the supervised institution.**

The rules of remunerating members of the Supervisory Board of the Bank are specified by a resolution of the General Meeting under Article 392(1) of the Code of Commercial Companies and Partnerships. Resolutions of the General Meeting are the Bank's internal regulations.

### §30.

**1. The supervisory body, taking into account the decisions of the General Meeting, shall be responsible for the adoption of an internal regulation specifying the rules of remunerating members of the management body, including detailed criteria and conditions justifying eligibility for variable remuneration components.**

The Supervisory Board introduced internal regulations specifying the rules of remunerating members of the Management Board. These issues are governed by the following documents: the Rules of variable remuneration components for persons holding managerial positions at the Bank, as attached to Resolution No 59/2014 of the Supervisory Board of 17 December 2014, the Rules of variable remuneration components for members of the Management Board, as attached to Resolution No 60/2014 of 17 December 2014 and Resolutions No 4/2012, 5/2012 and 10/2012 of 18 January 2012, 3/2013 of 23 January 2013, 50/2016 of 2 June 2016, 59/2016 of 30 June 2016, 68/2016 of 14 July 2016 and 89/2016 of 3 November 2016 on the remuneration of individual members of the Management Board. These Regulations define both specific and general criteria for remunerating members of the Management Board, including the criteria for the base and variable remuneration.

**2. A supervisory body shall exercise supervision of the introduced remuneration policy, including a review of meeting the criteria and conditions of eligibility for variable remuneration components before the payment of the whole or a part of that remuneration.**

**1) Exercise of supervision of the policy**

The Supervisory Board approves the Rules of variable remuneration components of persons holding managerial positions at the Bank and carries out periodic reviews of those Rules. The Supervisory Board may on the basis of such reviews and the presented reports on the implementation of the Rules recommend the update of the Rules.

**2) Determination of the criteria and conditions justifying eligibility for variable remuneration components prior to the payment of the whole or part of that remuneration.**

The Supervisory Board determines the values and weights of objectives for members of the Management Board, as part of the Management by Objectives (MBO), and approves their implementation.

**3) The review of whether the criteria and conditions justifying eligibility for variable remuneration components have been met prior to the payment of the whole or part of the remuneration**

Under § 12 and 13 of the Rules for variable remuneration components for members of the Management Board, the Supervisory Board takes decisions, in the form of a resolution, on meeting the conditions for payment of variable

remuneration and application of malus-type solutions to the deferred variable remuneration for the individual members of the Management Board. A malus-type solution can be applied if the conditions for a reduction in variable compensation enumerated in § 12-13 of the Rules occur. If the Supervisory Board deems that a condition for the application of a malus-type solution has been met, then some or all of the deferred variable remuneration for the assessment period may be subject to reduction. The Management Board takes similar decisions with reference to the Material Risk Takers – in accordance with § 16 and 17 of the Rules of variable remuneration components for persons holding managerial positions at the Bank.

**3. With regard to persons holding key functions, the responsibility for the introduction of a relevant internal regulation and supervision of that area shall lie with the management body.**

The Management Board has established the Rules of variable remuneration components for persons holding managerial positions at the Bank (material risk takers) by Appendix No 1 to Resolution No 529/C/2012 of 2012 (as amended).

**4. Variable remuneration components of members of the management body or persons holding key functions shall depend, in particular, on objective criteria, the quality of managing the supervised institution, and shall take into account long-term aspects of operations and the method of implementation of strategic goals. Awards and benefits, including those resulting from incentive schemes and other bonus schemes paid, due or potentially due shall be taken into account when establishing variable remuneration components. The adopted remuneration policy shall not constitute an incentive for taking excessive risk in the operations of the supervised institution.**

Variable remuneration of both members of the Management Board and key managers is contingent on meeting individually specified objectives linked to the Bank's strategy. These objectives include both quantitative and qualitative criteria, as well as guarantee giving employees incentives to work and comply with patterns of conduct that allow the Bank to achieve its own objectives. The list of aspects taken into account in the objective-setting process includes, but is not limited to the following: achieving possibly best and stable financial results in the long term, supporting sound and effective risk management, discouraging excessive risk-taking that goes beyond the level of risk appetite accepted by the Bank, limiting conflicts of interest and promoting the execution of the Bank's business strategy (MbO objectives include the strategic projects of the Bank).

At the same time, the rules applied to members of the Management Board and MRTs provide for the application of malus-type solutions in the event of a violation of provisions of law, regulations, procedures or obligations arising from the employment relationship of the above persons or committing material errors, particularly in the areas of risk management.

**5. Remuneration of a member of the management body or persons holding key functions should be financed and paid from the funds of the supervised institution.**

Remuneration of members of the Management Board and key managers is funded by and paid from the Bank's own funds. It is not contingent on the parent's performance, because the Bank itself is the parent of the group.

## ASSESSMENT OF WHETHER THE REMUNERATION POLICY PROMOTES THE DEVELOPMENT AND OPERATIONAL SECURITY OF THE BANK

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Being an institution of public trust, the Bank operates with utmost care and places professionalism and ethics of its employees in the centre of attention. Accordingly, the Management Board pursues remuneration policy – an important element in the development and operational security of the Bank – with the support of the Personnel and Efficiency Management Department, with the active participation of the Supervisory Board.

The policy does not encourage excessive risk-taking and it is balanced, considering the Bank's financial position. The policy supports the Bank's strategic objectives and its long-term development. The policy is implemented in respect of the following three elements, each of which meets the requirements of the regulations in force.

### FIXED REMUNERATION

In the process of granting fixed remuneration, the Bank is guided by the internal classification categories of individual posts, as detailed in item 3 of the description of the remuneration policy of this report. These categories are determined by using independent and objective scoring method of evaluation. The posts are subject to valuation on an ongoing basis, in particular in the event of significant organisational changes in the Bank.

The Bank reviews the appropriateness of fixed remuneration by regular comparative analyses of remuneration (i.e. benchmarks) performed by external entities specialised in this field.

With a view to ensuring security and oversight of remuneration, the Bank takes action to avoid determining the level of fixed remuneration above the market level, while also avoiding the excessive outflow of employees and increased costs of employee turnover, which could occur if remuneration is set at a level below the market level. To this end, the Bank monitors the turnover ratios at different positions with a view to adjusting any assumptions of the remuneration system should an adverse personnel-related phenomenon occur.

The powers to define and change remuneration have been entrusted to a limited and specific group of employees defined in the resolution of the Management on determining the competence to perform, on behalf of the Bank, acts in labour law matters.

### VARIABLE REMUNERATION

The Bank sets out the process of awarding variable remuneration in the following documents: Rules of variable remuneration components for persons holding managerial positions at the Bank, Rules of variable remuneration components for members of the Management Board and MRTs and the Rules of bonuses for Bank employees.

Variable remuneration components are granted primarily on the basis of bonus objectives assigned under individual bonus pillars. The assigned objectives are designed to take account of the Bank's business cycle and the risks associated with its operations. All objectives result from objective matrices approved by the Management Board, which are mandatorily cascaded to the employees of particular structures. MRTs are additionally responsible for special projects aimed at implementing the Bank's strategy.

As persons having a material impact on the Bank's security level and its stable development, MRTs are subject to additional restrictions in the area of remuneration. Once it has been verified whether the bonus objectives have been met, variable remuneration components are granted to MRTs, including the Management Board, for the assessment period (calendar year), in the following forms: – in a non-deferred form – in the amount of 60% of the variable remuneration (in the first year following the assessment period) and in a deferred form – in the amount of 40% of the variable remuneration (in equal instalments over the next three years following the first year after the assessment period). To ensure sustainability of results, deferred variable remuneration components may be reduced in the event of the Bank's financial performance deterioration, loss or deterioration of other variables (malus).

Furthermore, a half of each component is paid in the form of a financial instrument linked to the price of the Bank's shares.

In the event of good and stable performance, the value of the Bank increases, which results in an increase in the final payment.

Otherwise, the payment may be reduced. This mechanism gives an incentive to MRTs and members of the Management Board to care for the Bank's performance and development.

Bonus parameterisation is made taking into account both the Bank's position and the market benchmarks for the financial sector.

The Supervisory Board has powers to parameterise bonuses (bonus indicators, bonus-adjustment indicators, bonus-earning levels of meeting objectives) for the Management Board. The President of the Management Board holds exclusively powers to parameterise bonuses for MRTs and other employees.

Dedicated periodical incentives are introduced as part of the projects of key importance for the Bank's security and development.

#### **NON-SALARY BENEFITS**

The Bank has an attractive, albeit commercially comparable, offer of additional non-salary benefits detailed in section 6 of the description of the remuneration policy in this Report.

On the one hand, the awarded benefits give employees an incentive to care for the Bank's performance, and on the other hand, help to retain them, which ensures the continuity of the Bank's operations as far as various processes are concerned.

Additionally, the educational incentives (training vouchers, co-financing of education) awarded under the above-mentioned benefits directly translate into the development of the Bank through the development of its employees.

## MATERIAL EVENTS AFTER THE REPORTING PERIOD

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On 13 March 2017, an Extraordinary General Meeting of the Bank was convened at the initiative of the Treasury. The Extraordinary General Meeting of the Bank laid down, by Resolution No 2/2017, the rules for setting remuneration of members of the Management Board, and by Resolution No 3/2017 – the rules of remunerating members of the Supervisory Board. Based on the resolution of the General Meeting on the rules of setting remuneration of members of the Management Board, which adapted the rules of remunerating members of the Management Board to the Act of 9 June 2016 on the rules of setting remuneration of persons managing certain companies (Dz.U. of 2016, item 1202, as amended), the Supervisory Board is making preparations to changing the remuneration rules and the form of employing members of the Management Board in 2017.