



Bank Polski

Report
Assessment of Remuneration Policy in place
at PKO Bank Polski S.A., submitted to the
Annual General Meeting
of PKO Bank Polski S.A. in 2016

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INTRODUCTION

The report "Assessment of the remuneration policy in place at PKO Bank Polski SA" was developed with a view to meeting the requirements of:

- Par. 15 (1) (14) of the Bank 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
- Par. 28 (3) and (4) "Principles of Corporate Governance for supervised institutions" attached as Attachment No 1 to Bank Management Board Resolution No. 780/C/2014 of 9 December 2014:
3. The supervisory body shall annually develop and submit a report evaluating the operation of the remuneration policy of the supervised institution" to the decision-making body.
*4. The decision-making body evaluates whether the remuneration policy in place promotes the development and security of a supervised institution.**

**Disclaimer - The General Shareholders' Meeting of the Bank convened for 25 June 2015 declared in a resolution that while acting in the exercise of its powers it will be guided by the "Principles of Corporate Governance for supervised institutions", while departing from the principles laid down in the above § 28 (4) of the Principles.*

Bank external Advisor – EY Polska assessment fed into the development of this Report.

EXECUTIVE SUMMARY

- ▶ BANK DEVELOPMENT AND SECURITY IS PROVIDED THROUGH THE FOLLOWING ACTIVITIES:
 - ▶ EMPLOYEES MOTIVATION FOR ACTION COORDINATED WITH BANK INTEREST
 - ▶ LINK THE AMOUNT OF PAID REMUNERATIONS WITH BANK SITUATION
 - ▶ ENSURE APPROPRIATE LEVEL OF INSPECTION OF AMOUNTS OF FIXED AND VARIABLE REMUNERATION, AND NON-WAGE BENEFITS

- ▶ THE BANK CONDUCTS POLICY OF REMUNERATION FOR SUPERVISORY BOARD MEMBERS AND MANAGEMENT BOARD MEMBERS, AS WELL AS KEY MANAGERS SPECIFIED IN APPLICABLE REGULATIONS AND VERIFIED IN TERMS OF INTERNAL CONSISTENCY AND TRANSPARENCY

- ▶ THE SUPERVISORY BOARD MEMBERS RECEIVE REMUNERATION ADEQUATE TO THEIR FUNCTION AND ADEQUATE TO THE SCALE OF BANK BUSINESS

- ▶ THE SUPERVISORY BOARD HAS INTRODUCED REGULATIONS GOVERNING THE PRINCIPLES OF REMUNERATION OF MANAGEMENT BOARD MEMBERS, SUPERVISES THEIR ENFORCEMENT, SETS CRITERIA AND CONDITIONS IN SUPPORT OF RECEIVING VARIABLE REMUNERATION AND VERIFIES THEM PRIOR TO THE PAYMENT OF VARIABLE REMUNERATION

- ▶ VARIABLE REMUNERATION OF THE MANAGEMENT BOARD MEMBERS AND KEY MANAGERS IS CONTINGENT UPON THE IMPLEMENTATION OF BESPOKE OBJECTIVES RELATED TO THE BANK'S STRATEGY. THESE OBJECTIVES INCLUDE QUANTITATIVE AND QUALITATIVE CRITERIA. THEY ALSO GUARANTEE PROVIDING THE MANAGEMENT BOARD MEMBERS WITH INCENTIVES TO WORK AND OBSERVE THE MODELS OF CONDUCT SO THAT THE BANK MAY ACHIEVE ITS GOALS

- ▶ THE AMOUNT OF VARIABLE REMUNERATION OF ALL EMPLOYEES IS CONTINGENT UPON THE LEVEL OF IMPLEMENTATION OF THE OBJECTIVES

REMUNERATION POLICY

DESCRIPTION

1. COLLECTIVE LABOUR AGREEMENT

The Collective Labour Agreement (CLA) concluded with the company organisations of trade unions on 28 March 1994 (as amended) constitutes the basic internal regulation regard of remuneration policy. Whereby, 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 Agreement determines a 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 Division of Personnel Management in accordance with job descriptions, organisational regulations and presentation of individual structures.

Evaluation changes with significant changes in the tasks carried out at different posts.

The evaluation process yielded three groups of categories of post:

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

Each of the above group was further divided into 3, this yielding 9 categories of posts:

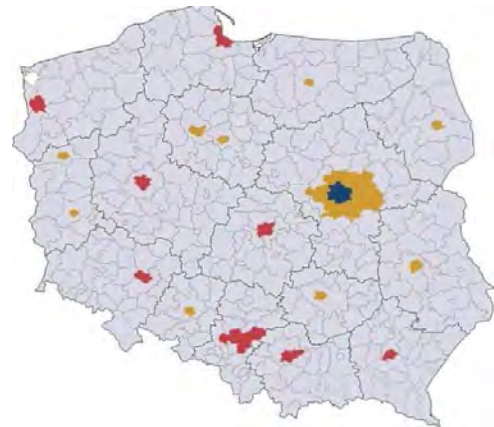
Group of post category	Category of post	Percentage of employees in each category
A		0.1%
	A1 - Strategic management team	0.3%
	A2 - Key Management Personnel	2.8%
B	A3 - Senior management	5.4%
	B1 - Sales managers and key experts	9.7%
	B2 - Middle-rank executives, experts	17.6%
C	B3 - Line managers, key specialists	35.1%
	C1 - Specialists at the bank, bank analysts	24.3%
	C2 - Specialists, analysts	4.7%

While evaluating posts, the Evaluation Board takes into account a table of posts issued in accordance with the the Collective Labour Agreement and agreed with the trade unions, which guarantees minimum grade 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 categories of posts assigned to the individual organisational posts and the examination of market-based remunerations in the banking sector (including regionalisation).

ZONE 1	Warszawa
ZONE 2	Katowice (extended metropolitan area), Kraków, Łódź, Poznań, Rzeszów, Szczecin, Trójmiasto, Wrocław
ZONE 3	Warszawa region, Białystok, Bydgoszcz, Gorzów Wlkp., Kielce, Lublin, Olsztyn, Opole, Toruń, Zielona Góra
ZONE 4	Other locations



Zones	Percentage share of employees in particular zones
Zone I	23.1%
Zone II	29.8%
Zone III	12.2%
Zone IV	34.8%

The base remuneration is subject to change based on a case-by-case examination process (including the outcome of the work and results of the periodic evaluation of employees). This can be done in the process of:

- 1) all-bank pay increases,
- 2) pay increases resulting from the promotion panels within the career paths for the group of posts,
- 3) changes in remuneration linked to specific project-specific reorganisation of structures or processes.

As part of the above cases, if the remuneration of selected employees is relatively high against benchmark remuneration and there is no reason for its further increase, developmental training vouchers are applied as a form of additional appreciation of employees.

4. COMPONENTS OF VARIABLE REMUNERATION OF MANAGEMENT BOARD MEMBERS AND KEY MANAGERS WHO CAN EXERT MATERIAL IMPACT ON THE BANK RISK PROFILE (MATERIAL RISK TAKERS - MRT)

In keeping with the requirements of the CRD IV and the Commission Delegated Regulation (EU) No 604/2014 of 4 March 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 has updated the principles of determining the variable remuneration components for the Management Board Members and MRTs (implemented in 2012) through the following resolutions of:

- 1) the Supervisory Board - a policy of variable components remuneration under the name of "Principles of the variable components of the remuneration of persons holding managerial posts at the Bank" (which fed into the next regulations being issued) and "Rules of the variable components of the remuneration for the Management Board members,
- 2) the Management Board - "Rules of the variable components of the remuneration for persons holding managerial posts."

The Supervisory Board periodically reviews the above Principles. In accordance with the outcome of those reviews and the reports of the Internal Audit Department on the implementation of the Principles, the Supervisory Board

may recommend their update. Neither prior reviews nor amendments to the Principles and Rules of the variable components of remuneration based thereon were of a character dramatically affecting the main assumptions and tools of the incentive system.

The Management Board determines the MRT List – for the reference of the Supervisory Board and trade unions – as of 4 January 2016 the List enumerates 52 posts (including 16 Directors of Divisions and 7 Macroregion Corporate Directors).

Bank functional area	Number of MRT posts
Corporate and Investment Banking	21
Risk Management	12
Management Board President	8
Finance and Accounting	4
Information Technology and Services	4
Retail Market	3

The principles and the Rules of remuneration issued on the basis thereof set out the procedure of granting MRTs variable components of remuneration related to the results and effects work - awards for special achievements in work and bonuses.

The variable remuneration components are awarded primarily in accordance with bonus objectives assigned as part of the management by objectives - Management by Objectives (MBO). The assigned MBO objectives are designed to take account of the business cycle the Bank and the risks associated with its operations. This risk is taken into account by establishing relevant, risk-sensitive criteria for MRT performance evaluation.

The variable components of remuneration for the evaluation period (calendar year) are awarded following the account for the bonus objectives in:

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

wherein both non-deferred and deferred remuneration is awarded in equal parts in cash and in the form of a financial instrument, i.e. the phantom shares (these are converted into cash as per the updated prices of Bank shares following a retention period and in the case of deferred salary - 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 will be subject to deferral.

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

Each of the accrued components of variable remuneration may be reduced in the following events:

- 1) breach of employee's duties,
- 2) failure to observe the law or standards of customer service,
- 3) inadequate performance of assigned professional duties,
- 4) conduct in relation to other employees which is in breach of the rules of social coexistence.

Bonus Amount:

- 1) of a Management Board member may be adjusted downwards or upwards by a specified rate - depending on the achieved Bank profit/loss set out in the annual Bank Note (a set of key management indicators set out for the calendar year),
- 2) of a MRT other than a Management Board member may be adjusted upwards by a specified rate depending on the achieved Bank profit/loss set out in the annual Bank Note.

In the case of the Management Board members granting and payment of variable remuneration is subject to the General Meeting approval 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 on managerial posts 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 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 providing an adequate capital base,
- 3) the desired risk profile of the Bank,
- 4) Bank performance vis-à-vis its long-term development plans.

In the case that:

- 1) Bank performance suffered a material deterioration,
- 2) the equity has suffered a material adverse change,
- 3) an employee violated the law or committed gross errors,
- 4) execution of aims and the achievement of results or objectives by an employee has been adjusted,
- 5) performance of a supervised person or structures under their management has showed deterioration,
- 6) variable remuneration has been granted upon incorrect or misleading information or as a result of employee fraud

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

Material Risk Takers can access the Bank-funded health care, Employee Benefit Fund, Employee Pension Scheme. Furthermore, the Management Board members are entitled to a Bank-financed insurance - for death, grave illness, permanent disability, permanent or long-term damage to health, incapacity to work.

In the event of awarding an MRT severance pay related to the dismissal from the office coupled with the termination of employment (other than that resulting from generally applicable provisions of law) the amount of severance pay reflects the assessment of performance over the last three years of employment. The Bank's regulations stipulate the maximum amount of severance pay.

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

5. VARIABLE COMPONENTS OF REMUNERATION OF EMPLOYEES OTHER THAN MRTs

1) BONUSES

PKO BP operates a bonus system consisting of four pillars:

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

Bonus pillar	Percentage share of employees in the pillars
MRT	0.2%
MBO	9.3%
PPBiz	2.9%
SPS	50.0%
SPW	37.6%

The bonus links to the assessment of the employee performance. The effects of work are evaluated in accordance with the account for individual or team goals – a specific level of implementation entitles to a specified bonus rate in the amount specified by the Management Board President.

Bonus objectives correspond to key Bank Management ratios taken into account for the bonus purposes set to the individual units of the Bank. According to the cascade principle included in the planning principle, its observance being monitored, targets should be assigned to employees employed under individual structures.

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

The correctness of posing and accounting of purposes is supported by dedicated applications for these processes - through the systemic validations contained in applications.

Any bonus may be reduced if - as of the date of payment - an employee committed:

- breach of employee's duties,
- failure to observe the law or standards of customer service,
- inadequate performance of assigned professional duties,
- conduct in relation to other employees that is in breach of the rules of social coexistence.

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

2) AWARDS

Aside of the bonus system, the principles of rewarding Bank employees are in place. The award fund has been created in the framework of these rules for the purpose of:

- individual discretionary bonuses for Bank employees scoring outstanding results in their work or achievements which produced important effects for the Bank,
- awards in performance-related competitions (in particular concerning sales of selected retail products).

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

- employees,
- intermediary entities,
- persons other than the above where they directly helped disclose and prevents activities undertaken to the detriment of the Bank.

6. NON-SALARY BENEFITS AND PRIVILEGES AVAILABLE TO PKO BP EMPLOYEES

1) MEDICAL CARE

Aside of the benefits of occupational medicine, to the provision of which an employer is required under the provisions of the Labour Code, the Bank provides its employees with additional medical care available under different benefit packages to the dedicated specific groups of posts depending on the category of post. 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. 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 Basic Contribution to the Investment Funds managed by PKO TFI (3% of each element of remuneration), and possibly Additional Contribution paid by employees.

Further to the acquisition of Nordea Bank Polska S.A. on 31 October 2014 and the acquisition of SKOK "Wesoła" on 1 August 2015, the Bank has also offered:

- Employee Pension Scheme operated at Nordea Bank Polska S.A. (PPE NoBP) designed for employees who were participants of PPE NoBP as of the acquisition date,
- Employee Pension Scheme operated at SKOK "Wesoła" (PPE SKOK) designed for employees designed for employees who were participants of PPE SKOK as of the acquisition date.

At the same time, the Bank has already filed the Polish Financial Supervision Authority with a request for having PPE NoBP and PPE SKOK removed from the register.

3) EMPLOYEE BENEFIT FUND

- The cafeteria MyBenefit system from the Employee Benefit Fund - Internet platform where any employee of the Bank may independently dispose of the funds allocated to them from the Employee Benefit Fund. The cafeteria system allows the employees to select attractive benefits relating in particular to leisure, recreation and culture (e.g. tours, cinema tickets, sports events tickets, books, sports cards) and purchase them for the monies from the Fund).
- Employee Benefit Fund beyond MyBenefit - includes non-repayable grants for the families of employees in difficult situation, housing borrowings, by way of illustration a borrowing for the purchase of the first apartment, as well as package holidays, crèches and kindergartens (which can also be financed from the funds granted in the framework of the cafeteria system).

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 new place of work increases by a certain number of kilometers. As a result, employees are motivated to accept new job offers.

5) SPORTS CARDS

As part of the Multisport, 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 BOS (personal banking) and loan products offered on favourable terms, including credit cards, "Własny Kąt Hipoteczny" housing loan.

7) TRAINING AND EDUCATION CO-FINANCING

The Bank's employees may apply co-financing of training - in particular, postgraduate studies, MBAs, PhD studies and trainings for legal advisors.

8) "PKO PO GODZINACH" PROGRAMME

Co-financing of sporting, recreational, 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 of corrective lenses to work at a computer monitor can apply for a refund of purchase of glasses or contact lenses in the amount specified by the Bank.

10) COMPANY CARS

Cars are available by virtue of the employee duties and on top posts. In the case of key managerial posts, make, model and colour of a company car are selected by the user of the car (from the specified directory of makes and models).

11) "MOJE NOWE AUTO" (MoNA) PROGRAMME

MoNA is the employee programme of acquiring new cars in the form of leasing. Within the MoNa Bank employee is entitled to drive the car for a certain period agreed in an individual contract with PKO Leasing SA - in exchange for fixed monthly installments more favourable than the price offers available on the market. Once the appointed time has expired, an employee may purchase a car or resign from it and collect another new car.

12) GROUP LIFE INSURANCE

The Bank employees may purchase insurance with PZU Życie S.A. or TUnŻ Warta S.A. Group insurance is offered on preferential terms as compared to the offer 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 independent reasons: a number of severance-pay packages, support to the process of retraining and access to internal job offers with a view to finding another job in the Bank, support to look 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 Management Board President is responsible for setting bonus ratios and approving the evaluation of posts.

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

- 1) Management Board President,
- 2) Director of the Division of Personnel Management,
- 3) Director of the Centre for Human Resources and Payroll - in the absence of the Director of the Division of Personnel Management,

whereas the Management Board President shall hold exclusive competence in respect of the senior management of the Bank.

Granting benefits in respect of the employment relation or the terms of the employment agreement beyond the benefits or conditions resulting from the generally applicable provisions of law or internal regulations in employment agreement, preliminary agreements or letters of intent requires approval of the Management Board President.

Employment on the post and amendments to the provisions of the employment agreement insofar as it effects lowering the base remuneration of the director of internal audit section requires the prior approval of the Bank Supervisory Board. Also employment on the post of and amendments to the provisions of the employment agreement with regard to the post of director of the organisational unit of the Head Office tasked with ensuring compliance, requires the prior approval of the Bank Supervisory Board.

REMUNERATION POLICY ASSESSMENT FOR CONFORMITY WITH THE PFSA PRINCIPLES OF CORPORATE GOVERNANCE (CHAPTER V OF THE PRINCIPLES - REMUNERATION POLICY)

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

The Bank operates a policy of remuneration of the Supervisory Board and the Management Board members and key managers. This policy is defined by the following internal regulations:

 - 1) Collective Labour Agreement,
 - 2) Principles of variable components of remuneration of persons holding managerial posts at the Bank,
 - 3) Rules of variable components of remuneration of the Management Board members,
 - 4) Rules of variable components of remuneration for persons holding managerial posts,
 - 5) Principles of awarding bonuses for the Bank employees,
 - 6) General Meeting Resolution on the Remuneration of the Supervisory Board members.

These regulations have been reviewed for consistency with the PFSA Principles of Corporate Governance and transparency. They are available for inspection by all employees of the Bank, according to the relevant regulations - mainly through the Bank Intranet websites.
2. **When establishing the remunerating policy, one should take into account the financial situation of a supervised institution."**

Under the policy prevailing at the Bank, the amount of variable remuneration is contingent upon the extent of achievement of the objectives. These objectives link to Bank performance and financial situation. They guarantee that both Bank business cycle and its business risks are taken account of. This risk is taken into account either by the establishment of relevant risk-sensitive criteria for performance assessment, or by a reduction in award or no award being granted in the event of deteriorated performance, Bank's loss or deterioration of other variables. Under § 13 (1) of the Principles of the variable components of the remuneration for persons holding managerial posts at the Bank, the formula for evaluation of premises for reduction in variable remuneration includes verification of:

 - 1) significant deterioration of the Bank's profit/loss:
 - a) occurrence of the balance sheet loss or of a risk thereof,
 - b) occurrence of insolvency or liquidity risk,
 - 2) material adverse change in the Bank equity,
 - 3) violation of a provision of law, regulations, procedures or obligations arising from the employment relationship of a person occupying a managerial post or them committing gross errors, by way of illustration, non-compliance with the internal code of conduct, compliance guidelines or fundamental values, particularly in the areas of risk management,
 - 4) adjustment of attained results / the extent to which a person holding a managerial post attained their results,
 - 5) awarding of variable remuneration on upon incorrect, misleading information or as a result of fraud a person occupying a managerial post.
3. The supervisory body shall annually prepare and present to the General Meeting a report on the assessment of the functioning of the remuneration policy in the supervised institution.
4. The General Meeting shall assess whether the established remuneration policy contributes to the development and security of the operations of the supervised institution.

The Supervisory Board fulfills its responsibilities for the preparation this report evaluating the operation of the remuneration policy of the Bank once a year, in order to present it to the General Meeting.

"§ 29

1. **Remuneration of the members of the supervisory body shall be established adequately to the fulfilled function, as well as adequately to the scale of operations of the supervised institution. Supervisory body members appointed to work in committees, including the audit committee, should be remunerated adequately to the additional tasks performed within a given 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 *pro rata* to the number of days served as the Supervisory Board member in a month and on considering its participation / absence in the Supervisory Board meetings). It varies depending on the functions performed within the Supervisory Board. The Bank carries out comparative

analyses on an ongoing basis with a view to confirming that the actually paid amounts correspond to the salaries of the Supervisory Boards members of the institutions of a similar size and profile. The remuneration granted by the Bank reflects jointly the performance of the supervisory functions and the work in the committees.

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

As specified in § 16 of the Rules of the Supervisory Board of PKO BP, Supervisory Board members shall receive remuneration in the amount and on terms specified by the General Meeting for their participation in the work of the Supervisory Board.

3. The principles of remunerating supervisory body members should be transparent and included in the relevant internal regulation of a supervised institution."

As specified in § 16 of the Rules of the Supervisory Board of PKO BP, the Supervisory Board members shall receive remuneration in the amount and on terms specified by the General Meeting for participation in the work of the Supervisory Board.

§ 30.

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

On considering the General Meeting decisions, in 2012 the Supervisory Board introduced internal regulations defining the principles of remuneration of the Management Board members (as amended). These issues are governed by the Rules of the variable components of remuneration of persons holding managerial posts at the Bank attached to the Supervisory Board Resolution of No. 59/2014 of 17 December 2014, the Rules of variable components of remuneration for the Management Board members - attached to Resolution No. 60/2014 of 17 December 2014 and Resolutions No. 4-10 / 2012 of 18 January 2012, and 3/2013 of 23 January 2013 on the remuneration of individual Management Board members. These Regulations define both specific and general criteria for remuneration of the Management Board members, including obtaining the base and variable remuneration by them.

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

1) Exercise of supervision over the introduced remunerating policy

The Supervisory Board approves the Principles of the variable components of the remuneration of persons holding managerial posts at the Bank and carries out periodic review thereof wherein it can recommend their updates.

- 2) Determination of the criteria and conditions in support of 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 the objectives for the Management Board members under the system of management by objectives - Management by Objectives (MBO) and approves their implementation.
- 3) Verification of meeting the criteria and conditions in support of eligibility for variable remuneration components prior to the payment of the whole or part of that remuneration
Under § 12 and 13 of the Rules for the variable components of the remuneration for the Management Board members, the Supervisory Board takes decisions in the form of a resolution on the occurrence of conditions relating to the payment of variable remuneration and application of solutions of a malus type against deferred variable remuneration for the individual Management Board members. Malus type solution can be applied if the premises occur for a reduction in variable compensation enumerated in § 13 (1) of the Rules. If the Supervisory Board deems that a malus can reasonably be applied, then some or all of the deferred variable remuneration for the period of assessment may be subject to reduction.
The Management Board takes corresponding decisions with reference to the Material Risk Takers - in accordance with § 16 and 17 of the Rules of the variable components of the remuneration for persons holding managerial posts at the Bank.

3. With regard to persons who fulfil key functions, responsibility for introduction of an appropriate internal regulation and supervision in that area shall lie with the management body.

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

4. Variable remuneration components of management body members or key personnel shall depend in particular on objective criteria, the quality of management of the supervised institution, and shall take into account long-term aspects of the operations and method of implementation of strategic goals. When establishing the variable remuneration components, rewards and perks, including those resulting from motivational schemes and other bonus schemes paid, due or potentially due, shall be taken into account. An established remuneration policy shall not constitute an incentive for undertaking excessive risk in the operations of the supervised institution."

Variable remuneration of both Management Board members and key managers is contingent upon them completing individually specified targets associated with Bank strategy. These objectives include both quantitative and qualitative criteria, as well as provision of incentives to work and observe patterns of conduct that allow the Bank to achieve its objectives. The list of aspects taken into account in goal-setting process includes, but is not limited to the following: achieving the long-term best possible and stable financial results, supporting sound and effective risk management, discouraging excessive risk-taking that goes beyond the scope of risk appetite accepted by the Bank, limiting conflicts of interest and promoting the execution of the Bank business strategy (MbO goals include strategic projects of the Bank).

At the same time, the principles applied with reference to the members of the Management Board and MRTs provide for the application of malus-type solutions in the event of a violation of a provisions of law, regulations, procedures or obligations arising from the employment relationship of a person occupying a managerial post or them committing gross errors, by way of illustration, non-compliance with the internal code of conduct, compliance guidelines or fundamental values, particularly in the areas of risk management.

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

The Management Board members and key managers remuneration is funded by and paid from the Bank's own funds. It is not contingent on the parent company performance, as the Bank *per se* is the dominant entity.

REMUNERATION POLICY ASSESSMENT IN TERMS OF ENCOURAGING BANK DEVELOPMENT AND SAFETY

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 security of the Bank's operations - with the support of the Department of Personnel and Efficiency Management with the active participation of the Supervisory Board.

The policy does not encourage excessive risk-taking. In view of the Bank financial situation, it is of a balanced character. The policy supports Bank strategic objectives and its long-term development. The policy is implemented in 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 observes the inner categories of classification of individual posts detailed out in item 3 of the remuneration policy of this report. These categories are determined by taking reference to 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 verifies the adequacy of the fixed remuneration by a process of comparative study 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 evade determining the level of fixed remuneration above the market rate - while also preventing from excessive outflow of employees and increased costs of employee turnover, which could occur if remuneration has been determined at below-market levels. To this end, the Bank monitors the fluctuation ratios at different posts with a view to adjusting any assumptions of the remuneration system lest adverse personnel-related phenomena occur.

The responsibility for remuneration definition and change has been entrusted to limited and specific group of employees defined in the Management Board Resolution No. 175 / C / 2013 of 18 March 2013 on determining the competence to enter into transaction in matters of labour law on behalf of the Bank.

VARIABLE REMUNERATION

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

The variable components of the remuneration are granted primarily in accordance with bonus objectives assigned under individual bonus pillars. The objectives are designed to ensure that both Bank business cycle and its business risks are taken account of. All objectives are reflected in network of objectives as approved by the Management Board that have to be cascaded for the employees of particular structures. MRTs are also responsible for special projects aimed at implementing the Bank strategy.

Being persons of a material impact on the level of Bank security and stable development, MRTs are subject to additional restrictions in the area of remuneration. Variable remuneration components are granted to MRTs, including the Management Board, for the evaluation period (calendar year), once the bonus objectives have been accounted for, 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 installments 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 profit/loss deterioration and 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 value of the Bank's shares.

In the event of good and stable performance, the value of the Bank increases, this resulting in an increase in the final cash payment.

On the other hand, the payment may be reduced. This mechanism motivates both the MRTs and Management Board members to care for Bank performance and development.

Bonus parameterisation is made while taking into account both Bank standing and the market benchmark for the financial sector.

The Supervisory Board is eligible to parameterise bonuses (bonus ratios, bonus-adjustment bonus-earning levels of meeting objectives) for the Management Board. The Management Board President is exclusively eligible to parameterise bonuses for the MRTs and other employees.

Dedicated incentives that operate periodically are introduced as part of the projects of key importance for Bank security and development.

NON-SALARY BENEFITS

The Bank offers a rich, albeit commercially comparable, offer of additional non- salary benefits detailed out in section 6 of the description of the remuneration policy in this Report.

The awarded benefits on the one hand motivate employees to care for Bank performance, and on the other hand, act as retention to provide for the continuity of the Bank's business within individual processes.

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