



Bank Polski

REPORT

The assessment of the functioning of the remuneration policy at PKO Bank Polski S.A. in 2019

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INTRODUCTION

The report “Assessment of the functioning of the remuneration policy at PKO Bank Polski S.A. in 2019” was prepared with a view to meeting the requirements of:

- § 15(1)(13) of the Bank’s Articles of Association:
 1. *The Supervisory Board shall perform continuous supervision over the activities of the Bank in all areas of its operation. Besides the rights and obligations provided for in other provisions of these Articles of Association, the competencies of the Supervisory Board shall include: (...)13) assessing the functioning of the remuneration policy in place at the Bank and submitting the relevant report to the Annual General Meeting;*
- § 28(3) and (4) of the “Principles of Corporate Governance for Supervised Institutions” which 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 prepare and submit a report on the assessment of the functioning of the remuneration policy at the supervised institution to the decision-making body once a year.*
 4. *The decision-making body shall assess whether the remuneration policy in place supports the development and operational security of the supervised institution.**
- § 2(5) and § 5 and 6 of the Policy of Remunerating the Employees of the Bank and the PKO BP Group governing the review and assessment of the remuneration policy.

**Pursuant to § 2(4) of Resolution No. 50/2015 of the Annual General Meeting of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna of 25 June 2015, the General Meeting of the Bank decided not to apply the principle laid down in § 28(4) of the “Principles of Corporate Governance for Supervised Institutions”.*

This report fulfils the aforementioned requirements as at 31 December 2019.

1. ASSESSMENT SUMMARY

1. THE DEVELOPMENT AND 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 TO THE BANK'S POSITION;
 - ENSURING AN APPROPRIATE LEVEL OF CONTROL OVER THE AMOUNTS OF FIXED AND VARIABLE REMUNERATION, AS WELL AS NON-WAGE BENEFITS.

2. THE BANK FOLLOWS THE POLICY OF REMUNERATING THE MEMBERS OF THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD, AS WELL AS KEY MANAGERS, SPECIFIED IN THE APPLICABLE INTERNAL REGULATIONS WHICH HAVE BEEN REVIEWED IN TERMS OF CONSISTENCY AND TRANSPARENCY.

3. THE MEMBERS OF THE SUPERVISORY BOARD RECEIVE REMUNERATION WHICH IS ADEQUATE TO THEIR FUNCTION AND THE SCALE OF THE BANK'S OPERATIONS.

4. THE SUPERVISORY BOARD HAS INTRODUCED REGULATIONS LAYING DOWN THE RULES OF REMUNERATING THE MEMBERS OF THE MANAGEMENT BOARD, IT SUPERVISES COMPLIANCE WITH THESE RULES, ESTABLISHES CRITERIA AND CONDITIONS JUSTIFYING ELIGIBILITY FOR VARIABLE REMUNERATION AND REVIEWS THEM PRIOR TO THE PAYMENT OF VARIABLE REMUNERATION.

5. THE VARIABLE REMUNERATION OF THE MEMBERS OF THE MANAGEMENT BOARD AND KEY MANAGERS IS DEPENDENT ON THE FULFILMENT OF PERSONALIZED OBJECTIVES RELATED TO THE BANK'S STRATEGY. THESE OBJECTIVES INCLUDE QUANTITATIVE AND QUALITATIVE CRITERIA, AND THEY GUARANTEE THAT THE MEMBERS OF THE MANAGEMENT BOARD ARE GIVEN INCENTIVES TO WORK AND TO 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.

DESCRIPTION OF THE REMUNERATION POLICY

2. POLICY OF REMUNERATING THE EMPLOYEES OF THE BANK AND THE PKO BP GROUP AND THE COLLECTIVE LABOUR AGREEMENT

The basic internal regulation concerning the remuneration policy is the Policy of Remunerating the Employees of the Bank and the PKO BP Group (the Policy) adopted by Resolution No. 303/C/2019 of the Bank's Management Board and approved by Resolution No. 70/2019 of the Supervisory Board of 12 August 2019. The previous version of the Policy constituted an appendix to Resolution No. 42/2017 of the Supervisory Board of 14 June 2017.

The Policy ensures a coherent system of remuneration by means of:

- using a remuneration system in line with market trends;
- obtaining optimal candidates for work;
- adjusting mechanisms of the tools and levels of remuneration to the strategy and objectives of the Bank and the Group;
- taking into account the Group's ability to determine the required mechanisms and levels of remuneration;
- determining fixed remuneration based on the evaluation of job positions;
- determining the remuneration structure based on the results of work achieved and the evaluation of employees' competencies;
- building responsibility in employees for the tasks they perform, evaluated on the basis of objectified criteria;
- guaranteeing that the variable remuneration components are parameterized in such a manner as to take into account the cost of risk, the cost of capital and the liquidity risk of the Bank and the Group in the long term;
- ensuring that the cash or non-cash forms of remuneration do not encourage the persons involved to favour their own interests or the interests of the Bank and the Group Companies to the detriment of the Customers.

PKO Bank Polski S.A. and the companies in the PKO Bank Polski S.A. Group follow the rules of remunerating the members of the management and supervisory bodies set out in the Act of 9 June 2016 on the rules of determining the remuneration of persons managing certain companies (Dz.U.2019.1885, consolidated text).

The Collective Labour Agreement (CLA) concluded with the trade union organizations on 28 March 1994 (as amended) forms the basis for awarding the following remuneration components to the Bank's employees:

- 1) base salary;
- 2) allowances for working overtime and in conditions which are particularly onerous and harmful to health;
- 3) bonuses and rewards for special achievements at work.

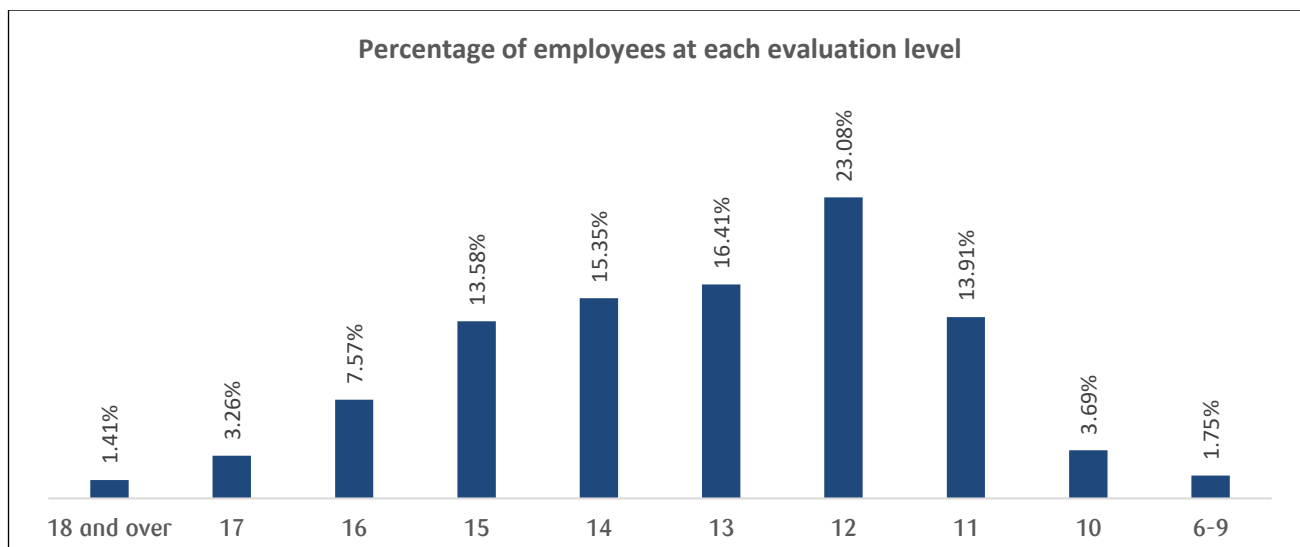
The Collective Labour Agreement determines the minimum guaranteed base salary rates assigned to individual job position grading levels allocated on the basis of the evaluation process:

Position grading level by position evaluation	Minimum base remuneration rate – the percentage of the minimum wage determined under the generally applicable laws
18 and over	400%
17	300%
16	200%
15	160%
14	150%
13	140%
12	130%
11	120%
10	110%
6-9	100%

3. EVALUATION OF JOB POSITIONS

During 2019, the Bank implemented a new method of evaluating positions, in line with the market practice.

At present, instead of the former nine grade categories, the Bank uses 18 evaluation levels (from 6 to 23) in accordance with the methodology provided by an external advisor. In determining the weight of a position, the main criteria taken into account include: the knowledge necessary to work in a given position, the types and complexity of the problems at the position, and the scale of impact on the organization, including the impact on results.



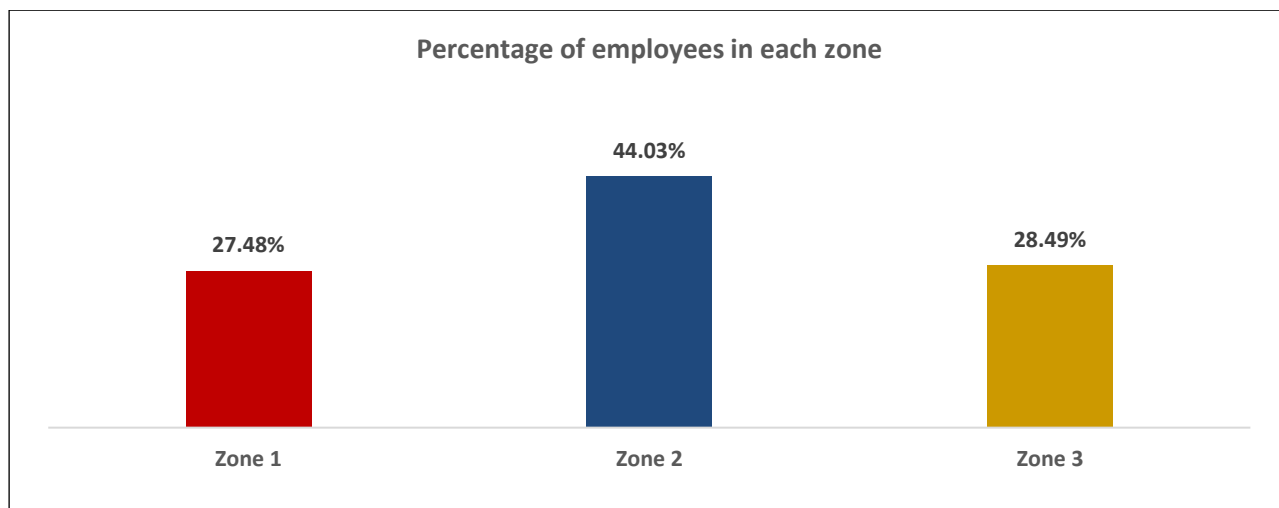
Data as at December 2019

Each position is additionally assigned to a specific family of professions. Furthermore, the families of professions were assigned to five groups corresponding to general competence profiles specific to each of them. The above makes it easier to manage remuneration within such a varied (in terms of number and substance) body of positions which is in place at the Bank.

4. BASE SALARY MANAGEMENT

Base salaries (as well as additional benefits such as medical care) are awarded on the basis of grade categories and the analysis of market wages in the banking sector (including regionalization).

ZONE 1	Warsaw plus locations within a 60 km radius of Warsaw
ZONE 2	Poznań, Zielona Góra, Szczecin, Trójmiasto (<i>Tri-City</i>), Bydgoszcz, Kraków, GOP (Upper Silesian Industrial Region), Białystok, Olsztyn, Rzeszów, Wrocław, Opole, Kielce, Łódź, Radom, Lublin plus locations within a 30 km radius of these cities
ZONE 3	Other locations



Data as at December 2019

Base salaries are changed as part of the process of:

- 1) bank-wide increases;
- 2) increases resulting from the promotion panels within the career paths for a given group of positions;
- 3) changes in remuneration related to specific reorganization projects regarding individual structures or processes;
- 4) analysis of individual cases (taking into account the results of work and the results of a periodic employee appraisal).

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

In accordance with the requirements of CRD IV and Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014, the Bank established the rules of awarding variable remuneration components (bonuses and rewards) to MRTs through resolutions of:

- 1) the Supervisory Board – for the Bank's Management Board;
- 2) the Management Board – for the MRTs subordinate to the Management Board.

A list of MRTs – who are not members of the Bank's Management Board – is drawn up by the Management Board based on qualitative and quantitative criteria for determining the categories of employees whose professional activities have a material impact on the risk profile, listed in Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014. Based on the above criteria, MRTs are, in particular:

- 1) members of the Management Board;
- 2) senior management responsible for material business units, for management of specific risk categories and for control functions;
- 3) positions responsible for providing internal support which are crucial to the operation of the business, exposing the Bank to material operational and other risks;
- 4) positions generating credit risk and market risk, identified using criteria based on limits of authority;
- 5) positions in which the employees have received total remuneration which exceeds an appropriate threshold set out in the regulations (provided that the employees do, in fact, have a material impact on the risk profile);
- 6) positions in which the employees are in the same remuneration bracket as senior management or risk takers (provided that they have a material impact on the risk profile).

As at 31 December 2019, the List contained 42 positions (however, the number of employees is larger – due to the fact that more than one employee may work in one position on the List – this applies to, in particular: Division Directors, Directors of Corporate Macroregions, and Directors of Departments abroad).

Functional area of the Bank	Number of MRT positions
Risk Management	14
Corporate and Investment Banking	12
President of the Management Board	6
International Banking and Transactions and Cooperation with Local Government and Government Agencies	3
Finance and Accounting	3
Information Technology	2
Retail Market	1
+ the position of Division Director in each area	1

The basis for awarding variable remuneration components to MRTs and the members of the Management Board is primarily bonus targets set as part of Management by Objectives (MbO). The MbO objectives set are to guarantee that the Bank's business cycle and the risk related to the Bank's operations are taken into account. The risk is taken into consideration by determining appropriate, risk-sensitive criteria for assessing MRTs' performance.

The variable remuneration components for a given evaluation period (a calendar year) are awarded after the bonus targets have been accounted for in the form of:

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

with both non-deferred and deferred remuneration being awarded in equal parts in cash and in the form of a financial instrument, i.e. phantom shares (which are converted into cash at the updated price of the Bank's shares after the retention period, and in the case of deferred remuneration – after the deferral period).

In accordance with the Remuneration Policy, if the amount of variable remuneration for a given year should exceed PLN 700 thousand, PLN 280 thousand plus 60% of the excess over PLN 700 thousand is deferred.

Variable remuneration may not exceed 100% of the annual fixed remuneration for managerial positions and for the members of the Bank's Management Board. In the Group Companies, the limit is 50% of the annual remuneration.

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

- 1) a breach of employee duties;
- 2) failure to comply with the law or customer service standards;
- 3) incorrect performance of the official tasks assigned;
- 4) behaviour towards other employees which violates the rules of social co-existence.

The amount of a bonus for:

- 1) a member of the Bank's Management Board may be adjusted downwards or upwards for a specified ratio – depending on the Bank's results determined in the annual Note of the Bank (a set of key management ratios determined for a given calendar year);
- 2) an MRT who is not a member of the Bank's Management Board may be adjusted upwards for a specified ratio depending on the Bank's results determined in the annual Note of the Bank.

In the case of the members of the Bank's Management Board, the condition for awarding and launching the payment of variable remuneration is the approval of the financial statements for a given evaluation period by the General Meeting, the acknowledgement of fulfilment of their duties and the achievement of the management objectives related to the obligation to implement the requirements of the generally applicable laws concerning the management of state property and the so-called Excessive Salary Act in the Group.

The Supervisory Board in relation to the members of the Bank's Management Board and the Management Board in relation to MRTs may also, prior to each payment of variable remuneration, decide on a possible proportionate reduction in the amount of funds for such remuneration, taking into account:

- 1) the effect on the regulatory capital, capital adequacy ratio and equity of the Bank, so that the payment of variable remuneration does not limit the possibility of strengthening them;

- 2) the effect on the cost of capital, so that the payment of variable remuneration does not limit the possibility of maintaining an appropriate capital base;
- 3) the desirable risk profile of the Bank;
- 4) the Bank's financial results in relation to long-term development plans.

In the case of:

- 1) significant deterioration in the Bank's results;
- 2) determination that there has been a significant negative change in equity;
- 3) an employee violating a legal regulation or committing material mistakes;
- 4) adjustment to the results or goals achieved and the degree of achievement of the results or goals of an employee;
- 5) deterioration in the results of the units supervised or managed by the above-mentioned persons;
- 6) variable remuneration awarded on the basis of incorrect, misleading information or as a result of employee fraud,

a malus type solution may be applied – by the Supervisory Board or the Management Board, respectively –reducing the amount of deferred variable remuneration payable to a member of the Bank's Management Board or an MRT in the following accounting periods.

The members of the Bank's Management Board and MRTs have the right to join the PPE (Employee Pension Scheme), and MRTs may also use the medical care services and the social benefits fund financed by the Bank.

If an MRT is awarded severance pay related to dismissal from his or her position, which is coupled with the termination of his or her employment relationship (other than that arising from the generally applicable laws), the amount reflects the assessment of the MRT's performance over the last three years of employment, with the maximum amount of severance pay being defined in the Bank's regulations.

A member of the Bank's Management Board is entitled to severance pay on condition that that he or she has served as a member of the Bank's Management Board for a period of at least twelve months before the termination of the aforementioned contract. An MRT may be awarded severance pay on condition that he or she has held an MRT position for a period of at least twelve months before the termination of his or her employment contract.

The members of the Bank's Management Board and selected MRTs are also subject to non-competition agreements which provide for the payment of compensation for refraining from undertaking employment with a competitor after the termination of employment with the Bank, for a maximum period of six months, of up to 100% of the fixed remuneration under the employment contract.

In 2019, the Supervisory Board introduced amendments to the internal regulations laying down the principles of remunerating the employees and members of the Management Board of the Bank and the Group Companies, by:

- 1) approving the Policy of remunerating the employees of the Bank and the PKO BP Group, which constitutes an appendix to Resolution No. 70/2019 of the Supervisory Board of 12 August 2019;
- 2) amending the Principles of employing and remunerating the members of the Management Board, which constitutes an appendix to Resolution No. 43/2017 of the Supervisory Board of 14 June 2017 (as amended).

The amendments introduced concerned:

1. Further to the audit recommendations of the Supreme Audit Office (NIK) and based on the wording of the generally applicable laws, a rule was incorporated that, each year, the remuneration of the members of the management boards of the Bank and the Group Companies in compliance with the Excessive Salary Act will be expressed as amounts (so far, it has been defined as a multiple of the remuneration in the enterprise sector in the fourth quarter of the previous year or 2016, as long as the blockade introduced by the budget-related regulations is in force).
2. Changes were made to the deferral parameters for particularly large amounts of variable remuneration for the members of the Management Board and MRTs (previously: 60% non-deferred, 40% deferred, however, for an amount constituting an excess over PLN 1 million: the proportions of the deferral were reversed). Since PLN 1 million, given the current level of remuneration of the members of the Management Board and individual MRTs (including those at the Group Companies) was unrealistic, a new, lower amount of particularly high variable remuneration was introduced, namely PLN 700 000. In the event of variable remuneration being awarded in excess of this amount, the proportion of the deferred amounts of the excess will be reversed from the current 60% (non-deferred remuneration) and 40% (deferred remuneration) to 40% (non-deferred) and 60% (deferred). In the case of the Group

Companies, instead of an amount only a manner of calculation was indicated, which is based on the above assumptions, thereafter, each Group Company will determine a particularly large amount of variable remuneration on its own.

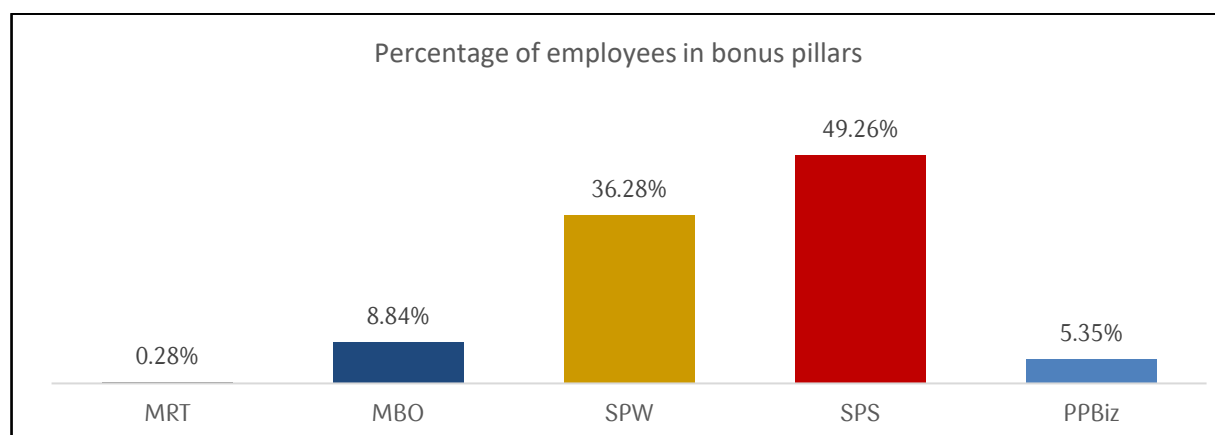
3. The method of calculation of the maximum acceptable variable remuneration of management board members and MRTs was clarified (100% of the annual fixed remuneration or 50% at the Group Companies). The former regulations may have been interpreted in such a manner that each time this is about the fixed remuneration calculated throughout a year, irrespective of the length of employment during a year. Meanwhile, the Excessive Salary Act provides that this is 100% of annual fixed remuneration but exclusively remuneration that was actually awarded, which means that if the period of employment is less than a year, it should be an amount proportionate to the period worked. After the change, in determining the maximum acceptable variable remuneration the principle of proportionality will apply – the shorter the employment in a year, the lower the maximum remuneration.
4. A provision was added that the members of the Management Board of the Bank and the Group Companies shall have the right to join the PPE under the rules applicable to employees (this is made possible by the amendments to the generally applicable laws).
5. It was agreed that the severance pay for the termination of a service contract is not included in the maximum acceptable variable remuneration (a solution currently in use but not incorporated in the Policy so far).
6. A provision was added which excludes the right to severance pay in the event of taking up employment or providing services to another Group Company. Similar provisions were added in the context of the absence of the right to compensation under the non-competition clause. The solution in question applies to all of the Bank's employees.

6. VARIABLE REMUNERATION COMPONENTS FOR EMPLOYEES OTHER THAN MRTs

1) BONUSES

The bonus system at PKO Bank Polski S.A. consists of four pillars:

- MbO (Management by Objectives) – covers managerial and expert positions in which the Bank's key objectives are pursued, including the strategic ones. MbO is a bonus dependent on the quality and degree of implementation of the assigned objectives;
- PPBiz (Business Bonus Scheme) – is a bonus pillar in which the bonus depends on the degree of completion of specific sales or effectiveness tasks; it covers employees who perform business tasks, mainly sales tasks for corporate and investment banking and debt collection tasks, as well as employees who carry out tasks in formations;
- SPS (Sales Bonus System) – is intended for positions in retail branches where banking products are sold;
- SPW (Bonus Support System) – covers other employees whose positions are not subject to the MbO, PPBiz or SPS pillars.



Data as at December 2019

A bonus is related to the assessment of an employee's performance. Performance is assessed on the basis of accounting for individual or group objectives – a specified bonus indicator is allocated for a specific level of performance, in an amount determined by the decision of the President of the Management Board.

Bonus targets remain linked to the Bank's key management indicators included in the bonus targets set for the individual units of the Bank. The cascade principle defined in the bonus rules, the observance of which is monitored, requires assigning targets to the employees working in the individual units.

Additionally, each target is set in accordance with the SMART principle (S-specific, M-measurable, A-ambitious, R-realistic, T-timely), which is also subject to regular monitoring.

The correctness of setting and accounting for targets is supported by applications dedicated to these processes – through systemic validations included in the applications.

Each bonus may be reduced if, by the payment date, an employee committed:

- 1) a breach of employee duties;
- 2) failure to comply with the law or customer service standards;
- 3) incorrect performance of the official tasks assigned;
- 4) behaviour towards other employees which violates the rules of social co-existence.

In addition, bonus adjustment indicators are used, depending on the evaluation of the quality of work (MbO) or the results of business operations (PPBiz and MbO in corporate centres). In the retail network, collective targets are used, which may increase an individual bonus.

2) REWARDS

Regardless of the bonus system, there is a system of rewards for the Bank's employees under which the Bank may establish a reward fund for:

- individual discretionary rewards for the Bank's employees who demonstrate outstanding performance at work or for achievements which have resulted in effects important for the Bank;
- rewards for employees recommending candidates for work at the Bank;
- activities related to the retention of employees who occupy key positions or who have key competencies.

The Bank also gives special rewards for preventing actions taken to the Bank's detriment to:

- the employees;
- intermediaries;
- persons other than those mentioned above if they have contributed directly to disclosing and preventing actions taken to the Bank's detriment.

7. NON-WAGE BENEFITS AND PRIVILEGES AVAILABLE TO THE EMPLOYEES OF PKO BANK POLSKI S.A.

1) MEDICAL CARE

The Bank provides its employees with extra medical care – in addition to occupational medicine benefits which the employer is obliged to provide under the provisions of the Labour Code – to which the employees are entitled as part of varied benefit packages dedicated to specific groups of positions. All employees have the possibility of consulting doctors of all specializations and to use a wide range of diagnostic tests free of charge. The employees also have the possibility of using a preventive health programme called “Zdrowie jak w Banku” which is aimed at diagnosing diseases early and promoting a healthy lifestyle. In 2018, a service called “Swoboda leczenia” (*Freedom of Treatment*) was implemented, which enables the Employees to settle, with a supplier of medical packages, some of the costs of the medical services used by the Bank's employees outside the supplier's centers.

2) EMPLOYEE PENSION SCHEME (EPS)

Since 2013, an Employee Pension Scheme (EPS) has been functioning at the Bank, under which the employees have the possibility of making long-term savings to supplement their pension income received from the mandatory sections of the pension system. The Bank's EPS is in the form of an agreement on the Bank making a Basic Contribution (3.5% of an employee's salary) and the Employees making an Additional Contribution (if any) to the Investment Funds managed by PKO TFI.

Since December 2019, the provisions of the Bank's EPS agreement also grant the Members of the Bank's Management Board the right to join the EPS.

3) SOCIAL BENEFITS FUND

- MyBenefit cafeteria system – an online platform under which every employee of the Bank has the possibility of using the funds allocated to them from the Social Benefits Fund on their own. The cafeteria system enables the selection and purchase of attractive benefits with the funds from the Fund, related, in particular, to recreation, leisure and culture (e.g. tours, holiday stays in resorts at home and abroad, cinema tickets, sports events tickets, books, swimming pool passes, concert tickets, purchase of equipment and sports clothes).

- Social Benefits Fund outside MyBenefit – includes non-refundable allowances for employees in a difficult situation, housing loans, e.g. for the purchase of one's first flat, as well as co-financing of organized leisure activities and child care in nurseries, children's clubs, kindergartens and other forms of pre-school education, and care provided by a day carer or a baby-sitter (which is financed with the funds available under the cafeteria system).

4) **SUPPORT FOR REASSIGNED EMPLOYEES**

The Bank's employees changing workplaces for reasons that are not related to them are entitled to special financial benefits, providing that the distance between the place of residence specified in the personal files held by the HR Department and the new place of work increases by a certain number of kilometres. As a result, the employees are motivated to accept the new workplaces they are offered.

5) **SPORTS CARDS**

The Bank's employees may participate in activities at sports facilities of their choice, situated all over the country, as part of sports cards of various companies. Cards are ordered via the MyBenefit platform. A card may be financed with funds granted as part of the Social Benefits Fund or with own funds.

6) **BANKING INDUSTRY SPECIAL OFFER**

Employees in the banking sector have the possibility of taking advantage of a bank offer, namely a savings and settlements account "Aurum BOS" (personal banking) and loan products offered on favourable terms, among other things, a credit card and a housing loan "Własny Kąt Hipoteczny" ("One's Own Place").

7) **CO-FINANCING OF TRAINING AND EDUCATION**

The Bank's employees have the possibility of applying for co-financing costs of studies – in particular, post-graduate studies, MBA studies, doctoral programmes, and training programmes for legal advisors.

8) **"PKO PO GODZINACH" PROGRAMME ("PKO AFTER HOURS" PROGRAMME)**

Co-financing of sports, leisure and cultural events by developing the employees' shared hobbies: skiing, running, cycling, sailing, football, horse riding, basketball, volleyball, tennis, motorcycles, canoeing, and artistic activities.

9) **REFUND ON GLASSES**

The Bank's employees who need corrective glasses or lenses for working with a computer display unit may apply for a refund on eyeglasses or contact lenses in the amount specified by the Bank.

10) **COMPANY CARS**

Company cars are allocated to employees performing specific duties or holding top positions. In the case of key managerial positions, the make, model and colour of a company car is selected by the user of the car (from a specific list of makes and models).

11) **"#AUTONABANK" PROGRAMME**

#AutoNaBank is a new programme for employees, prepared by Masterlease (a company in the PKO Bank Polski Group) which enables long-term rental of cars under special conditions. The programme, which was introduced at the end of 2019, replaced the "MOJE NOWE AUTO" (MY NEW CAR) and "ZAWSZE NOWE AUTO" (ALWAYS A NEW CAR) programmes.

The programme allows a car to be rented for a maximum of five years. An Employee pays monthly instalments for this service, without having to incur a start-up fee. All the formalities and car running costs – except for fuel and washer fluid – are on the part of the lessor – Masterlease. Full car insurance, the possibility to use a replacement car and full mechanical servicing are included in an instalment. A low instalment, comprising the costs of using a car, has been specially negotiated for PKO Bank Polski's employees. This solution is more favourable than a lease or a loan. The employees renting a car may pay even 30 per cent less compared with similar offers on the market. There are approx. 50 specifications, i.e. car models and types of equipment, to choose from.

12) **AUDIOTEKA (AUDIO LIBRARY)**

The Bank's employees have the possibility of using an external platform from which they may download audiobooks to their mobile devices free of charge.

13) GROUP LIFE INSURANCE

The Bank's employees are allowed the possibility of purchasing insurance from PZU Życie S.A. or PKO Ubezpieczenia. Group insurance is offered on preferential terms compared with the offers available on the individual insurance market.

14) SUPPORT FOR PERSONS TERMINATING THEIR EMPLOYMENT FOR REASONS NOT RELATED TO THE EMPLOYEES

The Bank's employees who terminate their employment for reasons not related to them are offered various forms of support: varied severance pay packages, support in the retraining process and access to internal job offers to find another job at the Bank, support in seeking employment outside the Bank (with the participation of a specialized personnel advisor).

8. COMPETENCY CONCERNING THE DETERMINATION OF REMUNERATION

The Bank's internal regulations concerning remuneration are introduced by the Management Board (and the regulations for the Management Board are introduced by the Supervisory Board), whereas determining bonus indicators and approving the evaluation of employee positions remain within the competence of the President of the Management Board.

The Management Board has conferred the right to take legal action for the Bank in individual cases relating to labour law (namely, to conclude employment contracts and change remuneration under the concluded contracts) on:

- 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 PZP director (with the possibility of granting permanent power of attorney),

whereas the President of the Management Board was entrusted with the competencies related to the Bank's senior management.

Awarding benefits related to the employment relationship or the terms and conditions of an employment contract which go beyond the benefits or terms and conditions arising from the generally applicable or internal legal regulations in employment contracts, preliminary contracts or letters of intent requires the approval of the President of the Management Board.

Employing a person in a given position, terminating an employment contract and changing the terms and conditions of an employment contract as regards the position, made in accordance with the employer's decision vis-à-vis the director of the internal audit unit or the director of the compliance unit requires the prior approval of the Supervisory Board. Determining the amount of the base salary and changing it for the above-mentioned persons are approved respectively - by the Supervisory Board or its relevant committee - using the Bank's other internal regulations concerning the remuneration of MRTs.

Terminating an employment contract and changing the terms and conditions of an employment contract as regards the position or a change resulting in a reduction in the base salary, made on the employer's initiative vis-à-vis an employee of the internal audit unit or an employee of the compliance unit other than a director requires the prior approval of the President the Management Board.

ASSESSMENT OF COMPLIANCE OF THE REMUNERATION POLICY OF PKO BP S.A. WITH THE PRINCIPLES OF CORPORATE GOVERNANCE OF THE PFSA AND OTHER REGULATORY REQUIREMENTS

§ 28. 1. A supervised institution should follow a transparent policy of remunerating the members of the supervisory body and the management body, as well as persons performing key functions. The remuneration rules should be defined by means of an appropriate internal regulation (the remuneration policy).

The Bank follows a policy of remunerating the members of the Supervisory Board and the Management Board as well as key managers. This policy is determined by means of the following internal regulations:

- 1) Policy of remunerating the employees of the Bank and the PKO BP Group;
- 2) Resolution of the Extraordinary General Meeting of PKO BP on the determination of the principles of remunerating the members of the Supervisory Board;
- 3) Principles of employment and remuneration of the members of the Bank's Management Board;
- 4) Principles of remunerating the Bank's employees whose activities have a material impact on the Bank's risk profile – Material Risk Takers of the Bank;
- 5) Principles of remunerating the Bank's employees;
- 6) Bonus rules for the Bank's employees;
- 7) Decision of the Director of the Personnel Management Division on the introduction of a recommendation programme;
- 8) Decision of the Director of the Personnel Management Division on the rules of the retention programme;
- 9) Methods of evaluation of positions;
- 10) Resolution of the Bank's Management Board on determining the competence to perform activities in matters relating to labour law for the Bank;
- 11) Order of the President of the Management Board on the competence to perform human resources activities in matters relating to labour law;
- 12) Table of positions for the Bank's organizational units;
- 13) Rules of the Management Board;
- 14) Rules of the Appointments and Remuneration Committee of the Supervisory Board;
- 15) the Bank's Collective Labour Agreement (CLA);
- 16) Decision of the President of the Management Board on the parameterization of bonuses in accordance with the bonus rules for the Bank's employees;
- 17) Decision of the President of the Management Board on the parameterization of bonuses for the Material Risk Takers of the Bank.

The above-mentioned regulations have been verified for consistency with the Principles of Corporate Governance of the Polish Financial Supervision Authority (PFSA) and transparency as well as other regulatory requirements (i.e. CRD, EBA, the banking law, the PFSA's guidelines). They are available for inspection to all of the Bank's employees who are subject to individual regulations, mainly through the Bank's intranet pages.

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

According to the policy in force at the Bank, the amount of variable remuneration is dependent on the level of achievement of the goals set. These goals are linked to the results and financial position of the Bank. They guarantee taking into account the Bank's business cycle and the risk related to its business activities. This risk is taken into account both by determining appropriate, risk-sensitive criteria for performance appraisal as well as the reduction or absence of bonuses in the event of deteriorated financial results, the Bank's loss or the deterioration in other variables.

The variable remuneration of the members of the Management Board and MRTs may be reduced, including the possibility of depriving them entirely of the right to receive such remuneration, where, by the payment date, the following has occurred:

- 1) significant deterioration in the results of the Bank and the Group due to:
 - a) an accounting loss or the risk of an accounting loss;
 - b) a risk of insolvency or the loss of liquidity;
- 2) a significant negative change in the Bank's equity;
- 3) the breach of the law, regulations, procedures or duties resulting from the employment relationship of an MRT/member of the Bank's Management Board or material mistakes committed by him or her, e.g. non-compliance with the internal code of conduct, compliance guidelines or basic values, especially in the areas of risk management;
- 4) adjustment to the results/goals achieved and the degree of achievement of the results/goals of MRTs/members of the Bank's Management Board;
- 5) deterioration in the results of the units supervised by an MRT/an area supervised by a member of the Bank's Management Board;
- 6) variable remuneration awarded on the basis of incorrect, misleading information or as a result of fraud on the part of a given MRT/member of the Bank's Management Board.

Should any of the above-mentioned reasons occur, the entire deferred variable remuneration for a given period or a part thereof may be reduced.

§ 28. 3. The supervisory body shall prepare and submit a report on the assessment of the functioning of the remuneration policy at the supervised institution to the decision-making body once a year.

The Supervisory Board fulfils its responsibilities relating to the preparation of this report on the assessment of the functioning of the remuneration policy at the Bank once a year in order to submit it to the Annual General Meeting.

§ 28. 4. The decision-making body shall assess whether the remuneration policy in place supports the development and operational security of the supervised institution.

The General Meeting has decided not to make any assessments.

§ 29. 1. The remuneration of the members of the supervisory body shall be adequate to their functions and adequate to the scale of operations of the supervised institution. The members of the supervisory body appointed to work in committees, including the audit committee, should be remunerated adequately to the additional tasks they perform within a given committee.

The members of the Supervisory Board receive remuneration for the tasks entrusted to them. The amount of the remuneration is calculated as the product of average remuneration in the enterprise sector exclusive of bonuses paid out of the net profit, announced by the Central Statistical Office (GUS), and a multiplier depending on the functions performed on the Supervisory Board. In the case of participation in all committees of the Supervisory Board, the remuneration is increased by 10% but is not paid in the case of unauthorized absence.

The remuneration awarded by the Bank reflects both the performance of supervisory functions and work in committees. The members of the Supervisory Board who are appointed to work in the committees are entitled to reimbursement of the costs incurred in performing additional duties.

§ 29. 2. The remuneration of the members of the supervisory body, unless regulations prohibit the payment of such remuneration, should be determined by the decision-making body.

The amount and the rules of payment of remuneration to the members of the Supervisory Board of PKO BP were determined by the Extraordinary General Meeting in Resolution No. 3/2017 of 13 March 2017 (as amended).

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

The principles of remunerating the members of the Supervisory Board are defined in the above-mentioned resolution of the General Meeting which constitutes, pursuant to § 392(1) of the Commercial Companies Code, a relevant internal regulation in this respect.

§ 30. 1. The supervisory body, taking into account the decisions of the decision-making body, shall be responsible for the adoption of an internal regulation specifying the principles of remunerating the members of the management body, including detailed criteria and conditions justifying eligibility for variable remuneration components.

In 2017-2019, the Supervisory Board, taking into account the decisions of the General Meeting, introduced internal regulations defining the principles of remunerating the members of the Bank's Management Board, i.e.:

- ▶ Policy of remunerating the employees of the Bank and the PKO BP Group, constituting an appendix to Resolution No. 70/2019 of the Supervisory Board of 12 August 2019, which replaced the Policy introduced by means of an appendix to Resolution No. 42/2017 of the Supervisory Board of 14 June 2017;
- ▶ Principles of employment and remuneration of the Members of the Management Board, constituting an appendix to Resolution No. 43/2017 of the Supervisory Board of 14 June 2017 (as amended).

By way of Resolution No. 43/2017 (as amended), the Supervisory Board adjusted the Bank's internal regulations to the provisions of the Act of 9 June 2016 on the rules of determining the remuneration of persons managing certain companies (consolidated text, Journal of Laws of 2019, item 1885, as amended) by determining the maximum amount of fixed remuneration of the members of the Bank's Management Board in the form of an appropriate multiple of average monthly remuneration (in recognition of the fact that, at present, fixed remuneration is specified as an amount in a service contract), by excluding the possibility of receiving fixed remuneration for performing the function of a body member in the subsidiaries in the Bank's Group and by determining the maximum ratio of variable and fixed remuneration components in accordance with the provisions of the above-mentioned Act.

These regulations specify jointly the detailed and general criteria for remunerating the members of the Bank's Management Board, including their eligibility for fixed and variable remuneration.

§ 30. 2. The supervisory body shall exercise supervision over the introduced remuneration policy, including a review of the fulfilment of the criteria and conditions of eligibility for variable components of remuneration prior to the payment of the whole or a part of such remuneration.

1) Ensuring supervision over the policy

The Supervisory Board approves the Remuneration Policy and reviews the Policy on a periodical basis. Based on these reviews and the presented reports on the implementation of the rules, the Supervisory Board may recommend updating the Policy.

2) Determining the criteria and conditions of eligibility for variable remuneration prior to the payment of variable remuneration in whole or in part

The Supervisory Board determines the values and weights of goals for the members of the Bank's Management Board under the Management by Objectives (MbO) system and approves their implementation.

3) Verification of fulfilment of the criteria and conditions of eligibility for variable remuneration prior to the payment of variable remuneration in whole or in part

Pursuant to § 16-17 of the Principles of employment and remuneration of the members of the Bank's Management Board, the Supervisory Board decides on determining the occurrence of the reasons regarding the payment of variable remuneration and the application of malus type solutions to deferred variable remuneration for the individual members of the Bank's Management Board. A malus type solution may be applied in the event of the reasons for reducing variable remuneration, enumerated in § 16-17 of the Principles. If the Supervisory Board should decide on the occurrence of a reason for applying a malus solution, the deferred variable remuneration for a given evaluation period may be reduced in full or in part. Similar decisions are made by the Management Board in relation to Material Risk Takers (MRTs) pursuant to § 12 of the Principles of remunerating employees whose activities have a material impact on the Bank's risk profile – Material Risk Takers of the Bank.

§ 30. 3. As regards persons performing key functions, the responsibility for the introduction of a relevant internal regulation and for supervision over that area shall lie with the management body.

By way of Resolution No. 694/C/2017 of 19 December 2017 (as amended), the Management Board introduced the principles of remunerating the Bank's employees whose activities have a material impact on the Bank's risk profile – Material Risk Takers (MRTs).

§ 30. 4. Variable remuneration components for the members of the management body or persons performing key functions should be dependent on, in particular, objective criteria, the quality of management of the supervised institution, and take into account the long-term aspects of operations and the method of pursuit of strategic goals. Awards or benefits, including those resulting from incentive schemes and other bonus schemes paid, payable or potentially payable shall also be taken into account when establishing variable remuneration components. The established remuneration policy should not constitute an incentive for taking excessive risk in the operations of the supervised institution.

The variable remuneration of both the members of the Bank's Management Board and key managers is dependent on the achievement of individually defined goals related to the Bank's strategy. These goals include both quantitative and qualitative criteria, and they guarantee motivation to work and forms of conduct which allow the Bank to achieve its goals. When setting goals, the following is taken into account, among other things: achieving the best possible and stable financial results in the long term, supporting correct and effective risk management, discouraging taking excessive risk which would go beyond the risk seeking accepted by the Bank, limiting the conflict of interests and supporting the pursuit of the Bank's business strategy (the MbO objectives include the Bank's strategic projects).

Furthermore, the rules applied to the members of the Bank's Management Board and MRTs provide for the possibility of reducing payments in the event of the breach of the law, regulations, procedures or duties resulting from the employment relationship of the above-mentioned persons or material mistakes committed by them, especially in the areas of risk management.

§ 30. 5. The remuneration of a member of the management body or persons performing key functions should be financed and paid from the funds of the supervised institution.

The remuneration of the members of the Bank's Management Board and key managers (MRTs) is financed and paid from the Bank's own funds. It is not dependent on the results of the parent company as the Bank itself is the parent company in the Group.

ASSESSMENT OF WHETHER THE REMUNERATION POLICY SUPPORTS THE DEVELOPMENT AND OPERATIONAL SECURITY OF THE BANK

1. General comments

As an institution of public trust, the Bank conducts its business activities with utmost care and attaches particular importance to the professionalism and ethics of its employees. Therefore, the remuneration policy, which is an important element of the development and security of the Bank's operations, is implemented by the Management Board with the support of the Personnel Management Division.

In 2019, the Bank and the Group continue the remuneration policy which leads to ensuring a consistent and transparent remuneration system based on linking the amounts of remuneration to the individual groups of grade categories and comparing them with market wages. A new method of evaluation of positions has been introduced, relating to the determination of the individual weights of positions according to: skills, problem-solving and the effect on results. The list of MRT positions at the Bank has been updated, changes have been made to the Remuneration Policy and to the Principles of employment and remuneration of the members of the Bank's Management Board, the bonus rules for the Bank's employees and the rules of parameterization of bonuses have been changed.

As a result of these changes, the remuneration policy does not encourage excessive risk-taking and – taking into account the Bank's financial position – it is balanced, supports the pursuit of the Bank's strategic goals and its long-term development. This policy is implemented in the three elements described below, each of which meets the requirements set out in the current regulations.

2. Fixed remuneration

In the process of awarding fixed remuneration, the Bank is guided by market-based wage benchmarks and the categories of grades for individual positions presented in more detail in points 3 and 4 of the description of the remuneration policy in this report. These levels have been determined using a new model of evaluation of job positions. Positions are periodically evaluated in terms of skills, problem-solving and the effect on results. The minimum guaranteed base salary rates for the individual groups of grades are determined in the Collective Labour Agreement.

By introducing a new method of evaluation of positions, the Bank wishes to guarantee remuneration that is competitive in relation to wages offered on the market. The new model enables career paths to be arranged clearly for individual employees and lays the foundations for introducing a coherent remuneration system at the Bank.

In order to ensure the security and control of remuneration, the Bank takes action to avoid determining the level of fixed remuneration above the market level while avoiding excessive employee resignations and increased employee turnover costs that could occur if salaries were set at a level lower than the market level. To do so, the Bank monitors fluctuation ratios in the individual positions in order to adjust the assumptions of the remuneration system (if necessary) in the event of negative phenomena in the area of human resources.

A limited and strictly specified group of employees, which is defined in the Bank's regulations on defining the competencies to perform human resources activities in matters relating to labour law, is entitled to define and change remuneration. Each change in remuneration is combined with an assessment of an employee's competence.

3. Variable remuneration

The Bank regulates the process of awarding variable remuneration in: the Principles of employment and remuneration of the Members of the Bank's Management Board, the Principles of remunerating employees whose activities have a material impact on the Bank's risk profile – Material Risk Takers of the Bank, and the bonus rules for the Bank's employees.

The Bank's policy on variable remuneration components takes into account the specific nature of the positions for which goals related to the Group's strategy are set. The quantitative and qualitative goals set guarantee that the Bank's business cycle and the risks related to its business activities are taken into account. The variable remuneration of the employees working in the departments for compliance, audit, risk management and human resources is not dependent on the Bank's economic results, so as not to affect their objectivity and independence. The targets for these employees arise from their functions.

The Management Board and the MRTs – as persons having special influence on the level of security and the stable development of the Bank – are subject to particular restrictions in the area of remuneration. Variable remuneration components are awarded to MRTs for a given evaluation period (a calendar year) after accounting for bonus targets in the form of: non-deferred remuneration representing 60% of variable remuneration (in the first year after the evaluation period) and deferred remuneration representing 40% of variable remuneration (in equal instalments, in the following years after the first year after the evaluation period). In the case of variable remuneration which is higher than the amount specified in the regulations, the percentage of deferred remuneration increases accordingly. 50% of the deferred and non-deferred variable remuneration for MRTs is paid in cash, and the remaining 50% in the form of a financial instrument, as phantom shares.

If good and stable results are achieved, the value of the Bank increases, which results in an increase in the final cash payment resulting from converting shares into cash. In the opposite situation, the payment may be reduced. This mechanism motivates MRTs and the members of the Bank's Management Board to care about the results and development of the Bank. The Bank has the option of guaranteeing variable remuneration components for MRTs in the first year after entering into an employment relationship, but such situations are exceptional.

The parameterization of bonuses for all employees is made taking into account the Bank's situation and the market benchmarks of the financial sector. The maximum bonus levels and bonus indicators are determined after prior consultation with the human resources and controlling departments and after obtaining the opinion of the compliance unit.

In justified cases, each bonus may be reduced, including the possibility of depriving an employee entirely of the right to receive such remuneration in the event of violation of the principle of social co-existence or customers' interests.

In special cases, employees may receive a discretionary reward.

4. Non-wage benefits

The Bank has an attractive, market-comparable offer of additional non-wage benefits presented in more detail in point 7 of the description of the remuneration policy in this report. As part of the non-wage benefits, the Bank offers an Employee Pension Scheme, benefits from the Social Benefits Fund, medical care as well as benefits supporting sports and wellness activities. The employees manage their non-wage benefits through an appropriate cafeteria platform in a transparent manner.

On the one hand, the benefits granted motivate the employees to care about the Bank's results and, on the other hand, they perform a retention function – irrespective of dedicated retention programmes – thanks to which the Bank's ongoing operations within individual processes are secured. In addition, the educational motivators awarded as part of the above-mentioned benefits translate directly into the Bank's development through the development of its employees.