



Bank Polski



REPORT

Assessment of the remuneration policy of PKO Bank
Polski SA in 2018

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INTRODUCTION

The report "Assessment of the remuneration policy of PKO Bank Polski S.A. in 2018" was developed with a view to meeting the requirements of:

- § 15 section 1 point 13 of the Bank's Articles of Association:
13) Besides the rights and obligations provided for by the generally applicable laws and the provisions of these Articles of Association, the Supervisory Board shall adopt resolutions concerning the assessment of the functioning of the remuneration policy in place at the Bank and submit the relevant report to the Annual General Meeting,
- § 28 section 3 and 4 of the "Corporate Governance Principles for Supervised Institutions" that constitute an appendix to Resolution No 218/2014 of the Polish Financial Supervision Authority of 22 July 2014 on the publication of the "Corporate Governance Principles for Supervised Institutions":
3. The supervisory body shall annually develop and submit, to the decision-making body, a report on the assessment of the functioning of the remuneration policy at the supervised institution".
*4. The decision-making body shall evaluate whether the remuneration policy in place promotes the development and operational security of the supervised institution.**
- §2 section 4 and §6 of the Employees' Remuneration Policy of the Bank and of PKO BP Group

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

This report fulfils the aforementioned requirements as at 31 December 2018.

EVALUATION SUMMARY

1. THE DEVELOPMENT AND OPERATIONAL SECURITY OF THE BANK ARE ENSURED IN THE REMUNERATION POLICY THROUGH THE FOLLOWING ACTIVITIES:
 - MOTIVATING EMPLOYEES TO ACTIVITIES COINCIDING WITH THE BANK'S INTERESTS
 - LINKING THE AMOUNT OF REMUNERATION PAID WITH THE BANK'S POSITION
 - ENSURING THE APPROPRIATE LEVEL OF CONTROL OF FIXED AND VARIABLE REMUNERATION AMOUNTS, AND OF NON-WAGE BENEFITS

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

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

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

5. VARIABLE REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD AND KEY MANAGERS IS DEPENDENT ON THE FULFILMENT OF PERSONAL OBJECTIVES RELATED TO THE BANK'S STRATEGY. THESE OBJECTIVES INCLUDE QUANTITATIVE AND QUALITATIVE CRITERIA. THEY ALSO GUARANTEE GIVING MEMBERS OF THE MANAGEMENT BOARD INCENTIVES TO WORK AND OBSERVE THE MODELS OF CONDUCT SO THAT THE BANK MAY ACHIEVE ITS GOALS

6. THE AMOUNT OF VARIABLE REMUNERATION OF ALL EMPLOYEES IS DEPENDENT ON THE LEVEL OF FULFILMENT OF THE OBJECTIVES

REMUNERATION POLICY DESCRIPTION

2. REMUNERATION POLICY OF THE BANK'S EMPLOYEES AND PKO BP GROUP AND THE COLLECTIVE BARGAINING AGREEMENT

The basic internal regulation in the field of remuneration policy is the Remuneration Policy for Bank Employees and the PKO BP Group adopted by the Supervisory Board No. 42/2017 of 14th June 2017. The policy ensures a coherent system of remuneration by means of:

- applying a remuneration system in line with the market trends,
- obtaining optimal candidates for work,
- adjusting the mechanisms of the tools and the level of remuneration to the strategy and objectives of the Bank and the Bank Group,
- taking into account the Group's ability to shape the required mechanisms and levels of remuneration,
- forming fixed salaries based on the value of workstations,
- shaping the remuneration structure based on the achieved work results and evaluation of employees' competences,
- building employee responsibility for the implemented tasks based on objectified criteria,
- guaranteeing that the variable remuneration components will be parameterised in such a way as to take into account the cost of risk, the cost of the capital and the risk of the Bank's and Group's cash flow in the long-term perspective,
- ensuring that cash or non-cash forms of remuneration are not incentivising persons involved to favour their own interests or the Bank's interests and the interests of the Companies of the Group to the detriment of the Customers.

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

- 1) basic salary,
- 2) allowances for working overtime and in special conditions that are particularly detrimental and harmful to health,
- 3) bonuses and rewards for special achievements in professional work.

The Collective Agreement shall contain the minimum guaranteed basic remuneration subordinated to various job grades assigned to job positions based on 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%

3. EVALUATION OF POSTS

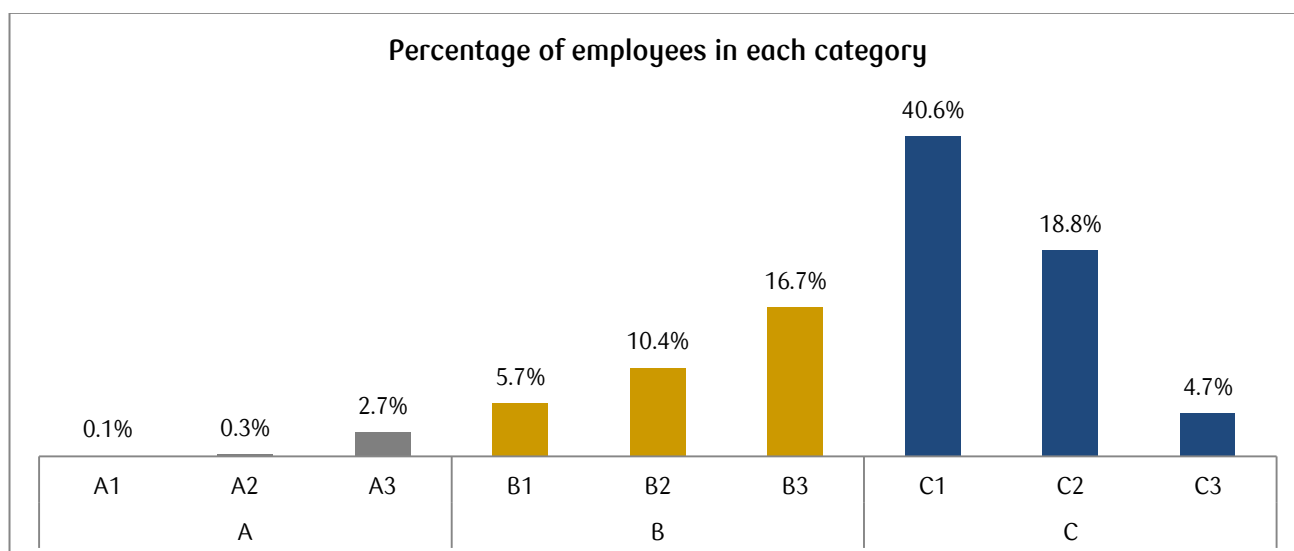
In 2018, a project was carried out at the Bank, regarding the evaluation of posts. In December 2018, the Bank's Management Board adopted the solution worked out and recommended implementing a new approach to the evaluation of Posts at the Bank. The implementation work will be carried out in 2019.

As a result of the former evaluation of positions, in 2018 there were three groups of grade categories functioning at the Bank:

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

Each of the above groups was divided into 3, resulting in 9 grade categories:

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

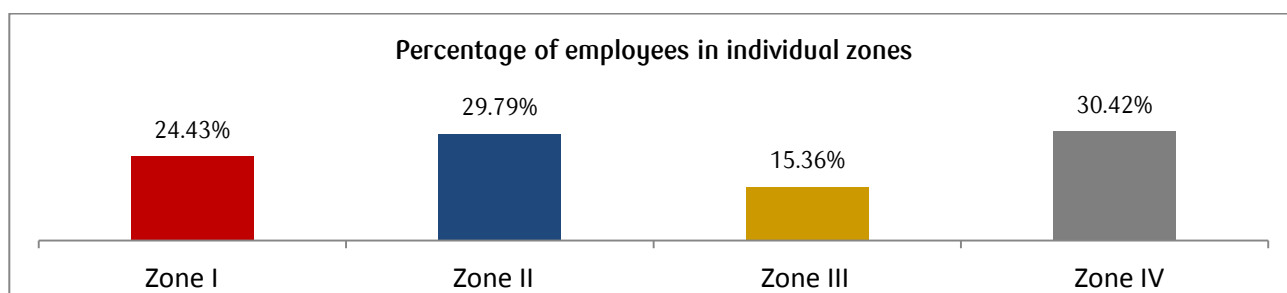


When evaluating the position, the Employee Evaluation Management Office takes into account the table of work positions, based on the CLA and agreed with the trade unions, which guarantees the minimum grade categories assigned to the list of individual positions.

4. BASE REMUNERATION MANAGEMENT

Basic salaries (but also additional benefits such as medical care) are allocated on the basis of grades assigned to individual organizational positions and the analysis of market remuneration in the banking sector (including regionalization).

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



Basic salaries change on the basis of individual case studies (taking into account the effects of work and the results of periodic employee evaluation). This can be done as part of the process:

- 1) overall increases in the Bank,
- 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.

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

In accordance with the requirements of CRD IV and Regulation No. 604/2014 of 4th March 2014, the Bank will update the rules for determining variable remuneration (bonuses and awards) of MRT - through the Supervisory Board's resolutions - for the Bank's Management Board and the Management Board - for MRT subordinated to the Management Board.

The list of MRTs - not being members of the Management Board - is established by the Management Board based on qualitative and quantitative criteria for determining the categories of employees whose occupational activity has material impact on the risk profile defined in Commission Delegated Regulation (EU) No. 604/2014 of 4th March 2014. Based on the above criteria, MRTs are in particular:

1. the members of the Management Board,
2. senior management responsible for key business units, for managing specific risk categories and for control functions,
3. positions responsible for providing internal support, which are decisive for the conduct of business, exposing the Bank to significant operational risk and other types of risk,
4. positions generating credit risk and market risk specified using criteria based on the limits of entitlements,
5. positions at which the employees employed received the total remuneration which exceeds the appropriate threshold defined by law (if the employees in fact have a significant impact on the risk profile),
6. positions at which employees are in the same salary range as senior management and risk takers (if they have a material impact on the risk profile).

In 2018, no significant changes were made to the Bank's internal regulations in place with regard to remunerating the employees. In 2018, the unchanged internal regulations adopted by the Supervisory Board in 2017, specifying the rules of remunerating the Management Board members, were in place, i.e.:

- The policy of remunerating the employees of the Bank and the PKO BP Group constituting an appendix to Resolution No. 42/2017 of the Supervisory Board dated 14 June 2017;

- Rules of employing and remunerating the members of the Management Board – constituting an appendix to Resolution No. 43/2017 of the Supervisory Board dated 14 June 2017.

These regulations specify detailed and general criteria for remunerating the members of the Management Board, including receiving their fixed and variable remuneration.

By introducing the above-mentioned provisions, the Supervisory Board also adjusted the principles of remuneration of the Management Board's members to the provisions of the Act of 9th June 2016 on the rules of determining remuneration for persons managing certain meetings (i.e., Journal of Laws of 2016, item 1202, as amended), by determining the maximum fixed remuneration for members of the Management Board in the form of an appropriate multiple of average monthly remuneration in the enterprise sector, excluding the option of receiving fixed remuneration for the function of the member of the entity in subsidiaries of the Bank's capital group and determining the maximum ratio of variable and fixed components of remuneration in accordance with the provisions of the above-mentioned legal Act.

Regardless of the above changes, the rules for determining the variable components of remuneration for MRTs (who are not members of the Management Board) are regulated by the following resolutions:

1. of the Supervisory Board – the policy of variable components of remuneration under the name of “Policy of remunerating the Employees of the Bank and the PKO BP Group”;
2. of the Management Board – “Principles of remunerating the Bank’s employees whose work has a material impact on the Bank’s risk profile – material risk takers at the bank”.

The Supervisory Board performs periodical reviews of the above-mentioned rules. Based on the results of this review and based on the reports of the Internal Audit Department regarding the implementation of the rules, the Supervisory Board may recommend that they should be updated. Previous reviews and changes made on their basis regarding variable components of salaries did not diametrically affect the main assumptions and tools of the incentive system.

The MRT list is determined by the Management Board. According to the state as at 31.12.2018, there were 43 posts in the List (however, the number of employees is bigger - due to the fact that one position from the List is filled in by several employees - it applies to: Division Directors, Directors of Corporate Macroregions, Directors of Departments abroad).

Bank functional area	Number of MRT posts
Risk Management	14
Corporate and Investment Banking	12
Management Board President	5
International Banking and Transactions and Cooperation with Local Government and Government Agencies	3
Finance and Accounting	4
Information Technology	1
Retail Market	1
Legal and Compliance Area	2
+ the Director of Division post in each area	1

The rules and remuneration regulations issued on their basis describe the mode of awarding MRTs of variable remuneration components related to the results and effects of work - awards for special achievements at work and bonuses.

The basis for granting the variable components is primarily bonus targets awarded as part of Management by Objectives (MbO). The allocated MbO objectives are to guarantee the taking into account of the business cycle of the Bank and the risk related to the Bank's operations. The risk is taken into account by determining appropriate, risk-sensitive criteria for assessing MRT's performance.

Variable remuneration components for a given assessment period (calendar year) are awarded after the bonus targets have been settled in the form of:

- 1) non-deferred - in the amount of 60% of variable remuneration (in the first year after the assessment period),

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

while both non-deferred and deferred remuneration is granted in equal parts in cash and in the form of a financial instrument, i.e. phantom shares (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 the event that the amount of variable remuneration for a given year exceeds 1 million zlotys, 400 000 zlotys is deferred plus 60% of surplus over the amount of 1 million zlotys.

Variable remuneration shall not exceed 100% of the annual fixed remuneration for management positions and for members of the Bank's Management Board. At the request of the Bank's Supervisory Board, the above-mentioned variable remuneration limit for employees who are not members of the Management Board may be raised up to the maximum level of 200% of fixed remuneration in investment banking positions - subject to approval by the General Meeting.

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

- 1) violation of employee's duties,
- 2) failure to comply with the law or customer service standards,
- 3) incorrect performance of assigned work tasks,
- 4) conduct towards other employees violating rules of social co-existence.

Bonus amount:

- 1) of the Management Board member may be adjusted to the negative or plus by a specified ratio - depending on the Bank's results determined in the annual Bank Note (set of key management ratios determined for a given calendar year),
- 2) of a MRT not being a member of the Management Board may be adjusted to a plus by a specified ratio depending on the results of the Bank defined in the Bank's annual Note.

In the case of members of the Management Board, the condition for granting and making payment of variable remuneration is the approval by the General Meeting of the financial statements for the given evaluation period.

The Supervisory Board in relation to the members of the Management Board and the Management Board in relation to persons in managerial positions may also before the payment of each variable component take a decision on a possible proportional reduction in the amount of funds for these remunerations, taking into account:

- 1) effect on the regulatory capital, solvency coefficient and the bank's equity so that the payment of variable remuneration does not limit the possibility of their strengthening,
- 2) effect on the cost of capital, so that the payment of variable remuneration could not limit the possibility of maintaining the appropriate capital base,
- 3) the Bank's risk profile required,
- 4) the Bank's financial results with respect to long-term development plans.

In the case of:

- 1) significant deterioration in the Bank's results,
 - 2) determination that was a significant negative change in equity,
 - 3) an employee violates a legal provision or makes a material mistake,
 - 4) adjustment of the performance results and the extent of performing results or the employee's objectives,
 - 5) deterioration of results supervised or managed by the abovementioned persons of the Bank's units,
 - 6) awarding variable remuneration based on incorrect and misleading information or as a result of employee's fraud
- it is possible to apply - respectively by the Supervisory Board or the Management Board - a malus type solution reducing the amount of due variable remuneration of a deferred Management Board member or a MRT in subsequent settlement periods.

Material Risk Takers (with the exception of the Members of the Bank's Management Board) may use the medical care services financed by the Bank, the social benefits fund, the PPE (Employee Pension Scheme).

In the case of granting the MRT the severance pay related to the resignation from the function resulting from termination of the employment relationship (other than that resulting from generally applicable provisions of law), its amount reflects the evaluation of work performance during the last three years of employment. At the same time, the Bank's regulations determine the maximum severance pay.

The Management Board member is entitled to severance pay on condition that he/she performs the function of a member of the Bank's Management Board for a period of at least twelve months before the termination of the above-mentioned agreement. The MRT's severance pay can be granted under the condition of being employed at the MRT's position for a period of at least twelve months before the termination of the employment agreement.

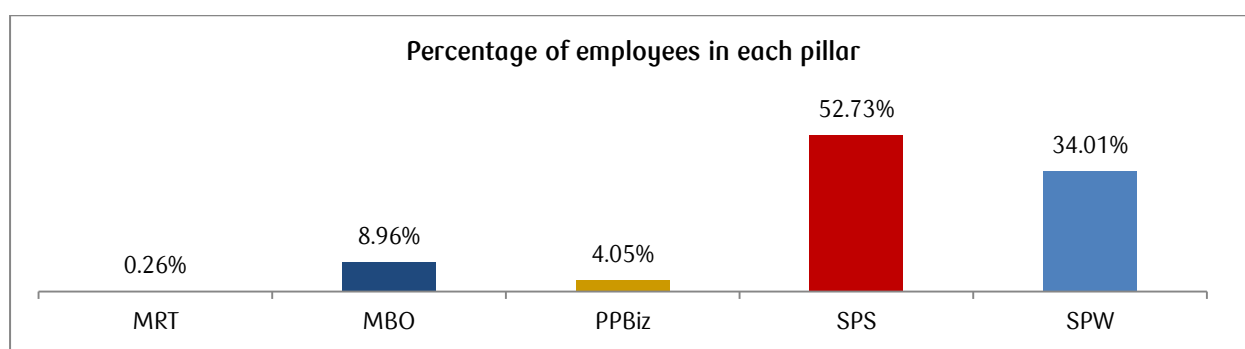
Members of the Management Board and selected MRTs will also be bound by non-competition agreements which stipulate that for not seeking employment in the rival company after terminating the employment the Management Board members or selected MRTs will receive compensation pay-outs for a maximum period of six months, up to 100% of fixed remuneration resulting from the employment agreement.

6. VARIABLE REMUNERATION COMPONENTS FOR EMPLOYEES OTHER THAN MRTs

1) BONUSES

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

- MbO (Management by Objectives) - includes the positions of the managerial staff and expert positions where key goals of the Bank are performed, including the strategic ones; MbO is a bonus dependent on the quality and extent of performance of the assigned goals,
- PPBiz (Business Bonus Program) - is a bonus pillar in which the bonus depends on the level of performance of specific sales or efficiency tasks; includes employees performing business tasks, mainly sales tasks for corporate and investment banking as well as debt collection tasks,
- SPS (Sales Bonus System) - is directed to positions in the retail branches where the banking products are sold,
- SPW (Support Bonus System) - covers other employees whose positions are not subject to the pillar of MbO, PPBiz or SPS.



Bonus is related to the assessment of employee's performance. The result of work is assessed on the basis of settlement of individual or group goals - for a certain level of performance a specified bonus indicator is allocated in the amount determined by the decision of the President of the Management Board.

Bonus targets are related to the key management indicators of the Bank included in the bonus targets for the individual units of the Bank. The cascade principle defined in the bonus rules, the observance of which is monitored, requires the assignment of targets to employees employed in a given unit.

In addition, 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 cyclical monitoring.

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

Each bonus can be reduced if by the day of a pay-out an employee committed:

- a breach of the employee's duties,
- failed to comply with the law or customer service standards,
- incorrectly performed the assigned professional tasks,
- behaves towards other employees violating the rules of social co-existence.

In addition, bonus adjustment indicators are applied depending on the evaluation of quality of work (MbO), results from business operations (PPBiz and MbO in corporate centres). The collective targets are applied in the retail network that can increase the individual bonus.

2) AWARDS

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

- individual discretionary rewards for the Bank's employees who have outstanding performance results at work or for achievements that resulted in reaching targets important for the Bank,
- rewards for employees recommending candidates to work in the Bank,
- activities related to retention of employees occupying key positions.

The Bank also grants special rewards for thwarting actions undertaken to the Bank's detriment, to:

- employees,
- intermediaries,
- other than the above-mentioned persons in the event that they directly contribute to the disclosure and thwarting of actions taken to the detriment of the Bank.

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

1) MEDICAL CARE

The Bank provides the employees with extra - in addition to occupational health benefits, which the employer is obliged to provide under the provisions of the Labour Code - medical care which the employees are entitled to as per different benefit packages, dedicated to specific job groups. All employees have the possibility to obtain medical consultations from all specialist doctors and use wide range of diagnostic tests. The employees also have the option of using the preventive program "Health as in the Bank", aimed at early diagnosis of diseases and promoting a healthy lifestyle. In 2018, a service called "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

Since July 2013, the Employee Pension Program (EPP) has been operating in the Bank, under which the employees have the option of long-term savings to supplement retirement income received from the mandatory parts of the pension system. The EPP programme of the Bank is carried out in the form of an agreement on making a Basic Contribution by the Bank (3% of each salary component) and a possible Additional Contribution by Employees to the Investment Funds managed by PKO TFI.

3) EMPLOYEE BENEFIT FUND

- MyBenefit cafeteria system - an online platform under which every employee of the Bank has the possibility to dispose of funds allocated to them from the Social Benefits Fund. The cafeteria system enables the selection and purchase of attractive benefits with the funds from the Fund, related to recreation, leisure and culture (e.g. tours, holiday stays in home and foreign resorts, cinema tickets, sports events tickets, books, swimming pool passes, concert tickets, purchase of equipment and sports clothes).
- Social Benefits Fund not related to MyBenefit - includes non-returnable benefits for employees being in a difficult situation, housing loans e.g. for the purchase of first flat as well as co-financing organized recreational activities and child care in nurseries, children's clubs, kindergartens and other forms of pre-school education and care provided by a day caregiver or a baby-sitter (which is financed from the funds being part of cafeteria system).

4) SUPPORT FOR REASSIGNED EMPLOYEES

The Bank's employees changing workplaces for reasons that are not related to them are provided with special financial benefits as long as the distance between the place of residence indicated in the personal files held by HR Department and the new place of work increases by a certain number of kilometers. As a result, employees are motivated to accept the proposed new jobs.

5) SPORT CARDS

The Bank's employees can take advantage of selected sports facilities located countrywide within sports cards of various companies. The ordering of cards is done through MyBenefit platform. The card may be financed from funds granted from the Social Benefits Fund or from own means.

6) BANK INDUSTRY SPECIAL OFFER

Employees in the banking sector are able to take advantage of the Bank's offer, namely Aurum BOS saving and settlement account (personal banking) and of loan products offered on favorable terms, including among other, credit card, mortgage loan "Własny Kąt Hipoteczny".

7) TRAINING AND EDUCATION CO-FINANCING

The Bank's employees have the opportunity to apply for co-financing the costs of study - in particular post-graduate studies, MBA studies, doctoral programs, training programmes for legal advisors.

8) "PKO PO GODZINACH" PROGRAMME

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

9) REFUND OF PURCHASE OF GLASSES

The employees of the Bank who need corrective glasses or lenses to work at the computer monitor may apply for a refund of eyeglasses or contact lenses in the amount specified by the Bank.

10) COMPANY CARS

Company cars are allocated to employees performing certain duties or working in the highest positions. In the case of key managerial positions, the make, the model and colour of the company car is selected by the user of the car (from the defined catalogue of makes and models).

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

MoNA is an employee program for acquiring new cars in the form of leasing. As part of MoNA programme an employee of the Bank is granted the right to use the selected car for a specific period agreed in an individual contract with PKO Leasing SA - in exchange for fixed monthly instalments, more favorable than the price offers available on the market. After the agreed time, the employee can buy out a car or choose not to buy it and use another new car.

12) "ALWAYS NEW AUTO" PROGRAMME

Always New Auto is an employee program for acquiring new cars in the form of leasing. As part of the program, an employee of the Bank is granted the right to use the selected car for a specific time agreed in an individual contract with PKO Leasing SA - in exchange for fixed monthly instalments, more favorable than the price offers available on the market. After the agreed time, the employee can buy out a car or choose not to buy it and use another new car. Always New Auto program differs from MoNA program in a shorter rental period - 18-24 months and a predefined list of the car configuration that can be used by the Employees. This allows to offer the Bank's Employees leasing of cars on more favorable terms than the standard market offer.

13) AUDIOTEKA

The Bank's Employees have the option of using an external platform, from which they can download free of charge mobile audiobooks to their electronic devices.

14) CORPORATE LIFE INSURANCE

The Bank's Employees are provided with the option to buy insurance from PZU Życie S.A. or PKO Ubezpieczenia. Group insurance is offered on preferential terms in relation to offers on the individual insurance market.

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

For the Bank's Employees who end their employment due to reasons not related to them, the Bank offers various forms of support: varied financial severance packages, support for the retraining process and access to internal job offers to find another job at the Bank, support in seeking a job outside the Bank (provided by a specialized personal advisor).

8. RESPONSIBILITIES FOR DETERMINATION OF REMUNERATION

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

The Bank's Management Board conferred the right to exercise legal actions in the field of individual cases related to labour law (and thus conclude employment agreements and changes in remuneration under concluded agreements) 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 director of PZP (with the possibility of granting permanent power of attorney)

whereas the President of the Management Board was entrusted with the competences related to the senior managerial staff of the Bank.

The granting in the employment agreements, preliminary agreements or letters of intent benefits related to the employment relationships or terms and conditions of employment that go beyond the benefits or terms and conditions resulting from generally applicable or internal legal provisions requires the approval of the President of the Management Board.

Employment in the position, termination of the employment agreement and changing the terms and conditions of the employment agreement as regards the position, made in accordance with the decision of the employer towards the director of the internal audit unit or the director of the organizational unit of the Head Office responsible for managing the risk of non-compliance at the Bank – requires prior approval of the Supervisory Board.

Determination of fixed remuneration for a Director of the Internal Audit Department and changes shall be approved by the Supervisory Board. The determination of fixed remuneration of a Director of the Compliance Department and the changes shall be approved by the Audit Committee of the Supervisory Board.

The termination of the employment agreement and the change of the terms and conditions of the employment agreement with respect to the job position or reducing the basic remuneration, made at the initiative of the employer with respect to the employee of the internal audit unit or the employee of the organizational unit in the Head Office responsible for managing the risk of non-compliance in the Bank, requires prior approval of the President the Management Board.

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

§ 28.

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

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

- 1) Remuneration policy for the employees of the Bank and the PKO BP Group;
- 2) A resolution of the Extraordinary General Meeting regarding the determination of the principles of remunerating the members of the Bank's Supervisory Board;
- 3) Principles of employment and remuneration of the Bank's Management Board Members;
- 4) Principles of remunerating the employees whose work has a material impact on the Bank's risk profile – Material Risk Takers of the Bank;
- 5) Decision of the President of the Management Board regarding the parameterization of bonuses for Material Risk Takers;
- 6) Bonus rules for the Bank's employees;
- 7) Decision of the President of the Management Board regarding the parameterization of bonuses in accordance with the bonus rules for the Bank's employees;
- 8) the Bank's Collective Labour Agreement (CLA);
- 9) Principles of evaluation of posts;
- 10) Table of posts for the Bank's organizational units;
- 11) Regulations of the Management Board;
- 12) Regulations of the Nominations and Remuneration Committee of the Supervisory Board;
- 13) Principles of remunerating the Bank's employees;
- 14) Table of the minimum guaranteed rates of monthly base remuneration according to the CLA;
- 15) Recommendation program.

The above-mentioned regulations have been verified in terms of their compatibility with the Corporate Governance Principles of the Polish Financial Supervision Authority (PFSA) and transparency rules 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.

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 variable remuneration is dependent on the level of implementation of the set goals. These goals are related to the results and financial situation of the Bank. They guarantee the taking into account of business cycle of the Bank and the risk related to its business. This risk is taken into account both through the determination of appropriate, risk-sensitive criteria for performance appraisal as well as the reduction or absence of bonuses in the case of deteriorated financial results, the Bank's loss or the worsening of other variables.

Pursuant to § 16 of the Principles of employment and remuneration of the Bank's Management Board members and § 12 of the Principles of remunerating the employees whose work has a material impact on the Bank's risk profile – Material Risk Takers of the Bank, an employee's variable remuneration may be reduced, including the possibility of depriving an employee entirely of the right to receive such remuneration, if, by the date of payment of the remuneration, the employee occupying a managerial position has committed:

- 1) significant deterioration of 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) violation of a law, regulations, procedures or duties arising from the employment relationship of an MTR/Management Board Member or material mistakes made by such person, e.g. a conduct incompatible with the internal code of conduct, compliance guidelines or basic values, especially in risk management areas;

- 4) adjustment to the results achieved/the objectives and the degree of achievement of the results/the goals of MRTs/Management Board Members;
- 5) deterioration of the results of the structures supervised by MRTs/the area supervised by a Management Board Member;
- 6) awarding variable remuneration based on incorrect, misleading information or as a result of fraud committed by a given MRT/Management Board Member.

In the case any of the above-mentioned reasons occurs, the deferred variable remuneration due for the period which the assessment of the reason applies to, may be subject to part of full reduction.

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

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

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

§ 29.

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

The members of the Supervisory Board receive remuneration for the tasks entrusted to them. The amount of the remuneration is determined 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.

Remuneration granted by the Bank reflects both the supervisory function performed and work in committees. The members of the supervisory board who are appointed to work in committees are entitled to the reimbursement of costs incurred in the performance of additional duties.

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

The amount and rules of remuneration for the members of the Supervisory Board of PKO BP were determined by the Extraordinary General Meeting in resolution No. 3/2017 dated 13th March 2017.

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

The rules governing the policy of remunerating the members of the Bank's Supervisory Board are defined in the resolution of the General Meeting referred to in § 392 item 1 of the Commercial Companies Code, constituting an appropriate internal regulation in this respect.

§30.

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

The Supervisory Board, taking into account decisions of the General Meeting introduced in 2017 the internal regulations defining the remuneration rules for the Management Board members, i.e.:

- The policy of remunerating employees of the Bank and PKO BP Group constituting appendix to resolution No. 42/2017 of the Supervisory Board dated 14th June 2017.
- Rules of employing and remunerating members of the Management Board – constituting appendix to resolution No. 43/2017 of the Supervisory Board dated 14th June 2017.

By the resolution No. 43/2017 the Supervisory Board also adjusted the internal regulations of the Bank to the provisions of the Act of 9th June 2016 on the rules of determining fixed remuneration for persons heading some companies (i.e. Journal of Laws of 2017, item 2190 as amended), by determining the maximum amount of fixed remuneration paid to the members of the Management Board in the form of an appropriate multiple of average monthly remuneration, by excluding the possibility of receiving fixed remuneration for performing the function as a member of the governing body in subsidiaries of the Bank's capital group and by determining the maximum ratio of variable and fixed components of remuneration in accordance with the provisions of the abovementioned Act.

These regulations specify the detailed and general criteria for remunerating the members of the Management Board, including fixed and variable remuneration received by them.

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

1) Ensuring supervision over the policy

The Supervisory Board approves the Regulations of variable components of remuneration for persons holding managerial positions at the Bank and periodically reviews the Regulations. Based on these reviews and presented reports on the implementation of the regulations, the Board may recommend the updating of the Regulations.

2) Determining the criteria and conditions justifying the variable remuneration received prior to the payment of variable remuneration in full or in part.

The Supervisory Board determines the values and weight of goals for the Management Board members within the Management by Objectives (MbO) system and approves their implementation.

3) Verification of fulfilment of criteria and conditions that justify the obtaining of variable remuneration prior to the payment of variable remuneration in full or in part.

Pursuant to § 16-17 of the Principles of employment and remuneration of the Bank's Management Board members, the Supervisory Board decides on the occurrence of the reasons regarding the payment of variable remuneration and the application of malus solutions to deferred variable remuneration for individual members of the Management Board. The malus solution can be applied when the reasons appear leading to the reduction of variable remuneration, defined in an enumerative manner in § 16-17 of the Principles. If the Supervisory Board makes a decision about the existence of a reason to apply a malus solution, the deferred variable remuneration may be subject to reduction in full or in part for a given evaluation period. Similar decisions are made by the Bank's Management Board towards Material Risk Takers – pursuant to § 12 of the Principles of remunerating employees whose work has a material impact on the Bank's risk profile – Material Risk Takers of the Bank.

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

By way of Resolution No. 694/C/2017 of 19th December 2017 the Management Board introduced Regulations of remuneration for persons having material impact on the Bank's risk profile - Material Risk Takers (MRT).

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

The variable remuneration of both the Management Board and key managers depends on the implementation of individually defined goals related to the Bank's strategy. These goals include both quantity and quality criteria and guarantee motivation to work and forms of conduct that allow the Bank to achieve its goals. When setting goals, it is taken into account, among others, achieving in the long-term horizon the best possible and stable financial results, supporting correct and effective risk management, discouraging excessive risk taking, which would go beyond the risk tolerated by the Bank, limiting the conflict of interests and supporting the Bank's business strategy (the MBO objectives include the Bank's strategic projects).

At the same time, the rules applied to the members of the Management Board and MRTs provide for the application of a malus solution in the event of the breach of law, regulations, procedures or duties resulting from the employment relationship of the abovementioned persons or committing material mistakes by them, especially in the areas of risk management.

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

Remuneration of the Management Board members and key managers is financed and paid out from the Bank's funds. It is not dependent on the results of the parent company as the Bank itself is the parent entity of the group.

EVALUATION OF THE REMUNERATION POLICY SUPPORT TO DEVELOPMENT AND OPERATIONAL SECURITY OF THE BANK

As an institution of public trust, the Bank conducts its business 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 Bank's Management Board with the support of the Personnel and Efficiency Management Department and active participation of the Supervisory Board.

In 2018, 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 local working conditions. A policy of recommending candidates for work has been introduced, the list of MRT positions has been updated, the Regulations of the Nominations and Remuneration Committee have been updated, the scope of the competence resolution for the President of the Management Board and the Director of the Personnel Management Division (PZP), the bonus rules for the Bank's employees, and the rules of parameterization of bonuses have been changed.

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

FIXED REMUNERATION

The Bank regulates the process of awarding variable remuneration in: the Principles of employment and remuneration of the Bank's Management Board Members, the Principles of remunerating the employees whose work has a material impact on the Bank's risk profile - Material Risk Takers of the Bank, the Resolution of the Supervisory Board dated 14 June 2017 on the policy of remunerating the employees of the Bank and the Groups, the bonus rules for the Bank's employees, and the Decision of the President of the Management Board dated 28 September 2018 on the parameterization of bonuses in accordance with the bonus rules for the Bank's employees.

The Bank's policy of the variable components of remuneration takes into account the specificity of the positions for which goals related to the strategy of the PKO BP Group are set. The awarded quantitative and qualitative goals guarantee that the business cycle of the Bank is taken into account as well as the risk related to its business activities. 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 or the Group's economic results, so as not to affect their objectivity and independence. The targets for these employees arise from their functions.

MRTs - as persons having special influence on the level of security and the stable development of the Bank, are subject to additional restrictions in the area of remuneration. Variable remuneration components are awarded to MRTs for a given evaluation period (a calendar year) after the settlement of bonus targets in the form of: non-deferred remuneration - in the amount of 60% of variable remuneration (in the first year after the evaluation period) and deferred remuneration - in the amount of 40% of variable remuneration (in equal instalments in the next three years after the first year after the evaluation period), in the case of variable remuneration of less than PLN 1 000 000. In the case of variable remuneration higher than this amount, 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. In the opposite situation, the payment may be reduced. This mechanism motivates MRTs and the members of the 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 of an exceptional nature.

Parameterization of bonuses for all employees is made taking into account the Bank's situation and 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.

Each bonus may, in justified cases, 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 infringing the clients' interests.

Employees may, in special cases, receive a discretionary reward.

In the process of granting fixed remuneration, the Bank is guided by the internal categories of grades for individual positions presented in more detail in item 2 of the description of the remuneration policy in this report. These categories are determined using an independent and objective scoring method. Positions are subject to periodic evaluation, in particular in the case of significant organizational changes at the Bank. The minimum guaranteed fixed remuneration for individual grades is defined in the Bank's Collective Labour Agreement.

The Bank verifies the adequacy of fixed remuneration through regular remuneration comparisons (the so-called benchmarks) performed by external entities specialized in this field. These surveys are based on data for a given industry and are broken down into geographical regions.

In order to ensure 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 at 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 defined group of employees is entitled to define and change remuneration, which is defined in the resolution of the Management Board No. 57/C/2017 of 9 February 2017 (amended by the resolutions of the Management Board No. 179/C/2017 of 30.03.2017 and No. 21/C/2018 of 22.01.2018) on defining the competence to perform activities in matters relating to labour law for the Bank. Each change in remuneration is combined with an assessment of an employee's competence.

VARIABLE REMUNERATION

The Bank regulates the process of awarding variable remuneration in: the Principles of employment and remuneration of the Bank's Management Board Members, the Principles of remunerating employees whose work has a material impact on the Bank's risk profile – Material Risk Takers of the Bank, the Resolution of the Supervisory Board dated 14 June 2017 on the policy of remunerating employees of the Bank and the Groups, the bonus rules for the Bank's employees, and the Decision of the President of the Management Board on the parameterization of bonuses in accordance with the bonus rules for the Bank's employees.

The Bank's policy of the variable components of remuneration takes into account the specificity of the positions for which goals related to the strategy of the PKO BP Group are set. The awarded quantitative and qualitative goals guarantee that the business cycle of the Bank is taken into account as well as the risk related to its business activities. 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 or the Group's economic results, so as not to affect their objectivity and independence. The targets for these employees arise from their functions.

MRTs – as persons having special influence on the level of security and the stable development of the Bank, are subject to additional restrictions in the area of remuneration. Variable remuneration components are awarded to MRTs for a given evaluation period (a calendar year) after the settlement of bonus targets in the form of: non-deferred remuneration – in the amount of 60% of variable remuneration (in the first year after the evaluation period) and deferred remuneration – in the amount of 40% of variable remuneration (in equal instalments in the next three years after the first year after the evaluation period), in the case of variable remuneration of less than PLN 1 000 000. In the case of variable remuneration higher than this amount, 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. In the opposite situation, the payment may be reduced. This mechanism motivates

MRTs and the members of the 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 of an exceptional nature.

- Parameterization of bonuses for all employees is made taking into account the Bank's situation and 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.
- Each bonus may, in justified cases, 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 infringing the clients' interests.
- Employees may, in special cases, receive a discretionary reward.

NON-SALARY BENEFITS

The Bank has an attractive, albeit market comparable, offer of additional extra benefits presented in more detail in item 2 of the remuneration policy of this report. As part of the extra benefits, the bank offers a dedicated pension plan, benefits from the Social Benefits Fund, medical care as well as benefits supporting sport and wellness activities. The employees transparently manage extra benefits through an appropriate cafeteria platform.

On the one hand the benefits granted motivate employees to take care of the Bank's results and on the other hand they meet the retention function, thanks to which the Bank's on-going interest within individual processes is secured. In addition, the motivators of educational nature awarded under the abovementioned benefits are directly translated into the growth of the Bank through the personal development of its employees.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

As a result of the directional decision made by the Bank's Management Board, concerning changing the methodology of the valuation of posts at the Bank in 2019, work will be carried out, which is aimed at replacing the formerly applied methodology described in item 3 of the description of the remuneration policy in this report with the methodology of evaluation of posts commonly used in the financial sector in Poland. Therefore, in the next report on the assessment of the remuneration policy, the information regarding the methodology of evaluation of posts and the distribution of the Employee population by grade category will be presented in a layout consistent with the methodology of evaluation of posts which will be implemented at the Bank in 2019.