

## REPORT ON THE FUNCTIONING OF THE REMUNERATION POLICY OF BANK POLSKA KASA OPIEKI SPÓŁKA AKCYJNA IN 2019

As part of its supervisory duties and pursuant to §18 (19) of the Articles of Association of Bank Polska Kasa Opieki Spółka Akcyjna, the Supervisory Board assessed the functioning of the Remuneration Policy applied in Bank Polska Kasa Opieki Spółka Akcyjna (hereinafter referred to as: "Remuneration Policy") in 2019.

The Supervisory Board positively assessed the continuation by the Bank of its sustainable approach to total remuneration, ensuring in particular the market level of fixed remuneration components reflecting the level of experience, skills and competencies as well as the quantity and quality of performed work and the possibility of acquiring the right to variable remuneration components as part of incentive schemes.

The fixed remuneration constitutes a large enough part of the total remuneration that it is possible to pursue a flexible remuneration policy, including to reduce variable remuneration components or not award them at all.

The payment of variable remuneration components was dependent on the results and took into account the Bank's risk. The Bank, guided by the principle of maintaining a flexible policy of variable remuneration components, applied incentive schemes to ensure a long-term increase in the value for shareholders and stability of the Bank's operations. This approach was implemented by making a greater number of key manager subject to to regulations which made their variable remuneration dependent on the sustainability of the Bank's results.

As part of the Executive Variable Compensation System, which covers Members of the Management Board and employees of the Bank who have a significant impact on the Bank's risk profile, the achievement of the objectives for the year 2018 was settled and the instalments payable in advance and deferred variable remuneration instalments were awarded and settled for employees who are not Members of the Management Board, in accordance with the applicable Rules of the Executive Variable Compensation System. Achievement results were assessed on an individual level, at the level of an organisational unit and the Bank, with regard to the 3-year business cycle of the Bank and risk connected with pursued activities. The amounts of payments have been determined based on the assessment of the achievement of individual goals for the current year and the assessment of compliance with the provisions of law, internal regulations of the Bank and standards of conduct adopted by the Bank and risk assessment. The conducted compliance and risk assessment did not find any breaches.

Upon completing the full implementation of the Act no 42 dated on 21 June 2018 *Act on the Principles for the Determination of Remuneration of Persons Managing Certain Companies*, the Supervisory Board of the Bank made the decision to pay variable components of remuneration due to current and former Members of the Management Board of the Bank for the years 2017 and 2018. At present, there are two Executive Variable Compensation System functioning simultaneously at the Bank – one for Members of the Management Board and the other for the remaining Employees having an impact on the risk profile.

Employees covered by the Collective Labour Agreement were paid incentive bonuses for special achievements in professional work and results generated by the Bank; a quarterly

bonus was also calculated and paid out, based on the results achieved by the Bank, assessed after each quarter.

For the group of Sales network employees who had been remunerated on a discretionary basis so far, the Bank – by way of agreement with trade unions – implemented guidelines (clarifying provisions specified in the Collective Labour Agreement) pursuant to which the amount of the bonus depends on sales results and the qualitative work review, satisfying the recommendations of market supervision authorities.

As a consequence of changes in the methods of settling variable remuneration introduced in business divisions, determining the final amount of variable remuneration for employees covered by the abovementioned the guidelines also depend on the results of compliance assessment and the direct impact of the Employee in the customer service position on the Bank's result.

Employees covered by the Management by Objectives system have received a settlement of individual goals and the payment of an annual bonus dependent on the achieved results.

In 2019, in consultation with trade unions, there were two pay-rise processes implemented, in relation to:

- the annual review of remunerations for Employees covered by the Collective Labour Agreement, consisting in allocating the amounts of raises to be distributed by supervisors at Bank units. The amounts resulted from the 4.0% ratio negotiated by the Bank with trade unions. The pay-rise process was supplemented by recommendations for raises resulting from the comparative analysis of the level of remuneration and employee reviews;
- an additional pay-rise process as part of which employees with remuneration within certain ranges could be granted an additional pay rise. Individual pay rises ranged from 2% to 8% of the base remuneration and whether they were granted depended on meeting the conditions of seniority, annual review and an additional condition arising from the ratio to the remuneration of other Employees on the same position.

The Management Board of the Bank, having regard to the Bank's on-going projects resulting from:

- a) the centralization of audit-related processes and activities and current operations of the Bank,
- b) reorganisation of the Bank's structures
- c) reorganisation of the branch network,
- d) adjustment of the level of employment to the actually existing economic demand,
- e) robotization and automation of work processes,
- f) implementation of a new sales network management structure and the related new model of managerial and sales positions

decided to carry out collective dismissals on the basis of provisions identified in the Act on Special Rules on Termination of Employment for Reasons Not Attributable to Employees.

As a result of negotiations, Bank signed the agreement on collective dismissal with all trade unions operating at the Bank, which specified the conditions of paying severances for dismissals.

Pursuant to §29 of the Ordinance of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed procedure for measuring internal capital in banks, the Internal Audit Department conducted an independent review regarding the implementation of the Remuneration Policy, with particular focus on the Rules of the Executive Variable Compensation System for employees holding executive positions at the Bank.

The general assessment of results of that review from December 2019 was satisfactory and the adopted solutions were assessed as conforming with regulatory requirements.

The Supervisory Board assesses that in 2019 the Remuneration Policy was implemented at the Bank in accordance with its assumptions as part of remuneration determination processes, where the Bank was guided by the principle of adequate remuneration for permanent results. The remuneration scheme is in line with the provisions of generally applicable law and meets the rules of ethical conduct and values of the Bank. The Management Board of the Bank makes efforts in cooperation with social partners to introduce changes to the remuneration rules that even better reflect the adopted business strategy.

The Supervisory Board decided that the Remuneration Policy pursued in 2019 was aimed to ensure the long-term growth of value for shareholders and stability of the organization's operation, and that it was consistent with its provisions and objectives. The growth and security of the Bank is ensured through the existing incentive schemes encouraging the pursuit of goals consistent with the interests of clients, shareholders and employees, and by ensuring an appropriate level of control both when performing individual actions within the framework of the Remuneration Policy and controlling systemic solutions.

The Supervisory Board positively assessed the functioning of the Remuneration Policy in 2019.