

Assessment of the Remuneration Policy at ING Bank Śląski S.A.

The remuneration policy at ING Bank Śląski S.A. is assessed on the basis of Section 28.3 of the *Principles of Corporate Governance for Supervised Institutions*.

I. RULES OF SHAPING THE REMUNERATION POLICY AT ING BANK ŚLĄSKI S.A.

1. The Remuneration Policy is based on performance management, and it supports:
 - a) delivery of the business strategy and long-term interests of the Bank and its clients,
 - b) proper and effective risk management to maintain and protect the sound capital base of the Bank; the Policy does not promote risk-taking behaviour that is outside the level of risk appetite approved by the Supervisory Board;
 - c) the process of attracting, motivating and retaining talented employees as well as employee development in observance of fair treatment rule.
2. The Remuneration Policy is to ensure that remuneration-related conflicts of interest are identified and adequately mitigated. One of the variable remuneration award process elements are the risk mitigating measures, that is a layered approval process plus clear and transparent principles of performance assessment which are communicated to all employees.
3. The remuneration depends on the scope of tasks and the scope of responsibility as provided for in the job description which is valued according to the Hay Group methodology.
4. The Bank reviews salaries every year. Market data, i.e. wage reports and economic information are analysed. The decision on the amount of the employee's salary raise is taken, first and foremost, based on the place of his or her base remuneration in the salary brackets within a given salary grade and the annual performance appraisal outcome.
5. The remuneration system is overt and transparent. Its principles are communicated to all Bank employees.

II. REMUNERATION COMPONENTS

1. The total remuneration is divided into the fixed and variable remuneration.
2. Fixed remuneration is as large a part of the total remuneration as needed to ensure that a fully flexible variable remuneration policy is pursued, including but not limited to allowing to apply reduction of the variable remuneration or not to award it at all.
3. Variable remuneration encompasses any and all forms of remuneration and other benefits awarded for the work performed.

The bonus system relies on the balanced scorecard. It is based on the determination and implementation of key performance indicators that contribute to the delivery of the Bank's strategy.

The employees may also receive the following types of variable remuneration:

 - a) an individual financial award in recognition and appreciation of their outstanding work performance,
 - b) ING Bank Śląski S.A. phantom stock as a token of recognition for key employees who support long-term interests of the Bank and its customers.

4. The variable remuneration policy sets out the variable remuneration components that may be awarded to persons holding managerial positions having material impact on the risk profile of the Bank (risk takers) as well as rules for remuneration disbursement.
The most important ones include:
 - a) the individual performance is assessed on the basis of financial- and non-financial criteria and risk-adjusted criteria,
 - b) the goals of persons responsible for control functions are based in at least 75% on the function-based objectives and they comprise quality tasks; when determining the financial tasks, they cannot be related to the results achieved in areas controlled by the person,
 - c) a deferral of a part of variable remuneration to be settled in three instalments during the period of performance verification to evaluate the impact of the employees performance on the Bank's long-term results,
 - d) awarding some variable remuneration (50%) in phantom stock, entitling to obtain funds conditional on the price of ING Bank Śląski S.A. shares.
5. Fringe benefits provided under the Bank's remuneration policy:
 - a) healthcare – Bank employees are provided with basic healthcare and the possibility to use family and dental packages which need an extra payment,
 - b) Employee Pension Programme – as part of the programme, the Bank enables employees to jointly and voluntarily accumulate extra funds for pension,
 - c) company cars – a company car is awarded to an employee due to the employee's position in the organisational framework and scope of responsibilities.

III. SUPERVISION OVER REMUNERATION POLICY

1. Compliance with the remuneration policy at the Bank is supervised by the following bodies:
 - a) the General Meeting evaluate annually whether or not the remuneration policy established is conducive to the development and the safety of the Bank's business.
 - b) the Supervisory Board of ING Bank Śląski S.A. approve the Policy and supervise compliance therewith,
 - c) the Remuneration and Nomination Committee of ING Bank Śląski S.A. monitor the implementation of the Policy.
2. The Polish Financial Supervision Authority supervises the compliance of the Bank's activity with the regulations concerning the variable remuneration components policy.

IV. REPORT ON THE EVALUATION OF THE REMUNERATION POLICY AT THE BANK IN 2016

1. The remuneration policy at the Bank complies with the Bank's strategy, values and risk appetite as well as it supports the long-term interests of the Bank and its clients. Furthermore, it promotes and supports the process of effective risk management in order to maintain and protect the sound capital base of the Bank; it does not promote risk-taking behaviour that is beyond risk propensity accepted by the Supervisory Board of the Bank, and it is based on performance management which is a key business process combining individual goals with the long-term business strategy and ensuring sustainable growth.
2. In 2016, the goals of the remuneration policy remained unchanged.
The Remuneration and Nomination Committee was updated on the level of market salaries vis-a-vis the salaries of the employees of ING Bank Śląski S.A. The update was prepared on the basis of the Hay Group reports. Bearing in mind the results of the payroll review and the most recent pay rise which was granted in November 2015, the Bank Management Board decided to implement a pay rise exercise in 2017.
3. The Bank settled the bonuses of employees holding managerial positions in line with the Variable Remuneration Policy:

- a) variable remuneration for 2015 was set and the non-deferred portion of the bonus was awarded,
- b) following a positive verification of the assessment with ex post risk and capital test, the Bank awarded the relevant portions of deferred variable remuneration for 2012, 2013 and 2014.

The base terms and conditions of variable remuneration disbursement were kept. The Remuneration and Nomination Committee gave positive advice and, as a consequence, the non-deferred 2015 bonus and the deferred bonuses for 2014, 2013 and 2012 were paid out to the persons holding managerial positions having impact on the Bank's risk profile. Thus, the entire 2012 bonus for the persons holding managerial positions was settled.

4. Upon accounting for the qualitative and quantitative criteria from the EBA RTS, the List of managerial positions having material impact on the risk profile of the Bank which came into effect on 1 January 2016 was expanded. The List was updated again due to the changes within the Bank's organisational structure throughout 2016.
5. The contents of the Policy of variable remuneration components were adjusted to the provisions of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and to the Banking Law Act.
6. In 2016, the Remuneration and Nomination Committee of ING Bank Śląski S.A. held 6 regular meetings and 6 by way of circulation. The composition of the Committee and its Bylaw were adjusted to the requirements of the EBA regulation, whereby the majority of the Committee members, including its chairman, meet the independence criteria.
7. The remuneration policy for the Bank employees was the subject of an internal audit in 2016 concerning the process of remuneration and performance management of persons holding managerial positions having material impact on the risk profile of the Bank. The audit showed that it was necessary to regulate the terms and conditions on which severance payments were awarded. The HR units took the relevant regulatory actions and implemented the audit recommendation.

The audit function did not identify any other material risks in the areas being audited, and thus confirmed that the control mechanisms for the process of remunerating persons holding managerial positions was adequate and effective.

8. The Ordinary General Meeting which was held on 31 March 2016 implemented a new regulation concerning the remuneration of the Supervisory Board members. With Resolution No. 27 of the Ordinary General Meeting, the ING Bank Śląski S.A. Supervisory Board Members Remuneration Policy was adopted. The document elaborates the manner of remuneration determination, in particular when Supervisory Board members have a few roles on the Supervisory Board and its Committees.

In 2016, the Bank completed a project aimed at implementing the Guidelines of the European Banking Authority on proper functioning of the remuneration policy, referred to in Articles 74 section 3 and 75 section 2 of Directive 2013/36/UE as well as disclosing information in line with Article 450 of EU Regulation No. 575/2013 effective as of 1 January 2017, to the internal regulations.

The Supervisory Board are of the view that in 2016 the Bank respected the principles of its remuneration policy.