

**Report on the 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.

In conjunction with the entry into force of the Guidelines of the European Banking Authority regarding the proper remuneration policy referred to in art. 74.3 and art. 75.2 of Directive 2013/36 /EU and disclosure of information in accordance with art. 450 of Regulation (EU) No 575/2013, as of 1 January 2017 a new document was implemented – Employee remuneration policy in the ING Bank Śląski S.A. Group. The document sets out the key assumptions of shaping the remuneration policy used to attract and retain employees by providing a competitive market level of remuneration and defines the components of remuneration.

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:
  - 1) delivery of the business strategy and long-term interests of the Bank and its clients,
  - 2) proper and effective risk management in order to maintain and protect the sound capital base of the the Bank; the Policy does not promote excessive risk taking beyond the risk appetite approved by the Supervisory Board of ING Bank Śląski S.A.,
  - 3) the process of attracting, motivating and retaining talented employees, as well as their development, treating all employees in a fair manner.
2. The remuneration policy aims to ensure that remuneration-related conflicts of interest are identified and adequately limited. One of the elements of the variable remuneration award process are appropriate risk mitigating measures, i.e. a multi-level approval process, clear and transparent principles of performance evaluation, which are communicated to all employees.
3. ING Bank Śląski S.A. does not provide for any form of remuneration that could be an incentive for employees to favour their own interests or interests of the Bank while at the same time acting to the detriment of clients.
4. The principles of remunerating persons acting on behalf of the Bank do not constitute an incentive to take excessive risk of improper sale of products.
5. The remuneration depends on the scope of tasks and the level of responsibility as provided for in the job description which is valued in accordance with the Hay Group methodology.
6. The Bank reviews the level of remuneration every year. Market data – payroll reports and business and economic information – are analysed. The decision on the amount of the employee's salary rise 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 year-end evaluation outcome.
7. The remuneration system is overt and transparent, and its principles are communicated to all Bank employees.

## II. REMUNERATION COMPONENTS

1. The total remuneration is divided into fixed and variable remuneration.
2. Fixed remuneration is such a large part of the total remuneration that it allows one to pursue a fully flexible policy of variable remuneration components, including the option of reducing or not granting any variable remuneration at all.
3. Variable remuneration encompasses any and all forms of remuneration and other benefits provided in return for achieved results.

The bonus system relies on a balanced scorecard. It is based on setting and implementing bonus tasks that support the delivery of the Bank's strategy.

As part of variable remuneration, employees may also receive:

- a) an individual cash reward, the aim of which is to recognize and appreciate the extraordinary achievements at work,
  - 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 clients.
4. The variable remuneration components policy defines the components of variable remuneration that may be granted to persons holding managerial positions having material impact on the risk profile of the Bank (risk takers) and the principles of payment of this remuneration.

The most important ones include:

- a) the assessment of individual effects of work is made on the basis of financial and non-financial criteria and criteria adjusted for risk,
  - b) the goals of persons responsible for control functions are based in at least 75% on the objectives arising from a given function and they comprise quality tasks; when determining tasks of a financial nature, they cannot be related to the results obtained in areas controlled by a given person,
  - c) a deferral of a part of variable remuneration, which is settled in three instalments during the period of work performance verification, to assess the impact of employee actions on the Bank's long-term results,
  - d) allocation of a part of variable remuneration (at least 50%) in phantom stock, entitling to receive cash conditional upon 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 option of using 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.

As part of ongoing works on making the Bank's offer more attractive, in 2017, a complementary package of fringe benefits with the services under the cafeteria plan was processed. The employee programme was launched on 1 January 2018.

## III. SUPERVISION OVER REMUNERATION POLICY

1. Compliance with the remuneration policy at the Bank is supervised by the following bodies:
  - 1) the General Meeting evaluate annually whether or not the remuneration policy established is conducive to the development and safety of the Bank's business,

Rada Nadzorcza/ Supervisory Board

- 2) The Supervisory Board of ING Bank Śląski S.A. approve the Policy and supervise compliance therewith,
  - 3) the Remuneration and Nomination Committee of ING Bank Śląski S.A. monitor the implementation of the Policy,
  - 4) Control functions actively participate and cooperate in the review of the Bank's remuneration policy to ensure its coherence with the risk management strategy and framework. Control functions also assess correctness of the capital base and fulfilment of conditions necessary for the bonus pool disbursement.
2. The remuneration policy undergoes an independent annual internal audit.
  3. 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 2017

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 combining individual goals with the long-term business strategy and ensuring sustainable growth.
2. In 2017, the goals of the remuneration policy remained unchanged. ING Bank Śląski S.A. kept its remuneration policy whose aim is to effectively support the Bank's strategic goals. The Remuneration and Nomination Committee was updated on the level of market salaries vis-à-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, the Bank Management Board decided to implement a pay rise exercise in 2017. Under the assumptions adopted, on 1 September 2017, another pay rise process was conducted at the Bank; it was designed to adjust the remuneration to the market level. At the same time, the Base Salary Tables were updated by setting the minimum wage at the Bank at PLN 4,000 gross.
3. The Bank settled the bonuses of employees holding managerial positions in line with the variable remuneration components policy:
  - a) variable remuneration for 2016 was set and the non-deferred portion of the bonus was awarded,
  - b) following positive verification of the assessment with consideration of ex-post risk and capital test, the Bank awarded the relevant portions of deferred variable remuneration for 2013, 2014 and 2015.

The base terms and conditions of variable remuneration disbursement were kept. The Remuneration and Nomination Committee gave positive advice and, in consequence, the non-deferred 2016 bonus and the deferred bonuses for 2015, 2014 and 2013 were paid out to the persons holding managerial positions having impact on the Bank's risk profile. Thus, the entire 2013 bonus for the persons holding managerial positions was settled.

In 2017, we introduced a system of annual settlement of goals for all employees and we implemented a new appraisal system – STEP UP which intuitively combines job performance assessment, building of a strong corporate culture and our ambitions.

4. For 2017, following introduction of a uniform approach to the identification of employees whose professional activities are considered to have a material impact on the risk profile of a given financial institution, the Methodology of Updating the List of Identified Staff of ING Bank Śląski S.A. was amended (in keeping with the European Banking Authority's Guidelines on proper remuneration policy as referred to in art. 74.3 and art. 75.2 of Directive 2013/36/EU as well as disclosing information in accordance with art. 450 of Regulation (EU) No. 575/2013). So far, the List of Identified Staff was updated at the Bank following the standardised methodology (combination of the PFSA Resolution and EBA RTS criteria). The new approach to the identification process assumes an annual update of the eligibility criteria for qualifying employees as IDS. The List is updated on an ongoing basis by the HR units.
5. In 2017, the variable remuneration components policy was adapted to the amendments to
  - a) the Methodology of Updating the List of Identified Staff of ING Bank Śląski S.A. for 2017,
  - b) the Banking Law Act of 29 August 1997 with regard to art. 142 (Promulgation of the Speaker of the Sejm of the Republic of Poland of 7 November 2016) on ex-ante risk adjustment and verification of assessment with ex-post risk.
6. In 2017, the Remuneration and Nomination Committee of ING Bank Śląski S.A. held 6 regular meetings and 4 by way of circulation.
4. The remuneration policy for the Bank employees was the subject of an internal audit in 2017 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 function did not identify any 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.
5. With Resolution No. 29, the Ordinary General Meeting held on 21 April 2017 adopted the amendments to the ING Bank Śląski S.A. Supervisory Board Members Remuneration Policy. The amendments elaborated on the manner of remuneration determination, in particular when Supervisory Board members have a few roles on the Supervisory Board and its Committees.

The Supervisory Board are of the view that in 2017 the Bank respected the principles of its remuneration policy.