

## **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*.

As of 1 January 2017 the Employee Remuneration Policy in the Group of ING Bank Śląski S.A. has been in place. 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 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. A 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 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.

Variable remuneration includes an annual bonus which is determined on the basis of a balanced scorecard for each employee taking into account quantitative and qualitative criteria. Under variable remuneration employees may also additionally receive an individual cash award the aim of which is to recognise and appreciate the extraordinary achievements at work and to recognise special potential.

4. For a group of employees holding managerial positions having material impact on the risk profile of the Bank (material risk takers) there are separate principles defining the components of variable remuneration as specified in the Policy on Variable Remuneration Components for the Identified Staff of ING Bank Śląski S.A. The Policy defines the components of variable remuneration that may be granted to the Identified Staff and the principles of payment of such 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 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 the areas controlled by a given person,
  - c) deferral of part of the 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 stocks, entitling to receive cash conditional upon the price of shares of ING Bank Śląski S.A.
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 Plan – as part of the plan, the Bank enables employees to jointly and voluntarily accumulate extra funds for pension,
    - c) company cars – a company car is awarded to an employee because of the employee's position in the organisational framework and their scope of responsibilities,
    - d) benefits granted to employees under the Rules of the Cafeteria Plan.

## III. SUPERVISION OVER REMUNERATION POLICY

1. Compliance with the remuneration policy at the Bank is supervised by the following bodies:

- 1) the General Meeting annually evaluates whether or not the established Remuneration Policy is conducive to the development and safety of the Bank's business,
  - 2) the Supervisory Board of ING Bank Śląski S.A. approves the Policy and supervise compliance therewith,
  - 3) the Remuneration and Nomination Committee of ING Bank Śląski S.A. monitors 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 2018

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 2018 the goals of the remuneration policy remained unchanged against the previous year. ING Bank Śląski S.A. kept its remuneration policy whose aim is to effectively support the Bank's strategic goals and gradual remuneration adjustment to the market level.

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 as of April 2018.

At the same time, the Base Salary Tables were updated by increasing the minimum wage levels.

3. In March 2018 the Bank settled the bonuses of employees holding managerial positions of the Identified Staff in line with the Variable Remuneration Components Policy for the Identified Staff of ING Bank Śląski S.A.:
  - a) variable remuneration for 2017 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 2014, 2015, and 2016.

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 2017 bonus and the deferred bonuses for 2016, 2015, and 2014 were paid out to the persons holding managerial positions having impact on the Bank's risk profile. Thus, the entire 2014 bonus for the persons holding managerial positions was settled.

The year 2018 was yet another year of Step up, a system of annual settlement of goals, which intuitively combines job performance assessment, building of a strong corporate culture and our ambitions. The Step up system was combined with the disbursement of the employee bonus.

4. In 2018 the Methodology of Updating the List of Identified Staff of ING Bank Śląski S.A. was maintained. The methodology is used to identify employees whose professional activities are considered to have a material impact on the risk profile of a given financial institution (in keeping with the European Banking Authority's Guidelines on proper remuneration policy as referred to in Article 74(3) and Article 75(2) of Directive 2013/36/EU, as well as disclosing information in accordance with Article 450 of Regulation (EU) No 575/2013). The methodology 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. Pursuant to the EBA Guidelines on sale and distribution of retail banking products and services applicable as of January 2018, the content of the Remuneration Policy in the Group of ING Bank Śląski S.A. was amended by introducing a provision that Bank did not provide 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.
6. In 2018 the Remuneration and Nomination Committee of ING Bank Śląski S.A. held 6 regular meetings and 5 by way of circulation.
7. In 2018 the Variable Remuneration Components Policy for the Identified Staff of ING Bank Śląski S.A. was subject of an internal audit 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 audited areas, and thus confirmed that the control mechanisms for the process of remunerating the Identified Staff were adequate and effective.

**The Supervisory Board is of the opinion that in 2018 the Bank respected the principles of its adopted Remuneration Policy.**