

**The report on the evaluation of the payroll policy  
at ING Bank Śląski S.A. in 2019**

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

Since 1 January 2017 the *ING Bank Śląski S.A. Group Remuneration Policy* has been in force at the Bank. The document lays down the key assumptions for shaping the remuneration policy so as to attract and retain employees by ensuring the remuneration that is competitive versus the market as well as the remuneration components.

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 serves ensuring 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.

Variable remuneration encompasses the annual bonus which is set per employee, based on the evaluation of balanced and risk-matching results, considering the quantitative and qualitative criteria. As part of the variable remuneration, employees may also be awarded an individual cash reward, the aim of which is to recognize and appreciate the employees with extraordinary achievements at work and demonstrating particular potential.

4. Separate rules of variable remuneration, laid down in the Variable Remuneration Policy for Identified Staff of ING Bank Śląski S.A., apply to the group of employees holding managerial positions having material impact on the risk profile of the Bank (Identified Staff). The Policy defines the components of variable remuneration that may be awarded to Identified Staff and the principles of that remuneration payout.

The most important ones include:

- a) financial and non-financial criteria as well as risk-adjusted criteria are used to assess individual performance; non-financial criteria should account for at least 50% of all goals, save for the persons responsible for control functions,
  - b) financial criteria are not used for the persons responsible for control functions. The goals for those persons stem from the functions held by them and they are not tied to the performance of the areas controlled by them,
  - 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, dental care included, and the option of using family 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.
    - d) benefits awarded to employees under the Cafeteria Plan General Terms and Conditions.

## 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,
  - 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 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 2019

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 2019, the goals of the remuneration policy remained unchanged vis-à-vis the previous year. ING Bank Śląski S.A. kept its remuneration policy whose aim is to effectively support the strategic goals and systematically mark the pays to the market.

The Remuneration and Nomination Committee was updated on the level of market salaries -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 since April 2019.

At the same time, in keeping with the market practice, the salary tables were revised in that the maximum pay levels were raised.

3. 2019 was another year of functioning of the annual Step Up goals settlement system, which intuitively combines job performance assessment, building of a strong corporate culture and our ambitions. We have tied the Step Up system with bonus payout for employees. In February 2019, we paid out bonus to Bank employees from the specific provision.
4. In March 2019, the bonus for Identified Staff was settled in accordance with the *Variable Remuneration Policy for Identified Staff of ING Bank Śląski S.A.*:
  - a) variable remuneration for 2018 was set and the non-deferred portion of the bonus was awarded,
  - b) following a 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 2015 and 2016.

The base terms and conditions of variable remuneration disbursement were satisfied. The Remuneration and Nomination Committee gave positive advice and, in consequence, the non-

deferred 2018 bonus and the deferred bonuses for 2016 and 2015 were paid out to the persons holding managerial positions having impact on the Bank's risk profile. Thus, the 2015 bonus was settled in 100 per cent.

5. In 2019, the Methodology of Updating the List of Identified Staff of ING Bank Śląski S.A. was kept. The methodology serves identification of 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 provides for an annual update of the eligibility criteria for qualifying employees as IDS. The List is updated on an ongoing basis by the HR units.
6. In January 2019, by way of a Management Board decision, the provision of the *General Terms and Conditions of ING Bank Śląski S.A. Employee Evaluation (Step Up)* and of the *General Terms and Conditions of ING Bank Śląski S.A. Identified Staff Evaluation* was amended, whereby the Bank Management Board was enabled to set the variable remuneration pool of employees, considering the assessment of the Bank's financial standing and other internal conditions. With another amendment to the regulation, the provision, whereby the Bank Management Board determines in liaison with the Supervisory Board the variable remuneration pool for employees was made more precise. Based on the set amount, the Management Board may resolve to apply an adjustment ratio to the bonus thresholds, whereby their amount will be raised or lowered.
7. With a view to ensuring long-term stability of ING Bank Śląski S.A. and tying further the risk management minimum standards with individual remuneration, special risk-related requirements have been developed and added to the remuneration regulations. Since July 2019, the Procedure for risk requirements for key function holders at the Bank was added to the Executive Compensation Bylaw for Members of the Management Board of ING Bank Śląski S.A., the Variable Remuneration Policy for Identified Staff of ING Bank Śląski S.A., and the General Terms and Conditions of ING Bank Śląski S.A. Identified Staff Evaluation. The Procedure enables the Management Board Member responsible for the risk area to resolve to apply the adjustment ratio for the variable remuneration. Following the requirements introduced, all employees holding key functions at the Bank receive written information providing for the specific risk requirements for a given calendar year. After the end of the year, satisfaction of risk requirements is assessed and the assessment result may reduce the variable remuneration of the employee, should risk requirements not be satisfied.
8. In 2019, the Remuneration and Nomination Committee of ING Bank Śląski S.A. held 8 regular meetings and 3 by way of circulation.
9. In 2019, the application of the Variable Remuneration Policy for Identified Staff of ING Bank Śląski S.A. was covered with the internal audit of remuneration process of the persons having material impact on the risk profile (Identified Staff) at ING Bank Śląski S.A. 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 the Identified Staff was adequate and effective.

**The Supervisory Board are of the view that in 2019 the Bank respected the principles of its remuneration policy.**