

**The report on the evaluation of the payroll policy  
at ING Bank Śląski S.A. in 2020**

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. It also defines individual remuneration components. The Policy was updated twice in 2020. The document was amended with resolutions of the ING Bank Śląski S.A. Supervisory Board taken at the sessions on 5 June 2020 and 20 November 2020, after positive recommendations of the ING Bank Śląski S.A. Supervisory Board Remuneration and Nomination Committee.

In 2020, the regulations governing the remuneration for the Supervisory Board and Management Board Members were amended as well. With the Act on amending the Act on Public Offering and Terms and Conditions of Introduction of Financial Instruments into the Organised Trading and on Public Companies and Certain Other Acts of 16 October 2019, new requirements for the approach to the Remuneration policy for Supervisory Board and Management Board Members were introduced. In response to the statutory amendments, a new *ING Bank Śląski S.A. Supervisory Board and Management Board Members Remuneration Policy* was drafted. The Policy was adopted with Resolution No. 29 of the General Meeting of ING Bank Śląski S.A. of 2 April 2020. At the same time, the Executive Remuneration Bylaw for Members of the Management Board of ING Bank Śląski S.A., which specifies in detail the principles of the Policy, was upheld.

All things considered, ING Bank Śląski S.A. has the following remuneration policy regulations:

- 1) ING Bank Śląski S.A. Group Remuneration Policy,
- 2) Variable Remuneration Policy for Identified Staff of ING Bank Śląski S.A.,
- 3) ING Bank Śląski S.A. Supervisory Board and Management Board Members Remuneration Policy,
- 4) Executive Remuneration Bylaw for Members of the Management Board of ING Bank Śląski S.A.
- 5) General Conditions of Remunerating the Employees of ING Bank Śląski S.A. with enclosures:
  - General Conditions of ING Bank Śląski S.A. Employee Evaluation (Step Up), and
  - General Conditions of ING Bank Śląski S.A. Identified Staff Evaluation.

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

1. The remuneration policy is based on performance management, and it:
  - 1) supports delivery of the business strategy and long-term interests of the Bank and its clients,
  - 2) supports 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., and



- 3) it is gender neutral, which means that it does not create conditions for any gender to be favoured in an unjustified manner with regard to terms and conditions of remuneration.
2. The remuneration policy is consistent with the sustainability strategy adopted for a given period by the Bank. It also supports the corporate social responsibility, the fact which is reflected in the individual objectives set for staff for a given year. At the same time, the Policy does not support the activities which are not compatible with the sustainable growth.
3. 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 as well as clear and transparent principles of objective setting and performance evaluation, which are communicated to all employees.
4. 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.
5. The principles of remunerating persons acting on behalf of the Bank do not constitute an incentive to take excessive risk of misselling.
6. 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.
7. 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.
8. The remuneration system is overt and transparent. Its principles are communicated to all Bank employees.
9. For the remuneration of the Supervisory Board and Management Board Members, the policy agrees with the values and long-term interest of ING Bank Śląski S.A., and thus contributes to effective risk management at the Bank and stable standing of the company. At the same time, the policy supports sustainable growth of the Bank, which is understood as activities taken in all domains of significance for the society and economy and the responsibility for and care about the effects of those activities. It is an inherent element of the business strategy. The said objectives are accomplished notably by:
  - 1) introduction of variable remuneration for Management Board Members; its final amount depends on results of the Bank,
  - 2) tying of remuneration of the Members of the Management Board and the Supervisory Board to average remuneration of other Bank employees,
  - 3) making the payout of variable remuneration components to Management Board Members conditional on the satisfaction of specific capital requirements by the Bank,
  - 4) inclusion in the non-financial objectives set annually by the Supervisory Board for Management Board Members of the criteria arising from the adopted Sustainability Strategy.

Details of remuneration of ING Bank Śląski S.A. Supervisory Board and Management Board Members can be found in the Report compiled as per Article 90g of the Act on Public Offering and Terms and Conditions of Introduction of Financial Instruments into the Organised Trading and on Public Companies.



## 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,
  - e) with a view to ensuring long-term stability of ING Bank Śląski S.A. and tying further the risk management minimum standards to individual remuneration, since 2019 the Bank has a *Procedure regarding risk requirements for key function holders at the Bank*. The Procedure enables the Management Board Member responsible for the risk area (the CRO) to take a decision to apply a risk modifier for variable remuneration. Following the requirements, 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.
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) life insurance – Bank employees have life insurance which covers employee death, employee death due to an accident and a serious illness co-funded by the Bank – it is a new solution introduced in 2021,
- d) company cars – a company car is awarded to an employee due to the employee's position in the organisational framework and scope of responsibilities, and
- e) 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) General Meeting
    - a. evaluate annually whether or not the remuneration policy established is conducive to the development and safety of the Bank's business,
    - b. pass amendments to the ING Bank Śląski S.A. Supervisory Board and Management Board Members Remuneration Policy, and
    - c. provide opinion on the remuneration of the Members of the Management Board and the Supervisory Board.
  - 2) ING Bank Śląski S.A. Supervisory Board
    - a. approve the ING Bank Śląski S.A. Group Remuneration Policy and the Variable Remuneration Policy for Identified Staff of ING Bank Śląski S.A.,
    - b. supervise compliance with the aforesaid Policies, and
    - c. develop and submit to the General Meeting the report on the evaluation of the remuneration policy at the Bank and the report on the remuneration of Supervisory Board and Management Board Members.
  - 3) The ING Bank Śląski S.A. Supervisory Board Remuneration and Nomination Committee 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 supervise 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 2020

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 excessive risk-taking behaviour that is beyond the 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 2020, 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 specific situation of the year 2020, which was marked by the Covid-19 pandemic, did not interfere with the planned exercise of base salary increase. 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 since April 2020. Pay rises were awarded both automatically and on a discretionary basis.

In accordance with the market practice, on 1 April 2020, we increased our salary increase capacity by changing considerably the maximum levels of pay brackets in nearly all pay grades.

3. 2020 was another year of functioning of the annual Step Up goals settlement system, which intuitively combines job performance assessment, creation of a solid corporate culture and our ambitions. We have tied the Step Up system with bonus payout for employees. In February 2020, we paid out bonus to Bank employees from the specific provision.

In March 2020, 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 2019 was set and the non-deferred portion of the bonus was awarded, and
- 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 2016 and 2017.

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 2019 bonus and the deferred bonuses for 2016 and 2017 were paid out to the Identified Staff. Thus, the 2016 bonus was settled in 100 per cent.

4. Due to the epidemic situation, in 2020 we attached much significance to the additional benefits aimed at making employees feel more safe and secure. We showed our concern by introducing in 2020 a new benefit – life insurance. This benefit provides for partial payment of the insurance premium by the Bank. Apart from the benefits laid down under item c), the premium paid by the employer enables employees to use the “Pandemic under control” insurance for one year. Insurance covers preventive assistance for the quarantine period and Covid-19 post-hospitalisation assistance. Employees can still use other insurance options under the offer paid on their own. The self-paid insurance offer was expanded with the modules enabling employees to choose their preferred insurance. The new insurance options were introduced in 2021.
5. In 2020, the Remuneration and Nomination Committee of ING Bank Śląski S.A. held 10 regular meetings and 3 by way of circulation.
6. From 29 May to 23 June 2020, the Internal Audit Department conducted the Audit of management of evaluation, remuneration, development and training at ING Bank Śląski S.A. The audit sought to assess the design and operating effectiveness of key internal controls in the evaluation, remuneration, development and training management processes.

In line with the Internal Audit Department’s opinion, for evaluation and remuneration management, the HR defined and maintains the remuneration, evaluation, development and training framework which is adequate for ING Bank Śląski S.A, and which supports delivery of its business purposes. Policies are complete and up to date. They are reviewed and documented from time to time. Evaluation process management has been implemented; process rules and performance indicators are communicated to employees. Employees are informed about the process of their performance evaluation. The process is documented. The Bank also has a path to be used by employees if they want to appeal from the evaluation score.



The audit function did not identify any material risks in the areas being audited. Based on the medium-risk observations formulated during the audit, the HR implemented additional control measures – new procedures for monitoring compliance of the positions given to employees with the Job Classification Table and monitoring the actions of the First Line of Defence in the objective setting area of the Step up process.

The internal audit unit also audited the process of remuneration of persons having material impact on the risk profile of ING Bank Śląski S.A. in 2020 and the application of the *Variable Remuneration Policy for Identified Staff of 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 2020 the Bank respected the principles of its remuneration policy.**

