

Report on assessment of functioning of the Compensation Policy in Bank Polska Kasa Opieki Spółka Akcyjna in 2017

The Supervisory Board, within the scope of its supervision and pursuant to §18 item 19 of the Statute of Bank Polska Kasa Opieki Spółka Akcyjna, made an assessment of the Compensation Policy of Bank Polska Kasa Opieki Spółka Akcyjna functioning in year 2017.

The Compensation Policy which was binding in the Bank in 2017 sets out principles and rules concerning the definition, monitoring and controlling of the remuneration systems and practices applied in the Bank. As a consequence of change of legal provisions and the closure of acquisition of a package of Bank's shares by PZU S.A. and PFR S.A., several changes have been added to the Compensation Policy that have been published already in 2018. The Supervisory Board assesses that the Compensation Policy was being realized in 2017 in accordance with its assumptions in regard to compensation regulation processes, meaning that the Bank was guided by the principle of fair compensation for sustainable results. The remuneration system compliant with the provisions of applicable law, ensures that the Compensation Policy and principles of remuneration in force at the Bank are not contrary to the interests of the Bank and clients, however, are consistent with the principles of ethics, values of the Bank and the adopted business strategy to guarantee long-term stability. The designing and monitoring of the compensation policy, incentive system and remuneration processes, as well as setting of objectives is carried out with the involvement of control functions.

The Bank used a balanced approach to the total remuneration, in particular providing a balance of fixed and variable elements of remuneration. Payment of compensation within incentive systems depended on the results and included Bank's risks. The Bank, following the rule of conducting flexible policy of variable compensation components, realized motivation systems providing for long-term growth of shareholder value and stability of the company. Employees covered by the Company Collective Labour Agreement have been paid incentive awards for outstanding professional achievements and results of the Bank in 2016. Based on the results achieved by the Bank, examined each quarter, quarterly bonuses were calculated and paid. Whereas employees covered by Management by Objectives System received a settlement of individual goals and the payment of an annual bonus dependent on the achieved results.

Within the Executive Variable Compensation System covering persons having a material impact on the Bank's risk profile, the settlement of the objectives for 2016 was conducted, and the instalment paid in advance, as well as part of deferred payments were granted and paid. Assessment of results took place at the individual level, the level of organizational unit and at the level of results of the Bank, taking into account 3-year business cycle of the Bank and the risk associated with conducted activity. Pay-out amounts were determined based on assessment of realization of individual objectives in current year and the assessment of behaviour compliance with law provisions and internal regulations of the Bank and standards of conduct adopted by the Bank. The compliance assessment did not reveal any violations. In assessing the individual effects of work both financial and non-financial criteria were taken into account.

Taking into account the announcement of Bank's new business strategy and new regulatory provisions, the Management Board of the Bank has initiated a dialogue with Trade Unions present in the Bank aimed at implementing changes to the current Company Collective Labour Agreement – in particular in relation to provisions on the compensation of employees.

The Internal Audit Department performed an annual audit on the implementation of Compensation Policy, with particular emphasis on variable compensation. During the audit the following areas were evaluated: (i) corporate governance and organisation; (ii) review of executive variable compensation system; (iii) execution of payments covered by the executive variable compensation system; (iv) verification of the matrix of control functions. General assessment of the audit was good. Results of the assessment are being presented to the Nomination and Remuneration Committee.

The Supervisory Board considers the implementation of the Compensation Policy, based on ensuring long-term growth in shareholder value and stability of the Bank, which took place in 2017, was in accordance with its provisions and objectives. The development and the Bank's security are ensured by the validity of the incentive systems pursuing objectives consistent with the interests of the clients, shareholders and the employees and by providing an adequate level of control, both during the implementation of individual actions in scope of the Compensation Policy as well as during control of system solutions.

The Supervisory Board positively assesses the functioning of the Compensation Policy in the year 2017.