

REPORT ON THE EVALUATION OF THE FUNCTIONING OF THE BANK REMUNERATION POLICY IN 2020

As part of its supervisory duties and pursuant to §18 (19) of the Articles of Association of Bank Polska Kasa Opieki Spółka Akcyjna, the Supervisory Board assessed the functioning of the Remuneration Policy in 2020, i.e.: “Remuneration Policy of Bank Polska Kasa Opieki Spółka Akcyjna” and “Remuneration Policy for Members of the Supervisory Board and the Management Board of Polska Kasa Opieki Spółka Akcyjna” (hereinafter jointly referred to as: “Remuneration Policy of the Bank”).

The Supervisory Board positively assessed the continuation by the Bank of its sustainable approach to total remuneration, ensuring in particular the market level of fixed remuneration components reflecting the level of experience, skills and competencies as well as the quantity and quality of performed work and the possibility of acquiring the right to variable remuneration components as part of incentive schemes.

The base remuneration constitutes a large enough part of the total remuneration that it is possible to pursue a flexible remuneration policy, e.g. it is possible to reduce variable remuneration components or not award them at all.

The payment of variable remuneration components was dependent on the results and took into account the Bank’s risk. The Bank, guided by the principle of maintaining a flexible policy of variable remuneration components, applied incentive schemes to ensure a long-term increase in the value for shareholders and stability of the Bank’s operations. This approach was implemented by making a greater number of key manager subject to regulations which made their variable remuneration dependent on the sustainability of the Bank’s results.

As part of the Executive Variable Compensation System, which covers Members of the Management Board and employees of the Bank whose professional activities have a significant impact on the Bank’s risk profile, the achievement of the objectives for the year 2019 was settled and the instalments payable in advance and deferred variable remuneration instalments were awarded and settled for employees who are not Members of the Management Board, in accordance with the applicable Rules of the Variable Remuneration Scheme.

Work results were assessed on an individual level or at the level of an organizational unit or the Bank, with regard to the 3-year business cycle of the Bank and the risk connected with pursued activities. The amounts of payments have been determined based on the assessment of the achievement of individual goals for the current year and the assessment of compliance with the provisions of law, internal regulations of the Bank and standard of conduct adopted by the Bank as well as risk assessment. The conducted compliance assessment risk assessment did not find any breaches.

Employees covered by the Collective Labour Agreement were paid incentive bonuses for special achievements in professional work and results generated by the Bank; a quarterly

bonus was also calculated and paid out based on the results achieved by the Bank, assessed after each quarter. Starting from the second quarter of the year, the Guidelines for the Group of Sales Network Employees were suspended, according to which the amount of the bonus depended on sales results and qualitative job evaluation, while for the remaining three quarters of the year the bonus was paid on a discretionary basis. The amount of variable remuneration of Employees covered by the above-mentioned Guidelines shall be determined each time on the basis of the compliance assessment results and the direct impact of the Employee in the position serving the client on the Bank's result.

Employees covered by the Management by Objective System have received a settlement of individual goals and the payment of an annual bonus dependent on the achieved results.

The annual review of remunerations for Employees covered by the Collective Labour Agreement, consisting in allocating the amounts of raises to be distributed by supervisors at Bank units, was carried out in 2020 in consultation with the trade unions. The amount of the pay increase fund resulted from the budget negotiated by the Bank with the trade unions of 2.5% of the basic salaries of Employees covered by the Collective Labour Agreement as of 1 March 2020. As part of this remuneration review, recommendations were made to grant pay raises resulting from a comparative analysis of the level of remuneration and the Employee's assessment.

The Management Board of the Bank, having regard to the Bank's on-going projects resulting from:

- a) centralization of processes and activities related to the Bank's current operations (including support, debt collection),
- b) optimization of location and formats of outlets (including implementation of changes resulting from the globalization analysis),
- c) reorganization of the Bank's structures (e.g. centralization of some teams),
- d) adjustment of the level of employment to the actually existing economic demand,
- e) robotization, automation and digitization of work processes,
- f) universalization of selected jobs for employees of the Retail Banking Division,

decided to carry out collective redundancies on the basis of provisions laid down in the Act of 13 March 2003 on Special Rules for the Termination of Employment Contracts with Employees due to Reasons Not Attributable to Employees. As a result of consultations with the Trade Union held on 12 March 2020, the Agreement on Collective Redundancies was concluded.

The process of collective redundancies was not related to the Covid-19 pandemic, however, due to the epidemic situation, in the first stage, the Bank terminated employment contracts with employees who voluntarily applied for collective redundancy. In the second half of the year, the Bank commenced the process of collective redundancies under the Agreement signed.

The Agreement contained favorable solutions for employees whose employment contract was terminated as a result of collective dismissal.

Pursuant to § 29 of the Ordinance of the Minister of Development and Finance of 6 March 2017 regarding the risk management system and internal control system, remuneration policy and detailed procedure for measuring internal capital in banks, the Internal Audit Department conducted an independent review regarding the implementation of the Remuneration Policy, with particular focus on the Rules of the Executive Variable Compensation System at the Bank.

The general assessment of results of that review from December 2020 was satisfactory and the adopted solutions were assessed as conforming with regulatory requirements.

The Supervisory Board assesses that in 2020 the Remuneration Policy of the Bank was implemented at the Bank in accordance with its assumptions as part of remuneration determination processes, where the Bank was guided by the principle of adequate remuneration for permanent results. The remuneration scheme is in line with the provisions of generally applicable law and conforms to the rules of ethical conduct and values of the Bank. The Management Board of the Bank makes efforts in cooperation with social partners to introduce changes to the remuneration rules that even better reflect the adopted business strategy.

The Supervisory Board decided that the Remuneration Policy of the Bank pursued in 2020 was aimed to ensure the long-term growth of value for shareholders and stability of the enterprise's operation, and that it was consistent with its provisions and objectives. The growth and security of the Bank is ensured through the existing incentive schemes encouraging the pursuit of goals consistent with the interests of clients, shareholders and employees, and by ensuring an appropriate level of control both when performing individual actions within the framework of the Remuneration Policy of the Bank and controlling systemic solutions.

The Supervisory Board positively assessed the functioning of the Remuneration Policy of the Bank in 2020.