

# Remuneration rules and policy for risk takers

TOP 7.2  
Remuneration Committee of the Supervisory Board  
TOP 8  
Supervisory Board

Warsaw, March 30, 2015

# Executive Summary

## Changes introduced in comparison to the previous version

The change applies only to the way of recalculation of bonus amount for a given year into the number of shares (slide number 12)

So far, the conversion was carried out based on:  
the average market price of the Company's shares listed on the Warsaw Stock Exchange, calculated for the 30 days preceding the day on which the bonus entitlement is acquired.

The modified method of conversion will be carried out based on:  
the average market price of the Company's shares listed on the Warsaw Stock Exchange, calculated for the 30 days preceding the day on which the bonus entitlement is acquired, decreased by PLN 4.

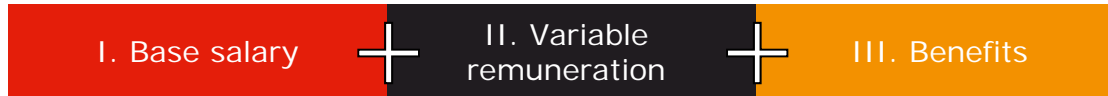
The intension of such amendment is to maintain the value of the granted bonus, due to the fact, that currently at the time of shares acquisition this value is decreased by PLN 4 for each share – cost, that an employee is obliged to pay for each share.

# Introduction

1. Legal basis for introducing separate remuneration rules for employees, that have significant influence on Bank's risk profile (so-called risk takers group):
  - KNF Resolution No. 258/2011 of 4th October 2011, which is a response to CRDIII directive of the European Union and guidelines of CEBS (at present EBA – European Banking Authority).
  - CRDIV directive of the European Union and preliminary technical standards of EBA.
2. In the spirit of the KNF resolution, the main purpose of providing the separate remuneration rules for risk takers is: supporting the proper and efficient risk management and not encouraging acceptance of excessive risk exceeding the risk appetite of the Bank approved by the Supervisory Board.
3. Criteria and process of indicating risk takers from all Bank's employees are described in the separate document 'Risk takers identification policy'.
4. Two groups of risk takers are identified in the Bank:
  - Risk Takers I – mBank Management Board members
  - Risk Takers II – non-mBank Management Board risk takers

# Remuneration rules for risk takers

1. Total Remuneration package for risk takers analogously to other Bank's employees consists of three elements (presented in the 'Remuneration and benefits policy'):



2. Base salary for Risk Takers I (mBank Management Board) is determined by the Supervisory Board Remuneration Committee and Supervisory Board on the basis of:

- Remuneration of other management board members of companies listed on Warsaw Stock Exchange and
- Scope of responsibility indicated in Resolution on division of competence among Members of the Management Board of the Bank

3. Base salary for Risk Takers II (non-mBank Management Board employees) is determined by President of the Board and member of the Board supervising given area in line with guidelines indicated in the 'Remuneration and benefits policy':

- Minimum remuneration set in the pay scale for the level to which the employee was assigned.
- Market data (e.g. market median) about remuneration paid to employees holding similar jobs in the banking sector,
- Supervisor's assessment of the employee's competence and also performance, attitudes in the situation of a change of base salary of a current Bank employee.

4. Variable remuneration for risk takers is granted in the form of the annual bonus and in line with rules determined in this document. Any additional rewards granted during the year are treated as variable remuneration.

5. Benefits (e.g. life insurance, medical care, fitness card) are not subject of remuneration rules for risk takers.

6. Severance pay - severance pay higher than that provided for in the labour law has to be justified with the employee appraisal made in line with the rules used for granting variable remuneration.

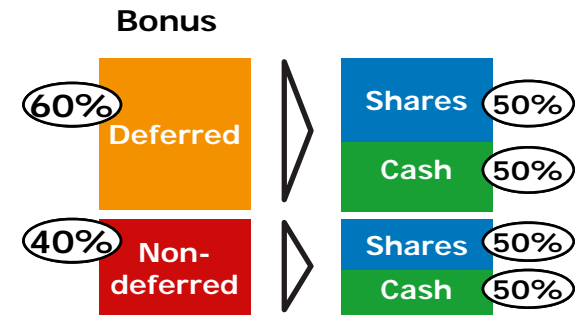
7. Variable remuneration can not exceed 200% of annual base salary. If, according to the decision of a relevant body, variable remuneration will exceed the 100% of annual base salary, it must be approved by the General Meeting of Shareholders. *Note: The MB members contracts do not yet reflect the expected regulations under CRD IV in this respect, as CRD IV is not yet implemented in Poland. Therefore MB members contract will be amended as soon as CRD IV is also implemented in local legislation.*

# Rules for granting bonuses to risk takers

## Components of the bonus, deferral period

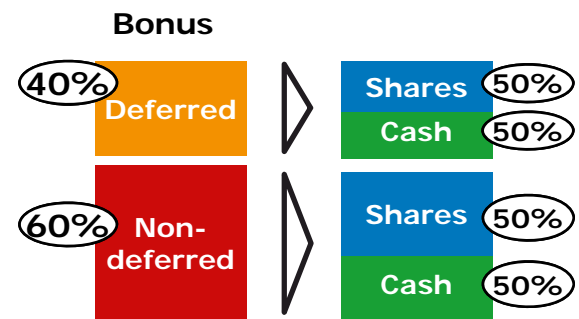
**Risk Taker I**  
Members of the  
mBank MB

1. The deferred part constitutes 60% of the total bonus and is granted in 50% in shares and cash after fulfilling certain conditions
2. The bonus is deferred for 3 years and awarded annually in three equal tranches
3. The non-deferred part constitutes 40% of the total bonus and is granted in 50% in shares and cash
4. Coverage of shares from a given year (both from deferred and non-deferred part), can be done no sooner than in 6<sup>th</sup> month after granting a bonus --> 6 months of retention period



**Risk Takers II**  
Members of subs MB,  
mBank non-MB risk  
takers

1. The deferred part constitutes 40% of the total bonus and is granted in 50% in shares and cash after fulfilling certain conditions
2. The bonus is deferred for 3 years and awarded annually in three equal tranches
3. The non-deferred part constitutes 60% of the total bonus and is granted in 50% in shares and cash
4. Coverage of shares from a given year (both from deferred and non-deferred part), can be done no sooner than in 6<sup>th</sup> month after granting a bonus --> 6 months of retention period



# Rules for granting bonuses to Risk Takers I

## Process of granting and deferring a bonus

In the year following the year for which the bonus is granted, the Remuneration Committee of the Supervisory Board (RemCo) sets the bonus amount for members of the Bank's Management Board, taking into account:

- the ROE of mBank Group for the bonus year and
- MbO results of particular members for the bonus year as well as
- long-term appraisal of particular members.

Example of process:



2015	2016 (1 <sup>st</sup> deferred tranche)	2017 (2 <sup>nd</sup> tranche)	2018 (3 <sup>rd</sup> tranche)
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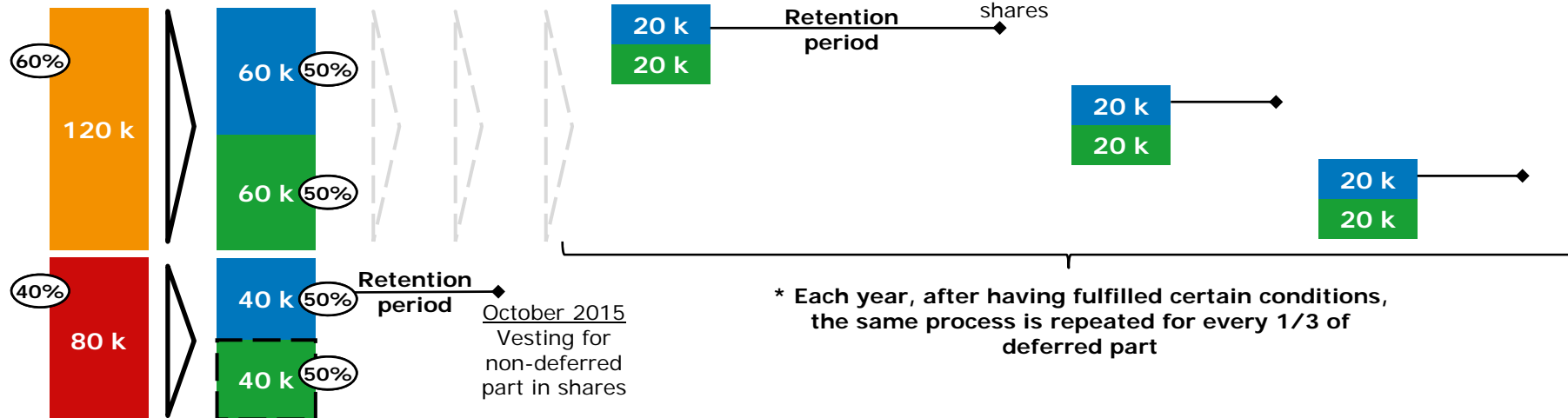
April 2015 - RemCo decides on the bonus in the amount of PLN 200 k

April 2015 - Payment of the non-deferred part in cash

April 2016\* Entitlement to 1/3 of deferred part

Payment of deferred part in cash

October 2016\* Vesting for deferred part in shares



# Rules for granting bonuses to Risk Takers I

## Conditions of pay out the deferred bonus parts

1. The deferred tranches are paid annually (starting from the second year following the bonus year) in three equal tranches, unless:

■ The Supervisory Board, based on RemCo's recommendation, decides that the action or inaction of a given Management Board member had a direct and negative effect on the Bank's financial result and market position in the long term (at least 3 years).

The aforesaid components are subject to an annual appraisal of RemCo, combined with the annual MbO appraisal. Every year, the Management Board members are informed about the appraisal results.

■ At least one of the elements contained in the scorecard is not fulfilled (i.e. in the case of at least one „YES“ response to the questions raised therein)

■ The circumstances referred to in Article 142(1) of the Banking Law Act occur:

- a balance sheet loss is sustained or there is a threat of such a loss, or
- there is a threat of insolvency or liquidity loss.



*If those circumstances materialize at the stage of determining the bonus amount, RemCo may decide to withhold the bonus in whole or to reduce it*

■ The Management Board member steps down from the Management Board.

■ The Management Board member is not appointed for another term of office due to the fact that she/he refuses to stand as a candidate or is dismissed from the Management Board because:

- She/he is charged with committing a crime (felony or wilful misdemeanour)
- She/he lost the entitlements to act as a Management Board member of a bank, stipulated in law (including the banking law),
- She/he is charged with acting to the detriment of the Bank,
- She/he breached the non-competition clause,
- She/he committed another major violation of the management contract, in particular, disclosed confidential information.

2. If one of the aforesaid conditions is met, it is justified to reduce or not to award the deferred part of the bonus.

# Rules for granting bonuses to Risk Takers II

## Process of granting and deferring a bonus [1/2]

1. Appraisal Period - the appraisal results (MbO\*) obtained by an employee for his performance in a given period of time form a basis for determining the bonus amount. The Appraisal Period covers the last three years of the employee's work. However, due to the transitional period following the introduction of the KNF Resolution:

- the first Appraisal Period covers 2012-2013 (MbO appraisal for 2012, MbO appraisal for 2013),
- the second Appraisal Period covers 2012-2014 (MbO appraisal for 2012, MbO appraisal for 2013, MbO appraisal for 2014).

2. The decision of the Bank's Management Board/sub's Supervisory Board on determining the bonus amount may be affected by the MbO appraisal results in a given Appraisal Period:

- if in each year of the Appraisal Period the employee's performance was appraised below 95%, the bonus for a given year should be no higher than 80% of the bonus awarded in the previous year.
- if in each year of the Appraisal Period the employee's performance was appraised below 80%, the bonus for a given year should not be awarded.
- if at least in one year (or in two years at the maximum) of the Appraisal Period the employee's performance was appraised below 80%, while the average MbO appraisal in the Appraisal Period was below 95%, the bonus for a given year should be no higher than 80% of the bonus awarded in the previous year.

In the case of employees who were not awarded bonuses in the previous year, the median of bonuses awarded in that year to employees holding similar positions should be used.

3. In the following situations provided for in Article 142(1) of the Banking Law Act, the Bank's Management Board/sub's Supervisory Board may decide to withhold or reduce the bonus of a given employee:

- when a balance sheet loss is sustained or there is a threat of such a loss, or
- when there is a threat of insolvency or liquidity loss.

*\* in case of subsidiaries with no MbO appraisal system and/or evaluation in the percentage form, the given Subsidiary evaluation system is applied.*

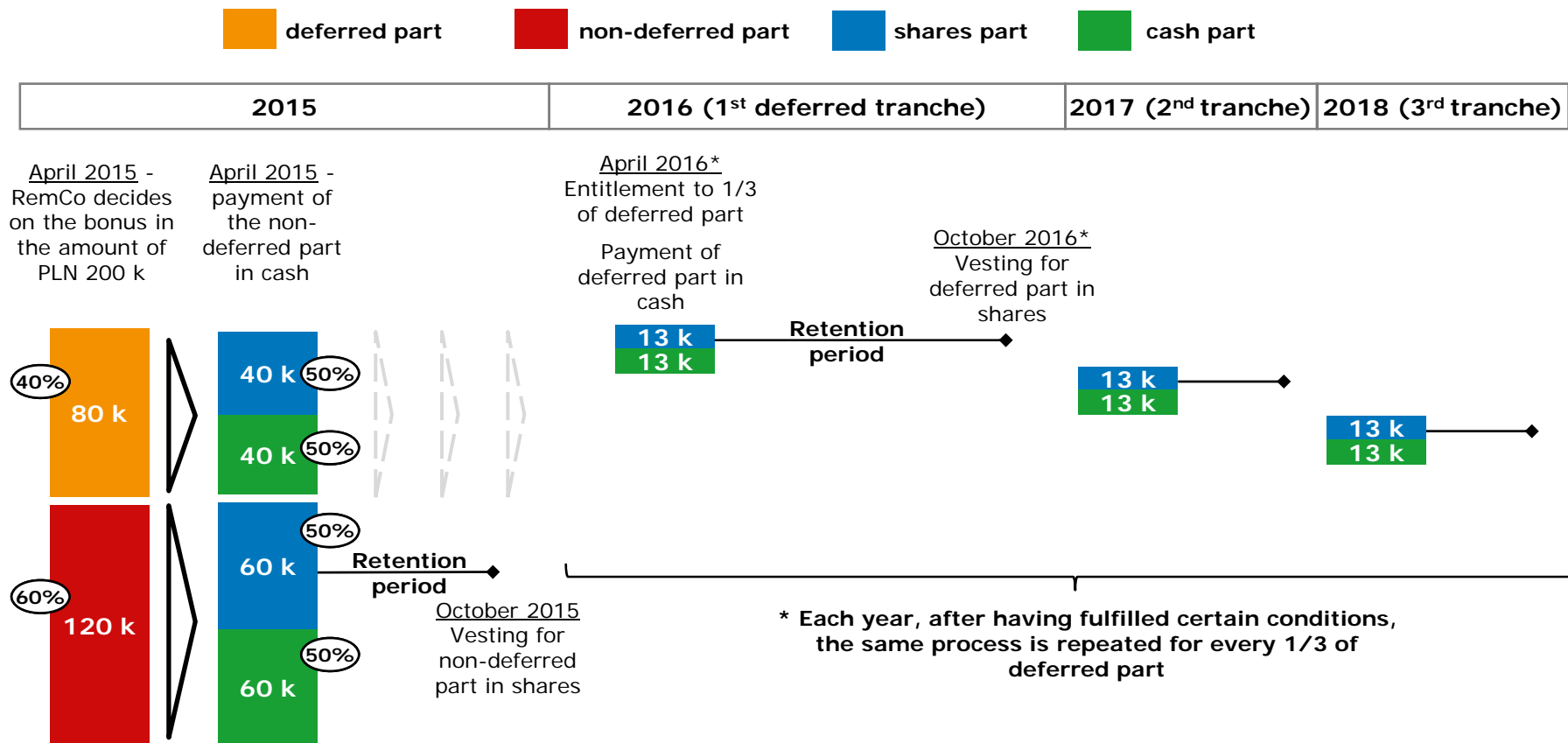


# Rules for granting bonuses to Risk Takers II

## Process of granting and deferring a bonus [2/2]

In the year immediately following the bonus year, the Bank's Management Board/sub's Supervisory Board members jointly determine the bonus amounts for individual employees, taking into account the results of their MbO appraisal in a given Appraisal Period (MbO appraisal results from the last three years) and mBank Group/business line/sub's results adjusted by the risk cost, capital cost and liquidity risk in the long term.

Example of process:



# Rules for granting bonuses to Risk Takers II

## Subs MB members - *Conditions of pay out the deferred bonus parts*

1. The deferred tranches are paid annually (starting from the second year following the bonus year) in three equal tranches, unless:
  - The Supervisory Board decides that the action or inaction of a given Management Board member had a direct and negative effect on the sub's financial result and market position in the long term (at least 3 years).
  - At least one of the elements contained in the scorecard is not fulfilled (i.e. in the case of at least one „YES“ response to the questions raised therein)
  - The circumstances referred to in Article 142(1) of the Banking Law Act occur:
    - a balance sheet loss is sustained or there is a threat of such a loss, or
    - there is a threat of insolvency or liquidity loss.
  - The Management Board member steps down from the Management Board.
  - The Management Board member is not appointed for another term of office due to the fact that sh/he refuses to stand as a candidate or is dismissed from the Management Board because:
    - She/he is charged with committing a crime (felony or wilful misdemeanour)
    - She/he lost the entitlements to act as a Management Board member of a bank, stipulated in law (including the banking law),
    - She/he is charged with acting to the detriment of the Bank,
    - She/he breached the non-competition clause,
    - She/he committed another major violation of the management contract, in particular, disclosed confidential information.
2. If one of the aforesaid conditions is met, it is justified to reduce or not to award the deferred part of the bonus.

# Rules for granting bonuses to Risk Takers II

## mBank non-MB - *Conditions of pay out the deferred bonus parts*

1. The deferred tranches are paid annually (starting from the second year following the bonus year) in three equal tranches, unless:

- The Management Board decides that the action or inaction of a given risk taker had a direct and negative effect on the sub's financial result and market position in the long term (at least 3 years).

The Management Board makes joint decision in this respect, taking into consideration among others:

- mBank Group results (calculated as EVA/Economic Profit) and
- a given risk takers MbO appraisal

- At least one of the elements contained in the scorecard is not fulfilled (i.e. in the case of at least one „YES“ response to the questions raised therein)

- Risk taker does not meet the conditions for employment in mBank Group. The deferred tranche is awarded despite the fact that there is no employment relationship between the employee and any of the mBank Group subsidiaries in the case when:

a) the employee retired after his employment relationship with one of the mBank Group subsidiaries;

b) the employee died;

c) occurs termination of employment contract, except for:

- the termination without notice, due to the fault of an employee (art. 52 of the Labour Code),
- the termination effected by the employee (art. 30 § 1 point 2 of the Labour Code),
- the agreement of the parties at the initiative of an employee (art. 30 § 1 point 1 of the Labour Code).

In the case described in point c, the deferred tranche is granted on the basis of opinion of the last superior, the appraisal carried out in the last calendar year of employment in the mBank Group and taking into account if an employee affected negatively bank or Group risk profile.

2. In the following situations provided for in Article 142(1) of the Banking Law Act, the Bank's Management Board may decide to withhold or reduce the amount of the deferred tranches which have not been awarded to the employee yet:

- when a balance sheet loss is sustained or there is a threat of such a loss, or
- when there is a threat of insolvency or liquidity loss.

# Deferred bonus in shares

1. Shares will be allotted to the members of the Management Board of the Bank and the non-MB risk takers in the form of bonds with the pre-emptive right to acquire shares under the conditional increase of share capital of Company (as an alternative in the form of phantom shares).
2. For the purpose of awarding bonds to the risk takers, the already issued bonds will be used:
  - bonds for members of the Management Board will come from the issue of bonds with the pre-emptive right to acquire shares, organized in 2008 for the purpose of the motivation programme dedicated to the MbO of the Bank,
  - bonds for other risk takers will come from the issue of bonds with the pre-emptive right to acquire shares, organized in 2008 for the purpose of the retention and motivation programme dedicated to key employees, the so-called LTI Programmeand therefore there will be no need to increase the share capital of the Company.
3. The process of awarding bonuses in shares proceeds as follows:
  - After the bonus amount for a given employee is approved, the bonus part to be awarded in shares is converted into bonds (one bond carries the pre-emptive right to acquire one share) at the average market price of the Company's shares listed on the Warsaw Stock Exchange, calculated for the 30 days preceding the day on which the bonus entitlement is acquired, i.e. the day on which the bonus amount is approved:
    - by the Remuneration Committee of the Supervisory Board for members of the Management Board
    - by the Management Board of the Bank/sub's Supervisory Board for other risk takers.decreased by PLN 4.
  - Afterwards, when the conditions for the award of the bonus in shares are met, the employee gains the right to acquire shares. The number of shares to which the employee is entitled corresponds to the number of bonds calculated at the time of granting the bonus. The cost of acquiring one share is fixed and amounts to PLN 4.
4. Detailed principles/procedure for acquiring bonds and shares are governed by separate rules.
5. In case of any special need phantom shares can replace shares. If such solution will be launched, bank will determine the detailed rules.

# mBank MB - Risk takers scorecard

If the Remuneration Committee selects at least one question „YES", it means that the decision to reduce or not to pay bonus must be taken by the appropriate authority.

SCORECARD for ... (ID, surname, name)	No	Yes	If „Yes" explanation required
1. Did occur the situation from the Article 142 (1) of the Banking Law?	<input type="radio"/>	<input type="radio"/>	
2. Did the risk taker not fulfill standards concerning competence and reputation on her/his position?	<input type="radio"/>	<input type="radio"/>	
3. Did the risk taker give incomplete, incorrect or misleading information about circumstances with risk or business relevance?	<input type="radio"/>	<input type="radio"/>	
4. Did the risk taker substantially break rules/disregard instructions with risk or business relevance?	<input type="radio"/>	<input type="radio"/>	
5. Did the risk taker break other company's rules substantially?	<input type="radio"/>	<input type="radio"/>	
6. Did the Management Board member action or inaction have any direct and negative influence on the Bank's financial result and market position the of the Bank?	<input type="radio"/>	<input type="radio"/>	
7. Was the performance evaluation with remuneration relevance of the Management Board member significantly incorrect within the relevant financial year?	<input type="radio"/>	<input type="radio"/>	

# Subs MB members - Risk takers scorecard

If the Supervisory Board selects at least one question „YES“, it means that the decision to reduce or not to pay bonus must be taken by the appropriate authority.

SCORECARD for ... (ID, surname, name)	No	Yes	If „Yes“ explanation required
1. Did occur the situation from the Article 142 (1) of the Banking Law?	<input type="radio"/>	<input type="radio"/>	
2. Was any of conditions of bonus payout not fulfilled? a) Did the risk taker achieve at least 80% MbO result in the financial year preceding the year of payment of the deferred tranche b) Is the sub result in the calendar year preceding the year in which the tranche is to be awarded no lower than the figure assumed for that year in the financial plan, reduced by 10% The Supervisory Board has the right to modify the assumed financial plan depending on the market situation.	<input type="radio"/> <input type="radio"/>	<input type="radio"/> <input type="radio"/>	
3. Did the risk taker not fulfil standards concerning competence and reputation on her/his position?	<input type="radio"/>	<input type="radio"/>	
4. Did the risk taker give incomplete, incorrect or misleading information about circumstances with risk or business relevance?	<input type="radio"/>	<input type="radio"/>	
5. Did the risk taker substantially break rules/disregard instructions with risk or business relevance?	<input type="radio"/>	<input type="radio"/>	
6. Did the risk taker break other company's rules substantially?	<input type="radio"/>	<input type="radio"/>	
7. Did the MB member action or inaction have any direct and negative influence on the sub's financial result and market position the of the sub?	<input type="radio"/>	<input type="radio"/>	
8. Was the performance evaluation with remuneration relevance of the Management Board member significantly incorrect within the relevant financial year?	<input type="radio"/>	<input type="radio"/>	

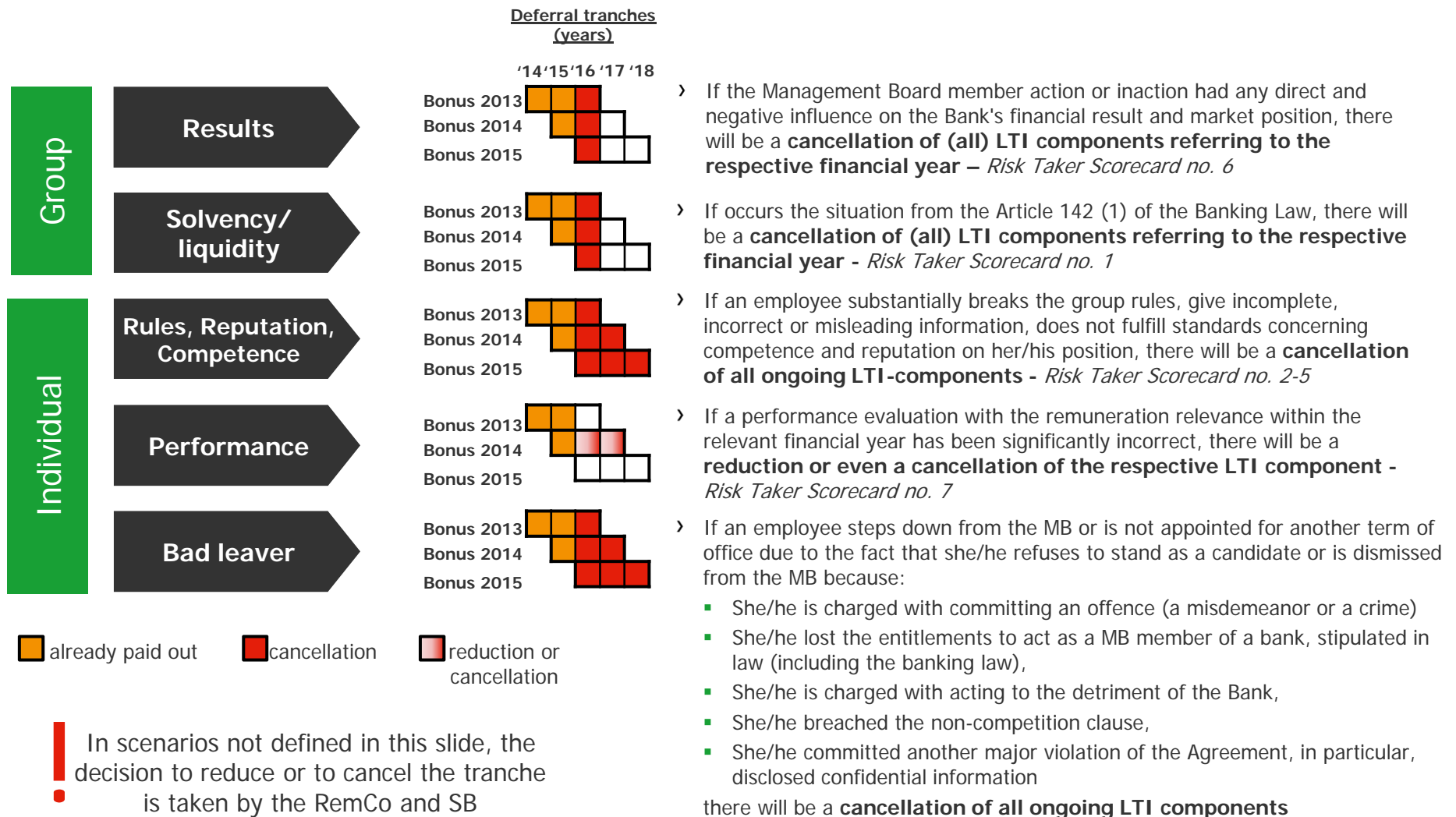
# mBank non-MB - Risk takers scorecard

If the Management Board selects at least one question „YES“, it means that the decision to reduce or not to pay bonus must be taken by the appropriate authority.

SCORECARD for ... (ID, surname, name)	No	Yes	If „Yes“ explanation required
1. Did occur the situation from the Article 142 (1) of the Banking Law?	<input type="radio"/>	<input type="radio"/>	
2. Did the risk taker not fulfil standards concerning competence and reputation on her/his position?	<input type="radio"/>	<input type="radio"/>	
3. Did the risk taker give incomplete, incorrect or misleading information about circumstances with risk or business relevance?	<input type="radio"/>	<input type="radio"/>	
4. Did the risk taker substantially break rules/disregard instructions with risk or business relevance?	<input type="radio"/>	<input type="radio"/>	
5. Did the risk taker break other company's rules substantially?	<input type="radio"/>	<input type="radio"/>	
6. Did the risk taker action or inaction have any direct and negative influence on the financial result and market position of the Bank?	<input type="radio"/>	<input type="radio"/>	
7. Was the performance evaluation with remuneration relevance of the risk taker significantly incorrect within the relevant financial year?	<input type="radio"/>	<input type="radio"/>	

# Detailed rules of deferred bonus payout

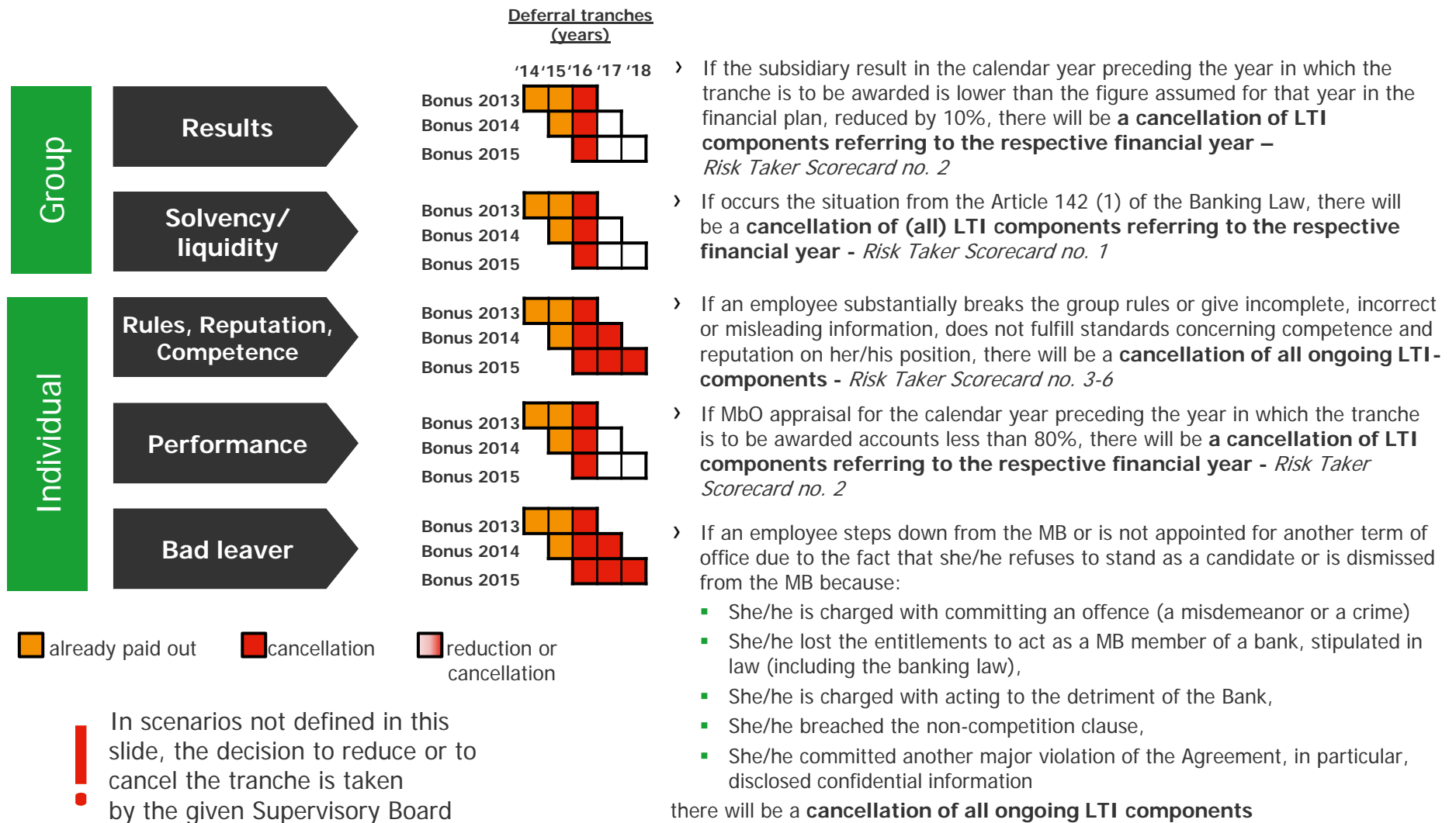
## RISK TAKERS I mBank Management Board





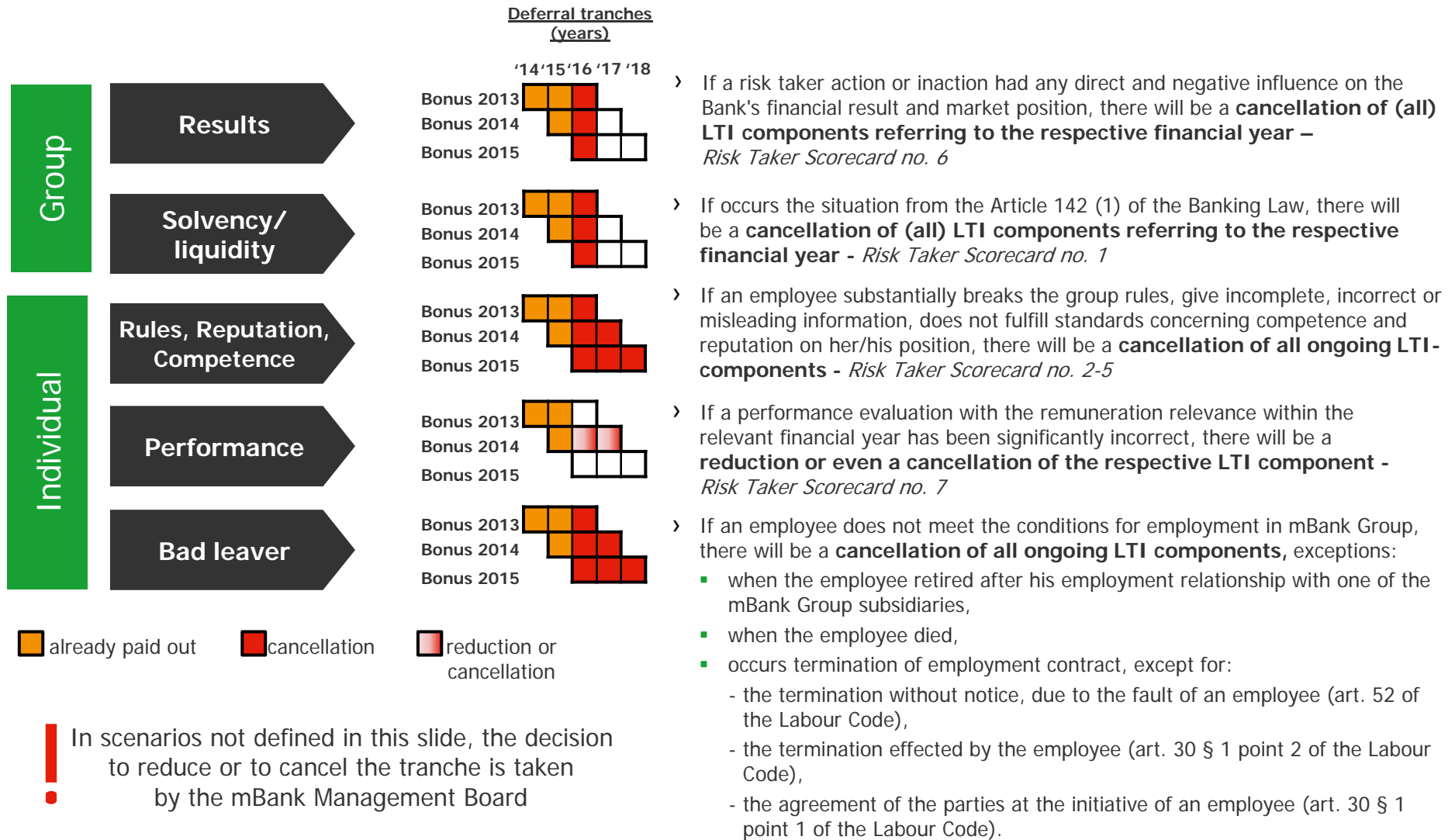
# Detailed rules of deferred bonus payout

## RISK TAKERS II Subs MB members



# Detailed rules of deferred bonus payout

## RISK TAKERS II *mBank non-MB risk takers*



# Rules for risk takers data reporting

## 1. Reporting guidelines

Risk taker data are reported in line with the requirements of KNF Resolution No. 259/2011 and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

## 2. What is reported?

Based on above mentioned regulations, data that should be reported include, among others:

- information concerning decision-making process used for determining the remuneration policy [...]
- information on link between pay and performance
- the most important design characteristics of the remuneration system [...]
- information on the performance criteria on which the entitlement to shares, remuneration is based
- aggregate quantitative information on remuneration, broken down by business area [...]
- aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution (the amount of base salary and variable remuneration, the deferred part, deferred remuneration paid out in a given year) [...]

## 3. Reporting period

Reported quantitative data on risk takers' remuneration covers payments for a given year, e.g. for reporting period 2013 the reported data will cover base salary remuneration paid out during 2013 + variable remuneration granted in April 2014 for 2013.

## 4. Monitoring mechanism

Personnel Administration and Remuneration Department (DKW) prepares above mentioned data, which are verified by the Financial Reporting Department (DSF) and Internal Audit Department (DAW). The data are verified for compliance with Polish and European regulations requirements in this respect, among others: if the data are complete, if all required information were included. DKW verifies if the data are correct - always two employees prepare the same data to avoid mistakes or incorrect data.

Only the data approved by DSF and DAW can be reported to bank's stakeholders and market participants.