

## 46. Share-based incentive programmes

### **2012 Incentive Programme for the Management Board Members of the Bank**

On 7 December 2012, the Supervisory Board on the basis of recommendation of the Remuneration Committee, adopted Rules of the Incentive Programme at mBank S.A. which replaced the Rules of the Incentive Programme at mBank S.A. of 14 March 2008, of which the last settlements were completed in 2016.

Under the programme, Members of the Bank's Management Board have the right to receive a bonus, including non-cash bonus paid in the Bank's shares, including phantom shares.

Cash bonus under the programme was paid for 2012-2013 and presented as an obligation to employees and referred to profit and loss account in a given year for which it was awarded.

Non-cash bonus, in which members of the Board have a right to take up bonds with pre-emptive rights to acquire shares, was granted under the programme for 2012-2013. The right to purchase the bonds will be realized in three equal annual deferred tranches, on the lapse of, respectively, 12, 24 and 36 months from the date of acquiring the right to non-cash bonus by the Management Board Member. Conditions of receiving as well as the amount of deferred tranche not paid out yet under non-cash bonus depend on the assessment of the financial position of the Bank by the Remuneration Committee of the Supervisory Board and the performance evaluation of member of the Board for a period longer than one financial year.

The Supervisory Board on the basis of recommendations issued by the Remuneration Committee can make a decision on suspending in whole or limiting the right to acquire bonds with pre-emptive rights to take up the shares of the Bank relating to the deferred tranche in whole or partially due to the later assessment of the performance of the Member of the Management Board over a period of time longer than one financial year (i.e. for the period of at least 3 years), which takes into account the business cycle of the Bank as well as the risk related to the Bank's operation, but only when the acts or omissions of the Member of the Management Board had a direct and adverse impact on the Bank's financial result and market position within the assessment period. The Supervisory Board, on the basis of the recommendation of the Remuneration Committee of the Supervisory Board, can make a decision on suspending in whole or decreasing the bonus amount for a given financial year in relation to deferred tranche not paid out yet, in the situation referred to in Article 142 (1) of the Banking Law Act. Suspending in whole or decreasing any deferred tranche by the Remuneration Committee of the Supervisory Board can also apply to the deferred tranche not paid out yet to the Member of the Management Board after termination or expiry of the management contract.

The bonds were purchased by eligible persons and the rights to acquire shares under the conditional increase of share capital resulting from bonds has been completed.

The table below presents the number and weighted average exercise prices of share options related to the 2012 incentive programme for Management Board Members of the Bank.

	31.12.2017		31.12.2016	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
<b>Outstanding at the beginning of the period</b>	<b>5 381</b>	-	<b>19 363</b>	-
Granted during the period	-	-	-	-
Forfeited during the period	574	-	-	-
Exercised during the period*	4 807	4	13 982	4
Expired during the period	-	-	-	-
<b>Outstanding at the end of the period</b>	-	-	<b>5 381</b>	-
<b>Exercisable at the end of the period</b>	-	-	-	-

\* In 2017, the weighted average price of the shares was PLN 421.21 (in 2016 PLN 329.60).

### **Cash Part of the Bonus**

40% of the bonus base amount for the year is recognised as a liability to employees and charged to the income statement in the year for which it was granted.

### **Share-Based Payments Settled in mBank S.A. Shares**

60% of the bonus base amount constitutes a payment settled in mBank S.A. shares.

As payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the member of the Board of the right for a given year of the programme, the cost of payments settled in shares were recognised in the income statement in the correspondence with other reserve capital. The last settlements of this program were carried out in 2017.

This was equity-settled share-based program.

### **2014 Incentive Programme for the Management Board Members of the Bank**

On 31 March 2014 the Supervisory Board in accordance with the recommendation of Remuneration Committee of the Supervisory Board adopted a Regulation of the Incentive Programme in mBank S.A., which replaced the Regulation of the Incentive Programme in mBank S.A. dated at 7 December 2012.

Under the program the Management Board members have the right to bonus, including non-cash bonus paid in Bank's shares, including phantom shares.

The net ROE of mBank Group and the monthly remuneration of the member of the Board as at 31 December form the basis for acquisition by Members of the Management Board of the right to bonus and for calculation of the amount of bonus for a given financial year. Equivalent of 50% of the base amount calculated based on ROE constitutes the so-called first part of the bonus. In regard to the remaining 50% of the base amount, the Remuneration Committee of the Supervisory Board can grant the second part of the bonus if it decides that a given Member of the Management Board achieved the annual/multi-year business and development objective. The decision of granting the second part of the bonus is the sole responsibility of Remuneration Committee of the Supervisory Board, which according to its own judgement and decision confirm MBO achievement taking into account the situation on financial markets in the last/previous financial period.

The sum of the first and the second part of bonus is the base bonus of the member of the Board for a given financial period. 40% of the base bonus constitutes non-deferred bonus and is paid in the year of determination of base bonus as follows: 50% in form of cash payment and 50% in Bank's shares or bonds with pre-emptive rights to acquire shares or phantom shares.

60% of the base bonus is deferred bonus and is paid in three equal tranches in the next three following years after the year of determining the base bonus as follows: 50% of each of the deferred tranches in form of cash payment and 50% of each of the deferred tranches in form of non-cash payment in Bank's shares or bonds with pre-emptive rights to acquire shares or phantom shares.

The Supervisory Board on the basis of recommendation of Remuneration Committee can make a decision to suspend in whole or reduce the amount of deferred tranche due to the later assessment of the performance of the Member of the Management Board over a period of time longer than one financial year (i.e. for the period of at least 3 years), which takes into account the business cycle of the Bank as well as the risk related to the bank's operations, but only when the acts or omissions of the Member of the Management Board had a direct and adverse impact on the Bank's financial result and market position within the assessment period and when at least one of the elements included in the assessment card is not fulfilled.

Remuneration Committee of the Supervisory Board can make a decision on suspending in whole or decreasing the non-deferred and deferred bonus amount for a given financial year, including deferred tranches not paid out yet, in the situation referred to in Article 142 (1) of the Banking Law Act. Suspending in whole or decreasing the non-deferred and deferred bonus, as well as any deferred tranche by the Remuneration Committee of the Supervisory Board can also apply to the non-deferred and deferred bonus, including deferred tranche not paid out yet after expiry or termination of the management contract.

The table below presents the number of share options related to the 2014 incentive programme for Management Board Members of the Bank.

	31.12.2017		31.12.2016	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
<b>Outstanding at the beginning of the period</b>	<b>17 210</b>	-	<b>9 776</b>	-
Granted during the period	11 993	-	17 828	-
Forfeited during the period	3 385	-	-	-
Exercised during the period*	10 276	4	10 394	4
Expired during the period	-	-	-	-
<b>Outstanding at the end of the period</b>	<b>15 542</b>	-	<b>17 210</b>	-
<b>Exercisable at the end of the period</b>	-	-	-	-

\* In 2017, the weighted average price of the shares was PLN 421.21 (in 2016 PLN 329.60).

### **Cash Part of the Bonus**

50% of the base amount constitutes bonus cash payment. It is recognised as a liability to employees and charged to the income statement in the correspondence to liability to employees.

### **Share-Based Payments Settled in mBank S.A. Shares**

50% of the base amount constitutes bonus payment settled in mBank S.A. shares. The cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital.

This is equity-settled share-based program.

On 2 March 2015 the Supervisory Board extended the duration of the program from 31 December 2018 until 31 December 2021 in accordance with the recommendation of the Supervisory Board Remuneration Committee.

### **Employee programme for key management staff of mBank Group of 2013**

On 11 April 2013, the Extraordinary General Meeting of the Bank adopted a resolution amending the rules of the employee programme, which replaced the incentive programme for key management staff of mBank Group from 2008, of which the last settlements were completed in 2016.

The aim of the programme was to ensure growth in the value of the Company's shares by linking the interest of the key management staff of mBank Group with the interest of the Company and its shareholders and implementing in mBank Group variable components of remuneration of the persons holding managerial positions at mBank Group in accordance with the Resolution of the KNF.

The programme was applied to the employees having a material impact on the risk profile of mBank Group, in particular Members of the Management Board of strategic subsidiaries, Bank Directors and key staff of mBank, whose decisions have a significant impact on the implementation of the strategy specified by the Bank's Management Board, results of mBank S.A. Group, growth in the value of the Bank.

During the programme the rights to acquire bonds with pre-emptive rights to subscribe for the Bank's shares under Tranche VI have been granted, which might be exercised after 12, 24 and 36 months from the date of granting these rights, in accordance with the internal regulations adopted in mBank Group specifying rules of variable remuneration of the employees having a material impact on the risk profile at mBank Group.

The Bank's Management Board/Supervisory Board of the Company, where the Programme was carried out could decide to suspend the implementation of the Programme in whole or decrease the number of bonds or the number of bonds deferred in a given tranche for the entitled person in the case of occurrence of the situations referred to in Article 142 (1) of the Banking Law Act, occurrence of balance sheet loss or loss of liquidity, meeting the conditions set forth in the agreements with the program participants, forming the basis for provision of work or other services for the Bank and subsidiaries.

All bonds granted under this programme have already been acquired by eligible persons.

### **Cash Part of the Bonus**

The bonus in the amount of 50% of the base amount for the year was recognised as a liability to employees and was charged to the income statement in the year for which it was granted.

### **Share-Based Payments Settled in mBank S.A. Shares**

As payments are settled in three equal annual deferred tranches on the lapse of, respectively, 12, 24 and 36 months from the date of acquisition by the programme participants of the right for a given year of the programme, the cost of this part of the programme was charged to the income statement and recognised in correspondence with other reserve capital.

The last settlements related to this program were realized in 2017.

This was equity-settled share-based program.

The table below presents the number and weighted average exercise prices of share options related to the 2013 incentive programme for key managers of mBank Group.

	31.12.2017		31.12.2016	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
<b>Outstanding at the beginning of the period</b>	<b>742</b>	<b>-</b>	<b>1 486</b>	<b>-</b>
Granted during the period	-	-	-	-
Forfeited during the period	-	-	-	-
Exercised during the period*	742	4	744	4
Expired during the period	-	-	-	-
<b>Outstanding at the end of the period</b>	<b>-</b>	<b>-</b>	<b>742</b>	<b>-</b>
<b>Exercisable at the end of the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

\* In 2017, the weighted average price of the shares was PLN 421.21 (in 2016 PLN 329.60).

### **Employee programme for key management staff of mBank Group of 2014**

On 31 March 2014, the Supervisory Board of mBank adopted on the basis of recommendation of Remuneration Committee a resolution amending the rules of the employee programme, which replaced the incentive programme for key management staff of mBank Group from 2013, whereas in regard to the persons who acquired bonds with pre-emptive rights to acquire shares of the Bank or were granted right to acquire bonds in Tranches III, IV, V and VI the programme was to be carried out under the previous principles.

The aim of the programme is to ensure growth in the value of the Company's shares by linking the interest of the key management staff of mBank Group with the interest of the Company and its shareholders and implementing in mBank Group variable components of remuneration of the persons holding managerial positions at mBank Group.

Beginning with Tranche VII the right to purchase bonds granted to the entitled person will be divided into four parts, which may be realized respectively: I part – non-deferred bonds representing 50% of the 60% of the amount of discretionary bonus granted for a given financial year in the year of granting the right, and then another three equal parts – deferred bonds constituting 50% of the 40% of the amount of discretionary bonus granted for a given financial year on the lapse of 12, 24 and 36 months from the date of granting the rights, in accordance with the internal regulations adopted in mBank S.A. Group specifying rules of variable remuneration of the employees having a material impact on the risk profile at mBank Group.

The Bank's Management Board/Supervisory Board of the Company, where the Programme is carried out may take a decision on suspending the Programme in whole or decreasing the number of bonds or the number of bonds deferred in a given tranche for the entitled person in case of occurrence of the situations, referred to in Article 142 (1) of the Banking Law Act, occurrence of balance sheet loss or loss of liquidity, meeting the conditions set forth in the agreements with the program participants, forming the basis for provision of work or other services for the Bank and subsidiaries.

### **Cash Part of the Bonus**

The bonus in the amount of 50% of the base amount for the year is cash payment. It is recognised as a liability to employees and charged to the income statement in the correspondence to the liability to employees.

### **Share-Based Payments Settled in mBank S.A. Shares**

The bonus in the amount of 50% of the base amount constitutes a payment settled in mBank S.A. shares.

The cost of payments settled in shares is recognised in the income statement in the correspondence with other reserve capital.

This is equity-settled share-based program.

On 2 March 2015 the Supervisory Board extended the duration of the program from 31 December 2019 until 31 December 2022 in accordance with the recommendation of the Remuneration Committee.

The table below presents change in the number and weighted average exercise prices of share options related to the 2014 incentive programme for key managers of mBank Group.

	31.12.2017		31.12.2016	
	Number of options	Weighted average exercise price (in PLN)	Number of options	Weighted average exercise price (in PLN)
<b>Outstanding at the beginning of the period</b>	<b>11 309</b>	-	<b>2 322</b>	-
Granted during the period	20 339	-	24 789	-
Forfeited during the period	82	-	-	-
Exercised during the period*	16 170	4	15 802	4
Expired during the period	-	-	-	-
<b>Outstanding at the end of the period</b>	<b>15 396</b>	-	<b>11 309</b>	-
<b>Exercisable at the end of the period</b>	-	-	-	-

\* In 2017, the weighted average price of the shares was PLN 421.21 (in 2016 PLN 329.60).

#### **Employee programmes of mBank Group subsidiaries**

The incentive programme functioning in mBank Hipoteczny from September 2012 is based on phantom shares of this bank and considered as incentive programme under IAS 19.

#### **Summary of the impact of the Programmes on the Bank's balance sheet and income statement**

##### **Share-Based Payments Settled in Shares**

The table below presents changes in other reserve capital generated by the above mentioned incentive programmes for share-based payments settled in mBank S.A. shares.

	31.12.2017	31.12.2016
<b>Incentive programs</b>		
<b>As at the beginning of the period</b>	<b>26 891</b>	<b>32 976</b>
- value of services provided by the employees	8 700	9 088
- settlement of exercised options	(12 953)	(15 173)
<b>As at the end of the period</b>	<b>22 638</b>	<b>26 891</b>

##### **Cash Payments**

The cost of the cash part of the programmes is presented in Note 11 "Overhead costs".