

CORPORATE GOVERNANCE IN BANK ZACHODNI WBK IN 2014

2014



Bank Zachodni WBK

 **Grupa Santander**

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I. Statement on Corporate Governance in 2014

1. Introduction

The Statement on Corporate Governance in 2014 was prepared in accordance with § 91 section 5 point 4 of the Finance Minister's Ordinance of 19 February 2009 on current and financial reports published by the issuers of securities and the rules of equal treatment of the information required by the laws of a non-member state. The information included in this chapter fulfils the requirements of corporate governance report set out in § 29 section 5 of the Terms of Reference of Warsaw Stock Exchange (WSE) and § 1 of the WSE Management Board Resolution no. 1013/2007 of 11 December 2007.

In relation to the above and pursuant to WSE Management Board Resolution no. 718/2009 of 16 December 2009, incorporation of this Statement on Corporate Governance in 2014 into the annual report ensures fulfilment of the requirement to provide WSE with a corporate governance report.

2. Code of Best Practice

Corporate governance rules applicable to Bank Zachodni WBK in 2014 are conveyed in the "Code of Best Practice for WSE Listed Companies" which constitutes an appendix to WSE Supervisory Board Resolution no. 19/1307/2012 of 21 November 2012 and is available at the WSE website (<http://corp-gov.gpw.pl/>) and the bank's website (www.inwestor.bzwbk.pl). It is an updated code of best practice which became effective on 1 January 2013. The changes are related mainly to general meetings held by public companies via electronic channels. The original code was introduced by virtue of WSE Supervisory Board Resolution no. 12/1170/2007 of 4 July 2007 on introduction of the "Code of Best Practice for WSE Listed Companies".

The updated code of best practice was approved for use in Bank Zachodni WBK by virtue of BZ WBK Management Board Resolution no. 9/2013 of 18 January 2013, and accepted by the BZ WBK Supervisory Board.

Bank Zachodni WBK has complied with official corporate governance rules since 2002 when the first version of the code of best practice was published ("Best Practice for Public Companies in 2002").

3. Management Board's Statement on Corporate Governance

In 2014, Bank Zachodni WBK duly complied with all the corporate governance rules conveyed in the binding version of the "Code of Best Practice for WSE Listed Companies" and no corporate governance breaches occurred.

4. Equity Securities Issued by the Bank

Ownership Structure of Share Capital

Shareholder	Number of Shares Held		% in the Share Capital & Voting Power at AGM	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Banco Santander S.A.	68 880 774	65 481 563	69,41%	70,00%
ING OFE	5 110 586	-	5,15%	-
Others	25 243 174	28 063 526	25,44%	30,00%
Total	99 234 534	93 545 089	100,0%	100,0%

According to the information held by BZ WBK Management Board as at 31 December 2014, the shareholders having minimum 5% of the total number of votes at the BZ WBK General Meeting of Shareholders were Banco Santander and ING Otwarty Fundusz Emerytalny (ING OFE) with shareholdings of 69.41% and 5.15%, respectively.

The majority shareholder's interest in the share capital decreased by 0.59 p.p. YoY as a result of the following:

- Increase in the share capital of Bank Zachodni WBK through two issues of ordinary bearer shares with a nominal value of PLN 10.00 each:
 - ✓ 305,543 series K shares were offered in a private subscription to eligible participants of the 4th Incentive Scheme for 2011-2013 (the share capital increase was registered on 11 July 2014);
 - ✓ 5,383,902 series L ordinary shares were issued pursuant to the Investment Agreement of 27 November 2013 between Bank Zachodni WBK, Santander Consumer Finance (SCF) and Banco Santander. The shares were taken up in full by SCF in exchange for the in-kind contribution of a controlling stake in SCB (the share capital increase was registered on 18 July 2014).
- Acquisition by Banco Santander of the total stake in Bank Zachodni WBK held by SCF, i.e. 5,383,902 shares representing 5.42% of voting power at the bank's General Meeting (13 August 2014).
- Sale of 1,984,691 shares of Bank Zachodni WBK by Banco Santander (6 October 2014) through an accelerated book building in order to fulfil the commitment to the Polish Financial Supervisory Authority (KNF) made in connection with obtaining KNF approval for the merger of Bank Zachodni WBK and Kredyt Bank to keep the free float of the bank's shares at a level not lower than 30%.

The shares offered in the last transaction were taken up, inter alia, by ING OFE, which increased its interest in Bank Zachodni WBK to the total of 5,110,586 shares, exceeding the threshold of 5% of voting power at the bank's General Meeting.

Rights and Restrictions Attached to the Issuer's Securities

The shares of Bank Zachodni WBK are ordinary bearer shares. Each share carries one vote at the General Meeting of Shareholders.

The nominal value is PLN 10 per share. All the issued shares have been fully paid up.

The structure of share capital of Bank Zachodni WBK as at 31.12.2014 denoted by share series

Date of change	Series /issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue (in PLN)
from 4.01.2013 from 11.07.2014 from 18.07.2014	A	bearer	none	none	5 120 000	51 200 000
	B	bearer	none	none	724 073	7 240 730
	C	bearer	none	none	22 155 927	221 559 270
	D	bearer	none	none	1 470 589	14 705 890
	E	bearer	none	none	980 393	9 803 930
	F	bearer	none	none	2 500 000	25 000 000
	G	bearer	none	none	40 009 302	400 093 020
	H	bearer	none	none	115 729	1 157 290
	I	bearer	none	none	1 561 618	15 616 180
	J	bearer	none	none	18 907 458	189 074 580
	K	bearer	none	none	305 543	3 055 430
	L	bearer	none	none	5 383 902	53 839 020
Total					99 234 534	992 345 340

The bank did not issue any series of shares that would give their holders any special control rights or would limit their voting power or other rights. Neither are there any restrictions on the transfer of title to the issuer's shares.

The control rights of Banco Santander as a parent entity of Bank Zachodni WBK arise from the number of shares and the resulting share of the voting power at the General Meeting of Shareholders of Bank Zachodni WBK.

5. Governing Bodies

General Meetings of Shareholders

Annual General Meeting of 2014

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 16 April 2014 (AGM) approved the 2013 reports submitted by the Management Board and Supervisory Board, granted discharge to members of the Management and Supervisory Boards of Bank Zachodni WBK and Kredyt Bank for the performance of their duties in the previous year and agreed on distribution of the net profit for 2013 and a dividend payment of PLN 10.70 per share. In addition, the AGM agreed on changes in the bank's statutes including:

- extension of the scope of the bank's activity to include brokerage services, maintenance of share registers for companies pursuant to the agreements in place and payment agent services for foreign mutual funds;
- an increase in the share capital by PLN 3,055,430 to PLN 938,506,320 through the issue of 305,543 series K ordinary bearer shares under the 4th Incentive Scheme.

The pre-emptive rights of the bank's existing shareholders with respect to series K shares were excluded. The AGM decided that the bank would seek the admission and introduction of the shares to trading on the regulated market operated by the Warsaw Stock Exchange. In relation to the upcoming implementation of the Directive of the European Parliament and of the Council 2013/36/EU of 26 June 2013, the AGM resolved that the variable component of the remuneration of persons holding managerial positions shall not exceed 200% of the fixed component of the total remuneration of each person. The AGM appointed the BZ WBK Supervisory Board for the next term of office (full composition shown below in the "Supervisory Board" section) and agreed the remuneration for Supervisory Board members.

Extraordinary General Meeting of 2014

On 30 June 2014, an Extraordinary General Meeting of Bank Zachodni WBK (EGM) was convened to adopt the resolution on an increase in the bank's share capital by PLN 3,839,020 to PLN 992,345,340 through the issue of 5,383,902 series L ordinary bearer shares with the nominal value of PLN 10 each, and the introduction of relevant changes in the bank's Statutes. In view of the purpose of the issue (placement of shares with Santander Consumer Finance in exchange for an in-kind contribution of 3,120,000 of Santander Consumer Bank shares), the EGM excluded the pre-emptive rights of the bank's existing shareholders with respect to the above shares and decided that the bank would seek the admission and introduction of the shares to trading on the regulated market operated by the Warsaw Stock Exchange. In addition, the EGM approved a three-year long 5th Incentive Scheme starting in 2014 and aimed at employees of Bank Zachodni WBK and its subsidiaries who make a material contribution to the organisation's growth in value.

On 30 September 2014, the Extraordinary General Meeting of Shareholders of Bank Zachodni WBK adopted a resolution on the division of Dom Maklerski BZ WBK, pursuant to the Division Plan of 24 July 2014 agreed by the two parties. For more details please refer to chapter VII "Organisational and Technological Development", section 1 "Organisational Changes".

Organisation and Powers of the General Meeting of Shareholders

The General Meeting of Bank Zachodni WBK Shareholders (GM) is held as provided for in the Commercial Companies Code of 15 September 2000, BZ WBK Statutes and Terms of Reference for BZ WBK GM. The Statutes as well as the Terms of Reference are available at the bank's website.

The GM agrees on the issues within its remit, as defined by the above laws and internal regulations.

The resolutions are voted on using an electronic voting system which returns the number of votes ensuring that they correspond to the number of shares held, and in the case of a secret ballot – allows shareholders to remain anonymous. Each share carries one vote.

Candidates for the Supervisory Board are voted upon on an individual basis, in alphabetical order.

The General Meeting is broadcast live online to all interested parties and the recording is available at the bank's website for later review.

Shareholders' Rights

The rights of the shareholders of Bank Zachodni WBK are set out in the Terms of Reference of BZ WBK GM in line with the Commercial Companies Code.

In particular, the shareholders have the following rights with respect to GM:

- Each shareholder may request that a list of shareholders be e-mailed free-of-charge to a valid address. Each shareholder may have access to the list of shareholders in the bank's MB office and request a copy of the list at their own expense.
- Shareholders may:
 - ✓ a week before the GM, demand copies of requests included in the GM agenda
 - ✓ have access to the GM minutes and request copies of resolutions confirmed by the bank's Management Board as true copies
 - ✓ request voting by secret ballot
 - ✓ appeal against resolutions made by the GM in cases permitted in the Commercial Companies Code
 - ✓ seek information from the Management Board regarding issues on the GM agenda, as provided for by the Commercial Companies Code
 - ✓ exercise their voting rights (each share gives one vote at the GM).
- Shareholders may attend the GM and vote personally or through proxies. In line with the Terms of Reference, shareholders may also participate in the GM via electronic communication channels.

Method of Changing the Statutes

Bank Zachodni WBK changes its Statutes in a method prescribed by the applicable law.

In 2014, three changes to the Statutes of Bank Zachodni WBK were introduced, including two changes by virtue of AGM resolutions of 16 April 2014 and one change by virtue of an EGM resolution of 30 June 2014. The changes were as follows:

- extension to the scope of the bank's activity to include brokerage services, maintenance of share registers for companies pursuant to the bilateral agreements in place and payment agent services for foreign mutual funds (effective as of 16 May 2014);
- increase in the share capital by PLN 3,055,430 to PLN 938,506,320 through the issue of 305,543 series K ordinary bearer shares in relation to the 4th Incentive Scheme (effective as of 11 July 2014);
- increase in the share capital by PLN 53,839,020 to PLN 992,345,340 through the issue of 5,383,902 series L ordinary bearer shares (effective as of 18 July 2014).

Supervisory Board

Below is the composition of the Bank Zachodni WBK Supervisory Board as at 31 December 2014 and 31 December 2013.

Role in the Supervisory Board	Ref.	Composition as at 31.12.2014	Ref.	Composition as at 31.12.2013
Chairman of the Supervisory Board:	1.	Gerald Byrne	1.	Gerald Byrne
	2.	José Antonio Alvarez	2.	José Antonio Alvarez
	3.	Danuta Dąbrowska	3.	-
	4.	David R. Hexter	4.	David R. Hexter
	5.	Witold Jurcewicz	5.	Witold Jurcewicz
	6.	José Luis de Mora	6.	José Luis de Mora
	7.	John Power	7.	John Power
	8.	Jerzy Surma	8.	Jerzy Surma
	9.	Marynika Woroszyńska-Sapieha	9.	-
	10.	José Manuel Varela	10.	José Manuel Varela
Members of the Supervisory Board:				

As at 31 December 2014, the Supervisory Board was appointed for a new term of office by the Annual General Meeting of 16 April 2014. Since the previous composition, two new members were nominated, namely: Ms Danuta Dąbrowska and Ms Marynika Woroszyńska-Sapieha.

As at 31 December 2014, the following members of the Supervisory Board held independent status: Danuta Dąbrowska, David R. Hexter, Witold Jurcewicz, Jerzy Surma and Marynika Woroszyńska-Sapieha.

Following the period covered by the Annual Report of Bank Zachodni WBK Group for 2014, Mr José Antonio Alvarez resigned as a member of the Supervisory Board with immediate effect on 5 February 2015.

In the period from 1 January to 31 December 2014, 7 Supervisory Board meetings were held at which 59 resolutions were passed. Average attendance was 91%.

Role of the Supervisory Board

The Supervisory Board of Bank Zachodni WBK operates strictly under the Banking Law of 29 August 1997, the Commercial Companies Code of 15 September 2000, the bank's Statutes and the Terms of Reference of the Supervisory Board, available at the bank's website.

The Supervisory Board consists of at least five members appointed for a joint, three-year term of office. The Supervisory Board members, including the Chairman of the Supervisory Board, are appointed and removed by the General Meeting of Shareholders. The Management Board notifies the Polish Financial Supervisory Authority (KNF) about Supervisory Board membership.

Pursuant to the bank's Statutes, at least half the members of the Supervisory Board should be of independent status.

The Supervisory Board exercises on-going supervision over all aspects of the bank's activities. The Supervisory Board takes decisions in the form of resolutions which are adopted by an absolute majority of votes in open voting. Resolutions are voted upon in a secret ballot in cases stipulated by law, in personal matters or at the request of any Supervisory Board member accepted by the Supervisory Board in a secret voting. The Supervisory Board's meetings are held as needed and at least three times in any financial year. The Supervisory Board's Members convene at the same time in a single location or in different locations communicating via telephone or video links.

Supervisory Board Committees

The Supervisory Board may establish committees and designate individuals responsible for managing the work of such committees. These committees are designed to facilitate the current activities of the Supervisory Board by preparing draft Supervisory Board recommendations and decisions with regard to their own motions or the motions presented by the Management Board.

The following Supervisory Board committees operate in Bank Zachodni WBK: Audit and Compliance Committee, Risk Oversight Committee and Remuneration and Nominations Committee. The responsibilities of the Committees are set out in their respective Terms of Reference introduced by virtue of Supervisory Board resolutions.

Composition of Supervisory Board Committees as at 31.12.2014

Supervisory Board Committees as at 31.12.2014					
Role in the Supervisory Board	Ref.	Composition as at 31.12.2014	Audit and Compliance Committee	Risk Oversight Committee	Nominations & Remuneration Committee
Chairman of the Supervisory Board:	1.	Gerald Byrne			●
	2.	José Antonio Alvarez			
Members of the Supervisory Board:	3.	Danuta Dąbrowska	●		●
	4.	David R. Hexter	●	●	
	5.	Witold Jurcewicz		●	●
	6.	José Luis de Mora			●
	7.	John Power	●	●	
	8.	Jerzy Surma	●		●
	9.	Marynika Woroszyńska-Sapieha		●	
	10.	José Manuel Varela		●	

● Chairman
● Members

The **Audit and Compliance Committee** evaluates the adequacy, scope and effectiveness of the accounting and internal control systems. Together with the Management Board and internal auditors, it reviews the Group's internal financial controls, and the internal control and (financial and non-financial) risk management systems. The Committee monitors the bank's financial reporting process, ensuring the adequate quality of financial reports and disclosure practices and their compliance with the law, KNF requirements and accounting principles. Furthermore, the Committee reviews the work performed by the statutory auditor, ensuring that the entity is independent and effective. Also, it reviews the actions undertaken by the Management Board in terms of their compliance with legal and regulatory requirements and the bank's by-laws. The majority of the Audit and Compliance Committee is comprised of independent Supervisory Board members.

The **Risk Oversight Committee** presents the Supervisory Board with conclusions and recommendations on the general risk management framework and the risk appetite, in accordance with applicable policies and limits. The Committee reviews the Risk Appetite Statement, assesses business strategy in terms of its adequacy for risk exposure as well as the goals and financial plans of the organisation, verifies the risk profile and KPIs, and monitors internal controls. The majority of the Committee is comprised independent Supervisory Board members.

Each year, the Audit and Compliance Committee and Risk Oversight Committee convene at least four times at dates corresponding to the reporting and audit cycle. Additional meetings are held if the Chairman or members consider it necessary.

The **Remuneration and Nominations Committee** presents the Supervisory Board with recommendations about remuneration policies and practices. It defines the remuneration policy and the individual pay packages for Management Board members and performs annual reviews of the remuneration payable to the Management and Supervisory Board members. The Committee also has oversight over the bonus scheme for Management Board members, and analyses incentive solutions and other remuneration schemes proposed for implementation in the bank and its subsidiaries.

The Remuneration and Nominations Committee convenes at least three times a year. Additional meetings are held at the request of the Chairman.

The annual reports on activities of the Supervisory Board and its Committees, the Supervisory Board's reports on examination of the bank's and the Group's annual report along with the assessment of the Group's operations, including internal control and risk management system, are published in current reports which contain the resolutions passed by the AGM of Bank Zachodni WBK.

Management Board

The table below presents the composition of the Bank Zachodni WBK Management Board as at 31.12.2014 together with the roles and responsibilities of its members. No changes were made from 31 December 2013.

Role in the Management Board	Ref.	Composition as at 31.12.2014 and 31.12.2013	Reporting Areas as at 31.12.2014	
President	1.	Mateusz Morawiecki	Units reporting directly to the President: Internal Audit Area, Corporate Communications & Marketing Area, Mobile & Internet Banking Area	
	2.	Andrzej Burliga	Risk Management Division	
	3.	Eamonn Crowley	Financial Management Division	
	4.	Michael McCarthy	Business & Corporate Banking Division	
	5.	Piotr Partyga	Business Partnership Division	
	Board Members:	6.	Juan de Porras Aguirre	Global Banking & Markets Division
		7.	Marcin Prell	Legal and Compliance Division
		8.	Marco Antonio Silva Rojas	Financial Accounting & Control Division
		9.	Miroslaw Skiba	Retail Banking Division
		10.	Feliks Szyzkowski	Business Support Division

Appointment and Removal of Executives

Members of the Bank Zachodni WBK Management Board are appointed and removed in accordance with the Commercial Companies Code, the Banking Law and the bank's Statutes.

The bank's Management Board consists of at least three persons (including the Management Board President) appointed by the Supervisory Board for a joint three-year term of office. At least half of the Management Board members, including the President, are required to have completed higher education, be permanent residents of Poland, speak Polish, have good knowledge of the Polish banking market and sufficient experience of the home market to manage the Polish banking institution. Two Management Board members, including the Management Board President, are appointed with the approval of the Polish Financial Supervision Authority (KNF). Management Board members may be removed by the Supervisory Board or the General Meeting at any time.

Powers of Executives

The Bank Zachodni WBK Management Board manages and represents the bank. The Management Board has all the powers that are not restricted by law or Statutes to the remit of other governing bodies of the bank.

The Management Board takes decisions to raise obligations or transfer assets whose total value for one entity exceeds 5% of the bank's own funds. The Management Board can also, by way of resolution, delegate its powers to take such decisions to other committees or persons in the bank. The Management Board members run the bank's affairs jointly, and in particular: define the bank's mission, set long-term action plans and strategic objectives, prepare assumptions for the bank's business and financial plans, approve proposed plans and monitor their performance, regularly report to the Supervisory Board on the bank's position in the scope and at the dates agreed with the Supervisory Board, appoint permanent and ad hoc committees and designate individuals responsible for managing the work of such committees. The committees are composed of both Management Board members and persons from outside the Management Board.

Permanent committees functioning in the bank include: Risk Management Committee, Credit Committee, Provisions Committee, Risk Management Forum, Credit Policy Forum for Retail Portfolios, Credit Policy Forum for SME Portfolios, Credit Policy Forum for Business and Corporate Portfolios, Assets and Liabilities Committee (ALCO), Operational Risk Management Committee, Deposit Working Group, CRM Committee, Settlement Committee, Anti-Money Laundering and Counter-Terrorism Financing Committee, Urban Regeneration Fund Investment Committee, Procurement Investment Forum, Procurement Investment Committee, Compliance Committee, Local Product Marketing and Monitoring Committee, Monitoring Committee and Public Policy Committee.

Management Board members acting severally do not have any specific powers. They cannot take decisions on issuing or redeeming shares.

Role of the Management Board

The Management Board operations are primarily governed by Banking Law, the Commercial Companies Code, the bank's Statutes and the Terms of Reference of the Management Board, available on the bank's website.

The Management Board is responsible for running the affairs of and representing the bank. According to the bank's Statutes, the following individuals are authorized to represent and bind the bank: a) the Management Board President acting individually, and b) two members of the Management Board acting jointly, or a member of the Management Board acting jointly with a commercial representative (proxy), or two commercial representatives acting jointly. Representatives authorized to act severally or jointly with any of the persons listed in b) or with another authorized representative can be appointed.

The Management Board resolves on all issues which have not been restricted to the remit of the General Meeting of Shareholders or Supervisory Board. The Management Board takes decisions in the form of resolutions which are adopted by an absolute majority of votes in an open voting. Secret ballots may be held in cases stipulated by law, in personal matters or at the request of any Management Board member accepted by the Management Board in a secret voting. Management Board meetings are held as required. Management Board members convene at the same time in a single location or in different locations communicating via telephone or video links.

Other Information on Management and Supervisory Boards

Remuneration of Supervisory and Management Board Members

Pursuant to the Statutes of Bank Zachodni WBK the remuneration of Supervisory Board members is set by the General Meeting of Shareholders of Bank Zachodni WBK. As at 31 December 2014, the remuneration for the Supervisory Board of Bank Zachodni WBK was set by virtue of Resolution no. 53 of the General Meeting of Shareholders of Bank Zachodni WBK of 16 April 2014.

Pursuant to the Statutes of Bank Zachodni WBK, the remuneration of the President and members of the Management Board is set by the Supervisory Board, having due regard to recommendations of the Remuneration and Nominations Committee. The Remuneration and Nominations Committee defines the remuneration policy in respect of Management Board members and individual terms and conditions as part of remuneration packages for each Management Board member. It also performs annual reviews of the remuneration of Management Board members.

In relation to the upcoming implementation of Directive no. 2013/36/EU in Poland, the AGM of Bank Zachodni WBK held on 16 April 2014 conditionally agreed that the variable component of the remuneration of persons holding managerial positions shall not exceed 200% of the fixed component of the total remuneration of each person (Resolution no. 41).

Information on remuneration for BZ WBK Supervisory and Management Board members for 2014 and the comparable period is presented in Note 46 to the Consolidated Financial Statements of Bank Zachodni WBK Group for 2014.

Agreements between Bank Zachodni WBK and its Executive Directors

Bank Zachodni WBK Management Board members signed agreements prohibiting competition after termination of their role on the Management Board. A Management Board member who is not appointed for a new term of office or is removed from the Board is entitled to a one-off severance payment. The severance payment does not apply if the Management Board member accepts a new role in the bank, is removed due to gross negligence, resigns or is not granted discharge.

Shares and Conditional Rights Held by the Supervisory and Management Board Members

As at the date of release of the Annual Report of Bank Zachodni WBK Group for 2014 and Annual Report for 2013, none of the members of the Supervisory Board held any shares in Bank Zachodni WBK.

Under the 1st BZ WBK Performance Share Programme launched in 2006, members of the Management Board were allocated 23,084 out of 115,729 series H shares issued as part of the conditional increase in the share capital. Under the 2nd and 3rd Incentive Scheme, which expired in 2010 and 2011, respectively, no rights were exercised. Pursuant to BZ WBK AGM Resolution no. 40 of 16 April 2014 regarding satisfaction of the criteria for exercising the award under the three-year 4th Incentive Scheme, the bank allotted 38,570 out of 305,543 series K shares to members of the Management Board.

In relation to the launch of the 5th Incentive Scheme for the years 2014-2016, approved by the Extraordinary General Meeting of Shareholders held on 30 June 2014, the Management Board members – as obligatory participants – were vested with conditional rights to buy 24,073 of the total of 250k incentive shares. Below are the shares of Bank Zachodni WBK and attached conditional rights held by the Management Board members as at 31 December 2014, 30 June 2014 and 31 December 2013.

Shares and the attached conditional rights held by Management Board members as at the release date of the reports for the periods ending 31.12.2014 and 31.12.2013

Management Board Members	31.12.2014		31.12.2013	
	No. of BZ WBK shares	Rights	No. of BZ WBK shares	Rights
Mateusz Morawiecki	13 711	3 857	3 591	10 120
Andrzej Burliga	4 888	2 204	606	4 282
Eamonn Crowley	1 003	2 094	-	4 003
Michael McCarthy	1 075	2 424	-	4 875
Juan de Porras Aguirre	-	2 217	-	-
Piotr Partyga	2 855	2 094	-	2 855
Marcin Prell	-	1 983	2 530	3 704
Marco Antonio Silva Rojas	-	2 704	-	-
Mirosław Skiba	5 857	2 248	1 575	4 282
Feliks Szyszkowiak	4 704	2 248	1 755	4 449
Total	34 093	24 073	10 057	38 570

6. Control System of Financial Statements

Internal Control System and Risk Management

Bank Zachodni WBK Group operates an internal control system which supports decision-making processes and contributes to efficient operation of the organisation, reliability of financial reporting and compliance with laws, international standards, internal regulations and best practice. The internal control system is adjusted to the organisational structure and risk management system and covers the Business Support Centre, branches, Partner outlets and subsidiaries. Development, implementation and maintenance of the written strategies and procedures of the internal control system is the responsibility of the bank's Management Board. Oversight of the internal control and risk management system is exercised by the Audit and Compliance Committee of the Supervisory Board of Bank Zachodni WBK.

The bank has adopted an Internal Control Policy in Bank Zachodni WBK which defines, inter alia, the structure, purpose and scope of the internal control and lists related roles and responsibilities. In particular, the Policy and other regulations describe the bank's Internal Control Model (ICM), defining the rules and organisation of the process of identifying the risks that are material from the point of view of the control environment, along with their controls. The ICM includes monitoring, testing and reporting to ensure effective control environment, both in terms of design and operation of the controls, and to strengthen the control culture at all levels within the organisation. The elements of the Internal Control Model include: risk models, controls, sub-processes, processes and activities.

The internal control system and risk management system are based on three lines of defence:

- first line – controls embedded in processes delivered by each staff member and their line manager
- second line – units supporting the management team in risk identification and management as well as units assessing the effectiveness of the first line
- third line – internal audit unit, which reviews the adequacy and efficiency of the first and second lines.

Each organisational unit operates in line with their Terms of Reference approved by the head of the division. The document defines the roles and responsibilities within each business area, including the quality and processing of financial data. The internal control model in place allows for a systematic verification of controls in terms of their effectiveness. The results are regularly escalated to and reviewed by the bank's Management Board and Audit and Compliance Committee of the Supervisory Board of Bank Zachodni WBK Group.

One of the key objectives of the internal control framework is to ensure full credibility of financial reporting.

Financial data preparation for the purpose of reporting is automated and based on the consolidated General Ledger and Data Warehouse. The underpinning IT systems are strictly controlled in terms of integrity and security of information.

Data inputs in the source systems are subject to formal operational and approval procedures which state responsibilities of individual staff members. Data processing for the purpose of financial reporting is subject to a suite of specialist controls. Any manual corrections or management overrides are also under strict control. BZ WBK Group has a BCM plan in place, which covers all IT systems used to prepare financial reports. The plan is updated on an ongoing basis.

The bank follows legal and regulatory changes related to reporting and updates its accounting rules and disclosures accordingly. The bank, through its representatives sitting on the supervisory boards of individual subsidiaries, exercises oversight of its consolidated subsidiaries.

Financial statements are approved by the Disclosure Committee, which is responsible for ensuring that the financial disclosures of BZ WBK Group comply with all legal and regulatory requirements.

The bank's management confirms that the controls in place effectively mitigate the risk of failure to identify material errors in the financial statements.

The effectiveness of controls in financial reporting is additionally assessed by an independent external auditor as part of the annual certification process for compliance with the Sarbanes-Oxley Act.

Internal Control Compliant with the Sarbanes-Oxley Act

In the light of the Sarbanes-Oxley Act, Bank Zachodni WBK Group operates as a material and independent organisation within the structure of Santander Group and as such is required to implement, maintain and assess the effectiveness of the internal control environment pursuant to the abovementioned act.

As agreed with the Internal Control Department of Santander Group and the External Auditor, the certification process for compliance with the Sarbanes-Oxley Act in 2014 covered all key business areas of Bank Zachodni WBK and was carried out using solutions and methodology based on Santander Group's approach. The scope of testing included risk factors which were particularly significant for the reliability and accuracy of financial statements, taking into account the local control environment, including the final integration of IT systems of former Kredyt Bank and incorporation of Dom Maklerski BZ WBK – an independent subsidiary until the end of October 2014 – into the bank's structure. The design and effectiveness of controls were tested by a dedicated second line unit. The effectiveness tests covered processes and key controls in the business and IT areas as well as entity level controls (Global Framework). A particular challenge for the assessment of the control environment in 2014 were the abovementioned developments: completion of the integration process (in particular the migration of data of the former Kredyt Bank to BZ WBK's systems) and incorporation of Dom Maklerski into the bank's structure. The assessment did not show any negative impact from these changes on the effectiveness of the bank's internal control system.

Results of the assessments and tests are the basis for the bank's management to make representations on the effectiveness of the control environment.

As part of the SOX certification process for 2014, the bank's management confirmed that no incidents were identified in Bank Zachodni WBK Group which could significantly affect the relevant processes and threaten the effectiveness of the internal control of financial reporting.

Selection of Auditor

In accordance with § 32 (10) of the Statutes of Bank Zachodni WBK, applicable regulations and industry practice, on 11 June 2014, the bank's Supervisory Board passed a resolution appointing Deloitte Polska as an entity to review and audit the bank's unconsolidated and consolidated financial statements for H1 2014 and the entire year 2014. The bank signed agreements with Deloitte Polska for the terms required to carry out the specified works.

The bank also contracted Deloitte Polska and other companies from Deloitte Group for consulting and tax advisory services. In the bank's view, the above advisory services do not affect the impartiality and independence of the auditor.

Retaining the same auditor both by Bank Zachodni WBK and Banco Santander ensures a consistent approach to the audit process across Santander Group, including certification for compliance with the American Sarbanes-Oxley Act. Banco Santander selects auditors for a fixed period of time, from three to nine years, starting from the beginning of the first financial year.

Remuneration of Auditor

The table below shows the remuneration paid to Deloitte Polska for audit/review of the financial statements of Bank Zachodni WBK Group pursuant to agreements concluded in 2014 and 2013.

	PLN k	
Remuneration of External Auditors	Reporting Year ended on 31.12.2014	Reporting Year ended on 31.12.2013
Audit fees in respect of the parent bank ¹⁾	1 813	2 620
Audit fees in respect of the subsidiaries ²⁾	1 069	650
Audit fees related to assurance services, including the review of the parent bank ³⁾	2 048	920
Audit fees related to assurance services, including the review of the subsidiaries	468	-
Fees for non-assurance services ⁴⁾	20	2 804

- 1) Remuneration for the services performed in 2014 based on the following agreements with Bank Zachodni WBK:
- Agreement on the review and audit of financial statements of 27 June 2014;
 - Agreement on the audit of consolidation package of 27 June 2014.
- Remuneration for the services performed in 2013 based on the following agreements with Bank Zachodni WBK:
- Agreement of 13 June 2013 on the audit of interim condensed unconsolidated and consolidated financial statements for 6 months, and unconsolidated and consolidated financial statements for 12 months;
 - Agreement of 13 June 2013 on the audit of consolidation package for 6 and 12 months.
- 2) Includes remuneration for the services performed in 2014 for SCB Group based on Agreement of 19 December 2014 on audit of financial statements and audit/review of the consolidation package.
- 3) Remuneration for the review and other assurance services performed in 2014 based on:
- Annex of 17 December 2014 regarding the audit of Pillar 3 disclosure report and assets to Agreement on the review and audit of financial statements of 27 June 2014;
 - Annex of 12 December 2014 regarding the internal control system to Agreement on the audit of consolidation package of 27 June 2014.
- The fee for 2013 contains the remuneration for the audit of the internal control system under Annex to the agreement of 13 June 2013 and for the review of Pillar 3 disclosure and assets under Annex agreement dated 13 June 2013.
- 4) Remuneration for the services rendered in 2014 based on Agreement of 15 December 2014 on execution of the agreed procedures regarding the Jessica Project in 2014. The amount for 2013 refers to the agreement on support of the intended acquisition.

7. Pending Court Proceedings

As at 31 December 2014, no case was pending before any court or state administration agencies with relation to any claims made by or against the bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

	PLN m	
Court Proceedings with BZ WBK Group as a Party	31.12.2014	31.12.2013
Amounts claimed by the Group	176,7	79,4
Claims against the Group	182,3	200,2
Receivables due to bankruptcy or arrangement cases	5,1	60,8
Value of all litigation	364,1	340,4
Share [%] of all litigation in equity	2,0%	2,4%
Completed significant court proceedings	187,3	91,2