

## **Recommendation for the General Meeting of BZ WBK S.A. shareholders regarding the increase in the ratio between the variable and the fixed component of the remuneration of individuals holding managerial positions in BZ WBK Group**

Directive of the European Parliament and of the Council 2013/36 / EU of 26 June 2013 on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48 / EC and 2006/49/EC (Official Journal of the EU No L 176/338) (the "**Directive**") introduced a requirement that the variable component of the remuneration of the individuals whose professional activities have a material impact on the institution's risk profile should not exceed 100% of the fixed component of the total remuneration for each individual. Moreover, under the Directive, the Member States may allow shareholders to approve a higher maximum level of the ratio between the fixed and variable components of remuneration provided the overall level of the variable component shall not exceed 200% of the fixed component of the total remuneration for each individual. The Directive was transposed into Polish law through the Act of 4 August 2015 on macro-prudential supervision of the financial system and crisis management within the financial system (Journal of Laws of 2015, item 1513), amending the Banking Law of 29 August 1997 (consolidated text - Journal of Laws of 2015, item 128) (the "**Banking Law**").

Resolution no 33 of the Annual General Meeting of Bank Zachodni WBK S.A. (the "**Bank**") re: defining the maximum level of the ratio between the fixed and variable components of remuneration of individuals holding managerial positions with Bank Zachodni WBK Group, dated 20 April 2016, approved the maximal level of the said ratio to be 200% of the fixed component of the total remuneration of each person included in the category of "individuals holding managerial positions in BZ WBK Group."

The above-mentioned category comprises persons identified by the BZ WBK remuneration policy as the individuals whose professional activities have a material impact on the Group's risk profile. Those persons are identified on the basis of the criteria outlined in Commission Delegated Regulation (EU) no 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile (EU Journal of Laws L 167) (the "**Delegated Regulation**"). The said criteria were applied to identify the individuals performing the following functions: the management function, the supervisory function, the independent risk management function, the compliance function, the internal audit function, heads of units responsible for: legal affairs, finance including taxation and budgeting, human resources, remuneration policy, information technology, or economic analysis, heads of material business units, and other individuals who meet other qualitative or quantitative criteria defined in the Delegated Regulation.

However, the said resolution of the Annual General Meeting was passed prior to the issuance of the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, remuneration policy and detailed method of internal capital estimation in banks (Journal of Laws of 2017, item 637) (the "**Regulation**"), which will take effect on 1 May 2017 and sets out the procedure allowing the Bank to apply a higher (up to 200%) maximum ratio of the variable to the fixed component of the total remuneration. In particular, the procedure specifies that the higher ratio may be applied upon the consent of the general meeting of the Bank's shareholders, expressed as a resolution passed by a majority of 2/3 votes in the presence of persons representing at least a half of the share capital; if the quorum is not met, the resolution shall be passed by a majority of 3/4 votes based on a recommendation regarding the increase in the ratio between the variable and the fixed component of the remuneration issued by the management board. The said recommendation should specify the reasons for and scope of the recommended increase, including in particular the number of individuals affected by the increase, the functions they perform and the impact of the increase on the Bank's capacity to meet legal requirements, including in particular the capital requirements.

Having regard to the above, and in particular to the fact that Resolution no 33 was not passed in accordance with the procedure defined by the subsequent Regulation of the Minister of Finance, the

Management Board of the Bank hereby recommends that the General Meeting should pass a resolution expressing its consent to apply a higher (200%) maximal ratio between the variable and the fixed component of the remuneration of all individuals included in the category of "individuals holding managerial positions in BZ WBK Group." Thus, the Management Board recommends that the ratio should be maintained at the current level, which has already been approved by the General Meeting.

Considering the ratio between the variable and the fixed component approved by the General Meeting, it is possible under the Bank's internal bonus regulations to award, in justified cases, a variable remuneration exceeding 100% of the fixed remuneration in a given year. The Bank's past experience in this regard indicates that a chance to earn variable remuneration higher than the fixed one motivates the employees to notably exceed their objectives. Moreover, this solution is consistent with the generally applied practices, according to which the maximum objective delivery level for key positions rewarded with a bonus is 150%. Consequently, the maximum ratio of the bonus to the base remuneration should be high enough to enable such flexibility. At the same time, the defined objectives ensure support for the adequate and effective risk management and discourage excessive risk taking in violation of the Bank's risk appetite.

It should be noted that the variable-to-fixed component ratio of over 100% is assumed to occur only in rare cases, just as has been the case so far. This is because in fact, the average component ratio for individuals holding managerial positions in BZ WBK Group observed in the last financial year is considerably lower than the recommended maximal level of 200%. In 2016, the average ratio between the variable and the fixed component was 80%. Nevertheless, in a few justified cases, the ratio exceeded 100%.

Lastly, BZ WBK Group' intends to attract potential executives as a competitive employer in the Polish banking sector and to retain the Group's key staff. Therefore, the Group needs to offer potential executives a flexible and appealing remuneration package, superior to those provided by the Bank's direct competitors. Attractive variable remuneration is a key driver of the employee's engagement and aids in maintaining a low level of staff turnover on the positions identified as having a material impact on the institution's risk profile, which in turn has a real effect on the delivery of the Bank's objectives in a longer term. Furthermore, the use of this incentive tool entails lower fixed costs for BZ WBK Group than increasing the employees' fixed remuneration, as it enables the Group to respond flexibly to changes in its financial standing.

Since the number of individuals who may be identified as holding managerial positions in BZ WBK Group is subject to change, e.g. in the course of the Group's standard operations, it cannot be determined definitely. It is, however, possible, to set the maximal number of such individuals. Considering that at the end of 2016, 76 persons were identified as members of the above-mentioned category, (their positions are specified in the table attached to this recommendation) and bearing in mind potential changes of this figure, we propose 120 as the maximal number of members of the said category.

As noted above, the actual average ratio of the variable and fixed remuneration component observed so far has been approximately 80%. Additionally, it should not be expected that the majority of individuals holding managerial positions in BZ WBK Group will be able to earn the maximal ratio of 200%, or even that the average ratio will exceed 100%. In view of the above considerations and given that at the end of 2016, the variable components of the remuneration of individuals affected by the regulation were not higher in total than PLN 25,387,007 (which is 0.13% of the share capital), it should be concluded that the decision to approve the maximum ratio will not have a negative impact on maintaining the adequate capital base.

The above text presents the rationale for the recommendation for the General Meeting of BZ WBK S.A. shareholders regarding the increase in the ratio between the variable and the fixed component of the remuneration of individuals holding managerial positions in BZ WBK Group.

List of the Managerial Positions in BZWBK Group\*

L.P.	Position
	<b>BANK ZACHODNI WBK S.A.</b>
1	Supervisory Board Members
2	MB President
3	MB Member in charge of the Global Corporate Banking Division
4	MB Member in charge of the Business and Corporate Banking Division
5	MB Member in charge of the Small and Medium Enterprise Banking Division
6	MB Member in charge of the Retail Banking Division
7	MB Member in charge of the Risk Management Division
8	MB Member in charge of the Financial Accounting and Control Division
9	MB Member in charge of the Financial Management Division
10	MB Member in charge of the Legal and Compliance Division
11	MB Member in charge of the Business Partnership Division
12	MB Member in charge of the Digital Transformation Division
13	MB Member in charge of the Information Technology Division
14	Chief Bank Economist
15	Financial Markets Area director
16	Capital Markets Department director
17	Treasury Services Department director
18	GCB Business Development director
19	Corporate and Investment Banking Department director
20	Financial Market Transactions Department director
21	GCB Credit Markets Department director
22	Corporate Banking Sales Network Area director
23	Property Financing Department director
24	Products Development and Operational Support Department director
25	Food&Agro Department director
26	Chief Information Officer
27	CRM and Business Development Area director
28	Individual Client Segment Area director
29	Retail Banking Transformation Area director
30	Multichannel Banking Area director
31	Protection and Investments Department director
32	Private Banking Department director
33	deputy head of Risk Management Division
34	Risk Management director
35	Credit Area director
36	Credits Restructure and Asset Management Area director
37	GBM Credit Risk Management and Specialist Financing Area director
38	Retail and SME Credit Restructuring Department director
39	Business Intelligence and Personal Credit Risk Management Department director
40	Corporate and Global Portfolio Business Intelligence and Risk Management Department director
41	Financial Risk Department director
42	Management Accounting Area director
43	Financial Accounting Area director
44	ALM Department director
45	Corporate Development Office director
46	Legal Area director
47	Compliance Area director
48	Compensation Department director
49	Business Model Transformation Area director

50	VIP Customer Relationship director
51	Systems Development Area director
52	Technology Area director
53	Central Banking Operations Area director
54	Internal Audit Area director
55	Internal Audit Area deputy director
56	Corporate Communication and Marketing Area director
57	macroregional director
	<b>SUBSIDIARIES</b>
58	Santander Consumer Bank S.A. – MB President
59	Santander Consumer Bank S.A. – MB Members
60	BZ WBK Leasing S.A. - MB President
61	BZ WBK Leasing S.A. - MB Vice-President
62	BZWBK Faktor - MB President
63	BZWBK Towarzystwo Funduszy Inwestycyjnych S.A. – MB President

\* In the case of subsidiaries, their Management Boards can take a decision on extending the above mentioned list based on applicable laws and internal regulations.