

XI. Statement on Corporate Governance in 2016

1. Legal Basis

The corporate governance framework applicable in Bank Zachodni WBK is based on existing laws (in particular the Commercial Companies Code, Banking Law and capital market regulations) as well as recommendations included in the following documents: the “Code of Best Practice for WSE Listed Companies” and “Rules of Corporate Governance for Supervised Institutions”.

This Statement on Corporate Governance in 2016 was prepared in accordance with Paragraph 91(5)(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 the corporate governance report set out in Paragraph 29(5) of the Terms of Reference of Warsaw Stock Exchange (WSE) and Paragraph 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 2016 into the annual report ensures fulfilment of the requirement to provide the WSE with a corporate governance report.

2. Code of Best Practice

Code of Best Practice for WSE Listed Companies

In 2016, Bank Zachodni WBK was subject to the rules of corporate governance and conduct applicable to the relationship between listed companies and their market environment as conveyed in the 2016 Code of Best Practice for WSE Listed Companies, and appended to WSE Supervisory Board Resolution no. 26/1413/2015 of 13 October 2015. This version of the Code became effective on 1 January 2016 with approval for use by Bank Zachodni WBK by virtue of the decision of the Management Board (resolution no. 160/2015 of 2 December 2015) accepted by the Supervisory Board (resolution no. 61/2015 of 16 December 2015). The full text is available on WSE website (www.gpw.pl), “Best Practice of Companies” tab, and the bank’s website (www.bzwbk.pl), “Investor Relations” tab.

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

Corporate Governance Rules for Supervised Institutions

Bank Zachodni WBK also abides by Rules of Corporate Governance for Supervised Institutions as published by the KNF on 22 July 2014. The document describes internal and external relations of supervised institutions, including relationship with shareholders and customers, their organisation, corporate governance framework and key internal systems and functions, as well as statutory bodies and the rules of their cooperation. The aforementioned Rules are available on the KNF website (www.knf.gov.pl) via “About the market” tab, and at the bank’s website (www.bzwbk.pl) via the “Investor Relations” tab.

Rules of Corporate Governance for Supervised Institutions were adopted by Bank Zachodni WBK as of 1 January 2015 by virtue of Management Board Resolution no. 116/2014 of 9 October 2014 and Supervisory Board Resolution no. 58/2014 of 17 December 2014. As the above guidelines are also applicable to shareholders, they were submitted to and approved by the General Meeting (GM) of Bank Zachodni WBK on 23 April 2015.

3. Management Board’s Statement on Corporate Governance

In 2016, Bank Zachodni WBK duly complied with all corporate governance rules set out in the existing version of the Code of Best Practice for WSE Listed Companies. In this period, no corporate governance breaches were reported. Equity Securities of the Issuer

4. Issuer's Securities

Structure of Share Capital

Ownership structure of share capital of Bank Zachodni WBK as at 31.12.2016 and 31.12.2015

Shareholder	Number of Shares Held		% in the Share Capital & Voting Power at AGM	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Banco Santander S.A.	68 880 774	68 880 774	69,41%	69,41%
Nationale Nederlanden OFE	5 110 586	5 110 586	5,15%	5,15%
Others	25 243 174	25 243 174	25,44%	25,44%
Total	99 234 534	99 234 534	100,0%	100,0%

According to information held by BZ WBK Management Board as at 31 December 2016, the shareholders holding at least 5% of the total number of votes at the BZ WBK General Meeting of Shareholders were Banco Santander and Nationale Nederlanden OFE with shareholdings of 69.41% and 5.15%, respectively.

Compared with 31 December 2015, there were no changes to the amount and structure of the share capital.

Structure of share capital of Bank Zachodni WBK as at 31.12.2016 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	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

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 a General Meeting of Shareholders. The nominal value is PLN 10 per share. All the shares issued have been fully paid up.

The bank did not issue any series of shares that would give their holders any special control rights towards the issuer 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 capital and voting power at a General Meeting of Shareholders of Bank Zachodni WBK.

5. Governing Bodies

General Meetings of Shareholders

Annual General Meeting of 2016

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 20 April 2016 (AGM) approved the following reports:

- unconsolidated and consolidated financial statements of the bank and BZ WBK Group for 2015;
- BZ WBK Supervisory Board's report on its activities in 2015 along with the assessment of the financial statements and reports of the bank and BZ WBK Group for 2015, and the remuneration policy.

The AGM granted discharge to members of the Management and Supervisory Boards for the performance of their duties in the previous year and agreed on the distribution of the net profit for 2015 and dividend payment for 2014 and 2015 (see section 2 of Chapter IX "Investor Relations"). The AGM also adopted the Policy on selection and suitability assessment of Supervisory Board members of Bank Zachodni WBK and set the maximum ratio between fixed and variable components of remuneration for persons holding managerial positions in BZ WBK Group. The 2016 Code of Best Practice for WSE Listed Companies issued by WSE was adopted and changes to the bank's statutes were approved.

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 the BZ WBK GM. The Statutes as well as the Terms of Reference are available on 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 attain votes on an individual basis, in alphabetical order.

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

Shareholders' Rights

The rights of 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, shareholders have the following rights with respect to the 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:
 - ✓ demand copies of requests included in the GM agenda one week before the GM;
 - ✓ have access to the GM's 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 equates to 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 through the method prescribed by the applicable law.

Supervisory Board

Below is the composition of the Bank Zachodni WBK Supervisory Board as at 31 December 2016 vs. 31 December 2015.

Role in the Supervisory Board	Ref.	Composition as at 31.12.2016	Ref.	Composition as at 31.12.2015
Chairman of the Supervisory Board:	1.	Gerry Byrne	1.	Gerry Byrne
	2.	Danuta Dąbrowska	2.	Danuta Dąbrowska
Members of the Supervisory Board:	3.	David R. Hexter	3.	David R. Hexter
	4.	José Garcia Cantera	4.	José Garcia Cantera
	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.	Marynika Woroszyńska-Sapieha
	10.	José Manuel Varela	10.	José Manuel Varela

There were no changes to the composition of the bank's Supervisory Board in the 12-month period ending 31 December 2016.

As at 31 December 2016, the following members of the Supervisory Board held independent status: Ms. Danuta Dąbrowska, Mr. David R. Hexter, Mr. Witold Jurcewicz, Mr. Jerzy Surma and Ms. Marynika Woroszyńska-Sapieha.

In the period from 1 January to 31 December 2016, eight Supervisory Board meetings were held at which 69 resolutions were passed.

Detailed information about the qualification, academic background and professional experience of the bank's Supervisory Board members can be found at the bank's website: <http://www.bzwbk.pl/relacje-inwestorskie/spolka/rada-nadzorcza/rada-nadzorcza.html>.

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 on 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 a 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 ongoing 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 vote. The Supervisory Board's meetings are held as and when required and at least three times in any financial year. The Supervisory Board's Members convene 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 at Bank Zachodni WBK: Audit and Compliance Committee, Risk 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.

		Supervisory Board Committees as at 31.12.2016			
Role in the Supervisory Board	Ref.	Composition as at 31.12.2016	Audit and Compliance Committee	Risk Committee	Nominations & Remuneration Committee
Chairman of the Supervisory Board:	1.	Gerry Byrne			●
	2.	Danuta Dąbrowska	●		●
	3.	David R. Hexter	●	●	
	4.	José Garcia Cantera			
	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 compliance of disclosure practices 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 Committee is responsible for providing a comprehensive opinion about the bank's current and prospective risk-bearing capacity. It examines and reviews the Management Board's risk management strategy, supports the Supervisory Board in supervising the process of implementing the risk management strategy by senior management and checks compliance of the bank's risk policy with its strategy and financial plan. The Risk Committee also checks if the bank's business model and risk strategy are duly reflected in the prices of liabilities and assets offered to customers. If the result is negative, it makes a proposal to the Management Board to ensure adequacy of asset and liability prices vis-à-vis different risk types.

The Audit and Compliance Committee and Risk Committee convene at least four times per year 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 with regard to the composition and succession plans for the Management Board. It monitors the remuneration market and recommends fair remuneration policies and practices in order that it may incentivise senior management to deliver better results. It defines the remuneration policy and the individual pay packages for Management Board members and performs annual reviews of the remuneration payable to Management and Supervisory Board members. The Committee also has oversight of the bonus scheme for Management Board members, and carries out analyses of incentive solutions and other remuneration schemes proposed for implementation at 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 an assessment of the Group's operations, including internal control and the risk management system, are included in materials submitted to shareholders before the General Meeting of Bank Zachodni WBK and published in current reports containing the resolutions passed by this body.

Management Board

The table below presents the composition of the Bank Zachodni WBK Management Board as at 31 December 2016 and the roles and responsibilities of its members.

Role in the Management Board	Ref.	Composition as at 31.12.2016	Reporting Areas as at 31.12.2016	Ref.	Composition as at 31.12.2015	Reporting Areas as at 31.12.2015
President	1.	Michał Gajewski ¹⁾	Units reporting directly to the President: Internal Audit Area, Corporate Communications & Marketing Area, Business Model Transformation Area, Board Office, Strategic Transformation Office	1.	Gerry Byrne ¹⁾	Units reporting directly to the President: Internal Audit Area, Corporate Communications & Marketing Area, Central Operations Area, Board Office
Board Members:	2.	Andrzej Burliga	Risk Management Division	2.	Andrzej Burliga	Risk Management Division
	3.	Eamonn Crowley	Financial Management Division	3.	Eamonn Crowley	Financial Management Division
	4.	acting Michał Gajewski	Business Partnership Division	4.	Beata Daszyńska-Muzyczka	Business Partnership Division
	5.	Michael McCarthy	Business & Corporate Banking Division	5.	Michael McCarthy	Business & Corporate Banking Division
	6.	Carlos Polaino Izquierdo	Financial Accounting & Control Division	6.	Carlos Polaino Izquierdo	Financial Accounting & Control Division
	7.	Juan de Porras Aguirre	Global Corporate Banking	7.	Juan de Porras Aguirre	Global Corporate Banking
	8.	Marcin Prell	Legal & Compliance Division	8.	Marcin Prell	Legal & Compliance Division
	9.	Miroslaw Skiba	Retail Banking Division	9.	Miroslaw Skiba	Retail Banking Division
	10.	Artur Chodacki	Small & Medium Enterprise Banking Division	10.	Feliks Szyszkowski	Small & Medium Enterprise Banking Division
	11.	Feliks Szyszkowski	Digital Transformation Division	11.	Paweł Wieczorek	Technology Division

1) Following resignation of Mateusz Morawiecki, the Chairman of the Supervisory Board performed duties of the President of the Management Board until the appointment of Mr. Michał Gajewski as the new President as of 29.11.2016.

In 2016, the membership of the Management Board changed as follows:

- Mr. Paweł Wieczorek resigned as the Management Board member in charge of the Technology Division as of 20 June 2016.
- On 22 June 2016, Mr. Artur Chodacki was appointed the Management Board member in charge of the SME Banking Division, replacing Mr. Feliks Szyszkowski, who was nominated as the Chief Digital Officer in charge of the Digital Transformation Division set up in place of the former Technology Division.
- Ms. Beata Daszyńska-Muzyczka resigned as the Management Board member in charge of the Business Partnership Division, effective from 31 October 2016.
- Mr. Michał Gajewski, who was appointed the President of the bank's Management Board on 16 May 2016, took up the position on 29 November 2016 following the expiry of his previous employment commitments. At the same time, the temporary mandate of Mr. Gerry Byrne as acting CEO expired.
- On 14 December 2016, Ms. Dorota Strojowska was appointed the Management Board member in charge of the Business Partnership Division. She will take office after the expiry of her current employment commitments (1 April 2017 at the latest). Until that time, the President of the Management Board will be in charge of the Business Partnership Division.

Detailed information about the qualifications, academic background and professional experience of the bank's Management Board members can be found at the bank's website: <http://www.bzwbk.pl/relacje-inwestorskie/spolka/zaradz/zaradz-banku-bz-wbksa.html>.

Appointment and Removal of Executives

Members of the Bank Zachodni WBK Management Board are appointed and removed in accordance with the Commercial Companies Code, 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's 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 a 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 General Meeting at any time.

Powers of Executives

The Bank Zachodni WBK Management Board manages and represents the bank. The Management Board possesses comprehensive powers that are not otherwise governed or stipulated by law or Statutes within the remit of other governing bodies of the bank.

The Management Board takes decisions to raise obligations or transfer assets where the 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 refer such decisions to other committees or persons in the bank. The Management Board's 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 or 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 Marketing and Monitoring Committee, Monitoring Committee and Public Policy Committee.

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

Role of the Management Board

The Management Board's 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 bank's affairs 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 (proxies) acting jointly. Representatives may be appointed and authorized to act individually or jointly with any of the persons indicated in b) or with another appointed and authorized representative.

The Management Board deals with all issues which have not been restricted to the remit of the General Meeting of Shareholders or the Supervisory Board. The Management Board takes decisions in the form of resolutions which are adopted by an absolute majority of votes in 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 vote. 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.

Remuneration of Management and Supervisory Boards

Remuneration of Supervisory Board Members

Pursuant to BZ WBK Statutes and Remuneration Policy for Supervisory Board members, the remuneration of the Supervisory Board is set by the General Meeting of Shareholders of Bank Zachodni WBK. As at 31 December 2016, the remuneration for BZ WBK Supervisory Board members was set by virtue of Resolution no. 28 of the General Meeting of Shareholders of Bank Zachodni WBK of 23 April 2015.

The table below presents the remuneration paid to BZ WBK Supervisory Board members in 2015 and 2016.

in PLN k

First and last name	Position	2016		2015	
		Period	PLN k	Period ³⁾	PLN k
Gerry Byrne ¹⁾	Chairman of the Supervisory Board	01.01.2016-31.12.2016	-	01.01.2015-31.12.2015	-
José García Canterera ¹⁾	Member of the Supervisory Board	01.01.2016-31.12.2016	-	23.04.2015-31.12.2015	-
José Antonio Álvarez ¹⁾	Member of the Supervisory Board			01.01.2015-05.02.2015	-
Danuta Dąbrowska	Member of the Supervisory Board	01.01.2016-31.12.2016	244	01.01.2015-31.12.2015	202
Witold Jurcewicz	Member of the Supervisory Board	01.01.2016-31.12.2016	247	01.01.2015-31.12.2015	208
José Luis de Mora ¹⁾	Member of the Supervisory Board	01.01.2016-31.12.2016	-	01.01.2015-31.12.2015	-
David Hexter	Member of the Supervisory Board	01.01.2016-31.12.2016	275	01.01.2015-31.12.2015	251
John Power ²⁾	Member of the Supervisory Board	01.01.2016-31.12.2016	303	01.01.2015-31.12.2015	298
Jerzy Surma	Member of the Supervisory Board	01.01.2016-31.12.2016	256	01.01.2015-31.12.2015	216
Marynika Worozylska-Sapieha	Member of the Supervisory Board	01.01.2016-31.12.2016	194	01.01.2015-31.12.2015	172
José Manuel Varela	Member of the Supervisory Board	01.01.2016-31.12.2016	193	01.01.2015-31.12.2015	188

1) Mr. Gerry Byrne, Mr. José García Canterera, Mr. José Antonio Álvarez and Mr. José Luis de Mora did not receive remuneration for their membership of the Supervisory Board.

2) In 2015, Mr. John Power received additional remuneration of PLN 1,050.3k for the supervision of the merger between BZ WBK and Kredyt Bank on behalf of the Supervisory Board.

3) In 2015, the composition of the Supervisory Board changed as follows: Mr. José Antonio Álvarez resigned as of 5 February 2015 due to his nomination as the CEO of Banco Santander, and Mr. José García Canterera was appointed a new member under the resolution of the General Meeting of Shareholders of 23 April 2015.

Except for Mr. John Power, no other Supervisory Board member sat on the boards of the subsidiaries or associates of Bank Zachodni WBK. In 2016, the remuneration for Mr. John Power in respect of his membership in the Supervisory Boards of the subsidiaries totalled PLN 35k (PLN 31k in 2015).

Remuneration of Management Board members

Agreements between Bank Zachodni WBK and its Executives

The Management Board's members signed employment contracts with Bank Zachodni WBK for the current term of office. The terms and conditions of employment comply with general laws and internal regulations, including the Remuneration Policy for BZ WBK Management Board members and the Policy on variable components of remuneration paid to individuals holding managerial positions in Bank Zachodni WBK Group.

BZ WBK Management Board members also signed agreements prohibiting competitive activity after termination of their employment with Bank Zachodni WBK.

A Management Board member who is not appointed for a new term of office or is removed from the Board is entitled to one-off severance pay. It does not apply to Management Board members who accept a new role in the bank, are removed due to gross negligence, resign or are not granted discharge.

Fixed Remuneration

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 Committee establishes a remuneration policy for Management Board members and individual terms and conditions as part of remuneration packages for each Management Board member.

The table below presents the total remuneration and additional benefits received by BZ WBK Management Board members in 2015 and 2016 for their membership in the Management Board.

in PLN k

First and last name	Position	2016			2015		
		Period ¹⁾	Remuneration (PLN k)	Additional benefits ³⁾ (PLN k)	Period ²⁾	Remuneration (PLN k)	Additional benefits ³⁾ (PLN k)
Michał Gajewski	President of the Management Board	29.11.2016-31.12.2016	176	6			
Mateusz Morawiecki	President of the Management Board				01.01.2015-09.11.2015	1 618	95
Andrzej Burliga	Member of the Management Board	01.01.2016-31.12.2016	1 012	95	01.01.2015-31.12.2015	1 013	110
Artur Chodacki	Member of the Management Board	22.06.2016-31.12.2016	316	29		0	0
Eamonn Crowley	Member of the Management Board	01.01.2016-31.12.2016	1 004	9	01.01.2015-31.12.2015	989	39
Beata Daszyńska-Muzyczka	Member of the Management Board	01.01.2016-31.10.2016	637	126	23.04.2015-31.12.2015	494	15
Michael McCarthy	Member of the Management Board	01.01.2016-31.12.2016	1 161	21	01.01.2015-31.12.2015	1 146	45
Piotr Partyga	Member of the Management Board				01.01.2015-23.04.2015	321	34
Carlos Polaino Izquierdo	Member of the Management Board	01.01.2016-31.12.2016	1 319	226	23.04.2015-31.12.2015	924	221
Juan de Porras Aguirre	Member of the Management Board	01.01.2016-31.12.2016	1 221	55	01.01.2015-31.12.2015	1 221	43
Marcin Prell	Member of the Management Board	01.01.2016-31.12.2016	912	94	01.01.2015-31.12.2015	912	96
Marco Antonio Silva Rojas	Member of the Management Board				01.01.2015-23.04.2015	545	28
Miroslaw Skiba	Member of the Management Board	01.01.2016-31.12.2016	1 032	93	01.01.2015-31.12.2015	1 033	102
Feliks Szyzkowski	Member of the Management Board	01.01.2016-31.12.2016	1 032	94	01.01.2015-31.12.2015	1 032	95
Paweł Wieczorek	Member of the Management Board	01.01.2016-20.06.2016	339	44	23.04.2015-31.12.2015	497	54

1) Changes to the composition of the Management Board in 2016 are presented in "Governing Bodies".

2) In 2015, the composition of the Management Board changed as follows: Mr. Carlos Polaino Izquierdo, Ms. Beata Daszyńska-Muzyczka and Mr. Paweł Wieczorek were appointed new members on 23 April 2016, whereas Mr. Marco Antonio Silva Rojas and Mr. Piotr Partyga ceased to be the members as their term in office expired. Furthermore, on 9 November 2015, Mr. Mateusz Morawiecki resigned as the President of the Management Board to take up a position in the public service.

3) Additional benefits received by the Management Board members include, among other things, life insurance cover without pension option and, in case of Mr. Juan de Porras Aguirre, Mr. Marco Antonio Silva Rojas and Mr. Carlos Polaino Izquierdo also medical cover, accommodation, travel expenses and school fees.

In 2016, Management Board members were paid an allowance of PLN 199k in lieu of annual leave (PLN 1,056.3k in 2015).

In both periods, no Management Board member received remuneration for their membership in the governing bodies of the subsidiaries or associates.

In 2016, Mr. Paweł Wieczorek and Mrs. Beata Daszyńska-Muzyczka received PLN 708k and PLN 384k, respectively, in relation to the termination of their employment contracts and the non-competition clause. In 2015, Mr. Piotr Partyga received PLN 1,108.3k in this respect.

Awards Paid

The Policy on variable components of remuneration paid to individuals holding managerial positions in BZ WBK Group applies to Management Board members and other persons whose professional activity has a material impact on the bank's risk profile. The Policy has been adopted by the Management Board and approved by the Supervisory Board. It is reviewed annually or more frequently, if need be (e.g. if any significant organisational changes take place).

Management Board members are paid variable remuneration once a year following the end of the settlement period and release of the bank's results. Variable remuneration is awarded in accordance with the applicable bonus regulations for the Management Board members (adopted by virtue of the Supervisory Board's resolution), which set out the principles for determination of a bonus and a bonus pool depending on the achievement of business and financial objectives. The above principles have been defined in accordance with KNF resolution no. 258/2011 re. variable components of remuneration paid to persons holding managerial positions. The total variable remuneration paid to Management Board members and key managers for a given calendar year cannot exceed 200% of the total fixed remuneration paid.

Variable remuneration is awarded in accordance with bonus regulations and paid in cash and phantom stock. The latter shall represent min. 50% of the total amount of variable remuneration. Payment of min. 40% of variable remuneration is conditional and deferred for the period of three years (13.3% per annum). It is paid in arrears in equal annual instalments depending on the individual performance in the analysed period and the value of the phantom stock.

The table below presents awards paid to the Management Board members in 2016 and 2015.

in PLN k

First and last name	Position	2016 ¹⁾		2015 ²⁾	
		Period (PLN k)	Benefits	Period (PLN k)	Benefits
Michał Gajewski	President of the Management Board	29.11.2016-31.12.2016			
Mateusz Morawiecki	President of the Management Board			01.01.2015-09.11.2015	1 358
Andrzej Burliga	Member of the Management Board	01.01.2016-31.12.2016	888	01.01.2015-31.12.2015	609
Artur Chodacki	Member of the Management Board	22.06.2016-31.12.2016			
Eamonn Crowley	Member of the Management Board	01.01.2016-31.12.2016	843	01.01.2015-31.12.2015	577
Beata Daszyńska-Muzyczka	Member of the Management Board	01.01.2016-31.10.2016	200	23.04.2015-31.12.2015	-
Michael McCarthy	Member of the Management Board	01.01.2016-31.12.2016	874	01.01.2015-31.12.2015	578
Piotr Partyga	Member of the Management Board			01.01.2015-23.04.2015	405
Carlos Polaino Izquierdo	Member of the Management Board	01.01.2016-31.12.2016	243	23.04.2015-31.12.2015	-
Juan de Porras Aguirre	Member of the Management Board	01.01.2016-31.12.2016	1 047	01.01.2015-31.12.2015	688
Marcin Prell	Member of the Management Board	01.01.2016-31.12.2016	707	01.01.2015-31.12.2015	467
Marco Antonio Silva Rojas	Member of the Management Board			01.01.2015-23.04.2015	438
Mirosław Skiba	Member of the Management Board	01.01.2016-31.12.2016	955	01.01.2015-31.12.2015	678
Feliks Szyszkowiak	Member of the Management Board	01.01.2016-31.12.2016	953	01.01.2015-31.12.2015	677
Paweł Wieczorek	Member of the Management Board	01.01.2016-20.06.2016	200	23.04.2015-31.12.2015	-

1) The awards paid in 2016 include part of the award for 2015, 2014 and 2013 which was conditional and deferred in time.

2) The awards paid in 2015 include part of the award for 2014, 2013 and 2012.

Pursuant to the remuneration system applicable at the bank, Management Board members may be conditionally entitled to a bonus for 2016 which would be paid in part in 2017 and thereafter, if specific criteria are met. As at the date of these financial statements, the Supervisory Board did not take a decision in this respect.

Performance Share Programme

As at 31 December 2016, Bank Zachodni WBK delivered a three-year 5th Incentive Scheme which had been introduced by the Extraordinary General Meeting of 30 June 2014 in relation to bank and subsidiary employees that have a key contribution to the value of the organisation. The main objective of the programme is to retain and motivate top-performing executives.

The Incentive Scheme covers no more than 500 key employees of Bank Zachodni WBK Group indicated by the Management Board and approved by the Supervisory Board, inclusive of all the Management Board members. Having executed an agreement with the bank, the participants are eligible to subscribe for and acquire a definite number of shares at the nominal value of PLN 10 each provided that certain economic criteria are met. For the award to be granted, the bank must achieve a stated net profit growth rate in 2014-2016. Persons who are covered by the EU's regulations on variable remuneration components and have a significant impact on the risk profile of the Group are additionally required to achieve a stated RoRWA ratio in the respective years of the programme. For the purpose of the scheme, the bank will issue up to 250,000 performance shares.

The three-year long 5th Incentive Scheme is monitored on a monthly basis to verify if any employees have lost their participant status. The usual reason for the loss of such status is termination of employment, either with the bank or another entity of BZ WBK Group. Furthermore, the underlying financial ratios are monitored in cooperation with the Financial Accounting and Control Division.

Shares and Conditional Rights held by Supervisory and Management Board Members

As at the release dates of the Annual Reports of Bank Zachodni WBK Group for 2016 and 2015, respectively, none of the members of the Supervisory Board held any Bank Zachodni WBK shares or attached conditional rights.

The table below represents Bank Zachodni WBK shares and attached conditional rights held by the Management Board members as at 31 December 2015 and 31 December 2016.

Management Board Members	17.02.2017		12.02.2016	
	No. of BZ WBK shares	Rights	No. of BZ WBK shares	Rights
Michał Gajewski ¹⁾	-	-	-	-
Andrzej Burliga	3 000	2 204	4 888	2 204
Artur Chodacki ¹⁾	-	1 253	-	-
Eamonn Crowley	-	2 094	-	2 094
Beata Daszyńska-Muzyczka ¹⁾	-	-	923	700
Michael McCarthy	-	2 424	1 075	2 424
Carlos Polaino Izquierdo	-	1 000	-	1 000
Juan de Porras Aguirre	-	2 217	-	2 217
Marcin Prell	-	1 983	-	1 983
Mirosław Skiba	1 057	2 248	3 257	2 248
Feliks Szyszkowiak	204	2 248	3 704	2 248
Paweł Wieczorek ¹⁾	-	-	-	800
Total	4 261	17 671	13 847	17 918

1) Changes in the composition of the Management Board have been described in detail above in the section "Governing bodies".

The Relationship between the remuneration paid to Management Board members and key managers and long-term business and financial objectives of the company

The BZ WBK Policy on variable components of remuneration paid to material risk takers is connected with strategic goals, short- and long-term operational objectives and the performance of the company.

Variable remuneration is awarded to key managers of Bank Zachodni WBK on the basis of an assessment of individual performance and business results of the bank in the area of responsibility of a given person, taking into account the bank's business cycle and risk arising from its operations. The assessment is made as part of the performance review system applicable at the bank.

In addition to financial ratios, the annual objectives of the bank's Management Board include qualitative (customer satisfaction, employee engagement) and risk metrics which reflect the sustainable management strategy. The objectives are described in detail in the balanced scorecard. They are communicated at the beginning of the year and monitored accordingly.

Pursuant to the policy on variable components of remuneration, min. 40% of variable remuneration to executives is deferred for the period of three years and paid in three equal annual instalments, unless there are reasons for reduction or non-payment. Furthermore, min. 50% of remuneration is paid in the form of phantom stock based on the bank's shares.

In addition, Management Board members and executives may receive awards under long-term incentive schemes (and take up the bank's shares at their nominal value). The above-mentioned schemes set out in detail the economic criteria that must be met for an award to be granted (i.e. objective criteria reflecting the bank's performance) and the right of the bank's Supervisory Board to change the terms and conditions of the incentive scheme, e.g. in the event of any substantial deterioration of the financial standing or the risk profile.

Other Transactions with the Bank's Executives

Loans and Advances

Loans and advances granted by Bank Zachodni WBK to the bank's executives and their relatives totalled PLN 7,158k as at 31 December 2016 vs. PLN 5,160k as at 31 December 2015. These facilities were sanctioned on the regular terms and conditions.

Deposits placed with Bank Zachodni WBK by the bank's executives and their relatives totalled PLN 13 312k as at 31 December 2016 vs 16 091k as at 31 December 2015 r.

As at 31 December 2016 and 31 December 2015, the balance of lease facilities and Social Fund loans and advances granted to the bank's Management Board members was nil.

Provisions for Employee Benefits

Provisions for employee benefits disclosed in Note 50 of “Consolidated financial statement of Bank Zachodni WBK Group for 2016” include the following amounts related to members of the bank’s Management Board:

Provisions for liabilities to employees for the Management Board Members	in PLN k	
	2016	2015
Provision for pension - disability pension	17	16
Provision for unused holidays	567	852

6. Diversity Policy

Diversity Policy at Bank Zachodni WBK

For many years now, Bank Zachodni WBK has been committed to promoting diversity in accordance with best practice and ensuring equal treatment of employees regardless of their gender, age, disability, race, religion or belief, national or ethnic origin, political beliefs, trade union membership or sexual orientation.

In the BZ WBK Sustainability (CSR) Policy adopted in June 2016, the bank’s Management Board undertook to observe the following general principles in their relationship with employees:

- to respect diversity and prevent discrimination because of gender, race, age or on any other grounds;
- to encourage equal opportunities among employees, aspiring to have a balanced representation between men and women in all functions and responsibilities.

The above policy is complemented by the BZ WBK Human Rights Policy, which establishes a set of principles regarding the relationships with various stakeholders, including equal access to employment and promotion, and protection against discrimination based on age, gender, race, religion, origin, marital status or financial situation. Furthermore, the bank is committed to preventing and eliminating disrespect and abuse in the work environment.

Aspects such as respect for individuality, promotion of equal treatment and the prevention of discrimination have been addressed by a number of policies and procedures applicable at the bank. Most importantly, they have become an element of the bank’s day-to-day activities and are applied at each stage of the employee lifecycle, starting from recruitment and throughout each employee’s time with the organisation (terms of employment, access to training and development initiatives, promotion opportunities) to the termination of employment with the bank.

The bank is in the process of developing a uniform diversity policy which will address all key aspects.

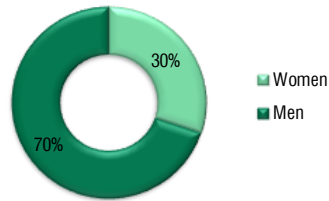
Respect for diversity is also ensured among Management Board members and senior executives. They include people of different gender, age, experience and educational background.

Sex	Women	Men
Supervisory Board	2	8
Management Board	-	10
Key Managers	35	68

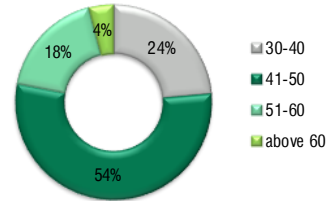
Age	30-40	41-50	51-60	60 and over
Supervisory Board	-	-	6	4
Management Board	-	6	4	0
Key Managers	29	61	12	1

Years of employment with BZ WBK	up to 5	5-10	10-15	15-20	20-25	25 and over
Supervisory Board	5	3	-	2	-	-
Management Board	1	3	1	1	4	-
Key Managers	15	15	18	23	27	5

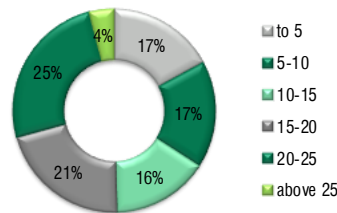
Sex of supervising staff and key executives of BZ WBK Group



Age of supervising staff and key executives of BZ WBK Group



Work experience of supervising staff and key executives of BZ WBK Group



Percentage of Women on the Management and Supervisory Boards

Bank Zachodni WBK makes every effort to ensure a gender balance in the representation of men and women appointed to its Management and Supervisory Boards. The Appointment and Succession Policy for Management Board members and key function holders in Bank Zachodni WBK adopted in 2015 ensures the continuity of business processes, while reflecting the bank’s ambition to achieve the best possible balance of gender, knowledge, skills and experience.

As at 31 December 2016, there were two women on the bank’s Supervisory Board: Ms. Danuta Dąbrowska and Ms. Marynika Woroszyńska-Sapieha. There were temporarily no female members on the Management Board after Ms. Beata Daszyńska-Muzyczka resigned on 28 October 2016 as a Management Board member in charge of the Business Partnership Division. She will be replaced by Ms. Dorota Strojowska who was appointed a Management Board member as of 14 December 2016 and will take up the position after fulfilment of her existing employment commitments.

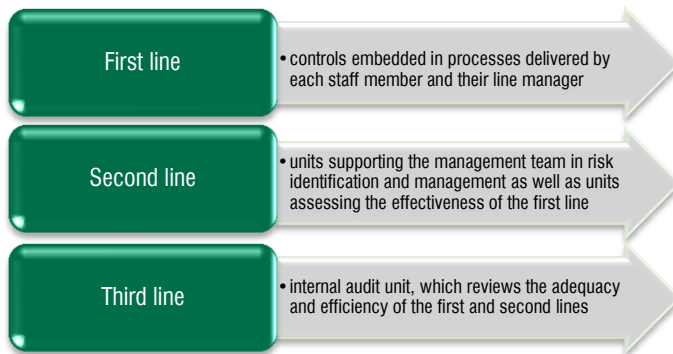
7. Control System of Financial Statements

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, the reliability of financial reporting and compliance with laws, international standards, internal regulations and best practice. The internal control system is tailored to the Group’s 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 are 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 internal control and lists related roles and responsibilities. In particular, 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 an 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, tasks, organizational units and activities.

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



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 the 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 the 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.

In order to manage risk associated with the preparation of financial statements, the bank follows legal and regulatory changes related to reporting obligations 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 before they are released.

The bank's management confirms that the controls in place effectively mitigate the risk of any failure to identify any material error 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 above-mentioned act.

The certification process for compliance with the Sarbanes-Oxley Act in 2016 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.

In view of the requirements arising from external regulations, Bank Zachodni WBK took measures to adjust the internal control system to satisfy the Volcker Rule (section 619 of Dodd-Frank Wall Street Reform and Consumer Protection Act) and ensure compliance with RDA/RRF (Basel Committee on Banking Supervision 239: Principles for effective risk data aggregation and risk reporting).

The assessment of the design and effectiveness of the internal control system covers all available information and related recommendations, including those concerning audit and post-inspection. Results of assessments and tests form 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 2016, 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 over financial reporting.

Auditor

Selection of External Auditor

In accordance with § 32 (10) of the Statutes of Bank Zachodni WBK, applicable regulations and industry practice, in 2016, the bank's Supervisory Board passed a resolution appointing PricewaterhouseCoopers Polska as the entity to review and audit the bank's unconsolidated and consolidated financial statements for the first half and the entire year 2016. The bank signed agreements with PricewaterhouseCoopers Polska for the terms required to carry out the specified work.

The bank also contracted PricewaterhouseCoopers Polska and other companies from PricewaterhouseCoopers 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 for both 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, i.e. from three to nine years, commencing with the beginning of the first financial year.

Remuneration of External Auditor

The table below shows the remuneration paid to PricewaterhouseCoopers Polska in 2016 and Deloitte Polska in 2015 for audit/review of the financial statements of Bank Zachodni WBK Group pursuant to concluded agreements.

PLN k

Remuneration of External Auditors	Reporting Year ended on 31.12.2016	Reporting Year ended on 31.12.2015
Audit fees in respect of the parent bank ¹⁾	2 350	1 544
Audit fees in respect of the subsidiaries ²⁾	1 659	1 161
Audit fees related to assurance services, including the review of the parent bank and subsidiaries ¹⁾	908	2 693
Fees for non-assurance services ¹⁾	865	320

1) Remuneration for services performed in 2016 based on the agreement with BZ WBK on review and audit of financial statements as of 23 July 2016 and an annex as of 16 November 2016.

8. Pending Court Proceedings

As at 31 December 2016, no case was pending before any court or state administration agencies with regard to any claims made by or against Bank Zachodni WBK 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	31.12.2016	31.12.2015
Amounts claimed by the Group	518,3	256,5
Claims against the Group	221,6	211,8
Receivables due to bankruptcy or arrangement cases	40,9	15,2
Value of all litigation	780,8	483,5
Share [%] of all litigation in equity	3,7%	2,4%
Completed significant court proceedings	451,7	80,0

A significant increase in the value of the claim brought by the Group results from the abrogation of the laws pertaining to the banking writs of execution and the need to refer to the court any unpaid receivables of the bank under ordinary proceedings or proceedings by writ of payment.