

20-04-2016

## **Re. Resolutions of the Annual General Meeting of BZ WBK Shareholders**

Current report no. 15/2016

Bank Zachodni WBK S.A. hereby announces the contents of the resolutions adopted by the Annual General Meeting on 20<sup>th</sup> April 2016.

AGM Agenda:

1. Opening of the General Meeting.
2. Electing the Chairman of the General Meeting.
3. Establishing whether the General Meeting has been duly convened and has the capacity to adopt resolutions.
4. Adopting the agenda for the General Meeting.
5. Reviewing and approving the Management Board's report on the Bank's Zachodni WBK S.A. activities and the Bank's Zachodni WBK S.A. financial statements for 2015.
6. Reviewing and approving the Management Board's report on the BZ WBK Group activities and the consolidated financial statements of the BZ WBK Group for 2015.
7. Adopting resolutions on distribution of profit, the dividend day and dividend payment date.
8. Giving discharge to the members of the Bank Zachodni WBK S.A. Management Board.
9. Reviewing and approving the Supervisory Board's report on its activities in 2015 and the Supervisory Board's report on the assessment of the financial statements of the Bank and the BZ WBK Group as well as the reports on the Bank's and the BZ WBK Group's activities; and applicable remuneration policy assessment.
10. Giving discharge to the members of the Bank Zachodni WBK S.A. Supervisory Board.
11. Amendments to the Bank's Statutes.
12. Determining the maximum level of the ratio between the fixed and variable components of remuneration of the individuals holding management positions with Bank Zachodni WBK Group.
13. Adopting the "Policy on selection and suitability assessment of Supervisory Board Members of Bank Zachodni WBK S.A.".
14. Adoption of the "Best Practice for WSE Listed Companies 2016".
15. Closing the General Meeting.

*re: item 2 of the agenda*

**RESOLUTION NO. 1 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**re. appointing Chairman of the Meeting**

§ 1

Annual General Meeting shall elect the Chairman of the Meeting in the person of Mr Radosław Kwaśnicki.

§ 2

This resolution shall come into force on the day of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,256,564 were in favor of the resolution, 0 abstained and 0 were against.**

*re: item 4 of the agenda*

**RESOLUTION NO. 2 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**re. adopting the meeting's agenda**

**§ 1**

Annual General Meeting shall adopt the following agenda of the meeting:

1. Opening of the General Meeting.
2. Electing the Chairman of the General Meeting.
3. Establishing whether the General Meeting has been duly convened and has the capacity to adopt resolutions.
4. Adopting the agenda for the General Meeting.
5. Reviewing and approving the Management Board's report on the Bank's Zachodni WBK S.A. activities and the Bank's Zachodni WBK S.A. financial statements for 2015.
6. Reviewing and approving the Management Board's report on the BZ WBK Group activities and the consolidated financial statements of the BZ WBK Group for 2015.
7. Adopting resolutions on distribution of profit, the dividend day and dividend payment date.
8. Giving discharge to the members of the Bank Zachodni WBK S.A. Management Board.
9. Reviewing and approving the Supervisory Board's report on its activities in 2015 and the Supervisory Board's report on the assessment of the financial statements of the Bank and the BZ WBK Group as well as the reports on the Bank's and the BZ WBK Group's activities; and applicable remuneration policy assessment.
10. Giving discharge to the members of the Bank Zachodni WBK S.A. Supervisory Board.
11. Amendments to the Bank's Statutes.
12. Determining the maximum level of the ratio between the fixed and variable components of remuneration of the individuals holding management positions with Bank Zachodni WBK Group.
13. Adopting the "Policy on selection and suitability assessment of Supervisory Board Members of Bank Zachodni WBK S.A.".
14. Adoption of the "Best Practice for WSE Listed Companies 2016".
15. Closing the General Meeting.

**§ 2**

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,256,564 were in favor of the resolution, 0 abstained and 0 were against.**

*re: item 5 of the agenda*

**RESOLUTION NO. 3 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**re.: approval of Bank Zachodni WBK S.A. Management Board report on the Bank's  
performance and the Bank's financial statements for 2015**

Pursuant to art. 393 point 1 and art. 395 §2 point 1 of the Commercial Companies Code, the following is hereby resolved:

§ 1

The General Meeting of Shareholders has considered and hereby approves the following documents submitted by the Bank's Management Board:

- a) financial statements of Bank Zachodni WBK S.A. seated in Wrocław for the period beginning on the first day of January of the year two thousand and fifteen /1.01.2015/ and finishing on the thirty first day of December of the year two thousand and fifteen /31.12.2015/, including:
- statement of financial position prepared as at the thirty first of December two thousand and fifteen /31.12.2015/ which on the assets and liabilities side shows the amount of PLN 125 477 589 k,
  - income statement for the accounting year from the first of January two thousand and fifteen /1.01.2015/ until the thirty first of December two thousand and fifteen /31.12.2015/ which shows profit-after-tax in the amount of PLN 1 756 210 k,
  - statement of comprehensive income for the accounting year from the first of January two thousand and fifteen /1.01.2015/ until the thirty first of December two thousand and fifteen /31.12.2015/ which shows total comprehensive income in the amount of PLN 1 578 362 k,
  - statement of cash flows for the accounting year from the first of January two thousand and fifteen /1.01.2015/ until the thirty first of December two thousand and fifteen /31.12.2015/ which shows a decrease of PLN (383 623) k in the net cash balance,
  - movements in the equity showing as at the thirty first of December two thousand and fifteen /31.12.2015/ the equity of PLN 18 709 129 k,
  - explanatory notes;
- b) Management Board report on Bank Zachodni WBK performance in 2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,256,564 were in favor of the resolution, 0 abstained and 0 were against.**

*re: item 6 of the agenda*

**RESOLUTION NO. 4 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**re. approval of the Consolidated Financial Statements of Bank Zachodni WBK Group for the year 2015 and the Report on Bank Zachodni WBK Group Performance in the year 2015**

Pursuant to art. 395 § 5 of the Commercial Companies Code, the following is hereby resolved:

§ 1

Annual General Meeting of Shareholders of Bank Zachodni WBK S.A. has reviewed and hereby approves the following documents submitted by the Bank's Management Board:

- a) consolidated financial statements of Bank Zachodni WBK Group for the period beginning on the first day of January of the year two thousand and fifteen /1.01.2015/ until the thirty first day of December of the year two thousand and fifteen /31.12.2015/, including:
- consolidated statement of financial position prepared as at the thirty first of December two thousand and fifteen /31.12.2015/ which on the assets and liabilities side shows the amount of PLN 139 708 700 k,
  - consolidated profit and loss account for the accounting year from the first of January two thousand and fifteen /1.01.2015/ until the thirty first of December two thousand and fifteen /31.12.2015/ which shows profit-after-tax in the amount of PLN 2 534 551 k (of which PLN 207 278 k is attributable to non-controlling interests),
  - consolidated statement of comprehensive income for the accounting year from the first of January two thousand and fifteen /1.01.2015/ until the thirty first of December two thousand and fifteen /31.12.2015/ which shows total comprehensive income in the amount of PLN 2 365 390 k (of which PLN 212 749 k is attributable to non-controlling interests),
  - consolidated statement of cash flows for the accounting year from the first of January two thousand and fifteen /1.01.2015/ until the thirty first of December two thousand and fifteen /31.12.2015/ which shows the decrease in net cash balance of PLN (853 283) k,
  - movements in consolidated equity showing as at the thirty first of December two thousand and fifteen /31.12.2015/ the amount of PLN 20 568 130 k,
  - explanatory notes;
- b) Management Board report on Bank Zachodni WBK Group Performance in 2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,256,564 were in favor of the resolution, 0 abstained and 0 were against.**

**re: item 7 of the agenda**

**RESOLUTION NO. 5 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**re: profit distribution, dividend registration day and dividend payment day**

Pursuant to art. 348 §3 and 395 §2 point 2 of the Commercial Companies Code, the following is hereby resolved:

§ 1

1. Annual General Meeting has divided the net profit generated by Bank Zachodni WBK S.A. ("the Bank) in the accounting year commenced on 01.01.2015 and ended on 31.12.2015 in the amount of PLN 1,756,210,107.36 in the following way:
  - PLN 702,484,042.94 shall be allocated to the dividend for shareholders,
  - PLN 878,105,053.68 shall be allocated to the reserve capital,
  - PLN 175,621,010.74 shall be left undivided.
2. General Meeting of Shareholders allocated to the dividend for shareholders, the amount PLN 587,564,899.06 from retained profit in the amount of PLN 952,651,526.40 generated by the Bank in the accounting year commenced on 01.01.2014 and ended on 31.12.2014. The remaining part PLN 365,086,627.34 shall be left undivided.
3. The number of shares eligible for the dividend is 99,234,534 (say: ninety nine million two hundred thirty four thousand five hundred and thirty four) series A, B, C, D, E, F, G, H, I, J, K and L.

Dividend per share is PLN 13.

The dividend will be paid to the shareholders eligible as at the end of the dividend registration day.

The dividend registration day is 29<sup>th</sup> April 2016.

The dividend will be paid on 16<sup>th</sup> May 2016.

§ 2

The resolution becomes effective as of the date of its adoption.

**Bank's Management Board recommendation regarding proposed dividend payment.**

The following are arguments to support the notified proposals, i.e. paying dividends from the undistributed net profit of the Bank for the year 2014 representing 29.5% of the annual profit of 2014 and the allocation to the dividend payment of 40% of net profit from 2015.

The Management Board would like to present following arguments, supporting this proposal.

The following indicators achieved on the day 31.12.2015 confirm the good capital standing of the Bank and the Group of Bank Zachodni WBK S.A.

Tier I capital ratio of the Bank	15,40%
Total capital ratio TCR of the Bank	15,80%
Tier I capital ratio of the Group	14,10%
Total capital ratio TCR of the Group	14,62%

Capital ratios on an individual and consolidated basis are above the minimum capital ratios resulting from decisions and recommendations of Polish Financial Supervision Authority (PFSA).

The Management Boards considers that:

- 1) level of retained profits is sufficient to conduct the strategy of the Bank/Group and provides adequate balance between efficient capital utilisation and growth.
- 2) accumulated capital base reflects prudent approach to acceptable risk level associated to current and future Bank business and ensuring safeness of placed deposits.
- 3) The Bank fulfils the recommendations issued by the Polish Financial Supervision Authority of 15<sup>th</sup> December 2015 on the principles of the dividend policy of banks in 2016 and the individual recommendations issued on 10<sup>th</sup> March 2016 for Bank Zachodni WBK S.A.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,256,564 were in favor of the resolution, 0 abstained and 0 were against.**

*re: item 8 of the agenda*

**RESOLUTION NO. 6 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the President of the Management Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§ 1

Mr. Mateusz Morawiecki, the Management Board President, is granted the word of approval for performance of his duties in the period from 1.01.2015 to 9.11.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 7 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Management Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§ 1

Mr. Andrzej Burliga, the Management Board Member, is granted the word of approval for performance of his duties in the period from 1.01.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 8 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Management Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§1

Mr. Michael McCarthy, the member of the Management Board, is granted the word of approval for performance of his duties in the period from 1.01.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 9 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Management Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§ 1

Mr. Eamonn Crowley, the Management Board Member, is granted the word of approval for performance of his duties in the period from 1.01.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 10 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Management Board for performance of her duties**

Pursuant to art. 395 §2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§1

Ms. Beata Daszyńska-Muzyczka, the member of the Management Board, is granted the word of approval for performance of her duties in the period from 23.04.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 11 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Management Board for performance of his duties**

Pursuant to art. 395 §2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§1

Mr. Piotr Partyga, the member of the Management Board, is granted the word of approval for performance of his duties in the period from 1.01.2015 to 23.04.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 12 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Management Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§1

Mr. Juan de Porras Aguirre, the member of the Management Board, is granted the word of approval for performance of his duties in the period from 1.01.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 13 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Management Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§1

Mr. Marcin Prell, the member of the Management Board, is granted the word of approval for performance of his duties in the period from 1.01.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 14 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Management Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§1

Mr. Carlos Polaino Izquierdo, the member of the Management Board, is granted the word of approval for performance of his duties in the period from 23.04.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 15 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Management Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§1

Mr. Marco Antonio Silva Rojas, the member of the Management Board, is granted the word of approval for performance of his duties in the period from 1.01.2015 to 23.04.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 16 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Management Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§ 1

Mr. Mirosław Skiba, the Management Board Member, is granted the word of approval for performance of his duties in the period from 1.01.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 17 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Management Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§1

Mr. Feliks Szyszkowiak, the member of the Management Board, is granted the word of approval for performance of his duties in the period from 1.01.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 18 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Management Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§1

Mr. Paweł Wieczorek, the member of the Management Board, is granted the word of approval for performance of his duties in the period from 23.04.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

*re: item 9 of the agenda*

**RESOLUTION NO. 19 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on approval of the Supervisory Board reports and remuneration policy assessment**

Pursuant to art. 382 §3 and 395 §5 of the Commercial Companies Code, item II.Z.10.3 of the Best Practice for Warsaw Stock Exchange S.A. (Giełda Papierów Wartościowych w Warszawie S.A.) Listed Companies 2016 and § 27, § 28 clause 3 and 4 of the Corporate Governance Rules for Supervised Institutions, the following is hereby resolved:

§ 1

Approval is given for the BZ WBK Supervisory Board's report on its activities in the period from 1.01.2015 to 31.12.2015, report on the examination of: BZ WBK financial statements for 2015; consolidated financial statements of the BZ WBK Group for 2015; report on BZ WBK operations, report on the BZ WBK Group operations and the Management Board's motion concerning distribution of profit earned in 2015; the BZ WBK Supervisory Board's assessment of the BZ WBK Group's operations in 2015; and also adoption of: the Supervisory Board assessment of the Bank's manner of fulfilling disclosure requirements with regard to the corporate governance rules set out in the Warsaw Stock Exchange Rules and regulations pertaining to current and periodic information published by issuers of securities and (viii) the Supervisory Board evaluation results of applying the Corporate Governance Rules for Supervised Institutions is made (Appendix hereto).

§ 2

1. Supervisory Board of Bank Zachodni WBK S.A. report on assessment of the operation of the remuneration policy which consists of: Remuneration Policy for BZ WBK Supervisory Board Members, Remuneration Policy for BZ WBK Management Board Members, Remuneration Policy for individuals holding managerial positions in Bank Zachodni WBK and Policy on variable components of remuneration paid to individuals holding managerial positions in BZ WBK Group is included in the appendix to this resolution referred to in § 1.
2. Annual General Meeting shall make positive evaluation of remuneration policy indicated in clause 1.

§ 3

The resolution becomes effective as of the date of its adoption.

**Appendix:**

**Bank Zachodni WBK**

 **Grupa Santander**

Supervisory Board

**REPORT  
ON THE SUPERVISORY BOARD ACTIVITY IN 2015**

**Warsaw, March 2016**

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## **I. ACTIVITIES OF THE SUPERVISORY BOARD OF BANK ZACHODNI WBK S.A. IN 2015**

### **1. BOARD COMPOSITION; DISCHARGE OF DUTIES AND RESPONSIBILITIES**

1.1. As at 1 January 2015, the Supervisory Board (SB) had the following composition:

- Supervisory Board Chairman - Mr Gerry Byrne
- Deputy Chairman of the Supervisory Board - Mr José Luis De Mora,
- Members of the Supervisory Board:
  - Mr José Antonio Álvarez
  - Ms Danuta Dąbrowska
  - Mr David Hexter
  - Mr Witold Jurcewicz
  - Mr John Power
  - Mr Jerzy Surma
  - Ms Marynika Woroszyńska-Sapieha
  - Mr José Manuel Varela

1.2. Changes in the Supervisory Board composition:

- On 5 February 2015, Mr. José Antonio Álvarez resigned with immediate effect as the Bank's Supervisory Board member due to his appointment as a CEO of Banco Santander.
- On 23 April 2015, BZWBK Annual General Meeting appointed Mr José Garcia Cantera to the Supervisory Board.

1.3. Independence of the Supervisory Board members

All members of the Supervisory Board submitted written statements on their independence or on their personal, factual and organizational connections with the Bank's shareholders. In line with the submitted statements, as at 31 December 2015, the status of an independent Supervisory Board Member was held by the following individuals:

- Ms Danuta Dąbrowska
- Ms Marynika Woroszyńska-Sapieha
- Mr David Hexter
- Mr Witold Jurcewicz
- Mr Jerzy Surma

1.4. The Supervisory Board activities and manner of discharging its duties and responsibilities are governed by the Supervisory Board's Terms of Reference available on the Bank's Internet site.

### **2. STATISTICAL DATA ON THE SUPERVISORY BOARD'S ACTIVITY IN 2015**

From 1 January until 31 December 2015, the Supervisory Board held 11 meetings and passed 68 resolutions. Average attendance was 92.2%.

### 3. MAJOR AREAS OF THE SUPERVISORY BOARD'S ACTIVITY IN 2015

The Supervisory Board carried out its activities based on the adopted schedule of meetings and the general work plan. The agenda of each meeting was extended (if required) by current business matters, issues submitted by the Bank's Management Board for consideration and any other issues the Board deemed necessary to be covered by the agenda. The Supervisory Board requested and received from the Bank's Management Board comprehensive materials and reports on issues covered by the agenda of meetings as well as those pertaining to other matters important to the Bank's operations.

In 2015, the Supervisory Board focused both on strategic matters as well as on the supervision of the Bank's day-to-day business. The key issues were:

- In fulfilment of obligations imposed by Par. 32 of the Bank's Statutes, the Supervisory Board made an on-going assessment of the performance of the Bank and BZ WBK Group as well as the current forecasts prepared based on such results, including the underlying business and operational trends, opportunities and threats, deviations from the Plan and management actions taken up by the Bank's Management Board. The basis for the assessment were interim financial statements presented by the Bank's Management Board.
- The Supervisory Board was monitoring on an on-going basis the macroeconomic and market projections and their impact on the Polish economy as well as on activity and financial and business performance of the Bank and BZ WBK Group.
- The Supervisory Board was receiving information about projections and trends in the banking sector and performance of competitors, as well as, BZ WBK's performance versus the sector.
- In line with the recommendation of the Nominations and Remuneration Committee, the Supervisory Board appointed the Bank's Management Board for the next term of office and approved changes in the Bank's Organisational Regulations consisting in establishing two new divisions, i.e. the Technology Division and the Small and Medium Enterprises Banking Division, and in liquidating the Business Support Division.
- The Supervisory Board analysed and issued a positive opinion on the Management Board motion submitted to the Annual General Meeting of Shareholders with regard to the distribution of 2014 profit, reflecting the recommendation of the Polish Financial Supervision Authority (KNF) with regard to retaining the entire profit earned in the period from 1 January 2014 to 31 December 2014 until the time the regulator sets the additional capital requirement for the Bank.
- In accordance with the Strategic, Business and Financial Planning Policy implemented by force of resolution no. 47/ 2015, the Supervisory Board carried out an analysis of the implementation of Bank Zachodni WBK Group Strategy. The outcome of the analysis led to minor modifications of the strategic objectives of BZ WBK Group and strategic assumptions pertaining to strategic Business Segments. They were also reflected in the BZ WBK 2016-2018 Business Strategy which was approved by the Supervisory Board in December 2015.
- As part of the 2016-2018 planning process, the Supervisory Board:
  - By force of resolution no. 51/2015 approved the 2016-2018 BZWBK Group Financial Plan while highlighting the importance of the Bank's transformation as the key factor assumed in the growth Plan.

- By force of resolution no. 65/2015 approved the 2016 BZWBK Group Financial Plan. That plan does not take into account the financial impact of regulatory and external events whose materialisation with various risk levels may occur in 2016, e.g.: the possible partial or full conversion of CHF loans to PLN loans, the imposition of a bank tax, the level and methodology for calculating BGF contributions and also possible interest rates cuts. After the enforcement of resolutions determining the manner of calculating the above charges and imposing the obligation onto the Bank, the Management Board will prepare and present the updated 2016 Financial Plan to the Supervisory Board for approval.
- The Supervisory Board requested presentation of information and was updated by the Bank Management Board on an ongoing basis about priorities and approach to financing and liquidity, capital management, risk management, in particular credit risk management and cost management.
- Given the particular importance of liquidity and financing, the Supervisory Board was informed by the Bank's Management Board about the developed scenarios/strategies and actions taken in the area of liquidity management and diversification of funding sources.
- As part of the general supervision over the internal capital adequacy assessment process, the Supervisory Board, based on reviews and recommendations of the Audit & Compliance Committee, approved:
  - Periodical reports on the internal capital adequacy assessment process (ICAAP) – data included in the ICAAP Report as at 31 December 2014 confirmed that BZ WBK Group had own funds adequate for the scale and type of risk. The Supervisory Board obtained the Management Board's confirmation that given the continuing unfavourable market conditions triggered mainly by the PLN fluctuation against other currencies and given the KNF's recommendations for banks having assets denominated in CHF, the BZ WBK Group's objective in the next years would be to adequately adjust the level of own funds to both, internal needs and supervisory recommendations.
  - Disclosures on BZ WBK capital adequacy – in accordance with the Bank's Disclosure Strategy, the Report presents information on the capital adequacy of BZ WBK Capital Group on a consolidated basis (including Santander Consumer Bank). The document was internally approved and reviewed by the Bank's external auditor, Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., who independently checked the correctness of the capital requirement measurements presented in the document.
- The Supervisory Board approved the update of the 2015 Recovery Plan prepared in accordance with guideline arising from the Recovery and Resolution Directive, the so-called Living Will, as part of Santander Group activity. The document outlines recovery actions applied in case of a potential financial crisis with regard to capital and liquidity issues and defines crisis conditions based on stress test scenarios, as well as, warning signals and management actions. It applies to BZ WBK Group composed of Bank Zachodni WBK and its subsidiaries, including Santander Consumer Bank S.A. The assumptions of the Recovery Plan are consistent with the BZ WBK Liquidity Contingency Plan and Capital Plan.
- As part of supervision exercised over the risk management system, during each regular meeting the Supervisory Board carried out a review of the main risk areas based on the Risk Dashboard Report and paid special attention to, amongst others, trends, supervision over individual risk types, compliance with applicable internal policies and procedures and the KNF recommendations, the EU and the EBA regulations, as well as, to relevant identification of threats and determination of management actions adjusted to the needs and to the scale of the Bank's activity thus ensuring their effectiveness.

- As part of the supervision over credit risk, the Supervisory Board was updated on the current lending strategy and key credit risk factors. The Supervisory Board conducted regular reviews of the loan portfolio, also in terms of compliance with the Regulatory Recommendations. Moreover, the Supervisory Board was informed about individual loan portfolios with a breakdown by products/customer segments, focusing on issues related to their quality and profitability.

In line with Recommendation S and Recommendation T, the Supervisory Board reviewed updated assessments of performance against the Personal Lending Policy made by the Bank Management Board and approved the outcomes of such assessments.

- Following the decision of the Swiss National Bank (SNB) taken on 15<sup>th</sup> January 2015 whereby SNB would no longer maintain the Swiss franc at a fixed exchange rate with the euro at 1.2, which led to a rapid depreciation in PLN versus CHF, the Supervisory Board was informed about the implications of the foregoing decision, which included an assessment of threats pertaining to the BZ WBK credit portfolio, impact on capital ratios. The Supervisory Board was also advised on various proposed solutions aimed at helping CHF borrowers and the Management Board decision on implementing new solutions developed by the Polish Bank Association in order to facilitate the repayment of CHF home loans.

- The Supervisory Board familiarised itself with the KNF recommendations on the risk related to the FX mortgage portfolio and results of an analysis assessing the impact of the additional capital requirement to secure the risk triggered by the FX mortgage loans and the additional security buffer implemented by the KNF on 1 January 2016 on BZWBK capital requirements.

It was agreed that apart from the Management Board and the Supervisory Board, also the Capital Committee would be directly responsible for compliance with the KNF recommendations and for monitoring of additional capital charges, while implementation and ongoing monitoring of compliance with capital requirements, including the new buffers, would be effected as part of standard processes and procedures applicable in this respect.

- The Supervisory Board familiarised itself with the outcome of the review of various sectors where was evidence of increasing risk profiles: automotive, mining, commodities, etc., as well as with the strategy on financing Customers from these sectors.

- Based on the conducted review, the Supervisory Board approved the acceptable risk level for 2015, expressed as limits set out in the Risk Appetite Statement. BZWBK sets its risk appetite using the system of limits defined for key risks triggered by its business operations. The limits are set as part of an in-depth analysis of risks to which the Bank may be exposed. Moreover, the Statement outlines relevant watch levels set in order to identify material phenomena which, after exceeding specific levels, should be subject to particular supervision and reporting.

The Supervisory Board also approved the update of the 2015 Risk Appetite Statement driven by the need to include changes in the operational risk, including the approach to the monitoring of operational risk level, applied measures/ limits, inclusion of amendments with respect to the Global Risk Appetite as well as changes made in the Risk Appetite Framework of Santander Group.

As part of the 2014 planning process, the Supervisory Board familiarised itself with results of the annual review and approved limits illustrating the 2016 risk appetite for risks managed and controlled by BZWBK. The introduced changes affected, amongst others: capital ratios, which were set in compliance with the KNF's decision on the application of two capital buffers and liquidity measures (verification of limits versus the 2016-2018 Financial Plan and additional stress tests), credit risk ratios, including those concerning the portfolio concentration and new regulatory limits (additional limits stipulated by Recommendation S).

In line with the agreed process, the Supervisory Board supervised and monitored the level of internal limit utilization.

In the Supervisory Board's opinion, the risk appetite defined by the Bank matches the current market environment. The risk analysis is supported by stress testing and scenario analysis which are to ensure that BZ WBK will continue as a stable and adequately capitalized bank even amid adverse market conditions.

- The Supervisory Board adopted the recommendation of the Risk Oversight Committee to approve the 2015 assessment of the Management Board Members' knowledge and skills that was conducted in line with Recommendation M. The results of the said assessment indicated that the Bank Management Board had adequate knowledge and skills to ensure the effectiveness of the risk management framework.
- As a result of the annual review, carried out in line with requirements arising from Recommendation M, the Supervisory Board approved the updated Operational Risk Management Strategy.
- In line with the Compliance Risk Management Policy applicable in Bank Zachodni WBK, the Supervisory Board assessed the effectiveness of compliance risk management in BZ WBK. Its results are presented in the further part of this Report (it. III. 4). Notwithstanding the above, the Supervisory Board assesses the compliance risk management upon each presentation of the report on the performance of the Compliance Area to the Audit & Compliance Committee.
- Due to the observed increase in risk arising from cyber-crimes, noted as the largest threat to the financial system, the Supervisory Board reviewed the BZWBK Cyber-Security Strategy and highlighted that actions aimed at ensuring the cyber-security, including the delivery of the pending and planned programmes, would be a regular item on the Supervisory Board's agenda given their critical impact on the Bank's security.
- The Supervisory Board got acquainted with and analysed recommendations issued by the Polish Financial Supervision Authority (KNF) in relation to the issue inspection carried out in the Bank in September 2015 along with the schedule of implementing the recommendations developed by the Bank's Management Board.
- The Supervisory Board got acquainted with the evaluation assigned to the Bank by the Polish Financial Supervision Authority (KNF) in the BION (Supervisory Review and Evaluation) process as at 31 December 2013 and analysed the information on the areas that impacted the evaluation.  
The Supervisory Board was also informed about the BION process conducted in the Bank as at 31 December 2014 and received confirmation that in line with the requirements of the process the Internal Audit Area and the Compliance Area conducted an independent review of the conformity of drafted documentation with the actual status and that its final version was approved by the Bank's Management Board.
- In relation to the recommendation issued by the KNF in its letter no. DBK/DBK 2/7111/182/2/2014 of 12 December 2014, the Supervisory Board familiarised itself with the results of the review covering the procedure governing the process of selecting an entity authorised to review the Bank's financial statements and approved the External Auditor Approval Policy whereby the Bank's process in place was formalised and supplemented with additional mechanisms ensuring the objectivity and independence of audit examinations.

The process of appointing the External Auditor to review the Financial Statements of the Bank and Bank Zachodni WBK Group for H1 2015 and for 2015 was carried out in line with the above Policy.

- The Supervisory Board approved a resolution on the application of the Best Practice for Warsaw Stock Exchange Listed Companies as of 1 January 2016 (the Best Practise 2016). The Supervisory Board was provided with assurance that BZ WBK did not need to introduce significant changes in its operations with a view to ensuring full compliance with the Best Practice 2016 – the continuation of actions taken in the previous years was sufficient. The Best Practice 2016 will be adopted at the nearest Ordinary Annual General Meeting of Shareholders.
- The Supervisory Board reviewed the strategies and operations of the Business Segments and other areas of the Bank and its subsidiaries as well as projects and strategic programmes delivered as part of the Next Generation Bank Programme supporting the BZWBK transformation process (Simple Bank, Multi-channel CRM, Advanced Risk Management).
- In relation to the resignation from the position of the President of the Bank Management Board submitted by Mateusz Morawiecki on 9 November 2015 following his decision to assume the public service in the position of Vice Prime Minister and Minister of Development in the new Polish government, the Supervisory Board took immediate actions aimed at selecting and appointing a new President. The Supervisory Board vested the Nominations & Remuneration Committee with the responsibility for the process aimed at recommending candidates for the function of the Bank Management Board President. In addition, with a view to ensuring the continuity of the Bank Management Board's work management, pursuant to Par. 32(14) of the Bank's Statutes, the Supervisory Board appointed Mr Gerry Byrne as the acting Management Board President during the period until a new Management Board President is appointed.  
The Committee keeps the Supervisory Board informed about progress in the process.

#### **4. OPERATIONS OF THE SUPERVISORY BOARD COMMITTEES**

Independently of the Supervisory Board's meetings, Supervisory Board Members sat on the following Board's committees:

- Remuneration & Nominations Committee
- Audit and Compliance Committee
- Risk Oversight Committee.

The Committees' respective procedures are set out in their Terms of Reference, introduced by relevant resolutions of the Supervisory Board. The Terms of Reference are available in the Supervisory Board Secretariat.

The members of individual Committees have knowledge and experience appropriate for their roles and adequate fulfilment of their responsibilities.

The Committees contribute a lot to improving the effectiveness of the Board's work by supporting it in the discharge of its statutory duties as well as by preparing recommendations and proposed decisions relating to the Board's motions as well as those submitted by the Bank's Management Board.

In order to enable the Supervisory Board members to appraise in full the Committees' work and give them insight into the Committees' current operations, the Chairpersons present relevant

reports at the meetings of the Supervisory Board and the Supervisory Board members are provided with copies of the minutes of each meeting of the Committees. Individual Committees received sufficient, reliable and timely information from the Management Board allowing them to fulfil their responsibilities in 2015.

#### **4.1. NOMINATIONS AND REMUNERATION COMMITTEE**

##### **Role, tasks and composition of the Nominations and Remuneration Committee**

The main role of the Committee is to assist the Supervisory Board in delivery of tasks stipulated by the law, the corporate governance principles and market standards applicable to the activity of Bank Zachodni WBK units and key function holders in the Bank.

The main tasks of the Committee:

- Issuing recommendations to the Supervisory Board on remuneration decided upon by the General Meeting, the Supervisory Board or the Management Board, respectively.
- Issuing recommendations to the Supervisory Board on appointing and recalling members of the Supervisory Board, the Management Board and other key function holders by relevant authorities of the Bank.
- Reviewing and monitoring the Bank's remuneration policy and supporting the General Meeting, the Supervisory Board and the Management Board in developing and implementing that policy and ensuring its compliance with the Bank's culture, targets, strategy, competitive behaviour and regulatory recommendations on shaping remuneration in the banking sector.
- Planning succession for positions on the Bank Management Board.

In 2015, the Nominations and Remuneration Committee operated in the following composition:

- Gerry Byrne – Chairman
- Danuta Dąbrowska
- José Luis de Mora
- Witold Jurcewicz
- Jerzy Surma

Usually, the President of the Management Board is invited to attend meetings of the Committee, while the Business Partnership Division and the Legal Area support the Committee in preparing materials providing the basis for recommendations presented to the Supervisory Board and in acquiring external reports.

##### **The Committee's activity in 2015**

In 2015 the Committee held 6 meetings and its activity focused on the following issues:

- Recommendations for the Supervisory Board on bonuses for 2014 for the Bank Management Board members, based on the Bonus Regulations and in accordance with the Bank's Policy on variable components of remuneration.
- Annual review of the bonus scheme applicable to the Bank Management Board and providing the Supervisory Board with recommendations on adopting the 2015 Bonus Regulations specifying terms and conditions of awarding bonuses and setting bonus pools for 2015, focused on adequate support in achieving the goals assumed in the Business Plan and in the Financial Plan for 2015 which are also compliant with the KNF Resolution no. 258/2011 in the scope concerning variable elements of remuneration of key function holders.

- Confirmation - based on performance against the objective for 2014 (such objective determined excluding non-recurring items) - that in line with the principles of the Incentive Scheme V, launched by force of a decision made by the General Meeting of Shareholders in 2014, its participants acquired the right to the annual bonus for 2014 in the amount representing 100% of its maximum value. The formal allocation of these shares to the Programme participants took place following the approval of the 2014 Financial Statements at the General Meeting of Bank Zachodni WBK Shareholders.
- Annual review of remuneration of the Supervisory Board members agreed with the consideration of impact of obligatory pension and retirement pension insurance for all members of supervisory boards receiving remuneration for holding their positions, such insurance obligation implemented on 1 January 2015.  
Based on outcomes of the review, the Committee recommended to the Strategic Investor amendments to the remuneration of the Supervisory Board Members along with the presentation of a relevant request on that issue to the Annual General Meeting.
- Appointment of the Bank Management Board for the new term of office that will end on the date of holding the General Meeting of Bank Zachodni WBK Shareholders for the purpose of giving the word of approval to the financial statements, the balance sheet and the profit and loss account for the financial year 2017 - the Committee recommended to the Supervisory Board the appointment of Management Board composed of 11 members. When compared to the composition of the previous Management Board, Piotr Partyga, Head of the Business Partnership Division and Marco Silva Rojas, Head of the Accounting and Financial Control Division, ceased holding their positions. The Committee recommended entrustment of these positions to Beata Daszyńska- Muzyczka and Carlos Polaino Izquierdo, respectively. Recommendations concerning composition of the Management Board in the new term of office took into consideration proposals of the following structural changes aimed at adjusting the Bank's organisational structure to the reformed business model focused on addressing the evolving customer needs in a correct manner, changes driven by technological development (digitalisation), growing regulatory requirements and challenges posed by the dynamically changing market environment so that to ensure top efficiency and profitability:
  - Transformation of the SME and Retail Banking Division and establishment of two separate Divisions:
    1. Retail Banking Division - the Committee recommended to appoint Mirosław Skiba Head of the Division;
    2. SME Banking Division - the Committee recommended to appoint Feliks Szyszkowiak Head of the Division;
  - Establishment of the Technology Division - the Committee recommended to appoint Paweł Wiczorek Head of the Division.

Moreover, the Committee recommended to the Supervisory Board the approval of the above changes in the Bank's organisational structure in order to implement them in accordance with the formal process applicable in the Bank in this respect.

- Preparation of a template employment contract to be signed with a Management Board member - the template employment contract recommended to the Supervisory Board was developed based on the template applicable during the previous term of office, however it was adjusted to amendments made in external and internal regulations, including those stipulated by the implemented Remuneration Policy for the Management Board Members and the Policy on variable components of the remuneration for key function holders in BZWBK Group.

- Presenting recommended terms and conditions of remuneration for the Management Board Members based on the conducted remuneration review, in connection with the appointment for the new term of office.
- Conducting, at the request of the Supervisory Board, the process of electing the new President of the Bank Management Board as a result of resignation from the position of the President of the Bank Management Board made by Mateusz Morawiecki on 9 November 2015 who decided to serve publicly as the Vice Prime Minister and Minister of Development on the new Polish government.  
When delivering the entrusted tasks, the Committee complied with the assumed stages of the process of selecting candidates for the position of President of the Bank Management Board, including the assumptions underlying the competence profile of the future President, as agreed in the Policy on Selection and Suitability Assessment of Management Board Members and Key Function Holders in Bank Zachodni WBK adopted by the Supervisory Board. In the Committee's opinion, they reflect specific requirements in terms of competences, skills and experience required for the job role resulting both from the profile, scope and scale of Bank's business and also from its strategy. To ensure full reliability of the process and confirm the willingness to select the best candidate who will be recommended by the Committee to the Supervisory Board as a candidate for the position of the new President of the Bank Management Board, internal and external candidates were invited to participate in the process. In the process of selecting the new President, the Nominations and Remuneration Committee is assisted by a specialised external HR advisory agency and progress on filling the position is reported by the Committee to the Supervisory Board during its meetings.
- Presenting to the Supervisory Board recommendations on implementation of Performance Evaluation Sheets for the Bank's Management Board Members to comply with the KNF requirements outlined in KNF's Resolution no. 258/2011 and its recommendations formulated in the report on issue inspection carried out in the Bank in 2015 with regard to the Management Board remuneration policy. Moreover, the Committee presented to the Supervisory Board recommendation on formalising the process of setting objectives for the Management Board Members, including quality objectives and principles of assessing performance against such objectives as part of the Procedure of setting objectives for the Management Board Members. The Procedure is based on the European Banking Authority Guideline no. EBA/GL/2012/06 of 22 November 2012 and supplements the Performance Management System applicable in the Bank.
- Recommending to the Supervisory Board the approval of the Policy on Selection and Assessment of Management Board Members and Key Function Holders in Bank Zachodni WBK which was developed based on the European Banking Authority guidelines no. EBA/GL/2012/06 dated 22 November 2012, Corporate Governance Rules for supervised institutions and based on the commonly applicable labour laws and the Code of Commercial Companies. The policy will support the Bank's efforts to ensure adequate management of risks resulting from banking operations and appropriate selection of Management Board members and key function holders.
- Recommending to the Supervisory Board the approval of the Policy on Nomination and Succession Planning Policy for Management Board Members and Key Function Holders in Bank Zachodni WBK) which defines, among others, the principles of appointing potential candidates for vacant positions, principles of the process of identifying successors, terms and conditions of their development and nomination principles which also reflects the Bank's efforts to ensure the effective management and continuity of business processes, lack of over-representation of one gender and the need to keep balance in terms of knowledge, skills and experience of Management Board Members and persons holding key positions in the Bank.

- Succession planning for the Management Board functions and senior management positions - as in the previous years, this issue was one of the Committee's and Supervisory Board's priorities in 2015. Actions taken will be aimed, amongst other, at ensuring adequate development programmes for individuals covered by the succession planning both in the Bank and its subsidiaries.

When preparing recommendations for the Supervisory Board, the Committee used current results of the banking sector's remuneration survey carried out by an independent agency.

## 4.2. AUDIT & COMPLIANCE COMMITTEE

### **Role, tasks and composition of the Audit & Compliance Committee**

The Audit & Compliance Committee's role is to assist the Supervisory Board in discharging its oversight responsibilities to shareholders and other stakeholders in relation to:

- The quality and integrity of the accounting policies, financial statements and disclosure practices and satisfying itself that any significant financial judgements made by the Management Board are sound;
- The monitoring of compliance with relevant laws and regulations, taxation obligations and relevant Codes of Conduct and good business ethics;
- The monitoring of independence and performance of the internal and external Auditors;
- The assessment of the effectiveness of the system of internal controls and management of financial and non-financial risks;
- The on-going discussions with the Head of BZ WBK Group Internal Audit, Chief Risk Officer, Head of Legal and Compliance and the External Audit Partner.

The Committee carries on its activity under written Terms of Reference which were updated and approved by the Supervisory Board's resolution no. 55/2015. The updated Terms of Reference reflect the changes made to enhance the safeguards for the independence of the Head of the Internal Audit Area and the Head of the Compliance Area.

In 2015, the Audit & Compliance Committee operated in the following composition:

- Mr John Power – Chairman
- Mr Jerzy Surma
- Mr David Hexter
- Ms Danuta Dąbrowska

In 2015, there were 8 Audit & Compliance Committee meetings and the turnout was as follows:

- |                            |     |
|----------------------------|-----|
| - Mr John Power – Chairman | 8/8 |
| - Mr Jerzy Surma           | 8/8 |
| - Mr David Hexter          | 8/8 |
| - Ms Danuta Dąbrowska      | 7/8 |

In order to ensure effective communication between all relevant parties, the External Auditor, Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (Deloitte Polska), the Head of BZ WBK Group Internal Audit, the Chief Risk Officer, the Head of the Legal and Compliance Division, the Head of Financial Accounting and Control Division and the Head of the Financial Management Division were invited to attend all meetings. Other members of the Management Board are also invited to attend as appropriate in order to present reports. In addition, the Committee held separate meetings with members of senior management and the external auditors to discuss issues relevant to the Committee.

## **The Committee's activity in 2015**

The Committee undertook its duties in line with an agreed annual work programme that allows the Committee to monitor and seek assurance on the management of the financial risks and non-financial risks identified in the company's business plan.

The Committee members met privately either before or after the meetings to assess particular issues that individual members may want to further review.

The Committee reviewed key areas of material controls, including financial, operational, regulatory compliance, technology compliance and risk management systems. On a regular basis, the Committee receives reports on risk management, fraud, anti-money laundering, legal, regulatory and corporate governance matters in order to assess the effectiveness of the risk management and control frameworks.

In 2015, these reports included the following:

- Material/significant notifications arising under the Group Policy on Whistle blowing;
- Updates on significant projects in the Bank;
- Detailed analysis of capital ratios;
- Adequacy of provisioning, including IBNR provisions;
- Compliance with new ratios from Basel III & Recommendation P;
- IT Risk Governance Framework;
- Internal Capital Adequacy Assessment Process (ICAAP);
- Implementation of the Santander Internal Control Model;
- Compliance with the Volcker rule.

Some of the specific matters which the Audit & Compliance Committee considered in 2015 included:

- Technology Controls & Information Security continued to be an area of specific focus in 2015, especially taking into consideration the requirements arising from the Recommendation D. The Committee was updated on cyber-security developments and the resilience Bank Zachodni WBK has in place against cyber-attacks. The Committee received detailed reports on the establishment of a new Operational Security Centre to ensure that the scope of the Centre's business and resourcing were adequate for the assigned tasks and implemented in a timely manner.
- Review of specific control environment in the following businesses:
  - Treasury Risk Management;
  - Asset Management;
  - Customer Complaint Management;
  - Global Corporate Banking Division;
  - Retail Banking: operational risk;
  - Santander Consumer Bank;
  - Business Partnership Division;
  - Business & Corporate Banking Division.
- Review of the Anti-Money Laundering process and compliance with the Code of Conduct in Securities Markets.
- Following the retirement of Mr Aleksander Kompf as Head of Compliance, the Audit & Compliance Committee had oversight of the appointment of the new Head of Compliance Area in accordance with the Terms of Reference.
- Financial Reporting

The Committee has reviewed and discussed the Company's audited Financial Statements with the Management Board, which has primary responsibility for their preparation. It placed particular emphasis on their fair presentation and the reasonableness of the judgmental factors in particular the level of IBNR provisions for each loan portfolio, the appropriateness of significant accounting policies used in their preparation and the accounting for the BZ WBK Aviva JV de-consolidation. In particular, the Committee considered the impact of one-off items that were of a significant nature in the preparation of the year-end Financial Statements. The Committee also reviewed and discussed with Deloitte Polska their independent review of the financial statements and issues raised with the Management.

The Committee continued its detailed review of the Group's capital, liquidity and risk frameworks and the requirements of Basel III. The Committee considered the proposed assumptions, methodology and process followed in determining the amount of capital and liquidity required to support the Group's business plans and the adequacy of its capital resources.

In reliance of the conducted reviews, challenges and debates, the Committee decided to recommend that the Supervisory Board should approve the audited Financial Statements for inclusion in the Company's annual report for the year ended 31<sup>st</sup> December 2015. The Supervisory Board accepted the recommendation and decided to submit the Financial Statements for approval by Bank Zachodni WBK Annual General Meeting.

- Internal Audit Area

The Committee, through BZ WBK Group Internal Auditor, receives objective independent reports on the operation of internal controls in the Group. The Committee reviewed the Audit Plan for 2015 and work undertaken during the year, the level of training and skills of the employees of the internal audit function and changes to the internal audit methodology. The Group continued its Internal Audit Quality Assurance reporting in accordance with the International Auditing Standards.

Following Mr Carlos Polaino's retirement as the Head of BZW BK Internal Audit Area, the Committee carried out the appointment process of his successor in accordance with internal regulations, including the Committee's Terms of Reference.

- External Audit

There is a process in place by which the Audit & Compliance Committee reviews and, if considered appropriate, approves, within parameters approved by the Supervisory Board, any non-audit services undertaken by the External Auditor, and the related fees. This ensures that the objectivity and independence of the External Auditors is safeguarded.

The Group paid PLN 3,976.1k (excluding VAT) to Deloitte Polska for audit services in 2015, relating to the statutory audit of the Group and Company financial statements and the audit of Group subsidiaries (including Santander Consumer Bank) and associates pursuant to legislation. The fees for other services which included advice on accounting, regulatory matters and the fees directly relating to work mentioned above were PLN 1,742.8k (excluding VAT) giving a total fee to Deloitte Polska of PLN 5,718.9k.

The Committee is satisfied that the Group's External Auditor provided effective and independent assurance to the Management Board and to the Supervisory Board and that their comprehensive management letter provides valuable recommendations for improvement of internal controls. In the course of the 2015 Financial Statements approval process, Deloitte Polska provided the Committee with assurance on its independence and objectivity as the External Auditor.

- Other matters

The Committee conducts a continuous review of its process and performance. The form of the review involved a discussion on the format of the meetings and the effectiveness of the reporting processes.

- Focus for 2016  
The Supervisory Board appointed Ms. Danuta Dąbrowska as the Chairman of the Audit & Compliance Committee as of 1 January 2016.  
For 2016 the Committee's areas of focus will continue to be influenced by the changing regulatory environment both in Poland and Europe, the continuous improvement of the Bank's IT Risk framework and detailed reviews of the subsidiary entities.

#### 4.3. RISK OVERSIGHT COMMITTEE

##### **Role, tasks and composition of the Risk Oversight Committee**

The Risk Oversight Committee is appointed by the Supervisory Board of Bank Zachodni WBK to assist the Board in discharging its oversight responsibilities to shareholders and other stakeholders and to protect the Group from future events that impede the sustainable achievement of its strategic objectives in relation to:

- Risk appetite, as reflected in policies and risk limits;
- A sharpened focused oversight on the more significant business risks undertaken by the bank and;
- The appropriateness of the overall risk governance framework;
- Assessment of potential future risks which may impact on the achievement of strategic objectives.

The Committee is conscious, when undertaking its duties that the Bank is in the business of taking risk but at a level that is appropriate relative to the scale and type of business undertaken. The Committee focuses on the oversight of forward looking risk issues and the key risk management indicators prepared in accordance to the business strategy.

The Committee carries on its activity under Terms of Reference updated and approved by the Supervisory Board resolution no. 17/2014. The Committee undertakes its duties in line with an agreed annual work program that allows the committee to review the effectiveness of the risk philosophy and the appropriateness of the overall risk governance framework.

In 2015, the Risk Oversight Committee operated in the following composition:

- Mr John Power – Chairman,
- Mr Witold Jurcewicz,
- Mr Jose Manuel Varela,
- Mr David Hexter,
- Ms Marynika Woroszyńska-Sapieha.

In 2015, there were 6 Committee meeting and the attendance was as follows:

- |                                   |     |
|-----------------------------------|-----|
| - Mr John Power (Chairman)        | 6/6 |
| - Mr Witold Jurcewicz             | 6/6 |
| - Mr Jose Manuel Varela           | 6/6 |
| - Mr David Hexter                 | 6/6 |
| - Ms Marynika Woroszyńska-Sapieha | 4/6 |

The independent Auditor, Deloitte Polska, Head of Bank Zachodni WBK Group Internal Audit, the Chief Risk Officer, the Head of Legal & Compliance Division, the Head of Accounting and Financial Control Division and the Head of Financial Management Division were invited to attend all meetings. Other members of the Management Board are also invited to attend as appropriate in order to present reports.

## **The Committee's activity in 2015**

The key activities reviewed were:

- Review and evaluation the Group's Risk Appetite Statements;
- Review and evaluation the Internal Capital Adequacy Assessment Process (ICAAP);
- Review of the Group's risk profile against the Risk Dashboard and limit amendments in light of the bigger scale of business;
- Comprehensive assessment of the credit portfolio including comparison to peers and the assessment of future risks in the Mortgage, Automotive and Mining sectors;
- Assessment of the Credit Recovery process and the future challenges with the implementation of the amended Bankruptcy Law;
- Future impact of KNF regulations on the market, including Recommendation P;
- Review of operational risk processes with a focus on how the Bank can be more efficient and effective in streaming operations;
- Assessment of the impact of the Santander Recovery and Resolution Plan (Living Will);
- Review of the Advanced Risk Management programme and how the programme can accelerate growth in the Bank's businesses.

On a regular basis the Committee receives reports on BZ WBK Group's risk profile and key performance indicators, particular in relation to: (i) performance vs. risk appetite and tolerance, (ii) risk trends, (iii) risk concentrations.

A key element of the Risk Oversight Committee's work is the oversight of the stress testing undertaken by the Bank in accordance with its own assumptions and benchmarked against the requirements set by the KNF. The results of the stress testing are linked closely with the Committee's review of the Group's Risk Appetite Statement and polices appropriate to the overall strategy adopted by the Supervisory Board. As in previous years, the stress testing exercises demonstrated that Bank Zachodni WBK has the resources to maintain adequate capital and profitability in a stress scenario.

The Committee recommended approval to the Supervisory Board of the Group's economic capital framework, the governance over the Internal Capital Adequacy Assessment Process (ICAAP) and the effective implementation of this process by the Management Board.

- **Other Matters**

The Committee continuously reviews its work and performance. The form of the review involved a discussion on the format of the meetings and the effectiveness of the reporting processes. In 2015, the Committee continued a learning program on new trends and developments in the financial industry with the support of outside facilitators. The program covered issues such as IFRS 9, EU regulations and the Digital Transformation agenda.

- **Focus for 2016**

In 2016, the Committee will review amendments to the Bank Zachodni WBK Group Risk Appetite Statement and will continue its comprehensive review of emerging risks in both the core business of the Group and the overall banking industry.

## **5. ASSESSMENT OF THE SUPERVISORY BOARD ACTIVITY IN 2015**

The Supervisory Board assessed its performance for 2015 in accordance with point 1, sub-point 2, section 3 of the "Best practice for the GPW listed companies".

Accordingly, the Supervisory Board stated that it had duly discharged its responsibilities laid down in the Commercial Companies Code and in the Bank's Statutes as it held its meetings at a frequency that ensured that all matters within the Board's remit were addressed. In their actions,

the Supervisory Board Members were guided solely by the interest of the Bank and the independence of judgements and opinions. Both the composition of the Supervisory Board and knowledge and experience of its individual Members ensured sound and effective performance of the Supervisory Board and its proper and effective supervision over the Bank's operations in 2015.

## **II. REPORT OF THE SUPERVISORY BOARD ON THE EXAMINATION OF BANK ZACHODNI WBK FINANCIAL STATEMENTS, REPORT ON THE BANK'S AND THE GROUP'S PERFORMANCE AND THE MOTION RELATED TO THE PROFIT DISTRIBUTION**

This report was produced based on the conducted examination and includes the opinion of the Supervisory Board on the following documents presented by the Bank's Management Board to the Annual General Meeting of Shareholders of Bank Zachodni WBK, convened for 20<sup>th</sup> April 2016:

- Financial Statements of Bank Zachodni WBK S.A. for 2015,
- Management Board Report on Bank Zachodni WBK S.A. Performance in 2015,
- Consolidated Financial Statements of Bank Zachodni WBK Group for 2015,
- Management Board Report on Bank Zachodni WBK Group Performance in 2015,
- Management Board motion on the 2014/2015 profit distribution.

The obligation to review the above documents is imposed on the Supervisory Board by § 32 clause 1 and clause 6 of the Bank's Statutes.

### **1. EXAMINATION OF FINANCIAL STATEMENTS AND REPORTS ON THE BANK'S AND THE GROUP'S PERFORMANCE IN 2015**

By force of resolution no. 32/2015, adopted on the 25<sup>th</sup> day of May 2015, the Supervisory Board, based on the recommendation of the Audit & Compliance Committee, selected Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. as the Bank's auditor and vested it with a task of auditing the Financial Statements for 2015. The above audit covered the following documents produced by the Bank's Management Board:

- 1.1. Financial Statements of Bank Zachodni WBK S.A. for 2015:
  - Statement of Financial Position as at 31 December 2015,
  - Income Statement for the accounting year ended 31 December 2015,
  - Statement of Comprehensive Income for the accounting year ended 31 December 2015,
  - Movements in Equity for the accounting year ended 31 December 2015,
  - Cash Flow Statement for the accounting year ended 31 December 2015,
  - Additional Notes.
- 1.2. Management Board Report on Bank Zachodni WBK S.A. Performance in 2015.
- 1.3. Consolidated Financial Statements of Bank Zachodni WBK Group for 2015:
  - Consolidated Statement of Financial Position as at 31 December 2015,
  - Consolidated Income Statement for the accounting year ended 31 December 2015,
  - Consolidated Statement of Comprehensive Income for the accounting year ended 31 December 2015,
  - Movements in consolidated equity for the accounting year ended 31 December 2015,
  - Consolidated Cash Flow Statement for the accounting year ended 31 December 2015,
  - Additional Notes.
- 1.4. Management Board Report on Bank Zachodni WBK Group Performance in 2015.

Based on the findings of the audit conducted by Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., presented in the following documents:

- Opinion of the Independent Auditor and Report supplementing the Auditor's opinion on the stand-alone Financial Statements of Bank Zachodni WBK S.A. for the financial year ended 31 of December 2015,
- Opinion of the Independent Auditor and Report supplementing the Auditor's opinion on the consolidated Financial Statements of Bank Zachodni WBK Group for the financial year ended 31 of December 2015,

the Supervisory Board stated that the 2015 Financial Statements presented by the Management Board, had been prepared correctly, in all material respects, and provided a true and fair view of the financial position of the Bank and the Group as at 31 December 2015 and of their financial performance and their cash flows for the year then ended, in accordance with International Financial Reporting Standards adopted by the European Union, and were in compliance with the respective regulations that apply to the Bank's non-consolidated financial statements and the consolidated financial statements applicable.

By force of resolution no. 8/2016 of 11 February 2016, the Supervisory Board decided to submit the following documents for the Annual General Meeting's approval:

- Financial Statements of Bank Zachodni WBK for 2015,
- Management Board Report on Bank Zachodni WBK Performance in 2015,
- Consolidated Financial Statements of Bank Zachodni WBK Group for 2015,
- Management Board Report on Bank Zachodni WBK Group Performance in 2015.

## **2. REVIEW OF THE BANK'S MANAGEMENT BOARD MOTION RELATED TO THE 2015 PROFIT DISTRIBUTION**

The Supervisory Board examined the Bank's Management Board motion related to the 2014/2015 profit distribution, and with resolution no. 22/2016 of 22 March 2016 decided to recommend approval of the above motion to the Annual General Meeting of Shareholders.

## **III. ASSESSMENT OF BANK ZACHODNI WBK GROUP'S PERFORMANCE IN 2015**

### **1. BANK ZACHODNI WBK GROUP PERFORMANCE IN 2015**

#### **Bank Zachodni WBK Group's Financial Standing in 2015**

Economic growth in Poland remained at around 3.6% YoY in 2015. Fixed investments slowed down, following the dynamic growth in 2014 and early 2015, whereas private consumption remained stable, with upside prospects, as healthy wage growth, possible social transfers and low interest rates were likely to boost spending. Exports increased on account of the recovery in the euro zone, Poland's main trading partner. Poland's external trade imbalance declined throughout 2015 – according to the bank's estimate the current account deficit accounted for approximately 0.2% of the GDP at the end of December. Industry was in good shape and showing relatively high growth rates, especially in export-oriented sectors. On the other hand, however, the construction output levelled off in H1 and further contracted in H2.

Inflationary pressure was very low in 2015. CPI inflation trended gradually higher after bottoming out in February 2015, but it remained below zero throughout the year. CPI inflation amounted to -0.9% YoY on average in 2015 and -0.5% YoY at the year-end. Core inflation, excluding food and energy prices, was equal to 0.3% YoY on average and at the end of 2015.

The Monetary Policy Council (MPC) lowered the reference rate by 50 b.p. to 1.50% in March 2015 due to low inflation, and continued with a stable monetary policy going forward. The MPC highlighted the fact that no further monetary policy changes would be needed unless there was a significant downturn in the macroeconomic outlook.

The situation in the credit market was stable during 2015. Lending to companies accelerated from approximately 6% YoY to almost 9% YoY at the end of the year (after FX adjustment). Loans in the household sector grew at a fairly stable rate of 4% YoY.

Household deposits went up by nearly 10% YoY on account of increasing income levels. Meanwhile, the growth rate of corporate deposits accelerated and achieved a double-digit pace, indicating that the financial performance of companies remained strong.

Financial markets were highly volatile in 2015, mainly due to actions taken by the central banks. While the European Central Bank and the Polish MPC decided to ease monetary conditions, the Federal Reserve made a long-awaited decision to end the seven-year period of interest rates trending close to zero as a result of a significant improvement in the US labour market and rise in inflation.

### **Profit and loss account**

BZ WBK acquired control over SCB and its subsidiaries (SCB Group) on 1 July 2014. As a result, the consolidated income statement of Bank Zachodni WBK Group covers twelve months of the financial performance of SCB Group in the reporting period and six months in the base period, which increased YoY movements in respective income statement items.

On 27 February 2015, Bank Zachodni WBK sold part of its stake in BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO (17% of shares in each insurance company).

Partial disposal and loss of control over BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ insurance companies (27 February 2015) contributed PLN 523.0m in total to the Group's consolidated profit before tax.

In 2015, Bank Zachodni WBK Group posted a profit before tax of PLN 3,178.3m, up 20.4% YoY. Profit attributable to the shareholders of Bank Zachodni WBK was PLN 2,327.3m and increased by 21.5% YoY. Excluding one-off gains on subordinate entities (i.e. PLN 523m in 2015 due to partial disposal and loss of control over BZ WBK-Aviva companies and PLN 10.6m in 2014 attributed to the sale of shareholdings from the portfolio of BZ WBK Inwestycje) and the mandatory contribution of PLN 183.8m to the guaranteed deposit scheme made in November 2015, the underlying profit before tax grew by 8% YoY and profit attributable to the shareholders of the parent entity increased by 7.7% YoY.

### **Income**

The total income earned by Bank Zachodni WBK Group in 2015 was PLN 7,540.2m, up 14.6% YoY. Adjusted for one-off gains on shares in subordinate entities of PLN 523m in 2015 and PLN 10.6m in 2014, respective income went up by 6.8% YoY.

The YoY increase in the net interest income was achieved in the falling interest rate environment as a result of the consolidation of SCB Group. The asymmetrical contribution of SCB Group to the consolidated income statement in the reporting periods let BZ WBK Group generate stable interest income (PLN 5,708.8m) while reducing the decline rate of interest expense to 18.9% YoY (PLN 1,399.7m).

Over the year 2015, the quarterly net interest margin held fairly steady, fluctuating around 3.5% - 3.6%. The Group generated the net interest margin in the record low interest rate environment (following another cut of 50 b.p. by the Monetary Policy Council in March 2015) as a result of proactive business acquisition, promotion and pricing modification, which were all aligned with market trends, customer expectations and the Group's objectives in terms of liquidity, capital and balance sheet structure management. The stabilisation of the net interest margin with a slight upward trend observed in the second half of the year resulted from favourable developments in business volumes.

Compared with the previous year, the margin clearly declined due to falling interest rates and their adverse impact on interest income from credit portfolios as well as the Group's measures aimed at diversifying funding sources and building a stable deposit base founded on the strength of the Group's customer relationship.

Net fee and commission income for 2015 was PLN 1,938.1m and increased by 4.9% YoY.

### **Costs**

In 2015, the total expenses of the Group amounted to PLN 3,578.9m, and were 15.3% higher YoY.

Excluding the integration costs (PLN 61.5m in 2015 and PLN 177.3m in the corresponding period), mandatory contribution to the guaranteed deposit scheme (PLN 183.8m), the operating costs of SCB Group, BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ (PLN 585.4m in 2015 and PLN 289.7m in 2014), amortization arising from allocation of the purchase price of the two insurance companies (PLN 84.4m in 2014) and the relevant adjustment after control loss (PLN 6.2m in 2015), the total underlying costs increased by 7.4% YoY, mainly on account of fees payable to market regulators. Adjusted for these charges, underlying total costs were stable.

Excluding one-off items, namely gains on shares in subordinate entities and the mandatory contribution to the guaranteed deposit scheme, the Group's cost to income ratio was 48.4% vs. 47.3% in the corresponding period. Adjusting further for integration costs, it was 47.5% compared with 44.6% in 2014.

### **Assets**

As at 31 December 2015, the total assets of Bank Zachodni WBK Group were PLN 139,708.7m, an increase of 3.9% YoY.

### **Credit portfolio**

As at 31 December 2015, gross loans and advances to customers were PLN 100,062.0m and higher YoY by 10.0%. On a constant currency basis, the increase was 8.4% YoY.

Compared with the end of 2014, loans and advances to individuals increased by 8.7% to PLN 51,950.1m. Housing loans, which represent the major portion of loans and advances to individuals, went up by 9.3% to PLN 33,720.6m during 2015. The second significant constituent item, i.e. cash loans grew by 11.6% to PLN 10,874.3m.

As at 31 December 2015, Bank Zachodni WBK Group's NPL ratio was 7.3% compared with 8.4% as at 31 December 2014.

The loan to deposit ratio was at the level of 93.2% as at 31 December 2015 in comparison to 90.4% as at 31 December 2014.

### **Equity and liabilities**

Total equity increased by 13.9% YoY as a result of the Resolution passed at the General Meeting of Shareholders dated 23 April 2015 to distribute the 2014 profit of Bank Zachodni WBK by allocating the amount of PLN 1,042.0m to the reserve capital and leaving the remainder of PLN 952.7m undistributed.

## **Deposits**

In 2015, liabilities towards customers increased by 7.2% to PLN 101,865.4m at the end of December 2015.

The value of the term deposits of the Group's customers was PLN 48,563.5m - it was stable on a YOY basis. Current account balances increased by 13.2% to PLN 48,712.8m

The value of retail customers' deposits was PLN 59,200.7m and grew by 1.6% compared to the end of 2014 as a result of an increase in current account balances (+17.9% YOY) and a decrease in term deposit account balances (-12.8% YOY).

The value of liabilities towards businesses and the public sector increased by 16.2% in 2015 reaching PLN 42,664.7m at the end of December 2015. The strong growth of that deposit base primarily resulted from a rapid increase in term deposits (+23.2% YOY) and current account balances (+4.9%).

## **Diversification of Funding Sources for the Core Business**

### **Issue of Certificates of Deposit by Bank Zachodni WBK**

On 18 March 2015, the Management Board of Bank Zachodni WBK adopted a resolution on the issue of certificates of deposits (CDs) with a nominal value of up to PLN 3bn as part of the Issue Programme. Its objective is to provide an alternative source of funding. CDs will be issued in tranches denominated in PLN, EUR, USD or CHF, with maturity ranging from three months to three years.

Under the above programme, on 17 August 2015, Bank Zachodni WBK issued 230k CDs in a private placement. The certificates have a nominal value of PLN 1k each, bear a variable interest rate (based on 6M WIBOR) and mature on 17 February 2016.

### **Issue of Own Bonds by Bank Zachodni WBK**

On 24 June 2015, Bank Zachodni WBK issued 485k bearer bonds with a nominal value of PLN 1k each, a three-year maturity and variable interest (6M WIBOR + 1.05% p.a.) payable semi-annually. The bonds with a total value of PLN 485m were issued in a private placement and taken up by bondholders. The issue was assigned a long-term national rating of AA-(pol) by Fitch Ratings.

On 16 July 2015, the bonds were introduced to the Catalyst alternative trading system of the Warsaw Stock Exchange.

### **Issue of Own Bonds by Santander Consumer Bank**

In 2015, Santander Consumer Bank continued to issue bonds and certificates of deposit under a programme of debt securities issues underwritten by Santander Consumer Finance. In December 2015, the maximum value of issues under the programme was increased to PLN 3bn.

Bank Zachodni WBK repaid three subordinated loans of CHF 100m, CHF 165m and PLN 75m granted to Bank Zachodni WBK by KBC Bank NV which could not be qualified as Tier 2 capital.

## **Share price of Bank Zachodni WBK S.A.**

In 2015 Bank Zachodni WBK shares continued their downward trend in response to a deep correction in the entire banking sector on the WSE. Over the course of 2015, the bank's share price fell by 24.3% (from PLN 375.00 at the end of 2014 to PLN 284.0 at the end of 2015), which was comparable with the losses of the WIG-Banks index that declined by 23.5% in the same period. The bank's stocks were mainly influenced by the announced tax on bank assets and negative sentiment globally surrounding emerging markets. Another contributing factor was the decision of the Swiss National Bank, announced early in 2015, to abandon their EUR/CHF minimum exchange rate.

In 2015, the Bank's shares reached their maximum closing price of PLN 386.0 on 23 April 2015 and their minimum closing price of PLN 253.5 on 9 December 2015.

As at 31 December 2015, the market capitalisation of Bank Zachodni WBK was PLN 28,182.6 compared with PLN 37,213.0m as at 31 December 2014.

### **Rating**

Ratings of Bank Zachodni WBK as at 31 December 2015 were assigned by Fitch Ratings on 23 November 2015. The agency upgraded the bank's Viability Rating from bbb to bbb+, while reaffirming the other ratings (Long-term IDR: affirmed at 'BBB+'; Outlook Stable; Short-term IDR: affirmed at 'F2'; Support Rating: affirmed at '2').

According to Fitch Ratings, the upgrade of BZ WBK's VR reflects the Bank's improved capitalisation as well as a long track record of satisfactory consolidated financial performance and solid financial ratios compared with peers.

### **Summary**

The Supervisory Board assesses the situation of the Bank as good and stable. The assessment is justified by:

- Good financial results in a challenging economic environment;
- Effective risk management;
- Strong capital and funding position;
- Excellent cost management; and
- Strong internal control system.

## **2. ASSESSMENT OF INTERNAL CONTROL SYSTEM**

As required by the Statutes, the Bank operates an internal control system which supports the decision-making processes and contributes to the Bank's efficient operation, reliability of financial reporting as well as compliance with the law and internal regulations.

The Bank's internal control system is adequately adjusted to the Bank's organisational structure and risk management system as well as to the size and complexity of the Bank's business. It covers all units across the Bank as well as its subsidiaries.

The Bank's Management Board is responsible for designing, implementing and functioning of the system of internal control. The internal control system includes: risk controls, monitoring and testing of Bank's compliance with external and internal regulations, and internal audit.

Internal control and risk management systems are structured into three lines of defence. Control measures under the first line check compliance with procedures and they are an ad hoc response to any identified deficiencies or shortcomings.

The second line of defence is formed by specialized units performing control functions which support the bank's management in risk identification and management and provide assessment of the first line controls.

The third line of defence is the Internal Audit Area, whose activity is supervised by the Audit and Compliance Committee of the Supervisory Board. IAA provides independent and objective examination as well as assurance on the first and second tier controls as well as on the Bank's management system, including the effectiveness of managing the risk related to the Bank's business. For that matter, Internal Audit verifies the adequate coverage of the Group's risks, in compliance with top management policies, applicable procedures and internal and external regulations. Using its own risk matrix and knowledge, IAA performs a regular assessment of the present and future risk across the Bank and Bank Zachodni WBK Group, developing annual audit plans to cover them. Also, priorities highlighted by the Bank's management, the Audit and Compliance Committee, the external auditor, and banking supervision institutions are taken into account.

The Supervisory Board is responsible for the supervision over the implementation of the internal control system and for assessing its adequacy and effectiveness. It receives current and accurate information on compliance with the law and internal regulations, identified irregularities and the management actions undertaken to remove these issues, completeness and correctness of accounting procedures as well as the adequacy, functionality and security of the IT systems. The Risk Oversight Committee and the Audit and Compliance Committee are updated on a regular basis on the operation of the internal control system from the units of the second and third lines of defence which facilitates the on-going monitoring of the system's effectiveness.

The control findings are taken into account and used to improve the existing processes and safety by making relevant changes to internal processes and regulations. These are regularly verified by the Internal Audit Area.

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 on-going 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. Annual reports on operations of the Disclosure Committee are subject to a review by the Audit and Compliance Committee which subsequently recommends them to the Supervisory Board.

The Audit and Compliance Committee reviews Financial Statements, Management Board Report on the Group's Performance and additional reports (such as Information on Capital Adequacy of the Group) prepared as part of financial reporting on a half-yearly and yearly basis, and submits them to the Supervisory Board with appropriate recommendation. Every half-year the Audit and Compliance Committee gets acquainted with the outcome of external auditor's work (review or audit, respectively), in particular with key risks within the scope the auditor's analysis and conclusions arising from auditing activities.

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.

### **3. ASSESSMENT OF THE RISK MANAGEMENT SYSTEM**

Bank Zachodni WBK has an integrated risk management framework ensuring that all risks having material impact on the Bank's operations are identified, measured, monitored and controlled. In the Supervisory Board's opinion, this framework is appropriately matched to the Bank's size and risk profile. The Bank optimizes the risk management framework on a regular basis, adapting it to the changing environment and risk profile associated with the planned strategy.

The responsibility for the management of individual risks was split between the Bank's organizational units that are supported by relevant Committees. The risk management strategy is set by the Risk Management Committee (RMC) overseeing the activity of other Committees

having risk management authority. The fact that Members of Management Board and senior management sit on key Committees ensures senior management engagement in the risk management of the Bank.

One of the basic elements of the risk management framework of Bank Zachodni WBK is setting the levels of risk that the Bank is ready to accept in its day-to-day business. The acceptable risk level is expressed in the form of quantifiable limits set out in the BZ WBK Group Risk Appetite Statement approved by the Management Board and the Supervisory Board. The Bank conducts a detailed review of the limits with regard to the existing and potential risks, market conditions as well as the financial and capital plan at least once a year. Stress-testing and scenario analyses represent the key tool used to analyse the limits and ensure that the Bank retains an adequate capital position even in extreme and severe circumstances.

The Bank has methodologies and processes in place to identify and assess risks to determine their potential impact on the Bank's operations now and in the foreseeable future. With a view to identifying and assessing risks for the entire organisation, the review of material risks is carried out as part of the ICAAP process. Identified risks are managed using policies and best practices to keep them at an acceptable level. The Bank uses various risk assessment and measurement techniques depending on risk type and materiality, including:

- Customer and/or transaction grading models - for credit risk assessment purposes;
- VAR methodology for market risk; and
- Operational risk self-assessment methodologies.

The comprehensive risk management framework is supported by a consistent and transparent system aimed at monitoring and reporting risk levels and excesses against defined limits. The reporting system covers key management levels. The Supervisory Board receives regular reports assessing the level of identified risks and reports assessing the effectiveness of actions taken by the Bank's Management Board.

The Bank aims to keep the right risk/reward balance. Support for the Bank's development strategy, while retaining best in class risk management standards and compliance with the regulatory environment, is amongst the key assumptions underlying the risk management process.

In 2015, credit portfolio growth of all major segments (personal, SME, and corporate customers) was observed, maintaining an acceptable risk level at the same time. The Bank thoroughly analysed the macroeconomic market fluctuations and closely monitored the risk exposure, thus adjusting, on an ongoing basis, the risk management policy parameters to the changing market climate in order to keep the risk profile safe.

The Bank continued its ongoing work aimed at strengthening the risk assessment tools, in particular by introducing innovative data sources in risk analysis. With regard to the lending process, it is worth pointing to the fact that in 2015, the Bank continued work within the iRisk Programme, which is aimed at implementing the Advanced IRB method for calculating internal capital as well as the optimization of credit processes for all customer segments through deployment of appropriate workflow tools (to accelerate and simplify the process by replacing multiple IT applications used for credit process with a single tool). Under the iRisk Project, a Workflow Tool for corporate customers segment was implemented in 2015, which allowed to automate numerous tasks of employees participating in the credit process and at the same time a reduce the time required for processing credit applications and limit the probability of manual errors.

A demanding legal environment made the Bank heavily involved in getting adjusted to regulatory requirements, in particular the new restructuring law, Recommendation W and Volcker Rule. As regards projects supporting risk management, in 2015, the Bank placed the highest priority on the

RDA project which seeks to ensure consistency of data systems and reporting sources, including data used for risk management, across the Bank.

As far as risk governance framework is concerned, the Bank established a new committee within the Risk Management Forum, called the Information Management Panel. The Panel takes decisions concerning the processes of data management in Bank Zachodni WBK S.A. in a way that allows for appropriate risk management.

#### **4. ASSESSMENT OF COMPLIANCE RISK MANAGEMENT**

Bank Zachodni WBK S.A. manages compliance risk through the activities of:

- the Legal and Compliance Division, relating to the “conduct of business” compliance obligations, in particular with regard to: protection of consumer rights, implementation and sale of new products, prevention of money laundering, ethical issues, protection of sensitive information, protection of personal data and conflict management;
- specialist units, responsible for identification and interpretation of other legal and regulatory requirements relating to the Bank as a legal entity (e.g. with respect to labour law, taxes, reporting or prudential standards);
- specialist committees that are supervised by the Risk Management Committee.

The compliance risk management policy adopted by the Bank’s Management Board and approved by the Supervisory Board provided the Compliance Area with mandate to effectively support management in the process of managing compliance and reputational risk. The Compliance Area reports to the Risk Management Committee and Audit and Compliance Committee of the Supervisory Board which ensure the fulfilment of regulatory obligations and approve internal control principles and compliance policy framework. As part of the process of compliance risk management, the Audit and Compliance Committee regularly reviews key compliance issues identified by the Compliance Area and Anti-Money Laundering Department.

Mitigation of legal and regulatory risk, maintenance of proper relations with market regulators and provision of support to the authorities of the Bank and Bank Zachodni WBK Group in the process of taking strategic decisions with respect to ensuring compliance, as well as implementation of uniform standards of compliance risk management in the Group’s subsidiaries are achieved on the basis of the following measures in particular:

- independent identification, monitoring and assessment of compliance risk;
- providing advice and reporting to the Risk Management Committee, the Bank’s Management Board and Audit and Compliance Committee on the effectiveness of processes established to ensure compliance with legal and regulatory requirements;
- communication of policies and procedures, providing the management and staff with guidance on compliance risk management;
- coordination of contacts with market regulators (KNF, UOKiK, GIIF, GIODO);
- coordination of the approval of new products;
- strengthening of the principles regarding ethical business conduct and building the corporate governance culture in the organisation.

The key units responsible for managing reputational risk in Bank Zachodni WBK S.A. are: Compliance Area and Corporate Communication and Marketing Area. These units protect the Bank’s image, limiting and eliminating any negative events that might affect the Bank’s image and performance. To this end, they use a number of risk mitigants for reputational risk, the key ones being:

- Disclosure Policy of Bank Zachodni WBK;
- Monitoring of the Polish and some foreign media and social media;
- Customer satisfaction survey and dealing with customer claims;

- Preparation and control of all important communiqués and reports for shareholders, the Polish Financial Supervision Authority (KNF) and the Warsaw Stock Exchange and the timely publication of such communiqués and reports;
- Review of new products or changes to existing products as well as their related internal regulations, as well as communications, advertising materials and initiatives addressed to customers, including promotions and competitions, training materials for front-line employees pertaining to the ethical conduct of business;
- Supervision of the after-sales process and mystery shopping analyses in relation to investment products.

In 2015, the Compliance Area was strongly involved in the work on adaptation of the Bank to regulatory requirements, particularly with respect to compliance with: Recommendation U, MiFID II, Volcker Rules and FATCA/CRS.

With regard to changes in compliance risk management processes, the Bank implemented a revised methodology of estimating regulatory risk whereby a map of compliance risk in the organisation was created. By means of this tool, which is updated each year, the Bank will be able to precisely determine the areas of activity where compliance risk mitigants should be strengthened in the first place.

As a major change designed to reinforce reputational risk assessment, the Bank started work on the implementation of the process of estimating the Bank's business risk in each phase of the product lifecycle (development, sales and after-sales service).

In line with the Policy on compliance risk management in Bank Zachodni WBK, each year the Supervisory Board assesses the effectiveness of compliance risk management in BZ WBK. Last time the assessment was made in October 2015. On its basis, the Supervisory Board received assurance that the Compliance Area duly fulfilled its role and had the necessary resources to do so. The Compliance Area's representatives sit on the Bank's Committees requiring their presence. All projects are reviewed by the Compliance Area as required. In particular, the Supervisory Board emphasised the Compliance Area's active role in raising awareness of business ethics and anti-money laundering issues or developing and coordinating the savings and investment product certification process. Furthermore, the Supervisory Board noted that the compliance risk management was effective and adequate to the Bank's business scale and needs and that it did not expose the Bank to the risk of regulatory sanctions, financial losses or loss of reputation caused by non-compliance with the law, regulatory guidelines, standards and codes of conduct applicable to its operations.

## 5. INTERNAL AUDIT FUNCTION ASSESSMENT

Pursuant to Par. 41 sec. 2 of the KNF resolution 258/2011, the Bank's Management Board assesses the effectiveness of the internal audit unit, based on documents prepared by the BZW BK Group Chief Internal Auditor.

The Bank's Management Board assessed the functioning of internal audit function as efficient and effective covering adequately all units across the Bank and subsidiaries which was confirmed by the last assessment conducted in 2015.

Notwithstanding the above, the Supervisory Board assesses the internal audit function upon each presentation of the report on the performance of the Internal Audit Area to the Audit & Compliance Committee.

The Internal Audit Area has got adequate mandate and organisational structure to carry out its responsibilities independently. The BZ WBK Group Internal Auditor has got a direct access to the Chairman of the Audit and Compliance Committee, he also participates in all meetings on this Committee. In addition, in 2015 he participated in many meetings of the Management Board and was also the member of the Risk Management Committee (without the voting right) which

provided him with full insight into the operations of those bodies and a possibility to present his opinion. This confirms that the established Internal Audit function's mandate allows for unrestricted access to all information and records.

The Internal Audit Area has resources sufficient to carry out responsibilities both in terms of the number of auditors and the adequacy of skills. Moreover, continuous development is being enhanced with professional certifications. The remuneration level in the Internal Audit Area as well as the training plans are regularly reported to and reviewed by the Audit and Compliance Committee.

Internal Audit Area's policies and practices are adequate. The internal audit methodology reflects the current professional standards and enables the identification of significant risks in BZ WBK Group:

- The annual audit planning is based on a comprehensive risk assessment process and clearly identifies audit objectives and scope of work. In line with the adopted audit methodology both the requirements of the senior management (Supervisory Board, Management Board) and of the Regulator were covered in 2015 Audit Plan. It was fully executed. The Bank's Management Board assessed that the Plan covered all significant issues and ensured an independent and objective manner of reviewing and assessing controls applied as part of the first and second line of defence and the Bank's management system, including the effectiveness of managing risk related to the Bank's operations.
- Internal Audit function has got the authority to follow up with management on actions taken to audit findings. Issued recommendations are monitored and their implementation status is regularly reported to the appropriate bodies. The Management Board highlighted, among others, the fact that audit findings were used to improve the existing processes and operational security.
- There are adequate policies and practices to monitor the quality of internal audit work that are compatible with professional standards and the approved methodology. The quality assurance report is presented to the Audit and Compliance Committee on an annual basis.

## **6. ASSESSMENT OF THE SPONSORING AND CORPORATE GIVING POLICY OF BANK ZACHODNI WBK S.A.**

The sponsoring and corporate giving policy of Bank Zachodni WBK S.A. is laid down in the document "Strategy behind sponsoring actions and sponsoring action plan of Bank Zachodni WBK S.A.". Delivery of the Policy is the responsibility of the Sponsorship and Relationship Projects Office and the Foundation of Bank Zachodni WBK.

In the opinion of the Supervisory Board, the Policy is operated rationally and responsibly, which is confirmed by the activities described below.

The projects delivered in this area focus on:

- sharing the Polish culture values with a wide audience (Bank for the aspiring, affluent segment);
- preservation of historical memory and national heritage (the third bank in Poland);
- support for the development of the Polish education (we invest in the future, employer branding-type actions which build the image of the Bank as a good employer);
- sport as a local community integration tool (we a partner);
- projects significant from the perspective of local communities (image, contacts, relations).

The projects are primarily designed to: strengthen the Bank's image as the third largest bank in Poland; promote the Bank's corporate giving activity through the Foundation of Bank Zachodni

WBK S.A.; build the Bank's image as a strong and resilient institution with nation-wide operations.

For the last several years, the Bank has been among the top three franchises in Poland. In 2015, the level of unaided and aided brand awareness was 40% and 90% respectively. For the first time we also found ourselves among the top three banking institutions named by Poles as their main bankers. This is a result of our effective marketing and image-building campaigns, including sponsoring and social projects.

These activities take place both at the central and local level. The key projects include: Santander Orchestra, "From Cranach to Picasso. Santander Collection"; the 17th Fryderyk Chopin International Piano Competition; competition for a comic book on economics; EFC Academy; Economic Forum; European Financial Congress; Wrocław Global Forum. In 2015, actions were continued to counteract social exclusion and to support the "Barrier-Free Banking Service" programme.

Each year, the Foundation of Bank Zachodni WBK delivers an average of 350 contracts with social partners. The key recurring projects of the Foundation include Bank of Children's Smiles and the Bank of Ambitious Youth.

The Bank's sponsorship and charitable giving activities also support the key directions of the Corporate Social Responsibility and Sustainable Development Policy of Bank Zachodni WBK, which are based on five pillars: support for third-level education; scientific research and entrepreneurship; activities for local communities; environmental protection and active dialogue with stakeholders. The Bank was also recognised in the competition for the Best CSR Report for its reliability and comprehensive approach to data presentation, which makes the document a good tool for taking investment decisions.

#### **IV. ASSESSMENT OF THE BANK'S MANNER OF FULFILLING DISCLOSURE REQUIREMENTS WITH REGARD TO THE CORPORATE GOVERNANCE RULES SET OUT IN THE WSE RULES AND REGULATIONS PERTAINING TO CURRENT AND PERIODIC INFORMATION PUBLISHED BY ISSUERS OF SECURITIES**

The obligation to assess the Bank's manner of fulfilling disclosure requirements with regard to the application of the corporate governance rules arises directly from rule II. Z. 10 of the Best Practice for GPW (the WSE) Listed Companies 2016. The Best Practice became effective on 1 January 2016 pursuant to Resolution no. 26/1413/2015 issued by the Stock Exchange Supervisory Board on 13.10.2015.

The WSE Resolution was adopted by the Bank by force of the Management Board Resolution no. 160/2015 dated 2.12.2015 and, subsequently, approved by the Supervisory Board.

In compliance with the above rule, the Supervisory Board performs its obligations related to the Annual General Meeting of Shareholders to be convened in 2016.

##### **The manner of performing disclosure requirements re. corporate governance by the Bank**

Last year, the Corporate Legal Governance Office assigned individual rules to specific business owners and obtained feedback confirming the application of best practice applicable until 31.12.2015. Given the above, the Bank did not need to report on non compliance with any of the rules. Such an obligation was set out in § 29 sec. 3 of the WSE Rules in line with the "comply or explain" formula whereby a non-adherence or incidental non-adherence to a given rule triggers an obligation for the company to notify of the fact immediately.

The required statement on compliance with the corporate governance rules arising from the Best Practice is reported by way of the “Corporate Governance Statement for 2015” published in the annual report. That is tantamount to the fulfilment of the obligation to provide the Stock Exchange with a report on the application of the corporate governance rules (pursuant to 91 sec. 5 it. 4 of the Finance Minister Ordinance of 19<sup>th</sup> February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-Member State may be recognised as equivalent, the WSE Rules -§29 sec. 5 and §1 of Resolution no. 1013/2007 issued by the WSE Management Board on 11<sup>th</sup> December 2007 in relation to Resolution no. 718/2009 issued by the WSE Management on 16<sup>th</sup> December 2009).

The statement will be included in one of chapters of the Management Board Report on Bank Zachodni WBK Group performance in 2015 (published on 12<sup>th</sup> February 2016). The report for 2014 was also published in a similar manner in the annual report made available to the public domain on 6<sup>th</sup> March 2015.

Given the above, the fulfilment by the Bank of disclosure requirements in relation to the adherence to the Corporate Governance Rules is assessed positively.

## **V. ASSESSMENT OF COMPLIANCE WITH THE OF CORPORATE GOVERNANCE RULES FOR SUPERVISED INSTITUTIONS**

As of 1 January 2015, Bank Zachodni WBK S.A. has adhered to the Corporate Governance Rules for Supervised Institutions (Corporate Governance Rules) introduced by force of Resolution No. 218/2014 issued by the Polish Financial Supervision Authority on 22<sup>nd</sup> July 2014. The Rules were adopted by force of the Bank’s Management Board Resolution no. 116/2014 dated 9<sup>th</sup> October 2014 and approved by force of the Supervisory Board Resolution no. 58/2014 dated 17<sup>th</sup> December 2014. Subsequently, the Corporate Governance Rules were adopted by force of Resolution no. 29 issued by the Annual General Meeting of Shareholders on 23<sup>rd</sup> April 2015.

With a view to ensuring the adequate performance of obligations stemming from the Corporate Governance Rules, the Bank precisely defined business units (the so called business owners) responsible for the adherence to and implementation of assigned rules in line with the business function. Therefore, the Bank ensured the implementation of all rules and developed a relevant control system. The following units, amongst others, were responsible for the fulfilment of the rules: Accounting and Financial Control Division, Business Partnership Division, Risk Management Division, Legal and Compliance Division, Financial Management Division, Retail Banking Division, Global Corporate Banking Division, Corporate Communication & Marketing Area, Customer Care Officer, Recovery and Asset Restructuring Area, Internal Audit Area as well as the Bank’s Management Board and Supervisory Board.

It should be highlighted that throughout 2015 all business owners supervised the adherence of their reporting units to the Corporate Governance Rules. With a view to fulfilling their obligations, the business owners regularly reviewed conducted operations and internal regulations in terms of compliance with the Corporate Governance Rules. The Corporate Legal Governance Office in the Legal and Compliance Division coordinated relevant works, provided advice and actively cooperated with individual business owners.

In November 2015, all business owners were obliged again to indicate the current status of adherence to the rules in their reporting units. In addition, the business owners were to report on potentially required adjustment actions. All business owners duly fulfilled their obligations - confirmed the application of the Corporate Governance Rules by their reporting units and indicated adjustment actions taken, amongst others, due to external factors, e.g. changes in commonly applicable provisions of law. The above-mentioned adjustment actions referred, amongst others, to the operations of the Customer Care Officer in relation to the Act on handling

complaints by the financial market operators and on the financial ombudsman, dated 5 August 2015 which contributed to the implementation of relevant changes in internal regulations.

Given the above, it should be assessed that the process aimed at implementing in the Bank the Corporate Governance Rules was carried out adequately. The process was subject to current, in-depth supervision by the business owners who took actions required to adjust the Bank's internal regulations. Additionally, the coordination process and cooperation amongst the business owners with regard to joint fulfilment of some rules were also effective.

In view of the above, the adherence of the Bank to the Corporate Governance Rules is assessed positively.

## **VI. ASSESSMENT OF THE REMUNERATION POLICY OF BANK ZACHODNI WBK**

Under the Act on macro-prudential oversight and crisis management in the financial system of 5 August 2015 amending the Polish Banking Act and implementing the CRD IV, the Bank has an obligation to develop and implement remuneration policies applicable to various categories of staff whose professional activities have a material impact on the risk profile of the institution. Such policies cover remuneration and discretionary pension benefits within the meaning of art. 4(1)(73) of the Regulation no. 575/2013, hereinafter referred to as the Remuneration Policy (art. 9ca(1)).

In addition, pursuant to the Corporate Governance Rules approved by Resolution no. 29 issued during the Bank's Annual General Meeting on 23 April 2015, the supervising body should present the legislative body with a report on the Remuneration Policy of the supervised institution on an annual basis.

The Bank implemented its remuneration policies for the supervisory body members, its management body members and key function holders in accordance with the Corporate Governance Rules. The Remuneration Policy defines the way in which the remuneration of supervisory body members, management body members and key function holders is determined.

The Remuneration Policy is linked to the organization's strategic objectives, both short-term and long-term ones, its long-term interests and performance. It also provides safeguards against discrimination on any ground.

Acting in accordance with the resolution no. 258/2011 issued by the Polish Financial Supervision Authority ("KNF") on 4 October 2011 regulating issues such as risk management and internal control, banks' internal capital assessment and review of banks' internal capital assessment and maintenance and determination of variable remuneration of key function holders, the Bank implemented its Policy on variable remuneration components of key function holders. The Policy supports sound and effective risk management and does not encourage excessive risk-taking behaviours, beyond the risk appetite approved by the Supervisory Board in Bank Zachodni WBK Group's Risk Appetite Statement. It also supports the Group's business strategy and prevents conflicts of interest.

The Remuneration Policies were reviewed in 2015 in order to ensure compliance with the abovementioned Act and the Corporate Governance Rules.

The Supervisory Board performed oversight of the implemented remuneration policy, also by verifying whether the criteria and conditions for variable remuneration have been fulfilled prior to the payment of the variable remuneration, either in part or in full.

According to the Supervisory Board, the Policy supports the Bank's growth and security as well as sound and effective risk management and is compatible with its business strategy, objectives, values and long-term interests.

The abovementioned assessment reflects the results of the review of the Policy on variable remuneration components of key function holders in the Bank carried out in July 2015 by the Internal Audit Area and the recommendations arising from the issue inspection conducted at the Bank in May 2015 by the KNF.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 81,201,252 were in favor of the resolution, 1,055,312 abstained and 0 were against.**

*re: item 10 of the agenda*

**RESOLUTION NO. 20 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Chairman of the Supervisory Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§ 1

Mr. Gerry Byrne, the Chairman of the Bank's Supervisory Board, is granted the word of approval for performance of his duties in the period from 1.01.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 21 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Supervisory Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§ 1

Mr. José Antonio Alvarez, the member of the Bank's Supervisory Board, is granted the word of approval for performance of his duties in the period from 1.01.2015 to 5.02.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 22 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Supervisory Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§ 1

Mr. José García Cantera, the member of the Bank's Supervisory Board, is granted the word of approval for performance of his duties in the period from 23.04.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 23 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Supervisory Board for performance of her duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§ 1

Ms. Danuta Dąbrowska, the member of the Bank's Supervisory Board, is granted the word of approval for performance of her duties in the period from 1.01.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 24 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Supervisory Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§ 1

Mr. David R. Hexter, the member of the Bank's Supervisory Board, is granted the word of approval for performance of his duties in the period from 01.01.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 25 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Supervisory Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§ 1

Mr. Witold Jurcewicz, the member of the Bank's Supervisory Board, is granted the word of approval for performance of his duties in the period from 1.01.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 26 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Supervisory Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§ 1

Mr. José Luis De Mora, the member of the Bank's Supervisory Board, is granted the word of approval for performance of his duties in the period from 1.01.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 27 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Supervisory Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§ 1

Mr. John Power, the member of the Bank's Supervisory Board, is granted the word of approval for performance of his duties in the period from 1.01.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 28 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Supervisory Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§ 1

Mr. Jerzy Surma, the member of the Bank's Supervisory Board, is granted the word of approval for performance of his duties in the period from 1.01.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 29 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Supervisory Board for performance of his duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§ 1

Mr. José Manuel Varela, the member of the Bank's Supervisory Board, is granted the word of approval for performance of his duties in the period from 1.01.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**RESOLUTION NO. 30 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**on giving discharge to the Member of the Supervisory Board for performance of her duties**

Pursuant to art. 395 § 2 point 3 of the Commercial Companies Code, the following is hereby resolved:

§ 1

Ms. Marynika Woroszyńska-Sapieha, the member of the Bank's Supervisory Board, is granted the word of approval for performance of her duties in the period from 1.01.2015 to 31.12.2015.

§ 2

The resolution becomes effective as of the date of its adoption.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 82,255,734 were in favor of the resolution, 830 abstained and 0 were against.**

**re: item 11 of the agenda**

**RESOLUTION NO. 31 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**concerning amendments to the Bank's Statutes**

§ 1

Pursuant to Article 430 of the Polish Commercial Companies Code, the following amendments to the Bank's Statutes are introduced:

- 1) § 11 shall now read as follows:  
"§ 11. Bearer shares are shares admitted to trading on the regulated market.";
- 2) § 19 section 2 shall now read as follows:  
"2. The Annual General Meeting should be held annually, not later than by the end of June every year.";<sup>1</sup>
- 3) § 19a section 2 shall now read as follows:  
"2. The detailed rules of participation in the General Meeting in the manner referred to in section 1 above shall be defined by the Management Board and the Terms of Reference of the General Meetings of Bank Zachodni WBK S.A.";
- 4) § 20 section 2 shall now read as follows:  
"2. The Supervisory Board can convene the Annual or Extraordinary General Meeting in the circumstances specified in the Commercial Companies Code and when the Management Board fails to convene Extraordinary General Meeting within two weeks of the date of submitting such a request by shareholders who represent at least one tenth of the share capital."
- 5) § 21 shall now read as follows:  
"§ 21. The Supervisory Board provides an opinion on the issues to be decided by the General Meeting, except for the issues related exclusively to the Supervisory Board. A rationale for such issues should be provided if it would aid shareholders in the decision.";
- 6) § 24 section 2 shall now read as follows:  
"2. Purchase or disposal of real estate, perpetual usufruct rights or a share in real estate does not require a resolution of the General Meeting.";
- 7) § 26a section 1 shall now read as follows:  
"1. From amongst its members the Supervisory Board appoints an audit committee, a risk committee, a remuneration committee and may appoint other committees to support and facilitate the work of the Supervisory Board.";
- 8) in § 32:
  - a) point 7 shall now read as follows:  
7) determine remuneration of the President of the Management Board and Management Board members,"
  - b) point 11 shall now read as follows:  
"11) apply to the Financial Supervision Authority for a consent to appoint two members of the Management Board of the Bank, including the President of the Management Board",
  - c) point 12 shall now read as follows:  
"12) inform the Financial Supervision Authority:
    - a) on other Management Board members and, each time, on changes to the Management Board composition,
    - b) whether the Management Board members meet the criteria specified in the Banking Law, following a relevant assessment in this regard,
    - c) on the approval and modification of the internal split of responsibilities in the Management Board of the Bank, including information on the Management Board member who is responsible for the management of risk material to the Bank's operations;"
  - d) in point 18 the full stop shall be replaced with a comma and the following points 19 and 20

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<sup>1</sup> the purpose of this amendment, and of some of the subsequent ones, is to remove the word „Akcjonariuszy” (“Shareholders”) from the phrase “Walne Zgromadzenie Akcjonariuszy” (“General Meeting of Shareholders”). In some instances, the corresponding English text of the Statutes remains unchanged, as it already uses the phrase “General Meeting” (translator’s note).

- shall be added:
- „19) approval of the remuneration policy for various categories of persons whose professional activities have a material effect on the Bank’s risk profile, as defined by the Management Board,
  - 20) approval of the internal split of responsibilities between the members of the Management Board, as determined by the Management Board.”;
- 9) in § 37:
- a) section 2 shall now read as follows:  
“2. The Bank’s Management Board determines, and the Supervisory Board approves, the internal split of responsibilities between the members of the Management Board.”,
  - b) in section 3 point 2 shall now read as follows:  
2) the Management Board member, the appointment of whom requires approval of the Financial Supervision Authority, is in charge of the supervision over the management of risk material to the Bank’s operations.”;
- 10) § 37a point 7 shall be deleted;
- 11) § 41 section 1 point 1 shall now read as follows:  
“1) the Business Support Centre – acting as the head office;  
The following units operate within the Business Support Centre: divisions, areas, departments, centres, offices and stand-alone teams.”;
- 12) in § 42:
- a) sections 1 and 2 shall now read as follows:  
“1. The Bank operates an internal control system, whose purpose is to ensure:
    - 1) effectiveness and efficiency of the Bank’s activities,
    - 2) reliability of financial reporting,
    - 3) conformity to risk management rules in the Bank,
    - 4) compliance of the Bank’s actions with legal requirements, internal regulations and market standards.
 2. The following entities operate within the Bank’s internal control system:
    - 1) control function, which is tasked with ensuring the observance of control mechanisms related in particular to risk management in the Bank, and which includes positions, groups of persons or organisational units responsible for the performance of tasks assigned to this function,
    - 2) compliance function, which is tasked with identifying, assessing, controlling and monitoring the risk of non-compliance of the Bank’s actions with legal requirements, internal regulations and market standards, as well as with presenting reports in this regard,
    - 3) independent internal audit function, which is tasked with independent and objective testing and assessment of the adequacy and effectiveness of the risk management system and internal control system, excluding the internal audit function.”,
  - b) section 3 shall be deleted,
  - c) sections 6 and 7 shall now read as follows:  
“6. The Supervisory Board opines on the appointment of the head of internal audit as well as termination of his/her employment and rules of remunerating members of the internal audit function. The remuneration of the head of internal audit is set on the basis of the audit committee and remuneration committee.  
7. The audit committee of the Supervisory Board supervises the activity of the internal audit function.”;
- 13) § 44 shall now read as follows:  
“§ 44. The Bank’s own funds include:
  - 1) share capital,
  - 2) supplementary capital,
  - 3) reserve capital which comprises:
    - a) profit allocations made in accordance with the Statutes,
    - b) valuations of the Bank’s employee share incentive schemes,
    - c) first revaluation of fixed assets under International Financial Reporting Standards,
    - d) amounts arising from the Bank’s merger (as acquirer) with another bank or credit institution which is the Bank’s subsidiary or with other connected entities controlled together with the Bank by another company,
  - 4) general risk fund for unidentified banking business risk.”.

§ 2

The amendments to the Statutes in the scope defined in § 1 points 7-10 and points 12-13 require the consent of the Financial Supervision Authority.

§ 3

The Supervisory Board shall be authorized to determine the consolidated text of the Bank's Statutes.

§ 4

The Resolution becomes effective upon registration of the foregoing amendments to the Statutes by a relevant registry court.

**82,256,564 valid votes were cast on the resolution, out of 82,256,564 shares representing 82.89% of the Bank's share capital. Out of the total number of the valid votes 81,201,252 were in favor of the resolution, 1,055,312 abstained and 0 were against.**

**RESOLUTION NO. 32 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**concerning amendments to the Bank's Statutes**

§ 1

Pursuant to Article 430 of the Polish Commercial Companies Code, the Bank's Statutes shall be amended by adding § 54 in the following reading:

“§ 54

Bank performs activities related to submitting electronically, through the Bank's IT systems, applications for determining a person's right to childcare benefits and ones related to providing the social insurance company (Zakład Ubezpieczeń Społecznych, ZUS), at the request of the Bank's customer, with authorization information required for opening an account in the system made available by the social insurance company.”.

§ 2

The Supervisory Board shall be authorized to determine the consolidated text of the Bank's Statutes.

§ 3

The Resolution becomes effective upon registration of the foregoing amendments to the Statutes by a relevant registry court.

**83,299,843 valid votes were cast on the resolution, out of 83,299,843 shares representing 83.94% of the Bank's share capital. Out of the total number of the valid votes 82,244,531 were in favor of the resolution, 1,055,312 abstained and 0 were against.**

*re: item 12 of the agenda*

**RESOLUTION NO. 33 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**re.:defining the maximum level of the ratio between the fixed and variable components of remuneration of the individuals holding management positions with Bank Zachodni WBK Group**

Pursuant to Article 395 § 5 of the Commercial Companies Code,

and considering that:

- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on 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 (OJ EU L 176/338) (“**Directive**”) requires that the variable component of remuneration of the persons 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 of each such person. Furthermore, the Directive stipulates that 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.
- Pursuant to the Act of 4 August 2015 on macro-prudential supervision over the financial system and crisis management in the financial system (Journal of Laws 2015, item 1513), which amended the Banking Law Act of 29 August 1997 (Journal of Laws 2015, item 128) (the “**Banking Law**”), the Directive was implemented into Polish law, but before the adoption of the Resolution, the minister responsible for financial institutions, has not yet issued (as per his authorisation provided for in Article 9f(1)(2) of the Banking Law) any regulation that would lay down details of the remuneration policy or the method of its preparation, therefore it is possible to implement the provisions of the Directive that allow shareholders to approve a higher maximum level of the ratio between the fixed and variable components of remuneration;
- The Bank operates a remuneration policy for individual categories of the persons whose professional activities have a material impact on the Bank's risk profile, with such persons being identified using the rules laid down 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 (OJ EU L 167) (“**individuals holding management positions with BZWBK Group**”);
- If the above provisions of the Directive are implemented and Poland introduces legislation that permits shareholders to approve a higher maximum level of the ratio between the fixed and variable components of remuneration, the General Meeting shall be authorised to approve a higher maximum level of the ratio between the fixed and variable components of remuneration provided at 200% of the fixed component of the total remuneration for each person from the category of “individuals holding management positions with BZWBK Group” as the current bonus rules relating to variable components of remuneration for the persons from the above category provide for a possibility to make payments in excess of 100% of the fixed component of total remuneration. In addition, a long-term incentive scheme was put in place, closely connected with the performance of BZWBK Group, with the value of the scheme to be included in the limit of variable components of remuneration relative to fixed remuneration. This resolution will help avoid potential incompatibility with the EU law (i.e. the national provisions that transpose the EU solutions) if the limit set in the Directive is exceeded; furthermore, the resolution allows the organisation to operate an optimal remuneration policy for the persons holding management positions with BZWBK Group;
- The higher maximum level of the ratio between the fixed and variable components of remuneration will have a neutral impact on the requirement to maintain an adequate capital base.

It is hereby resolved as follows:

## § 1

The Annual General Meeting of Shareholders hereby approves the maximum level of the ratio between the fixed and variable components of remuneration at 200% of the fixed component of the total remuneration for each person from the category of “individuals holding management positions with BZWBK Group”.

## § 2

1. The Supervisory Board shall be authorised to make binding interpretations of this Resolution where any interpretation issues are raised by any individual holding a management position with BZWBK Group.
2. The Supervisory Board shall be authorised to formulate recommendations as to the method of application of this Resolution.

## § 3

This Resolution shall become effective if the provisions of the Directive that allow the maximum ratio between the fixed and variable components of remuneration to be set at a higher level than 100% are implemented into Polish law.

**83,299,843 valid votes were cast on the resolution, out of 83,299,843 shares representing 83.94% of the Bank’s share capital. Out of the total number of the valid votes 82,215,373 were in favor of the resolution, 1,060,115 abstained and 24,355 were against.**

*re: item 13 of the agenda*

**RESOLUTION NO. 34 OF THE ANNUAL GENERAL MEETING  
OF BANK ZACHODNI WBK S.A.**

**re. adopting the “Policy on selection and suitability assessment of Supervisory Board members of Bank Zachodni WBK”**

Acting pursuant to art. 395 §5 of the Commercial Companies Code and taking into consideration principles stipulated by guidelines of the European Banking Authority of 22 November 2012 on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2012/06) (hereinafter the “**Guidelines**”), whereby credit institutions should have a policy on selection and suitability assessment of members of the management body with supervisory function and taking into consideration the principle of equal treatment and the need to keep balance in terms of expertise, skills and experience of Supervisory Board Members,

the following Resolution is adopted:

§ 1

“Policy on selection and suitability assessment of Supervisory Board members of Bank Zachodni WBK” representing an appendix to this resolution is hereby introduced.

§ 2

In the report on the Supervisory Board operations for a given year, the Supervisory Board presents the Annual General Meeting with information on the functioning of the Policy.

§ 3

The Resolution becomes effective as of the day of its adoption.

# Bank Zachodni WBK



**POLICY ON SELECTION AND SUITABILITY ASSESSMENT OF  
SUPERVISORY BOARD MEMBERS IN BANK ZACHODNI WBK**

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## 1. INTRODUCTION

In order to ensure appropriate management of the banking business risk and selection of Supervisory Board members, the Bank hereby implements this Policy on selection and suitability assessment of Supervisory Board Members in Bank Zachodni WBK S.A. (the "Policy") in accordance with the European Banking Authority's guidelines issued on 22 November 2012 on the assessment of the suitability of members of the management body and key function holders, guidelines issued on 27 September 2011 on internal governance, and the applicable banking Act and the Polish commercial companies code.

When selecting individuals to the positions of the Supervisory Board members, the Bank strives to ensure that candidates for those positions have professional skills appropriate for their job roles, the required experience and impeccable reputation both in their professional and private lives.

Promoting the policy of diversity, the Bank takes all reasonable efforts to ensure that candidates for the positions of the Supervisory Board members have a wide range of personal characteristics and skills important for correct delivery of duties and are able to make independent judgements and opinions.

## 2. GENERAL RULES

### Par. 1

1. This Policy applies to the Supervisory Board members and to candidates for the positions of the Supervisory Board members.
2. This Policy regulates the following issues applicable to persons covered by the Policy:
  - a) key qualification and reputation requirements,
  - b) the manner of documenting suitability assessments and their results,
  - c) the principles of supporting development and filling skill gaps.

### Par. 2

1. The assessment of the qualifications and reputation of individuals subject to this Policy is made at the selection stage or at a later stage when they already perform their duties in situations referred to herein.
2. There are two assessment methods:
  - a) individual,
  - b) collective – with respect to the Supervisory Board as a collective body.
3. The assessment is made by the relevant committee in charge of nominations for the Supervisory Board (the Committee).
4. The Committee may consult with independent experts if it finds it necessary for delivery of its duties.
5. The assessment is made on the basis of the criteria recommended by the Committee for Supervisory Board members and taking into account the principles specified in Chapter IV of the guidelines of the European Banking Authority no. EBA/GL/2012/06 issued on 22 November 2012 on the assessment of the suitability of members of the management body and key function holders.

6. The assessment is made on the basis of documents and statements collected during the assessment process which confirm the qualifications and reputation of the assessed individuals and on the basis of individual meetings with them.
7. The Committee provides the Supervisory Board with the report on the delivery of actions covered by this Policy.

### **Par. 3**

1. The assessment criteria are related to the duties and responsibilities of individual job roles and cover the assessed persons' skills, professional experience and reputation requirements in the context of the Bank's business profile and scale.
2. The assessment criteria form the Competence Profile which sets out in detail the assessment criteria and is used as a point of reference in the assessment process.
3. The reputation assessment is made by analysing the extent to which the assessed individual meets the reputation requirements after which the Committee concludes whether those requirements are met or not. The list of reputation requirements is provided in the Competence Profile of the assessed individual.
4. The Competence Profile of a given person is revised when their scope of duties changes materially.
5. The Individual Competence Profile template for the Supervisory Board members is attached as Appendix 1 hereto.

### **Par. 4**

1. Suitability assessments are made in the following situations:
  - a) planned appointment of a given candidate to a position of the Supervisory Board member,
  - b) significant changes in the Competence Profile referred to in Par. 3(4),
  - c) assessed individuals report material facts which might impact their assessment or the Committee comes into possession of such information, excluding information about the implementation of recommendations included in the Individual Development Plan referred to in Par. 8,
  - d) failure to fulfil the recommendations set out in the Individual Development Plan confirmed in a report prepared by the person responsible for developing the Individual Development Plan.
2. The Chairman of the Committee is responsible for collecting information required in the assessment process, whereas as regards the assessment of the Chairman, the Committee places this responsibility on one of its members.
3. In the case of Supervisory Board members, the assessment results are communicated to the assessed individual who may request the Committee to re-asses their suitability if they think that certain facts about their experience, qualifications or reputation were not taken into consideration. The assessed individual presents the Committee with their objections within 14 days from when the assessment results have been communicated to them.
4. The Committee has an obligation to consider those objections within 3 months from when presented to the panel and to decide whether the assessment should be changed or upheld. If it is impossible to meet the abovementioned deadline, the objections should be considered within the shortest possible time.

5. Documents used in the individual suitability assessment of Supervisory Board members are retained at the Management Board and Supervisory Board's Office.

#### **Par. 5**

1. Qualifications are assessed on the basis of information included in the Personal Questionnaire attached as Appendix 2 hereto. The Questionnaire provides details on the assessed individual's educational background, their professional career, duties and responsibilities in individual positions, performed functions, management experience and people management experience.
2. The information provided in the Personal Questionnaire should be supported by relevant documents or, in the absence of such documents, by a statement made by the assessed individual regarding their qualifications.
3. The Committee assumes that the assessed individual has an impeccable reputation based on their statement presenting specific events which affect their reputation, unless the assessment panel has access to documents proving otherwise.
4. If there arise reasonable doubts as to the assessed individual's reputation, the Bank may request that person for relevant explanations. The assessed individual may provide explanations by presenting relevant evidence and statements.

#### **Par. 6**

1. The objective of the collective assessment is to check whether the Supervisory Board as a collective body has the required skills to constructively challenge the decisions taken by the management function and effectively supervise this function, taking into consideration the scale and complexity of the Bank's operations, as well as the ability to hold constructive debates and make decisions. This objective is met when the qualifications of all of the Supervisory Board members treated collectively are in line with the Supervisory Board's collective qualification requirements.
2. The detailed competence requirements for the Supervisory Board are set out in the Collective Competence Profile attached as Appendix 3 hereto.
3. The Collective Competence Profile is revised when material changes in the scale or profile of the Bank's business occur, also as a result of the acquisition of a financial institution.
4. The assessment of whether the Supervisory Board collectively meets the reputation requirements is made on the basis of the assessment of individual Supervisory Board members' reputation.

#### **Par. 7**

1. Persons subject to this Policy should ensure that their skills and competences are adequate to their job roles and are being constantly developed.
2. Professional competences can be developed through performing duties related to or going beyond their job role or through training in various areas based on the Individual Competence Profile.
3. If such a need arises, the Bank will conduct an induction training for candidates for the Supervisory Board members positions preparing them for their new job roles.

#### **Par. 8**

1. If it is determined that the assessed individuals have certain competence gaps, Individual Development Plans are made to fill those gaps. Individual Development Plans are developed by

the Committee Chairman with the support of the Bank's organisational units responsible for development of the senior management, and in the case of the Committee Chairman – by the Committee member appointed by the Committee.

2. Reports on the delivery of Individual Development Plans are presented to the Committee following the lapse of the due dates set for implementing the recommendations set out in the Plans.

**Appendix 1 to the Policy on selection and suitability assessment of Supervisory Board members in Bank Zachodni WBK S.A.**

**Individual Competence Profile of a Supervisory Board member**

<b>Position:</b>		
<b>Key areas of responsibility</b>		
	- - -	
<b>No.</b>	<b>Criteria</b>	<b>Weight</b>
<b>1.</b>	<b>Education</b>	<b>....%</b>
<b>2.</b>	<b>Competence related to the key areas of responsibility</b>	<b>....%</b>
	- - -	
<b>3.</b>	<b>Professional work experience in the subject matter area, including experience in managing people</b>	<b>Period</b>
<b>4.</b>	<b>Personal competences</b>	<b>....%</b>
<b>5.</b>	<b>Reputation</b>	

**Appendix 2 to the Policy on selection and suitability assessment of Supervisory Board members in Bank Zachodni WBK S.A.**

## STAFF QUESTIONNAIRE

The purpose of this questionnaire is to collect information concerning the course of professional career and education of persons subject to the *Policy on selection and suitability assessment of Supervisory Board members in Bank Zachodni WBK S.A.*

The use of this questionnaire and its correct filling in is to allow for adequate verification of the professional experience and knowledge necessary to perform the function of the Supervisory Board member and thus, to assess the suitability of persons subject to the Policy.

This questionnaire complies with requirements of the European Banking Authority no. EBA/GL/2012/06 of 22 November 2012 on the assessment of the suitability of members of the management body and key function holders.

Let us inform that third party access to the information included herein will be restricted to entities engaged in the process of assessing Supervisory Board members.

This Questionnaire is composed of the following parts:

- I. Personal data:
- II. Education and training
- III. Employment history/ professional career.

### **Part I. Personal data**

Personal data:

First name:

Last name:

Citizenship:

Residence address: \_\_\_\_\_ at the questionnaire filling date:  
(permanent and temporary)

### **Part II. Education and training**

*Provide information on secondary and higher education, including scientific grades and titles and on all or selected post-graduate training and courses. Provide data in separate table for each level of education and training/ course.*

Table 1w

Period:	From: <i>month/ year</i>	To: <i>month/ year</i>
Name of secondary school/ university or college/ post-graduate studies/ course or training organiser etc: <i>Note: for universities/ colleges, provide faculty and course</i>		

Education/ grade/ scientific title/ powers <i>Note: when grade/ scientific title/ powers required writing a thesis or carrying out analysis, project or similar activity, provide the subject</i>
List of appendices: <i>List of appendices to request/ notification, confirming the completion of education level or completion of courses/ training etc.</i>

.....  
*Date and signature of the assessed person, confirming the authenticity of information provided in the questionnaire*

**Statement**

I hereby consent to processing of personal data presented in the questionnaire for the purpose of assessing my professional qualifications and reputation.

.....  
*date and signature of the assessed person*

**Explanations**

1. *Fill in the soft copy of the questionnaire.*
2. *Fill in the white editable fields. The grey fields are non-editable.*
3. *The signature at the bottom of the questionnaire should be affixed in person.*
4. *When necessary if a field is insufficient for the content provided, it should be extended so that all necessary information and explanations can be included.*
5. *Each case of employment and education (completion of course/ training session, etc.) should be described in a separate table, as presented in relevant parts of the questionnaire. For this purpose, a given type of table should be copied and pasted as necessary. Do not forget putting relevant numbers next to each table.*

**Appendix 3 to the Policy on selection and suitability assessment of Supervisory Board members in Bank Zachodni WBK S.A.**

The competence (suitability) of the Supervisory Board is considered as the total of skills represented by all Members of the Supervisory Board. The Supervisory Board functions as the collective body and

when assessing it, we should make sure whether the Supervisory Board *in corpore* has relevant skills to effectively manage all the Bank’s areas, to take decisions and to carry out constructive debates.

Assessment of the Supervisory Board is carried out in accordance with criteria described in the table below:

No.	Competence area	Scope	Criteria
1.			
2.			
3.			
4.			
5.			
6.			

**83,299,843 valid votes were cast on the resolution, out of 83,299,843 shares representing 83.94% of the Bank’s share capital. Out of the total number of the valid votes 76,444,531 were in favor of the resolution, 6,855,312 abstained and 0 were against.**

**re. item 14 of the agenda**

**RESOLUTION NO. 35 OF ANNUAL GENERAL MEETING OF BANK ZACHODNI WBK S.A.**

**Re: adoption of the "Best Practice for WSE Listed Companies 2016"**

Given that the "Best Practice for WSE Listed Companies 2016" issued by Warsaw Stock Exchange in Warsaw:

- is aimed at improving the quality of stock listed companies as regards the application of the corporate governance standards, amongst others, by supporting effective management, efficient supervision, respect for rights of shareholders and rules of conduct influencing the relations of the stock listed companies with their market environment,
- will be applied taking into consideration the specificity of operations conducted by Bank Zachodni WBK S.A.,
- will be interpreted in a manner ensuring no infringement of the rights and obligations of Bank Zachodni WBK S.A., its bodies and shareholders arising from the provisions of law,

acting pursuant to art. 395 §5 of the Commercial Companies Code, the following is resolved:

**§ 1**

The Annual General Meeting adopts the "Best Practice for WSE Listed Companies 2016" issued by Warsaw Stock Exchange in Warsaw in the wording presented in the appendix hereto and approved for execution by the Management Board and Supervisory Board of Bank Zachodni WBK S.A.

**§ 2**

This resolution comes into force on the day of its adoption.

**Attachment:**

**Best Practice for GPW Listed Companies 2016**

**Introduction**

The objective of corporate governance is to develop tools supporting efficient management, effective supervision, respect for shareholders' rights, and transparent communications between companies and the market. As a set of corporate governance principles and rules of conduct applicable to the relationships between listed companies and their market environment, the "Best Practice for GPW Listed Companies 2016" is an important contributor to the companies' competitive position and a key driver of the attractiveness of the Polish capital market. The "Best Practice for GPW Listed Companies 2016" and related regulations apply to issuers of shares admitted to trading on GPW's regulated market.

The "Best Practice for GPW Listed Companies 2016" is a product of the efforts of experts grouped in the GPW Corporate Governance Consultation Committee representing the interests of different groups of capital market participants. The draft document has been released for public consultations with the participation of professionals including issuers, investors, institutions and organisations interested in corporate governance of listed companies. The modifications of the Best Practice have been designed to ensure continuation of issues covered by the previous version of the corporate governance principles. To address comments raised by recipients of the Best Practice, a number of existing principles have been clarified. In specific areas key to corporate governance, the requirements have become more restrictive. New issues previously not covered by the corporate governance principles for listed companies have been added.

To ensure the transparency of this document and highlight the key issues, the Best Practice document is divided into new thematic sections. The "Best Practice for GPW Listed Companies 2016" includes the following sections: Disclosure Policy, Investor Communications; Management Board, Supervisory

Board; Internal Systems and Functions; General Meeting, Shareholder Relations; Conflict of Interest, Related Party Transactions; Remuneration. According to the European Commission Recommendation of 9 April 2014 on the quality of corporate governance reporting (2014/208/EU), the code has gained a new structure. Each part of the Best Practice is numbered in such a way as to clearly identify the section number (the initial Roman numeral), the type of provisions (principle: “Z”, or recommendation: ‘R’) and its sequential number in the section (Arabic numeral).

Each section of the Best Practice opens with a general description of the goals to be pursued by listed companies through compliance with the provisions of the section. The recommendations that follow require the disclosure of compliance details in a statement of compliance with the corporate governance principles included in the issuer’s annual report.

The detailed provisions of the Best Practice follow the ‘comply or explain’ approach. Consistent non-compliance with a principle or an incidental breach require the company to immediately report pursuant to § 29.3 of the Exchange Rules. It should be noted that the companies’ explanations of the reasons and circumstances of non-compliance should be sufficiently exhaustive to provide genuine information on the reasons for the non-compliance and to allow for an assessment of the company’s position on compliance with the principles of the Best Practice.

The modifications approved by the Warsaw Stock Exchange aim to improve the quality of listed companies under the corporate governance standards. Compliance with the corporate governance principles is voluntary; however, we believe that companies care about their good reputation and investor relations. The transparent structure of the Best Practice, which avoids excessive barriers by ensuring that most of the principles are worded so as to allow for flexible implementation, and frequently refers to the principle of adequacy, should support possibly broadest implementation of this code of best practice by a possibly biggest group of issuers.

In line with the recommendations of the European Commission, within the limits of its powers, the Exchange will monitor the companies’ compliance with the corporate governance regulations with a special emphasis on the quality of explanations published by companies according to the ‘comply or explain’ approach. With a view to the necessary continuity of the process and being aware of constant changes in the functioning of the capital markets and their needs and expectations, GPW acting with the support of other interested parties will evaluate the effective achievement of the intended goals on an on-going basis and periodically review and update the Best Practice.

## **I. Disclosure Policy, Investor Communications**

**Listed companies should ensure adequate communications with investors and analysts by pursuing a transparent and effective disclosure policy. To this end, they should ensure easy and non-discriminatory access to disclosed information using diverse tools of communication.**

### **Recommendations**

I.R.1. Where a company becomes aware that untrue information is disseminated in the media, which significantly affects its evaluation, it should immediately publish on its website a communiqué containing its position on such information, unless in the opinion of the company the nature of such information and the circumstances of its publication give reasons to follow a more adequate solution.

I.R.2. Where a company pursues sponsorship, charity or other similar activities, it should publish information about the relevant policy in its annual activity report.

I.R.3. Companies should allow investors and analysts to ask questions and receive explanations – subject to prohibitions defined in the applicable legislation – on topics of their interest. This recommendation may be implemented through open meetings with investors and analysts or in other formats allowed by a company.

I.R.4. Companies should use best efforts, including taking all steps well in advance as necessary to prepare a periodic report, to allow investors to review their financial results as soon as possible after the end of a reporting period.

## Detailed principles

I.Z.1. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation:

I.Z.1.1. basic corporate documents, in particular the company's articles of association;

I.Z.1.2. the full names of the members of its management board and supervisory board and the professional CVs of the members of these bodies including information on the fulfilment of the criteria of independence by members of the supervisory board;

I.Z.1.3. a chart showing the division of duties and responsibilities among members of the management board drawn up according to principle II.Z.1;

I.Z.1.4. the current structure of shareholders indicating those shareholders that hold at least 5% of the total vote in the company according to information provided to the company by shareholders under the applicable legislation;

I.Z.1.5. current and periodic reports, prospectuses and information memoranda with annexes, published by the company at least in the last 5 years;

I.Z.1.6. information on the dates of corporate events leading to the acquisition or limitation of rights of a shareholder, information on the dates of publication of financial reports and other events relevant to investors, within a timeframe enabling investors to make investment decisions;

I.Z.1.7. information materials published by the company concerning the company's strategy and its financial results;

I.Z.1.8. selected financial data of the company for the last 5 years of business in a format enabling the recipient to process such data;

I.Z.1.9. information about the planned dividend and the dividend paid out by the company in the last 5 financial years, including the dividend record date, the dividend payment date and the dividend amount, in aggregate and per share;

I.Z.1.10. financial projections, if the company has decided to publish them, published at least in the last 5 years, including information about the degree of their implementation;

I.Z.1.11. information about the content of the company's internal rule of changing the company authorised to audit financial statements or information about the absence of such rule;

I.Z.1.12. a statement on compliance with the corporate governance principles contained in the last published annual report;

I.Z.1.13. a statement on the company's compliance with the corporate governance recommendations and principles contained herein, consistent with the information that the company should report under the applicable legislation;

I.Z.1.14. materials provided to the general meeting, including assessments, reports and positions referred to in principle II.Z.10, tabled to the general meeting by the supervisory board;

I.Z.1.15. information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website;

I.Z.1.16. information about the planned transmission of a general meeting, not later than 7 days before the date of the general meeting;

I.Z.1.17. justification of draft resolutions of the general meeting concerning issues and determinations which are relevant to or may give rise to doubts of shareholders, within a timeframe enabling participants of the general meeting to review them and pass the resolution with adequate understanding;

I.Z.1.18. information about the reasons for cancellation of a general meeting, change of its date or agenda, and information about breaks in a general meeting and the grounds of those breaks;

I.Z.1.19. shareholders' questions asked to the management board pursuant to Article 428 § 1 or § 6 of the Commercial Companies Code together with answers of the management board to those questions, or a detailed explanation of the reasons why no answer is provided, pursuant to principle IV.Z.13;

I.Z.1.20. an audio or video recording of a general meeting;

I.Z.1.21. contact details of the company's investor relations officers including the full name and e-mail address or telephone number.

I.Z.2. A company whose shares participate in the exchange index WIG20 or mWIG40 should ensure that its website is also available in English, at least to the extent described in principle I.Z.1. This principle should also be followed by companies not participating in these indices if so required by the structure of their shareholders or the nature and scope of their activity.

## **II. Management Board, Supervisory Board**

**A listed company is managed by its management board, whose members act in the interest of the company and are responsible for its activity. The management board is responsible among others for the company's leadership, engagement in setting and implementing its strategic objectives, and ensuring the company's efficiency and safety.**

**A company is supervised by an effective and competent supervisory board. Supervisory Board members act in the interest of the company and follow their independent opinions and judgement. The supervisory board in particular issues opinions on the company's strategy, verifies the work of the management board in pursuit of defined strategic objectives, and monitors the company's performance.**

### **Recommendations**

II.R.1. To ensure the highest standards of the management board and the supervisory board of a company in efficient fulfilment of their obligations, the management board and the supervisory board should have members who represent high qualifications and experience.

II.R.2. Decisions to elect members of the management board or the supervisory board of a company should ensure that the composition of these bodies is comprehensive and diverse among others in terms of gender, education, age and professional experience.

II.R.3. Functions on the management board of a company should be the main area of the professional activity of management board members. Additional professional activities of management board members must not require so much time and effort that they could adversely affect proper performance of functions in the company. In particular, management board members should not be members of governing bodies of other entities if the time devoted to functions in such other entities prevents their proper performance in the company.

II.R.4. Supervisory board members must be able to devote the time necessary to perform their duties.

II.R.5. If a supervisory board member resigns or is unable to perform his or her functions, the company should immediately take steps necessary to ensure substitution or replacement on the supervisory board.

II.R.6. Being aware of the pending expiration of the term of office of management board members and their plans of further performance of functions on the management board, the supervisory board should take steps in advance to ensure efficient operation of the company's management board.

II.R.7. A company should allow its supervisory board to use professional and independent advisory services necessary for the supervisory board to exercise effective supervision in the company. In its selection of the advisory service provider, the supervisory board should take into account the financial standing of the company.

### **Detailed principles**

II.Z.1. The internal division of responsibilities for individual areas of the company's activity among management board members should be clear and transparent, and a chart describing that division should be available on the company's website.

II.Z.2. A company's management board members may sit on the management board or supervisory board of companies other than members of its group subject to the approval of the supervisory board.

II.Z.3. At least two members of the supervisory board should meet the criteria of being independent referred to in principle II.Z.4.

II.Z.4. Annex II to the European Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board applies to the independence criteria of supervisory board members.

Irrespective of the provisions of point 1(b) of the said Annex, a person who is an employee of the company or its subsidiary or affiliate or has entered into a similar agreement with any of them cannot be deemed to meet the independence criteria. In addition, a relationship with a shareholder precluding the independence of a member of the supervisory board as understood in this principle is an actual and significant relationship with any shareholder who holds at least 5% of the total vote in the company.

II.Z.5. Each supervisory board member should provide the other members of the supervisory board as well as the company's management board with a statement of meeting the independence criteria referred to in principle II.Z.4.

II.Z.6. The supervisory board should identify any relationships or circumstances which may affect a supervisory board member's fulfilment of the independence criteria. An assessment of supervisory board members' fulfilment of the independence criteria should be presented by the supervisory board according to principle II.Z.10.2.

II.Z.7. Annex I to the Commission Recommendation referred to in principle II.Z.4 applies to the tasks and the operation of the committees of the Supervisory Board. Where the functions of the audit committee are performed by the supervisory board, the foregoing should apply accordingly.

II.Z.8. The chair of the audit committee should meet the independence criteria referred to in principle II.Z.4.

II.Z.9. To enable the supervisory board to perform its duties, the company's management board should give the supervisory board access to information on matters concerning the company.

II.Z.10. In addition to its responsibilities laid down in the legislation, the supervisory board should prepare and present to the ordinary general meeting once per year the following:

II.Z.10.1. an assessment of the company's standing including an assessment of the internal control, risk management and compliance systems and the internal audit function; such assessment should cover all significant controls, in particular financial reporting and operational controls;

II.Z.10.2. a report on the activity of the supervisory board containing at least the following information:  
- full names of the members of the supervisory board and its committees;

- supervisory board members' fulfilment of the independence criteria;
- number of meetings of the supervisory board and its committees in the reporting period;
- self-assessment of the supervisory board;

II.Z.10.3. an assessment of the company's compliance with the disclosure obligations concerning compliance with the corporate governance principles defined in the Exchange Rules and the regulations on current and periodic reports published by issuers of securities;

II.Z.10.4. an assessment of the rationality of the company's policy referred to in recommendation I.R.2 or information about the absence of such policy.

II.Z.11. The supervisory board should review and issue opinions on matters to be decided in resolutions of the general meeting.

### **III. Internal Systems and Functions**

**Listed companies should maintain efficient internal control, risk management and compliance systems and an efficient internal audit function adequate to the size of the company and the type and scale of its activity.**

#### **Recommendations**

III.R.1. The company's structure should include separate units responsible for the performance of tasks in individual systems or functions, unless the separation of such units is not justified by the size or type of the company's activity.

#### **Detailed principles**

III.Z.1. The company's management board is responsible for the implementation and maintenance of efficient internal control, risk management and compliance systems and internal audit function.

III.Z.2. Subject to principle III.Z.3, persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board and should be allowed to report directly to the supervisory board or the audit committee.

III.Z.3. The independence rules defined in generally accepted international standards of the professional internal audit practice apply to the person heading the internal audit function and other persons responsible for such tasks.

III.Z.4. The person responsible for internal audit (if the function is separated in the company) and the management board should report to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in principle III.Z.1 and table a relevant report.

III.Z.5. The supervisory board should monitor the efficiency of the systems and functions referred to in principle III.Z.1 among others on the basis of reports provided periodically by the persons responsible for the functions and the company's management board, and make an annual assessment of the efficiency of such systems and functions according to principle II.Z.10.1. Where the company has an audit committee, it should monitor the efficiency of the systems and functions referred to in principle III.Z.1, which however does not release the supervisory board from the annual assessment of the efficiency of such systems and functions.

III.Z.6. Where the company has no separate internal audit function in its organisation, the audit committee (or the supervisory board if it performs the functions of the audit committee) should review on an annual basis whether such function needs to be separated.

### **IV. General Meeting, Shareholder Relations**

**The management board and the supervisory board of a listed company should encourage the engagement of shareholders in matters of the company, in particular through active participation in the general meeting.**

**The general meeting should proceed by respecting the rights of shareholders and ensuring that passed resolutions do not infringe on reasonable interests of different groups of shareholders.**

**Shareholders who participate in a general meeting should exercise their rights in accordance with the rules of good conduct.**

### **Recommendations**

IV.R.1. Companies should strive to hold an ordinary general meeting as soon as possible after the publication of an annual report and set the date in keeping with the applicable legislation.

IV.R.2. If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

- 1) real-life broadcast of the general meeting;
- 2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;
- 3) exercise of the right to vote during a general meeting either in person or through a plenipotentiary.

IV.R.3. Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.

### **Detailed principles**

IV.Z.1. Companies should set the place and date of a general meeting so as to enable the participation of the highest possible number of shareholders.

IV.Z.2. If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

IV.Z.3. Presence of representatives of the media should be allowed at general meetings.

IV.Z.4. If the management board becomes aware a general meeting being convened pursuant to Article 399 § 2 – 4 of the Commercial Companies Code, the management board should immediately take steps which it is required to take in order to organise and conduct the general meeting. The foregoing applies also where a general meeting is convened under authority granted by the registration court according to Article 400 § 3 of the Commercial Companies Code.

IV.Z.5. The rules of general meetings and the method of conducting the meeting and adopting resolutions must not restrict the participation of shareholders in general meetings and the exercising of their rights. Amendments of the rules of the general meeting should take effect at the earliest as of the next general meeting.

IV.Z.6. Companies should strive to ensure that the cancellation of a general meeting, change of its date or break in its proceedings do not prevent or limit the exercising of the shareholders' rights to participate in the general meeting.

IV.Z.7. A break in the proceedings of the general meeting may only take place in special cases, defined at each time in the justification of the resolution announcing the break, drafted on the basis of reasons provided by the shareholder requesting the break.

IV.Z.8. A resolution of the general meeting announcing a break should clearly set the date and time when the proceedings recommence, and such date and time must not be a barrier for most shareholders, including minority shareholders, to participate in the continuation of the proceedings.

IV.Z.9. Companies should strive to ensure that draft resolutions of the general meeting contain a justification, if it helps shareholders to pass a resolution with adequate understanding. If a matter is put on the agenda of the general meeting at the request of a shareholder or shareholders, the management board or the chair of the general meeting should request presentation of the justification of the proposed resolution. In important matters and matters which may give rise to any doubt of shareholders, the company should provide a justification, unless it otherwise provides the shareholders with information necessary to pass a resolution with adequate understanding.

IV.Z.10. Any exercise of the rights of shareholders or the way in which they exercise their rights must not hinder the proper functioning of the governing bodies of the company.

IV.Z.11. Members of the management board and the supervisory board should participate in a general meeting as necessary to answer questions asked at the general meeting.

IV.Z.12. The management board should present to participants of an ordinary general meeting the financial results of the company and other relevant information contained in the financial statements to be approved by the general meeting.

IV.Z.13. If a shareholder request information about the company, the management board of the company should provide an answer to the shareholder's request within 30 days or inform the shareholder of its refusal to provide such information where the management board has made such decision pursuant to Article 428 § 2 or § 3 of the Commercial Companies Code

IV.Z.14. Resolutions of the general meeting should allow for a sufficient period of time between decisions causing specific corporate events and the date of determination of the rights of shareholders pursuant to such events.

IV.Z.15. A resolution of the general meeting concerning an issue of shares with subscription rights should specify the issue price or the mechanism of setting the price or authorise the competent governing body to set the price prior to the subscription right record date within the timeframe necessary for investors to make decisions.

IV.Z.16. The dividend record date and the dividend payment date should be set so as to ensure that the period between them is not longer than 15 business days. A longer period between these dates requires a justification.

IV.Z.17. A resolution of the general meeting concerning a conditional dividend payment may only contain such conditions whose potential fulfilment takes place before the dividend record date.

IV.Z.18. A resolution of the general meeting to split the nominal value of shares should not set the new nominal value of the shares below PLN 0.50, which could result in a very low unit market value of the shares, and which could consequently pose a threat to the correct and reliable valuation of the company listed on the Exchange.

## **V. Conflict of Interest, Related Party Transactions**

*For the purpose of this Section, 'related party' is defined under the International Accounting Standards approved in Regulation No (EU) 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.*

**Companies should have in place transparent procedures for preventing conflicts of interest and related party transactions where a conflict of interest may occur. The procedures should provide for ways to identify, disclose and manage such cases.**

## Recommendations

V.R.1. Members of the management board and the supervisory board should refrain from professional or other activities which might cause a conflict of interest or adversely affect their reputation as members of the governing bodies of the company, and where a conflict of interest arises, immediately disclose it.

## Detailed principles

V.Z.1. No shareholder should have preference over other shareholders in transactions concluded by the company with shareholders or their related parties.

V.Z.2. Members of the management board or the supervisory board should notify the management board or the supervisory board, respectively, of any conflict of interest which has arisen or may arise, and should refrain from voting on a resolution on the issue which may give rise to such a conflict of interest in their case.

V.Z.3. Members of the management board or the supervisory board must not accept any benefits which might affect their impartiality and objectivism in making decisions or reflect unfavourably on the assessment of the independence of their opinions or judgements.

V.Z.4. Where a member of the management board or the supervisory board concludes that a decision of the management board or the supervisory board, respectively, is in conflict with the interest of the company, he or she may request that the minutes of the management board or the supervisory board meeting show his or her position.

V.Z.5. Before the company concludes a significant agreement with a shareholder who holds at least 5% of the total vote in the company or with a related party, the management board should request the supervisory board's approval of the transaction. Before giving its approval, the supervisory board should evaluate the impact of the transaction on the interest of the company. The foregoing does not apply to typical transactions and transactions at arm's-length made as part of the company's operations between the company and members of its group.

If the decision concerning the company's significant agreement with a related party is made by the general meeting, the company should give all shareholders access to information necessary to assess the impact of the transaction on the interest of the company before the decision is made.

V.Z.6. In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.

## VI. Remuneration

**A company should have a remuneration policy applicable at least to members of the company's governing bodies and key managers. The remuneration policy should in particular determine the form, structure, and method of determining the remuneration of members of the company's governing bodies and key managers.**

## Recommendations

VI.R.1. The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.

VI.R.2. The remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.

VI.R.3. If the supervisory board has a remuneration committee, principle II.Z.7 applies to its operations.

VI.R.4. The remuneration levels of members of the management board and the supervisory board and key managers should be sufficient to attract, retain and motivate persons with skills necessary for proper management and supervision of the company. Remuneration should be adequate to the scope of tasks delegated to individuals, taking into account additional functions, for instance on supervisory board committees.

### **Detailed principles**

VI.Z.1. Incentive schemes should be constructed in a way necessary among others to tie the level of remuneration of members of the company's management board and key managers to the actual long-term financial standing of the company and long-term shareholder value creation as well as the company's stability.

VI.Z.2. To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

VI.Z.3. The remuneration of members of the supervisory board should not be linked to options or other derivatives or any other variable components, and neither should it be linked to the company's results.

VI.Z.4. In this activity report, the company should report on the remuneration policy including at least the following:

- 1) general information about the company's remuneration system;
- 2) information about the conditions and amounts of remuneration of each management board member broken down by fixed and variable remuneration components, including the key parameters of setting the variable remuneration components and the terms of payment of severance allowances and other amounts due on termination of employment, contract or other similar legal relationship, separately for the company and each member of its group;
- 3) information about non-financial remuneration components due to each management board member and key manager;
- 4) significant amendments of the remuneration policy in the last financial year or information about their absence;
- 5) assessment of the implementation of the remuneration policy in terms of achievement of its goals, in particular long-term shareholder value creation and the company's stability.

**83,299,843 valid votes were cast on the resolution, out of 83,299,843 shares representing 83.94% of the Bank's share capital. Out of the total number of the valid votes 83,299,843 were in favor of the resolution, 0 abstained and 0 were against.**

### **Legal basis:**

§38 clause 1 point 7 of the Finance Minister's Ordinance of 19 February 2009 on current and periodic reports published by the issuers of securities and the rules of equal treatment of the information required by the laws of non-member states.