

Re. item 11 of the Agenda

- I. The proposed amendments to the Bank Zachodni WBK S.A. ("the Bank") Statutes involve mainly the adaptation of their wording to the amendment to the Banking Law Act dated 29th August 1997 which became effective on 1st November 2015, and to the 2016 Code of Best Practice for WSE Listed Companies (adopted by Resolution 26/1413/2015 of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A., dated 13 October 2015). A part of the amendments are technical in nature and consist in making the terms used in the Bank's Statutes more specific and uniform, as well as in adjusting them to the expressions used in the provisions of law.
- II. The purpose of the proposed amendment to the Bank's Statutes is to ensure that the document complies with art. 51 of the Polish Child Care Assistance Act (the "Act") of 11 February 2016 (Journal of Laws 2016, item 195) which will enter into force on the 1st of April 2016. According to the Act, the Bank can perform activities related to submitting electronically (through the Bank's IT systems, e.g. BZWBK24) 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.

The Bank intends to start performing those activities within a short period of time. For this purpose, our Bank liaised with other banks to enable customers to submit child benefit applications through their electronic banking services and to provide the social insurance company (ZUS) with the account authorization information.

Such measures will offer the Bank's customers an easier access to the benefits referred to in the Act. They are important as potential contributors to customers' greater satisfaction with services offered by the Bank and increased customers' use of electronic banking services.

In addition, the Act requires banks providing such services to revise and adapt their Statutes within 12 months of the Act's entry into force.

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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) introduced a requirement under which the variable component of remuneration of staff whose professional activities have a material impact on the risk profile of the institution is capped at 100% of the fixed component of material risk takers. According to the Directive the Member States may allow the shareholders to raise the cap to a higher level provided that the variable component of remuneration is not higher than 200% of the fixed component of material risk takers.

Pursuant to the Act of 4 August 2015 on macro-prudential supervision and crisis management in the financial system (Journal of Laws 2015 item 1513) that 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 the minister responsible for financial institutions, had not 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 cap on the ratio between the fixed and variable components of remuneration.

In case the shareholders are authorised to approve a higher cap on the ratio between fixed and variable components, and considering the justification below, it is recommended that the General Meeting should adopt a resolution approving the cap on the ratio between the fixed variable components at 200% of the total fixed component of the remuneration of all the individuals "holding management positions at BZWBK Group". According to the remuneration policy applicable at Bank Zachodni WBK ("Bank") the category includes individuals 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). In line with the criteria above, the persons performing the following functions have been identified: management, supervision, independent risk management, compliance, internal audit, managers responsible for: legal area, finance (including taxes and budget), human resources, remuneration, information technology, economic analysis, heads of material business units and other persons complying with other quantitative and qualitative criteria determined in the above mentioned Commission Delegated Regulation.

According to the internal bonus regulations in justified cases the awarded bonuses may exceed 100% of fixed annual remuneration. Moreover, BZWBK Group applies retention tools such as long-term incentive schemes designed to create a tie between the organisation and its key employees. 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.

It is assumed the ratio between variable and fixed remuneration components exceeding 100% will be applied in a limited number of cases, as previously. In reality, over the last year the average ratio for persons holding management positions at BZWBK Group has been much lower than the cap of 200%. In 2015, the average ratio was 77%, and is much lower than the proposed cap of 200%. In justified cases, the ratio was higher than 100%.

The possibility of obtaining variable remuneration that exceeds the fixed component motivates employees to generate results much above expectations. It is also consistent with the common practice where the maximum rewarded level of delivery of objectives for the key positions is 150%. The cap on the ratio should give some room for flexibility. On the other hand, the objectives ensure the risk is managed effectively, and discourage employees from taking risk beyond the Bank's risk appetite.

The final aspect relates to the competition in the Polish banking sector in respect of candidates for the managerial positions at BZWBK Group and to the retention of key employees. This means ensuring a

flexible remuneration packages for the candidates for managerial positions that are attractive comparing the Bank's direct competition. The attractive variable remuneration component is a significant element in building staff engagement and it also limits turnover in the positions identified as having material impact on the risk profile, which has a real impact on the objective delivery in the long term. In addition, increasing the variable remuneration component has a positive impact on BZWBK Group's fixed costs as it allows for responding flexibly to changes in the Group's financial standing.

The exact number of people holding managerial positions at BZWBK Group may not be determined as their number may change in the course of the Group's operations. We may, however, cap that number. Considering that at the end of 2015 72 persons were included in the category, and bearing in mind that the number may rise, it is recommended to determine the maximum number at 120.

As indicated above, the actual ratio between fixed and variable components so far has been at 77%. We should not expect that most persons holding management positions at BZWBK Group should achieve the max. level of 200%, or that the average ratio should exceed 100%. In view of the above and the fact that the total average component of the persons to whom the regulation applies did not exceed PLN 26 121 500 zł at the end of 2015, which represents 0.14% of the capital base, it should be indicated that the decision to approve the cap on the ratio will not impact the adequate capital base.