

XI. Statement on Corporate Governance in 2017

1. Legal Basis

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

This Statement on Corporate Governance in 2017 was prepared in accordance with Paragraph 91(5)(4) of the Finance Minister's Ordinance of 19 February 2009 on current and financial reports published by the issuers of securities and the rules of equal treatment of the information required by the laws of a non-member state.

2. Code of Best Practice

Code of Best Practice for WSE Listed Companies

In 2017, Bank Zachodni WBK was subject to the rules of corporate governance and conduct applicable to the relationship between listed companies and their market environment as conveyed in the 2016 Code of Best Practice for WSE Listed Companies, and appended to WSE Supervisory Board Resolution No. 26/1413/2015 of 13 October 2015.

This version of the Code became effective on 1 January 2016 with approval for use by Bank Zachodni WBK by virtue of the decision of the Management Board (resolution No. 160/2015 of 2 December 2015) accepted by the Supervisory Board (resolution No. 61/2015 of 16 December 2015). The full text is available on the WSE website (www.gpw.pl), "Companies"/"Best Practice" tab, and the bank's website (www.bzwbk.pl), "Investor Relations"/"Corporate Governance" tab.

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

Corporate Governance Rules for Supervised Institutions

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

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

In order to ensure compliance with obligations arising from corporate governance rules, the bank selected business units responsible for the implementation of individual rules according to the scope of their operations. In addition, an appropriate control system was put in place.

Since 2016, the application of corporate governance rules for supervised institutions by Bank Zachodni WBK has been regularly assessed in the Annual Report on the activities of the Supervisory Board. The results of the assessment are published in a current report containing resolutions adopted by the bank's General Meeting of Shareholders.

3. Management Board's Statement on Corporate Governance

In 2017, Bank Zachodni WBK duly complied with all corporate governance rules set out in the existing version of the Code of Best Practice for WSE Listed Companies. In this period, no corporate governance breaches were reported.

4. Equity Securities of the Issuer

Structure of Share Capital

The table below presents entities with significant holdings of Bank Zachodni WBK shares as at 31.12.2017 and 31.12.2016.

Shareholder	Number of Shares and Voting Rights Held		% in the Share Capital & Voting Power at AGM	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Banco Santander S.A.	68 880 774	68 880 774	69,34%	69,41%
Nationale Nederlanden OFE	n/a	5 110 586	n/a	5,15%
Others	30 452 707	25 243 174	30,66%	25,44%
Total	99 333 481	99 234 534	100,0%	100,0%

According to information held by the BZ WBK Management Board, as at 31 December 2017, Banco Santander was the only shareholder holding at least 5% of the total number of votes at the BZ WBK General Meeting of Shareholders, with a shareholding of 69.34%. Compared with the end of 2016, this shareholding has been diluted as a result of the issuance of 98,947 own shares as part of the 5th Incentive Programme.

On 7 August 2017, Nationale Nederlanden OFE sold part of its holding of BZ WBK shares, reducing its stake in the bank's capital and voting power to a level below 5%.

As at 31.12.2017, the structure of share capital of Bank Zachodni WBK by share series was as follows:

Series/issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue (in PLN)
A	bearer	none	none	5 120 000	51 200 000
B	bearer	none	none	724 073	7 240 730
C	bearer	none	none	22 155 927	221 559 270
D	bearer	none	none	1 470 589	14 705 890
E	bearer	none	none	980 393	9 803 930
F	bearer	none	none	2 500 000	25 000 000
G	bearer	none	none	40 009 302	400 093 020
H	bearer	none	none	115 729	1 157 290
I	bearer	none	none	1 561 618	15 616 180
J	bearer	none	none	18 907 458	189 074 580
K	bearer	none	none	305 543	3 055 430
L	bearer	none	none	5 383 902	53 839 020
M	bearer	none	none	98 947	989 470
Total				99 333 481	993 334 810

Rights and Restrictions Attached to the Issuer's Securities

The shares of Bank Zachodni WBK are ordinary bearer shares. Each share carries one vote at a General Meeting of Shareholders. The nominal value is PLN 10 per share. All the shares issued have been fully paid up.

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

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

5. Governing Bodies

General Meeting of Shareholders

Annual General Meeting of 2017

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 17 May 2017 (AGM) approved the reports for 2016 submitted by the Management Board and the Supervisory Board, granted discharge to members of these governing bodies for the performance of their duties in the previous year and agreed on the distribution of the net profit for 2016 and dividend payment from retained earnings for 2014 and 2015 (see Chapter IX "Investor Relations"). The AGM appointed the Supervisory Board, including the Supervisory Board Chairman, for a new term of office and set remuneration of the Supervisory Board members. The AGM also approved the application of a higher maximum ratio between fixed and variable components of remuneration for individuals holding managerial positions in Bank Zachodni WBK Group. As the criteria for exercising awards by participants of the 5th Incentive Programme had been satisfied, the AGM adopted a resolution increasing the bank's share capital by way of issuing series M ordinary shares, depriving the existing shareholders of all their pre-emptive rights to those shares and undertaking actions to ensure introduction of the newly issued shares to trading in the regulated market of the Warsaw Stock Exchange. In addition, the AGM approved the 6th Incentive Programme for 2017–2019, providing for a conditional entitlement of its participants to acquire a stated number of shares of a new issue at a price equal to their nominal value. The AGM also approved changes to the bank's Statutes concerning the scope of business and share capital, as described in the section "Method of Changing the Statutes" below.

Organisation and powers of the General Meeting of Shareholders

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

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

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

Candidates for the Supervisory Board attain votes on an individual basis, in alphabetical order.

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

Shareholders' Rights

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

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

- Each shareholder may request that a list of shareholders be e-mailed free-of-charge to a valid address. Each shareholder may have access to the list of shareholders in the bank's MB office and request a copy of the list at their own expense.

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

Method of Changing the Statutes

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

Pursuant to the resolutions of the Annual General Meeting of 17 May 2017, the bank's Statutes were changed with respect to:

- the scope of business:
 - ✓ The provisions of § 7(2)(6a) of the Statutes re activities of the bank were changed to reflect the amendment to the provisions of Article 6(1)(6a) of the Banking Law and the obligation arising from Article 136 of the Act of 5 September 2016 on trust services and electronic identification;
 - ✓ The amendment of § 54 of the Statutes enabled the bank to confirm the ePUAP trusted profile and perform ePUAP authorisations through electronic identification means used for authorisation purposes in the bank's ICT system, as required by the Act of 17 February 2005 on informatization of entities performing public tasks;
- share capital:
 - ✓ In § 10 of the Statutes, the amount of the bank's share capital was increased as a result of the issuance of series M ordinary bearer shares.

The bank was granted consent from the KNF to amend the Statutes as indicated above. Changes related to the scope of business were registered with the National Court Register on 26 July 2017, while those connected with the share capital increase – on 3 August 2017.

Supervisory Board

Below is the composition of the Bank Zachodni WBK Supervisory Board as at 31 December 2017 vs. 31 December 2016.

Role in the Supervisory Board	Ref.	Composition as at 31.12.2017	Ref.	Composition as at 31.12.2016
Chairman of the Supervisory Board:	1.	Gerry Byrne	1.	Gerry Byrne
Vice Chairman of the Supervisory Board:	2.	José Luis de Mora	2.	José Luis de Mora
	3.	José Manuel Campa	-	-
	4.	José Garcia Cantera	3.	José Garcia Cantera
	5.	Danuta Dąbrowska	4.	Danuta Dąbrowska
	6.	David R. Hexter	5.	David R. Hexter
Members of the Supervisory Board:	7.	Witold Jurcewicz	6.	Witold Jurcewicz
	8.	John Power	7.	John Power
	9.	Jerzy Surma	8.	Jerzy Surma
	10.	Marynika Woroszyńska-Sapieha	9.	Marynika Woroszyńska-Sapieha
	-	-	10.	José Manuel Varela

The bank's Supervisory Board, in its composition as at 31 December 2017, was appointed for a new term of office by the Annual General Meeting held on 17 May 2017. Compared with the Supervisory Board composition as at 31 December 2016, the Supervisory Board was joined by Mr José Manuel Campa, while Mr José Manuel Varela stepped down as a Supervisory Board member.

Detailed information about the qualification, academic background and professional experience of the bank's Supervisory Board members can be found on the bank's website: <https://www.bzwbk.pl/investor-relations/company/supervisory-board/supervisory-board.html> and https://static3.bzwbk.pl/asset/r/a/p/raport-13-2017-Zyciorysy_Czlonkow_RN_78174.pdf.

As at 31 December 2017, the following members of the Supervisory Board held independent status: Ms Danuta Dąbrowska, Mr David R. Hexter, Mr Witold Jurcewicz, Mr Jerzy Surma and Ms Marynika Woroszyńska-Sapieha.

In the period from 1 January to 31 December 2017, 9 Supervisory Board meetings were held at which 96x resolutions were passed. Average attendance of the Supervisory Board Members was 94.4%.

Role of the Supervisory Board

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

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

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

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

Supervisory Board Committees

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

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

The membership of the Supervisory Board committees is presented below.

Role in the Supervisory Board	Ref.	Composition as at 31.12.2017	Supervisory Board Committees as at 31.12.2017			
			Audit and Compliance Committee	Risk Committee	Nominations Committee	Remuneration Committee
Chairman of the Supervisory Board:	1.	Gerry Byrne			●	●
Vice Chairman of the Supervisory Board	2.	José Luis de Mora			●	●
	3.	José Manuel Campa		●		
	4.	José Garcia Cantera				
Members of the Supervisory Board:	5.	Danuta Dąbrowska	●		●	●
	6.	David R. Hexter	●	●		
	7.	Witold Jurcewicz	●		●	●
	8.	John Power		●		
	9.	Jerzy Surma	●	●	●	
	10.	Marynika Woroszyńska-Sapieha	●		●	●

● Chairman
● Members

The **Audit and Compliance Committee** evaluates the adequacy, scope and effectiveness of the accounting, internal control and financial/non-financial risk management systems. Together with the Management Board and internal auditors, it reviews significant controls of the Group, including internal financial controls. The Committee supervises the bank's financial reporting process, ensuring the adequate quality of financial reports and compliance of disclosure practices with the law, KNF requirements and accounting principles. Furthermore, the Committee reviews the work performed by the statutory auditor, ensuring that the entity is independent and effective. It also monitors the effectiveness of risk, capital and liquidity management model. In addition, it reviews the actions undertaken by the Management Board in terms of their compliance with legal and regulatory requirements, the bank's by-laws, codes of conduct and business ethics.

The majority of the Audit and Compliance Committee is comprised of independent Supervisory Board members.

The **Risk Committee** is responsible for providing a comprehensive opinion about the bank's current and prospective risk-bearing capacity. It examines and reviews the Management Board's risk management strategy and its delivery, supports the Supervisory Board in supervising the process of implementing the risk management strategy by senior management and checks compliance of the bank's risk policy with its strategy and financial plan. The Risk Committee also checks if the bank's business model and risk strategy are duly reflected in the prices of liabilities and assets offered to customers. If the result is negative, it makes a proposal to the Management Board to ensure adequacy of asset and liability prices vis-à-vis different risk types.

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

The **Nominations Committee** presents the Supervisory Board with recommendations with regard to appointing and removing members of the Supervisory Board and the Management Board as well as other senior managers. It defines the policy on the selection and suitability assessment of Supervisory Board and Management Board members and participates in the competence assessment of candidates for members of these governing bodies. The Committee analyses succession plans for the Management Board and recommends them to the Supervisory Board.

The **Remuneration Committee** supervises and reviews the bank's remuneration system, including policy on variable components of remuneration paid to individuals holding managerial positions at the bank. In particular, the Committee defines the remuneration policy and the individual pay packages for Management Board members and performs annual reviews of the remuneration payable to Management and Supervisory Board members. The Committee has oversight of the bonus scheme for Management Board members, and carries out analyses of incentive solutions and other bonus schemes proposed for implementation at the bank and its subsidiaries.

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

The Annual Reports on activities of the Supervisory Board and its committees, the Supervisory Board's reports on the examination of the bank's and the Group's annual report along with an assessment of the Group's operations, including internal control and the risk management system, are included in materials submitted to shareholders before the General Meeting of Bank Zachodni WBK and published in current reports containing the resolutions passed by this body.

Management Board

The table below presents the composition of the Bank Zachodni WBK Management Board as at 31 December 2017 and the roles and responsibilities of its members

Role in the Management Board	Ref.	Composition as at 31.12.2017	Reporting Areas as at 31.12.2017	Role in the Management Board	Ref.	Composition as at 31.12.2016	Reporting Areas as at 31.12.2016
President:	1.	Michał Gajewski	Units reporting directly to the President: Internal Audit Area, Corporate Communications, Marketing and Service Quality Management Area, Business Model Transformation Area, Board Office, Strategic Transformation Office	President:	1.	Michał Gajewski	Units reporting directly to the President: Internal Audit Area, Corporate Communications & Marketing Area, Business Model Transformation Area, Board Office, Strategic Transformation Office, Business Partnership Division
Vice Presidents:	2.	Andrzej Burliga	Risk Management Division, Business Intelligence Area	Board Members:	2.	Andrzej Burliga	Risk Management Division
	3.	Michael McCarthy	Business & Corporate Banking Division		3.	Michael McCarthy	Business & Corporate Banking Division
	4.	Juan de Porras Aguirre	Global Corporate Banking Division		4.	Juan de Porras Aguirre	Global Corporate Banking Division
	5.	Mirosław Skiba	Wealth Management Programme		5.	Mirosław Skiba	Retail Banking Division
	6.	Feliks Szyszkowski	Digital Transformation Division		6.	Feliks Szyszkowski	Digital Transformation Division
Board Members:	7.	Artur Chodacki	Small & Medium Enterprise Banking Division	7.	Artur Chodacki	Small & Medium Enterprise Banking Division	
	8.	Maciej Reluga	Financial Management Division	8.	Eamonn Crowley	Financial Management Division	
	9.	Carlos Polaino Izquierdo	Financial Accounting & Control Division	9.	Carlos Polaino Izquierdo	Financial Accounting & Control Division	
	10.	Marcin Prell	Legal & Compliance Division, Classified Data Protection Unit	10.	Marcin Prell	Legal & Compliance Division, Classified Data Protection Unit	
	11.	Arkadiusz Przybył	Retail Banking Division	-	-	-	
	12.	Dorota Strojowska	Business Partnership Division	-	-	-	

In the period from 31 December 2016 to 31 December 2017, the following changes took place at the Bank Zachodni WBK Management Board:

- On 16 February 2017, Mr Eamonn Crowley resigned with an immediate effect as a Management Board member. On the same day, the bank's Supervisory Board appointed Mr Maciej Reluga as a Management Board member, effective as of 16 February 2017.
- Following the expiry of her previous employment commitments, on 1 April 2017 Ms Dorota Strojowska took up the position of a member of the bank's Management Board to which she was appointed on 14 December 2016. Until that time, Mr Michał Gajewski, the President of the Management Board, was in charge of the Business Partnership Division.
- On 10 March 2017, the Supervisory Board nominated Mr Arkadiusz Przybył as a Management Board member and appointed the existing Management Board members: Mr Andrzej Burliga, Mr Michael McCarthy, Mr Juan de Porras Aguirre, Mr Mirosław Skiba and Mr Feliks Szyszkowski as Vice Presidents of the Management Board. Mr Arkadiusz Przybył, the newly appointed Management Board member, was initially in charge of the Retail Distribution Area. Since October 2017, he has been the head of the Retail Banking Division. The former head of the Retail Banking Division Mr Mirosław Skiba is now in charge of the Wealth Management Programme, including the Private Banking Department.

The table below presents academic background and key professional experience of Bank Zachodni WBK Management Board members.

Role in the Management Board	Ref.	Composition as at 31.12.2017	Major Educational Background	Main Areas of Professional Experience
President:	1.	Michał Gajewski	university degree in law, legal attorney traineeship, specialist studies	Banking
	2.	Andrzej Burliga	university degree in maths, specialist programmes and studies	Banking
Vice-Presidents:	3.	Michael McCarthy	MBA	Banking, financial services
	4.	Juan de Porras Aguirre	university degree in law, MBA, specialist studies	Banking
	5.	Mirosław Skiba	degree from the university of technology, specialist studies	Banking
	6.	Feliks Szyszczoniak	degree from the university of technology and the university of economics, specialist studies	Banking
	7.	Artur Chodacki	university degree in finance and banking and in English philology	Banking
Board Members:	8.	Maciej Reluga	university degree in economics, specialist programmes and studies	Banking
	9.	Carlos Polaino Izquierdo	university degree in business management	Banking, consultancy
	10.	Marcin Prell	university degree in law, specialist programmes and studies	Banking
	11.	Arkadiusz Przybył	university degree in management and marketing, and finance and banking, specialist studies	Banking, consultancy
	12.	Dorota Strojowska	university degree in philology, specialist programmes and studies	Banking

Detailed information about the qualifications, academic background and professional experience of the bank's Management Board members can be found on the bank's website: <https://www.bzwbk.pl/investor-relations/company/management-board/management-board.html>.

Appointment and Removal of Executives

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

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

Powers of Executives

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

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

Permanent committees operating at the bank include: Credit Committee, Provisions Committee, Risk Management Forum, Credit Policy Forum for Retail Portfolios, Credit Policy Forum for SME Portfolios, Credit Policy Forum for Business and Corporate Portfolios, Assets and Liabilities Committee (ALCO), Capital Committee, Operational Risk Management Committee (ORMCO), Cyber Risk Committee, Deposit Working Group, Customer Value Committee, Investment Advisory Committee, Electronic Banking Steering Committee, CRM Committee, Settlement Committee, Anti-Money Laundering and Counter-Terrorism Financing Committee, Compliance Committee, Marketing Forum, Local Marketing and Monitoring Committee, Transformation Committee, Special Situations Management Committee, Information Management Committee, Disclosure Committee, CSR and Sustainability Committee.

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

Role of the Management Board

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

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

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

Remuneration of Management and Supervisory Boards

Remuneration of Supervisory Board Members

As at 31 December 2017, the remuneration for BZ WBK Supervisory Board members was set by virtue of Resolution No. 41 of the General Meeting of Shareholders of Bank Zachodni WBK of 17 May 2017. The remuneration was determined in accordance with EU guidelines, latest domestic laws, corporate governance rules for supervised entities and the Remuneration Policy for BZ WBK Supervisory Board Members. Mr Gerry Byrne, Mr José Manuel Campa, Mr José García Cantera and Mr José Luis de Mora did not receive remuneration for their membership of the Supervisory Board.

The table below presents the remuneration paid to BZ WBK Supervisory Board members in 2016 and 2017.

First and last name	Position	2017 ²⁾		2016	
		Period	PLN k	Period	PLN k
Gerry Byrne ¹⁾	Chairman of the Supervisory Board	01.01.2017-31.12.2017	-	01.01.2016-31.12.2016	-
José Luis de Mora ¹⁾	Vice Chairman of the Supervisory Board	01.01.2017-31.12.2017	-	01.01.2016-31.12.2016	-
José Manuel Campa ¹⁾	Member of the Supervisory Board	17.05.2017-31.12.2017	-		
José García Cantera ¹⁾	Member of the Supervisory Board	01.01.2017-31.12.2017	-	01.01.2016-31.12.2016	-
Danuta Dąbrowska	Member of the Supervisory Board	01.01.2017-31.12.2017	234	01.01.2016-31.12.2016	244
David Hexter	Member of the Supervisory Board	01.01.2017-31.12.2017	263	01.01.2016-31.12.2016	275
Witold Jurcewicz	Member of the Supervisory Board	01.01.2017-31.12.2017	240	01.01.2016-31.12.2016	247
John Power	Member of the Supervisory Board	01.01.2017-31.12.2017	272	01.01.2016-31.12.2016	303
Jerzy Surma	Member of the Supervisory Board	01.01.2017-31.12.2017	244	01.01.2016-31.12.2016	256
Marynika Woroszyńska-Sapieha	Member of the Supervisory Board	01.01.2017-31.12.2017	214	01.01.2016-31.12.2016	194
José Manuel Varela	Member of the Supervisory Board	01.01.2017-17.05.2017	89	01.01.2016-31.12.2016	193

- 1) Mr Gerry Byrne, José Manuel Campa, Mr José García Cantera and Mr José Luis de Mora did not receive remuneration for their membership of the Supervisory Board.
2) Changes to the composition of the Supervisory Board in 2017 are presented in the "Supervisory Board" item of Section 5 "Governing Bodies".

Mr John Power received additional remuneration for the supervision over acquisition of a carve-out business of Deutsche Bank Poland by BZ WBK in the amount of PLN 84.0 k and PLN 28.7 from a subsidiary for his membership in its Supervisory Board (PLN 35 k in 2016).

Except for Mr John Power, no other Supervisory Board member sat on the boards of the subsidiaries or associates of Bank Zachodni WBK.

Remuneration of Management Board members

Agreements between Bank Zachodni WBK and its Executives

The Management Board members signed employment contracts with Bank Zachodni WBK for the current term of office. The terms and conditions of employment comply with general laws and internal regulations, including the Remuneration Policy for BZ WBK Management Board members and the Remuneration Policy of Bank Zachodni WBK Group.

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

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

Changes to Internal Regulations Concerning Remuneration for Executives

On 20 April 2017, BZ WBK Group Remuneration Policy was adopted, containing the provisions for Management Board members and material risk takers, and repealing the Remuneration policy for individuals holding managerial positions in Bank Zachodni WBK Group and the Policy on variable components of remuneration paid to individuals holding managerial positions in Bank Zachodni WBK Group.

Fixed Remuneration

Pursuant to the Statutes of Bank Zachodni WBK and the BZ WBK Group Remuneration Policy, the remuneration of the President and members of the Management Board is set by the Supervisory Board, having due regard to recommendations of the Remuneration Committee. The Committee establishes a remuneration policy for Management Board members and individual terms and conditions as part of remuneration packages for each Management Board member.

The table below presents the total remuneration and additional benefits received by BZ WBK Management Board members in 2016 and 2017 for their membership of the Management Board.

First and last name	Position	2017 ¹⁾			2016 ²⁾		
		Period	Remuneration (PLN k)	Additional benefits ³⁾ (PLN k)	Period	Remuneration (PLN k)	Additional benefits ³⁾ (PLN k)
Michał Gajewski	President of the Management Board	01.01.2017-31.12.2017	1 931	92	29.11.2016-31.12.2016	176	6
Andrzej Burłaga	Vice President of the Management Board	01.01.2017-31.12.2017	1 012	92	01.01.2016-31.12.2016	1 012	95
Artur Chodacki	Member of the Management Board	01.01.2017-31.12.2017	716	93	22.06.2016-31.12.2016	316	29
Eamonn Crowley	Member of the Management Board	01.01.2017-16.02.2017	167	3	01.01.2016-31.12.2016	1 004	9
Beata Daszyńska-Muzyczka	Member of the Management Board				01.01.2016-31.10.2016	637	126
Michael McCarthy	Vice President of the Management Board	01.01.2017-31.12.2017	1 162	23	01.01.2016-31.12.2016	1 161	21
Carlos Polaino Izquierdo	Member of the Management Board	01.01.2017-31.12.2017	1 347	246	01.01.2016-31.12.2016	1 319	226
Juan de Porras Aguirre	Vice President of the Management Board	01.01.2017-31.12.2017	1 222	99	01.01.2016-31.12.2016	1 221	55
Marcin Prell	Member of the Management Board	01.01.2017-31.12.2017	912	93	01.01.2016-31.12.2016	912	94
Arkadiusz Przybył	Member of the Management Board	10.03.2017-31.12.2017	978	69			
Maciej Reluga	Member of the Management Board	16.02.2017-31.12.2017	631	71			
Miroslaw Skiba	Vice President of the Management Board	01.01.2017-31.12.2017	1 032	93	01.01.2016-31.12.2016	1 032	93
Dorota Strojowska	Member of the Management Board	01.04.2017-31.12.2017	632	69			
Feliks Szyszkiwiak	Vice President of the Management Board	01.01.2017-31.12.2017	1 032	93	01.01.2016-31.12.2016	1 032	94
Paweł Wieczorek	Member of the Management Board				01.01.2016-20.06.2016	339	44

1) Changes to the composition of the Management Board in 2017 are presented in the "Management Board" item of section 5 "Governing Bodies".

2) Changes in the membership of the Management Board in 2016 result from the resignation of Mr Paweł Wieczorek and Ms Beata Daszyńska-Muzyczka as Management Board members as of 20 June 2016 and 31 October 2016, respectively.

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

In 2017, Management Board members were paid an allowance of PLN 124.7k in lieu of annual leave (PLN 199k in 2016).

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

In 2016, Mr Paweł Wieczorek and Ms Beata Daszyńska-Muzyczka received PLN 708k and PLN 384k, respectively, in relation to the termination of their employment contracts and the non-competition clause.

Awards Paid

The rules for determining variable remuneration for Management Board members and material risk takers are laid down in the BZ WBK Group Remuneration Policy adopted on 20 April 2017, which repealed the Remuneration policy for individuals holding managerial positions in Bank Zachodni WBK Group and the Policy on variable components of remuneration paid to individuals holding managerial positions in Bank Zachodni WBK Group. These rules are regularly (at least annually) reviewed by the Remuneration Committee of the Supervisory Board.

Management Board members are paid variable remuneration once a year following the end of the settlement period and release of the bank's results. Variable remuneration is awarded in accordance with the applicable bonus regulations for Management Board members (adopted by virtue of the Supervisory Board's resolution), which set out the principles for determination of a bonus and a bonus pool depending on the achievement of personal objectives as well as business and financial objectives of an organisational unit and the bank. The performance is assessed against the financial and non-financial criteria for the period of minimum three years to take into account the bank's economic cycle and business risk.

The total variable remuneration paid to Management Board members and material risk takers for a given calendar year cannot exceed 100% of the total fixed remuneration paid. However, in exceptional cases, this limit may be increased up to 200% of fixed remuneration subject to the approval of the General Meeting of Shareholders.

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

The table below presents awards paid to the Management Board members in 2017 and 2016.

PLN k

First and last name	Position	2017 ¹⁾		2016 ²⁾	
		Period	Benefits (in PLN k)	Period	Benefits (in PLN k)
Michał Gajewski	President of the Management Board	01.01.2017-31.12.2017	-	29.11.2016-31.12.2016	-
Andrzej Burliga	Vice President of the Management Board	01.01.2017-31.12.2017	1 049	22.06.2016-31.12.2016	888
Artur Chodacki	Member of the Management Board	01.01.2017-31.12.2017	198	22.06.2016-31.12.2016	-
Eamonn Crowley	Member of the Management Board	01.01.2017-16.02.2017	930	01.01.2016-31.12.2016	843
Beata Daszyńska-Muzyczka	Member of the Management Board			01.01.2016-31.10.2016	200
Michael McCarthy	Vice President of the Management Board	01.01.2017-31.12.2017	1 077	01.01.2016-31.12.2016	874
Carlos Polaino Izquierdo	Member of the Management Board	01.01.2017-31.12.2017	635	01.01.2016-31.12.2016	243
Juan de Porras Aguirre	Vice President of the Management Board	01.01.2017-31.12.2017	1 291	01.01.2016-31.12.2016	1 047
Marcin Prell	Member of the Management Board	01.01.2017-31.12.2017	849	01.01.2016-31.12.2016	707
Arkadiusz Przybył	Member of the Management Board	10.03.2017-31.12.2017	-		
Maciej Reluga	Member of the Management Board	16.02.2017-31.12.2017	-		
Mirosław Skiba	Vice President of the Management Board	01.01.2017-31.12.2017	1 074	01.01.2016-31.12.2016	955
Dorota Strojewska	Member of the Management Board	01.04.2017-31.12.2017	-		
Feliks Szyszkowiak	Vice President of the Management Board	01.01.2017-31.12.2017	1 083	01.01.2016-31.12.2016	953
Paweł Wieczorek	Member of the Management Board			01.01.2016-20.06.2016	200

1) The awards paid in 2017 include part of award for 2016, 2015 i 2014, which was conditional and deferred in time.

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

Pursuant to the remuneration system applicable at the bank, Management Board members may be conditionally entitled to a bonus for 2017 which would be paid in part in 2018 and thereafter, if specific criteria are met. As at the date of these financial statements, the Supervisory Board did not take a decision in this respect.

Performance Share Programme

The Annual General Meeting of 17 May 2017 launched the sixth edition of the three-year incentive programme (6th Incentive Programme) for the employees of the bank and the subsidiaries that have a key contribution to the value of the organisation. The main objective of the programme is to retain and motivate top-performing executives.

The Incentive Programme covers no more than 250 key employees of Bank Zachodni WBK Group indicated by the Management Board and approved by the Supervisory Board, inclusive of all Management Board members. The participants include a specific group of material risk takers (identified participants) to whom separate vesting criteria apply. For the purpose of the Programme, the bank will issue up to 250,000 performance shares.

Having executed an agreement with the bank and satisfied the vesting criteria set out in an agreement, the participants will be eligible to subscribe for and acquire a stated number of the bank's shares at a nominal value of PLN 10 each. The award and its amount depends on the satisfaction of the economic criteria, i.e. the level of the compound annual growth rate of PAT and the annual average RoRWA in 2017-2019. The award for material risk takers is granted at the time of execution of an agreement and is either retained or reduced on the basis of the analysis of economic (PAT growth rate, RoRWA) and qualitative criteria (customer satisfaction, employee engagement) in the consecutive years of the programme.

The three-year long 6th Incentive Scheme is monitored on a monthly basis to verify if any employees have lost their participant status. The usual reason for the loss of such status is termination of employment, either with the bank or another entity of BZ WBK Group. Furthermore, the Business Partnership Division monitors the underlying financial ratios in cooperation with the Financial Accounting and Control Division.

Shares and Conditional Rights Held by Supervisory and Management Board members

As at the release dates of the Annual Reports of Bank Zachodni WBK Group for 2017 and 2016, respectively, none of the members of the Supervisory Board held any Bank Zachodni WBK shares or attached conditional rights.

The table below shows Bank Zachodni WBK shares and attached conditional rights held by Management Board members as at 31 December 2016 and 31 December 2017.

Management Board Members	13.02.2018		17.02.2017	
	No. of BZ WBK shares	Rights (6th Incentive Scheme)	No. of BZ WBK shares	Rights (5th Incentive Scheme)
Michał Gajewski	-	5 420	-	-
Andrzej Burliga	4 389	2 820	3 000	2 204
Artur Chodacki	790	2 030	-	1 253
Michael McCarthy	1 528	3 250	-	2 424
Carlos Polaino Izquierdo	631	2 820	-	1 000
Juan de Porras Aguirre	1 397	2 240	-	2 217
Marcin Prell	1 250	2 540	-	1 983
Arkadiusz Przybył	-	3 390		
Maciej Reluga	505	2 030	-	800
Miroslaw Skiba	2 474	2 880	1 057	2 248
Dorota Strojowska	635	2 370		
Feliks Szyszkowiak	1 621	2 880	204	2 248
Razem	15 220	34 670	4 261	16 377

The Relationship between the Remuneration paid to Management Board Members and Key Managers and Long-term Business and Financial Objectives of the Company

The Remuneration Policy of Bank Zachodni WBK Group governing variable components of remuneration paid to material risk takers (identified employees) has an overall objective to incentivise employees, and is strictly connected with the achievement of strategic goals, short- and long-term operational objectives and the financial and non-financial results of the company.

Variable remuneration is awarded to material risk takers of Bank Zachodni WBK on the basis of an assessment of individual performance, results of the reporting organisational unit or the area of responsibility, and business performance of the bank, taking into account the bank's business cycle and risk arising from its operations. The assessment is made as part of the performance review system applicable at the bank.

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

Pursuant to the policy on variable components of remuneration, min. 40% of variable remuneration to executives (min. 60% if above EUR 1m) is deferred for the period of three years and paid in three equal annual instalments, unless there are reasons for reduction or non-payment. Furthermore, min. 50% of remuneration is paid in the form of financial instruments, mainly phantom stock based on the bank's shares.

In addition, Management Board members and key employees may receive awards under long-term incentive programmes (and take up the bank's shares at their nominal value). The purpose of these programmes is to retain the above-mentioned staff and improve the efficiency and value of the organisation. The programmes set out in detail the criteria that must be met by Management Board members and other participants for an award to be granted, and the right of the bank's Supervisory Board to change the terms and conditions of the incentive programme, e.g. in the event of any substantial deterioration of the financial standing or the risk profile. For more on the 6th Incentive Programme, see the "Performance Share Programme" section.

Other Transactions with the Bank's Executives

Loans and Advances

Loans and advances granted by Bank Zachodni WBK to the bank's executives totalled PLN 11,054k as at 31 December 2017 vs. PLN 7,158k as at 31 December 2016. These facilities were sanctioned on the regular terms and conditions.

Deposits placed with Bank Zachodni WBK by the bank's executives totalled PLN 17,328k as at 31 December 2017 vs. PLN 13,312k as at 31 December 2016.

Provisions for Employee Benefits

Provisions for employee benefits disclosed in Note 51 of Consolidated Financial Statement of Bank Zachodni WBK Group for 2017 include the provision of PLN 797k for unused holidays related to members of the bank's Management Board (PLN 567k in 2016).

6. Diversity Policy

Diversity Policy at Bank Zachodni WBK

Management of Diversity within the Bank's Activities

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

Aspects such as respect for individuality, promotion of equal treatment and the prevention of discrimination have been addressed by a number of policies and procedures applicable at the bank, including but not limited to:

- The BZ WBK Sustainability (CSR) Policy, which sets out the following principles with respect to employee relationships:
 - ✓ to respect diversity and prevent discrimination because of gender, race, age or on any other grounds;
 - ✓ to encourage equal treatment of employees and aspire to have a balanced representation between men and women in all functions and responsibilities.
- The BZ WBK Human Rights Policy, which establishes a set of principles regarding the relationships with various stakeholders, including commitment to:
 - ✓ ensure equal access to employment and promotion, and protection against discrimination based on age, gender, race, religion, origin, marital status or financial situation;
 - ✓ prevent and eliminate disrespect and abuse at work.
- The BZ WBK Speak Up Policy and the Dignity and Respect at Work Policy, which set out preventive measures and establish channels and procedures for reporting/analysing suspected violation of law, procedures, standards and employee relationships.

The principles promoting diversity and equal treatment are applied at each stage of the employee lifecycle, starting from recruitment and throughout each employee's time with the organisation (terms of employment, access to training and development initiatives, promotion opportunities) to the termination of employment with the bank.

As part of its diversity agenda, the bank takes measures to provide barrier-free banking for disabled customers and raise their awareness of existing facilities and enhancements (in cooperation with the Polska bez Barrier Foundation). The bank also has processes in place to recruit employees with disabilities.

On 24 May 2017, Bank Zachodni WBK signed up to the Diversity Charter as a testament to its commitment to:

- creating a corporate culture that encourages respect for diversity;
- developing policies and mechanisms that effectively support equal treatment and diversity management at work;
- promoting benefits of diversity among stakeholders (employees, communities, shareholders and customers);
- reporting on measures taken and their outcome.

Diversity Policy with Respect to Supervisory, Management and Administration Bodies

The BZ WBK Appointment and Succession Policy for Management Board members and key function holders is to ensure the continuity of business processes delivered by senior managers, while achieving the best possible balance of gender, knowledge, skills and experience. The promotion of diversity is also one of the objectives of the BZ WBK Policies on the selection and suitability assessment of members of the Management and Supervisory Boards and key function holders. Aside from relevant academic background, professional experience and impeccable reputation, these policies require that candidates for members of Supervisory and Management Boards have a wide range of skills and be able to offer independent judgements and opinions.

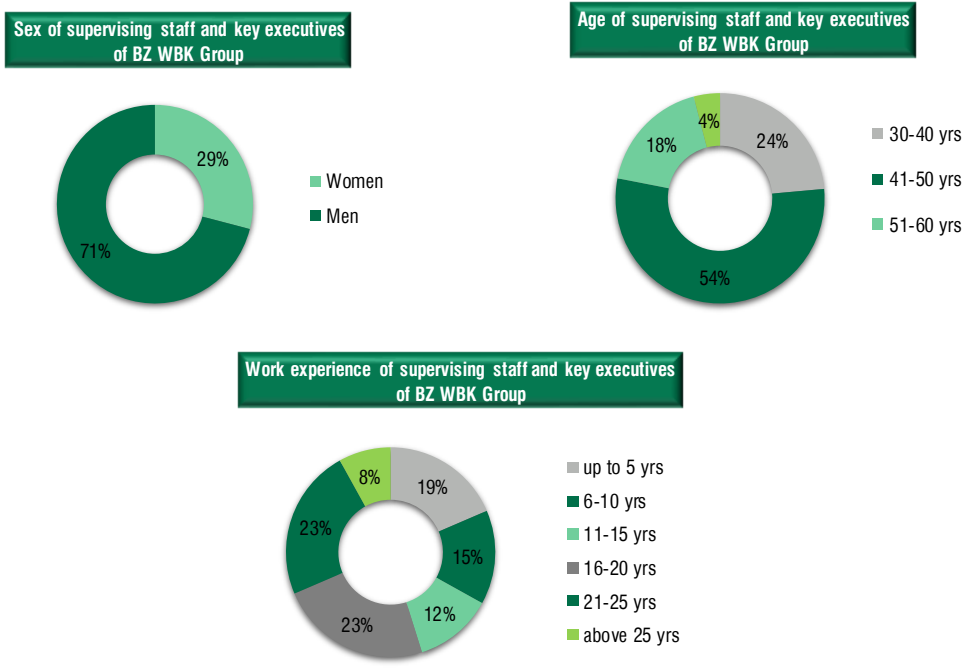
Bank Zachodni WBK makes every effort to ensure appropriate gender diversity on its Supervisory and Management Boards, having full regard to the applicable qualification criteria and diversity considerations. As at 31 December 2017, there were two women on the bank's Supervisory Board: Ms Danuta Dąbrowska and Ms Marynika Woroszylska-Sapieha, and one woman on the Management Board: Ms Dorota Strojowska, Head of the Business Partnership Division.

The current composition of the Supervisory and Management Boards as well as the population of other key function holders ensure diversity in terms of gender, age, experience and academic background. The tables and graphs below show diversity levels at the bank:

Sex	Women	Men
Supervisory Board	2	8
Management Board	1	11
Key Managers	33	69

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

Years of employment with BZ WBK	up to 5	6-10	11-15	16-20	21-25	over 20
Supervisory Board	5	3	-	2	-	-
Management Board	3	3	-	2	3	1
Key Managers	15	12	15	25	26	9



7. Control System of Financial Statements

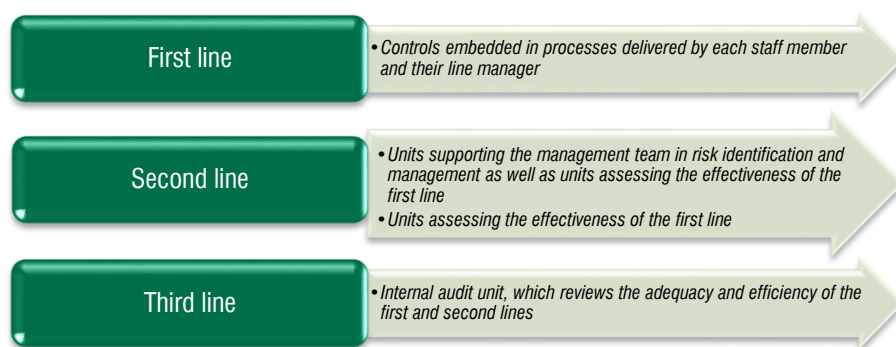
Internal Control and Risk Management System

Internal Control System

Bank Zachodni WBK Group operates an internal control system which supports decision-making processes, compliance with management rules and operational efficiency, and ensures the reliability of financial reporting and compliance with laws, international standards, internal regulations and best practice. The internal control system is tailored to the Group's organisational structure and risk management system, and covers the Business Support Centre, branches, Partner outlets and subsidiaries. The Management Board of the bank is charged with developing and implementing the internal control system, and ensuring that an adequate and effective internal control system is in place in each organisational unit. The Management Board is also responsible for updating the documented procedures and establishing adequacy and effectiveness criteria for evaluating the internal control system. Oversight of the implementation and the annual assessment of the internal control system is exercised by the Audit and Compliance Committee of the Supervisory Board of Bank Zachodni WBK.

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

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



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

Controls in Financial Reporting Processes

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

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

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

In order to manage risk associated with the preparation of financial statements, the bank follows legal and regulatory changes related to reporting obligations and updates its accounting rules and disclosures accordingly. The bank, through its representatives sitting on the supervisory boards of individual subsidiaries, exercises oversight of its consolidated subsidiaries.

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

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

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

Internal Control Compliant with the Sarbanes-Oxley Act

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

The certification process for compliance with the Sarbanes-Oxley Act in 2017 covered all key business areas of Bank Zachodni WBK and was carried out using solutions and methodology based on Santander Group's approach. The scope of testing included risk factors which were particularly significant for the reliability and accuracy of financial statements, taking into account the local control environment.

In view of the requirements arising from external regulations, Bank Zachodni WBK took measures to adjust the internal control system to satisfy the Volcker Rule (section 619 of Dodd-Frank Wall Street Reform and Consumer Protection Act) and ensure compliance with RDA/RRF (Basel Committee on Banking Supervision 239: Principles for effective risk data aggregation and risk reporting), the Regulation of the Minister of Development and Finance on the risk management system, the internal control system, remuneration policy and detailed method of internal capital estimation in banks, and KNF Recommendation H on the internal control system in banks.

The assessment of the design and effectiveness of the internal control system covers all available information and related recommendations, including those concerning audit and post-inspection. Results of assessments and tests form the basis for the bank's management to make representations on the effectiveness of the control environment.

As part of the SOX certification process for 2017, the bank's management confirmed that no incidents were identified in Bank Zachodni WBK Group which could significantly affect the relevant processes and threaten the effectiveness of the internal control over financial reporting.

Auditor

In accordance with the bank's Statutes and applicable regulations, on 19 April 2017 the bank's Supervisory Board passed a resolution appointing PricewaterhouseCoopers as the entity to:

- review the bank's unconsolidated financial statements and the Group's consolidated financial statements for H1 2017 and the entire year 2018;
- audit the bank's unconsolidated financial statements and the Group's consolidated financial statements for 2017 and 2018.

The bank signed agreements with PricewaterhouseCoopers Polska for the terms required to carry out the specified work.

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

Employing the auditor from the same network for both Bank Zachodni WBK and Banco Santander ensures a consistent approach to the audit process across Santander Group.

Bank Zachodni WBK selects the entity authorised to audit financial statements pursuant to the Policy of Auditor Selection adopted on 4 October 2017 which is compliant with the EU law (Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities) and the Polish law (Act of 11 May 2017 on statutory auditors, audit firms and public supervision), in particular with regard to the principle of rotation of auditors.

Remuneration of external auditor

The table below shows the remuneration paid to PricewaterhouseCoopers Polska in 2017 and 2016 for audit/review of the financial statements of Bank Zachodni WBK Group pursuant to concluded agreements.

Remuneration of External Auditors	PLN k	
	Reporting Year ended on 31.12.2017	Reporting Year ended on 31.12.2016
Audit fees in respect of the parent bank ¹⁾	2 363	2 350
Audit fees in respect of the subsidiaries	2 107	1 659
Audit fees related to assurance services, including the review of the parent bank and subsidiaries ¹⁾	870	908
Fees for non-assurance services ²⁾	461	865

1) Remuneration for audit and review services performed in 2017 and 2016 based on the Agreement with BZ WBK on the audit of financial statements of 19 June 2017 and the Agreement with BZ WBK on the review and audit of financial statements of 23 July 2016 and an annex of 16 November 2016.

Audit fees related to assurance services are attributable in both periods to BZ WBK and include PLN 600 k for review of the financial statements and other assurance services of PLN 270 k in 2017 and 308 k in 2016.

2) Fees for non-assurance services include fees for BZ WBK of PLN 30 k in 2017 and PLN 716 k in 2016.

8. Pending Court Proceedings

As at 31 December 2017, no case was pending before any court or state administration agencies with regard to any claims made by or against Bank Zachodni WBK or its subsidiaries amounting to a minimum of 10% of the Group's equity.

	PLN m	
Court Proceedings with BZ WBK Group as a Party	31.12.2017	31.12.2016
Amounts claimed by the Group	717,6	518,3
Claims against the Group ¹⁾	359,4	221,6
Receivables due to bankruptcy or arrangement cases	3,8	40,9
Value of all litigation	1 080,8	780,8
Share [%] of all litigation in equity	4,6%	3,7%
Completed significant court proceedings	532,5	451,7

1) On 20.10.2017, Bank Zachodni WBK was notified of a class action instituted by the borrowers with loans indexed to the CHF, granted by the former Kredyt Bank. The total value of the claim, estimated as at the reporting date, was PLN 32.3m. This amount may change if new borrowers join the class action.