



TRANSLATORS' EXPLANATORY NOTE

The English content of this report is a free translation of the registered auditor's report of the below-mentioned Polish Company. In Poland statutory accounts as well as the auditor's report should be prepared and presented in Polish and in accordance with Polish legislation and the accounting principles and practices generally adopted in Poland.

The accompanying translation has not been reclassified or adjusted in any way to conform to the accounting principles generally accepted in countries other than Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancies in interpreting the terminology, the Polish language version is binding.

Independent Registered Auditor's Report

To the General Shareholders' Meeting and the Supervisory Board of Santander Bank Polska S.A.

Report on the audit of consolidated financial statements

Our opinion

In our opinion, the attached annual consolidated financial statements of the Santander Bank Polska S.A. Group („the Group”), in which Santander Bank Polska S.A. is the parent entity (“the Parent entity”):

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the applicable International Financial Reporting Standards (“IFRS”) as adopted by the European Union and the adopted accounting policies;
- comply in terms of form and content with the laws applicable to the Group and the Parent entity's Articles of Association.

Our opinion is consistent with our additional report to the Audit and Compliance Committee issued on the date of this report.

What we have audited

We have audited the annual consolidated financial statements of Santander Bank Polska S.A. Group which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- and the following prepared for the financial year from 1 January to 31 December 2018:
- the consolidated income statement;
 - the consolidated statement of comprehensive income;
 - the consolidated statement of changes in equity;
 - the consolidated statement of cash flows and
 - additional notes to consolidated financial statements including a description of the adopted accounting policies and other explanations.

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PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. (formerly: PricewaterhouseCoopers sp. z o.o.) is entered into the National Court Register (KRS) maintained by the District Court in Warsaw, with the reference number (KRS) 0000750050, and tax identification number (NIP) 526-021-02-28. Headquarters in Warsaw, ul. Polna 11.

Basis for opinion

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing as adopted as National Standards on Auditing by the National Council of Statutory Auditors (“NSA”) and pursuant to the Act of 11 May 2017 on Registered Auditors, Registered Audit Companies and Public Oversight (“the Act on Registered Auditors” – Journal of Laws of 2017, item 1089 as amended) and Regulation (EU) No. 537/2014 of 16 April 2014 on specific requirements regarding the statutory audit of public-interest entities (“the EU Regulation” – Journal of Laws EU L158). Our responsibilities under those NSA are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report.

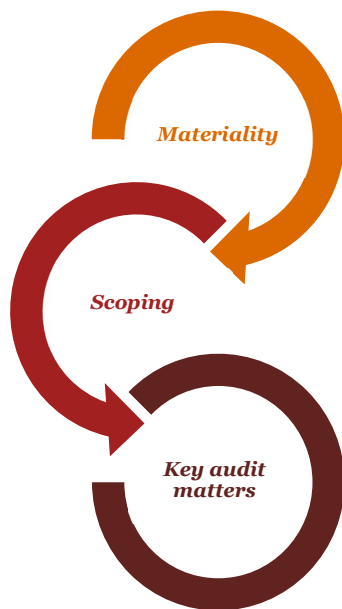
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and ethics

We are independent of the Group in accordance with the International Federation of Accountants’ *Code of Ethics for Professional Accountants* (“the IFAC Code”) as adopted by resolutions of the National Council of Statutory Auditors and other ethical requirements that are relevant to our audit of the financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC’s Code. During the audit, the key registered auditor and the registered audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Registered Auditors and in the EU Regulation.

Our audit approach

Overview



- The overall materiality threshold adopted for the purposes of our audit was set at PLN 180,000 thousand, which represents 5% of the profit before tax adjusted by the tax on financial institutions and one-off gain on the acquisition of enterprise of Deutsche Bank Polska S.A.
- We have audited financial statements of the Parent entity and consolidation packages of the subsidiaries that have significant impact on the consolidated financial statements.
- The scope of our audit covered 95% of the Group’s revenue and 90% of the absolute value of its profit or loss and 98% of the sum of total assets of all the consolidated Group companies before consolidation eliminations.
- Accounting for acquisition of the organised part of the enterprise of Deutsche Bank Polska S.A.
- Impairment of loans and advances to customers.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Parent entity's Management Board made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operated.

Materiality

The scope of our audit was influenced by the adopted materiality level. Our audit was designed to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement. Misstatements may arise due to fraud or error.

They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole, as presented below. These thresholds, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

The concept of materiality is used by the registered auditor both in planning and conducting an audit, as well as in assessing the effect of the misstatements identified during the audit and the unadjusted misstatements (if any), on the consolidated financial statements, and also when forming the registered auditor's report. Therefore, all opinions, assertions and statements contained in the registered auditor's report have been made taking into consideration the quantitative and qualitative materiality levels determined in accordance with the audit standards and the registered auditor's professional judgement.

Overall Group materiality	PLN 180,000 thousand (last year PLN 180,000 thousand)
Basis for determination	5% of the profit before tax adjusted by the tax on financial institutions and one-off gain on acquisition of enterprise of Deutsche Bank Polska S.A.
Rationale for the materiality benchmark applied	We have adopted profit before tax as the basis for determining materiality because, in our opinion, it is an indicator commonly used by the users of financial statements to evaluate the Group's operations and is a generally adopted benchmark. We have adjusted profit before tax by tax on financial institutions because it is treated by the Parent Company and users of financial statements as a specific tax burden. In addition, due to the one-off nature of the transaction, we excluded the gain on acquisition of enterprise.
	We adopted the materiality threshold of 5% because it is within the quantitative materiality thresholds acceptable for the auditing of profit-oriented entities in the financial sector.

We agreed with the Parent entity's Audit and Compliance Committee that we would report to

them of misstatements identified during our audit of the consolidated financial statements

above PLN 9,000 thousand, as well as any misstatements below that amount, that in our

view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. They include the most significant identified risks of material misstatements, including the identified risks of material misstatement resulting from fraud. These matters were addressed in the

context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. We summarized our response to these risks and, when deemed appropriate, presented the most important observations relating to these risks. We do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

Accounting for acquisition of an organised part of the enterprise of Deutsche Bank Polska S.A.

On 9 November 2018 the Parent entity purchased the organised part of the enterprise of Deutsche Bank Polska S.A., consisting banking activities related to retail and SME banking, private banking, business banking, excluding corporate and investment banking business and retail FX mortgages and 100% of shares in DB Securities S.A. (brokerage house).

In order to account for the acquisition, the Group performed preliminary purchase price allocation and determined fair value of assets acquired and liabilities assumed. As a result a gain on a bargain purchase in the amount of PLN 387,733 thousand was recognised by the Bank in the income statement.

The estimates regarding valuation of assets acquired and liabilities assumed are complex and require a significant degree of judgement. Moreover recognising a bargain purchase gain requires the Management to perform the reassessment in order to ensure that the measurements appropriately reflect consideration of all available information as of the acquisition date. Therefore we considered this area a key audit matter.

Note 51 Acquisition of an organized part of the enterprise in the financial statements provide the description of the transaction and preliminary purchase price allocation made by the Bank.

We assessed whether the accounting treatment applied by the Group was in line with IFRS 3, “Business combinations”.

Our audit procedures covered in particular:

- an analysis of the transaction documents;
- understanding and assessing the identification process of the acquired assets and assumed liabilities;
- understanding, evaluation and validation of the controls implemented by the Management in the area of analysis, verification and final approval of the estimates;
- obtaining the results of the fair value models used by the Management together with the supportive evidence for the assumptions applied in the models;
- performing the assessment of the adopted valuation methods and assumptions (including sensitivity analysis, benchmarking), covering in particular the fair value measurement of the loan portfolio, intangibles identified on the transactions, including core deposit intangible and customer relationships intangible. For these audit procedures we made use of our internal valuation specialists;
- challenging the Management’s reassessment of correctness of identification and valuation of the assets acquired and liabilities assumed, required in connection with the recognition of gain on acquisition of enterprises;
- testing of consideration paid and the resulting gain on a bargain purchase.

Impairment of loans and advances to customers

We focused on this area because the management's judgements in the calculation of impairment allowances have significant impact on the consolidated financial statements. The estimates regarding impairment allowances are complex and require a significant degree of judgement, which increased with implementation of expected credit loss ('ECL') approach starting from 1 January 2018 as required by IFRS 9, "Financial instruments" ("IFRS 9").

Under IFRS 9 the Management is required to determine ECLs that may occur over either a 12 month period or the remaining life of an asset, depending on the staging of the individual asset. This staging is determined by an assessment of whether there has been a significant increase in credit risk ('SICR') of the borrower since loan origination. It is also necessary to consider the impact of different future macroeconomic conditions in the determination of ECLs.

The accuracy of the assumptions used in the models, including the macroeconomic scenarios, impacts the level of impairment provisions. The management monitors the precision of the ECL models, to ensure that the models appropriately estimate losses comparing to actual results ('back-testing procedures') and that the level of the impairment allowances is adequate.

ECL provision calculations require the use of large volumes of data. The completeness and reliability of data can significantly impact accuracy of the modelled impairment provisions. The accuracy of data flows and the implementation of related controls is critical for the integrity of the estimated impairment provisions.

Given the significance of judgements and the high complexity related particularly to the calculation of ECL we considered this area as a key audit matter.

Note 2.6 *Use of estimates*, note 2.9 *Accounting policies*, note 4 *Risk management* and note 22 *Loans and advances to customers* included in the consolidated financial statements provide detailed information on the methods and models used and the level of the impairment allowances for loans and advances to customers.

We have started our audit procedures with updating our understanding of the internal control environment related to recognition and measurement of impairment allowances and tested the effectiveness of the selected key controls implemented by the Bank in particular:

- procedures in the area of recording, processing and amending of key customer data applied in calculation of expected credit losses;
- data flows between Bank's core IT systems and ECL calculation tool;
- procedures in the area of timely and complete identification of significant increase in credit risk (stage 2) and default (stage 3).

We also assessed whether the impairment methodology used by the Group is in line with IFRS 9 requirements. Particularly we assessed the approach of the Group regarding application of SICR criteria, definition of default, PD, LGD and incorporation of forward-looking information in the calculation of ECL.

Due to first time adoption of IFRS 9 in the audited period, we have focused on the analysis of the results of the back-testing procedures, by assessing the Group's assumptions and the expert adjustments applied in the model taking into account the empirical data and the existing credit and monitoring processes.

For individually insignificant loans and advances which are assessed for impairment on a portfolio basis we performed particularly the following procedures:

- we tested the reliability of key data inputs and related management controls;
- we challenged key judgements and assumptions, including the macro-economic scenarios and the associated probability weights;
- we analyzed impairment coverage of credit portfolio and its changes from 1 January 2018 as well as transfers of exposures between stages in 2018.

For these audit procedures we made use of our internal credit risk modelling specialists.

We applied our professional judgement in the selection of significant loans and advances assessed for impairment on an individual basis – we selected the sample taking into account different risk criteria:

- for selected loans and advances we checked the stage classification as at the balance sheet date,
- for selected impaired loans and advances (Stage 3) we tested the assumptions used in the impairment allowances' calculation, particularly expected scenarios and probabilities assigned to them and the timing and amount of expected cash flows, including cash flows from repayments and realisation of collaterals.

Responsibility of the Management and Supervisory Board for the consolidated financial statements

The Management Board of the Parent entity is responsible for the preparation of annual consolidated financial statements that give a true and fair view of the Group's financial position and results of operations, in accordance with the International Financial Reporting Standards as adopted by the European Union, the adopted accounting policies, the applicable laws and the Parent entity's Articles of Association, and for such internal control as the Management Board of the Parent entity determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Parent entity's Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Parent entity's Management Board and members of its Supervisory Board are obliged to ensure that the consolidated financial statements comply with the requirements specified in the Accounting Act of 29 September 1994 ("the Accounting Act" – Consolidated text: Journal of Laws of 2018, item 395, as amended). Members of the Supervisory Board are responsible for overseeing the financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the NSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these consolidated financial statements.

The scope of the audit does not cover an assurance on the Group's future profitability or the efficiency and effectiveness of the Parent entity's Management Board conducting its affairs, now or in future.

As part of an audit in accordance with the NSA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent entity's Management Board;
- conclude on the appropriateness of the Parent entity's Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going

concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Compliance Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Compliance Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit and Compliance Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, the Management Board Report on Santander Bank Polska Group Performance in 2018 including Management Board Report on Santander Bank Polska Performance

Other information

Other information consists of the Management Board Report on Santander Bank Polska Group Performance in 2018 including Management Board Report on Santander Bank Polska Performance (the “Report on performance”) and the corporate governance statement and the statement on non-financial information referred to in Article 55 (2b) of the Accounting Act which are separate parts of the Report on performance (together “Other Information”).

Responsibility of the Management and Supervisory Board

The Management Board of the Parent entity is responsible for preparing Other Information in accordance with the law.

The Parent entity’s Management Board and the members of the Supervisory Board are obliged to ensure that Other information complies with the requirements of the Accounting Act.

Registered auditor’s responsibility

Our opinion on the audit of the consolidated financial statements does not cover Other Information.

In connection with our audit of the consolidated financial statements, our responsibility is to read Other Information and, in doing so, consider whether it is materially inconsistent with the information in the consolidated financial statements, our knowledge obtained in our audit, or otherwise appears to be materially misstated. If, based on the work performed, we identified a material misstatement in Other Information, we are obliged to inform about it in our audit report. In accordance with the requirements of the Act on the Registered Auditors, we are also obliged to issue an opinion on whether the Management Board’s Report on performance has been prepared in accordance with the law and is consistent with information included in annual consolidated financial statements.

Moreover, we are obliged to issue an opinion on whether the Parent entity provided the required information in its corporate governance statement and to inform whether the Parent entity prepared a statement on non-financial information.

In addition, we are required to audit the financial information included in the Report on performance in accordance with the scope described in this audit report and the requirements of the Banking Law of 29 August 1997 (“the Banking Law” – Journal of Laws of 2017, item 1876, as amended).

Opinion on the Report on performance

Based on the work we carried out during the audit, in our opinion, the Report on performance:

- has been prepared in accordance with the requirements of Article 49 of the Accounting Act and para. 71 of the Regulation of the Minister of Finance dated 29 March 2018 on current and periodical information submitted by issuers of securities and conditions for considering as equivalent the information required under the legislation of a non-Member State (“Regulation on current information” – Journal of Laws 2018, item 757) and Article 111 (1–2) of the Banking Law;
- is consistent with the information in the consolidated financial statements.

Moreover, based on the knowledge of the Group and its environment obtained during our audit, we have not identified any material misstatements in the Report on performance.

Opinion on the corporate governance statement

In our opinion, in its corporate governance statement, the Parent entity included information set out in para. 70.6 (5) of the Regulation on current information. In addition, in our opinion, information specified in paragraph 70.6 (5) (c)–(f), (h) and (i) of the said Regulation included in the corporate governance statement are consistent with the applicable provisions of the law and with information included in the consolidated financial statements.

Information on non-financial information

In accordance with the requirements of the Act on the Registered Auditors, we confirm that the Parent entity has prepared a statement on non-financial information referred to in Article 55 (2b) of the Accounting Act as a separate section of the Report on performance.

We have not performed any assurance work relating to the statement on non-financial information and we do not provide any assurance with regard to it.

Report on other legal and regulatory requirements

Information on compliance with prudential regulations

The Management Board of the Parent entity is responsible for complying with the applicable prudential regulations set out in separate legislation, and in particular, for correct determination of the capital ratios.

The capital ratios as at 31 December 2018 have been presented in Note 2.3 of the consolidated financial statements and include Common Equity Tier 1 capital ratio, Tier 1 capital ratio and the total capital ratio.

We are obliged to inform in our report on the audit of the consolidated financial statements whether the Group has complied with the applicable prudential regulations set out in separate legislation, and in particular, whether the Group has correctly determined its capital ratios. For the purposes of the said information, the following legal acts are understood as separate legislation: Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as amended (“CRR”), the Banking Law and the Act of 5 August 2015 on macro-prudential supervision over the financial system and on crisis management in the financial system (“the Act on macro-prudential supervision” – Journal of Laws of 2017, item 1934 as amended).

It is not the purpose of an audit of the financial statements to present an opinion on compliance with the applicable prudential regulations specified in the separate legislation specified above, and in particular, on the correct determination of the capital ratios, and therefore, we do not express such an opinion.

Based on the work performed by us, we inform you that we have not identified:

- any cases of non-compliance by the Group with the applicable prudential regulations set out in separate legislation referred to above, in the period from 1 January to 31 December 2018;
- any irregularities in the determination by the Group of the capital ratios as at 31 December 2018 in accordance with the separate legislation referred to above

which would have a material impact on the consolidated financial statements.

Statement on the provision of non-audit services

To the best of our knowledge and belief, we declare that the non-audit services we have provided to the Parent entity and its subsidiaries are in accordance with the laws and regulations applicable in Poland and that we have not provided any non-audit services prohibited under Article 5 (1) of the EU regulation and Article 136 of the Act on Registered Auditors.

The non-audit services which we have provided to the Bank and its subsidiaries in the audited period are disclosed in the Report on performance.

Appointment

We have been appointed for the first time to audit the annual consolidated financial statements of the Group by resolution of the Supervisory Board dated 22 March 2016 and re-appointed by resolution dated 19 April 2017. We have been auditing the Group’s consolidated financial statements without interruption since the financial year ended 31 December 2016, i.e. for three consecutive years.



The Key Registered Auditor responsible for the audit on behalf of PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. (formerly: PricewaterhouseCoopers Sp. z o.o.), a company entered on the list of Registered Audit Companies with the number 144., is Agnieszka Accordi.

Agnieszka Accordi
Key Registered Auditor
No. 11665

Warsaw, 22 February 2019