

## XIII. Statement on Corporate Governance in 2018

### 1. Legal and Regulatory Basis of Corporate Governance

The corporate governance framework applicable at Santander Bank Polska S.A. 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 "Principles of Corporate Governance for Supervised Institutions".

This Statement on Corporate Governance in 2018 was prepared in accordance with § 70(6)(5) of the Finance Minister's Regulation of 29 March 2018 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. Principles of Corporate Governance

#### Code of Best Practice for WSE Listed Companies

In 2018, Santander Bank Polska S.A. was subject to the rules of corporate governance and conduct applicable as conveyed in the Code of Best Practice for WSE Listed Companies, and appended to WSE Supervisory Board Resolution No. 26/1413/2015 of 13 October 2015. This document was drawn up as part of market self-regulation in order to improve the transparency of listed companies and the quality of their relationships with the market environment.

This version of the Code became effective on 1 January 2016, once adopted for use by the Management Board (Resolution No. 160/2015 of 2 December 2015) and approved by the Supervisory Board (Resolution No. 61/2015 of 16 December 2015). The full text is available on WSE website (<http://www.gpw.pl>), section on corporate governance of listed companies, and on the bank's website (<http://www.santander.pl>), "Investor Relations" tab.

Santander Bank Polska S.A. 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).

#### Principles of Corporate Governance for Supervised Institutions

Santander Bank Polska S.A. abides by Principles 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 relationships 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 Principles are available on the KNF website ([www.knf.gov.pl](http://www.knf.gov.pl)) via "Market" tab, and on the bank's website (<http://www.santander.pl>) via the "Investor Relations" tab.

Principles of Corporate Governance for Supervised Institutions were adopted by Santander Bank Polska S.A. 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 Santander Bank Polska S.A. on 23 April 2015.

### 3. Management Board's Statement on Corporate Governance

In 2018, Santander Bank Polska S.A. duly complied with all corporate governance rules set out in the existing version of the Code of Best Practice for WSE Listed Companies and Principles of Corporate Governance for Supervised Institutions. In this period, no breaches of the above-mentioned regulations were reported.

## 4. Issuer's Securities

### Structure of share capital

The table below presents the entities with significant holdings of Santander Bank Polska S.A. shares as at 31 December 2018 and 31 December 2017.

Shareholders with a stake of 5% and higher	Number of Shares and Voting Rights Held		% in the Share Capital & Voting Power at AGM	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Banco Santander S.A.	68 880 774	68 880 774	67,47%	69,34%
Others	33 207 531	30 452 707	32,53%	30,66%
<b>Total</b>	<b>102 088 305</b>	<b>99 333 481</b>	<b>100,00%</b>	<b>100,00%</b>

According to information held by the Management Board of Santander Bank Polska S.A. as at 31 December 2018, Banco Santander S.A. was the only shareholder holding at least 5% of the total number of votes at the bank's General Meeting of Shareholders, with shareholding of 67.47%.

Compared with 31 December 2017, the shareholding of Banco Santander S.A. decreased by 1.87 p.p. YoY following its dilution caused by an increase in the share capital of Santander Bank Polska S.A. by PLN 27,548,240 to PLN 1,020,883,050 through the issue of 2,754,824 series N shares as part of acquisition of the demerged part of Deutsche Bank Polska S.A. The demerger shares were allotted to Deutsche Bank AG, increasing the non-controlling shareholders' share in the registered capital and voting power at the bank's General Meeting from 30.66% to 32.53%.

The increase in the share capital was approved by the bank's Extraordinary General Meeting of 29 May 2018 and recorded in the National Court Register on 9 November 2018. On 27 November 2018, series N shares were registered in the Central Securities Depository of Poland (KDPW), and were admitted and introduced to trading on the main floor of the Warsaw Stock Exchange.

The table below presents the structure of the bank's share capital as at 31 December 2018 by share series:

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
N	bearer	none	none	2 754 824	27 548 240
<b>Total</b>				<b>102 088 305</b>	<b>1 020 883 050</b>

### Rights and restrictions attached to the issuer's securities

The shares of Santander Bank Polska S.A. 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.

## 5. Governing Bodies

### General Meeting of Shareholders

#### General Meetings of Shareholders in 2018

##### Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders of Santander Bank Polska S.A. held on 16 May 2018 (AGM) approved the reports for 2017 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 2017 and the retained net profit for 2016, including dividend payment from retained earnings for 2016 (see Chapter VII "Investor Relations"). The AGM adopted a resolution on the change of the bank's business name from "Bank Zachodni WBK Spółka Akcyjna" to "Santander Bank Polska Spółka Akcyjna", relocation of the bank's registered office from Wrocław to Warsaw and amendment of the bank's statutes and the terms of reference of the General Meeting of Shareholders.

##### Extraordinary General Meeting of Shareholders

The Extraordinary General Meeting of Shareholders of Santander Bank Polska S.A. held on 29 May 2018 (EGM) approved the demerger of Deutsche Bank Polska S.A. in accordance with Article 529(1)(4) of the Commercial Companies Code, i.e. through the transfer to Santander Bank Polska S.A. of an organised part of the enterprise of Deutsche Bank Polska S.A. and shares of DB Securities S.A. held by Deutsche Bank Polska S.A. The EGM approved the demerger plan of 23 February 2018 providing for an increase in the share capital of Santander Bank Polska S.A., dematerialisation of demerger shares (series N shares of the bank) and their admission and introduction to trading on the regulated market of the Warsaw Stock Exchange.

Furthermore, the EGM approved relevant amendments to the statutes of Santander Bank Polska S.A. and agreed on their consolidated text.

#### Organisation and powers of the General Meeting of Shareholders

The General Meeting of Shareholders of Santander Bank Polska S.A. (GM) is held as provided for in the Commercial Companies Code of 15 September 2000, Statutes of Santander Bank Polska S.A. and Terms of Reference of the 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 GM 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 Santander Bank Polska S.A. are set out in the terms of reference of the bank's 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

Any amendments to the Statutes of Santander Bank Polska S.A. may be made by way of resolution of the GM and must be entered to the register of entrepreneurs in order to be valid. Pursuant to the Banking Law, such amendments also require consent from the KNF.

Pursuant to the resolutions of the General Meetings of Santander Bank Polska S.A. of 16 May 2018 and 29 May 2018, the bank's statutes were amended as follows:

- In § 10, the amount of the bank's share capital was increased to PLN 1,020,883,050 as a result of the issuance of 2,754,824 series N ordinary bearer shares.
- The name of the statutes and § 1, § 3, § 19(4) and 19a(2) were amended to reflect the change of the bank's business name from Bank Zachodni WBK Spółka Akcyjna to Santander Bank Polska Spółka Akcyjna as well as the change of the bank's registered office address from Wrocław to Warsaw;
- The issuance of electronic money instruments was excluded from the objects clause and § 7(1)(6a) was repealed accordingly;
- § 37(3)(3) and § 42(2)(2) were amended to reflect the provisions of the KNF's Recommendation H regarding independence of the compliance unit.

The above amendments became effective on 9 November 2018 (as regards the share capital increase) and 7 September 2018 (within the remaining scope) once approved by the KNF and registered by the relevant registry court.

## Supervisory Board

### Composition of the Supervisory Board

The table below presents the composition of the Supervisory Board of Santander Bank Polska S.A. as at 31 December 2018 and 31 December 2017:

<b>Role in the Supervisory Board</b>	<b>Ref.</b>	<b>Composition as at 31.12.2018 and 31.12.2017</b>
Chairman of the Supervisory Board:	1.	Gerry Byrne
Vice Chairman of the Supervisory Board:	2.	José Luis de Mora
Members of the Supervisory Board:	3.	José Manuel Campa
	4.	José Garcia Cantera
	5.	Danuta Dąbrowska
	6.	David Hexter
	7.	Witold Jurcewicz
	8.	John Power
	9.	Jerzy Surma
	10.	Marynika Woroszyńska-Sapieha

The bank's Supervisory Board, in its composition as at 31 December 2018, was appointed for a new term of office by the Annual General Meeting held on 17 May 2017.

The following members of the Supervisory Board held an independent status: Danuta Dąbrowska, David R. Hexter, Witold Jurcewicz, Jerzy Surma and Marynika Woroszyńska-Sapieha.

In 2018, 11 Supervisory Board meetings were held at which 99 resolutions were passed. Average attendance of the Supervisory Board members was 95.45%.

Members of the Supervisory Board of Santander Bank Polska S.A. have extensive expertise and considerable professional experience. The combined competencies and track record enable the members to effectively fulfil their supervisory duties.

Details about the academic background and professional experience of the bank's Supervisory Board members are also published on the bank's website at <https://santander.pl/investor-relations/company/supervisory-board/supervisory-board.html>.

## Role of the Supervisory Board

The Supervisory Board of Santander Bank Polska S.A. 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 KNF about Supervisory Board membership.

Pursuant to the bank's Statutes, at least half the members of the Supervisory Board should be of an 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 in Santander Bank Polska S.A.: Audit and Compliance Committee, Risk Committee, Remuneration Committee 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.

Supervisory Board Committees as at 31.12.2018 and 31.12.2017						
Role in the Supervisory Board	Ref.	Composition as at 31.12.2018	Audit and Compliance Committee	Risk Committee	Nominations Committee	Remuneration Committee
Chairman	1.	Gerry Byrne			●	●
Vice Chairman of the Members	2.	José Luis de Mora			●	●
	3.	José Manuel Campa		●		
	4.	José Garcia Cantera				
	5.	Danuta Dąbrowska	●		●	●
	6.	David Hexter	●	●		
	7.	Witold Jurcewicz	●		●	●
	8.	John Power		●		
	9.	Jerzy Surma	●	●	●	
	10.	Marynika Woroszyńska-Sapieha	●		●	●

● Chairman  
● Members

The annual reports on the activities of the Supervisory Board and its committees are approved by the Annual General Meeting of Shareholders of Santander Bank Polska S.A. and published on the bank's website.

## Audit and Compliance Committee

### *Responsibilities and competencies of the Committee*

The **Audit and Compliance Committee** supports the Supervisory Board in fulfilment of its oversight obligations towards shareholders and other stakeholders in terms of:

- ✓ the quality and integrity of the accounting policies, financial statements and disclosure practices;
- ✓ compliance of the bank's business with laws and internal regulations;
- ✓ independence and effectiveness of activities undertaken by internal and external auditors;
- ✓ the system of internal control and management of financial and non-financial risks.

Pursuant to its terms of reference, the Audit and Compliance Committee and Risk Committee should convene at least four times per year at dates corresponding to the reporting and audit cycle. Additional meetings are held when necessary. In 2018, six Committee meetings were held.

As at 31 December 2018, all members of the Audit and Compliance Committee met the independence criteria in accordance with the bank's statutes and the Act of 11 May 2017 on statutory auditors, audit firms and public oversight.

The following members had the most relevant expertise and experience from the perspective of the Committee's roles and responsibilities:

- Danuta Dąbrowska: competencies in the area of accounting and review of financial statements confirmed by the ACCA certificate and membership.
- David Hexter: competencies in the banking area gained while holding executive positions in the banking and financial services sectors, including in Citibank and the EBRD.

### *Audit and Compliance Committee's oversight of auditor selection*

Pursuant to the Policy of Auditor Selection at Santander Bank Polska S.A., the bank selects an entity authorised to audit financial statements pursuant to the following rules:

- The bank and the Committee may invite any audit firm to place bids for carrying out statutory audits on condition of a four-year cooling-off period after the end of the relationship following the expiry of the maximum duration of the engagement.
- An audit firm is selected taking into account findings and conclusions made in the final report of the Audit Supervision Authority (KNA) published on its website.
- The Audit and Compliance Committee's recommendation regarding the selection of an auditor takes into consideration the following aspects:
  - ✓ In case of initial engagement of an auditor:
    - at least two audit firms to choose from, along with the rationale and the Committee's justified preference for one of them;
    - competencies and ability to perform the required services;
    - independence of the auditor;
    - legal requirements;
    - consistency and effectiveness of the audit from the Group's perspective as well as from the higher-level consolidation perspective;
    - comparison of individual proposals in accordance with the agreed criteria, having regard to the weights allocated on the basis of a relevant questionnaire.
  - ✓ In the case of reappointment of the auditor:
    - evaluation of the quality of services provided to date;
    - independence of the auditor;
    - legal requirements;
    - consistency and effectiveness of the audit from the local Group's perspective as well as from the higher-level consolidation perspective.
- The same auditor is appointed for the audit of financial statements of the bank and consolidated financial statements of the Group. The same auditor may be appointed to perform all other attestation services for the bank and the Group.
- With respect to the minimum and maximum duration of an audit engagement and the minimum cooling-off period after the expiry of the maximum duration, the bank/the Group complies with the applicable laws.

The recommendation issued by the Audit and Compliance Committee before the appointment of PricewaterhouseCoopers Sp. z o.o. to review and audit the financial statements of Santander Bank Polska S.A. and Santander Bank Polska Group for 2017 and 2018 met all the required criteria and was presented to the Supervisory Board as part of the selection procedure carried out in accordance with the applicable principles.

#### *Permitted non-audit services*

In 2018, PricewaterhouseCoopers Sp. z o.o., an audit firm appointed to audit the financial statements of Santander Bank Polska S.A. and its Group for 2017 and 2018, along with other entities from the PWC network, provided the following permitted non-audit services:

- ✓ review of interim financial statements of the bank/ Group;
- ✓ verification of consolidation packages;
- ✓ attestation services related to safekeeping of customers' assets and disclosures regarding capital adequacy and variable remuneration;
- ✓ audit of historical financial information for the purpose of the prospectus.

The Audit and Compliance Committee approved the appointment of an audit firm (i.e. PricewaterhouseCoopers Sp. z o.o. and other entities from its network) to provide the foregoing permitted services other than audit services. Before the relevant recommendations were presented to the Audit and Compliance Committee, the independence of the auditor had been verified with a positive outcome.

Once a year, before the conclusion of the audit of the Group's annual financial statements, aggregated information on non-audit services is sent to the Committee for verification of their potential impact on the auditor's independence and objectivity.

#### **Risk Committee**

The **Risk Committee** is specifically responsible for:

- ✓ issuing opinions on the current and future readiness of the bank to take on risk;
- ✓ issuing opinions on the risk management strategy developed by the bank's Management Board and on its execution;
- ✓ supporting the Supervisory Board in overseeing the implementation of the risk management strategy by the senior management;
- ✓ checking 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 Risk Committee convenes at least four times per year at dates corresponding to the reporting and audit cycle. Additional meetings are held when necessary. In 2018, 5 Committee meetings were held.

#### **Nominations Committee**

Pursuant to its mission, 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;
- ✓ defines the policy on the selection and suitability assessment of Supervisory Board and Management Board members;
- ✓ participates in the competence assessment of candidates for members of these governing bodies;
- ✓ analyses succession plans for the Management Board and recommends them to the Supervisory Board.

The Committee holds regular meetings three times a year, as per the schedule agreed upon at the beginning of the year. Additional meetings are held when necessary. In 2018, 4 Committee meetings were held.

## Remuneration Committee

The **Remuneration Committee** reviews and monitors the remuneration policy adopted by the bank and supports the General Meeting, the Supervisory Board and the Management Board in developing and implementing that policy. In particular, the Committee:

- ✓ defines the remuneration policy for the Management Board members, linking the performance remuneration scheme with long-term interests of the shareholders and the bank's objectives;
- ✓ recommends remuneration for all members of the Management Board in accordance with the agreed principles, taking into account the assessment of their performance. It includes variable remuneration components and eligibility criteria;
- ✓ provides the Supervisory Board with general recommendations for the level and structure of remuneration for senior executives and monitors the level and structure based on relevant information provided by the Management Board;
- ✓ verifies compliance with the criteria and conditions justifying the award of variable remuneration to the Management Board members.

The Committee holds regular meetings three times a year, as per the schedule agreed upon at the beginning of the year. Additional meetings are held when necessary. In 2018, 5 Committee meetings were held.

## Management Board

The table below presents the composition of the Management Board of Santander Bank Polska S.A. as at 31 December 2018 and 31 December 2017 and the roles and responsibilities of its members.

Role in the Management Board	Ref.	Composition as at 30.06.2018	Reporting Areas as at 30.06.2018	Composition as at 31.12.2017	Reporting Areas as at 31.12.2017
President:	1.	Michał Gajewski	Units reporting directly to the President: Legal & Compliance Division, Internal Audit Area, Corporate Communications, Marketing and Service Quality Management Area, Business Model Transformation Area, Board Office, Strategic Transformation Office	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
	2.	Andrzej Burliga	Risk Management Division, Business Intelligence Area	Andrzej Burliga	Risk Management Division, Business Intelligence Area
Vice Presidents:	3.	Michael McCarthy	Business & Corporate Banking Division	Michael McCarthy	Business & Corporate Banking Division
	4.	Juan de Porras Aguirre	Santander Corporate & Investment Banking	Juan de Porras Aguirre	Global Corporate Banking Division
	5.	Arkadiusz Przybył	Retail Banking Division, Wealth Management Programme	Arkadiusz Przybył	Retail Banking Division
	-	-	-	Mirosław Skiba	Wealth Management Programme
	6.	Feliks Szyszkowiak	Digital Transformation Division	Feliks Szyszkowiak	Digital Transformation Division
	-	-	-	Artur Chodacki	Small & Medium Enterprise Banking Division
Board Members:	7.	Maciej Reluga	Financial Management Division	Maciej Reluga	Financial Management Division
	8.	Carlos Polaino Izquierdo	Financial Accounting & Control Division	Carlos Polaino Izquierdo	Financial Accounting & Control Division
	-	-	-	Marcin Prell	Legal & Compliance Division, Classified Data Protection Unit
	9.	Dorota Strojowska	Business Partnership Division	Dorota Strojowska	Business Partnership Division

On 16 May 2018, the Supervisory Board of Santander Bank Polska S.A. appointed the Management Board members for a new three-year term of office, except for Artur Chodacki, Marcin Prell and Mirosław Skiba. Reduction in the number of the Management Board members was accompanied by the reorganisation of the Business Support Centre, i.e. transfer of the organisational units managed by the persons who were not appointed for a new term of office to other divisions (Wealth Management Programme, SME segments) or transformation into units directly reporting to the President of the Management Board (Legal and Compliance Division). Five



Management Board members were appointed Vice Presidents: Andrzej Burliga, Michael McCarthy, Juan de Porras Aguirre, Arkadiusz Przybył and Feliks Szyszkowiak.

Details about the academic background and professional experience of the bank's Management Board members are published on the bank's website at <https://santander.pl/investor-relations/company/management-board/management-board.html>.

## Appointment and removal of executives

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

The bank's Management Board consists of at least three persons (including the Management Board President) appointed by the Supervisory Board for a joint three-year term of office. At least half of the Management Board's members are required to 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 KNF. Management Board members may be removed by the Supervisory Board or General Meeting at any time.

## Powers of executives

The Management Board of Santander Bank Polska S.A. 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.

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

Permanent committees operating at the bank include: Risk Committee, Assets and Liabilities Committee (ALCO), Credit Policy Forum for Retail Portfolios, Credit Policy Forum for SME Portfolios, Credit Policy Forum for Business and Corporate Portfolios, Provisions Committee, Operational Risk Management Committee (ORMCO), Disclosure Committee, Information Management Committee, Risk Management Committee, Marketing Forum, Risk Management Forum, Anti-Money Laundering and Counter-Terrorism Financing Committee, Urban Regeneration Fund Investment Committee, Procurement Investment Committee, Regulatory Risk Committee, Credit Committee, Local Marketing and Monitoring Committee, Public Policy Committee, Recovery Committee, CSR and Sustainability Committee, Capital Committee, Suppliers Panel, Capital Stress Test Forum, Investment Advisory Committee, Risk Control Committee, Cyber Risk Committee, Special Situations Management Committee, Operations Committee of the Business Model Transformation Area, Customer Value Committee, General Compliance Committee.

## 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.

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 2018, the remuneration for the Supervisory Board members was set by virtue of Resolution No. 41 of the Annual General Meeting of Shareholders of Santander Bank Polska S.A. of 17 May 2017 and Resolution No. 34 of the Annual General Meeting of Shareholders of Santander Bank Polska S.A. of 16 May 2018. The remuneration was determined in accordance with EU guidelines, latest domestic laws, corporate governance rules for supervised entities and the Remuneration Policy for Supervisory Board Members of Santander Bank Polska S.A. Gerry Byrne, José Manuel Campa, José García Cantera and José Luis de Mora did not receive remuneration for their membership of the Supervisory Board.

The table below presents the remuneration paid to members of the Supervisory Board of Santander Bank Polska S.A. in 2017 and 2018.

First and last name	Position	2018		2017	
		Period	PLN k	Period	PLN k
Gery Byrne <sup>1)</sup>	Chairman of the Supervisory Board	01.01.2018-31.12.2018	-	01.01.2017-31.12.2017	-
José Luis de Mora <sup>1)</sup>	Chairman of the Supervisory Board	01.01.2018-31.12.2018	-	01.01.2017-31.12.2017	-
José Manuel Campa <sup>1)</sup>	Member of the Supervisory Board	01.01.2018-31.12.2018	-	17.05.2017-31.12.2017	-
José García Cantera <sup>1)</sup>	Member of the Supervisory Board	01.01.2018-31.12.2018	-	01.01.2017-31.12.2017	-
Danuta Dąbrowska	Member of the Supervisory Board	01.01.2018-31.12.2018	232	01.01.2017-31.12.2017	234
David Hexter	Member of the Supervisory Board	01.01.2018-31.12.2018	274	01.01.2017-31.12.2017	263
Witold Jurcewicz	Member of the Supervisory Board	01.01.2018-31.12.2018	231	01.01.2017-31.12.2017	240
John Power	Member of the Supervisory Board	01.01.2018-31.12.2018	198	01.01.2017-31.12.2017	272
Jerzy Surma	Member of the Supervisory Board	01.01.2018-31.12.2018	269	01.01.2017-31.12.2017	244
Marynika Woroszylska-Sapieha	Member of the Supervisory Board	01.01.2018-31.12.2018	228	01.01.2017-31.12.2017	214
José Manuel Varela <sup>2)</sup>	Member of the Supervisory Board			01.01.2017-17.05.2017	89

- 1) Gerry Byrne, José Manuel Campa, José García Cantera and José Luis de Mora did not receive remuneration for their membership of the Supervisory Board.  
2) Pursuant to the Resolution of the General Meeting of 17 May 2017, the existing Supervisory Board members were appointed for a new term of office, except for José Manuel Varela. The Supervisory Board was additionally joined by José Manuel Campa.

John Power received additional remuneration of PLN 853.5k for the supervision over integration of the demerged part of Deutsche Bank Polska S.A. into the structures of Santander Bank Polska S.A. (PLN 84.0m in 2017), and PLN 37,3k from the bank's subsidiary for his membership of the company's Supervisory Board (PLN 28.7k in 2017).

Except for John Power, no other Supervisory Board member sat on the boards of subsidiaries or associates of Santander Bank Polska S.A.

### Remuneration of Management Board members

Agreements between Santander Bank Polska S.A. and its executives

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

The Management Board members also signed agreements prohibiting competitive activity after termination of their employment with Santander Bank Polska S.A.

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.

Internal regulations concerning remuneration for executives

The rules regarding fixed and variable components of remuneration for the Management Board members and material risk takers are set out in the Remuneration Policy of Santander Bank Polska Group, effective since 20 April 2017.

## Fixed remuneration

Pursuant to the Statutes of Santander Bank Polska S.A. and the Remuneration Policy of Santander Bank Polska Group, 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 defines the remuneration policy in respect of 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 members of the Management Board of Santander Bank Polska S.A. in 2017 and 2018 for their membership in the Management Board.

First and last name	Position	2018			2017		
		Period	Remuneration (PLN k)	Additional benefits	Period	Remuneration (PLN k)	Additional benefits
Michał Gajewski	President of the Management Board	01.01.2018-31.12.2018	2 082	93	01.01.2017-31.12.2017	1 931	92
Andrzej Burliga	Vice President of the Management Board	01.01.2018-31.12.2018	1 198	93	01.01.2017-31.12.2017	1 012	92
Michael McCarthy	Vice President of the Management Board	01.01.2018-31.12.2018	1 301	24	01.01.2017-31.12.2017	1 162	23
Juan de Porras Aguirre	Vice President of the Management Board	01.01.2018-31.12.2018	1 273	50	01.01.2017-31.12.2017	1 222	99
Arkadiusz Przybył	Vice President of the Management Board	01.01.2018-31.12.2018	1 288	92	10.03.2017-31.12.2017	978	69
Mirosław Skiba <sup>1)</sup>	Vice President of the Management Board	01.01.2018-16.05.2018	389	46	01.01.2017-31.12.2017	1 032	93
Feliks Szyzkowskiak	Member of the Management Board	01.01.2018-31.12.2018	1 066	93	01.01.2017-31.12.2017	1 032	93
Eamonn Crowley	Member of the Management Board				01.01.2017-16.02.2017	167	3
Artur Chodacki <sup>1)</sup>	Member of the Management Board	01.01.2018-16.05.2018	272	34	01.01.2017-31.12.2017	716	93
Carlos Polaino Izquierdo	Member of the Management Board	01.01.2018-31.12.2018	1 491	320	01.01.2017-31.12.2017	1 347	246
Marcin Prell <sup>1)</sup>	Member of the Management Board	01.01.2018-16.05.2018	338	35	01.01.2017-31.12.2017	912	93
Maciej Reluga	Member of the Management Board	01.01.2018-31.12.2018	883	92	16.02.2017-31.12.2017	631	71
Dorota Strojowska	Member of the Management Board	01.01.2018-31.12.2018	992	93	01.04.2017-31.12.2017	632	69

1) Changes in the membership of the Management Board of Santander Bank Polska S.A. in 2018 result from the appointment, on 16 May 2018, of the Management Board members for a new term of office, except for Mirosław Skiba, Artur Chodacki and Marcin Prell.

2) Changes in the membership of the Management Board of Santander Bank Polska S.A. in 2017 followed from Eamonn Crowley's resignation as a Management Board member (on 16 February 2017), Dorota Strojowska taking up the position of a member of the Management Board (on 1 April 2017) and Arkadiusz Przybył joining the Management Board (on 10 March 2017).

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

In 2018, Management Board members were paid an allowance in lieu of annual leave of PLN 146.3k (PLN 124.7k in 2017).

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

In 2018, Mirosław Skiba received additional remuneration of PLN 1,105k in relation to the termination of his employment contract 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 Remuneration Policy of Santander Bank Polska Group. These rules are regularly (or 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 a 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 a 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 2018.

First and last name	Position	2018		2017	
		Period	Benefits (in PLN k)	Period	Benefits (in PLN k)
Michał Gajewski	President of the Management Board	01.01.2018-31.12.2018	690	01.01.2017-31.12.2017	-
Andrzej Burliga	Vice President of the Management Board	01.01.2018-31.12.2018	1 142	01.01.2017-31.12.2017	1 049
Michael McCarthy	Vice President of the Management Board	01.01.2018-31.12.2018	1 224	01.01.2017-31.12.2017	1 077
Juan de Porras Aguirre	Vice President of the Management Board	01.01.2018-31.12.2018	1 415	01.01.2017-31.12.2017	1 291
Arkadiusz Przybył	Vice President of the Management Board	01.01.2018-31.12.2018	345	01.01.2017-31.12.2017	-
Mirosław Skiba <sup>1)</sup>	Vice President of the Management Board	01.01.2018-16.05.2018	1 155	01.01.2017-31.12.2017	1 074
Feliks Szyszkowskiak	Member of the Management Board	01.01.2018-31.12.2018	1 170	01.01.2017-31.12.2017	1 083
Eamonn Crowley	Member of the Management Board			01.01.2017-16.02.2017	930
Artur Chodacki <sup>1)</sup>	Member of the Management Board	01.01.2018-16.05.2018	514	01.01.2017-31.12.2017	198
Carlos Polaino Izquierdo	Member of the Management Board	01.01.2018-31.12.2018	838	01.01.2017-31.12.2017	635
Marcin Prell <sup>1)</sup>	Member of the Management Board	01.01.2018-16.05.2018	926	10.03.2017-31.12.2017	849
Maciej Reluga	Member of the Management Board	01.01.2018-31.12.2018	255	16.02.2017-31.12.2017	-
Dorota Strojowska	Member of the Management Board	01.01.2018-31.12.2018	267	01.04.2017-31.12.2017	-

1) Details about changes to the composition of the Management Board in 2018 are provided below the above table presenting fixed remuneration.

2) The awards paid in 2018 include part of the award for 2017, 2016 and 2015 which was conditional and deferred in time.

3) The awards paid in 2017 include part of the award for 2016, 2015 and 2014 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 2018 which would be paid in part in 2019 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 Santander Bank Polska S.A. 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 Santander Bank Polska 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 award 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 quarterly 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 Santander Bank Polska 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 Santander Bank Polska Group for 2018 and 2017, respectively, none of the members of the Supervisory Board held any shares or attached conditional rights to shares of Santander Bank Polska S.A.

The table below shows shares and attached conditional rights to shares of Santander Bank Polska S.A. held by Management Board members as at the release dates of the reports in relation to the annual periods ending 31 December 2017 and 31 December 2018.

Management Board Members	22.02.2019		13.02.2018	
	No. of Santander Bank Polska shares	Rights (6th Incentive Scheme)	No. of Santander Bank Polska shares	Rights (6th Incentive Scheme)
Michał Gajewski	-	5 420	-	5 420
Andrzej Burliga	4 389	2 820	4 389	2 820
Artur Chodacki <sup>1)</sup>			790	2 030
Michael McCarthy	1 528	3 250	1 528	3 250
Carlos Polaino Izquierdo	631	2 820	631	2 820
Juan de Porras Aguirre	1 397	2 240	1 397	2 240
Marcin Prell <sup>1)</sup>			1 250	2 540
Arkadiusz Przybył	-	3 390	-	3 390
Maciej Reluga	505	2 030	505	2 030
Mirosław Skiba <sup>1)</sup>			2 474	2 880
Dorota Strojowska	635	2 370	635	2 370
Feliks Szyszkwiaak	1 621	2 880	1 621	2 880
<b>Total</b>	<b>10 706</b>	<b>27 220</b>	<b>15 220</b>	<b>34 670</b>

1) Details about changes to the composition of the Management Board in 2018 are provided below the above table presenting fixed remuneration.

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 Santander Bank Polska S.A., which provides for, among other things, 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 Santander Bank Polska S.A. 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, a min. 40% of variable remuneration to executives is deferred for the period of three years and paid in three equal annual instalments, unless there are reasons for reduction or non-payment. Furthermore, min. 50% of remuneration is paid in the form of 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 information 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 Santander Bank Polska S.A. to the bank's managers totalled PLN 10,103k as at 31 December 2018 vs. PLN 11,054k as at 31 December 2017. These facilities were sanctioned on the regular terms and conditions.

Deposits placed with Santander Bank Polska S.A. by the bank's executives totalled PLN 13,714k as at 31 December 2018 vs. PLN 17,328k as at 31 December 2017.

### Provisions for employee benefits

Provisions for employee benefits disclosed in Note 49 of the Consolidated Financial Statements of Santander Bank Polska Group for 2018 include the provisions of PLN 1,184k for unused holidays related to members of the bank's Management Board (PLN 797k in 2017).

## 6. Diversity Policy

### Management of diversity within the bank's activities

For many years now, Santander Bank Polska S.A. 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, education, 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:

- The Sustainability (CSR) Policy of Santander Bank Polska S.A., 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 Human Rights Policy of Santander Bank Polska S.A., 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 Speak Up Policy and the Dignity and Respect at Work Policy of Santander Bank Polska S.A.:
  - ✓ set out prevention and intervention measures with respect to discrimination, bullying and harassment;
  - ✓ establish channels and procedures for reporting/ analysing suspected violation of law, procedures, standards and employee relationships.

As a signatory to the Diversity Charter, Santander Bank Polska S.A. has committed 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.

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 has also launched the Differently Abled (Różnosprawni) project to build an inclusive and diverse work environment by employing people with disabilities. To that end, measures were taken in 2018 to increase the awareness of rights and needs of the disabled among employees and managers, remove the barriers and create an environment in which employees would be encouraged to submit certificates of disability, thus increasing the number of differently abled teams.

## Diversity policy with respect to supervisory, management and administration bodies

The Appointment and Succession Policy for Management Board Members and Key Function Holders of Santander Bank Polska S.A. 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 policies of Santander Bank Polska S.A. 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 good repute, 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. The Management Board Diversity Policy of Santander Bank Polska S.A. introduced on 6 July 2018 emphasises the importance of the above criteria and the need to prevent any discrimination against the candidates for Management Board members, in particular in terms of gender, education, experience and age.

Santander Bank Polska S.A. 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 2018, there were two women on the bank's Supervisory Board: Ms Danuta Dąbrowska and Ms Marynika Woroszyńska-Sapieha and one woman on the Management Board: Ms Dorota Strojowska, Head of the Business Partnership Division.

Women account for 44.6% of senior management and 62.0% of middle management.

Pursuant to the HR management strategy, when nominating Management Board members, the Supervisory Board will strive to achieve the objective to move towards 30% female representation on the Management Board in 2025, while ensuring geographical diversity in the membership of the Management Board. The Nominations Committee of the Supervisory Board will take into account all personnel of Santander Group and business objectives related to cross-border activities.

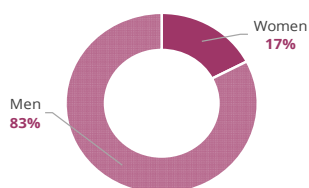
The current composition of the Supervisory and Management Boards as well as the population of other key function holders ensure diversity in terms of gender, age, experience and academic background. The

Sex	Women	Men
Supervisory Board	2	8
Management Board	1	8
Key Managers	10	46

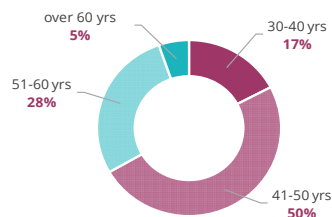
Age	30-40	41-50	51-60	over 60
Supervisory Board	-	-	6	4
Management Board	-	3	6	-
Key Managers	13	34	9	-

Years of employment with Santander Bank Polska S.A	up to 5	6-10	11-15	16-20	21-25	over 25
Supervisory Board	4	4	-	2	-	-
Management Board	3	3	-	1	2	-
Key Managers	12	4	9	15	7	9

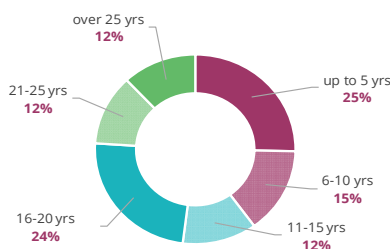
SEX OF SUPERVISING STAFF AND KEY EXECUTIVES OF SANTANDER BANK POLSKA S.A.



AGE OF SUPERVISING STAFF AND KEY EXECUTIVES OF SANTANDER BANK POLSKA S.A.



WORK EXPERIENCE OF SUPERVISING STAFF AND KEY EXECUTIVES OF SANTANDER BANK POLSKA S.A.



## 7. Control System of Financial Statements

### Internal control and risk management system

#### Internal control system

Santander Bank Polska S.A. has an internal control system in place which comprises the control function, the compliance unit and the independent internal audit unit. The internal control system supports decision-making processes and growth of operational efficiency, and ensures the reliability of financial reporting and its compliance with laws, international standards, internal regulations, regulatory requirements (KNF's Recommendation H) and best banking practice. The internal control system is tailored to the organisational structure, risk management system and market environment. It covers the Business Support Centre, branches, partner outlets and subsidiaries. The Management Board of the bank is charged with developing and implementing an effective internal control system across all organisational units and positions. It is also responsible for updating internal regulations and establishing adequacy and effectiveness criteria for evaluating the internal control system. The role of the Management Board is to define and take relevant measures to remove any deficiencies promptly after they are identified. 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 Santander Bank Polska S.A.

The bank has adopted the "Internal Control Policy of Santander Bank Polska S.A.". The document defines, among other things, the objective, 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, risk control mechanisms and inspections carried out as part of independent monitoring of controls. Independent monitoring is inherent to the processes delivered by units and the accountability for their effective execution is clearly defined. The purpose of monitoring, testing and reporting is to ensure that the control environment is effective, both in terms of design and operation of the controls, and to strengthen the control culture at all levels within the organisation.

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

#### THREE LINES OF DEFENCE IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM





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 regular verification of controls in terms of their effectiveness. The results are escalated to and reviewed by the bank's Management Board and the Audit and Compliance Committee of the Supervisory Board of Santander Bank Polska S.A.

## Controls in financial reporting processes

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

The process of preparing financial data for the purpose of reporting is automated and based on the consolidated General Ledger and Data Warehouse. The underpinning IT systems are regularly reviewed and tested in terms of conformity to IT architecture and cybersecurity requirements and 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 internal controls whose objective is to monitor and test the correctness and accuracy of data. Any manual corrections or management overrides are also under strict control. Santander Bank Polska 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 Santander Bank Polska 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 under the Sarbanes-Oxley Act and other regulations

In the light of the Sarbanes-Oxley Act, Santander Bank Polska 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 2018 covered all key business areas of Santander Bank Polska S.A. 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, Santander Bank Polska S.A. took measures to adjust the internal control system to comply with 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 Finance on the risk management system, internal control system, remuneration policy and detailed method of internal capital estimation in banks, and KNF's 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 2018, the bank's management confirmed that no incidents were identified in Santander Bank Polska Group which could significantly affect the relevant processes and threaten the effectiveness of the internal control over financial reporting.

## Auditor

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 Santander Bank Polska S.A. and Banco Santander ensures a consistent approach to the audit process across Santander Group.

Santander Bank Polska S.A. 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 2018 and 2017 for audit/review of the financial statements of Bank Zachodni WBK Group pursuant to concluded agreements.

Remuneration of External Auditors (in PLN k)	Reporting Year ended on	Reporting Year ended on
	31.12.2018	31.12.2017
Audit fees in respect of the parent bank <sup>1)</sup>	3 109	2 363
Audit fees in respect of the subsidiaries	2 114	2 107
Audit fees related to assurance services, including the review of the parent bank and subsidiaries <sup>1)</sup>	908	870
Fees for non-assurance services <sup>2)</sup>	493	461

1) Remuneration for audit and review performed in 2018 and 2017 based on the Agreement with Santander Bank Polska S.A. on the audit and review of financial statements of 9.05.2018 and 19.06.2017.

2) Remuneration for non-assurance services regards among others custody report and Jessica Programme.

## 8. Pending Court Proceedings

As at 31 December 2018, no case was pending before any court or state administration agencies with regard to any claims made by or against Santander Bank Polska S.A. or its subsidiaries amounting to a minimum of 10% of the Group's equity.

Court Proceedings with Santander Bank Polska as a Party (in PLN m)	31.12.2018	31.12.2017
Amounts claimed by the Group	730,1	717,6
Claims against the Group <sup>1)</sup>	550,8	359,4
Receivables due to bankruptcy or arrangement cases	47,2	3,8
<b>Value of all litigation</b>	<b>1 328,1</b>	<b>1 080,8</b>
<b>Share [%] of all litigation in equity</b>	<b>4,98%</b>	<b>4,60%</b>
Completed significant court proceedings	565,3	532,5

1) On 20.10.2017 Santander Bank Polska was submitted a collective claim by customers with mortgage loans indexed to the CHF, originated by the former Kredyt Bank S.A. The total value of claims, estimated based on available documents as of 31.12.2017 was PLN 32.3 m. On 27.02.2018, the Bank received a notice of broaden class action by next groups of borrowers and the total value of the claim increased to PLN 47.0m. The Bank responded to the claim. At the date of preparing the Financial Statements, we were waiting for the court to decide if the case can be heard as a class action.