

Report on the activity of the Supervisory Board of Santander Bank Polska S.A. in 2019

Warsaw, May 2020



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I. Activities of the Supervisory Board of Santander Bank Polska S.A. in 2019

1. Supervisory Board composition; discharge of duties and responsibilities

In the period from 1 January to 31 December 2019, the Supervisory Board of Santander Bank Polska S.A. worked in the following composition:

Function in the Supervisory Board	No.	Composition as at 31 December 2019	No.	Composition as at 1 January 2019
Chairman of the Supervisory Board	1.	Gerry Byrne	1.	Gerry Byrne
Vice-Chairman of the Supervisory Board	2.	José Luis De Mora	2.	José Luis De Mora
Members of the Supervisory Board	3.	José Garcia Cantera	3.	José Manuel Campa
	4.	Danuta Dąbrowska	4.	José Garcia Cantera
	5.	David Hexter	5.	Danuta Dąbrowska
	6.	John Power	6.	David Hexter
	7.	Jerzy Surma	7.	Witold Jurcewicz
	8.	Marynika Woroszyńska-Sapieha	8.	John Power
	9.	Isabel Guerreiro	9.	Jerzy Surma
			10.	Marynika Woroszyńska-Sapieha

Except for Isabel Guerreiro, the Supervisory Board, in its composition as at 31 December 2019, was appointed by the Annual General Meeting held on 17 May 2017. Isabel Guerreiro took up the function of the Supervisory Board member pursuant to the Extraordinary General Meeting's resolution of 23 September 2019. All the Supervisory Board members were appointed for a joint three-year term of office.

The other changes in the Supervisory Board's composition in 2019 resulted from José Manuel Campa's resignation as of on 4 March 2019 due to his involvement in the process of selecting the Executive Director of the European Banking Authority, and from Witold Jurcewicz's death on 18 September 2019.

On 9 April 2019 the Nominations Committee of the Supervisory Board reassessed the suitability of individual Supervisory Board members as well as the collective suitability of the Supervisory Board. The information of these assessments was presented to the Annual General Meeting held on 16 May 2019. Moreover, on 13 September 2019, the Nominations Committee assessed the collective suitability of the Bank's Supervisory Board taking into account the proposal to appoint Isabel Guerreiro a Supervisory Board member; the results of this assessment and individual assessment of Isabel Guerreiro were presented to the Extraordinary General Meeting held on 23 September 2019.

The diversified personal composition of the Supervisory Board, with members having both business experience as well as expert knowledge in different areas, evidenced by many years of practical professional experience, ensures adequate and effective discharge of supervisory duties and assures due performance of the vested duties and responsibilities.

The curricula vitae of the Supervisory Board members are available at the Bank's website.

Information on the composition of the Supervisory Board's committees is presented in point 4 below.

1.1. Independence of the Supervisory Board members

In line with the criteria of independence for the Supervisory Board members set out in § 25(2) of the Bank's Statutes, the Supervisory Board Terms of Reference and in the Audit and Compliance Committee's Terms of Reference, the following individuals held the status of the independent members in 2019:

- Danuta Dąbrowska,
- Marynika Woroszyńska - Sapieha,
- David Hexter,
- Witold Jurcewicz,
- Jerzy Surma.

Each of the listed persons made a relevant written statement.

The Supervisory Board activities and manner of discharging its duties and responsibilities are governed by the Supervisory Board's Regulations available in the Corporate Governance Office and on the Bank's Internet site.

2. Statistical data on the Supervisory Board's activity in 2019

In the period from 1 January to 31 December 2019, 15 Supervisory Board meetings were held at which 99 resolutions were passed. Average attendance of the Supervisory Board members was 98.5%.

3. Major areas of the Supervisory Board's activity in 2019

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

The Supervisory Board's activities are described in detail in the minutes of its meetings which together with the adopted resolutions are kept in the Bank's registered office.

Irrespective of regular meetings, the Supervisory Board members stayed in regular contact with the Bank's Management Board which facilitated comprehensive oversight of the Management Board's operations.

In 2019, the Supervisory Board focused both on strategic matters as well as on the supervision of the Bank's day-to-day business. Individual issues were also discussed by the relevant Supervisory Board's committees which issued required opinions and recommendations to the Supervisory Board.

In 2019, the Supervisory Board activities concerned the following areas:

Strategic projects

The Supervisory Board exercised on-going oversight of strategic projects progressed in the Bank in 2019, including strategic transformation, development of the customer-centric strategy, establishment of the Mortgage Bank, disposal of a separate organisational unit of Santander Bank Polska, i.e. the Investment Services Centre, PSD2 programme.

Finance

The Supervisory Board assessed the actual and forecast financial performance of the Bank and Santander Bank Polska Group on an on-going basis. The assessment was based on financial reports regularly presented by the Bank's Management Board. As part of the reports presented by the Management Board President, at each meeting the Supervisory Board was updated on the key developments referring to the Bank and its environment, including up-to-date macroeconomic and market forecasts and their impact on the Polish economy as well as on the Bank's and Santander Bank Polska Group's financial and business performance.

The Supervisory Board was also updated by the Bank's Management Board about current priorities and the approach adopted to management of funding, liquidity, capital, risk (including credit risk) and costs. Given the key importance of liquidity and funding, the related information covered the scenarios developed by the Management Board as well as actions taken to manage liquidity and diversify funding sources. Moreover, one of the key issues on the Supervisory Board's agenda was the impact of the Court of Justice of the European Union's judgement of 3 October 2019 re fx mortgage loans on the Bank's position; specifically, the Board supervised the process of developing the approach to provisions and estimating their level. The Supervisory Board supervised issues resulting from the CJEU judgement of 11 September 2019 on the consumer's right to have part of the fee charged for sanctioning their loan proportionally refunded if the customer repays their loan early, including the approach to provisions.

In particular, the Supervisory Board:

- assessed the Financial Statements of Santander Bank Polska S.A. for 2018, the Consolidated Financial Statements of Santander Bank Polska Group for 2018 and the Management Board Report on Santander Bank Polska Group Performance in 2018 (containing the Management Board report on Santander Bank Polska S.A. operations in 2018);
- approved the "Group's Financial Plan for 2019" and "Group's three-year Financial Plan for 2020-2022";
- approved the Management Board's resolution re approval of disclosures with regard to the capital adequacy of Santander Bank Polska Group as at 31 December 2018;
- approved the "Report on the Internal Capital Adequacy Assessment Process" (ICAAP Report) as at 31 December 2018;
- approved the "Report on the Internal Liquidity Adequacy Assessment Process" (ILAAP Report) as at 31 December 2018;
- issued an opinion with regard to the Management Board's motion on the distribution of profit for 2018 and the undistributed profit for 2016 and 2017;
- reviewed the progress against "Santander Bank Polska Group Strategy for 2019-2021" and approved "Santander Bank Polska Group Strategy for 2020-2022" as well as the "Business Plan for 2020";
- reviewed and approved the "Financial Plan Document – ALM Strategy for 2020 – 2022".

Relationship with the External Auditor

The Supervisory Board reviewed and approved the recommendation of the Audit and Compliance Committee and by force of resolution no. 83/2019 of 13 December 2019, reappointed PricewaterhouseCoopers spółka z ograniczoną odpowiedzialnością Audyt sp. k. (**PwC**) to perform the semi-annual review of the Bank's financial statements and semi-annual review of consolidated financial statements of the Bank's Group for H1 2020 as well as to perform the annual audit of the Bank's financial statements and annual audit of consolidated financial statements of the Bank's Group for 2020.

Moreover, taking heed of the Audit and Compliance Committee's recommendations, the Supervisory Board adopted resolution no. 32/2019 whereby it amended the "Auditor Appointment Policy" giving it a new wording and introduced the "Auditor Services Policy" in order to reflect there the provisions of KNF's Recommendation L applied in the Bank.

Internal Audit

The Supervisory Board was provided with regular updates on the Internal Audit Area's (IAA) operations, in particular on the results of the carried out audits and performance against the post-audit recommendations in reports given by the Chairman of the Audit and Compliance Committee, reports presented directly at the Supervisory Board meetings by the Chief Audit Executive as well as in reports given by the internal audit of Santander Brokerage Poland. The results of the Supervisory Board's assessment of the Internal Audit function are presented in point 4 below.

The Supervisory Board approved among others:

- the long-term strategy of the Internal Audit Area's activities: "Strategic Plan for 2019–2021",
- the IAA Strategic (long-term) Plan for 2020 – 2023 and Operational Plan for 2020,
- changes to the audit plans reported throughout 2019,
- internal regulations pertaining to the internal audit function, including: Policy of rotating employees of the Internal Audit Area, rules for assessing the risk culture in audit engagements, the Internal Audit Model, procedure for submitting IAA reports to the ECB through the Internal Audit of Banco Santander S.A., as well as amendments arising from the review of the existing regulations pertaining to the IAA operations.

Regulatory and Compliance issues

The Supervisory Board was regularly updated on the operations of the compliance unit and on compliance risk issues, both in reports given by the Chairman of the Audit and Compliance Committee and reports presented directly at the Supervisory Board meetings by the head of the compliance unit as well as in the reports on the compliance function in Santander Brokerage Poland. The results of the Supervisory Board's assessment of the compliance unit and compliance risk management function are presented in point 4 below.

In particular, the Supervisory Board:

- approved the Compliance Programme for 2019 as well as new and updated regulations pertaining to the compliance unit's operations, including the Compliance Policy in Santander Bank Polska S.A., Terms of Reference of the compliance unit in Santander Bank Polska S.A., model of control over the Bank's staff performing actions under Article 113 of the Act on Trading in Financial Instruments and the Conflict of Interest Prevention Policy,
- positively assessed the whistleblowing procedure,

- received reports on material court proceedings to which the Bank was a party, on proceedings instigated by regulators, on the status of delivering the KNF's post-inspection recommendations along with assurance that the process was executed in an adequate and timely manner, information on the results of the supervisory review and evaluation (BION) and on the course of this process in the Bank,
- acknowledged the report on supervision of compliance of custodian services for 2018,
- in line with Recommendation U and the Bancassurance Policy applicable in the Bank, the Supervisory Board was provided with regular updates on that business and on bancassurance risk management issues and reviewed them.

Risk management system and internal control system

As part of supervision exercised over the risk management system, during each meeting the Supervisory Board carried out a review of the main risk areas based on the Risk Dashboard report and paid special attention to, amongst others, trends, consumption of limits set in the Risk Appetite Statement, supervision over individual risk types, compliance with internal regulations and the KNF recommendations, the EU and the EBA regulations, as well as, to adequate identification of threats and determination of management actions. The Supervisory Board was also provided with information on the credit strategy, credit risk and condition of the credit portfolio, operational risk and other risks embedded in the Bank's operations.

Based on the conducted review, the Supervisory Board approved the risk appetite for 2019, expressed as limits set out in the Risk Appetite Statement (RAS), approved RAS updates throughout the year and monitored compliance with it.

The Supervisory Board received updates on risk management and control environment in the Bank's individual units and subsidiaries, including a report on annual ICM/SOX certification. IT security issues and Cybersecurity Strategy were given special attention.

The assessment of the internal control system and risk management system made by the Supervisory Board is presented in point 4 below.

In particular, the Supervisory Board approved the following internal regulations or amendments to them:

- Santander Bank Polska Group Operational Risk Management Strategy,
- policies concerning structural, market, liquidity and fx risks as well as the treasury products valuation along with the Financial Markets Strategy, Internal Control System Policy, Control Function Matrix Methodology,
- Risk Management Strategy.

Changes in the Management Board's composition

In 2019, Feliks Szyszkowiak resigned from his function on the Management Board (given his appointment to a role in Santander Group) and the Supervisory Board appointed Patryk Nowakowski to the Management Board, taking into account the assessment of his individual suitability pursuant to Article 22aa of the Banking Law as well as the assessment of the Management Board's collective suitability.

Other issues

- The Supervisory Board reviewed the strategy and activity of individual business segments, areas of the Bank and its subsidiaries, and was regularly informed about progress in implementing regulatory projects significant for the Bank;
- The Supervisory Board monitored the status of work on preparing the Recovery Plan and approved the Bank Group's Recovery Plan along with the related Policies;
- The Supervisory Board exercised oversight over collective redundancies in the Bank;
- Apart from the regulations indicated above, the Supervisory Board approved other internal regulations and amendments to them as recommended by relevant committees, e.g.: Procedure for setting objectives and evaluating performance for members of of the Management Board, Global mobility policy, Procedure for application of *malus clauses*;
- The Supervisory Board introduced changes to the terms and conditions of the Incentive Scheme VI triggered by the need to revise the existing quantitative and qualitative objectives of the Bank;
- The Supervisory Board considered and approved the level of remuneration and bonuses for the Management Board members and other key function holders in line with the applicable regulations, changes to the Remuneration Policy for the Management Board members and to Group's Remuneration Policy and other internal regulations in this respect;
- The Supervisory Board issued positive opinions on the Management Board motions with regard to changes to the Bank's Statutes as well as draft AGM resolutions. The Supervisory Board approved the consolidated text of the Bank's Statutes.

4. Activities of the Supervisory Board Committees

In 2019, the Supervisory Board members worked in the following Supervisory Board's committees:

- Nominations Committee,
- Remuneration Committee,
- Audit and Compliance Committee,
- Risk Committee.

The Committees' respective procedures are set out in their Terms of Reference, introduced by relevant resolutions of the Supervisory Board. Terms of Reference of individual committees are available in the Corporate Governance Office.

The members of individual Committees have knowledge and experience suitable for their roles and adequate discharge of their duties and responsibilities.

The Committees contribute a lot to improving the effectiveness of the Supervisory Board's work by supporting it in the discharge of its statutory duties, including the preparation of opinions and recommendations on specific matters considered by the Supervisory Board.

In order to enable the Supervisory Board members to appraise in full the Committees' work and give them insight into the Committees' current operations, the Chairpersons present relevant reports at the meetings of the Supervisory Board and the Supervisory Board members are provided with copies of the minutes of each meeting of the Committees.

Individual Committees received adequate information and reports from the Management Board in a timely manner allowing them to discharge their responsibilities in 2019.

4.1. Nominations Committee

Role and Tasks of the Committee

The role of the Nominations Committee is to support the Supervisory Board in performing its tasks by issuing recommendations on appointing and removing members of the Supervisory Board, Management Board and other key function holders by the Bank's relevant bodies as well as by engaging in discharging the Bank's duties related to assessing the suitability of members of the Supervisory Board, Management Board and key function holders.

Terms of Reference

The Committee operates based on the Terms of Reference approved by the Supervisory Board and updated in 2019 by force of the Supervisory Board resolution no. 82/2019 of 11 December 2019; the introduced changes included e.g. more precise statements on the Committee's role in the defining the lists of successors and monitoring compliance with the sufficient time commitment to perform the role as one of the suitability assessment criteria.

Committee's composition

In 2019, the Nominations Committee worked in the following composition:

- Witold Jurcewicz – Chairman (performed the role until 18 September 2019),
- Gerry Byrne,
- Danuta Dąbrowska,
- José Luis de Mora,
- Marynika Woroszyńska-Sapieha (Chairperson since 25 September 2019)
- Jerzy Surma.

Number of meetings and attendance

In the period between 1 January and 31 December 2019, the Nominations Committee held 6 meetings with the full attendance of all members.

The Committee's activity in 2019

In its activities in 2019, the Committee focused on the following issues:

- Changes in the Management Board's composition – the Committee assessed Patryk Nowakowski's individual suitability as the Management Board member and recommended to the Supervisory Board his appointment to the Management Board; the Committee presented also the assessment of the Management Board's collective suitability in line with the "Policy on selection and suitability assessment of Management Board members and key function holders in Santander Bank Polska S.A.";
- Succession plans – the Committee presented recommendations with regard to the list of successors of the Bank's Management Board members;
- Assessment of the individual and collective suitability of the Management Board members of the Mortgage Bank – the Committee carried out these assessments in view of seeking the Polish Financial Supervision Authority's consent for the establishment of the Mortgage Bank;
- Assessment of the individual and collective suitability of the Supervisory Board members – the Committee carried out these assessments in 2019 in line with the "Policy on the suitability assessment of the Supervisory Board members in Santander Bank Polska S.A.",
- Changes to the Supervisory Board's composition – the Committee reassessed the collective suitability of the Supervisory Board in line with the above Policy as well as assessed the individual suitability of the prospective Supervisory Board member, Isabel Guerreiro, and presented to the General Meeting a recommendation on her appointment to the Supervisory Board.

4.2. Remuneration Committee

Role and Tasks of the Committee

The role of the Remuneration Committee is to support the Supervisory Board in performing its tasks concerning remuneration of the members of the Bank's governing bodies and key function holders, to review and monitor the Remuneration Policy and to support the Annual General Meeting of Shareholders, Supervisory Board and Management Board in designing and executing this Policy.

Terms of Reference

The Committee operates based on the Terms of Reference approved by the Supervisory Board and updated in 2019 by force of the Supervisory Board resolution no. 82/2019 of 11 December 2019.

Committee's composition

In 2019, the Remuneration Committee worked in the following composition:

- Danuta Dąbrowska – Chairperson of the Committee,
- Gerry Byrne,
- José Luis de Mora,
- Witold Jurcewicz – (until 18 September 2019),
- Marynika Woroszyńska-Sapieha.

Number of meetings and attendance

Between 1 January and 31 December 2019, the Remuneration Committee held 5 meetings with the full attendance of all members.

The Committee's activity in 2019

In its activities in 2019, the Committee focused on the following issues:

Evaluation of Management Board members' performance and objectives setting for 2020 – the process was conducted in line with the "Procedure for setting objectives and evaluating performance of the Management Board members of Santander Bank Polska S.A."

- Recommendation to the Supervisory Board on bonuses to be awarded to the Management Board members for 2018 and on the approval of rules for setting and allocating the bonus pool for 2019;
- Recommendation to the Supervisory Board with regard to awarding a bonus for 2018 to the Chief Audit Executive, head of the compliance unit and review of remuneration of these individuals as well as other employees in charge of risk management in line with the requirements of the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of internal capital estimation in banks;
- The Committee reviewed and assessed the compliance with the triggers for payment of variable remuneration to the individuals with the status of Identified Employees and recommended that the Supervisory Board approve 2015, 2016 and 2017 deferred payments to be made in 2018;
- The Committee reviewed the bonus schemes for the senior executives, management cadre, employees of the Business Support Centre and the Branch Banking;
- The Committee confirmed the allocation of shares for 2018 under the Incentive Scheme VI (2017 – 2019) as well as analysed the external review of that scheme and confirmed its compliance with the regulations on variable components of remuneration for the Identified Employees;
- The Committee reviewed the Bank Group's Remuneration Policy and the Policy on remuneration for the Management Board members and presented a related recommendation to the Supervisory Board;
- Given the appointment of Patryk Nowakowski to the Management Board, the Committee presented a recommendation on his remuneration to the Supervisory Board;
- The Committee provided the Supervisory Board with recommendations with regard to the approval of amendments to *malus clause* procedure that defines how to identify the events for risk-adjustment of remuneration as well as the rules for preventing the vesting of bonus entitlement (either in full or in part) to the Identified Employees whose activities have a significant impact on the Bank's risk profile (Material Risk Takers); The Committee also reviewed and recommended to the Supervisory Board the list of Identified Employees, i.e. the Material Risk Takers for 2018 after the KNF's consent for exclusions from that list as well as its update for 2019;
- The Committee reviewed the rules for remuneration for the Identified Employees performing control functions in order to ensure the maximum ratio between the variable and the fixed components of remuneration at the level of 100% in line with the applicable regulations; the Committee also presented the Supervisory Board with a recommendation on approval of the Rules for payment of variable remuneration to Identified Employees in 2019;
- The Committee presented the Supervisory Board with a recommendations on changes to the terms and conditions of the Incentive Scheme VI triggered by the need to revise the quantitative and qualitative objectives adopted to-date by the Bank;
- The Committee considered and recommended to the Supervisory Board the introduction of the "Performance Management Policy in Santander Bank Polska Group" and update of the "Procedure for setting individual objectives and evaluating performance of the Management Board members of Santander Bank Polska S.A.";
- The Committee presented recommendations with regard to the payment of additional compensation for the Supervisory Board member seconded to exercise individual ongoing oversight of the project consisting in acquiring an organised part of the enterprise of Deutsche Bank Polska S.A.

4.3. Audit and Compliance Committee

Role and Tasks of the Committee

The purpose of the Audit and Compliance Committee is to support the Supervisory Board in discharging its oversight responsibilities to shareholders and other stakeholders in relation to: (i) the quality and integrity of the accounting policies, financial statements and disclosure practices; (ii) the Bank's compliance with laws and internal regulations; (iii) the independence and effectiveness of internal and external auditors and evaluating their performance; (iv) the assessment of the effectiveness of the internal control and risk management systems.

Terms of Reference

The Committee operates in line with the Terms of Reference approved by the Supervisory Board and updated in 2019 by force of the Supervisory Board resolution no. 73/2019 of 14 October 2019. The introduced changes define more precisely the Committee's role in the process of appointing and removing the Chief Compliance Officer as well as in defining the objectives for the Chief Audit Executive and evaluating performance against them.

Committee's composition

From 1 January 2019 to 31 December 2019, the Audit and Compliance Committee worked in the following composition:

- David Hexter – Chairman,
- Danuta Dąbrowska,
- Witold Jurcewicz (performed the role until 18 September 2019),
- Marynika Woroszyńska-Sapieha,
- Jerzy Surma.

All members appointed by the Supervisory Board to the Committee for the Supervisory Board's term of office meet the independence criteria of the Poland's Auditors Act of 11 May 2017 and the Bank's Statutes.

Number of meetings and attendance

In 2019, the Committee met seven times and the attendance was as follows:

- | | |
|--------------------------------|------|
| • David Hexter | 7/7 |
| • Danuta Dąbrowska | 7/7 |
| • Witold Jurcewicz | 5/5* |
| • Marynika Woroszyńska-Sapieha | 7/7 |
| • Jerzy Surma | 7/7 |

Apart from the Committee's members, the regular attendees are also representatives of the Bank's Auditor, the Vice President of the Management Board in charge of the Risk Management Division, the member of the Management Board in charge of Accounting and Financial Control Division, the member of the Management Board in charge of the Financial Management Division, the head of the Internal Audit Area (Chief Audit Executive) and bank director in charge of Legal and Compliance Division.

Additionally, other members of the Management Board and executives are also invited to attend as appropriate in order to present reports and discuss issues related to the areas under their management, including the explanation of the reasons for those reports of the Internal Audit that indicate areas for improvement as well as proposed remediation plans.

** Witold Jurcewicz performed the role until 18 September 2019 and participated in all the Committee meetings held until that date.*

The Committee's activity in 2019

In 2019 the Committee's activities included oversight of the Bank's reporting as well as the review of key controls, especially financial, operational, and regulatory compliance controls. As part of monitoring the operations of the internal audit function, compliance unit and control function, the Committee received information required to assess the effectiveness and adequacy of internal control system and presented a relevant opinion to the Supervisory Board in that respect noting that the system is adequate and effective, taking heed of the assessment criteria established by the Management Board and approved by the Supervisory Board. Likewise, the Committee assessed the risk management system of the Bank as adequate and effective.

The Committee reviewed on an ongoing basis the issues within its remit, including regulatory, compliance, corporate governance, bancassurance, anti-money laundering, ICM/SOX certification and other issues.

The main areas reviewed in more detail by the Audit and Compliance Committee in 2019 included:

Financial reporting.

The Committee reviewed the Bank's and Bank Group's audited Financial Statements for 2018 and discussed their content with the Management Board. The focus was put on the accounting treatment of the acquired organised part of the enterprise of Deutsche Bank Polska S.A. and DB Securities S.A. as well as on the issues related to impairment of loans and advances to customers.

The Committee discussed with the External Auditor the results the Financial Statements' review and issues reported in this respect to the Management Board as well as reviewed with the External Auditor their additional Report to the Audit and Compliance Committee; in 2019 the Committee monitored the performance against the External Auditor's recommendations presented in that report.

Based on the detailed review of the Financial Statements and the additional Report to the Committee, the Committee recommended that the Supervisory Board approve the audited Financial Statements for inclusion in the Company's annual report for the year ended 31 December 2018, and the Supervisory Board endorsed the Committee's recommendation.

The Committee reviewed the reports on the Capital Adequacy and on the work of the Disclosure Committee in 2018 and noted that capital ratios were above the KNF's minimum requirements as well as recommended to the Supervisory Board the approval of the disclosures related to capital adequacy of Santander Bank Polska Group as at 31 December 2019.

Internal Audit

In 2019, the Committee regularly reviewed the activity of the Internal Audit Area and positively assessed its operations in 2018, deeming that the Area was independent of other functions whilst its operations were adequate, efficient and effective.

The Committee receives, through the Chief Audit Executive, reports on the operation of internal controls within the Group. The scope, timing and frequency of such reports depend on the Audit Plan.

The Committee monitored on a on-going basis the performance against the Audit Plan and presented to the Supervisory Board recommendations on changes to that Plan across 2019.

The Committee positively reviewed and recommended to the Supervisory Board approval of the long-term strategy of the Internal Audit Area's activities: "Strategic Plan for 2019-2021".

The post-audit reports are presented in a manner that allows the Committee to focus on high risk areas which need improved controls. Objective indicators to track the delivery of remediation commitments across the Group were developed, whilst the Chief Audit Executive presented to the Committee regular reports on compliance with these indicators. The Committees monitors on an ongoing basis the delivery of the Internal Audit Area recommendations.

The Committee approved the Internal Audit Area's budget for 2019, reviewed the report on the programme of ensuring and improving quality for 2018 - periodic in-house quality assessment (no major issues or shortcomings) as well as the remuneration and staffing levels in the Internal Audit Area. In the Committee's opinion the staffing levels in the Internal Audit Area were adequate and the Area's independence was ensured, also as required under Standard 110 of the International Standards for the Professional practice of Internal Auditing and the KNF's Recommendation H.

As part of its oversight of the internal audit function, the Committee reviewed the reports of the head of Internal Audit in Santander Brokerage Poland - a standalone unit performing the audit function for Santander Brokerage Poland.

The Committee was also presented with external validation of the Internal Audit activity conducted by the Institute of Internal Auditors in Spain which indicates that the Internal Audit Area of Santander Bank Polska fully conforms (the highest rating) with the International Standards for the Professional Practice of Internal Auditing.

In 2019, the Committee also analysed proposals to introduce and amend internal regulations concerning the Internal Audit Area and recommended their approval to the Supervisory Board. The Committee positively reviewed and recommended among others the rules for assessing the risk culture in audit engagements and the Internal Audit Model, which expands the Internal Audit Charter.

In December 2019, the Committee reviewed and recommended to the Supervisory Board the approval of the "Operational (annual) plan for internal audits for 2020 and the strategic (long-term) plan for internal audits for 2020-2023" as well as the Area's budget for 2020.

External Audit

There is a process in place whereby the Audit and Compliance Committee reviews and approves, within parameters established by the Supervisory Board, any non-audit services undertaken by the Auditor, and the related fees. The process ensures the objectivity and independence of the Auditor.

In 2019, Santander Bank Polska Group paid PLN 4,929k (net) to the External Auditor for the provided audit services that included the statutory audit of the financial statements of the Bank Group, the Bank and subsidiaries (including Santander Consumer Bank) as required under legislation.

The fees for non-audit services amounted to PLN 1,011k (net). The total fees paid to PWC were PLN 5,940k (net).

The Committee is satisfied that the External Auditor provides an effective and independent assessment of the integrity of the Bank's Financial Statements and the adequacy of its internal control systems. Moreover, the External Auditor's Report from the review of the Financial Statements and additional Report to the Audit and Compliance Committee provide valuable recommendations regarding the improvement of internal controls. The Committee regularly checks if these recommendations are delivered as required and scheduled.

The Committee was also provided with a written statement from the External Auditor confirming their independence pursuant to Articles 69-74 of Poland's Auditor Act of 11 May 2017.

Based on the Audit and Compliance Committee's recommendation, the Supervisory Board appointed PricewaterhouseCoopers spółka z ograniczoną odpowiedzialnością Audyt sp.k. (PWC) as the audit firm entitled to perform semi-annual audit of the Bank's financial statements and semi-annual audit of consolidated financial statements of Santander Bank Polska Group for H1 2020 and the annual audit of the Bank's financial statements and the Group's consolidated financial statements for 2020.

When recommending PwC's reappointment, the Committee took into account the KNF's stance requiring the change of the auditor every five years. The process was conducted in line with the Bank's policy on appointing the auditor and included, among others, the assessment of the PwC's independence and the quality of services provided to-date.

The Committee reviewed the rules for co-operation with the External Auditor in the context of the KNF's Recommendation L issued in December 2018 and recommended to the Supervisory Board the approval of Auditor Services Policy at Santander Bank Polska as well as the introduction of changes arising from the Recommendation L to other internal regulations.

The Bank is fully compliant with the Poland's Auditor's Act of 11 May 2017 which refers to selection of the External Auditor and determines the scope of audit and non-audit services.

Compliance

The Committee positively reviewed the report on the compliance unit operations in 2018 as well as monitored the unit's operations in 2019 on ongoing basis.

The Committee assessed and recommended to the Supervisory Board the approval of 2019 Compliance Programme and then exercised oversight of its performance, including reports and information provided at the Committee's each meeting as well as recommended to the Supervisory Board the approval of the Programme's update.

The Committee analysed and recommended to the Supervisory Board the approval of new and amended internal regulations governing the compliance unit, including its Terms of Reference and Compliance Policy as well as the Conflict of Interest Prevention Policy in Santander Bank Polska S.A.

The Committee paid special attention to organisational issues and employment structure in the unit, analysing them especially in terms of independence.

The analyses also covered the reports on compliance risk (including the self-assessment), commercialisation of products, regulatory proceedings, court litigations with Bank Group's entities as a party, anti-money laundering issues, delivery of the KNF's and Internal Audit's recommendations, monitoring of conduct and reputational risk indicators as well as customer complaints ratios.

The Committee also reviewed the reports of the Supervision Inspector in Santander Brokerage Poland, focusing on the compliance issues in that unit as well as recommended to the Supervisory Board the approval of the updated model of control over the Bank's staff performing actions under Article 113 of the Act on Trading in Financial Instruments. The Committee analysed and recommended to the Supervisory Board the approval of amendments to the Code of Conduct in the Securities Markets and the Rules for investing in Financial Instruments by or on account of Subjected Persons in Santander Bank Polska S.A.

As part of the annual assessment, the Committee deemed that the unit was independent of other functions and that the compliance risk management was adequate, efficient and effective.

Other matters

In 2019, the Committee also reviewed the reports on:

- status of the implementation of recommendations issued by the Polish Financial Supervision Authority (KNF) and Internal Audit;
- confirmation of compliance of provisions with bonus and incentive policies and procedure in the context of the KNF's and EBA's guidelines;

- Respect and Dignity Policy (re cases reported by staff via dedicated whistleblowing channels) assessing positively the adequacy and effectiveness of the whistleblowing system;
- supervision of compliance with legal requirements on custodian services;
- bancassurance business, with particular reference to claims rejection indicators and early termination of insurance policies;
- anti-money laundering;
- the Bank's BION (SREP) rating,
- brokerage business run by Santander Brokerage Poland pursuant to Article 70(2) of the Banking Law;
- staff attrition rates;
- key tax issues from the Bank's perspective and the reporting of changes in the recognition of Government debt securities transactions and the related tax on financial institutions.

One of the key issues on the Committee's agenda in 2019 was the impact of the Court of Justice of the European Union's judgement of 3 October 2019 re fx mortgage loans on the Bank's position. The Committee specifically supervised the process of developing the approach to provisions and estimating their level, including ongoing meetings with the Management Board and representatives of the External Auditor. The Committee likewise supervised the issues triggered by the CJEU judgement of 11 September 2019 re consumer's right to have part of the fee charged for sanctioning their loan proportionally refunded if the customer repays their loan early, including the approach to provisions.

The Committee also reviewed the regulations on the ALM governance structure, changes to the Capital Contingency Plan and regulations and procedures on Special Situations Management. The Committee presented to the Supervisory Board recommendations related to the approval of these regulations as well as those related to the approval of Santander Bank Polska Investment Strategy that implements the KNF's Recommendation B.

In line with its Terms of Reference, the Committee held individual meetings with the Vice President of the Bank's Management Board in charge of the Risk Management Division, bank director in charge of the Legal and Compliance Division, the head of the Internal Audit Area (Chief Audit Executive) and the External Auditor (PwC).

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

Focus for 2020

- Monitoring the effectiveness and efficiency of the internal control system, also in the context of challenges for the Bank related to COVID-19.
- Monitoring of the financial reporting process, including the adequacy of provisioning.
- Regular monitoring of the Internal Audit's and Compliance unit's operations.

4.4. Risk Committee

Role and Tasks

The Risk Committee's role is to assist the Supervisory Board in discharging its responsibilities to the shareholders and other stakeholders in relation to: (i) ongoing monitoring of the risk management system, (ii) appropriate risk management philosophy, as articulated in relevant legal regulations and regulatory recommendations and market standards; (iii) risk appetite, as reflected in policies and risk limits; (iv) a sharpened and focused oversight on the more significant business risks undertaken by the Bank; and (v) the appropriateness of the overall risk governance framework.

The primary responsibilities of the Committee are:

- issuing opinions on the current and future readiness of the Bank to take up risk;
- issuing opinions on the risk management strategy developed by the Bank's Management Board and the information tabled by the Management Board on its execution;
- supporting the Supervisory Board in overseeing the implementation of the risk management strategy in the Bank's operations by the senior management;
- verifying if the prices of assets and liabilities offered to customers fully reflect the Bank's business model and risk strategy; otherwise, the Committee presents to the Management Board proposals to ensure that the price of assets and liabilities is adequate to relevant risk types,

- issuing opinions in the process of appointing and removing the Management Board member in charge of risk as well as issuing opinions on his/her annual objectives and performance against them.

The Committee's tasks are reflected in the adopted annual work plan, in line with which the Committee discharges its responsibilities.

Terms of Reference

The Committee acts pursuant to the Terms of Reference introduced by force of the Supervisory Board's resolution no. 14/2017 of 16 February 2017. In 2019, the Terms of Reference were amended by force of the Supervisory Board's resolution no. 73/2019 of 14 October 2019; the amendments to ToR included e.g. indication of the Committee's role in the process of appointing and removing the Management Board member in charge of risk as well as reflection of the standing attendance at the Committee's meetings by the head of the compliance unit (Bank Director in charge of the Legal and Compliance Division).

Committee's composition

In 2019, the Risk Committee worked in the following composition:

- Jerzy Surma – Chairman,
- José Manuel Campa (until 4 March 2019),
- David Hexter,
- John Power.

In 2019, apart from the change triggered by José Manuel Campa's resignation on 4 March 2019 from his role as a member of the Bank's Supervisory Board (due to his involvement in the process of selecting the Executive Director of the European Banking Authority (EBA)), there were no other changes to the Committee's composition.

Number of meetings and attendance

The Committee met 6 times in 2019.

In 2019, the attendance rate was as follows:

- | | |
|---------------------|------|
| • Jerzy Surma | 6/6 |
| • José Manuel Campa | 1/1* |
| • David Hexter | 6/6 |
| • John Power | 5/6 |

*on 4 March 2019, José Manuel Campa ceased to perform the function of the Supervisory Board member given his resignation

The regular attendees at the Committee's meetings are also representatives of the Bank's Auditor, the Vice President of the Bank's Management Board in charge of the Risk Management Division, the Management Board member in charge of the Accounting and Financial Control Division, the Management Board member in charge of the Financial Management Division and the head of the Internal Audit Area (Chief Audit Executive). Other members of the Management Board and the Bank's executives are also invited to attend as appropriate in order to present reports and discuss issues related to the areas under their management.

The Committee's activity in 2019

Discharging its responsibilities, the Committee takes into account that the the risk-taking by the Bank has to be adequate to the scale and type of its business, that the risk management is governed by the industry standards, regulatory guidance and recommendations, referring to operational risk, credit risk, market risk and liquidity risk.

The key areas of the Committee's work in 2019 were:

- monitoring of the current risk profile of Santander Bank Polska Group based on Risk Dashboards and monitoring the consumption of internal limits bearing in mind the current business strategy and the macroeconomic environment,

- reviews and evaluation of Santander Bank Polska Group's Risk Appetite Statement and recommendations for the Supervisory Board with regard to approving the risk appetite, as well as opinions and recommendations for the Supervisory Board with regard to exceeding the set limits,
- comprehensive review and assessment of credit policies and portfolio, including non-performing loans,
- assessment of prices for assets and liabilities offered to customers,
- review of models' risk management,
- review and recommendations for the Supervisory Board with regard to approving the Internal Capital Adequacy Assessment Report (ICAAP Report) for Santander Bank Polska Group and Internal Liquidity Adequacy Assessment Report (ILAAP Report) for Santander Bank Polska Group,
- review of the operational risk management, including the management of business continuity, information security, outsourcing and insourcing risk and fraud prevention in all areas of the Bank's business, including fraud detection in e-banking,
- review of the risk management and internal control in the Bank's subsidiaries (Santander-AVIVA, Santander TFI, Santander Consumer Bank, Santander Leasing and Santander Factoring) and the Bank's different areas of operations (Multichannel Communication Centre, Central Operations Area, Financial Markets Area, Brokerage Business, Business and Corporate Banking Division, Branch Banking – branch network and partner outlets, mobile banking),
- risk management in Treasury,
- review of resources and succession plan in the Risk Management Division, analysis and opinion on the Risk Plan for 2020 and 2021-2022 as well as recommendations to the Supervisory Board with regard to the assessment of the knowledge and skills of the Management Board in the operational risk management,
- recommendations for the Supervisory Board with regard to approval of the strategy and policies referring to risks embedded in the Bank's business as well as updates of these documents, including Risk Management Strategy, Operational Risk Management Strategy and Control Function Matrix Methodology.

The Committee also paid attention to such issues as: (i) risks related to the Bank's ICT environment, including the review of Cybersecurity Dashboards, information security, measures to prevent IT systems unavailability, data quality and implementation of Cybersecurity Strategy; (ii) implementation of PSD2; (iii) risks related to the fx mortgage loans in the context of the judgement of the EU Court of Justice of 3 October 2019.

As part of reviewing individual risk areas, the Committee monitored also the identification of risks as well as the results of inspections and audits carried out respectively by the KNF, Internal Audit and the External Auditor. The Committee also checked the implementation of recommendations issued after such engagements.

One of the Committee's tasks is the oversight of the stress testing undertaken by the Bank in line with its own assumptions and benchmarked against the requirements set by the KNF. These tests are one of the elements of the credit risk management process and are used to evaluate (i) potential impact of specific events on the markets, movements in financial and macroeconomic ratios as well as changes in the risk profile on the condition of the Bank and Bank Group; (ii) changes of quality of credit portfolios should adverse events materialise. The results of the stress testing are linked closely with the review of the Group's Risk Appetite Statement and provide management information on the adequacy of the set limits and allocated internal capital.

The Committee receives regular reports on Santander Bank Polska Group's risk profile, which in particular refer to: (i) performance against the defined risk appetite and exceptions in this respect, (ii) risk trends, (iii) risk concentrations; (iv) key performance indicators.

Focus for 2020

The Committee will focus on risks embedded in the Bank's business as well as those emerging for the entire financial sector, including those arising from COVID-19 epidemic as well as cybersecurity and IT risks. In the Committee's view one of the challenges faced by the Bank and the entire sector will be the development of fintechs and the related technologies and thus the Committee will keep it high on its agenda analysing the issue in terms of the risk management system.

In 2020, the Committee will also review amendments to the Santander Bank Polska Group's Risk Appetite Statement and continue its comprehensive monitoring of the ensuing limits. Moreover, the Committee will track on an ongoing basis the issues related to the EU Court of Justice judgement of 11 September 2019 (re return of fees in the case of early loan repayment) and of 3 October 2019 (re fx mortgage loans) in the context of raising provisions and risks triggered for the Bank.

5. Self-assessment of the Supervisory Board activity in 2019

The Supervisory Board assessed its activities in 2019 in accordance with point II.Z.10.2 of 2016 Code of Best Practice for WSE Listed Companies.

The Supervisory Board stated that it had duly discharged its responsibilities laid down in the Commercial Companies Code, the Banking Law, the Bank's Statutes and the KNF recommendations as it held its meetings at a frequency that ensured that all matters within the Supervisory Board's remit were duly addressed. In their actions, the Supervisory Board members were guided by the interest of the Bank and the independence of judgements and opinions. Both the composition of the Supervisory Board and knowledge and experience of its individual members, their active participation in the meetings of the Supervisory Board and its committees ensured sound and effective performance of the Supervisory Board as well as proper and effective supervision over the Bank's operations in 2019.

II. Report of the Supervisory Board on the examination of 2019 financial statements, the Management Board report on performance in 2019 and the Bank's Management Board's motion with regard to the distribution of profit for 2019

1. Examination of 2019 financial statements and the Management Board report on performance in 2019

Pursuant to Article 382 (3) of the Commercial Companies Code and paragraph 32 (1) (6) of the Bank's Statutes, the Supervisory Board examined the Bank's Financial Statements and Group's Consolidated Statements for 2019 as well as the Report on the Group's Performance in 2019, incorporating the Bank's Management Board report on the Bank Performance in 2019 as regards their consistency with the books, documents and the actual status. These documents will be submitted by the Bank's Management Board to the Bank's Annual General Meeting of Shareholders .

By force of resolution no. 82/2018 of 12 December 2018, the Supervisory Board vested PricewaterhouseCoopers Sp. z ograniczoną odpowiedzialnością Audyt sp. k. (PwC, statutory auditor) with the examination of the foregoing Statements.

Having thoroughly reviewed the Financial Statements of Santander Bank Polska S.A. for 2019 and the Consolidated Financial Statements of Santander Bank Polska Group for 2019, and having read the auditor's opinion and report, the Supervisory Board positively assessed the financial statements in terms of their conformity with the books of account, documents and factual circumstances.

Furthermore, the Supervisory Board stated that the financial statements had been prepared within the regulatory time frame and in accordance with the International Financial Reporting Standards as adopted by the European Union. The accuracy of the financial statements does not raise any reservations and is confirmed by an auditor's unqualified opinion in terms of their conformity with the books of account, documents and factual circumstances. The Supervisory Board reviewed the adjustment made to the comparative data and made no comments thereon.

Pursuant to the opinion of an independent statutory auditor, both standalone and consolidated financial statements of Santander Bank Polska S.A. give a true and fair view of the assets and financial position of the Bank and the Group as at 31 December 2019 as well as the standalone and consolidated financial performance and cash flows for the accounting year of 2019. They comply in terms of form and substance with the applicable laws and the Bank's Statutes.

Having thoroughly reviewed the Management Board Report on Santander Bank Polska Group Performance in 2019 (including the Management Board Report on Santander Bank Polska S.A. Performance), the Supervisory Board positively assessed the report in terms of its conformity with the books of account, documents and factual circumstances. The report gives an accurate view of the development and achievements as well as assets, financial position and financial performance of the Bank and Santander Bank Polska Group.

Furthermore, the Supervisory Board stated that the report had been prepared in accordance with the Accounting Act of 29 September 1994 and 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. Pursuant to the opinion issued by an independent statutory auditor, the Management Board Report is consistent with the information presented in the Bank's and the Group's financial statements and does not contain any material misstatements. The Statement on Corporate Governance in 2019 included in the report contains all the required elements, while the Statement on Non-Financial Information is an independent section of the Bank's Management Board report.

PwC opinions referred to above are consistent with the external auditor's additional report for the Audit and Compliance Committee.

When making the above assessment, the Supervisory Board also took into account the Audit and Compliance Committee's recommendation presented at the Supervisory Board meeting held on 19 February 2020.

Given the above, by force of Resolution no. 24/2020 of 20 February 2020, the Supervisory Board decided to submit the following documents for approval to the Annual General Meeting:

- Financial Statements of Santander Bank Polska S.A. for 2019,
- Consolidated Financial Statements of Santander Bank Polska Group for 2019,

- The Management Board Report on Santander Bank Polska Group Performance in 2019 (containing the Management Board report on Santander Bank Polska S.A. operations).

2. Review of the Bank's Management Board's motion with regard to the distribution of profit for 2019

On 31 March 2020 the Supervisory Board positively reviewed the Management Board's recommendation with regard to retaining the entire net profit for the accounting year from 1 January 2019 to 31 December 2019 in the amount of PLN 2,113,523,989.28 and allocating 50% of that amount to the reserve capital, i.e. PLN 1,056,761,994.64 and keeping the balance, i.e. PLN 1,056,761,994.64, undistributed.

As at 31 December 2019, the capital ratios were:

Tier 1 capital ratio of 17.38% and 15.21% for the Bank and the Group, respectively;

Total capital ratio of 19.58% and 17.07% for the Bank and the Group, respectively.

Taking into account the above and the dividend payment criteria presented by the Polish Financial Supervision Authority in the letter of 24 December 2019, on 9 March 2020 the Bank received individual recommendation from the KNF to increase its own funds by retaining at least 50% of profit earned between 1 January 2019 and 31 December 2019 ("Recommendation"). The Recommendation states that as at 31 December 2019 the Bank met the criteria for allocating to dividend 50% of profit earned between 1 January 2019 and 31 December 2019.

In the letter of 26 March 2020, the KNF noted that bearing in mind the current situation, i.e. announcement of an epidemic in Poland, and potential further adverse consequences for Poland's economy and for the banking sector, the supervision authority expects that banks, irrespective of any actions already taken in this respect, will retain their entire profits earned in previous years.

Moreover, the KNF noted in the letter that it expects that the banks would not take any actions other than BAU that could weaken the capital base (unless otherwise agreed with the supervision authority).

Bearing in mind the KNF's recommendation and expectation of 9 March 2020 and 26 March 2020 respectively as well as current changes in the macroeconomic environment, the Bank's Management Board recommended to retain the entire profit earned between 1 January 2019 and 31 December 2019, by allocating 50% of the profit for 2019 to reserve capital and keeping 50% of that profit undistributed, whilst the Supervisory Board positively reviewed that recommendation.

III. Assessment of Santander Bank Polska Group's performance in 2019

Acting in compliance with 2016 Code of Best Practice for WSE Listed Companies, the Supervisory Board assessed the Bank's and Santander Bank Polska Group's standing in 2019, covering the internal control system, risk management, compliance risk management, internal audit function, including financial reporting and operational business as well as the assessment of the reasonableness of the Bank's sponsoring and corporate giving policy and the assessment of the manner of discharging disclosure requirements by the Bank with regard to the application of the corporate governance rules.

1. Santander Bank Polska Group performance in 2019

Economic growth

In 2019, the economic growth decelerated from 4.8% YoY in Q1 2019 to 3.1% YoY in Q4 2019, whilst in the entire 2019 the GDP increased by 4.1%. Business sentiment indexes in Poland fell during the year indicating that the weaker economic growth might continue in 2020. Economic activity indexes of the main global economies also declined to the levels signalling the risk of distortions in global economic growth. At the same time, both growth forecasts released by international institutions and central banks as well as market expectations regarding future economic growth were gradually revised down amid uncertainty related to the trade wars and the Brexit, among other things.

In Poland, the main driver of economic growth in 2019 was private consumption supported by still strong labour market, high wage growth and rising social transfers as well as persisting consumers' optimism. After a noticeable revival of investments in Q1 (including corporate investments), the following quarters saw a slower pace of growth.

Despite the domestic demand growing at a healthy rate, the pace of imports growth decelerated. In consequence, the 12-month rolling C/A balance improved in 2019 from -1% of GDP to -0.1% of GDP.

Rating agencies did not change Poland's credit rating in 2019.

Inflation

In 2019, the CPI inflation accelerated and averaged out at 2.3% compared to 1.6% in 2018. In the last months of 2019 it rose up to 3.4% YoY in December. Though part of this rise came from the factors that could potentially appear temporary (food), the core inflation was also rising and reached 3.1YoY at the year end, its highest in eight years.

Monetary policy

In 2019, NBP interest rates were held stable, with the main rate at 1.50%. In the first half of the year, this stabilisation was warranted by inflation holding below the target and forecasts showing slower economic growth later in the year and in 2020. In H2 2019, CPI started to rise but according to the NBP forecasts this phenomenon was to be only temporary. This, together with a dovish shift of the major central banks, convinced the majority of the Monetary Policy Council members to keep the monetary policy parameters unchanged.

Deposit and credit market

The loan growth in the banking sector gradually decelerated from more than 6% at the beginning of the year to 5% YoY at the year-end (exchange rates adjusted). The deceleration was driven by slower growth in business loans (ca. 3% YoY at the year-end and compared to 8% at the beginning of the year), whereas household loans grew at a solid pace. Consumer loans rose by ca. 8% just like in the previous year. The growth rate of PLN-denominated mortgages remained high at around 12% YoY. Deposit growth in 2019 remained slightly below 10% YoY, with demand deposits rising at a two-digit rate (even by 15% YoY at the end of Q3 2019), while term deposits remained stable. Deposits from individuals grew by ca. 9% YoY while business deposits increased by ca. 8% YoY.

Income Statement

Assuming the fixed level of contributions payable to the Bank Guarantee Fund and adjusting the profit for 2019 for the gain on sale of the Investment Services Centre and additional charges and provisions for payments related to the portfolio of fx mortgage loans and consumer loans, and excluding from the profit for 2018 the financial impact of acquisition of an organised part of Deutsche Bank Polska S.A., the underlying profit before tax increased by 15.9% YoY and the profit attributable to the shareholders of Santander Bank Polska S.A. went up by 19.8% YoY.

In 2019, Santander Bank Polska Group posted a profit before tax of PLN 3,244.6m, down 5.2% YoY. Profit attributable to the shareholders of Santander Bank Polska S.A. declined by 9.5% YoY to PLN 2,138.3m.

In 2019, the impairment charge to the income statement of Santander Bank Polska Group was PLN 1,219.4m compared to PLN 1,085.1m in the corresponding period.

The charge reflects a dynamic growth in new credit exposures driven by lending activities of the extended distribution network, acquisition of the retail portfolio of Deutsche Bank Polska S.A. in November 2018 and lower total debt sales in Santander Bank Polska S.A. and Santander Consumer Bank S.A.

Income

In 2019, total income of Santander Bank Polska Group increased by 8.8% YoY to PLN 9,484.5m.

The underlying total income grew by 14.8% YoY adjusted by one-off investments/ divestments of Santander Bank Polska S.A., i.e. gain of PLN 59.1m on the sale of an organised part of the Bank's enterprise (Investment Services Centre) in 2019 and gain of PLN 419.3m on the acquisition of an organised part of Deutsche Bank Polska S.A. and DB Securities and the charge of PLN 100.4m against net interest income of Santander Bank Polska Group for Q4 2019 in respect of partial reimbursement of fees in the case of early repaid consumer loans.

The net interest income increased by 14.6% YoY (16.3% YoY when adjusted for the charge of PLN 100.4m) supported acquisition of an organised part of Deutsche Bank Polska S.A. in November 2018 as well as by organic growth of business volumes in 2019.

Cumulative net interest margin declined from 3.66% in 2018 to 3.46% in 2019 (3.52% when adjusted for an additional charge of PLN 100.4m against net interest income) amid growing costs of funding, which was largely impacted by acquisition of deposits and issue of securities by the Group.

The net fee and commission income increased by 3.4% YoY increase on account of growing credit portfolios, dynamic sales of insurance, foreign exchange transactions in remote channels, significant non-cash turnover generated by credit and debit cards, and a growing number of current accounts. This was adversely affected by a decrease in fee and commission income from brokerage services, issuance of securities and in fees for distribution and assets management of investment funds, which were impacted by adverse stock markets sentiment and regulations concerning investment funds' operations.

Other income (i.e. non-interest, non-fee and non-investment/ divestment income) increased by 45% YoY in 2019 on account of gain on other financial instruments (+395% YoY), net trading income and revaluation (+49% YoY) and other operating income (+1% YoY).

Costs

Total operating expenses went up by 19.1% to PLN 4,488.7m, impacted by provisions of PLN 158.0m for legal risk connected with the portfolio of fx home loans and partial reimbursement of fees in the case of to early repaid consumer loans totalling PLN 266.6m as well as by higher fees payable to market regulators, including a YoY increase of PLN 79.9m in the total mandatory contributions to the Bank Guarantee Fund recognised in 2019 (including a contribution of PLN 199.3m to the bank resolution fund compared with PLN 89.5m in 2018).

Excluding the above legal risk provisions and assuming the fixed level of fees payable to the Bank Guarantee Fund in both analysed periods, the underlying total costs were up 9.9% YoY, mainly due to an 11.9% YoY increase in staff expenses resulting from salary review and severance payments in connection with collective redundancies at Santander Bank Polska S.A. as well as

higher amortisation and depreciation related to extension of the Group's IT infrastructure and operating assets following the acquisition of an organised part of Deutsche Bank Polska S.A.

The operational efficiency ratio (cost/income ratio) was 47.3% compared to 43.2% in 2018. Adjusting for the above-mentioned cost and income items, the underlying cost to income ratio for 2019 was 43.5%, compared with 45.4% the year before.

Assets

As at 31 December 2019, the total assets of Santander Bank Polska Group were PLN 209,476.2m, up 1.4% YoY. The value and structure of the Group's assets was determined by the parent entity, which held 86.6% of the consolidated total assets vs. 89.0% as at the end of December 2018.

Credit portfolio

As at 31 December 2019, consolidated gross loans and advances to customers were PLN 148,647.0m and increased by 4.8% vs. 31 December 2018.

Loans and advances to individuals increased by 8.3% to PLN 80,895.6m. Housing loans, which were the main contributor to this figure, went up by 4.1% to PLN 51,209.3m. The second significant constituent item, i.e. cash loans, went up by 18.1% to PLN 21,155.1m.

Loans and advances to enterprises and public sector entities were PLN 59,415.1m and were stable on 31 December 2018.

Finance lease portfolios of subsidiaries of Santander Bank Polska S.A. rose by 13.0% to PLN 9,267.0m.

Equity and liabilities

At the end of 2019, the total equity of Santander Bank Polska Group increased by 1.4% to PLN 26,979.5k.

Compared with the end of 2018, a significant drop was reported in liabilities due to repo transactions (-90% YoY), with a concurrent substantial increase in deposits from banks (+78% YoY) as well as financial liabilities held for trading and hedging derivatives (+19% YoY).

Other liabilities went up by +17% YoY as a result of recognition of lease liabilities (PLN 746.6m) in accordance with the new model of accounting for lease contracts under IFRS 16 as of 1 January 2019.

The aggregated subordinated liabilities and liabilities in respect of debt securities went up by 10% in connection with the issue of debt instruments by several members of Santander Bank Polska Group with a total nominal value of PLN 6,574.5m as well as redemption of matured securities totalling PLN 5,278.3m. In 2019, Santander Bank Polska S.A. issued two series of certificates of deposit with a total nominal value of PLN 632m. Santander Factoring Sp. z o.o. issued three series of bonds with a total nominal value of PLN 1,610.0m, and Santander Leasing S.A. issued three series of bonds totalling PLN 1,130.0m. In addition, Santander Leasing Poland Securitization 01, a special purpose vehicle, issued senior bonds with a nominal value of PLN 1,202.5m as part of the securitisation agreement concluded in December 2018, and SC Poland Consumer 16-1 Sp. z o.o. issued two series of securitisation bonds of PLN 2,000.0m under an agreement signed in July 2019.

Deposits

In 2019, consolidated deposits from customers increased by 4.6% YoY to PLN 156,480.3m as at the end of December 2019.

The retail deposit base was up 4.0% at PLN 91,716.3m, driven by an increase in current deposits (+11.2%), notably in the balances of savings accounts (e.g. the Regular Savings Account/ Konto Systematyczne) actively promoted by Santander Bank Polska S.A. in H1 2019. The share of current account balances increased at the expense of term deposits, which declined by 8.3%.

Deposits from enterprises and the public sector went up by 5.5% to PLN 64,764.1m, alongside an increase in current account balances (+19.7% YoY) and a decrease in term deposits (-6.1% YoY).

The Group's total term deposits from customers amounted to PLN 54,390.7m and declined by 7.3% YoY. Current account balances rose by 14.2% YoY to PLN 97,306.9m, and other liabilities were PLN 4,782.8m, down 16.4% YoY.

Loans and advances (PLN 3,537.0m vs. PLN 4,751.9m as at 31 December 2018) were the largest constituent item of other liabilities and were disclosed under deposits from enterprises, which included loans granted by international financial organisations (the European Investment Bank/ EIB, the European Bank for Reconstruction and Development/ EBRD and the Council of Europe Development Bank/ CEB) to finance credit delivery of the Bank and its subsidiaries.

Share price of Santander Bank Polska S.A.

In 2019, the share price of Santander Bank Polska S.A. followed the downward trend started in 2018 when the stocks of the banking sector came under supply pressure. The weaker performance of the banking sector was largely caused by the uncertainty over the judgement of the Court of Justice of the European Union (CJEU) and its impact on the ruling practice of the Polish courts and the number of lawsuits against banks. Another contributing factor was the stance of the Monetary Policy Council, which did not decide to increase interest rates last year. A series of negative developments in the banking sector caused a 14.2% decrease in the market capitalisation of Santander Bank Polska S.A. across 2019 (from PLN 36.6bn on 31 December 2018 to PLN 31.4bn on 31 December 2019). WIG-Banks, an industry index, lost 8.8% in that period.

During the year, the share price of Santander Bank Polska S.A. ranged from PLN 398.60 on 20 March 2019 to PLN 269.20 on 10 December 2019.

On 14 June 2019, the Bank paid out a dividend of PLN 19.72 per share (PLN 14.68 per share of series M).

Rating

On 3 June 2019, the rating agency Moody's Investors Service upgraded the ratings of Santander Bank Polska S.A. The long-term deposit rating was increased to A2 from A3 and the long-term senior unsecured debt rating to A3 from Baa1. The baseline credit assessment (BCA) rating was upgraded to baa2 from baa3, adjusted BCA rating to baa1 from baa2 and the long-term Counterparty Risk Assessment (CR Assessment) rating to A1(cr) from A2(cr), and long-term Counterparty Risk Rating (CRRs) to A1 from A2. At the same time, Moody's increased short-term deposit rating to Prime-1 from Prime-2 and confirmed Prime-1(cr) short-term CR Assessment and Prime-1 short-term CRRs ratings. The ratings outlook was changed from stable to positive.

On 7 October 2019, the rating agency Fitch confirmed the rating of Santander Bank Polska S.A. at BBB+.

2. Assessment of the internal control system

The Supervisory Board performed the annual adequacy and effectiveness assessment of the Internal Control System in Santander Bank Polska S.A. for 2019, including annual assessment of the adequacy and effectiveness of the control function, compliance unit and the internal audit unit, taking into account in particular:

- the Audit and Compliance Committee's opinion presented at the Supervisory Board meeting held on 19 February 2020,
- the information obtained from the Bank's Management Board with regard to the manner of delivering tasks referred to in recommendations 1.1 – 1.6. the KNF's Recommendation H,
- periodical reports of the compliance unit and internal audit unit as well as information from subsidiaries, including information reported by Chairpersons of Audit and Compliance Committee, and Risk Committee based on the reviews made by these Committees,
- findings of the statutory auditor, including those presented when debating the report from the audit of the financial statements,
- findings from supervisory activities performed by authorised institutions, including findings and recommendations from the KNF issued after their inspections in the Bank,
- results of independent external validation – positive assessment of the internal audit unit carried out in June 2019 by the Institute of Internal Auditors in Spain,
- assessment of adequacy and effectiveness of the internal control system and the risk management system presented by the Internal Audit Area.

The Supervisory Board positively assessed the Bank's internal control system (including the control function, compliance unit and internal audit unit) and deemed it adequate and effective, adjusted to the Bank's organisational structure, risk management system as well as to the size and complexity of the Bank's business.

It covers all units across the Bank as well as its subsidiaries deemed material. The internal control system covers all significant controls, including those related to the Bank's financial reporting and operational activity.

As required by the Statutes, the Bank operates an internal control system which supports the decision-making processes and contributes to the Bank's efficient operations, compliance with risk management rules, reliability of financial reporting as well as compliance with the law, international standards, internal regulations and best practice.

The Bank's Management Board is responsible for designing and implementing the effective and adequate internal control system for all organisational units and positions in the bank, comprising a control function, a compliance unit and the internal audit unit. The Management Board also ensures the system's independence, financial resources and validity of documented procedures in this respect, and sets criteria for assessing the adequacy and effectiveness of the internal control system.

The Management Board ensures that the Internal Control System is in place in subsidiaries. Subsidiaries deemed material have a documented internal control model within which elements such as tasks, functions and controls are described and managed. These elements are subject to an annual assessment and certification process.

At Santander Bank Polska S.A. there is an internal control system that takes into account solutions operating in Santander Group. The Bank's Management Board ensured conformance of the system with the national legislation and Recommendation H, which is evidenced by a documented analysis certifying such conformance (mapping of the adopted system to respective recommendations contained in Recommendation H).

The Internal Control System comprises:

- a) the control function responsible for ensuring that controls, in particular those related to risk management, are observed; it may include individual positions, groups of employees or organisational units;
- b) the compliance unit responsible for identification, assessment, control and monitoring of the risk of the Bank's potential failure to comply with the legal regulations, internal rules and market standards, and for presentation of reports in that respect;
- c) the independent internal audit function responsible for autonomous and impartial assessment of the adequacy and effectiveness of the Risk Management System and the Internal Control System (except for the internal audit unit).

The control function is an element of the Internal Control System and comprises:

- a) all controls in the Bank's processes, including those defined by the organisational units as part of the Operational Risk Self-Assessment;
- b) independent horizontal and vertical monitoring of compliance with these controls (including ongoing verification and testing); controls subject to independent monitoring are covered by the Group Internal Control Model;
- c) reporting as part of the control function.

The Bank's Management Board takes regular actions to keep continuity of the Internal Control System uninterrupted by a duly designed, introduced and ensured adequate and effective internal control system, including proper interaction among all employees of the Bank within the control function and their collaboration with the compliance and the internal audit units, and to provide the units' employees with an access to the required data and source documents, including documents that contain classified information subject to professional secrecy.

If deficiencies are identified by the internal control system, the Bank's Management Board takes adequate actions to eliminate them, including corrective and disciplinary measures.

The Bank's Management Board ensures that the Internal Control System is designed, introduced and operational in Santander Bank Polska Group and that it is adequately adjusted to its organisational structure and Risk Management System as well as to the size and complexity of the Group's business. The system covers all units across the Bank as well as its subsidiaries. In particular, the following is taken into account when ensuring the adequacy and effectiveness of the Internal Control System in Santander Bank Polska Group:

- a) the complexity of the processes in place;
- b) available resources;
- c) the risk of deficiencies occurring in particular processes, including significant processes;
- d) assessment of the adequacy and effectiveness of the first, second and third line of defence.

The Bank's Management Board defined the following criteria for assessing the adequacy and effectiveness of the internal control system that were approved by the Supervisory Board:

- a) the performance against the objectives of internal control system,

- b) the performance against the controls which consist in independent monitoring of key control mechanisms defined in the Control Function Matrix,
- c) the performance against the control plans for processes not covered by the Control Function Matrix but covered by the Group Internal Control Model,
- d) timeliness and efficiency of the delivery of remediation and disciplinary actions.

It can be concluded that the internal control system of Santander Bank Polska S.A is adequate and effective. There should be focus on timely implementation of remediation actions defined for deficiencies under the assessment and certification process.

When making the assessment of the control function, the Supervisory Board took also into account the manner in which the Bank's Management Board discharged the duties referred in part B the KNF's Recommendation H.

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

The first line of defence covers risk management in the Bank's operations and is based on business units which in their BAU generate the risks impacting the achievement of the Bank's objectives. The first line includes activities performed by each employee to ensure the quality and correctness of the completed tasks. The first line of defence checks adherence to the procedures and responds to any identified irregularities.

The second line of defence consists in risk management by employees in dedicated roles or organisational units and the operations of the compliance unit. Risk management in the second line of defence is independent from risk management in the first line of defence. The second line of defence is formed by functions which support the Bank's managerial cadre in risk identification and management by providing the relevant tools, internal regulations and mechanisms for managing, monitoring, ongoing verification, testing and reporting risk as well as specialised functions which assess the effectiveness of the first line controls. The second line of defence is also responsible for vertical monitoring, including ongoing vertical verification and vertical testing. The purpose of vertical monitoring is to verify whether the first line of defence applies the required controls.

The third line of defence is the Internal Audit Area, whose activity is supervised by the Audit and Compliance Committee of the Supervisory Board. The Internal Audit Area provides independent and objective examination and assurance on the first and second tier controls and on the Bank's management system, including the effectiveness of managing the risk related to the Bank's business. To that end, the Internal Audit Area verifies whether Santander Bank Polska Group's risks are adequately covered, in compliance with the applicable management policies, procedures and internal and external regulations. Using its own risk matrix and knowledge, the Internal Audit Area performs a regular assessment of the present and future risks across the Bank and Santander Bank Polska Group, developing annual audit plans to cover it. Also, priorities highlighted by the Bank's management, the Audit and Compliance Committee, the external auditor, and banking supervision authorities are taken into account.

The Supervisory Board is responsible for the supervision over the implementation and maintenance of the internal control system. The Supervisory Board performs annual adequacy and effectiveness assessment of the Internal Control System, including annual assessment of the adequacy and effectiveness of the control function, compliance unit and the internal audit unit, taking into account in particular:

- a) opinion of the Audit and Compliance Committee,
- b) the information from the Bank's Management Board on the manner of discharging these duties,
- c) periodical reports of the compliance unit and internal audit unit,
- d) information significant from the point of view of adequacy and effectiveness of the Internal Control System obtained from Santander Group and subsidiaries;
- e) findings of the statutory auditor;
- f) findings of audit and control activities carried out by authorised institutions;
- g) any reviews and opinions significant from the point of view of adequacy and effectiveness of the internal control function carried out by third parties.

The Supervisory Board receives current and accurate information on identified deficiencies and on the measures taken to eliminate them, on the extent of compliance with internal and external regulations and on adequacy and security of the IT systems.

The Supervisory Board monitors the effectiveness of the Internal Control System based on the information obtained from the compliance unit, internal audit unit, the Bank's Management Board and the Audit and Compliance Committee.

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

The Audit and Compliance Committee is informed about the results of assessing the risk of failure to comply with the overall objectives of the internal control system. The analysis of the design and effectiveness of controls made in 2019 indicates the low impact of the identified deficiencies relative to the delivery of the internal control targets.

In 2019, all deficiencies identified in the process of the internal control model certification were estimated at the lowest materiality level (deficiency of a control/ task/ function). The number of deficiencies increased compared to the previous year (23 in 2018 compared to 50 open deficiencies at the end of 2019). The significant growth results e.g. from improved analysis of the internal audit's recommendations and their impact on the results of the assessment of the internal control model certification. Nonetheless, this is still a low number of deficiencies relative to the total number of controls, which confirms the maturity of the Bank's internal control system and the effectiveness of the controls in Santander Bank Polska S.A.

The Internal Control System ensures the Bank's compliance with the requirements of such regulations as:

- the Sarbanes-Oxley Act,
- the Volcker Rule (section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act),
- RDA/RRF (Basel Committee on Banking Supervision 239: Principles for effective risk data aggregation and risk reporting),
- the KNF Recommendation A on management of risk embedded in derivative transactions concluded by banks by setting up controls e.g. in the Financial Risk Department,
- Recommendation B relating to limitation of the banks' investment risk by setting up controls e.g. in the Corporate Development Office and Financial Risk Department,
- Recommendation C on concentration risk by setting up controls e.g. in the Risk Control and Consolidation Department,
- Recommendation D on managing IT areas and ICT security in banks by setting up controls e.g. in the Operational Risk Management and Internal Control Department, Information Technology Security and Technological Risk Management Department, Cybersecurity Department,
- Recommendation G on interest rate risk management in banks by setting up controls e.g. in the Assets and Liabilities Management Department and in the Financial Risk Department,
- Recommendation H on the internal control system in banks by setting up controls e.g. in the Operational Risk Management and Internal Control Department and in the Compliance Area,
- Recommendation I on fx risk management in banks and rules for making fx risk bearing operations by banks by setting up controls e.g. in the Centre – Financial Markets and Liquidity Services Chapter, Assets and Liabilities Management Department, and Financial Risk Department,
- Recommendation M on operational risk management in banks by setting up controls e.g. in the Operational Risk Management and Internal Control Department,
- Recommendation P on liquidity risk management in banks by setting up controls e.g. in the Assets and Liabilities Management Department and in Financial Risk Department,
- Recommendation R on the rules for identifying impaired balance sheet credit exposures, setting: impairment allowances on balance sheet credit exposures and provisions for off-balance sheet credit exposures by setting up controls e.g. in the Risk Control and Consolidation Department, Risk Intelligence Department for Business Portfolio Management and i the Risk Intelligence Department for Retail Portfolios Management,
- Recommendation S on best practice in the management of mortgage-backed credit exposures by setting up controls e.g. in the Risk Intelligence Department for Business Portfolio Management and i the Risk Intelligence Department for Retail Portfolios Management,
- Recommendation T on best practice in the management of risk of retail credit exposures by setting up controls e.g. in the Risk Intelligence Department for Retail Portfolios Management,
- Recommendation U on best practice in bancassurance by setting up controls e.g. in the Bancassurance Tribe,
- Recommendation W on model risk management in banks by setting up controls e.g. in the Risk Control and Consolidation Department, Risk Intelligence Department for Business Portfolio Management and in the Risk Intelligence Department for Retail Portfolios Management.

In order to manage risk associated with the preparation of financial statements, the Bank tracks legal and regulatory changes related to reporting obligations for banks and updates its accounting rules and disclosures accordingly. The Bank, through its representatives sitting on 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. Annual reports on operations of the Disclosure Committee are subject to a review by the Audit and Compliance Committee.

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

In the Supervisory Board's opinion, , the controls implemented in the Bank ensure the true and fair view of the financial statements. Moreover, 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.

Detailed information on the assessment made by the Supervisory Board with regard to compliance (including the adequacy and effectiveness of the compliance unit and the compliance risk management system) as well as with regard to the adequacy and effectiveness of the internal audit unit and the risk management system is presented below in points 3 – 5.

3. Assessment of compliance

The applicable compliance risk management system covers the units listed below together with their scope of responsibilities:

- Compliance unit – compliance with legal and regulatory requirements in individual areas of the business activity, in particular with regard to: protection of consumer rights, implementation and sale of new products, prevention of money laundering, ethical issues, protection of confidential information and management of conflicts of interest.
- Specialist units dedicated to identifying and interpreting other legal and regulatory requirements that the Bank is obliged to fulfil as a legal entity (labour regulations, tax and reporting, prudential standards).
- Specialist committees that are supervised by the Risk Management Committee.

The Santander Bank Polska Compliance Policy adopted by the Management Board and approved by the Supervisory Board provides the compliance unit with a mandate to effectively support the process of managing compliance risk that includes the following risk categories: regulatory risk, conduct risk, money laundering and terrorism financing risk and reputational risk.

In February 2020, the Supervisory Board conducted the overall review and assessment of the compliance unit for 2019.

The Supervisory Board stated that:

- The compliance unit is a function independent from any other function and unit whose activities support the Bank's Management Board, Supervisory Board and other members of senior management with regard to the discharge of regulatory obligations and approval of internal control principles and compliance policy framework.
- The independence of the compliance unit is confirmed to the Management Board and to Audit and Compliance Committee on an annual basis and is ensured in particular by the following:
 - the compliance unit's direct reporting line to the bank director in charge of the Legal and Compliance Division who was empowered by the Management Board President to supervise the compliance risk and who was not vested with powers referred to in Article 22a(4) and (6)(2) of the Banking Law;
 - a direct and unlimited access of the compliance unit's head to the Chairman of the Audit and Compliance Committee and his participation in all meetings of that committee and the Risk Committee; holding, at least once a year, a meeting with the Audit and Compliance Committee by the compliance unit's head in absence of the Management Board members;
 - participation of the unit's head in meetings of the Management Board and his membership in the Risk Control Committee and Risk Management Committee (without the voting rights in both bodies) which provides him with a full insight into the operations of those governing bodies and opportunity to express his opinion;
 - a detailed procedure of appointing and removing the unit's head in place;
 - unlimited access of the compliance unit to all information, documents, systems, applications and physical locations necessary to properly perform its tasks;
 - reports presented directly by the compliance unit to the Management Board, Audit and Compliance Committee/Supervisory Board; the reports are delivered periodically to all these bodies.
- The compliance risk management is adequate and effective given the scale of the Bank's business. The compliance unit has resources sufficient to carry out responsibilities set out in the Compliance Programme both in terms of the number of employees (taking into account that the optimisation and automation of compliance processes is needed) and the adequacy of skills. Employee skills are continuously upgraded by participation in specific subject matter trainings.
- The compliance unit's regulations are adequate, taking into account the commonly applicable law, the Bank's internal regulations, supervisory recommendations and requirements of the KNF's Recommendation H.
- As a part of mandatory, independent testing, the compliance unit carried out controls in line with the annual testing plan which is a part of the Compliance Programme:
 - the annual testing plan is based in particular on the risk assessment and legal requirements;
 - in the opinion of the Bank's Management Board, the compliance unit testing plan for 2019 covered all necessary issues and ensured an independent and objective manner of reviewing and assessing controls applied as part of the first and second line of defence in terms of compliance risk;
 - as a result of its testing activity, the compliance unit did not identify any significant and critical risks; all other identified risks were addressed to controlled units and action plans were prepared to mitigate those risks.
- The compliance unit is periodically audited by the Internal Audit Area.

This assessment took also into account that each quarter, as part of the compliance risk management process, the Audit and Compliance Committee reviews key compliance issues identified by the compliance unit as well as those arising from the unit's business as usual. Information in this respect as well as the Committee's opinions and recommendations are presented to the Supervisory Board as part of the Committee's report.

4. Assessment of the internal audit function

The Supervisory Board assesses the adequacy and effectiveness of the internal audit function based on the reports on the performance of the Internal Audit Area (IAA) provided to the Audit and Compliance Committee.

At its meeting in February 2020, the Supervisory Board conducted the overall review and assessment of the compliance unit.

As a result, the Supervisory Board stated that:

- The Internal Audit function is adequate and effective.
 - The IAA regulations in place are adequate, effective and compliant with applicable laws, the Bank's internal regulations, supervision authority recommendations and market standards adopted in the Bank. The IAA operates in line with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors which was confirmed by an independent external assessment carried out in 2019.
 - The internal audit methodology reflects the current professional standards and enables identification of significant risks in Santander Bank Polska Group.
 - The annual audit plan is developed based on comprehensive risk assessment and precisely define the objectives and scope of audit engagements. The audit plan takes into account requirements both of the top management of the Bank (Supervisory Board and Management Board) and the regulator. Moreover, as part of an annual risk assessment, the strategic and operational audit plan was developed.
 - In the opinion of the Bank's Management Board and the Audit and Compliance Committee, the Audit Plan for 2019 covered all significant issues and ensured an independent and objective review and assessment of controls applied as part of the first and second line of defence as well as of the Bank's management system, including the assessment of effectiveness of managing risk related to the Bank's operations. Moreover, audit findings are used to improve the existing processes and security of operations.
 - The policies and practices for monitoring the quality of internal audit work that are adequate and compatible with professional standards and the approved methodology. The quality assurance report is presented to the Supervisory Board, the Management Board and to the Audit and Compliance Committee on an annual basis.
 - The IAA strategy for 2020-2022 was developed adequately and duly reflects the need to cover the Bank's cybertransformation by audit engagements.
- Audit findings indicating weaknesses in internal controls and risk management are presented in audit reports and represent a basis for issuing recommendations aimed at elimination of these weaknesses by the audited units.
- Each time, the IAA verifies actions taken by the audited units in response to audit recommendations as well as progress in delivering them. The status of recommendations' implementation is monitored and reported to the Bank's Management Board and the Audit and Compliance Committee on a regular basis. Audit findings are regularly presented at the meetings of the Audit and Compliance Committee, Management Board and Supervisory Board.
- The IAA presentation to the Supervisory Board (on 20 February 2020) included the assessment of the internal audit function in terms of adequacy and effectiveness of the internal control and risk management system as part of the summary of the IAA's activity in 2019. This information was also provided to the Audit and Compliance Committee.
- The internal audit function, which is independent of any other functions or units, provides assurance to the Bank's Management Board, Supervisory Board and other senior management with regard to the quality and effectiveness of the internal control, management of risks (existing or new), processes and systems, thus contributing to protecting the Bank's value, solvency and reputation.
- The independence of the internal audit is each year confirmed to the Management Board and the Audit and Compliance Committee and is ensured by the following:
 - In line with the Bank's Statutes, the Internal Audit Area reports directly to the President of the Management Board. The Audit and Compliance Committee supervises the activity of the internal audit function.
 - The Chief Audit Executive has direct and unlimited access to the Chairman of the Audit and Compliance Committee and participates in all meetings of that committee and the Risk Committee.

At least once a year, the Chief Audit Executive holds a meeting with the Audit and Compliance Committee in absence of the Management Board members.

- The Chief Audit Executive participates in meetings of the Management Board and is a member of the Risk Control Committee and Risk Management Committee (without the voting rights in both bodies). Thanks to that he has a full insight into the operations of those governing bodies and opportunity to express his opinion.
- A detailed procedure of appointing and removing the Chief Audit Executive is in place.
- The IAA employees have unlimited access to all information, documents, systems, applications and all premises required to perform their engagements.
- The Internal Audit Area has sufficient resources to carry out its responsibilities:
 - The audit plans define both the number of auditors as well as adequacy of their skills. The Chief Audit Executive reviews the human resources in place on a regular basis (at least once a year) in order to ensure their adequacy.
 - Auditors keep upskilling themselves in the process of professional certifications.
 - The Chief Audit Executive presents the proposed budget of the internal audit function which is annually approved by the Audit and Compliance Committee.
 - The remuneration of IAA employees and their performance against training plans is reported annually to the Audit and Compliance Committee for review. Conclusions from the review are submitted also to the Bank's Management Board and Supervisory Board.

5. Assessment of the risk management system

At its meeting in February 2020, the Supervisory Board conducted the overall review and assessment of the compliance unit.

Santander Bank Polska S.A. has implemented an integrated risk management framework ensuring that all risks having material impact on the Bank's operations are identified, measured, monitored and controlled. The risk management structure is adequate given the size of the Bank and the risk it is exposed to. It is also being optimised on an ongoing basis, and adjusted to the changing external environment as well as to the risk profile deriving from the adopted strategy.

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

The responsibility for the management of individual risks was allocated to the Bank's organisational units that are supported by relevant Committees. The risk management activities are defined by the Management Board of the Bank and supported by the Risk Management Committee (RMC) and the Risk Control Committee (RCC) overseeing the activity of other Committees having risk management authority. The fact that members of the Management Board and senior management sit on key Committees ensures senior management engagement in the risk management of the Bank as representatives of both first and second line of risk management.

In terms of organisation, the comprehensive risk management relies on three lines of defence, with the second line represented by dedicated risk control units which continuously monitor risk and define standards of risk management.

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

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

The Bank has methodologies and processes in place to identify and assess risks to determine their potential impact on the Bank's operations now and in the foreseeable future. With a view to identifying and assessing risks for the entire organisation, the review of material risks is carried out as part of the Internal Capital Adequacy Assessment Process (ICAAP). The identified risks are managed using policies and best practice to keep them at an acceptable level.

The Bank uses various risk assessment and measurement techniques depending on the risk type and materiality. These techniques are consistent with the approach of Banco Santander Group and leverage the best practice of the parent, a leader in the banking sector.

In 2019, the Group thoroughly analysed developments in the macroeconomic environment and monitored credit exposures in individual customer segments and sectors in order to promptly and duly align the credit policy parameters to emerging changes.

There were no major changes in this respect in 2019. The credit policy was mainly modified to optimise and harmonise the existing credit process components and to implement new regulations. No major changes were introduced to the classification and measurement of financial instruments (except for calibration of parameters and measures taken as part of ongoing monitoring).

In connection with the acquisition of the portfolio of Deutsche Bank Polska S.A. in Q4 2018, in H1 2019 the Bank focused on aligning its credit policy for retail and SME segments. Simultaneously, credit processes for individual segments were further redeveloped to increase their effectiveness using new technologies.

The Bank improved its credit exposure monitoring tools to ensure faster identification of potential threats both at the portfolio level and at the level of individual exposures. At the same time, the Bank modified its monitoring strategies, focusing on early measures designed to limit the effects of potential risk materialisation. 2019 was the first year when the new integrated early warning system was used in the corporate segment to identify an increase in risk at an early stage.

Close monitoring of fx mortgage loans continued to be one of the priorities in 2019. In response to numerous proposed legislative changes, the Bank conducted analyses and actively participated in consultations. The monitoring process covered in particular credit risk attached to the above portfolios in the context of the judgements issued by the Court of Justice of the European Union. Consequently, the Bank raised relevant provisions for legal risk in Q4 2019.

In 2019, the Bank worked on the implementation of the Guidelines on management of non-performing and forborne exposures issued by the European Banking Authority (EBA). The internal policies and reports were reviewed to make sure they comply with the above regulation.

In terms of financial risk, work was well underway to implement a centralised system for identifying, measuring, modelling and reporting interest rate risk and liquidity risk to facilitate balance sheet management and ensure best-in-class standards in data quality assurance. In 2019, the Bank implemented reporting from the static module in the ALM system and continued the deployment of the dynamic module to supplement risk measurement with additional dynamic measures of interest rate risk.

The Supervisory Board and the Risk Committee were informed on the progress in implementing the most important risk programmes and projects on an ongoing basis in the form of Risk Dashboard (Unit Report).

6. Assessment of sponsoring and corporate giving policy of Santander Bank Polska S.A.

The Bank's sponsoring and corporate giving policy is set out in the document "Strategy behind sponsoring actions and sponsoring action plan of Santander Bank Polska S.A." (Policy). The Policy's implementation is the responsibility of the Sponsorship and Relationship Projects Office and the Foundation of Santander Bank Polska S.A.

In the opinion of the Supervisory Board, the sponsoring and corporate giving policy of the Bank is well thought-out, consistent and operated in rational and responsible manner. The sponsoring and corporate giving policy in place supports building the Bank's image as a socially responsible and trustworthy corporate citizen and contributes to the Bank's reputation and prestige among all stakeholders: shareholders, customers and employees. Such values are core factors contributing to an enhanced Santander brand corporate image.

All launched projects are primarily intended to strengthen the Bank's image as the second largest financial institution in the banking sector in Poland, the best commercial bank in Poland and a trustworthy, reliable, economically resilient institution with a nation-wide footprint. The projects areas and scope are focused on:

- promoting sport as a local community integration vehicle, active life-style and fair play rules (Bank as a partner for its customers);
- sharing culture values with a various audiences (bank supporting aspiring customers, affluent segment);
- supporting development of science and financial education, (investments for the future, employer branding actions building the image of the Bank as a good employer);
- launching projects important to local communities (image building, partnership relations, employee engagement initiatives – employee volunteering).

In 2019 marketing campaigns, sponsoring and social projects were aimed at increasing further Santander brand visibility on top of sales support. Focus was placed on building and emphasising positive emotions attached to the new brand. This direction brought the expected results and effectively engaged the target groups – the Bank retained its position among banking leaders and most recognised brands in Poland and increased customers' awareness of its global group membership.

Our Bank is concentrated on long-term sponsorship initiatives. Such projects allow the Bank to reach a wider audience and to build positive connotations around the brand. They can also be used in relationship management and communication with employees and customers.

The key sponsoring projects of the Bank in 2019 included:

- Continuation of the Group's strategic project, namely the sponsorship of the UEFA Champions League, the world's most prestigious football club competition. The project is run under the slogan #mocfutbolu (#powerofthefootball) and allows the Bank to reach a wide group of supporters and their families through football which is a popular sport. In 2019, the Bank delivered many relationship projects related to the Champions League matches, including numerous competitions for customers and football tournaments for employees. The Bank was also present in the media as a partner of the main UCL broadcaster: Polsat.
- Santander Orchestra – 8th and 9th edition of cultural and educational project. In the previous years, the orchestra played classical music, while in 2019 it also turned to jazz. 8th edition: four symphonic concerts in Kielce, Katowice, Warszawa and Olsztyn at the 23rd Ludwig van Beethoven Easter Festival. 9th edition: Symphosphere tour with Leszek Możdżer, Tia Fuller, Lars Danielsson in Warszawa, Lublin, Katowice, Szczecin and Gdańsk as well as concert at "Jazz nad Odrą" Festival in Wrocław. Santander Orchestra also played a concert in Madrid – at the UEFA Champions League finals celebration and in Kostrzyn nad Odrą (within Santander Station project) as well as in Politechnika Gdańska. In addition, the chamber ensemble of Santander Orchestra played concerts at many other various events for Santander Bank Polska customers. In 2019, Santander Orchestra performed 13 concerts for the audience of 12000 thousand people.
- Santander Station is a mobile pavilion, an educational and leisure space open to everyone: children, young and senior people. The Station visited five Polish cities chosen by the bank's employees in the competition: "What can the Bank do for its local communities?". It is made up of various zones, such as football and music ones. Visitors can play educational games including "Finansiaki" or "Leaders of Europe". More than 60 games were organised for children and young people to teach them how to manage a household budget and how the economy works. 50 first aid workshops were held for both children and adults. Visitors had a chance to learn the stories of Santander Orchestra musicians and the biggest UEFA Champions League footballers. The charity campaign supported five local organisations. The number of people who visited the Santander Station in five Polish cities exceeded 4 thousand.
- "How's your driving" – driver education program As part of this initiative, which has now more than 143 followers on the project's fan page with the support of the project ambassador, the racing driver Kuba Giermaziak, several times a week, interesting articles on cars and safe driving are published alongside up-to-date traffic information, tips on car culture, operation and equipment and traffic regulations. In 2019, the bank launched one of the first campaigns (#SMARTOFF) to raise awareness of risks of using a mobile phone while driving. The objective was to make drivers aware of the resulting risk and eliminate the bad habit of taking eyes off the road to look at the smartphone. In 2019, the project reached nearly 20 million people on social media. The average weekly Facebook reach was 300000 thousand people. There were more than 13 thousand comments to the posts which were shared more than 3 thousand times. In July 2019, the project's Instagram profile was set up, which has had 2.5 million fans to date and reached 836 thousand people, with an average reach of 17.7 thousand and more than 50 thousand comments.
- The largest golf tournament series – Santander Polish Masters. The Bank was the titular sponsor of Santander Polish Masters, one of Poland's largest golf tournament series, attracting a large number of players each year. Between April and September 2019, 11 tournament preliminaries were played on golf courses all over Poland, ca. 100-120 players participated in each of them. In September, a large 3-day final tournament finals were played simultaneously in two golf courses nearby Warsaw. More than 1,400 competitors took part in the preliminaries and in the final of Santander Polish Masters, including customers of Santander Bank Polska S.A. At the September final, the best performers competed for prestigious awards: 18 invitations to the foreign tournament which is to take place in spring 2020.
- Garmin Iron Triathlon. In 2019, the Bank continued sponsoring Garmin Iron Triathlon, Poland's oldest and biggest triathlon tournament. The Bank was the strategic sponsor of the event. Between 26 May and 31 August 2019 nine tournaments were played in 9 Polish cities: Płock, Ślesin, Augustów, Stężyca, Gołdap, Elbląg, Chodzież, Brodnica, Nieporęt. The 2019 season attracted the record number of 6,850 competitors (5766 adults and 1084 children).

The Foundation of Santander Bank Polska S.A. launches a number of CSR projects with its partners every year. The most important ones are the Foundation's grant programs. In 2019, subsidies were granted under the following programmes: "Here I live, here I make changes" (5th edition) and "Bank of Young Sports Champions" (3rd edition). Overall, 116 grants worth PLN 800,000 in total were distributed.

The staff volunteering program coordinated and financially supported by the Foundation covered 200 projects initiated and launched by the Bank's employees. 2000 employees participated in volunteering programmes in 2019.

In 2019 Santander Foundation Scholarship Programme was extremely popular. As many as 400 persons applied for the programme, out of whom 21 successful applicants were selected for 2019/2020. Each one was offered financial support of PLN 5000. The beneficiaries come from various regions of Poland and specialise in various fields.

"Klub Płomyka" – municipal day-care rooms is a brand new initiative. This is usually a separate area arranged for children and their parents which may be used during hospital stay and stay in care centres. The rooms are refurbished and equipped with functional leisure furniture as well as colourful toys. Thanks to this, they may feel at home. "Klub Płomyka" clubs have functioned in the children's ward of Samodzielny Publiczny Zakład Opieki Zdrowotnej in Kępno, in Szpital św. Anny in Piaseczno, in Specjalny Ośrodek Szkolno-Wychowawczy im. Waldemara Kikolskiego in Białymstok and Szpital św. Wojciecha in Gdańsk.

The Bank's sponsorship and corporate giving initiatives are also supported by the key directions of the Bank's Corporate Social Responsibility and Sustainable Development Policy based on five pillars: support for third-level education; scientific research and entrepreneurship; projects devoted to local communities; environment protection and active dialogue with stakeholders.

In 2019 Santander Bank Polska published the 2018 CSR report for 2018. Since 2018, the report has operated an internet portal with the *news* section. There are articles and information on best practice applied by the Bank published as well as information on key non-financial events. The portal is a unique solution on the Polish market. In 2019 "The Marketplace of Opportunities" tab was launched where the Bank promotes responsible businesses that support environmental, social and governance principles. Santander as the first Bank in Poland refers to PRB UNEP FI in the report. The Bank continues its commitment to promote and achieve the Sustainable Development Goals (SDGs) set by the United Nations. Readers may filter information by the SDG of Santander Bank Polska from the portal's homepage. Just like the previous editions, 2018 CSR Report follows the GRI Standards and was verified by an independent auditor. The portal is compliant with the WCAG 2.0 Standard, and available in Polish and English. 2018 Corporate Social Responsibility Report received the main award in the SCR Forum and Deloitte, in the social report category.

7. Supervisory Board's assessment of the manner of fulfilling by Santander Bank Polska S.A. the disclosure requirements with regard to the corporate governance rules set out in the WSE rules and regulations pertaining to current and periodic information published by issuers of securities

In line with rule II.Z.10 of 2016 *Code of Best Practice for WSE Listed Companies* issued by the Warsaw Stock Exchange, adopted by the Annual General Meeting of Shareholders on 20 April 2016, and prior to that by the Management Board and Supervisory Board, the Supervisory Board makes and presents to the AGM the assessment of the manner of fulfilling by Santander Bank Polska S.A. the disclosure requirements with regard to the corporate governance rules set out in the WSE rules and in regulations pertaining to current and periodic information published by issuers of securities.

As part of discharging the Bank's corporate governance information obligations, the Corporate Governance Office re-assigned individual principles to specific business units and received confirmation that Best Practice was applied.

As a result, no need to report any cases of non-compliance with any of the rules was identified.

In line with the obligation set forth in paragraph § 29(3) of the WSE Rules under the "comply or explain" formula, the non-adherence or incidental non-adherence to a given rule triggers an obligation for a company to immediately report such a situation. The required statement on compliance with the corporate governance rules arising from the Best Practice document is reported through the "Corporate Governance Statement for 2019" included in the annual report. This is treated as a fulfilment of the obligation to provide the WSE with a report on compliance with the corporate governance rules. The statement was included in Chapter XIII of the 2019 Management Board Report on Santander Bank Polska Group's performance published on 20 February 2020.

Given the above, the Bank's fulfilment of disclosure requirements in relation to the adherence to the Corporate Governance Rules in 2019 is positively assessed by the Supervisory Board, whilst the Bank's disclosures are a deemed a reliable source of information on its compliance with the corporate governance rules.

8. Summary

Based on the assessment whose results are presented above, the Supervisory Board states that the situation of the Santander Bank Polska S.A. and Santander Bank Polska Group is good and stable. The assessment is justified in particular by:

- good financial performance in a challenging economic environment achieved at the same time when progressing strategic projects (including rebranding and acquisition of the organised part of the enterprise of Deutsche Bank Polska S.A.);
- effective risk management;
- strong capital and liquidity position;
- excellent cost management; and
- efficient internal control system.

The Supervisory Board notes a very good relationship with the Bank's Management Board and extends its congratulations to the Management Board and employees of Santander Bank Polska S.A. and its Group for a rewarding co-operation and overall efforts in building the Bank's strong position on the financial market.

IV. Assessment of compliance with the corporate governance rules for supervised institutions

As of 1 January 2015, Santander Bank Polska S.A. has followed and adhered to the Corporate Governance Rules for Supervised Institutions ("Corporate Governance Rules") implemented under Resolution no. 218/2014 issued by the Polish Financial Supervision Authority (KNF) on 22 July 2014. This is an important document for the Bank's corporate policy as a public trust institution.

The Corporate Governance Rules were approved by way of Resolution no. 29 passed by the Annual General Meeting held on 23 April 2015 and based on the relevant resolutions of the Bank's Management Board and Supervisory Board.

The Rules cover a wide range of issues, including among others internal and external relations of the Bank, also with the shareholders and customers, organisation and functioning of internal supervision and key internal systems and functions, statutory bodies and principles of cooperation, which requires the Bank to comply with top standards and to ensure that the obligations arising from the regulations are adequately fulfilled.

Therefore, the Bank precisely defined organisational units (the so-called business owners) responsible for the adherence to and implementation of the rules assigned to them in line with their area of responsibility in the Bank. Throughout 2019, these units took appropriate measures to ensure compliance with the Corporate Governance Rules.

At the end of 2019, all business owners were asked to report on their unit's compliance with the Corporate Governance Rules. All units fulfilled their obligations by confirming the application of the Corporate Governance Rules and indicating the actions taken that reflected their professionalism, integrity and diligence.

Given the above, the Supervisory Board stated that the process of implementing the Corporate Governance Rules in the Bank in 2019 was carried out adequately. The process was subject to current, in-depth supervision by the business owners. The coordination of the process and collaboration between business owners in joint implementation of certain rules were also effective.

Therefore, the Supervisory Board positively assesses the application of the Corporate Governance Rules in 2019 by the Bank.

V. Assessment of the remuneration policy of Santander Bank Polska S.A.

This assessment was made pursuant to § 28(3) of the Corporate Governance Rules approved by resolution no. 29 of the Bank's Annual General Meeting of 23 April 2015 which states that the supervising body should present the general meeting with a report on the remuneration policy of the supervised institution on an annual basis.

The remuneration principles of Santander Bank Polska S.A. are defined in the Remuneration Policy of Santander Bank Polska Group ("Remuneration Policy"). At the same time, the following apply in the Bank:

1. *Remuneration Policy for members of the Supervisory Board of Santander Bank Polska S.A.,*
2. *Remuneration Policy for members of the Management Board of Santander Bank Polska S.A.,*
3. *Santander Bank Polska Rules for payment of variable remuneration to Identified Employees in 2019.*

The rules for paying fixed and variable remuneration to the Bank's Management Board members and key function holders arise from the above policies and the bonus regulations based on them as well as from regulations on variable components of remuneration paid to identified employees. The purpose of the Remuneration Policy is to lay down remuneration rules and practices consistent with law, taking into account the best practice arising from the remuneration policy adopted by the Group's parent company. The Remuneration Policy is the key element of the remuneration strategy and serves as a reference for designing, reviewing, implementing and overseeing the remuneration practices. The Policy is linked to the organisation's strategic objectives and consistent with the interests of shareholders, employees, customers and local communities. The Remuneration Policy also embodies the responsible bank idea and supports development of a strong corporate culture by being consistent with the corporate values.

Given the applicable Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, remuneration policy and detailed method of internal capital estimation in banks, the Remuneration Department together with the Compliance Area at least once a year review all internal legal documents related to remuneration policy applicable in the Bank. As part of the review in 2019, the Remuneration Policy of Santander Bank Polska Group was extended to include provisions on setting up a forum for variable remuneration for sales force, responsible for confirming compliance of bonus systems with the applicable laws and guidelines. Other provisions affirm the rule of a strong capital base and the responsible bank. In addition, the procedure for application of *malus clauses* was updated in 2019. The provisions of the policies and regulations applicable in the Bank comply with statutory regulations and implementing acts.

Moreover, in 2019, the Internal Audit Area reviewed the documents on variable components of remuneration paid to material risk takers in Santander Bank Polska Group applicable in 2018.

In terms of oversight, the audit found, *inter alia*, that the organisational structure was appropriate and ensured execution of the policy on variable remuneration components, and that bonuses were approved at the relevant level. In addition, the audit confirmed that the Policy complied with external regulations, and noted that it supported appropriate and effective risk management. The list of material risk takers was properly compiled, both at the Bank and at the subsidiaries covered by the audit.

The Bank has a centre of excellence with sufficient knowledge and skills enabling independent update and verification of the list of Material Risk Takers (MRT). The Remuneration Committee of the Supervisory Board actively participated in the process of the identification of MRTs. The Supervisory Board constantly supervised the process, approving its result. The Bank identified MRTs based on the standards laid down in Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014. The MRT identification process is normally carried out in the first half of the year, while at the year-end its final verification is made to reflect any staff and organisational changes occurring in the second half of the year. The list of MRTs in 2019 includes 78 people from Santander Bank Polska S.A. and 5 people from Santander Bank Polska Group. In 2019, the identification was benchmarked to banking sector practices in Poland in cooperation with a leading consulting company. Each time the identification of MRTs is completed and the list of such individuals is approved by resolution of the Supervisory Board, a formal communication process addressed to all identified employees takes place.

The Supervisory Board performed oversight of the Remuneration Policy, also by verifying whether the Policy's criteria and conditions for payment of variable remuneration in 2019 had been fulfilled.

Against this background, the Supervisory Board states that the Remuneration Policy supports growth and security of the Bank's Group, in particular sound and effective risk management, and is consistent with the Bank's business strategy, objectives, values and long-term interests.