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INFORMATION ON CAPITAL ADEQUACY OF SANTANDER BANK POLSKA GROUP

as at 31st December 2018

I. Introduction

This document is issued under the Santander Bank Polska Group Disclosure Strategy formulated based on Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 which formed the legal basis of the reporting date i.e. 31 December 2018.

Starting from January 1st, 2014 by the decision of the European Parliament and of the Council the new regulations of the CRD IV/CRR package come into force. The CRD IV/CRR package consist of two parts, the CRD IV Regulation and CRR Directive. The regulation is directly applicable in all EU member states. The Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system transposes CRD IV into the Polish law.

Santander Bank Polska S.A. is the significant subsidiary of Banco Santander S.A. with its seat in Spain, which is the EU parent institution. Santander Bank Polska S.A. discloses information about the capital adequacy on a consolidated basis – at the highest local level of prudential consolidation – i.e. based on the data of Santander Bank Polska S.A.

The objective of the report is to present information about the capital adequacy of Santander Bank Polska Group in accordance with the requirements set out in Article 13 of CRR. The disclosures are made pursuant to EBA/GL/2014/14 Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013 and EBA/GL/2016/11 Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013.

The data presented in the report were prepared as at 31 December 2018. The information contained herein refers to the foregoing regulations to the extent applicable to the Bank and Santander Bank Polska Group.

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1. Capital Group

Santander Bank Polska S.A. forms a Group with 15 following subsidiaries which are consolidated in accordance with IFRS 10 and associates which are accounted for using the equity method.

EU LI3 – OUTLINE OF THE DIFFERENCES IN THE SCOPES OF CONSOLIDATION (ENTITY BY ENTITY) AS AT 31.12.2018

Name of the entity	Accounting consolidation method	Regulatory consolidation method: Full consolidation	Equity method consolidation	Proportional consolidation	Neither consolidated nor deducted from common equity	Deducted	Business profile
Santander Factoring Sp. z o.o.	Full consolidation	X					Factoring services
Santander F24 S.A.	Full consolidation	X					Lending services
Santander Leasing S.A.	Full consolidation	X					Lease services
Santander Finanse Sp. z o.o.	Full consolidation	X					Financial, lease and insurance intermediary services
Santander Inwestycje Sp. z o.o.	Full consolidation	X					purchase and sale of shares in commercial companies and other securities; prospecting activities
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	Full consolidation	X					Management of investment funds and financial instrument portfolios
Santander Securities S.A.	Full consolidation	X					Brokerage services
Santander Leasing Poland Securitization 01	Full consolidation	X					SPV set up for the purpose of securitisation
Santander Consumer Bank S.A.	Full consolidation	X					Banking services
Santander Consumer Multirent Sp. z o.o.	Full consolidation	X					Lease services
Santander Consumer Finanse Sp. z o.o.	Full consolidation	X					Investing cash surpluses and financial intermediary services
SC Poland Consumer 15-1 Sp. z o.o	Full consolidation	X					SPV set up for the purpose of securitisation
SC Poland Consumer 16-1 Sp. z o.o	Full consolidation	X					SPV set up for the purpose of securitisation
PSA Consumer Finance Polska Sp. z o.o.	Full consolidation	X					Financial services supporting the sale of Peugeot and Citroën vehicles (consumer loans)
PSA Finance Polska Sp. z o.o	Full consolidation	X					Financial services supporting the sale of Peugeot and Citroën vehicles (lease, factoring)
Santander AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A.	Equity method		X				Insurance services (personal and property insurance)
Santander AVIVA Towarzystwo Ubezpieczeń na Życie S.A.	Equity method		X				Insurance services (life insurance)
Polfund – Fundusz Poręczeń Kredytowych S.A.	Equity method		X				Loan guarantees

Compared with 31 December 2017, the number of the bank's subsidiaries was increased as a result of the following:

- Liquidation of Giełdokracja Sp. z o.o. (approved by the company's EGM held on 29 November 2017) and its removal from the National Court Register on 5 March 2018.
- Acquisition of 100% shares of Santander Securities S.A. (formerly DB Securities S.A.) by Santander Bank Polska S.A. along with a purchase of an organised part of Deutsche Bank Polska S.A. on 9 November 2018. The acquired company is an investment firm providing brokerage services and offering full access to financial instruments available at the Warsaw Stock Exchange.
- Takeover of control over Dublin-based Santander Leasing Poland Securitisation 01 Designated Activity Company by Santander Leasing S.A. The new subsidiary, which was entered to the Irish business register on 30 August 2018, is a

special purpose vehicle set up to purchase debt and acquire funding as part of securitisation of a lease and credit portfolio.

Apart from the above-mentioned changes, on 12 January 2018, ownership changes in Santander F24 S.A. were registered in the National Court Register, confirming the takeover of control over the company by Santander Finanse Sp. z o.o. in November 2017.

On 9 November 2018, Santander Bank Polska S.A. acquired a demerged part of Deutsche Bank Polska S.A. and 100% shares of DB Securities S.A. ("Demerged Business") under Article 529 § 1(4) of the Commercial Companies Code Act of 15 September 2000 by taking over the demerged assets in accordance with the demerger plan and the transaction agreement of 14 December 2017.

Pursuant to Article 530 § 2 of the Commercial Companies Code, the demerger date was the date of increasing the share capital of the acquiring company, which took place on 9 November 2018, as confirmed by the decision of the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, on changes in the Statutes and on increasing the share capital of Santander Bank Polska S.A. by PLN 27,548,240 by issuing series N shares.

The series N share were issued directly by the bank under resolution of the bank's Extraordinary General Meeting of 29 May 2018 on demerger of Deutsche Bank Polska S.A., and were allocated to Deutsche Bank AG as the sole shareholder of Deutsche Bank Polska S.A. in exchange for the demerged business.

Compared with 31 December 2017, the list of associates did not change.

Detailed information on the structure of Santander Bank Polska SA are presented in the Consolidated Financial Statements of Santander Bank Polska Group for the 2018 year.

2. Outline of the differences in the scopes of consolidation

Santander Bank Polska Group does not have any subsidiaries which would not meet the definition of an institution, a financial institution or an ancillary services undertaking, which, in accordance with CRR, could result in differences in regulatory consolidation compared with accounting consolidation in line with IFRS/IAS.

EU LI1 – DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION AND THE MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES (PLN K)

			Carrying values of items				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances at central banks	8 907 552	8 907 552	8 907 552	-	-	-	-
Items in the course of collection from other banks	2 936 214	2 936 214	2 936 214	-	-	-	-
Trading portfolio assets	9 769 851	9 769 851	-	1 034 332	-	9 648 439	-
Financial assets designated at fair value	73 221	73 221	-	73 221	-	52 554	-
Derivative financial instruments	137 460 378	137 460 378	137 460 378	-	-	-	-
Loans and advances to banks	177 482	177 482	-	177 482	-	-	-
Loans and advances to customers	39 179 100	39 179 100	39 179 100	-	-	-	-
Reverse repurchase agreements and other similar secured lending	891 953	891 953	891 953	-	-	-	-
Available-for-sale financial investments	819 409	819 409	-	-	-	-	819 409
Goodwill	1 712 057	1 712 057	-	-	-	-	1 712 057
Property, plant and equipment	986 384	986 384	986 384	-	-	-	-
Net deferred tax assets	1 760 121	1 760 121	1 760 121	-	-	-	-
Assets classified as held for sale	12 145	12 145	12 145	-	-	-	-
Other assets	1 166 995	1 166 995	1 166 995	-	-	-	-
Total assets	**205 852 860**	**205 852 860**	**193 300 842**	**1 285 034**	**0**	**9 700 993**	**2 531 466**
Liabilities							
Deposits from banks	2 832 928	2 832 928	-	-	-	-	-
Items in the course of collection due to other banks	912 482	912 482	-	903 170	-	903 170	-
Customer accounts	1 233 713	1 233 713	-	867 161	-	942 341	-
Repurchase agreements and other similar secured borrowings	149 616 658	149 616 658	-	-	-	-	-
Trading portfolio liabilities	9 340 788	9 340 788	-	8 233 994	-	-	-
Financial liabilities designated at fair value	2 644 342	2 644 342	-	-	-	-	-
Derivative financial instruments	9 368 617	9 368 617	-	-	-	-	-
Current income tax liabilities	288 300	288 300	-	-	-	-	-
Provisions for off balance sheet credit facilities	81 048	81 048	-	-	-	-	-
Other provisions	132 881	744 586	-	-	-	-	-
Other provisions	2 732 892	2 121 187	-	-	-	-	-
Total liabilities	179 184 649	179 184 649	0	10 004 325	0	1 845 511	0
Equity							
Equity attributable to owners of Santander Bank Polska SA	25 104 027	25 104 027					
Share capital	1 020 883	1 020 883					
Other reserve capital	18 969 482	18 621 562					
Revaluation reserve	1 019 373	1 019 373					
Retained earnings	1 729 067	2 076 987					
Profit for the current period	2 365 222	2 365 222					
Non-controlling interests in equity	1 564 184	1 564 184					
Total equity	26 668 212	26 668 212					
Total liabilities and equity	**205 852 860**	**205 852 860**	**0**	**10 004 325**	**0**	**1 845 511**	**0**

The carrying amounts disclosed as part of regulatory consolidation differ from the values disclosed in the financial statements of 31 December 2018 only in terms of presentation.

EU LI2 – MAIN SOURCES OF DIFFERENCES BETWEEN REGULATORY EXPOSURE AMOUNTS AND CARRYING VALUES IN FINANCIAL STATEMENTS (PLN K)

		Items subject to			
	Total	Credit risk framework	CCR framework	Securitisation framework	Market risk framework
1. **Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)**	205 852 860	193 300 842	1 285 034	0	9 700 993
2. Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	179 184 649	0	10 004 325	0	1 845 511
3. Total net amount under the regulatory scope of consolidation	26 668 212	193 300 842	-8 719 291	0	7 855 482
4. Off-balance-sheet amounts	34 834 754	5 872 917	0	0	0
5. Differences in valuations	3 300 388	0	3 300 388	0	0
6. Differences due to different netting rules, other than those already included in row 2	8 392 620	0	8 392 620	0	0
7. Differences due to consideration of provisions	104 786	104 786	0	0	0
8. Differences due to prudential filters	554 747	554 747	0	0	0
9. Securitization with risk transfer	-988 473	-988 473	-	-	-
10. Other adjustments	-293 396	-293 396	-	-	-
11. **Exposure amounts considered for regulatorypurposes**	**201 525 140**	**198 551 423**	**2 973 717**	**-**	**-**

II. Risk Management

1. Objectives and strategies for risk management – general

Risk management objectives

The business activity of Santander Bank Polska S.A. is exposed to a number of risks defined as the possibility to impact the Bank's capacity to deliver its strategic objectives through some events. The main objective of risk management is to ensure that the Group takes risk consciously and controllably. This is done through introduction of a formal risk management system aimed to ensure that the Bank has adequate process for setting and delivering objectives in its business activity.

As part of its risk management system, the Bank exercises oversight over the risk inherent in its subsidiaries as well as monitors the risk related to outsourcing of activities.

The risk management system ensures compliance with the respective legal requirements for risk management, in particular with the Banking Law Act and the requirements detailing its operation laid down in the Regulation of the Minister of Development and Finance and the recommendations issued by the KNF.

The risk management system comprises:

- Principles of risk measurement and management,
- Processes applied to identify, measure, estimate and monitor risks to which the Bank is exposed, including foreseeable future risks,
- Risk limits and rules of conduct to be followed if the limits are exceeded,
- A reporting system to ensure that the risk level is monitored,
- An organisational structure adjusted to the size and profile of the risk incurred.

As part of its risk management system, the Bank exercises oversight over the risk inherent in its subsidiaries as well as monitors the risk related to outsourcing of activities.

To ensure consistency of the risk management processes, Santander Bank Polska Group implements relevant written policies, standards and procedures and monitors compliance with such regulations. Santander Bank Polska S.A. subsidiaries are obligated to implement internal regulations reflecting the risk management principles across the Group.

For risks embedded in the Group's activity, numerous risk identification and assessment processes have been developed. Such processes are also used for determining the most favourable risk-reward and for setting and verifying risk mitigation limits. The Group applies as well as modifies and develops risk management methods and takes into consideration changes in the Group's risk profile, economic environment, regulatory requirements and best market practice.

The main risks in the Group's activity are directly related to the applied business model:

- **Credit risk including concentration risk** - the risk of loss stemming from the fact that the customer or the counterparty is unable or unwilling to meet their contractual obligations and that the held collateral is insufficient to pay the Bank's claims. It also comprises counterparty credit risk, i.e. exposure to credit risk associated with treasury transactions, arising from changes in market parameters (e.g. fluctuations in exchange rates and/or interest rates, variability of options) during the tenor of the transaction. Depending on their direction, such fluctuations may give rise to a loss and credit exposure. This definition also comprises concentration risk, i.e. the risk of default by a single entity, entities that are connected through capital or organisational ties or groups of entities, in respect of which probability of default depends on the shared circumstances.
- **Operational risk** - the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic or reputational risk.

- **Market risk on the banking book** - interest rate risk on the banking book - is the likelihood of suffering losses due to the impact of interest rate movements on the Bank's equity structure (income, expenses, assets, liabilities and other off-balance sheet operations). It is the Group's financial and economic exposure to interest rate movements. Interest rate risk is a significant element of the banking activity, having a significant impact on the net interest margin and market value of equity.
- **Market risk on the trading book** - the risk of loss arising from adverse changes in interest rates, exchange rates, equity instrument prices or credit spread.
- **Liquidity risk** - the risk arising from the need to ensure that the Group always has sufficient funds to cover unconditional and contingent liabilities towards customers and contractors at an economic price.
- **Model risk** - the risk of implementation and use of incorrectly built/defined models or parameters, incorrect application of models or failure to update them. The risk also covers inadequate control and monitoring of performance of the models applied by the Bank.
- **Reputational risk** - the risk arising from any negative perception of the Bank and other members of the Group to which the Bank belongs by customers, counterparties, shareholders/investors and local communities.
- **Compliance risk** - the risk of legal or regulatory sanctions, significant financial loss impacting the results or negative impact on reputation that the Bank may suffer due to its failure to comply with the law, internal regulations and market standards.
- **Business risk** - the risk of losses arising from unfavourable changes in the business environment and internal environment of the Bank that may have a direct or indirect impact on the generated business or result in the adoption of an inadequate business strategy, incorrect implementation of the strategy or failure to take relevant actions in response to changes in the market.
- **Capital risk** - the risk of failure to ensure an adequate level and structure of own funds relative to the size of business and exposure to risk and, consequently, the risk that own funds are insufficient to absorb unexpected losses taking into account the growth plans and extreme conditions.
- **Risk of excessive financial leverage** – where the leverage is understood as the relative size of an institution's assets, off-balance sheet obligations and contingent obligations to pay or to deliver or to provide collateral, including obligations arising from received funding, made commitments, derivative or repurchase agreements, but excluding obligations which can only be enforced during the liquidation of an institution, compared to that institution's own funds; the of excessive financial leverage results from the institution's vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets.

Risk management structure and organisation

Governance (committees)

Supervisory Board is responsible for ongoing supervision of the risk management system. The Board approves the strategy, key risk management policies and risk appetite, and monitors the use of internal limits from the perspective of current business strategy and the macroeconomic environment. It conducts reviews of key risk areas, the identification of threats and the process of defining and monitoring remedial actions. The Supervisory Board also assesses the effectiveness of measures taken by the Management Board, including risk managment.

Audit and Compliance Committee of the Supervisory Board supports the Board in fulfilling the supervisory duties. The Committee makes annual reviews of the Group's internal mechanisms for financial control, accepts reports of the independent audit unit and compliance unit. The Committee receives quarterly reports on the delivery of post-audit recommendations and based on those reports, it assesses the quality of actions taken. The Audit Committee assesses the effectiveness of internal control system and risk management system. Moreover, the Committee's tasks include the monitoring of financial audit, in particular the inspection carried out by the audit company, the control and monitoring of independence of the chartered auditor and audit company, informing the Supervisory Board about outcomes of the inspection and making the assessment of the chartered auditor's and the audit company's independence. Moreover, the Committee's role is to develop the policy and procedure for selecting the audit company and to present to the Supervisory Board the recommendations on election, re-election and recalling of External Auditor and on the External Auditor's fee.

The Risk Committee supports the Supervisory Board in assessing the effectiveness of the internal control and risk management systems and measures adopted and planned to ensure an effective management of material risks.

Moreover, in the Bank, the Supervisory Board is also supported by the **Remuneration Committee** and the **Nominations Committee**, however such support does not include the risk issues.

Management Board is responsible for effective risk management. In particular it. Specifically, it sets up an organisational structure tailored to the size and profile of the risks taken, to segregate responsibilities in order that risk assessment and control functions remain independent of operational functions, to introduce and update a risk management strategy and ensure an adequate information policy. It reviews financial results of the Group. The Management Board has established a number of committees directly responsible for the development of risk management methods and for monitoring of risk levels in specific areas.

The Management Board fulfils its risk management role through its three committees: Risk Management Committee, Risk Management Sub-Committee, and Risk Control Committee , where the Management Board members are supported by key risk management officers.

Risk Management Committee is an executive committee responsible for taking key decisions concerning risk management across the Group. **Risk Management Sub-Committee** set up as part of the Risk Management Committee, ratifies the key decisions taken (above defined thresholds) by the main lower-level risk committees;

Risk Control Committee, which monitors the risk level across different areas of the bank's operations and supervises the activities of lower-level risk management committees set up by the Management Board These committees, acting within the respective remits defined by the Management Board, are directly responsible for developing risk management methods and monitoring risk levels in specific areas.

The Risk Control Committee supervises the activities of the below-listed committees operating in the risk management field:

Risk Management Forum, which approves and supervises risk management policy and risk measurement methodology as well as monitors the credit risk, market risk on the banking book, market risk on the trading book, structural risk for the balance sheet, liquidity risk, and data risk used for risk management. The Committee operates as three competence panels:

- **Credit Risk Panel,**
- **Market and Investment Risk Panel,**
- **Models and Methodology Panel.**

Credit Committee, which takes credit decisions on the basis of the assigned lending discretions;

Provisions Committee takes decisions on impairment charges in individual and collective approach, for credit exposures, as well as other financial instruments and assets and on legal risk provisions. Moreover, the Committee formulates the methodology, reviews the adequacy of parameters applied when setting the impairment in individual and collective approach for Santander Bank Polska Group, excluding Santander Consumer Bank.

Information Management Committee, which takes decisions on data and information management processes in a way that allows not only proper risk management, but also other areas.

Cyber Risk Committee, which is a forum for direct cooperation and communication among all organisational units involved in the processes related to cyber security, to ensure effective supervision of the cyber security strategy.

Operational Risk Management Committee (ORMCo), which sets the direction for strategic operational risk actions in Santander Bank Polska Group in the area of business continuity, information security and fraud prevention.

Assets and Liabilities Management Committee (ALCO), whose responsibilities include: oversight over banking book transactions of the Bank and the Group, management of liquidity and interest rate risk in the banking book, funding and managing the balance sheet (including the pricing policy and oreign currency structure);

Capital Committee, which is responsible for the management of capital, especially for the ICAAP process.

Disclosure Committee, which verifies if the financial information of Santander Bank Polska Group published by the Bank meets the legal and regulatory requirements.

Local Marketing and Monitoring Committee, which approves new products and services before commercialisation, taking into account reputation risk analysis.

General Compliance Committee, responsible for setting standards in respect of the compliance risk management and codes of conduct.

Regulatory and Reputation Risk Committee, responsible for monitoring and taking decisions on matters concerning the Group's compliance with the laws and regulations, regulators' guidelines and market/ sector standards pertaining to the operations.

Anti-Money Laundering Committee, which approves the Bank's policy in respect of the prevention of money laundering and terrorist financing as well as approves and monitors actions taken by the Bank in this respect.

Restructuring Committee, responsible for decisions regarding the non-performing portfolio, such as approving strategy towards large credit exposures, approving cause of loss analyses, and for monitoring the portfolio and effectiveness of the recovery processes.

Organizational structure (units)

In terms of organizational structure, the risk management system relies on three independent and complementary levels (lines of defence):

- **1st line of defence** comprises risk management as part of the Bank's operations and is based on business units, which generate risk that affects the achievement of the Bank's targets. The first line of defence includes activities carried out by each employee in respect of quality and correctness of the tasks performed.
- **2nd line of defence** includes risk management by employees holding dedicated job positions or working in dedicated organisational units. Risk management as part of 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 management 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 specialist functions which assess the effectiveness of the first line controls.
  The second line of defence units are organisationally separate from the activities they are to monitor and control as they operate within separate organisational structures, specifically:
  - ✓ The Risk Management Division, whose units report directly to the Head of the Risk Management Division (Chief Risk Officer (CRO)), who is a Management Board member responsible for risk; Risk Management Division's role is to provide assurance that the key risks are being identified and managed by the management, and that the Bank acts in line with internal risk policies. The units support the Bank's management in the process of identifying and managing risk by providing relevant tools for risk management, monitoring and reporting. Within the Division there has been established, among others, the Internal Control Model Function that coordinates preparation, implementation and ongoing updates to the Internal Control Model (ICM). ICM covers the whole activity of Santander Bank Polska Group.
  - ✓ The Compliance Function, consisting of the Comliance Area and the Anti-Money Laundering Department. Both units report to the Director in charge of the Legal and Compliance Division, who directly reports to the President of the Management Board (CEO); Compliance Function's goal is to support Santander Bank Polska Group's management in managing non-compliance risks to ensure that Santander Bank Polska Group complies with legislation, regulatory requirements and best practices recognising that the Compliance unit is particularly responsible for controls safeguarding compliance with legislation, internal regulations and market standards related to the type of business. The responsibility for ensuring compliance in specialist areas, such as, inter alia, prudential rules, taxation, company law, employment law and health and safety, is allocated to an appropriate specialist function.
  - ✓ Financial Accounting and Control function that supports the Bank's management through assuring correct and reliable reflection of the Bank and Group's standing in (internal and external) financial information.
  - ✓ Special functions responsible for independent risk management, including the Control Department.
- **3rd line of defence** is formed by the Internal Audit Area, which provides independent and objective examination and assurance of the first and second tier controls as well as the assessment of the management system of the Bank and its subsidiaries, including the effectiveness of managing the risk related to the Bank's business and the business of its subsidiaries. Internal Audit Area reports directly to the President of the Management Board (CEO).

The three lines of defence model ensures that the risk management function is independent of the business units responsible for risk-taking. The three lines of defence provide the Management and Supervisory Boards with up-to-date and accurate information about the risk profile and management quality.

Risk reporting and measurement systems

Santander Bank Polska Group assesses and reports the risk on an ongoing basis. The foundation of the risk management and control is valid, reliable and detailed management information. It enables risk identification, assessment, management and reporting at the relevant level. The Bank has defined the official List of reports for the Bank Executives Management Information System which presents the key management reports, including those for the risk management area, along with specification of units responsible for their preparation, bodies/ units to which the reports are addressed (the Bank management and committees), as well as, frequency and overall contents of said reports. The principles have been defined based on the list of significant risks and expert recommendations made by owners of individual risks which were developed in the consideration of external requirements, the Bank's internal needs and best corporate practice.

Data used for reporting the risk level are taken from numerous IT systems of Santander Bank Polska Group and are subject to strict certification ensuring high quality and transparency of metrics regarding risk management, in accordance with the European standards formulated by the Basel Committee in BCBS 239.

The central risk management report is the Unit Report which includes comprehensive information prepared monthly by the Risk Management Division. The report covers: macroeconomic environment review, utilisation of the risk appetite limits, review of the credit portfolio quality, balance of provisions, current metrics relating to market risk, liquidity risk, structural risk, conduct risk, operational risk, compliance risk and legal risk, as well as, implementation of internal audit recommendations, risk of models, strategic risk and capital adequacy risk. The report is presented to the Risk Control Committee (the Management Board level) and to the Risk Committee (operating at the Supervisory Board level).

In response to the presented information, the management of the second line of defence units, as well as, the Committees and the Management Board and the Supervisory Board take adequate decisions, in line with the powers in place, thus causing potential modification of the risk management strategy.

Stress tests

The Bank and the Santander Bank Polska Group apply stress tests in order to assure adequate risk management. The purpose of stress tests is to analyse the impact of stressed conditions on: risk appetite, capital plans, liquidity contingency plans, recovery and resolution plans, strategic and business planning. Stress tests are performed at the Bank and the Group based on assumptions that ensure accurate risk assessment or measurement. The frequency of stress tests depends on the risk or process but it must not be lower than once a year.

Risk prevention and mitigation strategy

The Bank protects itself against risk or mitigates risk by introducing suitable risk controls adjusted to the size and complexity of the Bank's business, in particular through:

- Defining and monitoring of **watch threshold and limits** adjusted to the Bank's size and risk profile. Watch thresholds and limits are adjusted to the Bank's risk appetite.
- **Establishment of organisational units in charge of risk management** and structuring them into **independent three lines of defence**;
- **Establishment of committees** taking risk management decisions in accordance with powers delegated to them by the Management Board;
- **Introduction of internal control system,** i.e. establishment of effective controls for risk-generating processes, formally described in the Internal Control Model. Each year, the Bank carries out the assessment of the construction and effectiveness of the control and the Bank's Management Board and an independent external

auditor make the certification of the Internal Control Model. The certification outcomes are reported to the engaged Committee operating at the Supervisory Board level;
- **Risk culture promotion**, i.e. enhancing the staff awareness of risk management issues (Intranet articles, mailing, contests…), obligatory inclusion of risk management objectives in the performance review and risk management training;
- **Risk transfer instruments** (security measures, insurance, guarantees) adequate for individual risk types.

Risk appetite

Risk management in the Bank and the Group is consistent with the risk profile which corresponds to the general risk appetite defined by the Group. Risk appetite is expressed as quantitative limits and captured in the Risk Appetite Statement approved by the Management Board and the Supervisory Board.

The formulation of the Risk Appetite Statement is based on certain foundations reflecting the Bank's and the Group's targets in terms of risk that are in line with the strategy and business plans. The Bank's and the Group's risk appetite is set below its risk capacity. Additionally limits are set using stress tests and scenario analyses to ensure the stability of the bank's position even if adverse circumstances materialise. Global limits are used to set watch limits and shape risk management policies.

Details about managing different risk types, the structure of corporate governance and roles of selected units in risk management oversight are presented in Note 4 of the Consolidated Financial Statements of Santander Bank Group for 2018.

2. Objectives and strategies for risk management – by risk category

Credit risk, Counterparty credit risk

Introduction

Credit risk is defined as the possibility of suffering a loss if the borrower fails to meet their credit obligation, including payment of interest and fees. It results in the impairment of credit assets and contingent liabilities as a consequence of the borrower's worsening credit quality. Credit risk measurement is based on the estimation of credit risk weighted assets, with the relevant risk weights representing both the probability of default and the potential loss in the event of the borrower's default.

Credit risk in the bank and Group arises mainly from lending activities on the retail, corporate and interbank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit procedures and discretionary limits. The internal system of credit grading and monitoring used by the bank and allows for the early identification of potential defaults that might impair the loan book. Additionally the bank and the Group use a large set of credit risk mitigation tools, both collateral (financial and nonfinancial) and specific credit provisions and clauses (covenants).

Credit risk management in the bank and Group involves actions taken as a result of the ongoing analysis of the macroeconomic environment and internal reviews of particular credit portfolios. These advanced credit risk assessment tools allow quick remedial actions to be effected in response to the first signs of any change in the portfolio's quality or structure.

Risk management structure and organisation

The credit risk oversight in Santander Bank Polska Group is performed by Credit Policy Panel (CPP) operating within the Risk Management Forum. Its key responsibilities include development and approval of the best sectoral practice, industry analyses, credit policies as well as implementation of grading and assessment systems aimed at ensuring sustainable growth of the credit portfolio. To align the Group's management processes with the current strategic goals, three sub-committees were established within the CPP with a responsibility for the key customer segments: retail segment, SME segment and the business/corporate segment. The oversight over the credit risk models is the responsibility of the Models and Methodology Panel.

The Risk Management Division is responsible for a consolidated credit risk management process, including management and supervision of credit delivery, defining credit policies, providing decision-making tools and credit risk measurement tools, quality assurance of the credit portfolio and provision of reliable management information on the credit portfolio.

Risk identification, measurement and risk reporting

Credit risk management is based on existing credit policies. Credit policies refer to particular business segments, loan portfolios and banking products. They contain guidelines for the identification of the areas where specific types of risks manifest themselves, specifying the methods of their measurement and mitigation to the level acceptable to the bank (e.g. loan-to-value ratios, FX risk in the case of foreign currency loans).

The Group reviews and updates its credit policies on a regular basis, aiming to bring them in line with the Group's strategy, current macroeconomic situation, legal developments and changes in regulatory requirements.

The credit decision-making process being part of the risk management policy is based upon Individual Credit Discretions vested in credit officers, commensurate with their knowledge and experience within the business segments. Credit exposures in excess of PLN 25m are referred to the Credit Committee composed of senior management and top executives. Transactions above PLN 187.5m are additionally ratified by Risk Management Sub-Committee. The Group continually strives to ensure best quality credit service while satisfying the borrowers' expectations and ensuring security of the credit portfolio. To this end, the credit risk approval function has been segregated from the sales function.

Intensive work has been undertaken to further develop credit risk assessment tools to conform to the recommendations of the Polish Financial Supervision Authority, the International Accounting Standards/International Financial Reporting Standards and the best practice in the market. Credit risk is assessed in accordance with the rules set out in IAS/IFRS.

The Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, home loans, property loan, cash loans, credit cards and personal overdrafts. The Group regularly monitors its credit grading using the rules specified in its Lending Manuals. Additionally, for selected models, an automated process of credit grade verification is carried out based on the number of overdue days or an analysis of the customer's behavioural data. Credit grade is also verified at subsequent credit assessments.

The Group performs regular reviews to determine the actual quality of the credit portfolio, confirm that adequate credit grading and provisioning processes are in place, verify compliance with the procedures and credit decisions and to objectively assess professionalism in credit management. The reviews are performed by the two specialised units: Credit Review Department and the Control & Quality Assessment Department, which are independent of the risk-taking units.

Risk prevention and mitigation

In the Group's security model, the Collateral and Credit Agreements Department is the central unit responsible for creation and maintenance of securities. The Security Manual as a procedure describing legal standards for the application of collateral security is managed by the Legal and Compliance Division. The Collateral and Credit Agreements Department is the owner of the security contract templates. The role of the department is to ensure that security covers are duly established and held effective in line with the lending policy for all business segments. The unit is also responsible for developing standardised internal procedures with respect to perfecting and maintaining validity of collateral as well as ensuring that establishment, monitoring and release of security covers is duly effected.

Furthermore, the Collateral and Credit Agreements Department provides assistance to credit units in credit decision making and development of credit policies with respect to collateral. The unit gathers data on collateral and ensures appropriate management information.

The tables below show types of collateral that can be used to secure loans and advances to customers from non-banking sector.

RETAIL CUSTOMERS

Type	Type of collateral
Cash loan	bills, guarantees, credit insurance
Credit on liquid assets	guaranty deposit, amounts frozen on account, investment funds
Student loan	sureties
Housing loan	mortgage, credit insurance, transfer of claim
Leasing	bills, guarantees, transfer of rights to bank's account; court registered pledge on movables; transfer of ownership, open mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee)

BUSINESS CUSTOMERS

Type	Type of collateral
Commercial credit	guaranty deposit, registered pledge, bills
Revolving credit	assignment of credit, bills, guarantees, registered pledge
Building credit	mortgage
Investment credit	mortgage, sureties, warranty
Granted and with supplements	guarantees, warranty
Leasing	bills, guarantees, transfer of rights to bank's account; court registered pledge on movables; transfer of ownership, open mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee)

Before a credit decision is approved, in the situations provided for in internal regulations, the Collateral and Credit Agreements Department assesses the collateral quality, a process that includes:

- verification of the security valuation prepared by external valuers, and assessment of the security value,
- assessment of the legal status of the security,
- assessment of the investment process for the properties,
- seeking legal advises on the proposed securities.

The Collateral and Credit Agreements Department actively participates in credit processes, executing tasks including:

- providing draft credit documentation in the SME and corporate segments,
- verification and assessment of the signed credit documentation, and checking compliance with formal and legal conditions for loan disbursement in the corporate segment,
- verification of the data in information systems,
- collateral monitoring and reporting,
- releasing of the security.

In managing its receivables, the Group carries out the process of collateral liquidation. Selection of proper actions towards the liquidation of specific collateral depends on the type of the collateral (personal or tangible). In principle the Group aims at voluntary proceedings in the course of collateral liquidation. When there is no evidence of cooperation with a collateral provider, the Group's rights are exercised in compliance with the law and internal regulations in the bankruptcy and enforcement proceedings.

Counterparty credit risk

The Bank estimates the exposure on counterparty credit risk in accordance with the mark-to-market method provided for under CRR; the next step is to estimate the internal capital requirement based on the bank's own model using own estimations of risk parameters.

Counterparty credit risk is managed using the adopted credit procedures and the system of treasury limits established in the respective credit decisions, including as a result of the counterparty credit assessment. The credit decision also determines how the limit allocated to the customer is to be secured. Limits are set taking into consideration potential exchange rate or interest rate fluctuations. The customer's exposure in respect of the allocated limit is monitored on a daily basis.

The Bank can additionally limit counterparty risk by obtaining additional collateral, i.e. on a margin call basis as stated in the master agreement signed with customer, or by signing CSAs (Credit Support Annex) with customers as they considerably limit transaction risk.

Such solutions hedge counterparties against exposure changes resulting from changes in the market value of instruments underlying derivative contracts, independent of the level of repayment capacity of the Bank or its counterparties.

In addition, counterparty credit risk is limited through posting the initial margin.

Market risk

Introduction

Market risk is defined as an adverse earnings impact of changes in interest rates, FX rates, share quotations, stock exchange indices, etc. It arises both in trading and banking activity (FX products, interest rate products, equity linked trackers).

Santander Bank Polska Group is exposed to market risk arising from its activity in money and capital markets and services provided to customers. Additionally, the Group undertakes the market risk related to the active management of balance sheet structure (assets and liabilities management).

The activity and strategies on market risk management are directly supervised by the Risk Management Forum and are pursued in accordance with the framework set out in the Market Risk Policy and the Structural Risk Policy approved by the Management Board and the Supervisory Board.

Risk management structure and organisation

The key objective of the market risk policy pursued by the Group is to reduce the impact of variable market factors on the Group's profitability and to grow income within the strictly defined risk limits while ensuring the Group's liquidity and market value.

The market risk policies of Santander Bank Polska Group establish a number of risk measurement and mitigation parameters in the form of limits and metrics. Risk limits are periodically reviewed to align them with the Group's strategy.

Interest rate and FX risks linked to the banking business are managed centrally by the Financial Management Division. The Division is also responsible for acquiring funding, managing liquidity and making transactions on behalf of ALCO Committee (Assets and Liabilities Management Committee). This activity is controlled by the measures and limits approved by the Risk Management Forum, the bank's Management Board and the Supervisory Board.

The debt securities and the interest rate and FX hedging portfolio is managed by ALCO Committee, which takes all decisions on the portfolio's value and structure.

The market risk on the trading portfolio is managed by the Corporate and Investment Banking Division, which is also responsible for the activities of Santander Brokerage Poland. The Group's trading activity is subject to a system of measures and limits, including Value at Risk, stop loss, position limits and sensitivity limits. These limits are approved by the Risk Management Forum, the bank's Management Board and the Supervisory Board.

The Financial Risk Department within the Risk Management Division is responsible for ongoing risk measurement, implementation of control procedures and risk monitoring and reporting. The Department is also responsible for shaping the market risk policy, proposing risk measurement methodologies and ensuring consistency of the risk management process across the Group. Owing to the fact that the Department is a part of the Risk Management Division, the risk measurement and monitoring processes are separate from the risk-taking units.

The market risk of equity instruments held by Santander Brokerage Poland (shares, index-linked securities) is managed by Santander Brokerage Poland and Santander Securities S.A. itself and supervised by the Risk Management Forum of Santander Bank Polska S.A.

The bank's Risk Management Forum, chaired by the Management Board member in charge of the Risk Management Division, is responsible for independent control and monitoring of market risk in the banking and trading books.

Risk identification and measurement

The trading book of Santander Bank Polska Group contains securities and derivatives held by the Corporate and Investment Banking Division for trading purposes. The instruments are marked to market each day, and any changes in their value are reflected in the profit and loss. Market risk in the trading book includes interest rate risk, currency risk and repricing risk.

The interest rate risk in the Group's banking book is the risk of adverse impact of interest rate changes on the Group's income and the value of its assets and liabilities. Interest rate risk arises primarily on transactions entered in the bank's branches and in the business and corporate centres, as well as the transactions made in the wholesale market by the Financial Management Division. Additionally, interest rate risk can be generated by transactions concluded by other units, e.g. through acquisition of municipal/ commercial bonds or the bank's borrowings from other sources than the interbank market.

Santander Bank Polska Group uses several methods to measure its market risk exposure. The methods employed for the banking portfolio are the MVE and NII sensitivity measures, stress tests and Value at Risk (VaR), while the methods used for the trading portfolio include: VaR, stop loss, sensitivity measures (PV01) and stress tests. The risk measurement methodology is subject to an independent initial and periodic validation, the results of which are presented for approval to the Models and Methodology Panel (part of the Risk Management Forum).

At Santander Bank Polska Group, the VaR in the trading portfolio is determined using a historical method as a difference between the mark-to-market value of positions and the market values based on the most severe movements in market rates from a determined observation window. VaR is calculated separately for interest rate risk, FX risk and the two risks at the same time. VaR is also calculated for the repricing risk of the equity instruments portfolio of Santander Brokerage Poland and Santander Securities S.A.

Due to the limitations of the VaR methodology, the Group additionally performs sensitivity measurement (showing how position values change in reaction to price/profitability movements), Stressed VaR measurement and stress tests.

Risk reporting

The responsibility for reporting market risk rests with the Risk Management Division, specifically the Financial Risk Department.

Each day, the Financial Risk Department controls the market risk exposure of the trading book in accordance with the methodology laid down in the Market Risk Policy. It verifies the use of risk limits and reports risk levels to units responsible for risk management in the trading book, to Santander Group and to the Risk Management Forum.

Once a month, the Financial Risk Department provides information about the risk exposure of the trading book and selected measures to the Risk Management Forum and prepares the Risk Dashboard (in cooperation with other units of the Risk Management Division), which is presented to the Risk Management Committee.

The results of market risk measurement with regard to the banking book are reported by the Financial Risk Department to persons responsible for operational management of the bank's balance sheet structure and to persons in charge of structural risk management on a daily basis (information about the ALCO portfolio) or on a monthly basis (interest rate gap, NII and MVE sensitivity measures, stress test results, VaR). This information is also reported each month to the bank's senior executives (Risk Management Forum, ALCO). The selected key interest rate risk measures, including risk appetite measures defined for the Group's banking book, are reported to the bank's Management Board and Supervisory Board.

Risk prevention and mitigation

The bank has adopted a conservative approach to risk-taking both in terms of the size of exposures and the types of products. A large portion of the Financial Market Area activity revolves around mitigating the risk related to customer transactions at the retail and corporate level. In addition, flows from customer transactions are generally for non-market amounts and tenors and thus risk capacity is required to manage these mismatches with wholesale transactions.

From the bank's perspective, the market risk limits are small and are in place to allow sufficient capacity and time to neutralise interest rate and foreign exchange risks, while at the same time allowing the Financial Market Area to hold some of portfolio positions opened to add value to the organisation.

There is a greater emphasis placed on market making over pure mark to market trading and this is reflected in both limit utilisation and budgetary targets.

The combination of transactions made by the Financial Market Area and positions transferred from the bank arising from customers' FX and derivative activity create the overall interest rate and currency risk profiles, which are managed under the policy and operational limits in place. The Financial Market Area subsequently decides either to close these positions or keep them open in line with market view and approved limits. The return earned is a mix of flow management and market making. However, there is no intention to keep aggressive trading positions.

The interest rate and currency risk of the Financial Market Area is managed via the trading book in accordance with the Market Risk Policy approved by the Management Board. Accounting and risk systems help to ensure allocation of each position into appropriate books. Relevant teams (desks) are responsible for individual types of market risk (interest rate risk and currency risk).

To ensure that the trading book positions are marketable, the bank controls the gross value of the positions (separately long and short positions) versus the entire market. This is to check if it is technically possible to close an open position one way, without taking into account other closings. The control is performed by the Financial Risk Department separately for currency positions and interest rate positions. The control results are reported to the first line of defence.

As regards market risk in the banking book, all positions that generate repricing risk are transferred for management to the Financial Management Division, responsible for shaping the bank's balance sheet structure, including by entering into transactions in the interbank market so as to manage the interest rate risk profile according to the approved risk strategy and in compliance with the allocated risk limits.

The bank's subsidiaries also mitigate their exposure to interest rate risk. If there is a mismatch between the repricing of assets and liabilities, the company enters into appropriate transactions via the standard bank accounts held with the bank or makes derivative transactions with the bank, which from the transaction date manages the risk as part of the global limit of Santander Bank Polska Group.

The interest rate risk in the banking book is managed based on the following limits:

- NII sensitivity limit (the sensitivity of net interest income to a parallel shift of the yield curve by 100 bp);
- MVE sensitivity limit (the sensitivity of the market value of equity to a parallel shift of the yield curve by 100 bp).

The sensitivity measures for 2018 and 2017 are shown in the table below. It presents the results of scenarios, in which the impact of changes in interest rates on interest income and the economic value of capital would be negative.

	NII Sensitivity		MVE Sensitivity	
1 day holding period	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Maximum	273	238	375	377
Average	224	211	316	267
as at the end of the period	273	238	298	347
Limit	**300**	**310**	**400**	**380**

VaR in the banking portfolio is calculated separately as a combined effect of EaR (Earnings-at-Risk) and EVE VaR (value at risk of the economic value of equity).

The key methods of measurement of the interest rate risk in the trading book include the VaR methodology, stop loss, PV01 sensitivity measurement and stress tests.

The VaR is set for open positions of the Corporate and Investment Banking Division using the historical simulations method. Under this method the Group estimates the portfolio value of 520 scenarios generated on the basis of historically observable changes in market parameters. VaR is then estimated as the difference between the current valuation and the valuation of the 99th percentile of the lowest valuations.

The stop-loss mechanism is used to manage the risk of loss on positions subject to fair value measurement through profit or loss.

Stress tests are used in addition to these measures by providing an estimate of the potential losses in the event of materialisation of the stressed conditions in the market. The assumptions of stress scenarios are based on sensitivity reports and on extreme market rate movement scenarios set using the highest daily and monthly changes in interest rates.

The table below shows risk measures at the end of 2018 and 2017 for 1-day position holding period:

Interest rate risk	VAR	
1 day holding period	31.12.2018	31.12.2017
Average	1 702	1 559
Maximum	5 966	4 777
Minimum	523	373
as at the end of the period	1 508	839
Limit	**6 767**	**6 266**

In 2018, the VaR limit for interest rate risk was not exceeded.

FX risk is the risk that adverse movements in foreign exchange rates will have an impact on performance (and result in losses). This risk is managed on the basis of the VaR limit for the open currency positions in the Group's trading portfolio and the portfolio of Santander Brokerage Poland and Santander Securities S.A. which manages open positions linked to the market maker activity. Stress tests are used in addition to this measure by providing an estimate of the potential losses in the event of materialisation of the stressed conditions in the market. Stress tests use the currency exposure and the scenarios of extreme movements in currency rates based on historical data. Furthermore, the stop-loss mechanism is used for managing the risk of losses on trading positions.

In accordance with its policy, the Group does not maintain open positions on currency options. Transactions made with customers are immediately closed in the wholesale market thus limiting the Group's exposure to the market risk on the currency options portfolio.

Open FX positions of subsidiaries are negligible and are not included in the daily risk estimation.

The table below illustrates the risk measures at the end of December 2018 and 2017.

FX risk	VAR	
1 day holding period	**31.12.2018**	**31.12.2017**
Average	473	414
Maximum	1 939	1 725
Minimum	53	50
as at the end of the period	150	175
LIMIT	**2 820**	**2 611**

In 2018, the VaR limit for currency risk was not exceeded.

As regards the structural exposure to currency risk in the Group's balance sheet, in 2018 the share of foreign currency assets in the balance sheet continued to decrease. This was affected by the substantial increase in PLN loans and advances to customers, including as a result of acquisition of a demerged part of Deutsche Bank Polska S.A. and the gradual decrease in the balance of CHF loans as a result of the continuing amortisation of the CHF mortgage portfolio.

The resulting funding gap relating to individual currencies was closed by entering into swap transactions in the FX market.

The tables below present the Group's key FX positions as at 31 December 2018 and in the comparable period.

31.12.2018	PLN	EUR	CHF	USD	Other	Total
ASSETS						
Cash and balances with central banks	8 357 459	356 755	25 593	77 185	90 560	8 907 552
Loans and advances to banks	477 266	1 514 273	6 225	682 633	255 817	2 936 214
Loans and advances to customers	106 938 091	18 778 050	10 514 721	1 212 066	17 450	137 460 378
Financial assets available for sale	36 950 810	1 468 753	-	759 538	-	39 179 101
Selected assets	**152 723 626**	**22 117 831**	**10 546 539**	**2 731 422**	**363 827**	**188 483 245**
LIABILITIES						
Deposits from banks	2 573 121	231 376	6 799	17 487	4 145	2 832 928
Deposits from customers	126 219 287	16 906 252	417 798	4 614 750	1 458 572	149 616 659
Subordinated liabilities	1 108 574	1 535 767	-	-	-	2 644 341
Selected liabilities	**129 900 982**	**18 673 395**	**424 597**	**4 632 237**	**1 462 717**	**155 093 928**

31.12.2017	PLN	EUR	CHF	USD	Other	Total
ASSETS						
Cash and balances with central banks	3 678 110	316 343	16 408	74 683	60 678	4 146 222
Loans and advances to banks	372 076	1 293 529	2 738	312 260	155 871	2 136 474
Loans and advances to customers	80 699 235	15 591 398	10 769 691	644 332	135 241	**107 839 897**
Financial assets available for sale	27 163 287	803 777	-	448 748	-	28 415 812
Selected assets	**111 912 708**	**18 005 047**	**10 788 837**	**1 480 023**	**351 790**	142 538 405
LIABILITIES						
Deposits from banks	1 279 330	1 452 388	4 811	37 246	9 308	2 783 083
Deposits from customers	90 954 915	14 979 642	357 006	4 097 331	1 092 241	**111 481 135**
Subordinated liabilities	-	1 488 602	-	-	-	1 488 602
Selected liabilities	**92 234 245**	**17 920 632**	**361 817**	**4 134 577**	**1 101 549**	**115 752 820**

The risk attached to the prices of equity instruments listed in active markets is managed by Santander Brokerage Poland and i Santander Securities S.A., which operates within the Corporate and Investment Banking Division. This risk is generated by own trades of Santander Brokerage Poland and i Santander Securities S.A. concluded in regulated markets (spot market instruments and futures).

It is measured using a Value at Risk model based on the historical analysis method.

The market risk management in Santander Brokerage Poland and Santander Securities S.A. is supervised by the Risk Management Forum of Santander Bank Polska S.A. The Forum sets the VaR limit for Santander Brokerage Poland, approves changes in the risk measurement methodology and oversees the risk management process.

The table below presents the risk measures in 2018 and 2017.

Equity risk	VAR	
1 day holding period	**31.12.2018**	**31.12.2017**
Average	208	304
Maximum	584	694
Minimum	5	46
as at end of the period	106	90
LIMIT	**3 760**	**3 621**

In 2018, the VaR limit for equity risk was not exceeded.

Liquidity risk

Introduction

Liquidity risk is the risk that the bank fails to meet its contingent and non-contingent obligations towards customers and counterparties as a result of a mismatch of financial cash flows.

The activity and strategies on liquidity risk management are directly supervised by the Risk Management Forum and are pursued in accordance with the framework set out in the Liquidity Risk Policy approved by the Management Board and the Supervisory Board.

Risk management structure and organisation

The objective of the Liquidity Risk Policy of Santander Bank Polska Group is to:

- ensure the ability to finance assets and satisfy claims, both current and future, in a timely manner and at an economic price;
- manage the maturity mismatch between assets and liabilities, including the intraday mismatch of cash flows;
- set a scale of the liquidity risk in the form of various internal limits;
- ensure proper organisation of the liquidity management process within the whole Santander Bank Polska Group;
- prepare the organisation for emergence of adverse factors, either external or internal;
- ensure compliance with regulatory requirements, both qualitative and quantitative.

The general principle adopted by Santander Bank Polska Group in its liquidity management process is that all expected outflows occurring within one month in respect of deposits, current account balances, loan drawdowns, guarantee payments and transaction settlements should be at least fully covered by the anticipated inflows or available High Quality Liquid Assets (HQLA) assuming normal or predictable conditions for the Group's operations. The HQLA category substantially includes: cash on hand, funds held in the nostro account with the NBP (National Bank of Poland) in excess of the minimum reserve requirement and securities which may be sold or pledged under repo transactions or NBP lombard loans. As at 31 December 2018, the value of the HQLA buffer was PLN 37.75 bn.

The purpose of this policy is also to ensure an adequate structure of funding in relation to the growing scale of the Group's business by maintaining structural liquidity ratios at pre-defined levels.

The Group uses a suite of additional watch limits and thresholds with respect to the following:

- loan-to-deposit ratio;
- structural funding ratio, which measures the amount of long-term funding relative to non-liquid assets;
- ratios of reliance on wholesale funding, which are used to assess the concentration of foreign currency funding from the wholesale market;
- concentration of deposit funding;
- M3 and M4 regulatory liquidity ratios calculated in accordance with KNF Resolution no. 386/2008;
- ratios laid down in CRD IV/CRR – LCR and NSFR;
- survival horizon under stressed conditions;
- the HQLA buffer;
- the buffer of assets which might be liquidated over an intraday horizon.

The internal liquidity limits, including the limits established in the Risk Appetite Statement, are set on the basis of both historical values of the selected liquidity ratios as well as their future values which are estimated against a financial plan. The limits also take into account the results of stress tests.

At least once a year, Santander Bank Polska Group carries out the Internal Liquidity Adequacy Assessment Process (ILAAP), which is designed to ensure that the Group can effectively control and manage liquidity risk. In particular, the ILAAP ensures that the Group:

- maintains sufficient capacity to meet its obligations as they fall due;

- reviews the key liquidity risk drivers and ensures that stress testing reflects these drivers and that they are appropriately controlled;
- provides a record of both the liquidity risk management and governance processes;
- carries out assessment of counterbalancing capacity.

The ILAAP results are subject to approval by the Management Board and the Supervisory Board to confirm adequacy of the liquidity level of Santander Bank Polska Group in terms of liquid assets, prudent funding profile and the Group's liquidity risk management and control mechanisms.

Risk identification and measurement

The responsibility for identification and measurement of liquidity risk rests with the Risk Management Division, specifically the Financial Risk Department.

The role of the Department is to draft liquidity risk management policies, carry out stress tests and to measure and report on risk on an ongoing basis.

Liquidity is measured by means of the modified liquidity gap, which is designed separately for the PLN and currency positions. The reported future contractual cash flows are subject to modifications based on: statistical analyses of the deposit and credit base behaviour and assessment of product/ market liquidity – in the context of evaluation of the possibility to liquidate Treasury securities by selling or pledging them in repo transactions or using liquidity support instruments with NBP, as well as the possibility of transaction rolling in the interbank market.

When measuring liquidity risk, the bank additionally analyses the degree of liquidity outflows arising from potential margin calls due to changes in the value of derivative transactions and collateral needs related to secured financing transactions resulting from the downgrade of the bank's credit rating, among other things.

Concurrently, liquidity is measured in accordance with KNF Resolution no. 386/2008 on setting liquidity standards for banks (in force as at 31 December 2018), and with the requirements laid down in the CRD IV/ CRR package and in their implementing provisions.

In order to establish a detailed risk profile, the Group conducts stress tests using the following scenarios:

- baseline scenario, which assumes non-renewability of wholesale funding;
- idiosyncratic liquidity crisis scenarios (specific to the bank);
- local systemic liquidity crisis scenario;
- global systemic liquidity crisis scenario;
- combined liquidity crisis scenario (idiosyncratic crisis and local systemic crisis);
- deposit outflows in a one-month horizon.

For each of the above scenarios, the Group estimates the minimum survival horizon. For selected scenarios, the bank sets survival horizon limits which are subsequently included in the liquidity risk appetite.

In addition, the bank performs stress tests for intraday liquidity as well as reverse stress tests.

Risk reporting

The responsibility for reporting liquidity risk rests with the Risk Management Division, specifically the Financial Risk Department.

The results of liquidity risk measurement are reported by the Financial Risk Department on a daily basis to persons in charge of operational management of the bank's liquidity and to persons responsible for liquidity risk management (information about intraday and current liquidity, including FX funding ratios and LCR) and – on a monthly basis – to senior executives (other liquidity ratios, including regulatory ratios).

Risk prevention and mitigation

The responsibility for supervision over the liquidity risk management process rests with the Assets and Liabilities Committee (ALCO), which also provides advice to the Management Board. ALCO prepares management strategies and recommends to the Management Board appropriate actions with regard to strategic liquidity management, including strategies of funding the bank's activity. Day-to-day management of liquidity is delegated to the Financial Management Division. The Assets and Liabilities Management Department, which is a part of the Division, is responsible for developing and updating the relevant liquidity management strategies.

The bank has a liquidity contingency plan approved by the Management Board and Supervisory Board to cater for unexpected liquidity problems, whether caused by external or internal factors. The plan, accompanied by stress tests, includes different types of scenarios and enables the bank to take adequate and effective actions in response to unexpected external or internal liquidity pressure through:

- identification of threats to the bank's liquidity on the basis of a set of early warning ratios which are subject to ongoing monitoring;
- effective management of liquidity/ funding, using a set of possible remedial actions and the management structure adjusted to the stressed conditions;
- communication with customers, key market counterparties, shareholders and regulators.

In 2018, Santander Bank Polska Group focused on keeping its loan-to-deposit ratio at a comfortable level (92% as at 31 December 2018) and controlling key short and long-term liquidity measures. As at 31 December 2018, the consolidated Liquidity Coverage Ratio was 190%, and 169% as at 31 December 2017. In 2018 and in the comparable period, all key regulatory ratios applicable to the bank and Group were maintained at the required levels.

The tables below show the cumulated liquidity gap on an unconsolidated level (for Santander Bank Polska S.A.) as at 31 December 2018 and in the comparable period. As at 31.12.2017 nominal value have been presented, while data according to 31.12.2018 contain additionally information about current interest flows.

31.12.2018	A'vista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years
Assets	22 200 320	15 328 453	4 222 219	9 431 435	9 315 557	14 916 635	36 773 241	76 206 830
Liabilities	85 429 245	25 082 447	15 064 408	13 222 262	7 189 917	1 803 168	4 203 844	32 265 440
including:								
- Repurchase agreement transactions	-	8 234 700	-	-	-	-	-	-
- Liabilities to banks	150 124	163 643	103 273	277 167	132 025	45 173	61 223	57 678
- Liabilities to customers	85 279 121	16 680 560	14 917 966	11 274 837	6 170 320	966 886	203 186	3 731
- Own emissions	-	-	-	661 633	527 375	16 181	2 166 069	-
- Subordinated liabilities	-	-	(343)	8 267	-	-	-	2 535 530
Contractual liquidity gap	(63 228 926)	(9 753 994)	(10 842 188)	(3 790 827)	2 125 640	13 113 466	32 569 396	43 941 389
Cummulated contractual liquidity gap	(63 228 926)	(72 982 920)	(83 825 108)	(87 615 935)	(85 490 295)	(72 376 829)	(39 807 433)	4 133 957
Net derivatives	-	40 305	(25 109)	(11 332)	(2 739)	(59 305)	(450 675)	(308 246)

31.12.2017	A'vista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	above 5 years
Assets	16 285 962	5 487 477	2 737 369	7 877 137	6 474 997	11 747 539	29 354 839	52 897 949
Liabilities and equity	18 843 600	27 882 654	16 438 439	9 538 471	7 722 235	6 373 358	10 297 600	35 766 911
including:	-	-	-	-	-	-	-	-
- Sell-buy-back transactions	-	-	-	-	-	-	-	-
- Deposits from banks	746 740	2 101 959	410 361	73 443	15 400	-	-	-
- Deposits from customers	18 096 859	25 572 150	15 250 513	8 942 409	6 832 174	6 014 336	8 958 040	9 081 624
- Debt securities in issue	-	-	750 000	485 000	-	-	-	-
- Subordinated liabilities	-	-	-	-	-	-	-	1 489 428
Contractual liquidity mismatch/ gap	(2 557 638)	(22 395 177)	(13 701 070)	(1 661 334)	(1 247 239)	5 374 180	19 057 239	17 131 038
Cumulative liquidity gap	(2 557 638)	(24 952 815)	(38 653 886)	(40 315 219)	(41 562 458)	(36 188 277)	(17 131 038)	0
Net derivatives	-	(63 970)	13 782	(76 812)	(33 280)	12 856	(6 049)	(119 732)

Table below contains the values and components of the liquidity coverage ratio in accordance with the template that is a part of the EBA/GL/2017/01 guidelines on LCR disclosure.

LCR

	Scope of consolidation: solo Currency and units: millions PLN	Total unweighted value (average)				Total weighted value (average)			
	Quarter ending on	31.12.2018	30.09.2018	30.06.2018	31.03.2018	31.12.2018	30.09.2018	30.06.2018	31.03.2018
	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
	HIGH-QUALITY LIQUID ASSETS								
1	**Total high-quality liquid assets (HQLA)**					30 591	27 685	26 462	24 733
	CASH-OUTFLOWS								
2	**Retail deposits and deposits from small business customers, of which:**	63 347	59 550	58 772	57 570	4 886	4 438	4 364	4 244
3	*Stable deposits*	43 839	43 066	42 619	42 152	2 192	2 153	2 131	2 108
4	*Less stable deposits*	19 508	16 484	16 153	15 419	2 694	2 284	2 233	2 137
5	**Unsecured wholesale funding**	27 404	23 887	22 385	21 390	12 526	11 031	10 465	10 047
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	5 647	5 380	5 341	5 223	1 409	1 343	1 333	1 304
7	*Non-operational deposits (all counterparties)*	21 655	18 384	16 877	15 958	11 013	9 564	8 965	8 534
8	*Unsecured debt*	103	124	167	209	103	124	167	209
9	**Secured wholesale funding**					0	0	0	0
10	**Additional requirements**	20 588	20 761	21 525	22 459	3 967	3 988	4 086	4 229
11	*Outflows related to derivative exposures and other collateral requirements*	1 209	1 366	1 398	1 463	1 209	1 366	1 398	1 463
12	*Outflows related to loss of funding on debt products*	0	0	0	0	0	0	0	0
13	*Credit and liquidity facilities*	19 379	19 395	20 127	20 997	2 758	2 623	2 689	2 766
14	**Other contractual funding obligations**	2 016	1 751	1 857	1 834	1 799	1 540	1 666	1 652
15	**Other contingent funding obligations**	7 260	6 157	5 234	3 906	360	303	245	162
16	**TOTAL CASH OUTFLOWS**					23 538	21 301	20 827	20 334
	CASH-INFLOWS								
17	**Secured lending (eg reverse repos)**	152	83	24	78	0	0	0	0
18	**Inflows from fully performing exposures**	2 502	2 221	2 093	2 007	1 918	1 675	1 543	1 458
19	**Other cash inflows**	552	534	520	557	552	534	520	557
EU-19a	**(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)**					0	0	0	0
EU-19b	**(Excess inflows from a related specialised credit institution)**					0	0	0	0
20	**TOTAL CASH INFLOWS**	3 206	2 838	2 637	2 642	2 471	2 209	2 063	2 015
EU-20a	***Fully exempt inflows***	0	0	0	0	0	0	0	0
EU-20b	***Inflows Subject to 90% Cap***	0	0	0	0	0	0	0	0
EU-20c	***Inflows Subject to 75% Cap***	3 206	2 838	2 637	2 642	2 471	2 209	2 063	2 015
	TOTAL ADJUSTED VALUE								
21	**LIQUIDITY BUFFER**					30 591	27 685	26 462	24 733
22	**TOTAL NET CASH OUTFLOWS**					21 067	19 092	18 764	18 318
23	**LIQUIDITY COVERAGE RATIO (%)**					145%	145%	141%	136%

The Group uses secured instruments to fund its activity to a limited degree only. However, in accordance with the existing contractual provisions, if the Group's rating is reduced by one notch (to BBB), the maximum potential additional security on account of those instruments would be as at 31.12.2018 PLN 556 m. At the same time, it should be noted that this potential obligation is not unconditional and its final value would depend on negotiations between the bank and its counterparty in relation to the above transactions.

Operational risk

Introduction

Santander Bank Polska Group adopted the operational risk definition of the Basel Committee on Banking Supervision, which says that **operational risk** is the risk of a loss resulting from inadequate or failed internal processes, people and systems or from external events[1].

The objective of the **operational risk management** is to minimalize the likelihood and/or reduce the impact of unexpected and adverse events.

Risk management structure and organisation

Santander Bank Polska Group has implemented an integrated risk management framework to ensure that all risks which have a significant impact on Santander Bank Polska Group business are identified, measured, monitored and controlled. Operational risk management in Santander Bank Polska Group involves employees at all levels of the organization and

[1] The definitione contains also legal risk but do not contain strategic risk or reputational risk.

consists of a number of interrelated components. Operational risk is inherent in all the Group's business processes, including the outsourced functions or services delivered in cooperation with third parties.

Santander Bank Polska Group has defined the **Operational Risk Management Strategy**. In addition, detailed politics, procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated.

The Operational Risk Management Committee (ORMCo) established by the Management Board is responsible for setting operational risk management standards for Santander Bank Polska Group. ORMCo is the main forum for discussions on operational risk. It sets out the strategic direction for operational risk management, determines and monitors objectives for managing operational risk, including business continuity, information security, outsourcing / insourcing and crime preventing in all business areas of Santander Bank Polska Group.Within ORMCo, there are two Forums working, which are dedicated to specific aspects of Operational Risk – Fraud Prevention Forum and Insurance Forum. The ORMCo working results are passed on to the Risk Control Committee.

Taking into account the increasing influence of cyber risk the Committee of Cyber Risk was appointed. The committee is the forum of direct cooperation and communication of all business units which are involved into the cyber security processes. The committee is supervising the performance of cyber security strategy in Santander Bank Polska Group.

Risk identification and measurement

The basic tool to identify and assess operational risk is self-assessment. In the self-assessment process, Santander Bank Polska Group identifies the risks it may be exposed to when delivering its functions, assesses inherent and residual risks in terms of their likelihood and impact, and evaluates the construction and the control environment functioning.

Moreover, in the area of technological, regulatory and fraud risk a special self-assessment is conducted which aims to ensure that for every process Santander Bank Polska S.A. is able to identify and assess the level of vulnerability on every of related risks (including cybernetic risks) by frequency and loss due to non-performance obligation and is able to identify and assess the level of protections basing on implemented controls mechanism.

Additionally, the operational risk identification and assessment process is supported by other tools, e.g. scenario analysis, business impact analysis (BIA), risk analysis in new initiatives.

Risk reporting

Each organizational unit is required to report operational events identified in its area of activity. A quick communication path to higher management is prepared for key operational events. The Bank and the Group runs a database of operational events identified across the whole organization. The collected data is used to analyse the root causes and consequences of the events, define lessons to be learned and take preventive and corrective measures.

OPERATIONAL INCIDENTS IN SANTANDER BANK POLSKA GROUP IN 2018 GROSS LOSSES (PLN K)

Event types	Operational event class Event category	PLN k	%
1 Internal fraud	1.1. Unauthorised activity	7	0,0%
	1.2. Theft and fraud	1 601	1,9%
2 External fraud	2.1. Theft and fraud	3 773	4,5%
	2.2. Security of systems	1 640	2,0%
3 Occupational safety and health, employment practices	3.1. Labour relations	236	0,3%
	3.2 Safety and health in the workplace	0	0,0%
	3.3. Diversity and discrimination	0	0,0%
4 Customers, products and operating practices	4.1. Adaptation, disclosure of information and trust	12 079	14,4%
	4.2. Inappropriate business or market practices	16 736	19,9%
	4.3. Defective products	36	0,0%
	4.4. Selection, Sponsorship and Risks	0	0,0%
	4.5. Advisory Activities	0	0,0%
5 Damage to tangible assets	5.1. Natural disasters and other incidents	2 951	3,5%
6. Business interruption and system errors	6.1. Systems	0	0,0%
7 Execution of transactions, delivery and management of operating processes	7.1. Reception, execution , execution and maintenance of transactions	44 901	53,4%
	7.2. Monitoring and presentation of reports	0	0,0%
	7.3. Acceptance of customers and documentation	41	0,1%
	7.4. Customer account management	9	0,0%
	7.5. Trade counterparties other that the Bank's clients (e.g. clearing chambers)	0	0,0%
	7.6. Distributors and suppliers	89	0,1%

* Data do not include credit boundary events

In 2018 the level of operational losses in category „Reception, execution and maintenance of transactions" (7.1) was resulting from operational error in banking systems. The error has been eliminated.

The category „Inappropriate Business or Market Practices" (4.2) was affected mainly by legal provisions for customers' claims regarding abusive clauses in exchange rate credit agreements (mainly CHF). The claims concern mainly credits given between years 2004 and 2009 by Kredyt Bank[2] and Santander Consumer Bank. The currently existing credit process is basing on the best market practices.

The level of operational losses in category "Adaptation, disclosure of information and trust" (4.1) was affected by the loss of PLN 12m suffered due to the OCCP investigation concerning the rules of changing fees and commissions, product regulations and the rules of communicating changes to clients using a 'durable medium'. Bank improved the process of changes communication and paid out compensation to clients on the terms set out in the decision of the OCCP President. The case of the "durable medium" affected almost all banks in Poland.

The level of the losses in category 5.1 "Natural disasters and other incidents" is affected mainly by car damages which are recovered almost in 80%.

The Group also belongs to the external database of operational incidents conducted by The Polish Bank Association (ZBP) and uses other sources of information concerning the operational incidents. The analysis of the collected data enables to carry out benchmark and define lessons to be learned regarding the incidents materialized out of the Group.

The Santander Bank Polska Group is monitoring the risk indicators. Monitoring is based on financial, operational and technological indicators. The indicators provide early warning of emerging threats and support observation of the risk profile placed in the Bank and in the Group.

Operational risk reporting proces is aimed at delivering tha current and adequate information the management. Operational issues reporting includes information on inter alia, operational events and losses, incidents in the area of information security and business continuity, risk indicators, and defined risk mitigation actions.

Information on risk protection and mitigation

The process of mitigating action management is to eliminate or reduce operational risk. The analysis conducted with the help of the operational risk tools (like operation events database, risk indicators, risk self assessment, scenario analysis, internal controls certification results) are the basis to define risk mitigating actions.

Ensuring an appropriate level of information security and security of the ICT environment is a key aspect of the Bank's operations. At Santander Bank Polska S.A., there is an Information Security Management System that is certified in accordance with ISO / IEC 27001: 2013. Information security management includes supervision over matters of information security in the Santander Bank Polska S.A. business environment and assessment of specific information security and information systems requirements.

One of the elements of risk mitigation is business continuity management process.

Each organisation unit is required to develop and update its business continuity management plans to prevent from interrupting the critical business processes in case of unplanned disruption. BCM plans are tested on a regular basis to provide assurance to Santander Bank Polska Group that critical business processes are able to be restored at the required service level and within the agreed timeframe. The Bank and the Group has backup solutions to execute critical processes which makes it able to restore activity in case of any crisis takes place.

For the purpose of operational risk mitigation, Santander Bank Polska Group has an insurance scheme which covers particular financial risks, motor, property and professional indemnity insurance.

[2] The merger with Kredyt Bank took place on 4 January 2013.

Compliance Risk

Introduction

Santander Bank Polska S.A. as a universal bank providing a wide array of financial services to retail and business customers, a parent company in a capital group providing a number of additional specialised financial services, and as an important member of the Polish banking system, is exposed to the compliance risk mainly in the following areas:

- domestic an international regulations concerning the type of offered products and service delivery methods applied by the bank and Capital Group (in particular the legislation on consumer and competition protection, capital markets, financial markets etc.),
- good practice codes and other regulations that the Capital Group has adopted for application, i.a. in connection with membership in domestic or international trade associations,
- generally applicable laws regarding the employment law, health and safety at work, taxes, accounting, personal data protection etc. which are binding for all enterprises operating in Poland,
- domestic and international (mainly EU) trade regulations in the area of reporting, prudential standards, functioning on capital and investment market, prevention of money laundering and terrorist financing etc.

Risk management structure and organisation

Compliance risk is defined as the risk of legal or regulatory sanctions, significant financial loss or negative impact on reputation that the Bank may suffer due to its failure to comply with the law, internal regulations and market standards. Compliance risk consists of the following risk categories:

- regulatory risk,
- conduct risk,
- money laundering and terrorism financing risk,
- reputational risk.

The Group attaches particular importance to compliance delivered through management and control of compliance risk in the form of identification and risk assessment, controls, independent monitoring and reporting.

The control function is rendered by the so-called three lines of defence. The first line of defence is the operational risk management, the second line consists in on-going vertical verification and vertical testing, while the internal audit units provide the third line of defence.

Compliance duties of the second line of defence in the Bank are rendered by the Compliance Unit (understood as the Compliance Area and the Anti-Money Laundering Department) and other organisational units operating under internal regulations, in particular:

- compliance with employment law – HR Division;
- compliance with company law – Corporate Governance unit;
- compliance with health and safety regulations – the Business Partnership Division;
- compliance with taxation law and reporting requirements – Financial Accounting and Control Division;
- compliance with prudential regulations – Risk Management Division.

The bank's Management Board adopted an amended Compliance Policy (recent update in December 2018), which was approved by the Supervisory Board. As part of the implementation of the Policy, the Compliance Area together with Anti-Money Laundering Department, which form the Compliance Unit operating within the Legal and Compliance Division, have the relevant mandate to support senior managers in effective management of the compliance risk and to report all compliance issues to the Bank's Management Board and Audit and Compliance Committee of the Supervisory the Management Board and to the Audit and Compliance Committee of the Supervisory Board. These bodies ensure compliance with regulatory obligations and approve internal control rules and the Policy framework, and make sure that the Compliance Unit is independent form business units and has relevant resources to perform its tasks. The head of the Compliance Unit reports directly to the President of the Management Board and has direct access to the Audit and Compliance Committee of the Supervisory Board and to the Supervisory Board.

The bank's Management Board and the Supervisory Board – especially through the Audit and Compliance Committee - regularly review key compliance issues identified by the Compliance Area as well as Anti-Money Laundering Department:

- as part of monitoring of new products;
- as part of compliance monitoring;
- as part of the monitoring of proprietary transactions effected by employees;
- based on the information on regulators' activity;
- as part of the review of upcoming legislative initiatives;
- as part of the review of anti-money laundering initiatives;
- as part of the review of ethical issues;
- as part of the review of customers' complaints.

The Compliance Unit's tasks are delivered through:

- independent identification, assessment and monitoring of compliance risk that the Group is exposed to (with the focus on new products and services, prevention of money laundering and terrorist financing, protection of confidential information, conflicts of interest or private account shares dealing by employees);
- providing advice and reporting to the Risk Management Committee, the bank's Management Board and Audit and Compliance Committee on the effectiveness of the processes established to ensure compliance with laws and regulations within its area of responsibility;
- publication of policies and procedures, providing the management and staff with guidance on compliance risk;
- centralisation of contacts with market regulators (KNF, UOKiK, GIIF, UODO);
- centralisation of the approval of new products;
- coordination and support for compliance processes regarding the model of sale of investment products and MiFID Directive;
- strengthening of the principles regarding ethical business conduct;
- maintaining a communication channel that enables employees to provide (also anonymously) information about suspected unethical behaviour;
- cooperation with compliance units within the Santander Bank Polska Group.

Apart from the aforementioned activities, the Compliance Unit actively cooperates with the Communications, Marketing and Quality Management Area in terms of managing of the reputational risk defined as the risk of deterioration of the Bank's and Santander Group's image perceived by the Bank's and Group's customers, employees, shareholders and communities arising from materialisation of other risks, including individual types of compliance risk.

Santander Bank Polska Group also has specialised committees supporting the management of the compliance risk in specific areas. These committees consist of the representatives of key organisational units who are competent and duly authorised to make decisions and provide high-quality advice. The Compliance Unit coordinates the following committees:

- General Compliance Committee;

- Regulatory and Reputational Risk Committee;
- Local Product Marketing and Monitoring Committee;
- Anti-Money Laundering and Terrorism Financing Committee.

Risk identification and measurement

With regard to the process of compliance risk management, all employees in the Bank are obliged to identify risk. Compliance Unit is responsible for the implementation of procedures which define the scope and type of information necessary to identify risk, as well as is responsible for their application. Main sources used in the process of compliance risk identification are the following:

- Information on changes and planned changes in the applicable laws,
- Information on new potential abusive contractual clauses,
- Outcomes of the analysis of Bank's products and services,
- Outcomes of the analysis of complaints and claims,
- Outcomes of the risk-selfassessment processes,
- Analysis of the operational events database,
- Findings of the Compliance Unit in the course of independent monitoring proces and findings of the internal audit unit,
- Information from anonymous channel dedicated to reporting identified non-observance cases.

Compliance risk measurement is carried out as part of the independent monitoring process, risk self-assessment and observation of risk indicators.

Based on information obtained as part of risk identification and risk measurement, the Bank performs quarterly overall assessment of the compliance risk.

Risk reporting

Compliance Unit submits periodical reports on the process of compliance risk management, to the Bank's Management Board, Audit and Compliance Committee and directly to Supervisory Board.

Reports are submited on a quarterly basis and covers in particular:

- Outcomes of the identification of compliance risk, including major changes in applicable laws, internal regulations and market standards,
- Outcomes of the compliance risk Assessment, including level of the overal compliance risk assessment,
- Outcomes of functioning of the most important mechanisms of compliance risk control (analysis of new products and services, compliance risk indicators),
- Outcomes of compliance monitoring process (including vertical testing of control mechanisms),
- Degree of performance of the Compliance&Conduct Programme.

III. Own funds

The level of own funds of the Santander Bank Polska Group is adjusted to the Group's business.

Own funds are calculated in accordance with the Banking Law and legislative package of CRDIV/CRR.

According to CRR, own funds of the Group are a sum of:

- Tier I capital,
- Tier II capital.

Tier I capital consists of:

- Kapitał Common Equity Tier I capital, which is a sum of items of Common Equity Tier I capital items after adjustments, deductions and inclusions
- Additional Tier I capital

Tier II capital includes items of Tier II capital after deductions.

Common Equity Tier I consists of:

1. Share capital, fully paid and registered at its nominal value
2. Emission premium
3. Supplementary capital
4. Profit or loss eligible– pursuant to Art. 26 of CRR, the non-audited profit for the current period or the annual profit may be included in Common Equity Tier I capital, as long as the Bank is granted approval from a relevant authority (KNF in this case). Relevant authority shall issue the approval on conditions that:
5. Profits have been verified by institution-independent persons responsible for analysing financial statements of the institution
6. The institution has satisfactorily proved that the profit amount has been reduced by all forseeable encumbrances and dividends
7. Accumulated other comprehensive income
8. Other reserves
9. Funds for general banking risk
10. Minority interest recognised in Common Equity Tier I capital – calculated in line with the standards indicated in Art. 84 of CRR
11. Adjustment and deductions from Common Equity Tier I items:
    a. Additional value adjustments due to the requirements of prudent valuation – acc. to Article 34 and 105 of CRR
    b. Goodwill arising on acquisition
    c. Other intangible assets
    d. Surplus of deferred tax assets or liabilities exceeding 10% of Tier I - according to EBA's interpretation re. inclusion of assets and reserves under deferred tax, in line with the answer Q&A 2014_980, the Bank nets deferred tax assets and deferred tax liabilities in order to determine the treshold value necessary to calculate the deductible amount
    e. Surplus of material exposure in financial sector institutions exceeding 10% of Tier I
    f. Portion of deferred income tax assets depending on future profitability and arising from temporary differences, as well as direct and indirect holdings in Common Equity Tier I instruments, where the institution has invested a considerable amount of funds, which shall be deducted

g. Defined benefit pension fund assets

h. Adjustments re IFRS 9 phase in – acc. to Article 473a

Tier II capital includes eligible subordinated loans of the bank and instruments issued by subsidiaries that are given recognition in Tier II Capital.

Reconciliation between balance sheet items used to calculate own funds and regulatory own funds, according to methodology described in Annex I to Commission Implementing Regulation (EU) No 1423/2013 and according to article 437 (1)(a) of CRR, is presented in the table below.

TABLE 1 -DIFFERENCES IN OWN FUNDS ITEMS OF SANTANDER BANK POLSKA GROUP
DUE TO DIFFERENT SCOPE OF ACCOUNTING AND PRUDENTIAL CONSOLIDATION AS AT 31.12.2018 (PLN K)

ITEMS OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION USED FOR CALCULATION OF OWN FUNDS	as at 31.12.2018	Adjustments for companies that are not covered by prudential consolidation	Adjustments regarding transitional arrangements for the introduction of IFRS 9	Part of profit for the current period, not eligible	Other equity	Issue of series N shares*	Profit prior to approval and retained earnings of subsidiaries	BALANCE SHEET ITEMS IMPACTING REGULATORY OWN FUNDS	item no. in the table 2
Assets									
Investment financial assets and Investments in associates	**40 071 052**	-	-	-	-	-	-		
-including significant investments into financial sector entities – amount not exceeding the threshold set in Article 48(1)(b)	915 952	-	-	-	-	-	-	**915 952**	73
Intangible fixed assets	**819 409**	-	-	-	-	-	-	**819 409**	8
Goodwill	**1 712 056**	-	-	-	-	-	-	**1 712 056**	8
Deferred tax assets (net)	**1 760 121**	*125 079*	*-44 293*	-	-	-	-	**1 840 908**	
-including assets that do not exceed the threshold set in Article 48(1)(a)	1 760 121	*125 079*	*-44 293*	-	-	-	-	**1 840 908**	75
Liabilities									
Subordinated obligations	**2 644 341**	-	-	-	-	0	0	-	
- including loans eligible as instruments under Tier II	2 535 530	-	-	-	-	0	0	**2 535 530**	46
Equity attributable to shareholders of BZ WBK S.A. including:									
Share capital	**1 020 883**	-	-	-	-	*-27 548*	-	**993 335**	1
Other capital items:	**18 969 482**	-	-	-	-	-	-		
- share premium	8 039 715	-	-	-	-	*-1 004 291*	-	**7 035 424**	1
- general banking risk fund	649 810	-	-	-	-	-	-	**649 810**	3a
- reserve capital	9 294 831	*-357 631*	-	-	*-130 869*	-	-	**8 806 331**	3
- supplementary capital	985 126	*9 711*	-	-	-	-	-	**994 837**	3
Revaluation reserve	**1 019 373**	-	-	-	-	-	-	**1 019 373**	3
Retained earnings	**1 729 067**	*-9 711*	-	-	130 869	-	*-234 144*	**1 616 081**	2
Current year profit	**2 365 222**	-	-	*-1 783 378*	-	-	-	**581 844**	5a

*Bank submitted to the Polish Financial Supervision Authority the request for permission to classify capital instruments, ie N series shares to Common Equity Tier I capital

As at 31 December 2018, the total own funds of the Santander Bank Polska Group amounted to PLN **22 839 754k**.

The amounts and nature of their specific items are presented in Table 2. The disclosure uses the template presented in Annex 4 to article 5 of Commission Implementing Regulation (EU) No 1423/2013, which states the disclosure requirement of own funds items. The table is limited to lines relevant for Santander Bank Polska Group.

References in the last column of Table 1 allow the mapping between individual elements of own funds with balance sheet items used for their calculation.

TABLE 2 - THE NATURE AND AMOUNTS OF SPECIFIC ITEMS ON OWN FUNDS OF SANTANDER BANK POLSKA GROUP DURING THE INTERIM PERIOD - AS AT 31.12.2018 (PLN K)

		AMOUNT AT DISCLOSURE DATE [PLN k]	REGULATION (EU) No 575/2013 ARTICLE REFERENCE
Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	8 028 759	26 (1), 27, 28, 29
	of which: shares	8 028 759	EBA list 26 (3)
2	Retained earnings	1 616 081	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	10 820 541	26 (1)
3a	Funds for general banking risk	649 810	26 (1) (f)
5	Minority interests (amount allowed in consolidated CET1)	895 273	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	581 844	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory**	**22 592 309**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-72 774	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-2 531 466	36 (1) (b), 37
15	Defined-benefit pension fund assets (negative amount)	-10 837	36 (1) (e), 41
26b	Filter for IFRS 9 phase in	188 827	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-2 426 250**	
29	**Common Equity Tier 1 (CET1) capital**	**20 166 059**	
Additional Tier 1 (AT1) capital: instruments			
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**-**	
Additional Tier 1 (AT1) capital: regulatory adjustments			
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	
44	**Additional Tier 1 (AT1) capital**	**-**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**20 166 059**	
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	2 535 530	62, 63
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	138 165	87, 88
51	**Tier 2 (T2) capital before regulatory adjustment**	**2 673 695**	
Tier 2 (T2) capital: regulatory adjustments			
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	
58	**Tier 2 (T2) capital**	**2 673 695**	
59	**Total capital (TC = T1 + T2)**	**22 839 754**	
60	**Total risk-weighted assets**	**142 927 860**	
Capital ratios and buffers			
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount**	**14,11%**	92 (2) (a)
62	**Tier 1 (as a percentage of total risk exposure amount**	**14,11%**	92 (2) (b)
63	**Total capital (as a percentage of total risk exposure amount**	**15,98%**	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	5,375%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	1,875%	
66	of which: countercyclical buffer requirement	0,00%	
67	of which: systemic risk buffer requirement	3,00%	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0,50%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6,11%	CRD 128
Amounts below the thresholds for deduction (before risk-weighting)			
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	915 952	36 (1) (i), 45, 48
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	1 840 908	36 (1) (c), 38, 48

1. Tier I

Common Equity Tier I

Share capital in accordance with the Bank's Statutes and the entry to the Court Register as at 31 December 2018 amounted to PLN **1 020 833k.**

In relation to the resolution of Santander Bank Polska S.A. the Extraordinary General Meeting of 29 May 2018 amending the bank's statutes, as confirmed by a relevant entry made to the National Court Register by the District Court for the Capital City of Warsaw on 9 November 2018, the bank's share capital was increased by PLN 27 548k from PLN 993,335k to PLN 1,020,883k. The share capital was increased through the issue of 2,754,824 series N shares as part of acquisition of the demerged part of Deutsche Bank Polska S.A.

For capital adequacy purposes, the bank requested consent from the KNF to allocate these equity instruments to the Common Equity Tier 1 capital.

As at the date of this report, the bank did not receive the consent referred to above.

Detailed information about prices of the above instruments, including Tier 1 capital, are presented in Table 3.

Supplementary capital is created from profit allocations and from share premium. By the Bank's Statutes, the supplementary capital is created from net profit allocations. Its purpose is to cover any balance sheet losses. The value of the allocations is determined by the General Meeting of Shareholders. As at 31 December 2018, the supplementary capital in own funds was PLN **8 030 261k**. incl. share premium of PLN **7 035 424k.**

Other reserves are created from net profit allocations in an amount approved by the General Meeting of Shareholders. Other reserve are used to cover balance sheet losses if they are greater than the supplementary capital. The decision to resort to the reserve capital is taken by the General Meeting of Shareholders. As at 31 December 2018, after including prudential consolidation adjustments, the other reserves in own funds was PLN **8 806 331k**.

Funds for general banking risk for unidentified banking business risk are created from net profit allocations in an amount approved by the General Meeting of Shareholders. The funds for general banking risk are used to cover costs and losses connected with unidentified banking risks that were not separately provided for. As at 31 December 2018, the general risk fund earmarked for unidentified risks of the banking business was PLN **649 810k**.

Net profit of Santander Bank Polska Group for year 2018 totaled PLN **2 699 013k**, including PLN 333 791k of profit attributable to shareholders who do not exercise control. As at 31 December 2018, according to article 26 CRR and based on the consent received from Polish Financial Supervision Authority, Santander Bank Polska Group included the amount of PLN **581 844k** of current year profit on own funds elements.

As at 31st December 2018 in Own Funds of Santander Bank Polska Group the **retained earnings** are included in the amount of PLN **1 616 081k**, of which undistributed Bank's net profit from previous years amounted PLN 1 472 845k.

In May 2018, the General Meeting of Santander Bank Polska S.A. Shareholders agreed on the distribution of the net profit of **PLN 1 916 156k** for the accounting year from 1 January 2017 to 31 December 2017 as follows:

- PLN 958 078k was allocated to capital reserves;
- PLN 958 078k was left undistributed.

Furthermore, the AGM decided to distribute the retained net profit of PLN **1 040 860k** in respect of: the accounting year from 1 January 2016 to 31 December 2016 as follows:

- PLN 307 627k was allocated to dividend for shareholders;
- PLN 218 466k was allocated to the cover negative impact of IFRS9 implementation;
- PLN 514 767k was left undistributed.

The dividend was **PLN 3.10** per share.

Minority interests

As at 31 December 2018, the minority interests recognised in the consolidated Tier 1 capital totalled PLN **895 273k** and were attributed of SCB Group.

Minority interest are no longer included in own funds based on the balance sheet value, but are calculated according to article 84 of CRR.

Adjustment and deductions from Common Equity Tier I

Santander Bank Polska Group has calculated the additional value adjustments due to the requirements for prudent valuation according to articles 34 and 105 of CRR. It amounted to PLN **(72 774)k**.

As at 31 December 2018, the adjustment of the Common Equity Tier 1 capital due to goodwill amounted to PLN **(1 712 056)k**, including:

- PLN 1 688 516k – goodwill arising from the merger of Santander Bank Polska S.A. and Kredyt Bank on 4 January 2013. The goodwill recognised as at the date of the merger between Santander Bank Polska S.A. and Kredyt Bank represents a control premium and arises from the possibility to generate additional benefits from the expected synergies, increase in revenues and market share, combination of staff competencies and an increase in the effectiveness of processes, in relation to the fair value of the acquired net assets.
- PLN 23 540k – goodwill arising from the fact that Santander Bank Polska S.A. holds 60% shares of Santander Consumer Bank, which, in turn, has a 50% stake in PSA Finance Polska. Santander Bank Polska S.A. disclosed non-controlling interests representing 70% of share capital and voting power at the General Meetings of PSA Finance Polska and, indirectly, PSA Consumer Finance Polska.

As at 31 December 2018, deduction from Common Equity Tier I regarding other intangible assets amounted to PLN **(819 409)k**.

2. Tier II

Subordinated liabilities

Own funds of Santander Bank Polska Group:

- include funds raised through the issuance of variable-rate registered bonds which were taken up and paid up by the European Bank for Reconstruction and Development. In 2016, the bank amended the agreement under which subordinated registered bonds had been issued on 5 August 2010. The amendments included a maturity extension to 5 August 2025, among other things. Pursuant to the KNF decision of 18 May 2016 (letter No. DBK/DBK 2/7100/2/7/2016), the foregoing subordinated bonds of EUR 100m were allocated to Tier 2 capital.
- pursuant to the KNF decision of 24 February 2017 (letter No. DBK/DBK 2/7100/6/7/2016/2017), the subordinated bonds of EUR 120m issued by Santander Bank Polska S.A. on 2 December 2016, maturing on 3 December 2026 and taken up by investors, were allocated to Tier 2 capital.
- pursuant to the KNF decision of 19 October 2017 (letter No. DBK/DBK 2/7100/1/14/2017), the subordinated bonds of EUR 137.1m issued by Santander Bank Polska S.A. on 22 May 2017, maturing on 22 May 2027 and taken up by an investor, were allocated to Tier 2 capital.

- pursuant to the Decision of KNF of 6 June 2018 (document DBK-DBK2.7100.3.2018.) subordinated loan PLN 1b with maturity of 5 May 2028 were allocated to Tier II capital

Hence, as at 31 December 2018, own funds include subordinated liabilities of PLN **2 535 530k**.

SUBORDINATED LIABILITIES OF THE SANTANDER BANK POLSKA GROUP ELIGIBLE AS TIER II CAPITAL
AS AT 31 DECEMBER 2018 (PLN K)

Entity	Nominal value [k]	Currency	Amount included in own funds [k]	Redemption date	Start date of amortization	Subordinated liabilities included in own funds [PLN k]
European Bank for Reconstruction and Development	100 000	EUR	100 000 EUR	05.08.2025	05.08.2020	430 000
Other financial institution (serie E)	120 000	EUR	120 000 EUR	03.12.2026	03.12.2021	516 000
International Finance Corporation (IFC green bonds)	137 100	EUR	137 100 EUR	22.05.2027	22.05.2022	589 530
Other financial institution (serie F)	1 000 000	PLN	1 000 000 PLN	05.04.2028	05.04.2023	1 000 000
						2 535 530

Instruments issued by subsidiaries that recognised in Tier II capital

Following the acquisition of control over Santander Consumer Bank in 2014, its qualifying own funds of PLN **138 165k**, calculated in accordance with Art. 88 of CRR as own funds of a subsidiary, represent another item of Tier II capital of Santander Bank Polska Group.

More details about the subordinated liabilities are presented in Note 33 to the Consolidated Financial Statements of the Santander Bank Polska Group for 2018.

Detailed description of capital instruments' main features is presented in Table 3.

DESCRIPTION OF MAIN FEATURES OF COMMON EQUITY TIER I AND TIER II INSTRUMENTS OF SANTANDER BANK POSKA

	Capital instruments' main features					
1	Issuer	Santander Bank Polska S.A.	Santander Bank Polska S.A.	Santander Bank Polska S.A.	Santander Bank Polska S.A.	Santander Bank Polska S.A.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement	PLBZ00000044	XS0531310182	PLBZ00000226	not applicable	PLBZ00000275
3	Governing law(s) of the instrument	polish	english/polish	polish	english	polish
	Regulatory treatment					
4	Transitional CRR rules	Common Equity Tier I	Tier II	Tier II	Tier II	Tier II
5	Post-transitional CRR rules	Common Equity Tier I	Tier II	Tier II	Tier II	Tier II
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	solo and consolidated	solo and consolidated	solo and consolidated	solo and consolidated	solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	shares - Common Eqiuty Tier I as published in Regulation (EU) No 575/2013 article 28	Tier II as published in Regulation (EU) No 575/2013 article 63	Tier II as published in Regulation (EU) No 575/2013 article 63	Tier II as published in Regulation (EU) No 575/2013 article 63	Tier II as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	PLN 993,335 m	PLN 430,000 m	PLN 516,000 m	PLN 589,530 m	PLN 1 b
9	Nominal amount of instrument	10 PLN	100 000 000 EUR	120 000 000 EUR	137 100 000 EUR	1 000 000 000 PLN
9a	Issue price	Series A: 10 PLN Series B: 10 PLN Series C: 10 PLN Series D: 102 PLN Series E: 102 PLN Series F: 40 PLN Series G: 10 PLN Series H: 10 PLN Series I: 212.60 PLN Series J: "Share Exchange Ratio" re. the merger of Santander Bank Polska S.A. with Kredyt Bank, pursuant to Resoliution no. 2 of the Extraordinary Meeting of Santander Bank Polska S.A. Shareholders, dd. 30.07.2012 r. Series K: 10 PLN Series L: 400.53 PLN Series M: 10 PLN	100% of nominal value	100% of nominal value	100% of nominal value	100% of nominal value
9b	Redemption price	N/A	100% of nominal value	100% of nominal value	100% of nominal value	100% of nominal value
10	Accounting classification	Shareholders' equity	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost

11	Original date of issuance	Series A: 08.11.1991 Series B: 21.12.1996 Series C: 31.12.1996 Series D: 25.10.1999 Series E: 17.05.2000 Series F: 30.11.2000 Series G: 13.06.2001 Series H: 10.07.2009 Series I: 09.08.2012 Series J: 04.01.2013 Series K: 11.07.2014 Series L: 18.07.2014 Series M: 03.08.2017	05-08-2010	02-12-2016	22-05-2017	05-04-2018
12	Perpetual or dated	N/A	Dated	Dated	dated	dated
13	Original maturity date	No maturity	05-08-2025	03-12-2026	22-05-2027	05-04-2028
14	Issuer call subjet to prior supervisory approval	N/A	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates, and redemption amount	N/A	05-08-2020	03-12-2021	22-05-2022	05-04-2023
16	Subsequent call dates, if applicable	N/A	each interest period, every 3 months	each interest period, every 6 months	each interest period, every 6 months (after five years)	each interest period, every 6 months (after five years)
	Coupons / dividends					
17	Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating	Floating
18	Coupon rate and any related index	N/A	above three-month EURIBOR for each interest period	above six-month EURIBOR for each interest period	above six-month EURIBOR for each interest period	above six-month WIBOR for each interest period
19	Existence of a dividend stopper	No	Yes	No	Yes	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing	Fully discretionary	Mandatory	N/A	Partally discretionairy	Partally discretionairy
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	N/A	Partially discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	N/A	No	No	No	No
22	Noncumulative or cumulative	Noncumulative	Cumulative	N/A	N/A	n/a
23	Convertible or non-convertible	Nonconvertible	Nonconvertible	Nonconvertible	Convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A	N/A	(1)The Bonds shall be converted into a senior loan if: (i) there is a change in the regulatory classification of the Bonds that would be likely to result in their exclusion from the Issuer's own funds (as defined in the CRR) or reclassification as a lower quality form of own funds; or (2) Under BGF Act as defined in Terms and Conditions: 'Under the BGF Act, the Issuer's obligations under the Bonds may be subject to write-down or conversion on the terms set out in the BGF Act. By purchasing the Bonds, each Bondholder acknowledges the results of a decision the Bank Guarantee Fund may make on exercising its write-down or	N/A

25	If convertible, fully or partially	N/A	N/A	N/A	fully	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	The Bonds shall be converted into a senior loan at the price level agreed by both Parties.	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	mandatory	N/A
28	If convertible, specifiy instrument type convertible into	N/A	N/A	N/A	Senior loan or any other financial instrument defined under BGF Act, as mentioned above.	N/A
29	If convertible, specifiy issuer of instrument it converts into	N/A	N/A	N/A	Santander Bank Polska S.A.	N/A
30	Write-down features	No	No	No	Under the BGF Act, the Issuer's obligations under the Bonds may be subject to write-down or conversion on the terms set out in the BGF Act. By purchasing the Bonds, each Bondholder acknowledges the results of a decision the Bank Guarantee Fund may make on exercising its write-down or conversion powers with respect to the Bonds.	No
31	If write-down, write-down trigger (s)	N/A	N/A	N/A	as above	N/A
32	If write-down, full or partial	N/A	N/A	N/A	as above	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	as above	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	as above	N/A
35	Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	N/A	the lowest priority of satisfaction and will rank only to the extent permitted by applicable laws raelating to creditors' right	the lowest priority of satisfaction and will rank only to the extent permitted by applicable laws raelating to creditors' right	the lowest priority of satisfaction and will rank only to the extent permitted by applicable laws raelating to creditors' right	the lowest priority of satisfaction and will rank only to the extent permitted by applicable laws raelating to creditors' right
36	Non-compliant transitioned features	No	No	No	No	No
37	If yes, specifiy non-compliant features	N/A	N/A	N/A	N/A	N/A

3. Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds

On 12 December 2017, the European Parliament and the Council adopted Regulation No 2017/2395 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State. This Regulation entered into force on the next day following its publication in the Official Journal of the European Union and has been applicable since 1 January 2018. The European Parliament and the Council concluded that the application of IFRS 9 may lead to a sudden significant increase in expected credit loss provisions and consequently to a sudden decrease in institutions' Common Equity Tier 1 capital.

The regulation regarding the mitigation of impact of IFRS 9 on Tier 1 capital provides for the following:

- Where an institution's opening balance sheet on the day that it first applies IFRS 9 reflects a decrease in Common Equity Tier 1 capital as a result of increased expected credit loss provisions, including the loss allowance for lifetime expected credit losses for financial assets that are credit-impaired, compared to the closing balance sheet on the previous day, Santander Bank Polska Group should be allowed to include in its Common Equity Tier 1 capital a portion of the increased expected credit loss provisions for a transitional period. That transitional period should have a maximum duration of 5 years and should start in 2018. The portion of expected credit loss provisions that can be included in Common Equity Tier 1 capital should decrease over time down to zero to ensure the full implementation of IFRS 9 on the day immediately after the end of the transitional period.
- The multipliers that can be applied in consecutive years of the transitional period are as follows: 95%, 85%, 70%, 50%, 25%.
- If Santander Bank Polska Group decides to apply the IFRS 9 transitional arrangements, it should publicly disclose its own funds, capital ratios and leverage ratio both with and without the application of those arrangements in order to enable the recipients of financial statements to determine the impact of those arrangements.
- Institution should decide whether to apply those transitional arrangements and inform the Regulatory Supervision accordingly.
- During the transitional period, Institution may reverse once its initial decision, subject to the prior permission of the Polish Financial Supervision Authority, which should ensure that such decision is not motivated by considerations of regulatory arbitrage.
- Institutions that decide to apply transitional arrangements should be required to adjust the calculation of regulatory items which are directly affected by expected credit loss provisions to ensure that they do not receive inappropriate capital relief. For example, the specific credit risk adjustments by which the exposure value is reduced under the standardised approach for credit risk should be reduced by a factor which has the effect of increasing the exposure value. This would ensure that an institution would not benefit from both an increase in its Common Equity Tier 1 capital due to transitional arrangements as well as a reduced exposure value.

Having analysed Regulation No. 2017/2395, the bank as the parent company has decided to apply the transitional arrangements provided for therein, which means that the full impact of the introduction of IFRS 9 will not be taken into account for the purpose of capital adequacy assessment of Santander Bank Polska Group.

Bank fulfilled its obligations imposed by the CRR by informing the Polish Financial Supervision Authority about its intention to apply transitional provisions (letter ref. GZP/06/01/2018 of 31 January 2018).

Below,Grupa Santander Bank Polska S.A. has disclosed own funds, capital ratios, as well as the leverage ratio, both including and excluding application of transitional solutions stemming from Article 473a of Regulation (EU) No 575/2013:

COMPARISON OF INSTITUTIONS' OWN FUNDS AND CAPITAL AND LEVERAGE RATIOS WITH AND WITHOUT THE APPLICATION OF TRANSITIONAL ARRANGEMENTS FOR IFRS 9 (PLN K)

	Available capital (amounts)	31.12.2018	30.09.2018	30.06.2018
1	Common Equity Tier 1 (CET1) capital	20 166 059	19 657 685	19 660 476
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19 984 622	19 476 357	19 518 903
3	Tier 1 capital	20 166 059	19 657 685	19 660 476
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19 984 622	19 476 357	19 518 903
5	Total capital	22 839 754	22 323 263	22 357 159
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	22 658 089	22 141 723	22 215 395
	Risk-weighted assets (amounts)			
7	Total risk-weighted assets	142 927 860	126 770 298	125 769 908
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	142 852 541	126 704 428	125 718 206
	Capital ratios			
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	14,11%	15,51%	15,63%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13,99%	15,37%	15,53%
11	Tier 1 (as a percentage of risk exposure amount)	14,11%	15,51%	15,63%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13,99%	15,37%	15,53%
13	Total capital (as a percentage of risk exposure amount)	15,98%	17,61%	17,78%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15,86%	17,48%	17,67%
	Leverage ratio			
15	Leverage ratio total exposure measure	212 258 409	186 417 103	177 260 235
16	Leverage ratio	9,50%	10,55%	11,09%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	9,42%	10,46%	11,02%

IV. Capital requirements

1. Total capital requirements

The capital requirements of Santander Bank Polska Group are set in accordance with part III of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR"), which was the official legal basis as at 31 December 2018.

In 2017, Santander Bank Polska applied the standardised approach to the calculation of capital requirement for credit, market and operational risk. Under this approach the total capital requirement for credit risk is calculated as a sum of risk-weighted assets multiplied by 8%. To calculate risk-weighted exposures, risk weights are allocated to all exposures in accordance with the CRR. The Group measures its balance sheet assets and liabilities in accordance with International Accounting Standards and International Financial Reporting Standards.

The Bank calculates and monitors capital requirements for all key risks, including:

- capital requirement for credit risk
- capital requirement for market risk, including:
  - ✓ capital requirement for positions risk, including:

- specific and general risk of debt instruments

- specific and general risk of equity instruments

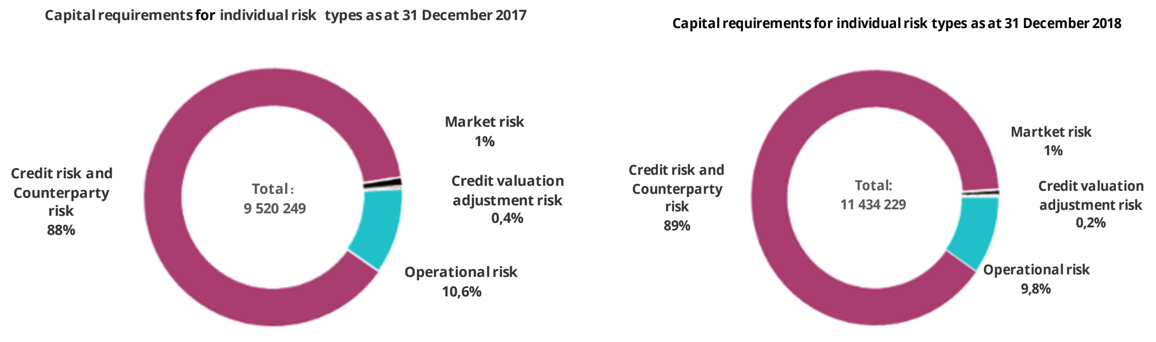
  - ✓ capital requirement for FX risk
- capital requirement for the settlement, supplier and counterparty risk
- capital requirement for credit valuation adjustments
- capital requirement for the excess of large exposures limit
- capital requirement for the excess of capital concentration limit
- capital requirement for operational risk.

Santander Bank Polska Group calculates capital requirement separately for the exposures classified into the banking and trading book.

As at 30 December 2018, the total capital requirements of Santander Bank Polska Group calculated in line with the CRR was PLN **11,434,229k**, including:

- for credit risk and counterparty credit risk **PLN 10,227,389k**
- for market risk **PLN 83,135k**
- for operational risk **PLN 1,123,705k.**

PERCENTAGE STRUCTURE OF THE CAPITAL REQUIREMENTS FOR 12/2018 AND 12/2017



EU OV1 – OVERVIEW OF RWAS (PLN K)

		RWAs		Minimum capital requirements
		31.12.2018	30.09.2018	31.12.2018
	Credit risk (excluding CCR)	**119 002 252**	**103 644 289**	**9 520 180**
Article 438(c)(d)	Of which the standardised approach	119 002 252	103 644 289	9 520 180
Article 438(c)(d)	Of which the foundation IRB (FIRB) approach	0	0	0
Article 438(c)(d)	Of which the advanced IRB (AIRB) approach	0	0	0
Article 438(d)	Of which equity IRB under the simple risk-weighted approach or the IMA	0	0	0
Article 107 Article 438(c)(d)	**CCR**	**1 947 963**	**2 093 836**	**155 837**
Article 438(c)(d)	Of which mark to market	1 635 349	1 699 091	130 828
Article 438(c)(d)	Of which original exposure	0	0	0
	Of which the standardised approach	0	0	0
	Of which internal model method (IMM)	0	0	0
Article 438(c)(d)	Of which risk exposure amount for contributions to the default fund of a CCP	1 141	709	91
Article 438(c)(d)	Of which CVA	311 473	394 036	24 918
Article 438(e)	**Settlement risk**	**0**	**0**	**0**
Article 449(o)(i)	**Securitisation exposures in the banking book (after the cap)**	**0**	**0**	**0**
	Of which IRB approach	0	0	0
	Of which IRB supervisory formula approach (SFA)	0	0	0
	Of which internal assessment approach (IAA)	0	0	0
	Of which standardised approach	0	0	0
Article 438 (e)	**Market risk**	**1 039 187**	**1 608 535**	**83 135**
	Of which the standardised approach	1 039 187	1 608 535	83 135
	Of which IMA	0	0	0
Article 438(e)	**Large exposures**	**0**	**0**	**0**
Article 438(f)	**Operational risk**	**14 046 307**	**13 003 468**	**1 123 705**
	Of which basic indicator approach	0	0	0
	Of which standardised approach	14 046 307	13 003 468	1 123 705
	Of which advanced measurement approach	0	0	0
Article 437(2), Article 48 and Article 60	Amounts below the thresholds for deduction (subject to 250% risk weight)	6 892 151	6 420 170	551 372
Article 500	Floor adjustment	0	0	0
	Total	**142 927 860**	**126 770 298**	**11 434 229**

The biggest item is the total capital requirement of Santander Bank Polska Group is the capital requirement for credit risk, including counterparty credit risk, which on 31 December 2018 accounted for 89.45% of the total capital requirement. Santander Bank Poslka Group manages credit risk on a priority basis, using its internal rating systems, credit concentration limits and sectoral exposure limits, seeking to maintain the possible highest quality of the credit portfolio.
The Santander Bank Polska uses contractual netting according to art. 295-298 of CRR.

2. Credit risk

The structure of the exposure

In the capital adequacy assessment process, Santander Bank Polska Group classified each of these exposures in accordance with the standardised approach as provided for in Article 112 CRR.
The tables below present details of exposures in accordance with EBA/GL/2016/11 guidelines.
The exposure classes for which no items have been identified, have been disregarded.

EU CRB-B – TOTAL AND AVERAGE NET AMOUNT OF EXPOSURES (PLN K)

	a) Net value of exposures at the end of the period	b) Average net exposures over the period
Central governments or central banks	44 827 341	36 855 808
Regional governments or local authorities	169 603	134 433
Public sector entities	5 928	4 554
Multilateral development banks	237 579	137 952
Institutions	4 552 678	3 987 987
Corporates	26 759 748	23 337 536
Of which: SMEs	3 164 530	2 216 377
Retail	50 560 225	44 708 551
Of which: SMEs	13 946 835	13 199 862
Secured by mortgages on immovable property	61 599 046	52 307 089
Of which: SMEs	6 315 805	5 095 184
Exposures in default	3 593 672	2 996 684
Items associated with particularly high risk	4 268	1 067
Collective investments undertakings	1 776	444
Equity exposures	1 709 216	1 796 031
Other exposures	4 530 343	4 962 082
Total	**198 551 423**	171 230 218

EU CRB-C – GEOGRAPHICAL BREAKDOWN OF EXPOSURES (PLN K)

	a)	b)	c)	d)	e)	f)	g)	h) Net value	i)	j)	k)	l)	m)	n)	o)
	Europe	Belgium	zech Republ	Denmark	France	Spain	Netherlands	Luxembourg	Germany	Poland	Switzerland	United Kingdom	Other countries	Other geographical areas	Total
Central governments or central banks	44 827 341	0	0	0	0	0	0	0	0	44 827 341	0	0	0	0	44 827 341
Regional governments or local authorities	169 603	0	0	0	0	0	0	0	0	169 603	0	0	0	0	169 603
Public sector entities	5 928	0	0	0	0	0	0	0	0	5 928	0	0	0	0	5 928
Multilateral development banks	237 579	0	0	0	0	0	0	237 123	0	0	0	456	0	0	237 579
Institutions	4 436 557	278 626	10 732	104 952	217 306	602 023	21	0	145 336	2 445 312	288 187	239 130	104 932	116 121	4 552 678
Corporates	26 549 877	0	382 351	1	172 695	975 634	422 437	1 488 403	13 230	22 864 234	1	60 666	170 225	209 871	26 759 748
Retail	50 558 438	377	34	26	403	2 485	840	512	2 646	50 538 016	1 181	2 512	9 406	1 787	50 560 225
Secured by mortgages on immovable property	61 567 325	425	223	0	329	1 934	28 227	0	6 585	61 470 428	369	17 515	41 290	31 721	61 599 046
Exposures in default	3 593 488	1	12	1	81	73	12	7	84	3 584 458	1	442	8 316	184	3 593 672
Items associated with particularly high risk	4 268	0	0	0	0	0	4 268	0	0	0	0	0	0	0	4 268
Collective investments undertakings	1 776	0	0	0	0	0	0	0	0	1 776	0	0	0	0	1 776
Equity exposures	1 709 216	674	0	0	0	0	0	0	0	1 708 542	0	0	0	0	1 709 216
Other exposures	4 529 728	0	0	0	0	0	0	0	0	4 529 728	0	0	0	615	4 530 343
Total	198 191 124	280 103	393 352	104 980	390 814	1 582 149	455 805	1 726 045	167 881	192 145 366	289 739	320 721	334 169	360 299	**198 551 423**

Exposures in geographical areas and countries not considered significant are presented in an aggregated form and listed in “Other geographical areas” and “Other countries” (for each area).

EU CRB-D – CONCENTRATION OF EXPOSURES BY INDUSTRY OR COUNTERPARTY TYPES (PLN K)

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S			U
	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply	Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Information and communication	Financial and insurance activities	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence, compulsory social security	Education	Human health services and social work activities	Arts, entertainment and recreation	Other services	Retail	Other	Total
Central governments or central banks											12 388 586		2		28 862 678				3 576 075		0	44 827 341
Regional governments or local authorities															169 603			0				169 603
Public sector entities											75				0	3	0	5 849	1			5 928
Multilateral development banks											237 579											237 579
Institutions											4 552 678											4 552 678
Corporates	161 579	969 924	6 489 199	1 936 351	195 999	850 568	6 276 756	1 996 384	429 640	2 584 111	921 768	933 025	1 259 788	1 141 749	89	23 695	380 920	79 573	128 630			26 759 748
Retail	1 762 918	27 503	1 802 151	17 927	78 025	967 510	2 978 740	1 553 487	286 741	315 292	140 325	213 900	937 090	360 386	3 075	113 137	872 121	94 748	1 439 504	36 595 645		50 560 225
Secured by mortgages on immovable property	730 368	65 546	6 960 649	117 950	88 754	1 800 507	4 872 534	715 243	985 157	549 766	97 874	6 604 716	1 507 484	259 724		120 811	470 334	118 667	71 785	35 461 177		61 599 046
Exposures in default	63 011	310 647	320 564	5 214	6 356	356 871	247 429	85 530	103 225	66 546	5 395	435 002	59 372	34 975	426	7 434	8 860	4 850	250 652	1 221 313		3 593 672
Items associated with particularly high risk						4 268																4 268
Collective investments undertakings											1 776											1 776
Equity exposures						32		1 843			1 704 619		1 365	683					674			1 709 216
Other exposures																					4 530 343	4 530 343
Total	2 717 876	1 373 620	15 572 563	2 077 442	369 134	3 979 756	14 375 459	4 352 487	1 804 763	3 515 715	20 050 675	8 186 643	3 765 101	1 797 517	29 035 871	265 080	1 732 235	303 687	5 467 321	73 278 135	4 530 343	**198 551 423**

EU CRB-E – MATURITY OF EXPOSURES (PLN K)

	a)	b)	c)	d)	e)	f)
	Net exposure value					
	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
Central governments or central banks	44 112	16 519 122	11 623 240	15 988 494	652 373	44 827 341
Regional governments or local authorities	3 492	81 260	44 006	40 845		169 603
Public sector entities	4 385	1 443	100			5 928
Multilateral development banks			1 894	235 685		237 579
Institutions	146 061	2 533 386	1 686 550	186 681		4 552 678
Corporates	2 770 998	10 053 503	10 936 898	2 994 612	3 737	26 759 748
Retail	4 771 146	5 436 471	18 939 683	21 412 925		50 560 225
Secured by mortgages on immovable property	4 723 612	2 582 987	11 146 111	43 146 336		61 599 046
Exposures in default	151 668	1 871 197	832 264	738 543		3 593 672
Items associated with particularly high risk					4 268	4 268
Collective investments undertakings					1 776	1 776
Equity exposures					1 709 216	1 709 216
Other exposures					4 530 343	4 530 343
Total	12 615 474	39 079 369	55 210 746	84 744 121	6 901 713	198 551 423

EU CR1-A - CREDIT QUALITY OF EXPOSURES BY EXPOSURE CLASS AND INSTRUMENT (PLN K)

	a)	b)	c)	d)	e)	f)	g)
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures					
Central governments or central banks	-	44 827 341	-	-	-	-	44 827 341
Regional governments or local authorities	-	169 884	281	-	-	-	169 603
Public sector entities	-	5 931	3	-	-	-	5 928
Multilateral development banks	-	237 579	-	-	-	-	237 579
Institutions	-	4 552 719	41	-	-	-	4 552 678
Corporates	-	26 878 767	119 019	-	12	-	26 759 748
Of which: SMEs	-	3 180 645	16 115	-	-	-	3 164 530
Retail	-	51 215 139	654 914	-	32	-	50 560 225
Of which: SMEs	-	14 165 246	218 411	-	26	-	13 946 835
Secured by mortgages on immovable property	-	61 872 225	273 179	-	-	-	61 599 046
Of which: SMEs	-	6 400 121	84 316	-	-	-	6 315 805
Exposures in default	7 034 524	-	3 440 852	-	1 172 876	-	3 593 672
Items associated with particularly high risk	-	4 268	-	-	-	-	4 268
Collective investments undertakings	-	1 776	-	-	-	-	1 776
Equity exposures	-	1 709 216	-	-	-	-	1 709 216
Other exposures	-	4 530 343	-	-	-	-	4 530 343
Total	7 034 524	196 005 188	4 488 289	-	1 172 920	-	**198 551 423**
Of which: Loans	6 976 822	136 125 759	4 451 270	-	1 172 920	-	138 651 311
Of which: Debt securities	-	39 434 172	219	-	-	-	39 433 953
Of which: Offbalance-sheet exposures	46 811	5 843 024	16 918	-	-	-	5 872 917

Pursuant to Article 1 of Commission Delegated Regulation (EU) No 183/2014 of 20 December 2013 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, with regard to regulatory technical standards for specifying the calculation of specific and general credit risk adjustments, the bank's capital adequacy account includes adjustments connected with general and specific risk which were applied to Tier 1 capital to reflect losses related to credit risk, in accordance with the applicable accounting standards, and disclosed accordingly in the income statement, regardless of whether they arise from impairment, value adjustment or provisions for off-balance sheet items. Following a review of the financial statements of 30 June 2018 by an independent auditor, and having received a relevant consent from the Polish Financial Supervision Authority (KNF), the bank classified the amount of PLN 581,844k of the current period profit to own funds. Accordingly, the general and specific credit risk adjustments presented in this report are valid as at the date presented above.

EU CR1-B – CREDIT QUALITY OF EXPOSURES BY INDUSTRY OR COUNTERPARTY TYPES (PLN K)

	a)	b)	c)	d)	e)	f)	g)
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures					
Agriculture, forestry and fishing	160 765	2 688 203	131 092	-	103	-	2 717 876
Mining and quarrying	510 518	1 065 804	202 702	-	-	-	1 373 620
Manufacturing	671 125	15 339 196	437 758	-	68 217	-	15 572 563
Electricity, gas, steam and air conditioning supply	10 010	2 101 959	34 527	-	205	-	2 077 442
Water supply	15 968	365 661	12 495	-	3 322	-	369 134
Construction	561 816	3 644 204	226 264	-	60 659	-	3 979 756
Wholesale and retail trade	491 233	14 250 791	366 565	-	83 247	-	14 375 459
Transport and storage	188 959	4 303 614	140 086	-	15 614	-	4 352 487
Accommodation and food service activities	194 172	1 720 726	110 135	-	5 561	-	1 804 763
Information and communication	146 744	3 458 229	89 258	-	38 596	-	3 515 715
Financial and insurance activities	21 393	20 050 591	21 309	-	2 954	-	20 050 675
Real estate activities	656 053	7 778 469	247 879	-	66 842	-	8 186 643
Professional, scientific and technical activities	148 748	3 729 998	113 645	-	11 851	-	3 765 101
Administrative and support service activities	82 183	1 776 370	61 036	-	112 050	-	1 797 517
Public administration and defence, compulsory social security	687	29 035 764	580	-	-	-	29 035 871
Education	17 408	261 477	13 805	-	2 110	-	265 080
Human health services and social work activities	29 132	1 737 127	34 024	-	2 755	-	1 732 235
Arts, entertainment and recreation	9 578	301 057	6 948	-	1 499	-	303 687
Other services	314 379	5 250 628	97 686	-	29 273	-	5 467 321
Retail	2 803 653	72 614 977	2 140 495	-	668 062	-	73 278 135
Other	-	4 530 343	-	-	-	-	4 530 343
Total	**7 034 524**	**196 005 188**	**4 488 289**	**-**	**1 172 920**	**-**	**198 551 423**

EU CR1-C – CREDIT QUALITY OF EXPOSURES BY GEOGRAPHY (PLN K)

	a)	b)	c)	d)	e)	f)	g)
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures					
Europe	7 034 156	195 644 827	4 487 859	0	1 172 443	0	198 191 124
Belgium	3	280 105	5	-	2	-	280 103
Czech Republic	28	394 130	806	-	1	-	393 352
Denmark	2	104 979	1	-	1	-	104 980
France	139	390 777	102	-	15	-	390 814
Spain	96	1 582 088	35	-	-	-	1 582 149
Netherlands	30	456 282	507	-	-	-	455 805
Luxembourg	18	1 727 313	1 286	-	-	-	1 726 045
Germany	154	167 804	77	-	1	-	167 881
Poland	7 013 570	189 604 555	4 472 759	-	1 169 841	-	192 145 366
Switzerland	1	289 747	9	-	-	-	289 739
United Kingdom	730	320 496	505	-	753	-	320 721
Other countries	19 385	326 551	11 767	-	1 829	-	334 169
Other geographical areas	368	360 361	430	-	477	-	360 299
Łącznie	7 034 524	196 005 188	4 488 289	-	1 172 920	-	**198 551 423**

Overdue and impaired items

An exposure is considered as overdue if the obligor is in arrears with capital and/or interest payments. In such circumstances, the entire exposure is considered as delinquent, regardless of whether or not the payment delay relates to the whole exposure or a part thereof.

An exposure is considered as impaired, if the Group has objective evidence that it will not be able to recover the exposure in accordance with the underlying credit agreement.

Santander Bank Polska Group posts impairment allowances in accordance with International Financial Reporting Standard 9 (IFRS 9), as it replaced International Accounting Standard 39 (IAS 39), which ceased to apply at the end of 2017. IFRS 9 introduced a new approach to the estimation of allowances for credit losses. The approach is based on estimation of the expected credit loss (ECL), in contrast to the previous IAS 39 model, which was based on the concept of incurred loss. ECL allowances reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money; and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at an amount equal to a 12-month ECL or the lifetime ECL, when it is deemed there has been a significant increase in credit risk since initial recognition. Accordingly, the ECL model gives rise to measurement uncertainty, especially in relation to:

- measurement of a 12-month ECL or the lifetime ECL;
- determination of when a significant increase in credit risk occurred;
- determination of any forward-looking events reflected in ECL estimation, and their likelihood.

In accordance with IFRS 9, the recognition of expected credit losses will depend on changes in risk after recognition of the exposure. The standard introduces three main stages for recognising expected credit losses:

- Stage 1 – exposures with no significant increase in risk since initial recognition, i.e. the likelihood of the exposure being downgraded to the impaired portfolio (Stage 3 exposures) has not increased. For such exposures, 12-month expected credit losses will be recognised.
- Stage 2 – exposures with a significant increase in risk since initial recognition, but with no objective evidence of default. For such exposures, lifetime expected credit losses will be recognised.
- Stage 3: exposures for which the risk of default has materialised (indications of impairment have been identified). For such exposures, lifetime expected credit losses will be recognised.

Lifetime expected losses are recognised also for the exposures classified as POCI (purchased or originated credit-impaired).

In the case of classification into stage 3, the Group applies objective indications of impairment, as defined in accordance with the Basel Committee's recommendations and Recommendation R. The Group did not introduce any material changes in this respect.

The Group estimates ECL using using both an individual approach (for individually significant exposures with objectively evidenced impairment [stage 3]) and collective approach (individually insignificant exposures with objectively evidenced impairment, and incurred but not reported losses).

Twice a year, the Group recalibrates its models and updates the forward-looking information used for estimating ECL, taking into account the impact of changes in economic conditions, modifications of the Group's credit policies and recovery strategies, which is designed to ensure appropriate level of impairment allowances.

Exposures which are overdue by more than 90 days, but which are not treated as impaired, have a negligible share in the total volume (about 0,02% of the total net exposure). These are mainly cases where the amount above which an exposure is classified into NPLs has not been exceeded.

Pursuant to the definition set out in the draft Implementing Technical Standards of the European Banking Authority, a forbearance measure (i.e. customer debt restructuring) consists of a concession towards a debtor facing financial difficulties or prospect difficulties which threaten the repayment of debt towards Santander Bank Polska Group on the existing contractual terms. The concession may involve a modification of the previous terms and conditions of a debt contract or its total or partial refinancing. The purpose of debt restructuring is to better align repayment terms with the current and projected financial standing of the customer, minimise default risk and/or maximise recovery.

Restructuring does not refer to a technical or operational modification of contractual terms, or changes attributable to other factors than payment difficulties (business or market conditions).

EU CR1-D – AGEING OF PAST-DUE EXPOSURES (PLN K)

	a)	b)	c)	d)	e)	f)
	Gross carrying values					
	≤ 30 days	**> 30 days ≤ 60 days**	**> 60 days ≤ 90 days**	**> 90 days ≤ 180 days**	**> 180 days ≤ 1 year**	**> 1 year**
Loans	4 388 872	1 049 869	634 796	745 342	911 832	3 787 640
Debt securities	-	-	-	-	-	-
Off-balance-sheet exposures	27 746	10 161	591	4 182	766	4 235
Total exposures	4 416 618	1 060 030	635 387	749 524	912 598	3 791 875

EU CR1-E – NON-PERFORMING AND FORBORNE EXPOSURES (PLN K)

	a)	b)	c)	d)	e)	f)	g)	h)	i)	j)	k)	l)	m)
	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
				Of which non-performing				On performing exposures		On non-performing exposures			
	Total	Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Total	Of which defaulted	Of which impaired	Of which forborne	Total	Of which forborne	Total	Of which forborne	On non-performing exposures	Of which forborne exposures
Debt securities	39 434 172	-	-	-	-	-	-	219	-	-	-	-	-
Loans and advances	143 102 581	1 085 725	1 846 879	6 976 822	6 976 822	6 976 822	379 906	1 036 219	58 256	3 415 051	272 232	37 782	3 338
Off-balance-sheet exposures	5 889 835	8 728	52	46 811	46 811	46 811	139	10 964	7	5 954	-	282	-

EU CR2-A – CHANGES IN THE STOCK OF GENERAL AND SPECIFIC CREDIT RISK ADJUSTMENTS (PLN K)

	a)	b)
	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance	**-4 006 837**	**0**
Increases due to amounts set aside for estimated loan losses during the period	(2 054 383)	-
Decreases due to amounts reversed for estimated loan losses during the period	1 210 683	-
Decreases due to amounts taken against accumulated credit risk adjustments	579 210	-
Transfers between credit risk adjustments	633 762	-
Impact of exchange rate differences	(846)	-
Business combinations, including acquisitions and disposals of subsidiaries	-	-
Other adjustments	197 559	-
Closing balance	**-3 440 852 0**	
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	(64 018)	-
Specific credit risk adjustments directly recorded to the statement of profit or loss	-	-

EU CR2-B – CHANGES IN THE STOCK OF DEFAULTED AND IMPAIRED LOANS AND DEBT SECURITIES (PLN K)

	a)
	Gross carrying value defaulted exposures
Opening balance	**6 628 945**
Loans and debt securities that have defaulted or impaired since the last reporting period	1 973 762
Returned to non-defaulted status	(218 109)
Amounts written off	(1 172 595)
Other changes	(177 479)
Closing balance	**7 034 524**

Credit risk mitigation

The Group uses credit risk mitigation techniques both for funded credit protection and for unfunded credit protection.

In the latter case, borrowers protected by guarantees are allocated a risk grade that corresponds to the risk grade of the guarantor. Most providers of unfunded credit protection are banks, including Bank Gospodarstwa Krajowego (with its “de minimis” guarantee programme) and the Ministry of Finance as a State unit.

On 10 February 2017, Santander Bank Polska (“the Bank”) signed a guarantee agreement (“Guarantee”) with the European Investment Bank (EIB) providing for unfunded credit protection with respect to the portfolio of selected corporate loans of the bank in accordance with EU Regulation No 575/2013.

As at the date of the agreement, the value of the bank’s loans portfolio secured by the guarantee was PLN 2,499m PLN. The coverage ratio is now 50%, which means that the maximum guarantee amount is PLN 1,249m PLN. The guarantee expires on 15 December 2034. The bank may terminate the guarantee before its expiry.

The guarantee coverage ratio depends on the volume of lending provided by the bank after the date of the guarantee agreement to SMEs which meet the definition set out in Commission Recommendation 2003/361/EC of 6 May 2003 and additional criteria stipulated in the guarantee agreement. As at the date of this report, the weighted average coverage ratio was 31.55%.

As at 31 December 2018, the Group's debt instruments portfolio included PLN **1 556 736k** worth of bonds of Bank Gospodarstwa
Krajowego, which were fully guaranteed by the State Treasury. They were allocated a preferential risk weight of 0%.

In the case of funded credit protection, Santander Bank Polska Group recognizes exposures secured by financial collateral.

EU CR3 – CRM TECHNIQUES – OVERVIEW (PLN K)

	a) Exposures unsecured – Carrying amount	b) Exposures secured – Carrying amount	c) Exposures secured by collateral	d) Exposures secured by financial guarantees	e) Exposures secured by credit derivatives
Total loans (include off balance exposure)	141 405 588	3 118 640	202 312	2 916 328	-
Total debt securities	37 686 167	1 747 786	-	1 747 786	-
Total exposures	179 091 755	4 866 426	202 312	4 664 114	-
Of which defaulted	3 575 110	27 518	1 821	25 697	-

EU CR4 – STANDARDISED APPROACH – CREDIT RISK EXPOSURE AND CRM EFFECTS (PLN K)

	a)	b)	c)	d)	e)	f)
	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
Central governments or central banks	44 827 341	-	47 214 603	150 876	4 789 757	4%
Regional governments or local authorities	164 482	24 403	164 482	5 121	33 921	0%
Public sector entities	5 928	418	5 928	-	2 964	0%
Multilateral development banks	237 579	-	906 761	-	-	0%
Institutions	4 493 973	211 265	4 214 377	224 490	1 480 883	1%
Corporates	24 228 294	20 101 389	22 024 786	2 255 064	23 507 545	19%
Retail	48 226 222	9 167 114	47 783 943	2 222 118	35 113 051	28%
Secured by mortgages on immovable property	60 696 267	4 405 408	60 480 632	884 173	51 570 709	41%
Exposures in default	3 552 815	113 763	3 525 578	40 576	4 267 205	3%
Items associated with particularly high risk	4 268	-	4 268	-	6 402	0%
Collective investments undertakings	1 776	-	1 776	-	1 776	0%
Equity exposures	1 709 216	-	1 709 216	-	3 083 144	2%
Other exposures	4 530 343	-	4 530 343	-	2 037 046	2%
Total	192 678 504	34 023 760	192 566 693	5 782 418	125 894 403	100%

Allocating risk weights to the credit portfolio

The risk weights used in the calculation of capital requirement for credit risk in the standardised approach are based on the provision of Chapter 2, Title II, Part III of the CRR. Risk weights are allocated in line with the category of the exposure and the credit quality of the exposure/entity.

Defaulted exposures have their risk weight allocated in accordance with the rules laid down in Article 127 of the CRR.

Pursuant to Article 125(2) of the CRR, Santander Bank Polska S.A. additionally assigns a preferential risk weight of 35% to a part of an exposure which is fully and completely secured by a mortgage on a residential property and whose value does not exceed 80% of the market value of the property in question. Santander Bank Polska S.A. has not identified exposures effectively secured by mortgage on a commercial property, to which preferential risk weights are applied in accordance with Article 126.

Pursuant to Regulation of the Minister of Economic Development and Finance of 25 May 2017 on a higher risk weight for exposures secured with mortgages on properties, for exposures secured by mortgages on a residential property, where the principal or interest instalment is linked to an exchange rate of a currency or currencies other than the currency of the debtor's revenue, the risk weight is set at 150%.

In each asset class, appropriate risk weight is allocated depending on the available credit rating of external rating institutions or export credit agencies. The Bank accepts ratings of the following agencies:

- Fitch Ratings;

- Moody's Investors Service;
- Standard and Poor's Ratings Services.

If two credit ratings are available for an exposure and the ratings are linked to different risk weight of the particular exposure, the Bank uses the higher risk weight. If for an exposure 3 or more credit ratings are available, the Bank uses two ratings with the lowest risk weights and if the two are different, the higher risk weight is applied.

EU CR5 – STANDARDISED APPROACH (PLN K)

	Risk weight																	
Exposure classes	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted	Total	Of which unrated
Central governments or central banks	43 336 598	-	1 563 177	-	624 797	-	-	-	-	-	-	1 840 908	-	-	-	-	47 365 480	4 764 612
Regional governments or local authorities	-	-	-	-	169 603	-	-	-	-	-	-	-	-	-	-	-	169 603	169 603
Public sector entities	-	-	-	-	-	-	5 928	-	-	-	-	-	-	-	-	-	5 928	5 928
Multilateral development banks	906 760	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	906 760	1 894
Institutions	-	-	-	-	2 464 180	-	1 973 282	-	-	1 406	-	-	-	-	-	-	4 438 868	164 773
Corporates	-	-	-	-	-	-	148 586	-	-	24 131 264	-	-	-	-	-	-	24 279 850	22 396 745
Retail	-	-	-	-	-	-	-	-	50 006 061	-	-	-	-	-	-	-	50 006 061	50 006 061
Secured by mortgages on immovable property	-	-	-	-	-	21 699 822	-	-	-	28 093 901	11 571 081	-	-	-	-	-	61 364 804	61 037 686
Exposures in default	-	-	-	-	-	-	-	-	-	2 164 055	1 402 100	-	-	-	-	-	3 566 155	3 566 155
Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	4 268	-	-	-	-	-	4 268	4 268
Collective investments undertakings	-	-	-	-	-	-	-	-	-	1 776	-	-	-	-	-	-	1 776	1 776
Equity exposures	-	-	-	-	-	-	-	-	-	793 264	-	915 952	-	-	-	-	1 709 216	1 709 216
Other exposures	2 445 781	-	-	-	59 395	-	-	-	-	2 025 167	-	-	-	-	-	-	4 530 343	4 530 344

3. Counterparty credit risk

The structure of the exposition

The tables below present detailed information about instruments held in trading and non-trading portfolios in relation to counterparty credit risk (CCR).
Santander Bank Polska Group uses the mark to market accounting approach to calculate the exposures and risk weighted assets for counterparty credit risk.

EU CCR1 – ANALYSIS OF CCR EXPOSURE BY APPROACH (PLN K)

	a) Notional	b) Replacement cost/current market value	c) Potential futurecredit exposure	d) EEPE	e) Multiplier	f) EAD post CRM	g) RWAs
Mark to market		1 179 170	1 498 323			2 677 492	1 331 834
Original exposure	-					-	-
Standardised approach		-			-	-	-
IMM (for derivatives and SFTs)				-	-	-	-
Of which securities financing transactions				-	-	-	-
Of which derivatives and long settlement transactions				-	-	-	-
Of which from contractual crossproduct netting				-	-	-	-
Financial collateral simple method (for SFTs)						-	-
Financial collateral comprehensive method (for SFTs)						336 108	303 515
VaR for SFTs						-	-
Total							**1 635 349**

EU CCR3 – STANDARDISED APPROACH – CCR EXPOSURES BY REGULATORY PORTFOLIO AND RISK (PLN K)

	Risk weight													
Exposure classes	**0%**	**2%**	**4%**	**10%**	**20%**	**35%**	**50%**	**70%**	**75%**	**100%**	**150%**	**Others**	**Total**	**Of which unrated**
Central governments or central banks	-	-	-	-	77 149	-	-	-	-	-	-	-	77 149	-
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	40	-	40	-	-	-	-	-	80	80
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	69 031	329 679	-	-	564 602	-	926 131	-	-	3 491	-	-	1 892 934	437 211
Corporates	-	-	-	-	-	-	-	-	-	1 011 462	2 793	-	1 014 255	1 014 255
Retail	-	-	-	-	-	-	-	-	28 975	-	207	-	29 182	29 182
Secured by mortgages on immovable property	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in default	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	69 031	329 679	-	-	641 791	-	926 171	-	28 975	1 014 953	3 000	-	3 013 600	1 480 727

EU CCR2 – CVA CAPITAL CHARGE (PLN K)

	a) Exposure value	b) RWAs
Total portfolios subject to the advanced method	-	-
(i) VaR component (including the 3× multiplier)		-
(ii) SVaR component (including the 3× multiplier)		-
All portfolios subject to the standardised method	1 078 867	311 472
Based on the original exposure method	-	-
Total subject to the CVA capital charge	1 078 867	311 472

EU CCR8 – EXPOSURES TO CCPS (PLN K)

	a) EAD post CRM	b) RWAs
Exposures to QCCPs (total)		7 735
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	329 679	6 594
(i) OTC derivatives	329 679	6 594
(ii) Exchange-traded derivatives	-	-
(iii) SFTs	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	69 031	
Non-segregated initial margin	-	-
Prefunded default fund contributions	39 118	1 141
Alternative calculation of own funds requirements for exposures		-
Exposures to non-QCCPs (total)		-
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	-	-
(i) OTC derivatives	-	-
(ii) Exchange-traded derivatives	-	-
(iii) SFTs	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	
Non-segregated initial margin	-	-
Prefunded default fund contributions	-	-
Unfunded default fund contributions	-	-

Credit risk mitigation

The Santander Bank Polska S.A. uses contractual netting according to art. 295-298 of CRR.

EU CCR5-A – IMPACT OF NETTING AND COLLATERAL HELD ON EXPOSURE VALUES (PLN K)

	a) Gross positive fair value or net carrying amount	b) Netting benefits	c) Netted current credit exposure	d) Collateral held	e) Net credit exposure
Derivatives	2 544 297	1 365 127	1 158 674	-	2 637 609
SFTs	8 340 324	-	8 340 324	8 278 546	336 108
Cross-product netting	-	-	-	-	-
Total	10 884 621	1 365 127	9 498 998	8 278 546	2 973 717

EU CCR5-B – COMPOSITION OF COLLATERAL FOR EXPOSURES TO CCR (PLN K)

Collateral used in SFTs	
Fair value of collateral received	Fair value of posted collateral
1 128	1 118
1 128	**1 118**

4. Market risk

The table below presents the elements of own funds requirements for market risk under the standardized approach.

EU MR1 – MARKET RISK UNDER THE STANDARDISED APPROACH (PLN K)

	a) RWAs	b) Capital requirements
Outright products		
Interest rate risk (general and specific)	1 017 190	81 375
Equity risk (general and specific)	21 998	1 760
Foreign exchange risk		
Commodity risk		
Total	**1 039 187**	**83 135**

V. Capital buffers

The Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system transposed CRD IV into the Polish law with regard to, among other things, additional capital buffers to be maintained by banks.

In relation to the entry into force on 1 January 2018 of the Regulation of the Minister of Economic Development and Finance of 1 September 2017 on the systemic risk buffer (3%), the KNF set the minimum capital ratios for banks in 2018. As of 2018, banks should maintain Tier 1 capital ratios at the minimum levels under Pillar 1 as set out in Article 92 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (Official Journal of the European Union of 2013, p. 1, as amended; "CRR") and under Pillar 2 ("add-on") arising from Article 138(1)(2a) of Banking Law (consolidated text: Journal of Laws of 2017, item 1876) and combined buffer requirement set out in Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management (consolidated text: Journal of Laws of 2017, item 1934).

From 1 January 2018, to 31st December 2018 the conservation buffer is 1.875 p.p.

Based on the assessment of the systemic importance of the bank, the KNF in its decision of 19 December 2018, as presented in letter No DAZ/7105/5/7/2017, identified the bank as an other systemically important institution (O-SII). O-SII buffer imposed on the bank was 0.50 p.p. Pursuant to the KNF letter No DAZ-W5.754.1.2018 dated 2 August 2018 The KNF has established that there are no premises to repeal or change the KNF's decision regarding identification the Bank as the other systematically important institution in its wording agreed under the decision of 19 December 2017.

Pursuant to the KNF letter No DBK-DBK 2.700.21.2018 dated 15 October 2018, the bank was required to maintain own funds at the level sufficient to cover an additional capital requirement (add-on) for risk attached to foreign currency home mortgages at 0.51 p.p. above the total capital ratio, referred to in Article 92(1)(c) of Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms ("Regulation"). It should include at least 75% of Tier 1 capital (which corresponds to a capital requirement of 0.38 p.p. above Tier 1 capital ratio referred to in Article 92(1)(b) of the Regulation) and at least 56% of Common Equity Tier 1 capital (which corresponds to a capital requirement of 0.29 p.p. above Common Equity Tier 1 capital referred to in Article 92(1)(a) of the Regulation). The decision in this respect was expanded upon in the KNF's recommendation of 28 November 2018, as presented in letter No DBK-DBK 2.7111.189.2018, whereby the buffer pertaining to foreign currency mortgages to households for Santander Bank Polska Group was set at the level of 0.47 p.p. in excess of the total capital ratio, which includes at least 75% of Tier 1 capital (which corresponds to a capital requirement of 0.35 p.p. above Tier 1 capital ratio) and at least 56% of the Common Equity Tier 1 capital (which corresponds to a capital requirement of 0.26 p.p. above the Common Equity Tier 1 capital).

Taking into account the above requirements, the minimum capital ratios as at 31 December 2018 are as follows:

- ✓ Tier 1 capital ratio of 11.76% and 11.73% for the Bank and the Group, respectively;
- ✓ total capital ratio of 13.89% and 13.85% for the Bank and the Group, respectively.

The table below presents unconsolidated and consolidated minimum ratios.

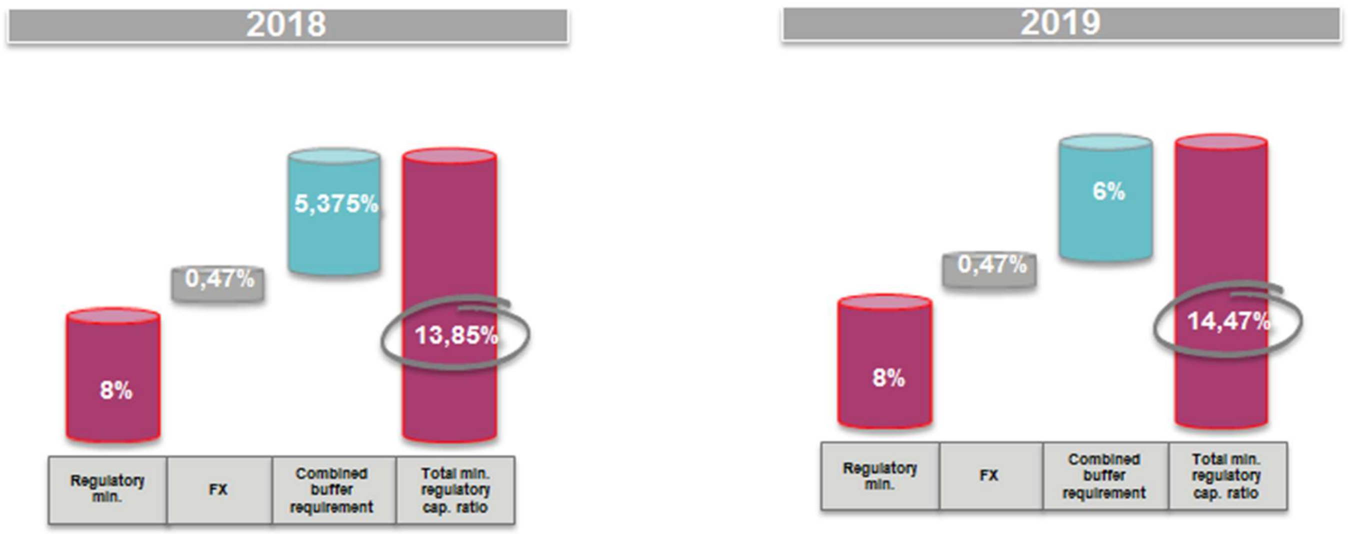
CAPITAL BUFFERS OF BANK AND GROUP AT 31.12.2018

	2 018			
	BANK		GRUPA	
	CAR	TIER 1	CAR	TIER 1
Base	8%	6%	8%	6%
Systemic risk buffer	3,00%	3%	3%	3%
Fx buffer	0,51%	0,38%	0,47%	0,35%
Capital conservation buffer	1,875%	1,875%	1,875%	1,875%
O-SII buffer	0,5%	0,5%	0,5%	0,5%
Total minimum ratio	**13,89%**	**11,76%**	**13,85%**	**11,73%**

CAPITAL BUFFERS OF BANK AND GROUP FOR 2019

	2 019			
	BANK		GRUPA	
	CAR	TIER 1	CAR	TIER 1
Base	8%	6%	8%	6%
Systemic risk buffer	3%	3%	3%	3%
Fx buffer	0,51%	0,38%	0,47%	0,35%
Capital conservation buffer	2,500%	2,500%	2,5%	2,5%
O-SII buffer	0,5%	0,5%	0,5%	0,5%
Total minimum ratio	**14,51%**	**12,38%**	**14,47%**	**12,35%**

CAPITAL BUFFERS AND RATIOS OF SANTANDER BANK POLSKA GROUP AS AT 31.12.2018 AND 31.12.2019



Since 1 January 2016, the countercyclical capital buffer ratio of 0% has been applied to credit exposures in Poland. The ratio shall be effective until it is changed by way of an ordinance of the Finance Minister.

Santander Bank Polska Group calculates the bank-specific countercyclical capital buffer in accordance with the Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management.

THE AMOUNT OF THE INSTITUTION SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER (PLN K)

	As at 31.12.2017
Total risk exposure amount [PLN k]	142 927 860
Institution specific countercyclical buffer rate [%]	0,00394
Institution specific countercyclical buffer requirement [PLN k]	5 631

GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTERCYCLICAL CAPITAL BUFFER (PLN K)

		General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
No.	Country	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book exposure for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Own funds requirements weights [%]	Countercyclical capital buffer rate[%]
1.	Poland	155 144 906	-	419 456	-	-	-	9 499 310	384	-	9 499 694	98,44202	0,00000
2.	Luxembourg	819 504	-	-	-	-	-	65 548	-	-	65 548	0,67925	0,00000
3.	Czech Republic	382 621	-	-	-	-	-	30 618	-	-	30 618	0,31728	1,00000
4.	United States	196 117	-	-	-	-	-	10 453	-	-	10 453	0,10832	0,00000
5.	Netherlands	150 591	-	-	-	-	-	12 055	-	-	12 055	0,12492	0,00000
6.	United Kingdom	83 818	-	-	-	-	-	7 233	-	-	7 233	0,07495	1,00000
7.	Cyprus	77 655	-	-	-	-	-	6 212	-	-	6 212	0,06438	0,00000
8.	Malta	66 235	-	-	-	-	-	5 299	-	-	5 299	0,05491	0,00000
9.	Ireland	39 779	-	-	-	-	-	3 733	-	-	3 733	0,03868	0,00000
10.	Mexico	30 031	-	-	-	-	-	2 402	-	-	2 402	0,02490	0,00000
11.	Spain	25 187	-	-	-	-	-	1 265	-	-	1 265	0,01310	0,00000
12.	Estonia	15 917	-	-	-	-	-	1 273	-	-	1 273	0,01320	0,00000
13.	Germany	15 311	-	-	-	-	-	746	-	-	746	0,00773	0,00000
14.	Romania	9 439	-	-	-	-	-	751	-	-	751	0,00779	0,00000
15.	Liechtenstein	6 766	-	-	-	-	-	541	-	-	541	0,00561	0,00000
16.	Russia	5 467	-	-	-	-	-	435	-	-	435	0,00451	0,00000
17.	Ukraine	3 911	-	-	-	-	-	291	-	-	291	0,00302	0,00000
18.	China	3 835	-	-	-	-	-	306	-	-	306	0,00318	0,00000
19.	Monaco	2 149	-	-	-	-	-	129	-	-	129	0,00134	0,00000
20.	France	1 890	-	-	-	-	-	129	-	-	129	0,00134	0,00000
21.	Austria	1 560	-	-	-	-	-	124	-	-	124	0,00129	0,00000
22.	Switzerland	1 551	-	-	-	-	-	100	-	-	100	0,00104	0,00000
23.	Italy	1 545	-	-	-	-	-	100	-	-	100	0,00104	0,00000
24.	Belarus	1 336	-	-	-	-	-	95	-	-	95	0,00099	0,00000
25.	Sweden	1 145	-	-	-	-	-	81	-	-	81	0,00084	2,00000
26.	Belgium	803	-	-	-	-	-	74	-	-	74	0,00076	0,00000
27.	Tunisia	732	-	-	-	-	-	59	-	-	59	0,00061	0,00000
28.	Peru	593	-	-	-	-	-	47	-	-	47	0,00049	0,00000
29.	Dominican Republic	517	-	-	-	-	-	31	-	-	31	0,00032	0,00000
30.	New Zealand	395	-	-	-	-	-	47	-	-	47	0,00049	0,00000
31.	Morocco	367	-	-	-	-	-	29	-	-	29	0,00030	0,00000
32.	India	349	-	-	-	-	-	22	-	-	22	0,00023	0,00000
33.	Slovakia	338	-	-	-	-	-	20	-	-	20	0,00021	1,25000
34.	Turkey	202	-	-	-	-	-	13	-	-	13	0,00014	0,00000
35.	Portugal	182	-	-	-	-	-	7	-	-	7	0,00008	0,00000
36.	Hungary	182	-	-	-	-	-	14	-	-	14	0,00015	0,00000
37.	Greece	96	-	-	-	-	-	11	-	-	11	0,00012	0,00000
38.	Bangladesh	90	-	-	-	-	-	5	-	-	5	0,00006	0,00000
39.	Finland	63	-	-	-	-	-	4	-	-	4	0,00004	0,00000
40.	Bulgaria	60	-	-	-	-	-	5	-	-	5	0,00005	0,00000

		General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
No.	Country	Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book exposure for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Own funds requirements weights [%]	Countercyclical capital buffer rate[%]
41.	Brazil	56	-	-	-	-	-	3	-	-	3	0,00004	0,00000
42.	United Arab Emirates	55	-	-	-	-	-	3	-	-	3	0,00003	0,00000
43.	Venezuela	49	-	-	-	-	-	3	-	-	3	0,00003	0,00000
44.	Denmark	28	-	-	-	-	-	2	-	-	2	0,00002	0,00000
45.	Latvia	25	-	-	-	-	-	2	-	-	2	0,00002	0,00000
46.	Albania	24	-	-	-	-	-	1	-	-	1	0,00001	0,00000
47.	Anguilla	22	-	-	-	-	-	2	-	-	2	0,00002	0,00000
48.	Taiwan	21	-	-	-	-	-	1	-	-	1	0,00001	0,00000
49.	Nepal	21	-	-	-	-	-	1	-	-	1	0,00001	0,00000
50.	Moldova	19	-	-	-	-	-	1	-	-	1	0,00001	0,00000
51.	Canada	18	-	-	-	-	-	1	-	-	1	0,00001	0,00000
52.	Lithuania	18	-	-	-	-	-	1	-	-	1	0,00002	0,50000
53.	Georgia	13	-	-	-	-	-	1	-	-	1	0,00001	0,00000
54.	Nigeria	13	-	-	-	-	-	1	-	-	1	0,00001	0,00000
55.	Vietnam	11	-	-	-	-	-	1	-	-	1	0,00001	0,00000
56.	Kyrgyzstan	9	-	-	-	-	-	1	-	-	1	0,00001	0,00000
57.	Slovenia	9	-	-	-	-	-	1	-	-	1	0,00001	0,00000
58.	Australia	9	-	-	-	-	-	1	-	-	1	0,00001	0,00000
59.	Kazakhstan	7	-	-	-	-	-	1	-	-	1	0,00001	0,00000
60.	Pakistan	6	-	-	-	-	-	-	-	-	-	0,00000	0,00000
61.	Azerbaijan	6	-	-	-	-	-	-	-	-	-	0,00000	0,00000
62.	Argentina	5	-	-	-	-	-	-	-	-	-	0,00000	0,00000
63.	Kenya	5	-	-	-	-	-	-	-	-	-	0,00000	0,00000
64.	Uzbekistan	5	-	-	-	-	-	-	-	-	-	0,00000	0,00000
65.	Lebanon	5	-	-	-	-	-	1	-	-	1	0,00001	0,00000
66.	Armenia	4	-	-	-	-	-	-	-	-	-	0,00000	0,00000
67.	Philippines	4	-	-	-	-	-	-	-	-	-	0,00000	0,00000
68.	Saudi Arabia	4	-	-	-	-	-	-	-	-	-	0,00000	0,00000
69.	South Korea	3	-	-	-	-	-	-	-	-	-	0,00000	0,00000
70.	Cameroon	3	-	-	-	-	-	-	-	-	-	0,00000	0,00000
71.	Norway	3	-	-	-	-	-	-	-	-	-	0,00000	2,00000
72.	Serbia	2	-	-	-	-	-	-	-	-	-	0,00000	0,00000
73.	Thailand	2	-	-	-	-	-	-	-	-	-	0,00000	0,00000
74.	Iraq	2	-	-	-	-	-	-	-	-	-	0,00000	0,00000
75.	Tajikistan	2	-	-	-	-	-	-	-	-	-	0,00000	0,00000
76.	Kongo	2	-	-	-	-	-	-	-	-	-	0,00000	0,00000
77.	Zimbabwe	2	-	-	-	-	-	-	-	-	-	0,00000	0,00000
78.	North Korea	2	-	-	-	-	-	-	-	-	-	0,00000	0,00000
79.	Israel	1	-	-	-	-	-	-	-	-	-	0,00000	0,00000
80.	Ghana	1	-	-	-	-	-	-	-	-	-	0,00000	0,00000
81.	Egypt	1	-	-	-	-	-	-	-	-	-	0,00000	0,00000
82.	Libya	1	-	-	-	-	-	-	-	-	-	0,00000	0,00000
83.	Mongolia	1	-	-	-	-	-	-	-	-	-	0,00000	0,00000
84.	Japan	1	-	-	-	-	-	-	-	-	-	0,00000	0,00000
85.	Iran	1	-	-	-	-	-	-	-	-	-	0,00000	0,00000
	Total	**157 093 736**	**0**	**419 456**	**0**	**0**	**0**	**9 649 646**	**384**	**0**	**9 650 030**	**100**	**0**

VI. Capital adequacy

1. Capital adequacy management

It is the policy of the Santander Bank Polska Group to maintain the level of capital adequate to the type and scale of operations and the level of risk. The level of own funds required to ensure safe operations of Santander Bank Polska Group and capital requirements estimated for the unexpected loss is determined in accordance with the CRD IV / CRR package plus KNF recommendations regarding national options.

The Management Board is accountable for capital management, calculation and maintenance processes, including assessment of capital adequacy vis a vis different economic conditions and evaluations of stress tests results and their impact on internal capital and capital adequacy. Responsibility for general oversight over estimation of internal capital rests with the Supervisory Board.

The Management Board delegated on-going capital management to Capital Committee. Capital Committee conducts regular assessment of capital adequacy of the Bank and the Group, also in extreme conditions, monitors the actual and required capital levels and initiates transactions affecting these levels (e.g. by recommending the value of dividends to be paid).

The Capital Committee is the first body in the bank to define capital policy and rules for assessment of capital adequacy both for the Bank and the Group. It also approves capital plans and sets out rules underpinning allocation of capital into individual segments when estimating profitability of the same. However, any ultimate decisions regarding increase or decrease of capital are taken by relevant authorities of the bank and subsidiaries in accordance with the applicable law and the Bank's Statutes.

The bank controls capital adequacy of companies within Santander Bank Polska Group as part of corporate governance exercised by the bank as a parent entity.

One of the bank's material subsidiaries which are subject to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms is Santander Consumer Bank S.A. in which the bank is the majority shareholder.

As at 31 December 2018, Santander Consumer Bank S.A. met the regulatory capital adequacy requirements in terms of capital ratios, capital buffers and the leverage ratio, among other things.

Capital Policy

The capital management policy of Santander Bank Polska Group stipulates the minimum capital ratios, taking into account regulatory requirements, applicable capital buffers and additional own fund requirements under Pillar 2.

Pursuant to CRR, institutions must at all times satisfy the following own funds requirements:

- a Common Equity Tier 1 capital ratio of 4.5%;
- a Tier 1 capital ratio of 6%;
- a total capital ratio of 8%.

As at 31 December 2018, the minimum capital ratios of the bank and Santander Bank Polska Group satisfying the regulatory recommendations and additional own fund requirements under Pillar 2 were as follows:

- a Tier 1 capital ratio of Santander Bank Polska S.A. of 11.76%;
- a Tier 1 capital ratio of Santander Bank Polska Group of 11.73%;
- a total capital ratio of Santander Bank Polska S.A. of 13.89%;

- a total capital ratio of Santander Bank Polska Group of 13.85%.

The above-mentioned capital ratios take into account the KNF recommendation on an additional capital requirement related to home mortgages and an additional capital buffer in connection with the identification of Santander Bank Polska S.A. as other systemically important institution, plus a conservation buffer.

Dividend Policy

In the letter of 18 January 2019 the KNF presented its stance on the dividend policy of commercial banks in 2019.

In accordance with the requirements set by the regulator, 75% of 2018 profit may only be distributed by the banks which meet the basic criteria, in particular:

- their Tier 1 capital ratio is not lower than the minimum required level increased by 1.5 p.p.:

  6% +75%*add-on + combined buffer requirement (at the level applied from January 2019r.) + 1.5%;
- their total capital ratio is not lower than the minimum required level increased by 1.5 p.p.:

  8% + combined buffer requirement (at the level applied from January 2019) + 1.5%.

Criteria for dividend payment up to 100% from the profit earned in 2018, additionally take into account the bank's sensitivity to the unfavorable macroeconomic scenario. The KNF informed the Bank that as a result of stress tests conducted, the individual add-on (ST) measuring the sensitivity of the Bank to unfavorable macroeconomic scenario, after reduction by the conservation buffer at the level applied from January 2019, was set at 0.92 p.p. for Santander Bank Polska S.A.

In addition, the KNF recommendations for dividend payment require that dividend yield be adjusted by banks which have significant exposure arising from foreign currency home loans based on the following criteria:

Criterion 1 – share of foreign currency home loans in the total portfolio of loans granted to the non-financial sector:

- banks with the share above 10% – dividend yield to be adjusted by 20 p.p
- banks with the share above 20% – dividend yield to be adjusted by 30 p.p.
- banks with the share above 30% – dividend yield to be adjusted by 50 p.p.

Criterion 2 – share of foreign currency home loans granted in 2007-2008 in the portfolio of foreign currency home loans:

- banks with the share above 20% – dividend yield to be adjusted by 30 p.p.
- banks with the share above 50% – dividend yield to be adjusted by 50 p.p.

As at 31 December 2018, Santander Bank Polska S.A. meets the criteria to pay a dividend of 75% of the net profit earned in 2018, both at the individual and consolidated levels.

Taking into account the exposure of Santander Bank Polska S.A. arising from foreign currency home loans, as at 31 December 2018 the adjustment to dividend yield is 0 p.p. and 50 p.p. under the first and second criteria, respectively.

As at the release date of this report, the bank's Management Board did not decide on dividend payment from profit for 2018 or retained profit for 2016 and 2017.

2. Regulatory capital adequacy

Pursuant of Article 92 of CRR, total capital ratio is determined on the basis of own funds and total capital requirements multiplied by 12.5.

The capital requirement for Santander Bank Polska Group as at 31.12.2018 was determined in accordance with Regulation no. 575/2013 of the European Parliament and the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms as well as KNF recommendations regarding national options.

The capital requirements for credit, market and operational risks were calculated using a standardised approach. The capital requirement for credit risk is the most significant one.

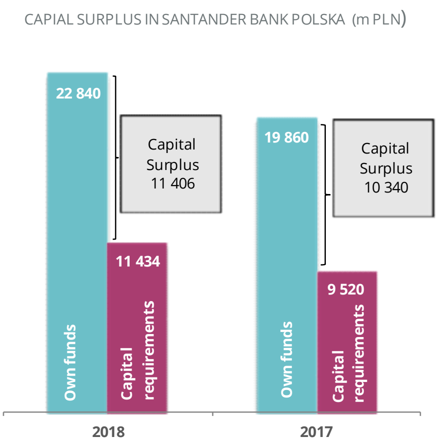
The value of asset exposure is the carrying value of the asset after adjustments for specific credit risk, additional value adjustments and other own fund deductions related to a particular asset. The off-balance sheet exposure is the percentage of the nominal value less adjustments for specific credit risk.

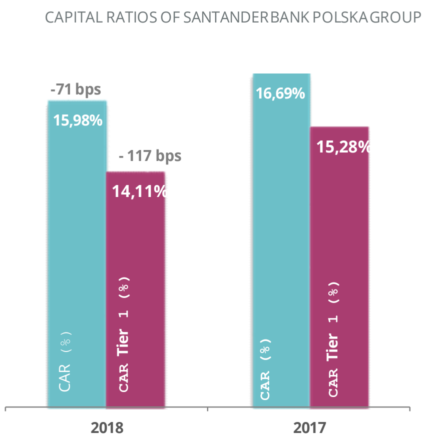
Taking into account total capital requirements of PLN **11 434 229k** as at 31 December 2018 and own funds of PLN **22 839 754k**, the capital ratio of Santander Bank Polska Group is **15.98%.**

The total capital ratio as at 31 December 2018 vs. 31 December 2017 was impacted by the following:

- allocation of the profit for 2017 to Tier 1 capital;
- distribution of the portion of the retained profit for 2016 in the form of dividend;
- allocation of PLN 581 844k to Tier 1 capital, representing 50% of the bank's profit for the period between 1 January 2018 and 30 June 2018 (pursuant to the KNF decision of 28 September 2018, letter No. DBK-DBK 2.700.29.2018);
- allocation of the subordinated bonds of PLN 1b issued by Santander Bank Polska S.A. on 5 April 2018, maturing on 5 April 2028 and taken up by investors to Tier 2 capital (pursuant to the KNF decision of 6 June 2018, letter No. DBK-DBK 2.7100.3.2018);
- implementation of IFRS9
- the acquisition of a part of Deutsche Bank Polska S.A. and DB Securities S.A.
- increase in the value of risk weighted assets for credit risk arising from the business activity.

CAPITAL ADEQUACY OF BANK GROUP IN 2017 - 2018





The impact of the acquisition of a separated part of Deutsche Bank Polska S.A. and DB Securities S.A. on capital adequacy

On 9 November 2018, Santander Bank Polska S.A. acquired an organised part of the enterprise of Deutsche Bank Polska S.A., including retail, private, SME and business banking, as well as 100% of shares in DB Securities S.A., a brokerage house of Deutsche Bank Polska Group. Acquisition of the demerged part of Deutsche Bank Polska S.A. and DB Securities S.A. was carried out in accordance with the Demerger Plan of 23 February 2018, drawn up by both parties and approved by the Polish Financial Supervision Authority (KNF) on 2 March 2018.

In connection with the resolution of the bank's Extraordinary General Meeting of 29 May 2018 amending the bank's Statutes, and based on the consent from the Polish Financial Supervision Authority of 7 August 2018, the share capital of Santander Bank Polska S.A. was increased from PLN 993,335k to PLN 1,020,883k, i.e. by PLN 27,548k, resulting from the issue of 2,754,824 ordinary series N shares with a nominal value of PLN 10 each.

The change in the share capital and in the bank's Statutes was confirmed by the District Court for the Capital City of Warsaw with an entry in the National Court Register on 9 November 2018.

Pursuant to the Demerger Plan, series N shares were acquired by the sole shareholder of Deutsche Bank Polska S.A., i.e. Deutsche Bank AG, in exchange for the transfer of the demerged part of Deutsche Bank Polska S.A. to Santander Bank Polska S.A. and DB Securities S.A.

As regards capital adequacy, the acquisition of the demerged part of Deutsche Bank Polska S.A. resulted in an increase of PLN 14,655,918k in risk-weighted assets (RWA).

In view of the requirements arising from Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms ("Regulation"), in particular Article 317(4) referring to a situation where due to a merger, an acquisition or a disposal of entities or activities, using a three year average to calculate the own funds requirement for operational risk would lead to a biased estimation, the bank informed the Polish Financial Supervision Authority (KNF) about the impact and method of calculating the own funds requirement for operational risk as at 31 December 2018, which included the capital requirement in respect of acquisition of a demerged part of Deutsche Bank Polska S.A. and DB Securities S.A.

As at 31 December 2018, the total risk weighted assets in respect of operational risk included the amount of PLN 1bn arising from the transaction agreement concerning the acquisition of a demerged part of Deutsche Bank Polska S.A. and DB Securities S.A. by Santander Bank Polska S.A.

Pursuant to the transaction agreement and the demerger plan, the risk weighted assets of the demerged business were one of the factors determining the acquisition price of Deutsche Bank Polska S.A. and DB Securities S.A.

Integration of the demerged part of Deutsche Bank Polska S.A. and DB Securities S.A. causes a change in capital ratios: the total capital ratio (-96 bps) and Tier 1 ratio (-74 bps) – the estimation takes into account own funds that reflect the capital increase on account of the above transaction and risk weighted assets as at 31 December 2018.

3. Internal capital adequacy

Notwithstanding the regulatory methods for measuring capital requirements, Santander Bank Polska Group carries out an independent assessment of current and future capital adequacy as part of the internal capital adequacy process (ICAAP). The purpose of the process is to ensure that the level and nature of own funds guarantee the solvency and stability of the bank's and the Group's operations.

The capital adequacy assessment is one of the fundamental elements of the Group's strategy, the process of defining risk appetite and the process of planning.

The Group uses assessment models based on the statistical loss estimation for measurable risks, such as credit risk, market risk and operational risk and its own assessment of capital requirements for other material risks not covered by the model, e.g. reputational risk and compliance risk.

The internal capital is estimated on the basis of risk parameters including the probability of default of Santander Bank Polska Group customers (PD - probability of default) and loss given default (LGD loss given default).

Santander Bank Polska Group performs an internal assessment of capital requirements, including under stressed conditions, taking into account different macroeconomic scenarios.

Internal capital estimation models are assessed and reviewed annually to adjust them to the scale and profile of the Group's business and to take account of any new risks and the management judgement.

The review and assessment is the responsibility of the Group's risk management committees, including: Capital Committee and the Models and Methodology Panel, which is part of the Risk Management Forum.

VII. Securitization

SCB securitized cash loans portfolio in August 2016. The transaction was a traditional and revolving one and consisted in transferring the right to securitized receivables to SC Poland Consumer 16-1 Sp. z o. o. (SPV3), with a registered office in Poland.

On the basis of securitized assets, the SPV3 company issued bonds of total value of PLN 1 225 000k secured by registered pledge on SPV3's estate. As a result of securitization, the SCB Bank received funding of activity in exchange for giving the rights to future flows resulting from securitized loan portfolio. In order to support the funding of transaction, the SCB Bank granted a subordinated loan to SPV3. The loan is subordinated with regard to senior and covered bonds.

The SCB Bank does not perform trading activity, therefore, both securitization positions and securitized portfolio are included in the banking book. Moreover, the SCB Bank does not use hedging and unfunded protection in order to mitigate the risk related to maintained securitization exposures.

Within the securitization transaction with significant risk transfer (hereinafter referred to also as "SRT transaction") performed in 2016, the SCB Bank received funds with the use of assets in the form of loans granted by the SCB Bank, thus improving its financial liquidity.

TRANCHE AMOUNT STATUS

	Amount (PLN k)	Status
A (superior)	1 000 000	Acquired by external investor
B1 (mezzanine)	140 625	Acquired by external investor
B2 (mezzanine)	84 375	Acquired by external investor
Subordinated loan	37 250	Retained*
Total	**1 262 250**	

* decreasing the Bank's own funds according to Art. 36 clause 1 point k) of CRR

The contractual terms of securitisation do not satisfy the criteria for derecognition of securitised assets from the bank's balance sheet pursuant to IFRS 9. Therefore, the Bank recognizes securitized assets in the item Loans granted to clients.

At the same time, the SCB Bank recognizes liability for securitization flows in the item Liabilities towards clients. The securitized portfolio is estimated according to the amortized cost method, and the securitization positions in fair value through profit and loss, in line with IFRS 9. In relation to the fact that the securitized portfolio is not subject to derecognition from the SCB Bank's balance sheet, it is subject to standard procedures of monitoring and managing credit and market risk, in line with the policies and procedures applicable at the SCB Bank.

SECURITIZED PORTFOLIO WITHIN SRT TRANSACTION

as of the day of transaction launch	Portfolio value (PLN k)
securitized portfolio (cash loans)	1 250 000

Within the SRT transaction, the Bank SCB decreased the common equity Tier 1 by securitization positions maintained as part of SRT transaction according to Art. 36 clause 1. point k) of CRR Regulation, therefore fulfilling the conditions of recognising the significant risk transfer according to Art. 243 clause 1 point b) of CRR Regulation. Moreover, pursuant to Art. 243 and 245 of CRR Regulation, the SCB Bank excluded securitized exposures from calculations of amounts of risk-weighted assets.

The SCB Bank fulfils the requirement to maintain significant net economic share according to rules described in Chapter 5 of Part Three of CRR Regulation.

The main objectives of the SCB Bank related to securitization activity include the following:

- obtaining liquidity - securitization enables to exchange non-liquid assets for liquid assets and to obtain funding through sale or pledge of these liquid assets;
- diversification of funding lines - liquidity obtained from securitization enables diversification due to the length of funding and the product;
- optimization of use of the SCB Bank's capital - through securitization transactions, the Bank can reduce the risk-weighted assets and optimize exposure to credit risk.

The SCB Bank's role in securitization transactions is limited to being an initiator of transaction. In addition, the Bank fulfils a service role with regard to the securitized portfolio.

Risks related to securitization transactions include:

- credit risk - the risk of deterioration in securitized assets quality;
- risk of loan prepayment - the risk of early repayment of total or part of securitized assets;
- basis risk - the risk of mismatch of tenor or interest rate index of securitized assets and securitization positions;
- liquidity risk - the SCB Bank's liquidity risk decreases as a result of securitization due to exchange of non-liquid assets for liquid assets and adjusting the funding structure to assets.

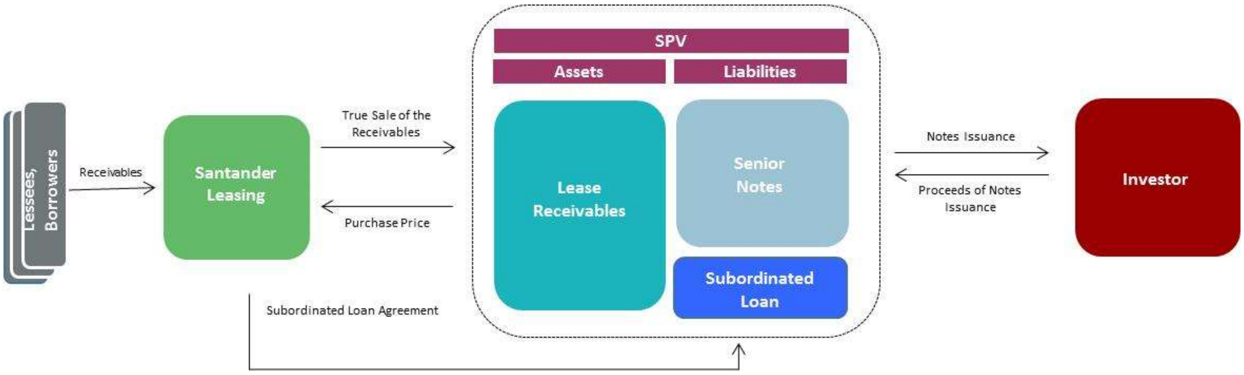
In September 2015, Santander Consumer Bank S.A. (SCB) securitized the instalment loan portfolio. The transaction was a traditional, revolving transaction and consisted in transferring the right to securitized receivables to SC Poland Consumer Sp. z o.o. 15-1 (SPV2), with its registered seat in Poland.

On the basis of the securitized assets, the aforesaid company issued bonds with a total value of PLN 1 051 million secured in the form of a registered pledge on the assets of SPV2. The bonds bear an interest rate comprising 1M WIBOR and margin. As a result of the securitization, the SCB obtained financing in return for the right to future cash flows from the securitized credit portfolio. The latest redemption date is 19 August 2025, but in the SCB's estimation, the aforesaid bonds should be redeemed within two years from the transaction date.

In March 2017 the SCB signed an annex to the securitization transaction of 2015, prolonging the period for revolving of the level of securitized receivables. It results in prolongation of the effective term of the transaction by 2 years.

In December 2018, Santander Leasing S.A. (the Company) entered into a securitisation agreement in respect of receivables arising from lease and loan agreements. The transaction is a traditional and revolving securitisation arrangement consisting in the transfer of ownership title to the securitised debt onto the SPV – Santander Leasing Poland Securitization 01 DAC with the registered office in Ireland. Based on the securitised assets, the SPV issued bonds for the total amount of EUR 230m and interest rate based on 1M EURIBOR + margin. The bonds mature in December 2032.

The purpose of the securitisation is to implement a specific instrument enabling the Company to raise funds before the maturity date of the receivables in the form of financing granted by the SPV and secured by the receivables. The securitisation, which is an alternative financing method, will improve the financial liquidity of Santander Leasing S.A.



Credit risk

Under normal circumstances, materialisation of the credit risk arising from the underlying pool of assets would result in a lack of expected cash flow from those assets, which would consequently result in a default on a part of the obligation towards the Investor (due to a lack of sufficient funds). The transaction contains mechanisms which effectively cause this risk to remain fully with the Company. On the one hand, throughout the entire duration of the programme, the Company is able to repurchase any impaired receivable from the securitised portfolio, and sell in its place an unimpaired exposure that meets the boundary conditions specified for the transaction. The Company intends to take advantage of this option, which makes economic sense due to the possibility of debt recovery. Such a structure allows the Company to absorb all impaired receivables appearing the portfolio. In addition, the Company provides financing to the SPV in the form of a subordinated loan for approx. 20% of the programme value. It means that if it turns out that despite existence of the impaired debt repurchase mechanism, the funds remaining in the SPV are insufficient to make all due payments, the payments on account of the subordinated loan are last to be satisfied. The above confirms that the credit risk relating to the underlying pool of assets has been fully retained by the consolidated Company (including the SPV).

VIII. Leverage ratio

The leverage ratio of Santander Bank Polska Group is set in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR") and Commission delegated Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio.

The leverage ratio (LR) shall be calculated as an institution's capital measure divided by that institution's total exposure measure and shall be expressed as a percentage.

A reference day for the following data is 31 December 2018. Presented leverage ratio is calculated in relation to Tier 1 capital phase in definition. Santander Bank Polska Group disclose the information on sub-consolidated basis. Fiduciary items are not eliminated from the total leverage ratio exposure.

SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES
AS AT 31.12.2018 (PLN K)

	Reference date	**31.12.2018**
	Entity name	**Santander Bank Polska S.A.**
	Level of application	**subskonsolidowany**
		Applicable Amounts
1	Total assets as per published financial statements	205 852 860
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
4	Adjustments for derivative financial instruments	1 498 323
5	Adjustments for securities financing transactions "SFTs"	285 114
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	7 519 573
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	(2 897 460)
8	**Total leverage ratio exposure**	**212 258 409**

LEVERAGE RATIO COMMON DISCLOSURE
AS AT 31.12.2018 (PLN K)

		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	204 105 965
2	(Asset amounts deducted in determining Tier 1 capital)	(2 426 250)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**201 679 715**
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	1 001 355
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	1 498 323
EU-5a	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**2 499 677**
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	274 330
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	285 114
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**559 444**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	34 081 392
18	(Adjustments for conversion to credit equivalent amounts)	(26 561 819)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**7 519 573**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Capital and total exposures		
20	**Tier 1 capital**	21 197 898
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	212 258 409
Leverage ratio		
22	**Leverage ratio**	9,99%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	"phase in"
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	-

PROCEDURES USED FOR THE PURPOSE OF MANAGEMENT OF EXCESSIVE LEVERAGE RISK AND FACTORS AFFECTING THE LEVERAGE RATIO BETWEEN THE CURRENT PERIOD AND THE LAST PERIOD FOR WHICH THE RATIO WAS PRESENTED

1	Description of the processes used to manage the risk of excessive leverage	The Santander Bank Polska Group has the Leverage & Excessive Leverage Risk Policy in place which defines the objectives and addresses the key aspects of measurement, monitoring and reporting the leverage ratio and its compliance with the regulatory requirements as well as identification, management and monitoring of excessive leverage risk. The document sets out the roles and responsibilities of the parties involved in the relevant processes.
2	Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers	1. As at 31 December 2018, the leverage ratio of Santander Bank Polska Group totalled 9.99% and was three-fold higher than the minimum requirement of 3%. It was driven by PLN 581,844k worth of profit generated in the current period which was taken to own funds and an increase in total assets mainly on account of integration of Deutsche Bank Polska S.A. and DB Securities S.A.

IX. Encumbered assets and unencumbered assets

An asset is treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure or credit-enhance any on-balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn (for instance, to be pledged for funding purposes).

Column numbering in the following tables according to guidelines EBA / GL / 2014/03.

TABLE A - ASSETS OF SANTANDER BANK POLSKA GROUP
AS AT 31.12.2018 (PLN K)

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	**Assets of the reporting institution**	**15 861 659**	**11 154 635**	**189 991 202**	**38 068 213**
020	Loans on demand	32 599		7 443 836	
030	Equity instruments	0	0	838 439	838 439
040	Debt securities	11 154 635	11 154 635	37 229 774	37 229 774
050	of which: covered bonds	0	0	0	0
060	of which: asset-backed securities	0	0	0	0
070	of which: issued by general governments	10 832 708	10 832 708	28 284 694	28 284 694
080	of which: issued by financial corporations	321 927	321 927	1 609 897	1 609 897
090	of which: issued by non-financial corporations	0	0	1 335 934	1 335 934
100	Loans and advances other than loans on demand	4 673 547		133 524 469	
110	of which: mortgages	0		67 870 955	
120	Other assets	878		10 954 684	

TABLE B - COLLATERAL OF SANTANDER BANK POLSKA GROUP
AS AT 31.12.2018 (PLN K)

		Fair value of encumbered collateral received or own debt securities issued	Unencumbered assets: Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	**Collateral received by the reporting institution**	**0**	**238 531**
140	Loans on demand	0	52 765
150	Equity instruments	0	0
160	Debt securities	0	185 766
170	of which: covered bonds	0	0
180	of which: asset-backed securities	0	0
190	of which: issued by general governments	0	185 459
200	of which: issued by financial corporations	0	0
210	of which: issued by non-financial corporations	0	307
220	Loans and advances other than loans on demand	0	0
230	Other collateral received	0	0
240	**Own debt securities issued other than own covered bonds or asset-backed securities**	0	0
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	**15 861 659**	**0**

TABLE C - ENCUMBERED ASSETS/COLLATERAL RECEIVED AND ASSOCIATED LIABILITIES AS AT 31.12.2018 (PLN K)

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	**16 122 584**	**15 860 781**
020	Derivatives	1 022 631	1 294 664
030	of which: over-the-counter	1 022 631	1 294 664
040	Deposits	11 831 870	11 432 753
050	Repurchase agreements	9 337 701	9 617 858
060	of which: central banks	0	0
070	Collateralised deposits other than repurchase agreements	2 494 169	1 814 895
080	of which: central banks	0	0
090	Debt securities issued	3 268 083	3 133 365
100	of which: covered bonds issued	0	0
110	of which: asset-backed securities issued	3 268 083	3 133 365
120	**Other sources of encumbrance**	**878**	**878**
130	Nominal of loan commitments received	0	0
140	Nominal of financial guarantees received	0	0
150	Fair value of securities borrowed with non-cash collateral	0	0
160	Other	878	878
170	**TOTAL SOURCES OF ENCUMBRANCE**	**16 123 462**	**15 861 659**

The information on encumbered and unencumbered assets, as contained in this disclosure, has been prepared in accordance with Commission Delegated Regulation (EU) 2017/2295 of 4 September 2017 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for disclosure of encumbered and unencumbered assets.

The scope of regulatory consolidation for the purposes of disclosing information on asset encumbrance corresponds to the scope of application in relation to the liquidity requirements on a consolidated basis, as defined in Part Two of Chapter 2 of Regulation (EU) No 575/2013;

The figures in Tables A, B and C are presented at their net carrying amounts (taking into account any allowances under IFRS 9).

As at 31 December 2018, Santander Bank Polska Group had assets which were encumbered on account of:

- repo transactions;
- financing agreements signed by Santander Bank Polska S.A. and subsidiaries with international financial institutions;
- securitisation projects carried out by the Group companies (Santander Leasing S.A. and Santander Consumer Bank S.A.);
- collateral connected with the Bank's operations in the derivatives market.

The assets of Santander Bank Polska S.A. account for the highest proportion of consolidated Group's assets. The encumbrance level within the Group is not significant though.

The development in time of encumbrances related to the Bank's financing agreements with international financial institutions results from:

- the value of assets constituting the collateral (an increase stemming from signing new financing agreements or subsequent tranches within the already concluded agreements, decreases stemming from payment of obligations under financing agreements);
- parameters of financial instruments constituting collateral.

To secure financing agreements with international financial institutions, the Bank concluded agreements on financial pledge based on treasury bonds. The pledge coverage ratio depends on the Bank's rating and changes along with the rating upgrade/ downgrade. If the contractual collateral value goes below the required minimum level, the Bank is required to provide additional collateral. At an aggregated level, the value of the collateral provided does not exceed the value of all exposures under these agreements, but there are exposures with contractually required collateral in excess of 100% of the exposure value.

The development in time in the encumbrances connected with the collateral provided in relation to the Bank's operations in the derivatives market results from changes in the market value of the Bank's transactions with individual contractors in this market.

Most encumbrances relate to assets denominated in the Polish currency. Some collateral in foreign currencies is mainly related to the Initial Margin, with EUR dominating in the currency structure.

The category of unencumbered assets which the Group believes cannot be encumbered as part of the ordinary business includes selected credit portfolios.

As part of the securitisation carried out by Santander Leasing S.A., a portion of the issued securities used as collateral for the securitised lease portfolio was retained by the Santander Leasing S.A.

Presented below are the types and carrying amounts of unencumbered assets, as per line 120 of table A:

Cash on hand	2 452 636
Derivatives	1 080 642
Derivatives – hedge accounting	73 221
Investments in subsidiaries, joint ventures and associates	891 952
Investment properties, property, plant and equipment	986 384
Intangible assets	2 531 466
Deferred tax assets	1 760 121
Other assets	1 166 118
Non-current assets and disposal groups classified as held for sale	12 145
	10 954 684

The carrying amount of encumbered assets in line 120 of Table A corresponds to the security deposits accepted by Santander Consumer Bank S.A. in respect of lease of premises.

All amounts and types of encumbered assets and off-balance sheet items, as presented in line 10 of Table C, are connected with liabilities.

X. Policy of variable components of remuneration

The remuneration principles of Santander Bank Polska S.A capital group are defined in the **Remuneration Policy of Santander Bank Polska Group.**

The above-mentioned document contains all provisions required by law, including the rules of calculating fixed and variable components of remuneration, setting the variable remuneration payment criteria and determining all parts of total remuneration (fixed and variable components, long-term incentive programmes, etc.).

Santander Bank Polska Group follows general regulations applicable for all employees, including those whose professional activity has a significant impact on the Bank's risk profile ("Material Risk Takers").

Material risk takers are additionally subject to specific provisions of the **Remuneration Policy of Santander Bank Polska S.A** and corresponding regulations applicable in the subsidiaries if a given Material Risk Taker is also an employee of a subsidiary. The Policy is reviewed once a year or more frequently after each significant organisational or legal change.

Decision-making process for determining the remuneration policy

The Remuneration Policy of Santander Bank Polska S.A is adopted by the Management Board and approved by the Supervisory Board. The remuneration (both fixed and variable) of Management Board members is determined by the resolutions of the Supervisory Board. The bonus schemes for other employees are reviewed by the Remuneration Committee of the Supervisory Board and approved by the Management Board member in charge of the Business Partnership Division. All regulations on awarding variable components of remuneration that apply to all employees of the Bank are published in the form of ordinances issued by the Management Board member in charge of the Business Partnership Division, in accordance with and on the basis of Remuneration Policy of Santander Bank Polska S.A.

Remuneration Committee and Nomination Committee operate at the Supervisory Board.

The key tasks of the Committee include reviewing and monitoring the Bank's remuneration policy and supporting the General Meeting of Shareholders, the Supervisory Board and the Management Board in developing and implementing that Policy.

In particular, the Committee:

- presents the Supervisory Board with recommended remuneration principles for the Management Board members covering all forms of remuneration. Proposed performance remuneration system should be accompanied with recommended assessment of objectives and criteria to adjust the remuneration to the interests of the Bank's shareholders in the long-term horizon and to the Bank's objectives;
- provides the Supervisory Board with recommendations on remuneration for individual Management Board Members in compliance with the remuneration principles adopted in the Bank and performance evaluation of given Management Board Members.
- provides the Supervisory Board with general recommendations for the level and structure of remuneration for senior executives and monitors the level and structure based on relevant information provided by the Management Board;
- issues opinions on the Remuneration Policy referred to in the Banking Law and regularly reviews the Policy and its application, including preparation of the report on the policy application for the Supervisory Board.
- presents the Supervisory Board with recommendations on the compliance with the criteria and conditions justifying the award of variable remuneration to the Management Board Members before it is paid in part or in full.

The key task of the Nomination Committee is to issue recommendations to the Supervisory Board as regards appointing and recalling members of the Supervisory Board, the Management Board and other key function holders by the Bank's relevant body. In particular, the Committee:

- appoints and recommends candidates for the Management Board taking into account the balance of knowledge, skills, diversity and experience required to manage the Bank;
- appoints and recommends candidates for the Supervisory Board presented to the General Meeting, taking into account the balance of knowledge, skills, diversity and experience of the Supervisory Board required to perform the duties arising from the applicable law.
- defines the scope of duties of a candidate for the Management Board and Supervisory Board as well as requirements with regard to the knowledge and skills as well as time commitment required to perform the function;
- defines a target for the representation of the underrepresented gender in the Management Board and prepares the Management Board Diversity Policy on how to achieve the target level taking into account a wide range of characteristics and skills required for the Management Board members;
- regularly, at least once a year, assesses the structure, size, composition and effectiveness of the Management Board and Supervisory Board and presents Supervisory Board with recommendations concerning changes;
- regularly, at least once a year, assesses, in line with the criteria set by the Supervisory Board based on the Committee's recommendations – the knowledge, skills and experience of individual members of the Management Board and Supervisory Board and of the bodies as a whole and presents to the Supervisory Board an assessment report and informs the Management Board about the results of the assessment;
- periodically reviews the Policy of the Management Board for selection and appointment of senior executives in the Bank and makes recommendations to the Management Board in this respect;
- reviews any other issues reported by the Supervisory Board.

In 2018, the Remuneration Committee of the Supervisory Board met five times in the following composition:

- the Committee Chairperson: Danuta Dąbrowska
- Committee Members: Gerry Byrne, Witold Jurcewicz, José Luis de Mora, Marynika Woroszylska-Sapieha.

The composition of the Nominations Committee of the Supervisory Board was as follows:

- the Committee Chairperson: Gerry Byrne
- Committee Members: Danuta Dąbrowska, Witold Jurcewicz, Jose Luis de Mora, Jerzy Surma, Marynika Woroszylska – Sapieha

Four Committee members, namely Danuta Dąbrowska, Witold Jurcewicz, Jerzy Surma oraz Marynika Woroszylska – Sapieha hold the status of independent members.

The criteria for the identification of material risk takers applied in Santander Bank Polska S.A. Capital Group are compliant with Commission Delegated Regulation (EU) no. 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile.

The purpose of the Remuneration Policy is to ensure long-term sustainable growth of the Group, protect the stakeholders, including customers, owners and employees by, among others, ensuring adequate staff remuneration for their performance and motivating them to deliver best results and to achieve the strategic goals.

Under the Remuneration Policy, the remuneration structure fully reflects market practices while the remuneration levels match the ones offered in the banking sector.

Link between remuneration and performance

All employees are subject to bonus schemes defining the variable component of their remuneration. In each of the schemes, the bonus and its amount are contingent on the achievement of pre-defined business and quality goals.

The Bank employees deliver individual objectives adjusted to the specific nature of their activity in different areas of the Bank with a proviso that the objectives of the employees within the control units arise from the positions held and their remuneration does not depend on business results generated by the Bank's business areas controlled by them.

In case of the sales force, the process of performance review, in additional to business objectives covers also the objectives related to customers' best interest.

Characteristic features of the remuneration scheme and performance criteria that have to be met to obtain rights to shares, share options or variable remuneration components.

The objective of the remuneration scheme is to ensure the Bank's stable development and growth, as well as to help to acquire and retain best employees and secure the interest of the stakeholders. The remuneration scheme is composed of two core elements: fixed remuneration and variable remuneration and additionally, non-monetary benefits.

The base salary is the point of reference for developing the Remuneration Policy. The base salary of the Bank's employees is differentiated based on the job evaluation methodology. The fixed component of remuneration depends on, among others, the employee's grade assigned to a given job position. For each grade, remuneration brackets are determined based on an annual pay report prepared by renowned consulting companies.

The variable component of the remuneration depends on the bonus scheme applicable for the employee. Payment of bonuses under a scheme is contingent on the delivery of pre-defined business goals (PBT or PAT level or growth rate) and quality indicator levels. Achievement of a pre-set level of the RoRWA ratio (return on risk-weighted assets) is assigned to identified business units, as one of their goal.

Variable components of remuneration are awarded based on the bonus scheme regulations applicable for the employees in question.

The Heads of the Internal Audit Area, the Compliance Area and units in charge of risk management and HR issues are awarded variable components of remuneration for the delivery of objectives arising from their roles and responsibilities. Their remuneration cannot depend on business results generated by the Bank's business areas controlled by them.

In accordance with the applicable law, at least 50% of the variable remuneration of Material Risk Takers is paid in the form of shares or share-linked financial instruments, i.e. phantom shares in the case of the Bank. Moreover, payment of 40% of the variable remuneration component is deferred for 3 years. Each of the deferred parts can be reduced or withheld if specific negative factors occur. The performance is assessed for the period of minimum three years to eliminate the focus on short-term profits so that the Bank's economic cycle and the business risk are taken into account when awarding the performance-correlated remuneration.

Santander Bank Polska S.A capital group has applied principles of identification, assessment and ex-post review of performance for which the variable remuneration has to be adjusted based on the performance of employees categorised as Material Risk Takers and other employees subject to those regulations.

Factors analysed when a decision is taken to apply the so-called malus clauses include:

- significant failures in risk management made by the entity or by a business unit or by a control or support function.
- material restatement of the Group's financial statements, when so considered by the external auditors, except when appropriate pursuant to a change in accounting standards.
- violation by the employee of internal regulations or codes of conduct, particularly those relating to risks;
- significant changes in financial capital or risk profile of the Group;
- significant increases in requirements for economic or regulatory capital base when not foreseen at the time of generation of exposures;

- the regulatory sanctions or criminal convictions for acts that could be attributable to a unit or to the personnel responsible for such actions;
- any misconduct, whether individual or collective, in particular when those refer to marketing of unsuitable products;
- negative financial performance of the Group.

Long-term (3-year) incentive programmes for key employees are another form of variable remuneration used in the Group. Under the programme, newly issued Santander Bank Polska S.A. shares are awarded to the participants if the business conditions specified in the programme regulations are met.

Ratio between fixed and variable components of remuneration

The ratio between the fixed and variable components of remuneration depends on the bonus scheme applicable for the employee and the extent to which the relevant business and quality goals have been achieved (which determine the amount of the bonus) as well as on whether the employee is covered by a long-term incentive programme. If the employee has not achieved their business goals at the minimum required level,, the variable part of the remuneration may be withheld.

The total amount of the variable remuneration granted to a Material Risk Taker for a single calendar year cannot be higher than 100% of the fixed remuneration paid to that employee for that calendar year. In extraordinary cases, this limit may be increased to a maximum level of 200% of fixed remuneration. The decision on the maximum fixed and variable components ratio in Santander Bank Polska Group was taken by the Annual General Meeting on 20 April 2016. The cast valid votes represented 83.94% of the Bank's share capital. The resolution was adopted with 98.6% votes in favour.

Main parameters of variable components of remuneration

The Bank's remuneration scheme was designed to enable the effective acquisition and retention of employees whose competences are required to deliver all strategic objectives of the Bank successfully and efficiently.

Consequently, the Bank has implemented a range of diverse bonus schemes addressed to various groups of employees, in particular the employees of sale units and support units. The schemes differ in terms of criteria which determine whether the bonus will be paid and what its final amount will be. Each scheme has its own individual settlement criteria and factors such as customers' satisfaction, LTV ratio, NPL, RWA or net profit are taken into account.

Other differences between the schemes include the frequency of bonus payments and maximum levels of bonus available to the employees covered by the given scheme.

Principles of Bank's management - highlights

As at 31.12.2018 the Management Board of the Bank is composed of 9 members. The Management Board members are appointed by the Supervisory Board for a joint term of office of 3 years. The list of directorship positions taken by the Management Board members are presented below.

Number of the Management Board members holding one directorship position in the Group: 5

Number of the Management Board members holding non-executive directorship job position in other entities: 2

The Supervisory Board is composed of 10 members appointed by the Annual General Meeting for a 3-year term of office. The competence, powers and duties of the Supervisory Board are detailed in the Commercial Companies Code and in the Bank's Statutes.

To ensure relevant management of the business activity and proper selection of the Management Board members and Key function holders the Bank has adopted the **Policy on selection and suitability assessment of Management Board members and Key function holders at Santander Bank Polska S.A. (Suitability Policy)**

The Bank strives to ensure that the Management Board members and Key function holders as well as candidates for these positions should at all times have professional skills appropriate for their positions, required knowledge, skills and experience as well as good reputation both in their professional and private lives.

The suitability assessment covers the assessment of competence, experience and reputation and overall professional activity. The assessment of knowledge, skills and experience of persons subject to this Policy is made at the stage of their selection and in the course of discharging their duties. The assessment is made in the following forms:

1. Assessment and re-assessment of individual suitability of Management Board members,
2. Assessment and re-assessment of the collective suitability of the Management Board,
3. Assessment and re-assessment of individual Key Function Holders.

The assessment is made on the basis of documents and statements which confirm the knowledge, skills and experience as well as reputation of the assessed individuals and on the basis of individual meetings with them.

When making the assessment, the Committee should consider if the assessed person can commit sufficient time to perform their duties and responsibilities, including time to understand the Bank's activities, the main risks. implications of conducted activity as well as the risk management strategy, in particular if that member performs additional professional or political roles.

Promoting the **Management Board Diversity Policy**, the Bank strives to ensure that the candidates for the roles of Management Board members and Key function holders possess a wide range of qualities and skills as well as ability to show independence of mind and opinions, to ensure gender balance in the composition of the Management Board and to fight any discrimination against the candidates for Management Board members, in particular in terms of gender, education, geographical background, experience and age. When appointing the Management Board members, the Supervisory Board will strive to achieve at least 30% share of women in the Management Board in 2025 and simultaneously ensure the Management Board's diversity in terms of geographical provenance. The Nominations Committee will take into consideration the Bank's relationship with Santander Group and its cross-border business objectives. The diversity strategy is applied in the processes of selecting and assessing the suitability and succession of the Management Board members.

The Bank also takes care of an ongoing development of its staff and of ensuring succession of the Management Board and Key function holders to minimise the risk generated by a long-term absence or unexpected cessation of performing their functions. The processes are performed pursuant to the Nomination and Succession Planning Policy for the Management Board members and Key function holders in Santander Bank Polska S.A. Pursuant to the Policy, when promoting or appointing Management Board members and Key function holders the Bank strives to ensure that the Management Board members and key function holders as well as candidates for these positions should at all times have professional skills appropriate for their positions, required knowledge and experience as well as good reputation both in their professional and private lives. The process of identifying successors is non-discriminatory with a view to selecting candidates who could potentially fill the positions covered by this Policy based on the assessment of their professional experience, performance and development potential.

SUMMARY INFORMATION ABOUT REMUNERATION PAID TO MANAGEMENT BODY MEMBERS AND IDENTIFIED EMPLOYEES (MATERIAL RISK TAKERS) OF SANTANDER BANK POLSKA GROUP (DIVIDED BY BUSINESS AREA) (PLN K)

	Management Board*	Retail Banking	Business and Corporate Banking	Corporate and Investment Banking *****	Support	Subsidiaries **	TOTAL
Fixed remuneration* **	12 719	4 346	3 862	4 480	12 292	20 822	58 521
Variable remuneration****	9 940	2 153	1 486	3 568	6 651	7 378	31 176
TOTAL	**22 659**	**6 499**	**5 348**	**8 048**	**18 943**	**28 200**	**89 697**

* The aggregated data presented in the "Management Board" column apply only to the remuneration paid for the period when the employee was a member of the Management Board. The remaining part of their remuneration (if any) was included in the adequate group.
**Including Management
*** Fixed remuneration takes into account an allowance in lieu of annual leave at PLN 146,271 in the case of the Management Board members and PLN 136,094 in the case of other executives.. It does not include additional benefits, though.
**** Variable remuneration paid in 2018. No data on variable components of remuneration for the analysed financial year were available at the day of preparing the report.
***** Global Corporate Banking Division in the financial statements as at 31.12.2017

The figures relating to variable remuneration components for 2018 will be published along with the information about the capital adequacy of Santander Bank Polska Group for H1 2019.

THE AMOUNTS OF REMUNERATION FOR 2018 SPLIT INTO FIXED AND VARIABLE REMUNERATION (PLN K)

			VARIABLE REMUNERATION FOR 2018							VARIABLE REMUNERATION FOR 2018			
	Number of employees	Fixed remuneration for 2018****	Bonus for 2013 (deferred part)	Bonus for 2014 (deferred part)	Bonus for 2015 (deferred part)	Bonus for 2016 (deferred part)	Bonus for 2017**	Phantom shares not sold (number of phantom shares)	other financial instrument units	Number of employees	Bonus for 2018*	Phantom shares not sold (number of phantom shares)	Long-term incentive programme (number of shares of Santander Bank Polska S.A.)
Management Board***	12	12 719	0	966	1 183	3 634	4 156	10 795	0	-	-	-	-
Other individuals holding managerial positions	125	45 802	249	1 563	2 104	6 400	10 920	20 518	100 346	-	-	-	-
including the individuals whose remuneration was EUR 1.5m–2m	0	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	**137**	**58 521**	**249**	**2 529**	**3 288**	**10 035**	**15 076**	**31 313**	**100 346**	**0**	**0**	**0**	**0**

* No data on variable components of remuneration for the analysed financial year were available at the day of preparing the report.
** The part due for 2017 and paid in 2018 (without deferral).
*** The aggregated data presented in the "Management Board" column apply only to the remuneration paid for the period when the employee was a member of the Management Board. The remaining part of their remuneration (if any) was included in the adequate group.
**** Fixed remuneration takes into account an allowance in lieu of annual leave at PLN 146,271.60 in the case of the Management Board members and PLN 136,094.10 in the case of other individuals holding managerial positions. It does not include additional benefits, though.
The number of employees – persons who ceased to perform their roles on the Management Board, but continued to hold managerial positions, were specified in both rows.

THE AMOUNT OF VARIABLE REMUNERATION FROM PREVIOUS YEARS NOT PAYABLE YET (PLN K)

	DEFERRED BONUSES TO BE PAID FOR 2014/2015/2016/2017 unvested portion			
	In cash	In phantom shares (number of phantom shares)	In other financial instrument units	Long-term incentive programme launched in 2017 (number of shares)*
Management Board**	4 619	18 936	0	10 034
Other individuals holding managerial positions	6 686	30 912	82 332	14 850
TOTAL	**11 304**	**49 848**	**82 332**	**24 884**

* A third of the maximum obtainable amount after fulfilment of business criteria during the programme's life.
** The aggregated data presented in the "Management Board" column apply only to the remuneration paid for the period when the employee was a member of the Management Board. The remaining part of their remuneration (if any) was included in the adequate group.

NEW SIGN-ON AND SEVERANCE PAYMENTS IN 2018 (PLN K)

	Area	NUMBER OF EMPLOYEES	AMOUNT OF THE PAYMENT	HIGHEST SINGLE PAYOUT
Sign-on payments in 2018	Management Board	0	-	-
	Other individuals holding managerial positions	0	-	-
Severance payments in 2018	Management Board*	1	1 105	1 020
	Other individuals holding managerial positions	2	208	107
Awards	Management Board	0	-	-
	Other individuals holding managerial positions	0	-	-

* The aggregated data presented in the "Management Board" column apply only to the remuneration paid for the period when the employee was a member of the Management Board. The remaining part of their remuneration (if any) was included in the adequate group.

In 2018, the deferred remuneration of persons holding managerial positions was not reduced on account of the adjustment related to the results.

In the analysed accounting year, no employee of Santander Bank Polska S.A. was paid more than EUR 1m.

In 2018, 2 Material Risk Takers were hired while 2 Material Risk Takers terminated their employment agreements and received a severance payment..

Detailed information regarding the remuneration paid to the Management Board Members is presented in note 49 of the Consolidated Financial Statements of Santander Bank Polska Group for 2018.

Long-term incentive programme (6th edition)

Key employees of Santander Bank Polska S.A. capital group may participate in long-term incentive programmes (LTIPs). In 2017 the sixth LTIP was launched and as at 31.12.2018 it covered 212 employees of the Bank and its subsidiaries.

The current programme supports the delivery of the Bank's business and financial objectives. It ensures that the participants strive to meet the expectations of the Bank's shareholders. It also aims to make the work environment in the Bank even more engaging and improve professional customer service in line with the Simple | Personal | Fair values.

The sixth edition of the programme, just like the previous ones, guarantees a competitive and balanced remuneration package to Santander Group employees.

The full award is granted only if, before the end of the programme, Santander Group meets the financial and quality-related objectives defined by the Annual General Meeting of shareholders in terms of the PAT growth rate, RoRWA, customer satisfaction and staff engagement.

The progress of long-term incentive programmes is monitored quarterly. As part of the monitoring, it is verified if any events have occurred that could make LTIP members lose their right to participate in the programme. The most frequent event of this type is termination of the employment relationship with the Bank or another entity from Santander Bank Polska Group. Additionally, the Business Partnership Division, acting together with the Accounting and Financial Control Division, monitors the financial ratios preconditioning the right to the award.