bank as you want it

INFORMATION ON CAPITAL ADEQUACY OF SANTANDER BANK POLSKA GROUP as at 31st December 2019

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, as amended which formed the legal basis of the reporting date i.e. 31 December 2019, as well as applicable provisions arising from Regulation (EU) No 2019/876 of the European Parliament and of the Council of 20 May 2019.

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 Group.

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 and other dedicated guidelines and regulations of EBA.

The data presented in the report were prepared as at 31 December 2019. 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 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 31.12.2019

Name of the entity	Accounting consolidation method	Regulatory consolidation method					Business profile
		Full consolidation	Equity method consolidation	Proportional consolidation	Neither consolidated nor deducted from common equity	Deducted	
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 open-end investment funds, specialised open-end investment funds and portfolios comprising one or more financial instruments
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)
Sanstander AVIVA Towarzystwo Ubezpieczeń S.A.	Equity method		X				Insurance services (personal and property insurance)
Sanstander AVIVA Towarzystwo Ubezpieczeń na Życie S.A.	Equity method		X				Insurance services (life insurance)
Polfund - Fundusz Poręczeń Kredytowych S.A.	Equity method		X				Issuing loan guarantees, investing and managing entrusted funds

(*) on 8 November 2019, Santander Securities S.A. was dissolved and deleted from the National Court Register as a result of its division

Compared with 31 December 2018, the list of the bank's subsidiaries excludes Santander Securities S.A. as a result of the division of the company on 8 November 2019 through:

- transferring to Santander Bank Polska S.A. an organised part of the enterprise of Santander Securities S.A. connected with brokerage services;
- transferring to Santander Finanse Sp. z o.o. an organised part of the enterprise of Santander Securities S.A. connected with capital market training services.

Compared with 31 December 2018, the list of associates did not change.

Detailed information on the structure of Santander Bank Polska Group are presented in the Consolidated Financial Statements of Santander Bank Polska Group for the 2019 year.

2. Outline of the differences in the scopes of consolidation

At Santander Bank Polska Group, there are no differences between entities consolidated for regulatory purposes and entities consolidated for accounting purposes. There are no subsidiaries which would not meet the definition of an institution, a financial institution or an ancillary services undertaking, which, as indicated in the CRR, could result in consolidation differences.

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	7 973 014	7 973 014	7 973 014	-	-	-	-
Items in the course of collection from other banks	3 716 582	3 716 582	3 716 582	-	-	-	-
Trading portfolio assets	2 058 508	2 058 508	-	1 396 194	-	1 957 254	-
Financial assets designated at fair value	43 973	43 973	-	43 973	-	34 817	-
Derivative financial instruments	143 402 629	143 402 629	139 849 740	-	3 552 889	-	-
Loans and advances to banks	1 851 171	1 851 171	-	1 851 171	-	-	-
Loans and advances to customers	41 328 134	41 328 134	41 328 134	-	-	-	-
Reverse repurchase agreements and other similar secured lending	903 113	903 113	903 113	-	-	-	-
Available-for-sale financial investments	772 117	772 117	-	-	-	-	772 117
Goodwill	1 712 057	1 712 057	-	-	-	-	1 712 057
Property, plant and equipment	874 078	874 078	874 078	-	-	-	-
Net deferred tax assets	1 847 916	1 847 916	1 847 916	-	-	-	-
Assets classified as held for sale	2 679	2 679	2 679	-	-	-	-
Other assets	1 061 846	1 061 846	1 061 846	-	-	-	-
Total assets	**209 476 166**	**209 476 166**	**199 485 452**	**3 291 338**	**3 552 889**	**1 992 071**	**2 484 173**
Liabilities							
Deposits from banks	5 031 744	5 031 744	-	-	-	-	-
Items in the course of collection due to other banks	995 627	995 627	-	979 550	-	979 550	-
Customer accounts	1 856 813	1 856 813	-	1 283 250	-	1 407 256	-
Repurchase agreements and other similar secured borrowings	156 480 343	156 480 343	-	-	-	-	-
Trading portfolio liabilities	990 863	990 863	-	30 774	-	-	-
Financial liabilities designated at fair value	2 630 271	2 630 271	-	-	-	-	-
Derivative financial instruments	10 629 516	10 629 516	-	-	-	-	-
Current income tax liabilities	343 763	343 763	-	-	-	-	-
Provisions for off balance sheet credit facilities	66 109	66 109	-	-	-	-	-
Other provisions	445 615	973 719	-	-	-	-	-
Other provisions	2 279 360	1 751 255	-	-	-	-	-
Total liabilities	182 496 656	182 496 656	0	2 293 574	0	2 386 806	0
Equity							
Equity attributable to owners of Santander Bank Polska SA	25 431 987	25 431 987					
Share capital	1 020 883	1 020 883					
Other reserve capital	20 141 925	19 794 005					
Revaluation reserve	1 316 061	1 316 061					
Retained earnings	814 771	1 162 691					
Profit for the current period	2 138 347	2 138 347					
Non-controlling interests in equity	1 547 523	1 547 523					
Total equity	26 979 510	26 979 510					
Total liabilities and equity	**209 476 166**	**209 476 166**	**0**	**2 293 574**	**0**	**2 386 806**	**0**

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

	Total	Items subject to			
		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)	209 476 166	199 485 452	3 291 338	3 552 889	1 992 071
2. Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	182 496 658	-	2 293 574	-	2 386 806
3. Total net amount under the regulatory scope of consolidation	26 979 508	199 485 452	997 764	-	-394 735
4. Off-balance-sheet amounts	40 294 001	5 186 223	-	-	-
5. Differences in valuations	4 605 668	-	2 600 956	-	2 004 713
6. Differences due to different netting rules, other than those already included in row 2	-1 759 519	-	-1 759 519	-	-
7. Differences due to consideration of provisions	119 927	119 927	-	-	-
8. Differences due to prudential filters	477 105	477 105	-	-	-
9. Securitization with risk transfer	-3 552 889	-	-	-3 552 889	-
10. Other adjustments	-253 190	-253 190	-	-	-
11. Exposure amounts considered for regulatorypurposes	**208 464 695**	**205 015 517**	**1 839 201**	**-**	**1 609 978**

II. Risk Management

1. Objectives and strategies for risk management – general

Risk management objectives

The business activity of Santander Bank Polska Group 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.

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 Polish Financial Supervision Authority.

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 (LR) 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 ratifies the key decisions (above pre-defined levels) taken by the main lower-level risk committees, approves the annual trading and ALM limits as well as the annual Model Plan (for risk assessment models). RMC is also an executive committee to which requests from lower level committees may be escalated.

Risk Control Committee responsible for reviewing and controlling the overall enterprise wide risk management profile of the Santander Bank Polska Group as well as the compliance with the Group's Risk Appetite and reporting those aspects to the Management Board. It also ensures that there are appropriate rules for all material risks to be identified, assessed, managed and reported. With a comprehensive reporting procedure in place, the Committee has a full and consistent picture of the Bank's current risk profile and is able to control risk against the risk appetite. The Committee also ensures that appropriate rules are established for all material risks identification, assessment, management, and reporting. RCC also supervises other committees responsible for the management of risks identified in the Bank's operations.

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 Group.

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 of the Bank.

CyberTechRisk Forum which is responsible for the evaluation and proposing changes to the IT, cybersecurity and operations strategy as well as for the monitoring of key issues related to IT, cybersecurity and operations. The Committee is also a forum for discussion on operational risk with focus on technological risk, including cyber risk.

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.

Suppliers Panel, which establishes standards and carries out monitoring regarding providers and services, incl. outsourcing; main forum for discussion on risk resulting from the cooperation with suppliers.

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 foreign currency structure).

Liquidity Forum, which monitors liquidity position of the Bank, with a special focus on the dynamics of deposit and credit volumes, the Bank's needs for financing and the general market situation.

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 Group 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 Polska Group for 2019.

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 Group (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 195m 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 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.

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 2019 and 2018 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	**2019-12-31**	**2018-12-31**	**2019-12-31**	**2018-12-31**
Maximum	298	273	360	375
Average	273	224	194	316
as at the end of the period	292	273	168	298
Limit	**355**	**300**	**500**	**400**

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 2019 and 2018 for 1-day position holding period:

Interest rate risk	VAR	
1 day holding period	**2019-12-31**	**2018-12-31**
Average	1 341	1 702
Maximum	2 887	5 966
Minimum	574	523
as at the end of the period	876	1 508
Limit	**6 836**	**6 767**

In 2019, 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 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 2019 and 2018.

FX risk	VAR	
1 day holding period	**2019-12-31**	**2018-12-31**
Average	405	473
Maximum	1 804	1 939
Minimum	41	53
as at the end of the period	208	150
Limit	**2 848**	**2 820**

In 2019, the VaR limit for currency risk was not exceeded.

As regards the structural exposure to currency risk in the Group's balance sheet, in 2019 the share of foreign currency assets in the balance sheet continued to decrease. This was affected by the increase in PLN loans and advances to customers 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 2019 and in the comparable period.

2019-12-31	PLN	EUR	CHF	USD	Other	Total
ASSETS						
Cash and balances with central banks	7 525 839	274 229	23 303	68 462	81 181	7 973 014
Loans and advances to banks	328 415	2 914 588	15 901	228 934	228 744	3 716 582
Loans and advances to customers	114 316 858	18 023 711	9 825 257	1 196 580	40 223	143 402 629
Financial assets available for sale	38 978 349	1 397 449	-	952 336	-	41 328 134
Selected assets	**161 149 461**	**22 609 977**	**9 864 461**	**2 446 312**	**350 148**	**196 420 359**
LIABILITIES						
Deposits from banks	4 308 531	703 090	457	10 670	8 996	5 031 744
Deposits from customers	132 762 983	16 691 582	432 676	5 229 680	1 363 422	156 480 343
Subordinated liabilities	1 108 589	1 521 682	-	-	-	2 630 271
Selected liabilities	**138 180 103**	**18 916 354**	**433 133**	**5 240 350**	**1 372 418**	**164 142 358**

2018-12-31	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**

The risk attached to the prices of equity instruments listed in active markets is managed by Santander Brokerage Poland which operates within the Corporate and Investment Banking Division. This risk is generated by own trades of Santander Brokerage Poland 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 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 2019 and 2018.

Equity risk	VAR	
1 day holding period	2019-12-31	2018-12-31
Average	235	208
Maximum	370	584
Minimum	67	5
as at end of the period	254	106
Limit	**1 899**	**3 760**

In 2019, 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 2019, the value of the HQLA buffer was PLN 40.96 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 The Polish Financial Supervision Authority 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 2019), 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;
- scenario for an accelerated outflow of deposits that can be terminated via electronic access channels.

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, including intraday liquidity ratios;
- 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 2019, Santander Bank Polska Group focused on keeping its loan-to-deposit ratio at a comfortable level (92% as at 31 December 2019) and controlling key short and long-term liquidity measures. As at 31 December 2019, the consolidated Liquidity Coverage Ratio was 171%, and 190% as at 31 December 2018. In 2019 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 consolidated level (for Santander Bank Polska Group) as at 31 December 2019 and in the comparable period. As at 31.12.2018 nominal value have been presented.

2019-12-31	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	15 725 719	16 687 777	8 197 072	9 327 794	12 786 230	27 934 038	62 372 859	66 306 766
Liabilities and equity	96 955 108	20 541 171	14 809 349	12 703 934	11 026 585	16 338 398	14 799 986	16 627 271
including:	-	-	-	-	-	-	-	-
- Sell-buy-back transactions	-	30 773	-	-	-	-	-	-
- Deposits from banks	150 425	562 580	1 519 163	892 605	1 038 952	1 827 301	1 517 602	2 295 204
- Deposits from customers	96 804 683	19 266 892	12 301 469	9 315 425	7 380 959	4 259 097	928 493	35 941
- Debt securities in issue	-	42 413	988 717	1 711 550	1 334 593	2 302 793	2 757 994	3 971 761
- Subordinated liabilities	-	-	-	-	-	2 129 250	-	2 620 710
- Lease liabilities	-	-	-	-	-	-	-	-
Contractual liquidity mismatch/ gap	(81 229 389)	(3 853 395)	(6 612 276)	(3 376 140)	1 759 645	11 595 640	47 572 873	49 679 496
Cumulative liquidity gap	(81 229 389)	(85 082 784)	(91 695 060)	(95 071 200)	(93 311 555)	(81 715 916)	(34 143 042)	15 536 453
Net derivatives	-	(325)	-	-	-	-	-	-
Asset derivatives	-	29 373 023	17 516 441	7 518 944	7 190 904	5 808 308	9 404 847	8 105 640
Liabilities derivatives	-	29 388 673	17 137 735	7 550 744	7 035 089	5 627 740	9 778 306	8 447 265
Off balance positions Total	32 683 259	2 992 985	509 018	499 237	480 531	236 922	216 119	2 500
-guarantees & letters of credits	6 935 865	-	-	-	-	-	-	-
-credit lines	8 661 867	2 937 527	208 708	80 289	-	-	-	-

2018-12-31	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	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 and equity	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:	-	-	-	-	-	-	-	-
- Sell-buy-back transactions	-	8 234 700	-	-	-	-	-	-
- Deposits from banks	150 124	163 643	103 273	277 167	132 025	45 173	61 223	57 678
- Deposits from customers	85 279 121	16 680 560	14 917 966	11 274 837	6 170 320	966 886	203 186	3 731
- Debt securities in issue	-	-	-	661 633	527 375	16 181	2 166 069	-
- Subordinated liabilities	-	-	(343)	8 267	-	-	-	2 535 530
Contractual liquidity mismatch/ 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
Cumulative 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)

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: consolidated Currency and units (PLN million)	Total unweighted value (average)				Total weighted value (average)			
	Quarter ending on (DD Month YYY)	31 December 2019	30 September 2019	30 June 2019	31 March 2019	31 December 2019	30 September 2019	30 June 2019	31 March 2019
	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)					38223,457	37 216	36 079	34 721
	CASH-OUTFLOWS								
2	Retail deposits and deposits from small business customers, of which:	80 502	77 290	72 363	67 478	7 031	6 662	6 030	5 378
3	*Stable deposits*	46 140	45 230	44 941	44 739	2 307	2 262	2 247	2 237
4	*Less stable deposits*	34 361	32 060	27 421	22 740	4 724	4 401	3 782	3 141
5	Unsecured wholesale funding	37 637	36 724	35 368	33 025	16 850	16 349	15 637	14 688
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	7 975	7 604	7 036	6 515	1 991	1 899	1 757	1 626
7	*Non-operational deposits (all counterparties)*	29 407	28 899	28 207	26 357	14 603	14 230	13 756	12 909
8	*Unsecured debt*	255	221	125	153	255	221	125	153
9	Secured wholesale funding					0	0	0	0
10	Additional requirements	22 970	22 236	21 388	21 030	3 831	3 406	3 192	3 132
11	*Outflows related to derivative exposures and other collateral requirements*	1 887	1 466	1 281	1 222	1 887	1 466	1 281	1 222
12	*Outflows related to loss of funding on debt products*	0	0	0	0	0	0	0	0
13	*Credit and liquidity facilities*	21 082	20 770	20 107	19 808	1 943	1 940	1 911	1 910
14	Other contractual funding obligations	1 672	1 983	1 961	2 151	1 419	1 726	1 712	1 903
15	Other contingent funding obligations	11 336	10 899	10 225	9 583	529	516	493	472
16	TOTAL CASH OUTFLOWS					29 658	28 660	27 065	25 574
	CASH-INFLOWS								
17	Secured lending (eg reverse repos)	769	413	256	161	1	1	1	0
18	Inflows from fully performing exposures	6 410	6 095	5 891	5 780	5 291	4 983	4 805	4 734
19	Other cash inflows	1 000	833	741	689	1 000	833	741	689
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	8 179	7 342	6 889	6 630	6 292	5 818	5 547	5 423
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***	8 179	7 342	6 889	6 630	6 292	5 818	5 547	5 423
21	LIQUIDITY BUFFER					38 223	37 216	36 079	34 721
22	TOTAL NET CASH OUTFLOWS					23 366	22 842	21 518	20 151
23	LIQUIDITY COVERAGE RATIO (%)					164%	163%	169%	174%

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 31.12.2019 PLN 628 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.

Details about the Risk Management are presented in Note 4 to the Consolidated Financial Statements of Santander Bank Polska Group for 2019.

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. Operational risk contains also legal risk but do not contain strategic risk or reputational risk.

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 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.

Taking into account the increasing influence of cyberrisk the forum of CyberTech Risk was appointed. The forum is responcible for considering, monitoring, and in some cases acceptance of key IT, cybersecurity and operations related issue. The main forum competences are among others the review of the strategy and IT development directions, and additionally the technology and operational risk monitoring, including cybersecurity risk.

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.

Additionally, in the process of risk selfassessment the specialised risks are assessed, such as technology risk, vendors risk, cyber risk and compliance risk.

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 2019 GROSS LOSSES (PLN K)

	Operational event class		
Event types	**Event category**	**PLN k**	**%**
1 Internal fraud	1.1. Unauthorised activity	-6	0,0%
	1.2. Theft and fraud	-126	-0,1%
2 External fraud	2.1. Theft and fraud	1 316	0,5%
	2.2. Security of systems	2 489	0,9%
3 Occupational safety and health, employment practices	3.1. Labour relations	619	0,2%
	3.2 Safety and health in the workplace	32	0,0%
4 Customers, products and operating practices	4.1. Adaptation, disclosure of information and trust	265	0,1%
	4.2. Inappropriate business or market practices	301	0,1%
	4.3. Defective products	261 887	98,2%
	4.4. Selection, Sponsorship and Risks	12	0,0%
5 Damage to tangible assets	5.1. Natural disasters and other incidents	1 102	0,4%
6. Business interruption and system errors	6.1. Systems	77	0,0%
7 Execution of transactions, delivery and management of operating processes	7.1. Reception, execution , execution and maintenance of transactions	5 640	2,1%
	7.2. Monitoring and presentation of reports	80	0,0%
	7.3. Acceptance of customers and documentation	151	0,1%
	7.4. Customer account management	-7 301	-2,7%
	7.5. Trade counterparties other that the Bank's clients (e.g. clearing chambers)	137	0,1%
	7.6. Distributors and suppliers	49	0,0%

* Data do not include credit boundary events, the data include resolved provisions but do not include recoveries

In 2019 the highest level of operational losses was observed in category "Customers, products and operating practices – Defective products" (4.3). The level of losses was mainly caused by:

- The provision for legal risk concerning the portfolio of foreign currency mortgage loans: PLN 173M (including PLN 149M of Santander Bank Polska S.A. and PLN 24M of Santander Consumer Bank.
- The provision for reimbursement of part of commission for granting consumer loans repaid ahead of the schedule: PLN 58M (including PLN 9M of Santander Bank Polska S.A. and PLN 49M of Santander Consumer Bank).

The increase of operational risk losses in the aforementioned category results from the change of external legal environment which is independent from the Bank.

The negative level of losses in category "Customer account management" (7.4) results from resolving provisions for lawsuit won by Santander Brokerage Office, the lawsuit concerned errors in mistakes with customer account management.

The Santander Bank Polska 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 external 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 to 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 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.

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 Bank 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 September 2019), 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);
- prevention of using the financial system for money laundering and terrorist financing;
- 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 Bank's Capital Group.

Apart from the aforementioned activities, the Compliance Unit actively cooperates with the Corporate Communications and Marketing Area and Risk Management Division 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 Capital 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:

   a) Profits have been verified by institution-independent persons responsible for analysing financial statements of the institution

   b) The institution has satisfactorily proved that the profit amount has been reduced by all forseeable encumbrances and dividends
5. Accumulated other comprehensive income
6. Other reserves
7. Funds for general banking risk
8. Minority interest recognised in Common Equity Tier I capital – calculated in line with the standards indicated in Art. 84 of CRR
9. 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

i. Securitisation positions which can alternatively be subject to a 1.250% risk weight

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 31.12.2019 (PLN K)

ITEMS OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION USED FOR CALCULATION OF OWN FUNDS	as at 31.12.2019	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	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	**42 231 246**	-	-	-	-	-		
-including significant investments into financial sector entities – amount not exceeding the threshold set in Article 48(1)(b)	960 982	-	-	-	-	-	**960 982**	73
Intangible fixed assets	**772 117**	-	-	-	-	-	**772 117**	8
Goodwill	**1 712 056**	-	-	-	-	-	**1 712 056**	8
Deferred tax assets (net)	**1 847 916**	*124 804*	*-62 747*	-	-	-	**1 909 974**	
-including assets that do not exceed the threshold set in Article 48(1)(a)	1 847 916	*124 804*	*-62 747*	-	-	-	**1 909 974**	75
Liabilities								
Subordinated obligations	**2 630 271**	-	-	-	-	-	-	
- including loans eligible as instruments under Tier II	2 520 710	-	-	-	-	-	**2 520 710**	46
Equity attributable to shareholders of BZ WBK S.A. including:								
Share capital	**1 020 883**	-	-	-	-	-	**1 020 883**	1
Other capital items	**20 141 925**	*-347 920*	-	-	*-142 343*	-	**19 651 662**	
- share premium	7 981 974	-	-	-	-	-	**7 981 974**	1
- general banking risk fund	649 810	-	-	-	-	-	**649 810**	3a
- reserve capital	10 461 937	*-357 631*	-	-	*-142 343*	-	**9 961 963**	3
- supplementary capital	1 048 205	*9 711*	-	-	-	-	**1 057 915**	3
Revaluation reserve	**1 316 061**	-	-	-	-	-	**1 316 061**	3
Retained earnings	**814 771**	*-9 711*	-	-	142 343	*-300 249*	**647 154**	2
Current year profit	**2 138 347**	-	-	*-1 659 399*	-	-	**478 950**	5a

As at 31 December 2019, the total own funds of the Santander Bank Polska Group amounted to PLN **24 440 183k**.

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 31.12.2019 (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	9 002 857	26 (1), 27, 28, 29
	of which: shares	9 002 857	EBA list 26 (3)
2	Retained earnings	647 154	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	12 335 939	26 (1)
3a	Funds for general banking risk	649 810	26 (1) (f)
5	Minority interests (amount allowed in consolidated CET1)	992 145	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	478 950	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory**	**24 106 856**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-87 943	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-2 484 173	36 (1) (b), 37
15	Defined-benefit pension fund assets (negative amount)	-9 775	36 (1) (e), 41
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-20 457	36 (1) (k)
20c	of which: securitisation positions (negative amount)	-20 457	36 (1) (k) (ii) ; 243 (1) (b) 244 (1) (b); 258
26b	Filter for IFRS 9 phase in	267 500	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-2 334 849**	
29	**Common Equity Tier 1 (CET1) capital**	**21 772 007**	
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)**	**21 772 007**	
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	2 520 710	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	147 466	87, 88
51	**Tier 2 (T2) capital before regulatory adjustment**	**2 668 176**	
Tier 2 (T2) capital: regulatory adjustments			
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	
58	**Tier 2 (T2) capital**	**2 668 176**	
59	**Total capital (TC = T1 + T2)**	**24 440 183**	
60	**Total risk-weighted assets**	**143 180 901**	
Capital ratios and buffers			
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount**	**15,21%**	92 (2) (a)
62	**Tier 1 (as a percentage of total risk exposure amount**	**15,21%**	92 (2) (b)
63	**Total capital (as a percentage of total risk exposure amount**	**17,07%**	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)	6,25%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2,50%	
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	0,75%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7,21%	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)	960 982	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)	1 909 974	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 2019 amounted to PLN **1 020 883k.** The nominal value of a share is PLN 10. All the issued shares are fully paid-up. Details of the instruments 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 2019, the supplementary capital in own funds was PLN **9 039 889k**. incl. share premium of PLN **7 981 974k.**

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 2019, after including prudential consolidation adjustments, the other reserves in own funds was PLN **9 961 963k**.

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 2019, 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 2019 totaled PLN **2 444 109k**, including PLN 305 760k of profit attributable to shareholders who do not exercise control. As at 31 December 2019, 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 **478 950k** of current year profit on own funds elements.

As at 31st December 2019 in Own Funds of Santander Bank Polska Group the **retained earnings** are included in the amount of PLN **647 154k**, of which undistributed Bank's net profit from previous years amounted PLN 542 513k.

In May 2019, the General Meeting of Santander Bank Polska S.A. Shareholders agreed on the distribution of the net profit of **PLN 2 167 161k** for the accounting year from 1 January 2018 to 31 December 2018 as follows:

- PLN 541 068k was allocated to dividend for shareholders;
- PLN 1 083 581k was allocated to capital reserves;
- PLN 542 513k was left undistributed.

Additionally, AGM has allocated retained earnings resulting from recognition on financial assets in accordance with IFRS 9 in the accounting year from 1 January 2018 to 31 December 2018 in the amount of PLN 17 809k to the reserve capital.

Furthermore, the AGM decided to distribute the retained net profit of PLN **958 078k** in respect of the accounting year from 1 January 2017 to 31 December 2017 as follows:

- PLN 957 588k was allocated to dividend for shareholders;
- PLN 490k was allocated to capital reserves.

The AGM decided to distribute the retained net profit of PLN **514 767k** in respect of the accounting year from 1 January 2016 to 31 December 2016 as follows:

- PLN 514 026k was allocated to dividend for shareholders;
- PLN 741k was allocated to capital reserves.

The number of shares eligible for the dividend paid from the profit for 2018 and 2017 is 102 088 305 series A, B, C, D, E, F, G, H, I, J, K, L, M and N. The number of shares eligible for the dividend paid from the profit for 2016 is 101 989 358 series

A, B, C, D, E, F, G, H, I, J, K, L and N. The M shares series are not eligible for the dividend paid from the profit for 2016, in accordance with Annual General Meeting of the Bank no. 43 dated 17th May 2017.

Dividend per one: A, B, C, D, E, F, G, H, I, J, K, L and N series share was PLN **19.72**.

Dividend per on M series share was PLN **14.68**.

Minority interests

As at 31 December 2019, the minority interests recognised in the consolidated Tier 1 capital totalled PLN **992 145k** 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 **(87 943)k**.

As at 31 December 2019, 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 2019, deduction from Common Equity Tier I regarding other intangible assets amounted to PLN **(772 117)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 2019, own funds include subordinated liabilities of PLN **2 520 710k**.

SUBORDINATED LIABILITIES OF THE SANTANDER BANK POLSKA GROUP ELIGIBLE AS TIER II CAPITAL AS AT 31 DECEMBER 2019 (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	425 850
Other financial institution (serie E)	120 000	EUR	120 000 EUR	03.12.2026	03.12.2021	511 020
International Finance Corporation (IFC green bonds)	137 100	EUR	137 100 EUR	22.05.2027	22.05.2022	583 840
Other financial institution (serie F)	1 000 000	PLN	1 000 000 PLN	05.04.2028	05.04.2023	1 000 000
						2 520 710

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 **147 466k**, 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 34 to the Consolidated Financial Statements of the Santander Bank Polska Group for 2019.

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 1 020,883 m	PLN 425,850 m	PLN 511,020 m	PLN 583,840 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 Series N: "Share Exchange Ratio" re. the merger of Santander Bank Polska S.A. with Deutsche Bank Polska S.A., pursuant to Resoliution no. 3 of the Extraordinary Meeting of Santander Bank Polska S.A. Shareholders, dd. 29.05.2018 r.	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 Series N: 27.11.2018	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	If: (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 conversion powers with respect to the Bonds.'	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)	31.12.2019	30.09.2019	30.06.2019	31.03.2019	31.12.2018	30.09.2018	30.06.2018
1	Common Equity Tier 1 (CET1) capital	21 772 007	21 304 929	21 213 963	21 319 141	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	21 518 299	21 112 683	21 022 236	21 162 089	19 984 622	19 476 357	19 518 903
3	Tier 1 capital	21 772 007	21 304 929	21 213 963	21 319 141	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	21 518 299	21 112 683	21 022 236	21 162 089	19 984 622	19 476 357	19 518 903
5	Total capital	24 440 183	24 022 983	23 878 687	23 994 949	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	24 186 104	23 830 358	23 686 570	23 837 572	22 658 089	22 141 723	22 215 395
	Risk-weighted assets (amounts)							
7	Total risk-weighted assets	143 180 901	148 832 179	146 860 022	145 694 924	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	143 036 349	148 669 000	146 651 223	145 626 494	142 852 541	126 704 428	125 718 206
	Capital ratios							
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	15,21%	14,31%	14,45%	14,63%	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	15,04%	14,20%	14,33%	14,53%	13,99%	15,37%	15,53%
11	Tier 1 (as a percentage of risk exposure amount)	15,21%	14,31%	14,45%	14,63%	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	15,04%	14,20%	14,33%	14,53%	13,99%	15,37%	15,53%
13	Total capital (as a percentage of risk exposure amount)	17,07%	16,14%	16,26%	16,47%	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	16,91%	16,03%	16,15%	16,37%	15,86%	17,48%	17,67%
	Leverage ratio							
15	Leverage ratio total exposure measure	216 545 068	211 890 820	213 078 028	221 096 601	212 258 409	186 417 103	177 260 235
16	Leverage ratio	10,05%	10,05%	9,96%	9,64%	9,50%	10,55%	11,09%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	9,95%	9,97%	9,87%	9,58%	9,42%	10,46%	11,02%

4. Own funds and eligible liabilities

This report has been drawn up to fulfill the obligations arising from the Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012 (CRR). Being a subsidiary and a member of international Santander

Group with Banco Santander as the parent undertaking, Santander Bank Polska S.A. belongs to a group considered to be a global systemically important institution.

According to the Group Resolution Plan and Viability Assessment for Santander Group, the preferred resolution strategy is the Multiple Point of Entry (MPE) resolution strategy. Being a subsidiary of Santander Group, Santander Bank Polska S.A. is considered to be one of the points of entry. In the light of the foregoing, the Bank is considered compliant with Article 92a of the CRR and, as from 27 June 2019, the Bank has an obligation to satisfy the requirements for own funds and bailed-in liabilities laid down in CRR, taking into account the transitional period under Article 494 of the CRR.

According to Article 92a of the CRR, whereby institutions need to satisfy the requirements for own funds and eligible liabilities, calculated as 16% of the total risk exposure amount and 6% of the leverage ratio exposure measure by 31 December 2021 and, as from 1 January 2022, calculated as 18% of the total risk exposure amount and 6.75% of the leverage ratio exposure measure.

For Santander Bank Polska Group surplus own funds and other TLAC-eligible instruments amounted 2.73% referred to the minimum requirement, i.e. 16%, which applied as at 31 December 2019.

The resolution and recovery authorities decided that the minimum requirement for own funds and eligible liabilities (MREL) for Santander Bank Polska Group would be 15.87% of the total liabilities and own funds ("TLOF"), which corresponds to 22.146% of total risk exposure (TRE). This requirement should be met by 1 January 2023. At the same time, the mid-term MREL targets have been set. Their values at the end of 2019, 2020 and 2021 in relations to TLOF are 10.37%, 12.202% and 14.035%, respectively, and in relations to TRE are 14.474%, 17.031% and 19.588%, respectively, according to current report no 40/2019 of 18 December 2019.

As at 31 December 2019, the Bank fulfill the MREL limits required by BFG.

TLAC1 - POSITION OF SANTANDER BANK POLSKA GROUP

	Regulatory capital elements of TLAC and adjustments	31.12.2019
1	Common Equity Tier 1 capital (CET1)	21 772 007
2	Additional Tier 1 capital (AT1) before TLAC adjustments	0
3	AT1 ineligible as TLAC as issued out of subsidiaries to third parties	0
4	Other adjustments	0
5	AT1 instruments eligible under the TLAC framework	0
6	Tier 2 capital (T2) before TLAC adjustments	2 668 176
7	Amortised portion of T2 instruments where remaining maturity > 1 year	0
8	T2 capital ineligible as TLAC as issued out of subsidiaries to third parties	0
9	Other adjustments	147 466
10	T2 instruments eligible under the TLAC framework	2 520 710
11	TLAC arising from regulatory capital	24 292 718
	Non-regulatory capital elements of TLAC	
12	External TLAC instruments issued directly by the bank and subordinated to excluded liabilities	0
13	External TLAC instruments issued directly by the bank which are not subordinated to excluded liabilities but meet all other TLAC term sheet requirements	2 531 610
14	Of which: amount eligible as TLAC after application of the caps	2 531 610
15	External TLAC instruments issued by funding vehicles prior to 1 January 2022	0
16	Eligible ex ante commitments to recapitalise a G-SIB in resolution	0
17	TLAC arising from non-regulatory capital instruments before adjustments	2 531 610
	Non-regulatory capital elements of TLAC: adjustments	
18	TLAC before deductions	26 824 328
19	Deductions of exposures between MPE resolution groups that correspond to items eligible for TLAC (not applicable to SPE G-SIBs)	0
20	Deduction of investments in own other TLAC liabilities	0
21	Other adjustments to TLAC	0
22	TLAC after deductions	26 824 328
	Risk-weighted assets and leverage exposure measure for TLAC purposes	
23	Total risk-weighted assets adjusted as permitted under the TLAC regime	143 180 901
24	Leverage exposure measure	216 545 068
	TLAC ratios and buffers	
25	TLAC (as a percentage of risk-weighted assets adjusted as permitted under the TLAC regime)	18,73%
26	TLAC (as a percentage of leverage exposure)	12,39%
27	CET1 (as a percentage of risk-weighted assets) available after meeting the resolution group's minimum capital and TLAC requirements	-
28	Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)	3,25%
29	Of which: capital conservation buffer requirement	2,50%
30	Of which: bank specific countercyclical buffer requirement	0,00%
31	Of which: higher loss absorbency requirement (O-SII)	0,75%

As at 31st December 2019 total amount of covered deposits which are excluded from eligible liabilities items according to Art. 72a (2) at the level of Santander Bank Polska Group amounted **88 784 553 kPLN**.

Total amount of deposits not covered which are excluded from eligible liabilities such us deposits for Households, Micro & SME and deposits with an original maturity of less than one year amounted **62 149 219 kPLN.**

TLAC3 - CREDITOR HIERARCHY OF SANTANDER BANK POLSKA GROUP

		Creditor ranking				Sum of 1 to 4
		1 (most junior)	2	3	4 (most senior)	
1	Description of creditor ranking (free text)	Share Capital*	Additional Tier I instruments	Subordinated Debts in Tier II	Other TLAC-eligible instruments**	
2	Total capital and liabilities net of credit risk mitigation	9 002 857	0	2 520 710	2 531 610	14 055 177
3	Subset of row 2 that are excluded liabilities	0	0	0	0	0
4	Total capital and liabilities less excluded liabilities (row 2 minus row 3)	9 002 857	0	2 520 710	2 531 610	14 055 177
5	Subset of row 4 that are potentially eligible as TLAC	9 002 857	0	2 520 710	2 424 485	13 948 052
6	Subset of row 5 with 1 year ≤ residual maturity < 2 years	0	0	0	2 419 580	2 419 580
7	Subset of row 5 with 2 years ≤ residual maturity < 5 years	0	0	0	112 029	112 029
8	Subset of row 5 with 5 years ≤ residual maturity < 10 years	0	0	2 520 710	0	2 520 710
9	Subset of row 5 with residual maturity ≥ 10 years, but excluding perpetual securities	0	0	0	0	0
10	Subset of row 5 that is perpetual securities	9 002 857	0	0	0	9 002 857

* inc. Share Capital (PLN 1 020 883k) and Share Premium (PLN 7 981 974k)

**TLAC eligible instruments include senior unsecured liabilities and uncovered deposits which meet conditions of to Art. 72a CRR

KM2 - SUMMARIES KEY METRICS ABOUT TLAC AVAILABLE AND TLAC REQUIREMENTS APPLIED AT THE SANTANDER BANK POLSKA GROUP LEVEL

	Resolution group	31.12.2019
1	Total Loss Absorbing Capacity (TLAC) available	26 824 328
1a	Fully loaded ECL accounting model TLAC available*	26 570 620
2	Total RWA at the level of the resolution group	143 180 901
3	TLAC as a percentage of RWA (row1/row2) (%)	18,73%
3a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model RWA (%)	18,58%
4	Leverage exposure measure at the level of the resolution group	216 545 068
5	TLAC as a percentage of leverage exposure measure (row1/row4) (%)	12,39%
5a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model Leverage exposure measure (%)	12,28%
6a	Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	No
6b	Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	No
6c	If the capped subordination exemption applies, the amount of funding issued that ranks pari passu with Excluded Liabilities and that is recognised as external TLAC, divided by funding issued that ranks pari passu with Excluded Liabilities and that would be recognised as external TLAC if no cap was applied (%)	N/A

* including total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied

CCA - THE MAIN FEATURES OF COMMON EQUITY TIER I, TIER II INSTRUMENTS AND OTHER TLAC ELIGIBLE INSTRUMENTS

	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.	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	Operation No. 48146	XS1849525057
3	Governing law(s) of the instrument	polish	english/polish	polish	english	polish	English	English
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for other TLAC-eligible instruments governed by foreign law)	N/A	N/A	N/A	N/A	N/A	Statutory	Statutory
	Regulatory treatment							
4	Transitional CRR rules	Common Equity Tier I	Tier II	Tier II	Tier II	Tier II	TLAC	TLAC
5	Post-transitional CRR rules	Common Equity Tier I	Tier II	Tier II	Tier II	Tier II	TLAC	TLAC
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	solo and consolidated	solo and 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	Senior unsecured	Senior unsecured
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	PLN 1 020,883 m	PLN 425,850 m	PLN 511,020 m	PLN 583,840 m	PLN 1 b	N/A – amount eligible for TLAC only	N/A – amount eligible for TLAC only
9	Nominal amount of instrument	10 PLN	100 000 000 EUR	120 000 000 EUR	137 100 000 EUR	1 000 000 000 PLN	25 000 000 EUR	500 000 000 EUR
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 Series N: "Share Exchange Ratio" re. the merger of Santander Bank Polska S.A. with Deutsche Bank Polska S.A., pursuant to Resoliution no. 3 of the Extraordinary Meeting of Santander Bank Polska S.A. Shareholders, dd.	100% of nominal value	100% of nominal value	100% of nominal value	100% of nominal value	100% of nominal value	99.926 per cent. of the aggregate nominal amount
9b	Redemption price	N/A	100% of nominal value	100% of nominal value	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	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 Series N: 27.11.2018	05-08-2010	02-12-2016	22-05-2017	05-04-2018	2018-09-28	2018-09-20
12	Perpetual or dated	N/A	Dated	Dated	dated	dated	dated	dated

13	Original maturity date	No maturity	05-08-2025	03-12-2026	22-05-2027	05-04-2028	2022-12-05	2021-09-20
14	Issuer call subjet to prior supervisory approval	N/A	Yes	Yes	Yes	Yes	No	No
15	Optional call date, contingent call dates, and redemption amount	N/A	05-08-2020	03-12-2021	22-05-2022	05-04-2023	any time	Event of default
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)	any time	Event of default
	Coupons / dividends							
17	Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating	Floating	Floating	Fixed coupon
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	above six-month WIBOR for each interest period	0,0075
19	Existence of a dividend stopper	No	Yes	No	Yes	No	EBRD consent required if dividend payment NOT out of the Borrower's net income earned in the preceding Financial Year and then only if no Default has occurred and is continuing	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing	Fully discretionary	Mandatory	N/A	Partally discretionairy	Partally discretionairy	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	N/A	Partially discretionary	Partially discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	N/A	No	No	No	No	No	N/A
22	Noncumulative or cumulative	Noncumulative	Cumulative	N/A	N/A	n/a	Cumulative	Cumulative
23	Convertible or non-convertible	Nonconvertible	Nonconvertible	Nonconvertible	Convertible	Non-convertible	Non-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	N/A	N/A

25	If convertible, fully or partially	N/A	N/A	N/A	fully	N/A	N/A	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	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	mandatory	N/A	N/A	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	N/A	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	N/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	No	No	No
31	If write-down, write-down trigger (s)	N/A	N/A	N/A	as above	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	as above	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	as above	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	as above	N/A	N/A	N/A
34a	Type of subordination	N/A	N/A	N/A	N/A	N/A	Statutory	Statutory
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	most senior in subordination hierarchy	most senior in subordination hierarchy
36	Non-compliant transitioned features	No	No	No	No	No	No	No
37	If yes, specifiy non-compliant features	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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 2019.

In 2019, Santander Bank Polska S.A. 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:

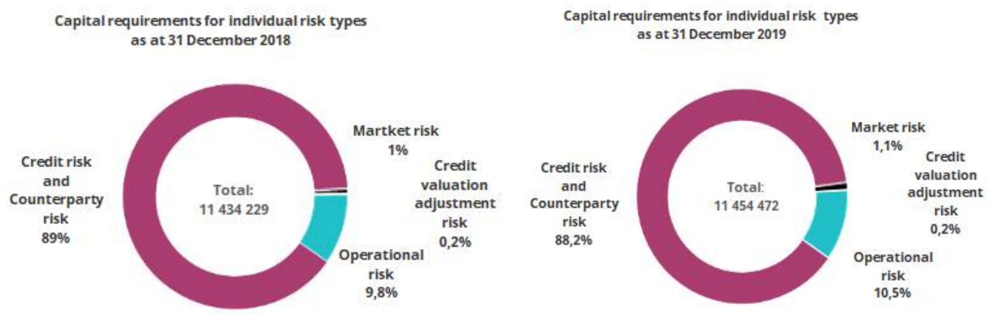
- capital requirement for credit risk
- capital requirement for market risk, including:
  - ✓ capital requirement for positions risk, including:
    - specific and general risk of debt instruments
    - specific and general risk of equity instruments
  - ✓ capital requirement for FX risk
- capital requirement 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 31 December 2019, the total capital requirements of Santander Bank Polska Group calculated in line with the CRR was PLN **11,454,472k**, including:

- for credit risk and counterparty credit risk, credit valuation adjustment risk **PLN 10,127,216k**
- for market risk **PLN 128,798k**
- for operational risk **PLN 1,198,458k.**

PERCENTAGE STRUCTURE OF THE CAPITAL REQUIREMENTS FOR 12/2018 AND 12/2019



EU OV1 – OVERVIEW OF RWAS (PLN K)

		RWAs		Minimum capital requirements
		31.12.2019	30.09.2019	31.12.2019
	Credit risk (excluding CCR)	**117 771 664**	**123 156 093**	**9 421 733**
Article 438(c)(d)	Of which the standardised approach	117 771 664	123 156 093	9 421 733
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**	**1 641 140**	**1 912 018**	**131 292**
Article 438(c)(d)	Of which mark to market	1 345 945	1 612 544	107 676
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	3 858	4 759	309
Article 438(c)(d)	Of which CVA	291 337	294 715	23 307
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**	**1 609 978**	**1 616 914**	**128 798**
	Of which the standardised approach	1 609 978	1 616 914	128 798
	Of which IMA	0	0	0
Article 438(e)	**Large exposures**	**0**	**0**	**0**
Article 438(f)	**Operational risk**	**14 980 731**	**14 980 731**	**1 198 458**
	Of which basic indicator approach	0	0	0
	Of which standardised approach	14 980 731	14 980 731	1 198 458
	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)	7 177 388	7 166 423	574 191
Article 500	Floor adjustment	0	0	0
	Total	**143 180 901**	**148 832 179**	**11 454 472**

The biggest item is the total capital requirement of Santander Bank Polska Group is the capital requirement for credit risk (including the amount below the threshold for deduction (subject to 250% risk weight)), which on 31 December 2019 accounted for 87.27% 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 S.A. 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	46 928 704	44 190 713
Regional governments or local authorities	163 160	146 068
Public sector entities	82 555	71 448
Multilateral development banks	519 108	438 470
Institutions	5 513 976	4 273 797
Corporates	24 687 683	26 375 789
Of which: SMEs	2 038 569	3 047 408
Retail	52 508 328	52 955 348
Of which: SMEs	15 820 938	14 498 521
Secured by mortgages on immovable property	63 642 308	61 957 700
Of which: SMEs	6 194 657	6 202 250
Exposures in default	4 081 687	3 906 581
Items associated with particularly high risk	77 441	5 238
Collective investments undertakings	1 375	1 736
Equity exposures	1 788 024	1 718 590
Other exposures	5 021 168	4 945 222
Total	**205 015 517**	200 986 700

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

	a)	b)	c)	d)	e)	f)	g)	h)	i)	j)	k)	l)	m)	n)	o)
	Net value														
	Europe	Belgium	Czech Republic	Denmark	France	Spain	Netherlands	Luxembourg	Germany	Poland	Switzerland	United Kingdom	Other countries	Other geographical areas	Total
Central governments or central banks	46 928 704	-	-	-	-	-	-	-	-	46 928 704	-	-	-	-	46 928 704
Regional governments or local authorities	163 160	-	-	-	-	-	-	-	-	163 160	-	-	-	-	163 160
Public sector entities	82 555	-	-	-	-	-	-	-	-	82 555	-	-	-	-	82 555
Multilateral development banks	519 108	-	-	-	-	-	-	519 108	-	-	-	-	-	-	519 108
Institutions	5 396 346	920 578	9 951	92 221	234 535	548 425	21	32 445	428 406	2 623 588	15 738	239 965	250 473	117 630	5 513 976
Corporates	24 401 208	-	110 705	2	97 850	2 154 715	306 240	2 152 541	191 124	19 018 244	1	63 266	306 520	286 475	24 687 683
Retail	52 506 336	129	20	41	246	218	800	456	2 805	52 486 294	3 155	1 544	10 628	1 992	52 508 328
Secured by mortgages on immovable property	63 604 578	311	-	-	1 005	2 123	27 377	95 693	8 346	63 432 345	337	14 549	22 492	37 730	63 642 308
Exposures in default	4 081 364	1	24	1	120	91	401	11	125	4 060 087	-	94	20 409	323	4 081 687
Items associated with particularly high risk	77 441	-	-	-	-	-	-	-	-	77 441	-	-	-	-	77 441
Collective investments undertakings	1 375	-	-	-	-	-	-	-	-	1 375	-	-	-	-	1 375
Equity exposures	1 788 024	580	-	-	-	-	-	-	-	1 787 444	-	-	-	-	1 788 024
Other exposures	5 021 168	-	-	-	-	-	-	-	-	5 021 168	-	-	-	-	5 021 168
Total	204 571 367	921 599	120 700	92 265	333 756	2 705 572	334 839	2 800 254	630 806	195 682 405	19 231	319 418	610 522	444 150	**205 015 517**

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)

	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	-	-	-	-	-	-	-	-	-	-	9 277 633	-	-	-	33 934 012	-	-	-	3 717 059	-	-	46 928 704
Regional governments or local authorities	-	-	-	-	-	-	-	14 373	-	-	-	-	-	-	148 787	-	-	-	-	-	-	163 160
Public sector entities	-	-	-	-	725	150	-	48 723	75	1 931	45	39	957	-	44	16 545	9 655	3 437	229	-	-	82 555
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	519 108	-	-	-	-	-	-	-	-	-	-	519 108
Institutions	-	-	-	-	-	-	-	-	-	-	5 513 976	-	-	-	-	-	-	-	-	-	-	5 513 976
Corporates	149 582	670 223	5 013 162	2 051 862	89 552	550 146	6 541 708	1 267 068	1 253 690	1 367 802	679 899	1 381 259	1 751 838	719 520	246	11 080	132 818	95 749	960 479	-	-	24 687 683
Retail	1 943 344	30 810	2 200 388	19 093	105 944	1 298 792	3 675 239	1 694 518	420 588	459 292	157 702	234 179	1 265 397	447 998	3 439	160 583	1 137 580	130 098	424 998	36 698 346	-	52 508 328
Secured by mortgages on immovable property	880 855	66 639	6 506 243	92 606	153 014	1 517 155	4 465 915	715 481	1 201 509	1 674 488	103 052	6 582 308	1 364 903	198 764	-	127 740	400 164	68 446	84 055	37 438 971	-	63 642 308
Exposures in default	76 442	385 655	495 911	3 970	8 119	219 208	393 290	89 423	108 123	66 665	7 094	318 332	48 015	83 053	452	6 086	12 757	5 568	190 460	1 563 064	-	4 081 687
Items associated with particularly high risk	-	-	-	-	-	77 441	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	77 441
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	1 375	-	-	-	-	-	-	-	-	-	-	1 375
Equity exposures	-	-	-	-	-	-	-	1 166	-	-	1 784 324	-	1 398	556	-	-	-	-	580	-	-	1 788 024
Other exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5 021 168	5 021 168
Total	3 050 223	1 153 327	14 215 704	2 167 531	357 354	3 662 892	15 076 152	3 830 752	2 983 985	3 570 178	18 044 208	8 516 117	4 432 508	1 449 891	34 086 980	322 034	1 692 974	303 298	5 377 860	75 700 381	5 021 168	205 015 517

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	129 432	11 023 247	22 751 846	11 114 205	1 909 974	46 928 704
Regional governments or local authorities	2	84 194	53 650	25 314	-	163 160
Public sector entities	20 093	4 976	55 495	1 991	-	82 555
Multilateral development banks	-	-	255 569	263 539	-	519 108
Institutions	99 828	3 419 658	1 987 691	6 799	-	5 513 976
Corporates	2 158 557	11 351 366	9 137 574	2 034 812	5 374	24 687 683
Retail	4 432 708	5 022 379	20 511 642	22 541 599	-	52 508 328
Secured by mortgages on immovable property	4 412 775	2 983 826	11 992 404	44 253 303	-	63 642 308
Exposures in default	209 733	2 134 928	1 022 190	714 836	-	4 081 687
Items associated with particularly high risk	-	77 441	-	-	-	77 441
Collective investments undertakings	-	-	-	-	1 375	1 375
Equity exposures	-	-	-	-	1 788 024	1 788 024
Other exposures	-	-	-	-	5 021 168	5 021 168
Total	11 463 128	36 102 015	67 768 061	80 956 398	8 725 915	205 015 517

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						
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
Central governments or central banks	-	46 928 704	-	-	-	-	46 928 704
Regional governments or local authorities	-	163 493	333	-	-	-	163 160
Public sector entities	-	83 022	467	-	-	-	82 555
Multilateral development banks	-	519 108	-	-	-	-	519 108
Institutions	-	5 514 156	180	-	-	-	5 513 976
Corporates	-	24 776 118	88 435	-	33	-	24 687 683
Of which: SMEs	-	2 044 891	6 322	-	2	-	2 038 569
Retail	-	53 279 887	771 559	-	240	-	52 508 328
Of which: SMEs	-	16 068 733	247 795	-	31	-	15 820 938
Secured by mortgages on immovable property	-	63 850 902	208 594	-	354	-	63 642 308
Of which: SMEs	-	6 277 410	82 753	-	-	-	6 194 657
Exposures in default	7 499 271	-	3 417 584	-	989 512	-	4 081 687
Items associated with particularly high risk	103 763	-	26 322	-	-	-	77 441
Collective investments undertakings	-	1 375	-	-	-	-	1 375
Equity exposures	-	1 788 024	-	-	-	-	1 788 024
Other exposures	-	5 021 168	-	-	-	-	5 021 168
Total	7 603 034	201 925 957	4 513 474	-	990 139	-	**205 015 517**
Of which: Loans	7 432 597	139 714 414	4 483 542	-	990 139	-	142 663 469
Of which: Debt securities	16 027	42 437 022	219	-	-	-	42 452 830
Of which: Offbalance-sheet exposures	34 782	5 161 240	9 799	-	-	-	5 186 223

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 2019 by an independent auditor, and having received a relevant consent from the Polish Financial Supervision Authority (KNF), the bank classified the amount of PLN 478,950k 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	190 357	3 010 365	150 499	-	2 487	-	3 050 223
Mining and quarrying	405 650	769 076	21 399	-	201	-	1 153 327
Manufacturing	716 128	13 759 830	293 221	-	28 423	-	14 182 737
Electricity, gas, steam and air conditioning supply	9 546	2 203 751	12 799	-	240	-	2 200 498
Water supply	18 400	352 569	13 615	-	1 262	-	357 354
Construction	464 127	3 386 852	188 088	-	53 887	-	3 662 891
Wholesale and retail trade	882 512	14 790 999	597 359	-	126 591	-	15 076 152
Transport and storage	207 624	3 774 872	151 744	-	13 070	-	3 830 752
Accommodation and food service activities	203 174	2 900 799	119 988	-	3 867	-	2 983 985
Information and communication	140 692	3 513 745	84 259	-	4 765	-	3 570 178
Financial and insurance activities	24 660	18 041 919	22 371	-	4 196	-	18 044 208
Real estate activities	438 082	8 221 994	143 959	-	105 496	-	8 516 117
Professional, scientific and technical activities	138 234	4 417 407	123 133	-	12 021	-	4 432 508
Administrative and support service activities	139 761	1 381 906	71 776	-	12 525	-	1 449 891
Public administration and defence, compulsory social security	707	34 086 876	603	-	-	-	34 086 980
Education	15 409	320 175	13 550	-	1 658	-	322 034
Human health services and social work activities	31 365	1 698 707	37 098	-	2 758	-	1 692 974
Arts, entertainment and recreation	11 835	300 531	9 068	-	963	-	303 298
Other services	251 393	5 233 954	107 487	-	37 728	-	5 377 860
Retail	3 313 378	74 738 462	2 351 458	-	578 001	-	75 700 382
Other	-	5 021 168	-	-	-	-	5 021 168
Total	**7 603 034**	**201 925 957**	**4 513 474**	**-**	**990 139**	**-**	**205 015 517**

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	7 602 377	201 481 752	4 512 762	0	990 080	0	204 571 367
Belgium	2	921 600	3	-	1	-	921 599
Czech Republic	50	121 448	798	-	-	-	120 700
Denmark	2	92 270	7	-	-	-	92 265
France	182	333 747	173	-	3	-	333 756
Spain	128	2 705 753	309	-	-	-	2 705 572
Netherlands	645	335 180	986	-	-	-	334 839
Luxembourg	24	2 803 801	3 571	-	-	-	2 800 254
Germany	234	630 691	119	-	20	-	630 806
Poland	7 572 402	192 607 440	4 497 437	-	990 017	-	195 682 405
Switzerland	1	19 231	1	-	-	-	19 231
United Kingdom	219	319 636	437	-	1	-	319 418
Other countries	28 488	590 955	8 921	-	38	-	610 522
Other geographical areas	657	444 204	711	-	59	-	444 150
Łącznie	7 603 034	201 925 956	4 513 473	-	990 139	-	**205 015 517**

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). The IFRS 9 approach is based on estimation of the expected credit loss (ECL). 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 depend on changes in risk after recognition of the exposure. The standard distinguishes 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 are 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 are 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 are 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 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.

The Group applies debt forbearance defined as a repayment concession for customers experiencing financial difficulties or customers who will have problems servicing their debts owed to Santander Bank Polska Group on the original terms and conditions. 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 CR2-A – CHANGES IN THE STOCK OF GENERAL AND SPECIFIC CREDIT RISK ADJUSTMENTS (PLN K)

	a) Accumulated specific credit risk adjustment	b) Accumulated general credit risk adjustment
Opening balance	**-3 440 852**	**0**
Increases due to amounts set aside for estimated loan losses during the period	(2 035 532)	-
Decreases due to amounts reversed for estimated loan losses during the period	1 082 076	-
Decreases due to amounts taken against accumulated credit risk adjustments	1 116 233	-
Transfers between credit risk adjustments	(538 384)	-
Impact of exchange rate differences	13 875	-
Business combinations, including acquisitions and disposals of subsidiaries	333 852	-
Other adjustments	51 148	-
Closing balance	**-3 417 584**	**0**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	(1 147 372)	-
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	**7 034 524**
Loans and debt securities that have defaulted or impaired since the last reporting period	2 137 577
Returned to non-defaulted status	(230 574)
Amounts written off	(989 512)
Other changes	(452 744)
Closing balance	**7 499 271**

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 30.42%.

As at 31 December 2019, the Group’s debt instruments portfolio included PLN **1 537 789k** 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)	142 130 402	5 719 290	1 237 837	4 481 453	-
Total debt securities	40 015 354	2 437 476	-	2 437 476	-
Total exposures	182 145 756	8 156 766	1 237 837	6 918 929	-
Of which defaulted	4 125 358	33 770	1 067	32 703	-

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	46 928 704	-	49 450 733	73 840	5 070 970	4%
Regional governments or local authorities	163 128	20 109	163 117	32	32 630	0%
Public sector entities	77 442	67 687	77 418	2 240	39 829	0%
Multilateral development banks	519 108	-	1 063 104	-	-	0%
Institutions	5 406 109	789 401	7 413 306	296 002	2 666 793	2%
Corporates	21 941 475	25 799 898	17 743 145	2 492 671	19 678 667	16%
Retail	50 902 632	9 365 205	50 278 168	1 536 660	36 164 239	29%
Secured by mortgages on immovable property	62 953 600	4 009 720	61 540 209	678 407	50 497 811	40%
Exposures in default	4 049 089	125 252	4 048 239	32 381	4 832 122	4%
Items associated with particularly high risk	77 441	-	77 441	-	116 161	0%
Collective investments undertakings	1 375	-	1 375	-	1 375	0%
Equity exposures	1 788 024	-	1 788 024	-	3 229 496	3%
Other exposures	5 021 168	-	5 021 168	-	2 618 959	2%
Total	199 829 295	40 177 272	198 665 447	5 112 233	124 949 052	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)

Exposure classes	Risk weight																Total	Of which unrated
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted		
Central governments or central banks	45 413 667	-	-	1 441 507	759 426	-	-	-	-	-	-	1 909 974	-	-	-	-	49 524 574	4 945 833
Regional governments or local authorities	-	-	-	-	163 149	-	-	-	-	-	-	-	-	-	-	-	163 149	163 149
Public sector entities	-	-	-	-	-	-	79 658	-	-	-	-	-	-	-	-	-	79 658	79 772
Multilateral development banks	1 063 104	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1 063 104	-
Institutions	-	-	-	-	3 959 956	-	3 749 098	-	-	253	-	-	-	-	-	-	7 709 307	1 211 092
Corporates	-	-	-	-	-	-	209 289	-	-	20 026 527	1	-	-	-	-	-	20 235 817	19 530 318
Retail	-	-	-	-	-	-	-	-	51 814 828	-	-	-	-	-	-	-	51 814 828	51 814 828
Secured by mortgages on immovable property	-	-	-	-	-	24 148 484	-	-	-	27 257 831	10 812 300	-	-	-	-	-	62 218 615	61 862 462
Exposures in default	32 703	-	-	-	-	-	-	-	-	2 479 508	1 568 408	-	-	-	-	-	4 080 619	4 047 917
Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	77 441	-	-	-	-	-	77 441	77 441
Collective investments undertakings	-	-	-	-	-	-	-	-	-	1 375	-	-	-	-	-	-	1 375	1 375
Equity exposures	-	-	-	-	-	-	-	-	-	827 043	-	960 982	-	-	-	-	1 788 025	1 788 025
Other exposures	2 374 777	-	-	-	34 289	-	-	-	-	2 612 102	-	-	-	-	-	-	5 021 168	5 021 168
Total	48 884 251	-	-	1 441 507	4 916 820	24 148 484	4 038 045	-	51 814 828	53 204 639	12 458 150	2 870 956	-	-	-	-	203 777 680	150 543 380

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		1 778 323	1 497 198			3 275 521	1 333 770
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)						60 878	12 176
VaR for SFTs						-	-
Total							**1 345 945**

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

Exposure classes	Risk weight												Total	Of which unrated
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	Others		
Central governments or central banks	-	-	-	-	52 843	-	-	-	-	-	-	-	52 843	-
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	16	-	98	-	-	-	-	-	114	114
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	165 439	510 571	-	-	1 136 534	-	669 471	-	-	4 069	-	-	2 486 084	894 561
Corporates	-	-	-	-	3 111	-	52 162	-	-	716 966	-	-	772 239	566 487
Retail	-	-	-	-	-	-	-	-	25 118	-	-	-	25 118	25 118
Secured by mortgages on immovable property	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in default	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	165 439	510 571	-	-	1 192 504	-	721 731	-	25 118	721 035	-	-	3 336 399	1 486 280

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	1 327 506	291 337
Based on the original exposure method	-	-
Total subject to the CVA capital charge	1 327 506	291 337

EU CCR8 – EXPOSURES TO CCPS (PLN K)

	a) EAD post CRM	b) RWAs
Exposures to QCCPs (total)		14 069
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	510 571	10 211
(i) OTC derivatives	510 571	10 211
(ii) Exchange-traded derivatives	-	-
(iii) SFTs	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	165 439	
Non-segregated initial margin	-	-
Prefunded default fund contributions	77 374	3 858
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	3 680 361	1 902 038	1 778 323	-	1 778 323
SFTs	1 881 908	-	1 881 908	1 821 030	60 878
Cross-product netting	-	-	-	-	-
Total	5 562 269	1 902 038	3 660 231	1 821 030	1 839 201

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
2 859	38

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)	1 559 526	124 762
Equity risk (general and specific)	50 452	4 036
Foreign exchange risk		
Commodity risk		
Total	**1 609 978**	**128 798**

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.

The Regulation of the Minister of Economic Development and Finance of 1 September 2017 set up the systemic risk buffer at 3% level.

Moreover, the KNF set the minimum capital ratios for banks. Since 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 2019 the conservation buffer is 2.5 p.p.

Based on the assessment of the systemic importance of the bank, the KNF in its decision of 19 December 2017, 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 at that time was 0.50 p.p. On 18 October 2019 Bank received the Polish Financial Supervision Authority’s decision (letter no nr DBK.7111.62.2019 dated 14 October 2019) regarding a change of the other systemically important institution buffer imposed on Bank. Pursuant to the PFSA's decision, the Bank is currently required to maintain the O-SII buffer in the amount equivalent to 0.75% of the total risk exposure amount calculated in accordance with art. 92 par. 3 of the Regulation (EU) No 575/2013.

On 12 November 2019 Bank received the decision of the Polish Financial Supervision Authority (letter no DBK.700.57.2019 dated 5 November 2019) regarding the expiry of a decision issued by Polish Financial Supervision Authority dated of 15 October 2018 (no DBK-DBK2.700.21.2018) in the subject of maintain own funds to cover the additional capital requirement to secure the risk arising from FX mortgage loans for households at over the amount calculated in accordance with the detailed rules set in Regulation. Thus, the Bank is not obliged to keep the additional capital requirement indicated in the expired decision. Until now, the level of additional capitalrequirement of the bank, referred to above, was 0.51 pp. over the amount calculated in accordance with art. 92 clause 1 letter c of the Regulation (EU) No 575/2013 that should be composed at least in 75% of Tier I capital (equivalent to own funds requirement of 0.38 ppover the amount calculated in accordance with art. 92 clause 1 letter bof the Regulation (EU) No 575/2013) and at least in 56% of the common equity Tier I capital (equivalent to own funds requirement of 0.29 pp over the amount calculated in accordance with art. 92 clause 1 letter a of the Regulation (EU) No 575/2013).

Additionally, Bank recived letter from the Polish Financial Supervision Authority no BDK-DBK.Z2.7111.2.2019 dated 19 November 2019 concerning imposing on the Bank the amount of an additional capital requirement over the amount calculated in accordance with detailed rules defined in Regulation (EU) No 575/2013 for the Bank' Group.

The Polish Financial Supervision Authority imposed the additional capital requirement covering the risk of the foreign currency mortgage loans for households, at Bank's Group level at amount 0.04 p.p., for the amount calculated in accordance with article 92 item 1 letter c of the Regulation (EU) No 575/2013, which should be covered at least in 75% by Tier I funds (equivalent to own funds requirement of 0.03 p.p. over the amount calculated in accordance with article 92 item 1 letter b of the Regulation (EU) No 575/2013) and at least in 56% of the Common Equity Tier I capital (equivalent to own funds requirement of 0.02 p.p. over the amount calculated in accordance with art. 92 clause 1 letter a of the Regulation (EU) No 575/2013).

Taking into account the above requirements, the minimum capital ratios as at 31 December 2019 are as follows:

- ✓ Tier 1 capital ratio of 12.25% and 12.28% for the Bank and the Group, respectively;
- ✓ total capital ratio of 14.25% and 14.29% for the Bank and the Group, respectively.

The table below presents unconsolidated and consolidated minimum ratios.

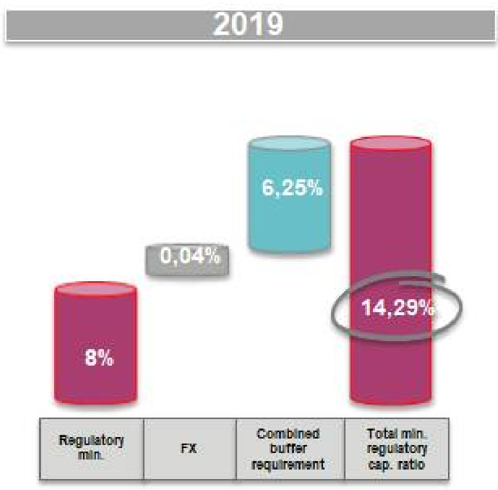
CAPITAL BUFFERS OF BANK AND GROUP AT 31.12.2019

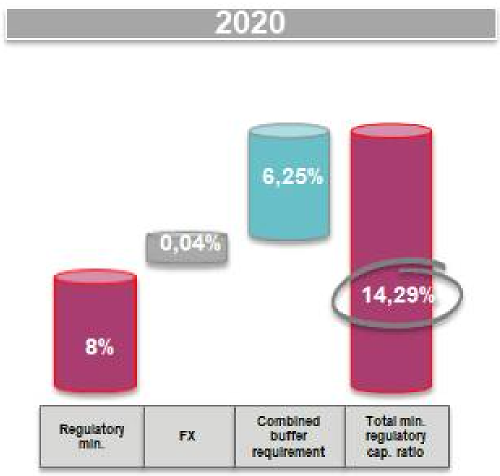
	2 019			
	BANK		GRUPA	
	CAR	TIER 1	CAR	TIER 1
Base	8%	6%	8%	6%
Systemic risk buffer	3%	3%	3%	3%
Fx buffer	0%	0%	0,04%	0,03%
Capital conservation buffer	2,5%	2,5%	2,5%	2,5%
O-SII buffer	0,75%	0,75%	0,75%	0,75%
Total minimum ratio	**14,25%**	**12,25%**	**14,29%**	**12,28%**

CAPITAL BUFFERS OF BANK AND GROUP FOR 2020

	2 020			
	BANK		GRUPA	
	CAR	TIER 1	CAR	TIER 1
Base	8%	6%	8%	6%
Systemic risk buffer	3%	3%	3%	3%
Fx buffer	0%	0%	0,04%	0,03%
Capital conservation buffer	2,5%	2,5%	2,5%	2,5%
O-SII buffer	0,75%	0,75%	0,75%	0,75%
Total minimum ratio	**14,25%**	**12,25%**	**14,29%**	**12,28%**

CAPITAL BUFFERS AND RATIOS OF SANTANDER BANK POLSKA GROUP AS AT 31.12.2019 AND 31.12.2020





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 31.12.2019
Total risk exposure amount [PLN k]	143 180 901
Institution specific countercyclical buffer rate [%]	0,00240
Institution specific countercyclical buffer requirement [PLN k]	3 436

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	149 427 474	- -	-	- -	3 545 591	- -	9 195 841	436	-	9 196 277	97,51164	0,00000
2.	Luxembourg	2 158 972	- -	-	- -	-	- -	165 516	-	-	165 516	1,75503	0,00000
3.	United States	250 125	- -	-	- -	-	- -	12 383	-	-	12 383	0,13130	0,00000
4.	Netherlands	149 833	- -	-	- -	-	- -	12 004	-	-	12 004	0,12728	0,00000
5.	Malta	139 430	- -	-	- -	-	- -	11 154	-	-	11 154	0,11827	0,00000
6.	Czech Republic	110 749	- -	-	- -	-	- -	8 835	-	-	8 835	0,09368	1,50000
7.	United Kingdom	83 067	- -	-	- -	-	- -	6 980	-	-	6 980	0,07401	1,00000
8.	Cyprus	55 776	- -	-	- -	-	- -	4 461	-	-	4 461	0,04731	0,00000
9.	Spain	37 139	- -	-	- -	-	- -	277	-	-	277	0,00294	0,00000
10.	Mexico	34 245	- -	-	- -	-	- -	2 738	-	-	2 738	0,02903	0,00000
11.	Ireland	22 435	- -	-	- -	-	- -	2 035	-	-	2 035	0,02157	1,00000
12.	Kazakhstan	18 533	- -	-	- -	-	- -	1 483	-	-	1 483	0,01572	0,00000
13.	Germany	13 106	- -	-	- -	-	- -	991	-	-	991	0,01051	0,00000
14.	Estonia	13 015	- -	-	- -	-	- -	1 342	-	-	1 342	0,01423	0,00000
15.	Romania	11 846	- -	-	- -	-	- -	948	-	-	948	0,01005	0,00000
16.	Korea, Republic of	11 129	- -	-	- -	-	- -	887	-	-	887	0,00940	0,00000
17.	Liechtenstein	6 260	- -	-	- -	-	- -	751	-	-	751	0,00796	0,00000
18.	Ukraine	5 296	- -	-	- -	-	- -	374	-	-	374	0,00397	0,00000
19.	Switzerland	3 493	- -	-	- -	-	- -	216	-	-	216	0,00229	0,00000
20.	Monaco	3 316	- -	-	- -	-	- -	199	-	-	199	0,00211	0,00000
21.	Russian Federation	3 075	- -	-	- -	-	- -	245	-	-	245	0,00260	0,00000
22.	France	2 523	- -	-	- -	-	- -	211	-	-	211	0,00224	0,25000
23.	Peru	1 136	- -	-	- -	-	- -	90	-	-	90	0,00096	0,00000
24.	Sweden	1 100	- -	-	- -	-	- -	78	-	-	78	0,00083	2,50000
25.	Australia	648	- -	-	- -	-	- -	39	-	-	39	0,00041	0,00000
26.	Belarus	557	- -	-	- -	-	- -	34	-	-	34	0,00036	0,00000
27.	Slovakia	506	- -	-	- -	-	- -	30	-	-	30	0,00032	1,50000
28.	Tunisia	466	- -	-	- -	-	- -	37	-	-	37	0,00040	0,00000
29.	Belgium	1 021	- -	-	- -	-	- -	92	-	-	92	0,00097	0,00000
30.	Hungary	440	- -	-	- -	-	- -	14	-	-	14	0,00015	0,00000
31.	Italy	399	- -	-	- -	-	- -	24	-	-	24	0,00026	0,00000
32.	Portugal	388	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
33.	New Zealand	359	- -	-	- -	-	- -	43	-	-	43	0,00046	0,00000
34.	India	310	- -	-	- -	-	- -	22	-	-	22	0,00023	0,00000
35.	Israel	302	- -	-	- -	-	- -	24	-	-	24	0,00026	0,00000
36.	Turkey	221	- -	-	- -	-	- -	15	-	-	15	0,00016	0,00000
37.	Algeria	163	- -	-	- -	-	- -	13	-	-	13	0,00014	0,00000
38.	Norway	160	- -	-	- -	-	- -	10	-	-	10	0,00010	2,50000
39.	Lithuania	125	- -	-	- -	-	- -	8	-	-	8	0,00008	1,00000
40.	Nepal	117	- -	-	- -	-	- -	7	-	-	7	0,00008	0,00000
41.	Austria	98	- -	-	- -	-	- -	6	-	-	6	0,00006	0,00000
42.	Finland	86	- -	-	- -	-	- -	5	-	-	5	0,00005	0,00000
43.	Chile	78	- -	-	- -	-	- -	5	-	-	5	0,00005	0,00000
44.	Serbia	69	- -	-	- -	-	- -	4	-	-	4	0,00004	0,00000
45.	Bulgaria	65	- -	-	- -	-	- -	4	-	-	4	0,00004	0,50000
46.	Bangladesh	62	- -	-	- -	-	- -	4	-	-	4	0,00004	0,00000

No.	Country	General credit exposures: Exposure value for SA	General credit exposures: Exposure value for IRB	Trading book exposures: Sum of long and short position of trading book exposure for SA	Trading book exposures: Value of trading book exposures for internal models	Securitisation exposures: Exposure value for SA	Securitisation exposures: Exposure value for IRB	Own funds requirements: Of which: General credit exposures	Own funds requirements: Of which: Trading book exposures	Own funds requirements: Of which: Securitisation exposures	Own funds requirements: Total	Own funds requirements weights [%]	Countercyclical capital buffer rate[%]
47.	United Arab Emirates	61	- -	-	- -	-	- -	4	-	-	4	0,00004	0,00000
48.	Armenia	53	- -	-	- -	-	- -	3	-	-	3	0,00003	0,00000
49.	Georgia	50	- -	-	- -	-	- -	3	-	-	3	0,00003	0,00000
50.	Denmark	44	- -	-	- -	-	- -	3	-	-	3	0,00003	1,00000
51.	Moldova, Republic of	39	- -	-	- -	-	- -	2	-	-	2	0,00003	0,00000
52.	Anguilla	33	- -	-	- -	-	- -	3	-	-	3	0,00003	0,00000
53.	Venezuela, Bolivarian Republic of	32	- -	-	- -	-	- -	2	-	-	2	0,00002	0,00000
54.	Canada	28	- -	-	- -	-	- -	2	-	-	2	0,00002	0,00000
55.	Latvia	28	- -	-	- -	-	- -	2	-	-	2	0,00002	0,00000
56.	China	26	- -	-	- -	-	- -	2	-	-	2	0,00002	0,00000
57.	Slovenia	19	- -	-	- -	-	- -	1	-	-	1	0,00001	0,00000
58.	Philippines	17	- -	-	- -	-	- -	1	-	-	1	0,00001	0,00000
59.	Congo	16	- -	-	- -	-	- -	1	-	-	1	0,00001	0,00000
60.	Taiwan, Province of China	14	- -	-	- -	-	- -	1	-	-	1	0,00001	0,00000
61.	Viet Nam	12	- -	-	- -	-	- -	1	-	-	1	0,00001	0,00000
62.	Panama	12	- -	-	- -	-	- -	1	-	-	1	0,00001	0,00000
63.	Nigeria	10	- -	-	- -	-	- -	1	-	-	1	0,00001	0,00000
64.	Cameroon	10	- -	-	- -	-	- -	1	-	-	1	0,00001	0,00000
65.	Uzbekistan	10	- -	-	- -	-	- -	1	-	-	1	0,00001	0,00000
66.	Azerbaijan	7	- -	-	- -	-	- -	-	-	-	-	0,00001	0,00000
67.	Pakistan	6	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
68.	Tajikistan	6	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
69.	Saudi Arabia	5	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
70.	Afghanistan	4	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
71.	Kenya	3	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
72.	Gibraltar	3	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
73.	Dominican Republic	3	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
74.	Greece	3	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
76.	Mongolia	2	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
77.	Zimbabwe	2	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
78.	Hong Kong	2	- -	-	- -	-	- -	-	-	-	-	0,00000	2,00000
79.	Iraq	2	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
80.	Indonesia	2	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
81.	Egypt	2	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
82.	Ethiopia	2	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
83.	Brazil	2	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
84.	Japan	1	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
85.	Libyan Arab Jamahiriya	1	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
86.	Croatia	1	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
87.	Virgin Islands, British	1	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
88.	Kyrgyzstan	1	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
89.	South Africa	1	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
90.	Morocco	1	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
91.	Belize	1	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
92.	Ghana	1	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
	Total	**152 570 292**	**0**	**0**	**0**	**3 545 591**	**0**	**9 430 514**	**436**	**0**	**9 430 950**	**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 2019, 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 2019, 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 12.25%;
- a Tier 1 capital ratio of Santander Bank Polska Group of 12.28%;
- a total capital ratio of Santander Bank Polska S.A. of 14.25%;

- a total capital ratio of Santander Bank Polska Group of 14.29%.

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 Recommendations of the Polish Financial Supervision Authority

In the letter of 24 December 2019 the KNF presented its stance on the dividend policy of commercial banks in 2020.

In accordance with the requirements set by the Regulator, 75% of 2019 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 2020) + 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 2020) + 1.5%.

Criteria for dividend payment up to 100% from the profit earned in 2019, 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, was set at 1.24 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 2019, Santander Bank Polska S.A. meets the criteria to pay a dividend of 100% of the net profit earned in 2019, 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 2019 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 2019 or retained profit for 2018.

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 31.12.2019 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.

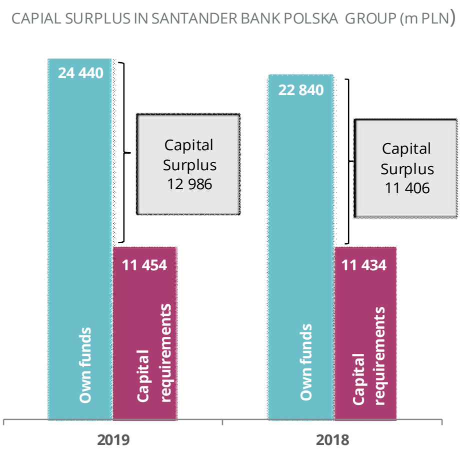
The value of asset exposure is the carrying value of the asset after adjustments for specific credit risk, additional value adjustments and other own fund deductions related to a particular asset. The off-balance sheet exposure is the percentage of the nominal value less adjustments for specific credit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

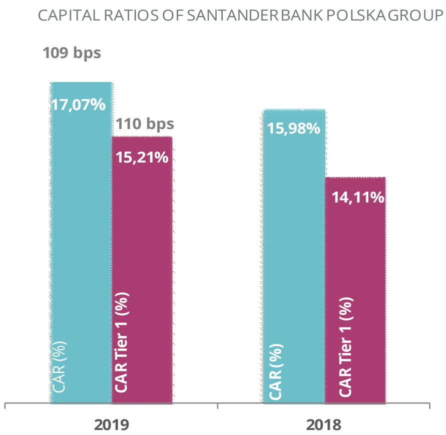
Taking into account total capital requirements of PLN **11 454 472k** as at 31 December 2019 and own funds of PLN **24 440 183k**, the capital ratio of Santander Bank Polska Group is **17.07%.**

The total capital ratio as at 31 December 2019 vs. 31 December 2018 was impacted by the following:

- inclusion of N series shares in own funds
- allocation of the profit for 2018 to Tier 1 capital;
- dividend payment from the retained earnings 2016-2017
- increase in the value of risk weighted assets for credit risk arising from the business activity.

CAPITAL ADEQUACY OF BANK GROUP IN 2018 - 2019





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. Non-performing and forborne exposures

Santander Bank Polska S.A. presents information of non-performing and forborne exposures in accordance with EBA/GL/2018/10 guidelines of December 17, 2018 on disclosure of non-performing and forborne exposures.

CREDIT QUALITY OF FORBORNE EXPOSURES (PLN K)

	a	b	c	d	e	f	g	h
	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
			Of which defaulted	Of which impaired				
Loans and advances	1 216 435	2 054 844	1 154 062	2 053 990	-92 557	-937 718	1 857 604	1 036 942
Central banks	0	0	0	0	0	0	0	0
General governments	0	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0	0
Other financial corporations	1 387	3 145	2 473	3 145	-337	-2 410	1 785	735
Non-financial corporations	556 833	1 371 244	709 475	1 371 244	-42 638	-493 716	1 266 587	807 982
Households	658 215	680 455	442 114	679 601	-49 581	-441 592	589 232	228 224
Debt Securities	0	391 771	0	312 193	0	-10 787	354 034	354 034
Loan commitments given	11 066	30 579	5 484	30 579	715	13 743	0	0
Total	**1 227 501**	**2 477 195**	**1 159 547**	**2 396 762**	**-91 842**	**-934 762**	**2 211 638**	**1 390 977**

CREDIT QUALITY OF PERFORMING AND NON-PERFORMING EXPOSURES BY PAST DUE DAYS (PLN K)

	a	b	c	d	e	f	g	h	i	j	k	l
	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Loans and advances	152 280 751	151 093 426	1 187 326	7 993 197	1 709 728	670 941	1 226 625	1 007 670	2 390 458	586 435	401 339	6 210 729
Central banks	5 591 558	5 591 558	0	0	0	0	0	0	0	0	0	0
General governments	276 182	276 180	2	870	2	139	2	23	704	0	0	869
Credit institutions	5 302 518	5 302 518	0	0	0	0	0	0	0	0	0	0
Other financial corporations	1 530 119	1 527 754	2 366	22 474	2 457	2 597	3 543	6 679	6 608	48	543	20 017
Non-financial corporations	59 432 204	58 978 483	453 721	4 076 653	1 022 417	199 978	564 418	323 217	1 191 453	539 243	235 927	2 981 497
Of which SMEs	45 897 565	45 655 983	241 581	3 866 009	937 610	188 673	556 781	319 025	1 126 165	512 191	225 564	2 913 980
Households	80 148 170	79 416 933	731 237	3 893 199	684 853	468 227	658 662	677 752	1 191 692	47 144	164 869	3 208 347
Debt securities	41 538 517	41 538 517	0	438 889	419 042	0	0	0	0	0	19 847	0
Central banks	3 849 679	3 849 679	0	0	0	0	0	0	0	0	0	0
General governments	35 421 430	35 421 430	0	0	0	0	0	0	0	0	0	0
Credit institutions	2 056 897	2 056 897	0	0	0	0	0	0	0	0	0	0
Other financial corporations	194 285	194 285	0	0	0	0	0	0	0	0	0	0
Non-financial corporations	16 225	16 225	0	438 889	419 042	0	0	0	0	0	19 847	0
Off-balance-sheet exposures	40 194 281			99 720								15 385
Central banks	0			0								0
General governments	132 874			0								0
Credit institutions	869 016			0								0
Other financial corporations	409 493			82								0
Non-financial corporations	32 143 730			79 852								7 383
Households	6 639 168			19 785								8 002
Total	**234 013 549**	**192 631 942**	**1 187 326**	**8 531 805**	**2 128 770**	**670 941**	**1 226 625**	**1 007 670**	**2 390 458**	**586 435**	**421 186**	**6 226 114**

As at 31/12/2019, the gross carrying amount of NPLs calculated in accordance with EBA / GL / 2018/10 was 4.99%.

PERFORMING AND NON-PERFORMING EXPOSURES AND RELATED PROVISIONS (PLN K)

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Accumulated partial write-off	On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
Loans and advances	152 280 751	145 555 437	6 725 314	7 993 197		7 993 197	-1 164 546	-576 217	-588 329	-4 953 969		-4 953 969	0	95 893 656	2 167 198
Central banks	5 591 558	5 591 558	0	0		0	0	0	0	0		0	0	0	0
General governments	276 182	258 552	17 629	870		870	-839	-175	-665	-371		-371	0	87 462	494
Credit institutions	5 302 518	5 302 518	0	0		0	-95	-95	0	0		0	0	1 585 840	0
Other financial corporations	1 530 119	1 509 713	20 406	22 474		22 474	-6 465	-4 454	-2 010	-17 223		-17 223	0	522 532	4 691
Non-financial corporations	59 432 204	56 804 857	2 627 347	4 076 653		4 076 653	-391 600	-283 258	-108 343	-2 265 325		-2 265 325	0	33 010 343	1 668 841
Of which SMEs	45 897 565	43 981 772	1 915 793	3 866 009		3 866 009	-349 821	-250 392	-99 429	-2 161 011		-2 161 011	0	25 528 568	1 575 973
Households	80 148 170	76 088 238	4 059 932	3 893 199		3 893 199	-765 547	-288 236	-477 311	-2 671 050		-2 671 050	0	60 687 479	493 172
Debt securities	41 538 517	41 538 517	0	438 889		438 889	-27	-27	0	-68 827		-68 827	0	0	301 406
Central banks	3 849 679	3 849 679	0	0		0	0	0	0	0		0	0	0	0
General governments	35 421 430	35 421 430	0	0		0	-23	-23	0	0		0	0	0	0
Credit institutions	2 056 897	2 056 897	0	0		0	0	0	0	0		0	0	0	0
Other financial corporations	194 285	194 285	0	0		0	0	0	0	0		0	0	0	0
Non-financial corporations	16 225	16 225	0	438 889		438 889	-4	-4	0	-68 827		-68 827	0	0	301 406
Off-balance-sheet exposures	40 194 281	33 670 599	6 523 682	99 720		99 720	39 740	31 555	8 185	26 369		26 369		2 445 741	1 853
Central banks	0	0	0	0		0	0	0	0	0		0		0	0
General governments	132 874	0	132 874	0		0	205	22	183	0		0		14 319	0
Credit institutions	869 016	869 016	0	0		0	471	471	0	0		0		360 816	0
Other financial corporations	409 493	405 001	4 492	82		82	960	956	4	0		0		66 767	0
Non-financial corporations	32 143 730	30 197 551	1 946 179	79 852		79 852	26 392	23 939	2 453	26 364		26 364		1 933 596	1 596
Households	6 639 168	2 199 030	4 440 137	19 785		19 785	11 712	6 167	5 545	5		5		70 243	257
Total	**234 013 549**	**220 764 553**	**13 248 997**	**8 531 805**	**0**	**8 531 805**	**-1 124 833**	**-544 689**	**-580 144**	**-4 996 428**	**0**	**-4 996 428**	**0**	**98 339 396**	**2 470 457**

COLLATERAL OBTAINED BY TAKING POSSESSION AND EXECUTION PROCESSES (PLN K)

	a	b
	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
Property, plant and equipment (PP&E)	0	0
Other than PP&E	8 555	-4 255
Residential immovable property	0	0
Commercial Immovable property	0	0
Movable property (auto, shipping, etc.)	0	0
Equity and debt instruments	0	0
Other	8 555	-4 255
Total	**8 555**	**-4 255**

VIII. Securitization

Santander Bank Polska S.A.

On 7 December 2018, the bank signed a guarantee agreement with the European Investment Fund (EIF) in respect of PLN 2.1bn worth of cash loan portfolio. The transaction is set to expire on 10 September 2031.

The guarantee agreement meets the synthetic securitisation criteria set out in the Capital Requirements Regulation (CRR) (amended by Regulation 2017/2041). The transaction made by the bank is a synthetic securitisation which does not involve financing and covers the selected portfolio of cash loans which remain on the bank's balance sheet.

As part of the transaction, the securitised portfolio is divided into three tranches: senior (80%), mezzanine (18.5%) and junior, i.e. the first loss tranche (1.5%). As at the guarantee activation date, the senior tranche totalled PLN 1,720.0m, the mezzanine tranche was PLN 397.8m and the junior tranche amounted to PLN 32.3m. The senior and mezzanine tranches are fully guaranteed by the EIF (in relation to the principal component of the underlying exposures). In addition, the mezzanine tranche is secured by a counter-guarantee from the European Investment Bank (EIB). The interest components of the underlying exposures are not covered by the EIF guarantees and are not treated as securitisation positions.

To ensure the stability of the portfolio structure, the transaction provides for synthetic excess spread (SES) based on the use-it-or-lose-it mechanism that makes it possible to allocate losses up to 1.45% of the portfolio per year outside the securitisation structure during the first two years after activation of the guarantee. The mechanism is to be renewed after 12 months.

As at 31/12/2019, the senior tranche totalled PLN 1 488.2k, the mezzanine tranche was PLN 344.1k and the junior tranche amounted to PLN 27.9k In the reporting period, credit losses allocated outside the securitisation structure using the synthetic excess spread mechanism totalled PLN 27.0k.

The bank is the originator of the synthetic securitisation in question and does not perform any other roles in this respect.

The purpose of the synthetic securitisation made by the bank is to release capital to finance projects supporting the development of SME, corporate and public sector customers. Furthermore, the agreement signed by the bank transfers part of credit risk arising from exposures included in the cash loan portfolio secured by the EIF guarantee and optimises the bank's Tier 1 capital.

The synthetic securitisation structure set up under the guarantee agreement does not generate any additional exposure to risks typical of traditional securitisation transactions (such as liquidity risk inherent in securitised assets).

As part of the synthetic securitisation structure in question, credit risk arising from the principal component of exposures secured by the EIF guarantee is transferred to the EIF. In view of the status of the guarantor (EIF), the guarantor's default risk is deemed to be negligible. The bank covers all credit losses arising from the interest component of the exposures secured by the guarantee, as well as credit losses arising from the principal component of such exposures as long as they are lower than or equal to the total balance of SES and junior tranche.

The underlying exposures subject to the synthetic securitisation in question, i.e. cash loans (consumer loans) covered by the EIF guarantee are recognised by the bank in the balance sheet at amortised cost in accordance with IFRS 9. The guarantee agreement made by the bank does not give grounds for removing the above loans from the bank's balance sheet in full or in part.

The bank does not recognise the EIF guarantee in its balance sheet. Expenses related to guarantee fees are taken to the bank's income statement in respective settlement periods. The bank does not recognise assets in respect of expected reimbursement of expenditures (as referred to in IAS 37) in relation to the guarantee received as long as the total balance of SES and junior tranche (calculated in accordance with the guarantee agreement) is sufficient to cover credit losses suffered by the bank (in the amount entitling the bank to request compensation from the guarantor). The bank will start to recognise assets in respect of reimbursements in its balance sheet once the mezzanine tranche specified in the guarantee agreement starts to be consumed by losses suffered by the bank.

For the purpose of recognising the above-mentioned synthetic securitisation structure in its capital adequacy, the bank does not disclose the fact that significant credit risk has been transferred to third parties through unfunded credit protection. Accordingly, pursuant to Article 245(1)(b) of the CRR the bank deducts the principal component of the exposures making up the junior tranche from its Common Equity Tier 1.

The bank has adopted the following approach to assigning risk weights to other elements of the synthetic securitisation structure/ guarantee agreement in accordance with the standardised approach:

a) RW 0% is assigned to the senior tranche (risk weight of the credit protection provider – EIF);

b) RW 0% is assigned to the mezzanine tranche (risk weight of the credit protection provider – EIF);

c) RW 75% is assigned to 5% of exposures retained by the bank under Article 405(1)(c) of the CRR (or RW 100% or 150%, respectively, if the exposures are in default);

d) RW 75% is assigned to the interest component of the performing securitised underlying exposures (or RW 100% or 150%, respectively, in the case of interest on exposures in default) – the interest component of the underlying exposures is not treated as a securitisation position;

e) RW 100% or 150% is assigned to exposures which have been excluded by the bank from the securitisation structure due to default.

The table below presents the gross carrying amounts of the securitised loans, their principal amount subject to securitisation and the amount of risk retained by the Group:

	Transation value - gross		Transaction value by capital amount		Retained Risk Value	
k PLN	**2019-12-31**	**2019-08-28**	**2019-12-31**	**2019-08-28**	**2019-12-31**	**2019-08-28**
Balance sheet portfolio, incl:	**1 866 869**	**2 157 410**	**1 860 199**	**2 150 031**	**34 573**	**39 629**
tranche senior	1 493 495	1 725 928	1 488 160	1 720 025	5 336	5 903
tranche mezzanine	345 371	399 121	344 137	397 756	1 234	1 365
tranche junior	28 003	32 361	27 903	32 250	28 003	32 361
Value losses allocated to Synthetic Excess Spread	1 959	-	1 959	-	1 959	-
Value of available Synthetic Excess Spread allocated to be used	27 070	31 166	26 973	31 166	-	-

Santander Consumer Bank S.A.

In 2019, Santander Consumer Bank S.A. (SCB) securitised a portfolio of cash and instalment loans granted by the bank. The purpose of the transaction was to obtain a capital relief in relation to the portfolio of retail loans, ensuring an additional capacity to finance projects supporting the growth of SME customers.

The transaction is a synthetic securitisation and consists of three tranches. On 5 July 2019, the bank signed an agreement with the European Investment Fund (EIF) under which the EIF issued a financial guarantee to secure 100% of senior and mezzanine tranches (A- and B-class). At the same time, the bank retained 100% of the C-class first loss tranche, which was deducted from the Common Equity Tier 1 in accordance with Article 36(1)(k) of the CRR.

Deduction from the Common Equity Tier 1 means the application of the "full deduction approach," as stipulated in Article 245(1)(b) of the CRR. In the case of mezzanine tranches, the EIF received a financial counter-guarantee from the European Investment Bank.

The transaction meets the criteria stipulated in Article 245(4) and Article 245(1)(b) of the CRR. It provides for synthetic excess spread, which is equal to 1.40% of the performing portfolio and is used in accordance with the "use it or lose it" mechanism.As part of the transaction, the bank retains randomly selected exposures which account for not less than 5% of the notional amount of the securitised exposures in accordance with Article 405(1)(c) of the CRR.

The guarantee was activated on 21 November 2019, while the impact on the bank's risk-weighted assets was recognised in December 2019. The guarantee covered the portfolio of cash and instalment loans of PLN 1,734m (principal amount). The securitised portfolio is risk weighted in accordance with the standardised approach. The transaction includes a two-year revolving period during which the bank may replenish the amortised amount of the securitised portfolio with new exposures that meet the criteria specified in the agreement.

The transaction is set to expire on 30 June 2030. It does not involve financing and covers the selected portfolio of cash and instalment loans which remain on the bank's balance sheet. It is a part of the bank's strategy aimed at optimising Tier 1 capital.

TRANCHE AMOUNT STATUS

Portfolio carrying amount (k PLN), including:	**31/12/2019**
senior tranche	1 413 295
mezzanine tranche	300 000
junior tranche	20 809
Total	**1 734 104**

Santander Leasing S.A.

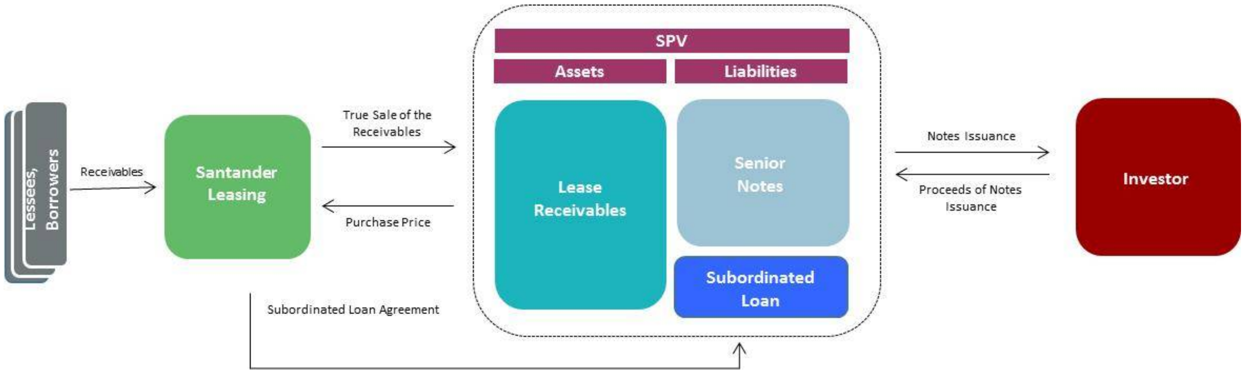
In May 2019, Santander Leasing S.A. (the "Company") signed an annex to the securitisation agreement of December 2018, providing for a drawdown an additional PLN tranche. As in the case of the December 2018 transaction, the May 2019 deal is also a traditional securitisation consisting in transferring the title to the securitised debts to an SPV. In May 2019, the SPV used the securitised assets to issue bonds of PLN 1,202.5m and was granted a loan of PLN 445.5m. The transaction was secured by a registered pledge of PLN 1,636m on cash flows from the securitised assets. The revolving period for the PLN tranche expires in June 2020.

In addition, in December 2019, the Company signed another annex to the original agreement, extending the revolving period for the EUR tranche to March 2020.

The bonds and the loans mature in December 2034 (EUR tranche) and February 2035 (PLN tranche).

As a result of the securitisation of both tranches, Santander Leasing S.A. raised funding in exchange for the transfer of rights to the future cash flows from the securitised credit portfolio of EUR 297.5m and PLN 1,636m as at 31 December 2019.

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 transaction value for the EUR tranche and 26.5% for the PLN tranche. Thus 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).

IX. 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 2019. 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 31.12.2019 (PLN K)

	Reference date	**31.12.2019**
	Entity name	**Santander Bank Polska S.A.**
	Level of application	**sub-consolidated**
		Applicable Amounts
1	Total assets as per published financial statements	209 476 166
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	1 497 197
5	Adjustments for securities financing transactions "SFTs"	60 085
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	7 378 890
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	(1 867 270)
8	**Total leverage ratio exposure**	**216 545 068**

LEVERAGE RATIO COMMON DISCLOSURE
AS AT 31.12.2019 (PLN K)

Leverage ratio common disclosure		
		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)	206 678 355
2	(Asset amounts deducted in determining Tier 1 capital)	(2 334 849)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**204 343 506**
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	1 414 219
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	1 497 197
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)**	**2 911 416**
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1 851 171
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	60 085
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)**	**1 911 256**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	40 218 347
18	(Adjustments for conversion to credit equivalent amounts)	(32 839 457)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**7 378 890**
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**	21 772 007
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	216 545 068
Leverage ratio		
22	**Leverage ratio**	10,05%
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	-

SPLIT-UP OF ON BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES, SFTS AND EXEMPTED EXPOSURES)

		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	206 678 355
EU-2	Trading book exposures	615 085
EU-3	Banking book exposures, of which:	206 063 270
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	50 546 541
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	240 547
EU-7	Institutions	7 854 796
EU-8	Secured by mortgages of immovable properties	61 663 623
EU-9	Retail exposures	50 304 511
EU-10	Corporate	18 756 363
EU-11	Exposures in default	4 016 386
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	12 680 504

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	As at 31 December 2019, the leverage ratio of Santander Bank Polska Group totalled 10.05% and was three-fold higher than the minimum requirement of 3%. It was driven by PLN 478,950k worth of profit generated in the current period which was taken to own funds and an increase in total assets.

X. 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 31.12.2019 (PLN K)

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	**14 693 960**	**7 611 349**			**185 871 198**	**27 890 221**		
030	Equity instruments	0	0			870 780	0		
040	Debt securities	9 612 423	7 611 349	9 612 423	7 611 349	36 760 727	27 872 881	36 147 054	27 766 232
050	of which: covered bonds	0	0	0	0	0	0	0	0
060	of which: asset-backed securities	0	0	0	0	0	0	0	0
070	of which: issued by general governments	9 225 416	7 313 962	9 225 416	7 313 962	30 876 398	25 319 211	30 876 398	25 319 211
080	of which: issued by financial corporations	387 007	297 387	387 007	297 387	1 725 198	1 287 391	1 725 198	1 287 391
090	of which: issued by non-financial corporations	0	0	0	0	1 032 032	0	1 032 032	0
120	Other assets	5 081 537	0			148 239 691	17 340		
121	of which: loans and advances other than loans on demand	5 064 253	0			131 234 108	0		
122	of which: loans on demand	16 428	0			5 934 609	17 340		
123	of which: other	857	0			11 070 974	0		

TABLE B - COLLATERAL OF SANTANDER BANK POLSKA GROUP
AS AT 31.12.2019 (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	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	060
130	**Collateral received by the reporting institution**	**0**	**0**	**360 130**	**0**
140	Loans on demand	0	0	21 847	0
150	Equity instruments	0	0	0	0
160	Debt securities	0	0	319 910	32 966
170	of which: covered bonds	0	0	0	0
180	of which: asset-backed securities	0	0	0	0
190	of which: issued by general governments	0	0	301 916	32 966
200	of which: issued by financial corporations	0	0	453	0
210	of which: issued by non-financial corporations	0	0	17 541	0
220	Loans and advances other than loans on demand	0	0	18 373	0
230	Other collateral received	0	0	0	0
240	**Own debt securities issued other than own covered bonds or asset-backed securities**	0	0	0	0
241	**Own covered bonds and asset-backed securities issued and not yet pledged**			0	0
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	**0**	**0**		

TABLE C - ENCUMBERED ASSETS/COLLATERAL RECEIVED AND ASSOCIATED LIABILITIES AS AT 31.12.2019 (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**	**14 974 428**	**14 693 104**
020	Derivatives	1 038 746	1 394 106
030	of which: over-the-counter	1 038 746	1 394 106
040	Deposits	10 538 712	9 688 771
050	Repurchase agreements	7 866 197	8 076 625
060	of which: central banks	0	0
070	Collateralised deposits other than repurchase agreements	2 672 515	1 612 146
080	of which: central banks	0	0
090	Debt securities issued	3 396 969	3 610 228
100	of which: covered bonds issued	0	0
110	of which: asset-backed securities issued	3 396 969	3 610 228
120	**Other sources of encumbrance**	**857**	**857**
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	857	857
170	**TOTAL SOURCES OF ENCUMBRANCE**	**14 975 284**	**14 693 960**

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 2019, 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 Group'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.

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.

In Santander Bank Polska Group there are no differences between the scope of regulatory consolidation for disclosing information on asset encumbrance and for the application of liquidity requirements on a consolidated basis. In both cases, the following entities are subject to consolidation:

- Santander Bank Polska S.A.
- Santander Consumer Bank S.A.
- Santander Leasing S.A.
- Santander Factoring Sp. z o.o.

The value of exposure to be disclosed equals its net carrying amount. Average exposure values are estimated in two stages.

- First, mean values as at the end of the last four quarters are calculated. Each mean value includes values from four quarters (i.e. the current quarter and three previous ones).
- Next, the average of mean values from step one is calculated.

XI. Policy of variable components of remuneration

The policy on variable remuneration components of Santander Bank Polska Group is part of the **Remuneration Policy of Santander Bank Polska Group**.

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

Santander Bank Polska Group complies with the general legal provisions applicable to employees, including those whose professional activity has a significant impact on its risk profile ("Material Risk Takers").

Material Risk Takers are additionally subject to specific provisions of the Remuneration Policy of Santander Bank Polska Group and corresponding regulations applicable in the subsidiaries, where the person concerned is also employed by any of the subsidiaries. The Policy is reviewed once a year or more frequently after each significant organisational or legal change.

In 2019, a number of changes were introduced as a result of the review, the key ones being as follows:

- connecting the Policy with the responsible banking principle;
- strengthening the rule that requires maintenance of a solid capital base;
- refining the provisions regarding guaranteed variable remuneration, compensation for variable compensation, retention plans, severance pays and indemnities.

Decision-making process for determining the remuneration policy

The Remuneration Policy of Santander Bank Polska Group 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 key principles of 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 the bank employees are published in the form of ordinances of the Management Board member in charge of the Business Partnership Division, in accordance with and on the basis of the Remuneration Policy of Santander Bank Polska Group.

Remuneration Committee and Nomination Committee operate at the Supervisory Board.

The key tasks of the Remuneration 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 by the Bank and evaluation of performance of individual Management Board members.
- Provides the Supervisory Board with general recommendations regarding the level and structure of remuneration for the key function holders at the bank, and considers reports on the level and structure on remuneration (fixed and variable) based on relevant inputs from the Management Board;

- Supervises and provides opinions on the remuneration policy referred to in the Banking Law and regularly reviews the policy and its application, and once a year prepares a report for the Supervisory Board on the operation of the policy;
- Reviews reports on the operation of the remuneration policy, including aspects such as the rules for remunerating Management Board members and key function holders in the bank and the levels of their remuneration;
- Presents the Supervisory Board with recommendations on 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;
- Performs annual reviews of remuneration systems and assesses their adequacy;
- Approves the key assumptions underpinning the main variable remuneration systems at the bank;
- Supervises the application of malus clauses relative to the bank's regulations (specifically verifies reports with details on identified events, engagement of the key function holders [including Management Board members] in the event, reasons for triggering malus clauses and the variable remuneration amount that is not to be vested to the employee in full or in part) and presents to the Supervisory Board recommendations with regard to triggering malus clauses;
- Actively engages in identifying people whose professional activities have a material impact on the bank's risk profile, monitors this process on an ongoing basis and at least once a year recommends to the Supervisory Board the list of material risk takers in the Group for approval, based on the report outlining personal changes in the material risk taker positions as well as the key criteria applied in the process;
- Reviews any other issues reported by the Supervisory Board.

The key task of the Nominations Committee is to issue recommendations to the Supervisory Board as regards appointing and removing members of the Supervisory Board and the Management Board by the bank's relevant governing body, and to issue opinions on appointing and removing some key function holders at the CEO request. In particular, the Committee:

- Evaluates and recommends candidates for the Management Board taking into account the balance of knowledge, skills, diversity and experience required to manage the bank;
- Evaluates 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, and proposes the composition of the Supervisory Board committees;
- Defines the scope of duties of a candidate for the Management Board member and Supervisory Board member, and requirements with regard to the knowledge and skills and 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's diversity policy aimed at e.g. achieving the target representation taking into account a wide range of characteristics and skills required of 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 the 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 these bodies as a whole, 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 suitability assessment of senior executives of the bank (key function holders) and makes recommendations to the Management Board in this respect;
- Approves the list of successors of members of the bank's Supervisory Board;
- Recommends the list of successors of members of the Bank's Management Board to the Supervisory Board;

- Checks whether the Management Board's and Supervisory Board's members commit sufficient time to perform their duties as required for their functions;
- Reviews any other issues reported by the Supervisory Board.

In 2019, the Remuneration Committee of the Supervisory Board met five times in the following composition:

- Chairperson: Danuta Dąbrowska
- Members: Gerry Byrne, Witold Jurcewicz (until 19 September 2019), José Luis de Mora, Marynika Woroszylska-Sapieha.

As at 31 December 2019, two persons held the status of independent members, namely: Danuta Dąbrowska and Marynika Woroszylska-Sapieha.

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

- Committee Chairman – Witold Jurcewicz (until 19 September 2019), Marynika Woroszylska-Sapieha (since 25 September 2019);
- Committee Members: Danuta Dąbrowska, Witold Jurcewicz, José Luis de Mora, Jerzy Surma, Marynika Woroszylska-Sapieha

As at 31 December 2019, three persons hold the status of independent members of the Committee, namely: Danuta Dąbrowska, Jerzy Surma and Marynika Woroszylska-Sapieha.

The criteria for the identification of Material Risk Takers applied in Santander Bank Polska 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 Group's remuneration policy is to ensure long-term sustainable growth of the Group, protect the stakeholders, including customers, owners and employees by, among others, ensuring appropriate remuneration for employees for their performance and motivating them to deliver best results and to achieve the Group's strategic goals, both in business and quantitative aspects, based on the Simple | Personal | Fair values.

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 qualitative goals.

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

In the case of sales units, as well as business objectives, the process of performance review also covers 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 and to help acquire and retain the best employees and secure the interests of stakeholders. The remuneration scheme is composed of two core elements: fixed remuneration and variable remuneration as well as 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, among other things, on the grade assigned to the employee's 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. The payment of bonuses under the scheme is contingent on delivery of pre-defined business objectives (the value or growth of PBT or PAT) and quality indicator levels.

The identified business units also have objectives set in relation to the Return on Risk Weighted Assets (RoRWA), the Return on Tangible Equity (ROTE) and objectives related to customer portfolio quality and management risk.

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 matters are awarded variable components of remuneration for delivery of objectives arising from their respective roles and responsibilities. Their remuneration cannot depend on business results generated by the business areas they are in charge of.

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 three years. Each of the deferred parts can be reduced or withheld if specific negative factors occur. Once approved for payment, the deferred parts expressed in cash are increased by the rate of inflation in the relevant years. 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-linked remuneration.

Santander Bank Polska Group applies the 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.

The factors analysed when a decision is taken to apply malus clauses and the decision-taking process are described in detail in the Malus Clauses Application Procedure of Santander Bank Polska Group. Specifically, these factors include:

- significant irregularities in risk management by the entity, business unit, control unit or support function;
- material adjustments to the Group's financial statements, based on the external auditor's opinion, except where the adjustments are due to changes in accounting standards;
- violation by the employee of internal regulations or codes of conduct, particularly where this has an impact on the risk profile;
- significant changes in the financial, capital or risk profile of the Group;
- significant increases in requirements for economic or regulatory capital when not anticipated at the time when the exposure was approved;
- regulatory sanctions or criminal charges made against the entity or employees who are held liable;
- any misconduct, whether individual or collective, in particular when referring to the marketing of unsuitable products;
- poor financial performance of the Group.

Variable remuneration components also include long-term (three-year) incentive programmes addressed to key employees of the Group. Under the programme, newly issued Santander Bank Polska 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 objectives 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 objectives at the minimum required level, the variable part of the remuneration may be withheld.

The total variable remuneration paid to Management Board members and Material Risk Takers for a given calendar year cannot exceed 100% of the total fixed remuneration paid in that year. However, in exceptional cases, this limit may be increased up to 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 valid votes cast 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 effective acquisition and retention of employees whose competencies are required for successful and efficient delivery of all the strategic objectives.

Accordingly, the Bank has implemented a range of diverse bonus schemes addressed to various groups of employees, in particular the employees of sales and support units. The schemes differ in terms of the bonus triggering criteria and the final bonus amount. Each scheme has its own individual criteria, including but not limited to: customer satisfaction, cost of risk, NPL, RWA, ROTE and net profit.

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 managing the bank

As at 31 December 2019, the bank's Management Board was composed of nine members. Management Board members are appointed by the Supervisory Board for a joint term of office of three years. The list of directorship positions taken by the Management Board members is presented below.

The number of Management Board members holding one directorship position in the Group: 4

The number of Management Board members holding non-executive directorship positions in other entities: 2

The Supervisory Board is composed of nine members appointed by the Annual General Meeting for a term of office of three years. The competencies, 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 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 assessment of competence, experience and reputation and overall professional activity. The assessment of knowledge, skills and experience of the individuals covered by the Suitability Policy is made at the stage of their selection and in the course of 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 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, experience and reputation of the assessed individuals, and on the basis of individual interviews with them.

When making the assessment, the Nominations Committee of the Supervisory Board and the bank's Management Board 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 and the risk management strategy, in particular if the person concerned performs additional professional or political roles.

At the same time, in 2019, the Performance Management Policy of Santander Bank Polska Group was put in place. The Policy outlines the new model, tools, dates, individuals and units engaged in the performance management process in Santander Bank Polska Group. The model defined in the Policy is based on three pillars: HOW we deliver tasks, WHAT we do and risk management targets. Details concerning objectives and performance evaluation are linked to the bank's business objectives and are specified in relevant procedures.

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 competencies, and the ability to show independence of mind, to ensure gender balance in the composition of the Management Board and to prevent 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 on the Management Board in 2025 while ensuring the Management Board's diversity in terms of geographical origin. 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 Management Board members.

The bank also takes care of ongoing development of its employees and succession of Management Board members and key function holders to minimise the risk generated by a long-term absence or unexpected termination of their functions. The processes are performed pursuant to the Nomination and Succession Planning Policy for 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 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 the Policy based on 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***	12 407	5 140	2 892	4 355	13 768	20 843	59 405
Variable remuneration****	10 887	2 597	1 027	3 450	6 596	7 842	32 399
TOTAL	**23 294**	**7 737**	**3 919**	**7 805**	**20 364**	**28 685**	**91 804**

* 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 309,751 in the case of the Management Board members and PLN 217,254 in the case of other executives. It does not include additional benefits, though.

**** Variable remuneration paid in 2019. No data on variable components of remuneration for the analysed financial year were available at the day of preparing the report.

The figures relating to variable remuneration components for 2019 will be published along with the information about the capital adequacy of Santander Bank Polska Group for H1 2020.

THE AMOUNTS OF REMUNERATION FOR 2019 SPLIT INTO FIXED AND VARIABLE REMUNERATION (PLN K)

			VARIABLE REMUNERATION FOR 2019									
									VARIABLE REMUNERATION FOR 2019			
	Number of employees	Fixed remuneration for 2019****	Bonus for 2014 (deferred part)	Bonus for 2015 (deferred part)	Bonus for 2016 (deferred part)	Bonus for 2017 (deferred part)	Bonus for 2018**	Phantom shares not sold (number of phantom shares)	Number of employees	Bonus for 2019*	Phantom shares not sold (number of phantom shares)	Long-term incentive programme (number of shares of Santander Bank Polska S.A.)
Management Board***	12	12 407	380	972	1 034	4 377	4 124	11 703	-	-	-	-
Other individuals holding managerial positions	123	46 998	812	2 008	2 191	5 270	11 231	24 418	-	-	-	-
including the individuals whose remuneration was EUR 1.5m–2m	0	-	-	-	-	-	-	-	-	-	-	-
TOTAL	**135**	**59 405**	**1 192**	**2 980**	**3 225**	**9 647**	**15 355**	**36 121**	**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 2018 and paid in 2019 (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 309,751 in the case of the Management Board members and PLN 217,254 in the case of other executives. 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 2015/2016/2017/2018 unvested portion		
	In cash	In phantom shares (number of phantom shares)	Long-term incentive programme launched in 2017 (number of shares)*
Management Board**	5 157	31 215	9 346
Other individuals holding managerial positions	6 986	43 665	12 443
TOTAL	**12 144**	**74 880**	**21 789**

* 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 2019 (PLN K)

	Area	NUMBER OF EMPLOYEES	AMOUNT OF THE PAYMENT	HIGHEST SINGLE PAYOUT
Sign-on payments in 2019	Management Board	0	-	-
	Other individuals holding managerial positions	0	-	-
Severance payments in 2019	Management Board*	1	0	0
	Other individuals holding managerial positions	2	924	752
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 2019, the deferred remuneration of key function holders was not reduced on account of adjustments to results.

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

In 2019, two material risk takers signed employment contracts while three material risk takers terminated their relationship with the bank.

Because of their function, Supervisory Board members (who were identified as Material Risk Takers by the bank) are not included in the above tables. Data about the remuneration of Supervisory Board members are presented in the Management Board Report on Santander Bank Polska Group Performance in 2019.

Details about the remuneration of the Management Board members are presented in Note 50 the Consolidated Financial Statements of Santander Bank Polska Group for 2019.

6th Incentive Programme

Key employees of Santander Bank Polska Group may participate in long-term incentive programmes (LTIPs). In 2017, the sixth LTIP was launched and as at 31 December 2019 it covered 200 employees of the bank and its subsidiaries.

The current programme supports delivery of the bank's business and financial objectives. The programme ensures that the activities of its participants are consistent with the expectations of our 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 its predecessors, 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 usual reason for the loss of such status is termination of employment, either with the bank or another entity of Santander Bank Polska Group. Furthermore, the Business Partnership Division monitors the underlying financial ratios in cooperation with the Financial Accounting and Control Division.

Signatures of the persons representing the entity

Date	Name	Function	Signature
19.02.2020	Michał Gajewski	President	
19.02.2020	Andrzej Burliga	Vice-President	
19.02.2020	Michael McCarthy	Vice-President	
19.02.2020	Juan de Porras Aguirre	Vice-President	
19.02.2020	Arkadiusz Przybył	Vice-President	
19.02.2020	Patryk Nowakowski	Member	
19.02.2020	Carlos Polaino Izquierdo	Member	
19.02.2020	Maciej Reluga	Member	
19.02.2020	Dorota Strojkowska	Member	