Information on Capital Adequacy of Santander Bank Polska Group as at 31st December 2020

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 2020, as well as applicable provisions arising from Regulation (EU) No 2019/876 of the European Parliament and of the Council of 20 May 2019 ("CRR 2") and Regulation (EU) 2020/8739 (CRR 'quick fix').

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 2020. 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 31.12.2020

	a)	b)	c)			d)	e)	f)
		Regulatory consolidation method						
Name of the entity	Accounting consolidation method	Full consolidation	Equity method consolidation	Proportional consolidation	Neither consolidated nor deducted from common equity	Deducted		Business profile
Santander Factoring Sp. z o.o.	Full consolidation	X						Factoring services
Santander F24 S.A.	Full consolidation	X						Lending services
Santander Leasing S.A.	Full consolidation	X						Lease services
Santander Finanse Sp. z o.o.	Full consolidation	X						Financial, lease and insurance intermediary services
Santander Inwestycje Sp. z o.o.	Full consolidation	X						Purchase and sale of shares in commercial companies and other securities; prospecting activities
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	Full consolidation	X						Management of open-end investment funds, specialised open-end investment funds and portfolios comprising one or more financial instruments
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 and factoring 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
SCM Poland Auto 2019-1 DAC	Full consolidation	X						SPV set up for the purpose of securitisation
Santander Consumer Financial Solutions Sp. z o.o.	Full consolidation	X						Lease services
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

The General Meeting held on 23 December 2020 adopted a resolution to dissolve Santander Consumer Finanse Sp. z o.o. and start the liquidation process.

Compared to 31 December 2019, the list of members of Santander Bank Polska Group was extended to include the following two subsidiaries of Santander Consumer Multirent Sp. z o.o. (a company controlled indirectly by Santander Bank Polska S.A. and directly by Santander Consumer Bank S.A.). New subsidiaries:

- **Santander Consumer Financial Solutions Sp. z o.o**. with its registered office in Wrocław – a wholly-owned subsidiary of Santander Consumer Multirent Sp. z o.o. incorporated on 27 August 2020 and specialising in finance lease, mainly in the segment of passenger cars and vans;

- **SCM Poland Auto 2019-1 DAC with its registered office in Dublin** – an SPV established to securitise a part of the lease portfolio of Santander Consumer Multirent Sp. z o.o. and controlled by the latter company since July 2020 in accordance with IFRS 10.7 (but having no capital connections with the same).

Compared with 31 December 2019, the list of associates did not change.

Detailed information on the structure of Santander Bank Polska Group are presented in the Management Board Report on Santander Bank Polska Group Performance in 2020.

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 as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items: 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	5 489 303	5 489 303	5 489 303	-	-	-	-
Items in the course of collection from other banks	2 926 522	2 926 522	2 926 522	-	-	-	-
Trading portfolio assets	3 182 769	3 182 769	-	3 002 095	-	3 027 900	-
Financial assets designated at fair value	7 654	7 654	-	6 901	-	6 901	-
Derivative financial instruments	141 998 745	141 998 745	136 705 138	-	5 293 607	-	-
Loans and advances to banks	293 583	293 583	-	293 583	-	-	-
Loans and advances to customers	66 783 434	66 783 434	66 783 434	-	-	-	-
Reverse repurchase agreements and other similar secured lending	998 397	998 397	998 397	-	-	-	-
Available-for-sale financial investments	708 356	708 356	346 468	-	-	-	361 889
Goodwill	1 712 057	1 712 057	-	-	-	-	1 712 057
Property, plant and equipment	803 429	803 429	803 429	-	-	-	-
Net deferred tax assets	1 996 552	1 996 552	1 996 552	-	-	-	-
Assets classified as held for sale	11 901	11 901	11 901	-	-	-	-
Other assets	1 030 287	1 030 287	1 030 287	-	-	-	-
Total assets	**229 311 310**	**229 311 310**	**217 802 088**	**3 302 579**	**5 293 607**	**3 034 801**	**2 073 945**
Liabilities							
Deposits from banks	5 373 312	5 373 312	-	-	-	-	-
Items in the course of collection due to other banks	1 775 098	1 775 098	-	1 388 409	-	1 388 409	-
Customer accounts	3 030 340	3 030 340	-	3 030 340	-	3 030 340	-
Repurchase agreements and other similar secured borrowings	171 522 255	171 522 255	-	-	-	-	-
Trading portfolio liabilities	653 687	653 687	-	14 387	-	-	-
Financial liabilities designated at fair value	2 754 605	2 754 605	-	-	-	-	-
Derivative financial instruments	11 241 312	11 241 312	-	-	-	-	-
Current income tax liabilities	79 049	79 049	-	-	-	-	-
Provisions for off balance sheet credit facilities	64 541	64 541	-	-	-	-	-
Other provisions	952 115	1 249 745	-	-	-	-	-
Other provisions	2 582 315	2 284 683	-	-	-	-	-
Total liabilities	200 653 318	200 653 318	0	4 433 136	0	4 418 749	0
Equity							
Equity attributable to owners of Santander Bank Polska SA	26 994 752	26 994 752					
Share capital	1 021 893	1 021 893					
Other reserve capital	21 296 994	21 306 705					
Revaluation reserve	1 839 292	1 839 292					
Retained earnings	1 799 406	1 789 695					
Profit for the current period	1 037 166	1 037 166					
Non-controlling interests in equity	1 663 240	1 663 240					
Total equity	28 657 991	28 657 991					
Total liabilities and equity	**229 311 310**	**229 311 309**	**0**	**4 433 136**	**0**	**4 418 749**	**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
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	229 311 310	217 802 088	3 302 579	5 293 607	3 034 801
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	200 653 318	0	4 433 136	0	4 418 749
Total net amount under the regulatory scope of consolidation	28 657 992	217 802 088	-1 130 557	5 293 607	-1 383 948
Off-balance-sheet amounts	42 364 415	4 599 225	0	0	0
Differences in valuations	5 198 897	0	5 198 897	0	0
Differences due to different netting rules, other than those already included in row 2	-270 312	0	-270 312	0	0
Differences due to consideration of provisions	201 645	201 645	0	0	0
Differences due to prudential filters	384 194	384 194	0	0	0
Securitization with risk transfer	-5 293 607	0	-	-5 293 607	-
Other adjustments	-84 657	-84 657	-	-	-
Exposure amounts considered for regulatorypurposes	**226 700 523**	**222 902 495**	**3 798 028**	**0**	**-**

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 regarding the scope of data and information management processes so as to ensure proper risk management and compliance with the regulatory requirements.

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 consistent standards for compliance risk management.

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 as well as the acivity of compliance function. 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. Units in the second line of defence are also responsible for performing activities within vertical monitoring, comprising ongoing verification and vertical testing.
  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 and Financial Fraud Prevention 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, etc.), 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 2020.

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 (Credit Policy Forums) were additionally established 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, also operating within the Risk Management Forum.

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 up to 5 years in the amount above PLN 195m and transactions over 5 years in the amount above PLN 97.5m are additionally ratified by Risk Management -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 Office and the Financial Crime Prevention and Control 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.

Court proceedings on CHF mortgage loans

As at 31.12.2020, the Group's CHF retail mortgage loan exposure totalled PLN 9,853,480k (as at 31.12.2019 – PLN 9,891,184 k). The portfolio included both denominated and indexed loans.

The Group regularly monitors courts' rulings on loans indexed to, or denominated in, a foreign currency in terms of possible changes in courts' ruling practice. The status of case law in the above scope is presented in Note 48 of the Consolidated Financial Statements of Santander Bank Polska Group for 2020.

The Group identified the risk that the scheduled cash flows from the portfolio of mortgage loans denominated in and indexed to foreign currencies might not be fully recoverable and/or that a liability might arise, resulting in a future cash outflow. The Group raises provisions for disputes (individual court cases) and legal risk (collective provisions) in line with IAS 37 Provisions, contingent liabilities and contingent assets.

As at 31 December 2020, the Group raised provisions of PLN 324,920k (PLN 67,643k as at 31 December 2019) for disputes over contractual clauses in mortgage loan agreements indexed to and denominated in foreign currencies.

As at 31 December 2020, the Group raised collective provisions of PLN 278,247k (PLN 192,964k as at 31 December 2019) for legal risk due to the higher number of cases related to contractual clauses in agreements on mortgage loans indexed to and denominated in foreign currencies. The Group will continue to monitor and evaluate the adequacy of the above-mentioned provisions in subsequent reporting periods.

Based on the existing claims against the Group and the estimated growth in their number over three years from the balance sheet date, the Group made assumptions as to the likelihood of claims being made by borrowers.

The Group also estimated the likelihood of negative rulings in relation to existing and potential claims. The estimated likelihoods differ between indexed loans and denominated loans. Potential scenarios along with the sensitivity analysis to the level of provisions are presented in the Note 48 of the Consolidated Financial Statements of Santander Bank Polska Group for 2020.

The position taken by the Supreme Court on 25 March 2021 will have an impact on future settlements of key issues relating to court disputes related to foreign currency loans. Due to the fact that the position is to be formally presented as a resolution of the entire Civil Chamber and will be construed as legal rule, it may have a significant influence on the ruling practice.

In addition, the situation may also be influenced by the proposals of the Polish Financial Supervision Authority with regard to voluntary settlements between banks and borrowers under which CHF loans would be retrospectively settled as PLN loans bearing an interest rate based on WIBOR plus margin. This proposal is currently being analysed by the Bank and representatives of banks and consulted with the KNF and the Ministry of Finance.

Due to the potential high impact of the decision to commence the process of entering into settlements on the Group's financial position, the approval of the General Meeting will be required. If the Group decides to do so, it will take into account additional scenarios in the models for calculation of provisions for legal risk and will reflect the estimated impact on the level of those provisions.

Due to the fact that at the moment of preparation of this financial statements the Group has not made yet a decision to enter the settlement process and due to the early stage of the ongoing discussions around possible solutions concerning financial aspects of the settlements (in particular, tax treatment of the costs arising from the proposals, the approach to the calculation of RWAs for the exposures covered by the settlements, and the costs of closing the FX positions), it was not reflected in the scenarios and likelihoods assumed by the Bank to estimate the provisions as at 31 December 2020. The Group estimated a potential impact of the participation in the process of voluntary settlements on the Group's financial position. Assuming that 100% of current borrowers choose to convert their loans as proposed by the KNF Chairman, the Group's loss would be in the order of PLN 3.5bn at the consolidated level. The calculation was made at and exchange rate of 4.15 PLN/CHF.

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 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 2020 are shown in the table below. It presents the results of scenarios, in which the impact of changes in interest rates on interest income and the economic value of capital would be negative.

	NII Sensitivity		MVE Sensitivity	
1 day holding period	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**
Maximum	410	298	613	360
Average	334	273	339	194
as at the end of the period	396	292	135	168
Limit	**505**	**355**	**540**	**500**

In 2020, the interest rate risk limits, notably the MVE sensitivity limit, were utilised to a larger extent due to dynamic growth in the balance and stable part of the non-interest bearing and non-maturity deposit portfolio resulting from interest rate cuts and inflow of funds as part of state aid schemes connected with the Covid-19 pandemic. The above factors caused the operational MVE limit to be incidentally exceeded in Q2 2020. This issue was escalated in accordance with the Structural Risk Management Policy and subsequently closed through increased investments made by the Bank in fixed-rate assets.

VaR and EaR in the banking portfolio are calculated separately.

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 2020 and 2019 for 1-day position holding period:

Interest rate risk	VAR	
1 day holding period	**31.12.2020**	**31.12.2019**
Average	3 308	1 341
Maximum	25 900	2 887
Minimum	658	574
as at the end of the period	684	876
Limit	**6 645**	**6 836**

In 2020, the VaR limit for interest rate risk was not exceeded. Higher maximum IR VaR reported in 2020 resulted from the Bank's engagement in financial support programmes organised by BGK and PFR in connection with COVID-19 – consequently, the Bank had to maintain temporary positions on bonds issued by BGK and PFR in its trading book. The maximum observable VAR levels above the permissible limit were accepted by the Supervisory Board.

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 2020 and 2019.

FX risk	VAR	
1 day holding period	31.12.2020	31.12.2019
Average	552	405
Maximum	1 935	1 804
Minimum	80	41
as at the end of the period	294	208
Limit	**2 769**	**2 848**

In 2020, the VaR limit for currency risk was not exceeded.

As regards the structural exposure to currency risk in the Group's balance sheet, in 2020 the share of foreign currency assets in the balance sheet continued to decrease. It was affected by the increase in financial assets available for sale. Loans and advances to customers in euro and Swiss francs also decreased, increase in the table below results from the weakening of the Polish zloty. 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 2020 and in the comparable period.

31.12.2020	PLN	EUR	CHF	USD	Other	Total
ASSETS						
Cash and balances with central banks	4 558 891	583 758	67 043	197 415	82 196	5 489 303
Loans and advances to banks	335 280	2 254 910	8 514	184 021	143 797	2 926 522
Loans and advances to customers	111 674 539	19 096 814	9 756 230	1 442 389	28 773	141 998 745
Investment securities	63 615 215	1 653 383	-	2 158 108	-	67 426 706
Selected assets	**180 183 925**	**23 588 865**	**9 831 787**	**3 981 933**	**254 766**	**217 841 276**
LIABILITIES	-	-	-	-	-	-
Deposits from banks	3 437 500	1 505 140	625	428 810	1 237	5 373 312
Deposits from customers	142 718 944	19 336 810	580 336	7 305 705	1 580 460	171 522 255
Subordinated liabilities	1 104 696	1 649 909	-	-	-	2 754 605
Selected liabilities	**147 261 140**	**22 491 859**	**580 961**	**7 734 515**	**1 581 697**	**179 650 172**

31.12.2019	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
Investment securities	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**

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 2020 and 2019.

Equity risk	VAR	
1 day holding period	**31.12.2020**	**31.12.2019**
Average	275	235
Maximum	729	370
Minimum	77	67
as at end of the period	240	254
Limit	**1 846**	**1 899**

In 2020, 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 2020, the value of the HQLA buffer was PLN 64.71 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;
- 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 2020), 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/global 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 2020, Santander Bank Polska Group focused on keeping its loan-to-deposit ratio at a comfortable level (83% as at

31 December 2020) and controlling key short and long-term liquidity measures. As at 31 December 2020, the consolidated Liquidity Coverage Ratio was 207%, and 171% as at 31 December 2019. In 2020 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 2020 and in the comparable period. Nominal value have been presented.

2020-12-31	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	over 5 years
Assets	16 123 289	12 589 749	9 660 613	9 109 985	14 599 788	31 548 981	60 297 061	60 598 888
Liabilities and equity	140 904 002	11 394 995	8 984 317	6 188 389	8 620 771	6 327 350	3 788 592	2 334 370
including:	-	-	-	-	-	-	-	-
- Sell-buy-back transactions	-	14 387	-	-	-	-	-	-
- Deposits from banks	386 976	1 015 757	912 337	1 282 671	1 216 461	1 134 272	632 909	-
- Deposits from customers	140 517 026	9 068 255	6 234 543	3 944 718	3 871 826	2 230 378	315 016	47 904
- Debt securities in issue	-	608 261	1 837 437	961 000	1 001 579	2 962 700	1 917 707	-
- Subordinated liabilities	-	-	-	-	2 307 400	-	922 960	2 286 465
- Lease liabilities	-	-	-	-	-	-	-	-
Contractual liquidity mismatch/ gap	(124 780 713)	1 194 755	676 296	2 921 595	5 979 017	25 221 631	56 508 469	58 264 519
Cumulative liquidity gap	(124 780 713)	(123 585 958)	(122 909 662)	(119 988 067)	(114 009 049)	(88 787 418)	(32 278 949)	25 985 570
Net derivatives	-	-	-	-	-	-	-	-
Asset derivatives	-	38 162 376	17 283 584	8 983 887	8 562 762	6 373 285	9 412 011	6 685 302
Liabilities derivatives	-	38 076 776	16 745 798	9 011 885	8 589 824	6 361 714	10 039 287	7 091 227
Off balance positions Total	35 615 827	4 750 671	623 169	240 631	195 658	227 800	69 020	559
-guarantees & letters of credits	6 946 339	-	-	-	-	-	-	-
-credit lines	7 627 005	3 186 590	418 034	88 690	-	-	-	-

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	-	-	-	-

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 2020	30 September 2020	30 June 2020	31 March 2020	31 December 2020	30 September 2020	30 June 2020	31 March 2020
	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)					55 120	49 232	43 243	38 877
	CASH-OUTFLOWS								
2	Retail deposits and deposits from small business customers, of which:	113 673	104 230	94 225	84 461	8 910	8 377	7 871	7 449
3	*Stable deposits*	*64 004*	*57 483*	*51 161*	*47 760*	*3 200*	*2 874*	*2 558*	*2 388*
4	*Less stable deposits*	*40 734*	*39 459*	*38 387*	*36 701*	*5 710*	*5 503*	*5 313*	*5 061*
5	Unsecured wholesale funding	39 708	38 349	37 479	36 895	19 551	18 521	17 634	16 871
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*1 780*	*3 770*	*5 677*	*7 491*	*444*	*942*	*1 418*	*1 871*
7	*Non-operational deposits (all counterparties)*	*37 611*	*34 325*	*31 494*	*29 149*	*18 790*	*17 326*	*15 908*	*14 745*
8	*Unsecured debt*	*317*	*253*	*307*	*255*	*317*	*253*	*307*	*255*
9	Secured wholesale funding					0	0	0	0
10	Additional requirements	27 710	26 633	25 470	24 341	5 470	5 286	4 979	4 476
11	*Outflows related to derivative exposures and other collateral requirements*	*3 378*	*3 364*	*3 078*	*2 561*	*3 378*	*3 364*	*3 078*	*2 561*
12	*Outflows related to loss of funding on debt products*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
13	*Credit and liquidity facilities*	*24 332*	*23 269*	*22 392*	*21 780*	*2 092*	*1 922*	*1 901*	*1 915*
14	Other contractual funding obligations	1 530	1 452	1 440	1 599	1 245	1 183	1 165	1 322
15	Other contingent funding obligations	12 798	12 038	11 561	11 331	564	537	520	515
16	TOTAL CASH OUTFLOWS					35 740	33 903	32 168	30 633
	CASH-INFLOWS								
17	Secured lending (eg reverse repos)	713	1 034	1 235	992	0	0	1	1
18	Inflows from fully performing exposures	6 808	6 979	7 142	6 786	5 569	5 756	5 948	5 644
19	Other cash inflows	1 118	1 265	1 287	1 236	1 118	1 265	1 287	1 236
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	8 638	9 279	9 663	9 013	6 687	7 021	7 236	6 881
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***	*8 638*	*9 279*	*9 663*	*9 013*	*6 687*	*7 021*	*7 236*	*6 881*
						WARTOŚĆ SKORYGOWANA OGÓŁEM			
21	LIQUIDITY BUFFER					55 120	49 232	43 243	38 877
22	TOTAL NET CASH OUTFLOWS					29 054	26 882	24 933	23 752
23	LIQUIDITY COVERAGE RATIO (%)					189%	182%	173%	164%

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 31.12.2020 PLN 1.472 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 2020.

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 does 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.

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

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.

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 2020 GROSS LOSSES (PLN K)

Event types	Operational event class Event category	PLN k	%
1 Internal fraud	1.1. Unauthorised activity	-3	0,0%
	1.2. Theft and fraud	71	0,0%
2 External fraud	2.1. Theft and fraud	4 732	1,0%
	2.2. Security of systems	1 258	0,3%
3 Occupational safety and health, employment practices	3.1. Labour relations	369	0,1%
	3.2 Safety and health in the workplace	0	0,0%
4 Customers, products and operating practices	4.1. Adaptation, disclosure of information and trust	412	0,1%
	4.2. Inappropriate business or market practices	14 836	3,0%
	4.3. Defective products	460 839	94,2%
	4.4. Selection, Sponsorship and Risks	10	0,0%
5 Damage to tangible assets	5.1. Natural disasters and other incidents	632	0,1%
6. Business interruption and system errors	6.1. Systems	126	0,0%
7 Execution of transactions, delivery and management of operating processes	7.1. Reception, execution , execution and maintenance of transactions	5 592	1,1%
	7.2. Monitoring and presentation of reports	96	0,0%
	7.3. Acceptance of customers and documentation	5	0,0%
	7.4. Customer account management	0	0,0%
	7.5. Trade counterparties other that the Bank's clients (e.g. clearing chambers)	183	0,0%
	7.6. Distributors and suppliers	154	0,0%

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

In 2020 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:

- Provisions and losses for legal risk concerning the portfolio of foreign currency mortgage loans: PLN 343m (including PLN 248m of Santander Bank Polska S.A. and PLN 95m of Santander Consumer Bank.
- Provisions and losses for reimbursement of part of commission for granting consumer loans repaid ahead of the schedule (concerning loans repaid before 11.09.2019): PLN 117m (including PLN 62m of Santander Bank Polska S.A. and PLN 55m of Santander Consumer Bank).

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

The increase of operational losses was noticed in category "Customers, products and operating practices – Inappropriate business and market practices" (4.2). The level of losses was mainly influenced by the amount of PLN 12m of provision made for the penalty from OCCP stating that the Bank used abusive resolutons in contract templates to CHF and EUR mortgage loan agreements.

Santander Bank Polska Group S.A. was monitoring costs incurred in 2020 due to COVID-19 pandemic but the costs were excluded from losses calculation and moitoring measures of operational risk.

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 the 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 sectoral 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) sectoral 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,
- 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 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 current or potential negative economic impact to the Bank due to damage to the perception of the Bank on the part of customers, employees, shareholders/onvestors and the wider community.

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 for the purposes of capital adequacy are calculated in accordance with the Banking Law Act, the CRR Regulation as amended and implementing acts to the CRR Regulation.

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. Cash flow hedge reserve
i. Adjustments re IFRS 9 phase in – acc. to Article 473a
j. 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 31.12.2020 (PLN K)

ITEMS OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION USED FOR CALCULATION OF OWN FUNDS	as at 31.12.2020	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	Software assets which not included in own funds deductions	Issue of series O shares*	Retained earnings of subsidiaries	Amortization due to the final 5 years of the loan maturity	BALANCE SHEET ITEMS IMPACTING REGULATORY OWN FUNDS	item no. in the table 2
Assets											
Investment financial assets and Investments in associates	**67 781 831**	-	-	-	-		-	-	-		
-including significant investments into financial sector entities – amount not exceeding the threshold set in Article 48(1)(b)	1 075 238	-	-	-	-	-	-	-	-	**1 075 238**	73
Intangible fixed assets	**708 356**	-	-	-	-	*-346 468*	-	-	-	**361 889**	8
Goodwill	**1 712 056**	-	-	-	-	-	-	-	-	**1 712 056**	8
Deferred tax assets (net)	**1 996 552**	*124 804*	*-93 296*	-	-	-	-	-	-	**2 028 060**	
-including assets that do not exceed the threshold set in Article 48(1)(a)	1 996 552	*124 804*	*-93 296*	-	-	-	-	-	-	**2 028 060**	75
Liabilities											
Subordinated obligations	**2 754 605**	-	-	-	-	-	-	-	-	-	
- including loans eligible as instruments under Tier II	2 647 945	-	-	-	-	-	-	-	*-37 404*	**2 610 541**	46
Equity attributable to shareholders of BZ WBK S.A. including:											
Share capital	**1 021 893**	-	-	-	-	-	*-1 010*	-	-	**1 020 883**	1
Other capital items	**21 296 994**	*-347 920*	-	-	*-143 949*	-	-	-	-	**20 805 125**	
- share premium	7 981 974	-	-	-	-	-	-	-	-	**7 981 974**	1
- general banking risk fund	649 810	-	-	-	-	-	-	-	-	**649 810**	3a
- reserve capital	11 563 155	*-357 631*	-	-	*-143 949*	-	-	-	-	**11 061 575**	3
- supplementary capital	1 102 055	*9 711*	-	-	-	-	-	-	-	**1 111 767**	3
Revaluation reserve	**1 839 292**	-	-	-	-	-	-	-	-	**1 839 292**	3
Retained earnings	**1 799 404**	*-9 711*	-	-	*143 949*	-	-	*-230 197*	-	**1 703 447**	2
Current year profit	**1 037 167**	-	-	*-844 737*	-		-	-	-	**192 430**	5a

As at 31 December 2020, the total own funds of the Santander Bank Polska Group amounted to PLN **27 101 609k**.

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 31.12.2020 (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	1 703 447	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	14 012 634	26 (1)
3a	Funds for general banking risk	649 810	26 (1) (f)
5	Minority interests (amount allowed in consolidated CET1)	715 460	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	192 430	26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory**	**26 276 638**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-186 742	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	-2 073 945	36 (1) (b), 37
11	Cash flow hedge reserve	8 571	33 (1) (a)
15	Defined-benefit pension fund assets (negative amount)	-7 848	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	-60 823	36 (1) (k)
20c	of which: securitisation positions (negative amount)	-60 823	36 (1) (k) (ii) ; 243 (1) (b) 244 (1) (b); 258
26b	Filter for IFRS 9 phase in	397 736	473a
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-1 923 050**	
29	**Common Equity Tier 1 (CET1) capital**	**24 353 588**	
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)**	**24 353 588**	
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	2 610 541	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	137 479	87, 88
51	**Tier 2 (T2) capital before regulatory adjustment**	**2 748 021**	
Tier 2 (T2) capital: regulatory adjustments			
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	
58	**Tier 2 (T2) capital**	**2 748 021**	
59	**Total capital (TC = T1 + T2)**	**27 101 609**	
60	**Total risk-weighted assets**	**135 220 354**	
Capital ratios and buffers			
61	**Common Equity Tier 1 (as a percentage of total risk exposure amount**	**18,01%**	92 (2) (a)
62	**Tier 1 (as a percentage of total risk exposure amount**	**18,01%**	92 (2) (b)
63	**Total capital (as a percentage of total risk exposure amount**	**20,04%**	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)	3,25%	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	0,00%	
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)	10,01%	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)	1 075 238	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)	2 028 060	36 (1) (c), 38, 48

In view of EBA Q&A no. 2018_4085 and Q&A no. 2018_3822 and letter no. DBK-DBKZ1.072.43.2020.SC of 25 January 2021 from the KNF Office, Santander Bank Polska S.A. presents the revision of its capital ratios resulting from the allocation of a part of the interim profit to own funds disclosed as at 31 December 2019.

Santander Bank Polska S.A.:

- CAR up 141 bp to 20.99%,
- CET1 up 141 bp to 18.79%.

Santander Bank Polska Capital Group:

- CAR up 113 bp to 18.20%,
- CET1 up 113 bp to 16.34%.

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 2020 amounted to PLN **1 021 893k.**

In relation to the resolution of Santander Bank Polska S.A. the Annual General Meeting of 22 June 2020 amending the bank's statutes, as confirmed by a relevant entry made to the National Court Register by the District Court for the Capital City of Warsaw on 25 September 2020, the bank's share capital was increased by PLN 1 010k from PLN 1 020 883k to PLN 1 021 893k. The share capital was increased through the issue of 101 009 series O shares.

For capital adequacy purposes, the bank requested consent from the KNF to allocate these equity instruments (series O shares) to the Common Equity Tier 1 capital and received consent in letter of 4 February 2021

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 2020, the supplementary capital in own funds was PLN **9 093 741k**. 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 2020, after including prudential consolidation adjustments, the other reserves in own funds was PLN **11 061 575k**.

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 2020, 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 2020 totaled PLN **1 237 174k**, including PLN 200 007k of profit attributable to shareholders who do not exercise control. As at 31 December 2020, 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 **192 430k** of current year profit on own funds elements.

As at 31st December 2020 in Own Funds of Santander Bank Polska Group the **retained earnings** are included in the amount of PLN **1 703 447k**, of which undistributed Bank's net profit from previous years amounted PLN 542 513k for 2018 and PLN 1 056 762k for 2019.

In June 2020, the General Meeting of Santander Bank Polska S.A. Shareholders agreed on the distribution of the net profit of PLN **2 113 524k** for the accounting year from 1 January 2019 to 31 December 2019 as follows:

- PLN 1 056 762k was allocated to capital reserves;
- PLN 1 056 762k was left undistributed.

Due to the Covid-19 pandemic, the KNF, similarly to other EU supervisory authorities, took measures to enhance resilience of the financial sector entities by imposing restrictions on profit distribution. In the letter of 26 March 2020, Polish banks were informed that they were expected to retain the entire profit earned in the previous years.

Minority interests

As at 31 December 2020, the minority interests recognised in the consolidated Tier 1 capital totalled PLN **715 460k** 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 **(186 742)k**.

As at 31 December 2020, 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 2020, deduction from Common Equity Tier I regarding other intangible assets amounted to PLN (361 889)k. This amount has been estimated in accordance with the Commision Delegated Regulation (EU) 2020/2176 of 12 November 2020 amending Delegated Regulation (EU) No 241/2014 as regards the deduction of software assets from Common Equity Tier 1 items.

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, issued by Santander Bank Polska S.A. on 5th April 2018, with maturity of 5 May 2028 were allocated to Tier II capital.

From 5 August 2020, the amount of the first of the above-mentioned subordinated loans is amortized due to the final 5 years of maturity, in accordance with Art. 64 CRR.

Hence, as at 31 December 2020, own funds include subordinated liabilities of PLN **2 610 541k**.

SUBORDINATED LIABILITIES OF THE SANTANDER BANK POLSKA GROUP ELIGIBLE AS TIER II CAPITAL AS AT 31 DECEMBER 2020 (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	424 076
Other financial institution (serie E)	120 000	EUR	120 000 EUR	03.12.2026	03.12.2021	553 776
International Finance Corporation (IFC green bonds)	137 100	EUR	137 100 EUR	22.05.2027	22.05.2022	632 689
Other financial institution (serie F)	1 000 000	PLN	1 000 000 PLN	05.04.2028	05.04.2023	1 000 000
						2 610 541

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 **137 479k**, 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 35 to the Consolidated Financial Statements of the Santander Bank Polska Group for 2020.

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 424,076 m	PLN 553,776 m	PLN 632,689 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, from 2018 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).

From 30th June 2020, the Group applied the updated rules for transitional arrangements related to IFRS 9. In accordance with the Regulation of the European Parliament and of the Council (EU) 2020/873 of 24 June 2020 the formula on the basis of which the amount included in own funds is determined has been modified in such a way that the dynamic factor is calculated in relation to the status as of 01/01/2020 instead of 01/01/2018 and the transitional period for the dynamic factor is extended until 31 December 2024. Starting from 2020, the multipliers (f2) for the dynamic factor that can be applied in the subsequent years of the transition period are: 100%, 100%, 75%, 50%, 25%, respectively. In addition, a factor was added to the formula, calculated as the change in provisions for expected credit losses between 01/01/2020 and 01/01/2018.

Based on the changes resulting from the above-mentioned Regulation and Art. 473a (7a) from June 2020 The Group uses a derogation in the form of assigning a risk weight equal to 100% to the adjustment value included in own funds.

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)	31.12.2020	30.09.2020*	30.06.2020*	31.03.2020	31.12.2019
1	Common Equity Tier 1 (CET1) capital	24 353 588	23 812 776	23 753 537	22 072 814	21 772 007
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	23 972 189	23 615 532	23 556 293	21 871 052	21 518 299
2a	CET1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI (other comprehensive income) in accordance with Article 468 of the CRR had not been applied	24 353 588	23 812 776	-	-	-
3	Tier 1 capital	24 353 588	23 812 776	23 753 537	22 072 814	21 772 007
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	23 972 189	23 615 532	23 556 293	21 871 052	21 518 299
4a	Tier 1 capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	24 353 588	23 812 776	-	-	-
5	Total capital	27 101 609	26 552 685	26 486 532	24 847 276	24 440 183
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	26 719 835	26 355 066	26 288 912	24 645 212	24 186 104
6a	Total capital as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	27 101 609	26 552 685	-	-	-
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets	135 220 354	140 950 963	140 194 561	148 020 351	143 180 901
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	135 055 858	140 862 634	140 106 233	147 914 691	143 036 349
	Capital ratios					
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	18,01%	16,89%	16,94%	14,91%	15,21%
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	17,75%	16,76%	16,81%	14,79%	15,04%
10a	CET1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	18,01%	16,89%	-	-	-
11	Tier 1 (as a percentage of risk exposure amount)	18,01%	16,89%	16,94%	14,91%	15,21%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17,75%	16,76%	16,81%	14,79%	15,04%
12a	Tier 1 (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	18,01%	16,89%	-	-	-
13	Total capital (as a percentage of risk exposure amount)	20,04%	18,84%	18,89%	16,79%	17,07%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19,78%	18,71%	18,76%	16,66%	16,91%
14a	Total capital (as a percentage of risk exposure amount) as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	20,04%	18,84%	-	-	-
	Leverage ratio					
15	Leverage ratio total exposure measure	235 726 028	231 543 185	228 891 346	222 075 146	216 545 068
16	Leverage ratio	10,33%	10,28%	10,38%	9,94%	10,05%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	10,18%	10,21%	10,30%	9,86%	9,95%
17a	Leverage ratio as if the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR had not been applied	10,33%	10,28%	-	-	-

* the data includes part of the interim profit included with decision of the Polish Financial Supervision Authority of 30 December 2020.

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 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 in transitional period, i.e. until 31 December 2021 are calculated as 16% of the total risk exposure amount (TREA) and 6% of the leverage ratio exposure measure (LREM). From 1 January 2022 the requirements will be equal 18% of the total risk exposure amount and 6.75% of the leverage ratio exposure measure.

In accordance with Article 128 of Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures ("CRD V"), institutions should not use Common Equity Tier 1 capital that is maintained to meet the combined buffer requirement to meet the risk-based components of the requirements set out in Articles 92a of the CRR. Based on these provisions, the required minimum TLAC is increased by the value of capital buffers that the Bank is required to maintain. Member States have been required to implement the provisions of the Directive by 28 December 2020, and to comply with them in the above scope by 29 December 2020. As at 31 December 2020, CRD V was not implemented into the Polish legal system. In view of the above, the minimum regulatory TLAC as at 31 December 2020 results from the CRR provisions, and amounts to 16% of the total risk exposure amount.

For Santander Bank Polska Group the TLAC ratio calculated as the value of own funds and eligible liabilities related to TREA as at 31 December 2020 is 20.44% and is higher than the minimum regulatory level by 444 bps. The TLAC ratio calculated as the value of own funds and eligible liabilities related to LREM as at 31 December 2020 is 11.72% and is higher than the minimum regulatory level by 572 bp.

The resolution and recovery authorities on 12 December 2019 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). Originally, this requirement should have been 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 were 10.37%, 12.202% and 14.035%, respectively, and in relations to TRE were 14.474%, 17.031% and 19.588%, respectively, according to current report no 40/2019 of 18 December 2019.

The requirements of the Bank Guarantee Fund regarding the obligatory compliance of banks with the original MREL minimum levels were updated with a communication of 26 March 2020. According to communication, the mid-term MREL goals set for entities identified as forced restructuring entities at the end of 2020 are not treated by the Fund as mandatory. The deadline for meeting the first mid-term goal was set for 1 January 2022, the target should be met by 1 January 2024. At the same time, due to the change in the value of the systemic risk buffer from 3% to 0%, the minimum MREL will be recalibrated accordingly.

As at the date of this document, Santander Bank Polska S.A. has not yet received information on the updated target or mid-term MREL levels.

TLAC1 - POSITION OF SANTANDER BANK POLSKA GROUP

	Regulatory capital elements of TLAC and adjustments	31.12.2020
1	Common Equity Tier 1 capital (CET1)	24 353 588
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	2 748 021
7	Amortised portion of T2 instruments where remaining maturity > 1 year	37 404
8	T2 capital ineligible as TLAC as issued out of subsidiaries to third parties	0
9	Other adjustments	0
10	T2 instruments eligible under the TLAC framework	2 785 424
11	TLAC arising from regulatory capital	27 139 012
	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	497 188
14	Of which: amount eligible as TLAC after application of the caps	497 188
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	497 188
	Non-regulatory capital elements of TLAC: adjustments	
18	TLAC before deductions	27 636 201
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	27 636 201
	Risk-weighted assets and leverage exposure measure for TLAC purposes	
23	Total risk-weighted assets adjusted as permitted under the TLAC regime	135 220 354
24	Leverage exposure measure	235 726 028
	TLAC ratios and buffers	
25	TLAC (as a percentage of risk-weighted assets adjusted as permitted under the TLAC regime)	20,44%
26	TLAC (as a percentage of leverage exposure)	11,72%
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 2020 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 **99 595 895 kPLN**.

As at 31st December 2020 total amount of deposits not covered which are excluded from eligible liabilities amounted **66 830 004 kPLN.**

TLAC3 - CREDITOR HIERARCHY OF SANTANDER BANK POLSKA GROUP

		Creditor ranking				Sum of 1 to 4
		1	2	3	4	
		(most junior)			(most senior)	
1	Description of creditor ranking (free text)	Share Capital* in Common Equity Tier I	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	2 610 541	532 897	12 146 295
3	Subset of row 2 that are excluded liabilities	0	0	0	35 708	35 708
4	Total capital and liabilities less excluded liabilities (row 2 minus row 3)	9 002 857	0	2 610 541	497 188	12 110 587
5	Subset of row 4 that are potentially eligible as TLAC	9 002 857	0	2 610 541	497 188	12 110 587
6	Subset of row 5 with 1 year ≤ residual maturity < 2 years	0	0	0	35 708	35 708
7	Subset of row 5 with 2 years ≤ residual maturity < 5 years	0	0	424 076	461 480	885 556
8	Subset of row 5 with 5 years ≤ residual maturity < 10 years	0	0	2 186 465	0	2 186 465
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

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

	Resolution group	31.12.2020	30.09.2020**	30.06.2020**	31.03.2020	12.2019
1	Total Loss Absorbing Capacity (TLAC) available	27 636 201	26 620 131	28 773 094	27 081 716	26 824 328
1a	Fully loaded ECL accounting model TLAC available*	27 254 427	26 422 511	28 575 475	26 879 953	26 570 620
2	Total RWA at the level of the resolution group	135 220 354	140 950 963	140 194 561	148 020 351	143 180 901
3	TLAC as a percentage of RWA (row1/row2) (%)	20,44%	18,89%	20,52%	18,30%	18,73%
3a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model RWA (%)	20,18%	18,76%	20,40%	18,17%	18,58%
4	Leverage exposure measure at the level of the resolution group	235 726 028	231 543 185	228 891 346	222 075 146	216 545 068
5	TLAC as a percentage of leverage exposure measure (row1/row4) (%)	11,72%	11,50%	12,57%	12,19%	12,39%
5a	Fully loaded ECL accounting model TLAC as a percentage of fully loaded ECL accounting model Leverage exposure measure (%)	11,58%	11,42%	12,49%	12,11%	12,28%
6a	Does the subordination exemption in the antepenultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	No	No	No	No	No
6b	Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?	No	No	No	No	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	N/A	N/A	N/A	N/A

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

** the data includes part of the interim profit included with decision of the Polish Financial Supervision Authority of 30 December 2020.

CCA - THE MAIN FEATURES OF THE OTHER TLAC ELIGIBLE INSTRUMENTS

	Instruments' main features		
1	Issuer	Santander Bank Polska S.A.	Santander Bank Polska S.A.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement	Operation No. 48146	XS2275650989
3	Governing law(s) of the instrument	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)	Statutory	Statutory
	Regulatory treatment		
4	Transitional CRR rules	TLAC	TLAC
5	Post-transitional CRR rules	TLAC	TLAC
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	solo and consolidated	solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Senior unsecured	Senior unsecured
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	N/A – amount eligible for TLAC only	N/A – amount eligible for TLAC only
9	Nominal amount of instrument	71 416 667 PLN	100 000 000 EUR
9a	Issue price	100% of nominal value	100% of nominal value
9b	Redemption price	100% of nominal value	100% of nominal value
10	Accounting classification	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	28.09.2018	18.12.2020
12	Perpetual or dated	dated	dated
13	Original maturity date	05.12.2022	18.12.2023
14	Issuer call subjet to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates, and redemption amount	any time	18.12.2022, 100 000 000
16	Subsequent call dates, if applicable	any time	Event of default
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Fixed coupon
18	Coupon rate and any related index	above six-month WIBOR for each interest period	0,001625
19	Existence of a dividend stopper	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	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	N/A
22	Noncumulative or cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specifiy instrument type convertible into	N/A	N/A
29	If convertible, specifiy issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger (s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
34a	Type of subordination	Statutory	Statutory
35	Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	most senior in subordination hierarchy	most senior in subordination hierarchy
36	Non-compliant transitioned features	No	No
37	If yes, specifiy non-compliant features	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 2020.

In 2020, 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:

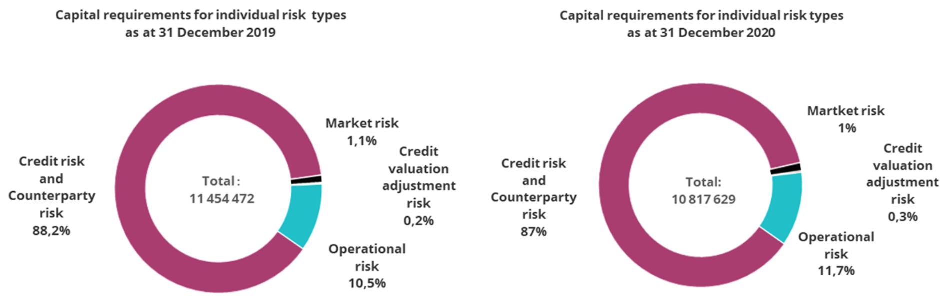
- capital requirement for credit risk
- capital requirement for market risk, including:
  - ✓ capital requirement for positions risk, including:
    - specific and general risk of debt instruments
    - specific and general risk of equity instruments
  - ✓ capital requirement for FX risk
- capital requirement 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 2020, the total capital requirements of Santander Bank Polska Group calculated in line with the CRR was PLN **10,817,629k**, including:

- for credit risk and counterparty credit risk, credit valuation adjustment risk **PLN 9,415,264k**
- for market risk **PLN 141,891k**
- for operational risk **PLN 1,260,474k.**

PERCENTAGE STRUCTURE OF THE CAPITAL REQUIREMENTS FOR 12/2019 AND 12/2020



EU OV1 – OVERVIEW OF RWA (PLN K)

		RWAs		Minimum capital requirements
		31.12.2020	30.09.2020	31.12.2020
	Credit risk (excluding CCR)	**107 660 446**	**112 810 038**	**8 612 836**
Article 438(c)(d)	Of which the standardised approach	107 660 446	112 810 038	8 612 836
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**	**2 272 093**	**2 259 424**	**181 768**
Article 438(c)(d)	Of which mark to market	1 855 320	1 880 004	148 426
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	4 612	6 057	369
Article 438(c)(d)	Of which CVA	412 161	373 363	32 973
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**	**1 773 640**	**2 406 379**	**141 891**
	Of which the standardised approach	1 773 640	2 406 379	141 891
	Of which IMA	0	0	0
Article 438(e)	**Large exposures**	**0**	**0**	**0**
Article 438(f)	**Operational risk**	**15 755 929**	**15 755 929**	**1 260 474**
	Of which basic indicator approach	0	0	0
	Of which standardised approach	15 755 929	15 755 929	1 260 474
	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)	7 758 246	7 719 193	620 660
Article 500	Floor adjustment	0	0	0
	Total	**135 220 354**	**140 950 963**	**10 817 629**

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 2020 accounted for 85% 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	56 583 811	50 768 104
Regional governments or local authorities	148 001	156 191
Public sector entities	55 111	71 108
Multilateral development banks	850 966	728 455
Institutions	11 296 474	9 355 932
Corporates	26 492 853	26 187 378
Of which: SMEs	5 035 856	5 493 669
Retail	50 696 553	51 028 681
Of which: SMEs	15 119 888	15 579 811
Secured by mortgages on immovable property	64 338 864	64 964 012
Of which: SMEs	12 387 435	12 411 354
Exposures in default	4 036 054	4 188 984
Items associated with particularly high risk	433 696	271 349
Collective investments undertakings	457	540
Equity exposures	1 971 642	1 853 840
Other exposures	5 998 013	5 321 693
Total	**222 902 495**	214 896 267

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

	a)	b)	c)	d)	e)	f)	g)	h) Net value	i)	j)	k)	l)	m)	n)	o)
	Europe	Belgium	zech Republ	Denmark	France	Spain	Netherlands	Luxembourg	Germany	Poland	Switzerland	United Kingdom	Other countries	Other geographical areas	Total
Central governments or central banks	56 583 811									56 583 811					56 583 811
Regional governments or local authorities	148 001									148 001					148 001
Public sector entities	55 111									55 111					55 111
Multilateral development banks	850 966							850 966							850 966
Institutions	11 203 063	444 908	9 968	140 448	437 154	530 378	90 975	50 911	158 312	8 813 879	7 710	374 741	143 679	93 411	11 296 474
Corporates	26 375 571		107 149	1	1 027	421 268	123 646	1 211 585	504 666	23 381 914	3	496 409	127 903	117 282	26 492 853
Retail	50 695 076	156	7	25	217	939	61	389	1 410	50 676 735	3 339	1 659	10 139	1 477	50 696 553
Secured by mortgages on immovable property	64 312 154	511			1 406	305 726	27 182	286 085	3 765	63 651 476	2 030	12 236	21 737	26 710	64 338 864
Exposures in default	4 034 236	2	2	1	64	14	11	2	151	4 012 430	2	1 137	20 420	1 818	4 036 054
Items associated with particularly high risk	433 696									433 696					433 696
Collective investments undertakings	457									457					457
Equity exposures	1 855 746	683								1 855 063				115 896	1 971 642
Other exposures	5 995 521									5 995 521				2 492	5 998 013
Total	222 543 409	446 260	117 126	140 475	439 868	1 258 325	241 875	2 399 938	668 304	215 608 094	13 084	886 182	323 878	359 086	**222 902 495**

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

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

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S			U
	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Electricity, gas, steam and air conditioning supply	Water supply	Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Information and communication	Financial and insurance activities	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence, compulsory social security	Education	Human health services and social work activities	Arts, entertainment and recreation	Other services	Retail	Other	Total
Central governments or central banks	-	-	-	-	-	-	-	-	-	-	7 565 224	-	-	-	45 146 763	-	-	-	3 871 824	-	-	56 583 811
Regional governments or local authorities	-	-	-	-	-	-	-	9 689	-	-	-	-	-	-	138 312	-	-	-	-	-	-	148 001
Public sector entities	-	-	-	49	759	150	-	42 379	75	-	14	-	110	-	53	7 355	2 528	1 435	204	-	-	55 111
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	850 966	-	-	-	-	-	-	-	-	-	-	850 966
Institutions	-	-	-	-	-	-	-	-	-	-	11 296 328	-	-	-	-	146	-	-	-	-	-	11 296 474
Corporates	138 485	857 191	4 432 122	1 448 070	43 576	483 650	6 450 837	960 717	186 375	1 114 261	6 463 888	832 201	1 583 280	373 846	190	5 465	103 439	160 463	854 797	-	-	26 492 853
Retail	1 759 282	29 301	2 226 695	29 305	103 882	1 317 237	3 620 302	1 567 822	396 639	428 157	133 839	211 214	1 172 887	420 091	2 857	144 848	944 194	109 652	512 127	35 566 222	-	50 696 553
Secured by mortgages on immovable property	940 898	82 599	5 723 365	99 204	145 960	1 831 845	3 939 283	711 179	1 299 381	1 429 856	116 148	7 356 931	1 379 549	191 827	300	118 953	431 697	76 170	90 494	38 373 225	-	64 338 864
Exposures in default	88 202	338 532	581 201	1 464	6 142	139 488	419 279	75 594	116 748	52 280	8 316	236 897	46 134	72 628	317	5 291	11 360	7 044	104 030	1 725 107	-	4 036 054
Items associated with particularly high risk	-	-	154 042	-	-	64 947	120 027	-	-	13 375	24 853	-	16 588	3 976	-	-	-	35 888	-	-	-	433 696
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	457	-	-	-	-	-	-	-	-	-	-	457
Equity exposures	-	-	-	-	-	-	-	-	-	-	1 969 450	-	1 509	-	-	-	-	-	683	-	-	1 971 642
Other exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5 998 013	5 998 013
Total	2 926 867	1 307 623	13 117 425	1 578 092	300 319	3 837 317	14 549 728	3 367 380	1 999 218	3 037 929	28 429 483	8 637 243	4 200 057	1 062 368	45 288 792	282 058	1 493 218	390 652	5 434 159	75 664 554	5 998 013	222 902 495

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	107 988	12 869 794	31 140 270	10 437 699	2 028 060	56 583 811
Regional governments or local authorities	2	89 666	40 221	18 112	-	148 001
Public sector entities	7 777	1 088	45 816	430	-	55 111
Multilateral development banks	-	-	752 275	98 691	-	850 966
Institutions	16 849	2 570 667	4 259 868	4 449 090	-	11 296 474
Corporates	1 290 800	10 653 446	13 379 624	1 160 383	8 600	26 492 853
Retail	3 735 414	4 818 545	19 092 455	23 049 379	760	50 696 553
Secured by mortgages on immovable property	3 483 273	3 829 622	12 656 072	44 369 897	-	64 338 864
Exposures in default	157 033	2 026 368	960 310	892 343	-	4 036 054
Items associated with particularly high risk	166 012	130 499	137 185	-	-	433 696
Collective investments undertakings	-	-	-	-	457	457
Equity exposures	-	-	-	-	1 971 642	1 971 642
Other exposures	-	-	744 204	-	5 253 809	5 998 013
Total	8 965 148	36 989 695	83 208 300	84 476 024	9 263 328	222 902 495

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

	a)	b)	c)	d)	e)	f)	g)
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures					
Central governments or central banks	-	56 583 811	-	-	-	-	56 583 811
Regional governments or local authorities	-	148 337	336	-	-	-	148 001
Public sector entities	-	55 286	175	-	-	-	55 111
Multilateral development banks	-	850 966	-	-	-	-	850 966
Institutions	-	11 296 635	161	-	-	-	11 296 474
Corporates	-	26 591 351	98 498	-	19	-	26 492 853
Of which: SMEs	-	5 058 707	22 851	-	-	-	5 035 856
Retail	-	51 633 039	936 486	-	345	-	50 696 553
Of which: SMEs	-	15 406 476	286 588	-	41	-	15 119 888
Secured by mortgages on immovable property	-	64 663 009	324 145	-	7 623	-	64 338 864
Of which: SMEs	-	12 533 052	145 617	-	-	-	12 387 435
Exposures in default	8 494 927	-	4 458 873	-	1 150 605	-	4 036 054
Items associated with particularly high risk	95 773	369 724	31 801	-	-	-	433 696
Collective investments undertakings	-	457	-	-	-	-	457
Equity exposures	-	1 971 642	-	-	-	-	1 971 642
Other exposures	-	5 998 013	-	-	-	-	5 998 013
Total	8 590 700	220 162 270	5 850 475	-	1 158 592	-	**222 902 495**
Of which: Loans	8 526 915	137 136 456	5 809 387	-	1 158 592	-	139 853 984
Of which: Debt securities	7 492	66 680 490	147	-	-	-	66 687 835
Of which: Offbalance-sheet exposures	34 530	4 583 579	18 884	-	-	-	4 599 225

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 2020 by an independent auditor, and having received a relevant consent from the Polish Financial Supervision Authority (KNF), the bank classified the amount of PLN 192,430k 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	213 518	2 876 431	163 082	-	10 081	-	2 926 867
Mining and quarrying	357 355	970 602	20 334	-	150 281	-	1 307 623
Manufacturing	1 060 489	12 613 192	556 256	-	115 277	-	13 117 425
Electricity, gas, steam and air conditioning supply	8 214	1 579 657	9 779	-	172	-	1 578 092
Water supply	18 329	296 202	14 212	-	2 503	-	300 319
Construction	464 477	3 667 977	295 137	-	26 583	-	3 837 317
Wholesale and retail trade	1 022 749	14 250 074	723 095	-	101 395	-	14 549 728
Transport and storage	216 685	3 334 347	183 652	-	33 292	-	3 367 380
Accommodation and food service activities	251 548	1 931 939	184 269	-	6 163	-	1 999 218
Information and communication	141 325	2 999 093	102 489	-	6 550	-	3 037 929
Financial and insurance activities	27 244	28 427 437	25 198	-	3 141	-	28 429 483
Real estate activities	366 771	8 446 840	176 368	-	41 206	-	8 637 243
Professional, scientific and technical activities	159 112	4 189 789	148 844	-	21 536	-	4 200 057
Administrative and support service activities	146 699	1 005 497	89 828	-	10 864	-	1 062 368
Public administration and defence, compulsory social security	722	45 288 828	758	-	-	-	45 288 792
Education	15 403	281 317	14 662	-	1 248	-	282 058
Human health services and social work activities	41 022	1 499 454	47 258	-	4 472	-	1 493 218
Arts, entertainment and recreation	16 149	388 514	14 011	-	976	-	390 652
Other services	92 818	5 391 544	50 203	-	35 121	-	5 434 159
Retail	3 970 071	74 725 523	3 031 040	-	587 731	-	75 664 554
Other	-	5 998 013	-	-	-	-	5 998 013
Total	**8 590 700**	**220 162 270**	**5 850 475**	**-**	**1 158 592**	**-**	**222 902 495**

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	8 587 611	219 804 693	5 848 895	0	1 158 509	0	222 543 409
Belgium	6	446 257	3	-	-	-	446 260
Czech Republic	71	117 411	356	-	24	-	117 126
Denmark	5	140 476	6	-	1	-	140 475
France	95	439 808	35	-	1	-	439 868
Spain	66	1 258 387	128	-	33	-	1 258 325
Netherlands	37	242 087	249	-	1	-	241 875
Luxembourg	40	2 401 660	1 762	-	-	-	2 399 938
Germany	350	668 301	347	-	3	-	668 304
Poland	8 555 306	212 887 793	5 835 005	-	1 158 287	-	215 608 094
Switzerland	3	13 091	10	-	-	-	13 084
United Kingdom	1 867	885 507	1 192	-	59	-	886 182
Other countries	29 765	303 915	9 802	-	100	-	323 878
Other geographical areas	3 089	357 577	1 580	-	83	-	359 086
Łącznie	8 590 700	220 162 270	5 850 475	-	1 158 592	-	**222 902 495**

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).

The fact of being covered by aid measures related to COVID-19 (excluding exposures subject to statutory moratoria (Shield 4.0)) does not automatically result in classification into Stage 2 or Stage 3. Additional client`s risk is monitored on an ongoing basis. In order to manage credit risk following COVID-19 pandemic, management reports and early warning systems have been expanded, the most vulnerable populations are reviewed in detail. In section Actions related to loan receivables due to COVID-19 actions of Consolidated Financial Statements of Santander Bank Polska Group for 2020 were presented in detail (in particular classification guidelines).

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	**-3 417 584**	**0**
Increases due to amounts set aside for estimated loan losses during the period	(2 400 705)	-
Decreases due to amounts reversed for estimated loan losses during the period	1 515 713	-
Decreases due to amounts taken against accumulated credit risk adjustments	1 035 678	-
Transfers between credit risk adjustments	(668 441)	-
Impact of exchange rate differences	(19 830)	-
Business combinations, including acquisitions and disposals of subsidiaries	-	-
Other adjustments	(503 704)	-
Closing balance	**-4 458 873 0**	
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	(74 959)	-
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	**7 499 271**
Loans and debt securities that have defaulted or impaired since the last reporting period	2 586 261
Returned to non-defaulted status	(183 578)
Amounts written off	(1 150 022)
Other changes	(257 005)
Closing balance	**8 494 927**

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 25.99%.

As at 31 December 2020, the Group’s debt instruments portfolio included PLN **8 107 138k** worth of bonds of Bank Gospodarstwa Krajowego and PLN **5 585 361k** worth of bonds of Polski Fundusz Rozwoju (PFR), 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)	139 196 148	5 257 061	1 261 124	3 995 937	-
Total debt securities	52 797 473	13 890 362	-	13 890 362	-
Total exposures	191 993 622	19 147 423	1 261 124	17 886 299	-
Of which defaulted	4 064 712	36 288	4 445	31 843	-

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	56 583 811	-	72 552 468	273 053	5 463 187	5%
Regional governments or local authorities	144 119	89 408	144 119	3 882	29 600	0%
Public sector entities	53 166	74 754	53 052	1 885	27 468	0%
Multilateral development banks	850 966	-	2 851 111	-	-	0%
Institutions	11 191 501	1 064 961	4 308 090	234 940	1 483 615	1%
Corporates	24 583 625	23 842 079	16 723 369	1 706 861	17 541 732	15%
Retail	48 843 415	12 214 403	47 479 727	1 618 519	34 409 068	30%
Secured by mortgages on immovable property	63 636 275	4 546 893	62 616 693	670 463	44 874 001	39%
Exposures in default	4 012 587	309 413	3 977 340	22 427	4 540 779	4%
Items associated with particularly high risk	433 696	92 136	146 558	-	219 838	0%
Collective investments undertakings	457	-	457	-	457	0%
Equity exposures	1 971 642	-	1 971 642	-	3 584 499	3%
Other exposures	5 998 013	-	5 998 013	-	3 244 448	3%
Total	218 303 273	42 234 047	218 822 639	4 532 030	115 418 692	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. Pursuant to Article 126 of the CRR and to Regulation of the Minister of Finance, Development Funds and Regional Policy of 8 October 2020 amending the Regulation on a higher risk weight for exposures secured with mortgages on properties, Santander Bank Polska S.A. identifies exposures effectively secured by mortgage on a commercial property used by the borrower to conduct his own business and not generating income generated by rent or profits from their sale, to which preferential risk weight is applied.

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 0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted	Total	Of which unrated
Central governments or central banks	52 623 220	-	-	-	1 932 531	-	-	-	-	-	-	2 028 060	-	-	-	-	56 583 811	29 063 681
Regional governments or local authorities	-	-	-	-	148 001	-	-	-	-	-	-	-	-	-	-	-	148 001	148 018
Public sector entities	131	-	-	-	-	-	54 936	-	-	-	-	-	-	-	-	-	55 067	54 939
Multilateral development banks	2 564 259	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2 564 259	1 713 293
Institutions	8 107 138	-	-	-	2 316 003	-	866 578	-	-	2 710	-	-	-	-	-	-	11 292 429	339 285
Corporates	5 869 382	-	-	-	347 128	-	778 416	-	-	18 391 092	-	-	-	-	-	-	25 386 018	18 013 838
Retail	1 552 966	-	-	-	399	-	-	-	49 098 246	-	-	-	-	-	-	-	50 651 611	49 098 246
Secured by mortgages on immovable property	647 282	-	-	-	-	25 196 218	11 862 498	-	-	15 877 836	10 654 218	-	-	-	-	-	64 238 052	62 577 290
Exposures in default	31 843	-	-	-	-	-	-	-	-	2 917 742	1 082 025	-	-	-	-	-	4 031 610	3 999 766
Items associated with particularly high risk	286 867	-	-	-	270	-	-	-	-	-	146 558	-	-	-	-	-	433 695	146 558
Collective investments undertakings	-	-	-	-	-	-	-	-	-	457	-	-	-	-	-	-	457	457
Equity exposures	-	-	-	-	-	-	-	-	-	896 403	-	1 075 240	-	-	-	-	1 971 643	1 971 641
Other exposures	2 752 369	-	-	-	1 497	-	-	-	-	3 244 150	-	-	-	-	-	-	5 998 016	5 998 014
Total	74 435 457	-	-	-	4 745 829	25 196 218	13 562 428	-	49 098 246	41 330 390	11 882 801	3 103 300	-	-	-	-	223 354 669	173 125 026

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		3 789 144	1 698 422			4 510 974	1 853 543
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)						8 884	1 777
VaR for SFTs						-	-
Total							1 855 320

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

Exposure classes	Risk weight 0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	Others	Total	Of which unrated
Central governments or central banks	9 230	-	-	-	57 463	-	-	-	-	-	-	-	66 693	66 693
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	1 078 990	-	-	1 352 863	-	863 257	-	-	5 015	-	-	3 300 125	1 618 252
Corporates	-	-	-	-	-	-	24 197	-	-	1 053 455	5 745	-	1 083 396	900 876
Retail	-	-	-	-	-	-	-	-	69 271	-	371	-	69 642	69 642
Secured by mortgages on immovable property	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in default	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	9 230	1 078 990	-	-	1 410 326	-	887 454	-	69 271	1 058 469	6 116	-	4 519 856	2 655 463

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	1 914 361	412 161
Based on the original exposure method	-	-
Total subject to the CVA capital charge	1 914 361	412 161

EU CCR8 – EXPOSURES TO CCPS (PLN K)

	a) EAD post CRM	b) RWAs
Exposures to QCCPs (total)		26 192
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	1 078 990	21 580
(i) OTC derivatives	1 078 990	21 580
(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	59 965	4 612
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	7 776 353	3 987 210	3 789 144	-	3 789 144
SFTs	347 097	-	347 097	338 213	8 884
Cross-product netting	-	-	-	-	-
Total	8 123 450	3 987 210	4 136 241	338 213	3 798 028

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
	256	-
	256	-

Santander Bank Polska S.A. doesn't have credit derivatives.

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)	1 706 698	136 536
Equity risk (general and specific)	66 942	5 355
Foreign exchange risk		
Commodity risk		
Total	**1 773 640**	**141 891**

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.

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.

Bank recived letter from the Polish Financial Supervision Authority no BDK-DBK2B.700.7.2020 dated 11 December 2020 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 0.034 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 0.026 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 0.019 p.p. over the amount calculated in accordance with art. 92 clause 1 letter a of the Regulation (EU) No 575/2013).

To mitigate the risk of credit crunch arising from the Covid-19 pandemic, on 18 March 2020 the Minister of Finance, issued a regulation based on the recommendation of the Financial Stability Committee removing banks' obligation to keep the systemic risk buffer of 3%. The released funds may be used by banks to support their lending activity and cover potential losses in the upcoming quarters.

Taking into account the above requirements, the minimum capital ratios as at 31 December 2020 are as follows:

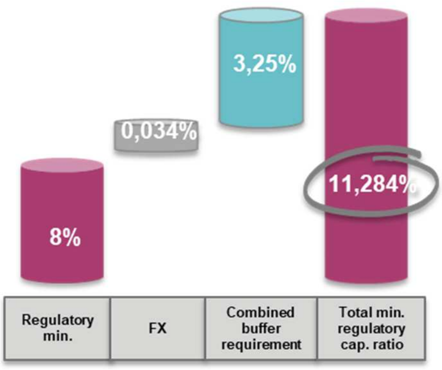
- ✓ Tier 1 capital ratio of 9.25% and 9,276% for the Bank and the Group, respectively;
- ✓ total capital ratio of 11.25% and 11,284% for the Bank and the Group, respectively.

The table below presents unconsolidated and consolidated minimum ratios.

CAPITAL BUFFERS OF BANK AND GROUP AT 31.12.2020 AND FOR 2021

	BANK		GRUPA	
	CAR	TIER 1	CAR	TIER 1
Base	8%	6%	8%	6%
Systemic risk buffer	0%	0%	0%	0%
Fx buffer	0%	0%	0,034%	0,026%
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	**11,25%**	**9,25%**	**11,284%**	**9,276%**

CAPITAL BUFFERS AND RATIOS OF SANTANDER BANK POLSKA GROUP AS AT 31.12.2020 AND 31.12.2021



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 31.12.2020
Total risk exposure amount [PLN k]	135 220 354
Institution specific countercyclical buffer rate [%]	0,00324
Institution specific countercyclical buffer requirement [PLN k]	4 381

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	152 076 650	- -	156 092	- -	5 244 100	- -	8 552 703	785	-	8 553 488	97,61000	0,00000
2.	Luxembourg	1 310 484	- -	-	- -	-	- -	98 737	-	-	98 737	1,13000	0,25000
3.	Germany	706 418	- -	-	- -	-	- -	39 540	-	-	39 540	0,45000	0,00000
4.	United Kingdom	319 890	- -	-	- -	-	- -	25 971	-	-	25 971	0,30000	0,00000
5.	Netherlands	151 313	- -	-	- -	-	- -	11 909	-	-	11 909	0,14000	0,00000
6.	Malta	126 769	- -	-	- -	-	- -	8 772	-	-	8 772	0,10000	0,00000
7.	Czech Republic	107 158	- -	-	- -	-	- -	7 278	-	-	7 278	0,08000	0,50000
8.	Spain	89 688	- -	-	- -	-	- -	786	-	-	786	0,01000	0,00000
9.	United States	61 606	- -	-	- -	-	- -	4 809	-	-	4 809	0,05000	0,00000
10.	Korea, Republic of	47 077	- -	-	- -	-	- -	2 322	-	-	2 322	0,03000	0,00000
11.	Mexico	25 438	- -	-	- -	-	- -	1 538	-	-	1 538	0,02000	0,00000
12.	Ireland	21 958	- -	-	- -	-	- -	2 069	-	-	2 069	0,02000	0,00000
13.	Estonia	13 471	- -	-	- -	-	- -	1 317	-	-	1 317	0,02000	0,00000
14.	Cyprus	9 113	- -	-	- -	-	- -	729	-	-	729	0,01000	0,00000
15.	Romania	7 873	- -	-	- -	-	- -	627	-	-	627	0,01000	0,00000
16.	Liechtenstein	5 926	- -	-	- -	-	- -	711	-	-	711	0,01000	0,00000
17.	Russian Federation	5 490	- -	-	- -	-	- -	438	-	-	438	0,01000	0,00000
18.	Ukraine	5 394	- -	-	- -	-	- -	374	-	-	374	0,00000	0,00000
19.	Switzerland	5 374	- -	-	- -	-	- -	363	-	-	363	0,00000	0,00000
20.	China	5 123	- -	-	- -	-	- -	2	-	-	2	0,00000	0,00000
21.	Turkey	4 765	- -	-	- -	-	- -	381	-	-	381	0,00000	0,00000
22.	France	2 773	- -	-	- -	-	- -	250	-	-	250	0,00000	0,00000
23.	Monaco	2 565	- -	-	- -	-	- -	154	-	-	154	0,00000	0,00000
24.	Israel	1 107	- -	-	- -	-	- -	89	-	-	89	0,00000	0,00000
25.	Belarus	791	- -	-	- -	-	- -	48	-	-	48	0,00000	0,00000
26.	Belgium	1 352	- -	-	- -	-	- -	125	-	-	125	0,00000	0,00000
27.	Peru	642	- -	-	- -	-	- -	51	-	-	51	0,00000	0,00000
28.	Finland	634	- -	-	- -	-	- -	38	-	-	38	0,00000	0,00000
29.	Australia	616	- -	-	- -	-	- -	37	-	-	37	0,00000	0,00000
30.	Slovakia	483	- -	-	- -	-	- -	29	-	-	29	0,00000	1,00000
31.	Hungary	463	- -	-	- -	-	- -	16	-	-	16	0,00000	0,00000
32.	Sweden	383	- -	-	- -	-	- -	30	-	-	30	0,00000	0,00000
33.	New Zealand	359	- -	-	- -	-	- -	43	-	-	43	0,00000	0,00000
34.	Italy	338	- -	-	- -	-	- -	20	-	-	20	0,00000	0,00000
35.	India	237	- -	-	- -	-	- -	16	-	-	16	0,00000	0,00000
36.	Portugal	157	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
37.	Lithuania	81	- -	-	- -	-	- -	7	-	-	7	0,00000	0,00000
38.	Moldova, Republic of	73	- -	-	- -	-	- -	5	-	-	5	0,00000	0,00000
39.	Georgia	70	- -	-	- -	-	- -	4	-	-	4	0,00000	0,00000
40.	Bulgaria	67	- -	-	- -	-	- -	4	-	-	4	0,00000	0,50000
41.	Chile	67	- -	-	- -	-	- -	4	-	-	4	0,00000	0,00000
42.	Nepal	62	- -	-	- -	-	- -	5	-	-	5	0,00000	0,00000
43.	Serbia	62	- -	-	- -	-	- -	4	-	-	4	0,00000	0,00000
44.	Norway	59	- -	-	- -	-	- -	5	-	-	5	0,00000	1,00000
45.	Bangladesh	54	- -	-	- -	-	- -	3	-	-	3	0,00000	0,00000
46.	Latvia	46	- -	-	- -	-	- -	4	-	-	4	0,00000	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.	Austria	33	- -	-	- -	-	- -	2	-	-	2	0,00000	0,00000
48.	Denmark	26	- -	-	- -	-	- -	2	-	-	2	0,00000	0,00000
49.	Canada	26	- -	-	- -	-	- -	2	-	-	2	0,00000	0,00000
50.	United Arab Emirates	15	- -	-	- -	-	- -	1	-	-	1	0,00000	0,00000
51.	Viet Nam	14	- -	-	- -	-	- -	1	-	-	1	0,00000	0,00000
52.	Nigeria	14	- -	-	- -	-	- -	1	-	-	1	0,00000	0,00000
53.	Taiwan, Province of China	13	- -	-	- -	-	- -	1	-	-	1	0,00000	0,00000
54.	Panama	13	- -	-	- -	-	- -	1	-	-	1	0,00000	0,00000
55.	Dominican Republic	13	- -	-	- -	-	- -	1	-	-	1	0,00000	0,00000
56.	Uzbekistan	12	- -	-	- -	-	- -	1	-	-	1	0,00000	0,00000
57.	Egypt	12	- -	-	- -	-	- -	1	-	-	1	0,00000	0,00000
58.	Philippines	11	- -	-	- -	-	- -	1	-	-	1	0,00000	0,00000
59.	Kazakhstan	11	- -	-	- -	-	- -	1	-	-	1	0,00000	0,00000
60.	Azerbaijan	10	- -	-	- -	-	- -	1	-	-	1	0,00000	0,00000
61.	Brazil	8	- -	-	- -	-	- -	1	-	-	1	0,00000	0,00000
62.	Turkmenistan	7	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
63.	Cameroon	7	- -	-	- -	-	- -	1	-	-	1	0,00000	0,00000
64.	Slovenia	7	- -	-	- -	-	- -	1	-	-	1	0,00000	0,00000
65.	Pakistan	7	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
66.	Saudi Arabia	7	- -	-	- -	-	- -	1	-	-	1	0,00000	0,00000
67.	Armenia	6	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
68.	Zimbabwe	5	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
69.	Tajikistan	5	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
70.	Greece	3	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
71.	Indonesia	3	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
72.	Rwanda	3	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
73.	Mongolia	3	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
74.	Ethiopia	3	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
76.	Congo	3	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
77.	Iraq	2	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
78.	Albania	2	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
79.	Kyrgyzstan	2	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
80.	Gibraltar	2	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
81.	Kenya	2	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
82.	Libyan Arab Jamahiriya	2	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
83.	Japan	2	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
84.	Lebanon	2	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
85.	South Africa	1	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
86.	Morocco	1	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
87.	Malaysia	1	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
88.	Tunisia	1	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
89.	Ghana	1	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
90.	Thailand	1	- -	-	- -	-	- -	-	-	-	-	0,00000	0,00000
91.	Hong Kong	1	- -	-	- -	-	- -	-	-	-	-	0,00000	1,00000
	Total	**155 120 842**	**0**	**156 092**	**0**	**5 244 100**	**0**	**8 762 388**	**785**	**0**	**8 763 173**	**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 as amended 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 2020, 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 2020, 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 9.25%;
- a Tier 1 capital ratio of Santander Bank Polska Group of 9.276%;
- a total capital ratio of Santander Bank Polska S.A. of 11.25%;

- a total capital ratio of Santander Bank Polska Group of 11.284%.

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 original requirements set by the Regulator, 75% of 2019 profit could 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 took 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 required 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. met 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 was 0 p.p. and 50 p.p. under the first and second criteria, respectively.

The Bank received from the KNF recommendation dated 9th March 2020 regarding increasing the own funds of the Bank by retaining at least 50% of the net profit for 2019. The KNF's recommendation confirmed that as at 31st December 2019 the Bank met the criteria to pay to shareholders a dividend up to 50% of the Bank's net profit for the period from 1 January 2019 to 31 December 2019.

However, in the letter dated 26th March 2020 the KNF pointed that taking into account situation related to the state of the COVID-19 epidemic announced in Poland and possible further negative economic consequences of this state, as well as their expected impact on banks, the KNF expects that banking sector - regardless of any actions already undertaken in this respect - will retain entire profit earned in previous years. The KNF expected that no other actions are undertaken without agreement with the KNF, in particular those actions outside of the scope of ongoing business and operating activities, which may result in weakening of capital position.

Considering the KNF's recommendation and expectation respectively of 9 March 2020 and 26 March 2020 and changes in the macroeconomic environment, the Bank's Management Board recommened to retain the entire net profit for the period from 1 January to 31st December 2019 by allocating 50% of 2019 profit to the reserve capital and 50% of profit will be left undivided.

In the letter of 16 December 2020 the KNF presented its stance on the dividend policy of commercial banks in 2021. Due to significant uncertainty as to the further developments related to the COVID-19 pandemic, the KNF considered it necessary to suspend the payment of dividends by commercial banks in the first half of 2021.

In reference to the above, on the 14 January 2021 Bank received a letter from the KNF dated the 11 January 2021 including the following recommendations for the Bank:

1. to suspend the dividend payment in the first half of 2021;
2. not to undertake, without prior consultation with the supervisory authority, other actions, in particular those beyond the scope of the Bank's day-to-day business and operational activity that may result in a reduction of the capital position, including undistributed earnings from previous years or buyback of own shares.

According to the above letter, the position of the KNF on the dividend policy of commercial banks in the second half of 2021 will be presented separately, following an analysis of the conditions of the banking sector in the first half of the year.

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 December 2020 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.

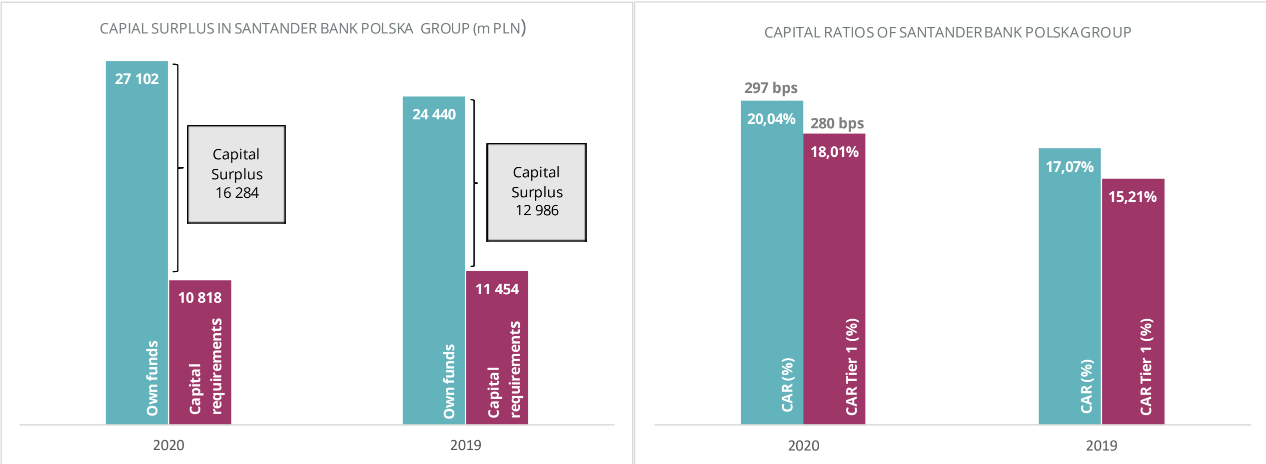
The value of asset exposure is the carrying value of the asset after adjustments for specific credit risk, additional value adjustments and other own fund deductions related to a particular asset. The off-balance sheet exposure is the percentage of the nominal value less adjustments for specific credit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

Taking into account total capital requirements of PLN **10 817 629k** as at 31 December 2020 and own funds of PLN **27 101 609k**, the capital ratio of Santander Bank Polska Group is **20.04%.**

The total capital ratio as at 31 December 2020 vs. 31 December 2019 was impacted by the following:

- allocation of the profit for 2019 to Tier 1 capital;
- regulatory changes re CRR;
- increase in the value of risk weighted assets for credit risk arising from the business activity;
- synthetic securitisation of the portfolio of SME and corporate loans and leases with the total volume of PLN 2bn. As part of the transaction, the securitised portfolio is divided into three tranches: senior (85%), mezzanine (14.2%) and junior, i.e. the first loss tranche (0.8%). Santander Leasing S.A. received a guarantee for 100% of the senior and mezzanine tranches (A and B-class) and retained 100% of the C-class first loss tranche, which will be deducted from the Common Equity Tier 1 in accordance with Article 36(1)(k) of the CRR.

CAPITAL ADEQUACY OF BANK GROUP IN 2019 - 2020



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 17 December 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	2 073 211	2 642 783	1 183 008	2 642 674	-172 920	-1 324 430	2 692 581	1 102 010
Central banks	0	0	0	0	0	0	0	0
General governments	176	0	0	0	-33	0	143	0
Credit institutions	0	0	0	0	0	0	0	0
Other financial corporations	2 318	5 942	3 198	5 942	-423	-3 871	3 320	1 425
Non-financial corporations	1 407 243	1 535 851	668 375	1 535 851	-125 419	-690 374	1 885 295	770 748
Households	663 473	1 100 991	511 435	1 100 881	-47 044	-630 185	803 823	329 837
Debt Securities	0	373 691	0	294 116	0	-40 792	332 899	332 899
Loan commitments given	25 142	27 014	27	27 014	597	4 264	0	0
Total	**2 098 353**	**3 043 488**	**1 183 035**	**2 963 804**	**-172 323**	**-1 360 958**	**3 025 480**	**1 434 909**

QUALITY OF FORBEARANCE (PLN K)

	a
	Gross carrying amount of forborne exposures
Loans and advances that have been forborne more than twice	5 256
Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	1 515 719

In the table above the data refer to non-performing forborne loans and advances that failed to comply with the forbearance measures after suitable cure period and therefore did not succeed in moving towards performing forborne status.

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	142 203 350	141 301 592	901 758	8 667 762	2 414 522	504 306	931 199	1 830 395	2 295 227	345 761	346 353	6 252 784
Central banks	0	0	0	0	0	0	0	0	0	0	0	0
General governments	192 417	192 409	8	723	0	0	0	3	720	0	0	723
Credit institutions	2 349 762	2 349 762	0	0	0	0	0	0	0	0	0	0
Other financial corporations	1 804 039	1 800 583	3 456	26 561	5 943	1 137	2 260	6 819	9 460	485	457	20 161
Non-financial corporations	57 763 690	57 456 140	307 550	4 165 683	1 284 983	157 477	356 329	735 023	1 166 906	248 208	216 757	2 880 700
Of which SMEs	45 082 487	44 840 333	242 154	4 002 424	1 250 357	151 669	329 983	725 203	1 123 895	213 647	207 670	2 752 067
Households	80 093 442	79 502 697	590 745	4 474 796	1 123 595	345 692	572 610	1 088 550	1 118 142	97 068	129 138	3 351 200
Debt securities	66 493 945	66 493 945	0	420 808	373 691	0	27 270	0	0	0	19 847	0
Central banks	4 999 904	4 999 904	0	0	0	0	0	0	0	0	0	0
General governments	46 824 196	46 824 196	0	0	0	0	0	0	0	0	0	0
Credit institutions	8 958 104	8 958 104	0	0	0	0	0	0	0	0	0	0
Other financial corporations	5 695 515	5 695 515	0	0	0	0	0	0	0	0	0	0
Non-financial corporations	16 226	16 226	0	420 808	373 691	0	27 270	0	0	0	19 847	0
Off-balance-sheet exposures	42 242 003			122 412								9 579
Central banks	0			0								0
General governments	163 808			0								0
Credit institutions	1 328 869			0								0
Other financial corporations	1 819 802			0								0
Non-financial corporations	32 523 589			93 121								1 628
Households	6 405 934			29 291								7 951
Total	**250 939 298**	**207 795 537**	**901 758**	**9 210 983**	**2 788 212**	**504 306**	**958 470**	**1 830 395**	**2 295 227**	**345 761**	**366 200**	**6 262 362**

As at 31/12/2020, the gross carrying amount of NPLs calculated in accordance with EBA/GL/2018/10 was 5.75%.

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						Accumulated partial write-off	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				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	142 203 350	132 575 121	8 810 889	8 667 762	0	8 557 514	-1 394 622	-588 321	-806 301	-5 353 787	0	-5 353 787	-338 705	97 298 803	2 106 533
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General governments	192 417	186 780	5 637	723	0	723	-436	-190	-246	-407	0	-407	0	70 904	316
Credit institutions	2 349 762	2 349 762	0	0	0	0	-106	-106	0	0	0	0	0	6 225	0
Other financial corporations	1 804 039	1 769 941	17 967	26 561	0	26 561	-8 635	-6 180	-2 455	-18 971	0	-18 971	0	1 558 802	5 993
Non-financial corporations	57 763 690	52 927 662	4 836 026	4 165 683	0	4 165 683	-542 459	-190 689	-351 771	-2 404 340	0	-2 404 340	-32 847	40 715 643	1 434 479
Of which SMEs	45 082 487	40 894 435	4 188 052	4 002 424	0	4 002 424	-509 403	-178 270	-331 133	-2 307 049	0	-2 307 049	-25 273	33 451 577	1 408 916
Households	80 093 442	75 340 975	3 951 259	4 474 796	0	4 364 548	-842 986	-391 156	-451 830	-2 930 070	0	-2 930 070	-305 858	54 947 229	665 746
Debt securities	66 493 945	25 006	6 726	420 808	0	341 234	-81	-14	-59	-50 777	0	-50 777	0	0	332 899
Central banks	4 999 904	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General governments	46 824 196	25 006	6 726	0	0	0	-73	-14	-59	0	0	0	0	0	0
Credit institutions	8 958 104	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other financial corporations	5 695 515	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-financial corporations	16 226	0	0	420 808	0	341 234	-8	0	0	-50 777	0	-50 777	0	0	332 899
Off-balance-sheet exposures	42 242 003	41 375 966	866 037	122 412	0	122 412	37 755	25 609	12 146	26 786	0	26 786		0	2 076
Central banks	0	0	0	0	0	0	0	0	0	0	0	0		0	0
General governments	163 808	160 308	3 500	0	0	0	227	63	164	0	0	0		0	0
Credit institutions	1 328 869	1 328 869	0	0	0	0	318	318	0	0	0	0		0	0
Other financial corporations	1 819 802	1 814 234	5 569	0	0	0	2 076	1 886	190	0	0	0		0	0
Non-financial corporations	32 523 589	31 831 314	692 275	93 121	0	93 121	25 990	16 004	9 986	26 785	0	26 785		0	2 076
Households	6 405 934	6 241 242	164 693	29 291	0	29 291	9 144	7 338	1 806	1	0	1		0	0
Total	**250 939 298**	**173 976 093**	**9 683 651**	**9 210 983**	**0**	**9 021 161**	**-1 356 948**	**-562 726**	**-794 214**	**-5 377 779**	**0**	**-5 377 779**	**-338 705**	**97 298 803**	**2 441 509**

CREDIT QUALITY OF LOANS AND ADVANCES BY INDUSTRY (PLN K)

	a	b	c	d	e	f
	Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing		Of which loans and advances subject to impairment		
			Of which defaulted			
Agriculture, forestry and fishing	559 161	20 996	19 249	559 161	-19 219	0
Mining and quarrying	938 238	13 661	9 349	938 238	-9 616	0
Manufacturing	13 318 933	1 086 627	665 541	13 318 933	-591 365	0
Electricity, gas, steam and air conditioning supply	1 568 918	8 295	5 215	1 568 918	-9 926	0
Water supply	324 678	18 753	16 609	324 678	-14 850	0
Construction	2 126 214	147 008	125 695	2 126 214	-144 177	0
Wholesale and retail trade	12 424 302	1 054 313	915 590	12 424 302	-788 111	0
Transport and storage	4 196 090	243 682	180 597	4 196 090	-215 451	0
Accommodation and food service activities	2 176 008	255 391	198 653	2 176 008	-193 067	0
Information and communication	3 118 827	133 905	65 360	3 118 827	-106 201	0
Financial and insurance actvities	231 944	3 866	3 099	231 944	-3 911	0
Real estate activities	10 564 182	712 222	388 377	10 564 182	-362 320	0
Professional, scientific and technical activities	4 383 027	167 840	137 841	4 383 027	-158 935	0
Administrative and support service activities	1 104 492	148 129	62 503	1 104 492	-91 636	0
Public administration and defense, compulsory social security	2 859	6	6	2 859	-22	0
Education	272 875	15 375	10 873	272 875	-15 225	0
Human health services and social work activities	1 688 000	50 512	35 206	1 688 000	-57 740	0
Arts, entertainment and recreation	378 285	15 392	9 102	378 285	-19 268	0
Other services	2 552 339	69 712	33 390	2 552 336	-145 759	0
Total	**61 929 373**	**4 165 683**	**2 882 255**	**61 929 370**	**-2 946 799**	**0**

COLLATERAL VALUATION - LOANS AND ADVANCES (PLN K)

	a	b	c	d	e	f	g	h	i	j	k	l
	Loans and advances											
		Performing		Non-performing								
			of which past due > 30days <= 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days	Of which past due > 90 days ≤ 180 days	Of which: past due > 180 days ≤ 1 year	Of which: past due > 1 years ≤ 2 years	Of which: past due > 2 years ≤ 5 years	Of which: past due > 5 years ≤ 7 years	Of which: past due > 7 years
Gross carrying amount	150 871 113	142 203 350	901 758	8 667 762	2 414 522	6 253 241	504 306	931 199	1 830 395	2 295 227	345 761	346 353
Of which secured	102 847 797	97 651 967	580 062	5 195 830	1 784 584	3 411 246	264 377	362 690	836 570	1 371 731	287 771	288 108
Of which secured with immovable property	72 615 708	69 278 598	288 906	3 337 111	1 217 617	2 119 493	142 734	153 816	439 268	894 365	246 153	243 157
Of which instruments with LTV higher than 60% and lower or equal to 80%	20 339 012	19 972 978		366 034	201 347	164 687						
Of which instruments with LTV higher than 80% and lower or equal to 100%	19 307 066	18 073 813		1 233 253	293 640	939 614						
Of which instruments with LTV higher than 100%	9 132 733	8 449 199		683 534	144 360	539 174						
Accumulated impairment for secured assets	-3 593 541	-662 666	-60 977	-2 930 875	-728 969	-2 201 907	-105 516	-181 971	-525 758	-902 399	-244 199	-242 063
Collateral												
Of which value capped at the value of exposure	91 393 260	89 405 818	451 519	1 987 442	928 780	1 058 662	135 375	128 339	262 692	437 857	51 848	42 551
Of which immovable property	67 938 810	66 369 267	225 514	1 569 543	721 238	848 305	89 736	82 289	211 516	372 020	50 331	42 414
Of which value above the cap	475 765 555	422 799 584	679 937	52 965 971	37 193 021	15 772 950	0	0	0	0	0	0
Of which immovable property	100 609 001	93 900 992	353 817	6 708 009	2 926 176	3 781 833	0	0	0	0	0	0
Financial guarantees received	8 012 077	7 892 985	28 781	119 092	23 779	95 313	9 900	29 149	35 476	19 340	1 447	0
Accumulated partial write-off	-338 705	-2	-1	-338 704	-10 321	-328 383	-65	-5 821	-33 732	-153 210	-22 396	-113 159

CHANGES IN THE STOCK OF NON-PERFORMING LOANS AND ADVANCES (PLN K)

	a	b
	Gross carrying amount	Related net accumulated recoveries
advances	**7 993 197**	
Inflows to non-performing portfolios	3 244 638	
Outflows from non-performing portfolios	-2 570 072	
Outflow to performing portfolio	-213 840	
Outflow due to loan repayment, partial or total	-658 128	
Outflow due to collateral liquidations	-15 229	0
Outflow due to taking possession of collateral	0	0
Outflow due to sale of instruments	0	0
Outflow due to risk transfers	0	0
Outflows due to write-offs	-1 028 332	
Outflow due to other situations	-654 543	
Outflow due to reclassification as held for sale	0	
Final stock of non-performing loans and advances	**8 667 762**	

Santander Bank Polska does not present the template 5 -Quality of non-performing exposures by geography because exposures in foreign countries is not above 10% of total exposures. The Bank also does not present information on collateral obtained by taking possession and execution processes due to lack of data.

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. The concluded securitization transaction is not an STS (Simple, Transparent and Standard Securitization) transaction within the meaning of Article 242 (10) of the CRR.

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 31/12/2020, the senior tranche totalled PLN 1 320.28k, the mezzanine tranche was PLN 305.32k and the junior tranche amounted to PLN 32.3k In the reporting period, credit losses allocated outside the securitisation structure using the synthetic excess spread mechanism totalled PLN 14.35k.

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 deducts the principal component of the exposures making up the junior tranche from its Common Equity Tier 1 accordingly, pursuant to Article 245(1)(b) of the CRR. The Bank also reduce the value of Common Equity Tier 1 capital based on the value of the available synthetic excess spread.

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.

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:

TRANCHE AMOUNT STATUS

	Transaction value-gross		Transaction value by capital amount		Retained Risk Value	
k PLN	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**
Balance sheet portfolio, incl	**1 662 719**	**1 866 869**	**1 657 847**	**1 860 199**	**37 122**	**34 573**
tranche senior	1 324 179	1 493 495	1 320 282	1 488 160	3 898	5 336
tranche mezzanine	306 216	345 371	305 315	344 137	901	1 234
tranche junior	32 324	28 003	32 250	27 903	32 324	28 003
Value losses allocated to Synthetic Excess Spread	14 351	1 959	14 351	1 959	14 351	1 959
Value of available Synthetic Excess Spread allocated to be used	26 963	30 779	26 963	30 779	0,0	0,0

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

	Transaction value- gross		Transaction value by capital amount		Retained risk value	
k PLN	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**
Balance sheet portfolio, incl:	**1 734 102**	**1 734 104**	**1 734 102**	**1 734 104**	**20 809**	**20 809**
senior tranche	1 413 293	1 413 295	1 413 293	1 413 295	-	-
mezzanine tranche	300 000	300 000	300 000	300 000	-	-
junior tranche	20 809	20 809	20 809	20 809	20 809	20 809
Value of losses allocated to SES	-	-	-	-	-	-
Value of available SES to be used	12 502	24 262	12 502	24 262	n/a	n/a

Santander Leasing S.A.

Liquidity securitization

In March 2020 Santander Leasing S.A. ("Company") annexed a contract originally made in 2018 to increase the EUR tranche up to EUR 330m under portfolio securitization. The Company has signed a securitization contract in two tranches to date - EUR 330m and PLN 1,202.5k, respectively. The PLN tranche entered an amortisation period in May 2020. As at 31 December 2020 its balance is PLN 774.2m.

The transaction (traditional securitization) involves a transfer of ownership of the securitized receivables through their paid transfer to the special-purpose company Santander Leasing Poland Securitization 01 DAC with the registered office in Ireland ("SPV").

Concomitantly, based on the assets acquired, the SPV is an issuer of bonds totalling EUR 330m and PLN 1,202.5m respectively. At the same time, to secure the liquidity risk and credit risk of the transaction, Santander Leasing S.A. granted a subordinated loan to the SPV. The loan will be repaid after the SPV has repaid its bond liabilities.

As a result of securitizing both the tranches, Santander Leasing S.A. raised funding for its operations in exchange for transferring the rights to future cash flows from the securitized receivables.

The maximum period for a full redemption of bonds and loan repayment is March 2036 for EUR tranche and February 2035 for PLN tranche respectively.

Securitization is one of the sources of funding and it has a positive effect on capital adequacy ratios, liquidity and diversification of the sources of funding.

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 securitized portfolio, and sell in its place an unimpaired exposure that meets the boundary conditions specified for the transaction. The Company takes advantage of this option, which makes economic sense due to the possibility of debt recovery. Such a structure allows the Company to effectively absorb all impaired receivables occurring on the portfolio. In addition, the Company provides funding to the SPV in the form of a subordinated loan of PLN 445.5m and PLN 122.3m. Thus, in case SPV's funds are insufficient to make all the maturing payments (in spite of the existing option to buy-back impaired receivables), cash flow from the subordinated loan will be satisfied as the last. The above argumentation confirms that the credit risk affecting the underlying assets fully remains with the consolidated Company (incl. SPV).

Synthetic securitization

On 19 June 2020 Santander Leasing S.A. made a guarantee agreement with the European Investment Fund ("EIF"). The pertinent guarantee relates to a lease and loan portfolio totalling approx. PLN 2b. The transaction is set to expire on 31 May 2031.

The guarantee agreement made by Santander Leasing conforms to the requirements set out in CRR Regulation (amended by Regulation (EU) 2017/2041) regarding synthetic securitization. The transaction is a synthetic securitization which does not involve financing and covers the selected portfolio of lease and loans which remain on the Company's balance sheet.

Structure of the transaction is that the securitized portfolio is divided into three tranches: senior (85% portfolio), mezzanine (14.2%) and junior, i.e. the first loss tranche (0.8%). As at the guarantee activation date, the senior tranche totalled PLN 1,700.0m, the mezzanine tranche was PLN 284.0m and the junior tranche amounted to PLN 16.0m. 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 EIF guarantees nor are they treated as securitization 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 0.7% of the portfolio per year outside the securitization structure during the first two years after activation of the guarantee. The mechanism is to be renewed every 3rd quarter.

As at 31 December 2020, the senior tranche totalled PLN 1,632.5m, the mezzanine tranche was PLN 272.7m and the junior tranche amounted to PLN 15.4m. In the reporting period, no credit losses allocated outside the securitization structure using the synthetic excess spread mechanism were recorded.

Santander Leasing is the originator of the synthetic securitization in question and does not perform any other roles in this respect.

The purpose of the synthetic securitization made by Santander Leasing is to release capital on the level of the Group of Santander Bank Polska. Furthermore, the agreement signed by Santander Leasing transfers part of credit risk arising from exposures included in the lease and loan portfolio secured by the EIF guarantee and optimises the Bank's Tier 1 capital.

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

As part of the synthetic securitization 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), Santander Leasing deems the guarantor's default risk to be negligible. Santander Leasing itself 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 securitization in question, i.e. lease and loans covered by the EIF guarantee are recognised by Santander Leasing in the balance sheet at amortised cost in accordance with IFRS 9. The guarantee agreement made by Santander Leasing does not give grounds for removing the above loans from the balance sheet in full or in part.

Santander Leasing does not recognise the EIF guarantee in its balance sheet. The expenses borne by Santander Leasing in relation to guarantee fees are taken to the Company's income statement in respective settlement periods. Santander Leasing 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 Santander Leasing (in the amount entitling Santander Leasing to request compensation from the guarantor). Santander Leasing 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 Santander Leasing.

Santander Leasing has adopted the following approach to assigning risk weights to other elements of the synthetic securitization 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% or 100%, depending on customer classification, is assigned to 5% of exposures retained by the Company under Article 405(1)(c) of the CRR (or RW 100% or 150%, respectively, if the exposures are in default);

d) RW 75% or 100%, depending on customer classification, is assigned to the interest component,

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

The table below presents the values (PLN) of the securitized lease and loan contracts and their principal amount subject to securitization and the amount of risk retained by Santander Leasing:

TRANCHE AMOUNT STATUS

	Transaction value-gross		Transaction value by capital amount		Retained risk value	
k PLN	31.12.2020	31.05.2020*	31.12.2020	31.05.2020	31.12.2020	31.05.2020
Balance sheet portfolio, incl:	**2 053 136**	**2 170 306**	**1 920 576**	**2 000 000**	**132 560**	**170 306**
senior tranche	1 745 166	1 844 760	1 632 489	1 700 000	112 676	144 760
mezzanine tranche	291 545	308 183	272 722	284 000	18 824	24 183
junior tranche	16 425	17 362	15 365	16 000	1 060	1 362
Value of losses allocated to SES	26	-	26	-	26	-
Value of available SES to be used	14 000	-	14 000	-	-	-

* No synthetic securitization as of 31.12.2019

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"), as well as applicable provisions arising from Regulation (EU) 2019/876 ("CRR 2") and Regulation (EU) 2020/873 (CRR 'quick fix'), disclosed in accordance with the guidelines of EBA/ GL/ 2020/11.

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 2020. 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 31.12.2020 (PLN K)

	Reference date	31.12.2020
	Entity name	Santander Bank Polska S.A.
	Level of application	sub-consolidated
		Applicable Amounts
1	Total assets as per published financial statements	229 311 310
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	1 686 015
5	Adjustments for securities financing transactions "SFTs"	7 811
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	7 252 174
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	(2 531 281)
8	**Total leverage ratio exposure**	**235 726 028**

LEVERAGE RATIO COMMON DISCLOSURE
AS AT 31.12.2020 (PLN K)

		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	225 570 539
2	(Asset amounts deducted in determining Tier 1 capital)	(1 923 050)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**223 647 489**
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	2 824 959
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	1 686 015
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)**	**4 510 974**
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	307 581
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	7 811
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)**	**315 392**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	42 310 925
18	(Adjustments for conversion to credit equivalent amounts)	(35 058 751)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**7 252 174**
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**	24 353 588
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	235 726 028
Leverage ratio		
22	**Leverage ratio**	10,33%
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)

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:	225 570 539
EU-2	Trading book exposures	193 191
EU-3	Banking book exposures, of which:	225 377 347
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	73 690 286
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	197 171
EU-7	Institutions	4 372 055
EU-8	Secured by mortgages of immovable properties	62 714 992
EU-9	Retail exposures	47 497 808
EU-10	Corporate	17 793 324
EU-11	Exposures in default	3 980 932
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	15 130 779

As at 31 December 2020, the leverage ratio of Santander Bank Polska Group totalled 10.33% and was three-fold higher than the minimum requirement of 3%. It was driven by PLN 192,430k worth of profit generated in the current period which was taken to own funds and an increase in total assets.

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.

Identifying the risk of excessive financial leverage is about identification of current and potential risk sources and factors and assessing their potential impact on activity of the Bank and the Bank's Capital Group.

Stress testing as per "Stress Testing Policy" is carried out under the risk measurement. Stress testing for the risk of excessive leverage takes place at least once a year as well as in the case of adverse events in the internal and external Bank environment.

When setting the limits of the risk appetite, Santander Bank Polska takes into account the results of stress testing . The overriding goal is to ensure stable revenues, liquidity and safe level of capital ratios.

Stress testing is performed based on objective scenario under regular analyses for the purpose of ICAAP.

The output received will be used for setting the right limits, these include the right credit portfolio concentration levels which guarantee optimal use of available capital and achievable return on the funds invested in lending.

Monitoring the risk of excessive leverage is, among others, about setting limits and watch level to keep the risk at a safe level and controlling these under the Bank's risk appetite.

The limits are set at least once a year and represent the appendix to the SBP Group Risk Appetite Statement. Utilisation of the limits is controlled monthly.

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).

Presented information in according to guidelines EBA/GL/2014/03.

TABLE A - ASSETS OF SANTANDER BANK POLSKA GROUP
AS AT 31.12.2020 (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**	**10 794 175**	**2 612 271**			**204 568 696**	**44 913 555**		
030	Equity instruments	0	0			884 178	0		
040	Debt securities	2 612 271	2 612 271	2 612 271	2 612 271	46 704 095	44 895 054	45 832 926	41 518 251
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	2 331 702	2 331 702	2 331 702	2 331 702	38 544 410	38 512 896	38 544 410	38 512 896
080	of which: issued by financial corporations	280 569	280 569	280 569	280 569	5 930 008	5 750 374	5 930 008	5 750 374
090	of which: issued by non-financial corporations	0	0	0	0	466 047	0	466 047	0
120	Other assets	8 181 904	0			156 980 423	18 502		
121	of which: loans and advances other than loans on demand	8 179 270	0			138 963 586	0		
122	of which: loans on demand	2 033	0			5 109 150	18 502		
123	of which: other	602	0			12 907 687	0		

TABLE B - COLLATERAL OF SANTANDER BANK POLSKA GROUP
AS AT 31.12.2020 (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**	**1 806 369**	**1 082 079**
140	Loans on demand	0	0	0	0
150	Equity instruments	0	0	0	0
160	Debt securities	0	0	1 803 815	1 082 079
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	1 754 732	1 082 079
200	of which: issued by financial corporations	0	0	151	0
210	of which: issued by non-financial corporations	0	0	48 933	0
220	Loans and advances other than loans on demand	0	0	2 553	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 31.12.2020 (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**	**9 497 342**	**10 793 574**
020	Derivatives	1 843 685	2 559 267
030	of which: over-the-counter	1 843 685	2 559 267
040	Deposits	2 994 186	2 655 650
050	Repurchase agreements	1 435 582	1 530 504
060	of which: central banks	0	0
070	Collateralised deposits other than repurchase agreements	1 558 604	1 125 146
080	of which: central banks	0	0
090	Debt securities issued	4 659 471	5 578 657
100	of which: covered bonds issued	0	0
110	of which: asset-backed securities issued	4 659 471	5 578 657
120	**Other sources of encumbrance**	**602**	**602**
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	602	602
170	**TOTAL SOURCES OF ENCUMBRANCE**	**9 497 944**	**10 794 175**

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 2020, 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;
- collateral connected with the Bank's operations in the derivatives market.

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.

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.

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 variable remuneration principles of Santander Bank Polska Group are defined in the **Remuneration Policy of Santander Bank Polska Group**.

The document contains all provisions required by law, including the rules of calculating fixed and variable components of remuneration, setting the variable remuneration payment criteria and determining all components of the total remuneration.

Santander Bank Polska Group has put in place general regulations applicable for all employees, including those whose professional activity has a significant impact on the Bank's risk profile ("material risk takers").

Material risk takers are additionally subject to specific provisions of the Group's Remuneration Policy and corresponding regulations applicable in the Group's subsidiaries, where the affected person is also employed with a subsidiary. The Policy is reviewed once a year or more frequently after each significant organisational or legal change.

Key changes introduced in the course of the review carried out in 2020 include:

- Excluding the section relating to Management Board members to form a separate, dedicated Policy;
- Specifying how competitive remuneration is to be determined;
- Emphasising the principle of prudent risk management;
- Confirming the principle that unauthorised proprietary trading should not be encouraged;
- Expanding the section on severance pay and compensation;
- Specifying the group of employees covered by EBA and ESMA guidelines, taking into account the people employed in debt recovery units, and corporate and investment banking teams;
- Authorising the Management Board to extend the variable remuneration deferral period for selected key employees, and to increase the share of remuneration paid to them in financial instruments.

In 2020, the Annual General Meeting adopted the "Remuneration Policy for members of the Management Board of Santander Bank Polska S.A." The provisions relating to Management Board members were brought in line with the requirements of the Act of 16 October 2019 amending the Act on public offering, conditions for introducing financial instruments to organised trading, and on public companies, and certain other acts.

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 the Management Board members is determined by resolutions of the Supervisory Board.

Key features of the bonus schemes for other employees are reviewed by the Remuneration Committee of the Supervisory Board, and approved by the Management Board member in charge of the Business Partnership Division. All regulations on awarding variable components of remuneration that apply to employees of the Bank are published in the form of ordinances issued by the Management Board member in charge of the Business Partnership Division, in accordance with and on the basis of the Remuneration Policy of Santander Bank Polska Group.

The Supervisory Board has a Remuneration Committee and a Nominations Committee.

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 the long-term interests of the Bank's shareholders and to the Bank's objectives;
- Provides the Supervisory Board with recommendations on remuneration for individual Management Board members, in compliance with the remuneration principles adopted in the Bank and evaluation of a given Management Board member's performance;
- Provides the Supervisory Board with general recommendations for the level and structure of remuneration for the key function holders in the Bank as well as considers the reports on the level and structure on remuneration (fixed and variable) based on relevant information provided by the Management Board;
- Supervises and issues opinions on the remuneration policy referred to in the Banking Law, and regularly reviews the policy and its application as well as prepares annual reports for the Supervisory Board on the policy application;
- Reviews reports on the application of the remuneration policy, including such issues as the rules and level of remuneration of Management Board members and key function holders in the Bank;
- Presents the Supervisory Board with recommendations with regard to compliance with the criteria and conditions justifying the award of variable components of remuneration to Management Board members, before the remuneration is paid in full or in part;
- Performs annual reviews of remuneration systems and assesses their adequacy;
- Approves the key features of the Bank's main variable remuneration schemes;
- Supervises the application of mauls clauses in compliance with the Bank's internal regulations (in particular, verifies the report with details on the identified event, involvement of key function holders (including Management Board members), the reasons for applying a malus clause, and the percentage or amount of variable remuneration to remain unpaid to the employee concerned), and presents recommendations to the Supervisory Board as to application of malus clauses;
- Actively participates in the identification of material risk takers in the Bank's Group, monitors this process on an ongoing basis, and at least once a year – based on the report on staff changes in the positions identified as having material impact on the risk profile, and the key criteria applied in the identification process – recommends a list of the Group's material risk takers for approval by the Supervisory Board;
- 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 Management Board by the Bank's relevant body, and to issue opinions as regards appointing and removing key function holders – at the request of the Management Board President. 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, as well as proposes the composition of the Supervisory Board's committees;
- Defines the scope of duties of a candidate for a Management Board member and a Supervisory Board member as well as requirements with regard to the knowledge and skills as well as time commitment required to perform the function;
- Defines a target for the representation of the underrepresented gender in the Management Board and prepares the Management Board Diversity Policy on how to achieve the target level taking into account a wide range of characteristics and skills required among 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 any 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 as well as the collective suitability of these bodies and presents to the Supervisory Board a report on the results of these assessments;
- Periodically reviews the policy of the Management Board on selection and assessment of suitability of the Bank's senior executives (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;
- Verifies if members of the Management Board and Supervisory Board commit sufficient time to performing their respective functions;
- Reviews any other issues reported by the Supervisory Board.

In 2020, the Remuneration Committee of the Supervisory Board met four times in the following composition:

- the Committee Chairperson: Danuta Dąbrowska;
- Committee members: Gerry Byrne, José Luís de Mora, Marynika Woroszylska-Sapieha, Dominika Bettman (since 22 June 2020).

As at 31 December 2020, three members of the Committee: Dominika Bettman, Danuta Dąbrowska and Marynika Woroszylska-Sapieha had the status of independent members.

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

- the Committee Chairperson: Marynika Woroszylska-Sapieha;

Committee Members: Gerry Byrne, José Luís de Mora, Danuta Dąbrowska, Jerzy Surma.

As at 31 December 2020, three members of the Committee: Danuta Dąbrowska, Jerzy Surma oraz Marynika Woroszylska-Sapieha had the status of independent members.

Santander Bank Polska Group applies the criteria of identification of material risk takers within the meaning of 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 adequate staff remuneration for their performance and motivating them to deliver best results and to achieve the Bank's strategic goals, both in terms of business and quality aspects, based on 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 quality targets.

Bank employees pursue specified individual objectives adapted to the operations of relevant Bank areas, except that the objectives assigned to employees of control units correspond to their respective functions, and their remuneration does not depend on business results of the business areas they control.

In the case of sales units, in addition to business targets, the performance evaluation also takes into account objectives related the customer's best interest. Due to the situation caused by the Covid-19 pandemic, the Bank took steps to adapt its incentive systems to the existing situation.

Under incentive schemes for the Bank's Management Board members and key function holders, remuneration is linked to the assessment of the company's long-term financial position, long-term growth of shareholder value, business stability, and risk appetite.

In addition, following the publication of the KNF's opinion of 17 April 2020 on variable components of remuneration in banks and insurance companies, the Bank immediately commenced analyses and actions to address the recommendations contained in the opinion. The recommendations were discussed by the Remuneration Committee of the Supervisory Board on 15 May 2020 and 17 September 2020. The Committee examined the aspects noted by the regulator and actions undertaken in response to the Covid-19 pandemic. The scope of activities included, among others:

- review of the remuneration policy applicable at the Bank, with a particular focus on prudent, stable and effective management of risk, capital and liquidity; long-term growth of the Bank; solid capital base, including estimated costs of variable remuneration for 2020;

- update of the Remuneration policy of Santander Bank Polska Group in terms of an option to extend the variable remuneration deferral period and increase the share of variable remuneration paid to the selected key employees in the form of financial instruments;

- analysis of the Bank's current financial standing as well as projected developments until the year-end, taking into account the impact of the Covid-19 pandemic, in particular in terms of the Bank's capital base and financial liquidity.

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 purpose of the remuneration system is to ensure the Bank's stable growth, acquire and retain talent, and safeguard shareholders' interests. The Bank's remuneration system includes two key components: fixed remuneration and variable remuneration, as well as non-salary benefits.

The remuneration policy is shaped around the base salary. The Bank's employees receive base salary determined using a job valuation methodology. The fixed component of remuneration depends on the employee's grade, among other things. For each grade, remuneration brackets are determined based on an annual pay report prepared by renowned consulting companies, and data published by Statistics Poland.

The variable component of remuneration depends on the bonus scheme applicable to the employee concerned. Payment of bonuses under a scheme is contingent on the delivery of pre-defined business targets (PBT or PAT level or growth rate), and quality indicator levels. Identified business units are also assigned objectives related to a specified level of cost of risk and ROTE, as well as risk management and portfolio quality objectives.

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

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

In accordance with the applicable law, at least 50% of the variable remuneration of Material risk takers is paid in the form of shares or share-linked financial instruments, i.e. phantom shares in the case of the Bank. Moreover, at least 40% of the variable remuneration component is deferred for 3 years, provided that the payment of each deferred part may be withheld or reduced if any negative factors occur. At the same time, once approved for payment, deferred cash components may be increased by the inflation rate for relevant years. The performance is assessed for the period of minimum three years to eliminate the focus on short-term profits so that the Bank's economic cycle and business risk are taken into account when awarding the performance-correlated remuneration, which ensures sustainable performance in short, medium and long-term perspective.

Santander Bank Polska Group has applied principles of identification, assessment and ex-post review of performance for which the variable remuneration has to be adjusted based on the performance of employees categorised as material risk takers and other employees subject to those regulations.

The factors analysed when deciding to apply the rules for adjusting variable remuneration, alongside the decision-making process, are described in detail in the Procedure for application of malus clauses in Santander Bank Polska Group, and 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 those relating to risks;
- significant changes in financial capital or risk profile of the Bank 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 those refer to marketing of unsuitable products;
- negative financial performance of the Group.

Long-term (3-year) incentive programmes for key employees are another form of variable remuneration used in the Group. Under the programme, newly issued Santander Bank Polska 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 to the employee and the extent to which the relevant business and quality targets 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 targets at the minimum required level, the variable part of the remuneration may be withheld.

The total amount of the variable remuneration granted to Management Board members and material risk takers for a single calendar year cannot be higher than 100% of the fixed remuneration paid for that calendar year to the person concerned. In exceptional cases this limit might be increased to maximum 200% of fixed remuneration. The decision on determining the maximum ratio of the fixed components of the total remuneration to the variable components of the remuneration in the Santander Bank Polska Group was taken by the AGM on 20 April 2016. In voting on the resolution, valid votes were representing 83.94% of the Bank's share capital. The resolution was adopted with 98.6% votes in favour.

Main parameters of variable components of remuneration

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

Consequently, the Bank has implemented a range of diverse bonus schemes addressed to various groups of employees, in particular the employees of sale and support units. The schemes differ in terms of criteria which determine the bonus payment (if any) and its final amount. Each scheme has its own individual accountability criteria, including: satisfaction and the number of loyal customers, cost of risk, NPL, 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. At the same time, the Bank has the option of awarding individual discretionary awards pursuant to the Bank's internal regulations.

Principles of managing the bank

As at 31 December 2020, the Bank's Management Board was composed of nine members. Members are appointed by the Supervisory Board for a joint term of three years. Presented below is the number of directorships held by Management Board members.

The number of Management Board members holding executive directorships in the Group: 4

The number of the Management Board members holding non-executive directorships in other entities: 2

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

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

The Bank strives to ensure that the Management Board members, key function holders, and candidates for those functions should at all times have professional skills suitable for their positions, sufficient knowledge, skills, professional experience, independence of mind as well as that they are of good repute both in their professional and private lives.

The suitability assessment involves the assessment of skills, experience, reputation, and the overall professional activity. The assessment of knowledge, skills and experience of persons subject to the Suitability Policy is made at the stage of their selection and after their appointment. The assessment is made in the following form:

1. Assessment and re-assessment of individual suitability of Management Board members,
2. Assessment and re-assessment of the collective suitability of the Management Board,
3. Assessment and re-assessment of individual key function holders.

The assessment is made on the basis of documents and statements which confirm the knowledge, skills, experience, prior functions as well as reputation of the assessed individuals and on the basis of individual meetings 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 as well as the risk management strategy, in particular if that member performs additional professional or political roles.

At the same time, in 2020 the Group continued to apply its Performance Management Policy. The Policy defines a new model, tools, dates as well as individuals and units engaged in the performance management process in Santander Bank Polska Group. The model laid down in the Policy is based on three pillars: HOW we deliver tasks and WHAT we do, as well as risk management objectives. Details of the objectives and performance evaluation are related to the Bank's business targets, and are specified in appropriate procedures.

In addition, by promoting a diversity policy with regard to Management Board composition, the Bank strives to ensure that the candidates for the roles of Management Board members and key function holders possess a wide range of qualities and skills as well as ability to show independence of mind and opinions, while making efforts to ensure gender balance in the Management Board, and the lack of any discrimination relating to candidates for Management Board members, particularly in terms of gender, education, geographical provenance, experience and age. When appointing the Management Board members, the Supervisory Board will strive to achieve at least 30% share of women in the Management

Board in 2025 and simultaneously ensure the Management Board's diversity in terms of geographical provenance. The Nominations Committee will take into consideration the Bank's relationship with Santander Group and its cross-border business objectives. The diversity strategy is implemented in the processes of selection, suitability assessment and succession planning.

The Bank also cares about constant development of its employees and ensuring succession for the Management Board members and key function holders in order to mitigate the risk related to long-term absences or unexpected cessation of these functions. The processes are carried out based on the Nomination and Succession Planning Policy for Management Board members and key function holders at Santander Bank Polska S.A. In accordance with that policy, by promoting or appointing people as Management Board members or key function holders the Bank strives to ensure that candidates for those positions have high professional qualifications suitable for their roles and that they are of good repute both in their professional and private lives. The process of identifying successors in a non-discriminatory way is to select candidates who could potentially fill the positions covered by the policy based on, e.g. assessment of their work 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**	12 689	5 047	2 653	4 161	16 461	26 587	67 598
Variable remuneration***	8 826	1 899	1 694	2 753	7 540	9 883	32 595
TOTAL	**21 515**	**6 946**	**4 347**	**6 914**	**24 001**	**36 470**	**100 193**

* 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.

** Fixed remuneration takes into account an allowance in lieu of annual leave at PLN 92.170 in the case of other executives. It does not include additional benefits, though.

*** Variable remuneration paid in 2020. No data on variable components of remuneration for the analysed financial year were available at the day of preparing the report.

Quantitative data on variable remuneration components for 2020 will be published together with information on the capital adequacy of Santander Bank Polska for the first half of 2021.

THE AMOUNTS OF REMUNERATION FOR 2020 SPLIT INTO FIXED AND VARIABLE REMUNERATION (PLN K)

			VARIABLE REMUNERATION FOR 2020							VARIABLE REMUNERATION FOR 2020		
	Number of employees	Fixed remuneration for 2020****	Bonus for 2015 (deferred part)	Bonus for 2016 (deferred part)	Bonus for 2017 (deferred part)	Bonus for 2018 (deferred part)	Bonus for 2019**	Phantom shares not sold (number of phantom shares)	Long-term incentive programme (number of shares of Santander Bank Polska S.A.)	Number of employees	Bonus for 2020*	Phantom shares not sold (number of phantom shares)
Management Board***	9	12 689	318	600	1 188	3 411	3 309	11 627	22 260	-	-	-
Key Management	157	54 909	925	2 014	2 297	5 896	12 636	26 644	32 410	-	-	-
including the individuals whose remuneration was EUR 1m–1.5m	1											
TOTAL	**166**	**67 598**	**1 243**	**2 614**	**3 485**	**9 307**	**15 945**	**38 271**	**54 670**	**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 2019 and paid in 2020 (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. Number of employees as at 31 December 2020.

**** Fixed remuneration takes into account an allowance in lieu of annual leave at PLN 92,170 in the case of other executives. It does not include additional benefits, though.

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

	DEFERRED BONUSES TO BE PAID FOR 2016/2017/2018/2019 unvested portion	
	In cash	In phantom shares (number of phantom shares)
Management Board*	4 510	30 146
Key Management	6 449	47 517
TOTAL	**10 958**	**77 663**

* 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. 2. The deferred remuneration also includes the variable remuneration payable to persons employed as at 31 December 2020 who are not Management Board members but are entitled to remuneration for performing their role as Management Board members in the previous years.

NEW SIGN-ON AND SEVERANCE PAYMENTS IN 2020 (PLN K)

	Area	NUMBER OF EMPLOYEES**	AMOUNT OF THE PAYMENT	HIGHEST SINGLE PAYOUT
Sign-on payments in 2020	Management Board	0	-	-
	Key Management	0	-	-
Severance payments in 2020	Management Board*	0	-	-
	Key Management	3	656	379
Awards	Management Board	0	-	-
	Key Management	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.
** The column only presents the number of persons who received payments.

In 2020, the deferred remuneration due to key function holders was not reduced as part of the performance-related adjustments.

In a given financial year, one person working at Santander Bank Polska S.A. received remuneration in the range of EUR 1–1.5 million.

In 2020, five employees identified as material risk takers in Santander Bank Polska Group terminated their employment contracts , with three of them receiving severance pay.

Due to their functions, Supervisory Board members are identified as material risk takers in the Bank. However, they are not included in the tables above.

Details on Management Board and Supervisory Board members' remuneration are presented in Note 52 of the Consolidated Financial Statements of Santander Bank Polska Group for 2020 and The Management Board Report on Santander Bank Polska Group Performance in 2020.

Incentive Programme VI

In 2020, Santander Bank Polska S.A. ("Bank") settled the sixth edition of the three-year incentive programme (Incentive Programme) addressed to the employees of the Bank and its subsidiaries who contributed significantly to an increase in the value of the organisation.

The programme was launched on the basis of the AGM resolution of 17 May 2017. Its main goal was to retain the best managers and effectively motivate them by ensuring a competitive and balanced remuneration package. In the long-term perspective, the programme supported implementation of quantitative indicators (compound annual growth rate of PAT, and the average value of RoRWA), and qualitative indicators (customer satisfaction and employee engagement) at the level indicated by the Supervisory Board.

The programme covered all Management Board members and employees of Santander Bank Polska Group designated by the Management Board and approved by the Supervisory Board (including the Bank's material risk takers, i.e. identified participants), no more than 250 persons in total.

On 20 February 2020, the Supervisory Board confirmed fulfillment of the economic conditions triggering payment of the Award. On 22 June 2020, the Bank's General Meeting of Shareholders passed a resolution on raising the share capital of Santander Bank Polska by issuing series O shares, and approved the final list of participants in the programme (197 names).

The participants acquired series O shares in the number set out in the share subscription agreements concluded with the Bank. The issue price of a series O share was PLN 10, and was equal to the nominal price. Each participant paid the amount calculated as the product of the awarded shares and their issue price).

Following registration of the share capital by the competent registry court, and registration of the newly issued shares by the Central Securities Depository of Poland, all the 101,009 series O shares were admitted and introduced to trading on the Stock Exchange, and recorded on the securities accounts indicated by participants. This formally ended the settlement process of Incentive Programme VI.

XII. Impact of Covid-19 on the Bank's position

In response to the need to address negative economic consequences of COVID-19 pandemic, the European Union (EU) and Member States have introduced a wide range of mitigating measures to support the real economy and the financial sector. As part of such measures, some Member States have introduced legislative moratoria on loan repayments granting the borrowers various forms of payment holidays on their existing loans or various forms of public guarantees.

As a coordinated approach to the, the EBA is introduced additional disclosure covering collection of information regarding the application of the payment moratoria to the existing loans and public guarantees in response to COVID-19 pandemic - EBA/GL/2020/07 of 2 June 2020 on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis.

In connection with the crisis caused by the COVID-19 pandemic, Santander Bank Polska S.A. Group offered its clients a number of assistance tools aimed at temporarily reducing their financial liabilities.

The range of tools included:

1) debt moratoria resulting from the banks' position regarding the unification of the rules for offering aid tools to clients of the banking sector (i.e. non-legislative moratorium within the meaning of the guidelines of the European Banking Authority (EBA)),
2) Anti-Crisis Shield 4.0,
3) financing to stabilize the liquidity situation, under which BGK collaterals were used.

BREAKDOWN OF LOANS AND ADVANCES SUBJECT TO LEGISLATIVE AND NON-LEGISLATIVE MORATORIA BY RESIDUAL MATURITY OF MORATORIA (PLN K)

		a	b	c	d	e	f	g	h	i
		Number of obligors	Gross carrying amount							
				Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
						<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1	Loans and advances for which moratorium was offered	175 959	24 824 323							
2	Loans and advances subject to moratorium (granted)	152 005	21 896 331	253 722	19 282 431	2 119 743	494 157	0	0	0
3	of which: Households		8 587 007	253 722	8 112 769	405 351	68 888	0	0	0
4	of which: Collateralised by residential immovable property		5 888 091	172 971	5 579 090	252 536	56 464	0	0	0
5	of which: Non-financial corporations		13 309 324	0	11 169 663	1 714 392	425 269	0	0	0
6	of which: Small and Medium-sized Enterprises		2 831 579	0	2 761 124	52 597	17 857	0	0	0
7	of which: Collateralised by commercial immovable property		0	0	0	0	0	0	0	0

* Data refer to active loans as at 31 December 2020.

Santander Bank Polska Group offers a grace period for principal repayment for a period not longer than 6 months and a grace period for principal and interest repayment for a period not longer than 3 months. The bank also offers an extension of the grace period.

LOANS AND ADVANCES SUBJECT TO LEGISLATIVE AND NON-LEGISLATIVE MORATORIA (PLN K)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
			Performing			Non performing				Performing			Non performing			
				Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	Inflows to non-performing exposures
1	Loans and advances subject to moratorium	21 896 331	21 258 960	493 075	3 098 158	637 371	346 112	465 928	-626 073	-340 617	-38 834	-200 578	-285 456	-132 263	-189 903	497 181
2	of which: Households	8 587 007	8 124 623	74 930	915 711	462 384	279 133	353 588	-358 430	-144 416	-3 456	-93 964	-214 014	-112 517	-151 233	351 197
3	of which: Collateralised by residential immovable prop	5 888 091	5 652 832	50 223	475 551	235 259	186 989	216 015	-110 510	-30 244	-1 334	-24 369	-80 267	-63 116	-73 804	193 889
4	of which: Non-financial corporations	13 309 324	13 134 337	418 145	2 182 447	174 987	66 980	112 340	-267 644	-196 201	-35 378	-106 614	-71 442	-19 746	-38 671	145 985
5	of which: Small and Medium-sized Enterprises	2 831 579	2 748 689	88 681	391 852	82 890	14 703	40 231	-150 116	-99 581	-17 062	-45 756	-50 536	-10 418	-24 447	73 880
6	of which: Collateralised by commercial immovable pro	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

* Data refer to active loans as at 31 December 2020

Santander Bank Polska Group offers options a grace of period for principal and a grace of period for principal and interest for retail, SME and Corporate portfolio.

INFORMATION ON NEWLY ORIGINATED LOANS AND ADVANCES PROVIDED UNDER NEWLY APPLICABLE PUBLIC GUARANTEE SCHEMES INTRODUCED IN RESPONSE TO COVID-19 CRISIS (PLN K)

		a	b	c	d
		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
			of which: forborne	Public guarantees received	Inflows to non-performing exposures
1	Newly originated loans and advances subject to public guarantee schemes	2 987 385	37 894	1 873 358	1 714
2	of which: Households	0			0
3	of which: Collateralised by residential immovable property	0			0
4	of which: Non-financial corporations	2 987 385	37 894	1 873 358	1 714
5	of which: Small and Medium-sized Enterprises	1 049 353			607
6	of which: Collateralised by commercial immovable property	0			0

The government guarantees granted cover clients from the SME and Corporate portfolio. The guarantees cover up to 80% of the exposure.

Debt moratoria resulting from COVID-19 do not automatically result in the derecognition of financial instruments. Modifications resulting from the support provided to clients under the statutory and non-statutory programs resulting from COVID-19 were assessed in accordance with the qualitative and quantitative criteria applied by the Group.

Santander Bank Polska Group recognized by 31 December 2020, PLN 34 656 k, as a reduction in interest income that is a reduction in the gross carrying amount due to modifications that do not result in the derecognition of financial instruments.

Due to the temporary nature of the aid granted from the above-mentioned programs the Group identified only a small percentage of modifications resulting from COVID-19 as significant modifications.

Additional provision covering risk resulting from COVID-19 pandemic

Santander Bank Polska S.A. Group monitors current economic situation and credit portfolio behaviours in relation to COVID-19 pandemic. Due to high uncertainty, mainly in the context of timing and range of potential economic deterioration, the Group decided to create additional provision (above the risk resulting from provisional parameters) for expected credit losses, in the form of post-model adjustment. The Group verified the level of post-model adjustment at the end of the year in the amount of PLN 121 414k (vs PLN 151 262k accounted previously in June) . The update was made due to regular review of the risk parameters process, taking into account the current portfolio structure and actual risk profile.

As a result of a crisis situation unprecedented in history, there is a potential risk that macroeconomic models developed over relatively stable historical periods may generate burdened results during pandemics (e.g. stronger correlation of variables, changed interpretation of variables during a crisis).

Taking into account high level of uncertainty currently surrounding the forward-looking information and associated with the development of the pandemic situation, in terms of the scale of the deterioration, its horizon and the impact of support measures taken on the individual customers' situation, it was decided not to use new macroeconomic scenarios (including COVID-19 situation) for the purpose of IFRS9 risk parameters' update.

However, to reflect the higher risk level that is expected to be observed for credit portfolios, it was decided to create a portfolio management provision (in form of post-model adjustment) that will cover the uncertainty associated with the impact of a pandemic not included on the level of IFRS9 risk parameters.

In line with the adopted process, in the fourth quarter the Group has carried out a yearly review of the risk parameters. Unchanged remains reflecting forward-looking events both in the process of estimating ECL and when determining a significant increase in credit risk, by reflecting appropriate macroeconomic scenarios in the estimation of parameters for each scenario. Provision level update resulting from uncertain macroeconomic perspectives (additional to the actions already described), was recognized in post-model adjustment and was based on a modified scenario including long-term negative impact of COVID-19 pandemic economy.

To include the effect of COVID in Expected Credit Losses Group has decided to use a scenario reflecting a longer impact of COVID on macroeconomic factors than actually observed short term shock.

It was prepared using a scenario where the economic shock is observed. Then, to exclude the high volatility of short term shocks to economy, convergence to the long term point was assumed.

Detailed information on impact of Covid-19 on the Bank's position are presented in chapters *Additional provision covering risk resulting from COVID-19 pandemic* and *Long Run scenario* in the Management Board Report on Santander Bank Polska Group Performance in 2020.

Events after the reporting date

- New Default Definition

In accordance with the Guidelines of the European Banking Authority (EBA/GL/2016/07) on the application of the definition of default and the Regulation of the Minister of Finance, Investments and Development on the materiality thresholds of overdue credit obligations by 31 December 2020 the Bank adjusted it's activities to the provisions of resulting from the above-mentioned regulations.
From 1 January 202, for the purposes of risk and capital adequacy assessment the Bank applies new rules for classifying credit receivables to the group of exposures that meet the default rules in accordance with the EBA guidelines.

The main changes are related to the calculation of days past due methodology and include:

- simultaneous analysis of two materiality thresholds (absolute and relative) - days past due are counted only when both materiality thresholds (absolute and relative) are breached,
- lower values of the absolute threshold compared to the current ones: PLN 400 vs. PLN 500 for retail customers and PLN 2000 vs. PLN 3000 for non-retail customers,
- for non-retail obligors, calculation of days past due taking into account obligor's combined exposure in Santander Bank Polska Group (excl. Santander Consumer Bank).

The implementation of the above mentioned changes will impact the classification of the customers exposures to stage 2 and stage 3 (delay in payment criteria) and hence the value of created provision.

Bank decided to include impact on provisions as a result of implementation New Default Definition in form of additional portfolio management provision.

Taking into account the provisions of the New Definition of Default, as at 31 December 2020 with increase risk weighted assets by PLN 158 m the Santander Bank Polska Capital Group CAR ratio would be 20.02%, CET1 17.99%.

- In KNF's letter of 4 February 2021, the Bank was granted consent to classify series O shares to Common Equity Tier 1 capital and increase Tier 1 capital by PLN 1 010 090. Will be included from the date of decision.

Signatures of the persons representing the entity

Date	Name	Function	Signature
22.02.2021	Michał Gajewski	President	
22.02.2021	Andrzej Burliga	Vice-President	
22.02.2021	Michael McCarthy	Vice-President	
22.02.2021	Juan de Porras Aguirre	Vice-President	
22.02.2021	Arkadiusz Przybył	Vice-President	
22.02.2021	Patryk Nowakowski	Member	
22.02.2021	Carlos Polaino Izquierdo	Member	
22.02.2021	Maciej Reluga	Member	
22.02.2021	Dorota Strojkowska	Member	

Signature of a person who is responsible for maintaining the book of account

Date	Name	Function	Signature
22.02.2021	Wojciech Skalski	Financial Accounting Area Director	