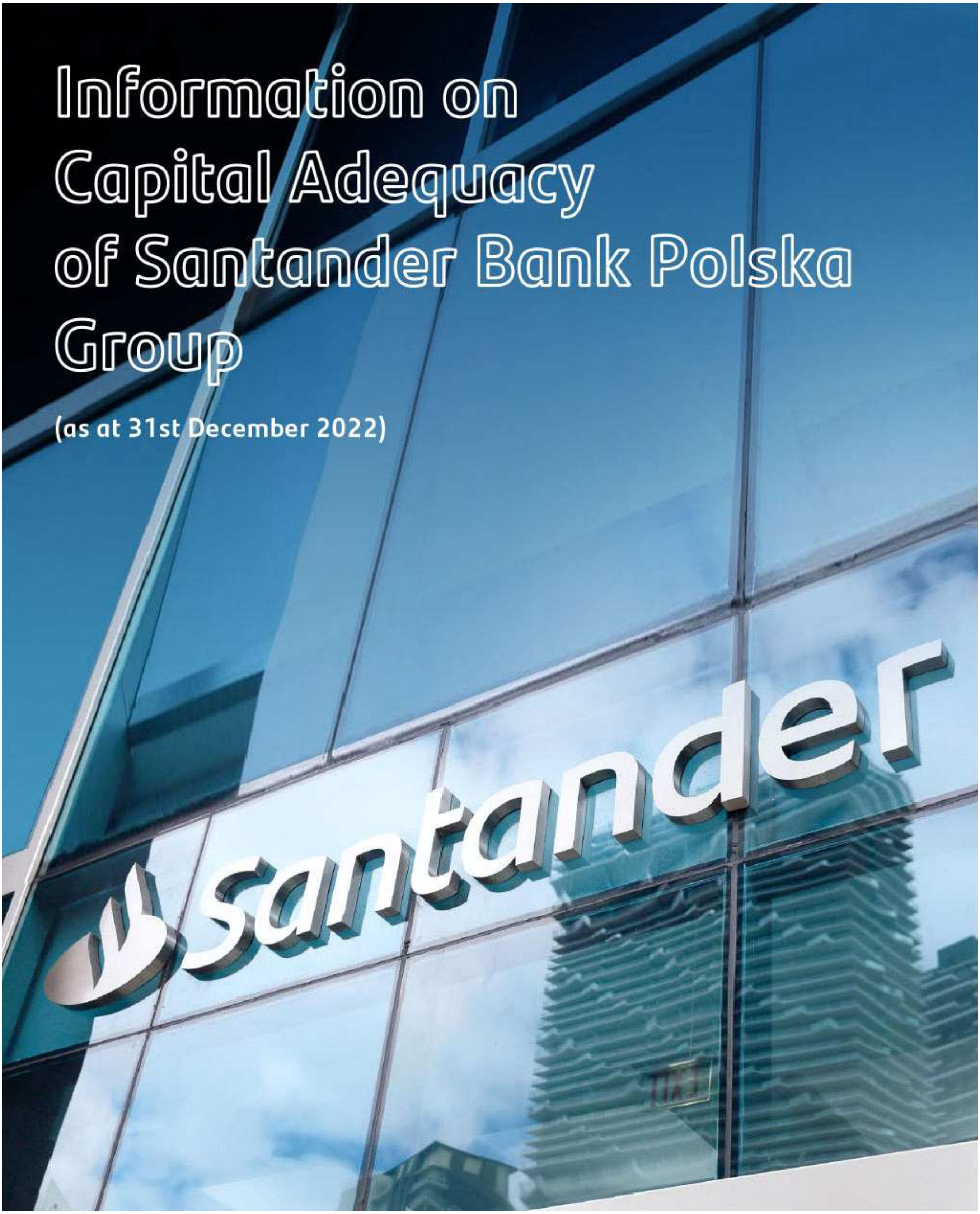
Information on Capital Adequacy of Santander Bank Polska Group

(as at 31st December 2022)



Santander

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 amended by Regulation (EU) No 2019/876 of the European Parliament and of the Council of 20 May 2019. (CRR) which formed the legal basis of the reporting date i.e. 31 December 2022.

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. Amendments to the above regulations are introduced by the CRD V / CRR II package as well as Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic. The regulations are 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 II. Information is published in accordance with the Commission Implementing Regulation (UE) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council and repealing Commission Implementing Regulation (EU) No 1423/2013, Commission Delegated Regulation (EU) 2015/1555, Commission Implementing Regulation (EU) 2016/200 and Commission Delegated Regulation (EU) 2017/2295 and EBA/GL/2020/07 Guidelines from 02 June 2020 on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis.

The data presented in the report were prepared as at 31 December 2022. The information contained herein refers to the foregoing regulations to the extent applicable to the Bank and Santander Bank Polska Group. The figures presented in the Report are expressed in thousand PLN, unless otherwise stated. Any potential differences in the sums and percentages are due to presentation of the amounts with a specific degree of accuracy.

Disclosure of capital adequacy	Guidelines on disclosures	Article of CRR
I. Introduction		
2. Capital Group 3. Outline of differences in consolidation	Scope of application of the regulatory framework	Article 436
II. Risk Management	Risk management, objectives and policies	Article 435, 446, 451a(4)
III. Own funds	Own funds	Article 437, 436 point (e)
	Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds	Guidelines EBA/GL/2020/12
	Own funds and eligible liabilities	Article 437a
IV. Capital requirements	Capital requirements	Article 438 point d), 447
1. Total capital requirements		
2. Credit risk	Credit risk and its mitigation	Article 442, 444 point (e), 453
	ECAI	Article 444
3. Counterparty credit risk	Counterparty credit risk	Article 439, 444 point (e), 452
4. Market risk	Market risk	Article 445
V. Capital buffers	Macroprudential supervisory measures	Article 440
VI. Capital adequacy		Artykuł 438
1. Capital adequacy management		
2. Regulatory capital adequacy		
3. Internal capital adequacy		Article 438 point a)
VIII. Securitization	Exposure to securitization positions	Article 449
IX. Leverage ratio	Leverage ratio	Article 451
X. Encumbered assets and unencumbered assets	Unencumbered assets	Article 443
XI. Remuneration Policy	Governance arrangements	Article 435(2)
	Remuneration	Article 450
VIII. Liquidity measures	Liquidity information	Article 448(1), 451a(2)(3)
XII. Impact of Covid-19 on the Bank's position		
N/A	Specialised lending	Article 438 point (e)
N/A	Indicators of global systemic importance	Article 441
N/A	The IRB approach for credit risk purpose	Article 452
N/A	The Advanced Measurement Approaches to operational risk	Article 454
N/A	Internal market risk measurement models	Article 455
N/A	The variations in the risk-weighted exposure amounts hat result from the use of internal models.	Article 438 point (h)

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 31.12.2022

Name of the entity	Method of accounting consolidation	Method of prudential consolidation					Description of the entity
		Full consolidation	Proportional consolidation	Equity method	Neither consolidated nor deducted	Deducted	
Santander Factoring sp. z o.o.	Full consolidation	X					Factoring services
Santander F24 S.A.	Full consolidation	X					Lending services
Santander Leasing S.A.	Full consolidation	X					Lease services
Santander Finanse sp. z o.o.	Full consolidation	X					Financial, lease and insurance intermediary services
Santander Inwestycje sp. z o.o.	Full consolidation	X					Purchase and sale of shares in commercial companies and other securities; prospecting activities
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	Full consolidation	X					Management of open-end investment funds, specialised open-end investment funds and portfolios comprising one or more financial instruments
Santander 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. [1]	Full consolidation	X					Investing cash surpluses and financial intermediary services
SC Poland Consumer 23-1 DAC	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 DS, PEUGEOT and CITROEN cars (consumer loans)
PSA Finance Polska sp. z o.o.	Full consolidation	X					Financial services supporting the sale of DS, PEUGEOT and CITROEN cars (consumer leasing, factoring and corporate loans)
Santander Allianz Towarzystwo Ubezpieczeń S.A.	Equity method			X			Insurance services (personal and property insurance)
Santander Allianz 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

[1] 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 with 31 December 2021, the list of subsidiaries of Santander Bank Polska S.A. excludes Santander Leasing Poland Securitization 01 Designated Activity Company with its registered office in Dublin, a special purpose vehicle and a former subsidiary of Santander Leasing S.A. The SPV was incorporated on 30 August 2018 for the sole purpose of traditional securitisation of a lease and credit portfolio. The SPV did not have any capital connections with Santander Leasing S.A., which was its controlling entity in accordance with the conditions laid down in IFRS 10.7. Due to the final settlement of the project, in 2022 Santander Bank Polska S.A. lost control over the above entity. On 8 December 2022, the SPV was put into liquidation.

The list of members of Santander Bank Polska Group was expanded to include SC Poland Consumer 23-1 Designated Activity Company, a new SPV and a subsidiary of Santander Consumer Bank S.A. The SPV was incorporated on 17 June 2022 in Dublin under Irish law for the sole purpose of securitising a retail loan portfolio. Its shareholder is a legal person not connected with the Group, but Santander Consumer Bank S.A. is its controlling entity in line with IFRS 10.7. The above SPV replaced SC Poland Consumer 16-1 Sp. z o.o. following the restructuring of securitisation, including the repayment of debt and transfer of claims to the newly established company.

As at 31 December 2022, all entities of Santander Bank Polska Group are consolidated with the Bank in accordance with IFRS 10.

Compared with 31 December 2021, the list of associates did not change.

On 21 May 2022, following the purchase of shares held by Aviva International Holdings Limited by Allianz Group, Santander Aviva insurance companies were renamed Santander Allianz Towarzystwo Ubezpieczeń S.A. and Santander Allianz Towarzystwo Ubezpieczeń na Życie S.A.

Detailed information on the structure of Santander Bank Polska Group are presented in the Management Board Report on Santander Bank Polska Group Performance in 2022.

2. Outline of the differences in the scopes of consolidation

At Santander Bank Polska Group, there are no differences between consolidation for regulatory purposes and consolidation for accounting purposes in terms of entity structure. 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 THE ACCOUNTING SCOPE AND THE SCOPE OF PRUDENTIAL CONSOLIDATION AND MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES (PLN K)

			Carrying values of items				
	Carrying values as reported in published financial statements	Carrying values under scope of prudential consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
Breakdown by asset clases according to the balance sheet in the published financial statements							
1 Cash and balances at central banks	10 170 022	10 170 022	10 170 022	-	-	-	-
2 Loans and advances to banks	9 577 499	9 577 499	9 577 499	2 591 182	-	-	-
3 Financial assets held for trading	6 883 616	6 883 616	-	6 549 845	-	6 330 141	-
4 Hedging derivatives	549 177	549 177	-	549 177	-	537 924	-
5 Loans and advances to customers	152 508 692	152 508 692	144 622 191	-	7 886 501	-	-
6 Buy-sell-back transactions	13 824 606	13 824 606	-	13 824 606	-	-	-
7 Investment securities	55 371 137	55 371 137	55 371 137	-	-	-	-
8 Assets pledged as collateral	2 318 219	2 318 219	160 847	2 157 372	-	-	-
9 Investments in associates	921 495	921 495	921 495	-	-	-	-
10 Intangible assets	740 756	740 756	388 276	-	-	-	352 481
11 Goodwill	1 712 056	1 712 056	-	-	-	-	1 712 056
12 Property, plant and equipment	688 262	688 262	688 262	-	-	-	-
13 Right of use assets	497 352	497 352	497 352	-	-	-	-
14 Current income tax assets	-	-	-	-	-	-	-
15 Net deferred tax assets	2 098 733	2 098 733	2 098 452	-	-	-	-
16 Assets classified as held for sale	5 973	5 973	5 973	-	-	-	-
17 Other assets	1 299 620	1 299 620	1 299 620	-	-	-	-
17 Total assets	**259 167 215**	**259 167 215**	**225 801 123**	**25 672 182**	**7 886 501**	**6 868 065**	**2 064 536**
Breakdown by liability classes according to the balance sheet in the published financial statements							
1 Deposits from banks	4 031 253	4 031 253	-	-	-	-	-
2 Hedging derivatives	1 979 089	1 979 089	-	1 872 040	-	1 872 040	107 049
3 Financial liabilities held for trading	7 108 826	7 108 826	-	6 742 628	-	6 307 149	-
4 Deposits from customers	196 496 806	196 496 806	-	-	-	-	-
5 Sell-buy-back transactions	2 324 926	2 324 926	-	2 158 520	-	-	166 406
6 Subordinated liabilities	2 807 013	2 807 013	-	-	-	-	-
7 Debt securities in issue	9 330 648	9 330 648	-	-	-	-	-
8 Lease liabilities	419 965	419 965	-	-	-	-	-
9 Current income tax liabilities	80 751	80 751	-	-	-	-	-
10 Deferred tax liabilities	281	281					
11 Provisions for off balance sheet credit facilities	61 869	61 869	-	-	-	-	-
12 Other provisions	627 311	672 012	-	-	-	-	-
13 Other liabilities	3 783 139	3 738 439	-	-	-	-	-
14 Total liabilities	**229 051 877**	**229 051 877**	-	**10 773 187**	-	**8 179 189**	**273 455**
Equity							
1 Share capital	1 021 893	1 021 893	-	-	-	-	-
2 Other reserve capital	23 858 400	23 510 480	-	-	-	-	-
3 Revaluation reserve	- 1 131 335	- 1 131 335	-	-	-	-	-
4 Retained earnings	1 770 027	2 117 948	-	-	-	-	-
5 Profit for the current period	2 799 098	2 799 098	-	-	-	-	-
6 Non-controlling interests in equity	1 797 255	1 797 255	-	-	-	-	-
7 Total equity	**30 115 338**	**30 115 338**	-	-	-	-	-
8 Total liabilities and equity	**259 167 215**	**259 167 215**	-	**10 773 187**	-	**8 179 189**	**273 455**

The differences in table EU LI1 affect presentation only. They have no impact on the total assets, liabilities or equity of Santander Bank Polska Group in the light of accounting standards or regulatory requirements.

Santander Bank Polska Group does not identify any impediments to the prompt transfer of own funds or to the repayment of liabilities within the Group.

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	Securitisation framework	CCR framework	Market risk framework
1	**Assets carrying value amount under the scope of prudential consolidation (as per template LI1)**	**259 167 215**	**225 801 123**	**25 672 182**	**7 886 501**	**6 868 065**
2	**Liabilities carrying value amount under the scope of prudential consolidation (as per template LI1)**	**229 051 877**	**-**	**10 773 187**	**-**	**8 179 189**
3	**Total net amount under the scope of prudential consolidation**	**30 115 338**	**225 801 123**	**14 898 995**	**7 886 501**	**-1 311 124**
4	**Off-balance-sheet amounts**	**43 275 307**	**43 275 307**	**-**	**-**	
5	Differences in valuations	162 969	-	162 969	-	
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	
7	Differences due to consideration of provisions	-180 236	-180 236	-	-	
8	Differences due to the use of credit risk mitigation techniques (CRMs)	-14 440 260	1 243 350	-15 683 610	-	
9	Differences due to credit conversion factors	-37 304 007	-37 304 007	-	-	
10	Differences due to Securitisation with risk transfer	-7 886 501	-	-	-7 886 501	
11	Other differences	5 797 621	111 045	5 686 576	-	
12	**Exposure amounts considered for regulatory purposes**	**238 011 512**	**232 946 582**	**5 064 930**	**-**	**-**

The key factor underlying the difference presented in the line 'Other adjustments' of table EU LI2 is the impact of the methodology of calculating the exposure to counterparty credit risk in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council dated 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 amended by Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019.

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 while the Group increases the shareholder value, it also 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 Finance, Development Funds and Regional Policy and the recommendations issued by the Polish Financial Supervision Authority (KNF). The risk management system is comprehensively described in the „Strategy for risk management in Santander Bank Polska S.A.", which was adopted by the Management Board and approved by the Supervisory Board.

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** (because the currency risk in the banking book is transferred and managed in the trading book, it is understood primarily as the interest rate risk in 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 management.

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. The Committee meets at least 4 times a year. The Chief Risk Officer, who is in charge of Risk Management Division, provides the Risk Committee with comprehensive and understandable information about risk, enabling its Members to understand the Bank's risk profile.

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 makes the most material credit decisions (above pre-defined levels) and approves the annual Model Plan (incl. 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. 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:

Credit Risk Committee, which approves and supervises the risk management policy and risk measurement methodology as well as monitors credit risk of consolidated credit portfolio or in cases pertaining to more than one business segment;

Credit Policy Forum for Retail Portfolios, Credit Policy Forum for SME Portfolios and Credit Policy Forum for Business & Corporate portfolios, which approve and supervise the risk management policy and risk measurement methodology as well as monitor credit risk pertaining exclusively to the business segment to which the given committee is dedicated;

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.

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.

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.

Model Risk Management Committee, which is responsible for model risk management as well as supervises the methodology of models used in Santander Bank Polska Group;

Market and Investment Risk Committee, which approves and supervises the risk management policy and risk measurement methodology as well as monitors market risk in the banking book, market risk in the trading book, structural risk for the balance sheet, liquidity risk and investment risk;

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.

The **Responsible Banking and Corporate Culture Committee** is the main forum to discuss issues concerning responsible banking, sustainable development, ESG and corporate culture. It sets the direction of strategic activities and monitors the related objectives. As part of the Committee, the **ESG Forum** has been established to analyse challenges, opportunities and risks related to the EU Sustainable Finance agenda, including ESG risks, plan activities and coordinate their implementation at the Bank, and to submit regular reports to the Responsible Banking and Corporate Culture Committee and the Bank's Management Board.

The Bank has dedicated authorities which are convened in crisis situations:

Gold Committee - is the ultimate management authority which takes decisions in crisis situations (with the consideration of the roles of the Management Board and the Supervisory Board), it recommends the Management Board to activate the Recovery Plan, activates liquidity and capital contingency plans, and activates business continuity plans and the communication plan (if not already implemented at an earlier stage of an event).

Silver Committee - the main special situations governance body following the activation of the contingency situation, which assesses the impact of that situation and coordinates activities as part of the special situation management, activates action plans (e.g. business continuity plans) and BAU restoration procedures, and draws lessons learned after the special situation is resolved. It supports the Gold Committee.

Bronze Group - is responsible for the identification of and prompt response to threats or events that may pose a risk to the normal functioning of the Bank and/or the Group. It identifies new threats in cooperation with the committees which manage risks on a regular basis. It supports the Silver Committee.

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. The first line of defence receives assessments, information and analyses of risk exposures from the risk management unit and takes them into account in the risk management process, including decision-making processes. However, it is the management of business units within the first line of defence who is responsible for business decisions made, and eventually the Bank's Management Board in line with their authorities.
- **2nd line of defence** includes risk management by employees holding dedicated job positions or working in dedicated organisational units as well as the activity 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 Vice-president of the Bank's Management Board responsible for risk management; 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 Area reporting 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.

As part of its due diligence processes prior to entering into loan agreements or other types of agreements, the bank monitors the compliance of its counterparties with corporate governance standards. However, at the current stage, they are not implemented in the Bank's internal processes, and the Bank does not take into account the role of contractors' supervisory authorities in the field of non-financial reporting. The Bank plans to take steps to take into account issues related to the corporate governance of its contractors in the future.

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.

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, model risk, 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. Risk levels covered by the limits are subject to regular monitoring and reporting monthly to relevant committees up to the level of Risk Committee at Supervisory Board. There are also appropriate escalation paths in place to convey information of the limits excess.

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 2022.

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 contractual terms 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 Risk Committee. 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 Model Risk Management Committee.

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 50m 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 and up to 10 years in the amount above PLN 97.5m and LBO & Project Finance transactions in the amount above PLN 65m 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. The department also manages the bank's real estate appraisal process.

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. Collateral data recording is implemented both in the ICBS system and in the Central Collateral Database (CBZ), whose business owner is the Collateral and Credit Agreements Department. Data recording in the dedicated CBZ system is intended to provide information on all types of collateral more complete than in the ICBS system, and to continuously improve data quality.

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

RETAIL CUSTOMERS

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

BUSINESS CUSTOMERS

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

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

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

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

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

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

Counterparty credit risk

The Bank estimates the exposure on counterparty credit risk in accordance with the standardised approach for counterparty credit risk 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.

For entities with an appropriate type of agreement that allow netting, the netting formula is used when calculating counterparty risk exposure.

If the event of a customer's credit deterioration or the customer defaults on the transaction and a long-term claim arise, the Bank decides to create a credit reserve.

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 Market and Investment Risk Committee 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 Market and Investment Risk Committee, 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 Market and Investment Risk Committee, 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 Market and Investment Risk Committee of Santander Bank Polska S.A.

The bank's Market and Investment Risk Committee, 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 Market and Investment Risk Committee).

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 Market and Investment Risk Committee.

Once a month, the Financial Risk Department provides information about the risk exposure of the trading book and selected measures to the Market and Investment Risk Committee 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 (Market and Investment Risk Committee, ALCO). The selected key interest rate risk measures, including risk appetite measures defined for the Group's banking book, are reported to the bank's Management Board and Supervisory Board.

Risk prevention and mitigation

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

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

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

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

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

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

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

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

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

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

The sensitivity measures for 2022 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. Data in PLN m.

1 day holding period (PLN mln)	NII Sensitivity		MVE Sensitivity	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Maximum	-426	-552	-595	-832
Average	-358	-440	-488	-480
As at the end of period	-334	-291	-494	-356
Limit	-900	-700	-800	-875

In 2022, the volatility of the use of interest rate risk limits was lower compared to 2021. There was one breach of the NII sensitivity limit (interest income) for the EUR currency in 2022. This was due to a sharp increase in the volume of Repo transactions. Finally, the operational limit on the sensitivity of NII in EUR was increased. The main factors affecting the fluctuation of measures in 2022 were the volatility of interest rates and the strategy to reduce the duration of debt securities from the ALCO portfolio. The market of rising interest rates influenced the outflow of a significant volume of current accounts or migration to interest-bearing accounts, which affected the unstable part and indirectly changed the stable part. In addition, the gradual shortening of the duration of debt securities from the ALCO portfolio had a direct impact on changes in the MVE measure (economic value of capital).

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 calculated for open positions in the Trading Book using the historical simulations method. Under this method the Group estimates the value of portfolio for 520 scenarios generated on the basis of historically observable daily changes in market parameters. VaR is estimated as the 99th percentile of the lowest valuations P&L vector based on the change in the valuation of all trading portfolio in a given historical scenario.

The stop-loss mechanism is used to manage the risk of loss on trading 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 results of stress scenarios are based on sensitivity reports and on a given stress test scenario. Scenarios are based on historical periods of extreme market rate movements and on scenarios derived using expert judgement to account for additional potential changes in risk factors.

The table below shows risk measures at the end of 2022 and 2021 for 1-day position holding period (values in thousands PLN).

Interest rate risk	VaR	
1 day holding period	**31.12.2022**	**31.12.2021**
Average	5 321	4 395
Maximum	14 622	19 540
Minimum	960	657
as of the end of period	9 550	2 703
Limit	**13 205**	**9 744**

A few exceedances of VaR type limits were recorded in 2022. Exceedances were recorded on the total VaR and Interest Rate VaR on the Bank's trading book for three days in December. Breaches were due to significant market movements on FX Swap quotes, which in turn was caused by the industry's end of year efforts to secure end of year liquidity. The observed values of the VaR in 2022 were higher than in 2021 due to an increase in financial market volatility caused by economic and geopolitical events such as high inflation, significant increases in interest rates and by the war in Ukraine. The aforementioned increase is not directly visible in the comparative data for 2021 due to the need to temporarily hold bonds issued by BGK and PFR on the Bank's trading book in 2021 due to the Bank's participation in COVID-19 support programme, when during these periods, the observed VaR levels being above the approved 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 VaR estimation.

The table below illustrates the risk measures at the end of December 2022 and 2021 (values in thousands PLN).

FX risk	VaR	
1 day holding period	**31.12.2022**	**31.12.2021**
Average	1 021	614
Maximum	2 346	2 447
Minimum	68	62
as of the end of period	1 144	538
Limit	**3 301**	**3 045**

In 2022, the VaR limit for currency risk was not exceeded.

In regards to the structural exposure to currency risk in the Group’s balance sheet, in 2022 the share of foreign currency assets in the balance sheet increased. This was due to an increase in the balance of investment financial assets in EUR, partly offset by a further decrease of CHF loans, as a result of the continuing amortisation of the CHF mortgage portfolio.

The liquidity gap in individual currencies was closed with the use of swap transactions on the currency market.

The tables below present the Group's key FX positions as at 31 December 2022 and in the comparable period.

31.12.2022	PLN	EUR	CHF	USD	Other	Total
ASSETS						
Cash and balances with central banks	8 714 371	852 099	71 968	390 655	140 929	10 170 022
Loans and advances to banks	846 348	8 357 220	14 193	242 190	117 548	9 577 499
Loans and advances to customers	124 248 973	22 738 284	4 145 185	1 352 255	23 995	152 508 692
Investment securities	54 635 806	1 755 829	-	1 297 721	-	57 689 356
Selected assets	**188 445 498**	**33 703 432**	**4 231 346**	**3 282 821**	**282 472**	**229 945 569**
LIABILITIES						
Deposits from banks	1 772 840	1 770 254	855	484 521	2 782	4 031 252
Deposits from customers	154 209 339	29 111 062	1 091 075	10 115 955	1 969 375	196 496 806
Subordinated liabilities	1 122 851	1 684 162	-	-	-	2 807 013
Selected liabilities	**157 105 030**	**32 565 478**	**1 091 930**	**10 600 476**	**1 972 157**	**203 335 071**

31.12.2021	PLN	EUR	CHF	USD	Other	Total
ASSETS						
Cash and balances with central banks	7 682 144	448 633	65 051	145 548	96 899	8 438 275
Loans and advances to banks	339 293	2 055 109	3 730	171 362	120 758	2 690 252
Loans and advances to customers	119 245 953	17 829 536	9 146 809	2 021 054	7 070	148 250 422
Investment securities	67 635 724	1 684 057	-	3 059 453	-	72 379 234
Selected assets	**194 903 114**	**22 017 335**	**9 215 590**	**5 397 417**	**224 727**	**231 758 183**
LIABILITIES						
Deposits from banks	2 912 696	1 337 011	2 044	145 752	2 635	4 400 138
Deposits from customers	152 887 096	22 748 686	738 642	7 277 546	1 721 473	185 373 443
Subordinated liabilities	1 105 054	1 645 386	-	-	-	2 750 440
Selected liabilities	**156 904 846**	**25 731 083**	**740 686**	**7 423 298**	**1 724 108**	**192 524 021**

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 2022 and 2021 (values in thousands PLN).

Equity risk	VaR	
1 day holding period	**31.12.2022**	**31.12.2021**
Average	261	316
Maximum	532	595
Minimum	98	113
as of the end of period	258	364
Limit	**2 135**	**1 969**

In 2022, 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 Market and Investment Risk Commitee 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 level 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, liquidity buffer) assuming normal or predictable conditions for the Group's operations. Liquidity buffer consists of: extremely liquid securities (mainly Treasury Bonds or bonds fully guaranteed by Central Government of Poland and Treasury Bonds issued by goverments of Germany, Spain, USA and bonds issued by European Investment Bank), central bank assets (including NBP bills), cash, surplus in current accounts of National Bank of Poland (NBP) over the amount of mandatory reserve. As of December 2022, 31st the above mentioned categories accounted for 88.5%, 6.5%, 4.9% and 0.0%, respectively, of the liquid buffer, the value of which was PLN 65.1 bn. All components of liquid buffer are recognized as level 1 of liquid assets.

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;
- ratios laid down in 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.

The Asset and Liability Management Department (DZAP), located within the Bank's structures, takes actions to optimize the financing of Santander Bank Polska S.A. Group, in particular in the case of entities 100% dependent on the Bank. The aforementioned activities are aimed at optimizing the structure and cost of financing the Group, while ensuring an appropriate level of security and stability of financing sources. DZAP, as the owner of the Bank's Liquidity Emergency Plan, also takes care of the synchronization of activities and the flow of information within the Group in the event of a liquidity crisis.

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, 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 8 scenarios:

a) standard scenarios with imposed operating limits and included in the liquidity risk appetite:

- baseline scenario, which assumes non-renewability of wholesale funding;
- idiosyncratic liquidity crisis scenarios (specific to the bank);
- local systemic liquidity crisis scenario;
- global systemic liquidity crisis scenario;
- combined liquidity crisis scenario (idiosyncratic crisis and local systemic crisis) –with operating limit not included in risk appetite;

b) supporting / ad hoc scenarios without imposed limits:

- combined liquidity crisis scenario (idiosyncratic crisis and 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. The survival horizon, assessed through the prism of risk appetite, as at December 31, 2022 was 149 days.

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 2022, the Santander Bank Polska S.A. Group focused on the maintenance adequate level of liquidity buffer and effective allocation of the liquidity . The increase in the NBP reserve requirement and the increase in market interest rates resulted in a fierce competition for customer deposits in the banking sector. At the end of December 2022, the loan-to-deposit ratio was 78%, compared to 80% at the end of December 2021, while the liquidity coverage ratio on a consolidated basis was 177%, compared to 215% in the previous year. The decrease in the liquidity coverage ratio resulted mainly from the increase in the NBP reserve requirement, an increase in financing granted to customers as well as partial replacement of external financing of Group subsidiaries with internal financing. The Bank also took care of the proper diversification of financing sources by limiting the funds obtained from the wholesale market and from the strategic investor. The wholesale market financing concentration ratio for the Bank as at 31 December 2022 amounted to 32% compared to 29% at the end of 2021, while the financing ratio from the strategic investor was 2.5% and 1.8% for the compared periods.

In 2022 and in the comparable period, all key regulatory ratios as well as liquidity risk measures identified as part of the risk appetite applicable to the Bank and Group were maintained at the levels required by regulations or approved by the Bank's Supervisory Board.

The tables below show the cumulated liquidity gap on an consolidated level (for Santander Bank Polska Group) as at 31 December 2022 and in the comparable period. Nominal value have been presented.

31.12.2022	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	26 613 991	27 191 485	14 202 321	13 117 762	16 076 998	32 302 651	58 286 412	62 198 388
Liabilities and equity	140 663 428	30 936 195	18 102 710	8 226 322	9 299 540	1 607 224	4 503 590	1 135 838
including:	-	-	-	-	-	-	-	-
- Sell-buy-back transactions	-	1 517 376	-	-	-	-	-	-
- Deposits from banks	1 451 088	212 413	446 985	932 270	250 107	10 718	847 545	21 438
- Deposits from customers	139 212 340	29 206 405	15 153 945	6 934 255	5 273 002	498 091	200 331	14 401
- Debt securities in issue	-	-	2 494 950	355 000	3 767 425	687 305	1 753 695	-
- Subordinated liabilities	-	-	-	-	-	-	1 674 763	1 100 000
- Lease liabilities	-	-	6 831	4 796	9 005	17 178	27 256	-
Contractual liquidity gap	(114 049 437)	(3 744 710)	(3 900 390)	4 891 440	6 777 459	30 695 427	53 782 822	61 062 550
Cummulated contractual liquidity gap	(114 049 437)	(117 794 147)	(121 694 537)	(116 803 096)	(110 025 638)	(79 330 210)	(25 547 389)	35 515 162
Net derivatives	-	-	-	-	-	(42 977)	-	-
Gross asset derivatives	-	36 452 294	29 466 643	10 400 935	18 702 881	9 441 447	12 127 523	1 810 158
Gross liabilities derivatives	-	36 598 911	29 271 988	10 599 954	18 227 043	9 464 541	13 039 363	1 930 353
Off Balance positions Total	38 157 484	4 509 876	1 004 214	414 385	372 736	159 911	40 150	6 123
-guarantees & letters of credits	9 859 769	-	-	-	-	-	-	-
-credit lines	7 218 463	4 469 240	768 774	206 511	-	-	-	-

31.12.2021	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	23 196 074	16 151 313	11 481 410	10 979 981	23 975 490	29 154 191	61 310 276	60 763 755
Liabilities and equity	160 757 692	11 752 711	9 570 134	5 074 839	5 592 794	8 992 879	3 373 543	2 724 904
including:	-	-	-	-	-	-	-	-
- Sell-buy-back transactions	-	244 000	-	44 511	222 553	-	-	-
- Deposits from banks	528 663	683 098	724 968	919 149	1 023 077	64 391	437 697	19 094
- Deposits from customers	160 229 029	10 170 384	5 067 632	3 218 724	2 673 986	1 825 344	1 623 460	844 161
- Debt securities in issue	-	-	3 747 834	850 000	1 394 325	6 621 178	185 387	-
- Subordinated liabilities	-	-	-	-	-	-	1 011 868	1 730 578
- Lease liabilities	-	19 949	29 700	42 455	84 090	112 562	102 653	126 005
Contractual liquidity mismatch/ gap	(137 222 415)	4 404 480	1 915 767	5 912 460	18 398 376	20 190 997	57 938 368	58 038 850
Cumulative liquidity gap	(137 222 415)	(132 817 936)	(130 902 169)	(124 989 709)	(106 591 333)	(86 400 336)	(28 461 968)	29 576 882
Net derivatives	-	-	-	-	-	-	-	-
Gross asset derivatives	-	40 411 652	32 720 567	10 179 777	12 945 720	18 080 398	12 547 466	2 569 712
Gross liabilities derivatives	-	40 535 889	32 389 349	10 077 416	12 654 608	18 005 230	13 033 621	2 931 020
Off balance positions Total	39 533 266	2 971 930	1 032 105	418 837	1 239 945	331 116	51 390	582
-guarantees & letters of credits	8 708 673	-	-	-	-	-	-	-
-credit lines	7 722 455	2 945 243	751 954	196 955	-	-	-	-

Details about the Risk Management are presented in Note 4 to the Consolidated Financial Statements of Santander Bank Polska Group for 2022.

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 is being operating. The forum is responsible 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, fraud risk, compliance risk, AML risk, corruption and bribery, data management and ESG.

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 2022 GROSS LOSSES (PLN K)

	Operational event class		
Event types	Event category	PLN k	%
1 Internal fraud	1.1. Unauthorised activity	189	0,0%
	1.2. Theft and fraud	402	0,0%
2 External fraud	2.1. Theft and fraud	4 868	0,2%
	2.2. Security of systems	1 234	0,1%
3 Occupational safety and health, employment practices	3.1. Labour relations	449	0,0%
	3.2. Safety and health in the workplace	0	0,0%
	3.3. Discriminations	0	0,0%
4 Customers, products and operating practices	4.1. Adaptation, disclosure of information and trust	174	0,0%
	4.2. Inappropriate business or market practices	8 076	0,4%
	4.3. Defective products	2 092 765	98,5%
	4.4. Selection, Sponsorship and Risks	0	0,0%
	4.5. Consulting services	0	0,0%
5 Damage to tangible assets	5.1. Natural disasters and other incidents	975	0,0%
6 Business interruption and system errors	6.1. Systems	103	0,0%
7 Execution of transactions, delivery and management of operating processes	7.1. Reception, execution , execution and maintenance of transactions	15 001	0,7%
	7.2. Monitoring and presentation of reports	242	0,0%
	7.3. Acceptance of customers and documentation	6	0,0%
	7.4. Customer account management	0	0,0%
	7.5. Trade counterparties other that the Bank's clients (e.g. clearing chambers)	491	0,0%
	7.6. Distributors and suppliers	465	0,0%

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

In 2022 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 2 046 m (including PLN 1 737m of Santander Bank Polska S.A. and PLN 309m of Santander Consumer Bank.

The high level of operational risk losses in the aforementioned category results from results from the questioning of contractual provisions in terms of abusiveness, and the change in the level of write-offs reflects the changing trends in jurisprudence and the increase in court cases.

In addition, the level of losses in this category was affected by the provision established by Santander Bank Polska for liabilities due to reimbursement of commissions for overpaid/repaid mortgage loans in the amount of PLN 23.2m and the provision established by Santander Consumer Bank for the return of the commission for overpaid/repaid loans in the amount of PLN 4.7 m.

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 supports observation of the risk profile placed in the Bank and in the Group.

Operational risk reporting process 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 Group. 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 key business processes in case of unplanned disruption. BCM plans are tested on a regular basis to provide assurance to Santander Bank Polska Group that key business processes are able to be restored at the required service level and within the agreed timeframe. The Group has backup solutions 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 policies which covers particular financial risks, motor, property, cyber risk and professional indemnity insurance.

To calculate the capital requirement for operational risk Santander Bank Polska S.A. use the Standardized Approach (TSA) as described in Chapter Three, Title III of the CRR.

Table EU OR1 can be found in Appendix to this report „Pillar III 2022 12 Tables", which is available on the Santander Bank Polska website.

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,
- financial crime 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 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;
- for obligations in the field of counteracting money laundering and terrorist financing and in the field of compliance with international sanction programs - the AML unit;
- 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 February 2022), which was approved by the Supervisory Board. As part of the implementation of the Policy the Compliance Unit 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 Unit:

- 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);
- 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;
- 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. These committees are as follows:

- 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,
- Conclusions resulting from supervisory activities executed by authorized institutions (e.g. the Polish Financial Supervision Authority) and activities carried out by other authorized institutions (e.g. the President of the Competition and Consumer Protection Office, Financial Ombudsman).

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.

Conflict management

Santander Bank Polska S.A. and its subsidiaries effectively manage potential and actual conflicts of interest that might give rise to risks of damage to the interests of Customers and other parties.

The Bank effectively manages conflicts of interest in three stages. The first stage is to avoid situations that may lead to a potential conflict. The second stage is to take organisational actions by the Bank to prevent conflicts of interest and, should such conflicts happen, to ensure they are managed in in a way that does not violate the interests of any entities concerned. If the existing procedures and organisational solutions do not effectively prevent the risk of conflicts of interest, the third stage is to disclose the conflict of interest.

In order to manage such situations, the Bank has implemented the Conflict of Interest Prevention Policy ("Policy").

This document establishes:

- circumstances which may lead to or represent an actual conflict of interest (with a particular focus on conflicts between the Bank and its customers, conflicts among customers; as well as conflicts between the Bank and its shareholders, the Bank and its associates/ subsidiaries, and the Bank and members of its governing bodies);
- procedures and organisational measures to prevent and manage conflicts of interest effectively, including: appropriate assignment of roles and responsibilities; transparent procedures governing transactions with related persons/ entities; segregation of tasks related to the provision of services from those related to oversight and reporting; setting up information barriers; preventing undue influence on a given activity by persons actively engaged in that task (including persons from outside the Bank); preventing situations where the same person performs activities related to different services simultaneously or consecutively if it could have an adverse impact on the proper management of conflicts of interest; assessing business partners with regard to their compliance with the obligation to prevent conflicts of interest.

The Policy is in addition to the rules of preventing and managing conflicts of interest set out in other internal regulations of the Bank, including in:

- General Code of Conduct;
- Guidelines for Bank employees concerning non-competition and membership in supervisory and management boards of commercial companies on their own behalf outside the Bank;
- Code of Conduct in Securities Markets;
- Code of Conduct for Research Activity;
- Procurement Policy;
- Remuneration Policy of Santander Bank Polska Group.

Environmental risks

Business strategy and processes

The bank's business strategy for 2021-2023, Focus on Accelerating Change, includes issues related to environmental factors and environmental risks within one of its strategic directions. The business strategy is accompanied by the Responsible Banking Strategy adopted by the bank, which defines the general areas of the bank's commitment to combating climate change. The bank implements the commitment defined by the Green Bank slogan in both external and internal activities. As part of the external activities, financial products and solutions are being developed to support the process of transforming the economy into a low- and zero-carbon one, and to align the bank's operations with international environmental requirements.

Additionally, the bank is implementing commitments under the Santander Group's global Net Zero strategy announced in 2021. It aims to achieve zero CO2 emissions by 2050 for the direct activities of Group entities and those related to the bank's financed customer activities. In line with the Net Zero Strategy, by 2030, the bank will cease to provide financial services to clients that generate at least

10% of their revenues using thermal coal and, in the same timeframe, will end its cooperation with companies involved in the extraction of thermal coal.

Santander Group's climate strategy is based on 4 pillars:

1. Aligning the Bank's portfolio with the Paris Agreement in terms of ensuring that projected CO2 emissions are consistent with the goal of limiting temperature increase to 1.5C in line with the NZBA and NZAM targets.
2. Supporting customers in the transition to a low-carbon economy.
3. Reducing the bank's environmental impact by achieving carbon neutrality and sourcing electricity from renewable energy sources by 2025.
4. Integrating climate into risk management and ensuring compliance with regulatory/supervisory expectations on climate risk management.

The sharing of international best practices is also expected to contribute to the achievement of the decarbonization goals of the climate ambition. The Santander Group is a founding member of the Net Zero Banking Alliance, a UN banking sector-led initiative that is guiding the way forward on the qualitative analysis of our investment portfolio.

As part of the work to create the commitments included in the Responsible Banking Strategy, the bank's stakeholders were consulted, and analyses were conducted on the policy framework and business environment to support the assumptions ultimately defined. Changing technologies, consumer preferences, and events such as the war in Ukraine and the rise in energy prices, among others, are affecting the bank's business strategy to achieve its climate goals.

The bank's and the Group's goals are consistent with the EU Taxonomy (EU Regulation 2020/852 on establishing a framework to facilitate sustainable investment). As regulation develops, the bank plans to expand investment in environmentally sustainable activities that meet the requirements of the EU Taxonomy. In addition, as part of operationalizing its climate ambitions, the bank intends to develop a specific plan for transfomation of its own portfolio.

Measures to limit environmental risks are in line with the implementation of the Net Zero strategy. In accordance with the commitment, the bank will stop providing financial services to companies based on coal mining and energy production by 2030, as part of the Social, Environmental and Climate Change Risk Management Policy.

Additionally, the bank wants to support customers in the transition process and provide comprehensive financing for renewable energy sources. To this end, in 2022, the bank introduced a Sustainable Finance Classification System ("Classification System" or "SFCS") which facilitates the classification, tracking and reporting of sustainable finance activities. The Classification System is based on internationally recognised industry guidelines and principles, such as the ICMA Social and Green Bond Principles, the Climate Bond Standards and the EU Taxonomy. The bank targets green finance in line with the Classification System. In 2022, the figure was EUR 400 million.

Access to data to quantify environmental risks is very limited, so a full quantitative analysis (especially one that takes into account different time horizons) is not possible.

Therefore, the bank has embarked on the following projects to initiate the development of a system of quantifying environmental risks:

- implementation of a systematic methodology to acquire data on the environmental characteristics of customers and analyzing the possibility of incorporating this information into customer rating;
- introduction of a tool for portfolio assessment of physical risks for business clients, taking into account market data and scenario analysis;
- estimation of emmisions associated with business and retail mortgage portfolios, which will approximate the identification of transformational risks.

Completion of the tasks above will allow further steps in portfolio monitoring and refinement of environmental risk management strategies. At the same time, the bank analyzed clients' sectoral risks on the basis of climate scenarios.

The bank declares in its socio-environmental policies that it will cease financing power companies with more than 10% of their revenue coming from coal-fired power generation. By 2030, the bank also wants to end the provision of any services to thermal coal producers. In addition, the bank is defining detailed criteria for cooperation, identification, assessment, monitoring and management of environmental and social risks and other actions affecting climate change undertaken by clients, particularly in the energy, oil and gas, soft commodities, mining and metals sectors.

Looking at the bank's taxonomy disclosures for 2021, the taxonomy-eligible business exposure for loans to households secured by residential real estate amounted to 26.6%, while for the aforementioned loans together with exposures to non-financial corporations and financial institutions (assessed as eligible according to the taxonomy) totalled 40.1%. Mandatory disclosures on assessment for compliance of the bank's exposures with the Taxonomy will take place in 2024 (disclosures for 2023). Detailed plans for aligning portfolios with the environmental goals outlined in the EU Taxonomy.

The bank's Sustainability Policy sets forth its commitments to customers to mitigate environmental risks and includes, among other things:

- making decisions, taking into account the ethical, social and environmental dimensions, as well as financial criteria and risk factors in accordance with the Sustainability Policy and the Environmental, Social and Climate Change Risk Management Policy (ESCC);
- designing products and services that are pro-environmental in nature in order to promote support for environmental protection and combat climate change;
- monitoring the occurrence of extraordinary situations or circumstances that may affect certain groups of customers in order to be able to propose alternative solutions, particularly to vulnerable customers;
- promoting specialized financial education to provide current and potential customers with information on financial products and services, as well as the knowledge necessary to make informed decisions. In addition, in pursuit of one of the main principles of consumer protection, the bank will analyze customer knowledge gaps and update its financial education programs accordingly.

The Credit Committee is responsible for making credit decisions for the largest institutional clients, taking into account the environmental and social risk assessment for a each client/ transaction. Decisions are made based on, among other things, an opinion and recommendation on the environmental and social risk profile of the respective customer/ transaction. As part of its environmental risk mitigation efforts, the bank engages in dialogue with stakeholders to understand their business models and the types of risks and opportunities associated with them.

Governance

The Management Board and the Supervisory Board are responsible for climate risk management. Among other things, these bodies approve key policies and participate in risk reviews and acceptance.

The Management Board is responsible for integrating ESG criteria into the overall business strategy (in the short-, medium- and/or long-term) and into the risk management process through ongoing updates to existing policies, internal procedures and internal control systems.

The bank defines and considers risks related to social and environmental issues, including climate concerns, and integrates them into its overall risk management system. The Risk Division acts as the "second line of defense" in ESG risk management.

In the near future, an analysis of environmental risk activities and the development of a full accountability model is planned, including the definition of the role of internal control.

The standing committees of the bank take into account environmental factors, as well as environmental risks to the extent to which they affect their areas of responsibilities, they include:

- Operational Risk Management Committee (ORMCO),
- Disclosure Committee,
- Information Management Committee,
- Risk Management Committee,
- Risk Management Forum,
- Regulatory and Reputational Risk Committee,

- Credit Committee,
- Local Marketing and Monitoring Committee,
- Public Policy Committee,
- Responsible Banking and Corporate Culture Committee.

The Committee for Responsible Banking and Corporate Culture supports the Management Board in overseeing the strategy for responsible business and sustainable development in the bank. The CEO is also the chairman of this committee, and its responsibilities include defining the responsible banking and corporate culture strategy and annual goals, and ensuring the implementation of the bank's social and environmental policies.

The Committee is supported by the ESG Forum. The Forum's task is to analyze the challenges, opportunities and risks associated with sustainability and climate change, plan relevant activities and coordinate their implementation and report periodically to the Responsible Banking and Corporate Culture Committee and the Bank's Board of Directors. Members of the ESG Forum include senior managers from all divisions.

An analysis of environmental risk activities and the development of a full accountability model along with a reporting system are planned in the near future. Currently at the bank, environmental risks are reported on an ad-hoc basis, according to current business needs.

The bank's remuneration policies are consistent with the business strategy and the institution's environmental risk management objectives. From 2021, the process of achieving the goals of the bank's Responsibility Strategy, including the implementation of tasks conducive to the environment and against climate change, is one of the criteria for determining the amount of bonuses awarded to members of the bank's Management Board and Supervisory Board. Attention is given to the progress achieved in a particular year in three major sustainability areas, including the green product offer.

The extent to which this goal is achieved has an impact on the payment of variable remuneration. In addition, Management Board members, top executives and all employees have the implementation of the Responsible Banking agenda written into their tasks. As of 2021, the implementation of priorities from the Responsible Banking area as one of the goals of the bank's operational strategy accounts for minimum 10% of the rating (as part of the 60% of the annual performance rating and focuses on accomplished tasks).

Risk management

In 2022, the bank assessed the sensitivity of its portfolio sectors to climate risk. The analysis was done in three time perspectives - short, medium and long. The medium- and long-term perspective included two IPCC climate scenarios: 2°C (aggressive emissions reductions) and 4°C (delayed mitigation). The analysis conducted is intended to inform the short, medium and long-term climate risk factors, but the results have yet to be fully integrated into the risk framework, including the integration into risk tolerance.

In developing the organization's risk management system, the bank takes into account a number of regulations and environmental and climate impact guidelines, including but not limited to:

- guidelines of the European Central Bank,
- guidelines of the European Banking Authority,
- TCFD recommendations,
- United Nations Principles for Responsible Investment (UNPRI),
- mandatory and voluntary non-financial disclosure standards, including the NFRD and the GRI Standard.

In setting the framework for environmental risk management, the bank relies on the definitions, methodologies and standards outlined in these documents.

In addition, as part of the evaluation of investments in terms of ESG criteria, a proprietary methodology has been implemented under the Environmental and Social Risk Analysis Procedure to assess the attitudes of issuers with regard to environmental and social factors. For this purpose, information supplied by external data providers is used. The methodology is based on market benchmarks and international guidelines and standards. Its result is an assessment of individual issuers.

The Environmental and Social Risk Analysis Procedure applies to business and corporate banking clients. It is based on a special algorithm that allows the initial selection of environmental and social risks. Clients therefore receive information on the level of risk in the form of environmental flags. We have introduced four types of flags: one interim ("For verification") and three final ones ("Positively verified," "Elevated risk," "Prohibited activity"). The status of an environmental flag affects risk appetite and determines the subsequent credit process. In this context, 'interim' ("For verification") means that additional individual analysis by the banker is required to assign a final environmental flag (i.e., one of the three mentioned below). The final three environmental flags no longer require any additional action, but affect the course of the credit process:

- "Positively verified" indicates a standard credit process;
- "Prohibited activity" (e.g., coal mines, new coal power customers, wholesale of tropical timber if not FSC certified) means no financing and, in the case of an existing commitment in the portfolio, the possibility of an extension of up to 12 months with the exposure reduction schedule;
- "Elevated risk" - means that new exposures or increases are not recommended, but renewals are possible.

The process of identifying sectors sensitive to environmental risk is carried out on the basis of scenario analysis of sectors in the bank's portfolio in three time perspectives - short, medium and long. The medium- and long-term perspective includes two scenarios: 2°C and 4°C. The analysis is conducted at annual intervals and includes an assessment of sectors in terms of physical and transition risks. To show sector materiality, the results of the sector risk analysis show the percentage represented by each sector in the portfolio of the 19 sectors analyzed in one of three categories - Santander Corporate and Investment Banking (SCIB), Corporate Clients (Corporates) and Small and Medium Enterprises (SMEs).

As part of the identification and measurement, the basis for evaluating companies in terms of ESG categories is the concept of dual materiality. We take into account the impact of ESG criteria on investments, as well as the impact of investments on sustainability factors. The assessment includes general analysis criteria - common to all sectors - and specific criteria depending on the sector and type of business.

In the identification, measurement and monitoring of exposures sensitive to environmental risks, physical risks and transformation risks are taken into account in the sensitivity analysis described in detail in section (o). The projects the Bank has embarked on, which are described in section (b), are expected to improve the accuracy of these processes Channels of transmission of climate and environmental risks to banking risks have yet to be defined.

The bank takes steps to support its counterparties in the transition to a low-carbon economy by offering current and future customers appropriate financing mechanisms:

- Energy sector/cross sector - development of the RES market creating opportunities for investment in projects and companies related to this sector,
- Energy sector - opportunities for involvement in projects and cooperation with companies operating in the area of development and modernization of pumped-storage power plants,
- Cross-sector - opportunities for involvement in financing decarbonization projects of the bank's existing clients,
- Transportation/automotive - opportunities for involvement in financing projects that popularize electric or low-emission cars,
- Transportation/automotive - financing low-carbon transportation solutions, particularly in the public sector,
- Agri sector - work to develop advisory services for the selection of low-carbon solutions for the agri sector and develop financial services in this area.

The actions taken by the bank are based on the results of the ESCC risks assessment, as well as ongoing sector analyses carried out by the bank.

In identifying, measuring and managing environmental risks, the bank uses a methodology to analyze clients' sector risks based on climate scenarios, as described in detail later.

At the same time, the Bank has embarked on projects to initiate the development of the environmental risk quantification system.

The results of the analysis of the implemented risk tools and the estimated impact of environmental risk on the capital position and liquidity risk profile indicate the following conclusions. In the medium term, physical risk is expected to increase for sectors where risk is currently assessed as low or very low. In the short term, the agri and soft commodities sectors are most at risk (to a medium degree). The energy sector risk is also expected to rise from a rating of 2 (low risk) to 3 (medium risk) throughout 2030, due to an increase in the likelihood of prolonged drought and reduced energy production, and intensification of extreme weather events. In the medium to long term, transformation risk (especially regulatory risk) will increase significantly in the 2°C scenario, due to the expected tightening of green transition regulations. Such an increase can be expected in the food industry, transportation and logistics, trade, tourism, agricultural and financial sectors, among others. For the bank, the trade sector is particularly important. It is assumed that in the delayed mitigation scenario (4°C), climate policies will tighten more slowly due to less effective cooperation of the international community. Among other reasons, it was assumed that transformation risk in sectors such as automotive and financial will increase in the 2°C scenario, while remaining unchanged in the 4°C scenario.

The calculation of climate risk exposure carried out also indicates how much of the bank's portfolio in a given segment (SCIB, Corporates, SMEs) will account for sectors in a certain risk category. In the short term, in all areas the majority will be sectors rated as exposed to "very low risk" and "low risk" (for example, in the SCIB area these two categories account for almost 100%). In the SME area, the agri sector received a high risk rating, accounting for 29% of the portfolio in this category. In the medium term, we expect an increase in exposure in the 2°C scenario, mainly due to increased physical risk ratings in the energy, materials and chemicals, food, transportation and logistics sectors. In contrast, in the 4°C scenario, the increase in exposure in the medium term will occur due to an upgrade of the rating in the financial sector.

A similar assessment was carried out for transformation risks. The increase in exposure in the medium term in the 2°C scenario is driven by rating upgrades in most of the sectors analyzed. While only 16% of the Corporate and Investment Banking portfolio received a rating of 5 (very high risk) in the 2025 outlook, this is already 28% in the medium term (in both scenarios). This therefore represents a significant increase in risk in this category. In the Business and Corporate Banking portfolio, the following sectors have a significant share (above 5%): real estate, materials and chemicals, food, trade and tourism. At the same time, these are the sectors in which transformation risk is increasing from a rating of 2 (low risk) to 3 (medium risk) in the medium term perspective in the 2°C scenario. In the SME portfolio, the largest share goes to the agri, real estate, and transportation and logistics sectors, which receive a rating of 3 in the 2030 outlook for the 2°C scenario, which is why as much as 96% of the SME area is marked as "medium risk." In the 4°C scenario, regulatory risk is expected to grow at a slower rate, so the rating relative to the 2°C scenario remains lower. This is especially true for the following sectors: real estate (rating 2), food (rating 2), trade (rating 2) and tourism (rating 2).

In addition to the actionsundertaken in connection with the sensitivity assessment and analysis of the bank's exposure to climate risks, further review of this area and expansion of analytical activities are planned, in particular, linking the results of the activities to date to risk transmission channels and determining their impact on the equity risk and liquidity risk profile.

As part of its environmental risk management, the bank relies on internal data (obtained in the course of the lending process), publicly available data (including non-financial disclosures of its counterparties) and data from external providers (including rating agencies). There are currently limitations on the availability of certain counterparties' data regarding, for example, their Taxonomy compliance or exposure to environmental risks. The bank monitors data availability on an ongoing basis and seeks to obtain additional information from its counterparties.

A project is underway at the bank to modify current processes so that, by definition, they collect the broadest possible range of environmental risk data. An analytical database dedicated to gathering ESG information is also being built and will serve as a unified source of data at the bank for all current and risk lines. These two solutions, combined with the acquisition of external and counterparty data, will serve the purpose of developing the most accurate ESG data repository available.

Limits for environmental risks are set out in the Environmental, Social and Climate Change Risk Management Policy.

The Environmental, Social and Climate Change Risk Management Policy defines the criteria for analyzing environmental and social risks relating to customers operating in sectors such as mining, oil and gas production and processing, power generation and transmission, mining, metals, including but not limited to ore processing for metal extraction and soft commodities . The policy describes the types of prohibited or restricted activities in each sector based on location, for example. These include:

- no financing for any projects or activities in oil and gas extraction, energy generation or transmission, mining and metallurgy, manufacturing infrastructure, plantations or other major infrastructure projects located in areas classified as Ramsar Convention protected wetlands, UNESCO World Heritage sites or protected areas recognized by the International Union for Conservation of Nature (IUCN) as Category I, II, III or IV;
- no financing for any projects or expansion of existing oil and gas facilities located north of the northern Arctic Circle;
- no financing for asbestos mining, processing or wholesale distribution.

In accordance with TCFD recommendations, the results of the physical and transformation climate risk analyses were incorporated into the bank's typical risk taxonomy used.

Credit risk:

- Impact of physical risk - negatively affecting borrowers and reducing their ability to repay debt, especially in the agri sector, where physical risk can reduce crop income. More frequent and intense weather emergencies and natural disasters can further reduce the value of loan collateral,
- Impact of transformation risk - EU or national regulations may reduce the debt repayment capacity of business borrowers operating in certain sectors, primarily in carbon-intensive sectors such as energy, fuel, transportation, logistics and agri.

Liquidity and financing risks:

- Impact of physical risk - climate change, including natural disasters and severe weather emergencies, can cause a sudden increase in cash requirements,
- Impact of transformation risk - no significant impact of transformation risk identified.

Market risk:

- Impact of physical risk - risk of losses resulting from changes in the value of the bank's assets and liabilities caused by natural disasters, severe weather events,
- Impact of transformation risk - the increase in costs associated with CO2 emissions may drive up costs in some companies (especially in carbon-intensive sectors such as energy and fuel). This could lead to a reduction in revenue for these companies and, consequently, a reduction in investment capacity, which in turn could reduce the number of new loan applications. In addition, regulatory pressures may indirectly affect the financial market by reducing investments in selected customer groups.

Operational risk:

- Impact of physical risk - severe weather events can affect the conduct of business at the bank's branches (e.g., flooding, lack of power supply),
- Impact of transformation risk - increased energy costs can inflate the bank's charges (e.g. increase in the rental cost of space).

Reputational risk:

- Impact of physical risk - no significant impact of physical risk has been identified,
- Impact of transformation risk - continued financing of sectors viewed negatively by regulators, the market and rating agencies (this concerns mainly high-carbon sectors) could impair the bank's rating.

Social risk

Business strategy and processes

The bank's business strategy for 2021-2023, Focus on Accelerating Change, includes issues related to social factors and social risks within one of its strategic directions. The business strategy is accompanied by the "Responsible Banking Strategy" adopted by the Bank, which defines the Bank's approach to ESG issues. The basis of the adopted strategy is corporate culture and sustainable finance. In the sustainable finance area, the bank implements its strategic commitment set forth with the slogan "Inclusive banking" in both external and internal activities, prioritizing issues related to preventing social exclusion and educating local communities. In addition, the bank's corporate culture supports employees and promotes diversity and openness.

Within the framework of the Human Rights Policy, which is an integral part of the strategy, the bank declares that, in accordance with its corporate culture, it is committed to respecting and promoting human rights in all its business activities, and to preventing or minimizing any violations of the principles of conduct in its business operations.

In addition, the bank follows the principles of responsible sales in accordance with the bank's "General Code of Conduct." The bank is a co-founder and signatory of the Declaration of Responsible Selling. It is a project initiated by financial institutions to improve ethical standards in relations with customers and combat unfair market practices, educate business and consumers, increase trust in the financial industry and counter unfair practices.

Events such as the war in Ukraine, among others, affect the implementation of the bank's business strategy related to social issues. However, the bank is adjusting its actions on an ongoing basis by taking concrete steps, including supporting Ukrainian refugees with a new product offer.

Developed based on best practices contained in international conventions, initiatives and protocols, codes of conduct and guidelines including UN Sustainable Development Goals (SDGs), Paris Agreement, Equator Principles (International Finance Corporation Guidelines), UN Universal Declaration of Human Rights, UN Global Compact Principles, UN Guiding Principles on Business and Human Rights, OECD Guidelines for Multinational Enterprises, Fundamental Conventions of the International Labour Organization (ILO), and the Principles for Responsible Banking set forth by the United Nations Environment Programme Finance Initiative (UNEP FI), the Sustainability Policy sets forth the bank's voluntary social and ethical commitments that contribute to mitigating social risks, such as violations of human and labour rights, pay inequality, customer safety and security, poverty and discrimination.

- as part of its relationship with employees, the bank has made the following commitments:- to respect diversity and prohibit discrimination based on gender, race, age or any other condition;
- to promote work-life balance, and to ensure employee health and safety in the workplace;
- to promote equal opportunities for employees and striving to ensure a balanced representation of women and men in all positions and in all roles;
- to ensure that the bank's employees adhere to certain principles of ethics and responsible conduct based on the adopted General Code of Conduct;
- to promote initiatives to raise employee awareness of social and environmental matters, covering such issues as good environmental management practices, social and environmental risks, and business development opportunities;
- to encourage employees to participate in corporate volunteering to support the development of local communities and strengthen employees' sense of pride in belonging to the organization.

As part of its relationship with customers, the bank is committed, among other things, to:

- offering products and services that are simple, personalized and tailored to customers' needs and risk profile, and providing customers with accurate, comprehensive and reliable information;
- designing pro-social products and services to promote social inclusion in access to financial services;
- monitoring the occurrence of extraordinary situations or circumstances that may affect certain groups of customers, in order to be able to propose alternative solutions to customers, particularly in the case of vulnerable customers or customers at risk of social exclusion,

- making decisions, taking into account their ethical, social and environmental dimensions, as well as financial criteria and risk factors in accordance with the Sustainability Policy and the Social, Environmental and Climate Change Risk Management Policy;
- making special efforts to prevent and combat the financing of illegal activities based on the principles of financial crime prevention, with any additional measures deemed necessary;
- promoting specialized financial education.

The bank also supports the social and economic development of local communities through social investments focusing on the area of education.

When selecting suppliers, the bank takes into account the principles of responsible banking, with a particular focus on ethical issues, such as compliance with the principles of fair and equitable treatment, transparency and integrity, and social issues, including the protection of human rights in accordance with the UN Universal Declaration of Human Rights, and in terms of health and safety requirements and diversity and inclusiveness of the supplier's workplace, as well as adherence to the principles of the UN Global Compact.

The bank's Sustainability Policy sets out its commitments to customers to mitigate social risks and includes, among others: designing products and services with a pro-social character to promote social inclusion in access to financial services and financial education to provide current and prospective customers with information about financial products and services, as well as the knowledge necessary to make informed decisions. In addition, in pursuit of one of the main principles of consumer protection, the bank will conduct analyses of customer knowledge gaps and update its financial education programs accordingly.

Mitigation of social risks related to human rights violations is described in the Human Rights Policy of the bank. As part of its due diligence processes prior to entering into a loan agreement or another type of agreement and in accordance with the Equator Principles and sector policies on environmental and social risks, the bank is committed to analyzing and evaluating its counterparties' human rights policies and practices. In addition, the bank will ensure that it has adequate resources for identifying and mitigating risks in all of its operations by implementing corrective actions and monitoring the effectiveness of measures applied.

In its dealings with suppliers, the bank takes into account their respect for ethical standards In its dealings with suppliers, the Bank takes into account their respect of ethical standards and compliance with the principles of fair and equitable treatment, transparency and integrity. Suppliers are expected to implement ethics policies and comply with at least applicable laws, anti-corruption mechanisms and initiatives to ensure business integrity. In addition, suppliers' are expected to adhere to social standards, in particular including the protection of human rights in accordance with the UN Universal Declaration of Human Rights, health and safety requirements and diversity and inclusiveness of the supplier's workplace, as well as follow the principles of the UN Global Compact which is also of crucial importance to the Bank.

Suppliers are expected to implement ethics policies and comply with at least applicable laws, anti-corruption mechanisms and initiatives to ensure business integrity. In addition, suppliers' adherence to social issues, in particular the protection of human rights in accordance with the UN Universal Declaration of Human Rights and in terms of health and safety requirements and diversity and inclusiveness of the supplier's workplace, as well as adherence to the principles of the UN Global Compact, is also an important aspect.

The Bank promotes pro-social initiatives among customers to mitigate social risks by laying down in the Environmental, Social and Climate Change Risk Management Policy specific criteria for excluding financing of certain projects entered on the list of UNESCO World Heritage sites and refraining from financing of mining activities related to minerals extracted from conflict areas ("conflict minerals") that are not subject to the relevant certification processes.

Governance

The Management Board and the Supervisory Board are responsible for the management of social risk. Due to the materiality of these aspects, they have been entrusted to the highest management and supervisory authorities. Among other things, these bodies approve key policies and participate in risk reviews and acceptance.

As part of setting the risk framework, supervising and managing the achievement of goals and implementation of strategies and policies in the context of social risk management, community and social activities by counterparties are not taken into account.

As part of setting the risk framework, overseeing and managing the achievement of goals and the implementation of strategies and policies in the context of social risk management, consideration is given to labour relations and labour standards at counterparties. In particular, in the selection of suppliers. Attention is also paid to the implementation of policies on ethics and compliance with applicable laws and social issues with regard to health and safety requirements and diversity and inclusiveness of the supplier's workplace, as well as compliance with the principles of the UN Global Compact.

In setting the risk framework, overseeing and managing the implementation of goals, strategies and policies in the context of social risk management, customer protection and product liability measures are not taken into account..

As part of setting the risk framework, overseeing and managing the implementation of goals, strategies and policies in the context of social risk management, consideration is given to respect for human rights at counterparties. In particular, the Human Rights Policy provides for the analysis and evaluation of the policies and practices of the counterparties with regard to respect for human rights. In addition, in selecting suppliers, attention is paid to suppliers' compliance with social issues, particularly the protection of human rights in accordance with the UN Universal Declaration of Human Rights.

The bank integrates the management of social factors and social risks into its internal corporate governance. The committees operating in the bank constantly take into account social factors, as well as social risks to the extent that they affect their areas responsibilities. These include:

- Operational Risk Management Committee (ORMCO),
- Disclosure Committee,
- Information Management Committee,
- Risk Management Committee,
- Risk Management Forum,
- Regulatory and Reputational Risk Committee,
- Credit Committee,
- Local Marketing and Monitoring Committee,
- Public Policy Committee,
- Responsible Banking and Corporate Culture Committee.

The Responsible Banking and Corporate Culture Committee supports the Management Board in overseeing the strategy for responsible business and sustainable development, both at the company level and at the Group level as a whole. The CEO is also the chairman of the committee, the responsibilities of which include defining the responsible banking and corporate culture strategy and annual goals and ensuring the implementation of the bank's social and environmental policies.

The Committee is supported by the ESG Forum. The Forum's task is to analyze the challenges, opportunities and risks of the EU Sustainable Finance agenda, plan ESG activities, coordinate their implementation, and report periodically to the Responsible Banking and Corporate Culture Committee and the bank's Management Board. Members of the ESG Forum include senior managers from all divisions.

In the near future, an analysis of social risk activities and the development of a full accountability model, along with a reporting system, is planned. Currently at the bank, social risks are reported on an ad-hoc basis, according to current business needs.

The bank's remuneration policies are consistent with the business strategy and the institution's social risk management objectives. As of 2021, the process of achieving the goals of the bank's Responsible Banking Strategy, including the implementation of tasks that foster social aspects and prevent social exclusion, is one of the criteria for determining the amount of bonuses awarded to members of the bank's Management Board and Supervisory Board. Consideration is given to the progress made in a given year in three key areas including promoting diversity, financial support in the form of facilitating access to financial services and financial education, development of a "green" offer.

The extent to which these goals are achieved impacts one-third of the bonus pool resulting from a 50% assessment of the bank's overall performance. In addition, members of the Management Board, top executives and all employees have the implementation of the Responsible Banking agenda written into their job duties. Starting in 2021, the implementation of the Responsible Banking priorities as one of the goals of the bank's operational strategy constitutes a minimum of 10% of the performance evaluation under the "WHAT" part, which accounts for 60% of the annual rating and focuses on accomplished tasks. On the other hand, 40% of the rating depends on the "HOW" part, i.e. assessing whether business objectives are achieved in accordance with the bank's values and corporate culture.

Risk management

In developing the organization's risk management system, the bank takes into account a number of regulations and guidelines on social impact, including:

- European Central Bank guidelines,
- European Banking Authority guidelines,
- UN Sustainable Development Goals (SDGs),
- Paris Agreement,
- Equator Principles (International Finance Corporation guidelines),
- UN Universal Declaration of Human Rights,
- UN Global Compact Principles,
- UN Guiding Principles on Business and Human Rights,
- OECD Guidelines for Multinational Enterprises,
- Fundamental Conventions of the International Labour Organization (ILO).

In setting the framework for social risk management, the Bank relies on the definitions, methodologies and standards set out in these documents.

In addition, as part of the evaluation of investments against ESG criteria, a proprietary methodology for assessing issuers' attitudes toward environmental and social factors has been implemented through the Environmental and Social Risk Analysis Procedure. Information supplied by external data providers is used for this purpose. The methodology is based on market reference data and international guidelines and standards. Its result is an assessment of individual issuers. The Environmental and Social Risk Analysis Procedure applies to business and corporate banking clients. It is based on a special algorithm that allows the initial selection of environmental and social risks. Clients therefore receive information on the level of risk in the form of "environmental flags." We have introduced four types of flags: one interim ("For verification") and three final ones ("Positively verified," "Elevated risk," "Prohibited activity"). The status of an environmental flag affects risk appetite and determines the subsequent credit process. In this context, interim ("For verification") means that additional individual analysis by the banker is required to assign a final environmental flag (i.e., one of the three below). The final three environmental flags no longer require any additional action, but affect the course of the credit process:

- "Positively verified" indicates a standard credit process;
- "Prohibited activity" (e.g., coal mines, new coal power customers, wholesale of tropical timber if not FSC certified) means no financing and, in the case of an existing commitment in the portfolio, the possibility of an extension of up to 12 months with the exposure reduction schedule;
- "Elevated risk" means that new exposures or increases are not recommended but renewals are possible.

At this point, the bank does not carry out a social risk analysis for sensitive sectors.

The bank takes the following measures to prevent social risks:

- equal treatment of customers - offering customers only products and/or services that suit their situation and needs, while helping them understand the terms and conditions, benefits, risks and costs, and avoiding unjustified discrimination and conflicts of interest when offering products, in accordance with the provisions of the Santander Bank Polska Group General Code of Conduct.

- actions to respect human rights in relations with customers and suppliers. The bank has made public commitments to its customers arising from, among other things, its acceptance of the Equator Principles, as well as from the application of internal sector policies and the General Code of Conduct, which require the bank to exercise due diligence to prevent human rights violations and to manage and eliminate their possible effects. The bank will promote respect for human rights throughout its entire supply chain. In particular, the bank will urge suppliers and their employees to comply with the obligations laid down in this policy, respecting in each case their governance autonomy and observing good practices and procedures under the bank's procurement regulations.
- the bank undertakes to directly support and promote the observance of human rights in the communities in which it operates (in cooperation with government agencies, international and non-governmental organizations and other institutions), and to monitor and manage the impact of transactions in which the bank participates on these communities. The bank assumes that the impact of its activities extends beyond the communities in which it directly operates. Accordingly, impact assessment and the promotion of respect for human rights will also apply to all communities, regardless of whether the bank has a physical presence in them.
- the bank will ensure that physical security, banking operations security and information technology security measures are implemented to guarantee respect for human rights. Employees performing these functions must demonstrate that they meet the required criteria and receive appropriate training.
- as a signatory to the 10 Principles of the UN Global Compact, the bank is committed to countering corruption of all kinds, including extortion and bribery.
- the bank is committed to promoting respect for human rights in its relations with all business partners.
- the bank recognizes the right of communities to live in a healthy and clean environment and is committed to minimizing the environmental footprint of its own operations.

The bank plans to implement social risk management tools.

Limits on social risks are set forth in the Environmental, Social and Climate Change Risk Management Policy. The bank undertakes to exclude financing of specific projects in UNESCO World Heritage sites and to refrain from financing mining activities related to minerals extracted from conflict areas ("conflict minerals") that are not subject to the relevant certification processes. In addition, the bank will pay special attention to environmental, social and climate change risks associated with the mining and metals sector involving the displacement of indigenous peoples and/or other vulnerable groups.

As part of its dealings with suppliers, the bank takes into account suppliers' compliance with ethical and social issues, in particular the protection of human rights in accordance with the UN Universal Declaration of Human Rights and in terms of health and safety requirements and the diversity and inclusiveness of the supplier's workplace, as well as adherence to the principles of the UN Global Compact.

As part of its due diligence processes prior to entering into loan or other types of agreements, and in accordance with the Equator Principles and sector policies on environmental and social risks, the bank undertakes to analyze and assess the policies and practices of its counterparties with regard to respect for human rights.

The bank is preparing to carry out an analysis of environmental risks that takes into account the impact on other risks.

III. Own funds

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

Own funds are calculated in accordance with the Banking Law and the rules set out in 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 amended by Regulation (EU) No 2019/876 of the European Parliament and of the Council of 20 May 2019.

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
k. Shortage of coverage due to non-performing exposures acc. to Article 47 of CRR.

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

Reconciliation Reconciliation between balance sheet items used to calculate own funds and regulatory own funds, according to methodology described in Annex to the Commission Implementing Regulation (UE) 2021/637, is presented in the table below.

EU CC2 - RECONCILIATION OF REGULATORY OWN FUNDS TO BALANCE SHEET IN THE AUDITED FINANCIAL STATEMENTS AS AT 31.12.2022 (PLN K)

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at period end	As at period end	
Assets - Breakdown by asset clases according to the balance sheet in the published financial statements			
1 Intangible fixed assets	740 756	352 481	III. Condensed consolidated statement of financial position (Assets)
2 Goodwill	1 712 056	1 712 056	
3 Deferred tax assets (net)	2 098 733	2 185 704	
-including assets that do not exceed the threshold set in Article 48(1)(a)	2 098 733	2 185 704	
Liabilities - Breakdown by liability clases according to the balance sheet in the published financial statements			
1 Subordinated obligations	2 807 013	-	III. Condensed consolidated statement of financial position (Liabilities and Equity)
-including loans eligible as instruments under Tier II	2 705 885	2 235 111	
Shareholders' Equity			
1 Share capital	1 021 893	1 021 893	III. Condensed consolidated statement of financial position (Liabilities and Equity)
2 Other capital items	23 858 400	23 366 531	
3 Revaluation reserve	-1 131 335	-1 131 335	
4 Non-controlling interests	1 797 255	718 034	
5 Retained earnings	1 770 027	1 712 807	
6 Current year profit	2 799 098	-	
Total Equity	30 115 338	25 687 931	

As at 31 December 2022, the total own funds of the Santander Bank Polska Group amounted to PLN **26 237 342k**.

The amounts and nature of their specific items are presented in EU CC1 table. The disclosure uses the template presented in Annex of Commission Implementing Regulation (UE) 2021/637, which states the disclosure requirement of own funds items. The table is limited to lines relevant for Santander Bank Polska Group.

EU CC1 - COMPOSITION OF REGULATORY OWN FUNDS OF SANTANDER BANK POLSKA GROUP AS AT 31.12.2022 (PLN K)

		Amounts
	Common Equity Tier 1 (CET1) capital: instruments and reserves	
1	Capital instruments and the related share premium accounts	9 003 867
	of which: Instrument type 1	9 003 867
2	Retained earnings	1 712 807
3	Accumulated other comprehensive income (and other reserves)	13 603 412
EU-3a	Funds for general banking risk	649 810
5	Minority interests (amount allowed in consolidated CET1)	718 034
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**25 687 931**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments	
7	Additional value adjustments (negative amount)	-162 969
8	Intangible assets (net of related tax liability) (negative amount)	-2 064 537
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	313 416
15	Defined-benefit pension fund assets (negative amount)	-13 191
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-40 006
EU-20c	of which: securitisation positions (negative amount)	-40 006
27a	Other regulatory adjustments	156 748
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-1 810 538**
29	**Common Equity Tier 1 (CET1) capital**	**23 877 392**
	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)**	**23 877 392**
	Tier 2 (T2) capital: instruments	
46	Capital instruments and the related share premium accounts	2 235 111
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	124 839
51	**Tier 2 (T2) capital before regulatory adjustments**	**2 359 950**
	Tier 2 (T2) capital: regulatory adjustments	
58	**Tier 2 (T2) capital**	**2 359 950**
59	**Total capital (TC = T1 + T2)**	**26 237 342**
60	**Total Risk exposure amount**	**136 149 040**
	Capital ratios and requirements including buffers	
61	Common Equity Tier 1 capital	17,54%
62	Tier 1 capital	17,54%
63	Total capital	19,27%
64	Institution CET1 overall capital requirements *	3,52%
65	of which: capital conservation buffer requirement	2,50%
66	of which: countercyclical capital buffer requirement	0,01%
67	of which: systemic risk buffer requirement	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	1,00%
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	0,01%
68	**Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements**	**13,04%**
	Amounts below the thresholds for deduction (before risk weighting)	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	1 074 002
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	2 185 704

* The institution CET1 overall capital requirements were calculated taking into account the institution specific countercyclical capital buffer.

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 2022 amounted to PLN **1 021 893k.**

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 2022, the supplementary capital in own funds was PLN **9 242 690k**. 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 2022, after including prudential consolidation adjustments, the other reserves in own funds was PLN **13 474 030k**.

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 2022, 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 2022 totaled PLN **3 008 775k**, including PLN 209 667k of profit attributable to shareholders who do not exercise control.

As at 31st December 2022 in Own Funds of Santander Bank Polska Group the **retained earnings** are included in the amount of PLN **1 712 807k**.

In April 2022, the General Meeting of Santander Bank Polska S.A. Shareholders agreed on the distribution of the net profit of **PLN 915 878k** for the accounting year from 1 January 2021 to 31 December 2021 as follows:

- PLN 273 867k was allocated to dividend for shareholders;
- PLN 457 939k was allocated to capital reserves;
- PLN 184 071k leave undivided.

102 189 314 (say: one hundred two million, one hundred eighty nine thousand and three hundred fourteen) series A, B, C, D, E, F, G, H, I, J, K, L, M, N and O shares give entitlement to the dividend to be paid out from 2021 profit. Dividend per one: A, B, C, D, E, F, G, H, I, J, K, L, N and O series share was PLN 2.68. The Dividend payment day was 1 June 2022.

The Ordinary General Meeting also distributed the undistributed net profit earned by the Bank for the financial year from 1 January 2019 to 31 December 2019 in the amount of PLN 1 056 762k as follows - the amount of PLN 1 056 762k is allocated to the dividend capital created by the Ordinary General Meeting of the Bank by Resolution No. 6 of 22 March 2021 on the distribution of profit and the creation of reserve capital ("Resolution No. 6/2021").

Common Equity Tier I items of Santander Bank Polska S.A. as at 31/12/2021 have been calculated without applying the transitional arrangements for the temporary exclusion of unrealized gains and losses valued by other comprehensive income in connection with the Covid-19 pandemic referred to in Art. 468 of the Regulation of the European Parliament and of the Council (EU) No. 2020/873 of June 24, 2020.

Minority interests

As at 31 December 2022, the minority interests recognised in the consolidated Tier 1 capital totalled PLN **718 034k** 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 **(162 969)k**.

As at 31 December 2022, 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 2022, deduction from Common Equity Tier I regarding other intangible assets amounted to PLN **(352 481)k.** The value of the shortage in coverage due to non-performing exposures amounted to PLN (3 345)k.

The funds include a value adjustment for prudent valuation requirements in the amount of PLN **(162 969)k**.

EU PV1 - PRUDENT VALUATION ADJUSTMENTS (PVA)

	Risk category					Category level AVA - Valuation uncertainty		Total category level post-diversification		
Category level AVA	Equity	Interest Rates	Foreign exchange	Credit	Commodities	Unearned credit spreads AVA	Investment and funding costs AVA		Of which: Total core approach in the trading book	Of which: Total core approach in the banking book
1 Market price uncertainty	13 676	20 828	-	65 930	-	422	-	50 428	211	50 217
2 Not applicable										
3 Close-out cost	-	77 232	-	12 607	-	-	-	44 920	4 554	40 365
4 Concentrated positions	16 544	9 910	-	-	-	-	-	26 453	-	26 453
5 Early termination	-	-	-	-	-	-	-	-	-	-
6 Model risk	-	-	-	59 703	-	3 563	-	31 633	1 781	29 852
7 Operational risk	685	4 914	-	3 936	-	-	-	9 535	455	9 079
8 Not applicable										
9 Not applicable										
10 Future administrative costs	-	-	-	-	-	-	-	-	-	-
11 Not applicable										
12 Total Additional Valuation Adjustments (AVAs)								162 969	7 002	155 967

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 and from 3 December 2021, the amount of the second and and from 22 May 2022, the amount of the third of the above-mentioned subordinated loans are amortized due to the final 5 years of maturity, in accordance with Art. 64 CRR.

Hence, as at 31 December 2022, own funds include subordinated liabilities of PLN **2 235 111k**.

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 **124 839k**, 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 2022.

Table EU CCA: Detailed description of capital instruments' main features can be found in Appendix to this report „Pillar III 2022 12 Tables", which is available on the Santander Bank Polska website.

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)	31.12.2022	30.09.2022	30.06.2022	31.03.2022	31.12.2021 *
1	Common Equity Tier 1 (CET1) capital	23 877 392	23 702 494	23 350 609	21 838 048	23 141 977
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	23 717 112	23 509 368	23 194 052	21 637 258	22 828 513
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	23 877 392	23 702 494	23 350 609	21 838 048	23 141 977
3	Tier 1 capital	23 877 392	23 702 494	23 350 609	21 838 048	23 141 977
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	23 717 112	23 509 368	23 194 052	21 637 258	22 828 513
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	23 877 392	23 702 494	23 350 609	21 838 048	23 141 977
5	Total capital	26 237 342	26 151 901	25 874 078	24 438 171	25 778 873
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	26 075 956	25 958 647	25 717 244	24 236 961	25 465 144
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	26 237 342	26 151 901	25 874 078	24 438 171	25 778 873
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets	136 149 040	138 135 913	134 891 388	134 884 116	135 344 122
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	136 082 829	137 976 846	134 825 176	134 783 023	135 082 733
	Capital ratios					
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	17,54%	17,16%	17,31%	16,19%	17,10%
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	17,43%	17,04%	17,20%	16,05%	16,90%
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	17,54%	17,16%	17,31%	16,19%	17,10%
11	Tier 1 (as a percentage of risk exposure amount)	17,54%	17,16%	17,31%	16,19%	17,10%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17,43%	17,04%	17,20%	16,05%	16,90%
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	17,54%	17,16%	17,31%	16,19%	17,10%
13	Total capital (as a percentage of risk exposure amount)	19,27%	18,93%	19,18%	18,12%	19,05%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19,16%	18,81%	19,07%	17,98%	18,85%
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	19,27%	18,93%	19,18%	18,12%	19,05%
	Leverage ratio					
15	Leverage ratio total exposure measure	270 395 162	282 267 175	257 502 286	255 778 223	253 598 723
16	Leverage ratio	8,83%	8,40%	9,07%	8,54%	9,13%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	8,78%	8,33%	9,01%	8,46%	9,01%
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	8,83%	8,40%	9,07%	8,54%	9,13%

*data in relevant periods include profits included in own funds taking into account the applicable EBA guidelines

4. Own funds and eligible liabilities

The information below fulfils the requirements arising from the entry into force of Regulation (EU) No. 575/2013 of the European Parliament and of the Council dated 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 amended by Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019. As a member of the international Santander Group, whose parent entity is Banco Santander, Santander Bank Polska S.A. belongs to a group considered a global systemically important institution.

Santander Bank Polska S.A. as subsidiary of Santander Group, a global systemically important institution, is required to comply with Article 92a of the CRR with respect to the obligation to satisfy the requirements for own funds and bailed-in liabilities laid down in the CRR.

According to Article 92a of the CRR, starting from January 1, 2022, the requirements for own funds and eligible liabilities are calculated as 18% of the total risk exposure amount ("TREA") and 6,75% of the leverage ratio exposure measure ("LREM"). To the end of December, 2021, in transitional period, TREA and LREM requirements were to 16% and 6. %, respectively.

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 Article 92a of the CRR.

Based on these provisions, the required minimum regulatory TLAC (total loss-absorbing capacity) is increased by the value of capital buffers that the Bank is required to maintain.

This means that the minimum regulatory TLAC at 21,25% of the TREA must be maintained until December 2022, and at 21.5% at the end od December 2022, due to increase in the OSII buffer.

For Santander Bank Polska Group, the TLAC calculated as own funds and eligible liabilities in relation to the TREA as at 31 December 2022 is 23,90%. The TLAC calculated as own funds and eligible liabilities in relation to the LREM as at 31 December 2021 is 12,03%.

In relation to the minimum requirements specified in Article 92a of the CRR, the Bank obtained the approval from resolution authorities, in accordance with the conditions laid down in Article 72b(3) of the CEE, to use the liabilities that do not meet the subordination requirement defined in Article 72b(2)(d) of the CRR in the amount not exceeding 3.5% of the TREA as of 1 January 2022.

The Bank is also required to meet the requirements for own funds and eligible liabilities (MREL) based on Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms.

Based on the decision of the Bank Guarantee Fund of 5 May 2022, the target value of the MREL requirement for the Bank is 15.41% in relation to the total risk exposure amount and 5.91% in relation to the total exposure measure. The Bank must reach that target by 31 December 2023. At the same time, as of 31 December 2021, the Bank was obligated meet the interim targets set by the supervision authority at 11.73% at the end of 2021 and 13.57% as at 31 December 2022 in relation to the TREM (the subordination requirement is 9,73% and 12,02%, respectively) and 3% at the end of 2021 and 4.46% at the end of 2022 in relation to the LREM.

At the same time in accordance with Article 19(2)(3), Article 21(3)(3), Article 42(3) and Article 48(3) of the Act on macro-prudential supervision, which transposes Article 128 of the CRD, Common Equity Tier 1 instruments maintained by the entity in accordance with the combined buffer requirement are not eligible for the MREL requirement expressed as a percentage of the total risk exposure. This rule does not apply to the MREL requirement expressed as a percentage of the total exposure measure.

As a result, the Bank needs to maintain the target MREL at 18.91% in relation to the total amount of risk exposure, including in respect of subordination at 16,65%. At the end of 2022, considering the requirement to maintain additional capital buffers, the Bank must ensure that the MREL ratios are at 17,07% and 15,52%, respectively.

On September 22, 2022, the Bank Guarantee Fund published information on the change in the rules for determining the mid-term MREL requirement. Considering the limited possibilities of issuing equity and debt instruments by domestic entities, resulting from high macroeconomic uncertainty, and the costs of the so-called credit holidays, which had a negative impact on the ability of domestic entities to meet the MREL requirement, BFG updated the path to reach the target minimum level of own funds and eligible liabilities expressed as a percentage of the total risk exposure amount (MRELTREA).

The Fund adopted assumptions regarding the determination of the mid-term MRELTREA requirement for entities for which resolution plans or group resolution plans assume the use of the instrument of resolution, that in the current planning cycle it will specify the mid-term MRELTREA requirement that entities should meet by 31 December 2022. , based on the same formula as for the mid-term target required on 1 January 2022. The approach adopted also applies to the path to MRELTREA compliance.

The above means that the Bank must maintain the MREL at a level not lower than 15.22% (14.19% in relation to the subordination requirement) as at 31 December 2022 and 18.91% (16.65% in relation to the subordination requirement) until December 31, 2023.

As at 31 December 2022, the Bank met both requirements. As at 31 December 2022, the MREL in relation to the TREM was 23,9%, while the MREL including own funds and eligible subordinated liabilities was 21,32%. As at 31 December 2022, the MREL in relation to the LREM was 12,03% while the ratio including own funds and eligible subordinated liabilities was 10.73%.

EU KM2: KEY METRICS – MREL SANTANDER BANK POLSKA GROUP (PLN K)

		Minimum requirement for own funds and eligible liabilities (MREL)	G-SII Requirement for own funds and eligible liabilities (TLAC)				
		a	b	c	d	e	f
		31.12.2022	31.12.2022	30.09.2022	30.06.2022	31.03.2022	31.12.2021
Own funds and eligible liabilities, ratios and components							
1	Own funds and eligible liabilities	32 539 369	32 539 369	33 842 443	33 181 045	31 658 764	29 300 156
EU-1a	Of which own funds and subordinated liabilities	29 021 944					
2	Total risk exposure amount of the resolution group (TREA)	136 149 040	136 149 040	138 135 913	134 891 388	134 884 116	135 344 122
3	Own funds and eligible liabilities as a percentage of TREA (row1/row2)	23,90%	23,90%	24,50%	24,60%	23,47%	21,65%
EU-3a	Of which own funds and subordinated liabilities	21,32%					
4	Total exposure measure of the resolution group	270 395 162	270 395 162	282 267 175	257 502 286	255 778 223	253 598 723
5	Own funds and eligible liabilities as percentage of the total exposure measure	12,03%	12,03%	11,99%	12,89%	12,38%	11,55%
EU-5a	Of which own funds or subordinated liabilities	10,73%					
6a	Does the subordination exemption in Article 72b(4) of the CRR apply? (5% exemption)		Nie	Nie	Nie	Nie	Nie
6b	Pro-memo item - Aggregate amount of permitted non-subordinated eligible liabilities in-struments If the subordination discretion as per Article 72b(3) CRR is applied (max 3.5% exemption)		3 517 425	4 834 757	4 721 199	4 704 625	3 383 603
6c	Pro-memo item: If a capped subordination exemption applies under Article 72b (3) CRR, the amount of funding issued that ranks pari passu with excluded liabilities and that is recognised under row 1, divided by funding issued that ranks pari passu with excluded Liabilities and that would be recognised under row 1 if no cap was applied (%)		100,00%	98,88%	99,85%	100,00%	72,62%
Minimum requirement for own funds and eligible liabilities (MREL)							
	TLAC as a percentage of TREA		18,00%	18,00%	18,00%	18,00%	16,00%
	TLAC as percentage of TEM		6,75%	6,75%	6,75%	6,75%	6,00%
EU-7	MREL requirement expressed as percentage of the total risk exposure amount	11,72%					
EU-8	Of which to be met with own funds or subordinated liabilities	10,69%					
EU-9	MREL requirement expressed as percentage of the total exposure measure	3,00%					
EU-10	Of which to be met with own funds or subordinated liabilities	3,00%					

EU TLAC1 - POSITION OF SANTANDER BANK POLSKA GROUP (PLN K)

		Minimum requirement for own funds and eligible liabilities (MREL)	G-SII requirement for own funds and eligible liabilities (TLAC)	Memo item: Amounts eligible for the purposes of MREL, but not TLAC
Own funds and eligible liabilities and adjustments				
1	Common Equity Tier 1 capital (CET1)	23 877 392	23 877 392	-
2	Additional Tier 1 capital (AT1)	-	-	-
6	Tier 2 capital (T2)	2 359 950	2 359 950	-
11	Own funds for the purpose of Articles 92a CRR and 45 BRRD	26 237 342	26 237 342	-
Own funds and eligible liabilities: Non-regulatory capital elements				
12	Eligible liabilities instruments issued directly by the resolution entity that are subordinated to excluded liabilities (not grandfathered)	2 344 950	2 344 950	-
EU-12a	Eligible liabilities instruments issued by other entities within the resolution group that are subordinated to excluded liabilities (not grandfathered)			
EU-12b	Eligible liabilities instruments that are subordinated to excluded liabilities, issued prior to 27 June 2019 (subordinated grandfathered)			
EU-12c	Tier 2 instruments with a residual maturity of at least one year to the extent they do not qualify as Tier 2 items	439 652	439 652	-
13	Eligible liabilities that are not subordinated to excluded liabilities (not grandfathered pre cap)	3 517 425	3 517 425	-
EU-13a	Eligible liabilities that are not subordinated to excluded liabilities issued prior to 27 June 2019 (pre-cap)			
14	Amount of non subordinated instruments eligible, where applicable after application of Article 72b (3) CRR	3 517 425	3 517 425	-
17	Eligible liabilities items before adjustments	6 302 027	6 302 027	-
EU-17a	Of which subordinated	2 784 602	2 784 602	-
Own funds and eligible liabilities: Adjustments to non-regulatory capital elements				
18	Own funds and eligible liabilities items before adjustments	32 539 369	32 539 369	-
19	(Deduction of exposures between MPE resolution groups)			
20	(Deduction of investments in other eligible liabilities instruments)			
22	Own funds and eligible liabilities after adjustments	32 539 369	32 539 369	-
EU-22a	Of which own funds and subordinated	29 021 944		
Risk-weighted exposure amount and leverage exposure measure of the resolution group				
23	Total risk exposure amount	136 149 040	136 149 040	-
24	Total exposure measure	270 395 162	270 395 162	-
Ratio of own funds and eligible liabilities				
25	Own funds and eligible liabilities (as a percentage of total risk exposure amount)	23,90%	23,90%	0,00%
EU-25a	Of which own funds and subordinated	21,32%		
26	Own funds and eligible liabilities (as a percentage of total exposure measure)	12,03%	12,03%	0,00%
EU-26a	Of which own funds and subordinated	10,73%		
27	CET1 (as a percentage of TREA) available after meeting the resolution group's requirements	5,90%	5,90%	
28	Institution-specific combined buffer requirement		3,50%	
29	of which: capital conservation buffer requirement		2,50%	
30	of which: countercyclical buffer requirement		0,00%	
31	of which: systemic risk buffer requirement		0,00%	
EU-31a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer		1,00%	
Memorandum items				
EU-32	Total amount of excluded liabilities referred to in Article 72a(2) CRR		108 871 756	

EU TLAC3A table can be found in Appendix to this report „Pillar III 2022 12 Tables", which is available on the Santander Bank Polska website.

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 2022.

In 2022, 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 credit 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
- capital requirement for securitization.

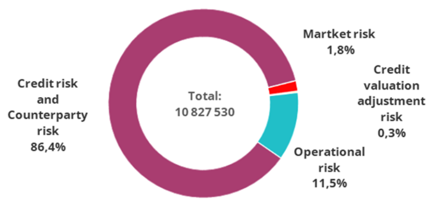
Santander Bank Polska Group calculates capital requirement separately for the exposures classified into the banking and trading book.

As at 31 December 2022, the total capital requirements of Santander Bank Polska Group calculated in line with the CRR was **PLN 10 891 923k** , including:

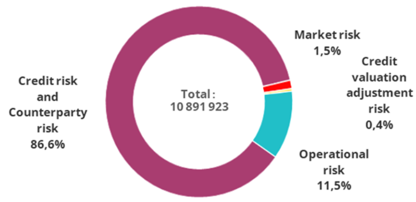
- for credit risk and counterparty credit risk, credit valuation adjustment risk, securitization **PLN 9 477 007k**
- for market risk **PLN 160 598k**
- for operational risk **PLN 1 254 318k.**

PERCENTAGE STRUCTURE OF THE CAPITAL REQUIREMENTS FOR 12/2021 AND 12/2022

Capital requirements for individual risk types
as at 31 December 2021



Capital requirements for individual risk types
as at 31 December 2022



EU KM1 - KEY METRICS TEMPLATE (PLN K)

		31.12.2022	30.09.2022	30.06.2022	31.03.2022	31.12.2021*
Available own funds (amounts)						
1	Common Equity Tier 1 (CET1) capital	23 877 392	23 702 494	23 350 609	21 838 048	23 141 977
2	Tier 1 capital	23 877 392	23 702 494	23 350 609	21 838 048	23 141 977
3	Total capital	26 237 342	26 151 901	25 874 078	24 438 171	25 778 873
Risk-weighted exposure amounts						
4	Total risk exposure amount	136 149 040	138 135 913	134 891 388	134 884 116	135 344 122
Capital ratios (as a percentage of risk-weighted exposure amount)						
5	Common Equity Tier 1 ratio (%)	17,54%	17,16%	17,31%	16,19%	17,10%
6	Tier 1 ratio (%)	17,54%	17,16%	17,31%	16,19%	17,10%
7	Total capital ratio (%)	19,27%	18,93%	19,18%	18,12%	19,05%
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)						
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	0,01%	0,02%	0,02%	0,02%	0,02%
EU 7b	of which: to be made up of CET1 capital (percentage points)	0,00%	0,00%	0,00%	0,00%	0,00%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	0,01%	0,01%	0,01%	0,01%	0,01%
EU 7d	Total SREP own funds requirements (%)	8,02%	8,03%	8,03%	8,03%	8,03%
Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)						
8	Capital conservation buffer (%)	2,50%	2,50%	2,50%	2,50%	2,50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)					
9	Institution specific countercyclical capital buffer (%)	0,01%	0,01%	0,01%	0,01%	0,01%
EU 9a	Systemic risk buffer (%)					
10	Global Systemically Important Institution buffer (%)					
EU 10a	Other Systemically Important Institution buffer (%)	1,00%	0,75%	0,75%	0,75%	0,75%
11	Combined buffer requirement (%) **	3,51%	3,26%	3,26%	3,26%	3,26%
EU 11a	Overall capital requirements (%) **	11,53%	11,29%	11,29%	11,29%	11,29%
12	CET1 available after meeting the total SREP own funds requirements (%)	11,25%	10,90%	11,15%	10,09%	11,02%
Leverage ratio						
13	Total exposure measure	270 395 162	282 267 175	257 502 286	255 778 223	253 598 723
14	Leverage ratio (%)	8,83%	8,40%	9,07%	8,54%	9,13%
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)						
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	-	-	-	-	-
EU 14b	of which: to be made up of CET1 capital (percentage points)	-	-	-	-	-
EU 14c	Total SREP leverage ratio requirements (%)	3,00%	3,00%	3,00%	3,00%	3,00%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)						
EU 14d	Leverage ratio buffer requirement (%)	-	-	-	-	-
EU 14e	Overall leverage ratio requirement (%)	3,00%	3,00%	3,00%	3,00%	3,00%
Liquidity Coverage Ratio						
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	66 679 371	67 558 911	69 228 871	70 982 475	70 328 417
EU 16a	Cash outflows - Total weighted value	47 361 142	44 692 470	42 356 588	40 817 190	39 576 331
EU 16b	Cash inflows - Total weighted value	10 337 555	9 326 377	7 909 171	7 269 341	7 151 124
16	Total net cash outflows (adjusted value)	37 023 586	35 366 093	34 447 418	33 547 849	32 425 207
17	Liquidity coverage ratio (%)	180%	191%	201%	212%	217%
Net Stable Funding Ratio						
18	Total available stable funding	187 329 790	184 427 253	182 475 190	184 206 100	183 370 235
19	Total required stable funding	123 106 911	124 417 668	124 292 706	121 555 988	119 348 687
20	NSFR ratio (%)	152%	148%	147%	152%	154%

* data includes profits included in own funds, taking into account the applicable EBA guidelines

** the combined buffer requirement was calculated taking into account the institution specific countercyclical capital buffer.

EU OV1 – OVERVIEW OF RWA (PLN K)

		Total risk exposure amounts (TREA)		Total own funds requirements
		a	b	c
		31.12.2022	30.09.2022	31.12.2022
1	**Credit risk (excluding CCR)**	**113 709 451**	**115 307 506**	**9 096 756**
2	Of which the standardised approach	113 709 451	115 307 506	9 096 756
3	Of which the Foundation IRB (F-IRB) approach	-	-	-
4	Of which slotting approach	-	-	-
EU 4a	Of which equities under the simple riskweighted approach	-	-	-
5	Of which the Advanced IRB (A-IRB) approach	-	-	-
6	**Counterparty credit risk - CCR**	**4 085 562**	**5 120 340**	**326 845**
7	Of which the standardised approach	2 806 213	3 773 967	224 497
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposures to a CCP	111 775	130 162	8 942
EU 8b	Of which credit valuation adjustment - CVA	573 173	565 996	45 854
9	Of which other CCR	594 400	650 215	47 552
15	**Settlement risk**	**-**	**-**	**-**
16	**Securitisation exposures in the non-trading book (after the cap)**	**667 575**	**681 274**	**53 406**
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	667 575	681 274	53 406
EU 19a	Of which 1250%	-	-	-
20	**Position, foreign exchange and commodities risks (Market risk)**	**2 007 478**	**1 347 819**	**160 598**
21	Of which the standardised approach	2 007 478	1 347 819	160 598
22	Of which IMA	-	-	-
EU 22a	**Large exposures**	**-**	**-**	**-**
23	**Operational risk**	**15 678 974**	**15 678 974**	**1 254 318**
EU 23a	Of which basic indicator approach	-	-	-
EU 23b	Of which standardised approach	15 678 974	15 678 974	1 254 318
EU 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subjectto 250% risk weight)	8 149 264	8 449 530	651 941
29	**Total**	**136 149 040**	**138 135 913**	**10 891 923**

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 2022 accounted for 83.5% 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 (UE) 2021/637 Regulation.
The exposure classes for which no items have been identified, have been disregarded.

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 Santander Bank Polska Group'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.

EU CR1: PERFORMING AND NON-PERFORMING EXPOSURES AND RELATED PROVISIONS (PLN K)

	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			
005 Cash balances at central banks and other demand deposits	7 942 981	7 942 981	-	-	-	-	-	-	-	-	-	-	-	-	-
010 Loans and advances	172 032 867	163 496 284	8 179 281	7 414 100	-	6 720 249	-1 459 834	-682 570	-774 942	-4 439 181	-	-4 235 498	-1 227 929	103 780 237	2 322 499
020 Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
030 General governments	326 998	319 536	7 462	6	-	3	-480	-378	-102	-4	-	-2	-	63 405	-
040 Credit institutions	22 144 410	22 144 410	-	-	-	-	-143	-143	-	-	-	-	-	-	-
050 Other financial corporations	2 350 349	2 341 251	9 038	24 466	-	24 090	-11 575	-10 174	-1 399	-15 898	-	-15 689 -	2 190	396 767	4 804
060 Non-financial corporations	66 409 318	61 367 273	5 032 987	3 550 445	-	3 146 089	-628 547	-220 336	-408 141	-1 962 598	-	-1 905 286	-674 718	48 535 411	1 491 955
070 Of which SMEs	51 386 173	47 362 524	4 017 150	3 409 762	-	3 005 663	-562 888	-191 829	-370 989	-1 901 352	-	-1 844 292	-670 088	39 715 376	1 434 414
080 Households	80 801 792	77 323 813	3 129 794	3 839 183	-	3 550 068	-819 090	-451 540	-365 300	-2 460 682	-	-2 314 522	-551 021	54 784 654	825 741
090 Debt securities	58 630 000	58 501 574	63 719	289 702	-	226 355	-2 214	-1 818 -	395	-104 472	-	-80 329	-	-	182 820
100 Central banks	3 898 145	3 898 145	-	-	-	-	-	-	-	-	-	-	-	-	-
110 General governments	40 111 696	40 047 977	63 719	-	-	-	-1 478	-1 083 -	395	-	-	-	-	-	-
120 Credit institutions	8 151 831	8 151 831	-	-	-	-	-	-	-	-	-	-	-	-	-
130 Other financial corporations	6 220 114	6 155 406	-	-	-	-	-	-	-	-	-	-	-	-	-
140 Non-financial corporations	248 215	248 215	-	289 702	-	226 355	-736	-736	-	-104 472	-	-80 329	-	-	182 820
150 Off-balance-sheet exposures	47 321 967	46 264 628	924 610	56 517	-	36 127	42 063	31 346	10 637	19 806	-	8 017		-	3 084
160 Central banks	-	-	-	-	-	-	-	-	-	-	-	-		-	-
170 General governments	1 452 941	1 452 941	-	-	-	-	58	58	-	-	-	-		-	-
180 Credit institutions	3 683 579	3 683 579	-	-	-	-	262	262	-	-	-	-		-	-
190 Other financial corporations	1 414 221	1 414 030	184	-	-	-	3 961	3 428	533	-	-	-		-	-
200 Non-financial corporations	34 783 809	33 795 872	860 108	43 867	-	24 899	31 971	23 165	8 761	19 795	-	8 006		-	3 084
210 Households	5 987 418	5 918 208	64 318	12 650	-	11 229	5 810	4 434	1 344	11	-	11		-	-
220 Total	**285 927 816**	**276 205 467**	**9 167 610**	**7 760 319**	**-**	**6 982 732**	**-1 504 111**	**-715 735**	**-785 974**	**-4 563 459**	**-**	**-4 323 845**	**-1 227 929**	**103 780 237**	**2 508 403**

As at 31/12/2022, the gross carrying amount of NPLs calculated in accordance with Regulation (EU) 2021/637 was 4.13%.

EU CQ1: CREDIT QUALITY OF FORBORNE EXPOSURES (PLN K)

	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				
005 Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
010 Loans and advances	2 383 743	2 381 945	2 381 945	2 381 593	-116 198	-1 128 907	3 043 602	1 123 697
020 Central banks	-	-	-	-	-	-	-	-
030 General governments	175	-	-	-	- 49	-	126	-
040 Credit institutions	-	-	-	-	-	-	-	-
050 Other financial corporations	771	6 649	6 649	6 649	-156	-4 986	2 269	1 654
060 Non-financial corporations	1 414 742	1 404 220	1 404 220	1 404 220	-64 266	-637 454	1 939 885	749 761
070 Households	968 056	971 076	971 076	970 725	-51 727	-486 467	1 101 322	372 282
080 Debt Securities	-	247 802	247 802	187 226	-	-64 982	182 820	182 820
090 Loan commitments given	38 823	593	593	593	749	466	-	-
100 Total	**2 422 567**	**2 630 340**	**2 630 340**	**2 569 413**	**-116 947**	**-1 194 354**	**3 226 422**	**1 306 517**

EU CQ3: CREDIT QUALITY OF PERFORMING AND NON-PERFORMING EXPOSURES BY PAST DUE DAYS (PLN K)

	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
005 Cash balances at central banks and other demand deposits	7 942 981	7 942 981	-	-	-	-	-	-	-	-	-	-
010 Loans and advances	172 032 867	171 182 196	850 672	7 414 100	2 438 088	579 773	840 065	962 950	1 883 693	383 080	326 451	7 414 100
020 Central banks	-	-	-	-	-	-	-	-	-	-	-	-
030 General governments	326 998	326 995	2	6	-	-	1	3	2	-	-	6
040 Credit institutions	22 144 410	22 144 410	-	-	-	-	-	-	-	-	-	-
050 Other financial corporations	2 350 349	2 348 320	2 029	24 466	8 562	1 198	4 249	3 630	6 405	299	123	24 466
060 Non-financial corporations	66 409 318	66 196 820	212 498	3 550 445	1 311 628	178 411	280 374	304 562	906 291	317 825	251 356	3 550 445
070 Of which SMEs	51 386 173	51 200 277	185 896	3 409 762	1 255 710	172 687	267 009	300 872	873 509	297 295	242 680	3 409 762
080 Households	80 801 792	80 165 650	636 142	3 839 183	1 117 897	400 165	555 442	654 755	970 995	64 956	74 973	3 839 183
090 Debt securities	58 630 000	58 630 000	-	289 702	247 802	-	-	-	27 270	-	14 630	289 702
100 Central banks	3 898 145	3 898 145	-	-	-	-	-	-	-	-	-	-
110 General governments	40 111 696	40 111 696	-	-	-	-	-	-	-	-	-	-
120 Credit institutions	8 151 831	8 151 831	-	-	-	-	-	-	-	-	-	-
130 Other financial corporations	6 220 114	6 220 114	-	-	-	-	-	-	-	-	-	-
140 Non-financial corporations	248 215	248 215	-	289 702	247 802	-	-	-	27 270	-	14 630	289 702
150 Off-balance-sheet exposures	47 321 967			56 517								56 517
160 Central banks	-			-								-
170 General governments	1 452 941			-								-
180 Credit institutions	3 683 579			-								-
190 Other financial corporations	1 414 221			-								-
200 Non-financial corporations	34 783 809			43 867								43 867
210 Households	5 987 418			12 650								12 650
220 Total	**285 927 816**	**237 755 177**	**850 672**	**7 760 319**	**2 685 890**	**579 773**	**840 065**	**962 950**	**1 910 963**	**383 080**	**341 081**	**7 760 319**

EU CR1-A tables can be found in Appendix to this report „Pillar III 2022 12 Tables", which is available on the Santander Bank Polska website.

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 (Stage 2) or impairment (Stage 3). 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 depends on changes in credit risk level which occur after initial recognition of the exposure. The standard defines three main stages for recognising expected credit losses:

- Stage 1 – exposures with no significant increase in credit 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 is recognised.
- Stage 2 – exposures with a significant increase in credit risk since initial recognition, but with no objective evidence of impairment. For such exposures, lifetime expected credit losses is recognised.
- Stage 3–exposures for which the risk of default has materialised (objective evidence of impairment has been identified). For such exposures, lifetime expected credit losses is 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 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).
The Group on a periodically basis 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 0,07% of the total exposure). These are mainly cases where the amount above which an exposure is classified into NPLs has not been exceeded. Under the current Credit Classification Policy, such exposures are classified in Stage2.

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).

Management provision

In the fourth quarter of 2022, in addition to the ECL resulting from the complex calculation model implemented in the system, Santander Banka Polska S.A. Group reviewed management adjustments, updating the risk level with current and expected future events, which resulted in:

- Creation of a management provision for retail mortgage portfolio in the amount of PLN 14 100 k, the risk of which may increase after the cessation of aid measures;
- Creation of a management provision for SME portfolio in the amount of PLN 30 000 k, due to additional risk of external sale (its share has increased significantly) not covered by PD model;
- Creation of a management provision for corporate portfolio in the amount of PLN 37 000 k, due to estimated impact of rising costs (including energy) on the portfolio's risk profile and additional risk in sectors involved in the sale and production of durable goods for household use;
- Creation of a management provision for SME leasing portfolio in the amount of PLN 20 000 k, due to estimated impact of future changes in rating model;
- Other management adjustments due to model and system changes and updating of macroeconomic scenarios were withdrawn.

Detailed disclosures regarding credit risk are included in note: 4. Risk management. of Consolidated Financial Statements of Santander Bank Polska Group for 2022.

The Santander Bank Polska Group does not present the table EU CQ4-Quality of non-performing exposures by geography because exposures in foreign countries do not exceed 10% of total exposures. The Santander Bank Polska Group also does not present information on collaterals obtained by taking possession and execution processes (EU CQ7, EU CQ8) due to the lack of such collateral.

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 20.0%.

As at 31 December 2022, the Group's debt instruments portfolio included PLN **6 390 987k** worth of bonds of Bank Gospodarstwa Krajowego and PLN **6 155 406k** 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: DISCLOSURE OF THE USE OF CREDIT RISK MITIGATION TECHNIQUES (PLN K)

		Unsecured carrying amount	Secured carrying amount			
				Of which secured by collateral	Of which secured by financial guarantees	
						Of which secured by credit derivatives
		a	b	c	d	e
1	Loans and advances	75 388 196	106 102 736	96 149 274	9 953 463	-
2	Debt securities	58 630 197	182 820	182 820	-	
3	**Total**	**134 018 393**	**106 285 556**	**96 332 094**	**9 953 463**	**-**
4	Of which non-performing exposures	654 830	2 505 319	2 352 925	152 395	-
EU-5	Of which defaulted	654 830	2 505 319			

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

	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet exposures	RWAs	RWAs density (%)
Exposure classes	a	b	c	d	e	f
1 Central governments or central banks	52 108 825	-	70 203 089	472 834	5 733 834	8,11%
2 Regional government or local authorities	962 627	100 365	962 627	23 284	197 182	20,00%
3 Public sector entities	263 901	198 337	263 158	3 567	133 363	50,00%
4 Multilateral development banks	1 760 845	-	4 640 828	-	-	0,00%
5 International organisations	-	-	-	-	-	
6 Institutions	14 414 491	1 620 813	11 446 882	324 049	3 751 801	31,87%
7 Corporates	31 981 717	24 256 833	20 713 656	2 056 172	21 500 458	94,43%
8 Retail	46 819 270	12 259 008	44 530 201	1 873 098	32 352 981	69,72%
9 Secured by mortgages on immovable property	65 556 391	4 472 939	64 012 938	685 455	40 258 794	62,23%
10 Exposures in default	3 029 278	19 990	2 889 428	5 072	3 269 302	112,95%
11 Exposures associated with particularly high risk	1 586 347	287 971	517 062	15 890	799 429	150,00%
12 Covered bonds	-	-	-	-	-	
13 Institutions and corporates with a short-term credit assessment	-	-	-	-	-	
14 Collective investment undertakings	-	-	-	-	-	
15 Equity	1 187 692	-	1 187 692	-	2 798 694	235,64%
16 Other items	6 119 601	-	6 119 601	-	2 913 613	47,61%
17 TOTAL	225 790 983	43 216 256	227 487 161	5 459 421	113 709 451	48,81%

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.

Above rules have been implemented taking into account the 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%.

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.

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	Total	Of which unrated
	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
1 Central governments or central banks	67 116 169	-	-	-	1 374 050	-	-	-	-	-	-	2 185 704	-	-	-	70 675 923	69 301 873
2 Regional government or local authorities	-	-	-	-	985 910	-	-	-	-	-	-	-	-	-	-	985 910	985 910
3 Public sector entities	-	-	-	-	-	-	266 726	-	-	-	-	-	-	-	-	266 726	266 726
4 Multilateral development banks	4 640 828	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4 640 828	4 640 828
5 International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6 Institutions	-	130 545	-	-	6 941 979	-	4 675 225	-	-	23 181	-	-	-	-	-	11 770 931	512 995
7 Corporates	-	-	-	-	113 457	-	20 160	-	-	22 636 208	3	-	-	-	-	22 769 827	21 935 825
8 Retail exposures	-	-	-	-	-	-	-	-	46 403 299	-	-	-	-	-	-	46 403 299	46 403 299
9 Exposures secured by mortgages on immovable property	-	-	-	-	-	32 001 384	10 117 420	-	-	16 523 833	6 055 755	-	-	-	-	64 698 393	64 345 816
10 Exposures in default	-	-	-	-	-	-	-	-	-	2 144 897	749 603	-	-	-	-	2 894 500	2 894 500
11 Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	532 953	-	-	-	-	532 953	532 953
12 Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13 Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14 Units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15 Equity exposures	-	-	-	-	-	-	-	-	-	113 690	-	1 074 002	-	-	-	1 187 692	1 187 692
16 Other items	3 198 478	-	-	-	9 389	-	-	-	-	2 911 735	-	-	-	-	-	6 119 601	6 119 601
17 TOTAL	74 955 474	130 545	-	-	9 424 785	32 001 384	15 079 531	-	46 403 299	44 353 543	7 338 314	3 259 706	-	-	-	232 946 582	219 128 017

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 standardised approach for counterparty credit risk to calculate the exposures and risk weighted assets for counterparty credit risk.

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

	Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
EU-1 EU - Original Exposure Method (for derivatives)	-	-		1,4	-	-	-	-
EU-2 EU - Simplified SA-CCR (for derivatives)	-	-		1,4	-	-	-	-
1 SA-CCR (for derivatives)	1 205 667	1 955 807		1,4	4 426 063	4 426 063	4 426 063	2 806 213
2 IMM (for derivatives and SFTs)			-	-	-	-	-	-
2a Of which securities financing transactions netting sets			-		-	-	-	-
2b Of which derivatives and long settlement transactions netting sets			-		-	-	-	-
2c Of which from contractual cross-product netting sets			-		-	-	-	-
3 Financial collateral simple method (for SFTs)					-	-	-	-
4 Financial collateral comprehensive method (for SFTs)					16 322 476	638 867	638 867	127 773
5 VaR for SFTs					-	-	-	-
6 Total					20 748 540	5 064 930	5 064 930	2 933 986

* The scope of disclosed information compliant with the CRR.

EU CCR3 – STANDARDISED APPROACH – CCR EXPOSURES BY REGULATORY EXPOSURE CLASS AND RISK WEIGHTS (PLN K)

	Risk weight											
	a	b	c	d	e	f	g	h	i	j	k	l
Exposure classes	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total exposure value
1 Central governments or central banks	-	-	-	-	60 155	-	-	-	-	-	-	60 155
2 Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-
3 Public sector entities	-	-	-	-	207	1 436	-	-	-	-	-	1 642
4 Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
5 International organisations	-	-	-	-	-	-	-	-	-	-	-	-
6 Institutions	-	5 513 641	-	-	1 770 141	2 101 522	-	-	-	-	-	9 385 303
7 Corporates	-	-	-	-	368	128 521	-	-	1 877 470	-	-	2 006 360
8 Retail	-	-	-	-	-	-	-	71 752	-	-	-	71 752
9 Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
10 Other items	-	-	-	-	-	-	-	-	-	45	-	45
11 Total exposure value	**-**	**5 513 641**	**-**	**-**	**1 830 870**	**2 231 479**	**-**	**71 752**	**1 877 470**	**45**	**-**	**11 525 256**

EU CCR2 – TRANSACTIONS SUBJECT TO OWN FUNDS REQUIREMENTS FOR CVA RISK (PLN K)

		Exposure value	RWEA
1	Total transactions subject to the Advanced method	-	-
2	(i) VaR component (including the 3× multiplier)		-
3	(ii) stressed VaR component (including the 3× multiplier)		-
4	Transactions subject to the Standardised method	2 998 100	573 173
EU-4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	-	-
5	**Total transactions subject to own funds requirements for CVA risk**	**2 998 100**	**573 173**

EU CCR8 – EXPOSURES TO CCPS (PLN K)

		Exposure value	RWEA
1	**Exposures to QCCPs (total)**		**111 775**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	5 513 641	110 273
3	(i) OTC derivatives	5 504 213	110 084
4	(ii) Exchange-traded derivatives	-	-
5	(iii) SFTs	9 428	189
6	(iv) Netting sets where cross-product netting has been approved	-	-
7	Segregated initial margin	-	
8	Non-segregated initial margin	-	-
9	Prefunded default fund contributions	59 430	1 503
10	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 – COMPOSITION OF COLLATERAL FOR CCR EXPOSURES (PLN K)

Collateral type	Collateral used in derivative transactions				Collateral used in SFTs			
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received		Fair value of posted collateral	
	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated
1 Cash – domestic currency	-	453 284	173 339	177 105	-	2 494 417	-	-
2 Cash – other currencies	-	445 955	340 911	1 950 686	-	-	-	-
3 Domestic sovereign debt	-	-	-	-	-	718 499	-	-
4 Other sovereign debt	-	182 351	-	-	-	12 941 664	-	-
5 Government agency debt	-	-	-	-	-	-	-	-
6 Corporate bonds	-	48 133	-	364 810	-	-	-	-
7 Equity securities	-	-	-	-	-	-	-	-
8 Other collateral	-	-	-	-	-	-	-	-
9 Total	**-**	**1 129 723**	**514 250**	**2 492 601**	**-**	**16 154 580**	**-**	**-**

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)

		RWEAs
	Outright products	
1	Interest rate risk (general and specific)	1 971 445
2	Equity risk (general and specific)	36 033
3	Foreign exchange risk	-
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus approach	-
7	Scenario approach	-
8	Securitisation (specific risk)	-
9	**Total**	2 007 478

As at December 31, 2022 there was no capital requirement in the Bank due to foreign exchange risk.

Santander Bank Polska Group presents information on exposures to interest rate risk on positions not held in the trading book with point (a) and (b) of Article 448(1).

Below presented the changes in the economic value of equity calculated under the six supervisory shock scenarios referred to in Article 98(5) of Directive 2013/36/EU and the changes in the net interest income calculated under the two supervisory shock scenarios referred to in Article 98(5) of Directive 2013/36/EU at 31.12.2022 and for the comparative period for which data are available 30.06.2022.

The tables present data for the Santander Bank Polska Group. In calculating the sensitivities for these scenarios, assumptions made by the EBA are used. The worst case scenario (WCS) is applied to Tier 1 Capital per Group. The regulatory limit is 15% and it only applies to the sensitivity of the MVE.

PLN k

Scenario	30.06.2022	
	EVE sensitivity	NII sensitivity
Parallel up	267 377	529 744
Parallel down	(1 214 042)	(1 098 159)
Steepener	44 258	
Flattener	(351 050)	
Short rates up	(198 137)	
Short rates down	(124 266)	
Worst case scenario	(1 214 042)	
Tier 1 - Grupa	23 350 609	
Result	5,20%	

At 30.06.2022 for the sensitivity of the MVE, the test result is 5.20%, which means that the regulatory limit (15%) is not exceeded.

The sensitivity of NII, in the case of an increase in interest rates by approx. 200bp, would increase by PLN 529 744k.

In the event of a drop in interest rates by approx. 200bp, net interest income would decrease by PLN 1 098 159k.

PLN k

Scenario	31.12.2022	
	EVE sensitivity	NII sensitivity
Parallel up	270 837	488 485
Parallel down	(1 274 906)	(1 006 993)
Steepener	167 268	
Flattener	(561 932)	
Short rates up	(254 186)	
Short rates down	(50 684)	
Worst case scenario	(1 274 906)	
Tier 1 - Grupa	23 877 392	
Result	5,34%	

At 31.12.2022 for the sensitivity of the MVE, the test result is 5.34%, which means that the regulatory limit (15%) is not exceeded.

The sensitivity of NII, in the case of an increase in interest rates by approx. 200bp, would increase by PLN 488 485k.

In the event of a drop in interest rates by approx. 200bp, net interest income would decrease by PLN 1 006 993k.

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) and imposed O-SII buffer on the bank. Based on the Polish Financial Supervision Authority's decision dated 16 December 2022 the Bank is currently required to maintain the O-SII buffer in the amount equivalent to 1% of the total risk exposure amount calculated in accordance with art. 92 par. 3 of the Regulation (EU) No 575/2013. The Bank' Group maintains the O-SII buffer at the same level.

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 DBK-DBK2B.700.11.2022 dated 30 December 2022 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 0.016 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 0.012 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 56.25% of the Common Equity Tier I capital (equivalent to own funds requirement of 0.009 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.

On 11 February 2022 the Bank received a letter from the Polish Financial Supervision Authority with a recommendation on mitigating the risk of the Bank's operations by maintaining, at both standalone and consolidated level, own funds to cover a capital add-on in order to absorb potential losses that may arise from stress conditions (P2G buffer). The add-on should consist in full of Common Equity Tier 1 capital. According to letter dated 23 December 2022 the recommended capital add-on at standalone level is 0.26p.p and at consolidated level is 0.23p.p. based on supervisory stress tests carried out by the Polish Financial Supervision Authority in 2022.

Taking into account the above requirements, the minimum capital ratios as at 31 December 2022 are as follows:

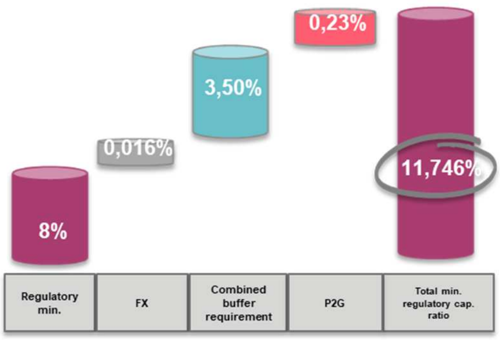
- ✓ Tier 1 capital ratio of 9.76% and 9,742% for the Bank and the Group, respectively;
- ✓ total capital ratio of 11.76% and 11,746% for the Bank and the Group, respectively.

The table below presents unconsolidated and consolidated minimum ratios.

CAPITAL BUFFERS OF SANTANDER BANK AND SANTANDER BANK POLSKA GROUP AT 31.12.2021 AND 31.12.2022

Components of the minimum capital requirement		31.12.2022	31.12.2021
Minimal capital ratios	Common Equity Tier 1 capital ratio	4.5%	4.5%
	Tier 1 capital ratio	6%	6%
	Total capital ratio	8%	8%
Additional capital requirement for Santander Bank Polska relating to the portfolio of FX mortgage loans for households	Santander Bank Polska	no requirement	no requirement
	Santander Bank Polska Capital Group:		
	· *for total capital ratio:*	✓ 0.016 p.p.	✓ 0.029 p.p.
	· *Tier 1 capital ratio:*	✓ 0.012 p.p.	✓ 0.022 p.p.
	· *for Common Equity Tier 1 capital ratio:*	✓ 0.009 p.p	✓ 0.016 p.p.
The capital buffer for Santander Bank Polska as other systemically important institution		✓ 1 p.p.	✓ 0.75 p.p.
The capital conservation buffer maintained in accordance with the Macroprudential Supervision Act		✓ 2.5 p.p.	✓ 2.5 p.p.
The systemic risk buffer (SRB)		✓ 0 p.p.	✓ 0 p.p.
The bank's sensitivity to an unfavorable macroeconomic scenario measured using the supervisory stress tests results (P2G)	Santander Bank Polska	✓ 0.26 p.p.	✓ 0 p.p.
	Santander Bank Polska Capital Group	✓ 0.23 p.p.	✓ 0 p.p.

CAPITAL BUFFERS AND RATIOS OF SANTANDER BANK POLSKA GROUP AS AT 31.12.2022



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.

The institution specific countercyclical capital buffer for other countries as at 31 December 2022 for the Group amounts to 0.01%. 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)

1	Total risk exposure amount	136 149 040
2	Institution specific countercyclical capital buffer rate	0,01%
3	Institution specific countercyclical capital buffer requirement	14 377

EU CCyB1 table - Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer can be found in Appendix to this report „Pillar III 2022 12 Tables", which is available on the Santander Bank Polska website.

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 2022, 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 2022, 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 9.76%;
- a Tier 1 capital ratio of Santander Bank Polska Group of 9.742%;
- a total capital ratio of Santander Bank Polska S.A. of 11.76%;
- a total capital ratio of Santander Bank Polska Group of 11.746%.

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, a conservation buffer and P2G buffer.

Dividend Recommendations of the Polish Financial Supervision Authority

In the letter of 23 December 2022 the KNF presented its stance on the dividend policy of commercial banks in 2023.

In accordance with the requirements set by the Regulator, 50% of 2022 profit could only be distributed by the banks which meet the basic criteria, in particular:

- their Tier I capital ratio is not lower than the minimum required level:

  6% +75%*add-on + combined buffer requirement, taking into account the systemic risk buffer at the level of 3%;
- their total capital ratio is not lower than the minimum required level:

  8% + combined buffer requirement, taking into account the systemic risk buffer at the level of 3%.

As recommended by the KNF, banks may distribute up to 75% of their profit if they meet all the criteria for distribution of up to 50% of the profit, taking into account the bank's sensitivity to an adverse macroeconomic scenario as part of the capital criteria (P2G buffer).

As recommended by the KNF, banks may distribute up to 100% of their profit if they meet all the criteria for distribution of up to 75% of the profit and their portfolio of loans granted to the non-financial sector is of a good credit quality (the share of non-performing loans is not higher than 5%, taking into account debt instruments).

For the banks with a sizeable portfolio of foreign currency home loans, the dividend yield should be prudentially adjusted in line with 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 5% – dividend yield to be adjusted by 20 p.p.
- banks with the share above 10% – dividend yield to be adjusted by 40 p.p.
- banks with the share above 20% – dividend yield to be adjusted by 60 p.p.
- banks with the share above 30% – dividend yield to be adjusted by 100 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.

Tier 1 ratio required by the KNF for Santander Bank Polska S.A. to pay up to 75% and up to 100% of the profit is 12.742% on a consolidated level and 12.76% on a standalone level.

Total capital ratio required by the KNF for Santander Bank Polska S.A. to pay up to 75% and up to 100% of the profit is 14.746% on a consolidated level and 14.76% on a standalone level.

As at 31 December 2022, Santander Bank Polska S.A. meets the criteria to pay a dividend of 100% of the net profit earned in 2022, both at the individual and consolidated levels. Taking into account the portfolio of foreign currency housing loans for households held by the Bank, the adjustment to dividend yield is 0 p.p.

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 2022 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.

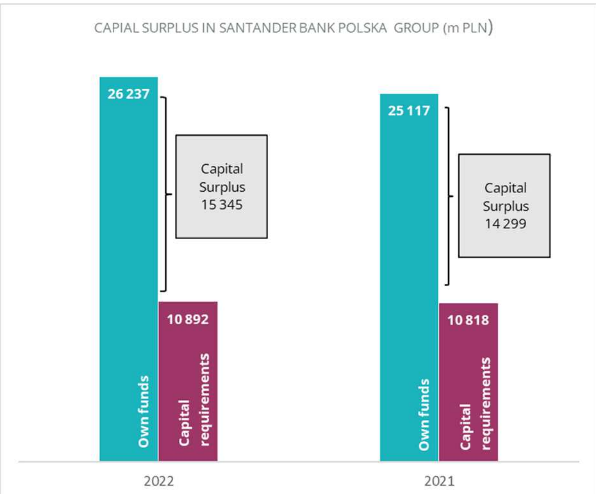
The value of asset exposure is the carrying value of the asset after adjustments for specific credit risk, additional value adjustments and other own fund deductions related to a particular asset. The off-balance sheet exposure is the percentage of the nominal value less adjustments for specific credit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

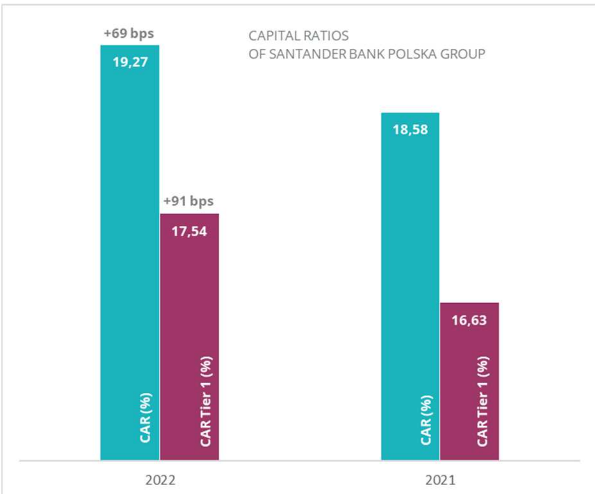
Taking into account total capital requirements of PLN **10 891 923k** as at 31 December 2022 and own funds of PLN **26 237 342k**, the capital ratio of Santander Bank Polska Group is **19.27%.**

The total capital ratio as at 31 December 2022 vs. 31 December 2021 was impacted by the following:

- allocation of the profit for 2021 to Tier 1 capital;
- changes in the level of other comprehensive income
- increase in the value of risk weighted assets for counterparty credit risk as a result of the increase in volumes and the number of derivative transactions due to rising interest rates
- securitization transaction - on March 31, 2022, Santander Bank Polska S.A. concluded with the International Finance Corporation (IFC), as a result of which a portfolio of cash loans in the amount of PLN 2.4 b was covered by the guarantee
- changes of the accounting policy for recognition of legal risk in terms of mortgage loans portfolio denominated and indexed in foreign currencies, i.e. in accordance with IFRS 9 (IFRS 9 B5.4.6) that replaced IAS 37 Provisions, Contingent Liabilities and Contingent Assets, what caused the reduction of gross carrying amount of mortgage loans.

CAPITAL ADEQUACY OF BANK GROUP IN 2021, 2022





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 internal capital estimation process is based on the capital estimation methodology of Banco Santander Group adjusted to local conditions and approved by the Model Risk Management Committee. For specific risks identified in the Bank's and Group's business or recommended by local regulations or supervision authorities for inclusion in the internal capital estimation process, the Group applies internal risk measurement models for measurable risks and add-ons approach for qualitative (difficult to measure) risks.

The following risks are subject to the statistical loss estimation models:

- credit risk including credit concentration risk (credit risk);
- operational risk;
- market risk (in the trading book and banking book);
- ALM risk;
- business risk;
- fixed assets risk;
- intangible assets risk;
- deferred tax risk.

In the case of credit 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).

Other risks, e.g. reputational risk and compliance risk, are treated as quality risks that the Bank manages in line with written procedures and policies and supervises within the assigned ownerships and relevant committees.

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 Model Risk Management Committee.

VII. Securitization

Santander Bank Polska S.A.

Synthetic securitisation 2018

On 7 December 2018, the bank signed a guarantee agreement with the European Investment Fund (EIF) in respect of PLN 2 150 031 k worth of cash loan portfolio, the purpose of which is to release capital further allocated to financing projects supporting the development of the SME, corporate and public sector client segments.

The transaction transfers credit risk to the EIF and implements the Bank's Tier 1 capital optimization strategy. The transaction is a synthetic securitization without a financing element, which does not involve financing and covers the selected portfolio of cash loans which remain on the bank's balance sheet. The entire securitized portfolio is risk weighted according to the standard approach.

The transaction is set to expire on 10 September 2031.

Santander Bank Polska is the originator of the synthetic securitisation and it does not perform any other roles in the synthetic structure in question. No Securitisation Special Purpose Entities (SSPE) participate in the transaction.

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 1 720 025 k, the mezzanine tranche was PLN 397 756 k and the junior tranche amounted to PLN 32 251 k.

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 first loss tranche was retained by the Bank and deducted from Common Equity Tier 1 capital in accordance with Art. 36 sec. 1 lit. k) CRR. Deduction from Common Equity Tier 1 capital implies the application of the "full deduction method" according to Art. 245 sec. 1 lit. b) CRR.

As at December 31, 2022, the total amount of deductions from Common Equity Tier 1 capital due to securitization amounts to PLN 25 428 k.

As at 31 December 2022, the gross carrying amounts of the individual tranches were as follows: senior tranche: PLN 474 115 k, mezzanine tranche: PLN 109 639 k and junior tranche: PLN 32 511 k. In the reporting period, credit losses allocated outside the securitisation structure using the synthetic excess spread mechanism totalled PLN 18 271 k.

Santander Bank Polska 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/EIB);

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 bank from the securitisation structure due to default.

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

TRANCHE AMOUNT STATUS

PLN k	Transaction value - gross		Transaction value by capital amount		Retained Risk Value	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Balance sheet portfolio, incl:	**616 264**	**1 370 052**	**611 334**	**1 364 407**	**4 930**	**5 645**
tranche senior	474 115	1 086 470	470 321	1 081 955	3 793	4 516
tranche mezzanine	109 639	251 246	108 762	250 202	877	1 044
tranche junior	32 511	32 335	32 250	32 250	260	85
Value losses allocated to Synthetic Excess Spread	18 271	23 406	18 271	23 406	18 271	23 406
Value of available Synthetic Excess Spread allocated to be used	8 337	18 772	8 337	18 772	-	-

Synthetic securitisation 2022

On March 31, 2022, Santander Bank Polska S.A. concluded with the International Finance Corporation (IFC) a securitization transaction, as a result of which a portfolio of cash loans in the amount of PLN 2 443 520 k was covered by the guarantee, with the possibility of increasing this amount in the future to the level of PLN 2 878 788 k. The transaction is the first transaction concluded by the Bank and entities of the SBP Group with this investor. Its purpose is to release the capital that the Bank will allocate to finance climate projects (projects related to climate change mitigation, focusing mainly on renewable energy sources, energy efficiency and financing green real estate projects) with a total value of at least USD 600 000 k.

The transaction is a synthetic securitization without a financing element, and the selected portfolio of cash loans covered by it remains included in the Bank's balance sheet.The transaction is set to expire by 31 January 2030.

Santander Bank Polska is the originator of the synthetic securitisation and it does not perform any other roles in the synthetic structure in question. No Securitisation Special Purpose Entities (SSPE) participate in the transaction.

The transaction is an implementation of the Bank's Tier 1 capital optimization strategy by transferring a significant part of the risk (SRT) related to securitized credit exposures to a third party (IFC), in accordance with Art. 245 (1) (a) and Art. 245 (2) (a) of the CRR Regulation. The structure of the transaction assumes the division of the securitized portfolio into three tranches: the senior tranche (82.67% of the portfolio), the guaranteed mezzanine tranche (16.5% of the portfolio) and the first loss tranche junior (0.83% of the portfolio). Only the guaranteed tranche is covered by unfunded credit protection in the form of a guarantee granted to the Bank by IFC on the basis of the Guarantee Agreement. The IFC is qualified according to Art. 117 of the CRR Regulation as a multilateral development bank which, based on the principles set out in the CRR Regulation, can be assigned a risk weight of 0%.

As at 31 December 2022, the gross carrying amounts of the individual tranches were as follows: senior tranche: PLN 2 032 923 k. mezzanine tranche: PLN 405 749 k and junior tranche: PLN 20 410k.

The risk-weighted exposure amounts for the retained tranches (ie senior and first loss tranches) are calculated using the SEC-SA standardized approach in accordance with Art. 261 (the transaction is not an STS securitization).

Santander Bank Polska 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 mezzanine tranche (risk weight of the credit protection provider – IFC);

b) 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);

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

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

The first loss tranche is deducted from Common Equity Tier 1 items pursuant to Art. 36 sec. 1 lit. k) of the CRR, as an alternative to applying a risk weight of 1,250%. Deduction from CET 1 capital implies the application of the "full deduction method" as set out in Art. 245 section 1 lit. b) of the CRR Regulation.

As at December 31, 2022, the senior tranche generated a risk-weighted exposure amount of PLN 300 500 k.

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	
	31.12.2022	31.12.2022	31.12.2022	31.12.2022	31.12.2022	31.12.2022
Balance sheet portfolio, incl:	2 459 082	-	2 443 519	-	144 988	-
tranche senior	2 032 923	-	2 020 058	-	119 861	-
tranche mezzanine	405 749	-	403 181	-	23 923	-
tranche junior	20 410	-	20 281	-	1 203	-

Santander Consumer Bank S.A.

Liquidity securitization

In December 2022, the Bank closed the securitization transaction concluded in 2019 and at the same time concluded a new securitization transaction of the cash loan portfolio. The new transaction is similar in nature to the previous transaction - it is a traditional, revolving securitization with a maximum duration of 10 years, however, SCB estimates that it will take place within 2 years from the date of the transaction.

As part of this transaction, SCB transferred the ownership rights from future cash flows, worth PLN 1 250 million, to the special purpose entity: SC Poland Consumer 23-1 DAC (SPV) based in Ireland, and granted a subordinated loan of PLN 250 million to this company. The loan is subordinated to senior and secured obligations. Interest on the loan is paid in cascade payments, i.e. in a specific order, from the funds held by the SPV, and the total capital repayment will take place after full redemption of the obligations. The interest rate on the loan is based on a fixed rate. The acquisition by the SPV of receivables from SCB took place thanks to the issue of obligations secured by a registered pledge on the company's assets worth PLN 1 000 million, bearing interest based on the WIBOR rate.

In the light of the provisions of IFRS 9, the contractual terms of both securitizations do not meet the conditions for not including the securitized assets in the Bank's statement of financial position.

As at December 31, 2022, the fair values were: subordinated loan granted - PLN 245 820 k, securitized assets - PLN 933 220 k.

At the same time, SCB recognizes a liability for securitization flows in the statement of financial position, under the field: amounts due to customers, in the amount as at 31/12/2022 of PLN 1 257 899 k.

The fair value of the securitization flow liability estimated as at 31 December 2022 was PLN 1 250 455 k.

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

k PLN	Transaction value- gross		Transaction value by capital amount		Retained risk value	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Balance sheet portfolio, incl:	1 047 113	n/a	1 047 113	n/a	13 752	n/a
senior tranche	852 418	n/a	852 418	n/a	-	n/a
mezzanine tranche	180 943	n/a	180 943	n/a	-	n/a
junior tranche	13 752	n/a	13 752	n/a	13 752	n/a
Value of losses allocated to SES	-	*n/a*	-	*n/a*	-	n/a
Value of available SES to be used	6 806	n/a	6 806	n/a	-	n/a

Synthetic securitization

In December 2022. Santander Consumer Bank S.A. carried out a synthetic securitization transaction of the portfolio of installment loans granted by the Bank. The purpose of the transaction was to obtain a capital relief on the retail loan portfolio, which provides additional capacity to finance projects supporting the development of the SME customer segment. The transaction is a synthetic securitization consisting of three tranches. On December 15, 2022, the Bank signed an agreement with the European Investment Fund (EIF), under which it obtained a financial guarantee for 100% of the senior and mezzanine tranches (classes A and B). At the same time, the Bank retained 100% of the class C first loss tranche, which was deducted from Common Equity Tier 1 capital, in accordance with Art. 36 sec. 1 lit. k) CRR. The deduction from Common Equity Tier 1 capital means the application of the "full deduction method" in accordance with Art. 245 sec. 1 lit. b) CRR. The structure of the transaction includes a Synthetic Excess Spread corresponding to the equivalent of 0.65% of the portfolio working on the “use-it-or-lose-it” mechanism. As part of the transaction, the Bank maintains randomly selected exposures corresponding to not less than 5% of the nominal value of the securitized exposures, in accordance with Art. 405 sec. 1 lit. c) CRR. The guarantee was activated in December 2022 - the impact on the Bank's risk-weighted assets was recognized as at the reporting date of December 31, 2022. As a result, the guarantee covered the portfolio of installment loans in the amount of PLN 1 146 million, of which the guarantee covers the capital part of the loans granted. The securitized portfolio is risk-weighted according to the standardized approach. The transaction includes a two-year revolving period, during which the Bank may supplement the amortized amount of the securitized portfolio with new exposures that meet the criteria set out in the agreement. The final date of completion of the transaction is October 31, 2031. The transaction does not have a financing element, and the selected portfolio of installment loans covered by it remains in the Bank's balance sheet. The transaction is part of the Bank's Tier 1 capital optimization strategy.

In 2021 and 2022, Santander Consumer Bank S.A. continued the, initiated in 2019, transaction of synthetic securitization of the portfolio of cash and installment loans granted by the Bank. The purpose of the transaction was to obtain a capital relief on the retail loan portfolio, which provides additional capacity to finance projects supporting the development of the MSP customer segment.

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

k PLN	Transaction value- gross		Transaction value by capital amount		Retained risk value	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Balance sheet portfolio, incl:	601 313	1 493 650	601 313	1 493 650	20 809	20 809
senior tranche	*478 856*	*1 214 944*	478 856	*1 214 944*	-	-
mezzanine tranche	*101 647*	*257 896*	101 647	*257 896*	-	-
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	4 293	7 307	4 293	7 307	-	-

Santander Consumer Multirent

Liquidity securitization

In May 2022, Santander Consumer Multirent Sp z o.o. (SCM) restructured the securitization transaction of the July 2020 lease portfolio. The concluded transaction is a traditional and revolving securitization involving the transfer of ownership of the securitized receivables to the special purpose entity SCM POLAND AUTO 2019-1 DAC (SPV3) with its registered office in Ireland.

As at December 31, 2022, this company issued obligations based on securitized assets with a total value of PLN 891 000 k The interest on the issued bonds consists of the WIBOR 1M rate and a margin. As a result of the securitization, SCM obtained financing for its operations in exchange for giving up the rights to future flows resulting from the securitized loan portfolio.

In order to support the financing of the transaction, SCM granted SPV3 a subordinated loan with a value of PLN 215 383 k as at December 31, 2022. The loan is subordinated to senior and secured obligations. Interest on the loan is paid in cascade payments, i.e. in a specific order, from the funds held by SPV4, and the total repayment of the principal will take place after full redemption of the bonds. The interest rate on the loan is based on a variable rate based on WIBOR 1M.

In the light of the provisions of IFRS 9, the contractual terms of the securitization transaction do not meet the conditions for not including the securitized assets in the SCM's statement of financial position. In connection with the above, SCM recognizes securitized assets as at 31 December 2022 under Finance lease receivables in the amount of PLN 948 742 k.

At the same time, SCM recognizes a liability for securitization flows under the field: Other liabilities, in the amount as at December 31, 2022 of PLN 955 383 k.

As at December 31, 2022, SCM also had receivables due to current settlements with the SPV in the amount of PLN 6 544 k, these receivables are presented in ‘Trade receivables and other receivables’.

Santander Leasing S.A.

Synthetic securitization 2020

On 19 June 2020 Santander Leasing SA made a guarantee agreement with the European Investment Fund (“EIF”). The pertinent guarantee relates to a lease and loan portfolio totalling approx. PLN 2 014 000 k. 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 securitisation, however, it is not an STS transaction. The transaction is a synthetic securitisation which does not involve financing and it covers the selected portfolio of lease and loans which remain on the Company’s balance sheet.

Structure of the transaction is that the securitised 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 1 700 000 k, the mezzanine tranche was PLN 284 000 k and the junior tranche amounted to PLN 16 000 k. 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).

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 securitisation structure during the first two years after activation of the guarantee. The mechanism is renewed every 3rd quarter.

On 31 May 2022 a two-year period of replenishment ended and the depreciation period started. Since then the structure of the transaction is different: senior and mezzanine tranches are systematically depreciated, but the junior tranche remains unchanged. As at 31 December 2022 the senior tranche gross totalled PLN 1 309 097 k, the mezzanine tranche was PLN 218 696 k and the junior tranche amounted to PLN 16 385 k.

Santander Leasing is the originator of the synthetic securitisation and it does not perform any other roles in the synthetic structure in question. No Securitisation Special Purpose Entities (SSPE) participate in the transaction.

The purpose of the synthetic securitisation 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.

Santander Leasing 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% 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 bank from the securitisation structure due to default.

For the purposes of the said synthetic securitisation meeting capital adequacy, under Article 245(1)(b) of CRR the principal component of the junior tranche exposures will be deducted from common equity Tier 1. In addition, the value of common equity Tier 1 will be reduced by a value of the available Synthetic Excess Spread. As at 30 December 2022 the cumulative deductions from common equity Tier 1 on account of securitisation amount to PLN 14 579 k.

The table below presents the values (PLN) of the securitised lease and loan agreements and their principal amount subject to securitisation, and the amount of risk retained by Santander Leasing S.A.:

TRANCHE AMOUNT STATUS

	Transaction value - gross		Transaction value by capital amount		Retained risk value	
PLN k	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Balance sheet portfolio, incl:	1 544 178	1 851 940	1 444 943	1 745 167	99 235	106 773
senior tranche	1 309 097	*1 574 149*	*1 224 969*	*1 483 392*	*84 127*	*90 757*
mezzanine tranche	218 696	*262 975*	*204 642*	*247 814*	*14 054*	*15 162*
junior tranche	16 385	*14 816*	*15 332*	*13 961*	*1 053*	*854*
Value of losses allocated to SES	919	*329*	919	*329*	919	*329*
Value of available SES to be used	9 747	10 285	9 747	10 285	-	-

Synthetic securitization 2021

On 16 December 2021 Santander Leasing SA made a guarantee agreement with the European Investment Fund ("EIF"). The pertinent guarantee relates to a lease and loan portfolio totalling approx. PLN 2.7 billion. The transaction is set to expire on 30 November 2030.

The guarantee agreement made by Santander Leasing SA (hereinafter "SL") conforms to the requirements set out in CRR Regulation (amended by Regulation (EU) 2017/2041) regarding synthetic securitisation, however, it is not an STS transaction. The transaction is a synthetic securitisation which does not involve financing and it covers the selected portfolio of lease and loans which remain on SL's statement of financial position.

Structure of the transaction is that the securitised portfolio is divided into two tranches: senior (87.5% portfolio) and junior, i.e. the first loss tranche (12.5% portfolio). As at the guarantee activation date, the senior tranche was PLN 2 394 191 718.96 and the junior tranche amounted to PLN 342 027 388.42. The junior tranche was guaranteed by EIF. Both the principal, as well as the interest components of the underlying exposures are covered by EIF guarantee. The Synthetic Excess Spread (SES) was not applied in the transaction.

As at 31 December 2022 the senior tranche gross totalled PLN 1 619 465 k and the junior tranche amounted to PLN 228 838 k.

SL is the originator of the synthetic securitisation process and does not perform any other roles in the synthetic structure in question. No Securitisation Special Purpose Entities (SSPE) participate in the transaction.

The purpose of the synthetic securitisation 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 maximum value of credit losses attributable to the EIF-guaranteed exposures is equal to the current amount of the junior tranche. The guarantee agreement made by Santander Leasing does not give grounds for removing from the balance sheet the receivables from the above contracts in full or in part.

Santander has adopted the following approach to assigning risk weights to other elements of the synthetic securitisation structure/ guarantee agreement in line with the standard method - Santander Leasing assigns:

a) RW 0% is assigned to the junior tranche (risk weight of the credit protection provider – EIF);
b) 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);
c) RW 75% or 100%, depending on customer classification, is assigned to the interest component;
d) RW 100% or 150% is assigned to exposures which have been excluded by the bank from the securitisation structure due to default.

The amount of risk-weighted exposure with respect to the retained tranche is defined with the use of a standard SEC-SA method, in line with Article 262 of CRR.
As at 31 December 2022 the senior tranche generated risk-weighted exposure of PLN 367 075 k.

The table below presents the values (PLN) of the securitised lease and loan agreements and their principal amount subject to securitisation, and the amount of risk retained by Santander Leasing S.A.

TRANCHE AMOUNT STATUS

PLN k	Transaction value - gross 12/31/2022	Transaction value - gross 12/31/2021	Transaction value by capital amount 12/31/2022	Transaction value by capital amount 12/31/2021	Retained risk value 12/31/2022	Retained risk value 12/31/2021
Balance sheet portfolio, incl:	1 848 303	2 833 915	1 740 187	2 643 328	108 116	190 587
senior tranche	1 619 465	*2 479 676*	*1 524 734*	*2 312 912*	*94 730*	*166 763*
junior tranche	228 838	*354 239*	*215 453*	*330 416*	*13 386*	*23 823*

Securitization tables for the Santander Bank Polska Capital Group (EU SEC1, EU SEC3, EU SEC5) can be found in Annex to this report „Pillar III 2022 12 Tables", which is available on the Santander Bank Polska website.

VIII. Leverage ratio

The leverage ratio of Santander Bank Polska Group is set in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 amended by Regulation (EU) No 2019/876 of the European Parliament and of the Council of 20 May 2019.

The leverage ratio of Santander Bank Polska Group is disclosed in accordance with the Regulation (UE) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council and repealing Commission Implementing Regulation (EU) No 1423/2013, Commission Delegated Regulation (EU) 2015/1555, Commission Implementing Regulation (EU) 2016/200 and Commission Delegated Regulation (EU) 2017/2295.

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 2022. 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.

EU LR2 - LRCOM: LEVERAGE RATIO COMMON DISCLOSURE AS AT 31.12.2022 (PLN K)

		CRR leverage ratio exposures	
		a	b
		31.12.2022	30.06.2022
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	240 218 868	237 907 505
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	357 657	385 690
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-2 049 578	-2 009 448
6	(Asset amounts deducted in determining Tier 1 capital)	-1 810 538	-2 021 464
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**236 716 409**	**234 262 283**
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	6 366 817	7 825 450
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	4 242 261	4 363 547
13	**Total derivatives exposures**	**10 609 078**	**12 188 997**
	Securities financing transaction (SFT) exposures		
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	14 248 006	2 700 248
16	Counterparty credit risk exposure for SFT assets	639 687	63 763
18	**Total securities financing transaction exposures**	**14 887 693**	**2 764 012**
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	43 275 307	43 695 955
20	(Adjustments for conversion to credit equivalent amounts)	-35 093 325	-35 408 960
22	**Off-balance sheet exposures**	**8 181 981**	**8 286 995**
	Excluded exposures		
EU-22k	**(Total exempted exposures)**	**-**	**-**
	Capital and total exposure measure		
23	**Tier 1 capital**	**23 877 392**	**23 350 609**
24	**Total exposure measure**	**270 395 162**	**257 502 286**
	Leverage ratio		
25	Leverage ratio (%)	8,83%	9,07%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	8,83%	9,07%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	8,83%	9,07%
26	Regulatory minimum leverage ratio requirement (%)	3,00%	3,00%
27	Leverage ratio buffer requirement (%)	-	-
EU-27a	Overall leverage ratio requirement (%)	3,00%	3,00%
	Choice on transitional arrangements and relevant exposures		
EU-27b	Choice on transitional arrangements for the definition of the capital measure	transitional	transitional
	Disclosure of mean values		
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	19 613 900	3 774 529
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	14 248 006	2 700 248
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	275 761 056	258 576 566
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	275 761 056	258 576 566
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	8,66%	9,03%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	8,66%	9,03%

EU LR1 and LR3 tables can be found in Appendix to this report „Pillar III 2022 12 Tables", which is available on the Santander Bank Polska website.

As at 31 December 2022, the leverage ratio of Santander Bank Polska Group totalled 8.83% (vs. 9,07% as at 30.06.2022) and was three-fold higher than the minimum requirement of 3%.

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.

IX. Encumbered assets and unencumbered assets

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

Presented information in according to 443 article of CRR.

EU AE1 - ENCUMBERED AND UNENCUMBERED ASSETS OF SANTANDER BANK POLSKA GROUP AS AT 31.12.2022 (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 disclosing institution	9 355 692	3 285 163			237 053 022	63 535 853		
030 Equity instruments	-	-			483 232	-		
040 Debt securities	3 285 163	3 285 163	3 285 163	3 285 163	63 840 858	59 834 328	63 840 858	59 834 328
050 of which: covered bonds	-	-	-	-	-	-	-	-
060 of which: securitisations	-	-	-	-	-	-	-	-
070 of which: issued by general governments	2 912 849	2 912 849	2 912 849	2 912 849	46 467 244	45 982 159	46 467 244	45 982 159
080 of which: issued by financial corporations	372 314	372 314	372 314	372 314	14 113 483	12 918 053	14 113 483	12 918 053
090 of which: issued by non-financial corporations	-	-	-	-	448 683	-	448 683	-
120 Other assets	6 070 529	-			172 728 933	3 701 525		

EU AE2 - COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED OF SANTANDER BANK POLSKA GROUP AS AT 31.12.2022 (PLN K)

	Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
			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 disclosing institution	-	-	3 512 972	3 027 069
140 Loans on demand	-	-	-	-
150 Equity instruments	-	-	-	-
160 Debt securities	-	-	3 512 690	3 112 035
170 of which: covered bonds	-	-	-	-
180 of which: securitisations	-	-	-	-
190 of which: issued by general governments	-	-	3 412 786	3 112 035
200 of which: issued by financial corporations	-	-	30 084	-
210 of which: issued by non-financial corporations	-	-	69 821	-
220 Loans and advances other than loans on demand	-	-	282	-
230 Other collateral received	-	-	-	-
240 Own debt securities issued other than own covered bonds or securitisations	-	-	-	-
241 Own covered bonds and securitisations issued and not yet pledged			-	-
250 TOTAL COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	9 355 692	3 507 194		

EU AE3 - SOURCES OF ENCUMBRANCE AT 31.12.2022 (PLN K)

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
	010	030
010 Carrying amount of selected financial liabilities	6 762 634	8 369 430

The information on encumbered and unencumbered assets, as contained in this disclosure, has been prepared in accordance with Commission Delegated Regulation (UE) 2022/1994 of 21 November 2022 amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/451 as regards own funds, asset encumbrance, liquidity and reporting for the purposes of identifying global systemically important institutions.

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 75/2013;

The figures in above tables are presented at their net carrying amounts (taking into account any allowances under IFRS 9).

As at 31 December 2022, 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;
- 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.

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.

All amounts and types of encumbered assets and off-balance sheet items, as presented in line 10 of EU AE3 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.

X. 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**, **established by the Management Board and approved by the Supervisory Board**.

In 2022, the Remuneration Policy of Santander Bank Polska Group was updated. The Remuneration Policy is the key element of the remuneration strategy; it defines the principles of staff remuneration in the Bank Group and is intended to develop, review, implement and supervise practices related to staff remuneration. The Bank Group's Remuneration Policy is consistent with the interests of shareholders, employees, customers and local communities and, in particular, it promotes behaviours reflecting corporate values. The Remuneration Policy and related practices are gender neutral.

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", "MRTs").

The Policy is reviewed once a year or more frequently after each significant organisational or legal change.

The changes to the Remuneration Policy made in 2022 primarily resulted from the need to reflect new regulations enacted in 2022, including:

- Updated EBA guidance on sound remuneration policies in accordance with Directive 2013/36/EU (EBA/GL/2021/04),
- Revised remuneration policy of Banco Santander Group,
- The KNF's recommendation concerns the maximum. the ratio of variable to constant components (resulting from the Regulation of the Minister of Finance);

Key changes in the updated Remuneration Policy resulting from the above regulations include:

- Adjusting the wording of the general principles to the EBA guidelines and the Group's remuneration policy,
- Establishing the principle of equal pay for equal work or work of equal value,
- Introduction of measurement principles, analysis and action determination for gender pay gap (GPG) and equal pay gap (EPG) measures,
- Introduction of a general rule on ESG targets/limits for holders of key positions,
- Introduction of general principles for discretionary pensions,
- Clarification of the procedure regarding the resolution increasing the ratio of variable and fixed components of remuneration.

The method of remunerating members of the Bank's governing bodies is laid down in the "Remuneration policy for members of the Supervisory Board of Santander Bank Polska S.A." and "Remuneration policy for members of the Management Board of Santander Bank Polska S.A.", documents adopted by the General Meeting.

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 Policies for the Management Board and the Supervisory Board are developed by the Management Board and presented for approval to the Bank's General Meeting.

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 the Remuneration Committee and the 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 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 2022, the Remuneration Committee of the Supervisory Board met six times in the following composition:

- the Committee Chairperson: Danuta Dąbrowska
- Committee members: José Luís de Mora, Marynika Woroszylska-Sapieha, Dominika Bettman

As at 31 December 2022, three members of the Committee: Dominika Bettman, Danuta Dąbrowska and Marynika Woroszylska-Sapieha had the status of independent members.

In 2022, the Nominations Committee of the Supervisory Board met four times in the following composition:

- the Committee Chairperson: Marynika Woroszylska-Sapieha;

Committee Members: José Luís de Mora, Danuta Dąbrowska, Jerzy Surma and David Hexter.

As at 31 December 2022, four members of the Committee: Danuta Dąbrowska, Jerzy Surma, Marynika Woroszylska-Sapieha and David Hexter had the status of independent members.

Santander Bank Polska Group applies the criteria of identification of material risk takers in accordance with Commission Delegated Regulation (EU) No 2021/923 of 25 March 2021. The group of material risk takers includes in particular Management Board members, Supervisory Board members and other senior managers, defined by the Bank as directors or other persons who have knowledge of risks attached to the Bank's operations and who take decisions that have a significant impact the Bank's risk profile.

MRTs are identified based on the above quantitative and qualitative criteria on the individual (institution's) level, and on the consolidated level.

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.

The Bank defines the total average gross remuneration of Management Board members per year to the total average gross remuneration of other Bank's employees per year as the 35-times multiple at maximum.

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 units, 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.

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 2022, Santander Bank Polska introduced the VII Incentive Programme by Resolution No. 30 of the Ordinary General Meeting. This program is addressed to the Bank's employees and employees of the Bank's subsidiaries (the Bank's Group), who significantly contribute to the growth of its value. The aim of the program will be to motivate participants to achieve business and quality goals consistent with the long-term strategy of the Bank Group by creating an instrument ensuring their stronger ties with the Group, as well as encouraging special care for its long-term well-being.

All persons with the status of Identified Employees in the Santander Group will obligatorily participate in the programme. The list of other key participants will be prepared by the Management Board Members and approved by the Bank's Supervisory Board, while the participation of other employees in the Program will be voluntary.

Participants who have joined the Program are excluded from other bonus systems in force at the Bank and thus, in connection with participation in this Program, they do not acquire the right to bonuses specified in the bonus regulations in force in a given year in the Participants' home units. This provision does not apply to MRT Employees who will receive variable remuneration in accordance with the "Regulations for the payment of variable remuneration for persons with the status of Identified Employees in the Santander Bank Polska Group in force in a given year" in force in a given year.

Under the programme, after meeting the conditions described in the Participation Agreement and in the Resolution, participants will be granted the right to receive an award constituting a component of variable remuneration in the form of the Bank's own shares. To this end, Santander Bank Polska will acquire up to 2,331,000 Own Shares in the period from 1 January 2023 to 31 December 2033.

The program was introduced for a period of five years (2022 – 2026), however, due to the deferral of payment of variable remuneration, the purchase of own shares and their transfer to participants will be carried out until 2033.

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. Bank's employees receive base salary determined using a job valuation methodology. The base 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 the remuneration depends on the bonus scheme applicable for the employee. Payment of bonuses under a scheme is contingent on the delivery of pre-defined business goals (in particular, the growth rate or value of the PAT) 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 the case of employees having a significant impact on the Bank's risk profile, in accordance with applicable regulations, a policy of payment of a part (not less than 50%) of the variable remuneration in the form of shares or related financial instruments is applied. In the case of the Bank, these are phantom shares or the Bank's own shares, granted on the basis of participation in an incentive program.

Moreover, payment of at least 40% of the variable remuneration component is deferred for four years (five years in the case of Management Board members and senior managers). Each of the deferred parts can be reduced or withheld if specific 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 (ex-ante approach).

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;
- breach of internal policies or the Code of Conduct, in particular those affecting the risk profile;
- 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;
- poor financial performance of the Group.

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 at the Bank's/ unit's and individual level (which determines 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 goals specified in individual bonus schemes, the variable part of the remuneration may be withheld.

The total variable remuneration paid to Management Board members and MRTs for a given calendar year cannot exceed 100% of the total fixed remuneration paid. 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 27 April 2022. In voting on the resolution, valid votes were representing 81.94% of the Bank's share capital. The resolution was adopted with 99.96% 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 whether the bonus will be paid and what its final amount will be. 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 2022, the Bank's Management Board was composed of nine members. Members are appointed by the Supervisory Board for a joint term of three years.

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

The number of Management Board members holding non-executive directorships in other entities was 2.

The Supervisory Board is now composed of 10 members appointed by the Annual General Meeting for a 3-year term of office. On 22. 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 2022 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.

Quantitative data on variable remuneration components for 2022 will be published together with information on the capital adequacy of Santander Bank Polska for the first half of 2023.

In 2022, the deferred remuneration due to key function holders was not reduced as part of performance-related adjustments.

In a given financial year, one person working at Santander Bank Polska S.A. received remuneration exceeding 1 million EUR.

In 2022, three MRTs terminated their employment contracts with the Bank.

EU REM1 - REMUNERATION AWARDED FOR THE FINANCIAL YEAR (PLN K)

			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	11	9	32	116
2		Total fixed remuneration	2 088	16 655	18 275	37 134
3		Of which: cash-based	1 817	14 251	17 370	36 293
4		(Not applicable in the EU)				
EU-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-5x		Of which: other instruments	-	-	-	-
6		(Not applicable in the EU)				
7		Of which: other forms	272	2 404	905	841
8		(Not applicable in the EU)				
17	Total remuneration (2 + 10)		2 088	16 655	18 275	37 134

EU REM3 - DEFERRED REMUNERATION (PLN K)

	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	MB Supervisory function	-	-	-	-	-	-	-	-
2	Cash-based	-	-	-	-	-	-	-	-
3	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
4	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
5	Other instruments	-	-	-	-	-	-	-	-
6	Other forms	-	-	-	-	-	-	-	-
7	MB Management function	23 550	9 153	14 397	-	-	1 442	6 851	3 892
8	Cash-based	10 015	5 588	4 427	-	-	-	1 844	-
9	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
10	Share-linked instruments or equivalent non-cash instruments	13 535	3 565	9 970	-	-	1 442	5 007	3 892
11	Other instruments	-	-	-	-	-	-	-	-
12	Other forms	-	-	-	-	-	-	-	-
13	Other senior management	15 946	6 238	9 707	-	-	712	3 498	3 117
14	Cash-based	7 302	4 459	2 844	-	-	-	1 012	-
15	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
16	Share-linked instruments or equivalent non-cash instruments	8 643	1 780	6 864	-	-	712	2 486	3 117
17	Other instruments	-	-	-	-	-	-	-	-
18	Other forms	-	-	-	-	-	-	-	-
19	Other identified staff	18 305	11 535	6 769	-	-	644	4 917	2 475
20	Cash-based	11 560	8 702	2 858	-	-	-	3 288	-
21	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
22	Share-linked instruments or equivalent non-cash instruments	6 745	2 833	3 912	-	-	644	1 629	2 475
23	Other instruments	-	-	-	-	-	-	-	-
24	Other forms	-	-	-	-	-	-	-	-
25	Total amount	57 800	26 927	30 874	-	-	2 798	15 266	9 485

EU REM4 - REMUNERATION OF 1 MILLION EUR OR MORE PER YEAR (PLN K)

	EUR	Identified staff that are high earners as set out in Article 450(i) CRR
1	1 000 000 to below 1 500 000	1

In 2022 was no special payments to staff whose professional activities have a material impact on institutions' risk profile(EU REM2).

EU EU REM5 table can be found in Appendix to this report „Pillar III 2022 12 Tables", which is available on the Santander Bank Polska website.

Details on Management Board and Supervisory Board members' remuneration are presented in Note 53 of the Consolidated Financial Statements of Santander Bank Polska Group for 2022 and The Management Board Report on Santander Bank Polska Group Performance in 2022.

XI. Liquidity measures

Santander Bank Polska S.A. presents information on liquidity measures in accordance with Article 451a para. 2, 3.

The table below presents the disclosure of the amount and components of the net income coverage ratio.

EU LIQ1 – QUANTITATIVE INFORMATION OF LCR PLN K

		Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on	31.12.2022	30.09.2022	30.06.2022	31.03.2022	31.12.2022	30.09.2022	30.06.2022	31.03.2022
EU 1b	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)					66 679 371	67 558 911	69 228 871	70 982 475
	CASH - OUTFLOWS								
2	Retail deposits and deposits from small business customers, of which:	133 405 665	133 165 571	132 359 154	130 669 051	10 822 101	10 722 448	10 585 994	10 364 807
3	*Stable deposits*	81 506 867	82 254 823	82 483 444	82 195 587	4 075 343	4 112 741	4 124 172	4 109 779
4	*Less stable deposits*	47 190 944	46 297 934	45 365 687	43 994 757	6 746 758	6 609 707	6 461 822	6 255 028
5	Unsecured wholesale funding	53 595 224	51 410 335	50 175 761	49 433 200	27 280 627	26 005 974	25 124 193	24 464 080
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	53 047 179	50 807 188	49 345 748	48 528 854	26 732 582	25 402 827	24 294 179	23 559 734
8	*Unsecured debt*	548 045	603 148	830 014	904 346	548 045	603 148	830 014	904 346
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	29 838 504	29 154 078	28 843 832	28 496 681	6 332 376	5 464 335	4 939 969	4 635 953
11	*Outflows related to derivative exposures and other collateral requirements*	4 178 955	3 333 668	2 778 714	2 489 649	4 178 955	3 333 668	2 778 714	2 489 649
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	25 659 549	25 820 410	26 065 118	26 007 032	2 153 421	2 130 667	2 161 255	2 146 304
14	Other contractual funding obligations	2 440 337	2 143 026	1 354 427	965 133	2 098 730	1 762 921	984 575	598 380
15	Other contingent funding obligations	15 572 656	15 384 252	15 275 829	15 435 547	827 307	736 792	721 858	753 970
16	TOTAL CASH OUTFLOWS					47 361 142	44 692 470	42 356 588	40 817 190
	CASH - INFLOWS								
17	Secured lending (e.g. reverse repos)	5 205 327	3 363 062	659 374	586 500	-	-	-	-
18	Inflows from fully performing exposures	8 633 913	8 268 004	7 432 008	7 104 797	7 610 377	7 277 771	6 432 539	6 100 891
19	Other cash inflows	2 727 178	2 048 607	1 476 632	1 168 450	2 727 178	2 048 607	1 476 632	1 168 450
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)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	TOTAL CASH INFLOWS	16 566 418	13 679 672	9 568 014	8 859 747	10 337 555	9 326 377	7 909 171	7 269 341
EU-20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
EU-20b	*Inflows subject to 90% cap*	-	-	-	-	-	-	-	-
EU-20c	*Inflows subject to 75% cap*	16 566 418	13 679 672	9 568 014	8 859 747	10 337 555	9 326 377	7 909 171	7 269 341
	TOTAL ADJUSTED VALUE								
EU-21	LIQUIDITY BUFFER					66 679 371	67 558 911	69 228 871	70 982 475
22	TOTAL NET CASH OUTFLOWS					37 023 586	35 366 093	34 447 418	33 547 849
23	LIQUIDITY COVERAGE RATIO					180%	191%	201%	212%

The main factors influencing the Liquidity Coverage Ratio (hereinafter 'LCR') are:

- on the outflow side, retail deposits, and then non-operating non-retail deposits, additional outflows due to the impact of a negative market scenario on the valuation of derivatives and outflows due to irrevocable off-balance sheet liabilities, including those related to trade financing,

- on the inflows side, these are mainly the expected inflows from receivables from financial institutions (interbank and central bank deposits),

- on the side of liquid assets, the main part are liquid Treasury bonds or bonds fully guaranteed by the Treasury (including securities issued by the Polish Development Fund and Bank Gospodarstwa Krajowego as part of anti-crisis shields during the COVID-19 pandemic), government bonds of Germany, Spain and the United States and bonds issued by the European Investment Bank, NBP bills (NBP), and then cash and the surplus on NBP accounts over the amount of the required reserve.

The main factors remain substantially the same over time, although it should be noted that in 2022 there was an increase in the share of assets in foreign currencies in the composition of liquid assets.

Disclosed LCR in December 2022 remains on high and safe level, much above both the regulatory and internal Group's limits. The indicator that remains at a high level is primarily the result of high level of deposit base (especially in 'stable retail deposits' category) and realized issues, allocated mainly in high quality liquid assets.

In line with the Liquidity Risk Policy, the Group prudently manages an appropriately diversified deposit base. Financing is mostly based on the current accounts and term deposits of individual clients and enterprises, mainly non-financial. The Group also focuses on diversifying sources of long-term financing, being present on wholesale markets by issuing debt and taking long-term loans on the financial market. A significant, but much smaller than the aforementioned, part of financing are own issues in the form of both subordinated and ordinary debt. It should be noted that in December 2022 r. Santander Bank Polska S.A. prepaid issues of PLN 750 million and EUR 100 million of bonds. In the current strategy, the Group attempts to minimize the share of secured financing.

General description of the institution's liquidity buffer structure:

High quality liquid assets (HQLAs) consists of: extremely liquid securities (mainly Treasury Bonds or bonds fully guaranteed by Polish Central Government, government bonds of Germany, Spain, the United States and bonds issued by the European Investment Bank), central bank assets (including NBP bills), cash, surplus in current accounts of National Bank of Poland (NBP) over the amount of mandatory reserve. As of December 2022, 31st the above mentioned categories accounted for 88.5%, 6.5%, 4.9% and 0%, respectively, of the liquid buffer. All components of liquid buffer are recognized as level 1 of liquid assets.

The main derivatives exposures of Group come from cross currency and fx swaps transactions. These transactions are aimed at obtaining funding in foreign currency (eg. CHF for financing of mortgages) from one side, and are the form of managing of liquidity surplus in currencies (eg. EUR) from the other hand.

LCR calculation include derivative payables and receivables during the next 30 days, posted and received collaterals (margin calls) due to valuation of derivative contracts and additional outflows due to impact of an adverse market scenario on derivative transactions (calculated with the usage of regulatory method of 'historical look back approach').

Notwithstanding the fulfillment of the required LCR limits at the aggregated level for all currencies, the Group maintains the LCR ratio above 100% for the domestic currency (PLN). In the case of the second currency identified as significant within the meaning of the CRR provisions, the periodically occurring mismatches are additionally monitored as part of the adjusted gap analysis and stress scenarios for the EUR currency. The Bank has the option of adjusting the liquidity position in EUR by acquiring liquid funds in this currency on the wholesale financial market, including, inter alia, FX swap transactions on dates beyond the LCR horizon (i.e. over 30 days).

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 December 2022, 31st PLN 23.6 million. 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.

EU LIQ2: NET STABLE FUNDING RATIO PLN K

		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	**Capital items and instruments**	**23 877 392**	**-**	**-**	**2 359 950**	**26 237 342**
2	Own funds	23 877 392	-	-	2 359 950	26 237 342
3	Other capital instruments		-	-	-	-
4	**Retail deposits**		**134 723 030**	**1 218 948**	**351 304**	**126 828 899**
5	Stable deposits		82 596 183	121	-	78 466 489
6	Less stable deposits		52 126 847	1 218 827	351 304	48 362 410
7	**Wholesale funding:**		**64 310 155**	**1 324 406**	**6 955 797**	**31 890 442**
8	Operational deposits		-	-	-	-
9	Other wholesale funding		64 310 155	1 324 406	6 955 797	31 890 442
10	**Interdependent liabilities**		**-**	**-**	**-**	**-**
11	**Other liabilities:**	**43 793**	**8 619 593**	**46 234**	**2 349 989**	**2 373 106**
12	NSFR derivative liabilities	43 793				
13	All other liabilities and capital instruments not included in the above categories		8 619 593	46 234	2 349 989	2 373 106
14	**Total available stable funding (ASF)**					**187 329 790**
Required stable funding (RSF) Items						
15	**Total high-quality liquid assets (HQLA)**					**1 704 883**
EU-15a	**Assets encumbered for a residual maturity of one year or more in a cover pool**		**-**	**-**	**-**	**-**
16	**Deposits held at other financial institutions for operational purposes**		**-**	**-**	**-**	**-**
17	**Performing loans and securities:**		**39 863 038**	**10 370 435**	**117 011 046**	**102 940 616**
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		13 650 572	-	-	-
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		6 819 071	70 849	445 997	1 163 329
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		11 411 433	9 037 553	64 262 119	65 018 847
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		-	-	-	-
22	Performing residential mortgages, of which:		830 531	849 118	48 901 735	32 934 726
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		767 206	786 111	47 357 865	31 559 271
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		7 151 432	412 915	3 401 195	3 823 715
25	**Interdependent assets**		**-**	**-**	**-**	**-**
26	**Other assets:**		**10 007 727**	**44 107**	**15 892 781**	**16 410 339**
27	Physical traded commodities				-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-	-	-	-
29	NSFR derivative assets		620			620
30	NSFR derivative liabilities before deduction of variation margin posted		2 604 356			130 218
31	All other assets not included in the above categories		7 402 752	44 107	15 892 781	16 279 501
32	**Off-balance sheet items**		**39 994 747**	**705 668**	**1 591 725**	**2 051 073**
33	**Total RSF**					**123 106 911**
34	**Net Stable Funding Ratio (%)**					**152%**

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

On 02 June 2020 the European Bank Authority introduced 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 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.

In 2022, financing was available to stabilize the liquidity situation, under which BGK collateral was used.
Other tools available in 2020 and 2021 (i.e. moratoria) were already disabled in 2022.

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

		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	173 223	13 385 796							
2	Loans and advances subject to moratorium (granted)	150 469	13 275 957	107 524	13 275 957	-	-	-	-	-
3	of which: Households		5 935 621	107 524	5 935 621	-	-	-	-	-
4	of which: Collateralised by residential immovable property		4 839 547	57 819	4 839 547	-	-	-	-	-
5	of which: Non-financial corporations		7 340 336	-	7 340 336	-	-	-	-	-
6	of which: Small and Medium-sized Enterprises		1 647 513	-	1 647 513	-	-	-	-	-
7	of which: Collateralised by commercial immovable property		-	-	-	-	-	-	-	-

* Data refer to active loans as at 31/12/2022

Santander Bank Polska Group offered 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 offered an extension of the grace period.

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

		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	13 275 957	11 901 308	1 007 406	1 922 154	1 374 649	744 539	771 335	-817 737	-132 387	-34 803	-84 190	-685 350	-328 186	-282 258	1 099 644
2	of which: Households	5 935 621	5 327 249	378 642	604 946	608 372	226 219	248 645	-354 839	-47 479	-10 118	-24 442	-307 360	-94 850	-83 666	432 960
3	of which: Collateralised by residential immovable property	4 839 547	4 565 779	314 008	490 088	273 768	139 163	172 327	-82 099	-17 325	-4 967	-10 610	-64 774	-34 617	-38 462	213 840
4	of which: Non-financial corporations	7 340 336	6 574 059	628 764	1 317 207	766 277	518 320	522 690	-462 898	-84 908	-24 686	-59 748	-377 990	-233 336	-198 591	666 684
5	of which: Small and Medium-sized Enterprises	1 647 513	1 361 142	32 764	185 416	286 371	128 490	103 246	-247 713	-35 582	-4 964	-23 514	-212 130	-98 143	-63 989	267 980
6	of which: Collateralised by commercial immovable property	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

* Data refer to active loans as at 31/12/2022

Santander Bank Polska Group offered 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)

	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	5 710 756	-	4 940 758	28 950
2 of which: Households	-			-
3 of which: Collateralised by residential immovable property	-			-
4 of which: Non-financial corporations	5 710 756	-	4 940 758	28 950
5 of which: Small and Medium-sized Enterprises	2 398 696			21 262
6 of which: Collateralised by commercial immovable property	-			-

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

In its assessment, the Management Board considered, inter alia, the impact of the COVID-19 pandemic and has determined that it affects the valuation of assets and estimated future results, but does not create material uncertainty about the Group's ability to continue as a going concern.

COVID-19 debt moratorium itself is not a trigger for significant modification of contractual cash flows and financial instrument derecognition. Deferral or suspension of installments repayments under assistance programs were evaluated according to existing in Group qualitative and quantitative criteria.

XIII. Other important issues

Share based incentive scheme

On 12 January 2023, the Extraordinary General Meeting of Santander Bank Polska S.A. adopted a resolution to set up a capital reserve for share buyback in connection with Incentive Plan VII and authorise the Management Board to buy back shares for the purpose of Incentive Plan VII, whose details are presented in Note 56 of the Consolidated Financial Statements of Santander Bank Polska Group for 2022.

Establishment a programme for the issue of bonds

The Management Board of Santander Bank Polska S.A. advised of its resolution made on 31 January 2023 to establish a programme for the issue of bonds with a nominal value of maximum PLN 5,000,000,000.The Bank informed about basic parameters of the bonds under the bond issue programme in current report.

Opinion of the Advocate General of the CJEU of February 16, 2023

On 16.02.2023, an opinion of the Advocate General of the CJEU ("Advocate") was published in the case pending before the CJEU, case no. C-520/21, concerning the settlement of claims arising from non-contractual use of third party capital in the event of cancellation of a credit agreement in Swiss francs. The opinion is non-binding and does not definitively resolve these issues, a judgment of the CJEU in this case is expected in 2023.

In the Advocate's view:

- as regards consumer claims - these are not contrary to the Directive, but the legitimacy of such claims would have to arise from national law (this is for the national court to decide); in the Advocate's view, the CJEU may also assess such a consumer claim for possible abuse of rights and dismiss it;
- as regards banks' claims - in the Advocate's view, the Directive precludes banks' claims for so-called remuneration for the use of capital; however, the Advocate does not comment directly on other potential formulas for the time value of money, in particular he does not formulate a clear thesis on how to define the notion of "capital" to be returned.

Note 48 of the Consolidated Financial Statements of Santander Bank Polska Group for 2022. „Legal risk connected with CHF mortgage loans" discloses in detail different scenarios adopted as of December 31, 2022 for the estimation of the legal risk, including the scenario that the Group will not be able to recover the cost of capital. At the same time, the note includes disclosures about the sensitivity of the estimated legal risk to selected assumptions, in particular includes the disclosure that the elimination of the cost of capital recovery scenario would result in increasing the cost of legal risk recognized as at 31.12.2022 by the amount of PLN 368m / stand-alone amount The analysis does not include the impact of the potential payment of the cost of capital to the customer by the Group, as this issue has not been considered in the model.

In opinion of the Management Board, the information considered as at 31.12.2022 do not indicate a risk of violation of the legally required minimum levels of capital adequacy, nor a threat to the going concern assumption applied for consolidated financial statements.

Details are presented in Note 58 of the Consolidated Financial Statements of Santander Bank Polska Group for 2022.

Statement of the Management Board of Santander Bank Polska S.A.

The Management Board of Santander Bank Polska S.A. declares that, to the best of its knowledge, the arrangements contained in this “Information on Capital Adequacy of Santander Bank Polska Group as at 31 December 2022” give a true view of the facts, while the risk management arrangements, notably with regard to liquidity risk, give assurance that the risk management systems in use are appropriate in terms of the risk profile and strategy of the Bank's Group.

The Management Board of Santander Bank Polska S.A. approves this “Information on Capital Adequacy of Santander Bank Polska Group as at 31 December 2022”, which contains details about risks, discusses the general risk profile of the Bank and the Bank's Group associated with the business strategy, and includes key metrics and figures that provide external stakeholders with a comprehensive view of risk management by the Bank's Group, including interaction between the Bank's risk profile and risk appetite expressed in the form of strategic risk tolerance limits, as determined by the Management Board and approved by the Supervisory Board.