Information on Capital Adequacy of Santander Bank Polska Group as at 31 December 2023

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 2023.

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.

The data presented in the report have been prepared as at 31 December 2023. The information contained refers to the above regulations insofar as they apply to the Bank and the Santander Bank Polska S.A. Group. Unless otherwise stated, the figures presented in the Report are expressed in thousands of PLN. Any differences in totals and shares result from the presentation of the amounts with the specified precision.

The figures in the comparative periods have been restated to reflect the reclassification of debt securities measured at amortised cost to assets measured at fair value through other comprehensive income. At 31 December 2022, this change resulted in a reduction in Common Equity Tier 1 capital of PLN -1 756 916 thousand, (including from other comprehensive income items of PLN - 1 649 990 thousand) and an increase in risk-weighted assets of PLN 720 334 thousand, which translated into a change in the total capital ratio of -139 bps. Additional information is provided in section 2.5 of the Consolidated Financial Statements of the Santander Bank Polska S.A. Group for 2023.

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)
VII. Securitization	Exposure to securitization positions	Article 449
VIII. Leverage ratio	Leverage ratio	Article 451
IX. Encumbered assets and unencumbered assets	Unencumbered assets	Article 443
X. Policy of variable components of remuneration	Governance arrangements	Article 435(2)
	Remuneration	Article 450
XI. Liquidity measures	Liquidity information	Article 448(1), 451a(2)(3)
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 31.12.2023

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
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
Stellantis Consumer Financial Services Polska Sp. z o.o.	Full consolidation	X					Financial services supporting the sale of DS, PEUGEOT and CITROEN cars (consumer loans)
Stellantis Financial Services 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

Compared with 31 December 2022, the list of subsidiaries of Santander Bank Polska S.A. excludes Santander Consumer Finanse Sp. z o.o. w likwidacji, a subsidiary of Santander Consumer Bank S.A.(SCB S.A.). The company was dissolved and put into liquidation as of 31 December 2020 under a resolution of the company's Extraordinary General Meeting of 23 December 2020. The liquidation was completed on 15 November 2023. On 22 November 2023, the company was struck off the National Court Register.

In relation to the formation of the automotive manufacturing corporation Stellantis N.V. in 2021 as a result of merger between the Italian–American conglomerate Fiat Chrysler Automobiles and the French Groupe PSA, on 3 April 2023 PSA Finance Polska Sp. z o.o. and PSA Consumer Finance Polska Sp. z o.o. were renamed Stellantis Financial Services Polska Sp. z o.o. and Stellantis Consumer Financial Services Polska Sp. z o.o., respectively.

All subsidiaries of Santander Bank Polska Group as at 31 December 2023 are consolidated with the Bank in accordance with IFRS 10.

In the consolidated financial statements of Santander Bank Polska Group for the 12-month period ended 31 December 2023, the following companies are accounted for using the equity method in accordance with IAS 28:

- Santander Allianz Towarzystwo Ubezpieczeń S.A.
- Santander Allianz Towarzystwo Ubezpieczeń na Życie S.A.
- POLFUND – Fundusz Poręczeń Kredytowych S.A.

Compared with 31 December 2022, the list of associates did not change.

Detailed information on the structure of the Capital Group of Santander Bank Polska S.A. are presented in the Management Board Report on Santander Bank Polska Group Performance in 2023.

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
Assets							
Cash and balances at central banks	8 417 519	8 417 519	8 417 519	-	-	-	-
Loans and advances to banks	9 533 840	9 533 840	9 533 840	-	-	-	-
Financial assets held for trading	8 939 360	8 939 360	-	7 364 225	-	7 078 156	-
Hedging derivatives	1 575 056	1 575 056	-	1 563 361	-	1 559 374	-
Loans and advances to customers	159 520 007	159 520 007	137 389 588	14 823 541	7 306 879	-	-
Buy-sell-back transactions	12 676 594	12 676 594	-	12 676 594	-	-	-
Investment securities	67 523 003	67 523 003	67 523 003	-	-	-	-
Assets pledged as collateral	271 933	271 933	-	271 933	-	-	-
Investments in associates	967 514	967 514	967 514	-	-	-	-
Intangible assets	881 857	881 857	490 296	-	-	-	391 562
Goodwill	1 712 056	1 712 056	-	-	-	-	1 712 056
Property, plant and equipment	765 278	765 278	765 278	-	-	-	-
Right of use assets	494 296	494 296	494 296	-	-	-	-
Current income tax assets	-	-	-	-	-	-	-
Net deferred tax assets	1 751 189	1 751 189	1 875 559	-	-	-	-
Assets classified as held for sale	6 453	6 453	6 453	-	-	-	-
Other assets	1 615 928	1 615 928	1 615 928	-	-	-	-
Total assets	**276 651 885**	**276 651 885**	**229 079 273**	**36 699 654**	**7 306 879**	**8 637 529**	**2 103 617**
Liabilities							
Deposits from banks	4 156 453	4 156 453	-	-	-	-	-
Hedging derivatives	880 538	880 538	-	829 565	-	829 565	-
Financial liabilities held for trading	8 818 493	8 818 493	-	7 948 104	-	7 563 323	-
Deposits from customers	209 277 356	209 277 356	-	-	-	-	-
Sell-buy-back transactions	273 547	273 547	-	273 547	-	-	-
Subordinated liabilities	2 686 343	2 686 343	-	-	-	-	-
Debt securities in issue	9 247 159	9 247 159	-	-	-	-	-
Lease liabilities	365 833	365 833	-	-	-	-	-
Current income tax liabilities	1 174 609	1 174 609	-	-	-	-	-
Deffered tax liability	435	435	-	-	-	-	-
Provisions for off balance sheet credit facilities	-	-	-	-	-	-	-
Other provisions	1 090 191	1 153 746	-	-	-	-	-
Other liabilities	4 989 911	4 926 356	-	-	-	-	-
Total liabilities	**242 960 868**	**242 960 868**	-	**9 051 216**	-	**8 392 888**	-
Equity							
Equity attributable to owners of Santander Bank Polska S.A.	31 762 645	31 762 645					
Share capital	1 021 893	1 021 893	-	-	-	-	-
Other reserve capital	25 097 203	24 749 282	-	-	-	-	-
Revaluation reserve	-298 688	-298 688	-	-	-	-	-
Retained earnings	1 111 131	1 459 051	-	-	-	-	-
Profit for the current period	4 831 107	4 831 107	-	-	-	-	-
Non-controlling interests in equity	1 928 372	1 928 372	-	-	-	-	-
Total equity	33 691 017	33 691 017	-	-	-	-	-
Total liabilities and equity	**276 651 885**	**276 651 885**	**-**	**9 051 216**	**-**	**8 392 888**	**-**

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)	**276 651 885**	**229 079 273**	**7 306 879**	**36 699 654**	**8 637 529**
2 Liabilities carrying value amount under the scope of prudential consolidation (as per template LI1)	**242 960 868**	**-**	**-**	**9 051 216**	**8 392 888**
3 Total net amount under the scope of prudential consolidation	**33 691 017**	**229 079 273**	**7 306 879**	**27 648 438**	**244 641**
4 Off-balance-sheet amounts	**56 873 185**	**56 873 185**	**-**	**-**	
5 Differences in valuations	106 957	-	-	106 957	
6 Differences due to different netting rules, other than those already included in row 2	-	-	-	-	
7 Differences due to consideration of provisions	5 429 802	5 429 802	-	-	
8 Differences due to the use of credit risk mitigation techniques (CRMs)	- 12 032 837	1 874 236	-	- 13 907 073	
9 Differences due to credit conversion factors	- 47 682 752	- 47 682 752	-	-	
10 Differences due to Securitisation with risk transfer	- 7 306 879	-	- 7 306 879	-	
11 Other differences	- 1 640 302	6 891 622	-	- 8 531 924	
12 Exposure amounts considered for regulatory purposes	**257 781 764**	**252 465 366**	-	**5 316 397**	-

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.
- **ESG risks** – the risk of negative impact of ESG factors (environmental, social and corporate governance) on the balance sheet of the Santander Bank Polska S.A. Group and its customers and counterparties. This is a cross-cutting risk that affects the bank's traditional financial and non-financial risks to varying degrees and through diverse transmission channels. The bank considers the impact of this risk on: credit, operational, reputational and market risks, and compliance and business risks.

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.

AML Decision Committee (Anti-Money Laundering), which it sets the standards and direction for strategic actions aimed to prevent money laundering and terrorist financing in Santander Bank Polska S.A. Group (SBP S.A. Group) and monitors ML/TF risk management objectives. The Committee is also a control body in charge of preventing money laundering and terrorist financing across the Group activities and an advisory body for the Management Board Member responsible for the implementation of obligations specified in the Act of 1 March 2018 on the prevention of money laundering and terrorist financing.

AML Operational Committee, which takes decisions related to the fulfilment of duties aimed to prevent money laundering and terrorist financing in the Bank, including those related to: establishment and maintenance of business relations with high risk customers, also PEP customers, and approval of internal procedures in this area

Responsible Banking and Corporate Culture Committee sets the strategy and monitors goals regarding the standards and management of responsible banking and corporate culture. It is the main forum to discuss issues concerning responsible banking, sustainable development, ESG (incl. ESG risks) and corporate culture (incl. risk 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.

ESG Panel is a cross-department panel of experts supporting business segments of Santander Bank Polska S.A. Group in the proper identification and classification of transactions and products as compliant with EU Taxonomy and with the Internal Sustainable Finance Classification System in order to prevent greenwashing risk.

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 directly the Management Board Member in charge of the Compliance and Financial Crime Control Division; 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 Centre.

- **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 2023.

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 Control Centre, which are independent of the risk-taking units.

Risk prevention and mitigation

In the Group's security model, the Collateral and Credit Agreements Centre 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 Centre 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 Centre 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 Centre. 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 Centre assesses the collateral quality and value, a process that includes:

- Verification of property valuations prepared by real estate appraisers;
- Assessment of the value of the collateral for commercial loans;
- Assessment of the legal status of the collateral object for commercial loans;
- Assessment of investment processes on real estate;
- Legal consultation on proposed collateral.

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

- Verification of the completeness of signed collateral documents received from the Registry and compliance with the Bank's internal procedures (verification done before or immediately after the launch);
- Recording and verification of data in information systems;
- Monitoring of collateral and evaluation of the correctness of the establishment of collateral;
- Reporting on the status of collateral in each segmen;
- 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 2023 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	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Maximum	-342	-426	-722	-595
Average	-280	-358	-380	-488
As at the end of period	-147	-334	-644	-494
Limit	**-500**	**-900**	**-925**	**-800**

In 2023, the levels of use of the interest rate risk limit for the sensitivity of interest income (NII) were lower, and for MVE (economic value of capital) increased - compared to 2022. No breaches of RED operational limits were observed. The increase in exposure to MVE was caused by the implementation of the strategy of hedging the sensitivity of interest income, which consequently increased the duration of the banking book portfolio. Implementation of the above-mentioned the hedging strategy was based mainly on making cash-flow hedges (within Hedge Accounting relation) transactions and expanding the ALCO portfolio with fixed-coupon debt securities.

In 2023, operational limits for the sensitivity of MVE in PLN and Total items were increased.

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 2023 and 2022 for 1-day position holding period (values in thousands PLN).

Interest rate risk	VaR	
1 day holding period	31.12.2023	31.12.2022
Average	7 443	5 321
Maximum	14 049	14 622
Minimum	3 258	960
as of the end of period	6 952	9 550
Limit	**13 812**	**13 205**

In 2023, VaR-type limit exceedances were recorded. Exceedances were recorded on the total VaR and the VaR of interest rate risk on the Bank's trading book. A total of three overruns occurred in the fourth quarter. The overruns were caused by the Bank's day-to-day operations and the activity of the Bank's customers on debt instruments, where the limit was slightly exceeded due to the occurrence of spread risk, and interest rate risk due to activity on PLN FRA instruments. All recorded overruns were minimal and in percentage terms did not exceed 2% of the total limit. The overruns were closed on the day they were identified in accordance with the assumptions of the risk management process on the Bank's trading book. The observed values of the VaR in 2023 were higher than in 2022 due to the increasing volatility of the observed risk factors in 2023, as well as the increase in the scale of the Bank's business operations. The maximum level of market interest rate risk on the Bank's trading book has no significant changes from the previous year.

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 2023 and 2022 (values in thousands PLN).

FX risk	VaR	
1 day holding period	31.12.2023	31.12.2022
Average	749	1 021
Maximum	2 411	2 346
Minimum	81	68
as of the end of period	648	1 144
Limit	**3 542**	**3 301**

In 2023, 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 2023 the share of foreign currency assets in the balance sheet decreased. This was due to an smaller increase in the balance of assets in foreign currencies compared to the increase in total assets, with further gradual 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 2023 and in the comparable period.

31.12.2023	PLN	EUR	CHF	USD	Other	Total
ASSETS						
Cash and operations with central banks	6 956 993	977 508	58 997	146 384	277 637	8 417 519
Receivables from banks	1 280 971	7 206 043	26 333	793 695	226 798	9 533 840
Receivables from customers	132 253 696	23 411 744	2 154 107	1 592 194	108 266	159 520 007
Financial assets	63 386 625	3 223 918	-	1 074 040	-	67 684 583
Selected assets	**203 878 285**	**34 819 213**	**2 239 437**	**3 606 313**	**612 701**	**245 155 949**
LIABILITIES						
Liabilities to banks	2 489 169	1 645 426	311	19 536	2 011	4 156 453
Liabilities to customers	166 002 155	30 893 667	1 000 857	9 500 127	1 880 550	209 277 356
Subordinated liabilities	1 118 250	1 568 093	-	-	-	2 686 343
Selected liabilities	**169 609 574**	**34 107 186**	**1 001 168**	**9 519 663**	**1 882 561**	**216 120 152**

31.12.2022*	PLN	EUR	CHF	USD	Other	Total
ASSETS						
Cash and operations with central banks	8 714 371	852 099	71 968	390 655	140 929	10 170 022
Receivables from banks	846 348	8 357 220	14 193	242 190	117 548	9 577 499
Receivables from customers	123 188 867	22 738 284	5 205 292	1 352 255	23 994	152 508 692
Financial assets	52 598 781	1 755 829	-	1 297 721	-	55 652 331
Selected assets	**185 348 367**	**33 703 432**	**5 291 453**	**3 282 821**	**282 471**	**227 908 544**
LIABILITIES						
Liabilities to banks	1 772 840	1 770 254	855	484 521	2 782	4 031 252
Liabilities to 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**

* Restated data - include the reclassification of financial instruments (see the introduction to this report for details).

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 process at the Brokerage is overseen by the Market and Investment Risk Committee of Santander Bank Polska. The Committee 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 2023 and 2022 (values in thousands PLN).

Equity risk	VaR	
1 day holding period	**31.12.2023**	**31.12.2022**
Average	379	261
Maximum	759	532
Minimum	112	98
as of the end of period	424	258
Limit	**1 574**	**2 135**

In 2023, 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. As of December 2023, 31st the value of liquidity buffer was PLN 82.9bn, and 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, UK and bonds issued by European Investment Bank) in total 88.3%, central bank assets (including NBP bills) 7.7%, cash 3.1%, surplus in current accounts of National Bank of Poland (NBP) over the amount of mandatory reserve 0.9%. 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;
- Encumberance assets ratio;
- 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 risk limits, including the limits established in the Risk Appetite Statement, are set on the basis of both historical values of the selected liquidity risk 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 S.A. 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 risk 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 risk is measured in accordance 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 with local systemic crisis –with operating limit not included in risk appetite and idiosyncratic crisis with global systemic crisis);

b) Supporting / ad hoc scenarios without imposed limits:

- 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, 2023 was 179 days.

In addition, the bank performs stress tests for intraday liquidity risk 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 risk, including FX funding ratios and LCR) and – on a monthly basis – to senior executives (other liquidity risk 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 risk 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 2023, the Santander Bank Polska S.A. Group focused on the maintenance adequate level of liquidity buffer and effective allocation of the liquidity . The decrease and then stabilisation in market interest rates and increase of liquidity surplus on the market resulted in decrease of competition for customer deposits in the banking sector. At the end of December 2023, the loan-to-deposit ratio was 72%, compared to 78% at the end of December 2022, while the liquidity coverage ratio on a consolidated basis was 218%, compared to 177% in the previous year. The increase in the liquidity coverage ratio resulted mainly from the increase in retail customer deposits and specification of operational deposits within non-retail customer deposits. 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 (financing concentration ratios from the wholesale market are calculated as the ratio of financing obtained in the form of issues or from financial and non-financial customers not classified as retail customers to total financing) for the Bank as at 31 December 2023 amounted to 31.6% compared to 32.1% at the end of 2022, while the financing ratio from the strategic investor was 0.3% and 2.5% for the compared periods.

In 2023 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 2023 and in the comparable period. Nominal value have been presented.

31.12.2023	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	25 853 559	26 241 402	18 302 791	14 403 726	17 779 912	37 804 180	62 841 283	64 293 501
Liabilities and equity	144 813 783	28 296 845	25 924 641	9 723 184	5 431 290	6 206 801	3 390 274	5 047
including:	-	-	-	-	-	-	-	-
- Sell-buy-back transactions	-	273 388	-	-	-	-	-	-
- Deposits from banks	2 547 232	317 989	373 215	280 332	239 671	-	329 787	-
- Deposits from customers	144 041 364	27 705 468	25 245 227	7 244 800	3 862 891	454 570	447 174	5 047
- Debt securities in issue	-	-	300 000	2 193 505	1 319 678	4 924 215	373 203	-
- Subordinated liabilities	-	-	-	-	-	434 800	2 217 871	-
- Lease liabilities	-	-	6 200	4 547	9 049	16 521	22 239	-
Contractual liquidity gap	(118 960 224)	(2 055 443)	(7 621 850)	4 680 542	12 348 623	31 597 379	59 451 009	64 288 454
Cummulated contractual liquidity gap	(118 960 224)	(121 015 666)	(128 637 516)	(123 956 974)	(111 608 352)	(80 010 973)	(20 559 964)	43 728 490
Net derivatives	-	(39 544)	144	-	(12 104)	(1 380)	-	-
Gross asset derivatives	-	49 599 214	27 566 261	12 162 859	19 351 556	9 434 776	16 601 989	8 469 903
Gross liabilities derivatives	-	49 811 994	27 331 996	12 173 600	19 283 786	9 817 275	17 084 146	8 512 279
Off Balance positions Total	48 805 527	6 070 637	1 070 736	491 057	411 334	493 731	423 367	23
-guarantees & letters of credits	15 162 702	-	-	-	-	-	-	-
-credit lines	7 482 642	6 028 728	618 372	185 372	-	-	-	-

* The vast majority of other financial liabilities are within the range of 1 month

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	-	-	-	-

* The vast majority of other financial liabilities are within the range of 1 month

Details about the Risk Management are presented in Note 4 to the Consolidated Financial Statements of Santander Bank Polska Group for 2023.

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 issues. 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. A CyberEducation Forum at the CyberTechRisk Forum operates, which aims to giving opinions and coordinating the implementation of initiatives promoting the culture of cybersecurity among customers and employees. It brings together experts in cybersecurity, communication, marketing and business representatives so that initiatives reflect current cyber threats and are effectively communicated in available communication channels with customers and employees.

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, model risk and risk of AML, 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 2023 GROSS LOSSES (PLN K)

Event types	Event category	PLN k	%
1 Internal fraud	1.1. Unauthorised activity	67 827	2,3%
	1.2. Theft and fraud	-35	0,0%
2 External fraud	2.1. Theft and fraud	6 893	0,2%
	2.2. Security of systems	940	0,0%
3 Occupational safety and health, employment practices	3.1. Labour relations	623	0,0%
	3.2. Safety and health in the workplace	-	0,0%
	3.3. Discriminations	-	0,0%
4 Customers, products and operating practices	4.1. Adaptation, disclosure of information and trust	15	0,0%
	4.2. Inappropriate business or market practices	4 497	0,2%
	4.3. Defective products	2 818 792	96,4%
	4.4. Selection, Sponsorship and Risks	-	0,0%
	4.5. Consulting services	-	0,0%
5 Damage to tangible assets	5.1. Natural disasters and other incidents	1 129	0,0%
6 Business interruption and system errors	6.1. Systems	125	0,0%
7 Execution of transactions, delivery and management of operating processes	7.1. Reception, execution , execution and maintenance of transactions	13 880	0,5%
	7.2. Monitoring and presentation of reports	939	0,0%
	7.3. Acceptance of customers and documentation	7 546	0,3%
	7.4. Customer account management	-	0,0%
	7.5. Trade counterparties other that the Bank's clients (e.g. clearing chambers)	247	0,0%
	7.6. Distributors and suppliers	-383	0,0%

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

In 2023 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 812m (including PLN 2 385m of Santander Bank Polska S.A. and PLN 426m of Santander Consumer Bank). The high level of operational risk losses in the aforementioned category results from the questioning of contractual provisions in terms of abusiveness, and the change in the level of value adjustments reflects the changing trends in jurisprudence and the increase in court cases.

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 defines 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 processes supporting information security in the Santander Bank Polska Group business environment and assessment of adequacy of 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.

Table EU OR1 can be found in Appendix to this report „Pillar III 2023 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 Member of the Management Board responsible for the compliance risk supervision 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;
- Ss part of compliance monitoring;
- Ss 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;
- AML Decision Making Committee;
- AML Operating 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;
- Guidelines for gifts and invitations at Santander Bank Polska S.A.;
- Code of Conduct in Securities Markets;
- Code of Conduct for Research Activity;
- Procurement Policy;
- Remuneration Policy of Santander Bank Polska Group.

ESG risks

Strategy and business processes

Environmental, social and governance (ESG) matters are covered by the Bank's **strategy**. 2023 was the last year when the Bank pursued its 2021–2023 strategy: "Focus to Accelerate", which included six interconnected and interdependent strategic directions. Sustainable development was referred to in each of those strategic directions, specifically under the one called "Safety and Trust". The business strategy was accompanied by the Responsible Banking Strategy, which defined the Bank's ESG approach. Environmental commitments were pursued under the the Green Bank agenda. The Bank developed green products and financial solutions that support the transition to a low- or zero-emission economy and ensure compliance with international environmental protection requirements. As part of the Inclusive Banking agenda, the Bank focused on financial inclusion, financial education and lifelong learning. Furthermore, within its corporate culture agenda, the Bank supported employees, diversity culture and open communication ("Speak up").

For 2024–2026, the Bank's Management Board adopted the "We Help You Achieve More" („Pomagamy osiągać więcej") strategy. It emphasises that the challenges we face as a bank and society require huge responsibility. That is why the Bank consciously makes ethical decisions, keeping in mind its impact on the community and the environment. With a sustainable business model, the Bank creates value for customers, employees, shareholders and local communities, working towards a better future for our children and our planet. This is what one of the three of the Bank's strategic directions – Total Responsibility – is about.

Santander Bank Polska Group follows the **Responsible Banking and Sustainability Policy.** It combines the matters that before October 2023 were covered by two separate policies: on sustainable development and human rights. According to the document, responsible banking is based on building sustainable value for all stakeholders. For this reason, the Bank is committed to developing opportunities and managing the attendant risks. The document lays down the Bank's principles, commitments, goals and strategy in relation to shareholders, employees, customers and suppliers.

Under the policy, Santander Bank Polska Group manages its **impact** in the **environmental area ("E")** in accordance with the prudence principle. The Bank limits the financing of operations that may have a direct environmental and social impact and long-term implications for climate change. The Bank supports customers in the transition to a more sustainable economy and maintains climate neutrality in Santander Bank Polska Group's own operations (using the offset mechanism).

In the social area ("S"), we prevent financial exclusion by offering financial education and supporting education, entrepreneurship and employment. As part of the social commitments contained in the policy, we abide by the principle of equal treatment of all customers. In employee relations, we focus on building diverse teams. We follow such rules as:

- Preventing discrimination and practices that offend people's dignity;
- Preventing forced labour or child labour;
- Respecting the freedom of association and collective bargaining;
- Respecting occupational health and safety standards;
- Offering fair employment conditions;
- Facilitating work-life balance;
- Safeguarding the right to the protection of personal data and privacy.

In the governance area ("G"), the Bank promotes behaviours, processes and policies that support responsible conduct of business. The Bank applies a solid and effective risk governance system. The Bank listens to its stakeholders and ensures that these relationships are Simple, Personal and Fair. The Bank maintains channels of dialogue and cooperation with stakeholders. In particular, the Bank is engaged in dialogue with shareholders. Cooperation with business partners is based on the principle of equal treatment and non-corruption policy. At the same time, the Bank encourages its suppliers to make commitments related to sustainability and transition to a low carbon economy.

The Responsible Banking and Sustainability Policy also applies to voluntary commitments of the Santander Bank Polska Group which enable the organisation to mitigate ESG risks. These are international conventions and standards such as:

Equator Principles (International Finance Corporation guidelines)

- Universal Declaration of Human Rights;
- United Nations Global Compact;
- Principles for Responsible Banking (UNEP FI);
- United Nations Sustainable Development Goals;
- United Nations Guiding Principles on Business and Human Rights;
- OECD guidelines for multinational enterprises;
- Fundamental conventions of the International Labour Organization.

Santander Bank Polska Group follows a climate strategy which complies with the **Net Zero global strategy** of Banco Santander. The Bank takes steps to align its portfolio with the goals set in the Paris Agreement, the Task Force on Climate-related Financial Disclosures (TCFD's) recommendations and the EU policies which indicate that the financial sector plays a major role in tackling climate change. That is why the Bank intends to achieve the net zero emissions by 2050, with the goal applying to its entire value chain. Assumptions of the Net Zero strategy are:

- To stop providing financial services to power generation customers with more than 10% of revenues dependent on thermal coal;
- To completely reduce the Bank's exposure to thermal coal producers by 2030;
- To support customers in their transition process by providing comprehensive RES financing and developing adequate financial products.

Medium- and long-term goals of the global Net Zero strategy should be achieved on the basis of identified and implemented decarbonisation measures. To that end, the Bank has been reducing emissions in its own operations (use of electricity, business travel, etc.) and emissions resulting from financial services rendered to customers (such as lending, advisory or investment services).

Climate goals are to be achieved also through the sharing of international best practice. Santander Group is the founding member of the **Net Zero Banking Alliance.** It's a UN initiative led by the banking sector that is guiding the Bank's further work on portfolio analyses.

The strategic objectives of Santander Bank Polska Group comply with the environmental goals set in the EU Taxonomy. The Bank takes them into account when developing its products and services, and consistently applies the ESG criteria in its credit analyses. In 2024, the

Bank is publishing GARs (green asset ratios) for the very first time. These ratios show the portion of the Bank's assets that represent the financing provided in line with the EU Taxonomy, environmentally sustainable in the context of mitigating and adapting to climate change. As at the end of 2023, the green asset ratio by stock based on TURNOVER was 0.4% and based on CAPEX 0.5%.

Santander Bank Polska Group supports customers in their transformation. For that reason, in 2022 the Bank introduced the **Sustainable Finance Classification System** (SFCS) to help classify, track and report on sustainable finance activities. SFCS draws upon international industry and official guidelines and principles, such as ICMA's Social and Green Bond Principles, the Climate Bond Standards and the EU Taxonomy. The Bank sets green financing goals that are consistent with the classification system. In 2023, the total amount of SFCS-compliant sustainability financing (assigned for environmental and social investments) we provided was PLN 7,671 million.

The Bank supports customers in their transition to a low carbon economy, through relevant offers:

- Cross-sector – an opportunity to finance decarbonisation projects of existing customers;
- Energy sector/ cross-sector – development of the renewable energy market providing investment opportunities with respect to projects and companies related to that sector;
- Energy sector – an opportunity to engage in projects and cooperate with companies specialising in the development and modernisation of pumped storage power plants;
- Transport/ automotive sector – an opportunity to finance projects promoting the use of electric or low-emission vehicles;
- Transport/ automotive sector – financing low-carbon transport solutions (notably in the public transport sector);
- Agriculture sector – work on the development of advisory services regarding the use of low-carbon solutions in agriculture and development of financial services in this respect;
- Real estate sector – financing of new energy-efficient commercial and residential real estates and financing of thermal efficiency improvement projects for the existing buildings.

The Bank defines specific criteria for client cooperation, as well as for identification, assessment, monitoring and management of environmental and social risks. This concerns also other activities impacting climate change performed by customers, in particular those from the energy, oil and gas, soft commodities, mining and metal sectors. For more details, please see the section "Risk Management" below.

Governance

Issues related to responsible banking (including ESG risks) are discussed by the Bank's Management Board, the Supervisory Board and relevant committees. The Management Board and the Supervisory Board are actively engaged in setting goals related to significant impacts, risks and opportunities – by approving the Bank's strategies (including the ESG area). Strategic documents are drawn up by the Bank's relevant organisational units and committees, in line with their scope of responsibilities. The Management Board and Supervisory Board receive regular reports on the progress in implementing the strategy, including the ESG goals.

The **Management Board** is responsible for developing the climate strategy and setting its main objectives in line with the Net Zero strategy of Banco Santander Group. When taking decisions, the Management Board considers assessments, information and analyses of the risk management unit (i.e. the Risk Management Division).

The allocation of powers within the Management Board provides for the following division of ESG agenda-related tasks and responsibilities:

- ESG risk management – Vice President of the Management Board in charge of the Risk Management Division;
- Green finance – Member of the Management Board in charge of the Business and Corporate Banking Division;
- Coordination of the Group's responsible banking activities, including ESG qualitative reporting – Head of the Corporate Communication and Marketing Area operating outside the divisional structure;
- Quantitative reporting on ESG – Member of the Management Board in charge of the Financial Accounting and Control Division.

Progress against the strategic objectives in the area of responsible banking and ESG also determines the amount of bonuses awarded to Management Board members. Relevant criteria taken into account include progress in the delivery of initiatives concerning:

- The Bank's impact on the environment and mitigation of climate changes;
- Development of the "green" offer of products and services;
- Dromotion of diversity;
- Facilitation of access to financial services and financial education.

Based on the actual metrics and evaluation of performance against objectives under WHAT, HOW and RISK categories as well as relevant weights assigned to them, the rating is established. It is adjusted by the multiplier proposed by the Remuneration Committee of the Supervisory Board and approved by the Supervisory Board. The multiplier is based on 3-year rating (among other things).

In line with its terms of reference, the **Supervisory Board** oversees the development, implementation and execution of the responsible banking agenda and compliance with regulatory requirements on ESG. Starting from 2024, the powers of Supervisory Board committees, namely the Risk Committee and Audit and Compliance Committee, has been expanded. It was agreed that ESG risks would also be addressed when reviewing the Group's risk profile, in the same way as when reviewing and making recommendations to the Supervisory Board with regrad to risk policies comprising the general risk management framework of the organisation. The Audit and Compliance Committee will review the ESG Report and ESG ratings of the Bank and the Group.

The key committee in charge of sustainable development and ESG-related matters is the **Responsible Banking and Corporate Culture Committee.** It supports the Management Board in defining the Bank's strategic directions and standards as well as in managing the responsible banking and corporate culture agendas. Moreover, the Committee assists the Management Board in defining the objectives and in monitoring their delivery – both in the Bank and across Santander Bank Polska Group. The Committee is chaired by the President of the Management Board. Among other things, the committee defines strategies and annual targets in the areas of responsible banking and sustainable development, corporate culture, sustainable financing, ESG risks and the climate agenda. It also makes sure that the Bank successfully implements its social and environmental policies.

The Committee is composed of the following members:

- President of the Management Board of Santander Bank Polska S.A. – Chair of the Committee;
- Vice President of Management Board, Head of Corporate and Investment Banking Division;
- Vice President of Management Board, Head of Risk Management Division;
- Vice President of Management Board, Head of Wealth Management and Insurance Division;
- Member of Management Board, Head of Retail Banking Division;
- Member of Management Board, Head of Business Partnership Division;
- Member of Management Board, Head of Financial Management Division;
- Member of Management Board, Head of Business and Corporate Banking Division;
- Member of Management Board, Head of Digital Transformation Division;
- Member of Management Board, Head of Accounting and Financial Control Division;
- Head of the Corporate Governance Department;
- Head of Compliance Area;
- Head of Legal Area;
- Head of Corporate Communications and Marketing Area;
- Head of Talent Management and Organisational Culture Transformation Department;
- Chief Employee Experience Officer;
- Head of Risk Culture Development.

The Committee established the **ESG Forum**, a working group that coordinates the ongoing delivery of initiatives concerning responsible banking, sustainable development, ESG, corporate culture, sustainable finance, ESG risks and climate strategy. The Forum also analyses the challenges, opportunities and threats related to the EU Sustainable Finance agenda. The ESG Forum plans and coordinates the delivery of ESG initiatives as well as submits periodic reports to the Responsible Banking and Corporate Culture Committee and the Bank's Management Board. The Forum is composed of the top executives from all divisions and areas.

Apart from the Responsible Banking & Corporate Culture Committee, the following decision-making bodies handle the Bank's impact in the area of ESG:

- 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;
- General Compliance Committee.

ESG powers and responsibilities are defined in the terms of reference of decision-making bodies, organisational units and committees, as well as in the **Responsible Banking Model**. The latter internal regulation of the Bank defines the key accountabilities and processes concerning responsible banking so that they can be performed properly. It also specifies the roles and responsibilities with regard to the crucial initiatives as well as the common approach to responsible banking.

In 2023, there were significant changes in the area of ESG risk management in the Bank. According to the internal allocation of powers referred to above, this area was moved to the Risk Management Division. ESG risks were integrated with:

- The divisional strategy (by defining risk transmission channels to traditional banking risks);
- And reflected in the terms of reference of the Division (roles and responsibilities).

The **ESG Risk Management Office** was set up to ensure proper organisation of the ESG risk management function. Oversight of this area is exercised through reports submitted at meetings of the Management Board committees (Responsible Banking and Corporate Culture Committee, Risk Control Committee), the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board.

There is also the **ESG Panel** in the Risk Management Division, which certifies the sustainable financing in the context of internal and external regulations. This contributes to the prevention of the greenwashing risk.

Risk management

When defining the ESG risk management framework, the Bank relies on a number of regulations, guidelines and acknowledged standards. The actions comprise, inter alia:

- Guidelines of the European Central Bank;
- Guidelines of the European Banking Authority;
- Recommendations of the TCFD;
- United Nations Principles for Responsible Investment (UNPRI);
- Obligatory and voluntary non-financial disclosure standards, including the NFRD and the GRI standard;
- The Polish Financial Supervision Authority (KNF)'s guidelines outlined in the "Letter to commercial banks on supervisory expectations in the ESG area".

The Bank does not recognise ESG risk as a separate material risk, but indicates its transmission channels to the following risks: credit, liquidity, compliance, reputational, business, and operational. At the same time, the Bank keeps extending its analysis of risk transmission channels and currently the analysed impact is being expanded to include market risk in the trading book and liquidity risk. The use of this approach has implications for the process of estimating and quantifying material risks.

ESG risk is also considered in the Bank's annual risk profile assessment.

The risk report presented to the Bank's Management Board and Supervisory Board includes qualitative information about ESG risk management. In Q4 2023, the first quantitative report on the materiality of climate risks was presented at the Credit Risk Committee.

The Bank follows the **Environmental, Social and Climate Change Risk Management Policy** approved by the Management Board. It specifies the conditions of cooperation with customers from sensitive sectors such as oil and gas, energy production and transmission, mining and metals, and soft commodities. The document divides the activities in the above sectors into two categories: prohibited activities and activities subject to additional analysis. The adopted criteria are consistent with best practice and standards applicable in Santander Group and worldwide.

As regards the mining sector, the Bank committed to terminate all of its exposures to thermal coal mining worldwide by 2030. Credit risk appetite takes into account the ESG measure correlated with this target, i.e., absence of any new relationships with customers from the thermal coal mining sector. At the same time, the Bank started to work on defining more comprehensive ratios for ESG risks, which will be integrated into the risk appetite in H1 2024.

Environmental, Social & Climate Change Risk Management Policy provides for such limitations as:

- No financing for any projects or activities related to oil and gas extraction, power generation or transmission, mining and metals, manufacturing, plantations or other major infrastructure projects located in the areas classified as Ramsar Sites, World Heritage Sites or by the International Union for Conservation of Nature (IUCN) as categories I, II, III or IV;
- No financing for any projects or expansion of existing facilities of the gas and oil sector located north of the Arctic Circle;
- No financing for the extraction, processing or wholesale distribution of asbestos.

Specific regulations are set out in implementing rules, such as the environmental and social risk analysis procedure for customers from the Corporate and Investment Banking (CIB) segment and the Business and Corporate Banking (BCB) segment.

The **ESG risk assessment** of CIB customers is performed on the local level in accordance with the solutions applied by Santander Group. ESCC (Environmental, Social and Climate Change) risk of customers/ transactions is analysed on a case-by-case basis. This concerns sectors defined in the relevant policy (in particular: oil and gas, power generation and transmission, mining and metals and soft commodities sectors). Analysts recommend the ESCC risk which is reflected in the customer's credit application and covered by annual reviews. The assessment process is expanded to include new sensitive sectors, such as: automotive, food and chemical – in particular: production of plastics and agrochemicals.

In addition, a structured analysis of plans for transition into lower emissions is carried out for customers from high-emission industries such as energy production based on fossil fuels, coal mining, airlines, and steelmaking.

Project finance transactions are analysed in line with the Equator Principles, a market standard and a common language for assessment of environmental and social risks in projects, applied by large financial institutions worldwide. This assessment is carried out by the business line and ESCC analysts acting together. In the first step, project category is identified in the context of its potential impact on environmental and social issues. Next, the project is analysed in detail (the level of such analysis depending on the category assigned). The follow-up recommendation is recognised in the credit application.

The assessment of other corporate customers is currently largely automated and uses an algorithm, which enables the preselection of climate risks. Customers are assigned environmental flags indicating the level of those risks. The flags are assigned to all customers as part of portfolio preselection carried out on the basis of the characteristics of specific companies (including their PKD business code indicating the nature of their business).

Moreover, if a potential higher ESG risk is identified by any participant of the lending process (the banker, the credit analyst or the Credit Committee), the ESG Risk Management Office will be requested to carry out an additional, individual analysis (the process is not formalised yet).

The Bank plans to continue its intensive work in 2024 to comprehensively include ESG factors in the structured risk assessment process for customers from the Business and Corporate Banking (BCB)segment. The relevant solutions are planned to be implemented in Q3 and Q4 2024. In the next step, the Bank will work on applying the process in the SME segment in line with the proportionality rule.

With regard to retail customers, the Bank is primarily working on extending the scope of held and analysed data about transition risk and the risk of a change in consumer preferences in respect of the mortgage loan portfolio. Those data will also be crucial for developing the assessment of ESG risks (including climate risks) in the real estate segment.

2023 saw the adoption of a new methodology for identifying sectors sensitive to **climate risks** and for assessing the relevance of climate risks for those sectors. The sensitive sectors were identified on the basis of TCFD and UNEP FI guidelines. Their list is presented in the table below.

Sector	Examples of sub-sectors
Agriculture	Crop growing, animal husbandry, horticulture, forestry
Industry	Food, beverages, tobacco, wood products, chemicals, plastics, building materials, machinery
Mining and metallurgy	Coal and metal ore mining, coke production, metal and steel production
Oil and gas	Mining, processing, distribution, integrated companies
Generation of electricity, with the split into conventional and renewable sources	All energy sources: coal, gas, oil, nuclear energy, solar energy, wind, biomass, energy distribution
Real estate, construction, mortgage loans	Mortgage loan for personal customers, financing of commercial real estate, construction
Transport	Production of cars and trucks and other means of transport, maritime transport, air transport, rail transport, car transport

The Group considered physical and transition risks in the 11 sectors in which Banco Santander customers are active and which are exposed most to climate risks. Nine out of those 11 sectors are materially represented in the portfolio of Santander Bank Polska S.A. Renewable energy generation was included as a separate sector, just as the year before. Mortgage loans were also treated as a separate category in 2023. The sectors identified in the above process were assessed as relatively sensitive to climate risks. Other sectors and the non-mortgage retail credit portfolio were assessed as relatively insensitive to climate risk.

A climate risk materiality matrix was prepared for the identified sectors. The matrix is used as a basis for reporting for the following portfolios: the Corporate and Investment Banking (CIB), the Business and Corporate Banking (BCB), Small and Medium-sized Enterprise (SME) customers and mortgage loans (the remaining portfolios will be covered with the assessment as the methodology evolves).

In 2023, the Bank **analysed the sensitivity of the portfolio to climate risk**. The analysis was made in three time horizons: short (2030), medium (2040) and long (2050). Unlike in the previous years, this time the Bank's analysis was based on climate scenarios defined by the Network for Greening the Financial System (NGFS). The NGFS is the world's leading group of central banks and supervision authorities determined to ensure a better understanding and management of climate risks. It has more than 130 members (including the biggest institutions such as the European Central Bank, the Bank of England and the US Federal Reserve System). The NGFS methodology provides for the following three scenarios:

- The Orderly Transition scenario, which assumes that climate policies are introduced early and become gradually more stringentletting both physical and transition risks to become relatively subdued;
- The Disorderly Transition scenario, which assumes that climate policy efforts will be delayed or divergent across countries and sectors, thus increasing transition risks;
- The Hot House World scenario, which assumes that global efforts are insufficient to halt significant global warming, leading thus to severe physical risks and irreversible impacts.

In line with the approach recommended by the TCFD, the main types of risks from both categories (physical and transition) were considered during the analysis. In 2023, the methodology used to assess climate risks was improved. The risk was graded on a 1 to 5 scale, with 1 representing very low risk and 5 – very high risk. The analysis was qualitative, but it included the concept of double materiality: it considered both the channels of the Bank's impact on climate change and the impact of climate change on the Bank's performance. The methodology and scope of this analysis are being constantly developed to more accurately reflect the impact of climate risks on the Bank's portfolio. As a result of the methodology change (which involves e.g. a change in the taxonomy of sectors sensitive to climate risks), the results of the conducted analysis cannot be directly compared with the ones presented in 2022 reports.

In the majority of scenarios, most sectors in the portfolio will be exposed to low **physical risks**. The risk was assessed slightly higher (as medium) for the energy and renewable energy sectors and for the agriculture and water supply sectors. Hence, their higher share translates into higher risk exposure in the Corporate and Investment Banking (CIB) and SME segments. This situation applies to the entire analysis period because NGFS scenarios predict that physical risks will only start to materialise in a significant way after 2050. The exposure would look slightly different in the Hot House World scenario, in which the risk is also assessed higher for the fuel sector and several other sectors in 2050 as physical risks may start to materialise a bit earlier in this scenario.

In the case **of transition risks**, the portfolio's risk exposure in the Orderly Transition scenario is much higher in the short term owing to the very high risk assessment of the fuel sector and the metal and mining sector. The risk assessment of those two sectors is slightly lower in the medium and long term, which results in a lower portfolio exposure across all segments. The exposure is largest for the Corporate and Investment Banking (CIB) segment, given that the energy, mining and metal sectors represent a relatively sizable part of that portfolio. For other segments, the exposure results from the share of the transport sector in the said portfolio, and – in the case of the Business and Corporate Banking (BCB) segment – additionally from the considerable share of the metal sector.

In the Disorderly Transition scenario, the exposure to climate risks is the highest in the medium term (2040): more than 20% of the CIB portfolio will be classified as very high risk (for the BCB portfolio, this figure will be 13%). For comparison, this category is not present at all within this time horizon if the transformation is orderly. In the long term (2050), the percentage share of high-risk categories will be much lower, especially in the BCB and SME segments.

The last of the analysed scenarios ("Hot House World") does not assume any fast or ambitious climate policy efforts, which leads to a significantly lower transition risk compared to other scenarios. In this scenario, portfolio exposure will be slightly reduced in the mid-term perspective. It is only the CIB portfolio where the exposure will grow till 2050 due to the share of the power sector.

The **results of the analyses of physical and transition climate risks** are included in the definition of transmission channels for relevant risks.

Credit risk:

- Impact of physical risk – a negative impact on borrowers and their repayment capacity, particularly in the case of the agri sector, where physical risk may reduce crop yields. More frequent and severe weather conditions and natural disasters may also decrease the value of loan collateral;
- Impact of transition risk – EU or national regulations may cause deterioration in the repayment capacity of business borrowers operating in specific sectors, notably high-carbon sectors such as energy, fuel, transport and logistics, or agriculture.

Liquidity and funding risk:

- Impact of physical risk – climate changes, including natural disasters and severe weather conditions, may cause a sudden increase in liquidity needs;
- Impact of transition risk – no significant impact of transition risk was identified.

Market risk:

- Impact of physical risk – risk of losses arising from changes in the value of the Bank's assets and liabilities caused by natural disasters and severe weather conditions;
- Impact of transition risk – higher costs related to CO_2 emissions may result in an increase in costs for some companies (notably in the high-carbon sectors such as energy or fuel sectors). This may lead to a decrease in income generated by those companies and then in their investment capacity, which in turn may cause a reduction in the number of new credit applications. Furthermore, regulatory pressure may indirectly affect the financial market through the limitation of investments in specific customer groups.

Operational risk:

- Impact of physical risk – severe weather conditions may affect the operations of the Bank's branches (e.g. flood, power outage);
- Impact of transition risk – increased costs of energy may cause a rise in expenses incurred by the Bank (e.g. higher rental costs).

Reputational risk:

- Impact of physical risk – no significant impact of physical risk was identified;
- Impact of transition risk – continued financing of sectors which are negatively perceived by regulators, market participants and rating agencies (mainly high-carbon sectors) may adversely affect the perception of the Bank.

The Bank and its affiliates considered climate change risks when preparing the financial statements in accordance with International Financial Reporting Standards, and where necessary, as appropriate. The conducted analysis concluded that environmental issues do not have any significant impact on the financial statements as a whole.

The Bank launched the following projects to develop the environmental risk quantification system:

- Implementation of a systemic solution for obtaining data about the environmental and social characteristics of customers and for including that information in the credit risk assessment of corporate customers from segments lower than CIB;
- Estimation of the GHG emissions of the portfolios of business and retail mortgage loans, which will help define transition risks. The Bank uses the PCAF methodology. The first calculations have already been performed; work is currently in progress to improve their accuracy and take into account the business validation of the obtained results.

The delivery of these tasks will enable the Bank to continue improving its portfolio monitoring and fine-tuning its ESG risk management strategy.

The Bank manages environmental risk using internal data (collected during the lending process), publicly available data (e.g. non-financial reports of its counterparties) and data from external suppliers (e.g. rating agencies and physical risk data providers). The availability of the data of some counterparties about their exposure to environmental risks is currently limited. The Bank monitors data availability on an ongoing basis and takes measures to obtain additional information from its counterparties. Moreover, the Bank cooperates with BIK (Credit Information Bureau) to develop the taxonomy data platform. The Bank plans to modify its current processes to collect the widest possible range of environmental risk data. It is also building an analytical database to collect ESG-related data. The database will be used as a single data source for all business lines and risk units of the Bank. The above solutions are implemented in stages. Their purpose is to create as accurate an ESG data repository as possible.

When developing the risk framework, supervising and managing the delivery of objectives and adherence to the strategy and policies related to **social and governance risk management**, the Bank takes into account the employee relationships and labour standards at its counterparties. In particular, when selecting suppliers, the Bank takes into consideration the implementation of policies regarding ethical conduct, compliance with law and social standards such as occupational health and safety requirements, diversity and inclusion in the workplace as well as adherence to the UN Global Compact principles. Currently, the Bank's assessment of counterparties does not include an analysis of their assessment of customer protection and responsibility for products.

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.

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

- Tier I capital;
- Tier II capital.

Tier I capital consists of:

- 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;

l. Own CET1 instruments.

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

Reconciliation between balance sheet items used to calculate own funds and regulatory own funds, according to methodology described in Annex 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 31.12.2023 (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	881 857	391 562	III. Condensed consolidated statement of financial position (Assets)
2	Goodwill	1 712 056	1 712 056	
3	Deferred tax assets (net)	1 751 189	1 847 338	
	-including assets that do not exceed the threshold set in Article 48(1)(a)	1 751 189	1 847 338	
Liabilities - Breakdown by liability clases according to the balance sheet in the published financial statements				
1	Subordinated obligations	2 686 343	-	III. Condensed consolidated statement of financial position
	-including loans eligible as instruments under Tier II	2 585 476	1 795 444	
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	25 097 202	24 605 333	
3	Revaluation reserve	-298 688	-298 688	
4	Non-controlling interests	1 928 373	722 918	
5	Retained earnings	1 111 131	831 719	
6	Current year profit	4 831 107	-	
	Total Equity	33 691 018	26 883 176	

As at 31 December 2023, the total own funds of the Santander Bank Polska Group amounted to PLN **26 074 043k**.

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. 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 31.12.2023 (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	831 719
3	Accumulated other comprehensive income (and other reserves)	15 674 861
EU-3a	Funds for general banking risk	649 810
5	Minority interests (amount allowed in consolidated CET1)	722 918
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**26 883 176**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments	
7	Additional value adjustments (negative amount)	-106 957
8	Intangible assets (net of related tax liability) (negative amount)	-2 103 618
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	-558 327
15	Defined-benefit pension fund assets (negative amount)	-650
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-73 502
EU-20c	of which: securitisation positions (negative amount)	-73 502
27a	Other regulatory adjustments	101 803
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-2 741 252**
29	**Common Equity Tier 1 (CET1) capital**	**24 141 924**
	Additional Tier 1 (AT1) capital: instruments	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**-**
	Additional Tier 1 (AT1) capital: regulatory adjustments	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**24 141 924**
	Tier 2 (T2) capital: instruments	
46	Capital instruments and the related share premium accounts	1 795 444
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	136 675
51	**Tier 2 (T2) capital before regulatory adjustments**	**1 932 119**
	Tier 2 (T2) capital: regulatory adjustments	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-
58	**Tier 2 (T2) capital**	**1 932 119**
59	**Total capital (TC = T1 + T2)**	**26 074 043**
60	**Total Risk exposure amount**	**140 511 170**
	Capital ratios and requirements including buffers	
61	Common Equity Tier 1 capital	17,18%
62	Tier 1 capital	17,18%
63	Total capital	18,56%
64	Institution CET1 overall capital requirements	3,53%
65	of which: capital conservation buffer requirement	2,50%
66	of which: countercyclical capital buffer requirement	0,02%
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**	**12,68%**
	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)	1 186 282
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)	1 847 338

* Total Common Equity Tier 1 capital requirements have been 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 2023 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 2023, the supplementary capital in own funds was PLN **9 340 113k** 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 2023, after including prudential consolidation adjustments, the other reserves and accumulated other comprehensive income in own funds were PLN **15 674 861k**.

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 2023, the general risk fund earmarked for unidentified risks of the banking business was PLN **649 810k**.

Net profit of Santander Bank Polska Group from 1 January 2023 to 31 December 2023 totaled PLN **4 947 828k**, including PLN 116 721 k of profit attributable to shareholders who do not exercise control. As at 31 December 2023 Santander Bank Polska Group not included the current year profit in own funds.

As at 31st December 2023 in Own Funds of Santander Bank Polska Group the **retained earnings** are included in the amount of PLN **831 719k**.

In April 2023, the General Meeting of Santander Bank Polska S.A. Shareholders agreed on the distribution of the net profit of **PLN 2 449 043k** for the accounting year from 1 January 2022 to 31 December 2022 as follows:

- PLN 72 357k was allocated to capital reserves;
- 2 376 686k was allocated to the Dividend Reserve 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 capital reserve ("Resolution No. 6/2021").

Additionally, the amount of PLN 840 887k was allocated to the Dividend Reserve, which represents the profit earned on the sale of shares in AVIVA insurance companies and posted under other comprehensive income.

Taking into account the letter of the Polish Financial Supervision Authority of 25 October 2023 re. the possibility of the Bank paying dividend and pursuant to Article 349 of the Code of Commercial Companies and § 50(4) of the Bank's Statutes on 16 November 2023 The Management Board of Santander Bank Polska S.A. decided to pay out an interim dividend for the accounting year from 1 January 2023 to 31 December 2023 and to allocate PLN **2 375 902k** to that payment.

The Interim Dividend was paid out of the capital reserve created for dividend payment, including interim dividends ("Dividend Reserve") by force of resolution no. 6 of the Annual General Meeting of 22 March 2021. Under Resolution no. 6 of 19 April 2023, the Annual General Meeting allocated to the Dividend Reserve the amount of PLN 2 376 686k from the net profit earned by the Bank in the accounting year from 1 January 2022 to 31 December 2022.

On 16 November 2023, the Bank's Management Board received the Supervisory Board's approval for paying out an interim dividend.

102,189,314 (one hundred and two million, one hundred eighty nine thousand and three hundred fourteen) A, B, C, D, E, F, G, H, I, J, K, L, M, N and O shares give entitlement to the Interim Dividend.

The Interim Dividend per share was: PLN 23.25.

The ex-dividend date for the Interim Dividend was: 22 December 2023.

The date of the Interim Dividend payment was: 29 December 2023.

Minority interests

As at 31 December 2023, the minority interests recognised in the consolidated Tier 1 capital totalled PLN **722 918k** 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

As at 31 December 2023, 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 2023, deduction from Common Equity Tier I regarding other intangible assets amounted to PLN **(391 562)k.** The value of the shortage in coverage due to non-performing exposures amounted to PLN **(18 507)k.** The value of securitisation positions which can alternatively be subject to a 1 250% risk weight amounted to PLN **(73 502)k.**

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 **(106 957)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	12 602	31 289	-	34 365	-	117	-	39 186	1 073	38 113
2	Not applicable										
3	Close-out cost	-	23 591	-	1 264	-	7 373	-	16 114	4 947	11 167
4	Concentrated positions	14 179	-	-	-	-	-	-	14 179	-	14 179
5	Early termination	-	-	-	-	-	-	-	-	-	-
6	Model risk	-	-	-	61 969	-	1 924	-	31 947	962	30 985
7	Operational risk	676	2 943	-	1 911	-	-	-	5 530	602	4 928
8	Not applicable										
9	Not applicable										
10	Future administrative costs	-	-	-	-	-	-	-	-	-	-
11	Not applicable										
12	Total Additional Valuation Adjustments (AVAs)								106 957	7 584	99 372

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 from 22 May 2022, the amount of the third and from 5 April 2023, the amount of the fourth 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 2023, own funds include subordinated liabilities of PLN **1 795 444k**.

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 **136 675k**, 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 2023.

Table EU CCA: Detailed description of capital instruments' main features can be found in Appendix to this report „Pillar III 2023 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)	31.12.2023	30.09.2023*	30.06.2023*	31.03.2023*	31.12.2022*
1	Common Equity Tier 1 (CET1) capital	24 141 924	26 190 384	25 953 160	25 426 502	24 666 165
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	24 021 614	26 070 074	25 832 850	25 306 192	24 348 997
3	Tier 1 capital	24 141 924	26 190 384	25 953 160	25 426 502	24 666 165
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	24 021 614	26 070 074	25 832 850	25 306 192	24 348 997
5	Total capital	26 074 043	28 259 028	28 153 518	27 708 616	27 026 115
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	25 953 733	28 138 718	28 033 208	27 588 306	26 707 841
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets	140 511 170	142 046 748	141 480 580	138 825 188	136 909 345
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	140 461 412	141 996 990	141 430 822	138 775 430	136 652 559
	Capital ratios					
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	17,18%	18,44%	18,34%	18,32%	18,02%
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	17,10%	18,36%	18,27%	18,24%	17,82%
11	Tier 1 (as a percentage of risk exposure amount)	17,18%	18,44%	18,34%	18,32%	18,02%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17,10%	18,36%	18,27%	18,24%	17,82%
13	Total capital (as a percentage of risk exposure amount)	18,56%	19,89%	19,90%	19,96%	19,74%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	18,48%	19,82%	19,82%	19,88%	19,54%
	Leverage ratio					
15	Leverage ratio total exposure measure	287 193 430	291 752 572	276 644 607	271 646 879	270 757 272
16	Leverage ratio	8,41%	9,29%	9,78%	9,85%	9,76%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	8,37%	9,25%	9,74%	9,81%	9,67%

* Restated data - includes reclassification of financial instruments (For details, see section no. 2.5 of the Consolidated Financial Statements of the Santander Bank Polska S.A. Group for 2023). Data for December 2022 and March 2023 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, 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 (“TEM”).

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 must be maintained at 21.50% of the TREA.

For Santander Bank Polska Group, the TLAC calculated as own funds and eligible liabilities in relation to the TREA as at 31 December 2023 is 23,27%. The TLAC calculated as own funds and eligible liabilities in relation to the TEM as at 31 December 2023 is 11,39%.

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 CRR, 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% TREA.

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 2023, the target value of the MREL requirement for the Bank is 15.39% in relation to the total risk exposure amount TREA (the subordination requirement is 14,24%) and 5.91% in relation to the total exposure measure. The Bank must reach that target by 31 December 2023. Until then Bank should meet the interim targets set by the supervision authority at 11.70% in relation to the TREA (the subordination requirement is 11,13%) and 4.46% in relation to the TEM.

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 18.89% in relation to the total amount of risk exposure, including in respect of subordination at 17,74%.

As at 31 December 2023, the Bank met both requirements. the MREL in relation to the TREA was 23,27%, while the MREL including own funds and eligible subordinated liabilities was 20,45%. MREL in relation to the TEM was 11,39%, in retation to subordinated debt 10,00%.

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
		31.12.2023	31.12.2023	30.09.2023**	30.06.2023**	31.03.2023**	31.12.2022**
Own funds and eligible liabilities, ratios and components							
1	Own funds and eligible liabilities	32 700 870	32 700 870	34 360 079	33 913 846	33 630 955	33 328 142
EU-1a	Of which own funds and subordinated liabilities	28 731 270					
2	Total risk exposure amount of the resolution group (TREA)	140 511 170	140 511 170	142 046 748	141 480 580	138 825 188	136 909 345
3	Own funds and eligible liabilities as a percentage of TREA (row1/row2)	23,27%	23,27%	24,19%	23,97%	24,23%	24,34%
EU-3a	Of which own funds and subordinated liabilities	20,45%					
4	Total exposure measure of the resolution group	287 193 430	287 193 430	291 752 572	276 644 607	271 646 879	270 757 272
5	Own funds and eligible liabilities as percentage of the total exposure measure	11,39%	11,39%	11,78%	12,26%	12,38%	12,31%
EU-5a	Of which own funds or subordinated liabilities	10,00%					
6a	Does the subordination exemption in Article 72b(4) of the CRR apply? (5% exemption)		No	No	No	No	No
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)		3 969 600	3 476 700	3 337 725	3 506 625	3 517 425
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 (%)		1	1	1	1	1
Minimum requirement for own funds and eligible liabilities (MREL)*							
	TLAC expressed as a percentage of TREA		18,00%	18,00%	18,00%	18,00%	18,00%
	TLAC expressed as a percentage of TEM		6,75%	6,75%	6,75%	6,75%	6,75%
EU-7	MREL requirement expressed as percentage of the total risk exposure amount	15,39%					
EU-8	Of which to be met with own funds or subordinated liabilities	14,24%					
EU-9	MREL requirement expressed as percentage of the total exposure measure	5,91%					
EU-10	Of which to be met with own funds or subordinated liabilities	5,91%					

* Without taking into account the requirement for a combined buffer.

** Restated data - includes reclassification of financial instruments (For details, see section no. 2.5 of the Consolidated Financial Statements of the Santander Bank Polska S.A. Group for 2023). Data for December 2022 and March 2023 include profits included in own funds taking into account the applicable EBA guidelines.

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)	24 141 924	24 141 924	-
2	Additional Tier 1 capital (AT1)	-	-	-
6	Tier 2 capital (T2)	1 932 119	1 932 119	-
11	Own funds for the purpose of Articles 92a CRR and 45 BRRD	26 074 043	26 074 043	-
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)	1 900 000	1 900 000	-
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	757 227	757 227	-
13	Eligible liabilities that are not subordinated to excluded liabilities (not grandfathered pre cap)	3 969 600	3 969 600	-
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	3 969 600	3 969 600	-
17	Eligible liabilities items before adjustments	6 626 827	6 626 827	-
EU-17a	Of which subordinated	2 657 227	2 657 227	-
Own funds and eligible liabilities: Adjustments to non-regulatory capital elements				
18	Own funds and eligible liabilities items before adjustments	32 700 870	32 700 870	-
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	32 700 870	32 700 870	-
EU-22a	Of which own funds and subordinated	28 731 270		
Risk-weighted exposure amount and leverage exposure measure of the resolution group				
23	Total risk exposure amount	140 511 170	140 511 170	-
24	Total exposure measure	287 193 430	287 193 430	-
Ratio of own funds and eligible liabilities				
25	Own funds and eligible liabilities (as a percentage of total risk exposure amount)	23,27%	23,27%	0,00%
EU-25a	Of which own funds and subordinated	20,45%		
26	Own funds and eligible liabilities (as a percentage of total exposure measure)	11,39%	11,39%	0,00%
EU-26a	Of which own funds and subordinated	10,00%		
27	CET1 (as a percentage of TREA) available after meeting the resolution group's requirements	5,27%	5,27%	
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		115 891 681	

EU TLAC3A table can be found in Appendix to this report „Pillar III 2023 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, which was the official legal basis as at 31 December 2023.

In 2023, 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.

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;

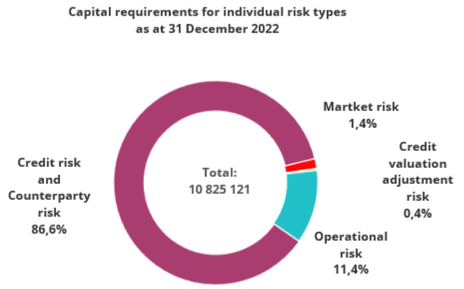
  - ✓ capital requirement for FX risk;
- capital requirement for the settlement, supplier and counterparty credit risk;
- capital requirement for credit valuation adjustments;
- capital requirement for the excess of large exposures limit;
- capital requirement for the excess of capital concentration limit;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

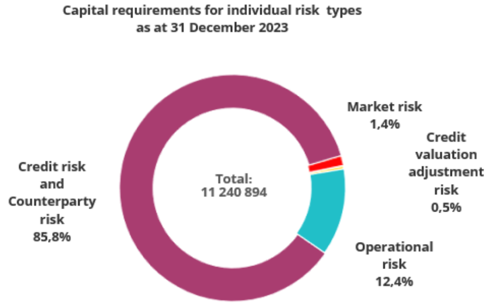
Santander Bank Polska Group calculates capital requirement separately for the exposures classified into the banking and trading book.

As at 31 December 2023, the total capital requirements of Santander Bank Polska Group calculated in line with the CRR was **PLN 11 240 894k** , including:

- for credit risk and counterparty credit risk, credit valuation adjustment risk, securitization **PLN 9 692 723k;**
- for market risk **PLN 155 375k;**
- for operational risk **PLN 1 392 796k.**

PERCENTAGE STRUCTURE OF THE CAPITAL REQUIREMENTS FOR 12/2022 AND 12/2023





EU KM1 - KEY METRICS TEMPLATE (PLN K)

		31.12.2023	30.09.2023*	30.06.2023*	31.03.2023*	31.12.2022*
Available own funds (amounts)						
1	Common Equity Tier 1 (CET1) capital	24 141 924	26 190 384	25 953 160	25 426 502	24 666 165
2	Tier 1 capital	24 141 924	26 190 384	25 953 160	25 426 502	24 666 165
3	Total capital	26 074 043	28 259 028	28 153 518	27 708 616	27 026 115
Risk-weighted exposure amounts						
4	Total risk exposure amount	140 511 170	142 046 748	141 480 580	138 825 188	136 909 345
Capital ratios (as a percentage of risk-weighted exposure amount)						
5	Common Equity Tier 1 ratio (%)	17,18%	18,44%	18,34%	18,32%	18,02%
6	Tier 1 ratio (%)	17,18%	18,44%	18,34%	18,32%	18,02%
7	Total capital ratio (%)	18,56%	19,89%	19,90%	19,96%	19,74%
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%	0,01%	0,01%	0,01%	0,01%
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)	0,00%	0,01%	0,01%	0,01%	0,01%
EU 7d	Total SREP own funds requirements (%)	8,01%	8,02%	8,02%	8,02%	8,02%
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 (%)	0,02%	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%	1,00%	1,00%	1,00%	1,00%
11	Combined buffer requirement (%)	3,52%	3,51%	3,51%	3,51%	3,51%
EU 11a	Overall capital requirements (%)	11,53%	11,53%	11,53%	11,53%	11,53%
12	CET1 available after meeting the total SREP own funds requirements (%)	10,55%	11,87%	11,88%	11,94%	11,72%
Leverage ratio						
13	Total exposure measure	287 193 430	291 752 572	276 644 607	271 646 879	270 757 272
14	Leverage ratio (%)	8,41%	9,29%	9,78%	9,85%	9,76%
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)	73 386 633	70 340 845	66 996 115	65 545 484	66 679 371
EU 16a	Cash outflows - Total weighted value	52 951 038	52 161 107	50 784 488	49 333 834	47 361 142
EU 16b	Cash inflows - Total weighted value	15 049 171	14 439 802	13 340 397	11 815 709	10 337 555
16	Total net cash outflows (adjusted value)	37 901 867	37 721 305	37 444 091	37 518 125	37 023 586
17	Liquidity coverage ratio (%)	194%	186%	179%	175%	180%
Net Stable Funding Ratio						
18	Total available stable funding	201 280 056	197 947 055	191 817 671	190 971 052	189 925 756
19	Total required stable funding	128 865 657	130 511 261	128 042 302	128 165 663	123 106 911
20	NSFR ratio (%)	156%	152%	150%	149%	154%

* Restated data - includes reclassification of financial instruments (For details, see section no. 2.5 of the Consolidated Financial Statements of the Santander Bank Polska S.A. Group for 2023). Data for December 2022 and March 2023 include profits included in own funds taking into account the applicable EBA guidelines.

EU OV1 – OVERVIEW OF RWA (PLN K)

		Total risk exposure amounts (TREA)		Total own funds requirements
		a	b	c
		31.12.2023	30.09.2023**	31.12.2023
1	**Credit risk (excluding CCR)**	**115 932 492**	**116 744 795**	**9 274 599**
2	Of which the standardised approach	115 932 492	116 744 795	9 274 599
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**	**4 522 403**	**5 016 188**	**361 792**
7	Of which the standardised approach	3 149 576	3 441 899	251 966
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposures to a CCP	75 646	80 047	6 052
EU 8b	Of which credit valuation adjustment - CVA	657 873	776 868	52 630
9	Of which other CCR	639 308	717 373	51 145
10	Not applicable	-	-	-
11	Not applicable	-	-	-
12	Not applicable	-	-	-
13	Not applicable	-	-	-
14	Not applicable	-	-	-
15	**Settlement risk**	**-**	**-**	**-**
16	**Securitisation exposures in the non-trading book (after the cap)**	**704 139**	**973 365**	**56 331**
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	75 000	75 000	6 000
19	Of which SEC-SA approach	629 139	898 365	50 331
EU 19a	Of which 1250%	-	-	-
20	**Position, foreign exchange and commodities risks (Market risk)**	**1 942 192**	**1 902 455**	**155 375**
21	Of which the standardised approach	1 942 192	1 902 455	155 375
22	Of which IMA	-	-	-
EU 22a	**Large exposures**	**-**	**-**	**-**
23	**Operational risk**	**17 409 945**	**17 409 945**	**1 392 796**
EU 23a	Of which basic indicator approach	-	-	-
EU 23b	Of which standardised approach	17 409 945	17 409 945	1 392 796
EU 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	7 584 050	7 964 649	606 724
25	Not applicable	-	-	-
26	Not applicable	-	-	-
27	Not applicable	-	-	-
28	Not applicable	-	-	-
29	**Total**	**140 511 170**	**142 046 748**	**11 240 894**

* In row EU 19a institution disclose the own funds requirement for securitisation exposures on the non-trading book deducted from own funds in accordance with Chapter 5 of Title II of Part Three CRR. This own funds requirement is deducted from own funds and does not generate RWEAs with risk-weigh at 1 250 %.

** Restated data - includes reclassification of financial instruments (For details, see section no. 2.5 of the Consolidated Financial Statements of the Santander Bank Polska S.A. Group for 2023).

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 2023 accounted for 82.5% of the total capital requirement. Santander Bank Polska 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	7 827 428	7 827 428	-	-	-	-	-	-	-	-	-	-	-	-	-
010 Loans and advances	178 090 364	168 838 849	9 000 728	7 344 296	-	6 685 827	-1 556 097	-690 666	-859 110	-4 167 906	-	-3 994 058	-1 272 351	117 256 558	2 446 128
020 Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
030 General governments	1 230 535	1 223 209	7 326	5	-	5	-1 442	-1 378	-63	-4	-	-4	-	68 672	-
040 Credit institutions	19 760 984	19 760 984	-	-	-	-	-407	-407	-	-	-	-	-	12 166 858	-
050 Other financial corporations	3 824 671	3 813 449	11 174	21 987	-	21 361	-22 092	-20 337	-1 756	-17 049	-	-16 689 -	3 341	947 786	4 735
060 Non-financial corporations	70 504 449	64 983 715	5 514 935	3 678 430	-	3 243 130	-693 807	-232 489	-461 205	-1 882 944	-	-1 818 560	-709 453	49 381 921	1 686 907
070 Of which SMEs	59 884 266	54 924 338	4 955 063	3 445 204	-	3 017 181	-623 679	-208 281	-415 284	-1 824 370	-	-1 760 042	-708 935	40 864 712	1 563 430
080 Households	82 769 725	79 057 492	3 467 292	3 643 874	-	3 421 331	-838 350	-436 056	-396 086	-2 267 909	-	-2 158 805	-559 557	54 691 320	754 485
090 Debt securities	67 401 228	67 399 223	-	27 270	-	27 270	-	-	-	-26 876	-	-26 876	-	-	-
100 Central banks	6 246 368	6 246 368	-	-	-	-	-	-	-	-	-	-	-	-	-
110 General governments	46 273 125	46 273 125	-	-	-	-	-	-	-	-	-	-	-	-	-
120 Credit institutions	9 011 155	9 011 155	-	-	-	-	-	-	-	-	-	-	-	-	-
130 Other financial corporations	5 870 580	5 868 575	-	-	-	-	-	-	-	-	-	-	-	-	-
140 Non-financial corporations	-	-	-	27 270	-	27 270	-	-	-	-26 876	-	-26 876	-	-	-
150 Off-balance-sheet exposures	59 869 921	58 924 794	941 719	139 270	-	119 401	87 145	38 726	48 401	35 940	-	24 422		-	64 702
160 Central banks	-	-	-	-	-	-	-	-	-	-	-	-		-	-
170 General governments	2 020 696	2 020 696	-	-	-	-	86	86	-	-	-	-		-	-
180 Credit institutions	6 453 227	6 453 227	-	-	-	-	430	430	-	-	-	-		-	-
190 Other financial corporations	3 728 402	3 728 065	319	-	-	-	4 079	3 531	548	-	-	-		-	-
200 Non-financial corporations	41 818 531	40 950 907	867 235	128 450	-	111 610	76 233	30 034	46 197	35 931	-	24 413		-	64 702
210 Households	5 849 064	5 771 898	74 164	10 820	-	7 791	6 317	4 645	1 655	9	-	9		-	-
220 Total	**313 188 942**	**302 990 294**	**9 942 447**	**7 510 836**	**-**	**6 832 498**	**-1 643 242**	**-729 392**	**-907 510**	**-4 230 722**	**-**	**-4 045 357**	**-1 272 351**	**117 256 558**	**2 510 830**

As at 31/12/2023, the gross carrying amount of NPLs calculated in accordance with Regulation (EU) 2021/637 was 3,96 %.

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	2 161 272	1 695 461	1 695 461	1 695 204	-159 027	-734 796	2 362 423	845 205
020 Central banks	-	-	-	-	-	-	-	-
030 General governments	150	-	-	-	-44	-	105	-
040 Credit institutions	-	-	-	-	-	-	-	-
050 Other financial corporations	819	5 419	5 419	5 419	-140	-4 224	1 854	1 174
060 Non-financial corporations	1 148 936	913 730	913 730	913 730	-112 463	-326 608	1 306 420	557 825
070 Households	1 011 366	776 312	776 312	776 055	-46 380	-403 964	1 054 044	286 206
080 Debt Securities	-	-	-	-	-	-	-	-
090 Loan commitments given	58 744	3 682	3 682	3 682	465	3 682	-	-
100 Total	**2 220 016**	**1 699 143**	**1 699 143**	**1 698 886**	**-159 492**	**-738 478**	**2 362 423**	**845 205**

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	7 827 428	7 827 428	-	-	-	-	-	-	-	-	-	-
010 Loans and advances	178 090 364	177 108 171	982 193	7 344 296	2 389 774	694 874	1 098 346	1 151 573	1 424 730	194 268	390 730	7 344 296
020 Central banks	-	-	-	-	-	-	-	-	-	-	-	-
030 General governments	1 230 535	1 230 533	2	5	-	-	3	-	2	-	-	5
040 Credit institutions	19 760 984	19 760 984	-	-	-	-	-	-	-	-	-	-
050 Other financial corporations	3 824 671	3 823 753	917	21 987	4 546	792	4 117	5 293	6 260	857	122	21 987
060 Non-financial corporations	70 504 449	70 271 451	232 998	3 678 430	1 290 304	239 893	436 296	536 437	743 907	116 335	315 258	3 678 430
070 Of which SMEs	59 884 266	59 664 817	219 449	3 445 204	1 096 351	239 007	424 804	533 049	725 018	116 166	310 808	3 445 204
080 Households	82 769 725	82 021 449	748 276	3 643 874	1 094 924	454 190	657 929	609 844	674 562	77 076	75 349	3 643 874
090 Debt securities	67 401 228	67 401 228	-	27 270	-	-	-	-	27 270	-	-	27 270
100 Central banks	6 246 368	6 246 368	-	-	-	-	-	-	-	-	-	-
110 General governments	46 273 125	46 273 125	-	-	-	-	-	-	-	-	-	-
120 Credit institutions	9 011 155	9 011 155	-	-	-	-	-	-	-	-	-	-
130 Other financial corporations	5 870 580	5 870 580	-	-	-	-	-	-	-	-	-	-
140 Non-financial corporations	-	-	-	27 270	-	-	-	-	27 270	-	-	27 270
150 Off-balance-sheet exposures	59 869 921			139 270								139 270
160 Central banks	-			-								-
170 General governments	2 020 696			-								-
180 Credit institutions	6 453 227			-								-
190 Other financial corporations	3 728 402			-								-
200 Non-financial corporations	41 818 531			128 450								128 450
210 Households	5 849 064			10 820								10 820
220 Total	**313 188 942**	**252 336 828**	**982 193**	**7 510 836**	**2 389 774**	**694 874**	**1 098 346**	**1 151 573**	**1 452 001**	**194 268**	**390 730**	**7 510 836**

EU CR1-A tables can be found in Appendix to this report „Pillar III 2023 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 Financial instruments (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. 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 Stage 2.

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 2023, 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:

- The management adjustment was maintained at the same level in the amount of PLN 19,600 k on the portfolio of mortgage-secured retail loans, the risk of which may increase after the cessation of assistance activities – payment holidays;
- The management adjustment has been released in the amount of PLN 34,900 k for the write-offs planned in the second half of 2023, which require the creation of provision up to 100%;
- Management adjustment has been released in the amount of PLN 46,300 k on the corporate performing loan portfolio due to the observed LGD underestimation;
- Management adjustment has been released in the amount of PLN 20,250 k on the corporate loan portfolio including the Property portfolio due to increased ECB interest rates;
- Management adjustment has been released in the amount of PLN 10,690 k on the portfolio of corporate loans due to risk of overestimation in the LGD model of expected recovery from collateral in the form of guarantees of Bank Gospodarstwa Krajowego;
- Management adjustment has been released in the amount of PLN 17,000 k due to the negative impact of macroeconomic factors and the deterioration of the financial situation of entities managed in the Global Relations Model operating in the sector of production/distribution and sale of household goods;
- Management adjustment has been released in the amount of PLN 20,000 k on the portfolio of SME leasing loans in order to cover the expected impact of the change in the rating model;
- Management adjustment has been created in the amount of PLN 27,520 k on the corporate portfolio to cover the underestimation of the LGD parameter.

Detailed disclosures regarding credit risk are included in note: 4. Risk management. of Consolidated Financial Statements of Santander Bank Polska Group for 2023.

Table EU CQ4 and EU CQ5 can be found in Annex to this report „Pillar III 2023 12 Tables", which is available on the Santander Bank Polska website.

The Santander Bank Polska S.A. Group also does not present information on collateral obtained through possession and enforcement processes (EU CQ7, EU CQ8) due to the absence 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.

As at 31 December 2023, the Group's debt instruments portfolio included PLN 5 891 689k worth of bonds of Bank Gospodarstwa Krajowego and PLN 5 868 575k worth of bonds of Polski Fundusz Rozwoju (PFR), which were fully guaranteed by the State Treasury. In the case of debt issued in the domestic currency, a risk weight of 0% was assigned, while the remaining ones in EUR were assigned a risk weight of 4%.

In the case of funded credit protection, Santander Bank Polska Group recognizes exposures secured by financial collateral.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	67 835 399	119 702 686	108 801 436	10 901 250	-
2	Debt securities	67 401 623	-	-	-	
3	**Total**	**135 237 022**	**119 702 686**	**108 801 436**	**10 901 250**	**-**
4	Of which non-performing exposures	730 657	2 446 128	2 207 832	238 296	-
EU-5	Of which defaulted	730 657	2 446 128			

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

	Exposure classes	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 (%)
		a	b	c	d	e	f
1	Central governments or central banks	60 017 955	-	77 932 589	985 413	5 023 404	6,37%
2	Regional government or local authorities	951 795	204 927	951 795	32 289	196 817	20,00%
3	Public sector entities	201 132	105 838	200 839	17 868	109 354	50,00%
4	Multilateral development banks	3 151 913	98 920	6 391 205	19 784	-	0,00%
5	International organisations	-	-	-	-	-	
6	Institutions	15 093 599	7 496 238	14 126 177	1 048 304	5 280 855	34,80%
7	Corporates	35 042 317	31 346 964	22 245 883	3 483 847	24 456 970	95,05%
8	Retail	51 680 589	12 098 549	49 176 680	1 912 001	35 640 830	69,76%
9	Secured by mortgages on immovable property	63 642 004	5 105 597	62 704 776	1 111 979	35 351 371	55,40%
10	Exposures in default	2 635 133	139 474	2 470 065	46 054	2 881 814	114,53%
11	Exposures associated with particularly high risk	1 863 685	216 118	409 794	16 888	640 023	150,00%
12	Covered bonds	-	-	-	-	-	
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	
14	Collective investment undertakings	-	-	-	-	-	
15	Equity	1 248 889	-	1 248 889	-	3 028 312	242,48%
16	Other items	5 932 246	-	5 932 246	-	3 322 743	56,01%
17	**TOTAL**	**241 461 258**	**56 812 625**	**243 790 939**	**8 674 428**	**115 932 492**	**45,92%**

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)

		Risk weight															Total	Of which unrated
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
	Exposure classes	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
1	Central governments or central banks	72 113 424	-	3 605 508	-	1 351 732	-	-	-	-	-	-	1 847 338	-	-	-	78 918 001	73 550 753
2	Regional government or local authorities	-	-	-	-	984 084	-	-	-	-	-	-	-	-	-	-	984 084	984 084
3	Public sector entities	-	-	-	-	-	-	218 707	-	-	-	-	-	-	-	-	218 707	218 707
4	Multilateral development banks	6 410 989	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6 410 989	6 410 989
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	165 954	-	-	7 428 010	-	7 577 167	-	-	3 350	-	-	-	-	-	15 174 482	1 622 940
7	Corporates	-	-	-	-	6 032	-	190 636	-	-	25 533 062	1	-	-	-	-	25 729 730	24 451 254
8	Retail exposures	-	-	-	-	-	-	-	-	51 088 681	-	-	-	-	-	-	51 088 681	51 088 681
9	Exposures secured by mortgages on immovable property	-	-	-	-	-	34 604 215	10 220 493	-	-	15 985 447	3 006 600	-	-	-	-	63 816 755	63 816 755
10	Exposures in default	-	-	-	-	-	-	-	-	-	1 784 730	731 389	-	-	-	-	2 516 119	2 516 119
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	426 682	-	-	-	-	426 682	426 682
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	-	-	-	-	-	-	-	-	-	62 607	-	1 186 282	-	-	-	1 248 889	1 248 889
16	Other items	2 609 504	-	-	-	-	-	-	-	-	3 322 743	-	-	-	-	-	5 932 246	5 932 246
17	TOTAL	81 133 916	165 954	3 605 508	-	9 769 858	34 604 215	18 207 003	-	51 088 681	46 691 939	4 164 672	3 033 620	-	-	-	252 465 366	232 268 099

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)	1 513 860	2 166 606		1,4	5 152 653	5 152 653	5 152 653	3 149 576
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)					14 070 817	163 744	163 744	41 933
5	VaR for SFTs					-	-	-	-
6	Total					19 223 470	5 316 397	5 316 397	3 191 508

* 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	-	-	-	-	383 081	-	-	-	-	-	-	383 081
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	3 751 312	-	-	1 229 638	2 782 037	-	-	-	-	-	7 762 987
7	Corporates	-	-	-	-	1 617	130 509	-	-	1 986 123	-	-	2 118 249
8	Retail	-	-	-	-	-	-	-	40 823	-	-	-	40 823
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	139	-	139
11	**Total exposure value**	**-**	**3 751 312**	**-**	**-**	**1 614 337**	**2 912 546**	**-**	**40 823**	**1 986 123**	**139**	**-**	**10 305 279**

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	2 854 640	657 873
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**	**2 854 640**	**657 873**

EU CCR8 – EXPOSURES TO CCPS (PLN K)

		Exposure value	Risk-weighted exposure amounts
1	**Exposures to eligible central counterparties (total)**		**75 646**
2	Transaction exposures to eligible central counterparties (excluding initial margin and contributions to the default fund); of which:	3 751 312	75 026
3	(i) OTC derivatives;	3 743 826	74 877
4	(ii) exchange-traded derivatives;	-	-
5	(iii) transactions financed by securities	7 487	150
6	(iv) netting packages for which cross-product netting has been approved	-	-
7	Segregated initial margin deposits	-	
8	Unallocated initial margin deposits	-	-
9	Contributions made in advance to the default fund	27 607	620
10	Unpaid contributions to the default fund	-	-
11	**Exposures to non-qualifying central counterparties (total)**		**-**

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	-	798 013	71 062	96 095	-	264 501	-	-
2 Cash – other currencies	-	1 041 606	476 715	1 466 296	-	8 886	-	-
3 Domestic sovereign debt	-	-	-	-	-	2 228 991	-	-
4 Other sovereign debt	-	174 571	-	-	-	11 584 377	-	-
5 Government agency debt	-	-	-	-	-	-	-	-
6 Corporate bonds	-	1 698	-	257 707	-	-	-	-
7 Equity securities	-	-	-	-	-	-	-	-
8 Other collateral	-	-	-	-	-	-	-	-
9 Total	**-**	**2 015 888**	**547 777**	**1 820 098**	**-**	**14 086 756**	**-**	**-**

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)	1 881 001
2 Equity risk (general and specific)	61 191
3 Foreign exchange risk	-
4 Commodity risk	-
Options	
5 Simplified approach	-
6 Delta-plus approach	-
7 Scenario approach	-
8 Securitisation (specific risk)	-
9 Total	**1 942 192**

As at December 31, 2023 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 31.12.2023 and for the comparative period for which data are available 30.06.2023.

The table below shows the six Basel scenarios for which the EVE sensitivity for the Santander Group is calculated. In calculating the sensitivities for these scenarios, assumptions made by the EBA are used.

Scenario	30.06.2023	
	EVE sensitivity	NII sensitivity
Parallel up	(646 086)	410 585
Parallel down	7 821	(856 399)
Steepener	149 549	
Flattener	(662 950)	
Short rates up	(729 368)	
Short rates down	305 737	
Worst case scenario	(729 368)	
Tier 1 - Grupa	27 054 079	
Result	**2,70%**	

At 30.06.2023 for the sensitivity of the EVE the test result is 2.70%, which means that the regulatory limit (15%) is not exceeded.

NII sensitivity: in the case of the Basel Parallel Up scenario, net interest income would increase by PLN 410 585 thousand PLN. In the case of the Parallel Down scenario, net interest income would decrease by approx. PLN 856 399 thousand PLN.

Scenario	31.12.2023	
	EVE sensitivity	NII sensitivity
Parallel up	(1 784 165)	217 906
Parallel down	252 837	(544 423)
Steepener	(31 657)	
Flattener	(631 482)	
Short rates up	(1 097 742)	
Short rates down	408 224	
Worst case scenario	(1 784 165)	
Tier 1 - Grupa	24 141 924	
Result	**7,39%**	

At 31.12.2023 for the sensitivity of the EVE the test result is 7.39%, which means that the regulatory limit (15%) is not exceeded.

NII sensitivity: if the scenario of parallel increase in interest rates by approx. 250 bp materializes, net interest income will increase by PLN 217 906 thousand PLN. If the scenario of parallel decrease in interest rates by approximately 250 bp materializes, net interest income will decrease by approx. PLN 544 423 thousand PLN.

V. Capital buffers

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

In addition, the KNF's has set minimum levels of capital ratios. Banks should maintainTier 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 received letter from the Polish Financial Supervision Authority no DBK-DBK2B.700.2.2023 dated 21 December 2023 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 0.013 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 0.010 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 0.007 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 13 December 2023 the recommended capital add-on at standalone and consolidated level is 0.37p.p based on supervisory stress tests carried out by the Polish Financial Supervision Authority in 2023.

Taking into account the above requirements, the minimum capital ratios as at 31 December 2023 are as follows:

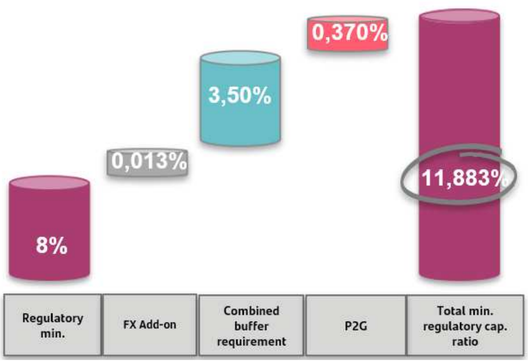
- Tier 1 capital ratio of 9.87% and 9.880% for the Bank and the Group, respectively;
- Total capital ratio of 11.87% and 11.883% for the Bank and the Group, respectively.

The table below presents unconsolidated and consolidated minimum ratios.

CAPITAL BUFFERS OF SANTANDER BANK AND SANTANDER BANK POLSKA GROUP AT 31.12.2023 AND 31.12.2022

Components of the minimum capital requirement		31.12.2023	31.12.2022
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:	✓ 0.013 p.p.	✓ 0.016 p.p.
	· Tier 1 capital ratio:	✓ 0.010 p.p.	✓ 0.012 p.p.
	· for Common Equity Tier 1 capital ratio:	✓ 0.007 p.p	✓ 0.009 p.p.
The capital buffer for Santander Bank Polska as other systemically important institution		✓ 1 p.p.	✓ 1 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	✓ 0.37 p.p.	✓ 0.26 p.p.
	Santander Bank Polska Capital Group	✓ 0.37 p.p.	✓ 0.23 p.p.

CAPITAL BUFFERS AND RATIOS OF SANTANDER BANK POLSKA GROUP AS AT 31.12.2023



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 2023 for the Group amounts to 0.02%. 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	140 511 170
2	Institution specific countercyclical capital buffer rate	0,02%
3	Institution specific countercyclical capital buffer requirement	22 928

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 2023 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 2023, 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:

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

As at 31 December 2023, 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:

- Tier 1 capital ratio of Santander Bank Polska S.A. of 9.87%;
- Tier 1 capital ratio of Santander Bank Polska Group of 9.880%;
- Total capital ratio of Santander Bank Polska S.A. of 11.87%;
- Total capital ratio of Santander Bank Polska Group of 11.883%.

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 14 December 2023 the KNF presented its stance on the dividend policy of commercial banks in 2024.

In accordance with the requirements set by the Regulator, 50% of 2023 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 + P2G buffer;
- Their total capital ratio is not lower than the minimum required level:
  - ✓ 8% + combined buffer requirement + P2G buffer.

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 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).

The maximum possible dividend from profit for 2023 has been limited to 75% due to the expected strengthening of the capital base in order to absorb the possible materialization of risks accumulated in the environment of the Polish banking sector.

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 50% and up to 75% of the profit is 9.880% on a consolidated level and 9.87% on a standalone level.

Total capital ratio required by the KNF for Santander Bank Polska S.A. to pay up to 50% and up to 75% of the profit is 11.883% on a consolidated level and 11.87% on a standalone level.

As at 31 December 2023, Santander Bank Polska S.A. meets the criteria to pay a dividend of 75% of the net profit earned in 2023, 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 2023 was determined in accordance with Regulation no. 575/2013 of the European Parliament and the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms as well as KNF recommendations regarding national options.

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

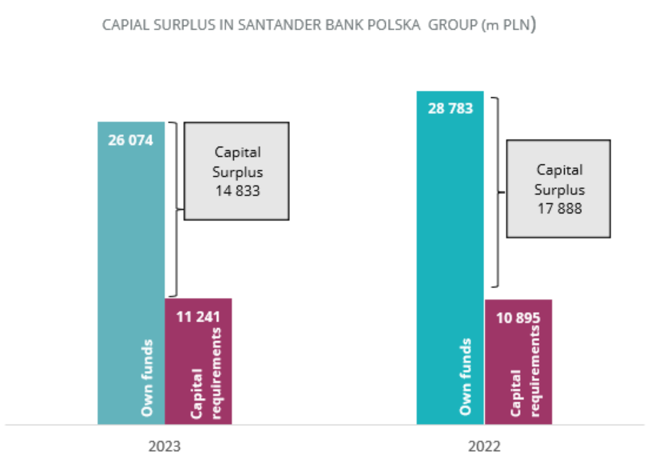
The value of asset exposure is the carrying value of the asset after adjustments for specific credit risk, additional value adjustments and other own fund deductions related to a particular asset. The off-balance sheet exposure is the percentage of the nominal value less adjustments for specific credit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

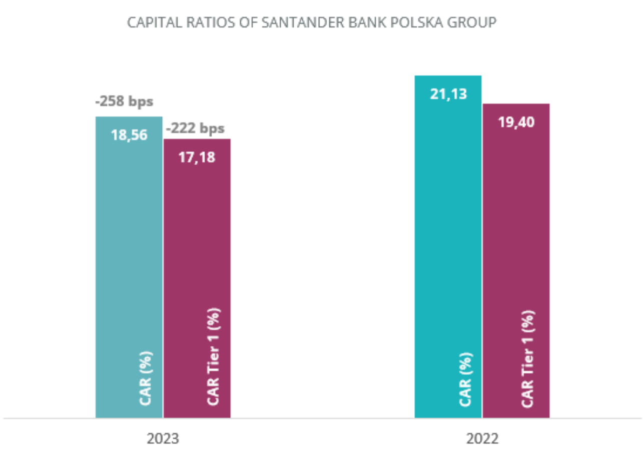
Taking into account total capital requirements of PLN **11 240 894k** as at 31 December 2023 and own funds of PLN **26 074 043k**, the capital ratio of Santander Bank Polska Group is **18.56%.**

The total capital ratio as at 31 December 2023 vs. 31 December 2022 was impacted by the following:

- Allocation of the profit for 2022 to Tier 1 capital and the Interim Dividend payment;
- Changes in the level of other comprehensive income mainly caused by the decrease in unrealized losses due to the valuation of debt instruments recognized in equity;
- Amortization of subordinated loans recognized in Tier 2 capital;
- An increase in risk-weighted assets due to credit risk as a result of business activities;
- Securitization transaction - on 28 September 2023 Santander Leasing S.A. made a guarantee agreement with the European Bank for Reconstruction and Development "EBRD". The pertinent guarantee relates to a lease and loan portfolio totalling approx. PLN 2.38b. ;
- An increase in risk weighted assets as a result of an increase in the value of the capital requirement due to operational risk calculated according to the standardized method based on the annual results of business lines achieved in 2020-2022.

CAPITAL ADEQUACY OF BANK GROUP IN 2022, 2023





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, 2023, the total amount of deductions from Common Equity Tier 1 capital due to securitization amounts to PLN 29 912 k.

As at 31 December 2023, the gross carrying amounts of the individual tranches were as follows: senior tranche: PLN 199 848 k, mezzanine tranche: PLN 46 215 k and junior tranche: PLN 32 293 k. In the reporting period, credit losses allocated outside the securitisation structure using the synthetic excess spread mechanism totalled PLN 10 357 k.

Since the activation of the transaction, losses have not exceeded the junior tranche amount and the Bank has not received any payments under the guarantee issued by the EIF.

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	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Balance sheet portfolio, incl:	**278 355**	**616 264**	**275 534**	**611 334**	**32 250**	**32 250**
tranche senior	199 848	474 115	197 591	470 321	-	-
tranche mezzanine	46 215	109 639	45 693	108 762	-	-
tranche junior	32 293	32 511	32 250	32 250	32 250	32 250
Value losses allocated to Synthetic Excess Spread	10 357	18 271	10 357	18 271	-	-
Value of available Synthetic Excess Spread allocated to be used	5 565	8 337	5 565	8 337	-	-

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).). As at the guarantee activation date, the senior tranche totaled PLN 2 020 058 k, the mezzanine tranche was PLN 403 181 k and the junior tranche amounted to PLN 20 281 k.

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 part of and in line with the terms of this transaction, on 22 September 2023, the Bank concluded with IFC an additional Upsize Agreement, which allowed to increase the volume of the securitized cash loan portfolio to PLN 2,874,182.5 k, which resulted in additional capital release in the amount of approximately PLN 200 million. It is worth emphasizing that, in accordance with the signed documentation, the released capital will be allocated for further financing, which is in line with the direction of ESG activities of the Bank and the World Bank (of which IFC is a part).

As at 31 December 2023, the gross carrying amounts of the individual tranches were as follows: senior tranche: PLN 1 521 663 k mezzanine tranche: PLN 303 707k and junior tranche: PLN 24 018 k.

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).

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, 2023, the total amount of deductions from Common Equity Tier 1 capital due to securitization amounts to PLN 3 863 k.

As at December 31, 2023, the senior tranche generated a risk-weighted exposure amount of PLN 226 704 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	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Balance sheet portfolio, incl:	**1 849 388**	**2 459 082**	**1 836 870**	**2 443 519**	**1 535 219**	**2 040 339**
tranche senior	1 521 663	2 032 923	1 511 363	2 020 058	1 511 363	2 020 058
tranche mezzanine	303 707	405 749	301 651	403 181	-	-
tranche junior	24 018	20 410	23 856	20 281	23 856	20 281

ERBA Securitisation 2023 (approach based on external ratings)

On 28th February 2023 Santander Bank Polska has purchased bonds issued by VCL Master Poland DAC (SSPE). Bonds were externally rated by Fitch Ratings (AAAsf) and Moody's (Aa1 sf).

Transaction was externally certified with a STS status. Banks intention is to hold the bonds till the maturity. Primary risk of the bonds is credit risk.

The risk-weighted exposure amounts for the bonds are calculated under the securitisation external ratings-based approach (SEC-ERBA).

As at 31 December 2023, the senior tranche generated a risk-weighted exposure amount of PLN 75 000 k.

Santander Consumer Bank S.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 1 146 009 thousand, 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.

As at 31 December 2023 the cumulative deductions from common equity Tier 1 on account of above-mentioned securitisation amount to PLN 6 348 k.

The gross carrying amounts of the securitised loans and their securitised capital portion and the amounts of risk remaining in the Group are summarised in the table below:

TRANCHE AMOUNT STATUS

	Transaction value- gross		Transaction value by capital amount		Retained risk value	
k PLN	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Balance sheet portfolio, incl:	**1 146 009**	**1 047 113**	**1 146 009**	**1 047 113**	13 752	**13 752**
senior tranche	933 997	852 418	933 997	852 418	-	-
mezzanine tranche	198 260	180 943	198 260	180 943	-	-
junior tranche	13 752	13 752	13 752	13 752	13 752	13 752
Value of losses allocated to SES	-	-	-	-	-	-
Value of available SES to be used	5 274	6 806	5 274	6 806	-	-

In 2021, 2022 and 2023, 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 gross carrying amounts of the securitised loans and the capital portion covered by this securitisation and the amounts at risk remaining in the Group are summarised in the table below:

TRANCHE AMOUNT STATUS

	Transaction value- gross		Transaction value by capital amount		Retained risk value	
k PLN	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Balance sheet portfolio, incl:	**226 365**	**601 313**	**226 365**	**601 313**	**19 503**	**20 809**
senior tranche	170 640	478 856	170 640	478 856	-	-
mezzanine tranche	36 222	101 647	36 222	101 647	-	-
junior tranche	19 503	20 809	19 503	20 809	19 503	20 809
Value of losses allocated to SES	-	-	-	-	-	-
Value of available SES to be used	-	4 293	-	4 293	-	-

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 1 250 000 k , to the special purpose entity: SC Poland Consumer 23-1 DAC (SPV) based in Ireland, and granted a subordinated loan of PLN 250 000 k 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 1 000 000 k, 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, 2023, the fair values were:

- Subordinated loan granted - PLN 261 380,46 k;
- Securitized assets - PLN 1 037 430,99 k.

At the same time, as at 31.12.2023, SCB recognises a liability for securitisation flows in the statement of financial position, under the item Liabilities to customers in the amount equal to PLN 1 262 901.80 k.

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, 2023, 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 216 700 k as at December 31, 2023. 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 2023 under Finance lease receivables in the amount of PLN 1 100 000 k.

At the same time, SCM recognizes a liability for securitization flows under the field: Other liabilities, in the amount as at December 31, 2023 of PLN 1 107 700 k.

As at December 31, 2023, SCM also had receivables due to current settlements with the SPV in the amount of PLN 7 571 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.

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 2023 the senior tranche totalled PLN 646 801 k, the mezzanine tranche was PLN 108 054 k and the junior tranche amounted to PLN 15 332 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.

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 31 December 2023 the cumulative deductions from common equity Tier 1 on account of securitisation amount to PLN 8 828 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	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Balance sheet portfolio, incl:	**816 005**	**1 544 178**	**770 187**	**1 444 943**	**15 332**	**15 332**
senior tranche	685 279	1 309 097	646 801	1 224 969	-	-
mezzanine tranche	114 482	218 696	108 054	204 642	-	-
junior tranche	16 244	16 385	15 332	15 332	15 332	15 332
Value of losses allocated to SES	707	919	354	919	-	-
Value of available SES to be used	3 400	9 747	3 400	9 747	-	-

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 2 736 219 k. 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 2 394 192 k and the junior tranche amounted to PLN 342 027 k. 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 2023 the senior tranche totalled PLN 830 535 k and the junior tranche amounted to PLN 171 949 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.

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 2023 the senior tranche generated risk-weighted exposure of PLN 223 130 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	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Balance sheet portfolio, incl:	**1 055 004**	**1 848 303**	**1 002 484**	**1 740 187**	**830 535**	**1 524 734**
senior tranche	874 046	1 619 465	830 535	1 524 734	830 535	1 524 734
junior tranche	180 958	228 838	171 949	215 453	-	-

Synthetic securitisation 2023

On 28 September 2023 Santander Leasing SA made a guarantee agreement with the European Bank for Reconstruction and Development "EBRD". The pertinent guarantee relates to a lease and loan portfolio totalling approx. PLN 2 382 979 k. The transaction is set to expire on 28 February 2032.

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. 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 three tranches: senior, protected and first loss. The losses are allocated to the first loss tranche. The protected and senior tranches are proportionally depreciated.

As at the guarantee activation date, the senior tranche was PLN 2 097 021 k (88% portfolio), protected was PLN 254 979 k (10,70% portfolio) and the first loss tranche amounted to PLN 30 979 k (1,3% portfolio). The protected tranche was guaranteed by EBRD. Both the principal, as well as the interest components of the underlying exposures are covered by EBRD guarantee. The transaction includes one-year period of replenishment

As at 31 December 2023 the senior tranche totalled PLN 1 793 050 k, the protected tranche was PLN 218 019 k and the first loss tranche amounted to PLN 29 067 k.

As at 31 December 2023 the cumulative deductions from common equity Tier 1 on account of securitisation amount to PLN 24 551 thousand and the senior tranche generated risk-weighted exposure of PLN 179 305 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 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	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Balance sheet value of the portfolio, including:	**2 161 170**	**-**	**2 040 136**	**-**	**1 822 117**	**-**
senior tranche	1 899 426	-	1 793 050	-	1 793 050	-
protected tranche	230 953	-	218 019	-	-	-
first loss tranche	30 791	-	29 067	-	29 067	-

Securitization tables for the Santander Bank Polska Capital Group (EU SEC1, EU SEC3, EU SEC4, EU SEC5) can be found in Annex to this report „Pillar III 2023 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 2023. 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 31.12.2023 (PLN K)

		CRR leverage ratio exposures	
		a	b
		31.12.2023	30.06.2023*
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	255 403 863	247 835 285
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	253 668	327 726
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-1 578 228	-1 653 477
6	(Asset amounts deducted in determining Tier 1 capital)	-2 741 252	-2 161 904
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**251 338 051**	**244 347 630**
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	5 040 076	5 638 682
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	4 880 664	4 503 599
13	**Total derivatives exposures**	**9 920 741**	**10 142 281**
Securities financing transaction (SFT) exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	13 975 510	11 993 332
16	Counterparty credit risk exposure for SFT assets	170 737	280 859
18	**Total securities financing transaction exposures**	**14 146 247**	**12 274 191**
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	56 873 185	52 102 232
20	(Adjustments for conversion to credit equivalent amounts)	-45 084 794	-42 221 727
22	**Off-balance sheet exposures**	**11 788 391**	**9 880 505**
Excluded exposures			
EU-22k	**(Total exempted exposures)**	-	-
Capital and total exposure measure			
23	**Tier 1 capital**	**24 141 924**	**27 054 079**
24	**Total exposure measure**	**287 193 430**	**276 644 607**
Leverage ratio			
25	Leverage ratio (%)	8,41%	9,78%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	8,41%	9,78%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	8,41%	9,78%
26	Regulatory minimum leverage ratio requirement (%)	3,00%	3,00%
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	16 771 855	14 685 199
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	13 975 510	11 993 332
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)	289 989 774	279 336 474
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)	289 989 774	279 336 474
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)	8,33%	9,69%
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)	8,33%	9,69%

* Restated data - includes reclassification of financial instruments (For details, see section no. 2.5 of the Consolidated Financial Statements of the Santander Bank Polska S.A. Group for the year 2023).The results from 06/2023 include profits included in own funds taking into account the FSA's decision and the applicable EBA guidelines.

EU LR1 and LR3 tables can be found in Appendix to this report „Pillar III 2023 12 Tables", which is available on the Santander Bank Polska website.

As at 31 December 2023, the leverage ratio of Santander Bank Polska Group totalled 8.41% (vs. 9,78% as at 30.06.2023) 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 31.12.2023 (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	8 268 986	3 254 824			254 816 091	59 173 499		
030 Equity instruments	-	-	-	-	259 833	-	-	-
040 Debt securities	3 254 824	3 254 824	3 254 824	3 254 824	58 691 181	54 789 663	58 691 181	54 789 663
050 of which: covered bonds	-	-	-	-	-	-	-	-
060 of which: securitisations	-	-	-	-	-	-	-	-
070 of which: issued by general governments	2 890 251	2 890 251	2 890 251	2 890 251	40 239 979	38 772 499	40 239 979	38 772 499
080 of which: issued by financial corporations	364 572	364 572	364 572	364 572	14 657 023	12 593 250	14 657 023	12 593 250
090 of which: issued by non-financial corporations	-	-	-	-	324 969	-	324 969	-
120 Other assets	5 014 162	-			195 865 077	4 383 836		

EU AE2 - COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED OF SANTANDER BANK POLSKA GROUP AS AT 31.12.2023 (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	440	-	11 510 026	10 387 343
140 Loans on demand	440	-	933	-
150 Equity instruments	-	-	-	-
160 Debt securities	-	-	11 509 093	11 201 596
170 of which: covered bonds	-	-	-	-
180 of which: securitisations	-	-	-	-
190 of which: issued by general governments	-	-	11 417 976	11 201 596
200 of which: issued by financial corporations	-	-	44 187	-
210 of which: issued by non-financial corporations	-	-	46 930	-
220 Loans and advances other than loans on demand	-	-	-	-
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	8 268 986	3 254 824		

EU AE3 - SOURCES OF ENCUMBRANCE AT 31.12.2023 (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	5 230 490	7 310 953

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 2023, 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 2023, 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.

In 2023, the Remuneration Policy was subject to annual review and the following minor changes were introduced relating to:

- Guaranteed salary (general terms and conditions);
- Clarification of retention plans;
- Rules for variable remuneration paid exclusively to employees with valid employment contracts as at the end of the reference period (unless agreed otherwise);
- Other minor changes arising from updated or detailed regulations related to 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, taking account of all forms of remuneration. Proposed performance-based 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 and other basic employment conditions in compliance with the remuneration principles adopted in the Bank and evaluation of a given Management Board member's performance;
- 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. 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 this policy (namely its compliance with risk guidelines) and its application, including preparation of the report for the Supervisory Board on the policy application, remuneration rules and their impact on management of the Bank;
- Minimum once a year, supports the Supervisory Board in reviewing the remuneration policy and rules applicable in the Bank, including a check if such remuneration policy is gender neutral and supports the equal treatment of staff of different genders, and in assessing their impact on the management of the Bank;
- 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;
- Issues opinions and monitors variable remuneration for persons whose professional activities have a material impact on the Bank's risk profile, i.e. individuals in charge of: risk management in the 2nd line of defence, the compliance unit and internal audit unit;
- 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;

- Ensures adequacy of information provided to shareholders on the remuneration policy and practice, in particular on the proposed higher maximum ratio between fixed and variable components of remuneration;
- 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 2023, the Remuneration Committee of the Supervisory Board met seven times in the following composition:

- The Committee Chairperson: Danuta Dąbrowskal;
- Committee members: José Luís de Mora, Marynika Woroszylska-Sapieha, Dominika Bettman .

As at 31 December 2023, three members of the Committee: Dominika Bettman, Danuta Dąbrowska and Marynika Woroszylska-Sapieha had the status of independent members.

In 2023, the Nominations Committee of the Supervisory Board met five 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 2023, 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 T.E.A.M.S. 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 (hereinafter the "Programme"). The Programme is aimed at employees of the Bank and its subsidiaries who make a significant contribution to the growth of its value. The aim of the Programme is to motivate participants to achieve business and quality objectives in line with the Bank Group's long-term strategy, as well as to create a mechanism to ensure their stronger connection with the Group and to encourage them to 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.

Under the Programme, upon fulfilment of the conditions described in the Participation Agreement and in the Resolution confirming the achievement of the objectives, participants will be granted the right to receive an award constituting the variable remuneration component of the Bank's own shares, which under IFRS 2 Share-based Payment (hereafter IFRS 2) constitutes an equity-settled payment programme (so-called equity-settled transactions). For this purpose, the Bank will acquire up to 2,331,000 Equity Shares between 1 January 2023 and 31 December 2033.

The Bank's Management Board will purchase Own Shares for the purpose of implementing Incentive Programme VII on the basis of the authorisation granted by the General Meeting in a separate resolution. If it is not possible to purchase Own Shares (e.g. due to the lack of liquidity of Own Shares on the Stock Exchange, market prices of shares exceeding the limits set by the General Meeting, no decision of the General Meeting to authorise the Management Board to purchase Own Shares in given years of the Incentive Programme VII or no decision of the General Meeting to create a reserve capital for the purpose of purchasing Shares in a given year) in a number corresponding to the amount of Awards granted, the Bank will proportionally reduce the number of Shares granted to a Participant. The difference between the value of the Award granted and the value of the Shares transferred by the Bank to the Participants under the Award will be paid in cash equivalent.

The cumulative prerequisites for entitlement to the award in any given year will be:

- Achievement of Santander Bank Polska SA's (hereinafter SAN PL) PAT at a level of at least 50% of the budget for the year;
- Achievement of team business targets for the year at SAN PL, Division or Unit level of at least 80%;
- With the proviso that the level of achievement of the objectives is calculated as the weighted average level of achievement of at least three business objectives of Santander Bank Polska S.A., the Division or the unit in which the participant is employed, within the framework of the financial plan approved by the Supervisory Board for the year, in particular:
  - ✓ PAT (net profit from SAN PL Group business activities (excluding Santander Consumer Bank);
  - ✓ ROTE (return on fixed capital as a percentage calculated according to SAN EN reporting methodology);
  - ✓ NPS (Customer Satisfaction Index - calculated in accordance with SAN EN reporting methodology);
  - ✓ RORWA (return on risk-weighted assets as calculated under the SAN EN reporting methodology);
  - ✓ Number of customers;
  - ✓ Number of digital customers;
- The participant's failure to receive an annual assessment of less than 1.5 on a rating scale of 1 to 4 for a given year.

In addition, at the request of the Bank's Management Board, the Supervisory Board will decide to grant a retention award to a participant if the following prerequisites are met:

- The participant obtaining an average annual individual goal achievement score of at least 2.0 on a rating scale of 1 to 4 during the period of participation in Incentive Programme VII;
- The Bank's weighted average annual target achievement for the years 2022-2026 at a level of not less than 80% with the following weights:
  - ✓ Average annual PAT realisation (weighting of 40%);
  - ✓ Average annual RORWA realisation (40% weighting);
  - ✓ Average annual ESG (environmental, social, corporate governance) achievement (weighting of 20%).

The maximum number of treasury shares to be transferred to Participants as Retention Awards is 451,000 shares.

In order to implement the Programme, Santander Bank Polska acquired in 2023. 165,406 treasury shares (out of 207,000 possible to purchase) with an equivalent value of PLN 48,884,192 (out of the PLN 55,300,000 capital allocated to the Programme for 2022).

The average purchase price per share during the 2023 share buyback period was: PLN 294.48.

The Programme was introduced for a period of five years (2022-2026), with the purchase of treasury shares and the transfer of shares to participants being carried out until 2033 due to the deferral of variable remuneration payments.

All repurchased treasury shares were transferred to the participants' individual brokerage accounts. Due to the purchase of the Bank's own shares in a sufficient number for the payment of awards to participants in Incentive Programme VII for 2022, the Bank's Board of Directors adopted a resolution on 16.03.2023 terminating the repurchase of the Bank's own shares in 2023.

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.

For employees with a significant impact on the Bank's risk profile, a policy of paying part (no less than 50%) of variable remuneration in the form of the Bank's own shares, granted on the basis of participation in an incentive scheme, is applied in accordance with the applicable regulations.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.

The Bank ensures also consistency of the Remuneration Policy with the Bank's strategy for integrating risks related to sustainable development by linking it to variable remuneration of the employees responsible for developing investment recommendations as part of investment advisory services. In addition, fixed and variable remuneration should be aligned with the Group's ESG objectives/ limits by linking variable remuneration of the Group's key function holders to the achievement of such objectives, preventing excessive risk-taking in this area and misinformation about the Group's ESG-related measures ("green-washing" practices).

Moreover, ESG (environment, social responsibility and governance) is one of the factors included in qualitative factors applied to calculate the bonus pool for top executives and key employees and its weight ranges from -5% to +5%.

All employees covered by the Remuneration Policy have the right to receive equal pay for equal work or work of equal value, regardless of their gender. Work of equal value means the work which requires comparable professional skills, practice and experience from employees and involves comparable responsibility and effort. The Bank strives to ensure gender-neutral pay, equal opportunities and elimination of inequalities due to an employee's gender.

The updated Remuneration Policy introduced changes aimed first of all at emphasising the right to equal pay for equal work of equal value irrespective of the gender and introducing the rules for reporting the EPG.

Pay equality is a priority for the Management Board and key factor during the review of base salaries in 2023. The GPG (Gender Pay Gap) is 33.6% and the EPG (Equal Pay Gap) is 1.2%.

The GPG and EPG are subject to ongoing monitoring and are reported on a regular basis.

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 2023, the Bank's Management Board was composed of eleven 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 five.

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

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

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:

- Assessment and re-assessment of individual suitability of Management Board members;
- Assessment and re-assessment of the collective suitability of the Management Board;
- 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 2023 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.

Moreover, when promoting the Management Board Diversity Policy, the Bank strives to ensure that the candidates for the roles of Management Board members and key function holders possess a wide range of qualities and skills as well as ability to demonstrate independence of mind and opinions. The Bank cares to ensure the Management Board's diversity in terms of gender and to prevent any situation of discrimination against candidates for the Management Board's member roles, especially on the grounds of gender, educational background, geographical provenance, experience or 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 2023 will be published together with information on the capital adequacy of Santander Bank Polska for the first half of 2024.

In 2023, the deferred remuneration due to key function holders was not reduced as part of performance-related adjustments.

In the analysed financial year, two persons of Santander Bank Polska S.A. received remuneration in excess of EUR 1 million.

In 2023, four 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	11	39	107
2		Total fixed remuneration	2 187	18 171	23 135	38 489
3		Of which: cash-based	1 326	15 216	22 016	37 550
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	861	2 954	1 119	939
8		(Not applicable in the EU)				
9	Variable remuneration	Number of identified staff	11	11	39	107
10		Total variable remuneration	-	-	-	-
11		Of which: cash-based	-	-	-	-
12		Of which: deferred	-	-	-	-
EU-13a		Of which: shares or equivalent ownership interests	-	-	-	-
EU-14a		Of which: deferred	-	-	-	-
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-14b		Of which: deferred	-	-	-	-
EU-14x		Of which: other instruments	-	-	-	-
EU-14y		Of which: deferred	-	-	-	-
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-
17	Total remuneration (2 + 10)		2 187	18 171	23 135	38 489

* As at the date of the report, there is no data on the variable parts of the remuneration for the financial year.

EU REM2 - SPECIAL PAYMENTS TO STAFF WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON INSTITUTIONS' RISK PROFILE (IDENTIFIED STAFF) (PLN K)

		MB Supervisory function	MB Management function	Other senior management	Other identified staff
	Guaranteed variable remuneration awards				
1	Guaranteed variable remuneration awards - Number of identified staff	-	-	-	-
2	Guaranteed variable remuneration awards -Total amount	-	-	-	-
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff	-	-	1	-
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	-	-	153	-
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff	-	-	2	2
7	Severance payments awarded during the financial year - Total amount	-	-	774	1 880
8	Of which paid during the financial year	-	-	774	1 208
9	Of which deferred	-	-	-	672
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	-	-	-	-
11	Of which highest payment that has been awarded to a single person	-	-	510	1 008

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	20 999	10 681	14 047	-	-	113	7 441	4 281
8 Cash-based	11 978	5 675	6 304	-	-	274	5 987	-
9 Shares or equivalent ownership interests	-	-	3 729	-	-	-	-	4 281
10 Share-linked instruments or equivalent non-cash instruments	9 021	5 007	4 014	-	-	-161	1 454	-
11 Other instruments	-	-	-	-	-	-	-	-
12 Other forms	-	-	-	-	-	-	-	-
13 Other senior management	22 658	10 798	11 860	-	-	85	7 139	4 801
14 Cash-based	11 330	5 999	5 331	-	-	225	6 046	-
15 Shares or equivalent ownership interests	3 201	-	3 201	-	-	-	-	4 801
16 Share-linked instruments or equivalent non-cash instruments	8 126	4 798	3 328	-	-	-141	1 093	-
17 Other instruments	-	-	-	-	-	-	-	-
18 Other forms	-	-	-	-	-	-	-	-
19 Other identified staff	14 805	5 598	9 206	-	-	447	5 348	2 059
20 Cash-based	7 642	3 125	4 517	-	-	338	3 398	152
21 Shares or equivalent ownership interests	931	-	931	-	-	-	-	1 121
22 Share-linked instruments or equivalent non-cash instruments	6 232	2 473	3 759	-	-	110	1 950	786
23 Other instruments	-	-	-	-	-	-	-	-
24 Other forms	-	-	-	-	-	-	-	-
25 Total amount	62 191	27 077	35 113	-	-	646	19 928	11 141

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
2	1 500 000 to below 2 000 000	-
3	2 000 000 to below 2 500 000	1

* The variable remuneration awarded in 2023 has been included in the calculation, as the variable remuneration for 2023 is not known at the date of the report.

EU EU REM5 table can be found in Appendix to this report „Pillar III 2023 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 2023 and The Management Board Report on Santander Bank Polska Group Performance in 2023.

XI. Liquidity risk measures

Santander Bank Polska S.A. presents information on liquidity risk 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	31.12.2023	30.09.2023*	30.06.2023*	31.03.2023*	31.12.2023	30.09.2023*	30.06.2023*	31.03.2023*
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)					73 386 633	70 340 845	66 996 115	65 545 484
	CASH - OUTFLOWS								
2	Retail deposits and deposits from small business customers, of which:	138 802 781	136 247 633	134 378 996	133 322 150	11 368 819	11 116 502	10 968 887	10 868 857
3	Stable deposits	84 035 610	82 336 673	81 295 801	80 726 238	4 201 781	4 116 834	4 064 790	4 036 312
4	Less stable deposits	49 838 048	48 814 927	48 208 542	47 748 827	7 167 039	6 999 669	6 904 097	6 832 545
5	Unsecured wholesale funding	61 042 682	60 767 090	57 925 166	55 961 102	29 069 899	29 670 387	28 833 355	28 186 758
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	852 293	-	-	-	201 587	-	-	-
7	Non-operational deposits (all counterparties)	59 641 859	60 386 351	57 525 817	55 505 818	28 319 783	29 289 649	28 434 007	27 731 473
8	Unsecured debt	548 530	380 738	399 348	455 285	548 530	380 738	399 348	455 285
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	33 943 330	32 813 316	31 483 786	30 480 803	9 759 259	9 173 831	8 268 244	7 400 035
11	Outflows related to derivative exposures and other collateral requirements	6 989 502	6 584 516	5 854 424	5 147 388	6 989 502	6 584 516	5 854 424	5 147 388
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	26 953 828	26 228 800	25 629 363	25 333 415	2 769 757	2 589 314	2 413 821	2 252 647
14	Other contractual funding obligations	2 016 234	1 482 533	2 099 450	2 399 201	1 773 865	1 247 284	1 855 385	2 113 806
15	Other contingent funding obligations	21 635 320	19 465 184	17 484 630	15 545 830	979 197	953 103	858 616	764 378
16	TOTAL CASH OUTFLOWS					52 951 038	52 161 107	50 784 488	49 333 834
	CASH - INFLOWS								
17	Secured lending (e.g. reverse repos)	8 260 919	8 630 154	8 727 900	6 918 314	-	-	-	-
18	Inflows from fully performing exposures	11 105 993	10 846 767	10 375 425	9 493 140	9 969 028	9 757 312	9 276 359	8 438 545
19	Other cash inflows	5 080 143	4 682 490	4 064 038	3 377 164	5 080 143	4 682 490	4 064 038	3 377 164
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	24 447 056	24 159 411	23 167 362	19 788 618	15 049 171	14 439 802	13 340 397	11 815 709
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows subject to 90% cap	-	-	-	-	-	-	-	-
EU-20c	Inflows subject to 75% cap	24 447 056	24 159 411	23 167 362	19 788 618	15 049 171	14 439 802	13 340 397	11 815 709
	TOTAL ADJUSTED VALUE								
EU-21	LIQUIDITY BUFFER					73 386 633	70 340 845	66 996 115	65 545 484
22	TOTAL NET CASH OUTFLOWS					37 901 867	37 721 305	37 444 091	37 518 125
23	LIQUIDITY COVERAGE RATIO					194%	186%	179%	175%

* Restated data - includes reclassification of financial instruments (For details, see section no. 2.5 of the Consolidated Financial Statements of the Santander Bank Polska S.A. Group for 2023). Data for December 2022 and March 2023 include profits included in own funds taking into account the applicable EBA guidelines.

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, UK 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.

Disclosed LCR in December 2023 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), realized issues, allocated mainly in high quality liquid assets and specification of operational deposits within non-retail customer deposits.

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 2023 r. Bank has issued PLN 1.9 billion in March, PLN 3.1 billion in November and EUR 0.2 billion in of new bonds. In the current strategy, the Group attempts to minimize the share of secured financing.

General description of the institution's liquidity buffer was presented in the chapter II in the section on liquidity risk.

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 2023, 31st PLN 15.0 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**	**28 815 295**	**-**	**-**	**1 932 119**	**28 815 295**
2	Own funds	26 883 176	-	-	1 932 119	28 815 295
3	Other capital instruments		-	-	-	-
4	**Retail deposits**		**144 834 502**	**677 445**	**111 589**	**135 464 118**
5	Stable deposits		87 834 056	1 492	116	83 443 887
6	Less stable deposits		57 000 446	675 953	111 472	52 020 231
7	**Wholesale funding:**		**64 917 642**	**2 384 721**	**5 860 062**	**34 811 740**
8	Operational deposits		10 227 521	-	-	5 113 760
9	Other wholesale funding		54 690 122	2 384 721	5 860 062	29 697 980
10	**Interdependent liabilities**		**-**	**-**	**-**	**-**
11	**Other liabilities:**	**12 724**	**12 425 896**	**40 503**	**2 168 651**	**2 188 903**
12	NSFR derivative liabilities	12 724				
13	All other liabilities and capital instruments not included in the above categories		12 425 896	40 503	2 168 651	2 188 903
14	**Total available stable funding (ASF)**					**201 280 056**
Required stable funding (RSF) Items						
15	**Total high-quality liquid assets (HQLA)**					**1 452 273**
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:**		**40 891 981**	**11 224 579**	**120 332 848**	**110 140 700**
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		13 028 050	-	-	-
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		6 205 422	340 682	1 604 190	2 395 074
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		13 100 423	10 098 511	81 574 411	81 109 584
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:		632 034	642 734	33 513 897	22 672 596
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		588 552	598 206	32 257 998	21 561 078
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		7 926 052	142 652	3 640 350	3 963 446
25	**Interdependent assets**		**-**	**-**	**-**	**-**
26	**Other assets:**		**9 035 025**	**55 069**	**13 297 270**	**14 616 153**
27	Physical traded commodities				-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-	-	-	-
29	NSFR derivative assets		212 271			212 271
30	NSFR derivative liabilities before deduction of variation margin posted		2 069 504			103 475
31	All other assets not included in the above categories		6 753 250	55 069	13 297 270	14 300 407
32	**Off-balance sheet items**		**52 723 138**	**710 548**	**2 423 140**	**2 656 532**
33	**Total RSF**					**128 865 657**
34	**Net Stable Funding Ratio (%)**					**156%**

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 2023" 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 2023", 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.