

# Annual Report 2021

of Santander Bank Polska Group

A photograph of a modern glass skyscraper facade. The word "santander" is written in large, white, 3D block letters across the middle of the glass. To the left of the text is the Santander logo, a stylized white bird-like shape. The glass reflects a blue sky and other buildings.

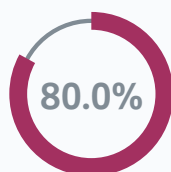
santander

# Selected data of Santander Bank Polska Group

## EFFICIENCY AND SECURITY



Group's **solid capital position** confirmed by capital ratios as at 31 December 2021, including total capital ratio of **18.58%**.



### Sound liquidity position.

Net customer loans to deposits ratio at **80.0%**. Supervisory liquidity ratios well above the regulatory minimum.

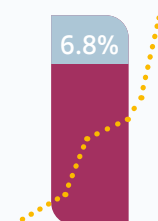


**Cost of credit** at a pre-pandemic level of **0.76%**. Decrease in the NPL ratio to **5.0%** as at 31 December 2021.



- **Close monitoring of risk** and implementation of relevant prudential measures.
- Further **automation and optimisation** of operational processes.
- Improved availability, reliability, performance and cybersecurity of the Group's systems.
- Design and implementation of a target **hybrid work model**.

## BUSINESS VOLUMES AND ASSET QUALITY



**6.8%** YoY increase in total assets to PLN **244.9bn**.



**Continued growth in deposits** from customers by **8.1%** YoY to PLN **185.4bn** supported by an increase in current account balances of individuals, businesses and the public sector (+11.4% YoY).



**3.9% YoY increase in gross loans and advances** to customers to PLN **154.1bn**, including home loans (+7.3% YoY), leases (+11.8% YoY) and loans to business customers (+1.8% YoY).

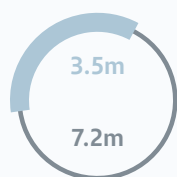


→ **Growth of quarterly net interest margin** in 2021 (from 2.56% in Q1 to 2.71% in Q4).

→ **Increase in net fee** and commission income from the majority of product lines, including currency exchange (+22.1% YoY), account maintenance and cash transactions (+27.1% YoY), debit cards (+18.2% YoY) and electronic and payment services (+12.4% YoY).

→ **Higher net value of assets in investment funds** managed by Santander TFI S.A. (+8.6% YoY to PLN 17.6bn).

## CUSTOMERS AND COMMUNITIES



**7.2m customers** of Santander Bank Polska S.A. and Santander Consumer Bank S.A., including **3.5m loyal customers**.

15.3% YoY increase in the number of **Accounts As I Want** It opened with Santander Bank Polska S.A. to **2.5m**.

2.5m



**3,2m digital customers** of both banks, including **2.4m mobile banking customers**.

- Dynamic growth in the number of transactions made via mobile banking (+42.9% YoY) and in the share of this channel in remote credit sales (35.6%).
- Progress in the delivery of group IT projects aimed at improving experience of customers and employees (accelerated digitalisation of the retail business, single HR platform).
- Santander Bank Polska S.A. among the top three banks in Poland in the mass and SME segments in terms of the NPS.
- Recognised in many competitions and rankings (Newsweek's TOP3, Forbes "Friendly Bank", "Golden Banker", "Financing Provider of the Year").

### FINANCIAL HIGHLIGHTS

PLN k

EUR k

31.12.2021 31.12.2020 31.12.2021 31.12.2020

Consolidated financial statements of Santander Bank Polska Group					
		31.12.2021	31.12.2020	31.12.2021	31.12.2020
I	Net interest income	5 962 445	5 888 149	1 302 555	1 316 023
II	Net fee and commission income	2 487 123	2 152 106	543 337	481 004
III	Profit before tax	2 057 828	1 880 897	449 553	420 387
IV	Net profit attributable to the owners of Santander Bank Polska S.A.	1 111 684	1 037 167	242 858	231 811
V	Total net cash flows	4 714 123	(3 633 610)	1 029 847	(812 125)
VI	Total assets	244 876 340	229 311 309	53 240 931	49 690 411
VII	Deposits from banks	4 400 138	5 373 312	956 677	1 164 365
VIII	Deposits from customers	185 373 443	171 522 255	40 303 832	37 167 863
IX	Total liabilities	217 662 764	200 653 319	47 324 165	43 480 393
X	Total equity	27 213 576	28 657 990	5 916 767	6 210 018
XI	Non-controlling interests	1 681 896	1 663 240	365 677	360 414
XII	Profit of the period attributable to non-controlling interests	140 722	200 007	30 596	44 702
XIII	Number of shares	102 189 314	102 189 314		
XIV	Net book value per share in PLN/EUR	266.31	280.44	57.90	60.77
XV	Capital ratio	18.58%	20.42%*		
XVI	Profit per share in PLN/EUR	10.88	10.16	2.38	2.27
XVII	Diluted earnings per share in PLN/EUR	10.88	10.15	2.38	2.27
XVIII	Declared or paid dividend per share in PLN/EUR*	2.16**	–*	0.47	–*

\* Data in relevant periods include profits included in own funds based on the decisions of the Polish Financial Supervision Authority and the applicable EBA requirements.

\*\* Detailed information is provided in Note 57.

- The following rates were applied to determine the key EUR amounts for selected financial statements line items:
- for balance sheet items – average NBP exchange rate as at 31.12.2021: EUR 1 = PLN 4,5994 and as at 31.12.2020: EUR 1 = PLN 4.6148

for profit and loss items – as at 31.12.2021 – the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in 2021: EUR 1 = PLN 4,5775; as at 31.12.2020 – the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in 2020: EUR 1 = PLN 4.4742

As at 31.12.2021, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 254/A/NBP/2021 dd. 31.12.2021.

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# Letter from the Chairman of the Supervisory Board



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**"We need solid foundations** in those turbulent times loaded with challenges and unprecedented situations. Our values, **Simple, Personal and Fair,** are such a foundation for us."

Dear All,

Although the present report covers last year's developments. It is, however, difficult not to mention the dramatic situation we are going through now. The war in Ukraine is being tragic to millions. Some of them, fleeing their country, have found support, care and open hearts here in Poland. I would like to wholeheartedly thank those wonderful Polish people for their beautiful and compassionate act of kindness and solidarity that should and will not be forgotten.

We need solid foundations in those turbulent times loaded with challenges and unprecedented situations. Our values, Simple, Personal and Fair, are such a foundation for us.

We have shown that as Santander Group we can respond effectively to the challenges, adjust to difficult conditions and provide our customers and ourselves, with a space for development. Customer care and top quality services have paved our way to becoming the best bank for our customers and helping them prosper. We have achieved our goal and we are one of the top three banks with the highest NPS in Poland.

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"The changes we are implementing are seen and appreciated by our customers and partners which is reflected in high NPS, numerous awards and in our financial performance..."

I would like to congratulate the employees and the Management Board on this result and thank the customers for their trust.

We are striving to be a partner bank at all times, both during prosperity and hardship. We want all our products and processes to be simple and friendly. We are focusing on projects and initiatives that accelerate the digital transformation and propose innovative, intuitive and convenient solutions. Last year, we provided such services to our customers – individuals, businesses and corporations.

We have implemented the One Europe strategy, assuming a close international cooperation across Santander Group so that we can better respond to current needs. In 2021, we tightened the relations in our region by delivering strategic projects in the digital transformation area. As part of the global policy of sustainable growth, we implemented eco-friendly payment cards. We want to leverage even more the regional and global potential, accelerate automation and digitalisation, improve service quality across all markets and segments. New projects are ahead of us.

The changes we are implementing are seen and appreciated by our customers and partners which is reflected in high NPS, numerous awards and in our financial performance. In 2021, Santander Bank Polska Group generated profit attributable to shareholders of PLN 1.11bn. Our total income increased, mainly driven by the higher net fee income. With a good liquidity and capital position, we have solid and safe foundations for further growth and business development.

I would like to thank the Management Board and Employees for their excellent work and achievement of strong results.

We are a responsible bank. The Responsible Banking Agenda is one of the pillars of our strategy. We believe we play an important role in the transformation of the economy. Therefore, Santander Bank Polska is active on the green finance market – we support green transformation and investments in renewable sources of energy. In 2021, the value of transactions in renewable energy amounted to PLN 503.7m. We also conducted the first issuance of

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"In the social area, we continue our actions aimed at increasing the financial inclusion, reducing inequalities, and promoting diversity in employment..."

sustainable debt securities of Santander Bank Polska with a total value of PLN 750m. We offer green solutions to our individual customers as well. We are also educating entrepreneurs on sustainable funding. In the social area, we continue our actions aimed at increasing the financial inclusion, reducing inequalities, and promoting diversity in employment.

Last year, as Santander Group, we announced the Net Zero strategy, which embodies our ambition to become climate-neutral by 2050 in all our geographies. Starting from 2030, we will stop financing energy companies that generate more than 10% of their revenues from the production of thermal coal. We believe that by taking care of the climate we are acting for the common good.

The Responsible Banking Agenda will also guide us through 2022. Our key concern is continuous care for the experience of our stakeholders and generation of sustainable profits for shareholders. Our development and digitalisation will serve the interests of customers, employees and partners. We will continue to engage in ambitious environmental projects.

Last year we finally saw the long-awaited harbingers of stability – we learned how to live with the pandemic and do business in various conditions. However, the hopes for stability were smashed at the beginning of this year as the world faced unprecedented challenges. Today, once again we have to stay united, responsible and supportive.

I do believe that by acting in line with our values that we will succeed also now.

Antonio Escámez Torres

Chairman of the Supervisory Board  
of Santander Bank Polska S.A.

# Letter from the CEO



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“Our efforts yield tangible results. **We observe a growth in customer satisfaction** as evidenced by our NPS. **Customers have recognised our proposition, service quality and social responsibility.**”

Net profit (bn)	1.25
Interest income (bn)	5.962
Fee income (bn)	2.487
Assets (bn)	244.9

Dear All,

We have delivered an excellent performance in 2021. Once again, we have proven ourselves as a reliable, stable and responsible partner for our customers, counterparties, and the Polish economy.

The strong results have been achieved on the back of our well-designed growth strategy, operational flexibility, and – above all – people engagement.

We are invariably committed to delivering the highest quality of service and putting customer needs at the forefront of our thinking. This is why we are constantly striving to enhance customer experience by developing remote channels and simplifying our procedures and offering, among other things.

Our efforts yield tangible results. We observe a growth in customer satisfaction as evidenced by our NPS. Customers have recognised our proposition, service quality and social responsibility. We have been awarded in important rankings. We were number 1 in Forbes’ “Business-Friendly Bank” ranking, ranked in the top 3 banks according to Newsweek, and took the podium in the Golden Banker competition. Our Private Banking was hailed as the best in Poland by Euromoney. We also received the prestigious “Financing Provider of the Year” award from Eurobuild for our property finance proposition. Other members of Santander Bank Polska Group were also awarded.

We actively support the Polish economy by being a responsible and compliant taxpayer (in 2021, Santander Bank Polska was among the 10 largest CIT payers in the country) and by making our infrastructure available for the distribution of public aid and family benefits. We also remain a committed partner in dialogue with our stakeholders, sharing our knowledge and market experience, which is particularly important in the period of recovery from the post-pandemic crisis.

The year ahead will be marked by challenges associated with transition to sustainable economy.

An effective response to the progressing climate change and increasing social inequalities requires consistency, flexibility and



Winner of the Forbes’ Business-Friendly Bank ranking



Institution of the Year 2021  
Best Service in Poland  
Best Service in Remote Channels

commitment from each of us. For this reason, we strengthened our Responsible Banking agenda in 2021. We were actively implementing ambitious environmental protection, social inclusion and corporate governance projects.

I am confident that in 2022 and onwards responsible management and ESG-compliant activities will be key to how most companies in the EU do business – both due to new regulations, and because of our responsibility towards future generations. These aspects are also increasingly important for our customers and communities we serve, which is why we are going to advocate those changes.

“I am confident that in 2022 and onwards responsible management and ESG-compliant activities will be key to how most companies in the EU do business...”

## Macroeconomic environment – sharp recovery and price growth

In 2021, the economy made a robust recovery as pandemic-related restrictions were eased, Covid-19 vaccination rates increased, and the global economy revived. According to Statistics Poland (GUS), the GDP grew by 5.7%. All the key GDP components – consumption, investment, imports and exports – were increasing fast. Imports grew much faster than exports and the foreign trade surplus registered in 2020 turned into a deficit. The labour market was very good – unemployment remained low and wages rose at a solid pace. At the same time, some sectors continued to face global supply chain disruptions.

High demand and supply issues triggered a rapid rise in prices. CPI inflation accelerated from 2.6% YoY in January to 8.6% YoY in December. The NBP responded with interest rate increases initiated in October. The reference rate rose from 0.10% to 1.75% at the end of the year.

Thus, we are entering 2022 with growing interest rates and buoyant market. At the same time, we have concerns about how the pandemic will unfold. And central banks' pivot toward tighter monetary policy may ultimately slow down economic growth in a few quarters from now.

## Our business

In 2021, Santander Bank Polska Group posted net profit of PLN 1.25bn.

We reported an increase in total income, notably net fee and commission income, and achieved satisfactory net interest income. Our liquidity and capital position is very solid.

In retail banking, we focused on improving customer experience and on expanding, digitising and streamlining our services. We sought to encourage customers' digital activity – currently we have three million digital customers.

We introduced new solutions and functionalities. We facilitated everyday banking, providing access to new payment solutions and new non-banking services. New features on our offer include contactless BLIK payments, automatic motorway toll payments,

and medical packages. We introduced payment cards made of biodegradable plastic – they represent more than 40% of all cards issued last year.

Our new My Goals service that facilitates savings became highly popular with customers. During the year, our customers set up 233k savings goals. So far, the service has attracted nearly 170k users.

Last year also saw outstanding results in mortgage sales, remote cash loan sales, as well as in insurance and leasing, particularly in the area of green assets finance. We can also boast strong performance in our brokerage and Private Banking business.

We are constantly expanding our proposition in the SME segment, where we introduced a loan available in the mobile application and services that facilitate business management: eHealth and eLeasing. Throughout 2021, we maintained our top position in terms of the value of working capital loans for sole traders. In order to help our customers through the difficult time, we made it possible for them to apply for and settle the government aid in our systems. More than 7.2k companies used the aid under the PFR Financial Shield 2.0.

Our corporate business also performed as expected. We are working on digitalisation and expansion of our offering to ensure easy and fast finance management for our business customers coupled with superior service quality.

In the Business and Corporate Banking segment, our priority was to provide solutions facilitating comprehensive financial operations. We expanded the iBiznes24 electronic banking platform and provided the GTS (One Trade Portal) for integration of international accounts in multiple currencies. The tool is one of the drivers of the digital transformation of Santander Group, being in line with the One Europe strategy and the Group-wide vision of business growth. On top of that, leveraging the Group's global footprint, Santander Bank Polska supports foreign expansion of Polish exporters and companies with foreign capital doing business in Poland.

“Last year also saw outstanding results in mortgage sales, remote cash loan sales, as well as in insurance and leasing, particularly in the area of green assets finance...”

We continued our sectoral approach strategy in business segments by sharing knowledge and insights about the market, trends and prospects with customers from selected industries.

The Corporate and Investment Banking Division participated in last year's largest Warsaw Stock Exchange debut of a retail sector client. We provided advice or intermediated in tender offers in the telecommunications, IT, construction & assembly, food, and renewable energy sectors. Particularly rewarding was our involvement in renewable energy transactions whereby we could contribute to the transformation of the Polish energy system. The transaction we arranged for a telecom company won us the prestigious Fiber Deal of the Year award from Project Finance International.

The Corporate and Investment Banking Division reaffirmed its position among the leaders of investment banking in Poland. In the capital market, we took second position in terms of the value of transactions and the value of bonds issued. In addition, we ranked third in the mergers and acquisitions area in terms of the volume of transactions.

The subsidiaries of Santander Bank Polska Group also did great last year.

Santander Consumer Bank successfully and consistently pursued its business strategy underpinned by customer focus, digitalisation of products and services, and process automation. In 2021, SCB Group posted net profit of PLN 183m. The net loan portfolio was PLN 15.5bn, and deposits amounted to PLN 9.3bn. This performance was helped by implementation of an agile work model, new and improved products in digital channels, and development of the mobile application and online banking.

Santander TFI ended the year with a growth in both customer base and assets. The asset value of the funds managed by the company totalled PLN 17.3bn at the end of 2021. More than 183k customers invested in the funds, including 55k opting for the Employee Capital Plans. Santander TFI ranked third in the market in terms of total net sales of funds.

Santander Leasing also started the new year with success. In this difficult market affected by Covid-19 impacts, including disrupted supply chains and lower availability of assets, the subsidiary originated loans and financed the purchase of leased assets with a total net value of PLN 6.9bn.

Santander Factoring maintained its leading market position in terms of total assets. The company's financing of liabilities and total turnover increased, with its portfolio growing by 23% YoY. Santander Factoring is a leader in terms of the value of guarantees from the Liquidity Guarantee Fund.

“The Corporate and Investment Banking Division participated in last year's largest Warsaw Stock Exchange debut of a retail sector client...”

## ESG

The Responsible Banking agenda based on ESG metrics is one of the pillars of Santander Bank Polska's strategy. We are an active player in the green financing market: we support companies in the energy transformation, finance the development of renewable energy sources, and offer green solutions to personal customers.

In 2021, we supported our customers in the green transformation as we completed PLN 503.7m worth of deals in the area of renewable energy. We issued Poland's first sustainable debt securities with a nominal value of PLN 750m. The proceeds from the issue will be used to finance or refinance eligible green assets or eligible social assets.

We also participated in the issue of green bonds for customers from the property development and machinery sectors. In cooperation with Banco Santander, we arranged an ESG-linked credit facility for a client.

We also actively cooperate with local authorities, offering new solutions related to energy transformation and zero-emission public transport. Together with the state development bank BGK, we financed the purchase of electric buses for Poznań, thus contributing to improvement of air quality in the city.

“Together with more than 10k customers, we donated PLN 2m to 16 hospitals with mental health wards for young patients...”

Santander Leasing is also active on the green financing front, supporting the energy transformation and environmentally beneficial projects. The subsidiary offers as many as eight products in the following categories: Renewable Energy, Clean Mobility, Agro and Circular Economy. These products include the lease of zero-emission and hybrid vehicles and a loan for their purchase, a loan for the purchase of energy-efficient machines and photovoltaic systems for businesses, as well as loans for vehicles and solar systems for consumers. The total value of green initiatives financed by Santander Leasing was PLN 693m, which is a growth of 66% YoY.

In 2021, together with Santander Group, we announced the Net Zero strategy, which embodies our ambition to become climate-neutral by 2050. To achieve this, as of 2030, Santander Bank Polska will stop financing energy companies that generate more than 10% of their revenues from the production of steam coal. By then, we will have also completely reduced our historical exposure to steam coal producers.

Last year, the Bank published, for the eighth time, a report summarising the organisation's social, economic and environmental impact, and launched its ESG website.

Our commitment to sustainability has been noted and recognised. For example, we received the Golden CSR Leaf, took second position in the Responsible Companies Ranking, and successfully passed the audit in the Diversity IN Check ranking.

Moving forward, we are determined to maintain sharp focus on our ESG agenda. We are aware that our commitment to green financing and the transition to a low carbon future is both an economic necessity and a sign of responsibility for future generations.

## Strategic philanthropy, education, and social responsibility

We attach great weight to ensuring that we have a positive impact on the communities we serve. For this reason, together with the Santander Foundation, we help those in need, support diversity and inclusion, and conduct educational activities.

In response to the challenges associated with mental health of children and adolescents, who were particularly affected by the pandemic, we organised for the second time the “We Will Double Your Impact” fundraiser. Together with more than 10k customers, we donated PLN 2m to 16 hospitals with mental health wards for young patients. We also helped hospitals with the “Flicker Club” (“Klub Ptomyka”) project, under which we renovated and equipped rooms for children and their guardians at care and educational institutions and hospitals.



„In 2021, we showed as a Group that we are able to operate successfully even in difficult conditions”

We are also engaged in sweeping educational activities. For example, we run our own economic education project – “Finansiaki”. Young adults can benefit from our Santander Universidades programme, which we have been implementing for 10 years in Poland, and for 25 years globally. During this time, together with Santander Group, we have donated EUR 2bn for education, financing 630k scholarships. Together with the best universities in the world, we support the development of digital, linguistic and soft skills. But our educational activities go far beyond financial support in the form of scholarships. We also want to share the practical experience of each of us and jointly engage in disseminating useful knowledge. This is the goal of the Santander Universidades Academy, a recurring initiative whose last year’s edition was attended by 20 speakers from the Bank and over 1,000 people from more than 100 Polish universities.

The Responsible Banking agenda of Santander Consumer Bank is based on three pillars: social commitment, support for diversity, and developing a green mindset. The Bank provided financial support to and actively participated in various social initiatives; continued activities increasing the financial awareness of Poles, and developed a portfolio of green products.

Promoting equality and diversity is an important task and commitment for Santander Bank Polska. As a signatory of the Diversity Charter, we ensure equal treatment for all stakeholders. We are also engaged in numerous initiatives to support equality of opportunity and create favourable working conditions. We constantly focus on development of our people through training and mentoring projects. We are convinced that greater satisfaction and comfort of employees will have a positive influence on customer service quality, and thus on the efficiency of our organisation.

In 2021, we showed as a Group that we are able to operate successfully even in difficult conditions. We see that our strategy – with focus on employees, customers, and partners, and commitment to the broadly understood social environment – is right, and will be pursued consistently.

Despite numerous challenges, it was a good year – thanks to our employees, clients, partners and friends. Thank you for all the new goals you set for us, for your engagement and support in our ambition to be the best bank for customers.

Michał Gajewski

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

## Assessment of Annual Financial Statements and Annual Management Board Report by the Supervisory Board of Santander Bank Polska S.A.

*pursuant to § 70(1)(14) and § 71(1)(12) of the Finance Minister's Regulation of 29 March 2018 on current and financial reports published by the issuers of securities and the rules of equal treatment of the information required by the laws of a non-member state (Journal of Laws of 2018, item 757).*

1.

Having thoroughly reviewed the *Financial Statements of Santander Bank Polska S.A. for 2021* and the *Consolidated Financial Statements of Santander Bank Polska Group for 2021*, and having read the auditor's opinion and report, the **Supervisory Board of Santander Bank Polska S.A.** positively assesses the financial statements in terms of their conformity with the books of account, documents and factual circumstances.

Furthermore, the Supervisory Board contends that the financial statements have been prepared within the regulatory time frame and in accordance with the International Financial Reporting Standards as adopted by the European Union. The accuracy of the financial statements does not raise any reservations and is confirmed by an auditor's unqualified opinion in terms of their conformity with the books of account, documents and factual circumstances.

Pursuant to the opinion issued by an independent statutory auditor, both standalone and consolidated financial statements of Santander Bank Polska S.A. give a true and fair view of the assets and financial position of the bank and the Group as at 31 December 2021 as well as the standalone and consolidated financial performance and cash flows for the accounting year of 2021. They comply in terms of form and substance with the applicable laws and the bank's Statutes.

2.

Having thoroughly reviewed the *Management Board Report on Santander Bank Polska Group Performance in 2021 (including the Management Board Report on Santander Bank Polska Performance)*, the **Supervisory Board of Santander Bank Polska S.A.** positively assesses the report in terms of its conformity with the books of account, documents and factual circumstances. The report gives an accurate view of the development and achievements as well as assets, financial position and financial performance of the bank and Santander Bank Polska Group.

Furthermore, the Supervisory Board contends that the report has been prepared in accordance with the Accounting Act of 29 September 1994 and the Finance Minister's Regulation of 29 March 2018 on current and financial reports published by the issuers of securities and the rules of equal treatment of the information required by the laws of a non-member state.

Pursuant to the opinion issued by an independent statutory auditor, the Management Board report is consistent with the information presented in the bank's and the Group's financial statements and does not contain any material misstatements. The Statement on Corporate Governance in 2021 included in the report contains all the required elements, while the Statement on Non-Financial Information is an independent section of the Management Board report.

Chairman of the Supervisory Board

**Antonio Escámez Torres**

*(the original Polish document is signed with a qualified electronic signature)*

## Statement of Supervisory Board of Santander Bank Polska S.A.

Pursuant to § 70(1)(8) and § 71(1)(8) of the Finance Minister's Regulation of 29 March 2018 on current and financial reports published by the issuers of securities and the rules of equal treatment of the information required by the laws of a non-member state (Journal of Laws of 2018, item 757).

**the Supervisory Board represents that at Santander Bank Polska S.A.:**

- a) the Audit and Compliance Committee is appointed and operates in accordance with the relevant laws, and its members satisfy the independence criteria and requirements regarding the knowledge and skills concerning the banking and financial sector, accounting and audit of financial statements;
- b) the Audit and Compliance Committee has performed the responsibilities of the audit committee set out in the applicable laws.

Chairman of the Supervisory Board

**Antonio Escámez Torres**

*(the original Polish document is signed with a qualified electronic signature)*

# Management Board Report

**on Santander Bank Polska Group Performance in 2021**  
(including the Management Board Report on Santander Bank Polska Performance)





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# I. Overview of Activities of Santander Bank Polska S.A. and its Group in 2021

## 1. Introduction

### Scope

The Management Board Report on Santander Bank Polska Group Performance in 2021 contains the information required in both consolidated and separate Management Board reports on Santander Bank Polska S.A. performance.

### Business environment

Similarly to the entire domestic and global economy, in 2021 the Polish banking sector struggled with the challenges posed by the Covid-19 pandemic which started at the beginning of 2020. While the impact of the pandemic on the Polish economy and the banking sector was less severe than initially expected, the economic shock of 2020 may have prolonged consequences for certain areas. The Polish economy rather quickly returned to the growth path, recording one of the highest GDP growth rates in Europe in 2021. However, further growth will depend on the evolution of the pandemic and effectiveness of the systemic response. Anti-inflationary measures and trends in the residential property market will be of key importance too.

Last year, we as a society were more aware and better prepared to cope with risks and live with restrictions and therefore more effectively responded to the challenges posed by the pandemic. As a result, the economic activity did not plummet as much as before, and some sectors were even thriving. Bank customers got used to modern technological solutions supporting operational processes. IT challenges connected with the continuation of remote work or implementation of a hybrid work model as well as increased use of remote distribution channels accelerated digital transformation, automation and robotisation of banks.

### Performance of the banking sector

Relatively low profitability of the banking sector during 2021 (compared to pre-pandemic levels) was only partially attributed to the impact of Covid-19 on the macroeconomic environment, including monetary policy of the central bank, trends in the financial markets, financial position of some sectors and economic developments such as limited supplies of certain products or increased prices of commodities. The key factor however was an increase in legal risk connected with foreign currency mortgage loans.

This environment was reflected in financial results of banks, in particular in low interest rate margins amid the pressure from close-to-zero interest rates (until October 2021), changes in the balance sheet structure (larger investments in bonds) and increased provisions and allowances in respect of legal risk associated with foreign currency home loans. At the same time, a decline was reported in expected credit loss allowances posted by banks. Due to high inflation, interest rates were increased

three times in Q4, as a result of which the reference rate (1.75% p.a.) exceeded the pre-pandemic level and helped banks curb the downward trend in net interest income.

### Performance of Santander Bank Polska Group

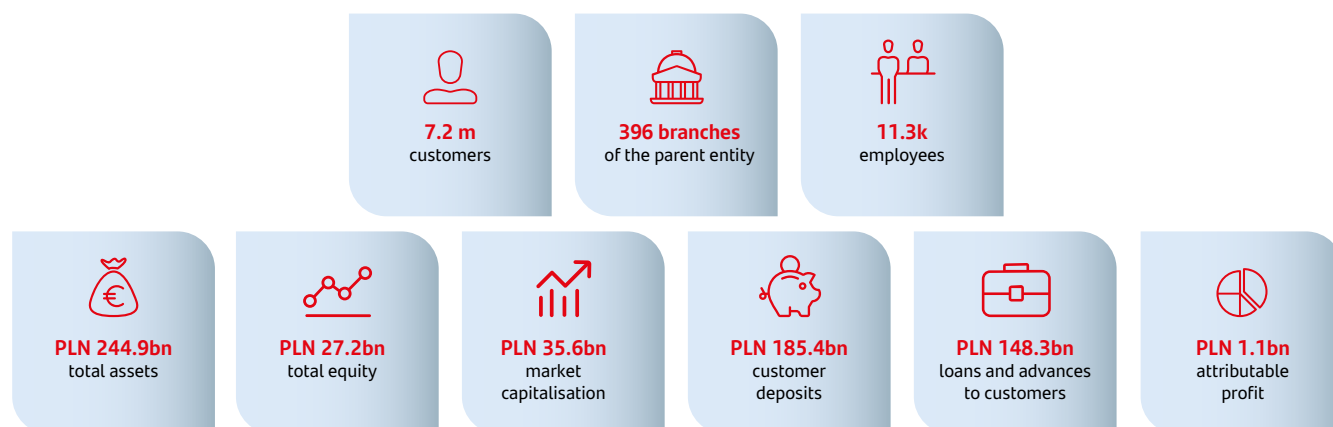
While the economy was recovering from the shock of 2020, Santander Bank Polska Group reported growth in its key business volumes, including an increase of 3.9% YoY in gross loans and advances to customers and a rise of 8.1% YoY in deposits from customers (in value terms). This was mainly attributed to the Group's flexible and transparent offering available through a wide range of channels as well as extensive and steady improvement of customer experience. The growth in the core business was combined with a rise in popularity of the Group's trade finance products, cross-border payments and investments solutions. The number of transactions made by customers and their activity in remote channels increased, too. Good and closely monitored credit risk profile of customers and improved macroeconomic prospects limited the value of expected credit loss allowances made by the Group.

The above conditions were reflected in the following changes in the income statement:

- rise in net interest income (+1.3% YoY);
- increase in net fee and commission income (+15.6% YoY);
- increase in dividend income (+393.2% YoY);
- improvement of net trading income and revaluation (+78.1% YoY);
- reduction in net expected credit loss allowances (-36.2% YoY);
- fall in gains on other financial instruments (-63.2% YoY) due to higher official interest rates, which cause debt securities yields to go up, reducing pricing and gains on sale.

The Group's results for 2021 were strongly influenced by the ruling practice of courts adjudicating on cases regarding foreign currency mortgage loans, which encouraged a growing number of borrowers to file lawsuits. With the higher number of new court cases and changes in the estimated likelihood of negative rulings, total income statement provisions for legal claims, other assets and legal risk increased by PLN 989.3m YoY to PLN 1,468.6m (net).

> SANTANDER BANK POLSKA GROUP IN NUMBERS AS AT 31.12.2021



## 2. Key Achievements

### EFFICIENCY AND SECURITY

- ▶ Group's solid capital position confirmed by capital ratios as at 31 December 2021, including total capital ratio of 18.58%.
- ▶ Sound liquidity position. Net customer loans to deposits ratio at 80.0%. Supervisory liquidity ratios well above the regulatory minimum.
- ▶ Close monitoring of risk and implementation of relevant prudential measures.
- ▶ Cost of credit at a pre-pandemic level of 0.76%. Decrease in the NPL ratio to 5.0% as at 31 December 2021.
- ▶ Further automation and optimisation of operational processes.
- ▶ Improved availability, reliability, performance and cybersecurity of the Group's systems.
- ▶ Design and implementation of a target hybrid work model.

### BUSINESS VOLUMES AND ASSET QUALITY

- ▶ 6.8% YoY increase in total assets to PLN 244.9bn.
- ▶ Continued growth in deposits from customers by 8.1% YoY to PLN 185.4bn supported by an increase in current account balances of individuals, businesses and the public sector (+11.4% YoY).
- ▶ 3.9% YoY increase in gross loans and advances to customers to PLN 154.1bn, including home loans (+7.3% YoY), leases (+11.8% YoY) and loans to business customers (+1.8% YoY).
- ▶ Growth of quarterly net interest margin in 2021 (from 2.56% in Q1 to 2.71% in Q4).
- ▶ Increase in net fee and commission income from the majority of product lines, including currency exchange (+22.1% YoY), account maintenance and cash transactions (+27.1% YoY), debit cards (+18.2% YoY) and electronic and payment services (+12.4% YoY).
- ▶ Higher net value of assets in investment funds managed by Santander TFI S.A. (+8.6% YoY to PLN 17.6bn).

### CUSTOMERS AND COMMUNITIES

- ▶ 7.2m customers of Santander Bank Polska S.A. and Santander Consumer Bank S.A., including 3.5m loyal customers.
- ▶ 15.3% YoY increase in the number of Accounts As I Want It opened with Santander Bank Polska S.A. to 2.5m.
- ▶ 3.2m digital customers of both banks, including 2.4m mobile banking customers.
- ▶ Dynamic growth in the number of transactions made via mobile banking (+42.9% YoY) and in the share of this channel in remote credit sales (35.6%).
- ▶ Progress in the delivery of group IT projects aimed at improving experience of customers and employees (accelerated digitalisation of the retail business, single HR platform).
- ▶ Santander Bank Polska S.A. among the top three banks in Poland in the mass and SME segments in terms of the NPS.
- ▶ Recognised in many competitions and rankings (Newsweek's TOP3, Forbes "Business Friendly Bank", "Golden Banker", "Financing Provider of the Year").

## 3. Key Financial and Business Data on Santander Bank Polska Group for 2017-2021

### Key financial data of Santander Bank Polska Group for 5 previous years

Selected Balance Sheet data		31.12.2021	31.12.2020	31.12.2019	31.12.2018	31.12.2017	YoY Change (2021/2020)
Total assets	PLN m	244 876.3	229 311.3	209 476.2	206 656.3	157 194.6	6.8%
Total equity	PLN m	27 213.6	28 658.0	26 979.5	26 594.7	23 329.7	-5.0%
Net loans and advances to customers	PLN m	148 250.4	141 998.8	143 402.6	137 460.4	107 839.9	4.4%
Deposits from customers	PLN m	185 373.4	171 522.3	156 480.3	149 616.7	111 481.1	8.1%

Selected off-Balance Sheet data		31.12.2021	31.12.2020	31.12.2019	31.12.2018	31.12.2017	YoY Change (2021/2020)
Net assets under management in investment funds <sup>1)</sup>	PLN bn	17.6	16.2	16.9	15.1	16.0	1.4

Selected ratios <sup>2)</sup>		2021	2020	2019	2018	2017	YoY Change (2021/2020)
Total costs/Total income	%	59.6%	51.9%	47.2%	43.2%	43.4%	7.7 p.p.
Total capital ratio	%	18.58%	20.42%	17.07%	15.98%	16.69%	-1.8 p.p.
ROE	%	4.7%	4.4%	9.7%	11.9%	12.1%	0.3 p.p.
Basic earning per share	PLN	10.9	10.2	21.0	23.7	22.2	0.7
Book value per share	PLN	266.3	280.4	264.3	260.5	234.9	-14.1
NPL ratio <sup>3)</sup>	%	5.0%	5.8%	5.2%	4.6%	5.8%	-0.8 p.p.
Credit risk ratio	%	0.76%	1.21%	0.85%	0.86%	0.63%	-0.5 p.p.
Customer net loans/customer deposits	%	80.0%	82.8%	91.6%	91.9%	96.7%	-2.8 p.p.

### Key non-financial data of Santander Bank Polska Group for 5 previous years

Selected non-financial data		2021	2020	2019	2018	2017	YoY Change (2021/2020)
Number of shares	items	102 189 314	102 189 314	102 088 305	102 088 305	99 333 481	0
Dividend payout <sup>4)</sup>	PLN	2.16	-	19.7	3.1	5.4	2.16
Electronic banking users <sup>5)</sup>	m	5.7	5.4	4.4	4.0	3.4	0.3
Digital (active) customers <sup>6)</sup>	m	3.2	2.9	2.5	2.3	2.1	0.3
Digital (active) mobile banking customers	m	2.4	2.0	1.6	1.3	1.1	0.4
Debit cards	m	4.4	4.3	4.2	4.0	3.6	0.1
Credit cards	m	1.1	1.2	1.3	1.3	1.3	-0.1
Customer base	m	7.2	7.1	7.2	7.0	6.5	0.1
Branches	locations	450	562	665	764	735	-112
Partner outlets	locations	435	380	317	293	262	55
Employment	FTEs	11 323	12 616	13 579	15 347	14 383	-1 293

1) Assets in investment funds managed by Santander Towarzystwo Funduszy Inwestycyjnych S.A.

2) For definitions of ratios presented in the table above, see "Selected Financial Ratios" of Chapter XI "Financial Performance in 2021".

3) The NPL ratio for 2017 does not take into account POCI exposures.

4) In 2017, the bank paid a dividend from undistributed net profit for 2014 and 2015.

In 2018, the bank paid a dividend from undistributed net profit for 2016.

In 2019, the bank paid a dividend from net profit earned in 2018 and from undistributed profit for 2016 and 2017. For more information, please see Chapter VII "Investor Relations".

In 2020, the bank did not pay a dividend in compliance with the guidance by the supervisory authority.

In 2021, the bank paid out an interim dividend for 2021. For more information, see Chapter VII "Investor Relations".

5) Registered users of electronic banking. The stated numbers include electronic banking customers of Santander Consumer Bank S.A., starting from 2020.

6) Active users of electronic banking service of Santander Bank Polska S.A. and Santander Consumer Bank S.A. who at least once used the service in the last month of the reporting period.

## 4. Factors and Events Impacting Financial Results in 2021

Key macroeconomic factors impacting financial and business performance of Santander Bank Polska Group in 2021

Health situation	<ul style="list-style-type: none"> <li>▶ Covid-19 restrictions at the start of 2021, gradually eased during the year.</li> </ul>
Economic growth	<ul style="list-style-type: none"> <li>▶ Robust economic recovery – in Poland and globally.</li> <li>▶ Rising commodity prices, problems with supply chains.</li> </ul>
Labour market	<ul style="list-style-type: none"> <li>▶ Steady decline in unemployment and high wage growth.</li> </ul>
Inflation	<ul style="list-style-type: none"> <li>▶ Rise in inflation to the highest level in 20 years.</li> <li>▶ Further increase in housing prices.</li> </ul>
Monetary policy	<ul style="list-style-type: none"> <li>▶ End of the asset purchasing programme, start of a tightening cycle in October. Increase in reference rates from 0.10% in October to 1.75% in December.</li> </ul>
Fiscal policy	<ul style="list-style-type: none"> <li>▶ Major decline in economic stimulus and in public finance deficit.</li> </ul>
Credit market	<ul style="list-style-type: none"> <li>▶ Revival of demand for credit from consumers and businesses. Demand for mortgage loans at all-time high.</li> </ul>
Financial markets	<ul style="list-style-type: none"> <li>▶ Rise in market optimism together with vaccination rollout, but also rise in uncertainty as new coronavirus strains emerged.</li> <li>▶ Changes in investor sentiment toward international financial markets as a result of changes in the monetary policies of the main central banks (FED, ECB), new macroeconomic data, and the health situation.</li> <li>▶ Zloty at an elevated level, significant rise of government bond yields.</li> </ul>

## 5. Corporate Events

Selected corporate events subject to disclosure that occurred before the release date of the annual report for 2021

KNF's recommendations on dividend policy	<ul style="list-style-type: none"> <li>▶ Receipt of a letter from the KNF (Polish Financial Supervision Authority) on 11 January 2021, including: <ul style="list-style-type: none"> <li>▶ a recommendation to suspend dividend payment in H1 2021 and refrain from taking any other measures going beyond the scope of the ordinary business and operational activity which could weaken the capital base, unless agreed with the supervisory authority;</li> <li>▶ information that the KNF's position on the policy of dividend payment by commercial banks will be presented in H2 2021 following an analysis of the situation of the banking sector in the first six months of 2021.</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>▶ Receipt of a letter from the KNF (2 July 2021) informing the bank that: <ul style="list-style-type: none"> <li>▶ Stress Test (ST) add-on for Santander Bank Polska S.A. – measuring the bank's sensitivity to an adverse macroeconomic scenario – is set at 1.73%, taking into account regulatory adjustments (the bank's sensitivity is the same in the case of distribution of up to 75% and up to 100% of the net profit);</li> <li>▶ as at 31 March 2021, the bank met the basic dividend policy criteria for distribution of up to 100% of the net profit earned in 2020 but, taking into consideration the additional criteria due to the bank's portfolio of foreign currency home mortgages, the maximum dividend yield is 30%.</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>▶ Receipt of an individual recommendation from the KNF (20 July 2021) regarding the dividend policy of Santander Bank Polska S.A., in which the supervisor: <ul style="list-style-type: none"> <li>▶ confirmed that the maximum dividend yield is 30% of the net profit for 2020;</li> <li>▶ recommended that the bank should not take any other measures which could weaken the capital base unless such measures have been agreed with the supervisor.</li> </ul> </li> </ul>
Recommendations of the bank's Management Board on profit distribution and dividend payment	<ul style="list-style-type: none"> <li>▶ Adoption of a resolution by the bank's Management Board (23 February 2021) recommending that the entire profit for 2020 totalling PLN 738.4m be retained, with 50% to be allocated to the capital reserve and 50% to be left undistributed. The resolution was passed in accordance with the KNF recommendation, taking into account the prevailing macroeconomic conditions.</li> </ul>
	<ul style="list-style-type: none"> <li>▶ Change (17 March 2021) of the Management Board's recommendation of 23 February 2021 regarding the proposed profit distribution for 2020, setting aside a dividend reserve (i.e. capital reserve earmarked for payment of a dividend/ interim dividend), and allocating 50% of the net profit for 2020 (i.e. PLN 369.2m) to this dividend reserve (instead of leaving this portion undistributed as initially recommended). No changes were made to the recommended allocation of the remaining 50% of the net profit to the capital reserve.</li> </ul>
Payment of an interim dividend	<ul style="list-style-type: none"> <li>▶ Decision by the Management Board of Santander Bank Polska S.A. (1 September 2021) to pay out an interim dividend for 2021 and to allocate PLN 220.7m for that purpose from the dividend reserve set aside by virtue of the resolution of the Annual General Meeting of 22 March 2021. Approval of the interim dividend payment by the Supervisory Board.</li> <li>▶ Payment of the interim dividend of PLN 2.16 per share on 15 October 2021.</li> </ul>
Personnel decisions	<ul style="list-style-type: none"> <li>▶ Decision of the Chairman of the Supervisory Board of Santander Bank Polska S.A. Gerry Byrne (22 February 2021) to retire and resign from the bank's Supervisory Board, effective as of adoption of a resolution by the Annual General Meeting (AGM) to approve the Report on activities of the Supervisory Board in 2020.</li> <li>▶ Nomination (8 March 2021) by a shareholder (Banco Santander S.A.) of Antonio Escámez Torres as a candidate for the position of the Chairman of the Supervisory Board.</li> <li>▶ Decision of the Vice President of the bank's Management Board Michael McCarthy (18 March 2021) not to apply for a new term of office starting on 23 March 2021 and to act as an advisor to the President of the bank's Management Board for an interim period.</li> </ul>

	<ul style="list-style-type: none"> <li>▶ Appointment of the existing Management Board members for a new term of office by the Supervisory Board (22 March 2021), except for Michael McCarthy, who decided not to apply.</li> <li>▶ Adoption of a resolution by the Supervisory Board (26 May 2021) appointing Lech Gałkowski as the Management Board member in charge of the Business and Corporate Banking Division. Lech Gałkowski took up the position on 26 May 2021.</li> </ul>
<b>Annual General Meeting</b>	<ul style="list-style-type: none"> <li>▶ Publication of notice (23 February 2021) of the Annual General Meeting (AGM) of Santander Bank Polska S.A. to be convened on 22 March 2021, together with draft resolutions and documents to be considered by the AGM.</li> <li>▶ Annual General Meeting of Santander Bank Polska S.A. (22 March 2021), which adopted standard resolutions, appointed a new member and the Chairman of the Supervisory Board (Antonio Escámez Torres) and determined his remuneration, informed the shareholders of the KNF Chairman's proposal regarding foreign currency mortgage loans and presented changes to the bank's Statutes and to the Policy on the suitability assessment of the Supervisory Board members. For more information, please see Chapter XIII, Section 4 "Governing Bodies".</li> </ul>
<b>Capital transactions</b>	<ul style="list-style-type: none"> <li>▶ Entering into a transaction (26 March 2021) involving the divestment of three Aviva Group companies from the bank's portfolio of investment financial assets (Aviva Towarzystwo Ubezpieczeń na Życie S.A., Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and Aviva Powszechnie Towarzystwo Emerytalne Aviva Santander S.A.) and execution of agreements with Allianz Holding eins GMBH (Allianz) – the new majority shareholder of the bank's associates (Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Santander Aviva Towarzystwo Ubezpieczeń S.A.).</li> <li>▶ The transaction was completed through the sale of 1,370 shares of Aviva Powszechnie Towarzystwo Emerytalne Aviva Santander S.A. for EUR 14,184.1k (29 November 2021) and 4,125 shares of Aviva Towarzystwo Ubezpieczeń na Życie S.A. and 2,968 shares of Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. for EUR 223,317.5k in total (30 November 2021).</li> </ul>
<b>Issuance of certificates of deposit</b>	<ul style="list-style-type: none"> <li>▶ Resolution of the bank's Management Board (24 November 2021) to issue certificates of deposit with the maximum total nominal value of PLN 500m to investors that are eligible counterparties or professional clients.</li> <li>▶ Increase by the Management Board (13 December 2021) of the maximum total nominal value of certificates of deposit to PLN 750m.</li> <li>▶ Issuance of certificates of deposits (22 December 2021) with the nominal value of PLN 750m, variable rate based on WIBOR, two-year maturity and nominal unit value of PLN 500k. The certificates of deposit are sustainability bank securities issued in accordance with the Sustainability Issuance Framework of Santander Bank Polska S.A. The proceeds from the issue will be used to finance or refinance Eligible Green Assets or Eligible Social Assets specified in the Sustainability Issuance Framework.</li> </ul>
<b>Contributions to the Bank Guarantee Fund</b>	<ul style="list-style-type: none"> <li>▶ Adoption of a resolution (16 April 2021) by the Bank Guarantee Fund Council, setting the amount of resolution fund contributions payable by Santander Bank Polska S.A. and Santander Consumer Bank S.A. in 2021 at PLN 135.1m and PLN 19.0m, respectively.</li> </ul>
<b>Impact of interest rate increases by the Monetary Policy Council on the financial performance</b>	<ul style="list-style-type: none"> <li>▶ Publication of information (10 December 2021) about a positive impact of the decisions taken by the Monetary Policy Council on 6 October, 3 November and 8 December 2021 to increase interest rates (by 165 b.p. in total in the case of the reference rate). The impact on the consolidated net interest income was estimated at PLN 1,100m–PLN 1,260m over the next 12 months (assuming a stable level of balance sheet items), including: PLN 1,000m–PLN 1,150m in the case of Santander Bank Polska S.A. and PLN 100m–PLN 110m in the case of Santander Consumer Bank S.A.</li> <li>▶ The impact will gradually materialise in the subsequent quarters and its actual scale will depend on delivery of the business objectives and potential changes in the balance sheet items.</li> </ul>
<b>KNF's decision on an additional capital requirement</b>	<ul style="list-style-type: none"> <li>▶ Receipt of the KNF's decision (26 November 2021) requiring that own funds be maintained at the level sufficient to cover an additional capital requirement of 0.029 p.p. (at Santander Bank Polska Group level) for the total capital ratio consisting of at least 75% of Tier 1 capital and at least 56% of Common Equity Tier 1 capital to mitigate the risk connected with foreign currency home mortgages and equity releases.</li> </ul>
<b>BFG's decision on the minimum requirement for own funds and eligible liabilities</b>	<ul style="list-style-type: none"> <li>▶ Receipt of a letter from the Bank Guarantee Fund (BFG) (25 November 2021) regarding the minimum requirement for own funds and eligible liabilities (MREL) for Santander Bank Polska Group set at 15.42% of the total risk exposure amount (TREA) and 5.91% of the total exposure measure (TEM).</li> <li>▶ The MREL requirement was defined at a consolidated level and should be met by 31 December 2023 along with the minimum MREL subordination requirement of 11.42% of TREA and 5.91% of TEM.</li> <li>▶ The following mid-term targets were defined: <ul style="list-style-type: none"> <li>› to be met by 31 December 2021: 11.73% in relation to TREA, 9.73% for the subordination requirement in relation to TREA and 3% in relation to TEM.</li> <li>› to be met by 31 December 2022: 13.58%, 10.57% and 4.46%, respectively.</li> </ul> </li> <li>▶ To meet the minimum requirements, the bank was permitted to use the liabilities that do not meet the subordination condition up to 2.5% of TREA until 31 December 2021 and up to 3.5% of TREA after 1 January 2022.</li> <li>▶ Common Equity Tier 1 instruments maintained by the bank in accordance with the combined buffer requirement are not eligible for the MREL requirement expressed as a percentage of the total risk exposure.</li> </ul>
<b>Pillar 2 capital add-on imposed by KNF</b>	<ul style="list-style-type: none"> <li>▶ Receipt of the recommendation (11 February 2022) from the KNF that the bank should maintain, at both non-consolidated and consolidated level, own funds to cover a capital add-on at 0.31 p.p. above the total capital ratio in order to absorb potential losses that may arise from stress conditions. The add-on should consist in full of Common Equity Tier 1 capital.</li> </ul>



# II. Key Information on Santander Bank Polska S.A. and its Group

## 1. History, Structure and Profile

### History of Santander Bank Polska S.A. (most important events)

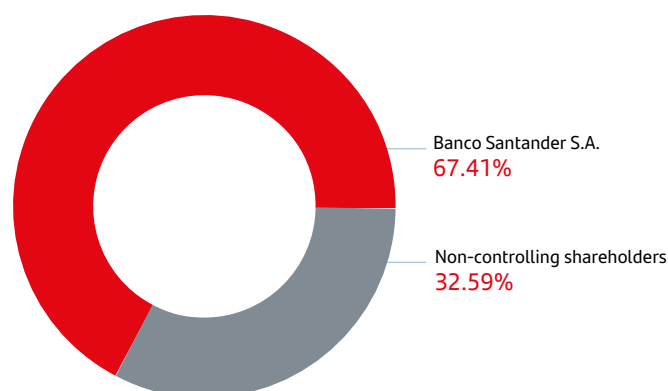
<b>2001</b>	Incorporation of Bank Zachodni WBK S.A. as a result of a merger of Bank Zachodni S.A. with Wielkopolski Bank Kredytowy S.A. (13 June 2001)	
<b>2011</b>	Sale of all shares of Bank Zachodni WBK S.A. held by AIB European Investments Ltd. (70.36% of share capital and voting power) to Banco Santander S.A. (1 April 2011)	Acquisition of 95.67% of share capital and voting power of Bank Zachodni WBK S.A. by Banco Santander S.A. in the tender offer for 100% of the bank's shares
<b>2013</b>	Merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A. by way of acquisition (transfer of all assets of the acquired bank to the acquirer in exchange for newly issued series J shares allotted to shareholders of Kredyt Bank S.A.) (4 January 2013)	
<b>2014</b>	Acquisition of ordinary and preference shares of Santander Consumer Bank S.A. (SCB S.A.) with its registered office in Wrocław by Bank Zachodni WBK S.A., representing 60% of the share capital of SCB S.A. and 67% of votes at the General Meeting of SCB S.A. (1 July 2014)	
<b>2017</b>	Execution of a transaction agreement between Bank Zachodni WBK S.A., Banco Santander S.A. and Deutsche Bank AG (DB AG) to purchase a demerged part of Deutsche Bank Polska S.A. and 100% of shares in DB Securities S.A. (14 December 2017)	
<b>2018</b>	Registration of the change of the bank's name from Bank Zachodni WBK S.A. to Santander Bank Polska S.A. and its registered office address from Wrocław to Warsaw in the National Court Register (7 September 2018)	Acquisition of a demerged part of Deutsche Bank Polska S.A. and DB Securities S.A. along with registration of an increase in the share capital of Santander Bank Polska S.A. by demerger shares (9 November 2018)
<b>2019</b>	Division of Santander Securities S.A. through transfer of an organised part to Santander Bank Polska S.A. and Santander Finance Sp. z o.o. (8 November 2019).	

### Ownership structure

#### Share capital

Santander Bank Polska S.A. is a subsidiary of Banco Santander S.A. with its registered office in Madrid, which held 67.41% share in the bank's registered capital and in the total number of votes at the bank's General Meeting as at 31 December 2021.

#### OWNERSHIP STRUCTURE OF SANTANDER BANK POLSKA SHARE EQUITY AS AT 31.12.2021



For more information about the share capital, see Chapter

VII "Investor Relations" (Section 2 "Share Capital, Ownership Structure and Share Price") and Chapter XIII "Statement on Corporate Governance in 2021" (Section 2 "Issuer's Securities").

#### Majority shareholder

Santander Bank Polska S.A. is a subsidiary of Banco Santander S.A. with its registered office in Madrid, which held 67.41% share in the bank's registered capital and in the total number of votes at the bank's General Meeting as at 30 June 2021. The remaining shares were held by the minority shareholders, of which only the following funds: Nationale-Nederlanden Otworthy Fundusz Emerytalny (OFE) and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny (DFE) jointly exceeded the 5% threshold according to the information held by the bank's Management Board. Both funds are managed by Nationale-Nederlanden Powszechnie Towarzystwo Emerytalne (PTE).

According to the information held by the Management Board, the ownership structure did not change in the period from the end of H1 2021 until the release of the Report of Santander Bank Polska Group for H1 2021.

> **SANTANDER GROUP IN NUMBERS (AS AT 31.12 2021)**



**2nd largest bank in the eurozone and 34th largest bank in the world in terms of market capitalisation**

*(source: Financial Report of Santander Group for Q4 2021)*

## Business profile of Santander Bank Polska Group

Santander Bank Polska S.A. is a universal bank which provides a full range of services for personal customers, SMEs, large companies, corporates and public sector institutions. The bank's offering is modern, comprehensive and satisfies diverse customer needs with regard to current/personal accounts, credit, savings, investment, settlement, insurance and card products. The financial services of Santander Bank Polska S.A. include cash management, payments, trade finance and transactions in the capital, money, FX and derivative markets, as well as underwriting and brokerage services.

The bank's own product range is complemented by specialist products offered by its group of related companies, including: Santander Towarzystwo Funduszy Inwestycyjnych S.A., Santander Leasing S.A., Santander Factoring Sp. z o.o., Santander Aviva Towarzystwo Ubezpieczeń S.A. and Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A. In cooperation with all these companies, the bank provides its customers with access to investment funds, asset portfolios, insurance, leasing and factoring products.

The bank continuously develops its product range to ensure that solutions offered to customers are transparent, simple, digital, flexible and available in self-service channels. It offers unique solutions which are developed within Santander Group based on its global presence, infrastructure and market potential. Customers are provided with comprehensive services in traditional sales channels and via remote channels.

Santander Consumer Bank S.A. and its subsidiaries form a separate business segment with its own customer base, offering and distribution channels. It provides credit facilities to households, mainly in the consumer finance and car finance sectors. It also offers financing to businesses, notably car dealers and importers. Santander Consumer Bank Group offers consumer loans, car finance through lease and factoring, credit facilities for car dealers, retail and business deposits and insurance products.

As at 31 December 2021, Santander Bank Polska Group provided services to 7.2m customers, including 1.7m customers of Santander Consumer Bank S.A.

## Business model of Santander Bank Polska Group

### Value creation by Santander Bank Polska Group



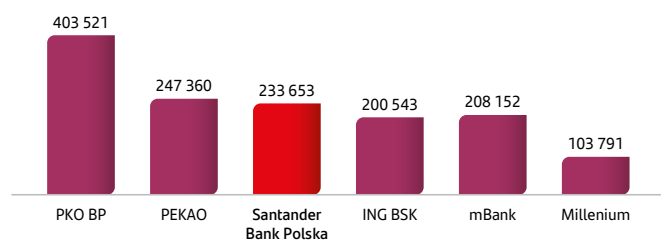
## Position of Santander Bank Polska S.A. and its Group in the Polish banking sector

### Position in the banking sector

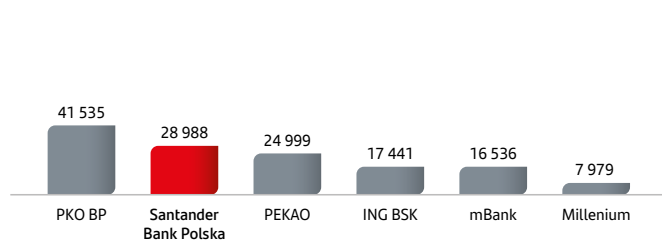
Santander Bank Polska S.A. is ranked among the top three banks in the Polish banking sector (together with PKO BP S.A. and Pekao S.A.) and is the largest private bank in Poland.

According to the financial statements for the quarter ended 30 September 2021, which at the date of approval of this Management Board report for publication (22 February 2021) were the most up-to-date source of comparable data on the performance of banks listed on the Warsaw Stock Exchange (WSE), Santander Bank Polska S.A. – including its subsidiaries and associates – was Poland's second largest banking group in terms of total equity, and third largest one in terms of total asset, loans and deposit value.

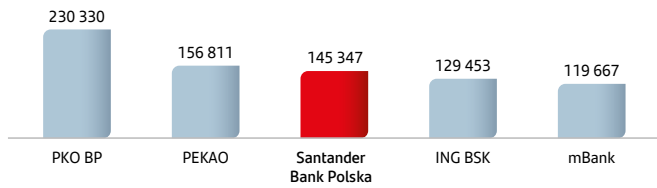
➤ **TOTAL ASSETS (PLN M) OF SANTANDER BANK POLSKA GROUP AS AT 30.09.2021 AGAINST THE PEER GROUP**



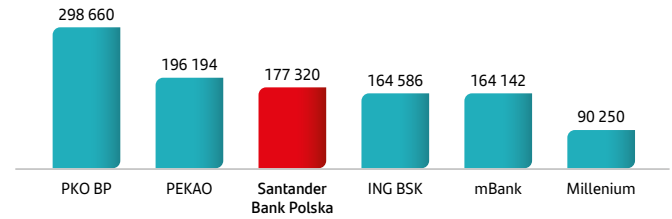
➤ **TOTAL EQUITY OF SANTANDER BANK POLSKA GROUP (IN PLN M) AS AT 30.09.2021 AGAINST THE PEER GROUP**



➤ CUSTOMER LOANS AND ADVANCES OF SANTANDER BANK POLSKA GROUP (PLN M) AS AT 30.09.2021 AGAINST THE PEER GROUP



➤ CUSTOMER DEPOSITS OF SANTANDER BANK POLSKA GROUP (PLN M) AS AT 30.09.2021 R. AGAINST THE PEER GROUP

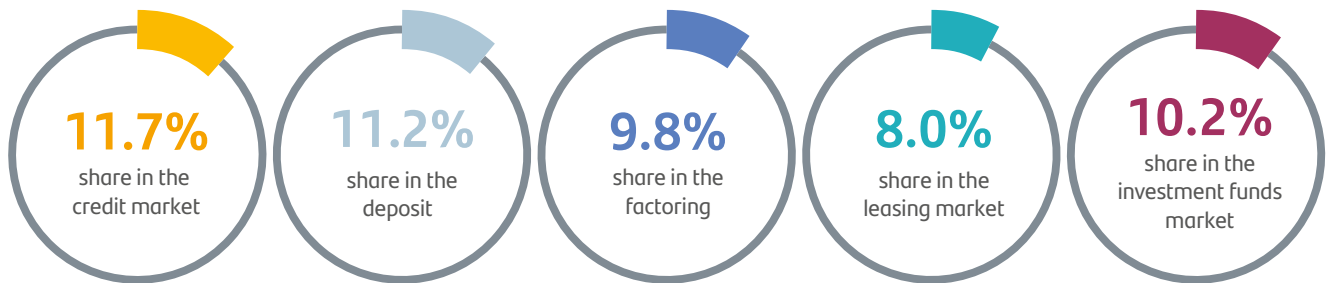


### Share in key market segments

According to the NBP statistics, as at the end of September 2021 the market share of Santander Bank Polska Group was 11.7% for loans and 11.2% for deposits.

The Group operates in the factoring and leasing markets via its subsidiaries, holding a market share of 9.8% and 8.0%,

respectively, as at 31 March 2021 (according to the Polish Factors Association and the Polish Leasing Association). At the same time, the Group's share in the retail investment funds market was 10.2% (according to Analityz Online) while in the stock exchange equity market it held 4.6% (according to the Warsaw Stock Exchange).



### Competitive advantages

Santander Bank Polska Group has stable sources of funding, solid capital and liquidity position and a diversified asset portfolio. The Group's competitive edge is built on a clear and consistent strategic vision focused on customer-centricity and effectiveness, steadily improved through process simplification, digitalisation and transformation of the bank into an Agile organisation. What also gives the bank an advantage is an effective and simple business model, an extensive and diversified business, options available to the bank as a member of Santander Group, use of emerging opportunities for non-organic growth and experience in

mergers and acquisitions. The business scale, quality of products and services, pursuit of operational excellence and strong focus on building lasting relationships with customers allow the Group to compete successfully with the largest players in the Polish banking market. The Group's engagement in the consolidation of the banking sector, a wide array of complementary services for respective customer segments, a large Poland-wide branch network, modern banking technologies, rapidly expanding functionality, integration of remote distribution channels and competent and flexible personnel give the Group good prospects for further market penetration.

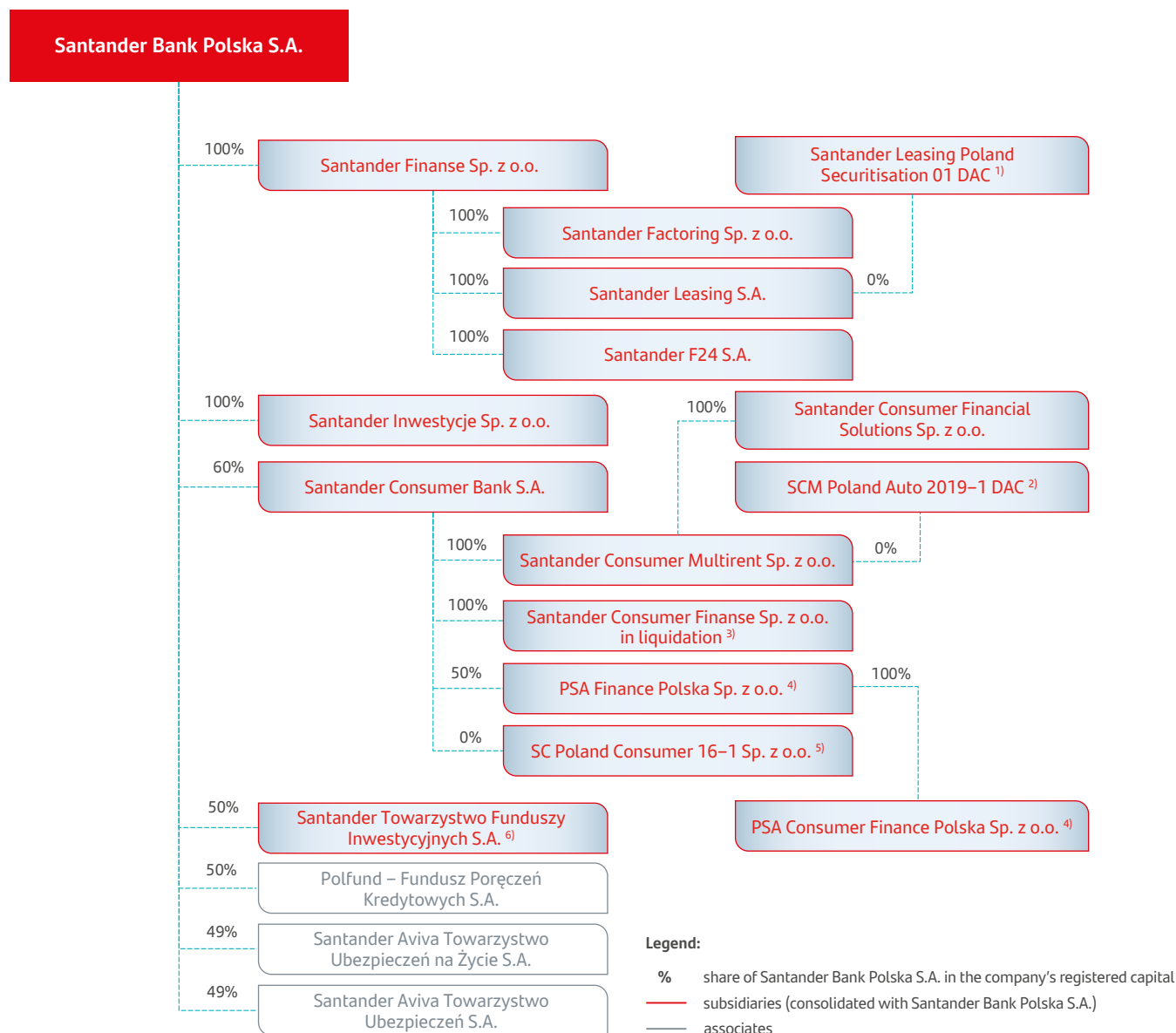
> STRENGTHS OF SANTANDER BANK POLSKA S.A. AND ITS GROUP





## 2. Structure of Santander Bank Polska Group

### ➤ SUBSIDIARIES AND ASSOCIATES OF SANTANDER BANK POLSKA S.A. AS AT 31 DECEMBER 2021



- 1) Santander Leasing Poland Securitization 01 Designated Activity Company (DAC) with its registered office in Dublin is a special purpose entity (SPE) incorporated on 30 August 2018 for the sole purpose of securitisation of a lease and credit portfolio. The company does not have any capital connections with Santander Leasing S.A., which is its controlling entity in accordance with the conditions laid down in IFRS 10.7.
- 2) SCM Poland Auto 2019-1 Designated Activity Company with its registered office in Dublin was incorporated on 18 November 2019. Its shareholder is a legal person that is not connected with the Group. It is an SPE established to securitise a part of the lease portfolio of Santander Consumer Multirent Sp. z o.o., which is its controlling entity, in accordance with the conditions laid down in IFRS 10.7.
- 3) Santander Consumer Finanse Sp. z o.o. in liquidation was dissolved and put in liquidation as of 31 December 2020 by virtue of a resolution of the company's Extraordinary General Meeting of 23 December 2020.
- 4) PSA Finance Polska Sp. z o.o. is an investment in a subsidiary for the purpose of consolidated financial statements due to the fact that it is controlled by Santander Consumer Bank S.A. (directly) and Santander Bank Polska S.A. (indirectly).
- 5) SC Poland Consumer 16-1 is an SPE set up for the purpose of securitisation of part of SCB credit portfolio. The entity has no capital connections with Santander Consumer Bank S.A., which is its controlling entity in accordance with the conditions laid down in IFRS 10.7.
- 6) Both owners of Santander Towarzystwo Funduszy Inwestycyjnych S.A. (Santander TFI S.A.), i.e. Santander Bank Polska S.A. and Banco Santander S.A., are members of Santander Group and hold an equal stake of 50% in the company's share capital. In practice, Santander Bank Polska S.A. controls Santander Towarzystwo Funduszy Inwestycyjnych S.A., as the latter is the company through which Banco Santander S.A. pursues its policy in Poland.

## Subsidiaries

As at 31 December 2021, Santander Bank Polska Group comprised Santander Bank Polska S.A. and the following subsidiaries:

1. Santander Consumer Bank S.A. (SCB S.A.)
2. Santander Consumer Finance Sp. z o.o. in liquidation (subsidiary of SCB S.A.)
3. Santander Consumer Multirent Sp. z o.o. (SCM Sp. z o.o. – subsidiary of SCB S.A.)
4. Santander Consumer Financial Solutions Sp. z o.o. (subsidiary of SCM Sp. z o.o.)
5. SCM Poland Auto 2019-1 DAC (subsidiary of SCM Sp. z o.o.)
6. SC Poland Consumer 16-1 Sp. z o.o. (subsidiary of SCB S.A.)
7. PSA Finance Polska Sp. z o.o. (subsidiary of SCB S.A.)
8. PSA Consumer Finance Polska Sp. z o.o. (subsidiary of PSA Finance Polska Sp. z o.o.)
9. Santander Towarzystwo Funduszy Inwestycyjnych S.A.
10. Santander Finance Sp. z o.o.
11. Santander Factoring Sp. z o.o. (subsidiary of Santander Finance Sp. z o.o.)
12. Santander Leasing S.A. (subsidiary of Santander Finance Sp. z o.o.)
13. Santander Leasing Poland Securitization 01 Designated Activity Company (subsidiary of Santander Leasing S.A.)
14. Santander F24 S.A. (subsidiary of Santander Finance Sp. z o.o.)
15. Santander Inwestycje Sp. z o.o.

Compared to 31 December 2020, the list of members of Santander Bank Polska Group was reduced by one company: SC Poland Consumer 15-1 Sp. z o.o. Santander Consumer Bank S.A. ceased to control the entity after the latter had ended and settled its securitisation transaction on 17 June 2021.

As at 31 December 2021, all companies within Santander Bank Polska Group are consolidated with the bank in accordance with IFRS 10.

## Associates

In the consolidated financial statements of Santander Bank Polska Group for the 12-month period ended 31 December 2021, the following companies are accounted for using the equity method in accordance with IAS 28:

1. Santander Aviva Towarzystwo Ubezpieczeń S.A. (Santander Aviva TU S.A.)
2. Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A. (Santander Aviva TUnŻ S.A.)
3. POLFUND – Fundusz Poręczeń Kredytowych S.A.

Compared with 31 December 2020, the list of associates did not change.

### III. Macroeconomic Situation in 2021

#### Economic growth

Since the start of the year, the Polish economy witnessed a strong rebound after the pandemic-ridden 2020. In Q1 2021, the economy was still operating under restrictions introduced in response to another coronavirus wave, so the GDP was still lower than the year before (-0.8% YoY). In Q2 2021 most restrictions were lifted and the low statistical base effect allowed very high annual growth rates to be achieved in the remainder of the year. Lower restrictions were especially supported by vaccination rollout, which was dynamic, although the vaccination rate in Poland stalled well below levels reached in other European countries. Eventually, GDP growth for the entire year was 5.7%. Economic revival was visible in numerous sectors, but occurred in an environment troubled by supply chain disruption and low labour availability. This had a negative impact on some industries, like car manufacturing. Despite that, the industrial output advanced by about 15%. Higher domestic demand and rising commodity prices translated into a major acceleration of imports. As a result, the high current account surplus recorded in 2020 (+2.9% of the GDP) turned to a deficit (-0.8% of the GDP).

#### Labour market

The economic rebound was supportive for higher labour demand, which again triggered the difficulties seen before the pandemic, i.e. problems with finding qualified staff and rising wage pressure.

The unemployment rate was declining steadily and reached pre-pandemic levels at the year-end: LFS seasonally adjusted rate was at 2.9% in December, exactly the same as in March 2020. Wages rose by 9% YoY in nominal terms on average, but in real terms, after the marked acceleration in H1 2021, they saw a significant slowdown due to a pronounced rise in inflation.

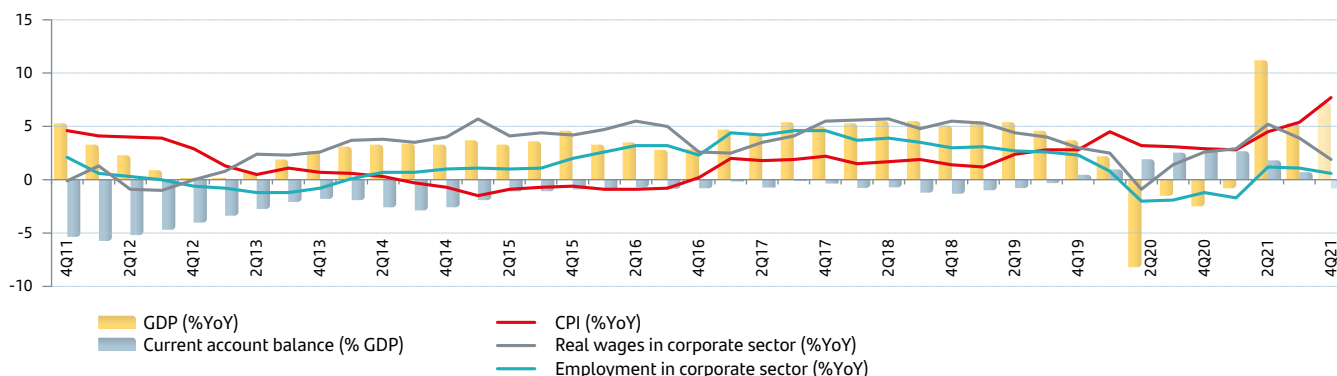
#### Inflation

Inflation accelerated since the start of the year: from 2.6% YoY in January to 8.6% YoY in December, reaching the highest level in 20 years. Most considerable growth rates were observed in food (8.6% YoY in December), fuels (32.9% YoY) and energy (14.1% YoY), which resulted from global market tendencies, but price increases were widespread, and core inflation accelerated from 3.9% YoY in January to 5.3% YoY in December. PPI inflation jumped from 1.0% YoY in January to 14.2% YoY in December, reflecting rising costs for businesses.

#### Monetary policy

The rise of inflation amid strong economic rebound encouraged the MPC to hike interest rates at meetings in October, November and December from 0.1% before the cycle started to 1.75% at the end of 2021. The NBP also halted its asset purchases programme initiated during the pandemic.

#### SELECTED MACROECONOMIC INDICATORS



#### Loans and deposits

The economic revival supported demand for loans, but the rebound on this market was not very strong. At the end of the year, the total loan volume was by 4.5% higher than the year before (after adjusting for FX changes). Loans for households advanced by about 5%, with mortgage loans recording a high two-digit growth rate throughout the year. Consumer loans also rebounded and were by 2% higher than in December 2020. Corporate loan volumes were flat in H1 2021, but started to go up in H2 2021, ending the year 4% above the level reported in December 2020. Current loans recorded the most considerable rebound (+14.3% YoY in December). Deposits expanded by 8.8% YoY, with retail deposits growing by 6.1% YoY and business deposits by 10.4% YoY. Current deposits increased by 14.1% YoY

and term deposits declined by 12.0% YoY. However, the latter recorded a reversal in the downward trend since October 2021.

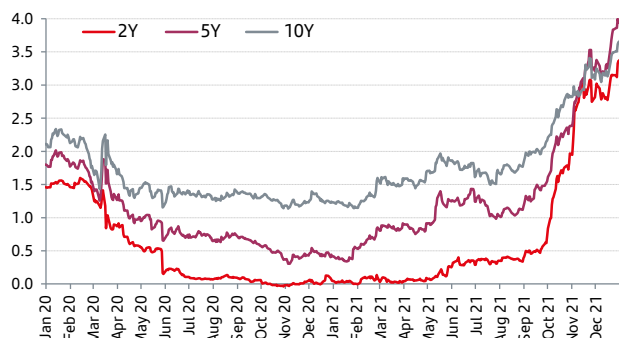
#### Financial market situation

While in 2021 the pandemic continued to exert a significant impact on the markets, inflation came to the fore. It was rising globally and faster than expected. Monetary policies at the start of 2021 were still extremely loose, focused on supporting economies weakened by the consecutive waves of the pandemic. The markets moved to pricing in significant interest rate hikes before central banks shook off the inflation shock, stopped calling the elevated inflation transitory or explaining that their tools could do little against supply shocks. Central banks in emerging markets started to fight off the accelerating inflation much earlier

than central banks of key developed economies. The only steps that Fed and ECB took was to decrease their QE purchases during 2021. At the same time, on the fiscal policy side there were continued attempts to make the economies more resilient to the pandemic crisis and to facilitate a rebound. In the United States, a USD 900bn stimulus programme was signed by president Donald Trump at the start of the year. In March, his successor Joe Biden announced another fiscal package of USD 1.9tn. The EU launched the EUR 750bn Recovery Fund and almost all member states received some support from it already in 2021. Apart from the inflation surprise, 2021 was also marked by higher-than-expected economic rebound in real terms. US and Eurozone GDP growth was forecasted at approx. .4% at the start of the year, but eventually, according to preliminary estimates, exceeded 5% in both cases.

In 2021, government bond yields in Poland and on core markets soared, buoyed by accelerating inflation and solid economic rebound. Later on, they were also helped by the tightening of monetary policies (NBP raised rates by a total of 165 b.p. in Q4). The rise in yields was much faster than one could imagine. Throughout 2021, Polish 10Y bond yield moved from 1.2% to 4.0%, 5Y from 0.4% to 4.0% and 2Y from 0.1% to 3.5%. The yield curve steepened until May (2Y–10Y spread rose from +115 b.p. to +175 b.p.) but in the final months of the year it got completely flat (slope of around +30 b.p.) as new risks to economic growth

### YIELDS OF POLISH TREASURY BONDS (%)



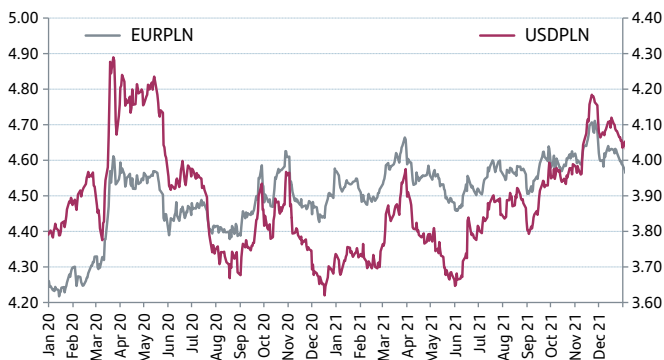
### Stock market

For the greater part of 2021, prices of stocks listed on the Warsaw Stock Exchange were rebounding after the decline caused by the pandemic. While the scale and rate of growth differed from sector to sector, the main indices performed relatively well (until autumn) on account of improving economic conditions, both locally and globally. The upturn came to a halt along with the change in the monetary policy of the NBP which, after a period of rather dovish rhetoric in view of accelerating inflation, decided to tighten the policy starting from October. Late action by the Monetary Policy Council did not help the Polish zloty, which depreciated most severely between September and November. Still, the US dollar gained mainly on account of the planned monetary policy tightening in 2022 announced by the Federal

emerged, including the impact of the already delivered rate hikes. 10Y Bund spread widened in 2021 from less than 200 b.p. to around 400 b.p. When the bond sell-off intensified, the NBP became more active on the market, buying PLN 15bn worth of bonds in May while average purchases in other months were in the order of PLN 2bn. While the NBP QE program was not formally closed, in H2 2021 the central bank was clearly less interested in using this tool. In total, the value of bonds held by the NBP rose in 2021 from PLN 113bn to PLN 149bn. The value of 7-day NBP bills used for market liquidity control rose from PLN 170bn at the start of 2021 to PLN 260bn in November, falling to below PLN 200bn at the end of the year.

In 2021, the US dollar ruled the foreign exchange market. Its strengthening was creating unsupportive environment for emerging market currencies, including the zloty, which lost more than 7% vs USD. The EUR/PLN rate was at 4.60 at the end of December, remaining practically unchanged year-on-year, but throughout 2021 the Polish currency was under negative pressure from the more and more negative real interest rates, NBP tolerance for weaker PLN, the delayed launch of monetary tightening compared to regional peers and the growing Poland–EU rule-of-law conflict. In 2021, like in 2020, the swings in the value of the zloty were correlated with the pandemic waves – the EUR/PLN rate went above 4.65 only during the March and November peaks of new Covid-19 cases.

### EXCHANGE RATE OF THE ZLOTY VS THE EURO AND THE DOLLAR



Reserve at the end of 2021. In 2021, the pandemic had a fairly limited negative impact on the economy and, subsequently, stock exchange indices which yielded impressive rates of return despite the autumn downturn. WIG, a broad-based index, gained 21.5% in 2021. Small and medium cap indices, i.e. sWIG80 and mWIG40, fared even better, closing the year up 33.1% YoY and 24.6% YoY respectively. WIG20, a blue chip index, performed worst, as it increased by 14.3% and did not manage to exceed its all-time highs.

### Legal environment of the banking sector

The table below shows the selected legislation which came into effect in 2021 and has impact on the financial sector in Poland

Act or regulation	Effective date	Selected regulations affecting the financial sector
Act of 27 November 2020 amending the VAT Act (Slim VAT) and certain other acts	1 January 2021	<ul style="list-style-type: none"> <li>▶ The act extends the scope of entities whose settlement accounts must be reported to STIR. They include the entities which used to be exempt from the reporting obligation under the General Tax Code, i.e. cooperative banks, banks run by other banks, credit unions, State Treasury, National Health Fund (NFZ), Social Insurance Institution (ZUS), Bank Guarantee Fund (BFG).</li> <li>▶ Banks were required to start reporting via STIR on 1 June 2021 at the latest.</li> </ul>
Act of 18 November 2020 on electronic delivery Act of 15 June 2021 amending the Act on electronic delivery	5 October 2021 (5 July 2022 for all requirements)	<ul style="list-style-type: none"> <li>▶ Banks will be required to register an electronic address and indicate it in agreements with customers as an address relevant for making complaints or statements on withdrawal from the agreement, among other things.</li> <li>▶ Electronic address will be obligatory as of 1 October 2022.</li> </ul>
Act of 6 December 2018 on the National Debtors Register	1 December 2021 (with exceptions)	<ul style="list-style-type: none"> <li>▶ The Insolvent Debtors Register has been replaced by the National Debtors Register, which is publicly available online. It includes data on individuals and businesses that are or are likely to become insolvent.</li> <li>▶ This solution facilitates digitalisation of bankruptcy and restructuring proceedings as businesses are required to file their motions electronically and electronic deliveries are used as a rule.</li> </ul>
Act of 25 February 2021 amending the Banking Law Act and certain other acts	28 April 2021 (majority of provisions)	<ul style="list-style-type: none"> <li>▶ The main objective of the act is to transpose the following EU regulations on capital requirements for financial institutions: <ul style="list-style-type: none"> <li>▶ 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);</li> <li>▶ Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012 (CRR II).</li> </ul> </li> </ul>
Regulation 2019/2088 of 27 November 2019 on sustainability-related disclosures in the financial services sector (SFDR)	10 March 2021 (majority of provisions)	<ul style="list-style-type: none"> <li>▶ The SFDR applies to investment products, advisory services and portfolio management services. It sets out information obligations of financial market entities and financial advisors.</li> <li>▶ Pursuant to the SFDR, they are required to disclose information on strategies for integration of sustainability risks and investment decision processes regarding consideration of adverse sustainability impacts.</li> <li>▶ The regulation sets out information obligations related to offering ESG-linked products to customers who intend to make responsible and sustainable investments.</li> </ul>
Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088	1 January 2022 (part of provisions) and 1 January 2023 (all provisions)	<ul style="list-style-type: none"> <li>▶ The regulation introduces the EU taxonomy of environmentally sustainable economic activities and sets out reporting obligations for financial market entities as well as obligations directly applicable to companies publishing non-financial reports and indirectly to all other companies.</li> <li>▶ The major part of the provisions will apply to annual reports for 2021 prepared starting from 1 January 2022.</li> </ul>
Act of 30 March 2021 amending the Act on the prevention of money laundering and terrorist financing and certain other acts	15 May 2021 (majority of provisions)	<ul style="list-style-type: none"> <li>▶ The Act transposes Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 whose purpose is to modify the EU legal framework for the prevention of money laundering and terrorist financing in order to increase transparency of financial flows in the financial system.</li> <li>▶ It supplements Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing.</li> </ul>
Regulation of the Minister of Finance, Funds and Regional Policy of 8 June 2021 on the risk management system, the internal control system and remuneration policy at banks	11 June 2021	<ul style="list-style-type: none"> <li>▶ The regulation defines the risk management system and the internal control system at banks and sets out the scope of the remuneration policy and the rules for its determination.</li> </ul>
Commission Delegated Regulation (EU) 2021/923 of 25 March 2021 supplementing Directive 2013/36/EU of the European Parliament and of the Council	14 June 2021	<ul style="list-style-type: none"> <li>▶ The regulation defines the criteria to identify staff members or categories of staff members classified as Material Risk Takers (i.e. staff members whose professional activities have a material impact on an institution's risk profile).</li> <li>▶ The regulation also sets out the criteria to define managerial responsibility, control functions, material business units and a significant impact on a material business unit's risk profile.</li> </ul>

Act of 11 August 2021 amending the Code of Civil Proceedings and certain other acts	24 September 2021	<ul style="list-style-type: none"> <li>▶ The following amendments were introduced: <ul style="list-style-type: none"> <li>› a possibility for parties to and participants of court proceedings to send statements of case to the court at Polish post offices of all postal service providers;</li> <li>› three different time limits for making appeals as part of payment order proceedings, i.e. two weeks, a month and three months.</li> </ul> </li> <li>▶ The condition precedent to issuing a payment order based on a promissory note in the proceedings against a consumer is for the claimant to attach to a lawsuit the agreement under which the claim is secured by the promissory note, together with the promissory note declaration and attachments.</li> <li>▶ Also, it is no longer possible to endorse a promissory note issued to a business owner in order to pay or secure receivables arising from an agreement with a consumer. Promissory notes issued before the effective date of the above act are governed by existing laws.</li> </ul>
Act of 31 July 2019 amending certain acts to reduce regulatory burdens – amendment of Act of 23 April 1964 – the Civil Code	January 2021 (regarding new Article 385 of the Civil Code)	<ul style="list-style-type: none"> <li>▶ Pursuant to the amended act, sole proprietors have been afforded protection as consumers but only with respect to the use of abusive clauses, warranties and cancellation of agreements made remotely or outside the business premises if the agreement is not of a professional nature for them.</li> </ul>
Act of 11 August 2021 amending the VAT Act and the Banking Law Act	1 October 2021 (majority of provisions)	<ul style="list-style-type: none"> <li>▶ The purpose of the act is to further simplify VAT settlements and adjust Polish law to account for the implications of Brexit.</li> <li>▶ Changes to the Banking Law concern crediting and debiting VAT accounts as well as enforcement and preservation of funds in technical accounts used for identification of VAT account holders.</li> </ul>
Act of 14 October 2021 amending the Accounting Act and certain other acts	8 December 2021 (majority of provisions)	<ul style="list-style-type: none"> <li>▶ Pursuant to the act, issuers are required to prepare financial statements and management reports in a uniform electronic format (XHTML) and mark consolidated financial statements using Inline XBRL.</li> <li>▶ Financial statements may now be signed by only one member of a governing body provided that other members declare that the documents meet the relevant requirements.</li> </ul>
Act of 14 April 2021 amending the Identity Cards Act and certain other acts	2 August 2021	<ul style="list-style-type: none"> <li>▶ The act aligns the Identity Cards Act with Regulation (EU) 2019/1157 of the European Parliament and of the Council. It provides for the following, among other things: <ul style="list-style-type: none"> <li>› integration of biometric data (fingerprints) in an electronic layer of the identity card;</li> <li>› extension of the data printed on the identity card to include a signature of the holder.</li> </ul> </li> </ul>

#### Regulatory recommendations and guidelines

	Effective date	Selected guidelines affecting the financial sector
New Recommendation S on best practice in the management of mortgage-backed credit exposures	30 June 2021	<ul style="list-style-type: none"> <li>▶ The scope of the Recommendation has been extended to include provisions aimed to reduce risk incurred by consumers and financial institutions: <ul style="list-style-type: none"> <li>› Repayment capacity may now be calculated for the maximum period of 25 years even if the lending period is longer.</li> <li>› Financial institutions are required to offer a loan with a fixed interest rate for the minimum period of five years (effective as of 1 July 2021).</li> <li>› The origin of funds used as a mortgage deposit must be verified (to check if they are not borrowed). A borrower must make a mortgage deposit by the date of loan disbursement or proportionally to an amount of individual tranches.</li> <li>› Financial institutions must assume 50% depreciation in the case of foreign currency income.</li> </ul> </li> <li>▶ Provisions on the "key-for-debt" option have been introduced, stipulating that the borrower's obligations will be considered discharged if the title to the financed property is transferred to the bank.</li> </ul>
Recommendation Z on corporate governance in banks	9 October 2020	<ul style="list-style-type: none"> <li>▶ The regulation incorporates the guidelines issued by EBA and ESMA as well as conclusions from inspections carried out by the KNF at banks.</li> <li>▶ It includes recommendations on suitability assessment of supervisory and management board members and key function holders, term of office of supervisory and management board members, remuneration rules and an obligation to apply specific HR policies, incorporation of corporate governance practices in onboarding and training processes for the above-mentioned groups.</li> <li>▶ The recommendation specifies the roles and positions that should be verified in terms of a potential conflict of interest as part of relationship, agreement or transaction with the bank. It also requires banks to manage conflicts of interest and defines key control mechanisms.</li> </ul>
Best Practice for GPW Listed Companies 2021	1 July 2021	<ul style="list-style-type: none"> <li>▶ Best Practice for GPW Listed Companies 2021 supersedes the existing Best Practice for GPW Listed Companies 2016.</li> <li>▶ The matters regulated by law have been excluded. The structure of the document has been changed (the recommendations and rules have been replaced with the general and specific rules) and ESG aspects have been included.</li> <li>▶ One of the key changes is the general obligation for the listed companies to inform relevant parties about the scope of application of best practice instead of informing them which rules do not apply.</li> </ul>



# IV. Development Strategy of the Bank and Santander Bank Polska Group








## 1. Mission, Vision, Values and Strategic Objectives for 2021–2023

The strategy of Santander Bank Polska Group for 2021–2023 is a continuation of the previous course of action and is based on

the same values and assumptions as applied before. The Group's purpose, aim and values have not changed for years:

 <b>PURPOSE</b>  To help people and businesses prosper	 <b>AIM</b>  To be the best open financial services platform by acting responsibly and earning the lasting loyalty of employees, customers, shareholders and communities	 <b>VALUES</b>  Simple   Personal   Fair
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### KEY STRATEGIC LEVELS FOR 2021-2023

 Our Purpose / Mission	Help people and businesses prosper
 Our Aim / Vision	Be the Best Open Financial Services <b>PLATFORM</b> by acting <b>RESPONSIBLY</b> and earning the lasting <b>LOYALTY</b> of our people, customers, shareholders and communities
 Values	Simple - Personal - Fair
 Behaviours & Leadership Commitment	Actively Collaborate } Bring passion } Embrace change } Keep promises } Show respect } Support people } Talk Straight } Truly listen } risk pro Being open and inclusive } Inspiring and executing transformation } Leading by example } Encouraging the team to prosper
 Strategic Directions	@ Customer Obsession } 👤 Employee Focus } ⚙️ Simplification } 📱 Smart Omnichannel } 🏗️ Innovate to Open Platform } 🤝 Safety & Trust
 Initiatives	Strategic programs } Hotspots } Bets } Group programs
 Metrics	NPS } Employee Engagement } Digital Customers } Dividend Payout Ratio } Cost of Credit Rsk } TCR } C/I

The strategy of Santander Bank Polska Group reflects a customer-centric approach to business management through continuous improvement of service quality and product range. A special focus is placed on digitalisation and simplification of processes from the customer's perspective, which results in improved customer

experience, increased operational efficiency, simple solutions, and transparency of the offer. The delivery of the Group's strategy is underpinned by innovative solutions and the corporate culture which is focused on increasing engagement and motivation of employees and social responsibility of the organisation.

> SIX STRATEGIC DIRECTIONS FOR 2021–2023: “FOCUS TO ACCELERATE”

**Employee Focus**

Employee experience as a gateway to Customer delight. **Ability to retain and acquire new talents** is a key to build critical competences and skills supporting Bank's transformation

**Customer Obsession**

by managing key customer journeys end-to-end and **spreading design competences to ensure breakthrough customer experience**

**Safety and Trust**

(CSR & Cybersecurity & IT systems stability) Realization of the **responsible banking agenda** Reliability of IT systems by ensuring high level of cybersecurity and stability (channels and support)

**Simplification**

(Operating way & Organizational structure)

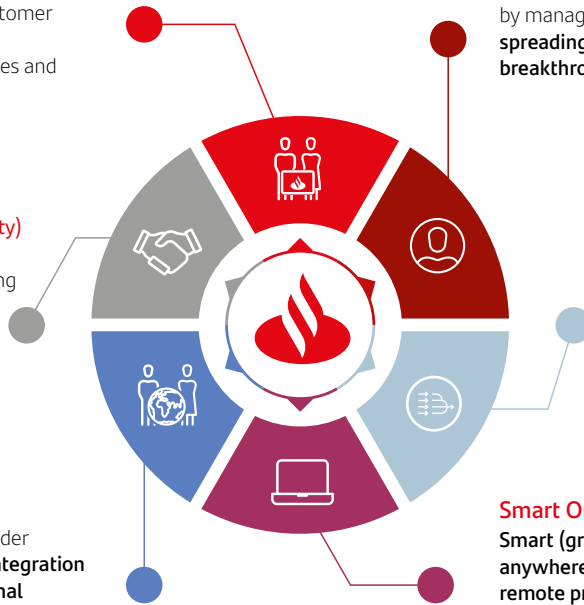
**Simplify the core in 4 major areas:** products, processes, papers and performance under One Europe umbrella – One Purpose One Process approach through seamless e2e processes. **Flat and simple organizational structure**

**Innovate to Open Platform**

Plug-in to **Global and One Europe** Santander solutions, external 3rd parties (API) and **integration** of internal applications Increase **operational excellence** through speedy and cost effective implementations thanks to innovative API architecture and partnership

**Smart Omnichannel**

**Smart (gradual) self-service anytime and anywhere. Maximise the number of self-service/ remote processes the clients can use.** Convert clients to become self-service through various stimuli& motivators. Multichannel integration of CEX based on customer value, customer preferences and cost to serve



As part of the strategy for 2021–2023, the following six strategic directions have been defined: customer obsession, employee focus, simplification, smart omnichannel, innovate to open platform, safety and trust. They are the key focus areas of the Group's transformation. The strategic directions set by the Group:

- consolidate specific objectives set to increase loyalty of individual stakeholder groups: employees (employee focus), customers (customer obsession), communities and shareholders (safety and trust);
- assign the highest transformational value to the objectives related to development of the Group's operating model: simplification and smart omnichannel;
- fully comply with the aim of Santander Group's regional strategic plan One Europe, emphasising the foundations for the Group's development (safety and trust), with a particular focus on responsible banking (CSR/Corporate Social Responsibility);
- indicate the Group's ambition to build competitive advantages through innovation to open platform.

> STRATEGIC OBJECTIVES FOR 2021–2023



The activities undertaken as part of six strategic directions are based on strategic initiatives, such as strategic programmes, hot spots (initiatives focused on customers and employees), bets (initiatives in the Agile model) and group programmes. They are regularly monitored and their results are reviewed on the basis of qualitative and quantitative metrics. The following are measures defining the Group's financial ambitions.

## AMBITIONS OF SANTANDER BANK POLSKA GROUP (FINANCIAL MEASURES) UNDER STRATEGY FOR 2021-2023

Our ambitions	
Cost / Income Ratio	▶ < 40%
Dividend Payout Ratio	▶ 50% of PAT
Total Capital Ratio	▶ at the level allowing dividend payout
Cost of Credit Risk	▶ at the average pre-pandemic (COVID-19) and through-the-cycle level

In view of dynamic and complex changes in the macroeconomic environment, the strategy of Santander Bank Polska S.A. is

regularly verified, which helps take prompt action in response to market trends and other changes in the dynamic environment.

## 2. Ambitions for 2021–2023 and Delivery of the Strategy

### Strategic directions

When setting strategic directions, the Group also defines strategic objectives and key success measures that let it track the progress in delivery of the strategy.

Strategic direction: **Employee focus**

Strategic objective: **Engaged** employees

What we did	Key success measures	Our ambitions
<ul style="list-style-type: none"> <li>▶ Ensured safety and supported wellbeing of our employees during the Covid-19 pandemic</li> <li>▶ Optimised many HR processes</li> <li>▶ Continued development of a work model in accordance with the Agile methodology</li> <li>▶ Promoted diversity, equal treatment and inclusion</li> <li>▶ Supported talent development</li> </ul>	<ul style="list-style-type: none"> <li>▶ Leading employer of choice in the banking sector (Top Employer Poland 2021 certificate)</li> <li>▶ Implementation of a remote work culture and designing a hybrid work model</li> <li>▶ Development of wellbeing programmes and promotion of healthy and sustainable lifestyle (BeHealthy, SantanderGO)</li> <li>▶ High level of Agile maturity (ceremonies and tools)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Foster the corporate culture based on the Simple, Personal and Fair values</li> <li>▶ Increase employee engagement and retain the employer of choice title</li> <li>▶ Attract and retain best talents</li> <li>▶ Continue to develop key competencies (including leadership skills)</li> </ul>

Strategic direction: **Simplification**

Strategic objective: **Simpler, faster and lean** organisation

What we did	Key success measures	Our ambitions
<ul style="list-style-type: none"> <li>▶ Simplified the product range and a number of key customer service and post-sales processes</li> <li>▶ Significantly reduced paper consumption in processes</li> </ul>	<ul style="list-style-type: none"> <li>▶ Reduction of paper consumption (by 23.1m sheets by the end of October 2021)</li> <li>▶ Increase in the number of customers using e-communication channels</li> <li>▶ Reduction in the number of products</li> <li>▶ Introduction and gradual expansion of SMS-based authentication of payments and cash transactions at branches and electronic signature of documents</li> <li>▶ Simplification of the complaint process for SME customers</li> <li>▶ Implementation of a new consolidation loan application process in internet and mobile banking</li> </ul>	<ul style="list-style-type: none"> <li>▶ Further reduce paper documents and promote electronic communication</li> <li>▶ Continue to simplify processes and products and optimise the organisational structure</li> </ul>

Strategic direction: **Customer obsession**

Strategic objective: Customers with **long-term relationships** with Santander

What we did	Key success measures	Our ambitions
<ul style="list-style-type: none"> <li>▶ Accelerated process digitalisation and optimisation</li> <li>▶ Supported our customers during the Covid-19 pandemic</li> <li>▶ Introduced a plain language in communication with our customers</li> </ul>	<ul style="list-style-type: none"> <li>▶ Increase in mass NPS vs 2019 (steady upward trend since the beginning of 2020)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Build long-term customer relationships thanks to products created using service design competencies and feedback from customers from individual segments</li> <li>▶ Increase localisation of our products and digitalisation of our customers</li> <li>▶ Increase the customer satisfaction level (NPS)</li> </ul>

Strategic direction: **Smart omnichannel**

Strategic objective: Bank offering **self-service** and remote solutions

What we did	Key success measures	Our ambitions
<ul style="list-style-type: none"> <li>▶ Accelerated process digitalisation</li> <li>▶ Increased the availability of processes in remote channels</li> <li>▶ Reduced the number of processes requiring a visit to a branch</li> <li>▶ Aligned the customer experience standard across all channels</li> </ul>	<ul style="list-style-type: none"> <li>▶ 3m digital customers of Santander Bank Polska S.A.</li> <li>▶ Increase in the number of transactions made in remote channels</li> <li>▶ Growth of product sales through self-service channels</li> <li>▶ Increase in the number of paperless transactions and transactions without a traditional hand-written signature</li> </ul>	<ul style="list-style-type: none"> <li>▶ Maximise the use of self-service and remote channels in key sales and post-sales processes</li> <li>▶ Increase the number of digital customers</li> <li>▶ Improve customer experience in remote contact channels</li> </ul>

Strategic direction: **Innovate to open platform**

Strategic objective: Best **financial services platform**

What we did	Key success measures	Our ambitions
<ul style="list-style-type: none"> <li>▶ Supported further evolution to an open platform in cooperation with Santander Group and external partners</li> <li>▶ Developed open banking solutions via Santander Open</li> </ul>	<ul style="list-style-type: none"> <li>▶ Launch of GTS platform offering new digital services for corporate customers</li> <li>▶ Extension of cooperation with external partners</li> <li>▶ Growing number of customers using Santander Open (PSD2 aggregator)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Further develop and improve the open financial services platform</li> </ul>

Strategic direction: **Safety and trust**

Strategic objective: **Safe and trustworthy** bank

What we did	Key success measures	Our ambitions
<ul style="list-style-type: none"> <li>▶ Developed and strengthened the responsible banking agenda based on ESG metrics</li> <li>▶ Took further steps to meet the objectives of the Group's Net Zero strategy</li> <li>▶ Implemented the new Environmental, Social and Climate Change Risk Management Policy</li> <li>▶ Introduced a new model for managing the responsible banking agenda</li> <li>▶ Established the ESG Forum and appointed 11 ESG Leads representing each division of the bank</li> <li>▶ Implemented the corporate Sustainable Finance Classification System</li> <li>▶ Expanded the scope of our green products and services and helped customers in their green transformation and transition to a low- and zero-emission operating model</li> <li>▶ Supported creation of a diverse and friendly working environment</li> <li>▶ Made the second largest issuance of green bonds for a non-financial company with a total value of EUR 311m</li> <li>▶ Provided EUR 109m for renewable energy projects</li> <li>▶ Provided EUR 372m for green finance in 2021</li> <li>▶ Issued first sustainability bonds of Santander Bank Polska S.A. with a total value of PLN 750m</li> </ul>	<ul style="list-style-type: none"> <li>▶ First card made of biodegradable plastic</li> <li>▶ ECO Loan on offer</li> <li>▶ Support for green transformation of corporate and investment banking customers</li> <li>▶ 35% of women in managerial positions</li> <li>▶ Minimisation of the EPG (Equal Pay Gap)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Extend the range of green products and services</li> <li>▶ Continue to support transition to a low- or zero-emission economy</li> <li>▶ Adapt our measures to meet the requirements of the TCDF (Task Force on Climate-related Financial Disclosures)</li> <li>▶ Continue to develop leadership skills, focus on employees and promote diversity, equal treatment and inclusion in the workplace</li> <li>▶ Build the awareness of fraud risk among the bank's customers and employees as part of promotion of cybersecurity culture</li> <li>▶ Ensure high stability and security of our systems and take measures to significantly reduce the number of system failures</li> </ul>

➤ **FINANCIAL AND NON-FINANCIAL MEASURES OF SANTANDER BANK POLSKA GROUP PERFORMANCE UNDER STRATEGY FOR 2021-2023 (AS AT 31 DECEMBER 2021)**

	2020	2021		2020	2021		2020	2021
Number of customers	7.1m	7.2m	NPS Mass*	TOP 4	TOP 3	C/I	51,9%	59,6%
Number of employees	12,616 (FTEs)	11,323 (FTEs)	Number of digital customers*	2,757k	2,998k	Dividend payout ratio*	0%	29,89%
Number of branches*	468	396	Number of internet and mobile* transaction	323m	386m	TCR	20,42%	18,58%
						CoR	1,21%	0,76%

\* Pertains to Santander Bank Polska S.A. only (the number of branches include off-site locations and Santander Zones)

**Key activities planned for 2022**

In 2022, the Group will continue the course of action set out in the current strategy. Simplification and development of digital solutions and processes will be still the main priority so as to enable effective banking in remote channels, while ensuring positive experience for customers and employees alike.

In accordance with this approach, Santander Bank Polska S.A. steadily develops solutions related to daily transactional banking as well as credit and insurance products. This is to increase the number of satisfied customers that use the bank's solutions and

processes anytime and anywhere.

As part of simplification, the bank continues to streamline processes, products and system infrastructure, reduce paper documents and promote electronic communication as well as optimise the organisational structure.

As the issues related to climate change and social development are high on the bank's agenda, it will continue to deliver the initiatives in this respect, with a particular focus on green products and services as well as an increase in the scope of green finance.

**3. Corporate Culture**

The corporate culture of Santander Bank Polska Group is based on the values and ethical standards which help build trust and earn lasting loyalty of employees, customers, shareholders and local communities.

- ➔ The corporate culture of Santander Bank Polska Group and Banco Santander Group is underpinned by the **General Code of Conduct** and Simple | Personal | Fair values and behaviours.
- ➔ The Simple | Personal | Fair values reflect the Group's

philosophy, including rules it follows when taking decisions and interacting with customers, shareholders and other stakeholders. In line with these values, the Group strives not only to fulfil its business commitments and comply with laws, regulations and best practice, but also to exceed expectations of its stakeholders, particularly customers. Particular focus is placed on the areas where the Group may significantly help customers achieve financial success and sustainable growth.

Simple Przyjazny	Personal Dla Ciebie	Fair Rzetelny
The Group's products and services are tailored to customers' needs and expectations and based on easy-to-understand and uncomplicated solutions and procedures. The Group continuously improves operational processes and communicates with customers using a plain and clear language.	The Group builds lasting relationships with customers. Customers are provided with tailored products and personalised services. The Group strives to treat each employee and customer in a way that makes them feel special and appreciated.	Employees and customers are treated equally and fairly. Banking business is conducted with due care in a transparent and compliant manner. The Group maintains satisfactory relationships with shareholders, trusting that what is good for them is good for Santander Group. It keeps promises and fulfils its commitments towards communities

→ The Group promotes eight corporate behaviours among its employees, which are additionally used as a performance review criterion:



→ Apart from the corporate behaviours which apply to all employees of the Group, all managers (leaders) are also

expected to act in line with the leadership commitments summarised below.



→ The **risk culture** promoted by Santander Bank Polska S.A. is called **Risk Pro** and consists of five principles: accountability, resilience, simplicity, challenge and customer focus. Activities implemented within this culture include: education of the bank's employees; awareness-raising activities among employees relating to risks encountered in day-to-day work; providing channels for anonymous reporting of issues of concern; and features of the incentive system encouraging employees to adhere to the risk culture values.

→ **Diversity and inclusion** in the workplace, product offering, customer service and relationships with other stakeholders are seen by the Group as the sources of its strength and competitive advantage.

→ The Group conducts its activity in line with the **principles of responsible banking**, understanding the role and importance of banks to customers, the economy and the community. It focuses on developing fair and transparent relationships with customers and making a positive contribution to communities and the environment.



## 4. Forecast of Economic and Financial Market Situation in 2021

### Economic growth

At the turn of 2021 and 2022, the economic activity was still high and 2022 is likely to open with a high GDP growth (possibly close to 7% in Q1 2022). However, negative factors begin to dominate in the risk balance and thus economic slowdown in the following quarters is probable, with average GDP lower than 5%. The domestic GDP growth will be undermined by weaker global sentiments, monetary tightening and delays in access to the EU fund, which can be especially negative for investment. The quick rise in inflation can be also have a negative impact on real consumption in the short term. Low vaccination levels mean that there is still a risk of renewed epidemic restrictions and rise in the number of people who are unable to work if new virus strains and infection waves appear.

### Labour market

In 2022, the labour market situation is rather unlikely to deteriorate, and the unemployment rate is likely to stabilise. Demand for labour should remain elevated, which – given low unemployment and high price growth – will be translating into pressure for higher wages.

### Inflation

Inflation is expected to remain elevated in 2022, additionally driven by higher energy and gas tariffs in January. Temporarily it will be limited by cuts in taxes on food, energy and fuels (which will take about 2 p.p. off the average inflation), but changes in the PIT will act in the opposite direction. CPI inflation should remain close to the highest levels in 20 years and above 8% in average. Core inflation is likely to accelerate further and can climb to 7% YoY in mid-2022.

### Monetary policy

In H1 2022, most MPC members will be replaced, which adds to the uncertainty about further moves in the monetary policy, but it seems that the persistently elevated inflation will encourage the MPC to continue the hiking cycle. The reference rate can rise to 4.0%. In H2 2022, the MPC is likely to abandon the hiking cycle due to possible weakening in the business climate.

### Loans and deposits

Slower economic growth and rising financing costs (especially in the case of long-term loans) could be negative for the loan market. On the other hand, higher loan volumes will be supported by rising price levels in the economy and revival in business lending after it was replaced by government support. Thus, loan growth is likely to accelerate somewhat. However, the growth could slightly decelerate in the case of loans for households, especially mortgage loans. Deposits should rise at a pace similar to that observed in 2021, while the rising attractiveness of term deposits should be an upward impulse in this segment.

### Situation on financial markets

The factors that may positively affect the exchange rate of the Polish zloty in 2022 include: Poland remaining among the EU countries with the highest GDP growth, the decrease in overall Covid-19 threat and fading economic impact of any subsequent pandemic waves. At the same time, the possible appreciation of the zloty may be limited by substantial interest rate increases in the United States, generating demand for USD. The Russia–Ukraine conflict remains a risk factor at the beginning of the year.

In 2022, we expect yields of Polish bonds to be much less volatile than in 2020–2021. Markets have already priced in virtually all the monetary tightening that we believe may take place in this cycle. It is still possible that yields will attempt to go even higher, but the room for such move is already limited. In our opinion the 10Y and 2Y bond yields may approach 4.20% and 4%, respectively. Even though the inflation rate is expected to stay well above the 2.5% official target throughout the year, in H2 2022 signals of looming economic slowdown may show up, pointing to expectations of future rate cuts.

# V. Relations with Employees

## 1. Human Resources Management

### Human capital

As at 31 December 2021, the number of FTEs in Santander Bank Polska Group was 11,323 (12,616 as at 31 December 2020), including 9,281 FTEs of Santander Bank Polska S.A. (10,170 as at 31 December 2020) and 1,587 FTEs of Santander Consumer Bank Group (1,976 as at 31 December 2020).

In 2021, the employment in Santander Bank Polska Group decreased by 10.2% as a result of ongoing transformation of the business models of both banks from the Group through digitalisation, optimisation of the branch network, continued migration of products and services to remote distribution channels and gradual implementation of technological and organisational solutions increasing operational efficiency of the organisation. The objective is to allocate the maximum resources to strengthen customer relationships, grow business and build skills matching the target profile for the organisation.

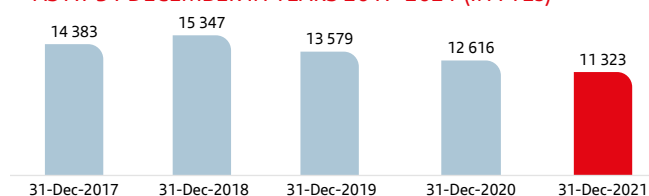
The HR processes take into account both present operational needs as well as market conditions, such as economic slowdown and other macroeconomic effects of the pandemic. They are based on natural employee attrition as well as collective redundancies launched in Santander Bank Polska S.A. and Santander Consumer Bank S.A. The banks signed memoranda of understanding on collective redundancies with trade unions, setting out, among other things, the staff selection criteria, terms and conditions of severance pay and additional compensation, and the scope of the support programme for employees to be made redundant.

Pursuant to the resolution of the Management Board of Santander Bank Polska S.A. dated 29 October 2020, collective redundancies will cover up to two thousand employees of the bank's Business Support Centre and distribution network by the end of December 2022. In 2021, 719 employees were made redundant.

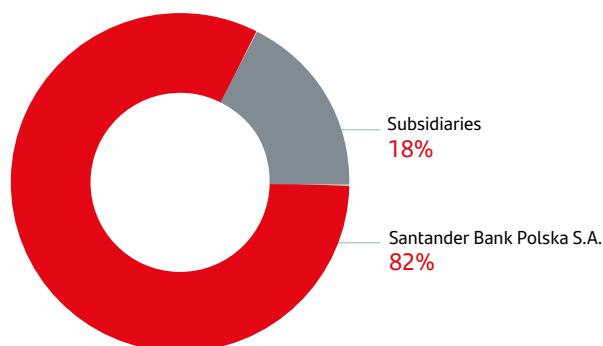
The collective redundancy process at Santander Consumer Bank S.A. was started in Q2 2020 and was to cover around 430 people by mid-2021. In December 2020, Santander Consumer Bank S.A. decided to launch another collective redundancy process, which covered around 340 employees by 31 December 2021.

#### EMPLOYMENT AT SANTANDER BANK POLSKA GROUP

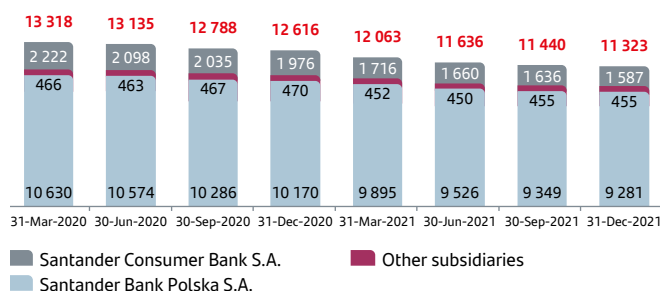
##### EMPLOYMENT IN SANTANDER BANK POLSKA GROUP AS AT 31 DECEMBER IN YEARS 2017-2021 (IN FTEs)



##### EMPLOYMENT STRUCTURE IN SANTANDER BANK POLSKA GROUP AS AT 31.12.2021



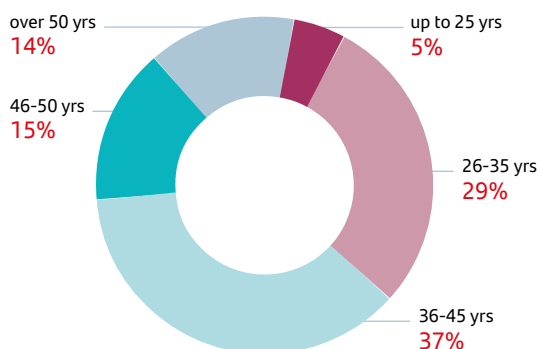
##### EMPLOYMENT AT SANTANDER BANK POLSKA GROUP (IN FTEs) BY QUARTER IN 2020 AND 2021



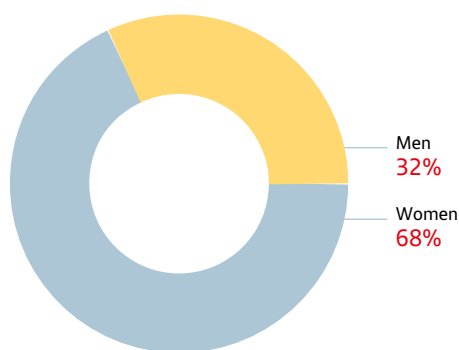
Human and intellectual capital of Santander Bank Polska Group is created by highly-qualified employees who constantly develop their competencies as part of day-to-day activities and top-quality development programmes. Comprehensive development programmes for managers and employees and continuous focus on knowledge sharing and self-education contribute to the growth of the intellectual potential as well as efficiency and stability of the Group's human capital.

## EMPLOYEE STRUCTURE OF SANTANDER BANK POLSKA GROUP

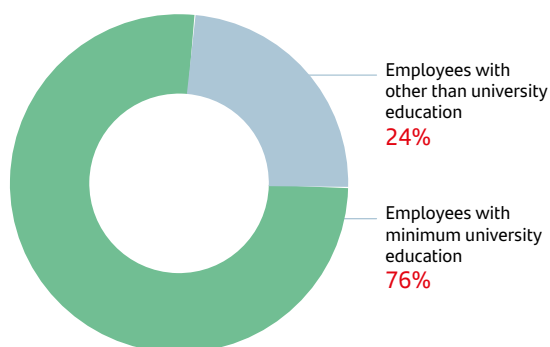
### > EMPLOYEE STRUCTURE BY AGE SANTANDER BANK POLSKA GROUP



### > EMPLOYEE STRUCTURE BY GENDER IN SANTANDER BANK POLSKA GROUP



### > EMPLOYEE STRUCTURE BY EDUCATION IN SANTANDER BANK POLSKA GROUP



## Support programme for employees selected for collective redundancies

Santander Bank Polska S.A. prepared a comprehensive support programme for employees to be made redundant (reStart). It is focused on activities aimed at helping employees re-enter the labour market and develop their competencies. The programme ensures support for groups and individuals and access to self-study materials. It offers a range of training courses, including on how to analyse own aptitudes, improve existing skills and build new competencies required to find a new job. The programme also envisages psychological support and sessions with experts for employees who are to be made redundant. Comprehensive information about collective redundancies and details about the support programme are available on a dedicated intranet site.

## Human resources management during the Covid-19 pandemic

As the risk of SARS-Cov-2 infection continued, the bank's Management Board decided that employees of the Business Support Centre would keep working from home. At the same time, preparations for the launch of a target hybrid work model across the organisation were continued. The switch to the target model will depend on the development of the epidemic situation in Poland.

Measures were still in place to prevent the spread of the pandemic, including basic safety rules (distance, disinfection and face masks), monitoring of employee traffic in office buildings, registration of Covid-19 cases and associated procedures (such as testing employees who had contact in the workplace with a person who tested positive for coronavirus, disinfection of offices and branches in the case of confirmed infections).

The bank managed the Covid-19 situation in accordance with the Procedure for managing suspected and confirmed cases of SARS-CoV-2 in the workplace and applicable law.

A workplace vaccination programme was organised in 11 locations across Poland for employees of Santander Bank Polska S.A., its subsidiaries and their relatives in partnership with a medical services provider.

In cooperation with healthcare companies, the bank offered its employees an opportunity to purchase tests for the coronavirus on preferential terms.

## Selected HR initiatives

The Business Partnership Division actively contributes to business transformation in a volatile and challenging environment. It ensures continuous development of competencies of the future and leadership skills, enabling reorganisation of the bank as part of digital transformation of the business.

The HR strategy for 2021 and the next years focuses particularly on:

- creating an employee-focused corporate culture;
- improving employee experience by modelling the corporate culture;
- ensuring employee wellbeing;
- digitalising processes and ensuring flexible work environment.

## HR development directions

### Activities delivered in 2021

<b>Creation of an employee-focused corporate culture</b>	<ul style="list-style-type: none"> <li>▶ As part of building the corporate culture, actions were taken to increase employees' readiness to report irregularities in the workplace and foster their openness to dialogue on difficult topics (making available films from the series "Whistleblowing – is there anything to be afraid of?", animations promoting whistleblowing channels and webinars serving educational and prevention purposes).</li> <li>▶ In 2021, the bank continued to deliver development initiatives, including:             <ul style="list-style-type: none"> <li>▶ Santander YOUiversity: a mentoring and tutoring programme designed to facilitate best practice sharing across the bank and create a self-learning organisation;</li> <li>▶ Futuro: a programme for all bank's managers (excluding senior executives) focusing on development of soft skills such as empathy;</li> <li>▶ Development Elixir: inspirational online sessions with internal and external experts about recognition, stress management, emotional intelligence, etc.</li> <li>▶ BRIDGE: an internal internship programme, enabling employees to take active part in project work delivered by other organisational units and develop their skills;</li> <li>▶ "IT from female perspective" and Santander Women: initiatives promoting women's development and equal opportunities in accordance with the strategic HR direction: Diversity and Inclusion.</li> </ul> </li> </ul>
<b>Building positive employee experience</b>	<ul style="list-style-type: none"> <li>▶ In pursuance of the strategy designed to enhance employee experience, in 2021 the bank identified the key areas for improvement and launched new initiatives to:             <ul style="list-style-type: none"> <li>▶ foster the culture of recognition at work and develop a perception of employees that their contribution is valued;</li> <li>▶ build and recommend the Santander brand through an active use of the bank's products and services.</li> </ul> </li> <li>▶ The bank launched an employer branding campaign under the slogan: "You are like...". It presents information about the development opportunities offered by the bank and the candidate profiles (e.g. IT, risk, data analysis and sales specialists). The campaign shows employees as superheroes to recognise their everyday hard work, attitude and challenges they face during the pandemic. The concept of the campaign and its delivery is intended to make the bank stand out as an employer of choice and build positive associations with the brand.</li> </ul>
<b>Wellbeing &amp; Mental Health</b>	<ul style="list-style-type: none"> <li>▶ As part of the Wellbeing &amp; Mental Health strategy based on four pillars (physical health, mental health, good relationships, financial education), periodical activities and WELLbinars were held depending on the current needs. The periodical events concerned various topics, e.g. each month was dedicated to a different theme.</li> </ul>
<b>Digitalising processes and ensuring flexible work environment</b>	<ul style="list-style-type: none"> <li>▶ On 19 October 2021, the OneHR (Workday) platform was launched across Santander Group, which is an important element of the OneSantander strategy, facilitating achievement of such strategic priorities as simplification and employee focus. It helps deliver data-driven employee experience, promotes responsible leadership and supports micro and macro analytics.</li> <li>▶ The bank run a pilot of an app for employee budget management by teams (a tool accompanying OneHR Workday) as well as MyBenefits, an internal platform which presents information about the benefits received and available to employees in a clear and personalised manner.</li> <li>▶ A GDPR module was implemented in the SAP HR and payroll system for management of personal data lifecycle in accordance with applicable laws.</li> <li>▶ A range of enhancements were deployed in relation to HR and payroll processes, reducing their lead times. Another stage of e-HR (paperless) strategy was started to optimise paper-based solutions.</li> </ul>
<b>Major awards</b>	<ul style="list-style-type: none"> <li>▶ Top Employers 2021 – Top Employers Poland and Europe 2021, an accolade awarded to companies that create the best working conditions, invest in talent development and improve recruitment processes.</li> <li>▶ Diversity IN Check – recognition given to most advanced employers in Poland in terms of managing diversity and inclusion. It was granted based on the Diversity IN Check survey carried out by the Responsible Business Forum.</li> <li>▶ CSR Golden Leaf from Polityka magazine – an accolade granted to companies for which compliance with the ISO 26000 standard is a strategic element of doing business and building relations with stakeholders, including employees.</li> <li>▶ "Equal Company 2021" certificate from Forbes Women granted by the Forbes Women magazine as part of efforts to promote the Equal Company Code of Best Practice and support equality and diversity in business.</li> </ul>
<b>Differently-abled Project</b>	<ul style="list-style-type: none"> <li>▶ In 2021, the bank continued to build an inclusive and diverse work environment where people with disabilities can succeed:             <ul style="list-style-type: none"> <li>▶ As part of the Differently-abled Project ("Różnosprawni"), a range of educational campaigns were run for employees and managers to increase the awareness of challenges faced by people with disabilities: "Listen to the deaf", "Seeing means... Look at the world from the perspective of blind people", "Sign up and learn – sign language workshops for beginners". The aim of the above initiatives was to raise awareness of the rights and needs of people with disabilities, overcome any potential barriers against hiring such people, and encourage employees to share information about their disabilities with the employer.</li> <li>▶ Since 2020, employees with disabilities can apply for an allowance for health-related purposes.</li> <li>▶ The bank takes measures to build an image of an employer open to hiring people with disabilities. They include discussion panels, podcasts with the representatives of organisations supporting people with disabilities entering the labour market, and partnership in events organised by universities (e.g. "Letter Writing Night" at the Wrocław University of Technology).</li> </ul> </li> </ul>

## 2. HR Policy

### Recruitment policy

Santander Bank Polska S.A. recruits new employees both internally and externally using methods and sources which are relevant to

existing vacancies. They include specialist recruitment portals, the Referrals Programme, recruitment agencies, PR campaigns and targeted recruitment campaigns in social media, practical training and internships and cooperation with Santander Universidades.

The bank's employees have precedence over other candidates in the internal recruitment processes at Santander Bank Polska S.A. and the companies from Santander Consumer Bank Group, which increases their development opportunities and helps build individual career paths.

The candidate profiles are checked to see if they meet the required job criteria in terms of their competencies, experience, knowledge, motivation, personality and compatibility with the organisational culture. All persons involved in the recruitment process must comply with the business ethics principles arising from the Labour Code and internal policies, in particular with the confidentiality and non-discrimination regulations.

The Referrals Programme of Santander Bank Polska S.A. engages employees in the recruitment process as it provides an opportunity to recommend candidates for vacant job roles in the bank. The system helps to reach a wider group of prospective employees who have relevant skills, aptitude and motivation, and are interested in taking up a job at the bank.

The recruitment process is supported by the Practical Training and Internship Programme run in cooperation with universities across Poland, which is designed to recruit talented individuals who have key competencies defined in the global development strategy (Software Engineering, Cyber Security, Big Data and User Experience).

In 2021, Santander Bank Polska S.A. recruited talents with a new profile that are better prepared to deal with such market challenges as volatility, digitalisation and robotisation. It also focused on initiatives designed to enhance positive experience of job candidates and promote the bank as a modern and responsible employer.

Due to the Covid-19 pandemic, all job interviews (both in the case of internal and external processes) were held online (via MS Teams). They were organised in accordance with the top standards and measures were taken to ensure that they are as close to in-person interviews as possible.

## Performance management

Santander Bank Polska S.A. has an objectives management process in place which supports delivery of strategic objectives and staff development and promotes attitudes in accordance with the Simple | Personal | Fair values and eight corporate behaviours. The process allows for flexibility (as the objectives can be modified along the way) and for communication efficiency (as it facilitates communication between employees and their line managers due to more frequent meetings, regular feedback, and support of the HRup! system). In the existing model, individual performance (assessed in two dimensions: WHAT and HOW, and in terms of delivery of risk management objectives) is closely related to the bonus level.

## Remuneration policy and bonus schemes

The rules for remunerating employees are set out in the Remuneration Policy of Santander Bank Polska Group, which covers employees of the bank and its subsidiaries, including identified employees (known as Material Risk Takers, i.e. employees whose professional activity has a significant impact on the risk profile of the organisation) excluding members of the Management and Supervisory Boards. The remuneration for members of the management and supervisory bodies is governed

by separate policies described in Chapter XIII "Statement on Corporate Governance in 2021", Section 4 "Governing Bodies".

The Group's Remuneration Policy covers a wide range of topics. It defines the rules for determining fixed and variable remuneration, awarding bonuses for the sales force, identifying and awarding bonuses to material risk takers in the Group, determining remuneration of control function employees and applying malus clauses.

The purpose of the policy is to ensure long-term sustainable growth of the Group by ensuring that employees are adequately remunerated and effectively motivated to deliver best results and to achieve the strategic goals. The remuneration system is consistent with the interests of key stakeholder groups (shareholders, employees, customers and communities) and supports long-term value creation, while taking into account such aspects as risk management, strategy, interests of the organisation, capital requirements and corporate culture. The practices related to the Remuneration Policy are gender neutral. They allow the Group to recruit and retain top talent using a competitive remuneration package including base salary, bonus schemes and attractive benefits.

The Remuneration Policy of Santander Bank Polska Group was updated in 2021. The new version was adopted in accordance with the bank's Management Board resolution of 21 July 2021, which was approved by the Supervisory Board on 27 July.

The document was amended to ensure compliance with new regulations: EU legislation (including the CRD V/ CRR II package, ESG Regulation, Regulation supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards), amended Banking Law Act and its implementing legislation on the risk management system, the internal control system and remuneration policy at banks, the latest version of Best Practice for GPW Listed Companies 2021, and principles of corporate governance in banks specified in the KNF's Recommendation Z.

The key changes to the Remuneration Policy are summarised below:

- introduction of a new definition of senior management;
- introduction of the rule that the Remuneration Policy and related practices are gender neutral;
- emphasising the rule that remuneration should be adequate to employees' skills, knowledge, experience, responsibilities and performance, enabling the organisation to recruit, retain and motivate employees, in particular senior managers;
- ensuring consistency of the Remuneration Policy with the bank's strategy on integrating sustainability risks;
- setting the maximum value of the total average gross remuneration of Management Board members per year to the total average gross remuneration of other bank's employees per year;
- changes to deferral periods for variable remuneration payable to identified employees (Material Risk Takers, MRTs);
- adjusting the conditions for limited application of the Remuneration Policy to MRTs;
- adapting the procedure and process of identifying MRTs to Commission Delegated Regulation (EU) 2021/923 of 25 March 2021.

## Fixed remuneration

The key component of remuneration at Santander Bank Polska S.A. is the base salary, which is determined on the basis of the role performed, scope of responsibility, qualifications and experience. In its approach to job valuation, the Group uses best market practice to ensure competitiveness of remuneration. For each grade, remuneration brackets are determined based on an annual pay report prepared by renowned consulting companies, and data published by Statistics Poland (GUS). In response to dynamic changes in the labour market, the Group's remuneration system is periodically revised.

The last comprehensive review of base salaries took place in Q3 2021, leading to pay increases at the bank. The main purpose of the process is to increase the salaries across all structures of the bank to the market rates, reward employees engaged in the bank's digital transformation and strategic projects and initiatives as well as top performers and employees acting in line with corporate values, and to ensure equal pay for women and men performing the same roles.

## Variable components of remuneration

The employees of Santander Bank Polska Group are subject to bonus schemes defining the variable component of their remuneration. The bonus schemes enhance staff motivation and support the delivery of strategic objectives set by the organisation. The awarding criteria and bonus levels are strictly linked to business and qualitative results of the Group and individual employees whose performance, delivery of objectives, behaviours and engagement are reviewed on a regular basis.

The Group's employees are set individual objectives that correspond to the activities of a given organisational unit. The objectives of the employees within the control units (internal audit, compliance area, risk management units and HR units) arise from the roles they perform and their remuneration does not depend on the financial performance of business areas they control. In the case of the sales staff, in addition to quantitative and qualitative objectives the performance review also covers the indicators related to customer service, risk management and compliance with the applicable regulations.

Variable remuneration depends on a bonus scheme relevant to a given employee (including bonus regulations for front-office staff, back-office staff and employees of control units). Individual bonus schemes differ in terms of eligibility criteria, bonus amount and payment frequency. Bonus payment is conditioned upon the delivery of specific quantitative objectives (e.g. a stated gross or net profit growth rate or amount, credit cost, NPL, RWA) and satisfaction of qualitative criteria (e.g. customer satisfaction). Due to the Covid-19 pandemic, the bank adjusts its bonus schemes to the current circumstances. It also has an option of awarding individual discretionary awards pursuant to the internal regulations.

The rules for determination and payment of variable remuneration for Material Risk Takers are presented in Chapter XIII "Statement on Corporate Governance in 2021", Section 5 "Remuneration Policy".

The overall variable remuneration cannot exceed 100% of fixed remuneration even in the case of an exceptionally outstanding performance. However, in an exceptional case, this limit might be increased to maximum 200% of fixed remuneration subject to the

approval by the AGM.

Variable remuneration components also include long-term (three-year) incentive programmes addressed to key employees of the bank. There is no active incentive programme in place at the moment.

The Group also offers additional benefits that suit employees' needs such as: health care packages or the cafeteria system which provides a wide range of cultural, sports and tourist benefits.

As the criteria stipulated in the bonus regulations were not met, in 2021 the bank's employees were not paid an annual bonus for 2020. However, pursuant to the Remuneration Policy of Santander Bank Polska Group, the discretionary awards were granted to top performers to:

- give recognition to the employees who contributed most to rebuilding the bank's value;
- appreciate the exceptional engagement in ensuring business and operational continuity of the organisation;
- reward the employees who actively engaged in development and delivery of strategic projects and initiatives.

The awards were paid in March 2021.

## Social and employee benefits

The bank offers a broad range of employee benefits which help make it a more attractive workplace. Employees can use benefits which:

- encourage them to lead a healthy lifestyle (e.g. Multisport card);
- enhance their comfort and security (e.g. reimbursement of costs related to purchase of prescription glasses, financial aid for employees in a difficult life situation, group life insurance);
- help achieve work-life balance (e.g. a cafeteria system offering a variety of hotel, tourist, cultural, sports and shopping options, which can be paid for using points awarded to each employee, including hotel vouchers with a deferred expiry date due to the pandemic).

The bank offers a wide array of free ancillary medical services with one of Poland's largest healthcare providers including access to doctors of all specialties, laboratory testing, outpatient services, home visits and rehabilitation. Moreover, employees may purchase dental packages, medical packages for family members, as well as hospital packages (for them and their families) on attractive terms.

In 2021, the number of free consultations with a psychologist/psychiatrist and a physiotherapist was increased. Once the limit is used, employees may continue their therapy/ treatment on preferential terms negotiated by the bank.

As a responsible employer, the bank participated in the state Covid-19 vaccination programme for employees and their relatives. It also offered discounts for Covid-19 tests with two healthcare companies. In partnership with a medical service provider, the bank undertakes initiatives related to preventive healthcare (seminars, webinars, on-call support, educational materials).

The bank supports families with children, sponsoring the costs of starter kits and reimbursing the costs of care over children in nurseries, kindergartens and children's clubs, as well as summer, winter or day camps for children. The parental support policy also



includes an additional paid leave, reduced working hours and an induction period after the parental leave.

Each employee could also use additional time off during working hours ("Two hours for the family").

## Training and development

**Santander Bank Polska S.A. manages human potential at all stages of the employee's lifecycle, taking into account a variety of aspects. It offers a wide array of training and development opportunities. The bank uses the 70-20-10 approach, which combines learning through experience (70), through others (20) and through structured courses (10).**

The bank provides its employees with a range of obligatory training courses to develop the skills required to perform a given role in the organisation as well as optional training courses/ workshops/ programmes that help enhance technical and social skills. It also runs programmes supporting development of specific target groups and specific competencies.

Training and workshops are delivered by both external companies and experienced internal trainers.

The bank continues to build a self-learning organisation. There is an active group of tutors and mentors at the bank who share their knowledge and experience. The bank's training and development processes place a strong focus on self-development. The bank provides access to development ideas, modern e-learning solutions and external training platform. Employees can also take part in internal internship programmes that support knowledge sharing across the organisation.

Managers at Santander Bank Polska S.A. steadily enhance their skills in terms of how to support development of employees. In 2021, a focus was placed on human-to-human leadership development where the leader plays a key role in building employee experience by engaging staff in the change process and developing relationships based on trust and mutual understanding. Development initiatives for senior managers were concentrated on competencies that are key to effective staff management in the face of current business and management challenges (remote and hybrid work).

As part of employee focus, a priority was given last year to maintaining open and effective communication. A culture of feedback and recognition was promoted, as were the development initiatives supporting the dialogue with employees. Work was also underway to address the issue of trust in the workplace as a foundation for building successful and effective teams.

Leaders were engaged in developing their personal brand along with the bank's brand (based on the Employee Advocacy approach) to create a friendly workplace that will attract and develop talent. They could also join a variety of initiatives promoting inclusion at the bank.

### TRAINING IN 2021 IN NUMBERS

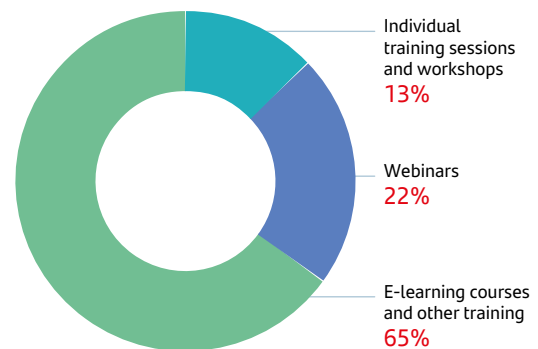
**133 tys. h**

Total number of training hours

**23,2 h**

Average number of trainings per employee

### > MAIN TYPES OF TRAINING IN 2021



# VI. Relations with Customers

## 1. Customer Service Quality and Customer Experience Management

### Customer experience (CX) management

#### Dynamic progress measured by the NPS

In 2021, Santander Bank Polska S.A. was among the top three banks in Poland in terms of customer experience management. The bank kept its place on the podium for three NPS survey editions in a row, reducing its distance to the winner to 5 pts.

Over the last three years, the bank achieved the highest NPS growth rate in the market, climbing from sixth position at the end of 2018 (shortly after the rebranding) to a position in the top 3 in December 2021 with NPS of 47, despite a declining trend (-7 pts.) in the peer group observed last year.

In 2021, the bank built strong systemic foundations to compete with the best market players. It will continue the transformation process based on strengthening and improving relations with customers.

#### Methodological foundations of customer-centric transformation

Steady improvement of customer experience is an effect of customer-centric transformation that covers customer-facing areas and service design teams. The bank is delivering this

process using the FORRESTER model. It consistently develops skills, tools and processes that support the areas which are key to customer experience.

#### Customer experience management at the strategic level

One of the directions set out in the strategy pursued by Santander Bank Polska S.A. is "Customer Obsession", meaning that each initiative and decision made in relation to delivery of the bank's goals takes into account the quality and strength of customer relationship. Customer experience is a key success factor and the main competitive advantage, particularly in the banking sector where services are easily comparable due to regulations and technology. Alongside extensive changes in the market caused by pandemic-driven innovations and fintech solutions, customers compare their experience from different sectors and their expectations are constantly growing.

Simplicity, convenience, self-service and remote access are now the basic features of all services. But a key distinctive quality for higher-end customers is a good relationship with their dedicated customer advisor.

In 2021, the bank undertook the following strategic initiatives as part of "Customer Obsession":

<b>CX Strategy:</b>	<ul style="list-style-type: none"> <li>▶ Continuously monitoring and reviewing the market and consumer trends (needs, competition, regulations, finance, complaints and sector trends);</li> <li>▶ Focusing on emphatic, simple, accessible, effective and inclusive external and internal communication;</li> <li>▶ Enhancing CX and EX synergies through internal programmes.</li> </ul>
<b>Skills and tools:</b>	<ul style="list-style-type: none"> <li>▶ Implementing the Compass (Kompas) methodology to deliver customer-centric solutions in the key areas of the bank's operations;</li> <li>▶ Developing a scalable operational ecosystem for design and research (including relevant service design skills and tools);</li> <li>▶ Mapping and measuring end-to-end experience to improve customer satisfaction;</li> </ul>
<b>Monitoring effectiveness:</b>	<ul style="list-style-type: none"> <li>▶ Ensuring that business decisions are taken on the basis of feedback from customer surveys;</li> <li>▶ Reducing negative impact of regulatory changes;</li> <li>▶ Ongoing monitoring of:                             <ul style="list-style-type: none"> <li>› strategic indicators, including the bank's overall NPS, NPS for customer segments and digital NPS;</li> <li>› auxiliary indicators, i.e. additional indicators that help measure customer satisfaction, such as NPS for complaints, plain language index, NPS for specific types of experience.</li> </ul> </li> </ul>

The importance of the NPS objectives is reflected in the bonus scheme, which incorporates the bank's NPS in the bonus pool for the bank's head office.

#### Management and monitoring of activities impacting customer experience at the operational level

As part of the quarterly planning process at the bank (QBR), customer expectations are identified together with initiatives to be undertaken to meet them. The initiatives are subject to regular reporting. For each initiative, the impact on NPS is estimated and customer impact measures are defined and monitored.

NPS results for all segments are monitored each month at the Management Board level. In addition, the results for the mass customer segment are subject to thorough review.

Once a month, the #aconatoklient Forum is convened to discuss NPS results for individual business segments and identify key underlying initiatives. The Forum is also a platform for sharing experience and ideas on how to build customer experience.

## Management of collection, analysis and use of voice of the customer

In 2021, the bank developed a complete decentralised customer survey system for the key segments. For each segment, there are standardised tools which are necessary to understand the customer's perspective and assess the competitiveness of services provided by the bank (in comparison to peers, if possible). Based on the survey results and in accordance with the Agile way of working, a customer report is published before the start of each quarter presenting key information that may help plan new initiatives.

Each segment also has an NPS simulator for assessing the potential impact of the solutions on customer experience measured by NPS.

### Building and improving customer experience standards

#### Service standards

In 2021, the bank took measures to improve the new customer service standards defined in 2020. Due to the Covid-19 pandemic, remote customer service standards were implemented for individual customer segments, terms of cooperation between segments were defined and the Santa Fan of Digitalisation programme was launched. Particularly important were the commitments adopted as the foundation of good customer service:

- ▶ We help customers resolve their issues here and now (irrespective of the segment)
- ▶ We encourage customers to extend the scope of banking, also into other segments
- ▶ We support customers in the use of remote and omnichannel services
- ▶ We give recognition to each other and collaborate to serve customers' interests.

10k people (including all front-line staff) were trained in service standards (40k training hours). The new emphatic service standard covers seven out of eight customer contact points.

#### Emphatic communication standards – plain language

In 2021, the bank continued the "Rzecz Jasna" plain language project whose objective is threefold:

- To implement a single communication standard across the bank, which will be characteristic for the brand and will make the bank stand out from its competitors. Last year, the bank focused on changing its style of communication into more emphatic and reader-friendly one, in particular in the complaints and restructuring area.
- To develop skills across the organisation related to the preparation of plain language messages. 2.1k employees were trained in the rules of plain language, 2.4k employees took part in an e-learning session: "How to write so people can understand you", 20 more people were certified as plain language consultants.
- To simplify documents based on the plain language standard (clear language, no banking jargon, no officialese).

## Product and service design and development standard

In 2021, a standardised, customer-centric product and service design process called Compass (Kompas) was developed and implemented in the selected areas of the organisation. This Agile-based process specific to Santander Bank Polska S.A. supports the delivery of business objectives by focusing on customers' needs and verifying hypotheses with customers. Compass is about the practical use of design and research methods in the complex and strictly regulated business environment of the large bank.

The implementation of Compass involved development of internal competencies and adjustment to existing processes and procedures. Compass is used on a day-to-day basis to check if the products and services that are planned to be implemented meet customers' needs and ensure positive customer experience, while supporting delivery of business objectives of the bank.

## Complaints management

Customers of Santander Bank Polska S.A. may file complaints at their convenience: in branch, by phone, via electronic banking or by traditional mail.

- ▶ 63% of complaints were filed in remote channels (by phone or via electronic banking, including through a video conversation and text chat).

Responses to complaints are provided in the customer's preferred form: by letter, text message or via online and mobile banking. Text messages are used to acknowledge receipt of the complaint, close the case and communicate the form of providing response. If the case takes more than 5 (and subsequently 10) days to process, a text message is also sent to communicate that fact to the customer.

- ▶ 81% of our responses were provided electronically.

In 2021, emphasis was placed on increasing the quality of responses and shortening the turnaround time. Responses are clear and comprehensive. Banking jargon and complicated language are avoided. Robotisation is employed in complaint-handling, which greatly accelerates routine tasks:

- ▶ 98% of cases covered by the simplified process were resolved within one business day.
- ▶ 60% of cases were resolved within three business days.
- ▶ 24% of cases were resolved at first contact by authorised bank employees who had received the complaint. The decision was communicated to the customer immediately after filing the complaint.

The quality and speed of complaint handling and customer satisfaction (measured by surveys) are verified on a regular basis. The complaint handling process also meets regulatory requirements. All conclusions and results of analyses and surveys are implemented across the organisation and used to enhance the entire complaint handling process (from the moment of filing the complaint to its resolution). Customers who are not satisfied with the resolution may appeal to the Customer Care Officer, who provides the relevant support.

## Barrier-free branches and digital solutions

For more than 10 years now, Santander Bank Polska S.A. has been running and developing the "Barrier-Free Banking" ("Obstuga bez Barrier") programme, designed to ensure access to the bank's services and products for customers with special needs (the

disabled, the elderly, pregnant women). The bank continuously increases its accessibility, using advanced methods and providing appropriate conditions to people choosing traditional branches. To find out more about this programme, please see Chapter XIV "Statement on Non-Financial Information for 2021".

## 2. CRM Solutions

In 2021, CRM activities focused on increasing the efficiency of communication and sales in digital channels. An SMS gateway was implemented enabling two-way communication with customers using a tool for mailing creation.

The CRM environment was integrated with internet and mobile banking mailboxes, thanks to which all messages sent to customers were fully automated. New communication opportunities were used in Santander internet and mobile to reach a wider group of customers.

An engine (CEP 2.0) was implemented to detect business events related to the customer in different banking systems, making it possible to develop advanced business rules as well as real-time and event-based campaigns.

Behavioural segmentation was introduced along with a display model – an engine for personalisation of offering and messages

in Santander internet and mobile, resulting in an increase in the number of clicks and the value of cash loan sales in these channels. Thanks to these changes, it will be possible to test and optimise the use of ad placements and messages.

An onboarding process was launched, with dedicated activation paths for the acquired customers who communicate with the bank mainly via the mobile app.

The machine learning models and algorithms developed as part of Business Intelligence enable the bank to convert the data gathered into the information that is used to offer customers products in accordance with their needs and expectations, understand how to improve the processes and services to increase customer satisfaction, help customers in a difficult financial situation, or protect customers and the bank against cybercrime

## VII. Investor Relations

### 1. Investor Relations at Santander Bank Polska S.A.

- ▶ The ambition of the investor relations function of Santander Bank Polska S.A. is to maintain best-in-class standards of communication with capital market participants in Poland and abroad. Fundamental to this dialogue are the following elements: accurate information, transparency and equal treatment of all stakeholders.

As a listed company and the second bank in Poland in terms of market capitalisation (as at 31 December 2021), Santander Bank Polska S.A. actively communicates with its stakeholders in order to satisfy their information needs in accordance with the highest market standards, applicable law and best practice.

Particularly important to the bank is the communication with shareholders, investors and analysts. Santander Bank Polska S.A. makes best efforts to provide the above market participants with regular and timely access to high quality and clear information in order to facilitate the accurate assessment of the bank's and the Group's financial standing, market position and effectiveness of the strategy and business model.

The bank's investor relations unit engages in a dialogue with institutional investors and stock market analysts, informing them about the bank's development and performance and other relevant aspects which may affect their decisions. It also responds to questions about the current situation of the company. The above activities are aimed to ensure adequate transparency, build stakeholders' trust and promote the bank's image in capital markets.

In 2021, the following initiatives were undertaken as part of standard investor relations activities:

- The representatives of the bank's Management Board and the Investor Relations Office organised regular meetings with

investors and stock market analysts (around 150 ones held in 2021 in the form of conference calls and virtual meetings due to the pandemic).

- The bank's representatives took part in ten conferences organised by various Polish and foreign brokerage offices. Due to the Covid-19 pandemic, these events were held online, still making it possible to meet existing and prospective investors.
- Four conferences were held to present market analysts with the bank's quarterly performance. In line with best market practice, they were open to everyone interested and were broadcast online in Polish and English. The recordings are available on the bank's website (<https://bank.santander.pl/relacje-inwestorskie/serwis-relacjiiinvestorskich.html>).

At the end of 2021, 15 analysts from Polish and foreign financial institutions prepared and published reports and recommendations concerning the bank's equities.

All information published by the bank (concerning both current and past years) is available on the Investor Relations website: <https://www.santander.pl/en/investor-relations>.

In late July 2021, the above website was redesigned and the "Best practice" tab was added. It includes information on the application by the bank of the principles contained in Best Practice for GPW Listed Companies 2021 (<https://www.santander.pl/en/investor-relations/best-practice>).

### 2. Share Capital, Ownership Structure and Share Price

#### Ownership structure in 2021 and the majority shareholder

As at 31 December 2021, the share capital of Santander Bank Polska S.A. totalled PLN 1,021,893,140, divided into 102,189,314 ordinary bearer shares with a nominal value of PLN 10 each.

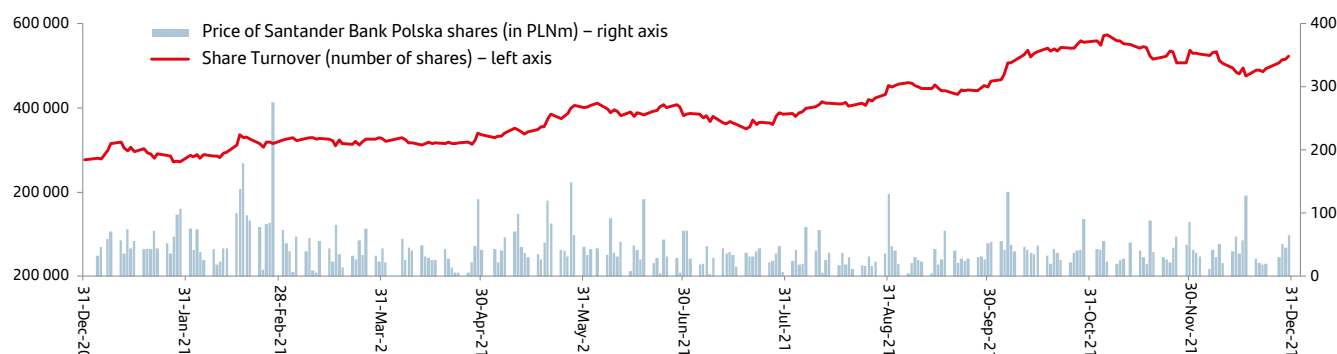
The number of shares and votes held by individual shareholders as at the end of 2020 and 2021 is presented in the table included in Chapter XIII "Statement on Corporate Governance in 2021", Section 2 "Issuer's Securities".

#### Majority shareholder

The profile of Banco Santander S.A. and its Group is presented in Chapter II "Key Information on Santander Bank Polska and its Group", Section 1 "History, Ownership Structure and Profile".

## 3. Share Price of Santander Bank Polska S.A. vs the Market

### PRICE OF SANTANDER BANK POLSKA SHARES AND THEIR STOCK EXCHANGE TRADING VOLUMES IN 2021



Key data on shares of Santander Bank Polska S.A.	Unit	2021	2020
Total number of shares at the year end	item	102 189 314	102 189 314
Nominal value per share	PLN	10.00	10.00
Closing share price at the year end	PLN	348.50	185.70
YoY difference in share price	%	87.7%	-39.6%
Highest closing share price during the year	PLN	382.30	315.00
Date of the highest closing share price	-	05.11.2021	07.02.2020
Lowest closing share price during the year	PLN	181.40	123.00
Date of the lowest closing share price	-	29.01.2021	30.10.2020
P/E at the year end (bank)	PLN	38.88	25.70
P/E at the year end (Group)	PLN	32.04	18.30
Basic earnings per share at the year end (bank)	PLN	8.96	7.23
Basic earnings per share at the year end (Group)	PLN	10.88	10.16
Capitalisation at the year end	PLN m	35 612.98	18 976.56
Dividend per share paid <sup>1)</sup>	PLN	2.16	-
Record date	-	08.10.2021	-
Dividend payment date	-	15.10.2021	-

1) For more information, see "Dividend per share" section below.

2021 was a very successful year for companies from the banking sector. Due to the low base effect, WIG-Banks, an industry index, gained as much as 67.0% and was one of the driving forces behind the growth of the whole market. Following 2020, when banks' shares were among the worst performing stocks in the market, 2021 saw a reversal of the trend. Stock indices were increasing for the most part of the year amid hopes for interest rate rise brought by post-pandemic recovery and growth of the economy. Banks' stocks also benefited from the publication of financial results, which in the majority of cases exceeded the market consensus. The shares of Santander Bank Polska S.A. outperformed the sector index during the year and gained nearly 87.7%, returning to market capitalisation levels of 2019. The highest closing share price was PLN 382.30 on 5 November 2021 and the lowest was

PLN 181.40 on 29 January 2021.

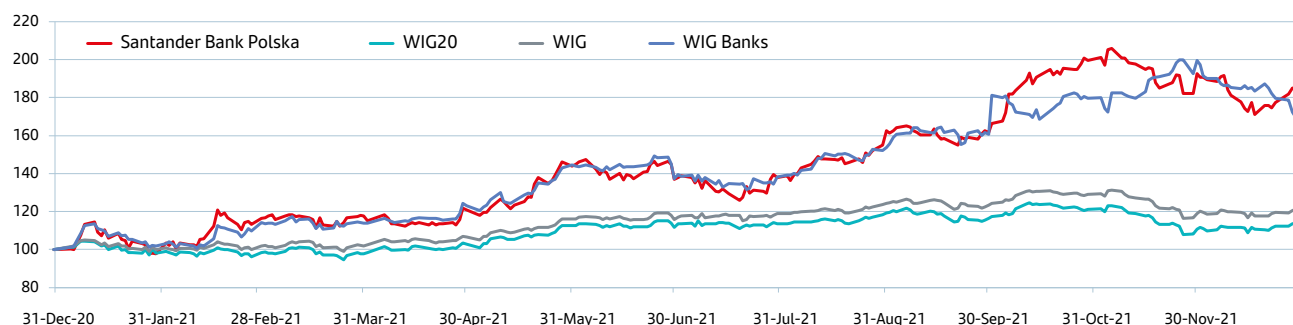
Due to strong liquidity and high market capitalisation, the shares of Santander Bank Polska S.A. are traded in a number of stock market indices. Apart from WIG-Banks (an industry index), WIG (a broad-based index) and WIG20 (a blue chip index), the bank is included in such index portfolios as: RESPECT, WIG-Poland, WIG30, WIG30TR and WIG20TR.

The charts below show the share price of Santander Bank Polska S.A. against the main stock exchange indices in 2020 and 2021 and after the acquisition of a controlling stake by Banco Santander S.A. on 1 April 2011.

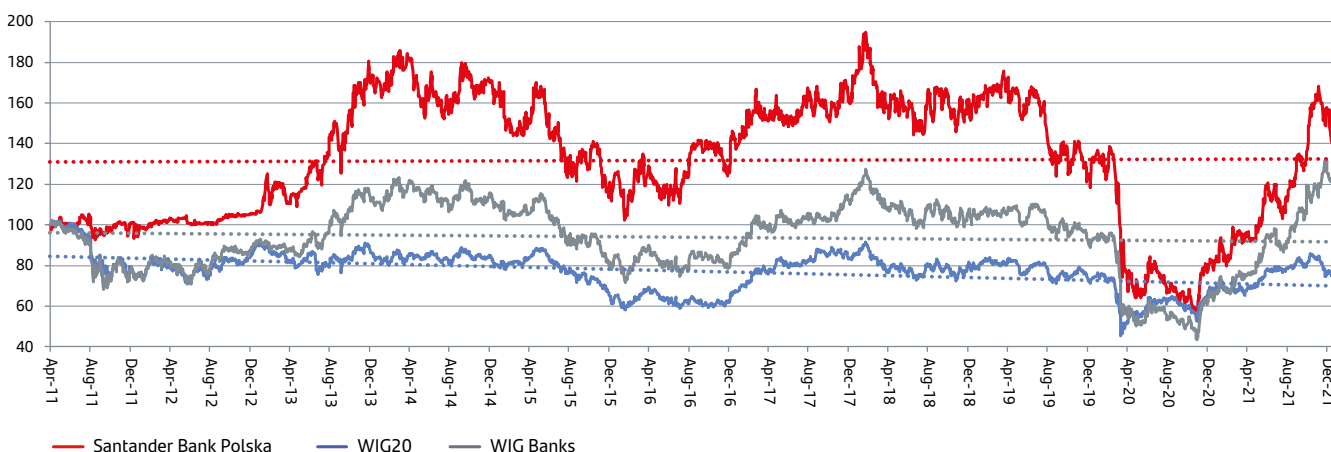


## SHARE PRICE OF SANTANDER BANK POLSKA S.A. VS KEY INDICES

### SHARE PRICE OF SANTANDER BANK POLSKA S.A. VS. INDICES IN 2021 SHARE PRICE OF SANTANDER BANK POLSKA S.A., WIG, WIG20 AND WIG BANKS AT 31.12.2020 =100



### SANTANDER BANK POLSKA SHARE PRICE VS. MAIN LOCAL INDEXES FROM 2011 TO 2021 PRICE AS AT 01.04.2011=100



## Dividend per share

### Retention of the profit for 2020

On 23 February 2021, the Management Board of Santander Bank Polska S.A. adopted a resolution recommending that the entire profit for 2020 totalling PLN 738.4m be retained, with 50% to be allocated to the capital reserve and 50% to be left undistributed. The resolution was passed in accordance with the KNF recommendation, taking into account the prevailing macroeconomic conditions. It was partially adjusted by virtue of the Management Board's decision of 17 March 2021 approved by the Supervisory Board.

Pursuant to the amended recommendation of the Management Board, the bank's Annual General Meeting decided on the distribution of the bank's profit for 2020, allocating PLN 369.2m to the capital reserve and setting aside the same amount as a dividend reserve (capital reserve earmarked for payment of a dividend, including an interim dividend). The Annual General Meeting authorised the Management Board to use the dividend reserve to pay an interim dividend pursuant to Article 349(2) of the Commercial Companies Code.

### Satisfaction of the dividend policy criteria for commercial banks

On 2 July 2021, the bank received a letter from the KNF concerning a dividend policy of commercial banks in H2 2021. The letter set out the conditions to be met by the bank in order to distribute 50%, 75% and 100% of the net profit, respectively.

The bank was informed that the individual Stress Test (ST) add-on measuring the bank's sensitivity to an adverse macroeconomic scenario was set at 1.73%, taking into account regulatory adjustments (applicable to the distribution of both up to 75% and up to 100% of the net profit).

As at 31 March 2021, the bank met the basic dividend policy criteria for commercial banks to distribute up to 100% of the net profit earned in 2020. However, taking into consideration the additional criteria due to the bank's portfolio of foreign currency home mortgages, the maximum dividend yield is 30% of the profit earned in 2020.

In its individual recommendation of 20 July 2021, the KNF confirmed that the maximum dividend yield is 30% of the net profit for 2020 and recommended that the bank should not take

any other measures which could weaken the capital base unless such measures have been agreed with the supervisor.

## Payment of an interim dividend

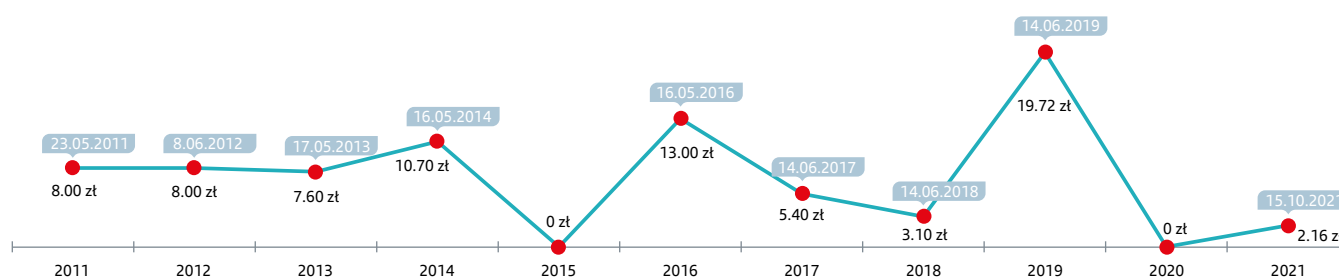
On 1 September 2021, the Management Board of Santander Bank Polska S.A. decided to pay out an interim dividend for 2021 and allocate PLN 220.7m for that purpose from the capital reserve set aside for payment of a dividend/ interim dividend pursuant to Resolution no. 6 of the bank's Annual General Meeting of 22 March 2021. Under that resolution, 50% of the bank's net profit

for 2020 (i.e. PLN 369.2m) was allocated to the dividend reserve.

On 1 September 2021, the bank's Management Board received the Supervisory Board's approval for paying out an interim dividend.

Shares giving entitlement to the interim dividend were 102,189,314 series A, B, C, D, E, F, G, H, I, J, K, L, M, N, O shares. The interim dividend per share was PLN 2.16. The record date for the interim dividend was 8 October 2021 and the payment date was 15 October 2021.

### > DIVIDEND PER SHARE PAID OUT BY SANTANDER BANK POLSKA S.A. IN 2011-2021\*



\* Santander Bank Polska S.A. pays dividends in accordance with the dividend policy in place, taking into account individual recommendations of the KNF in this respect.

## 4. Rating of Santander Bank Polska S.A.

Santander Bank Polska S.A. has bilateral credit rating agreements with Fitch Ratings and Moody's Investors Service.

### Ratings by Fitch Ratings

The table below shows the latest rating actions taken by Fitch Ratings in relation to Santander Bank Polska S.A.

Rating Category of Fitch Ratings	Ratings changed/affirmed on 11.06.2021 and 23.09.2021 <sup>1)</sup>	Ratings affirmed on 29.09.2020 and 16.03.2021 <sup>2)</sup>
Long-term Issuer Default Rating (long-term IDR)	BBB+	BBB+
Outlook for the long-term IDR rating	stable	negative
Short-term Issuer Default Rating (short-term IDR)	F2	F2
Viability rating (VR)	bbb+	bbb+
Support rating	2	2
National long-term rating	AA(pol)	AA(pol)
Outlook for the national long-term rating	stable	negative
National short-term rating	F1+(pol)	F1+(pol)
Long-term senior unsecured debt rating (EMTN Programme)	BBB+	BBB+
Short-term senior unsecured debt rating (EMTN Programme)	F2	F2

1) Ratings of Santander Bank Polska S.A. applicable as at 31 December 2021

2) Ratings of Santander Bank Polska S.A. applicable as at 31 December 2020

In its announcement of 23 September 2021, Fitch Ratings affirmed the international, national and support ratings of Santander Bank Polska S.A. The affirmation of the ratings reflects the balanced credit risk profile of the bank and no changes to the assessment of support available to the bank from its parent, Banco Santander S.A. The stable outlook results from the review and assessment of risks connected with the operating environment of Polish banks. In the agency's view they were stable due to the limited impact

of the pandemic on banks' credit profiles, sound economic recovery prospects and low likelihood of material contagion effect of banks' exposure to foreign currency mortgage loans for the broader sector.

The international ratings (IDR and VR) and senior debt rating are driven by the bank's intrinsic strength and potential parental support. The national ratings reflect the bank's creditworthiness relative to peers.

The bank's individual rating is substantiated by the established domestic franchise, conservative risk appetite, and solid capital and liquidity position. The bank's asset quality has remained resilient to the effects of the pandemic, as confirmed by average payment arrears and solid payment discipline among borrowers that have exited moratoria. However, the bank's profitability is still under pressure due to the slowdown caused by the pandemic, which affects both margins and lending growth. The bank's financial performance is also weighed down by the provisions for the legal risk connected with foreign currency mortgage loans. Their share in the credit portfolio is moderately high at 6% (as at 30 June 2021).

The support rating (SR) reflects high probability of support from Banco Santander S.A., if needed, given the strategic importance of the Polish market for the parent, the role of Santander Bank Polska S.A. in Santander Group (synergies, delivery of common objectives) and an immaterial size of the potential support relative to the Group's ability to provide it and its credit profile.

## Ratings by Moody's Investors Service

The table below sums up the ratings assigned by Moody's Investors Service to Santander Bank Polska S.A., which were applicable on 31 December 2021 and 31 December 2020.

Category of Moody's Ratings	Ratings upgraded as at 3.06.2019
Long-term/Short-term Counterparty Risk Rating	A1/P-1
Long-term/Short-term Bank Deposits	A2/P-1
Outlook for Long-term Deposit Rating	stable
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Long-term/Short-term Counterparty Risk Assessment	A1 (cr)/P-1 (cr)
Rating Assigned to Senior Unsecured EURO MTN Program	(P) A3

In its announcement of 3 June 2019, Moody's Investors Service upgraded the ratings of Santander Bank Polska S.A. The ratings were kept unchanged until 31 December 2021.

On 14 September 2021, the agency published the results of the last periodic review of ratings of Santander Bank Polska S.A., which was not a rating action. It was conducted in the form of a portfolio review and took into account the underlying methodology, recent internal and external developments, and a comparison of the financial and operating profile to similarly

rated peers. The bank's baa2 BCA reflects a moderate quality of the credit portfolio, with the NPL ratio somewhat higher than the sector average and moderate exposure to CHF mortgage loans with higher legal risk. The bank has strong capital buffers (significantly above the regulatory minimum) and generally strong profitability, although the latter remains under pressure because of elevated cost of credit and weakened net interest margin. The BCA also reflects a good liquidity buffer and a moderate level of wholesale funding.

# VIII. Relations with External Environment

## 1. Responsible Banking

### Pillars of Responsible Banking at Santander Bank Polska S.A.

The objective of sustainable and socially responsible development at Santander Bank Polska Group is to build a long-term value for all stakeholders.

The Group's approach to corporate social responsibility and sustainable development is defined in the Responsible Banking Strategy, which is an integral part of the Group's overall business strategy and takes into account ESG factors in addition to the

Principles for Responsible Banking.

The Responsible Banking Strategy is based on two pillars, namely the corporate culture and sustainable finance.

As part of sustainable finance the Group pursues goals related to protection of the environment and prevention of climate change, which have become increasingly important nowadays.

The above mentioned subjects are thoroughly discussed in Chapter XIV "Statement on Non-Financial Information for 2021".

## 2. Social Responsibility

The bank participates in long-term social projects which are not only aimed at responding to the needs of local communities but also at making a positive contribution to society. It embarks

on sponsorship, corporate giving and corporate volunteering activities which are presented in Chapter XIV "Statement on Non-Financial Information for 2021".

## 3. Communication with Stakeholders

### Corporate Social Responsibility Report

The bank informs its stakeholders about its CSR activities by means of an annual report and ESG website. In 2021, the eighth report was prepared summarising the bank's social, economic and environmental impact. The ESG report was made available online in Polish and English.

It was prepared in accordance with the Global Reporting Initiative (GRI) standards (Core option), international guidelines (issued by the European Commission, Warsaw Stock Exchange, the European Bank for Reconstruction and Development, the Task Force on Climate-related Financial Disclosures) as well as Principles for Responsible Banking. Before publication, the key indicators were reviewed by an independent auditor.

### Relations with stakeholders

The Group identifies the key groups of stakeholders and analyses their needs and mutual impact. It regularly communicates with the stakeholders using various channels, such as sessions with the representatives of social and business partners organised in accordance with the AA1000SES standard. Since 2014, ten sessions have been held.

The last session was held in April 2021 and was devoted to the role of Santander Bank Polska S.A. in green transformation. It was attended by representatives of NGOs, expert organisations and the bank's customers.

The Group analyses recommendations issued by the stakeholders and incorporates them into its processes. Special attention is

paid to the voice of customers, who are provided with products and services developed in accordance with the customer-centric model.

### Marketing communication

#### Brand promise

Santander is a strong brand that is primarily associated with its global market presence and, then, with sports sponsorship. The bank is viewed as a responsible and respectable institution.

In 2021, the bank's brand metrics ranked high. In H2 2021, the Total Spontaneous Brand Awareness continued an upward trend and was ranked second.

All the bank's advertising campaigns were among those assessed best (above the benchmark) in terms of persuasiveness, appeal and understandability.

#### PR communication

In 2021, the bank's marketing communication was reviewed in order to even better support the delivery of accelerated digitalisation goals, notably in the retail banking area. Qualitative and quantitative customer surveys were carried out and banking communication in Poland and abroad was reviewed together with market and consumer trends. As a consequence, a new communication concept was developed, focusing on the bank as an institution which makes life easier and responds to a strong consumer need for a modern and innovative bank which is also

solid and safe. These attributes are also of key importance for enhancing customer-centric strategy and improving the bank's NPS. The first campaign based on the concept of the bank that makes life easier was run in Q3 2021 and will be continued in 2022.

## Marketing campaigns

Due to the pandemic, in 2021 the bank focused on digitalisation of customers, extensively promoting mobile app features. A strong emphasis was also put on messages concerning cybersecurity.

Since mid-2021, the bank has been promoting a new concept developed as part of the retail banking digitalisation programme, namely "the bank that makes life easier". The objective is to increase NPS and the number of Accounts As I Want It.

The communication activities were delivered using the existing platform with Marcin Dorociński as the brand ambassador and well-recognised and distinctive tune.

In 2021, three Poland-wide ATL campaigns featuring the brand ambassador were run on TV, internet, in social media and branches. They were addressed to personal customers and promoted:

- Account As I Want It (Konto Jakie Chcę) for the young and the mobile app;
- open banking/ PSD2 with the free of charge Cyber Rescue service providing online security 24/7;
- "My Goals" service in the mobile application.

The bank also ran a cybersecurity campaign ("Fairy tales for adults") and product campaigns (internet, branch windows) to promote:

- Account As I Want It (and Santander mobile app);
- business account for SMEs with e-services;
- Locum home insurance;
- Visa credit cards (Visa 800).

The bank organised the "We Will Double Your Impact" ("Podwójna Moc Pomagania") fundraiser, doubling the donations made by customers.

## Social media

The bank has built a large virtual user community. As at December 2021, it had more than 301.5k Facebook fans, 19.8k Twitter fans and 5.3k Instagram fans. The Facebook fanpage was rated second among Polish banks. The messages posted by the bank reached 4m users per month, 550k of whom interacted with the fanpage, which means that the content was interesting and relevant.

In addition, the bank has the highest sentiment ratio due to positive opinions posted on the fanpage.

In 2021, Santander Bank Polska S.A. was awarded in the Golden Paperclips competition, receiving a silver accolade in the "Finance" category as a recognition of its "Cyberproverbs" ("Cyberprzysłowia") social media campaign.

In addition to the above-mentioned social media campaigns, the bank undertook the following initiatives:

- for personal customers: My Goals, Autopay, CyberRescue, Telemedico, Account As I Want It for the young, Eco-friendly card, Visa card campaigns, Summer promotions package (ATM package, toll reimbursement with Autopay, travel insurance discount), Black Friday (cashback on credit card payments, special deal on the currency exchange platform, CyberRescue promotion), Holidays with currency exchange platform;
- for SME customers: campaigns promoting e-Services, webinars
- education and information campaigns: campaigns promoting cybersecurity (Cyberproverbs, Fairy tales for adults), campaigns targeted at the elderly (#LogInTheSenior (#ZalogujSeniora));
- CSR activities: "Green Ribbon#ForThePlanet" ("Zielona Wstążka#DlaPlanety"), CSR Fair, promotion of the CSR Report, International Day of Sign Languages, Day of the Deaf;
- campaigns supporting Santander Universidades: Santander Universidades Academy (promotion of a series of lectures), communication of global and local programmes;
- Other campaigns: Golden Banker, Work Café, grants awarded by Santander Foundation, Santander Foundation Scholarship, Women's Day with#womanontour, UEFA Champions League, Santander Orchestra.

## Content management

Online marketing activities were focused on content management. Procedures were implemented to enhance delivery of educational finance objectives and support online sale of Account As I Want It (Konto Jakie Chcę) and currency exchange platform (Kantor Santander). The content marketing process also covered image-building and NPS activities connected with Christmas-related communication.

To attract young internet users, the bank launched cooperation with influencers.

In recognition of the above measures, the bank received a silver accolade in the Power of Content Marketing Awards.

# IX. Business Development in 2021

## 1. Group's Business Management Structure

### Operational structure

Santander Bank Polska S.A., together with its non-banking subsidiaries, conducts its operations through the following central units: Retail Banking Division, Business and Corporate Banking Division, and Corporate and Investment Banking Division.

Santander Consumer Bank Group (SCB Group), which specialises in consumer finance, forms a separate business segment with its own customer base, product range and distribution channels.

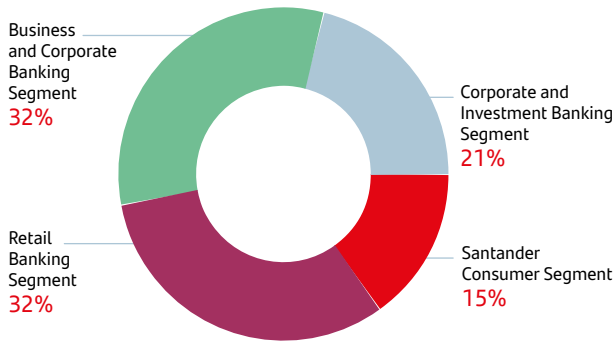
### Segment reporting

The business management structure presented above corresponds to business segments identified as part of segment reporting (Note 3 to the Consolidated Financial Statements of Santander Bank Polska Group for 2021). They are complemented by the ALM and Central Operations segment, which covers funding, management of strategic investments and transactions which generate expenses/ revenues that cannot be allocated to individual segments.

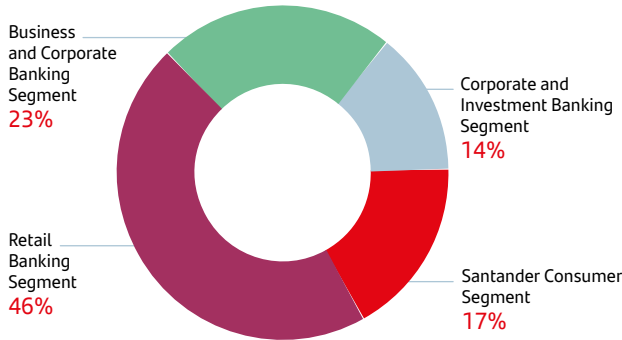


PROFIT BEFORE TAX GENERATED BY BUSINESS SEGMENTS OF SANTANDER BANK POLSKA S.A. IN 2021 (EXCLUDING ALM AND CENTRAL OPERATIONS)

#### > CONTRIBUTION OF BUSINESS SEGMENTS TO PROFIT BEFORE TAX OF SANTANDER BANK POLSKA GROUP FOR 2021 (EXCL. ALM AND CENTRAL OPERATIONS)



#### > CONTRIBUTION OF BUSINESS SEGMENTS TO PROFIT BEFORE TAX OF SANTANDER BANK POLSKA GROUP FOR 2020 (EXCL. ALM AND CENTRAL OPERATIONS)

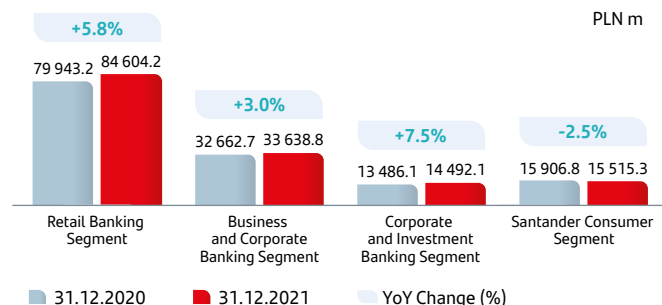


The year-on-year change in the segment structure of profit before tax is due to the high charge to the Retail Banking Segment from provisions made for disputed liabilities and legal risks in relation to foreign currency mortgages (for more information see Chapter XI "Financial Performance in 2021").

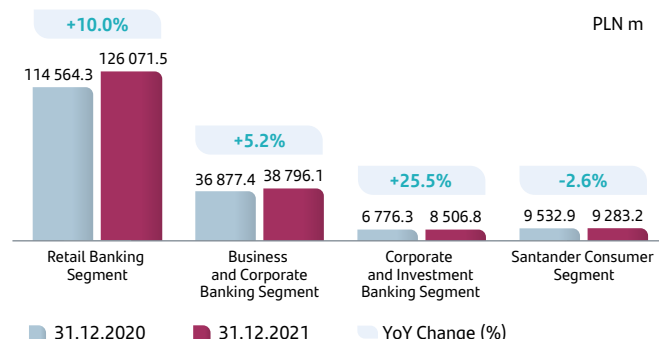


LOANS AND ADVANCES TO CUSTOMERS AND DEPOSITS FROM CUSTOMERS BY BUSINESS SEGMENTS AS AT 31 DECEMBER 2020 AND 31 DECEMBER 2021 (EXCLUDING ALM AND CENTRAL OPERATIONS)

➤ LOANS AND ADVANCES TO CUSTOMERS BY BUSINESS SEGMENT AS AT 31.12.2021 AND 31.12.2020 (EXCL. ALM AND CENTRAL OPERATIONS SEGMENT)



➤ DEPOSITS FROM CUSTOMERS BY BUSINESS SEGMENT AS AT 31.12.2021 AND 31.12.2020 (EXCL. ALM AND CENTRAL OPERATIONS SEGMENT)



The table below presents the business segments of Santander Bank Polska Group in three dimensions: customer profile, key product lines and service model.

Segment	Area	Operating model
Retail Banking	Customer profile	<ul style="list-style-type: none"> <li>Personal customers (divided into Standard, Premium, Select and Private Banking customer segments based on their diverse needs and expectations).</li> <li>Small and medium-sized companies (with annual turnover up to PLN 8m).</li> </ul>
	Key product lines	<ul style="list-style-type: none"> <li>Current and business accounts, savings products, consumer and mortgage loans, credit and debit cards, insurance and investment products, clearing services, brokerage services, mobile phone top-ups, foreign payments, Western Union money transfers and services for high-net-worth customers, open banking services.</li> <li>Business loans, business deposits, cash management, leasing facilities, factoring, payment orders, letters of credit, collections and guarantees, payment terminals, additional services.</li> <li>Asset management services as part of investment funds.</li> </ul>
	Service model	<ul style="list-style-type: none"> <li>Relationship-building, sales and after-sales contacts with retail customers through the network of branches and partner outlets, phone banking (Multichannel Communication Centre) and electronic banking (Santander internet, Santander mobile in a mobile browser and Santander mobile application).</li> <li>Premium customers are serviced by dedicated advisors as part of their individual portfolios, based on a personalised approach and regular contacts aimed at strengthening relationships and customer loyalty.</li> <li>Private Banking and Select customers benefit from a personalised service model under which they can use the support of a specialised advisor and the Select Line operating as part of the Multichannel Communication Centre, which offers support via telephone. Private Banking customers have several dozens dedicated private bankers operating from 26 locations around Poland, including 4 Private Banking Centres.</li> <li>Firms with relatively low turnover are handled by SME advisors in branches and partner outlets. They can also use the services of the Multichannel Communication Centre and electronic channels (Santander mobile and dedicated services: Mini Firma, Moja Firma Plus and iBiznes24).</li> <li>Customers of Santander Brokerage Poland may invest via the Inwestor online system, Inwestor mobile application, the Multichannel Communication Centre and at the bank's branches providing brokerage services.</li> </ul>
Business and Corporate Banking	Customer profile	<ul style="list-style-type: none"> <li>Businesses and corporations with turnover of PLN 8m–PLN 1.2bn, local authorities and the public sector.</li> </ul>
	Key product lines	<ul style="list-style-type: none"> <li>Payment transactions, loans, deposits, cash management, leasing facilities, factoring, letters of credit and guarantees.</li> <li>Services to customers of other banks and financial institutions provided under agreements with those institutions.</li> </ul>
	Service model	<ul style="list-style-type: none"> <li>Business customers are managed by the Business Client Department and the Corporate Client Department. These units encompass six regional centres (three Business Banking Centres and three Corporate Banking Centres) divided into 29 offices located across Poland.</li> <li>The specialised Business and Corporate Banking Department – Premium provides services to the bank's largest customers, the public sector, and universities. It is also responsible for financing commercial properties.</li> <li>Customers have dedicated advisors who are responsible for the overall relationship. They are supported by units specialised in transaction structuring, lending and product development.</li> <li>Customers are provided with access to the bank's products and services via remote channels, including internet and mobile iBiznes24 platform (featuring such modules as currency exchange and trade finance) as well as call centres which handle a wide range of operating processes (Business Service Centre, SME Service Centre and Trade Finance Service Centre).</li> </ul>

Corporate and Investment Banking	▶ Customer profile	<ul style="list-style-type: none"> <li>▶ Largest corporate customers allocated to that segment based on their turnover (nearly 250 of the largest companies and groups).</li> <li>▶ Corporations serviced within the international Santander Corporate and Investment Banking structures.</li> <li>▶ Treasury, syndicated lending and advisory services for customers of other Divisions.</li> </ul>
	▶ Key product lines	<ul style="list-style-type: none"> <li>▶ Transactional banking (including cash management), deposits, w/c finance, mid- and long-term finance, leasing facilities, factoring, letters of credit, guarantees and trade finance.</li> <li>▶ Project finance, syndicated loans, arranging and financing of securities issues, financial advisory services (including those related to mergers and acquisitions) and brokerage services for financial institutions.</li> <li>▶ FX and interest rate risk hedging products (offered to all customers of the bank).</li> </ul>
	▶ Service model	<ul style="list-style-type: none"> <li>▶ Customers of the Corporate and Investment Banking Segment have dedicated product specialists and managers who are responsible for the overall relationship.</li> <li>▶ They are provided with access to the bank's products and services via remote channels, including internet and mobile iBiznes24 platform, as well as dedicated call centres (Business Service Centre and Trade Finance Service Centre).</li> </ul>
Santander Consumer	▶ Customer profile	<ul style="list-style-type: none"> <li>▶ Personal and business customers.</li> </ul>
	▶ Key product lines	<ul style="list-style-type: none"> <li>▶ Hire purchase loans, cash loans (including consolidation loans), credit cards, online renewable limits, special-purpose loans, car finance (refinance solutions, leasing facilities and lease loans), business loans, factoring and bank guarantees.</li> <li>▶ Term deposits and insurance products (mainly related to credit facilities).</li> </ul>
	▶ Service model	<ul style="list-style-type: none"> <li>▶ The bank sells its products through: <ul style="list-style-type: none"> <li>▶ a network of own branches and franchise outlets, which offer cash loans, credit cards and retail deposits;</li> <li>▶ a structure for mobile sales of car loans and leasing facilities;</li> <li>▶ a structure for mobile sales of corporate deposits;</li> <li>▶ a structure for mobile sales of hire purchase loans;</li> <li>▶ remote channels, i.e. a call centre and internet and mobile banking used to sell cash loans, credit cards and hire purchase loans;</li> <li>▶ a network of partners offering the bank's car loans and leasing facilities (car dealers, second-hand car dealers and intermediaries) as well as hire purchase loans and credit cards (retail chains and stores);</li> <li>▶ a remote channel for car loans.</li> </ul> </li> </ul>

## 2. Business Development of Santander Bank Polska S.A. and Non-Banking Subsidiaries

### 2.1. Retail Banking Division

#### Main development directions

The Retail Banking Division took measures to increase customers' satisfaction with the bank's products and services in accordance with the following strategic priorities:

▶ Personal customers	▶ SMEs	▶ Private Banking
<ul style="list-style-type: none"> <li>▶ Providing the best customer experience by focusing on customer-centric solutions. Conducting NPS surveys to measure effectiveness.</li> <li>▶ Simplifying and digitalising products and processes.</li> <li>▶ Acquiring new customers and growing business, mainly in digital channels.</li> <li>▶ Engaging in Santander Group projects as part of One Europe.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Increasing the satisfaction of business customers with products and services.</li> <li>▶ Developing remote and electronic banking processes for businesses.</li> <li>▶ Ensuring omnichannel service and simplifying the lending process for businesses.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Strengthening the position of Santander Private Banking as private banking of choice in Poland.</li> <li>▶ Offering robust and diversified investment solutions.</li> <li>▶ Rendering professional services, ensuring unparalleled quality and leveraging synergies of Santander Group and the bank's internal potential.</li> </ul>

#### Other focus areas:

- Further optimisation of the brick-and-mortar distribution network.
- Improving profitability of products.

#### Key achievements:

- Improved NPS and rank among top 3 banks in this category. Improved NPS for SMEs and second rank in this category.
- Implementation of new features to accelerate customer digitalisation and simplification of products and processes.

- Development of remote and electronic banking processes for businesses.
- Simplification of the credit process from the perspective of advisors and business customers.
- Implementation and processing of applications for government aid under the PFR Financial Shield 2.0.
- Increase in net customer acquisition and the volume of key product sales compared to 2020. All-time high levels in mortgage sales and premiums written.

### Strategic retail banking programmes:

In 2021, Santander Bank Polska S.A. continued its strategic project of accelerated digitalisation of retail banking that is designed to provide customers with end-to-end digital solutions. As part of the project, the product range is steadily expanded to include innovative solutions, and processes are changed,

as are the organisation of work and rules for cooperation. The bank strives to ensure that the processes and products are more customer- and employee-friendly and intuitive. With the changes implemented, the organisation will be able to respond to market developments and customers' expectations.

Concurrently, the bank continued the related programme aimed to increase the number of customers satisfied with the bank's digital processes.

The ultimate goal is for customers to have the "bank in their pocket" that is available anytime and anywhere by providing them with useful and expected services right on time. The programme also covers brand-building initiatives which emphasise innovation and convenience of digital solutions.

The tables below present the performance of product and business lines of the Retail Banking segments.

## Personal customers

Product line  
for personal  
customers

### Activities of the Retail Banking Division in 2021

Cash loans	<ul style="list-style-type: none"> <li>▶ In 2021, measures were taken to grow cash loan sales:               <ul style="list-style-type: none"> <li>▶ the availability of loans was increased by changing the calculation of the maximum non-interest borrowing costs, extending the lending period and increasing the loan amount threshold for submitting confirmation of separate property regime or separation;</li> <li>▶ a new process was implemented to apply for a consolidation loan in internet and mobile banking and for increasing its amount up to PLN 150k;</li> <li>▶ ECO cash loan for consumer purposes was introduced along with a possibility to claim fee reimbursement in the case of purchase of eco-friendly products.</li> </ul> </li> <li>▶ In 2021, cash loan sales of Santander Bank Polska S.A. totalled PLN 7.4bn, up 21.3% YoY. Sales generated via remote channels accounted for 43.7% vs 35.9% in 2020. The acceleration of sales resulted from an increased demand for consumer loans resulting from the improved economic situation in Poland and further growth prospects.</li> <li>▶ The cash loan portfolio of Santander Bank Polska S.A. totalled PLN 14.7bn at the end of December 2021, up 1.4% YoY.</li> </ul>
Mortgage loans	<ul style="list-style-type: none"> <li>▶ In 2021, the bank modified its pricing of variable and adjustable fixed rate mortgages for customers and non-customers in line with market developments.</li> <li>▶ Other significant changes in mortgage offering and management:               <ul style="list-style-type: none"> <li>▶ Increasing the availability of mortgage loans with an LTV of up to 90% for non-customers buying houses or apartments in voivodship cities or satellite towns (previously the facilities were offered to the bank's customers only).</li> <li>▶ Modifying the rules of financing properties purchased from developers and increasing the possibility of financing properties at an early development stage.</li> <li>▶ Implementing the KNF Recommendation S (June 2021) with respect to modification of creditworthiness assessment rules, provision of information about the interest rate type of the loan offered, changing the PLN loan interest rate to temporarily fixed for five years, and extending the fixed rate for another period.</li> </ul> </li> <li>▶ Further development of remote after-sales service of mortgage loans.</li> <li>▶ Mortgage sales were supported by marketing and CRM initiatives, including a social media campaign encouraging customers to get to know the bank's offer, and a campaign motivating customers to use electronic and phone banking.</li> <li>▶ In 2021, mortgage sales steadily accelerated, hitting all-time highs. The value of new mortgage loans was PLN 9.6bn, up 85.1% YoY. The gross mortgage portfolio of Santander Bank Polska S.A. grew by 6.4% YoY to PLN 54.3bn as at 31 December 2021, with the PLN mortgage portfolio increasing by 9.4% YoY to PLN 45.5bn.</li> <li>▶ The bank reported the most dynamic growth of new mortgage lending among all banks and acquired a share in the mortgage and equity release market of 11.5% and 10.6% in terms of the value of the mortgage portfolio.</li> <li>▶ Strong performance was also recorded in terms of cross-selling of products bundled with mortgage loans, such as personal accounts, Worry-Free Mortgage (Spokojna Hipoteka) life insurance and Locum Comfort home insurance.</li> </ul>

<b>Personal accounts and bundled products, including:</b>	<ul style="list-style-type: none"> <li>▶ The bank took a range of measures to optimise and simplify its processes and to develop remote services to facilitate banking during the pandemic and to respond to accelerated digitalisation:             <ul style="list-style-type: none"> <li>▶ In January 2021, a simplified and more friendly sales process for the Account As I Want It (Konto Jakie Chce) was launched at branches and partner outlets.</li> <li>▶ The account offering was further simplified taking account of customers' preferences.</li> <li>▶ Biometric payment confirmation was enabled for mobile authorisations.</li> <li>▶ New services were implemented, including:                 <ul style="list-style-type: none"> <li>– contactless BLIK payments (without the need to generate and enter PIN) at POS terminals supporting BLIK or Mastercard payments in Poland and abroad;</li> <li>– Autopay, i.e. remote toll payment services for mobile app users who can have motorway tolls automatically debited from their current accounts once they enter the car registration details in the app. As at 31 December 2021, around 31 thousand users availed of this service.</li> <li>– Cybersecurity Package for personal account holders ensuring comprehensive support upon detection of cyberthreats such as cyberattacks, identity theft in social media, virtual money theft and frauds in online stores (available free of charge during the first 12 months as part of promotion).</li> </ul> </li> </ul> </li> <li>▶ Due to strong demand for remote medical consultations, holders of selected personal accounts with Santander Bank Polska S.A. were offered an additional, paid medical consultation service Telemedi.co. At the beginning of September, the Telemedi.co package was offered to all Santander internet users along with a three-month period of free medical consultations.</li> <li>▶ The bank continued its initiatives supporting sales of personal accounts including the next editions of the referrals programme "I recommend my Bank" ("Polecam mój Bank"), awarding both the person who recommended a personal account with Santander Bank Polska S.A. and the person who opened it, as well as special deals with prizes for customers who opened an account or made a stated number of operations.</li> <li>▶ Together with business partners, the bank offered a range of discounts available on the bankujzrabatami.pl platform.</li> <li>▶ Customers could also avail of other special deals such as waiver of a fee for the ATM package with the Customised Card, double cashback (2% instead of 1%) for payment of bills from the Account As I Want It, 1% cashback on all transactions made with the bank's credit cards during Black Week, a Christmas bonus for customers using My Goals (Moje Cele) service and a debit card. The above special offers covered more than 2m customers in 2021.</li> <li>▶ The number of PLN personal accounts grew by 4.7% YoY and reached 4.1m as at 31 December 2021. The number of Accounts As I Want It (the main acquisition product for a wide group of customers) was 2.5m, up 15.3% YoY. Together with FX accounts, the personal accounts base exceeded 5.1m (+5.2% YoY).</li> </ul>
<b>Payment cards</b>	<ul style="list-style-type: none"> <li>▶ In 2021, the bank started to issue eco-friendly cards made in 85% of upcycled plastic. Thanks to the use of sustainable materials, the carbon footprint was reduced to 75%.</li> <li>▶ As at 31 December 2021, the volumes of payment cards offered by Santander Bank Polska S.A. were as follows:             <ul style="list-style-type: none"> <li>▶ The personal debit card portfolio comprised nearly 4.0m cards and increased by 1.8% YoY. With 14.0% higher turnover YoY, the bank had a 10% market share (measured by the volume of POS transactions). Including business cards, the total number of debit cards was 4.4m, up 2.7% YoY.</li> <li>▶ The credit card portfolio comprised 756.1k instruments, a decrease of 7.2% YoY. The bank generated 12.5% higher credit card turnover YoY.</li> </ul> </li> <li>▶ As at 31 December 2021, the debt in respect of credit cards of Santander Bank Polska S.A. totalled PLN 1.7bn, up 8.1% YoY.</li> </ul>
<b>Deposit and investment products, including:</b>	<ul style="list-style-type: none"> <li>▶ As deposit balances grew dynamically over a long run and the official interest rates continued slightly above 0% for the greater part of the year (until October 2021), the bank's priority in terms of management of deposit and investment products was to offer and support sales of investment solutions.</li> <li>▶ The bank's investment proposition mainly comprised of brokerage services and investment funds, including funds managed by the bank's subsidiary Santander Towarzystwo Funduszy Inwestycyjnych S.A. (Santander TFI S.A.) and 14 selected Polish and foreign funds.</li> </ul>
<b>&gt; Deposits</b>	<ul style="list-style-type: none"> <li>▶ As a result of optimisations implemented in 2020, in 2021 the bank's deposit offering was more transparent and comprised: PLN savings accounts, negotiable term deposits for some Select and Private Banking customers (available depending on the length of relationship with the bank), the mobile deposit (offered to new mobile banking customers), the e-Deposit (available in Santander internet and mobile), and a promotional 3-month deposit for buyers of investment products (promotion of the Investor Deposit (Lokata dla Inwestora), and Deposit with a fund (Lokata z funduszem)).</li> <li>▶ In 2021, the bank offered three special deals on the Deposit with a fund paying 1% (2% in December edition) and a special offer of the Mobile Deposit with an interest rate of 0.5% (1% in Q4 2021).</li> <li>▶ In response to the series of interest rate hikes started in October 2021, the bank modified its pricing policy with respect to negotiated deposits offered to Private Banking and Select customers and increased interest rate on selected term deposits (to 1% in the case of the Mobile Deposit, and to 2% in the case of the Investor Deposit).</li> <li>▶ The bank invited customers with USD savings to subscribe for a Range Accrual structured deposit with an interest rate linked to USD/PLN rate and 100% capital protection at maturity. This way, the bank raised PLN 241m.</li> <li>▶ The mobile app users were offered a new service that makes it easier to save money in accordance with their personal preferences.</li> <li>▶ In the reporting period, retail deposit balances continued to grow due to inflow of funds to personal accounts.</li> <li>▶ As at 31 December 2021, retail deposits went up by 9.5% YoY to PLN 101.1bn, with personal account balances growing by 24.3% YoY to PLN 59.6bn, and savings account balances by 1.4% YoY to PLN 32.1bn. Term deposit balances fell by 26.2% YoY to PLN 9.4bn.</li> </ul>

<p>&gt; Investment funds</p>	<ul style="list-style-type: none"> <li>▶ Net sales of investment funds managed by Santander Towarzystwo Funduszy Inwestycyjnych S.A. (Santander TFI S.A.) were positive until September 2021, but in Q4 redemptions exceeded sales by PLN 1.3bn. The decrease in net sales was attributed to weaker performance of debt funds resulting from materialisation of interest rate risk following the Monetary Policy Council's decisions to increase interest rates.</li> <li>▶ Total net sales in 2021 were positive at PLN 1.1bn, which was one of the best results in the market. Highest net sales in the reporting period were generated by mixed funds, equity funds and corporate bond funds.</li> <li>▶ As at the end of 2021, net value of assets in investment funds of Santander TFI S.A. was PLN 17.6bn, up 8.6% YoY.</li> <li>▶ In 2021, experts from Santander TFI S.A. offered support to employees of the distribution network (product and process training for sales staff of all segments) and customers (regular webinars for individuals and businesses).</li> </ul>
<p>&gt; Brokerage services</p>	<ul style="list-style-type: none"> <li>▶ Retail customers holding accounts with Santander Brokerage Poland obtained direct access to the Inwestor online system from the bank's Santander internet platform, with no extra logging in required. Those bank's customers who have no brokerage account yet can open it there in a fully remote process.</li> <li>▶ As of May 2021, customers can use a new information system underpinned by the latest UX technologies and trends, and as of August 2021 – a new version of the Inwestor mobile app. The changes in the mobile app were aimed at improving user experience and included: <ul style="list-style-type: none"> <li>› easy access to the financial history, instruments, orders and transactions;</li> <li>› quicker way to add new instruments to own tabs;</li> <li>› a possibility to place an order directly as part of an offer to buy or sell;</li> <li>› a more user-friendly layout of the "Quotations" and "Portfolio" tabs.</li> </ul> </li> <li>▶ In 2021, the number of newly opened retail brokerage accounts remained high. This is owed to the growing demand for brokerage services amid the global situation in capital markets, low attractiveness of deposits due to the record low interest rates, easy access to brokerage services (a possibility to open a brokerage account via internet banking) and recovery in the IPO market.</li> <li>▶ Given the lower volatility of the capital markets, customers were encouraged to invest in structured certificates (14 issues throughout the year). The range of structured products was expanded to include Santander International Products plc. instruments, increasing the diversity of solutions offered to customers.</li> <li>▶ The participation in five IPOs of Vercom S.A., Pepco N.V., Onde S.A., Murapol S.A., Grupa Pracuj S.A. (amid the growth of IPOs in H2 2020) increased the popularity of brokerage services and the potential for acquisition of new retail customers.</li> <li>▶ In March 2021, a new service was launched by Santander Brokerage Poland: a register of shareholders, which must be maintained by all non-public joint stock companies, limited joint-stock partnerships and their shareholders. The register of Santander Brokerage Poland was used by about 467 companies and 20k of their shareholders.</li> <li>▶ In 2021, Santander Brokerage Poland estimated its share in the retail segment of the WSE main floor at 12,1%. Customers generated PLN 22.8 bn worth of turnover vs PLN 25,6bn in 2020 (-11% YoY), with the share of foreign markets increasing from 9% to 12% in 2021.</li> </ul>
<p>Bancassurance</p>	<ul style="list-style-type: none"> <li>▶ In 2021, the bank modified its insurance offering: <ul style="list-style-type: none"> <li>› Launched the Life and health (Życie i zdrowie) insurance (the first product in the market offering such an extensive cover), distributed via partner outlets and the mobile app.</li> <li>› Extended the scope of cover of the Locum Comfort home insurance and harmonised the sales process across all distribution channels.</li> <li>› Optimised the sale of the Worry-Free Loan (Spokojny Kredyt) insurance in Santander internet.</li> </ul> </li> <li>▶ In 2021, insurance premiums increased by 32.9% YoY, including by 35.3% YoY for related products. A YoY increase in sales of key related products, i.e. Worry-Free Loan (Spokojny Kredyt) cash loan insurance and Worry-Free Mortgage (Spokojna Hipoteka) mortgage loan insurance is attributed to more dynamic growth in sales of cash and mortgage loans as well as improved YoY cross-sell rates.</li> <li>▶ Income from bancassurance was generated mainly on the basis of individual life and unemployment insurance packages for cash loan borrowers (Life, Life+ and Work/Życie, Życie+ and Praca), life insurance for mortgage borrowers (Worry-Free Mortgage/Spokojna Hipoteka) and business loan borrowers (Business Guarantor/Biznes Gwarant), as well as non-related life and health insurance (Life and Health/Życie i zdrowie) and home insurance (Locum Comfort).</li> <li>▶ In Q1 2021, Santander Aviva Towarzystwo Ubezpieczeń S.A. received first award as a Friendly Insurance Company 2020 in the category of life and property insurance (except motor insurance). This recognition is testament to high customer service standards and confirms that the insurer was attentive to customers during the pandemic.</li> </ul>

## SMEs

Product line  
for SMEs

Activities of the Retail Banking Division in 2021

<p><b>Business accounts and bundled products</b></p>	<ul style="list-style-type: none"> <li>▶ The bank launched next editions of the special offer of the Business Account Worth Recommending (Konto Firmowe Godne Polecenia), which customers could open online.</li> <li>▶ A new identity check method was introduced for customers opening business accounts – a photo-based account opening process.</li> <li>▶ Additional services were made available via Mini Firma internet, including:               <ul style="list-style-type: none"> <li>▶ eWadia, i.e. bid bonds (one of the possible forms of a bid security required in a tender process);</li> <li>▶ eLeasing (possibility of a leaseback up to PLN 20k);</li> <li>▶ eZdrowie (LUX MED private healthcare packages);</li> <li>▶ a possibility to update business details via the Mini Firma internet banking mailbox (an option available to all entities irrespective of their legal form).</li> </ul> </li> <li>▶ Customers were offered the Autopay service – toll payment via a mobile app.</li> <li>▶ The complaint process in Mini Firma and Moja Firma plus was simplified.</li> <li>▶ Customers were provided with a possibility to authorise cash deposits at branches using an SMS code.</li> <li>▶ A promotional campaign called “Set up your business and get a prize” (“Założ firmę z nagrodami”) was launched for customers planning to start their own business.</li> </ul>
<p><b>Loans</b></p>	<ul style="list-style-type: none"> <li>▶ To increase customer satisfaction with products and services, in 2021 the bank introduced a number of new functionalities in SME processes:               <ul style="list-style-type: none"> <li>▶ Enabled remote exchange of customer documentation with the bank, offered business loans available via the mobile application, and ensured an omnichannel credit process (subject to compliance with specified parameters).</li> <li>▶ Streamlined the sale of loans by providing customers with access to mailbox in the Mini Firma internet banking without the need to meet any additional formal or legal requirements.</li> <li>▶ Simplified the process of issuing de minimis guarantees.</li> <li>▶ Enabled sale of business loans by the Multichannel Communication Centre in the Smart Loans application.</li> </ul> </li> <li>▶ As part of the SME offer, the bank:               <ul style="list-style-type: none"> <li>▶ Expanded its product range to include a portfolio guarantee from Polfund.</li> <li>▶ Expanded a prelimit offer for existing customers of the bank and the leasing company.</li> </ul> </li> <li>▶ The SME loans portfolio grew on account of term loans and leasing facilities. Overdrafts were used to a limited extent due to the overliquidity of customers.</li> <li>▶ In 2021, SME loan sales grew by 7.3% YoY, translating into 5.9% YoY increase in the value of the credit portfolio to PLN 16.0bn.</li> </ul>
<p><b>Leasing</b></p>	<ul style="list-style-type: none"> <li>▶ In 2021, Santander Leasing S.A. continued development of its offering and remote service processes:               <ul style="list-style-type: none"> <li>▶ A new product was launched – Leasing24 for sole traders and users of the business account and the Mini Firma electronic banking with Santander Bank Polska S.A. This micro-finance facility can be used to purchase low-value assets (up to PLN 20k), and is available in the remote channel only (a fully digital process from application to disbursement).</li> <li>▶ The range of products for consumers was expanded to include a loan to finance vehicles (passenger cars, motorcycles and mopeds), and photovoltaic installations.</li> <li>▶ Customers were provided with an option to take out a lease or credit facility secured with BGK guarantee.</li> <li>▶ Employees of Santander Bank Polska Group were offered Eco-Loan (Ekopożyczka) to purchase photovoltaic panels.</li> <li>▶ New features were made available in the eBOK24 portal: eInvoice (providing customers with 24/7 access to invoices and reducing cyber risk) and online payments (whereby lease obligations can be paid directly in the portal without having to specify additional data for the transfer).</li> <li>▶ In February 2021, companies from the sectors indicated in Moratorium 2.0 were offered a possibility to apply for deferral of principal payments for three or six months on specific conditions via eBOK24 (a fully automated application process).</li> <li>▶ Customers intending to sign a lease contract were offered a service of qualified electronic signature issuance and a possibility to execute a contract using this solution in eBOK24. An additional authentication method was introduced in relation to issuance of a qualified electronic signature (eID Santander).</li> <li>▶ The company began offering its financing solutions to manufacturers of farming machines: a leader in the sale of agricultural trailers in Poland and one of the world’s leading manufacturers of slurry tankers and fertiliser spreaders.</li> </ul> </li> <li>▶ In 2021, Santander Leasing S.A. financed assets of PLN 6,875.3m, up 28.3% YoY, driven by balanced sales growth in the vehicles and machinery and equipment segments (+28% YoY).</li> <li>▶ This strong performance was achieved despite very difficult market conditions resulting from the Covid-19 pandemic, notably disrupted supply chains and limited access to assets.</li> </ul>

## 2.2. Business and Corporate Banking Division

### Main development directions

The Business and Corporate Banking (BCB) Division pursues the strategic goal of Santander Bank Polska S.A. which is to become the best business bank and to be among the top three banks in terms of the market share. The bank strives to ensure best-in-class customer experience (confirmed by outstanding NPS survey results) by investing in new CRM platforms and processes. Its

ambition is to become both the bank of choice and the employer of choice.

This strategic goal is measured using a range of indicators which cover all stakeholder groups. The market position is assessed on the basis of NPS as well as employee engagement and motivation.

The priorities of the Business and Corporate Banking Division for



2021 were set in accordance with its strategy, observations and

lessons learned from the last year.

› NPS	› Lending	› AAA
▶ Customer Relationship Management (NPS)	▶ New production and reduction of attrition	▶ Acquisition ▶ Activation ▶ Attrition

The bank steadily expands the range of products and services for BCB customers. Its ambition is to become the best bank for corporate customers in terms of treasury services. It was Poland's first bank to offer an innovative solution for interest rate risk

management: CAP SPREAD. In 2022, a focus will be placed on further improvement of NPS, which increased by 12 points in 2021.

Business highlights of 2021:

▶ Over 25k customers serviced in traditional and digital channels	+4% YoY
▶ Increase in the number of e-commerce transactions	+23% YoY
▶ Increase in FX income from eFX platform	+38% YoY
▶ Utilisation of trade finance limits	+25% YoY
▶ Increase in FX volumes (excluding the property sector)	+11% YoY

## Development of selected business areas

The relationship-building and acquisition activities contributed to the continued growth in the majority of business lines along

with a satisfactory quality of the credit portfolio. The table below presents the activities of the Business and Corporate Banking Division in 2021 in particular areas.

Direction	Activities of the Business and Corporate Banking Division in 2021
<b>Business trends</b>	<ul style="list-style-type: none"> <li>▶ Strong business growth in 2021, including an increase in income from trade finance (+25% YoY), treasury products (+22% YoY), leasing (+9% YoY) and transactional banking (+38% YoY).</li> <li>▶ Sound sales performance, notably in terms of credit limits (+32% YoY), trade finance limits (+25% YoY), factoring (+47% YoY) and leasing (+60% YoY).</li> <li>▶ Increase in volumes, including lending volumes (+4% YoY, and +11% YoY excluding the property sector) and factoring volumes (+34% YoY).</li> <li>▶ Growing sales in digital channels, particularly in terms of currency exchange (+38% YoY) and e-guarantees.</li> <li>▶ 16% YoY increase in the number of transactions made by customers.</li> <li>▶ High quality of the corporate credit portfolio coupled with a low and stable cost of credit.</li> <li>▶ Santander Bank Polska S.A. hailed as the "Financing Provider of the Year" by the leading industry portal Eurobuild (one of the two most prestigious awards in the CEE commercial properties sector). The jury considered the number, size, range and type of financing deals completed, as well as the bank's reputation on the market.</li> </ul>
<b>Business transformation</b>	<ul style="list-style-type: none"> <li>▶ Continuation of digitalisation and development projects aimed to ensure best-in-class services. Further development of customer centricity by increasing the quality of customer contact, developing iBiznes24, and simplifying the credit process, procedures, product range and the language of communication with customers.</li> <li>▶ Implementation of CLP/ credit workflow, with fast credit decisions up to PLN 2m to be taken by a banker based on automatically assigned prelimits, without the need to engage a credit partner.</li> <li>▶ Implementation of #4US – a new transformation programme focused on improving the work environment and increasing the income potential of the Business and Corporate Banking Division.</li> </ul>
<b>Other transformation measures (Agile)</b>	<ul style="list-style-type: none"> <li>▶ Launch of a new version of iBiznes24 electronic banking platform featuring a new FX module.</li> <li>▶ Measures improving the NPS:                             <ul style="list-style-type: none"> <li>› start of periodic customer surveys on FCR (First Contact Resolution) and satisfaction with services relating to non-credit instructions;</li> <li>› implementation of customer contact standards in the unit handling non-credit instructions;</li> <li>› launch of an electronic banking helpline for users of Salesforce – non-credit instructions are now processed by all operational units using a single tool.</li> </ul> </li> <li>▶ Increase in the number of customers' operations in remote channels, including in the self-service zone of iBiznes24 electronic banking.</li> </ul>
<b>New products and services</b>	<ul style="list-style-type: none"> <li>▶ Implementation of GTS (One Trade) – an end-to-end tool for cross-border payments and one of the drivers of the digital transformation of Santander Group. The new service supports delivery of the Group's One Europe strategy, enabling further growth in line with the common objective. Key benefits of the platform:                             <ul style="list-style-type: none"> <li>› integration – global view of all current accounts in all currencies; information from different countries available in one place;</li> <li>› access to information – monitoring of all cross-border transactions with full transparency;</li> <li>› easy-to-manage tool – a possibility to consolidate the account and control international payments and cash flows.</li> </ul> </li> <li>▶ Open postal payments – a new service for public sector customers enabling the bank to provide a comprehensive solution in terms of services to local authorities and increase the share in this segment.</li> </ul>

<b>Strategic customers area</b>	<ul style="list-style-type: none"> <li>▶ Continuation of the strategy of the sectoral approach in business segments by sharing knowledge and insights about the market, trends and prospects with employees and customers through dedicated reports and presentations.</li> <li>▶ Activities aimed at internal recipients:             <ul style="list-style-type: none"> <li>› organisation of webinars (e.g. on the furniture and cosmetics markets);</li> <li>› release of internal sector reports every two weeks (e.g. on the agri, e-commerce, automotive, cosmetics, bakery and furniture industries) and a consumer survey accompanied by a report with latest sector news;</li> <li>› PR activities, including strong presence in the traditional media (press releases with comments on the latest developments in different sectors) as well as social media and online;</li> <li>› active knowledge sharing through sector reviews and webinars, where bankers and credit partners receive guidance regarding various sectors.</li> </ul> </li> <li>▶ Activities aimed at customers:             <ul style="list-style-type: none"> <li>› sector knowledge sharing during online seminars and on-site conferences (23 in 2021) concerning such sectors as food and agri, packaging, furniture, automotive, TSL, cosmetics and e-commerce;</li> <li>› publication of periodical analyses of selected sectors: quarterly information on challenges and prospects of manufacturers and distributors of car parts in cooperation with SDCM (three "Moto Barometer" issues) and monthly information about developments in the food and agri sector (10 "Agroscope" issues);</li> <li>› preparation of sector reports with detailed information about challenges and prospects of selected sectors in which the bank's customers operate (automotive, household appliances, e-commerce B2B from the perspective of the food and cosmetics industries).</li> </ul> </li> </ul>
<b>Activities of the Treasury Services Department</b>	<ul style="list-style-type: none"> <li>▶ Positive trends in treasury transactions made by business customers, translating into a 22% YoY increase in income attributed mainly to FX business performance in H2 2021 and improved investment line results.</li> <li>▶ Relatively high yet marginally lower YoY share of interest rate hedging business resulting from a decrease in the value of long-term loans and a growing pressure on the interest rate margin.</li> <li>▶ Ensuring positive experience of customers transacting with the Treasury Services Department.</li> </ul>
<b>International Banking and Development Office</b>	<ul style="list-style-type: none"> <li>▶ Further support for foreign expansion of Polish exporters and companies with foreign capital doing business in Poland (leveraging the global footprint of Santander Group).             <ul style="list-style-type: none"> <li>› Providing the above companies with a range of opportunities to share their knowledge and experience and establish relationships with new business partners during B2B meetings.</li> <li>› Organisation of/ participation in online events to reach out to foreign investors planning to enter the Polish market and representatives of Polish companies with foreign capital.</li> </ul> </li> <li>▶ In 2021, the International Banking and Development Office organised/ co-organised or participated in the following events:             <ul style="list-style-type: none"> <li>› International webinar: "Bringing One Europe closer to China" organised by all Santander Group banks in Europe together with the Bank of Shanghai.</li> <li>› Conferences: "Poland and Greater Poland in the eyes of foreign investors", "Automotive industry – and what's next?" and "Christmas Business Mixer" organised by the Polish-German Chamber of Commerce (AHK) and sponsored by Santander Bank Polska S.A.</li> <li>› Webinar for Polish food exporters trading with the UK-based partners on regulatory changes connected with Brexit, organised in cooperation with the British-Polish Chamber of Commerce and industry analysts.</li> <li>› Networking sessions with international customers from Germany, the UK, the Netherlands, Spain, Portugal and Scandinavia, offering numerous business opportunities and organised in cooperation with strategic partners (e.g. Octoberfest in Wrocław, meetings of the British-Polish Chamber of Commerce in Warsaw and Kraków, meetings organised by the Netherlands-Polish Chamber of Commerce and the Scandinavian-Polish Chamber of Commerce).</li> <li>› Co-organisation of a four-day Global Food Forum, including presentation of global trends to the F&amp;D community from around the world (Asia, Europe, Middle East, North and South Americas); and a three-day World Manufacturing Industry Week, during which key challenges for manufacturers were discussed.</li> <li>› A series of networking sessions for customers: "Vamos a" and "Doing Business" focusing on Portugal, Spain, Brazil, Argentina, Uruguay, Chile, Mexico, Cuba, the Dominican Republic, Panama and Honduras, organised by the Regional Pomeranian Chamber of Commerce, Polish-Latin American Business Council, Polish-Spanish Chamber of Commerce and Polish-Portuguese Chamber of Commerce.</li> </ul> </li> <li>▶ The business results of the foregoing initiatives were as follows:             <ul style="list-style-type: none"> <li>› In 2021, international business customers with foreign capital generated 6% YoY higher income.</li> <li>› Good performance of strategic corridors: with Germany (+12% YoY), Spain (+9% YoY), the UK (+22% YoY), the USA (+19% YoY).</li> </ul> </li> <li>▶ In the international business area, the income from transactions with new customers was PLN 10.6m over 12 months of 2021, up 55% YoY.</li> </ul>
<b>Public sector</b>	<ul style="list-style-type: none"> <li>▶ A significant increase in day-to-day bankings services provided to local authorities, with a 40% market share at the province level.</li> <li>▶ Growth of structured finance for local authorities combined with optimisation of RWA levels.</li> <li>▶ Active support for new solutions related to energy transformation and emission-free public transport.</li> <li>▶ Launch of a new service for local authorities: cash withdrawals at post offices.</li> </ul>

Direction	Activities of Santander Factoring Sp. z o.o. in 2021 as part of Business and Corporate Banking segment
Factoring business conducted via Santander Factoring Sp. z o.o.	<ul style="list-style-type: none"> <li>▶ Activities of Santander Factoring Sp. z o.o. in 2021 included:               <ul style="list-style-type: none"> <li>▶ Continuation of cooperation with Bank Gospodarstwa Krajowego (BGK) in terms of liquidity guarantees for factoring customers. Conclusion of new agreements with customers availing of BGK guarantees, with a leadership position in terms of the value of guarantees issued.</li> <li>▶ Contribution to development of services for SME customers, including eFactoring – fully digital factoring for micro companies which are the bank’s customers (Santander Factoring Sp. z o.o. acting as a competence centre).</li> <li>▶ Work on new features of the operating system, automation and digitalisation of processes and their adaptation to the regulations introduced in the factoring sector.</li> </ul> </li> <li>▶ An increase of 18.4% YoY in receivables purchased by Santander Factoring Sp. z o.o. in 2021 to PLN 35.6bn, giving the company the fourth position in the ranking of members of the Polish Association of Factoring Companies, with a market share of 10.0%.</li> <li>▶ Growth of 23.0% YoY in the value of the company’s credit portfolio to PLN 7.6bn as at 31 December 2021.</li> </ul>

## 2.3. Corporate and Investment Banking Segment

### Main directions

The ambition of Santander Bank Polska S.A. is to become a bank of choice for the largest corporate customers. To that end, the

Corporate and Investment Banking Division (CIB) puts customers at the heart of its business, trying to suit their needs and enhance their positive experience, while focusing on service quality, market position and staff development.

<b>Service quality</b>	Continuous improvement of service quality through customisation, digitalisation and diversification of the product range.
<b>Market position</b>	The bank steadily strengthens its market position through a range of activities, ensuring top ranking positions of its strategic products and services.
<b>Staff development</b>	The bank’s employees pursue their professional careers in accordance with the Group’s values, taking advantage of experience – sharing opportunities in an international work environment.

In 2021, the CIB Division continued to provide end-to-end services to the largest corporate customers of Santander Bank Polska S.A. As at 31 December 2021, the active CIB customer base included nearly 250 of the largest companies and groups in Poland (allocated to that segment based on the turnover) representing all economic sectors.

Leveraging the opportunities arising from the global presence of Santander Group, the CIB Division rendered services to corporations within international structures of Santander Corporate and Investment Banking and cooperated with several Santander Group units.

Owing to top quality of services rendered in 2021, the Division strengthened its market position and achieved the following results:

- ▶ **Third and fourth position in the mergers and acquisitions (M&A) market in Poland in terms of the volume and value of transactions, respectively;**
- ▶ **Second position in the equity capital market (ECM) in terms of the value of transactions completed in Poland;**
- ▶ **Second position in the debt capital market (DCM) in terms of bonds issued.**
- ▶ **Fiber Deal of the Year** – a prestigious award granted by PFI (Project Finance International) for the transaction involving transfer of a part of the infrastructure of a telecom company, including acquisition of an investor. Santander Bank Polska S.A. acted as a financial advisor, underwriter and one of the main lenders.

Furthermore, the Division optimised the structure of the income statement and the balance sheet by growing the fee-generating business and selling selected credit exposures.

### Performance of selected areas

In 2021, individual units of the Corporate and Investment Banking Division focused on the following initiatives:

**Unit**
**Key activities in 2021**
**Credit Markets Department**

- ▶ Funding (loans and corporate bonds issues) towards medium- and long-term investments of CIB customers provided by the Division single-handedly and in cooperation with other units.
- ▶ Execution of deals in the sectors which are relatively resilient to the crisis (such as renewable energy, telecommunications), notably as part of project finance and syndicated lending, including:
  - ▶ Performing a leading role in major financing deals related to fibre optic cable infrastructure, including financial advisory services and active participation in arrangement of syndicated lending of several billion PLN.
  - ▶ Co-financing of a data centre.
  - ▶ Syndicated lending for customers from the manufacturing and distribution, pharmaceutical, retail, IT, logistic and office property sectors.
- ▶ Supporting key customers in acquisitions, including active participation in syndicated lending of PLN 5.5bn and other transactions (e.g. as a security provider in relation to the tender offer for shares of a public company).
- ▶ Successful year in terms of asset turnover and underwriting, with the total volume of this type of transactions exceeding PLN 1.5bn in 2021. Participation in the two largest deals in the telecommunications sector with a several billion volume. Strong activity on the bank debt market despite the variable impact of the pandemic.
- ▶ Active cooperation with bank's customers as part of debt-related and rating advisory services, notably with companies from the telecommunications and renewable energy sectors.
- ▶ Strengthening the position of the bank as the leading arranger of bonds and eurobonds issues in Poland, including some of the major transactions presented below:
  - ▶ Acting as a joint bookrunner in the issue of:
    - PLN 1bn worth of 3-year eurobonds and PLN 600m worth of 5-year eurobonds for the international development bank (SSA);
    - the issue of 10-year eurobonds of EUR 500m for the Polish development bank and the issue of 7-year EUR 500m worth of eurobonds;
    - in relation to the issue of 7-year eurobonds of EUR 600m for a chemical company.
  - ▶ Acting as a co-manager in the issue of EUR 500m worth of 5-year green euro bonds for a company from the property development sector.
  - ▶ Acting as a coordinator and a joint bookrunner in the issues of mid-term bonds for lease companies totalling PLN 980m.
  - ▶ Acting as a coordinator and a joint bookrunner in the issue of PLN 400m worth of green bonds for a company from the machine industry.
  - ▶ Acting as the sole bookrunner in connection with the Poland's first issue of 2-year PLN 750m worth of sustainability bonds and the issue of two-year bonds of PLN 100m for entities from the banking sector.
  - ▶ Acting as the sole arranger and bookrunner in relation to the first issue of PLN 115m worth of bonds for a company from the property development sector with maturity of two and a half years.
- ▶ Acting as the sole arranger of issue of short-term bonds for financial sector entities totalling nearly PLN 5bn.

**Capital Markets Department**

- ▶ In 2021, Santander Bank Polska S.A. was ranked third and fourth in the mergers and acquisitions market in Poland in terms of the volume and value of transactions, respectively. It also took second position in the equity capital market in terms of the value of transactions completed in Poland. The largest transactions included:
  - ▶ Acting as a joint bookrunner in PLN 4.6bn worth of IPO of one of the leading companies from the non-food retail sector, the largest transaction on the WSE in 2021.
  - ▶ Acting as an intermediary and security provider in PLN 653m worth of tender offer for shares of a leading company from the Polish renewable energy sector.
  - ▶ Advisory services for:
    - one of the largest telecommunications operators in Poland in relation to sale of towers for PLN 7.1bn;
    - a company from the construction and assembly sector in connection with the sale of its subsidiary (one of the largest housing development companies in Poland) for PLN 1.5bn;
    - a Dutch company from the food and agri sector and intermediation in PLN 510m worth of tender offer for shares of a manufacturer of vegetable fats;
    - Polish private equity fund in relation to the sale of a wind and solar farm operator to one of the biggest European energy groups for PLN 440m;
    - a Dutch private equity fund in connection with PLN 425m worth of tender offer for shares of a software company
    - US company from the food sector in relation to the acquisition of a Slovakian food manufacturer – the first M&A transaction executed by Santander Bank Polska S.A. abroad as part of the CEE Coverage initiative aimed to support Banco Santander S.A. customers that operate in the CEE region;
    - a Polish network of outpatient clinics and hospitals with respect to PLN 94m worth of secondary offering. Santander Bank Polska S.A. acted as the global coordinator and bookrunner for the Polish private equity fund in relation to the tender offer for shares of a manufacturer of heat transfer structures for the total amount of PLN 40m.
- ▶ The Capital Markets Department observes a growing popularity of M&A and ECM transactions due to access to capital in the global markets and positive economic outlook as part of post-pandemic recovery.

## Global Transactional Banking Department

- ▶ Business trends in transactional banking:
  - › In 2021, the bank's liabilities were largely shaped by trends in the interest rate market. Despite market volatility, the level of business deposits was stable, with a growing trend observed later in the year. The structure of liabilities changed more dynamically though. At the beginning of the year, customers transferred funds from term deposits to current accounts, but this trend started to reverse in the last quarter. A positive aspect of changes in the interest rate market is popularity of substitute and complementary products among corporate customers.
  - › While the importance of deposits declined, record growth was reported in income from transactions made by business customers. CIB won a record high number of tenders, the majority of which concerned customers with a large number of accounts and transactions.
- ▶ Business trends in trade finance:
  - › Stable use of supply chain finance and receivable finance in 2021. In the first half of the year, the use of limits was lower mainly due to strong liquidity position of customers. A significant increase in volumes was reported from July (followed by a seasonal decline in August) and continued in Q4 due to seasonality and the need to increase volumes of purchase to secure deliveries in 2022 because of logistic problems. A substantial rise in commodity prices was another factor contributing to an increase in the use of factoring lines in 2021.
  - › The bank successfully implemented solutions for distribution of working capital finance risk, which made it possible to increase credit limits for customers. The use of BGK guarantees securing factoring limits was also increased as part of support programmes related to new transactions and extension of existing ones.
  - › In 2021, an upward trend was reported in the use of documentary letters of credit and collections to secure imports/exports, with regard to risk associated with both corporate customers and financial institutions.
  - › The bank implemented a range of export financing solutions for CIB customers, with the support from export credit agencies – KUKE and foreign institutions (Euler Hermes, Eksport Kredit Fonded (EKF)).
- ▶ Business trends in other areas:
  - › Relatively low use of credit limits in 2021, indicating a good liquidity position of CIB customers. Increased drawdowns were mainly observed in the agri, pharmaceutical and manufacturing sectors, which was due to seasonality.
  - › Far fewer customers used guarantees offered by BGK as part of an aid programme to secure new transactions, which was a positive development. However, a great many of those who had availed of the programme renewed the guarantees.
  - › Growing popularity of guarantees and working capital finance, mainly among customers from the energy, automotive and manufacturing sectors, coupled with lower demand for investment loans and lease facilities. In 2021, banks were more active in providing new loans or refinancing and used more aggressive pricing strategies with respect to all credit facilities.

## Financial Markets Area

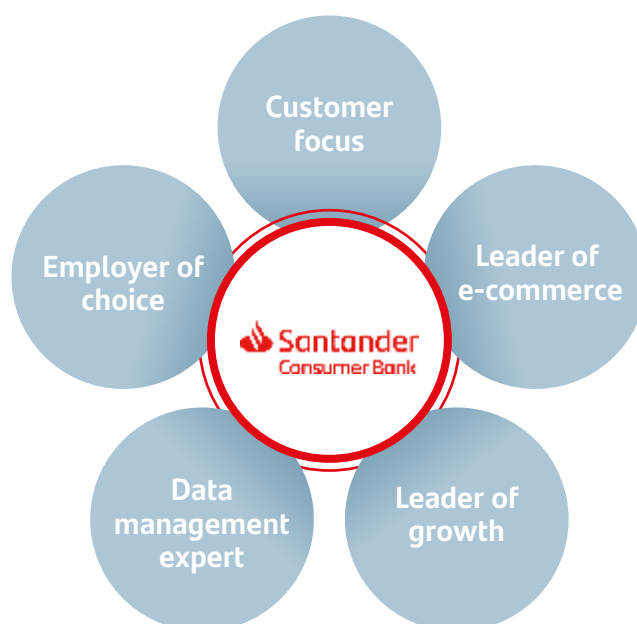
- ▶ In accordance with its strategy, the Financial Markets Area focused on process effectiveness, automation, digitalisation, new technologies and innovations, ecosystems and 24/7 access.
- ▶ The main initiatives designed to increase process effectiveness, automation and digitalisation included:
  - › A new feature of the Kantor Santander currency exchange platform: presentation of customers' and dealers' transactions.
  - › A new sales process for SME loans with the interest rate cap functionality.
  - › Tools based on the credit workflow for treasury transactions (FX limit).
  - › New solutions to support management of currency risk (Window Forward).
  - › Pilot sale of fixed-rate loans for SME customers.
  - › Implementation of tools for corporate customers based on the credit workflow related to treasury limits (IR limit).
  - › Design of currency exchange solutions for a new mobile app.
  - › Implementation of improvements with respect to regulatory processes, including the IBOR reform.
  - › Ensuring pre-trade transparency for liquid interest rate hedging instruments as part of obligations of systematic internalisers.
- ▶ Main activities in the equity research area:
  - › Third position of the Stock Market Analysis Team of Santander Brokerage Poland in an annual ranking of stock market analysts organised by Parkiet daily.
  - › Publication of more than 280 analyst recommendations regarding CEE listed companies.
  - › Increasing the scope of equity research to include a new company and relaunching recommendations for a computer game company.
  - › Providing institutional investors with an opportunity to participate in several dozen conferences.
  - › Organisation of an unprecedented event: "Santander Video Gaming Night", bringing together 11 Polish computer game companies and 50 institutional investors.
  - › Partnership with Santander Group units to launch a new single-platform portal for the bank's analytical products, providing business customers with access to products of all regions in which Santander Group operates.
- ▶ Business trends observed:
  - › Distribution of PLN and EUR bonds for international financial institutions.
  - › Increased volatility caused by dynamic changes in the macroeconomic environment, resulting in considerably higher volumes of transactions.

# 3. Business Development of Santander Consumer Bank Group

## Strategic priorities

The key strategic goal of Santander Consumer Bank S.A. for 2020–2022 is to strengthen the position and image of the bank as an innovative, secure and customer-friendly financial institution with a strong capital base, an effective structure and a uniform management culture. The bank aspires to be the leader in the consumer finance market in brick-and-mortar and remote channels, both in terms of traditional sales and e-commerce.

Santander Consumer Bank S.A. has defined five strategic priorities to increase its competitive advantage in terms of product range, notably in electronic channels.



Priority	Objective	Action	Outcome
Customer focus	<ul style="list-style-type: none"> <li>To strengthen relationships with customers and increase their satisfaction.</li> </ul>	<ul style="list-style-type: none"> <li>To gather customer feedback about new products and processes.</li> <li>To improve products and processes to provide seamless customer experience.</li> <li>To use advanced customer analytics tools.</li> </ul>	<ul style="list-style-type: none"> <li>NPS=56% (one of the highest levels in the market)</li> </ul>
Leader of e-commerce	<ul style="list-style-type: none"> <li>To develop and implement solutions which will position the bank as a strategic provider of financing in the electronic channel.</li> <li>To grow the share of sales via the electronic channel.</li> </ul>	<ul style="list-style-type: none"> <li>To develop processes and financial products aligned to e-commerce requirements.</li> <li>To build partnerships with entities from the e-commerce sector.</li> </ul>	<ul style="list-style-type: none"> <li>All credit products available in remote channels.</li> <li>Share of the remote channel in the sale of installment loans in 2021: 30.8% (+8.3 p.p. YoY)</li> <li>Share of the remote channel in the sale of cash loans in 2021: 21.7% (+9.1 p.p. YoY)</li> <li>165k active mobile app users</li> </ul>
Leader of growth	<ul style="list-style-type: none"> <li>To increase the share in the consumer finance market (to maintain at least the existing customer acquisition levels in the credit area).</li> </ul>	<ul style="list-style-type: none"> <li>To launch new products.</li> <li>To develop sales tools.</li> <li>To establish and strengthen relationships with business partners.</li> </ul>	<ul style="list-style-type: none"> <li>New products aligned to changing customers' expectations and market conditions: Online Revolving Limit, Online Savings Account</li> <li>Leader of the consumer finance market</li> </ul>
Data management expert	<ul style="list-style-type: none"> <li>To improve the bank's technological and data management capabilities.</li> </ul>	<ul style="list-style-type: none"> <li>To raise employees' knowledge about the latest analytical methods.</li> <li>To automate processes.</li> <li>To improve existing and implement new technological solutions.</li> </ul>	<ul style="list-style-type: none"> <li>Increasing process automation level.</li> </ul>
Employer of choice	<ul style="list-style-type: none"> <li>To develop talent and corporate culture, and attract highly-qualified staff.</li> </ul>	<ul style="list-style-type: none"> <li>To improve working conditions.</li> <li>To foster the corporate culture.</li> <li>To build the employer brand and support upskilling.</li> </ul>	<ul style="list-style-type: none"> <li>Change of the bank's organisational structure and implementation of the Agile way of working.</li> <li>Strengthening of the bank's image as an attractive employer.</li> </ul>

As the macroeconomic environment changed significantly, in March 2021 the bank revised the financial management objectives for 2021–2022.

## Key business development directions

In 2021, Santander Consumer Bank Group focused on:

- Maintaining the leadership position in the hire purchase



- market through stable share in traditional sales, continued cooperation with large retailers, further growth of online sales as well as identification of new sales opportunities and maintenance of profitability of collaboration with trade partners;
- Further acquisition of customers based on consumer finance products and co-branded credit cards and maximisation of sales opportunities through cross-selling and up-selling;
- Maximising the potential of customer contact and product range. Dynamic digitalisation and growth of sales in remote channels, including online.

- Focus on SMEs due to the impact of the Covid-19 pandemic on the automotive sector. Focus on establishing new partnerships and developing second-hand car finance for both businesses and individuals due to the limited supply of new cars.
- Changing the organisational structure as a result of implementation of the agile methodology, modifying the organisational structure and continuing the process of transforming own branches into partner outlets.

## Development of selected business areas

Area	Business Development of Santander Consumer Bank Group in 2021
<b>Lending</b>	<ul style="list-style-type: none"> <li>▶ As at 31 December 2021, net loans and advances granted by SCB Group amounted to PLN 15.5bn and were 2.5% lower YoY as a combined effect of the pandemic and the related economic restrictions imposed in 2020 and 2021. Consumer loans and lease facilities started to grow in Q3 2021. A decrease was reported in the value of the mortgage loans portfolio, which is being phased out. The value of working capital loans portfolio declined too, as a direct result of supply chain disruptions in the automotive market.</li> <li>▶ In 2021, the bank increased the maximum available amount of a cash loan (up to PLN 100k) and extended the maximum lending period (up to 96 months). It also offered variable-rate cash loans and joined the "Clean air" ("Czyste powietrze") programme.</li> <li>▶ To increase sales of new products supporting online transactions and to strengthen its position in the electronic channel (eCommerce), the bank expanded its product range to include a special-purpose loan and an open online limit.</li> <li>▶ In 2021, Santander Consumer Bank S.A. extended cooperation with four key partners from the household appliances sector, maintaining its leadership position in the consumer finance market. Furthermore, SCB Group established partnership with two payment integrators (PayU in terms of the special-purpose loan, and Przelewy24 in terms of the open online limit).</li> <li>▶ Additional 3D Secure authentication was implemented for e-commerce transactions. Measures were taken to sign annexes to the agreements (due to the change in the interest rate formula) and special deals were launched to increase the volume of sales (acquire new customers) and the value of the portfolio (encourage existing customer to make more transactions). The bank increased the maximum available credit card limit and launched sales of credit cards to new (unknown) customers at branches.</li> </ul>
<b>Deposits</b>	<ul style="list-style-type: none"> <li>▶ As at the end of December 2021, deposits from customers of SCB Group totalled PLN 9.3bn and decreased by 2.6% YoY, as term deposits became less and less attractive in a close-to-zero interest rate environment prevailing over the first three quarters of the year.</li> <li>▶ The balance of deposits acquired online increased significantly as a result of the pandemic and a growing percentage of operations made by customers in remote channels. At the same time, customers chose shorter deposit tenors and were increasingly interested in savings accounts.</li> <li>▶ The objective of the bank's deposit policy is to promote online products, including savings accounts, and long-term deposits. In 2021, SCB S.A. focused on savings account campaigns aimed to activate existing customers and acquire new ones.</li> </ul>
<b>Debt sale</b>	<ul style="list-style-type: none"> <li>▶ In 2021, SCB S.A. sold the written-off portfolio of cash loans, hire purchase loans and mortgage loans of PLN 451.5m, with a P&amp;L impact of PLN 79.0m gross (PLN 64.2m net).</li> </ul>
<b>Organisation and risk management</b>	<ul style="list-style-type: none"> <li>▶ The implementation of the agile methodology involved changes in the organisational structure of Santander Consumer Bank S.A., which included liquidation of divisions and setting up units with comprehensive skills and expertise (centres of excellence) to deliver development projects relating to products, processes, and technology.</li> <li>▶ To improve efficiency and increase access to the products and services offered by the bank, its subsidiaries and partners, changes were introduced to the retail and partnership network by outsourcing a range of tasks previously carried out by a dedicated in-house team.</li> <li>▶ The Risk Processes Development Centre was set up to manage development of admission processes (including scoring), risk reporting, implementation and administration of IFRS models, and development of new technologies.</li> <li>▶ In H1 2021, the bank completed the transformation of own branches into partner outlets to optimise the cost structure. 32 branches were migrated to the network of partner outlets, which totalled 271 at the end of 2021.</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>▶ In 2021, the range of insurance not related to banking products was expanded to include "Photovoltaic" insurance against theft or damage of photovoltaic panels, including reimbursement of costs arising from energy losses.</li> </ul>

# X. Organisational and Infrastructure Development

## 1. Organisational Changes in the Business Support Centre

### Continuation of the remote work model

In 2021, as in the previous year, the vast majority of employees of the Business Support Centre of Santander Bank Polska S.A. worked from home. Only critical employees and persons who requested so and got a formal consent could work at the office. As the risk of SARS-Cov2 infection continued, the bank's Management Board decided that employees of the Business Support Centre would work from home. At the same time, preparations for the launch of a target hybrid work model across

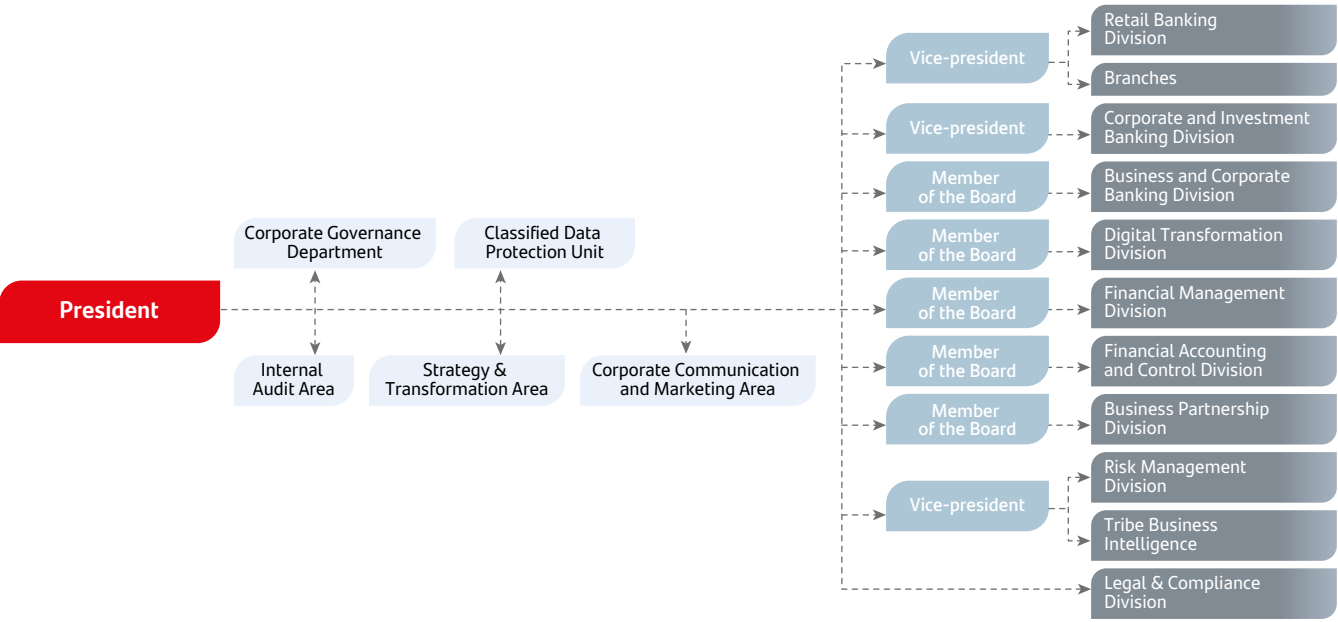
the organisation were continued. The switch to the target model will depend on the development of the epidemic situation in Poland.

### Optimisation of the organisational structure of Santander Bank Polska S.A.

In 2021, a number of optimisation changes were introduced in the bank's organisational structure. The most important ones are presented below:

<b>Retail Banking Division and Branch Network</b>	<ul style="list-style-type: none"> <li>▶ The Sales and Support Area in the Retail Banking Division was liquidated. The Area's units (Santander Universidades Office, the Partner Outlets Development Office, and the Indirect Distribution Department) were transferred to the Bank's Branch Network. Additionally, a standalone position was established in the Retail Banking Division: Santander Digital-Retail &amp; SME Director reporting directly to the Head of the Division. The holder of this position is in charge of the Omnichannel Area, the Multichannel Communication Centre and the e-Commerce and Online Acquisition Office.</li> <li>▶ One macroregion of the bank's Branch Network was liquidated. A standalone position of Distribution Director was also established. The holder of this position reports directly to the Head of the Division, and is in charge of three macroregions and the Select Customer Relations Office (which previously reported to the Head of the Division).</li> <li>▶ These actions resulted from the bank's entering the next phase of the retail transformation strategy for 2021–2023, which is designed to increase the share of sales in remote channels.</li> </ul>
<b>Business and Corporate Banking Division</b>	<ul style="list-style-type: none"> <li>▶ A number of changes were made in the Business and Corporate Banking Division to increase operational efficiency and scope of management and to improve the overall functioning of all units.</li> <li>▶ The main change was the establishment of the Business and Corporate Clients Area and the Business and Corporate Client Products and Services Area. They were created as a result of the division of the Area comprising bankers and units responsible for product development and sales.</li> <li>▶ Other newly established units include the Business and Corporate Banking Strategy Department and the Business Development and Service Department (reporting directly to the Head of the Division) as well as the Corporate Finance Department established within the Business and Corporate Client Products and Services Area.</li> </ul>
<b>Digital Transformation Division</b>	<ul style="list-style-type: none"> <li>▶ In the Digital Transformation Division, the IT Areas dedicated to retail business were consolidated within the CIO (Chief Information Officer) area after they had been transferred from the CTO (Chief Technology Officer) area and the Retail Banking Division.</li> <li>▶ At the same time, the Daily Banking IT Area, the Effective Distribution IT Area and the Savings and Investments IT Area were merged into one unit: the Everyday Banking &amp; Effective Distribution IT Area.</li> <li>▶ Two additional chapters were established in the Omnichannel IT Area, consisting of developers of mobile application on the iOS and Android platforms. In addition, the functions of manual and automatic tests were centralised by creating two dedicated centres of excellence within the Implementation and IT Quality Assurance Department.</li> </ul>
<b>Risk Management Division</b>	<ul style="list-style-type: none"> <li>▶ In the Risk Management Division, the organisational structure of credit risk was adapted to the new portfolio approach and the division of risks by creating the Large Exposures Credit Area to replace the Wholesale Risk Department and the Corporate Credit Department – Premium. Thus the new unit consolidates risk management of the global portfolio, property portfolio and premium portfolio.</li> <li>▶ The Credit Area was renamed as the Standardised Credit Area. As part of the Area, the One and Core Corporate Credit Departments were created in place of the North and South Corporate Credit Departments.</li> </ul>
<b>Legal and Compliance Division</b>	<ul style="list-style-type: none"> <li>▶ The Group Legal Standards Department in the Legal and Compliance Division was liquidated, and most of its tasks were transferred to the Corporate Governance Department (formerly the Corporate Governance Office).</li> <li>▶ The following units were transferred to the Risk Management Division: <ul style="list-style-type: none"> <li>▶ The Anti-Money Laundering Department – to leverage the target design of AML processes and their optimal adjustment to regulatory and group requirements. After the transfer, the Department was renamed as the Money Laundering and Terrorist Financing Risk Management Department.</li> <li>▶ The Data Protection Officer Office – in accordance with the GDPR requirement to ensure a direct line of reporting by the Data Protection Officer to the Member of the bank's Management Board.</li> </ul> </li> </ul>
<b>Other changes</b>	<ul style="list-style-type: none"> <li>▶ The three Departments responsible for Cost Management, Work Environment Management and Contract and Procurement Management were transferred from the Strategy and Business Model Transformation Area to the Financial Accounting and Control Division.</li> <li>▶ The Customer Excellence Centre, which focuses on building a customer-centric organisational culture, was moved to the Strategy and Business Model Transformation Area, renamed as the Strategy and Transformation Area.</li> </ul>

> ORGANISATIONAL UNITS OF THE BUSINESS SUPPORT CENTRE OF SANTANDER BANK POLSKA S.A.



**Implementation of the Agile methodology**

Santander Bank Polska S.A. has been steadily increasing the use of the Agile methodology and culture to achieve lasting success in a dynamically developing environment. One of the objectives of the Agile way of working is to move away from complex hierarchical structures towards small interdisciplinary teams that are capable of quick and effective implementation of new solutions in accordance with customer needs.

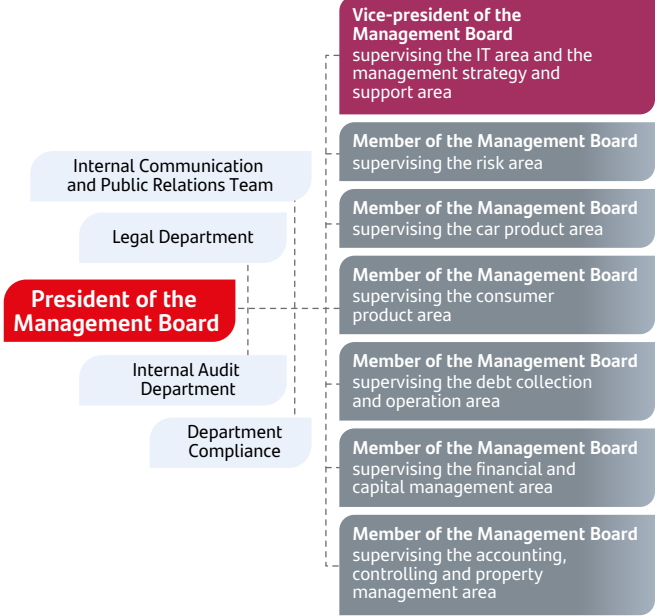
Currently, the Agile concept is used by 18 tribes established at Santander Bank Polska S.A. and covers the majority of service and software development processes. Around 1,500 people work in tribe structures.

In 2021, the bank extended the scope of use of Design Thinking, improving the quality of the implemented solutions. Dashboards which measure tribe performance were extended based on the EazyBI application. A lot of focus was placed on more effective management by objectives, using such methods as Objectives & Key Results and Impact Mapping. At the same time, Agile values and principles were being gradually implemented in the bank's units which do not generally work in accordance with this methodology.

In 2022, the bank intends to continue to extend the use of Design Thinking, Lean and Kanban in order to further improve the quality of solutions and increase effectiveness of bank processes. To improve the cooperation between the teams, the bank will use Scrum scaling methods to a wider extent.

**2. Optimisation of the Organisational Structure of Santander Consumer Bank S.A.**

In April 2021, a new organisational structure was announced at Santander Consumer Bank S.A. as a result of implementation of an agile model in the entire organisation. Organisational divisions were liquidated, and agile Tribes (Development Centres) were set up. Below a structure of units has been provided based on the areas of the responsibilities of their heads who report directly to the President of the Management Board.



## 3. Changes in the Structure of Santander Bank Polska Group

Compared to 31 December 2020, the list of members of Santander Bank Polska Group was reduced by one company: SC Poland Consumer 15-1 Sp. z o.o., a company directly controlled by Santander Consumer Bank S.A., which ceased to control the

entity after the latter had completed and settled its securitisation transaction on 17 June 2021.

The members of Santander Bank Polska Group are presented in Chapter II, Section 2 "Structure of Santander Bank Polska Group".

## 4. Changes in the Equity Investment Portfolio

As at 31 December 2021 and 31 December 2020, Santander Bank Polska Group owned at least 5% of share capital or voting power

in the following companies:

No.	Company	% in the share capital	% of the total votes at AGM	% in the share capital	% of the total votes at AGM
		31.12.2021	31.12.2021	31.12.2020	31.12.2020
1.	Krynicki Recycling S.A. <sup>1)</sup>	19.19%	19.19%	19.19%	19.19%
2.	Polski Standard Płatności Sp. z o.o.	14.29%	14.29%	14.29%	14.29%
3.	Krajowa Izba Rozliczeniowa S.A.	14.23%	14.23%	14.23%	14.23%
4.	Aviva Powszechne Towarzystwo Emerytalne Aviva Santander S.A.	-	-	10.00%	10.00%
5.	Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	-	-	10.00%	10.00%
6.	Aviva Towarzystwo Ubezpieczeń na Życie S.A.	-	-	10.00%	10.00%
7.	Hortico S.A. <sup>1)</sup>	6.18%	6.18%	6.39%	6.39%
8.	Biuro Informacji Kredytowej S.A.	7.72%	9.22%	7.72%	9.22%
9.	Gorzowski Rynek Hurtowy S.A. <sup>1)</sup>	-	-	2.69%	5.62%

1. Companies from the portfolio of equity investments of Santander Inwestycje Sp. z o.o.

## 5. Transactions in Equities

### Transaction concerning Aviva Group companies from the portfolio of investment financial assets and the portfolio of investments in associates

In relation to Aviva Group's decision to exit the Polish market through the sale of its companies to Allianz Holding eins GmbH (Allianz), on 26 March 2021 Santander Bank Polska S.A. took steps to complete the transaction concerning Aviva Group companies. The transaction was finalised on 29 and 30 November 2021 following the receipt of all consents from the relevant bodies as required by law, including the decisions of the Polish Financial Supervision Authority (KNF) and the European Commission, and fulfillment of other terms and conditions agreed by the parties to the transaction.

The transaction involved the following measures taken by the bank:

1) Sale (29 November 2021) of 1,370 shares in Aviva Powszechne Towarzystwo Emerytalne Aviva Santander S.A. representing approx. 10% of the company's share capital to Aviva Towarzystwo Ubezpieczeń na Życie S.A. for EUR 14.2m.

- 2) Sale (30 November 2021) of the following shareholdings to Allianz:
- 4,125 shares in Aviva Towarzystwo Ubezpieczeń na Życie S.A. representing approx. 10% of the company's share capital;
  - 2,968 shares in Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. representing approx. 10% of the company's share capital;
- for the total sale price of EUR 223.3m.
- 3) Termination of the cooperation agreements with Aviva International Holdings Limited relating to Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Santander Aviva Towarzystwo Ubezpieczeń S.A. (including shareholder agreements), effective as of the completion of the transaction.
- 4) Execution of shareholder agreements with Allianz, i.e. a new partner of the bank in Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Santander Aviva Towarzystwo Ubezpieczeń S.A. holding approx. 51% of the share capital of each of the companies.
- 5) Execution of new bancassurance agreements with Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Santander Aviva Towarzystwo Ubezpieczeń S.A.

Notwithstanding the above transaction and payments, between June and November 2021 Santander Bank Polska S.A. was paid PLN 95.6m worth of dividends by Aviva Powszechna Towarzystwo Emerytalne Aviva Santander S.A., Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. The bank was also entitled to a payment of EUR 10m from Aviva Group, which after conversion to PLN totalled PLN 46.8m and was recognised under other operating income.

## Sale of series A preference shares of Visa Inc.

As a result of the settlement of acquisition of Visa Europe Limited by Visa Inc. on 21 June 2016 and acquisition of assets of Deutsche Bank Polska S.A., Santander Bank Polska S.A. received 21,032 series C preference shares of Visa Inc. entitling it to acquire series A ordinary shares during the next 12 years starting from the fourth year.

On 24 September 2020, i.e. four years after the foregoing acquisition, series C preference shares of Visa Inc. were partially converted. As a result of the above, the bank still holds 21,032 series C shares whose value decreased as the ratio of conversion of series C shares into series A ordinary shares was reduced from 13.722 to 6.861. The bank's portfolio also includes 1,443 series A preference shares (convertible to 144,300 series A ordinary shares).

Between April and June 2021, the bank completed five conversions of 1,443 series A preference shares into 144,300 series A ordinary shares, which were subsequently sold at a net profit of PLN 8.1m.

As a consequence, the portfolio of Santander Bank Polska S.A. now includes 21,032 series C preference shares.

# 6. Development of Distribution Channels of Santander Bank Polska S.A.

## Development of distribution channels of Santander Bank Polska S.A.

Santander Bank Polska S.A. pursues an omnichannel strategy based on a network of branches, customer service points and best-in-class digital banking solutions. In 2021, the bank took

measures to strengthen its position as an omnichannel bank, focusing on relationships with customers and their experience and on business growth, with a particular emphasis on digital channels.

### Basic statistics on distribution channels

Santander Bank Polska S.A.	31.12.2021	31.12.2020
Branches (locations)	383	456
Off-site locations	2	2
Santander Zones (stands at shopping centres)	11	10
Partner outlets	164	138
Business and Corporate Banking Centres	6	19
Single-function ATMs	610	731
Dual-function machines	914	930
Registered mobile and internet banking customers <sup>1)</sup> (thousand)	4 492	4 179
Digital (active) mobile and internet banking customers <sup>2)</sup> (thousand)	2 998	2 757
Digital (active) mobile banking customers <sup>3)</sup> (thousand)	2 194	1 865
iBiznes24 – registered companies <sup>4)</sup> (thousand)	25	21

1) The number of customers who signed an electronic banking agreement under which they can use the available products and services.

2) The number of active internet and mobile banking users (digital customers) who at least once logged into internet or mobile banking or checked their balance without logging in the last month of the reporting period.

3) The number of active mobile banking customers who at least once logged into the mobile application or its light version or checked their balance without logging in in the last month of the reporting period.

4) Only customers using iBiznes24 – an electronic platform for business customers (the customers having access to Moja Firma plus and Mini Firma platforms are not included).

## Traditional distribution channels

### Branch network

In 2021, Santander Bank Polska S.A. continued optimisation of its traditional distribution network by ensuring effective layout of branches, reducing their post-sale and cash handling activities, and upgrading their standard.

As part of the optimisation process, 41 branches were liquidated and 32 branches were transformed into partner outlets.

Another 25 branches were remodelled, which increased the number of branches with more modern, spacious and comfortable premises to 184 at the end of 2021.

The branch modernisation process was continued, with three transformations standing out by their scale, location and solutions:

- completing the largest-ever upgrade of a banking outlet, namely Branch 1 in Wrocław;
- opening a hub outlet – Branch 4 in Lublin, with two Lublin-based branches migrated to a new location (integration of

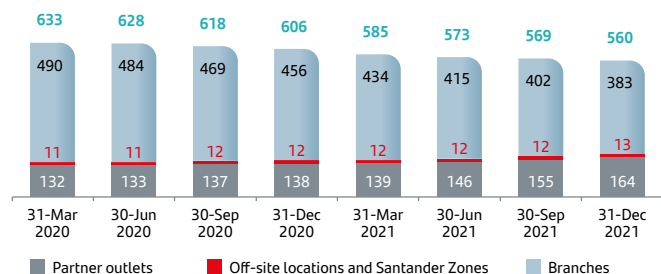
business by providing space shared by Branch Banking and the Business Support Centre).

→ relocating and opening a modern outlet in the heart of Kraków, namely Branch 3 with a Private Banking zone.

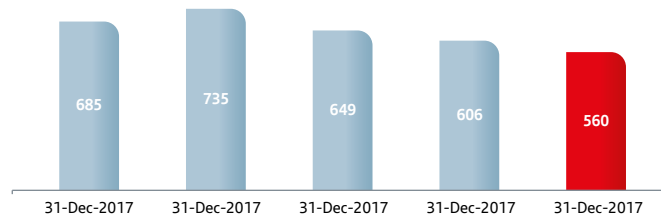
As at 31 December 2021, Santander Bank Polska S.A. had 383 branches, 2 off-site locations, 11 Santander Zones and 146 partner outlets. During the year, the number of bank outlets (branches, off-site locations and Santander Zones) decreased by 75, and the number of partner outlets increased by 26.

**BRANCHES (INCL. OFF-SITE LOCATIONS AND ACQUISITION STANDS) AND PARTNER OUTLETS OF SANTANDER BANK POLSKA S.A. IN CONSECUTIVE QUARTERS OF 2020-2021 AND AT THE END OF YEARS 2017-2021**

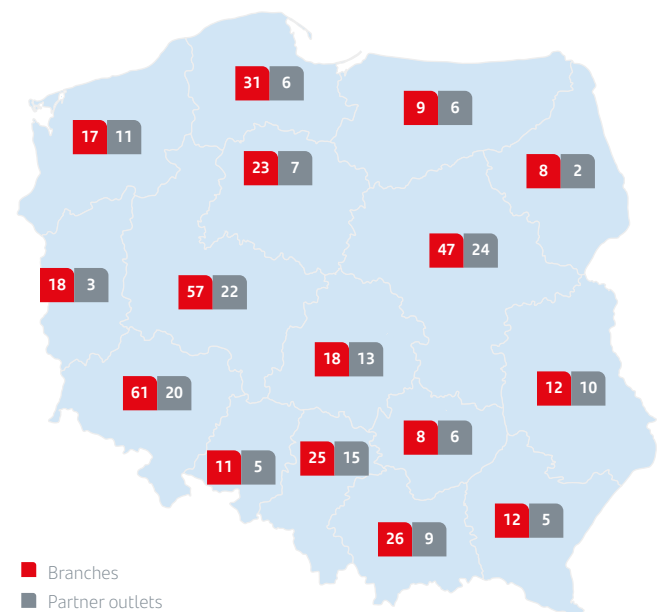
**NUMBER OF BRANCHES AND PARTNER OUTLETS OF SANTANDER BANK POLSKA S.A. BY QUARTER IN 2020 AND 2021**



**NUMBER OF BRANCHES AND OUTLETS OF SANTANDER BANK POLSKA S.A. IN YEARS 2017-2021**



**SANTANDER BANK POLSKA BRANCHES AND PARTNER OUTLETS AS AT 31 DECEMBER 2021 (EXCL. OFF-SITE LOCATIONS AND ACQUISITION STANDS)**



**Intermediaries network**

Indirect distribution channels, whose main role is to acquire new customers, include agents, intermediaries, brokers and Santander Zones.

- In 2021, the external network employed 250 people as the bank's tied agents on average per month. The bank used their services to offer cash loans, mortgage loans, SME loans, loan insurance, personal and business accounts, and leasing facilities.
- Cooperation with financial and real estate brokers (network agents) generated a significant YoY increase in sales.
- The network of Santander Zones in shopping centres increased by one stand located in Poznań (11 in total at the end of December 2021).

As part of the Private Banking model, customers were served by 59 Private Bankers based in 26 outlets across Poland (four Private Banking Centres and 22 other locations).

Services to businesses and corporations were provided by two departments: the Business Clients Department and the Corporate Clients Department with their six Banking Centres (three Business Banking Centres and three Corporate Banking Centres) operating within three regional structures through 29 offices located Poland-wide.

Services to the bank's largest customers, the public sector and universities were rendered by the specialised Corporate Clients Department – Premium, which is also responsible for financing commercial properties.

**ATMs**

At the beginning of 2021, the bank started the process of optimising its off-site machines, removing and relocating economically unviable, low-transaction ATMs. The number of active ATMs was reduced by 121 and the number of dual-chamber devices by 30. At the same time, the number of recyclers increased by 14.

As at 31 December 2021, the network of self-service devices of Santander Bank Polska S.A. comprised 1,524 units, including 610 ATMs and 914 dual function machines (440 recyclers).

The bank's network was ranked second in the Polish banking sector in terms of the number of CDMs and third in terms of the number of ATMs.

**Remote channels**

In 2021, the bank continued to improve the functionality and capacity of digital contact channels in line with its long-term strategy which is to increase the share of such channels in customer acquisition and sales. The Group's activity in this area accelerated in response to the Covid-19 pandemic, as customers preferred to communicate and transact with the bank remotely.

The changes were intended to improve the user-friendliness of existing features and processes, and add new ones, while enhancing security of operations. Furthermore, channel integration was continued, harmonising customer service across the bank.



Electronic channel	Selected solutions and improvements introduced in 2021
Development of digital acquisition and sales	<ul style="list-style-type: none"> <li>▶ Mass roll-out (after a successful pilot in Warsaw) of an innovative service: execution of agreements with new customers using a biometric tablet in the courier process.</li> <li>▶ Optimisation changes in the online account application, including solutions reducing the rejection rate due to errors in NIP and REGON numbers, and increasing correctness of contact details.</li> <li>▶ Launch of a new identity check method for customers opening business accounts – a photo-based account opening process.</li> <li>▶ A possibility to contact the branch advisor online (chat, video call) to get information about a mortgage loan.</li> <li>▶ Introduction of an online consolidation loan request.</li> </ul>
Internet banking	<ul style="list-style-type: none"> <li>▶ A possibility for users of Mini Firma, Moja Firma plus and iBiznes24 to apply for a subsidy under PFR Financial Shield 2.0.</li> <li>▶ Partners' services available in Mini Firma internet – eWadia, eZdrowie and eLeasing.</li> <li>▶ A possibility to update the company's details via the Mini Firma internet banking mailbox.</li> <li>▶ Implementation (1 February 2021) of a request for the 500+ child benefit for the next settlement period.</li> <li>▶ Launch of new versions of Santander internet (in February, April, June and September 2021), with the following features:               <ul style="list-style-type: none"> <li>▶ new layout of requests for a business account for sole traders and for a salary transfer;</li> <li>▶ a possibility to make a claim on an insurance policy;</li> <li>▶ a new "Brokerage account" tab (customers can go from their internet banking account to the Investor online service without the need to log in again);</li> <li>▶ improved navigation and functionality (e.g. of the tax transfer form, page with accounts and cards);</li> <li>▶ a new tile for Private Banking customers in the "Your activities" tab (where they can arrange a meeting or connect with the advisor for a scheduled meeting);</li> <li>▶ an option to set up a trusted profile for children above 13;</li> </ul> </li> <li>▶ Providing a possibility to enable and use a card temporarily blocked due to suspicious transactions.</li> <li>▶ Simplification of the complaint process in Mini Firma and Moja Firma plus.</li> </ul>
Santander mobile	<ul style="list-style-type: none"> <li>▶ Launch of new versions of Santander mobile (in March, May, June, July and September 2021), with the following features:               <ul style="list-style-type: none"> <li>▶ a possibility to order payments from accounts with other banks and make changes in personal details and correspondence delivery methods;</li> <li>▶ biometric mobile authorisation (customers can confirm online transactions up to PLN 10k with a fingerprint; Face ID can be used for devices with iOS system);</li> <li>▶ changes in the presentation of transaction history;</li> <li>▶ refreshed look of the tabs (modified in accordance with users' suggestions);</li> <li>▶ a business loan request.</li> </ul> </li> <li>▶ Change to the presentation of the transaction history (instant visibility), blocked cards, declined payments, inflows and outflows.</li> <li>▶ Introduction of the Autopay toll payment service.</li> <li>▶ Availability of BLIK contactless payments (without the need to enter PIN at POS terminal);</li> </ul>
Santander.pl	<ul style="list-style-type: none"> <li>▶ Launch of a new Santander TFI portal (migrated to the bank's domain), a new Investor Relations portal (easier-to-navigate and intuitive layout and presentation of content and documents), a Career portal and a new Santander Factoring service at <a href="http://www.santander.pl/factoring">www.santander.pl/factoring</a>.</li> <li>▶ Change in the method of marking closed branches in the branch, ATM and CDM finder.</li> <li>▶ Personalisation of the main message at <a href="http://www.santander.pl/klient-indywidualny">www.santander.pl/klient-indywidualny</a> – rather than seeing one main banner, customers can see one of several banners displayed depending on their behaviour on the bank's website.</li> <li>▶ Adding a new filter (category of expenses) to the list of payers and payees in the transaction history and a new transaction status for card transfers.</li> </ul>
Multichannel Communication Centre	<ul style="list-style-type: none"> <li>▶ Channel integration and expansion of the scope of service process and tools.</li> <li>▶ Delivery of projects that facilitate advisors' work and harmonise customer service across the bank (multi-dimensional/cross-product standardisation of processes; identification of processes for migration to self-service, etc.).</li> <li>▶ Example processes introduced in the Multichannel Communication Centre in 2021:               <ul style="list-style-type: none"> <li>▶ Modification of an agreement to enable customers to process orders on their own and buy banking products.</li> <li>▶ Provision of services to potential customers who tried to open an account in remote channels.</li> <li>▶ Optimisation of processes, including contact with customers in the Multichannel Communication Centre, account conversion, and execution of loan agreements (for a credit card, overdraft or cash loan).</li> <li>▶ Assignment of new discretions to the manager for dealing with complaints in the fast-track process.</li> <li>▶ Introduction of the Ratio 0% offer for credit cards (a new retention offer).</li> <li>▶ Expansion of the process of obtaining consents for contact via e-channels and consents for sending marketing communications via those channels.</li> <li>▶ Simplification of the process of opening a personal/ savings account for Select customers.</li> <li>▶ Implementation of an authentication code as a customer identification tool.</li> <li>▶ Change of the SME account type.</li> <li>▶ New tool for agreement encryption.</li> <li>▶ Optimisation of the fraud reporting process.</li> <li>▶ Pilot of ScreenSharing with a customer.</li> <li>▶ Assistance for the photo-based account opening process.</li> </ul> </li> <li>▶ Increased availability of E2E credit processes over phone for personal customers (a possibility to conclude an agreement via phone for a cash loan up to PLN 100k, a credit card and an overdraft).</li> <li>▶ Continuation of the IVR Project for Senior Customers – by choosing an appropriate option, seniors connect directly with a consultant who provides them with the required information.</li> </ul>

- ▶ Introduction of ongoing changes in the IVR to optimise call routing to relevant advisor groups.
- ▶ A YoY increase in the number of calls (notably video and audio), as well as email and chat communication, indicative of a change in customers' preferences towards remote channels.

The new features of iBiznes24 are described in Chapter IX "Business Development in 2021", section on Business and Corporate Banking and Corporate and Investment Banking.

## E-commerce

Santander Bank Polska S.A. develops an e-commerce channel to sell strategic products online. The bank offers personal accounts, business accounts and cash loans in partnership with affiliate networks in Poland, i.e. the largest online platforms.

## Digital customers

As at 31 December 2021, the number of digital customers (i.e. electronic banking customers who used electronic banking at least at least once a month) went up by 8.7% YoY to nearly 3m, accounting for 66.7% of customers with access to electronic banking services. The number of mobile application users increased by 17.6% YoY to 2.2m (including 967k customers who used Santander mobile only). Last year, mobile application users made 173.9m transactions (up 42.9% YoY). The number of online transactions increased by 5.3% to 211.7m.

# 7. Development of Distribution Channels of Santander Consumer Bank S.A.

Basic statistics on distribution channels of Santander Consumer Bank S.A.	31.12.2021	31.12.2020
Branches	54	94
Partner outlets	271	242
Car finance partners	1 161	754
Hire purchase partners	7 028	7 113
Registered mobile and internet banking customers <sup>1)</sup> (thousand)	1 257	1 269
Digital (active) mobile and internet banking customers <sup>2)</sup> (thousand)	237	177
Digital (active) mobile banking customers <sup>3)</sup> (thousand)	165	102

1) The number of customers who signed an electronic banking agreement and used the electronic banking system in the reporting period.

2) The number of active internet and mobile banking users (digital customers) who at least once logged into internet or mobile banking in the last month of the reporting period or checked their balance without logging in.

3) The number of active mobile banking users who at least once logged in to the mobile application in the last month of the reporting period or checked their balance without logging in.

## 8. IT Development

### Main IT development directions

Santander Bank Polska S.A. is focused on building competitive edge based on state-of-the-art technologies, digital processes and simple rules.

The bank continues to implement the DevOps culture, which ensures undisturbed implementation of changes in production systems responding to customer needs while significantly reducing the time-to-market. This process is the key element of the bank's digital transformation.

In 2021, the bank took further measures as part of the 4P strategic programme designed to boost organisational, process and cost efficiencies. Many paper-based registers were removed and processes related to document management and cash and vault operations at branches were simplified. Work was started to develop a new post-sale model for retail customers (process centralisation).

In accordance with the long-term plan of redesigning the organisation's IT architecture (APO – Application Portfolio

Optimisations), work is under way to streamline, upgrade, reduce the total cost of ownership and enhance security of the applications portfolio. In 2021, several dozen applications were decommissioned. At the same time, technological changes are being implemented smoothly to eliminate technological debt.

The scope of the project is gradually expanded to reduce the number of incidents in the live environment and accelerate the implementation of changes. Quality assurance at early stages of software development and its automation are of key importance.

In response to the changing environment, particularly market conditions and customer expectations, intensive efforts are being made to increase accessibility of products and services in electronic channels. This is expected to ensure that customers receive end-to-end solutions and can enjoy improved service processes (e.g. related to credit and insurance products). As part of accelerated digitalisation of retail banking, more customer- and employee-friendly and intuitive processes and products are being implemented. With these measures, the bank aspires to become the bank of choice for digital customers.

## Achievements in innovation and research and development

The Digital Innovation Office – in partnership with Accelpoint – runs the AccelUp acceleration programme to facilitate cooperation with Polish startups. In 2021, new entities were selected as part of the 4th and 5th (additional) round of the programme. The entities invited to participate develop solutions for the bank's units and are engaged in the projects that focus on technological capabilities in the context of customers' needs. The initiatives are delivered as part of the "proof of concept" and are consistent with the strategic objectives of the bank and the Group. For example, they support the activities of Santander Brokerage Poland through development of an investment and educational platform that will help investors better understand stock exchange products and get a more convenient access to relevant information and educational materials. In 2021, the bank completed six "proof of concept" projects with fintechs, each of which took six months.

Furthermore, in October 2021 Santander Bank Polska S.A. signed a new cooperation agreement with Industry Lab (DGA Group), pursuant to which two projects with new startups were launched in January 2022. The solutions will be used by Santander Brokerage Poland. They will include a tool for automation of control of risk attached to structured products and a module for handling innovative products and services.

The business is becoming increasingly interested in cooperation with fintechs whose solutions are becoming more and more in demand. The bank is expected to get proactive measures in this area, placing a particular focus on the needs of customers of Santander Brokerage Poland.

## Digital transformation

The table below presents the selected IT projects delivered by Santander Bank Polska Group in 2021.

Initiative	Selected projects delivered in 2021
Improvement of availability, reliability and performance of the bank's systems	<ul style="list-style-type: none"> <li>The first stage of Data Centre migration was completed: the servers and network infrastructure were relocated to new premises. An agreement was signed with the supplier of the second DC location.</li> <li>The availability and stability of services for customers was significantly improved by reducing the number of IT incidents (by 23% YoY) thanks to proactive measures and stabilisation projects.</li> <li>A new tool was implemented for distribution of events in the bank's central system for the purpose of development of the New Business Domains.</li> <li>A new version of SAS CRM was implemented, enhancing advertising campaign generation capabilities</li> <li>The key internet and mobile banking and card authorisation systems were migrated to a new platform (IBM Power 9) ensuring high efficiency and scalability of services.</li> </ul>
Participation in global optimisation initiatives of Santander Group	<ul style="list-style-type: none"> <li>The bank analysed the potential to develop robotic solutions for other geographies as part of RPA &amp; Automation Center of Excellence for OneEurope.</li> <li>The first features of GTS One Trade were implemented for Polish customers (customer onboarding, Payments Tracker, account balances with Open API). Thanks to API, customers can view current accounts in real time (including current balance and history) in any Santander Group bank which implemented GTS. This way, information about a number of accounts is presented in one place irrespective of the country.</li> </ul>
Enhancement of security of the bank's systems	<ul style="list-style-type: none"> <li>The bank implemented SAS Fraud Management, a system which enables 24/7/365 monitoring of online transactions in real time and automatic monitoring of transactions in remote channels.</li> <li>The security of card systems and transactions was enhanced due to implementation of Key Block – a solution improving the security of storage and use of cryptographic keys in compliance with security procedures of payment and audit organisations.</li> <li>A project was started to increase the security of ATMs – the software of 550 machines was upgraded.</li> <li>The bank continues to promote the cybersecurity culture among customers and employees. The social media campaign "Cyberproverbs" ("Cyberprzystowia") was awarded in Poland's largest PR competition – Golden Clips. In October, the bank launched a new cybersecurity campaign: "Don't believe in fairy tales for adults". To reach the widest possible audience, the materials are posted in social media, aired on the radio, published on a dedicated website and made available in the bank's branches. The campaign has received very positive feedback and reached a large number of recipients. The bank also publishes warnings about emerging cyberthreats, e.g. in IVR messages in the Multichannel Communication Centre and on the bank's website.</li> <li>The bank continued to promote the CyberRescue service which includes cyberthreat alerts and expert support. The purpose of those measures was to reach the highest possible number of customers that actively use internet and mobile banking services.</li> </ul>
Implementation of regulatory requirements	<ul style="list-style-type: none"> <li>As part of the IBOR regulatory programme, changes were implemented as a result of discontinuation of LIBOR with regard to conclusion of new transactions and migration of LIBOR-based products. Furthermore, a central module was developed and deployed in the Financial Markets Platform to support management of market rates by the bank.</li> <li>Changes arising from 5th AML Directive and new control requirements were incorporated in the new AML Policy for Trade Finance and Payments in line with the Santander Group Protocol.</li> <li>The bank started reporting data to STIR in accordance with the Act of 27 November 2020 amending the VAT Act and certain other acts.</li> </ul>

#### Automation and optimisation of operational processes

- ▶ The bank introduced a new simplified loan consolidation process for retail customers in remote channels. In addition, a credit card limit increase process was implemented as one of the mobile and electronic banking modules.
- ▶ The Smart Loans application supporting loan sales for SMEs was launched in the mobile channel. eLeasing was deployed too.
- ▶ A revamped UX and UI version of the currency exchange platform (Kantor Santander) was made available to Santander internet and Santander mobile users.
- ▶ A new architecture of back-end IT systems was designed. The first domains are being implemented.
- ▶ The Restructuring Portal was implemented in Santander internet and Santander mobile to enable customers to manage their debt remotely.
- ▶ Mobile banking users were provided with an MVP (Minimum Viable Product) of the My Goals (Moje Cele) service that helps to create and achieve savings goals based on three methods.
- ▶ In partnership with the Business Intelligence Tribe, a modern risk model was implemented based on machine learning technology – it is the first application model at the bank that processes loan applications in real time using data obtained “on the fly” from the BIK credit reference agency.
- ▶ The PROROK platform was further developed in terms of banking solutions and customer segments to support the sale and post-sale of daily banking products.
- ▶ The product offering of the Multichannel Communication Centre and partner outlets was expanded to include life and health insurance (“Życie i zdrowie”), as part of the programme aimed to design modern insurance processes based on a new architecture in individual distribution channels. At the same time, Locum home insurance was transferred from an old architecture and made available in Santander internet and Santander mobile along with revised documents.
- ▶ The OpenShift platform was upgraded, increasing the level of automation of development, implementation and launch of new banking applications.
- ▶ In 2021, 15 RPA bots were implemented, along with a range of other automation solutions. The main areas which are being automated are credit processes (including mortgage lending), complaints and inquiries, bank references, account closing and the bank’s legal obligations.
- ▶ Strategic customers were offered new solutions: a distributed signature, dual services for third party banks. New customers were added, including Visa and new accounts of customers from Eurocash Group.

## 9. Capital Expenditures

In 2021, Santander Bank Polska Group incurred PLN 424.4 m worth of capital expenditure compared with PLN 389.8m in 2020. The expenditure primarily included projects related to the development of IT systems, infrastructure and equipment, which are described above. The bank continued to invest in the development of online, mobile and telephone banking for retail customers, improved the iBiznes24 electronic banking platform, CRM systems and credit processes for business customers, and carried out optimisation and transformation processes in the branch network. For more information, see Section 6 of this Chapter “Development of Distribution Channels of Santander Bank Polska S.A.” and Chapter IX “Business Development in 2021”.

# XI. Financial Performance in 2021

## 1. Income Statement of Santander Bank Polska Group

### Structure of Santander Bank Polska Group's profit before tax

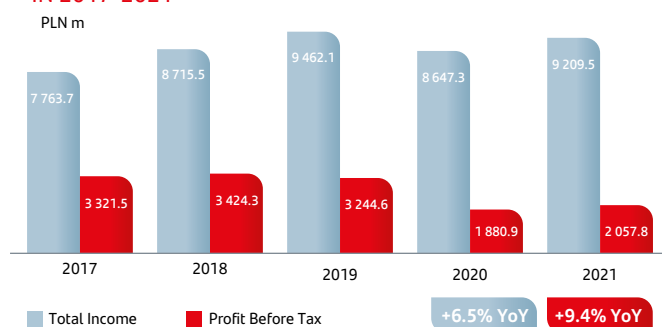
Condensed Consolidated Income Statement of Santander Bank Polska Group in PLN m (for analytical purposes)

	2021	2020	Change YoY
<b>Total income</b>	<b>9 209.5</b>	<b>8 647.3</b>	<b>6.5%</b>
– Net interest income	5 962.4	5 888.1	1.3%
– Net fee and commission income	2 487.1	2 152.1	15.6%
– Other income <sup>1)</sup>	760.0	607.1	25.2%
<b>Total costs</b>	<b>(5 487.2)</b>	<b>(4 488.0)</b>	<b>22.3%</b>
– Staff, general and administrative expenses	(3 172.1)	(3 262.5)	-2.8%
– Depreciation/amortisation <sup>2)</sup>	(579.0)	(593.6)	-2.5%
– Other operating expenses	(1 736.1)	(631.9)	174.7%
<b>Net expected credit loss allowances</b>	<b>(1 124.2)</b>	<b>(1 762.8)</b>	<b>-36.2%</b>
Profit/loss attributable to the entities accounted for using the equity method	74.1	86.4	-14.2%
Tax on financial institutions	(614.4)	(602.0)	2.1%
<b>Consolidated profit before tax</b>	<b>2 057.8</b>	<b>1 880.9</b>	<b>9.4%</b>
Tax charges	(805.4)	(643.7)	25.1%
<b>Net profit for the period</b>	<b>1 252.4</b>	<b>1 237.2</b>	<b>1.2%</b>
– Net profit attributable to the shareholders of Santander Bank Polska S.A.	<b>1 111.7</b>	<b>1 037.2</b>	<b>7.2%</b>
– Net profit attributable to the non-controlling shareholders	140.7	200.0	-29.7%

1) Other income includes total non-interest and non-fee income of the Group. It comprises in particular the following items of the full income statement: dividend income, net trading income and revaluation, gain/loss on other financial instruments and other operating income.

2) Depreciation/amortisation includes depreciation of property, plant and equipment, amortisation of intangible assets and depreciation of the right-of-use asset.

### THE GROUP'S TOTAL INCOME AND PROFIT BEFORE TAX IN 2017-2021

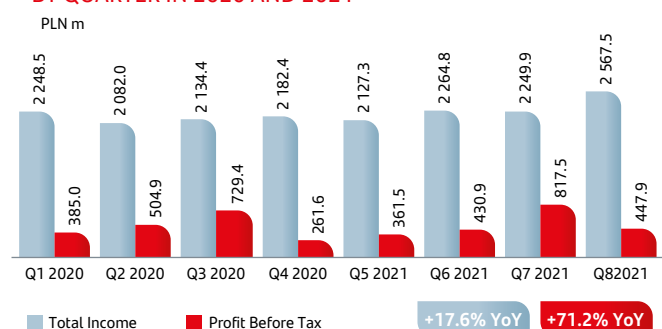


The profit before tax of Santander Bank Polska Group for the 12-month period ended 31 December 2021 was PLN 2,057.8m, up 9.4% YoY. The profit attributable to the bank's shareholders increased by 7.2% YoY to PLN 1,111.7m.

The table presented in the "Comparability of periods" section below contains the selected items of the income statement of Santander Bank Polska Group which affect the comparability of the analysed periods. After the relevant adjustments,

- ▶ the underlying profit before tax increased by 23.9% YoY and
- ▶ the underlying profit attributable to the shareholders of Santander Bank Polska S.A. went up by 36.0% YoY.

### THE GROUP'S TOTAL INCOME AND PROFIT BEFORE TAX BY QUARTER IN 2020 AND 2021



## Comparability of periods

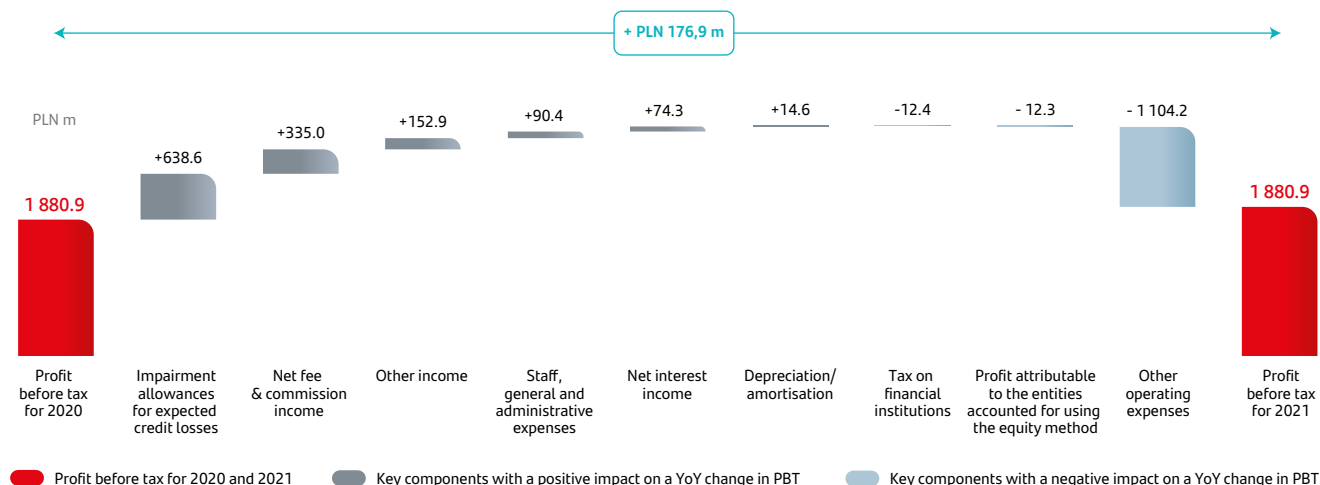
### Selected items of the income statement affecting the comparability of periods

	2021	2020
<b>Provisions and additional expected credit loss allowances</b>		
<b>Top-ups of provisions for legal claims and other assets</b> (other operating expenses)	▶ PLN 1,005.6m, including PLN 894.4m with respect to claims related to foreign currency mortgage loans of Santander Bank Polska S.A. and Santander Consumer Bank S.A.	▶ PLN 322.1m, including PLN 233.1m with respect to claims related to foreign currency mortgage loans
<b>Releases of provisions for legal claims and other assets</b> (other operating income)	▶ PLN 65.7m released and recognised under other operating income, including PLN 46.6m with respect to foreign currency mortgage loans	▶ PLN 44.0m released and recognised under other operating income, including PLN 16.3m with respect to foreign currency mortgage loans
<b>Top-ups of provisions for legal risk</b> (other operating expenses)	▶ PLN 550.0m for legal risk connected with the portfolio of foreign currency mortgage loans of Santander Bank Polska S.A. and Santander Consumer Bank S.A.	▶ PLN 201.2m, including PLN 85.3m for legal risk connected with the portfolio of foreign currency mortgage loans of Santander Bank Polska S.A. and Santander Consumer Bank S.A., and PLN 115.9m for legal risk related to consumer loans
<b>Releases of provisions for legal risk</b> (other operating income)	▶ PLN 21.4m released and recognised under other operating income	▶ No corresponding releases
<b>Additional expected credit loss allowance connected with the Covid-19 pandemic (post-model adjustment)</b> (net expected credit loss allowances)	▶ Reversal of PLN 121.4m worth of allowance made in connection with Covid-19 following the review of the models taking into account the latest macroeconomic forecasts	▶ PLN 121.4m – an additional allowance made in connection with Covid-19 in excess of the values arising from the models
<b>Expenses</b>		
<b>Contributions to the Bank Guarantee Fund made by Santander Bank Polska Group</b> (general and administrative expenses)	▶ PLN 262.6m, including a contribution of PLN 108.5m to the bank guarantee fund and PLN 154.1m to the bank resolution fund	▶ PLN 410.9m, including a contribution of PLN 163.8m to the bank guarantee fund and PLN 247.2m to the bank resolution fund
<b>Provision for employment restructuring</b> (staff expenses)	▶ PLN 12.8m for employment restructuring at Santander Consumer Bank S.A.	▶ PLN 153.6m, including PLN 121.0m and PLN 32.6m for severance pay for employees selected for collective redundancies at Santander Bank Polska S.A. and Santander Consumer Bank S.A., respectively
<b>Income and income adjustments</b>		
<b>Dividend income</b>	▶ PLN 112.8m, including PLN 95.6m from Aviva Group (Aviva Towarzystwo Ubezpieczeń na Życie S.A., Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and Aviva Powszechne Towarzystwo Emerytalne Aviva Santander S.A.)	▶ PLN 22.9m, including PLN 11.0m from Aviva Group (Aviva Powszechne Towarzystwo Emerytalne Aviva Santander S.A.)
<b>Additional payment related to the equity market transaction</b> (other operating income)	▶ PLN 46.8m – an additional payment in connection with the completed divestment of the foregoing three Aviva Group companies under separate contractual arrangements	▶ No corresponding transaction in the capital market
<b>One-off item resulting from revision of the model for calculation of provisions for insurance premium refunds</b> (mainly net interest income)	▶ No corresponding one-off items	▶ PLN 103m – income of Santander Consumer Bank S.A. from revision of the model for calculation of provisions for insurance premium refunds, including PLN 90m recognised in interest income and PLN 13m in fee and commission income



## Determinants of the Group's profit for 2021

### > CHANGES IN THE KEY COMPONENTS OF THE CONSOLIDATED PROFIT BEFORE TAX FOR 2021 VS 2020



In 2021, the following components of Santander Bank Polska Group's profit before tax improved significantly year-on-year:

- **Net expected credit loss allowances** were down 36.2% YoY, reflecting a stable or lower cost of credit related to individual credit portfolios and reversal of a management allowance in respect of Covid-19 (above the values arising from the models) as the impact of the majority of existing adjustments had been reflected in the current parameter values. In the comparative period, the above additional allowance totalled PLN 121.4m.
- **Net fee and commission income** increased by 15.6% YoY on account of higher net income from the majority of product lines, including currency exchange, account maintenance and cash transactions, debit cards, electronic and payment services, distribution and asset management and credit services. This growth is a sign of economic recovery and improved outlook, translating into increased business activity and a higher number of banking operations made by customers. It was also supported by an upturn in the financial markets observed for the greater part of the year, notably in the equity and debt securities markets, as well as flexible pricing management in line with market developments.
- **Other income** went up by 25.2% YoY on account of higher dividend income from the portfolio of equity investment financial assets, including PLN 89m worth of dividends from the insurance companies, which did not distribute profits to shareholders in the previous year due to the supervisory restrictions connected with Covid-19. The Group's activities in the capital market also generated one-off income in respect of PLN 46.8m worth of payment from Aviva Group in connection with the completed divestment of companies from that Group. While the Group generated higher net trading income and revaluation (+78.1% YoY) amid favourable conditions in the financial markets, it posted lower gains on other financial instruments (-63.2% YoY) resulting from recognition of a lower gain on the sale of bonds (-59.9% YoY) and a lower positive change in the fair value of Visa Inc. shares (-93.5% YoY).
- **Staff and general expenses** fell by 2.8% YoY to PLN 3,172.1m as an effect of high base in the comparative period including a higher provision for severance pay for employees selected

for collective redundancies in Santander Bank Polska S.A. and Santander Consumer Bank S.A. (PLN 153.6m in 2020 vs PLN 12.8m in 2021) and higher contributions to the BFG resolution and guarantee funds (PLN 411.0m in 2020 vs PLN 262.6m in 2021). The underlying staff and general expenses increased by 6.4% YoY, reflecting a rise in cost of salaries and in individual categories of general and administrative expenses, e.g. cost of marketing, IT usage, maintenance of premises and purchase of equipment.

- **Net interest income** increased by 1.3% YoY as an effect of changes in the structure of deposits (a steady decrease in term deposits in favour of current deposits), higher loan sales growth rate in H2 2021, three NBP interest rate hikes in Q4 2021 (up 1.65 p.p. in total) and higher profitability of the securities portfolio resulting from the monetary policy tightening started by the NBP.

At the same time, the Group's consolidated profit before tax was under a strong pressure from:

- **Other operating expenses** which went up by 174.7% YoY to PLN 1,736.1m on account of significant increases in provisions for legal claims and other assets and for legal risk totalling PLN 1,555.6m in 2021 (+197.3% YoY), of which 96% concerned foreign currency mortgage loans.

## Profit before tax of Santander Bank Polska Group by contributing entities

Components of Santander Bank Polska Group's profit before tax in PLN m (by contributing entities)	2021	2020	YoY change
<b>Santander Bank Polska S.A.</b>	<b>1 548.8</b>	<b>1 227.7</b>	<b>26.2%</b>
Subsidiaries:	606.4	653.4	-7.2%
Santander Consumer Bank S.A. and its subsidiaries <sup>1)</sup>	299.6	424.6	-29.4%
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	144.6	142.5	1.5%
Santander Finanse Sp. z o.o. and its subsidiaries <sup>2)</sup> (Santander Leasing S.A., Santander Leasing Poland Securitization 01 Designated Activity Company, Santander Factoring Sp. z o.o., Santander F24 S.A.)	156.1	85.5	82.6%
Santander Inwestycje Sp. z o.o.	6.1	0.8	662.5%
<b>Equity method accounting</b>	<b>74.1</b>	<b>86.4</b>	<b>-14.2%</b>
<b>Exclusion of dividends received by Santander Bank Polska S.A. and consolidation adjustments</b>	<b>(171.5)</b>	<b>(86.6)</b>	<b>98.0%</b>
<b>Profit before tax</b>	<b>2 057.8</b>	<b>1 880.9</b>	<b>9.4%</b>

1) In both periods under review, SCB Group comprised of Santander Consumer Bank S.A. and the following entities: Santander Consumer Multirent Sp. z o.o., Santander Consumer Finanse Sp. z o.o. w likwidacji (a company in liquidation), SC Poland Consumer 16-1 Sp. z o.o., PSA Finance Polska Sp. z o.o. and PSA Consumer Finance Polska Sp. z o.o. In Q3 2020, two new companies joined the Group: Santander Consumer Financial Solutions Sp. z o.o. and SCM Poland Auto 2019-1 DAC. In Q2 2021, SCB S.A. lost the control over SC Poland Consumer 15-1 Sp. z o.o. due to settlement of the securitisation transaction and start of liquidation of that company. The amounts provided above represent profit before tax (after intercompany transactions and consolidation adjustments) of SCB Group for the periods indicated.

### Santander Bank Polska S.A. (parent entity of Santander Bank Polska Group)

The profit before tax of Santander Bank Polska S.A. was PLN 1,548.8m, up 26.2% YoY.

Changes in the main components of the standalone profit reflect the trends relating to the consolidated profit. Similarly to the Group, the bank's profit before tax was positively affected by net interest income, net fee and commission income, net trading income and revaluation, dividend income, staff and general expenses and net expected credit loss allowances. The increase attributed to the above line items was partially offset by higher provisions for financial risk connected with foreign currency mortgage loans (recognised under other operating expenses).

The components of the profit earned by the bank are presented in the section on the financial performance of Santander Bank Polska S.A. in 2021.

### Subsidiaries

The subsidiaries consolidated by Santander Bank Polska S.A. reported a decline of 7.2% YoY in their total profit before tax.

#### SCB Group

The contribution of Santander Consumer Bank Group to the consolidated profit before tax of Santander Bank Polska Group for the 12 months of 2021 was PLN 299.6m (excluding intercompany transactions and consolidation adjustments) and decreased by 29.4% YoY as a combined effect of the following:

- A decline of 9.1% YoY in **net interest income** to PLN 1,187.6m, reflecting an impact of the Covid-19 pandemic, including close-to-zero market interest rates prevailing over the greater part of the year and deceleration of lending in H1 2021 with a change in the structure of credit sales. The negative YoY change was additionally affected by one-off income of PLN 90m from the update of parameters as part of revision of the model for calculation of provisions for insurance premium refunds.

- A decrease of 18.2% YoY in **net fee and commission income** to PLN 130.6m, reflecting a decline in income from insurance and other products caused by decelerated sales resulting from the Covid-19 pandemic, which was only partially offset by lower costs of settlements with retail network partners of Santander Consumer Bank S.A.
- A drop of 33.7% YoY in **net expected credit loss allowances** to PLN 215.7m, resulting from a lower value and good quality of the loan book as well as a higher gross profit on sales of overdue receivables (PLN 79.0m vs PLN 45.4m in the corresponding period of the previous year).
- An decrease of 12.7% YoY in **other non-interest and non-fee income** to PLN 59.0m, reflecting a decrease of 42.9% YoY in the total net trading income and gain on financial instruments resulting from lower gains on the sale of securities, partially offset by a positive impact of revaluation of a part of the credit cards portfolio measured at fair value.
- A growth of 12.0% YoY in **operating expenses** to PLN 831.2m resulting from PLN 292.7m (PLN 169.1m in 2020) worth of provisions raised for individual court cases, other liabilities and legal risk in view of a growing number of legal disputes connected with the portfolio of foreign currency mortgage loans. The above provisions were recognised in other operating expenses. At the same time, a drop of 10.1% YoY was reported in staff and general expenses thanks to a lower value of the restructuring provision (PLN 12.8m in 2021 vs PLN 32.6m in 2020) and effects of a savings plan implemented in connection with the Covid-19 pandemic.

#### Other subsidiaries

**Profit before tax of Santander TFI S.A.** for 2021 increased by 1.5% YoY to PLN 144.6m, as a result of a 1.8% YoY rise in net fee and commission income driven by income from management fees and performance fees (introduced in early 2021), partially offset by higher costs associated with distributor services (a mechanism launched in H2 2020).

The income from management fees grew along with a rise in the average value of assets, yet it was capped by a lower margin arising from a change in the structure of assets and another cut in the maximum management fee.

**Total profit before tax posted by companies controlled by Santander Finanse Sp. z o.o.** increased by 82.6% YoY to PLN 156.1m.

- Total profit before tax of Santander Leasing S.A., Santander Finanse Sp. z o.o., Santander Leasing Poland Securitization 01 Designated Activity Company and Santander F24 S.A. grew by 83.1% YoY to PLN 94.3m. Record high sales generated in the reporting period triggered an increase of 11% YoY in the lease portfolio, a growth of 18% YoY in net interest income and a rise of 27% YoY in net insurance income. The quality of the lease portfolio remained good, with the NPL ratio of 3.32% (+0.85 p.p.).
- The profit before tax posted by Santander Factoring Sp. z o.o. was up 79.5% YoY and totalled PLN 61.8m. It resulted from an increase of 36.5% YoY and 17.9% YoY in net interest income and net fee and commission income, respectively, and a positive change in the balance of expected credit loss allowances in respect of the factoring portfolio.

## Structure of Santander Bank Polska Group's profit before tax

### Total income

Total income of Santander Bank Polska Group for the 12-month period ended 31 December 2021 was PLN 9,209.5m, up 6.5% YoY. Excluding the income items presented in the table "Selected items of the income statement affecting the comparability of periods", which are used to adjust net interest income, net fee and commission income, dividend income and other operating income, the underlying total income was up 5.7% YoY on account of an increase in net interest income, net fee and commission income and net trading income and revaluation.

### Net interest income

In 2021, net interest income totalled PLN 5,962.4m and increased by 1.3% YoY.

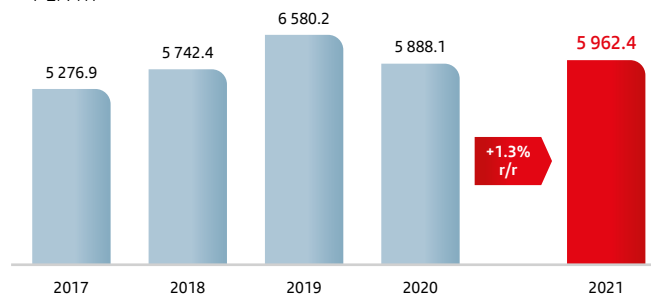
Excluding the adjustment for one-off item related to the revision of model parameters, the underlying net interest income was up 2.8% YoY as a combined effect of the following:

- Three NBP interest rate hikes in Q4 2021 (1.65 p.p. in total) following a prolonged period of a negative pressure on net interest margin from historically low NBP interest rates prevailing since May 2020, caused by a series of cuts reducing the reference rate to 0.1%.
- Flexible pricing management through gradual adjustments in line with the market conditions and the Group's objectives, such as support for credit delivery and optimisation of asset funding costs.
- Growth in lending (notably mortgage loans and receivables from business customers, including lease and factoring facilities) with a relatively stable YoY balance of total credit receivables.
- Continuing changes in the balance sheet structure observed since 2020, i.e. a decrease in term deposit balances and

a growing share of debt investment financial assets offering higher returns since Q3 2021 in connection with the monetary policy tightening started by the NBP.

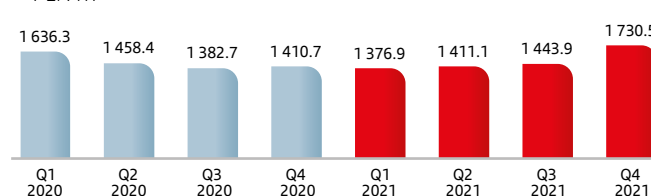
### NET INTEREST INCOME BY QUARTER IN 2020 AND 2021

PLN m



### NET INTEREST INCOME IN YEARS 2017-2021

PLN m

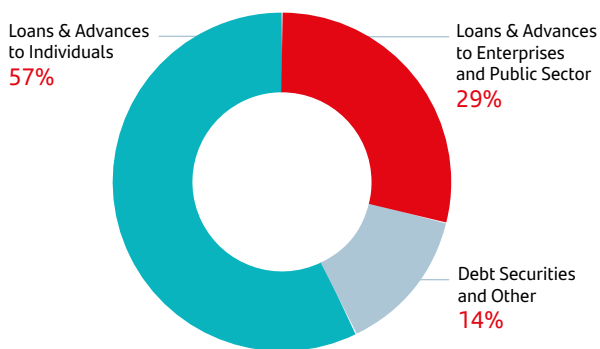


Interest income for 2021 totalled PLN 6,362.6m and was down 7.2% YoY, mainly due to pressure from loans and advances to personal and business customers.

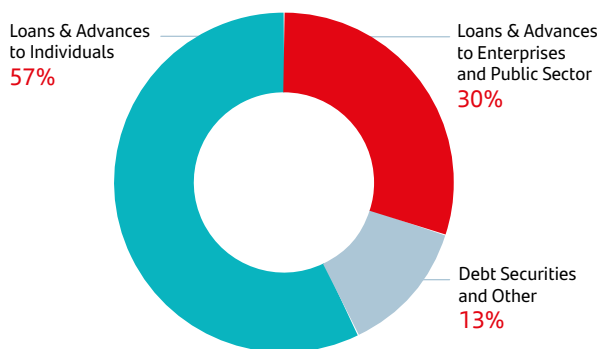
Interest expenses declined by 58.7% YoY to PLN 400.1m, i.e. eight times faster than interest income, as customers were transferring funds from term deposit accounts to personal accounts and investment products. This trend (observed in both analysed periods) was supported by changes to the pricing and product range, as well as positive developments in the stock and investment funds markets observed for the better part of the year.

In 2021, loans to customers brought a yearly average nominal interest income of 3.6% compared with 4.0% in 2020. Customer deposits carried a yearly average nominal interest expense of 0.1% compared with 0.4% the year before.

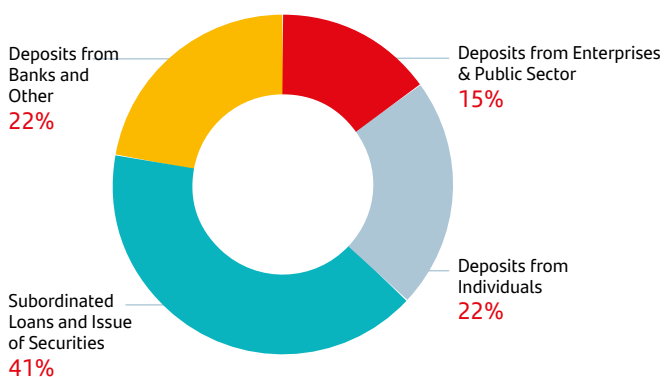
➤ STRUCTURE OF INTEREST REVENUE IN 2021



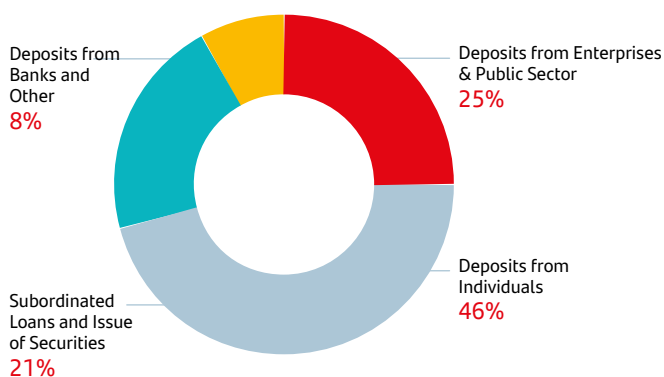
➤ STRUCTURE OF INTEREST REVENUES IN 2020



➤ STRUCTURE OF INTEREST EXPENSE IN 2021



➤ STRUCTURE OF INTEREST EXPENSE IN 2020

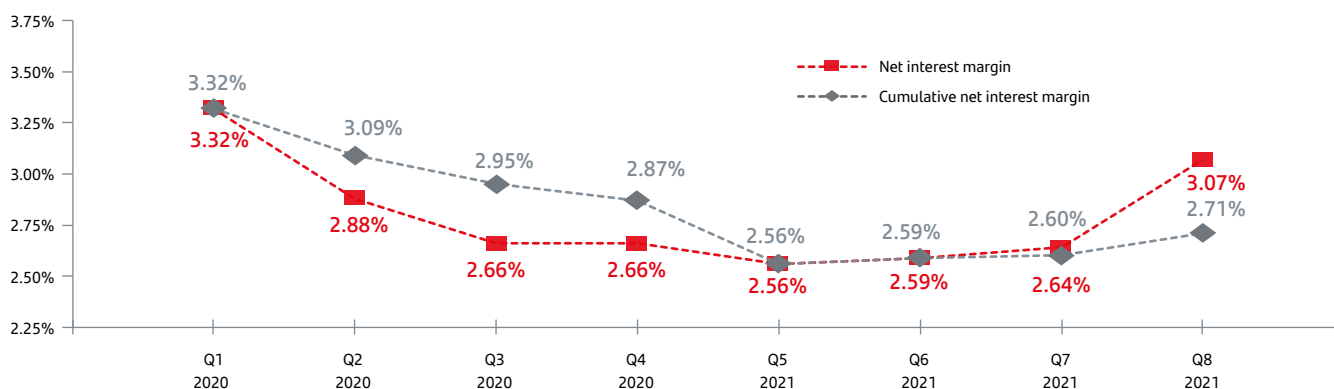


The cumulated net interest margin (annualised on a year-to-date basis) went down to 2.71% in 2021 from 2.87% in 2020 due to historically low interest rates prevailing from May 2020 to October 2021, when the NBP started a series of interest rate hikes whose impact will be visible to a larger extent in 2022. The decrease in the margin annualised on a year-to-date basis is also an effect of a growing share of investments in debt instruments in the Group's assets due to continuing overliquidity of the Polish banking sector. Given the relatively low yields of debt securities (until Q3 2021), this portfolio weighed down on the cumulated

net interest margin.

Net interest margin (annualised on a quarterly basis) totalled 3.07% in Q4 2021 and increased by 43 b.p. QoQ and by 41 b.p. YoY in line with movements in interest rates. It was combined with accelerated mortgage and business loan sales, resulting in a QoQ increase in the corresponding credit portfolios. The value of investments in debt securities went up too, which positively affected the net interest margin given higher returns on these instruments.

➤ NET INTEREST MARGIN <sup>1)</sup> BY QUARTER IN THE YEARS 2020 AND 2021 (INCLUDING SWAP POINTS) <sup>2)</sup>



1) Net interest margin in consecutive quarters, annualised on a quarterly and year-to-date basis.

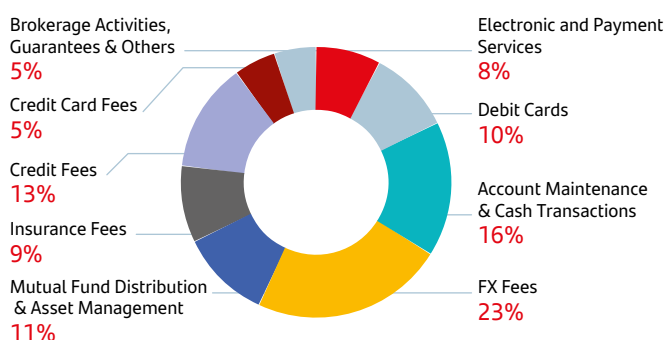
2) The calculation of the net interest margin of Santander Bank Polska S.A. takes account of swap points allocation from derivative instruments used for the purpose of liquidity management but excludes interest income from the portfolio of debt securities held for trading and other exposures connected with trading.

## Net fee and commission income

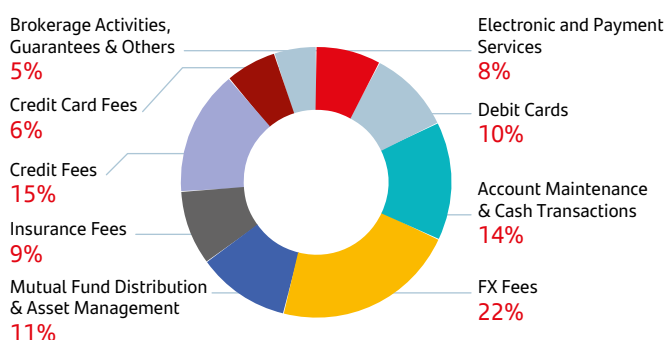
Net fee and commission income (PLN m)	2021	2020	YoY change
FX fees	572.6	468.8	22.1%
Account maintenance and cash transactions <sup>1)</sup>	392.9	309.2	27.1%
Credit fees <sup>2)</sup>	332.1	321.7	3.2%
Distribution and asset management	276.4	231.3	19.5%
Debit cards	253.6	214.6	18.2%
Insurance fees	209.6	203.0	3.3%
Electronic and payment services <sup>3)</sup>	188.9	168.0	12.4%
Credit cards	130.1	130.0	0.1%
Brokerage activities	112.3	112.5	-0.2%
Guaranties and sureties <sup>4)</sup>	52.8	36.4	45.1%
Other fees <sup>5)</sup>	(34.2)	(43.4)	-21.2%
<b>Total</b>	<b>2 487.1</b>	<b>2 152.1</b>	<b>15.6%</b>

- 1) Fee and commission income from account maintenance and cash transactions has been reduced by the corresponding expenses which in Note 7 to the Consolidated Financial Statements of Santander Bank Polska Group for the 12-month period ended 31 December 2021 are included in the line item "Other" (PLN 6.5m for 2021 and PLN 3.5m for 2020).
- 2) Fee income from lending, factoring and lease activities which is not amortised to net interest income. This line item includes inter alia the cost of credit agency fees.
- 3) Fees for payments (foreign and mass payments, Western Union transfers), trade finance, services for third party institutions as well as other electronic and telecommunications services.
- 4) Fee income from guarantees and sureties has been reduced by the corresponding expenses which in Note 7 to the Consolidated Financial Statements of Santander Bank Polska Group for the 12-month period ended 31 December 2021 are included in the line item "Other" (PLN 58.7m for 2021 vs PLN 55.6m for 2020).
- 5) Issue arrangement fees and other fees.

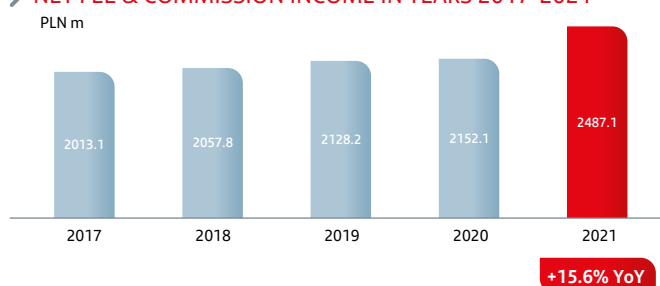
### > NET FEE & COMMISSION INCOME STRUCTURE IN 2021



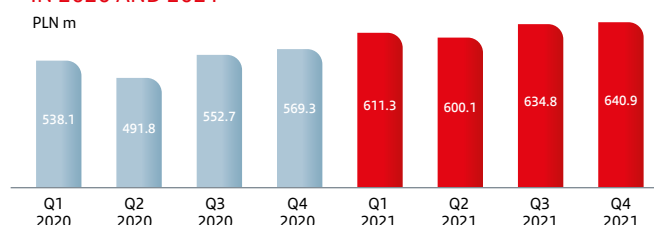
### > NET FEE & COMMISSION INCOME STRUCTURE IN 2020



### > NET FEE & COMMISSION INCOME IN YEARS 2017-2021



### > NET FEE & COMMISSION INCOME BY QUARTER IN 2020 AND 2021



Net fee and commission income for the 12-month period ended 31 December 2021 was PLN 2,487.1m and increased by 15.6% YoY, driven by the performance of individual business lines of Santander Bank Polska S.A. and its subsidiaries. The key changes were as follows:

- FX fee income rose by 22.1% YoY on account of higher FX turnover, accompanied by a slight drop in average quotations. The growth in the above-mentioned income was driven by transactions in electronic currency exchange platforms, i.e. e-FX (iBiznes24 module) and Kantor Santander (available

in Santander online and Santander mobile). The share of traditional channels has been decreasing.

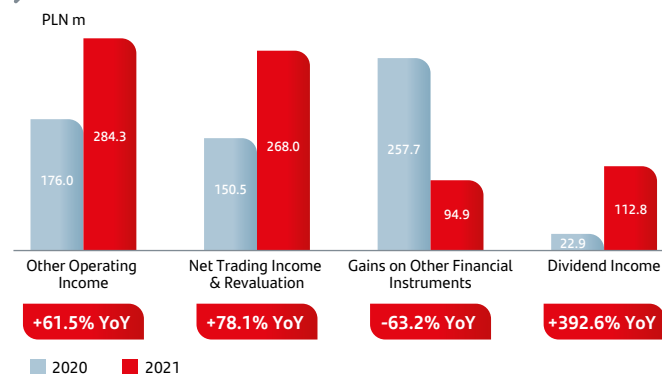
- Net fee and commission income from account maintenance and cash transactions increased by 27.1% YoY on account of a YoY growth in the portfolio of Accounts As I Want It (a flagship personal account of Santander Bank Polska S.A.) and introduction of a conditional maintenance fee for that account which can be avoided if the customer makes a defined number of transactions in the account. The number of FX accounts went up too. Furthermore, a YoY rise in income from

cash management fees was reported in the business segment due to high liquidity of some of the companies (resulting from government support programmes, among other things).

- An increase of 3.2% YoY in net credit fee and commission income was attributed to a rise of 8.4% YoY in credit-related income, notably from services connected with financing transactions made with business and corporate customers. This change was partially offset by higher costs of credit agency incurred by Santander Bank Polska S.A. due to a growing share of this channel in the distribution of the bank's products, including mortgage loans. Santander Consumer Bank S.A. paid lower charges in respect of settlements with retail partners.
- Net fee and commission income from distribution and asset management grew by 19.5% YoY on account of higher income from management fees reflecting an increase in the average value of assets managed by Santander TFI S.A., and performance fees introduced at the start of the year in relation to selected sub-funds. For more information, please see section about Santander TFI S.A. in "Profit before tax of Santander Bank Polska Group by contributing entities".
- An increase of 18.2% YoY in net income from debit cards is a combined effect of many factors, including a growing number of cards, a higher value of non-cash transactions with such cards (+23% YoY) and higher income from currency exchange transactions made in the summer. Discounts for card issuance and processing offered by payment organisations cooperating with Santander Bank Polska S.A. were another contributing factor. In the period under review, discounts for 2020 were settled in March and April 2021 along with discounts for 2021 settled on an ongoing basis.
- A rise of 12.4% YoY in net fee and commission income disclosed under the Group's electronic and payment services is attributed to turnover from cross-border payments and trade finance transactions, as well as a more active use of existing electronic channels.
- Fees from brokerage activities were stable amid relatively lower volatility of the stock exchange market compared with 2020. Santander Brokerage Poland acquired new customers and arranged issues of structured products to retain the popularity of investment solutions among customers. Another factor that contributed to the income growth was participation in several public offerings.
- Net fee and commission income from issuance and management of a combined portfolio of credit cards of Santander Bank Polska S.A. and Santander Consumer Bank S.A. was broadly stable YoY as a combined effect of a lower size of the portfolio, higher volume of non-cash transactions, card transfers and currency conversion, a lower number of cash transactions and changes in the terms and conditions for selected cards (calculation of cashback, etc.).
- A 45.1% YoY increase in net fee and commission income from guarantees and sureties was attributed to higher income from guarantee services provided to customers using trade finance solutions.

## Non-interest and non-fee income

### COMPONENTS OF OTHER INCOME FOR 2021 VS. 2020



Non-interest and non-fee income of Santander Bank Polska Group presented above totalled PLN 760.0m and was up 25.2% YoY on account of an increase in the following components:

- Net trading income and revaluation grew by 78.1% YoY to PLN 268.0m due to the development of the financial markets. This line item was affected by the following developments:
  - Total gain of PLN 234.9m on derivatives, interbank FX transactions and FX trading transactions, up 50.0% YoY.
  - A positive change of PLN 5.7m in the fair value of credit card receivables measured through profit or loss for 12 months of 2021 vs a negative change of PLN 15.3m the year before.
  - Total gain of PLN 27.4m on trading in equity and debt financial instruments measured at fair value through profit or loss, up PLN 18.1m YoY.
- Dividend income totalled PLN 112.8m and increased by PLN 89.9m YoY due to recognition of PLN 89m worth of dividends from two insurance companies (Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.), which did not pay a dividend in 2020 in accordance with the regulatory recommendation to strengthen the capital base. In the comparative period, only one Aviva Group company – Aviva Powszechnie Towarzystwo Emerytalne Aviva Santander S.A. – paid a dividend of PLN 11m to Santander Bank Polska S.A.
- Other operating income went up by 61.5% YoY to PLN 284.3m, mainly as a result of recognition of an additional payment of PLN 46.8m received from Aviva Group (not included in the sale price) in connection with the completed divestment of three companies from that Group (Aviva Towarzystwo Ubezpieczeń na Życie S.A., Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and Aviva Powszechnie Towarzystwo Emerytalne Aviva Santander S.A.).

The financial result of the above increases was offset by a decrease of 63.2% YoY in gains on other financial instruments to PLN 94.9m due to a lower gain on sale of bonds (-PLN 137.0m YoY), a lower positive change of the fair value of Visa Inc. shares (PLN 2.2m vs PLN 33.2m in 2020, excluding FX differences) and a loss on hedging and hedged instruments (-PLN 3.1m) vs a profit of PLN 4.4m in 2020.

The above line item also includes a profit of PLN 8.1m from five transactions involving conversion and sale of series A convertible preference shares of Visa Inc.



## Expected credit loss allowances

Expected credit loss allowances on loans and advances measured at amortised cost (PLN m)	Stage 1		Stage 2		Stage 3		POCI		Total	Total
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Allowance on loans and advances to customers	(150.3)	(114.1)	(108.8)	(604.6)	(920.2)	(1 069.7)	47.4	27.7	(1 131.9)	(1 760.7)
Recoveries of loans previously written off	–	–	–	–	3.9	(4.4)	–	–	3.9	(4.4)
Allowance on off-balance sheet credit liabilities	(10.7)	4.8	3.7	(3.7)	10.8	1.2	–	–	3.8	2.3
<b>Total</b>	<b>(161.0)</b>	<b>(109.3)</b>	<b>(105.1)</b>	<b>(608.3)</b>	<b>(905.5)</b>	<b>(1 072.9)</b>	<b>47.4</b>	<b>27.7</b>	<b>(1 124.2)</b>	<b>(1 762.8)</b>

In 2021, the charge made by Santander Bank Polska Group to the income statement on account of expected credit loss allowances was PLN 1,124.2m, down 36.2% YoY. This figure includes net allowances of Santander Consumer Bank Group, which totalled PLN 215.7m and decreased by 33.7% YoY.

The YoY decrease in allowances on loans and advances to the Group's customers (from PLN 1,760.7m in 2020 to PLN 1,131.9m in 2021) is attributed to:

- Update of model parameters and macroeconomic scenarios as part of a half-yearly review (taking into account amendments to Recommendation R and the latest economic forecasts in accordance with IFRS 9).
- Decision to reverse the management allowance for expected credit losses due to Covid-19 (post-model adjustment) as a consequence of the update of the parameters and models taking into account pandemic-related risks. The Group reversed the total balance of additional management allowances in respect of Covid-19 amounting to PLN 121.4m. In 2020, the additional allowance in respect of Covid-19 was 121.4m.
- Stable or lower level of credit risk coupled with a stable low level of payment arrears, particularly in the portfolio of

personal and SME loans. Return of the cost of credit to the pre-pandemic level observed since Q2 2021.

- Close monitoring of the corporate loans portfolio, with changes in risk reflected in credit ratings and classification of exposures to individual stages (taking into account the risk connected with Covid-19). In the analysed period, single allowances were made for non-performing credit exposures of individual customers, but there were also significant repayments in the NPL portfolio.
- Sale of credit receivables from personal and business customers of Santander Bank Polska S.A. and Santander Consumer Bank S.A. totalling PLN 2,474.0m at a profit before tax of PLN 120.9m (in 2020, receivables of PLN 1,664.7m were sold at a profit before tax of PLN 30.8m).

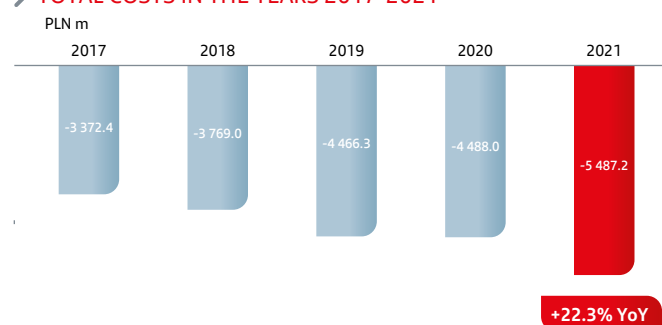
During 12 months of 2021, there were a few downgrades to NPLs in the case of corporate customers. The scale of downgrades of selected mortgage and cash loan borrowers applying for state aid under the Anti-Crisis Shield 4.0 was reduced.

During the reporting period, the cost of credit of Santander Bank Polska Group was 0.76% vs 1.21% in 2020, with a higher value of the credit portfolio measured at amortised cost (+4.1% YoY).

## Total costs

Total costs (PLN m)	2021	2020	YoY change
<b>Staff, general and administrative expenses, of which:</b>	<b>(3 172.1)</b>	<b>(3 262.5)</b>	<b>-2.8%</b>
– Staff expenses	(1 694.2)	(1 744.1)	-2.9%
– General and administrative expenses	(1 477.9)	(1 518.4)	-2.7%
<b>Depreciation/amortisation</b>	<b>(579.0)</b>	<b>(593.6)</b>	<b>-2.5%</b>
– Depreciation/amortisation of PP&E and intangible assets	(411.4)	(405.3)	1.5%
– Depreciation of right-of-use asset	(167.6)	(188.3)	-11.0%
<b>Other operating expenses</b>	<b>(1 736.1)</b>	<b>(631.9)</b>	<b>174.7%</b>
<b>Total costs</b>	<b>(5 487.2)</b>	<b>(4 488.0)</b>	<b>22.3%</b>

### > TOTAL COSTS IN THE YEARS 2017-2021



In 2021, total operating expenses of Santander Bank Polska Group increased by 22.3% YoY to PLN 5,487.2m due to other operating expenses, which went up by 174.7% YoY on account of provisions for legal claims and other assets (i.e. individual court cases) and provisions for legal risk (expected claims estimated under a collective approach). The total value of the above provisions was PLN 1,555.6m (+197.3% YoY), 96% of which concerned foreign currency mortgage loans. The balance of provisions for foreign currency mortgage loans results from update of model parameters in view of new legal claims and continued uncertainty in the Polish legal environment.

The increase in total cost base was offset in part by reduction of 2.7% YoY in the Group's general and administrative expenses resulting from lower contributions to the BFG resolution and guarantee funds (-31.7% YoY to PLN 262.6m).

On a comparative basis, i.e. excluding the impact of fees payable to the Bank Guarantee Fund, the restructuring provision and the provisions for legal risk and legal claims, the underlying total operating expenses were up 6.7% YoY, reflecting an increase in the selected categories of general and administrative expenses and cost of salaries.

Given the significant rise in provisions for legal claims, other assets and legal risk, the cost to income ratio grew from 51.9% in 2020 to 59.6% in 2021. Adjusting for the above-mentioned cost and income items, the underlying cost to income ratio was 45.4% in 2021 vs 45.0% in 2020.

### Staff expenses

Staff expenses fell by 2.9% YoY to PLN 1,694.2m as an effect of high base in the comparative period including a provision of PLN 153.6m for severance pay for employees selected for collective redundancies in Santander Bank Polska S.A. and Santander Consumer Bank S.A. vs a corresponding provision of PLN 12.8m in 2021 concerning the latter bank only. The main components of staff expenses, i.e. salaries and bonuses and statutory deductions from salaries increased by 5.6% to PLN 1,621.6m due to the launch of all bonus schemes in 2021 (vs bonus schemes for sales staff only in 2020). In addition to that, staff salaries were reviewed in relation to market rates. Cost of training increased by 30.8% YoY to PLN 9.3m along with a number of initiatives, the majority of which were delivered on a remote basis.

### General and administrative expenses

General and administrative expenses of Santander Bank Polska Group went down by 2.7% YoY to PLN 1,477.9m. The largest constituent items were fees payable to the Bank Guarantee Fund (BFG), the Polish Financial Supervision Authority (KNF) and the Central Securities Depository of Poland (KDPW), which totalled PLN 293.7m and decreased by 32.6% YoY because of lower contributions paid by banks to the BFG in 2021 due to an unprecedented economic situation. During 12 months of 2021, the charge to the Group's income statement on account of these contributions declined by 36.1% YoY to PLN 262.6m (an annual contribution to the bank resolution fund was down 37.7% YoY to PLN 154.1m and a quarterly contribution to the bank guarantee fund was down 33.8% YoY to PLN 108.5m). If the above-mentioned contributions had not changed compared to the previous year, the Group's general and administrative expenses would have increased by 7.1% YoY. It is largely an effect of a low base in 2020 caused by the pandemic outbreak and a lower scale

of activity due to numerous restrictions imposed during that period.

A significant increase was reported under marketing and entertainment (+39.8% YoY) as a result of a slowdown in 2020 and a range of promotional and advertising campaigns delivered in the reporting period in connection with the project of accelerated digitalisation of retail customer services, including promotion of mobile banking. The revival of business activity also translated into higher settlement costs (+10.5% YoY).

The cost of IT usage went up by 15.5% YoY in connection with delivery of various IT projects within Santander Group (e.g. implementation of a group platform – Office 365, a common RPA platform, an HR platform, a global transactional system, the first functionalities of GTS One Trade portal, initiatives related to cyber security and digitalisation of retail services) and locally (e.g. migration of existing Data Centres) as well as support and maintenance of the infrastructure used for day-to-day operations.

As a result of gradual branch remodelling and measures taken in the Business Support Centre to launch a hybrid work model, equipment purchase costs went up, causing a 80.7% YoY increase in costs of repairs.

Due to ongoing optimisation of the branch network, the cost of maintenance of premises went up (+10.8% YoY) as a result of early termination of leases in the selected locations. At the same time, the cost of short-term leases and leases of low-value assets was down 13.1% YoY.

The optimisation of employment and introduction of the remote work and customer service model caused a decline in the cost of consumables and a reduction in car fleet, as reflected in the following line items: consumables, printouts, cheques and cards (-2.6% YoY) and cars, transport and CIT (-2.9% YoY).

A significant decrease was also reported in consultancy and advisory fees (-8.5% YoY), which was primarily attributed to a larger scale of consultations with third parties made in 2020 in connection with the project of retail banking digitalisation and transfer of services to remote channels.

### Taxes

Tax on financial institutions totalled PLN 614.4m and was up 2.1% YoY, reflecting an increase in loans and advances to customers.

Corporate income tax was PLN 805.4m and effectively higher compared to the previous year (the effective tax rate increased from 34.2% for 2020 to 39.1% for 2021), mainly on account of higher provisions for claims related to foreign currency mortgage loans.

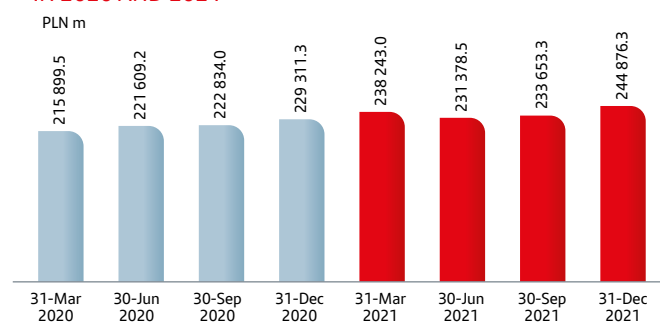
## 2. Statement of Financial Position of Santander Bank Polska Group

### Consolidated assets

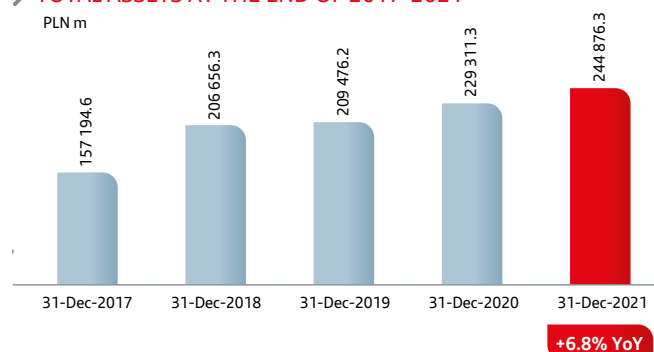
As at 31 December 2021, the total assets of Santander Bank Polska Group were PLN 244 876.3m and increased by 6.8% YoY on account of loans and advances to customers, investment securities and balances with central banks. The value and

structure of the Group's financial position is determined by the parent entity, which held 89.1% of the consolidated total assets vs 88.6% as at the end of December 2020.

### TOTAL ASSETS AT THE END OF CONSECUTIVE QUARTERS IN 2020 AND 2021



### TOTAL ASSETS AT THE END OF 2017-2021



## Structure of consolidated assets

Assets in PLN m (for analytical purposes)	Structure 31.12.2021		Structure 31.12.2020		YoY change
	1	2	3	4	
Loans and advances to customers <sup>1)</sup>	148 250.4	60.5%	141 998.8	61.9%	4.4%
Investment securities <sup>2)</sup>	71 866.3	29.3%	66 783.4	29.1%	7.6%
Cash and balances with central banks	8 438.3	3.5%	5 489.3	2.4%	53.7%
Financial assets held for trading and hedging derivatives	4 183.3	1.7%	3 190.4	1.4%	31.1%
Property, plant and equipment, intangible assets, goodwill and right-of-use assets	3 654.9	1.5%	3 934.5	1.7%	-7.1%
Loans and advances to banks	2 690.2	1.1%	2 926.5	1.3%	-8.1%
Assets under buy-sell-back transactions and assets held as collateral	987.8	0.4%	951.2	0.4%	3.8%
Other assets <sup>3)</sup>	4 805.1	2.0%	4 037.2	1.8%	19.0%
<b>Total</b>	<b>244 876.3</b>	<b>100.0%</b>	<b>229 311.3</b>	<b>100.0%</b>	<b>6.8%</b>

1) Net loans and advances to customers include a portfolio measured at amortised cost and portfolios measured at fair value through other comprehensive income and through profit or loss.

2) Investment securities include debt and equity investment securities measured at fair value through other comprehensive income, debt and equity investment securities measured at fair value through profit or loss and debt investment securities measured at amortised cost.

3) Other assets include the following items of the full version of financial statements: investments in associates; current income tax assets; net deferred tax assets; property, plant and equipment classified as held for sale and other assets.

In the above condensed statement of financial position as at 31 December 2021, net loans and advances to customers were the key item of the consolidated assets (60.5%). They totalled PLN 148,250.4m and increased by 4.4% YoY along with a rise in the key portfolios of the Group: loans for personal customers, loans for business customers and the public sector and lease receivables.

As part of the ongoing management of liquidity, the Group increased the value of current accounts at central banks (+53.7% YoY), and decreased the value of loans and advances to banks (-8.1% YoY), mainly current account balances. At the same time, a rise of 31.1% YoY was reported in financial assets held for

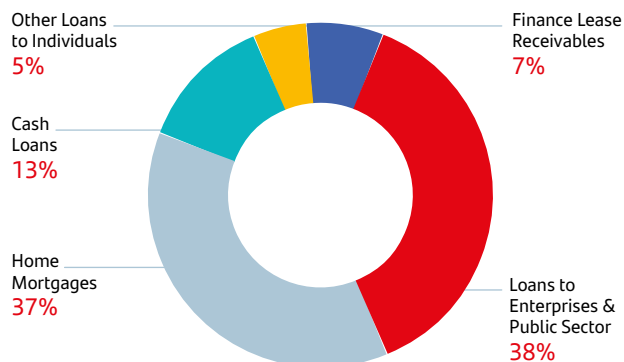
trading and hedging derivatives on account of transactions in interest rate hedging instruments and government bonds.

The balance of investment securities grew less dynamically than in 2020 (+7.6% YoY), driven mainly by purchases of bonds issued or guaranteed by the State Treasury as well as NBP bills classified to the portfolio of debt investment securities measured at fair value through other comprehensive income. In accordance with the strategy started the year before, the liquidity surplus continued to be invested in government bonds amid the constant inflow of deposit funds and limited demand for credit, notably in H1 2021.

## Credit portfolio

Loans and advances to customers in PLN m	31.12.2021	31.12.2020	YoY change
Loans and advances to personal customers	84 898.3	81 387.9	4.3%
Loans and advances to enterprises and the public sector	58 216.2	57 121.1	1.9%
Finance lease receivables	10 937.9	9 783.4	11.8%
Other	58.4	33.6	73.8%
<b>Total</b>	<b>154 110.8</b>	<b>148 326.0</b>	<b>3.9%</b>

### PRODUCT STRUCTURE OF CONSOLIDATED LOANS & ADVANCES TO CUSTOMERS AS AT 31.12.2021

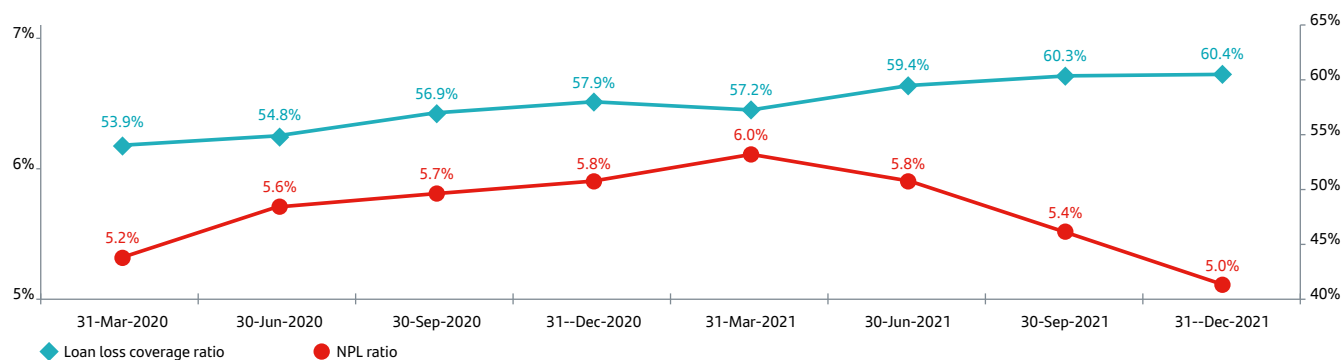


As at 31 December 2021, consolidated gross loans and advances to customers were PLN 154,110.8m and increased by 3.9% vs 31 December 2020. The portfolio includes loans and advances to customers measured at amortised cost totalling PLN 151,824.0m (+4.1% YoY), loans and advances to customers measured at fair value through other comprehensive income amounting to PLN 1,732.9m (+7.7% YoY) and loans and advances to customers measured at fair value through profit or loss at PLN 553.8m (-37.9% YoY).

The section below presents the Group's credit exposures by key portfolios:

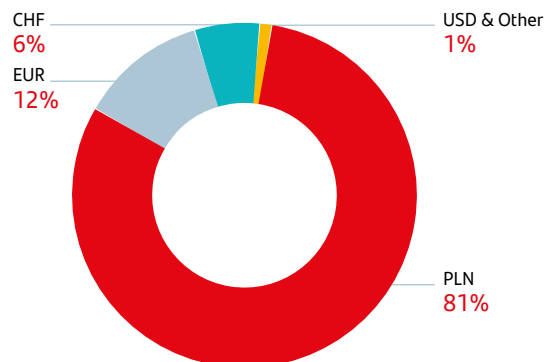
→ Loans and advances to individuals increased by 4.3% in 2021 to PLN 84,898.3m. Housing loans, which were the main contributor to this figure, totalled PLN 56,600.0m (+7.3% YoY), hitting all-time high in 2021. The second largest constituent item was cash loans which totalled PLN 20,802.0m and were

### CREDIT QUALITY RATIOS BY QUARTER IN 2020 AND 2021



The NPL ratio was 5.0% as at 31 December 2021 compared with 5.8% twelve months before. The provision coverage ratio for impaired loans

### FX STRUCTURE OF CONSOLIDATED LOANS AND ADVANCES TO CUSTOMERS AS AT 31.12.2021



relatively stable compared to the end of 2020 (-0.2% YoY) despite accelerated YoY growth of sales.

→ Loans and advances to enterprises and the public sector (including factoring receivables) went up by 1.9% to PLN 58,216.2m as a result of higher utilisation of overdrafts by customers from the Business and Corporate Banking segment and the term loans portfolio of the Corporate and higher exposure of the Corporate and Investment Banking segment in respect of factoring and term loans connected with large corporate finance transactions with companies from sectors which are relatively resilient to the crisis.

→ Finance lease receivables of subsidiaries of Santander Bank Polska S.A. rose by 11.8% YoY to PLN 10,937.9m, supported by dynamic sales of machines and equipment and of vehicles.

was 60.4% compared with 57.9% as at 31 December 2020.

### Structure of consolidated equity and liabilities

Equity and liabilities in PLN m (for analytical purposes)	31.12.2021	Structure 31.12.2021	31.12.2020	Structure 31.12.2020	YoY change
	1	2	3	4	1/3
Deposits from customers	185 373.4	75.7%	171 522.3	74.8%	8.1%
Subordinated liabilities and debt securities in issue	15 555.9	6.4%	13 995.9	6.1%	11.1%
Deposits from banks	4 400.1	1.8%	5 373.3	2.3%	-18.1%
Financial liabilities held for trading and hedging derivatives	5 640.4	2.3%	4 805.4	2.1%	17.4%
Liabilities under buy-sell-back transactions	510.3	0.2%	653.7	0.3%	-21.9%
Other liabilities <sup>1)</sup>	6 182.6	2.5%	4 302.7	1.9%	43.7%
Total equity	27 213.6	11.1%	28 658.0	12.5%	-5.0%
<b>Total</b>	<b>244 876.3</b>	<b>100.0%</b>	<b>229 311.3</b>	<b>100.0%</b>	<b>6.8%</b>

1) Other liabilities include lease liabilities, current income tax, provisions for off-balance sheet liabilities bearing credit risk, other provisions and other liabilities

As at 31 December 2021, deposits from customers totalled PLN 185,373.4m and were the largest constituent item of the Group's total equity and liabilities (75.7%) disclosed in its consolidated statement of financial position and the main source of funding and growth of the Group's assets (+8.1% YoY).

Subordinated liabilities and debt securities in issue went up by 11.1% YoY on account of the issue of debt instruments with a total nominal value of PLN 11,363.7m and redemption of PLN 9,706.6m worth of securities on their maturity date. Subordinated liabilities totalled PLN 2,750.4m and included the same portfolio of bonds qualified as Tier 2 instruments pursuant to the relevant decision of the KNF as in the previous year. In 2021, the Group completed the following issues of debt securities:

- The bank issued senior notes with a nominal value of EUR 750m as part of the EMTN Programme, and PLN 750m worth of certificates of deposit classified as sustainability bank securities in accordance with the Sustainability Issuance Framework of Santander Bank Polska S.A.
- Santander Factoring Sp. z o.o. issued three series of six-month variable-rate bonds (based on 1M WIBOR) with a total nominal value of PLN 1,740m, and two series of three-month fixed-rate bonds with a total nominal value of PLN 2,000m and a put option.
- Santander Leasing S.A. issued two series of variable-rate bonds (based on 3M WIBOR) with a total nominal value of PLN 1,950.0m, a maturity of up to one year and a put option.

- Santander Consumer Bank S.A. and Santander Consumer Multirent S.A. made seven issues of bonds as part of a revised issuance programme, with the total nominal value of PLN 1,400m.

At the same time, increases were reported in deposits from banks (+6.8% YoY) as well as financial liabilities held for trading and hedging derivatives (+68.5% YoY) on account of interest rate hedging transactions.

Compared to 31 December 2020, total equity increased by 1.2% to PLN 27,213.6m as a combined effect of the following: retention of the current period profit, negative impact of other net comprehensive income (-PLN 2,379.0m), which was under pressure from valuation of debt securities measured at fair value through other comprehensive income, and the amount of PLN 220.7m for an interim dividend payment pursuant to the decision of the Management Board and the Supervisory Board of 1 September 2021. As part of equity, the revalued equity financial assets measured at fair value through other comprehensive income were transferred from revaluation reserve to retained earnings, of which PLN 840.9m concerned the divestment of Aviva Group companies (for more details, please see Chapter X "Organisational and Infrastructure Development").

## Deposit base

### Deposits by entities

Deposits from customers in PLN m	31.12.2021	31.12.2020	Change
Deposits from individuals	106 267.8	98 213.4	8.2%
Deposits from enterprises and the public sector	79 105.6	73 308.9	7.9%
<b>Total</b>	<b>185 373.4</b>	<b>171 522.3</b>	<b>8.1%</b>

As at 31 December 2021, consolidated deposits from customers totalled PLN 185,373.4m and increased by 8.1% YoY as an effect of high base comprising funds received by customers in 2020 under state aid programmes aimed to contain the economic impact of the Covid-19 pandemic.

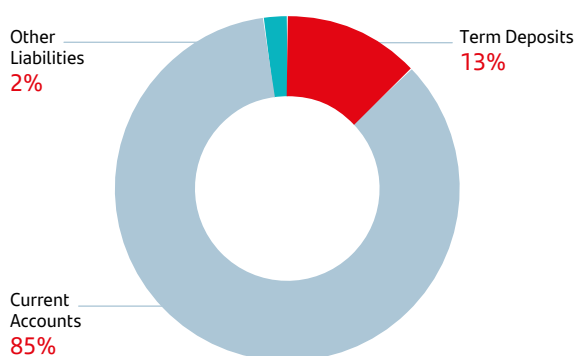
- The retail deposit base was up 8.2% YoY at PLN 106,267.8m, driven by an increase of 15.6% YoY in current deposits. This included savings account balances, which grew by 2.5% to PLN

32.4bn. Inflows to current accounts included new funds and funds transferred from term deposits and investment funds, which became less attractive for investors at the year end, notably solutions based on debt securities.

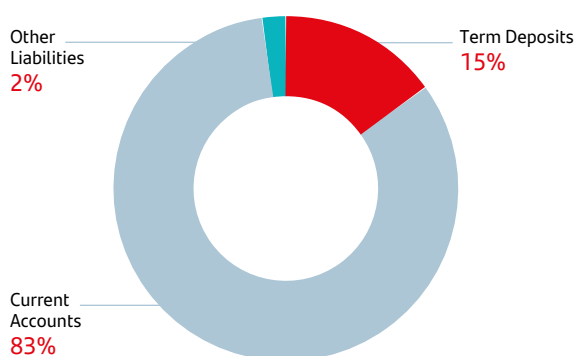
Deposits from enterprises and the public sector rose by 7.9% YoY to PLN 79,105.6m as a consequence of an increase of 5.9% YoY in current account balances and a rise of 36.9% YoY in term deposits

### Deposits by tenors

#### STRUCTURE OF CONSOLIDATED CUSTOMER DEPOSITS AS AT 31.12.2021



#### STRUCTURE OF CONSOLIDATED CUSTOMER DEPOSITS AS AT 31.12.2020



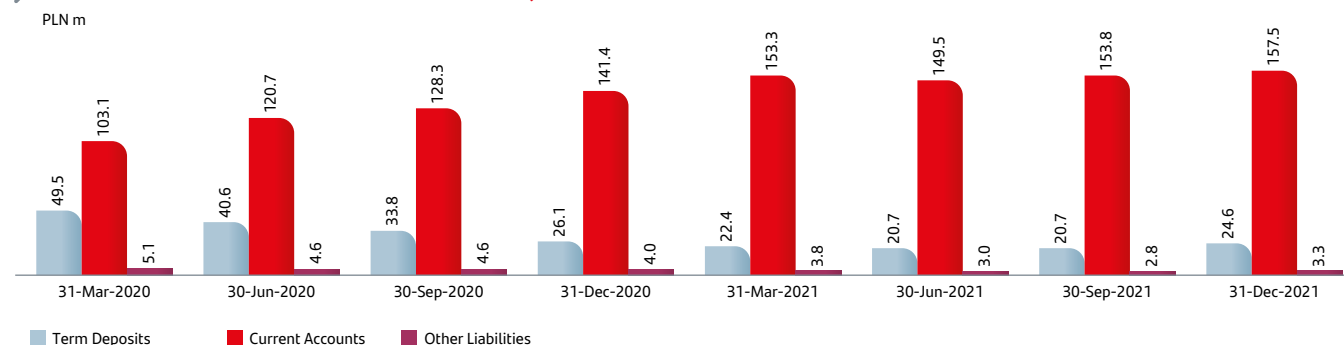
The Group's total term deposits from customers amounted to PLN 24,588.7m and fell by 5.9%. Current account balances rose

by 11.4% to PLN 157,480.2m, and other liabilities were PLN 3,304.6m, down 17.9%.

Loans and advances from financial institutions (PLN 1,403.4m vs PLN 3,013.7m as at 31 December 2020) were the largest component of other liabilities and were disclosed under deposits from enterprises, which included loans granted by international financial organisations (the European Investment Bank/ EIB, the European Bank for Reconstruction and Development/ EBRD and the Council of Europe Development Bank/ CEB) to finance the

lending activity of the bank and its subsidiaries. The decrease in the value of these liabilities is attributed to, among other things, the repayment of four loans taken out by Santander Bank Polska S.A. with the EIB. At the same time, the second tranche of EUR 30m was disbursed under an agreement signed in December 2019 by Santander Leasing S.A. and the EBRD providing for EUR 80m worth of lending.

### TERM DEPOSITS AND CURRENT ACCOUNTS\* AT QUARTER-ENDS OF 2020 AND 2021



\* including savings accounts

## Diversification of funding sources

### Cooperation with international institutions

In 2021, Santander Bank Polska Group continued cooperation with international financial institutions in terms of diversification of funding sources and agreements signed to optimise the Group's risk weighted assets, including through securitisation and guarantees. This also includes effective allocation of funds raised and/or equity released to support customers from the SME and Midcap segment (as defined by the EU), less developed regions, and to finance environmental and social projects.

In 2021, the European Investment Bank Group (EIB Group), formed by the European Investment Bank (EIB) and the European

Investment Fund (EIF), signed an agreement with Santander Bank Polska Group providing for the fourth synthetic securitisation transaction (the agreements regarding previous transactions were signed in 2018 by Santander Bank Polska S.A., in 2019 by Santander Consumer Bank S.A. and in 2020 by Santander Leasing S.A.). The fourth transaction was made with Santander Leasing S.A. and involves synthetic securitisation of a portfolio of leasing receivables amounting to PLN 2.7bn.

### Key issues and agreements

In 2021, Santander Bank Polska Group undertook a range of initiatives to diversify the funding sources. The key ones are presented below.

### Significant loan agreements with financial institutions

Entity	Date of the agreement	Subject of the agreement
Santander Leasing S.A.	29 September 2021	▶ Loan agreement between Santander Leasing S.A. and Bank Gospodarstwa Krajowego providing for PLN 500m worth of financing based on 1M WIBOR, with a maturity date of 29 September 2025.

### Key issues

Entity	Date of the issue	Subject of the issue
Santander Bank Polska S.A.	29 November 2021	▶ Issue of EUR 750m worth of fixed-coupon senior notes as part of the EMTN Issuance Programme, taken up by Banco Santander S.A. and maturing on 29 November 2024.
	22 December 2021	▶ Issue of PLN 750m worth of certificates of deposits based on 6M WIBOR, maturing on 22 December 2023 and classified as sustainability bank securities in accordance with the Sustainability Issuance Framework of Santander Bank Polska S.A. The proceeds from the issue will be used to finance or refinance eligible green assets or eligible social assets specified in the above-mentioned framework.
Santander Factoring Sp. z o.o.	3 February 2021	▶ Issue of series J bonds of PLN 655m based on 1M WIBOR, with a maturity date of 2 August 2021
	20 May 2021	▶ Issue of series K bonds of PLN 430m based on 1M WIBOR, with a maturity date of 22 November 2021
	31 May 2021	▶ Issue of series L fixed-rate bonds of PLN 1bn, with a maturity date of 31 August 2021 and a put option
	3 August 2021	▶ Issue of series M bonds of PLN 655m based on 1M WIBOR, with a maturity date of 3 February 2022
	31 August 2021	▶ Issue of series N fixed-rate bonds of PLN 1bn, with a maturity date of 30 November 2021



Santander Leasing S.A.	11 March 2021	▶ Issue of series H bonds of PLN 1.1bn based on 3M WIBOR, with a maturity date of 11 March 2022 and a put option
	23 June 2021	▶ Issue of series I bonds of PLN 850m based on 3M WIBOR, with a maturity date of 23 June 2022 and a put option
Santander Consumer Bank S.A.		<p>▶ In Q1 2021, the agreement signed by SCB S.A. on the issue of debt securities up to PLN 3bn was joined by Santander Consumer Multirent Sp. z o.o. as a co-issuer. The two companies started the issue of securities as part of a new programme. The issues of Santander Consumer Bank S.A. are not underwritten, while the issues of Santander Consumer Multirent Sp. z o.o. are underwritten by Santander Consumer Bank S.A. (as a direct parent).</p> <p>▶ In 2021, the two companies issued debt securities with a total nominal value of PLN 1.4bn as part of the programme.</p>

## 3. Selected Financial Ratios of Santander Bank Polska Group

Selected financial ratios of Santander Bank Polska Group	2021	2020
Cost/ income	59.6%	51.9%
Net interest income/ total income	64.7%	68.1%
Net interest margin <sup>1)</sup>	2.71%	2.87%
Net fee and commission income/ total income	27.0%	24.9%
Net loans and advances to customers/ deposits from customers	80.0%	82.8%
NPL ratio <sup>2)</sup>	5.0%	5.8%
NPL provision coverage ratio <sup>3)</sup>	60.4%	57.9%
Costs of credit <sup>4)</sup>	0.76%	1.21%
ROE <sup>5)</sup>	4.7%	4.4%
ROTE <sup>6)</sup>	5.3%	5.3%
ROA <sup>7)</sup>	0.5%	0.5%
Total capital ratio <sup>8)</sup>	18.58%	20.42%
Tier 1 capital ratio <sup>9)</sup>	16.63%	18.38%
Book value per share (PLN)	266.31	280.44
Earnings per ordinary share (PLN) <sup>10)</sup>	10.88	10.16

1) Net interest income annualised on a year-to-date basis (excluding interest income from the portfolio of debt securities held for trading and other exposures related to trading) to average net earning assets as at the end of consecutive quarters after the end of the year preceding a given accounting year (excluding financial assets held for trading, hedging derivatives, other exposures related to trading and other loans and advances to customers).

2) Gross loans and advances to customers classified to stage 3 and POCI exposures to the portfolio of gross loans and advances to customers measured at amortised cost at the end of the reporting period.

3) Impairment allowances for loans and advances to customers classified to stage 3 and POCI exposures and measured at amortised cost to gross value of such loans and advances at the end of the reporting period.

4) Net expected credit loss allowances (for four consecutive quarters) to average gross loans and advances to customers measured at amortised cost (as at the end of the current reporting period and the end of the previous year).

5) Profit attributable to the parent's shareholders (for four consecutive quarters) to average equity (as at the end of the current reporting period and the end of the previous year), excluding non-controlling interests, current period profit, undistributed portion of the profit and dividend reserve.

6) Profit attributable to the parent's shareholders (for four consecutive quarters) to average tangible equity (as at the end of the current reporting period and the end of the previous year) defined as common equity attributable to the parent's shareholders less revaluation reserve, current year profit, dividend, undistributed portion of the profit, dividend reserve, intangible assets and goodwill.

7) Profit attributable to the parent's shareholders (for four consecutive quarters) to average total assets (as at the end of the current reporting period and the end of the previous year).

8) The capital ratio was calculated on the basis of own funds and total capital requirements established for the individual risk types by means of the standardised approach, in line with the CRD IV/CRR package.

9) Tier 1 capital ratio calculated as a quotient of Tier 1 capital and risk-weighted assets for credit, market and operational risk.

10) Net profit for the period attributable to shareholders of the parent divided by the average weighted number of ordinary shares.

## 4. Income Statement of Santander Bank Polska S.A.

### Profit of Santander Bank Polska S.A.

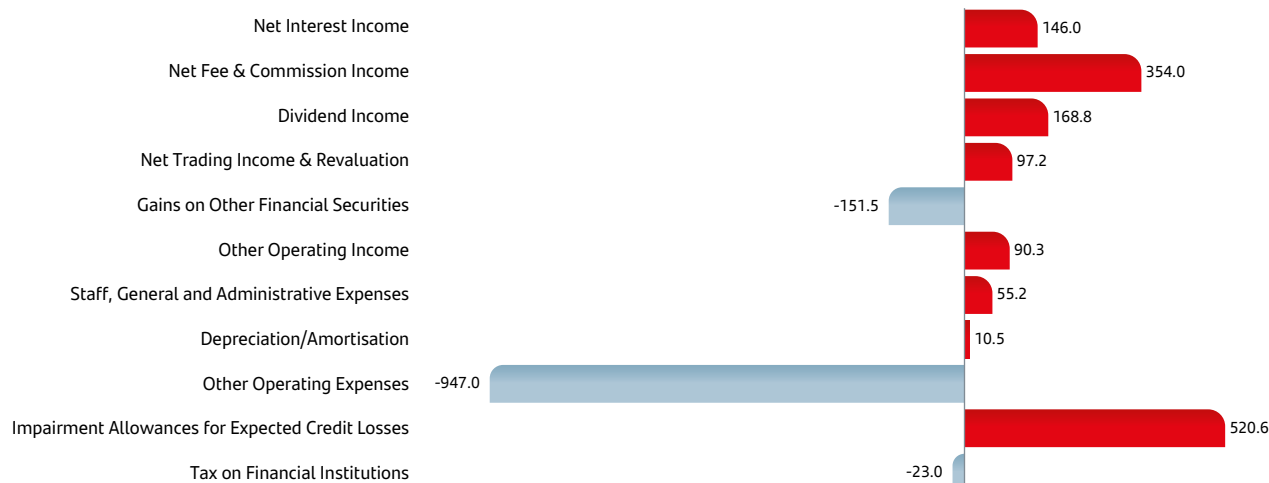
Condensed Unconsolidated Income Statement of Santander Bank Polska S.A. in PLN m (for analytical purposes)	2021	2020	YoY change
<b>Total income</b>	<b>7 450.8</b>	<b>6 746.0</b>	<b>10.4%</b>
– Net interest income	4 514.3	4 368.3	3.3%
– Net fee and commission income	2 119.5	1 765.5	20.1%
– Other income including <sup>1)</sup>	817.0	612.2	33.5%
<b>Total costs</b>	<b>(4 477.2)</b>	<b>(3 595.9)</b>	<b>24.5%</b>
– Staff, general and administrative expenses	(2 594.8)	(2 650.0)	-2.1%
– Depreciation/amortisation <sup>2)</sup>	(504.4)	(514.9)	-2.0%
– Other operating expenses	(1 378.0)	(431.0)	219.7%
<b>Net impairment allowances on loans and advances</b>	<b>(841.0)</b>	<b>(1 361.6)</b>	<b>-38.2%</b>
Tax on financial institutions	(583.8)	(560.8)	4.1%
<b>Profit before tax</b>	<b>1 548.8</b>	<b>1 227.7</b>	<b>26.2%</b>
Tax charges	(632.9)	(489.3)	29.3%
<b>Net profit for the period</b>	<b>915.9</b>	<b>738.4</b>	<b>24.0%</b>

1) Other income includes total non-interest and non-fee income of the bank. It comprises in particular the following items of the full income statement: dividend income, net trading income and revaluation, gain/loss on other financial instruments and other operating income.

2) Depreciation/ amortisation includes depreciation of property, plant and equipment, amortisation of intangible assets and depreciation of the right-of-use asset.

### ➤ YEAR-ON-YEAR CHANGES IN THE MAIN ITEMS OF THE INCOME STATEMENT OF SANTANDER BANK POLSKA S.A. FOR 2021 IN ABSOLUTE NUMBERS

in PLN m



In 2021, profit before tax of Santander Bank Polska S.A. increased by 26.2% YoY to PLN 1,548.8m, and the net profit for the period grew by 24.0% YoY to PLN 915.9m.

**The bank's underlying profit before tax went up by 32.6% YoY and the net profit for the period rose by 41.1% YoY.**

This assumes the fixed level of contributions to the Bank Guarantee Fund (BFG) in both analysed periods (i.e. eliminating a decrease of PLN 141.5m in the amounts payable to the BFG in 2021) and exclusion of the following items:

→ from the reporting period: a one-off payment (PLN 46.8m in 2021) from Aviva Group in respect of the completed

divestment of the companies from that Group and releases of provisions for legal risk (PLN 21.4m in 2021), which were not recognised in the comparative period;

→ from the comparative period: a provision for employment restructuring at Santander Bank Polska S.A. (PLN 121.0m), which was not disclosed in 2021;

→ from both periods under review:

→ dividend income (PLN 277.5m in 2021 and PLN 108.7m in 2020);

→ provisions raised for legal risk (PLN 419.3m in 2021 and PLN 105.3m in 2020) and for legal claims and other assets (PLN 843.4m in 2021 and PLN 248.5m in 2020) connected mainly with the portfolio of foreign currency mortgage loans;

- released provisions for legal claims and others assets (PLN 59.3m in 2021 and PLN 26.4m in 2020);
- an additional expected credit loss allowance of PLN 80.3m made in both periods in connection with the Covid-19 pandemic (post-model adjustment) and subsequently reversed in 2021 following the review of the models taking into account the latest macroeconomic forecasts (positive impact in 2021 and negative impact in 2020).

The items that most affected the comparability of the analysed periods were the provisions raised for legal claims, other assets and legal risk (recognised under other operating expenses) which after corresponding releases (recognised in other operating income) had a total impact of PLN 1,181.9m on the bank's income statement, up PLN 854.6m YoY. The increase in the level of the above provisions was driven by a growing scale of customers' claims regarding foreign currency mortgage loans in the changing legal environment.

The growth of the bank's underlying profit was mainly attributed to the following factors: a decline in net expected credit loss

allowances (-38.2% YoY), an increase in dividend income (+155.3% YoY), a rise in net fee and commission income (+20.1% YoY) as well as an improvement in net trading income and revaluation (+62.9% YoY) and in net interest income (+3.3% YoY) supported by three NBP interest rates hikes introduced in Q4 2021.

At the same time, gains on other financial instruments went down (-62.4% YoY) due to higher yields of debt securities and their negative impact on pricing and gains on sale.

## Structure of total income of Santander Bank Polska S.A.

Total income of Santander Bank Polska S.A. for 2021 increased by 10.4% YoY to PLN 7,450.8m. Excluding dividend income, a one-off payment from Aviva Group and releases of provisions for legal claims and legal risk, the underlying total income was up 6.6% YoY.

## Net interest income

Interest income of Santander Bank Polska S.A. (PLN m) due to:	2021	2020	YoY change
Loans and advances to personal customers	2 455.5	2 571.0	-4.5%
Loans and advances to enterprises and the public sector, and leasing receivables	1 387.2	1 588.5	-12.7%
Debt securities and receivables under buy-sell-back transactions	903.7	804.9	12.3%
IRS and loans and advances to banks	(0.9)	38.2	-102.4%
<b>Total</b>	<b>4 745.5</b>	<b>5 002.6</b>	<b>-5.1%</b>
Interest expense of Santander Bank Polska S.A. (PLN m) due to:	2021	2020	YoY change
Deposits from individuals	(32.7)	(334.0)	-90.2%
Deposits from enterprises and the public sector	(29.7)	(162.9)	-81.8%
Subordinated liabilities and debt securities in issue	(85.8)	(101.6)	-15.6%
IRS and deposits from banks	(62.9)	(6.8)	825.0%
Lease liabilities	(15.9)	(19.8)	-19.7%
Liabilities under sell-buy-back transactions	(4.2)	(9.2)	-54.3%
<b>Total</b>	<b>(231.2)</b>	<b>(634.3)</b>	<b>-63.6%</b>
<b>Net interest income</b>	<b>4 514.3</b>	<b>4 368.3</b>	<b>3.3%</b>

In 2021, the bank's net interest income grew by 3.3% YoY to PLN 4,514.3m, reflecting:

- an increase of 1.65 p.p. in interest rates in Q4 2021;
- acceleration of credit delivery in H2 2021, including mortgage loans, cash loans and business loans;
- higher returns on the debt securities portfolio along with monetary policy tightening;
- changes in the structure of deposits (continuation of the previous year's downward trend in term deposits in favour of current balances) with broadly stable pricing terms YoY.

In 2021, the bank's interest income went down by 5.1% YoY, and interest expense decreased by 63.6% YoY.

The cumulated net interest margin (calculated on a year-to-date basis) decreased to 2.34% in 2021 from 2.47% in 2020 due to historically low interest rates prevailing from May 2020 to October 2021, when the NBP started to tighten the monetary policy. The decrease in the margin is also an effect of a growing share of investments in debt instruments in the assets due to continuing overliquidity of the Polish banking sector. Given the relatively low yields of debt securities (until Q3 2021), this portfolio weighed down on the cumulated net interest margin.

## Net fee and commission income

Net Fee and Commission Income of Santander Bank Polska S.A. (PLN m)	2021	2020	YoY change
FX fees	572.6	468.8	22.1%
Account maintenance and cash transactions <sup>1)</sup>	390.5	307.3	27.1%
Credit fees <sup>2)</sup>	288.1	284.6	1.2%
Debit cards	253.6	214.5	18.2%
Electronic and payment services <sup>3)</sup>	189.5	168.7	12.3%
Brokerage activities	112.3	112.5	-0.2%
Guarantees and sureties <sup>4)</sup>	87.9	67.6	30.0%
Distribution fees	87.8	42.4	107.1%
Credit cards	75.4	65.5	15.1%
Insurance fees	72.7	54.1	34.4%
Other fees <sup>5)</sup>	(10.9)	(20.5)	-46.8%
<b>Total</b>	<b>2 119.5</b>	<b>1 765.5</b>	<b>20.1%</b>

1) Fee and commission income from account maintenance and cash transactions was reduced by the corresponding expenses which are disclosed under "Other" in Note 6 to the Financial Statements of Santander Bank Polska S.A. for 2021 (PLN 6.7m in 2021 vs PLN 3.8m in 2020).

2) Net fee and commission income from lending, factoring and lease activities which is not amortised to net interest income. This line item includes, inter alia, the cost of credit agency.

3) Fees for payments (foreign and mass payments, Western Union transfers), trade finance, debit cards, services for third party institutions as well as other electronic and telecommunications services.

4) Fee and commission income from guarantees and sureties was reduced by the corresponding expenses which are disclosed under "Other" in Note 6 to the Financial Statements of Santander Bank Polska S.A. for 2021 (PLN 23.9m in 2021 vs PLN 28.4m in 2020).

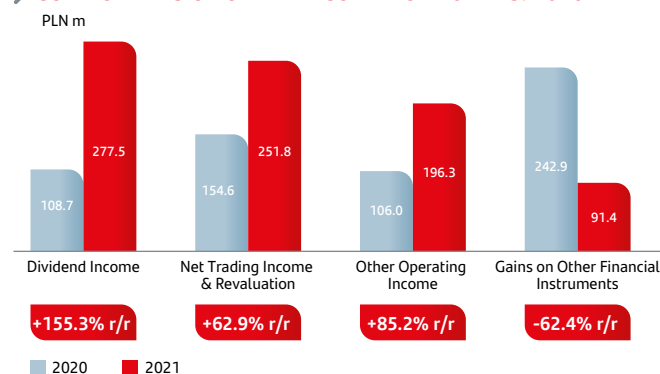
5) Issue arrangement commissions and other fees and commissions.

Net fee and commission income for 2021 totalled PLN 2,119.5m and increased by 20.1% YoY on account of higher net income from the majority of product lines, including currency exchange (+22.1% YoY), account maintenance and cash transactions (+27.1% YoY), debit cards (+18.2% YoY), electronic and payment services (+12.3% YoY), distribution and asset management (+107.1% YoY), insurance fees (+34.4% YoY) and guarantee fees (+30.0% YoY). This growth is a sign of economic recovery and improved outlook, translating into an increased business activity and a higher number of banking operations made by customers. Accelerated lending was reflected in higher cost of credit agency but also in higher income from insurance products and guarantees. Increased number of transactions was one of the factors that contributed to a rise in fee income from currency exchange, cards and payments. It was also supported by an upturn in the financial markets observed for the greater part of the year, notably in the equity and debt securities markets. In 2021, the bank co-arranged several share issues and successfully distributed investment fund units, generating higher income in this respect compared to the previous year.

The above changes to the bank's fee and commission income are in line with the trends observed at the consolidated level, which are described in detail in the part concerning Santander Bank Polska Group.

## Structure of non-interest and non-fee income of Santander Bank Polska S.A.

### COMPONENTS OF OTHER INCOME FOR 2021 VS. 2020



The bank's other income (non-interest and non-fee income) presented in the figure above increased by 33.5% YoY to PLN 817.0m as a result of changes to the following components:

- An increase of 155.3% YoY in dividend income, resulting mainly from recognition in the reporting period of PLN 202.2m worth of dividends from Aviva Group companies (from the bank's portfolio of associates and non-controlled entities) which retained the entire profit in the comparative period in line with the supervisory guidelines for the insurance sector.
- A rise of 62.9% YoY in net trading income and revaluation, reflecting higher total gains on derivatives and FX transactions, higher gains on transactions in equity and debt financial assets and a lower negative change in the fair value of credit card receivables.
- A growth of 85.2% in other operating income, resulting from recognition of an additional payment of PLN 46.8m received

from Aviva Group (not included in the sale price) in connection with the completed divestment of three companies from that Group (Aviva Towarzystwo Ubezpieczeń na Życie S.A., Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and Aviva Powszechnie Towarzystwo Emerytalne Aviva Santander S.A.).

The positive impact of the above-mentioned components was partially offset by a decline in gains on other financial instruments (-62.4% YoY) on account of significantly lower gains on the sale of bonds (-PLN 127.3m YoY) and a lower positive change in the fair value of Visa Inc. shares (-PLN 30.0m YoY) due to developments in the financial markets.

## Expected credit loss allowances

Expected credit loss allowances on loans and advances measured at amortised cost (PLN m)	Stage 1		Stage 2		Stage 3		POCI		Total	Total
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Allowance on loans and advances to customers	(38.1)	(91.8)	(18.1)	(368.6)	(809.5)	(877.7)	30.3	7.0	(835.4)	(1 331.1)
Recoveries of loans previously written off	-	-	-	-	(7.0)	(13.1)	-	-	(7.0)	(13.1)
Allowance on off-balance sheet credit liabilities	(9.9)	2.2	2.7	(3.7)	8.6	(15.9)	-	-	1.4	(17.4)
<b>Total</b>	<b>(48.0)</b>	<b>(89.6)</b>	<b>(15.4)</b>	<b>(372.3)</b>	<b>(807.9)</b>	<b>(906.7)</b>	<b>30.3</b>	<b>7.0</b>	<b>(841.0)</b>	<b>(1 361.6)</b>

Net expected credit loss allowances totalled PLN 841.0m and were down 38.2% YoY alongside a 5.1% YoY growth in gross loans and advances measured at amortised cost, which reflects a stable or lower cost of credit related to individual credit portfolios and reversal of a management allowance in respect of Covid-19 (above the values arising from the models) after the impact of the majority of existing adjustments had been reflected in the current parameter values. In the comparative period, the above additional allowance totalled PLN 80.3m.

In 2021, single allowances were made for non-performing credit exposures of individual customers, but significant repayments were observed too.

The level of net allowances was also positively affected by the sale of credit receivables from personal and business customers of Santander Bank Polska S.A. totalling PLN 2.0bn at a profit before tax of PLN 41.9m (last year, credit receivables of PLN 1.2bn were sold at a profit before tax of PLN 14.6m).

## Staff and general expenses of Santander Bank Polska S.A.

Total costs of Santander Bank Polska S.A. (PLN m)	2021	2020	YoY change
<b>Staff, general and administrative expenses, of which:</b>	<b>(2 594.8)</b>	<b>(2 650.0)</b>	<b>-2.1%</b>
– Staff expenses	(1 372.3)	(1 394.2)	-1.6%
– General and administrative expenses	(1 222.5)	(1 255.8)	-2.7%
<b>Depreciation/amortisation</b>	<b>(504.4)</b>	<b>(514.9)</b>	<b>-2.0%</b>
– Depreciation/amortisation of PP&E and intangible assets	(358.7)	(357.4)	0.4%
– Depreciation of right-of-use asset	(145.7)	(157.5)	-7.5%
<b>Other operating expenses</b>	<b>(1 378.0)</b>	<b>(431.0)</b>	<b>219.7%</b>
<b>Total costs</b>	<b>(4 477.2)</b>	<b>(3 595.9)</b>	<b>24.5%</b>

Total operating expenses increased by 24.5% YoY to PLN 4,477.2m. Excluding the impact of fees payable to the Bank Guarantee Fund, the restructuring provision and the provisions for legal risk and legal claims, the underlying total operating expenses were up 7.5% YoY, reflecting an increase in particular categories of general and administrative expenses and cost of salaries.

Staff and general expenses declined by 2.1% YoY, to PLN 2,594.8m, of which:

→ Staff expenses fell by 1.6% YoY to PLN 1,372.3m as an effect of high base in the comparative period including PLN 121.0m worth of provision for severance pay for Santander Bank Polska S.A. employees selected for collective redundancies. It was combined with an increase in the main component, namely the cost of salaries, resulting from the launch of all bonus schemes in 2021 and periodic review of salaries in relation to market rates. Cost of training went up too due to a higher number of initiatives.

→ General and administrative expenses went down by 2.7% YoY to PLN 1,222.5m mainly due to a 37.3% YoY decrease in fees payable to the Bank Guarantee Fund as contributions to the bank resolution fund and guarantee fund which totalled PLN 237.8m for 2021. Excluding the charges related to the Bank Guarantee Fund, general and administrative expenses were 8.6% higher YoY due to the cost of equipment for remodelled premises (+87.7% YoY), marketing initiatives (+75.6% YoY), IT usage (+20.7% YoY) and maintenance of premises (+16.9% YoY), among other things.

Other operating expenses went up by 219.7% YoY to PLN 1,378.0m on account of significant increases in provisions for legal claims and other assets and for legal risk totalling PLN 1,262.6m in 2021 (+256.9% YoY), of which 97% concerned foreign currency mortgage loans.

Given the significant rise in the above provisions, the cost to income ratio grew from 53.3% in 2020 to 60.1% in 2021. On a comparative basis, the cost to income ratio for 2021 was 47.6% (47.2% in 2020).

## 5. Statement of Financial Position of Santander Bank Polska S.A.

Assets of Santander Bank Polska S.A. (PLN m) (for analytical purposes)	31.12.2021	31.12.2020	YoY change
Loans and advances to customers	125 449.1	119 077.3	5.4%
Investment securities	68 865.4	64 355.7	7.0%
Cash and balances with central banks	8 167.9	5 369.6	52.1%
Financial assets held for trading and hedging derivatives	4 184.0	3 225.4	29.7%
Property, plant and equipment, right-of-use assets, intangible assets and goodwill	3 285.6	3 536.5	-7.1%
Loans and advances to banks	2 744.0	2 919.0	-6.0%
Investments in subsidiaries and associates	2 377.4	2 377.4	0.0%
Other assets <sup>1)</sup>	3 111.5	2 279.6	36.5%
<b>Total</b>	<b>218 184.9</b>	<b>203 140.5</b>	<b>7.4%</b>

Equity and liabilities of Santander Bank Polska S.A. in PLN m (for analytical purposes)	31.12.2021	31.12.2020	YoY change
Deposits from customers	175 354.6	161 133.5	8.8%
Subordinated liabilities and debt securities in issue	7 310.9	5 426.8	34.7%
Financial liabilities held for trading and hedging derivatives	5 522.7	4 739.5	16.5%
Deposits from banks	1 337.6	2 993.3	-55.3%
Other liabilities <sup>2)</sup>	4 831.7	3 424.6	41.1%
<b>Total equity</b>	<b>23 827.4</b>	<b>25 422.8</b>	<b>-6.3%</b>
<b>Total</b>	<b>218 184.9</b>	<b>203 140.5</b>	<b>7.4%</b>

1) Other assets include the following items of the full version of financial statements: investments in subsidiaries and associates, buy-sell-back transactions, current income tax assets, net deferred tax assets, fixed assets classified as held for sale and other assets.

2) Other liabilities include sell-buy-back transactions, lease liabilities, current income tax liabilities, provisions for off-balance sheet credit facilities, other provisions and other liabilities.

As at 31 December 2021, the total assets of Santander Bank Polska S.A. were PLN 218,184.9m, an increase of 7.4% YoY.

Net loans and advances to customers were the key item of the bank's assets. They totalled PLN 125,449.1m and increased by 5.4% YoY due to acceleration of credit delivery to personal and business customers and a decline in expected credit loss allowances.

Deposits from customers were the largest constituent item of liabilities and the main driver of the balance sheet growth. They increased by 8.8% YoY to PLN 175,354.6m as a result of accumulation of aid funds in business accounts and a good financial standing of households.

Growth of demand for credit combined with high liquidity resulting from a steady increase in deposits contributed to a rise in investment financial assets (+7.0% YoY), notably bonds issued or guaranteed by the State Treasury.

In 2021, the bank issued two series of debt securities with a total nominal value of PLN 4,273.7m and redeemed PLN 2,294.8m worth of instruments. These measures caused an increase of 34.7% YoY in subordinated liabilities and debt securities in issue.

YoY changes in assets, equity and liabilities presented in the statement of financial position of Santander Bank Polska S.A. as at 31 December 2021 reflect changes in the consolidated statement described in the section on the financial position of Santander Bank Polska Group.

Gross loans and advances to customers of Santander Bank Polska S.A.	31.12.2021	31.12.2020	YoY change
Loans and advances to personal customers	71 116.5	67 305.2	5.7%
Loans and advances to enterprises and the public sector	58 026.7	55 899.4	3.8%
Other	49.2	31.0	58.7%
<b>Total</b>	<b>129 192.4</b>	<b>123 235.6</b>	<b>4.8%</b>

Gross loans and advances to customers amounted to PLN 129,192.4m and increased by 4.8% YoY, supported by growth of 7.0% YoY and 1.4% YoY in the portfolio of mortgage loans and cash loans to PLN 53,285.8m and PLN 14,671.1m, respectively. Loans and advances to enterprises and the public sector went up by 3.8% YoY to PLN 58,026.7m. In 2021, the NPL ratio of the

portfolio measured at amortised cost was 4.3% (5.2% as at 31 December 2020).



Deposits from customers of Santander Bank Polska S.A.	31.12.2021	31.12.2020	YoY change
Deposits from individuals	101 137.8	92 374.5	9.5%
Deposits from enterprises and the public sector	74 216.8	68 759.0	7.9%
<b>Total</b>	<b>175 354.6</b>	<b>161 133.5</b>	<b>8.8%</b>

Deposits from customers totalled PLN 175,354.6m and increased by 8.8% YoY, driven by dynamic growth in current account balances of retail, business and public sector customers.

Total deposits from individuals grew by 9.5% YoY to PLN 101,137.8m and included savings account balances of PLN 32,085.1m (+1.4% YoY), other current account balances of PLN

59,565.8m (+24.3% YoY) and term deposits of PLN 9,417.9m (-26.2% YoY).

Deposits from enterprises and the public sector went up by 7.9% YoY to PLN 74,216.8m, driven by growth in current account balances to PLN 65,727.5m (+5.4% YoY) and an upward trend in term deposits (+58.2% YoY) observed in the later part of the year.

## 6. Selected Ratios of Santander Bank Polska S.A.

Selected financial ratios of Santander Bank Polska S.A.	2021	2020
Cost/ income	60.1%	53.3%
Net interest income/ total income	60.6%	64.8%
Net interest margin <sup>1)</sup>	2.34%	2.47%
Net fee and commission income/ total income	28.4%	26.2%
Net loans and advances to customers/ deposits from customers	71.5%	73.9%
NPL ratio <sup>2)</sup>	4.3%	5.2%
NPL provision coverage ratio <sup>3)</sup>	55.0%	51.5%
Costs of credit <sup>4)</sup>	0.68%	1.13%
ROE <sup>5)</sup>	4.1%	3.3%
ROTE <sup>6)</sup>	4.7%	4.0%
ROA <sup>7)</sup>	0.4%	0.4%
Total capital ratio <sup>8)</sup>	20.99%	23.90%
Tier 1 capital ratio <sup>9)</sup>	18.65%	21.50%
Book value per share (PLN)	233.17	248.78
Earnings per ordinary share (PLN) <sup>10)</sup>	8.96	7.23

The approach to calculation of the financial ratios of Santander Bank Polska S.A. presented and numbered in the above table is provided under the corresponding table with ratios of Santander Bank Polska Group numbered in the same way.

## 7. Additional Financial Information about Santander Bank Polska S.A. and Santander Bank Polska Group

### Selected related party transactions

Transactions between Santander Bank Polska S.A. and its related parties are banking operations carried out on an arm's length basis as part of their ordinary business and mainly represent loans, bank accounts, deposits, guarantees and leases.

As at 31 December 2021, the bank's total exposure in respect of loans granted to banking and non-banking subsidiaries (including Santander Factoring Sp. z o.o., Santander Leasing S.A., Santander Consumer Multirent Sp. z o.o. and Santander Consumer Bank S.A.) was PLN 11,643.9m compared with PLN 9,359.1m as at 31 December 2020.

The deposits held with the bank by its subsidiaries (including Santander Finanse Sp. z o.o., Santander Factoring Sp. z o.o., Santander TFI S.A., Santander Leasing Poland Securitization 01,

Santander Inwestycje Sp. z o.o., Santander Consumer Multirent Sp. z o.o., Santander Consumer Bank S.A.) totalled PLN 420.7m vs PLN 650.1m as at 31 December 2020.

Contingent financial liabilities were PLN 6,052.2m compared with PLN 7,388.9m as at 31 December 2020. Guarantees to subsidiaries amounted to PLN 4,640.1m vs PLN 5,821.3m as at 31 December 2020.

The above transactions are excluded from the consolidated financial statements.

Intercompany transactions with the parent entity

The bank's receivables from the parent entity (Banco Santander S.A.) were PLN 406.4m (PLN 766.2m as at 31 December 2020), while liabilities were PLN 138.5m (PLN 490.8m as at 31 December 2020).

For more information about related party transactions please see Note 53 to the Consolidated Financial Statements of Santander Bank Polska Group for 2021 and Note 51 to the Financial Statements of Santander Bank Polska S.A. for 2021.

## Selected off-balance sheet items

### Guarantees and derivatives

The tables below present contingent liabilities and nominal amounts of derivative transactions of Santander Bank Polska Group.

Contingent liabilities (granted)	31.12.2021	31.12.2020
<b>Financial:</b>	<b>36 541.5</b>	<b>34 725.0</b>
– credit lines	31 474.9	29 393.6
– credit cards	3 744.3	4 106.4
– import letters of credit	1 322.3	1 204.5
– term deposits with future term start date	–	20.5
<b>Guarantees</b>	<b>8 997.6</b>	<b>7 585.9</b>
<b>Provision for off-balance sheet liabilities</b>	<b>(60.8)</b>	<b>(64.5)</b>
<b>Total</b>	<b>45 478.3</b>	<b>42 246.4</b>
<b>Contingent liabilities (received)</b>	<b>31.12.2021</b>	<b>31.12.2020</b>
<b>Financial</b>	<b>26.4</b>	<b>153.1</b>
<b>Guarantees</b>	<b>54 929.6</b>	<b>60 657.2</b>
<b>Total</b>	<b>54 956.0</b>	<b>60 810.3</b>
<b>Nominal values of derivatives</b>	<b>31.12.2021</b>	<b>31.12.2020</b>
Forward transactions (hedging)	27 276.6	21 345.5
Forward transactions (trading)	661 823.5	508 521.8
Spot transactions	4 271.1	10 086.0
Transactions in equity instruments	48.4	30.8
<b>Total</b>	<b>693 419.6</b>	<b>539 984.1</b>

### Description of guarantees issued

Santander Bank Polska S.A. guarantees obligations arising from customers' operating activities. These are: payment guarantees, performance bonds, warranty guarantees, bid bonds, loan repayment guarantees and customs guarantees. In justified cases, the bank issues counter-guarantees and standby letters of credit.

All guarantees are granted in accordance with the Polish Banking Law and the Polish Civil Code. Guarantees issued by the bank to secure cross-border transactions may be subject to applicable rules as agreed by the parties (e.g. Uniform Rules for Demand Guarantees) or to foreign law if a guarantee is governed by such law.

The process and information required in the case of guarantees are similar to the lending process. The bank adopts the same approach to credit risk here as in the case of balance sheet exposures.

### Collateral

As at 31 December 2021, the value of borrowers' accounts, assets or leased assets pledged as collateral to Santander Bank Polska Group amounted to PLN 123,797.5m, including PLN 96,857.7m in relation to Santander Bank Polska S.A. (PLN 95,529.8m as at 31 December 2020).

## 8. Key Factors Affecting the Profit in the Next Year

The following external developments may have a significant impact on the financial performance and activity of Santander Bank Polska Group in the next year:

- Risk of new pandemic waves and virus strains and potential restrictions on economic and social activities.
- Potential further changes in the monetary policy of the ECB, the Federal Reserve and other main central banks aimed at preventing the global rise in inflation.
- Fluctuation in credit risk pricing on the financial markets.
- Changes in bond yields which are a function of monetary and fiscal policy expectations as well as of the liquidity of the banking sector.
- Changes in the demand for loans in the context of fluctuations in liquidity and in expectations of future developments.
- Changes in households' financial situation under the influence of labour market trends.
- Changes to customers' savings allocation decisions, impacted by expected yields from different asset classes as well as changes to the approach to saving and spending as a result of fluctuating pandemic-related concerns.
- Evolution of the global equity markets and its impact on the demand for investment funds and equities.
- Geopolitical risk.

## XII. Risk and Capital Management

### 1. Key Risk Management Principles and Structure in the Bank and in Santander Bank Polska Group

#### Key risk management principles

Both the bank and other members of Santander Bank Polska Group are exposed to various risks within their day-to-day activities which adversely affect the delivery of strategic priorities of the organisation. Top risks are defined each year as part of a specialised significant risk identification process. The main types of risks include: credit risk (including concentration risk), market risk (in the banking book and in the trading book), liquidity risk, operational risk, compliance risk and reputational risk.

Risk management allows Santander Bank Polska S.A. and its Group to conduct effective and safe operations that enable development and achievement of high profitability within approved risk parameters. The bank follows a range of external standards and requirements in this respect which are binding on financial institutions. It also relies on best practice and standards developed by Banco Santander Group.

The bank and Santander Bank Polska Group have defined their risk profile which corresponds to the general risk appetite established by the Group. It is expressed as quantitative limits and captured in the Risk Appetite Statement adopted by the Management Board and approved by the Supervisory Board. The limits are set using stress tests and scenario analyses. They ensure stability of the bank's and the Group's position even if adverse circumstances materialise. Global limits are used to set watch limits and define risk management policies.

The integrated risk management structure includes relevant committees which have been set up to decide on identification of individual risks and internal risk management standards and policies, and to monitor the risk level.

The bank has also established a relevant organisational structure to mitigate risk at three independent and complementary levels (lines of defence), i.e.:

- organisational units which generate risk and are required to comply with the rules ensuring high quality and correctness of their performance;
- units responsible for identification, measurement, monitoring and mitigation of risks in a way that ensures independence of risk control functions from risk-taking units;
- the internal audit function whose tasks involve 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.

#### Risk management structure

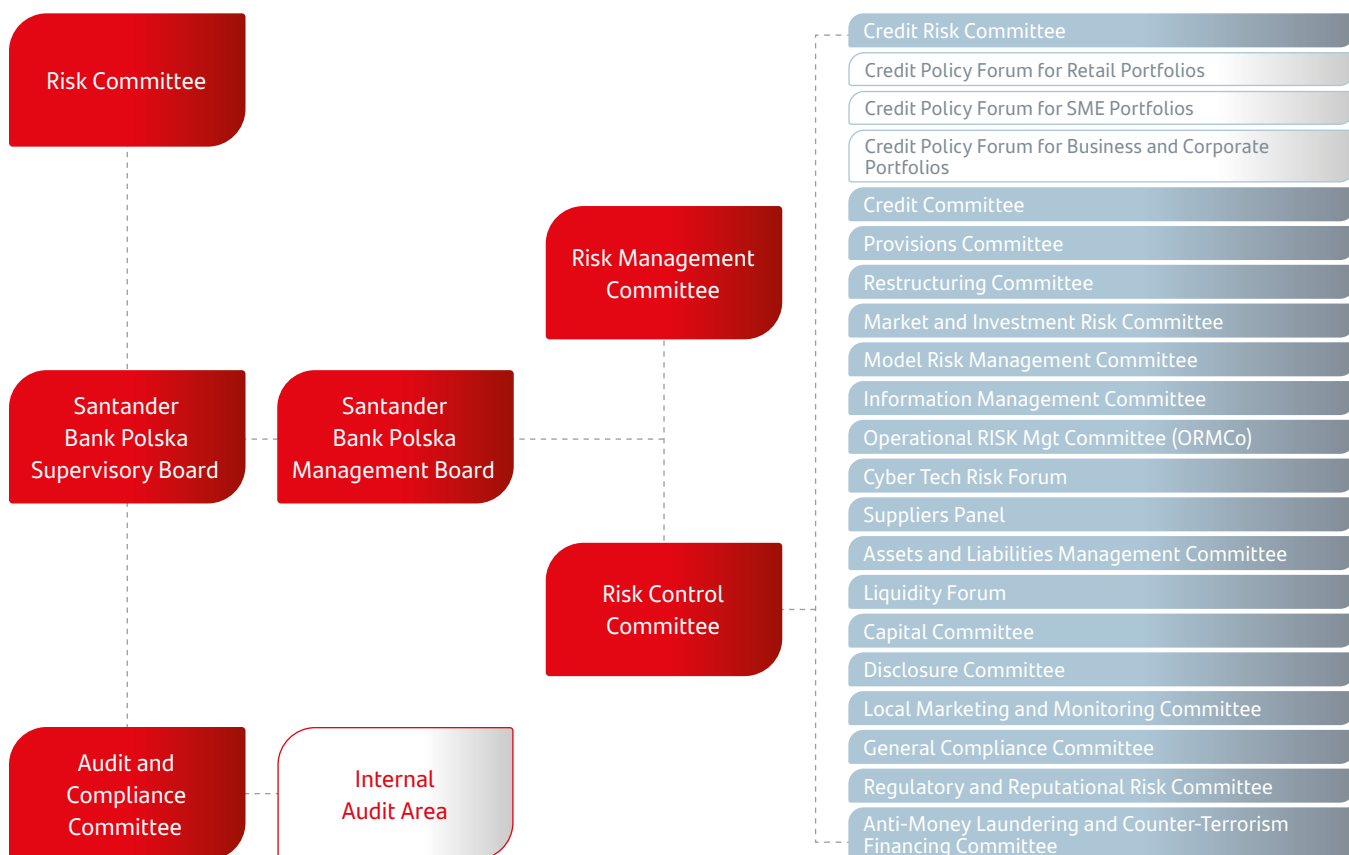
The bank's Supervisory Board, supported by the Audit and Compliance Committee of the Supervisory Board and the Risk Committee, is responsible for ongoing supervision of the risk management system in Santander Bank Polska S.A. The Supervisory Board approves the strategy, key risk management policies and risk appetite, and monitors the use of internal limits from the perspective of current business strategy and the macroeconomic environment. It conducts the reviews of the key risk areas, the identification of threats and the process of defining and monitoring remedial actions. The Supervisory Board also assesses the effectiveness of risk management measures taken by the Management Board.

The bank's Management Board is responsible for implementing an effective risk management system that is compliant with the regulatory requirements and internal regulations. Specifically, the bank's role in this regard is to set up an organisational structure tailored to the size and profile of the risks taken, to segregate responsibilities in order that risk measurement and control functions remain independent of operational functions, to introduce and update the risk management strategy and ensure an adequate information policy.

The Management Board fulfils its risk management role through its committees:

- The Risk Management Committee, which approves the key decisions taken by the main lower-level risk committees (mainly credit decisions), annual limits for securities trading and ALM transactions and an annual plan of risk assessment models.
- The Risk Control Committee, which monitors the risk level across different areas of the bank's operations and reviews the key issues that affect the bank's risk exposure, issuing relevant recommendations to the Management Board. The Committee also supervises the activities of lower-level risk management committees set up by the bank's Management Board.

## CORPORATE GOVERNANCE STRUCTURE FOR RISK SUPERVISION AND MANAGEMENT



- Credit Risk Committee
- Credit Policy Forum for Retail Credit Portfolios
- Credit Policy Forum for SME Credit Portfolios
- Credit Policy Forum for Business and Corporate Credit Portfolios
- Credit Committee
- Provisions Committee
- Restructuring Committee
- Market and Investment Risk Committee
- Model Risk Management Committee
- Operational Risk Management Committee/ ORMCO
- CyberTechRisk Forum
- Information Management Committee
- Assets and Liabilities Committee/ ALCO
- Liquidity Forum
- Capital Committee
- Disclosure Committee
- Local Marketing and Monitoring Committee
- General Compliance Committee
- Regulatory and Reputational Risk Committee
- Anti-Money Laundering and Counter-Terrorism Financing Committee
- Suppliers Panel.

These committees, acting within the respective remits defined by the Management Board, are directly responsible for developing risk management methods and monitoring risk levels in specific areas. Through these committees, the bank also supervises the risk attached to the operations of its subsidiaries.

The subsidiaries implement risk management policies and procedures that reflect the approach adopted by Santander Bank Polska S.A., which ensures the consistency of risk management processes across the Group.

Acting under the applicable law, the bank exercises oversight of risk management in Santander Consumer Bank S.A. (SCB S.A.) in line with the same oversight rules as applied to other Santander Bank Polska Group companies. Representatives of Santander Bank Polska S.A. on the Supervisory Board of SCB S.A. are two Vice Presidents of the bank's Management Board in charge of the Risk Management Division and the Retail Banking Division, respectively. Together with SCB S.A. Supervisory Board, they are responsible for supervision over SCB S.A. and make sure that the company operates in line with the adopted plans and operational security procedures. The bank monitors the profile and level of SCB S.A. risk via risk management committees of Santander Bank Polska S.A.

# Risk Management Priorities in 2021

## COVID-19 related situation

In 2021, the Group continued to thoroughly analyse developments in the macroeconomic environment and monitor credit exposures in individual customer segments and sectors in order to promptly and duly align the credit policy parameters where required. The Group focused on further measures taken in response to the Covid-19 pandemic, placing an increased emphasis on risk trends in credit portfolios, particularly in connection with lockdowns affecting economic activities in H1 2021. Appropriate management reports introduced in 2020 were maintained in order to identify deteriorating financial position of business customers from the sectors worst hit by the pandemic. The Group took further measures as part of the government support programmes for customers in financial distress due to the pandemic (including aid granted by the Polish Development Fund (PFR) until August 2021, guarantees issued by BGK, and Shield 4.0). At the same time, it contributed to and adopted the second moratorium developed by the banking sector under the auspices of the Polish Bank Association, which laid down uniform rules for offering tools to aid those customers.

Detailed information on credit exposures with assistance tools due to COVID-19 is provided in "Consolidated Financial Statements of Santander Bank Polska Group for 2021", note 4 "Risk management".

## Supervisory regulations

In 2021, a range of important regulations issued by banking supervisory authorities were implemented. In the first half of the year, the Group focused on incorporation of the EBA Guidelines on loan origination and monitoring EBA/GL/2020/06. These guidelines set out standards for credit risk taking, management and monitoring, and require that institutions apply appropriate practices in relation to consumer protection and prevention of money laundering.

Alongside this, the bank implemented changes to credit processes in line with KNF Recommendation S on best practice in the management of mortgage-backed credit exposures. While the recommendation covers only mortgage-backed loans, changes also indirectly affected credit processes related to unsecured loans. The operational and management reports were adjusted to include the elements introduced by the recommendation.

The bank implemented the guidelines arising from KNF Recommendation R setting out new requirements for classification of credit exposures, estimation and recognition of expected credit loss allowances and management of credit risk.

Measures were also taken in 2021 to optimise performance of the models used in risk management processes. The following new models were developed and implemented: models supporting monitoring and recovery of credit exposures and an application model for external retail customers. Other models used by the bank were streamlined and calibrated and were monitored as part of regular reporting and periodic validation processes.

## Ruling practice related to foreign currency mortgage loans

The CJEU judgment of 3 October 2019 in case C-260/18 does not resolve the doubts as to the consequences of potentially unfair terms in foreign currency loan agreements. The ruling practice of the Supreme Court will be of importance here. The expected resolution of the full bench of the Civil Chamber of the Supreme Court has not been adopted yet. In view of the above, and taking into account the differences in the ruling practice to date (including after the judgment issued by the CJEU), when assessing legal risk associated with lawsuits over foreign currency loans the bank considers different court rulings in connection with potentially unfair contractual clauses (including annulment of the entire agreement, conversion of the loan to PLN with the interest rate based on CHF LIBOR, and maintenance of the indexation mechanism along with replacement of the bank's exchange rate with an objective average NBP rate). The bank raises provisions for legal risk associated with pending court cases considering the likelihood of different judgments.

The bank continuously monitors the ruling practice of Polish courts and the CJEU concerning foreign currency mortgage loans and adjusts its strategy accordingly. More information on this subject is provided in note 48 "Legal risk connected with foreign mortgage loans".

## Interest Rate Benchmark reform

In connection with the entry into force of Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts (BMR) and a decision on cessation of LIBOR by ICE Benchmark Administration Limited (IBA) at the end of 2021, Santander Bank Polska S.A. launched the IBOR Programme aimed at preparing the bank for changes arising from the above-mentioned decisions.

LIBOR rates for all currencies (excluding USD LIBOR) will cease to be published by the administrator or be representative as of the end of 2021. USD LIBOR will continue to be published until 30 June 2023 for all tenors excluding one week and two months.

The IBOR Programme focuses on changes necessary to offer new products based on interest rate indices compliant with the BMR and replacing LIBOR (particularly for GBP, CHF and USD). Work is also underway to prepare the bank for introducing changes to existing transactions with maturity dates after 31 December 2021, i.e. after the date of LIBOR cessation.

The IBOR Programme is delivered by a wide group of experts representing all business lines of the bank, supported by renowned advisory companies. It is supervised by the Steering Committee composed mainly of the Management Board members and senior executives. The work is coordinated with measures taken by the bank's subsidiaries as well as Santander Group.

The portfolios of the bank and its subsidiaries include products based on EONIA and LIBOR for CHF, EUR, GBP and USD. The largest portfolio includes mortgage loan agreements based on CHF LIBOR (around 32k agreements in Santander Bank Polska S.A. and 14k agreements in Santander Consumer Bank S.A.). The second largest portfolio comprises mortgage loans agreements based on EUR LIBOR (approx. 1.6k agreements).

In 2020–2021, the Programme focused on the portfolios based on LIBOR and EONIA. In 2022, the Programme will be continued

and will cover the portfolios based on USD LIBOR, WIBOR, WIBID and EURIBOR.

The transition to alternative benchmarks carries business, pricing, interest rate, liquidity, accounting, litigation, regulatory and operational risks. They are described in Part 4 "Risk Management" of the Consolidated Financial Statements of Santander Bank Polska Group for 2021. The Group has robust structures in place to manage the transition and mitigate the foregoing risks.

## Cybersecurity

During the pandemic, the importance of cyber security has increased significantly due to mass telecommuting (covering almost all processes) and the dynamically growing use of remote channels by customers in sales and after-sales processes. The Group kept track of risks, taking mitigating measures on an

ongoing basis in relation to customers and employees. Security warnings were being released in response to cybercriminals' attempts to exploit the outbreak. The areas exposed to the risk of fraud were covered with increased surveillance.

Notwithstanding the pandemic, one of the Group's main risk management priorities is to undertake initiatives to enable secure operations of the organisation (in accordance with the banking supervision requirements), while supporting business growth and profit generation for the shareholders. The Group continues to develop innovative risk management solutions, including advanced risk assessment models and tools that help automate banking processes and reduce human errors. Another rapidly developing area is data management, analysis and use in tools and reports to support prompt, accurate and secure decision-making leading to sustainable growth of business volumes.

## 3. Material Risk Factors Projected in 2022

One of the risk factors that will become increasingly important is growing inflation in Poland and other EU countries. Inflation may adversely affect the situation of borrowers – both retail customers (whose income will not rise or will rise at a lower rate than the cost of living) and business customers (if they are not able to pass higher costs onto buyers under their existing business models). Growing inflation also entails further increase in interest rates by the Monetary Policy Council, which means higher costs of variable-rate PLN loans. Moreover, inflation contributes to fluctuations in currency exchange rates, which affects the financial standing of companies whose business is based on foreign currency contracts. As a result of the above, the quality of the credit portfolio may deteriorate.

New risks include the situation at the eastern border of Poland, namely the migrant crisis at the border with Belarus and uncertainty as to Russia's plans regarding Ukraine. Instability may affect imports to and exports from eastern countries (including imports from China), cost of trade with those countries and, ultimately, the situation of importers and exporters as well as subsidiaries of Polish companies based in Belarus and Ukraine.

Another threat is the evolution of the Covid-19 situation. Despite the wide availability of vaccines, the number of people vaccinated is still too low to prevent further waves of the pandemic, which results in temporary lockdowns of the selected economic sectors. As a consequence, 2022 may continue to see volatile economic activity of entities from the worst-hit sectors, causing financial difficulties, particularly in the case of small and medium-sized businesses. It is all the more likely as new variants of the virus emerge and their consequences are difficult to predict. The above factors cause uncertainty as to the pandemic situation, with a reduced possibility to estimate the economic effects and ways of dealing with the recession.

All this uncertainty may reduce the risk appetite of investors, affecting the volatility and liquidity of equity and investment funds markets.

In 2022, a number of legislative changes will be implemented that may affect credit portfolios: Polish Deal (Polski Ład), restructuring law (further changes connected with the limitation of creditors' rights), Usury Prevention Act (further changes to the method of calculation of the maximum non-interest costs of loans), Guaranteed

Home Loan Act or amended EU Mortgage Credit Directive.

ESG issues become increasingly important too and are subject to a dynamically developing legislative process. As a consequence, ESG matters will not only be incorporated in regulatory requirements concerning compliance and management of risk (e.g. credit risk, market risk or operational risk) but they will also affect the brand image and HR strategy. Furthermore, ESG matters, in particular taxonomy, customer classification rules and issues related to carbon footprint, will directly impact sales (terms and structure) as well as existing and future relations with customers of financial institutions, implying a need to adjust the business model accordingly. ESG issues used to be considered by financial institutions to be potential reputational risk factors. Recently, they have become elements of business risk. It is worth noting that compliance with all the requirements will directly affect relations with many stakeholders as well as the value and valuation of companies.

The situation connected with court proceedings related to CHF mortgage loans is still unstable. The bank raises provisions for lost cases on an ongoing basis. While addressing the risk of unfavourable court rulings, the bank manages the foreign currency position taking into account an additional open position that may arise in the future and potentially cause the bank to incur losses.

Cyber risk has been a top concern for a number of years. This relates both to human behaviour and technological aspects. The key threats include the loss or theft of sensitive data, disruption of key services, attacks against customer assets and fraudulent transactions in the wake of the dynamic growth of modern IT technologies, digital transformation and globalisation. Cyber attacks have become more sophisticated and specialised. Particularly popular are attacks based on new technologies offered by cybercriminals under a service model. In 2022, the risk of ransomware attacks, DDoS attacks or use of social engineering is not likely to decrease. Supply chain attacks, cyber spying and attacks involving artificial intelligence and machine learning are expected to remain a growing threat to cybersecurity. Due to the current geopolitical situation, a special focus should be placed on the risk of targeted attacks made by well-structured, disciplined and sophisticated groups sponsored and coordinated by regimes.



## 4. Credit Risk Management

### Credit risk

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 given default of the borrower.

Credit risk in the bank and the 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 the Group enables 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 non-financial) and specific credit provisions and clauses (covenants).

Credit risk management in the bank and the Group involves measures 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.

### Credit policy

The credit policy adopted by the bank and the Group is a set of principles and guidelines included in credit policies and

procedures which are reviewed on a regular basis. Internal limits are crucial components of the credit policy because they facilitate the monitoring of exposure concentration within individual sectors, geographical regions and foreign currencies. Pursuant to the policy in place, the bank and Santander Bank Polska Group ensure adequate diversification of the credit portfolio in terms of exposure towards individual customers and sectors.

The bank's credit policy is defined by the Credit Risk Committee for the consolidated portfolio and cross-segment cases, and by three Credit Policy Forums for individual portfolios (personal customers, SMEs and corporate customers). Higher-level policies are approved by the bank's Management Board. The above-mentioned committees, together with the Risk Control Committee (at the Management Board level) and the Risk Committee, also monitor the bank's and the Group's credit portfolios based on regular management reports. In 2021, the bank and the Group continued to pursue the existing credit risk management policy, keeping credit risk at a safe level while ensuring high profitability of loan portfolios, growth of business volumes and an increase in market share. Credit policies and processes were optimised in response to macroeconomic developments, including economic consequences of the lockdown caused by the Covid-19 pandemic.

The lending activity of subsidiaries is modelled on the bank's credit policies. In the decision making process, the bank and Santander Bank Polska Group follow a consistent approach to credit risk and use the same IT platform to assign rating/ scoring (this does not apply to SCB S.A.). Subsidiaries have credit risk management procedures in place which are consistent with the regulations applied by the bank.

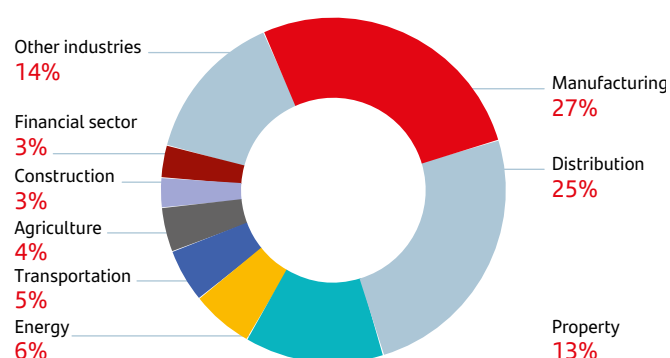
### Credit risk management process

#### Key elements of the credit risk management process in the bank and in Santander Bank Polska Group

Credit decision making process	<ul style="list-style-type: none"> <li>▶ The credit decision making process is based upon individual credit discretions vested in credit officers, commensurate with their knowledge and experience relating to particular activities and specific needs of respective segments (branch banking, SME banking, business banking and corporate banking).</li> <li>▶ Large credit exposures in excess of PLN 50m are referred to the Credit Committee composed of senior managers. Transactions above stated thresholds (from PLN 48.75m to PLN 195m, depending on the type of financing and the customer's rating) are additionally signed off by the Management Board's Risk Management Committee.</li> </ul>
Credit grading	<ul style="list-style-type: none"> <li>▶ The credit risk assessment tools conform to KNF guidelines, International Accounting Standards/ International Financial Reporting Standards (IAS/IFRS) and best market practice.</li> <li>▶ The Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, home loans, property loans, cash loans, credit cards and personal overdrafts.</li> <li>▶ Credit grading is subject to regular monitoring which is carried out in accordance with the rules described in the lending manuals. Additionally, for selected models, credit grade is automatically verified based on the number of days past due or an analysis of behavioural factors.</li> </ul>
Credit reviews	<ul style="list-style-type: none"> <li>▶ The Group performs regular reviews to determine the actual quality of the credit portfolio, confirm that appropriate credit grading and provisioning processes are in place and verify compliance with the procedures and credit decisions.</li> <li>▶ The reviews are conducted by units that are independent of credit risk-taking units.</li> </ul>
Collateral	<ul style="list-style-type: none"> <li>▶ The Collateral and Credit Agreements Department is a central unit responsible for ensuring that any security items at Santander Bank Polska Group are duly established and held effective in line with the lending policy for respective business segments, and that they are properly monitored and released. The Department also provides assistance to credit units in credit decision making and development of credit policies, collects data on security covers and ensures appropriate management information.</li> </ul>
Credit risk stress testing	<ul style="list-style-type: none"> <li>▶ Stress tests are used to evaluate potential effects of specific events, movements in financial and macroeconomic ratios or changes in the risk profile on the condition of the Group. As part of these tests, potential changes in credit portfolio quality under adverse conditions are assessed. The process also provides management information about the adequacy of the agreed limits and internal capital allocation.</li> </ul>

<b>Calculation of impairment</b>	<ul style="list-style-type: none"> <li>▶ Impairment allowances for expected credit losses are made in accordance with IFRS 9, i.e. an expected credit loss (ECL) model.</li> <li>▶ ECL allowances are determined considering macroeconomic scenarios of different probability, the time value of money and reasonable and supportable information that is available at the reporting date and concerns past events as well as current and projected economic conditions.</li> <li>▶ The recognition of expected credit losses depends on changes in risk after the recognition of the exposure: ECL allowances are measured as 12-month ECL if there has been no significant increase in credit risk since initial recognition. Otherwise, they are measured as lifetime ECL.</li> <li>▶ The standard introduces three main stages for recognising expected credit losses and POCI.</li> <li>▶ The Group regularly reviews model parameters and updates forecasts used for estimating ECL, taking into account the impact of changes in economic conditions and modifications of the Group's credit policies and recovery strategies.</li> </ul>
<b>Forbearance</b>	<ul style="list-style-type: none"> <li>▶ As part of proactive management of credit risk and credit portfolio quality, Santander Bank Polska Group takes measures aimed at early implementation of debt restructuring (forbearance solutions) with respect to customers in financial difficulty. The purpose of debt restructuring is to better match repayment terms with the current and projected financial circumstances of the customer, minimise default risk and/or maximise recovery.</li> </ul>

### ➤ DIVERSIFICATION OF LOANS AND ADVANCES TO CUSTOMERS BY BUSINESS SECTOR AS AT 31.12.2021



## Credit portfolio quality

### SANTANDER BANK POLSKA GROUP LOANS AND ADVANCES BY STAGES

Loans and advances to customers measured at amortised costs	31.12.2021	31.12.2020
<b>Stage 1</b>		
Gross receivables	136 842.9	128 731.4
Allowance for expected credit losses	(694.1)	(586.9)
<b>Stage 2</b>		
Gross receivables	7 418.3	8 657.7
Allowance for expected credit losses	(594.2)	(801.3)
<b>Stage 3</b>		
Gross receivables	6 927.6	7 710.7
Allowance for credit-impaired receivables	(4 356.7)	(4 666.1)
<b>POCI</b>		
Gross receivables	635.2	725.7
Impairment allowance	(212.3)	(221.5)
<b>Total gross receivables</b>	<b>151 824.0</b>	<b>145 825.5</b>
<b>Total impairment allowance for expected credit losses</b>	<b>(5 857.3)</b>	<b>(6 275.8)</b>
<b>Net loans and advances to customers measured at amortised costs</b>	<b>145 966.7</b>	<b>139 549.7</b>
<b>Non-performing (credit-impaired) loan ratio</b>	<b>5.0%</b>	<b>5.8%</b>
<b>Non-performing loan coverage ratio</b>	<b>60.4%</b>	<b>57.9%</b>

## ANTANDER BANK POLSKA S.A. LOANS AND ADVANCES BY STAGES

Loans and advances to customers measured at amortised costs	31.12.2021	31.12.2020
<b>Stage 1</b>		
Gross receivables	116 035.9	108 756.7
Impairment allowance for expected credit losses	(359.0)	(359.5)
<b>Stage 2</b>		
Gross receivables	5 557.4	5 847.3
Impairment allowance for expected credit losses	(401.7)	(506.1)
<b>Stage 3</b>		
Gross receivables	4 882.9	5 720.8
Impairment allowance for expected credit losses	(2 859.6)	(3 131.5)
<b>POCI</b>		
Gross receivables	532.7	568.0
Impairment allowance for expected credit losses	(119.9)	(109.6)
<b>Total gross receivables</b>	<b>127 008.9</b>	<b>120 892.8</b>
<b>Total impairment allowance for expected credit losses</b>	<b>(3 740.2)</b>	<b>(4 106.7)</b>
<b>Net loans and advances to customers measured at amortised costs</b>	<b>123 268.7</b>	<b>116 786.1</b>
<b>Non-performing (credit-impaired) loan ratio</b>	<b>4.3%</b>	<b>5.2%</b>
<b>Non-performing loan coverage ratio</b>	<b>55.0%</b>	<b>51.5%</b>

## 5. Market Risk and Liquidity Risk Management

### Market risk

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, index-linked products).

Market risk within the bank's and the Group's operations is associated mainly with customer service operations, transactions effected to maintain liquidity on the money market and the capital market as well as proprietary trading in debt, FX and equity instruments.

The key objective of the market risk policy adopted by the bank and Santander Bank Polska Group is to reduce the impact of interest and FX rates movements on the Group's profitability and market value as well as to increase income within strictly defined risk limits and to ensure the Group's liquidity.

### Market risk management

The Market and Investment Risk Committee approves market risk management strategies and policies as well as limits that define the maximum acceptable exposure to individual risk types, in accordance with the Risk Appetite Statement.

The Management Board takes its strategic decisions on the basis of recommendations from the Market and Investment Risk Committee, to which direct supervision of market risk management has been delegated.

ALCO – supported by the Financial Management Division – is responsible for managing market risk in the banking book is managed by the Corporate and Investment Banking Division, while the Brokerage Bureau of the Retail Banking Division is responsible for managing risk attached to equity instruments.

### Identification and assessment of market risk

Interest rate and FX risks associated with the banking book are managed by the Financial Management Division, which is also responsible for managing open positions in interest rate and FX risks of companies from Santander Bank Polska Group.

The responsibility for measurement, monitoring and reporting of market risk and compliance with risk limits is vested in the Risk Management Division, which is responsible for regular reviews of market risk exposure and reporting results to the Market and Investment Risk Committee. This role is performed by the Financial Risk Department in the Risk Management Division, which is responsible for ongoing risk measurement, implementation of control procedures and risk monitoring and reporting. The Department is also responsible for formulating the market risk policy, proposing risk measurement methodologies and ensuring consistency of the risk management process across the Group.

With the division of roles, management of risk in the banking book is fully separate from the management of risk in the trading book, and the risk measurement and reporting functions are separate from the risk managing and taking units.

The market risk management policies adopted by the bank and the Group set out a number of measures in the form of obligatory and watch limits and ratios. The limits are reviewed and the market risk appetite is updated on an annual basis. The process is coordinated by the Financial Risk Department in the Risk Management Division.

To control the banking book risk, the following maximum sensitivity limits have been set for the risk of interest rate changes:

- NII sensitivity limit (i.e. 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).

## SENSITIVITY OF THE BANKING BOOK TO INTEREST RATE MOVEMENTS AS AT 31 DECEMBER 2021 AND 31 DECEMBER 2020

1 day holding period (PLN k)	NII Sensitivity		MVE Sensitivity	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Maximum	552	410	832	613
Average	440	334	480	339
As at the end of period	291	396	356	135
<b>Limit</b>	<b>700</b>	<b>505</b>	<b>875</b>	<b>540</b>

In 2021, the interest rate risk limits, notably the MVE sensitivity limit, were utilised to a larger extent due to dynamic growth in the balance and stable part of the non-interest bearing and non-maturity deposit portfolio resulting from interest rate cuts in 2020 and inflow of funds as part of state aid schemes connected with the Covid-19 pandemic. The above factors led to the decision to increase the sensitivity limits in July 2021. Since October, the levels of limit utilization have decreased significantly, mainly due to a series of interest rate increases by the Monetary Policy Council and a more realistic modeling of deposits without a maturity date, taking into account the latest history of the massive inflow of funds during the COVID-19 pandemic in the models.

The bank and Santander Bank Polska Group use the following measures and limits to mitigate and control exposure to market risk in the trading book:

- daily VaR limit and Stressed VaR limit for interest rate risk, FX risk and the repricing risk of equity instruments held by Santander Brokerage Poland;
- PV01 limit set for individual currencies and transaction repricing dates;
- stop-loss mechanism used to manage the risk of loss on trading positions subject to fair value measurement through profit or loss;
- maximum limit of the total FX position and an open position for individual currencies.

As these measures relate to the calculation of a potential loss under normal market conditions, the bank and Santander Bank Polska Group also use stress tests which show the estimated potential losses in the event of the materialisation of adverse market conditions.

## VAR AS AT 31 DECEMBER 2021 AND 31 DECEMBER 2020 FOR INTEREST RATE, CURRENCY AND EQUITY RISK IN THE TRADING BOOK OF SANTANDER BANK POLSKA GROUP

1 day holding period (PLN k)	Interest Rate Risk VAR		FX Risk VAR V		Equity Securities Risk VAR	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Maximum	4 395	3 308	614	552	316	275
Minimum	19 540	25 900	2 447	1 935	595	729
as at the end of the period	657	658	62	80	113	77
Limit	2 703	684	538	294	364	240
<b>1 day holding period (PLN k)</b>	<b>9 744</b>	<b>6 645</b>	<b>3 045</b>	<b>2 769</b>	<b>1 969</b>	<b>1 846</b>

In 2021, the VaR limit for interest rate risk was exceeded in October and November. The excesses resulted from the elevated fluctuations in the interest rate market due to several decisions taken by the Monetary Policy Council to increase the reference rate. When the excesses occurred, the bank limited its open interest rate position, which was directly reflected in the low utilisation of BPV limits. In the first half of the year, the Bank continued handling the pandemic relief programmes of the state development bank BGK and the Polish Development Fund. As a result, in its trading book the bank had to maintain temporary positions in bonds issued by the above entities. In those periods, the maximum observed VaR levels above the limit were approved by the Supervisory Board.

In 2021, neither VAR limit for FX risk nor for equity risk was exceeded.

### Financial instruments used for management of market and other risks

The bank and the Group use the following financial instruments in relation to repricing risk, credit risk, cash flow risk and liquidity risk:

- derivative instruments held for trading – proprietary transactions in connection with treasury services rendered to bank customers in order to mitigate market risk, maintain liquidity or as part of underwriting services;
- other financial instruments, including investment securities held for sale, hedging derivatives and equity instruments.

Market risk associated with open positions in financial instruments is mitigated through a set of limits (defined separately for the trading book and the banking book). The credit risk of such positions is reduced using concentration limits in respect of individual counterparties. In order to mitigate liquidity risk, the bank and the Group keep an adequate level of liquid financial assets bearing low credit risk (in particular government bonds and NBP bills) in line with the liquidity risk appetite defined by the bank and the Group.

No derivative instruments were used by the bank or the Group to hedge credit risk, while FX options and interest rate options were executed on a back-to-back basis and therefore did not expose the bank or the Group to market risk.

The market risk of the balance sheet is managed by the bank and the Group using, inter alia, derivative instruments and hedge accounting with respect to:

- mortgage loans bearing WIBOR rate – interest rate swaps are used to receive fixed interest and pay floating interest thus hedging the risk of movements in cash flows related to floating interest loans;
- mortgage loans in CHF and EUR – basis swaps are used to hedge the risk of movements in interest rates (CHF LIBOR, EURIBOR) and exchange rates (CHF/PLN and EUR/PLN);
- fixed interest cash loans – interest rate swaps are used to receive floating interest and pay fixed interest thus hedging the fair value of positions;
- selected fixed coupon bonds – interest rate swaps are used to hedge the fair value of bonds whereby the bank and the Group receive floating interest and pay fixed interest.

## Liquidity risk

Liquidity risk is the risk of failure to meet contingent and non-contingent obligations made to customers and counterparties.

The liquidity risk policy adopted by the bank and the Group is to ensure that all outflows expected in the short term are fully covered by anticipated inflows or liquid assets. In addition, the aim of the policy is to ensure an appropriate structure of funding for the bank's and the Group's operations by maintaining medium- and long-term liquidity ratios at a pre-defined level and monitoring stress testing results. This policy covers all assets and liabilities as well as off-balance sheet items impacting the liquidity level.

## Liquidity risk management

ALCO and the Market and Investment Risk Committee have overall responsibility for the supervision of liquidity risk on behalf of the Management Board. As part of their roles, they make recommendations to the Management Board on appropriate strategies and policies for strategic liquidity management. Liquidity risk reports and stress test results are regularly reviewed by senior management.

ALCO also supervises the liquidity management process in subsidiaries.

Liquidity management is the responsibility of the Financial Management Division, which develops and updates relevant strategies and reviews the Contingency Liquidity Plan (approved by the Management Board and the Supervisory Board). The Risk Management Division is responsible for the independent measurement and reporting of liquidity risk and for defining liquidity risk management policies. The Financial Risk Department in the Risk Management Division is also tasked with regular performance of stress tests with respect to liquidity.

## Identification and assessment of liquidity risk

Liquidity risk is identified and measured daily, mainly using modified liquidity gap reports, intraday liquidity reports and regulatory reports. These reports cover a number of internal and regulatory limits. Periodical liquidity measurement reports are supported by stress test results. The bank regularly calculates the measures laid down in CRD IV/CRR (LCR and NSFR) and in KNF Resolution no. 386/2008.

### CUMULATIVE LIQUIDITY GAP FOR SANTANDER BANK POLSKA S.A. AS AT 31 DECEMBER 2021 AND IN THE COMPARATIVE PERIOD (BY NOMINAL VALUE)

31.12.2021 PLN m	On demand	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years
Contractual liquidity mismatch/gap	(139 571.5)	963.9	865.5	5 912.4	17 563.3	21 255.7	62 429.0	58 972.2
Cumulative liquidity gap	(139 571.5)	(138 607.6)	(137 742.1)	(131 829.7)	(114 266.4)	(93 010.7)	(30 581.7)	28 390.5
Net derivatives	-	-	-	-	-	-	-	-

31.12.2020 PLN m	On demand	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years
Contractual liquidity mismatch/gap	(124 780.7)	1 194.8	676.3	2 921.6	5 979.0	25 221.6	56 508.5	58 264.5
Cumulative liquidity gap	(124 780.7)	(123 585.9)	(122 909.6)	(119 988.0)	(114 009.0)	(88 787.4)	(32 278.9)	25 985.6
Net derivatives	-	-	-	-	-	-	-	-

According to the Group's policy, the bank should have sufficient funds to cover in full outflows expected over a one-month horizon, including under the selected stress test scenarios. The liquidity position over a longer time horizon and the level of liquid assets are also monitored.

In 2021, the bank's funds significantly exceeded the level required to cover the expected outflows. It also met the regulatory quantitative requirements for liquidity. The key regulatory indicators (i.e. LCR, the ratios of coverage of non-liquid assets and assets of limited liquidity with own funds and core external funds applicable until June 2021 and NSFR rep since June 2021 in accordance with CRR 2) exceeded the required levels.

## 6. Operational Risk Management

Santander Bank Polska S.A. adopted the definition of operational risk provided by the Basel Committee on Banking Supervision, according to which operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems

or from external events.

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

Santander Bank Polska Group has an integrated risk management framework ensuring that all risks having material impact on its operations are identified, measured, monitored and controlled. Employees across the bank and Santander Bank Polska Group are involved in operational risk management – this process covers a number of interrelated concepts. Operational risk is inherent in all bank's and Group's business processes, including outsourced functions or services delivered jointly with third parties.

The bank and other Group members have developed and apply the Operational Risk Management Strategy.

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 the strategic direction for operational risk management, determines and monitors objectives for managing operational risk, including business continuity, information security, outsourcing/ insourcing and fraud prevention. The results of ORMCO's work are reported to the Risk Control Committee.

In view of the growing global cyber threat, the bank has established the CyberTechRisk Forum, which is responsible for analysing, monitoring and – in some cases – approving key issues related to IT, cybersecurity and operations. The main role of the Forum is to review the strategy and development directions of IT and cybersecurity as well as to monitor technological and operational risks, including cyber risk.

## Operational risk management tools

### Tools used by the bank and the Group to manage operational risk

<b>Identification and assessment of operational risk</b>	<ul style="list-style-type: none"> <li>▶ In the self-assessment process, the bank and Santander Bank Polska Group identify the risks they may be exposed to when delivering their functions, assess inherent and residual risks in terms of their likelihood and impact, and evaluate the design and effectiveness of existing controls.</li> <li>▶ The process of identification and assessment of operational risk is additionally supported by such tools as: scenario analysis, business impact analysis and an analysis of risk in new initiatives.</li> </ul>
<b>Reporting</b>	<ul style="list-style-type: none"> <li>▶ Each organisational unit is required to report operational risk events identified in its area of responsibility. Relevant operational risk events are escalated to senior management using a fast-track procedure. The Group runs a database of operational risk events identified across the organisation. The data are used to analyse the causes and consequences of operational risk events, facilitate the lessons learned process and implement remedial and preventive actions.</li> <li>▶ The Group also makes inputs to the external database of operational risk events run by the Polish Bank Association (ZBP) and uses information about external events from a number of sources. The analysis of external events enables benchmarking and lesson learning from events identified outside the Group.</li> </ul>
<b>Analysis of risk indicators</b>	<ul style="list-style-type: none"> <li>▶ Santander Bank Polska Group monitors financial, operational and technological risk indicators. They provide an early warning of emerging threats and support monitoring of risk in the bank's and Group's operations.</li> </ul>
<b>Defining risk mitigants</b>	<ul style="list-style-type: none"> <li>▶ The process of managing operational risk mitigants is designed to eliminate or reduce operational risk. Risk mitigation measures are determined based on the results of analyses carried out using various operational risk tools (including operational risk events database, risk indicators, and risk self-assessment).</li> </ul>
<b>Business continuity management (BCM) plans</b>	<ul style="list-style-type: none"> <li>▶ Each organisational unit is required to develop and update its business continuity management plan to ensure that critical business processes remain uninterrupted following an unplanned disruption. BCM plans are tested on a regular basis to provide assurance to Santander Bank Polska Group that critical business processes may be restored at the required service level and within the agreed time frame. The bank and the Group have backup locations in place where critical processes can be restored and continued if an incident occurs.</li> </ul>
<b>Information security</b>	<ul style="list-style-type: none"> <li>▶ Santander Bank Polska S.A. has the Information Security Management System in place, which is certified for compliance with the ISO/IEC 27001:2013 standard. The purpose of this system is to supervise information security in Santander Bank Polska Group's business environment, and assess specific information and system security requirements.</li> </ul>
<b>Insurance</b>	<ul style="list-style-type: none"> <li>▶ Santander Bank Polska Group has financial risks, motor, property and professional indemnity insurance policies in place to mitigate operational risk.</li> </ul>
<b>Reporting to the Risk Control Committee and the Supervisory Board</b>	<ul style="list-style-type: none"> <li>▶ The aim of operational risk reporting is to provide up-to-date and appropriate information to the management team. Operational risk reports include details on operational risk events and losses, information security incidents, risk indicators and defined mitigants.</li> </ul>

## 7. Legal and Regulatory (Compliance) Risk Management

Operating in the complex legal and regulatory environment, the bank and Santander Bank Polska Group are exposed to the risk of misapplication or misinterpretation of legal provisions, regulatory requirements, industry codes and ethical codes adopted by the bank, as well as internal policies and procedures (including codes of best practice). Non-compliance might expose the bank to loss of reputation or to administrative or criminal sanctions.

The management and control of compliance risk includes application of controls, independent monitoring of their execution and reporting. The control function is performed under three lines of defence:

- the first line of defence: management of operational risk arising from the bank's operations;
- the second line of defence: on-going vertical verification and vertical testing;
- the third line of defence: the internal audit function.

Pursuant to the Compliance Policy, the Legal and Compliance Division of Santander Bank Polska S.A. includes a compliance function which is independent of business units. This function acts as the second line of defence by setting and enforcing standards, providing advice and reporting in the interest of employees, customers, shareholders and the public.



The compliance function supports the bank's strategy with respect to managing regulatory risk, conduct risk and reputational risk. Its activity is also determined by the bank's business profile: it carries out tasks related to the protection of consumer rights and to ongoing digitalisation and standardisation of financial services.

In particular, the compliance function is responsible for:

- independent identification, monitoring and assessment of compliance risk that the Group is exposed to (with particular focus on new products and services, prevention of using the financial system for the purpose of money laundering and terrorist financing, protection of confidential information, management of conflicts of interest and private account share dealing by employees);
- providing advice and reporting to the Risk Management Committee, the bank's Management Board and the Audit and Compliance Committee on the effectiveness of processes established to ensure compliance with legal and regulatory requirements;
- communication of policies and procedures, providing the management and staff with guidance on compliance risk management;
- coordination of contacts with market regulators (KNF, UOKiK, GIIF, UODO);
- coordination of the approval of new products;
- strengthening the principles of ethical business conduct;
- cooperation with the Corporate Communication and Marketing Area and the Risk Management Division in the area of reputational risk management.

The compliance function also coordinates the activities of committees supporting compliance risk management processes in respective areas of the Group:

- General Compliance Committee
- Regulatory and Reputational Risk Committee
- Local Marketing and Monitoring Committee
- Anti-Money Laundering and Counter-Terrorism Financing Committee.

These committees are composed of representatives of key organisational units that have the necessary expertise and authority to ensure that relevant decisions are taken and high quality advice is provided in the course of the proceedings.

Employees of the compliance function support the senior management of the bank in effective compliance risk management and report on key compliance issues to the bank's Management Board, the Risk Management Committee and the Audit and Compliance Committee of the Supervisory Board.

The Management Board and the Supervisory Board (through the Audit and Compliance Committee) regularly review key compliance issues identified by the compliance function. The review covers in particular:

- product monitoring
- test compliance monitoring
- monitoring of employees' own trades
- information on the activity of market regulators
- review of upcoming legislative initiatives
- review of anti-money laundering issues
- review of ethical issues
- review of customer complaints.

In February 2021, the bank's Supervisory Board positively assessed the effectiveness of compliance risk management at Santander Bank Polska S.A., based on a positive recommendation of the Audit and Compliance Committee.

In addition to the compliance function, the second line of defence also includes other organisational units operating under internal regulations, in particular:

- for labour law responsibilities – personnel unit
- for companies and partnerships law responsibilities – corporate governance unit
- for occupational health and safety responsibilities – health and safety unit
- for accounting, reporting and tax responsibilities – financial, accounting and tax units
- for prudential requirements – risk units.

## 8. Reputational Risk Management

Reputational risk is defined as the risk of actual or potential adverse impact on Santander Bank Polska Group resulting in deterioration of perception of the bank and other members of the Group by customers, employees, shareholders/ investors and communities.

Potential sources of this risk are internal operational incidents and external events, such as adverse publicity, dissemination of negative feedback by customers, e.g. via the Internet, in social media and other mass media. They may refer directly to Santander Bank Polska Group and its products and services, as well as the bank's shareholders and the entire banking or financial sector (both domestic and international).

The elements of reputational risk also include customer complaints and claims related to the process of offering banking products and services (both directly and through third parties/

suppliers/ intermediaries), including complaints about the lack of sufficient (i.e. complete, true, reliable and non-misleading) information about products/ services and related risks, the complexity of products, failures of systems and applications, misselling, capital loss, as well as establishment of relationships with entities considered to be sensitive due to the type and profile of their business (high risk sectors).

The management of reputational risk is the responsibility of the Corporate Communication and Marketing Area and the Compliance Area.

The objective of the reputational risk management process is to protect the image of Santander Bank Polska Group and to limit and eliminate negative events which affect the image and financial results of the Group.

The key risk mitigation measures include:

- Disclosure Policy of Santander Bank Polska S.A.
- Reputational risk management model consisting of the Reputational Risk Management Policy, the Reputational Risk Management Procedure and the Methodology for Reputational Risk Management at Santander Bank Polska S.A.
- Reputational risk analysis procedure
- Guidelines on cooperation with partners and sensitive sectors financing policy
- Donation Policy of Santander Bank Polska Foundation
- Daily monitoring of local, nationwide and certain international mass media sources (Corporate Communication and Marketing Area)
- Policy on the use of social networks (Corporate Communication and Marketing Area)
- Daily monitoring of social media sources (in particular: Facebook, Twitter) in the context of references to the bank (Corporate Communication and Marketing Area)
- Analysis of image-sensitive information by the Press Office (Corporate Communication and Marketing Area)
- Response to information which poses a threat to public perception of the bank (Corporate Communication and Marketing Area)
- Keeping the representatives of national and local media up to date about new products and changes to regulations regarding existing products
- Regular monitoring of reputational risk events and reputational risk profile (Compliance Area)
- Monitoring of changes in laws, internal regulations and market standards as well as abusive clauses in contracts (Compliance Area)
- Customer satisfaction survey (Chief Customer Officer)
- Recommendations and preventive actions arising from the analysis of complaints (Chief Customer Officer)
- Preparation and control by relevant units of Santander Bank Polska S.A. of all important communications and reports for shareholders, the Polish Financial Supervision Authority (KNF) and the Warsaw Stock Exchange, and timely publication of such communications and reports
- Evaluation of new products/ services or their modifications, and the related procedures, communications, commercial materials, initiatives addressed to customers (promotions, contests) and training materials for sales staff in terms of their compliance with laws and regulatory guidelines, ethical business conduct and reputational risk (Compliance Area)
- Participation in the management of customer complaints, especially those filed with regulators (Compliance Area)
- Supervision of after-sales control of investment products (Compliance Area)
- Mystery shopping
- Regular monitoring of reputational risk associated with products/ services offered by Santander Bank Polska Group through the analysis of customer complaints, sales volumes, number of customers and rate of return, if applicable (Compliance Area)
- Reviewing agreements with external suppliers and third parties (in particular the ones regarding outsourcing, critical services and high-risk services)
- Participation in the analysis of customers and transactions from sensitive sectors (including arms, gambling, tobacco, media and cannabis industries) (Compliance Area).

## 9. Capital Management

### Introduction

It is the policy of Santander Bank Polska Group to maintain a 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 the bank and Santander Bank Polska Group and capital requirements estimated for unexpected losses is determined in accordance with: the provisions of the CRD IV/CRR package, relevant regulations of the European Parliament and of the Council (2019/876 of 20 May 2019, 2019/630 of 17 April 2019 and 2020/873 of 24 June 2020), the Macroprudential Supervision Act of 5 August 2015, and KNF's guidelines and recommendations regarding, among other things, the use of national options and higher risk weight for exposures secured by real estate mortgages as well as an additional capital requirement relating to the portfolio of foreign currency mortgage loans for households.

The Management Board is accountable for capital management, calculation and maintenance processes, including the assessment of capital adequacy in different economic conditions and the evaluation of stress test results and their impact on internal and regulatory capital and capital ratios. Responsibility for the general

oversight of internal capital estimation rests with the Supervisory Board.

The Management Board has delegated ongoing capital management to the Capital Committee which conducts a regular assessment of the capital adequacy of the bank and Santander Bank Polska Group, including in extreme conditions, the monitoring of the actual and required capital levels and the initiation of transactions affecting these levels (e.g. by recommending the value of dividends to be paid). The Capital Committee is the first body that defines the capital policy, principles of capital management and principles of capital adequacy assessment. However, ultimate decisions regarding any increase or decrease in capital are taken by relevant authorities within the bank in accordance with the applicable law and the bank's Statutes.

**In 2021, the bank and Santander Bank Polska Group met all regulatory requirements regarding capital management.**

Santander Bank Polska Group does not consider the full impact of introduction of IFRS 9 for the purpose of capital adequacy assessment and applies transitional arrangements provided for in Regulation (EU) 2017/2395 amending Regulation (EU) No 575/2013, updated in accordance with Regulation (EU) 2020/873

of the European Parliament and of the Council of 24 June 2020. Based on the above-mentioned changes, the Group uses derogation in the form of assigning a risk weight of 100% to the value of the adjustment included in own funds.

**Category measuring capital adequacy of Santander Bank Polska Group as at 31 December 2021**

**Impact of transitional arrangements related to IFRS 9**

Total own funds	+PLN 357 224 k
Total capital ratio	+22 bps
Tier 1 capital ratio	+23 bps

Pursuant to the bank's information strategy, details about the level of own funds and capital requirements are presented in the separate report entitled "Information on capital adequacy of Santander Bank Polska Group as at 31 December 2021".

### Capital policy

As at 31 December 2021, the minimum capital ratios satisfying the provisions of the CRR and the Macroprudential Supervision Act as well as regulatory recommendations regarding additional own funds requirements under Pillar 2 were as follows:

at the level of Santander Bank Polska S.A.:

- ▶ 9.25% for Tier 1 capital ratio
- ▶ 11.25% for total capital ratio

at the level of Santander Bank Polska Group:

- ▶ 9.272% for Tier 1 capital ratio
- ▶ 11.279% for total capital ratio

The aforementioned capital ratios at the Group level take into account:

Components of the minimum capital requirement	Capital adequacy measure	31.12.2021	31.12.2020
<b>Minimum capital ratios</b>	Common Equity Tier 1 capital ratio:	✓ 4.5%	✓ 4.5%
	Tier 1 capital ratio:	✓ 6.0%	✓ 6.0%
	Total capital ratio:	✓ 8.0%	✓ 8.0%
<b>Additional capital requirement for risk related to foreign currency mortgage loans for households</b>	for the total capital ratio:	✓ 0.029 p.p.	✓ 0.034 p.p.
	for Tier 1 capital ratio:	✓ 0.022 p.p.	✓ 0.026 p.p.
	for Common Equity Tier 1 capital ratio:	✓ 0.016 p.p.	✓ 0.019 p.p.
<b>Capital buffer for Santander Bank Polska S.A. as other systemically important institution</b>		✓ 0.75 p.p.	✓ 0.75 p.p.
<b>Capital conservation buffer maintained in accordance with the Macroprudential Supervision Act</b>		✓ 2.5 p.p.	✓ 2.5 p.p.
<b>Systemic risk buffer</b>		✓ 0 p.p.	✓ 0 p.p.

The same requirements apply to the bank, except for an additional capital requirement related to the portfolio of foreign currency mortgage loans for households. The KNF did not impose this buffer on the bank as it had not reached the materiality threshold in relation to such loans.

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%.

### Regulatory capital

The capital requirement for Santander Bank Polska Group is determined in accordance with Part 3 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR), as amended by e.g. Regulation (EU) 2020/873 of 24 June 2020 amending Regulation (EU) No 575/2013 and Regulation

(EU) 2019/876 as regards certain adjustments in response to the Covid-19 pandemic.

Santander Bank Polska Group uses the standardised approach to calculate the capital requirement for credit risk, market risk and operational risk. According to this approach, the total capital requirement for credit risk is calculated as the sum of risk-weighted exposures multiplied by 8%. The exposure value for these assets is equal to the balance sheet total, while the value of off-balance sheet liabilities corresponds to their balance sheet equivalent. Risk-weighted exposures are calculated by applying risk weights to all exposures in accordance with the CRR.

On 20 July 2021, the bank received an individual recommendation from the KNF with regard to the bank's dividend policy in H2 2021. As at 31 March 2021 (the bank's quarterly data on own funds) and 31 May 2021 (monthly data on the receivables portfolio), the bank met all the key dividend policy criteria to be able to pay dividends up to 100% of its net profit earned in the period from 1 January 2020 to 31 December 2020. When applying the additional KNF criteria relating to the bank's portfolio of foreign currency

mortgage loans for households, the dividend yield at standalone and consolidated level was adjusted by a total of 70 p.p. As a consequence, after application of the additional criteria, the maximum dividend yield could be up to 30% of the profit earned in 2020. In view of the above KNF recommendations, pursuant to Article 349 of the Commercial Companies Code and § 50(4) of the bank's Statutes in relation to Resolution no. 6 of the bank's Annual

General Meeting of 22 March 2021, the bank's Management Board adopted a resolution to pay an interim dividend of PLN 220,728,918.24. The dividend was PLN 2.16 per share.

The table below presents the calculation of the capital ratio for Santander Bank Polska Group as at 31 December 2021 and in the comparative period.

#### CALCULATION OF THE CAPITAL ADEQUACY RATIO FOR SANTANDER BANK POLSKA GROUP AS AT 31 DECEMBER 2021 AND 31 DECEMBER 2020

Santander Bank Polska Group (PLN m)		31.12.2021	31.12.2020 <sup>1)</sup>
<b>I</b>	<b>Total capital requirement (Ia+Ib+Ic+Id+Ie), including:</b>	<b>10 817.5</b>	<b>10 819.4</b>
Ia	– for credit risk and counterparty credit risk	9 319.0	9 384.0
Ib	– for market risk	190.7	141.9
Ic	– for credit valuation adjustment risk	29.9	33.0
Id	– for operational risk	1 250.2	1 260.5
Ie	– for securitisation	27.7	–
II	Total capital and funds <sup>2)</sup>	27 274.0	29 570.6
III	Deductions	2 156.9	1 960.2
<b>IV</b>	<b>Capital and funds after deductions (II–III)</b>	<b>25 117.1</b>	<b>27 610.4</b>
<b>V</b>	<b>Capital ratio [IV/(I*12.5)]</b>	<b>18.58%</b>	<b>20.42%</b>
<b>VI</b>	<b>Tier 1 capital ratio</b>	<b>16.63%</b>	<b>18.38%</b>

1) Including profits allocated to own funds pursuant to the KNF's decision and the EBA's applicable guidelines.

2) Pursuant to the KNF's decision of 30 December 2020, the bank received consent to allocate a part of the net profit of Santander Bank Polska Group for H1 2020 in the amount of PLN 192,430,453 to the consolidated Common Equity Tier 1 capital.

#### CALCULATION OF THE CAPITAL ADEQUACY RATIO FOR SANTANDER BANK POLSKA S.A. AS AT 31 DECEMBER 2021 AND 31 DECEMBER 2020

Santander Bank Polska S.A. (PLN m)		31.12.2021	31.12.2020 <sup>1)</sup>
<b>I</b>	<b>Total capital requirement (Ia+Ib+Ic+Id), including:</b>	<b>8 583.8</b>	<b>8 707.6</b>
Ia	– for credit risk and counterparty credit risk	7 407.2	7 571.9
Ib	– for market risk	188.5	138.2
Ic	– for credit valuation adjustment risk	29.6	32.1
Id	– for operational risk	958.5	965.4
II	Total capital and funds <sup>2)</sup>	25 416.2	28 032.4
III	Deductions	2 895.5	2 019.6
<b>IV</b>	<b>Capital and funds after deductions (II–III)</b>	<b>22 520.7</b>	<b>26 012.7</b>
<b>V</b>	<b>Capital ratio [IV/(I*12.5)]</b>	<b>20.99%</b>	<b>23.90%</b>
<b>VI</b>	<b>Tier 1 capital ratio</b>	<b>18.65%</b>	<b>21.50%</b>

1) Including profits allocated to own funds pursuant to the KNF's decision and the EBA's applicable guidelines.

2) Pursuant to the KNF's decision of 30 December 2020, the bank received consent to allocate a part of the net profit of Santander Bank Polska S.A. for H1 2020 in the amount of PLN 192,430,453 to the Common Equity Tier 1 capital.

## Internal capital

Notwithstanding the regulatory methods for measuring capital requirements, Santander Bank Polska S.A. carries out an independent assessment of current and future capital adequacy as part of the internal capital adequacy assessment 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 bank's strategy, the process of defining risk appetite and the process of planning.

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

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

The Group performs an internal assessment of capital requirements, also 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 business of Santander Bank Polska S.A. and to take account of any new risks and the management's judgement.

The review and assessment is the responsibility of the bank's risk management committees, including: the Capital Committee and the Model Risk Management Committee.

## Subordinated liabilities

Information on bond issue	Date of KNF consent to allocate the bonds to the Tier 2 capital	Nominal value of the issue allocated to subordinated liabilities
Amendments (made in 2016) to the agreement under which subordinated bonds were issued on 5 August 2010 and taken up by the European Bank for Reconstruction and Development (including extension of the maturity date to 5 August 2025)	18 May 2017	EUR100 m
Issue of bonds of Santander Bank Polska S.A. on 2 December 2016	24 February 2017	EUR 120 m
Issue of subordinated bonds of Santander Bank Polska S.A. on 22 May 2017	19 October 2017	EUR 137.1 m
Issue of series F subordinated bonds of Santander Bank Polska S.A. on 5 April 2018	12 June 2018	PLN 1 bn

For more information on subordinated liabilities, please see Note 35 to the Consolidated Financial Statements of Santander Bank Polska Group for 2021

## XIII. Statement on Corporate Governance in 2021

### 1. Corporate Governance at Santander Bank Polska S.A.

Corporate governance sets out the rules for operation of the governing bodies, systems and processes at Santander Bank Polska S.A. Its objective is to build good relationships with shareholders, customers and other stakeholders, and to increase effectiveness of internal oversight, key internal systems and functions as well as statutory bodies. The corporate governance principles adopted by the bank focus on professionalism and integrity of members of the management and supervisory bodies, transparency and due care, which helps build trust in Santander

Bank Polska Group, supports sustainable development and increases credibility of the capital market in Poland.

The bank's corporate governance framework is based on applicable laws (in particular the Commercial Companies Code, the Banking Law and capital market regulations) as well as the rules set out in Best Practice for GPW Listed Companies, Principles of Corporate Governance for Supervised Institutions issued by the Polish Financial Supervision Authority (KNF) and the Code of Banking Ethics.

- ▶ **In 2021, Santander Bank Polska S.A. complied with all the rules established in Best Practice for GPW Listed Companies 2016 adopted by virtue of Resolution no. 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange dated 13 October 2015 and applicable until the end of June 2021.**
- ▶ **It also adhered to all the rules set out in the amended Best Practice for GPW Listed Companies 2021 adopted by virtue of Resolution no. 13/1834/2021 of the Supervisory Board of the Warsaw Stock Exchange dated 29 March 2021 and effective as of 1 July 2021.**
- ▶ **Furthermore, the bank applied all Principles of Corporate Governance for Supervised Institutions issued by the KNF on 22 July 2014.**
- ▶ **In the reporting period, no departures from the above-mentioned regulations were reported.**

The bank has complied with the official corporate governance principles since 2002 when the first issue of best practice was published by the Warsaw Stock Exchange (Best Practice for Public Companies 2002). It also follows best sector practice contained in the Banking Ethics Code developed by the Polish Bank Association (ZBP).

The bank has adopted the following internal regulations which specify corporate governance rules in more detail: the Group-Subsidiary Governance Model, the General Code of Conduct, Guidelines for Subsidiaries, Specific Corporate Frameworks, the General Code of Conduct and specific bylaws and policies e.g. the Information Policy, the Conflict of Interest Prevention Policy, the Code of Conduct in the Securities Markets, the Anti-Money Laundering Policy, the Anti-Corruption Programme and the Sustainability Policy.

In 2021, the bank implemented KNF Recommendation Z on corporate governance at banks, effective as of 1 January 2022. To ensure full compliance with the recommendation, the processes and corporate governance rules were reviewed and supplemented both at the bank and the Group level. Recommendation Z is available on the KNF's website at: [https://www.knf.gov.pl/knf/pl/komponenty/img/Rekomendacja\\_Z\\_70998.pdf](https://www.knf.gov.pl/knf/pl/komponenty/img/Rekomendacja_Z_70998.pdf).

This Statement on Corporate Governance in 2021 has been prepared in accordance with § 70(6)(5) of the Finance Minister's Regulation of 29 March 2018 on current and financial reports published by the issuers of securities and the rules of equal treatment of the information required by the laws of a non-member state.

In accordance with Commission Recommendation of 9 April 2014 on the quality of corporate governance reporting (2014/208/EU), the section below presents details on application of corporate governance rules regarding the topics of most importance for shareholders. It refers both to the previous version of best practice (Best Practice for GPW Listed Companies 2016) and to the current version effective as of 1 July 2021 (Best Practice for GPW Listed Companies 2021).

#### Best Practice for GPW Listed Companies 2016

This version of best practice, effective as of 1 January 2016, was adopted for use by the bank pursuant to Management Board Resolution no. 160/2015 of 2 December 2015 and Supervisory Board Resolution no. 61/2015 of 16 December 2015. It was approved by the General Meeting of Santander Bank Polska S.A. on 20 April 2016.

The full text is available on the website of the Warsaw Stock Exchange at: [https://www.gpw.pl/pub/GPW/files/PDF/GPW\\_1015\\_17\\_DOBRE\\_PRAKTYKI\\_v2.pdf](https://www.gpw.pl/pub/GPW/files/PDF/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf) and on the bank's website at: [https://static3.santander.pl/asset/w/y/n/wyniki-glosowan\\_pl\\_61605.pdf](https://static3.santander.pl/asset/w/y/n/wyniki-glosowan_pl_61605.pdf).



**Important aspects of application of Best Practice for GPW Listed Companies 2016 at Santander Bank Polska S.A.**

**Chapter**

<p><b>Disclosure policy, investor communications (Chapter 1)</b></p>	<ul style="list-style-type: none"> <li>▶ The bank has an effective and transparent information policy in place in relation to shareholders, investors and analysts, which is supported by a wide range of modern communication tools. Pursuant to the Information Policy of Santander Bank Polska S.A. (available on the bank's website at: <a href="https://www.santander.pl/relacje-inwestorskie/dokumenty-korporacyjne#dokument=4">https://www.santander.pl/relacje-inwestorskie/dokumenty-korporacyjne#dokument=4</a>), the bank actively communicates with its stakeholders in order to meet their information needs, with particular activities adjusted to their profile.</li> <li>▶ The communication with capital market participants is based on the following rules:             <ul style="list-style-type: none"> <li>▶ Periodic reports (including information about the bank's sponsorship and corporate giving activities) are published at the earliest possible date following the end of the reporting period. The market is informed in advance, via current reports, about the planned dates of publishing reports.</li> <li>▶ Current reports providing information required by applicable laws are published at the dates specified therein.</li> <li>▶ Each year, the bank organises four conferences to present analysts, investors and all the interested parties with quarterly figures. They are broadcast online in both Polish and English. To the extent permitted by law, the bank answers questions asked during the conferences and sent by email to the email address of the Investor Relations Director (available on the bank's Investor Relations website).</li> <li>▶ The corporate website is available in Polish and English at: <a href="http://www.santander.pl">www.santander.pl</a> and includes the Investor Relations tab with all the information required to be published in accordance with law and Best Practice for GPW Listed Companies 2016.</li> <li>▶ The bank also has a website dedicated to general meetings, which is available at <a href="http://www.santander.pl/wza">www.santander.pl/wza</a>.</li> <li>▶ As part of open communication with the shareholders, the bank (acting through the representatives of its governing bodies) provides them with all answers and explanations, ensures the possibility to participate in the general meetings by means of electronic communication and enables media representatives to join such meetings.</li> </ul> </li> <li>▶ When offering financial products and services, the bank is focused on providing customers with accurate information and meaningful explanations. Customer complaints are handled by the Customer Care Office in accordance with clear and transparent rules.</li> <li>▶ If any false information is published in the media that might significantly affect the bank's reputation, any decisions on the response are taken in accordance with the best knowledge and law.</li> </ul>
<p><b>Management Board, Supervisory Board (Chapter 2)</b></p>	<ul style="list-style-type: none"> <li>▶ All members of the Management Board and the Supervisory Board have appropriate knowledge, experience and skills to duly perform their duties.</li> <li>▶ Detailed information about the qualifications of members of the Management Board and the Supervisory Board is presented in the later part of this statement (Part 5 "Governing Bodies", Sections: "Management Board" and "Supervisory Board")</li> <li>▶ Members of the Management Board and the Supervisory Board are appointed in accordance with the criteria which ensure that the composition of these bodies is comprehensive and diverse.</li> <li>▶ The functions performed on the bank's Management Board are the main area of the professional activity of its members, some of whom also sit on the supervisory boards of the bank's subsidiaries, which facilitates oversight and operation of the Group as a whole.</li> <li>▶ The Supervisory Board members commit sufficient time to perform their functions. Half of the members of the Supervisory Board, including all members of the Audit and Compliance Committee and its Chairman, have independent status.</li> </ul>
<p><b>Internal systems and functions (Chapter 3)</b></p>	<ul style="list-style-type: none"> <li>▶ The bank has an effective internal control, risk management and compliance system in place, as well as an effective internal audit function adequate to the size of the bank and the type and scale of its operations. Their effectiveness is monitored and assessed by the Supervisory Board in coordination with the Audit and Compliance Committee.</li> <li>▶ The Head of the Internal Audit Area and the head of the compliance function report directly to the President of the Management Board. The Risk Management Division is headed by the Vice President of the Management Board.</li> </ul>
<p><b>General Meeting, shareholder relations (Chapter 4)</b></p>	<ul style="list-style-type: none"> <li>▶ Annual General Meetings are convened as soon as possible after the publication of an annual report at the date set in keeping with the applicable legislation. In 2021, the Annual General Meeting was held within less than one month of the release of the annual report for 2020.</li> <li>▶ Since 2011, the shareholders can actively participate in General Meetings, including vote, by means of electronic communication. General Meetings are broadcast live on the bank's website. Representatives of the media can also attend General Meetings.</li> <li>▶ The bank presents the materials to be considered by the General Meeting in a manner convenient to the shareholders.</li> <li>▶ Justifications of resolutions are published on the bank's website dedicated to General Meetings on the same day as the notice of the General Meeting. In the case of resolutions requested by a shareholder to be included on the agenda, justifications are published immediately after receiving the shareholder's request (in the case of requests made in the course of the General Meeting, the justification is presented to shareholders prior to adopting a resolution). Additionally, members of the bank's governing bodies provide verbal information prior to the vote on the matter if it is required so to consider the matter properly.</li> <li>▶ The General Meeting should be attended by members of the Management Board and the Supervisory Board who will be able to give substantive answers to questions asked during the meeting.</li> <li>▶ Answers to shareholders' questions are provided in line with the applicable legislation within the set time limits.</li> </ul>
<p><b>Conflict of interest, related party transactions (Chapter 5)</b></p>	<ul style="list-style-type: none"> <li>▶ The bank has transparent procedures in place for managing conflicts of interest. They are described in the General Code of Conduct and the Conflict of Interest Prevention Policy.</li> <li>▶ As regards members of the Management Board and the Supervisory Board, the provisions regarding conflicts of interest are also included in their terms of reference. The representatives of the foregoing bodies must not participate in decision-making if they are involved in an actual or potential conflict of interest. They must also inform the bank of such situations.</li> <li>▶ Members of the Management Board and the Supervisory Board refrain from professional activities which might cause a conflict of interest.</li> <li>▶ Potential conflicts of interest involving members of the Management Board and the Supervisory Board are also considered when assessing the suitability of candidates for these bodies and as part of ongoing suitability assessments. In 2021, no such situations were identified with regard to members of the Management Board and the Supervisory Board.</li> <li>▶ Transactions with related parties are made in accordance with the bank's internal regulations and market standards. If the transaction with related parties exceeds 5% of the bank's total assets, it must be approved by the Supervisory Board.</li> </ul>

## Remuneration (Chapter 6)

- ▶ The bank's Remuneration Policy meets all the requirements prescribed by law and supports the Group's growth and security. It complies with the principles of sound and effective risk management, prudent capital management, and it is consistent with the bank's business strategy, objectives, values and long-term interests.
- ▶ The purpose of the Remuneration Policy is to support long-term sustainable growth of the Group by ensuring adequate staff remuneration for their performance and motivating them to deliver best results and to achieve the bank's strategic goals, as well as by establishing long-term relationships with the bank and promoting behaviours that discourage excessive risk-taking.
- ▶ Remuneration payable to members of the Management Board consists of a fixed component and a variable component, with the latter awarded based on assessment of their performance.
- ▶ Remuneration payable to members of the Supervisory Board is not linked to options or other derivative instruments or any other variable components or the bank's results.
- ▶ The remuneration of members of the Management Board and the Supervisory Board and key managers is sufficient to attract, retain and motivate persons with skills necessary for proper management and supervision of the bank. The remuneration structure fully reflects market practices while the remuneration levels match the ones offered in the banking sector, taking into account the size of business. Remuneration is adequate to the scope of tasks performed.
- ▶ The Supervisory Board has its Remuneration Committee composed in majority of independent members.

## Best Practice for GPW Listed Companies 2021

The amended Best Practice for GPW Listed Companies 2021 effective as of 1 July 2021 was adopted by virtue of Resolution no. 13/1834/2021 of the Supervisory Board of the Warsaw Stock Exchange dated 29 March 2021.

The full text is available on the website of the Warsaw Stock Exchange at: [https://www.gpw.pl/pub/GPW/files/PDF/dobre\\_praktyki/DPSN21\\_BROSZURA.pdf](https://www.gpw.pl/pub/GPW/files/PDF/dobre_praktyki/DPSN21_BROSZURA.pdf)

The above version of best practice was adopted by the bank by

way of Management Board Resolution no. 160/2021 of 21 July 2021 and Supervisory Board Resolution no. 108/2021 of 27 July 2021.

On 29 July 2021, the bank published a report on application of the rules set out in Best Practice for GPW Listed Companies 2021 (it is available on the bank's website at: [https://www.santander.pl/regulation\\_file\\_server/time20210729112136/download?id=163350&lang=pl\\_PL](https://www.santander.pl/regulation_file_server/time20210729112136/download?id=163350&lang=pl_PL)).

The adoption of the amended best practice will be submitted for approval to the Annual General Meeting in 2022.

### Chapter

### Application of Best Practice for GPW Listed Companies 2021

## Disclosure policy, investor communications (Chapter 1)

- ▶ In 2021, the rules for communication with investors were adjusted to the amended version of Best Practice, increasing the effectiveness and transparency of disclosures to shareholders, investors and analysts. In addition to complying with the rules specified in the previous document and the ones presented in the table below, the bank strives to:
  - ▶ reply immediately to any questions about the published information, and in the case of questions from investors concerning unpublished data, the bank takes efforts to reply as soon as possible and no later than within 14 days (in accordance with laws and market standards);
  - ▶ participates in investor conferences organised by Polish and foreign brokerage companies;
  - ▶ ensure that its financial results achieved in a given reporting period are published before the deadlines prescribed by law, being one of the leaders in this respect among the companies listed on the Warsaw Stock Exchange.
- ▶ The bank's Information Policy provides for active measures to be taken to meet information needs of the bank's stakeholders and ensure appropriate transparency of the bank, build trust, promote the bank's image in capital markets and respond to all queries of the interested parties regarding the bank's current standing. The current Information Policy of Santander Bank Polska S.A. is available on the bank's website at: <https://www.santander.pl/relacje-inwestorskie/dokumenty-korporacyjne#dokument=4>.
- ▶ The bank has a corporate website available at: [www.santander.pl](http://www.santander.pl), which includes the Investor Relations tab with all information required to be published in accordance with law and Best Practice for GPW Listed Companies 2021. The bank's Investor Relations service includes a section dedicated to Best Practice for GPW Listed Companies, which contains all the required information such as: report on application of Best Practice for GPW Listed Companies 2021, information about the Supervisory Board committees, information on changes in the share capital and transactions in shares, information on incentive programmes, dividend policy, questions asked by investors (along with answers), information about pay equality between men and women (including measures taken to eliminate any gaps), the Group's structure, schedule of corporate events, information about shareholders, the CRS/ESG Report, information about the Diversity Policy, members of the bank's governing bodies, the General Meeting, basic corporate documents, financial statements (including presentations), development strategy, recommendations and analyses of rating agencies, current reports, records of meetings with investors, channels of communication between investors and the bank, information about mergers and acquisitions.
- ▶ The matters related to environmental and climate protection as well as social and employee issues are the foundations of the Responsible Banking agenda and an integral part of the bank's business strategy, as reflected in ESG reports available on the bank's website at: [https://esg.santander.pl/2020/?\\_ga=2.130944071.994343194.1639381425-1666480052.1633513918](https://esg.santander.pl/2020/?_ga=2.130944071.994343194.1639381425-1666480052.1633513918).
- ▶ Since 2014, the bank has organised ten dialogue sessions with representatives of social and business partners in accordance with the AA1000SES standard. Their purpose is to gather feedback and expectations as to the bank's activities in the area of Responsible Banking. Suggestions made by stakeholders are analysed and taken into account in delivery of the strategy, in planning processes and in non-financial reporting. The last dialogue session was held in April 2021 and was devoted to the bank's role in green transformation. It was attended by representatives of NGOs, expert organisations and the bank's customers.
- ▶ The decision-making processes at the bank and the Group take into account matters related to climate change, including associated risks (details are presented in CSR/ESG Report for 2020).
- ▶ The list of expenses incurred by the Group to support culture, sports, charity organisations, media and civil society organisations is included in Chapter VIII, Section 4 "Communication with Stakeholders".
- ▶ The bank's information policy concerning investor relations is described in more detail in Chapter VII "Investor Relations". For more information about the arrangements facilitating communication with shareholders, see "General Meeting" below (Section 5 "Governing Bodies").

<b>Management Board, Supervisory Board (Chapter 2)</b>	<ul style="list-style-type: none"> <li>▶ Members of the Management Board and the Supervisory Board meet all the criteria and requirements defined in the updated Best Practice.</li> <li>▶ The rules of procedure of the foregoing bodies were changed, introducing the rule of open voting, except for the cases where a secret ballot is required by law.</li> <li>▶ The bank has a diversity policy in place which promotes diversity among members of the Management Board and the Supervisory Board in terms of their qualities and skills, gender, educational background, expertise, age, professional experience and geographical provenance. It also requires the Supervisory Board to ensure at least 30% representation of women in the Management Board by 2025.</li> <li>▶ When appointing the Supervisory Board members, the bank is to ensure 40%–60% representation of women by 2025 (women already account for 40% of the Supervisory Board membership).</li> </ul>
<b>Internal systems and functions (Chapter 3)</b>	<ul style="list-style-type: none"> <li>▶ The bank meets all the criteria and requirements regarding the internal control, risk management and compliance system and internal audit function set out in the amended version of Best Practice.</li> <li>▶ The bank's organisational structure includes units responsible for the tasks of individual systems and functions.</li> <li>▶ The Head of the Internal Audit Area adheres to international standards for the professional practice of internal auditing and reports directly to the President of the Management Board, with a dotted reporting line to the Chairman of the Audit and Compliance Committee.</li> <li>▶ Remuneration payable to persons responsible for risk management and compliance and the Head of the Internal Audit Area depends on the delivery of the tasks set rather than short-term results of the bank.</li> <li>▶ The head of the compliance function reports directly to the President of the Management Board. The Risk Management Division is headed by the Vice President of the Management Board.</li> <li>▶ The internal audit function meets the international standards for the professional practice of internal auditing, which is verified as part of independent third-party assessment at least once every five years. The last assessment was carried out in June 2019 by the Institute of Internal Auditors.</li> </ul>
<b>General Meeting, shareholder relations (Chapter 4)</b>	<ul style="list-style-type: none"> <li>▶ The Annual General Meeting of 22 March 2021 was already organised in accordance with the amended Best Practice.</li> <li>▶ When selecting the venue for the General Meeting, the bank enables the participation of the highest possible number of shareholders (the General Meetings of the bank are held in Warsaw, where it has had its registered office since 2018).</li> <li>▶ Since 2011, the bank's shareholders can participate in the General Meetings by means of electronic communication channels (e-meetings) and exercise their rights from anywhere in the world.</li> <li>▶ To help shareholders make informed voting decisions, the bank publishes on a dedicated website (<a href="http://www.santander.pl/wza">www.santander.pl/wza</a>) justifications of all resolutions (except for points of order and where justification follows from the materials submitted to the General Meeting) together with their drafts.</li> <li>▶ The bank takes efforts to ensure that draft resolutions are submitted no later than three days before the General Meeting. In 2021, the shareholder's requests were made within that time limit, including the nomination of a candidate for the Supervisory Board Chairman was submitted on 8 March 2021, i.e. 14 days before the General Meeting.</li> <li>▶ The bank strives to distribute profit to the shareholders in accordance with the dividend policy and the KNF recommendations.</li> <li>▶ In 2021, the Annual General Meeting did not adopt a resolution on dividend payment due to the KNF recommendation issued to banks to retain the entire profit for H1 2021. As the KNF changed its recommendation on dividend payment in H2 2021, an interim dividend was paid in accordance with the resolution of the bank's Management Board. The period between the interim dividend payment date and the record date was seven days.</li> </ul>
<b>Conflict of interest, related party transactions (Chapter 5)</b>	<ul style="list-style-type: none"> <li>▶ The bank complies with all the requirements arising from the amended Best Practice in terms of managing conflicts of interest and related party transactions.</li> <li>▶ The bank ensures equal treatment of customers and suppliers. No shareholder has preference over other shareholders in related party transactions.</li> <li>▶ The Supervisory Board may seek external expert advice when making a valuation and analysing economic effects of related party transactions. If the transaction requires the approval of the General Meeting, the Supervisory Board assesses the need for seeking such advice.</li> <li>▶ Members of the Management Board and the Supervisory Board refrain from professional activities which might cause a conflict of interest. They must not participate in decision-making if there is an actual or potential conflict of interest. They must also inform the bank of such situations. Potential conflicts of interest involving members of the Management Board and the Supervisory Board are also considered when assessing the suitability of candidates for these bodies and as part of ongoing suitability assessments.</li> </ul>
<b>Remuneration (Chapter 6)</b>	<ul style="list-style-type: none"> <li>▶ The remuneration policy applicable at the bank complies with all the requirements arising from the amended Best Practice.</li> <li>▶ The bank ensures the stability of its management team through, among other things, transparent, fair, consistent and non-discriminatory terms of remuneration.</li> <li>▶ At least 40% of each component of variable remuneration is deferred for five years for members of the Management Board and other senior managers (as defined in the Banking Law) and four years for other identified employees.</li> <li>▶ In 2021, the bank did not have a stock option programme for managers.</li> <li>▶ The Supervisory Board members receive fixed monthly remuneration irrespective of the number of Supervisory Board meetings held. Supervisory Board members receive additional remuneration for work on the Supervisory Board committees.</li> </ul>

## Principles of Corporate Governance for Supervised Institutions

Santander Bank Polska S.A. abides by the Principles of Corporate Governance for Supervised Institutions as published by the KNF on 22 July 2014. The document describes internal and external relations of supervised institutions, including relations with

shareholders and customers, their organisation, internal oversight framework and key internal systems and functions, as well as statutory bodies and the rules of their cooperation.

The document is available on the KNF website at [https://www.knf.gov.pl/knf/pl/komponenty/img/knf\\_140904\\_Zasady\\_ladu\\_korporacyjnego\\_22072014\\_38575.pdf](https://www.knf.gov.pl/knf/pl/komponenty/img/knf_140904_Zasady_ladu_korporacyjnego_22072014_38575.pdf), and on the bank's website

at [https://static3.santander.pl/asset/z/a/l/zal.-do-uchwaly-objetej-pkt-13-porzadku-obrad\\_pl\\_55449.pdf](https://static3.santander.pl/asset/z/a/l/zal.-do-uchwaly-objetej-pkt-13-porzadku-obrad_pl_55449.pdf).

The Principles of Corporate Governance for Supervised Institutions were adopted by Santander Bank Polska S.A. as of

1 January 2015 by virtue of Management Board Resolution no. 116/2014 of 9 October 2014 and Supervisory Board Resolution no. 58/2014 of 17 December 2014.

They were approved by the General Meeting of Santander Bank Polska S.A. on 23 April 2015.

Chapter	Important aspects of application of the Principles of Corporate Governance for Supervised Institutions
<b>Organisation and organisational structure (Chapter 1)</b>	<ul style="list-style-type: none"> <li>▶ The organisation of the bank facilitates the delivery of long-term objectives, among other things by combining strategic planning with analysis of resources required to deliver the objectives. The bank sets its strategic objectives taking into account the character and scale of business activity in its Strategy approved by the Management Board and the Supervisory Board.</li> <li>▶ The bank has a transparent and appropriate organisational structure with functions assigned to organisational and tasks allocated to Management Board members, head office units, branches and specific groups of positions. The effectiveness of the bank's structure is analysed on an ongoing basis, taking into account market trends and benchmark data. The bank's structure is available at: <a href="https://www.santander.pl/en/investor-relations/about-company/authorities">https://www.santander.pl/en/investor-relations/about-company/authorities</a>.</li> <li>▶ The organisation of the bank makes it possible to change priorities as part of quarterly planning and business review. Furthermore, the bank's Special Situations Management Policy adopted by the Management Board and approved by the Supervisory Board describes measures taken by the bank in the case of significant deterioration of its financial position or occurrence of operational events that disrupt or prevent the bank from conducting its business activity. The bank also has the Business Continuity Management Model in place.</li> <li>▶ The bank's employees may anonymously report breaches using the whistleblowing channels available at the bank without fear of retaliation from managers or colleagues. The effectiveness of the procedure for anonymous reporting of breaches by employees is assessed at least once a year by the Supervisory Board.</li> </ul>
<b>Relations with supervised institution's shareholders (Chapter 2)</b>	<ul style="list-style-type: none"> <li>▶ The bank conducts its activity taking into account the interests of all stakeholders as long as they are not contrary to the interests of the bank. To that end, the bank has adopted a series of regulations which establish detailed principles ensuring compliance with the above assumptions, such as the General Code of Conduct and the Conflict of Interest Prevention Policy.</li> <li>▶ The bank provides its shareholders with appropriate access to information and facilitates their participate in General Meetings, as described in detail in the section on Best Practice for GPW Listed Companies 2016 and 2021.</li> <li>▶ By exercising oversight, the shareholders contribute to effective and proper functioning of the Management Board and Supervisory Board. Members of the Management Board do not exercise their voting rights attached to shares held during General Meetings. 50% of the Supervisory Board members meet the independence criterion, which prevents worsening of the effectiveness of the shareholder oversight.</li> <li>▶ The bank's shareholders do not hold any individual or other specific rights. Each share of the bank gives one vote at the General Meeting.</li> <li>▶ Transactions with related parties are made in line with legal and tax requirements. The bank has relevant internal policies in place, ensuring that such transactions are made in the interest of the bank, are transparent and comply with market standards.</li> <li>▶ If, as a result of any sudden and unexpected events, the bank's capital adequacy ratio or the liquidity ratio falls below the level required by law and the KNF recommendations with respect to the banking sector or to the bank, the bank's parent entity will ensure that available measures are taken to immediately restore the required levels.</li> <li>▶ The purpose of the bank's dividend policy is to ensure optimal capital structure of the bank and Santander Bank Polska Group. The bank's Management Board recommends payment of dividend by way of a resolution, taking into account prudent management of the bank and capital surplus over the acceptable capital ratios, as well as laws, dividend policy and recommendations and individual guidance issued by supervisory authorities.</li> </ul>
<b>Management body (Chapter 3)</b>	<ul style="list-style-type: none"> <li>▶ The bank is managed by the Management Board which is a collective body. All members of the Management Board meet the criteria arising from law, Best Practice for GPW Listed Companies, regulatory recommendations and Principles of Corporate Governance for Supervised Institutions, giving assurance of proper performance of their duties. It is verified by the Nominations Committee and the Supervisory Board as part of suitability assessment conducted before appointment of the Management Board members and periodically (at least annually).</li> <li>▶ The Management Board is the only body with the authorisation and duty to manage the bank's operations. While pursuing the adopted strategy, the Management Board is guided by safety of the bank, applicable law, recommendations of supervisors and internal regulations of the bank.</li> <li>▶ Members of the Management Board are collectively responsible for decisions which are within its remit, irrespective of the internal division of responsibility for particular areas of operations. The internal division of powers among Management Board members is based on the organisational structure and adopted in the form of the Management Board resolution approved by the Supervisory Board.</li> <li>▶ None of the Management Board members conducts an activity which could lead to a conflict of interest or adversely affect his or her reputation as a member of the Management Board.</li> <li>▶ There is a succession plan for Management Board members, approved by the Supervisory Board, which enables their immediate replacement.</li> </ul>

<b>Supervisory body (Chapter 4)</b>	<ul style="list-style-type: none"> <li>▶ The bank is supervised by the Supervisory Board. All members of the Supervisory Board meet the criteria arising from law, Best Practice for GPW Listed Companies, regulatory recommendations and Principles of Corporate Governance for Supervised Institutions, giving assurance of proper performance of their duties. It is verified by the Nominations Committee as part of suitability assessment conducted before appointment of the Supervisory Board members and periodically (at least annually). The suitability assessment is submitted to the General Meeting for approval.</li> <li>▶ The composition of the Supervisory Board ensures an appropriate number of persons who speak Polish (four out of ten members) and have appropriate experience and knowledge of the Polish financial market (six out of ten members). The Supervisory Board members who do not speak Polish take advantage of the assistance of interpreters and documentation translated into English.</li> <li>▶ Half of the members of the Supervisory Board (including all members of the Audit and Compliance Committee and its Chairman) have independent status.</li> <li>▶ As part of its tasks described in its Terms of Reference, the Audit and Compliance Committee monitors the performance of financial audit activities and agrees the rules of conducting these activities, including their proposed plan. The co-operation of the Audit and Compliance Committee and of the Supervisory Board with the external auditor is documented in the reports and letters addressed to these bodies and in the minutes of their meetings.</li> <li>▶ Members of the Supervisory Board actively perform their functions and are sufficiently engaged in the work of the Supervisory Board, as demonstrated e.g. by high attendance at the meetings in 2021. All members of the Supervisory Board give assurance of proper performance of their duties. Specifically, all members of the Supervisory Board meet the criteria set out in Article 22aa of the Banking Law related to the maximum number of functions performed.</li> <li>▶ The Supervisory Board exercises ongoing oversight of the bank's operations and takes preventive and remedial measures.</li> <li>▶ There is a succession plan for Supervisory Board members which enables their immediate replacement.</li> <li>▶ Each year, the Supervisory Board assesses compliance with the Principles of Corporate Governance for Supervised Institutions. A relevant statement in this respect is an element of the report on the Supervisory Board's activities and is available on the website at: <a href="https://www.santander.pl/relacje-inwestorskie/dobre-praktyki">https://www.santander.pl/relacje-inwestorskie/dobre-praktyki</a></li> </ul>
<b>Remuneration Policy (Chapter 5)</b>	<ul style="list-style-type: none"> <li>▶ The rules regarding remuneration for members of the Management Board and the Supervisory Board are set out in the Remuneration Policy for Members of the Management Board of Santander Bank Polska S.A. and in the Remuneration Policy for Members of the Supervisory Board of Santander Bank Polska Group approved by the General Meeting. The bank also has the Remuneration Policy of Santander Bank Polska Group approved by the Supervisory Board and updated in May 2020.</li> <li>▶ The Supervisory Board oversees the remuneration policy, including verification of the criteria for payment of variable components of remuneration. The Supervisory Board submits a report on the remuneration policy to the General Meeting, indicating whether the policy supports the bank's growth and security.</li> <li>▶ The remuneration of the Management Board members is set by the Supervisory Board and the remuneration of the Supervisory Board members is set by the General Meeting, considering the functions performed and the scale of the bank's business. The Supervisory Board members who sit on committees are remunerated for additional tasks performed.</li> <li>▶ Remuneration regulations for key function holders (other than Management Board members) are adopted and supervised by the Management Board.</li> <li>▶ Variable remuneration is awarded to the Management Board members based on the evaluation of their performance. Variable remuneration for the bank's Management Board members and its key managers depends on the assessment of the company's long-term financial position, long-term growth in shareholder value, stability of the company's operations and risk appetite.</li> <li>▶ Members of the bank's Management Board do not receive remuneration for performing duties of supervisory board members in the companies to which they have been designated by the bank.</li> </ul>
<b>Communication Policy (Chapter 6)</b>	<ul style="list-style-type: none"> <li>▶ The bank has a communication policy in place, providing clear and reliable information to its shareholders, customers and other stakeholders. The policy provides for active measures to be taken by the bank to satisfy information requirements of its stakeholders. The bank communicates with capital market participants in a way that is adjusted to the needs of specific groups.</li> <li>▶ The bank's information policy is available on the bank's website at: <a href="https://www.santander.pl/relacje-inwestorskie/dokumenty-korporacyjne#dokument=5">https://www.santander.pl/relacje-inwestorskie/dokumenty-korporacyjne#dokument=5</a>. Detailed information about its assumptions is presented in the section on application of Best Practice for GPW Listed Companies 2016 and 2021.</li> </ul>
<b>Promotional activities and client relations (Chapter 7)</b>	<ul style="list-style-type: none"> <li>▶ The Consumer Protection Policy of Santander Bank Polska S.A. establishes the criteria for identification, organisation and protection of consumer rights in all activities of the bank, including as part of the use of customer-centric model of products and services, agreed rules for communication, complaints handling and application of predefined control mechanisms.</li> <li>▶ When offering financial products and services, the bank is focused on providing customers with accurate information and meaningful explanations. Customer complaints are handled by the Customer Care Office in accordance with clear and transparent rules.</li> <li>▶ The bank has formal rules in place with respect to marketing communication and advertising messages, ensuring that they are accurate and not misleading and that they comply with applicable laws, principles of fair trade and good conduct.</li> </ul>
<b>Key internal systems and functions (Chapter 8)</b>	<ul style="list-style-type: none"> <li>▶ The bank has an effective and appropriate internal control system in place that covers all levels of the bank's organisational structure and is annually assessed by the Audit and Compliance Committee and the Supervisory Board.</li> <li>▶ The bank ensures independence of the internal audit function and the compliance function. The Head of the Internal Audit Area adheres to international standards for the professional practice of internal auditing and reports directly to the President of the Management Board, with a dotted reporting line to the Chairman of the Audit and Compliance Committee. The head of the compliance function reports directly to the President of the Management Board. The Head of the Audit Area and the head of the compliance function take part in all meetings of the Management Board, the Audit and Compliance Committee, the Risk Committee and the Supervisory Board.</li> <li>▶ The bank's risk management system is organised according to the nature, scale and complexity of the business, taking into account the strategic objectives, the risk management strategy and the risk appetite. It is assessed by the Risk Committee and the Supervisory Board on an annual basis.</li> </ul>
<b>Execution of rights resulting from assets acquired at client's risk (Chapter 9)</b>	<ul style="list-style-type: none"> <li>▶ When buying assets at the customer's risk, the bank (Santander Brokerage Poland) executes the customer's orders in line with the terms and conditions and the general terms of providing services which include the principle of best execution (Best Execution Policy of Santander Brokerage Poland). The decision making process is duly documented.</li> </ul>



## Code of Banking Ethics

In addition to the foregoing corporate governance principles, Santander Bank Polska S.A. follows best sector practice established by the Polish Bank Association (ZBP) in the Code of Banking Ethics adopted by the 25th General Meeting of ZBP dated 18 April 2013.

The Code of Banking Ethics is composed of two parts:

- Code of Best Banking Practice – a set of rules to be followed by banks in their relations with customers, employees, business partners and competitors;
- Bank Employee Code of Ethics – rules of conduct for bank employees.

The Code of Banking Ethics is available on the website of the Polish Bank Association at: <https://www.zbp.pl/dla-klientow/poradniki-i-rekomendacje>.

## Internal regulations

The general corporate governance principles are described in detail in the bank's internal regulations.

The bank has the Group-Subsidiary Governance Model and Guidelines for Subsidiaries as well as Specific Corporate Frameworks in place. The above-mentioned model sets out the basic rules to be followed by the Group in its relations with subsidiaries. It also includes guidelines on management and

supervisory bodies and corporate governance concerning key business, support and control functions.

Irrespective of their role, all employees of the bank and the Group must follow ethical principles and rules of conduct established in the General Code of Conduct. It is a set of key principles and values reflecting the corporate culture of Santander Group, whose aim is to build trust and lasting loyalty of employees, customers, shareholders and communities. These rules are strictly connected with the bank's business strategy and purpose, which is to help people and businesses prosper in a Simple, Personal and Fair way.

The bank's corporate value model is based on the following eight behaviours: "Show respect", "Keep promises", "Embrace change", "Bring passion", "Actively collaborate", "Support people", "Talk straight" and "Truly listen", which are additionally used as a performance review criterion.

The Code is complemented with the following regulations: Code of Conduct in the Securities Markets, Anti-Money Laundering Policy, Anti-Corruption Programme, Conflict of Interest Prevention Policy.

The formal framework of the bank's corporate culture also includes the Sustainability Policy, which defines the organisation's approach to sustainable development in terms of responsible banking as well as the bank's voluntary ethical, social and environmental commitments.

# 2. Issuer's Securities

## Structure of equity

The table below presents the entities with significant holdings of Santander Bank Polska S.A. shares as at 31 December 2021 and 31 December 2020.

Shareholders with a stake of 5% and higher	Number of Shares and Voting Rights Held		% in the Share Capital and Voting Rights at AGM	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Banco Santander S.A.	68 880 774	68 880 774	67.41%	67.41%
Nationale-Nederlanden OFE <sup>1)</sup>	5 123 581	5 123 581	5.01%	5.01%
Other shareholders	28 184 959	28 184 959	27.58%	27.58%
<b>Total</b>	<b>102 189 314</b>	<b>102 189 314</b>	<b>100.00%</b>	<b>100.00%</b>

1) *Nationale-Nederlanden Otwarty Fundusz Emerytalny (OFE) is managed by Nationale-Nederlanden Powszechno Towarzystwo Emerytalne (PTE) S.A*

As at 31 December 2021, Banco Santander S.A. held a controlling stake of 67.41% in the registered capital of Santander Bank Polska S.A. and in the total number of votes at the bank's General Meeting. The remaining shares were held by the minority shareholders, of which, according to the information held by the bank's Management Board, only Nationale-Nederlanden Otwarty Fundusz Emerytalny (OFE) exceeded the 5% threshold in terms of share capital and voting power.

According to the information held by the Management Board, the ownership structure did not change in the period from the end of the financial year of 2021 until the release of the Annual Report of Santander Bank Polska Group for 2021.

## Rights and restrictions attached to the issuer's securities

The shares of Santander Bank Polska S.A. are ordinary bearer shares. Each share carries one vote at the General Meeting. The nominal value is PLN 10 per share. All shares are fully paid.

The bank did not issue any series of shares that would give their holders any special control rights towards the issuer or would limit their voting power or other rights. Neither are there any restrictions on the transfer of title to the issuer's shares.



## 3. Amendment of the Statutes of Santander Bank Polska S.A.

Any amendments to the Statutes of Santander Bank Polska S.A. may be made by way of a resolution of the General Meeting and must be entered into the register of entrepreneurs of the National Court Register in order to be valid. In accordance with the Banking Law, such amendments also require consent from the Polish Financial Supervision Authority (KNF).

Pursuant to the resolutions of the General Meeting of Santander Bank Polska S.A. of 22 March 2021, the bank's Statutes were amended as follows to ensure compliance with KNF Recommendation Z:

- The Supervisory Board resolves on its Terms of Reference and informs the General Meeting about new Terms of Reference or any amendments thereto.
- The powers of the Supervisory Board include approval

of any internal regulations, where it is required under Recommendation Z, including the corporate governance policy and the key functions identification policy developed by the Management Board as well as the policy for appointment and removal of key function holders, risk management strategy and risk culture framework.

- The annual assessment of the corporate governance system made by the Supervisory Board can be combined with the assessment of the internal control system, risk management system and compliance with the corporate governance framework and other standards applied in the bank.

The bank received a consent from the KNF to amend the Statutes as above. The amendments became effective upon their registration by a registry court on 21 April 2021.

## 4. Governing Bodies

### General Meeting

#### Organisation and powers of the General Meeting

The bank's General Meeting is held as provided for in the Commercial Companies Code of 15 September 2000, the bank's Statutes and the Terms of Reference of the General Meeting. The Statutes as well as the Terms of Reference are available on the bank's website:

<https://www.santander.pl/relacje-inwestorskie/dokumenty-korporacyjne#dokument=6>

The Annual General Meeting is held once a year by 30 June. The Extraordinary General Meeting is convened when it is required to take a decision on a specific matter or when such a meeting is requested by eligible parties.

The General Meeting agrees on the issues within its remit, as defined by the above-mentioned laws and internal regulations. The Annual General Meeting:

- reviews and approves the Management Board's report on the bank's performance and the financial statements for the previous financial year;
- adopts a resolution on profit distribution or loss coverage;
- gives discharge to the members of the company's governing bodies;
- reviews and approves the financial statements of the Group within the meaning of the accounting regulations;
- reviews other reports (e.g. report on the activities of the Supervisory Board).

The Annual General Meeting or the Extraordinary General Meeting may:

- adopt a resolution to amend the bank's Statutes;
- appoint members of the Supervisory Board;

- remove members of the Management Board;
- adopt a resolution to increase share capital;
- decide on a merger with another company;
- adopt a resolution on remuneration policies for members of the Management Board and the Supervisory Board;
- set remuneration for members of the Supervisory Board.

Since 2011, the bank's shareholders may participate in the General Meeting using electronic communication channels (without the physical presence of themselves or their proxies). This enables two-way real-time communication and makes it possible for shareholders to exercise their voting rights.

Voting (including via electronic communication channels) takes place using an electronic voting system which returns the number of votes ensuring that they correspond to the number of shares held, and in the case of a secret ballot – allows shareholders to remain anonymous. Shareholders may vote in person or by proxy.

The General Meeting is broadcast live online to all interested parties and a recording is available on the bank's website dedicated to the General Meeting for later review. The information about the planned broadcast is published at least seven days before the date of the General Meeting.

Draft resolutions, rationale, and other submissions to the General Meeting (assessments, reports and opinions of the bank's Supervisory Board) are published on the bank's website early enough for the General Meeting participants to read them.

The representatives of the press, radio and TV may also attend the General Meeting.

#### General Meeting in 2021

On 22 March 2021, the Annual General Meeting of Santander Bank Polska S.A. was held. It approved the 2020 reports submitted by the Management Board and the Supervisory Board, and the Supervisory Board's assessments of the required areas.

It also considered the Management Board's proposal regarding the 2020 profit distribution and the set-up of a capital reserve, approved collective suitability assessment of the Supervisory Board members and the candidates for the Supervisory Board members, granted discharge to the members of the Management Board and the Supervisory Board of the bank, appointed the Supervisory Board Chairman and determined his remuneration. The Annual General Meeting also adopted a resolution to amend the bank's Statutes to ensure compliance with Recommendation Z.

## Shareholders' rights

The rights of shareholders of Santander Bank Polska S.A. are set out in the Terms of Reference of the bank's General Meeting in line with the Commercial Companies Code.

The fundamental right of shareholders is to attend the General Meeting and vote (personally or through proxies).

Pursuant to the Terms of Reference of the General Meeting, shareholders or their proxies may participate in the General Meeting via electronic communication channels (i.e. they may vote, make an objection, communicate with the meeting room, ask questions, etc.). Each share carries one vote at the General Meeting.

- Shareholders have certain rights with respect to the General Meeting, as specified in the Commercial Companies Code. In particular, they may:
  - object to adopting a resolution;
  - appeal against resolutions adopted by the General Meeting to the court (action for revocation or cancellation of a resolution);
  - request voting by secret ballot;
  - submit draft resolutions and propose amendments and supplements to draft resolutions concerning the business of the General Meeting by the end of discussion of a particular agenda item;
  - ask questions and request information from the Management Board regarding issues on the General Meeting agenda, as provided for by the Commercial Companies Code;
  - apply for the role of the Chairman of the General Meeting or propose a candidate for that role;
  - challenge decisions made by the Chairman of the General Meeting;
  - give a brief presentation and a short response to questions concerning individual items of the agenda.
- Shareholders may also:
  - request that a list of shareholders be emailed to them free-of-charge to the indicated address, inspect the list of shareholders available in the bank's Management Board office and request a copy of the list at their own expense;
  - demand copies of requests included in the General Meeting agenda one week before the General Meeting;
  - have access to the General Meeting minutes and request copies of resolutions confirmed by the bank's Management Board as true copies.

The Management Board members, acting within their powers and in accordance with the act on trading in financial instruments,

have an obligation to respond to shareholders' questions which are relevant to the business of the General Meeting (for important reasons only – the response must be given in writing within two weeks of the request). The Management Board refuses to provide the requested information if it might:

- be prejudicial to the company or its subsidiaries or affiliates due to disclosure of technical, trade or organisational secret;
- cause a member of the Management Board to face criminal, civil or administrative liability.

Shareholders may request the bank to provide information concerning the bank outside of the General Meeting. In such a case, the Management Board may provide the requested information in writing, unless it might be prejudicial to the bank, its subsidiary or affiliate, in particular due to disclosure of the company's technical, trade or organisational secret.

If the bank provides information outside of the General Meeting, it publishes a current report with answers to the questions asked.

## Supervisory Board

### Rules of the procedure of the Supervisory Board

#### Composition, rules for appointment and removal of Supervisory Board members

The Supervisory Board consists of at least five members appointed for a joint three-year term of office. The Supervisory Board members, including the Chairman of the Supervisory Board, are appointed and removed by the General Meeting. The Management Board informs the KNF about the composition of the Supervisory Board. The term of office of the Supervisory Board member expires no later than on the date of the General Meeting held to approve the financial statements for the last full financial year in which the member served on the Supervisory Board. It also expires as a result of the member's death, resignation or removal. The term of office of the Supervisory Board member who was appointed before the end of The Supervisory Board of Santander Bank Polska S.A. operates under the Banking Law of 29 August 1997, the Commercial Companies Code of 15 September 2000, the bank's Statutes and the Terms of Reference of the Supervisory Board, available on the bank's website.

The term of the Supervisory Board expires at the same time as those of the remaining members.

Pursuant to the bank's Statutes, at least half members of the Supervisory Board should be of independent status.

#### Powers of the Supervisory Board

The Supervisory Board exercises ongoing oversight of the bank's operations. Apart from the rights and obligations provided for by the law and the Statutes, the Supervisory Board also has the following powers:

- to assess the financial statements in terms of their consistency with the books of account, documents and factual circumstances;
- to approve the bank's annual and long-term development and financial plans, strategy and rules of prudential and stable management established by the Management Board;
- to approve the Management Board's proposals as regards setting up and winding up the bank's units abroad;

- to give consent to equity investments to be made by the bank if:
  - the value of such investment exceeds the PLN equivalent of EUR 4,000,000;
  - the value of such investment exceeds EUR 400,000 and, concurrently, as a result of such investment, the bank's share in another entity will be equal to, exceed or will be reduced below 20% of the votes at the General Meeting;
  - with the exception of underwriting agreements, the total exposure of the bank under such agreements does not exceed one tenth of the total own funds of the bank;
- to give consent to buy, sell or encumber non-current assets (as defined in the Accounting Act), in particular real property, if the value of a fixed asset exceeds the PLN equivalent of EUR 4,000,000, except for foreclosure of real property by the bank as a mortgagee, as a result of an unsuccessful auction held as part of enforcement proceedings or foreclosure of another fixed asset or securities by the bank, as a creditor secured by a registered pledge pursuant to the provisions of the Act on registered pledge and the register of pledges, or as a creditor secured by a transfer of title to secure loan repayment pursuant to the provisions of the Banking Law;
- to review the Management Board reports and proposals concerning profit distribution and loss coverage;
- to set remuneration for the President and members of the Management Board;
- to conclude agreements on behalf of the bank with members of the Management Board (where authorised to do so), including employment contracts and management contracts (the Supervisory Board may appoint its Chairman or another member of the Supervisory Board to make statements of will in this respect);
- to adopt the Terms of Reference of the bank's Management Board and other terms of reference and rules provided for by the Statutes or law, and to approve the bank's Organisational Regulations and Policy on internal control system;
- to appoint an entity authorised to audit the bank's financial statements and to conduct financial audits in the bank;
- to request consent from the KNF to appoint two Management Board members, including the President of the Management Board;
- to inform the KNF about:
  - other Management Board members and each change in the Management Board composition;
  - compliance of the Management Board members with the criteria set out in the Banking Law, after performing the compliance assessment;
  - approving and changing the distribution of duties within the Management Board;
  - including the information on the Management Board member in charge of material risk in the bank's operations;
- to appoint and remove the President and other members of the Management Board;
- to suspend the Management Board members for important reasons and delegate the Supervisory Board members to perform the role of the suspended Management Board members;
- to present the Annual General Meeting with a brief assessment of the bank's situation, including the assessment of the internal control system and the material risk management system;
- to approve the policies developed by the Management Board: risk management policy, risk appetite, internal capital assessment and maintenance policy, internal control policy, remuneration policy, for each category of employees whose professional activity has a significant impact on the bank's risk profile;
- to approve the distribution of duties within the Management Board as decided by the Management Board;
- to review the matters to be considered by the General Meeting.

The Supervisory Board takes decisions in the form of resolutions which are adopted by absolute majority in open voting. The Supervisory Board adopts resolutions in a secret ballot in the cases stipulated by law. The Supervisory Board meetings are held as and when required and at least three times in any financial year. The Supervisory Board members convene in a single location, or in different locations using remote communication channels.

#### **Selected forms of communication with the shareholders**

Each year, the Supervisory Board prepares and presents to the Annual General Meeting a report on its activities in the previous year, including a summary of operations of the Supervisory Board Committees, a report from the audit of the annual financial statements of the Group and the Management Board's proposal of profit distribution, as well as assessment of the Group's activities (including internal control, risk management and compliance systems and internal audit function), corporate governance practices, remuneration policy and sponsorship and corporate giving policy. The above report of the Supervisory Board is published on the bank's website at least 26 days before the General Meeting.

#### **Suitability assessment**

All Supervisory Board members are subject to individual suitability assessment (initial and ongoing). The Supervisory Board is also subject to collective suitability assessment. The foregoing processes are delivered in accordance with the Policy on suitability assessment of Supervisory Board members in Santander Bank Polska S.A. developed in line with the Joint Guidelines of the European Securities and Markets Authority and the European Banking Authority no. EBA/GL/2017/12, Guidelines of the European Banking Authority no. EBA/GL/2017/11 on internal governance, and the applicable laws, in particular the Banking Law Act and the Commercial Companies Code. The assessment is conducted according to the Suitability assessment methodology for members of governing bodies of supervised entities published by the KNF. The individual and collective suitability assessments are conducted at least once a year and as required under the above-mentioned policy, e.g. when candidates are proposed for the Supervisory Board positions (in this case, the assessment should be generally performed before the formal appointment), when membership of the Supervisory Board changes or when the bank's business model is significantly modified. The Supervisory Board presents the results of the suitability assessment at the next General Meeting.

## Composition of the Supervisory Board

Board of Santander Bank Polska S.A. as at 31 December 2021 and 31 December 2020.

The table below presents the composition of the Supervisory

Role in the Supervisory Board	Ref.	Composition as at 31.12.2021	Ref.	Composition as at 31.12.2020
Chairman of the Supervisory Board:	1.	Antonio Escámez Torres	1.	Gerry Byrne
Vice Chairman of the Supervisory Board:	2.	José Luis de Mora	2.	José Luis de Mora
Members of the Supervisory Board:	3.	Dominika Bettman	3.	Dominika Bettman
	4.	José García Cantera	4.	José García Cantera
	5.	Danuta Dąbrowska	5.	Danuta Dąbrowska
	6.	Isabel Guerreiro	6.	Isabel Guerreiro
	7.	David Hexter	7.	David Hexter
	8.	John Power	8.	John Power
	9.	Jerzy Surma	9.	Jerzy Surma
	10.	Marynika Woroszyńska-Sapieha	10.	Marynika Woroszyńska-Sapieha

In 2021, the Nominations Committee of the Supervisory Board of Santander Bank Polska S.A. assessed the individual suitability of the Supervisory Board members as well as collective suitability of the Supervisory Board of Santander Bank Polska S.A. in accordance with the applicable regulations and the Suitability assessment methodology for members of governing bodies of supervised entities published by the KNF. These were ongoing annual suitability assessments. Additionally, the Committee assessed the individual suitability of Antonio Escámez Torres, who had not performed any role on the bank's Supervisory Board before.

The Annual General Meeting held on 22 March 2021 approved the results of the suitability assessments. Following Gerry Byrne's resignation from his role on the Supervisory Board on 22 February 2021, effective as of the date of the Annual General Meeting, the General Meeting held on 22 March 2021 appointed Antonio Escámez Torres as the Chairman of the Supervisory Board.

Pursuant to the bank's Statutes, Terms of Reference of the Supervisory Board and Terms of Reference of the Audit and Compliance Committee, half of the members of the Supervisory Board met the independence criteria. The following members of the Supervisory Board held independent status: Dominika Bettman, Danuta Dąbrowska, David Hexter, Jerzy Surma and Marynika Woroszyńska-Sapieha. Each of the above persons made a relevant statement which is subject to suitability assessment. The results of individual and collective suitability assessments of the Supervisory Board are approved by the Supervisory Board in the form of a resolution.

In 2021, the members of the Supervisory Board committed sufficient time to perform their functions. Last year, 23 Supervisory Board meetings were held at which 171 resolutions were passed. Average attendance of the Supervisory Board members was 97.66%.

The table below presents the attendance of Supervisory Board members:

Role in the Supervisory Board	Ref.	Composition as at 31.12.2021	Attendance at the meetings in 2021		Ref.	Composition as at 31.12.2020	Attendance at the meetings in 2021	
Chairman of the Supervisory Board:	1.	Antonio Escámez Torres <sup>1)</sup>	17/17	100%	1.	Gerry Byrne	18/18	100%
Vice Chairman of the Supervisory Board:	2.	José Luis de Mora	19/23	83%	2.	José Luis de Mora	17/18	94%
Members of the Supervisory Board:	3.	Dominika Bettman	23/23	100%	3.	Dominika Bettman <sup>2)</sup>	9/9	100%
	4.	José García Cantera	20/23	87%	4.	José García Cantera	17/18	94%
	5.	Danuta Dąbrowska	22/23	96%	5.	Danuta Dąbrowska	18/18	100%
	6.	Isabel Guerreiro	21/23	91%	6.	Isabel Guerreiro	18/18	100%
	7.	David Hexter	22/23	96%	7.	David Hexter	18/18	100%
	8.	John Power	23/23	100%	8.	John Power	18/18	100%
	9.	Jerzy Surma	21/23	91%	9.	Jerzy Surma	17/18	94%
	10.	Marynika Woroszyńska-Sapieha	21/23	91%	10.	Marynika Woroszyńska-Sapieha	17/18	94%

1) Antonio Escámez Torres was appointed a new member and the Chairman of the Supervisory Board by the General Meeting held on 22 March 2021, replacing Gerry Byrne, who in 2021 attended six out of six Supervisory Board meetings held during his service.

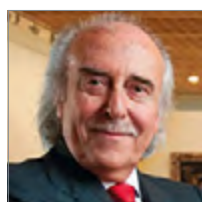
2) Dominika Bettman was appointed a member of the Supervisory Board on 22 June 2020 and was present during all meetings held after that date.

Members of the bank's Supervisory Board have various academic background, extensive expertise and considerable professional experience in banking and business, including finance, accounting, financial analysis, IT law and economics. Individual competencies and experience of the Supervisory Board members guarantee due performance of the obligations entrusted with them, while their complementarity ensures effective discharge of collective supervisory obligations. The diversity of the Supervisory Board in terms of gender, age, geographical provenance and length of

service with the bank is presented in Section 6 "Diversity Policy" ("Diversity policy regarding the governing bodies").

The information about the academic background and professional experience of the bank's Supervisory Board members is presented below. It is also published on the bank's website at <https://www.santander.pl/en/investor-relations/about-company/authorities>.

## Supervisory Board Members of Santander Bank Polska S.A.



### Antonio Escámez Torres

**Chairman of the Supervisory Board**

**Academic background:**

**Law degree from Complutense University of Madrid**

**Professional background:**

- ▶ 1973–1999: Banco Central (including the role of the Chairman and Chief Executive Officer with responsibility for the North American operations of Banco Central, Member of the Board of Directors, Member of the Executive Committee and Member of the Management Committee)
- ▶ Since 1999: Santander Group (including the role of the Member of the Board of Directors, Member of the Executive Committee, Member of the Management Committee, Member of the Banco Santander International Advisory Board and Member of Technology and International Committees)
- ▶ 2009–2018: Chairman of Spain India Council Foundation
- ▶ 2007–2018: Chairman of Banco Santander Foundation
- ▶ 1994–2018: Vice Chairman of Attijariwafa Bank
- ▶ Since 1999: Santander Consumer Finance S.A.: Chairman of the Board of Directors (1999–2020) and Non-Executive Director (since 2020)



### José Luis de Mora

**Deputy Chairman of the Supervisory Board**

**Academic background:**

- ▶ Graduate of ICADE University (Law and Economics)
- ▶ MBA degree from Boston College
- ▶ Chartered Financial Analyst

**Professional background:**

**1992–1994: Corporate Finance at Bank of Spain and Daiwa Securities**

- ▶ 1994–1998: Analyst with Kleinwort Benson (London), responsible for Spain's equity and banking market
- ▶ 1998–2003: Analyst with Merrill Lynch (London), responsible for pan-European banks, including Spanish, French and Italian banks
- ▶ since 2003: Santander Group (currently: Senior Vice President supervising financial planning and corporate development, responsible for planning an organic growth strategy, corporate acquisitions and Group's expansion)
- ▶ 2012–2015: Member of the Board of Sovereign Bank NA
- ▶ 2012–2013: Member of the Board of Santander Consumer USA
- ▶ since 2015: Member of the Board of Santander Consumer Finance S.A.
- ▶ since 2011: Deputy Chairman of the Supervisory Board of Santander Bank Polska S.A.



### Dominika Bettman

**Independent Member of the Supervisory Board**

**Academic background:**

- ▶ Graduate of Warsaw School of Economics, Foreign Trade Faculty, and IESE Advanced Management Programme in Barcelona

**Professional background:**

**Employed for approx. 25 years with Siemens Polska:**

- ▶ 1995–1997: Logistics Manager, Siemens Nixdorf Polska
- ▶ 1997–2002: Senior Commercial Manager, Siemens sp. z o.o.
- ▶ 2002–2007: Finance Director at Siemens IT (until 2004) and Siemens Telecommunication (from 2004)
- ▶ 2007–2009: Member of the Management Board and Chief Financial Officer, Nokia Siemens Network
- ▶ 2009–2018: Chief Financial Officer, Siemens sp. z o.o.
- ▶ 2015–2019: Member of the Supervisory Board of Eurobank S.A.
- ▶ since 2018: President of the Management Board of Siemens sp. z o.o.
- ▶ since 2019: Head of Digital Industries at Siemens Polska
- ▶ since 2020: Member of the Supervisory Board of Santander Bank Polska S.A.



### José García Cantera

**Member of the Supervisory Board**

**Academic background:**

**MBA degree from IE Business School**

**Professional background:**

- ▶ until 2003: Latin America stock analyst; senior executive positions at Salomon Brothers-Citigroup
- ▶ 2003: Senior Vice President in charge of Global Banking and Markets Division of Banesto
- ▶ 2006–2012: CEO of Banesto
- ▶ 2012–2015: Head of Global Banking and Markets of Santander Group
- ▶ since 2015: Senior Vice President, Chief Financial Officer and Head of the Finance Division of Banco Santander S.A.
- ▶ Chairman of the Board of Santander de Titulizaciones SGFT and Santander Investment S.A.
- ▶ since 2015: Member of the Supervisory Board of Santander Bank Polska S.A.





### Danuta Dąbrowska

**Independent Member  
of the Supervisory Board**

**Academic background:**

- ▶ MA degree from the University of Horticulture and Food Industry in Budapest
- ▶ since 1999: Member of the Association of Chartered Certified Accountants (ACCA)
- ▶ Completed the Advanced Strategic Management Programme at IMD, Switzerland, and "Best-In-Retail" Programme at Harvard Business School
- ▶ Founding Member of FINEXA (Polish Association for Finance Directors)

**Professional background:**

- ▶ 1991–1993: Financial Assistant, Arthur Andersen & Co., Warsaw
- ▶ 1993–1997: Audit Manager, Coopers & Lybrand
- ▶ 1997–2001: Head of Financial and Business Control Department of Ericsson, Warsaw and Stockholm
- ▶ 2002–2003: CFO of TP Internet (France Telecom Group)
- ▶ 2004–2008: Member of the Board, CFO (for Eastern Europe and Middle East) at ECCO Sko A/S
- ▶ since 2009: Member of the Board, Vice President, CFO for Eastern Europe, Pandora Jewelry CEE
- ▶ 2012–2017: Member of the Supervisory Board of Herkules S.A.
- ▶ 2016–2018: Member of the Board, Vice President, CFO for Middle East and Africa in Panmeas Jewellery LLC (Pandora)
- ▶ since 2014: Member of the Supervisory Board of Santander Bank Polska S.A.
- ▶ since 2018: Member of the Audit Committee at the Polish Council of Shopping Centres (Polska Rada Centrow Handlowych)
- ▶ since 2019: Member of the Supervisory Board and Chairman of the Audit Committee at Budimex S.A.



### Isabel Guerreiro

**Member  
of the Supervisory Board**

**Academic background:**

- ▶ MEng degree in Computer Software Engineering from Instituto Superior Técnico in Lisbon and MBA degree from INSEAD
- ▶ Graduate of Strategic Finance in Banking at Wharton Business School
- ▶ Completed a number of specialist courses for senior executives, e.g. Design Thinking BootCamp at Stanford University, and Driving Digital and Social Strategy at Harvard University

**Professional background:**

- ▶ 1992–1994: Lecturer in Computer Science at Instituto Superior Técnico in Lisbon
- ▶ 1995–2003: Programmer, System Analyst, Project Manager and Senior Manager at Novabase Sistemas de Informação S.A.
- ▶ Since 2005, employed with Banco Santander Totta S.A., Portugal:
- ▶ 2005–2006: Sub-Director of Retail Banking
- ▶ 2006–2008: Member of the Retail Banking Office
- ▶ 2009–2013: Head of Branch Network Dynamics
- ▶ 2013–2014: Head of Wholesale Strategy
- ▶ 2014–2018: Head of Digital Transformation in charge of traditional and digital channels
- ▶ Board Member in charge of Digitalisation and Transformation (since January 2019)
- ▶ since 2019: Member of the Supervisory Board of Santander Bank Polska S.A.



### David R. Hexter

**Independent Member  
of the Supervisory Board**

**Academic background:**

- ▶ Graduate of Oxford University (Philosophy, Politics and Economics) and University College London (Legal and Political Theory)
- ▶ MBA degree from Cranfield School of Management
- ▶ MPhil degree from Birkbeck College London and PhD degree from Queen Mary University of London

**Professional background:**

- ▶ 1970–1992: Executive positions at Citibank N.A. in Europe and the USA, including:
- ▶ 1986: Senior Credit Officer
- ▶ 1989–1992: Division Executive for Central and Eastern Europe
- ▶ 1992–2004: European Bank for Reconstruction and Development:
- ▶ 1992–1996: Head of the Financial Institutions Department
- ▶ 1996–2004: Deputy Vice President of the Banking Department; Chairman of the Equity Investment Committee, responsible for approval of EBRD loans and projects
- ▶ since 2004: Independent Director and Consultant to a number of commercial firms, banks and equity funds operating in Russia, Kazakhstan, Denmark, Vietnam and Greece
- ▶ since 2013: Member of the Supervisory Board of Santander Bank Polska S.A.



### John Power

**Member  
of the Supervisory Board**

**Academic background:**

- ▶ Financial Consultant
- ▶ 1992: Fellow of Institute of Bankers
- ▶ 1997: Fellow of Association of Chartered Certified Accountants
- ▶ 1998: Fellow of Institute of Chartered Secretaries and Administrators

**Professional background:**

- ▶ Chairman of Lelewela Enterprises Ltd. operating the Roche-Bobois franchise network in Ireland
- ▶ General Director at Allied Irish Banks plc, key person in the development of the Capital Markets
- ▶ 2008–2011: Member of the Board and Chairman of the Audit and Risk Committee of Bulgarian American Credit Bank
- ▶ Member of the Supervisory Board and Chairman of the Audit Committee of BZ WBK Asset Management S.A. (2009–2016), Dom Maklerski BZ WBK S.A. (2009–2014), Santander TFI S.A. (2016–2018)
- ▶ Member of the Supervisory Board of Santander Securities S.A. (2018–2019) and Santander Leasing S.A. (since 2018)
- ▶ since 2002: Member of the Supervisory Board of Santander Bank Polska S.A.





### Jerzy Surma

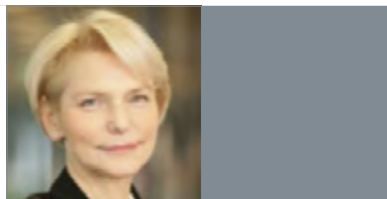
#### Independent Member of the Supervisory Board

##### Academic background:

- ▶ Graduate of the Wrocław University of Technology (Computer Science and Management)
- ▶ Ph.D. in Economic Science from the Wrocław University of Economics
- ▶ Completed the IFP programme at IESE Business School and Executive Programme at MIT Sloan School of Management

##### Professional background:

- ▶ 1999–2002: Head of the Software Development Department of T-Systems Polska
- ▶ 2002–2006: Director in charge of Business Consulting in IMG Information Management Polska responsible for the implementation of Business Intelligence systems, re-engineering business processes, IT advisory
- ▶ since 2006: Academic at Warsaw School of Economics (currently: Associate Professor in Collegium of Economic Analysis, 2018–2019: Head of Post-graduate Business Intelligence and Cybersecurity Management Studies)
- ▶ since 2008: Member of the Supervisory Board of Kęty Group
- ▶ 2011–2014: Visiting Scholar at Harvard Business School and University of Massachusetts
- ▶ since 2012: Member of the Supervisory Board of Santander Bank Polska S.A.
- ▶ 2018–2019: Head of the National Cryptology Centre (Narodowe Centrum Kryptologii)



### Marynika Woroszyńska-Sapieha

#### Independent Member of the Supervisory Board

##### Academic background:

- ▶ Graduate of the Medical University of Warsaw and INSEAD International Executive Programme in Fontainebleau
- ▶ Member of INSEAD Alumni Club; awarded the National Order of the Legion of Honour

##### Professional background:

- ▶ Many years of service with the Institute of Cardiology in Anin as part of the team responsible for introducing new techniques in the field of interventional cardiology
- ▶ Started her professional career in the pharmaceutical industry in 1994: until 1996 with Infa Biocom, since 1998 with Sanofi Group (President of the Management Board and General Manager of the branch in Poland in 2004–2015)
- ▶ since 2016: Advisor to the President of the Management Board of Polpharma Group
- ▶ since 2017: Member of the Supervisory Board of Polpharma Group
- ▶ 2005–2012: Member of the Management Board of INFARMA (Employers' Union of Innovative Pharmaceutical Companies) in charge of activities related to the code of ethics and the transparency directive, protection of intellectual property rights and promotion of innovation in Poland
- ▶ 2012–2014: President of the Management Board of INFARMA
- ▶ since 2014: Member of the Supervisory Board of Santander Bank Polska S.A.

## Supervisory Board committees

The Supervisory Board may establish committees and designate individuals responsible for managing the work of such committees. These committees are designed to facilitate the current activities of the Supervisory Board by preparing draft Supervisory Board recommendations and decisions with regard to their own motions or the motions presented by the Management Board.

The following Supervisory Board committees operate in Santander Bank Polska S.A.: Audit and Compliance Committee, Risk Committee, Nominations Committee and Remuneration Committee. The responsibilities of these committees are set out in their respective terms of reference introduced by virtue of the Supervisory Board resolutions.

The table below presents the membership of the Supervisory Board committees and attendance at their meetings.

Role in the Supervisory Board	No.	Members of the Supervisory Board as at 31/12/2021	Audit and Compliance Committee		Risk Committee		Nominations Committee		Remuneration Committee	
			2021	2020	2021	2020	2021	2020	2021	2020
Chairman of the Supervisory Board:	1.	Antonio Escámez Torres <sup>1)</sup>		–		–		–		–
Deputy Chairman of the Supervisory Board:	2.	José Luis de Mora					6/6	5/5	4/5	3/4
	3.	Dominika Bettman <sup>2)</sup>	9/9	5/5	7/7	4/4			5/5	2/2
Members of the Supervisory Board:	4.	José Garcia Cantera								
	5.	Danuta Dąbrowska	9/9	8/8			6/6	5/5	5/5	4/4
	6.	Isabel Guerreiro								
	7.	David Hexter <sup>3)</sup>	9/9	8/8	7/7	6/6	1/1	–		
	8.	John Power			7/7	6/6				
	9.	Jerzy Surma	9/9	8/8	7/7	6/6	6/6	5/5		
	10.	Marynika Woroszyńska-Sapieha	9/9	8/8			6/6	5/5	5/5	4/4
	<b>Number of meetings in a given year</b>			<b>9</b>	<b>8</b>	<b>7</b>	<b>6</b>	<b>6</b>	<b>5</b>	<b>5</b>

Chairman Member

- 1) Antonio Escámez Torres was appointed the Chairman of the Supervisory Board on 22 March 2021, replacing Gerry Byrne, who attended all meetings of the Nominations Committee (2) and the Remuneration Committee (3) held in 2021 until his resignation.
- 2) Dominika Bettman has been a member of the Supervisory Board and the above-mentioned Committees since 22 June 2020 and was present during all meetings of those Committees held after that date.
- 3) David Hexter has been a member of the Nominations Committee since 29 September 2021 and was present during all meetings of that Committee held after that date.

The operations of the Supervisory Board committees in the last year will be presented in the report on activities of the Supervisory Board in 2021, which will be submitted to the next

General Meeting of Santander Bank Polska S.A. and published in due course before that meeting.

### Audit and Compliance Committee

The **Audit and Compliance Committee** supports the Supervisory Board in fulfilment of its oversight obligations towards shareholders and other stakeholders in terms of:

- ▶ the quality and integrity of the accounting policies, financial statements and disclosure practices;
- ▶ compliance of the bank's business with laws and internal regulations;
- ▶ independence and effectiveness of activities undertaken by internal and external auditors;
- ▶ internal control system and risk management system.

The Committee also establishes the procedure for auditor selection by the bank (the main assumptions of the **Policy of Auditor Selection at Santander Bank Polska S.A. are presented in Section 8 "External Auditor", Subsection "Selection of the external auditor"**), develops the auditor services policy, as well as prepares and submits recommendations to the Supervisory Board regarding appointment, re-appointment and removal of the external auditor in accordance with the applicable laws and the Policy of Auditor Selection at Santander Bank Polska S.A. The Committee assesses the independence of the statutory auditor, gives consent for such auditor to render other permitted non-audit services and monitors financial audits.

An important role of the Committee is also to support the Supervisory Board in overseeing the compliance function and compliance risk management. To that end, the Committee conducts regular reviews of key compliance matters and changes in the regulatory environment, and assesses measures taken by the Management Board in this respect.

In 2021, the Committee exercised ongoing oversight of the bank's financial reporting and reviewed key controls, particular financial, operational, and regulatory compliance controls. As part of monitoring of the internal audit function, compliance function and control function, the Committee obtained information required to assess the effectiveness and efficiency of the internal control system and presented a relevant opinion to the Supervisory Board in this respect, noting that the system is adequate and effective in the context of the assessment criteria established by the Management Board and approved by the Supervisory Board. Likewise, the Committee deemed the risk management system of the bank to be adequate and effective.

The Committee conducted an ongoing review of matters within its remit, including regulatory, compliance, corporate governance, bancassurance and anti-money laundering issues, ICM/ SOX certification, Respect and Dignity Policy (breaches reported in confidence by employees) and other supervisory matters.

In 2021, the Committee regularly supervised the activities of the Internal Audit Area and positively assessed its operations in 2020, concluding that the Area was independent of other functions and that its operations were appropriate, effective and efficient.

Pursuant to its Terms of Reference, the Audit and Compliance Committee should convene at least four times per year at dates corresponding to the reporting and audit cycle. Additional meetings are held when necessary. In 2021, nine Committee meetings were held.

In 2021, the Committee issued a recommendation to the Supervisory Board to appoint PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. (formerly: PricewaterhouseCoopers Sp. z o.o.) to review and audit the financial statements of the bank and Santander Bank Polska Group for 2021 and 2022. The recommendation met all the required criteria and was presented to the Supervisory Board as part of the selection procedure carried out in accordance with the applicable principles (re-appointment of the auditor). The process included, among other things, the assessment of PwC's independence and the quality of services provided to date.

Furthermore, in 2021 the Committee gave consent to PwC and other entities from its network to provide permitted non-audit

services. Before the relevant recommendations were presented to the Supervisory Board, the independence of the auditor had been verified with a positive outcome. Detailed information about the foregoing services is presented in Section 8 "External Auditor", Subsection: "Permitted non-audit services".

As at 31 December 2021, all members of the Audit and Compliance Committee met the independence criteria in accordance with the bank's Statutes and the Act of 11 May 2017 on statutory auditors, audit firms and public oversight.

The following Committee members have knowledge and skills in the area of accounting or auditing:

- Danuta Dąbrowska: ACCA certificate and membership since 1999.
- Dominika Bettman: degree in economics and extensive professional experience gained in previous positions, including as CFO at companies from Siemens Group.
- David Hexter: degree in economics, professional experience gained in executive positions in financial institutions.

The following Committee members have knowledge and skills in the area of banking:

- David Hexter: competencies gained in executive positions in the banking and financial services sectors, including in Citibank and the EBRD.
- Dominika Bettman: competencies gained as the Member of the Supervisory Board of Eurobank S.A.

Apart from the Committee members, the regular attendees also include representatives of the bank's Auditor, the Vice President of the Management Board in charge of the Risk Management Division, the member of the Management Board in charge of the Financial Accounting and Control Division, the member of the Management Board in charge of the Financial Management Division, the Head of the Internal Audit Area and the Bank Director in charge of the Legal and Compliance Division. Other members of the Management Board and executives are also invited to attend the Committee meetings to present reports and discuss issues related to the areas under their management.

## Risk Committee

The Risk Committee is specifically responsible for:

- ▶ issuing opinions on the bank's current and future risk propensity;
- ▶ issuing opinions on the risk management strategy developed by the bank's Management Board and supervising its delivery;
- ▶ supporting the Supervisory Board in overseeing the implementation of the risk management strategy by the senior management;
- ▶ checking if the prices of liabilities and assets offered to customers match the bank's business model and risk management strategy, and if not – making a proposal to the Management Board to ensure adequacy of asset and liability prices in relation to different risk types;
- ▶ issuing opinions in relation to appointment and removal of the Management Board member in charge of risk management and opinions on his/her annual objectives and their delivery.

The Risk Committee convenes at least four times per year at dates corresponding to the reporting and audit cycle. Additional

meetings are held when necessary. In 2021, seven Committee meetings were held.

## Nominations Committee

The **Nominations Committee** supports the Supervisory Board in performing its tasks, issues recommendations on appointment and removal of members of the Supervisory Board, Management Board and other key function holders by the bank's relevant bodies, and contributes to the performance of the bank's duties with respect to the assessment of the suitability of members of the Supervisory Board, Management Board and key function holders.

The Nominations Committee holds regular meetings four times a year, as per the schedule agreed upon at the beginning of the

year. Additional meetings are held when necessary. In 2021, six Committee meetings were held.

## Remuneration Committee

The **Remuneration Committee** supports the Supervisory Board in performing its tasks concerning remuneration of members of the bank's governing bodies and key function holders, reviews and monitors the Remuneration Policy and supports the General Meeting, the Supervisory Board and the Management Board in developing and implementing that Policy.

The Committee holds regular meetings four times a year, as per the schedule agreed upon at the beginning of the year. Additional meetings are held when necessary. In 2021, five Committee meetings were held.

## Management Board

### Appointment and removal of executives

Members of the Management Board of Santander Bank Polska S.A. are appointed and removed in accordance with the Commercial Companies Code, Banking Law and the bank's Statutes.

The bank's Management Board consists of at least three persons (including the Management Board President) appointed by the Supervisory Board for a joint three-year term of office. At least half of the Management Board members (including the Management Board President) are required to speak Polish, have a university degree, be permanent residents of Poland, have good knowledge of the Polish banking sector and experience of the Polish market to manage a Polish banking institution. Two Management Board members, including the Management Board President, are appointed with the approval of the KNF. Management Board members may be removed by the Supervisory Board or the General Meeting at any time.

The term of office of the Management Board member expires no later than on the date of the General Meeting held to approve the financial statements for the last full financial year in which the member served on the Management Board. It also expires as a result of the member's death, resignation or removal. The term of office of the Management Board member who was appointed before the end of the term of the Management Board expires at the same time as those of the remaining members.

All Management Board members are subject to individual suitability assessment (initial and ongoing). The Management Board is also subject to collective suitability assessment. The foregoing processes are delivered in accordance with the Policy on suitability assessment of Management Board members and key function holders in Santander Bank Polska S.A. developed in line with the Joint Guidelines of the European Securities and Markets Authority and the European Banking Authority no. EBA/GL/2021/06, Regulation of the Minister of Finance of 7 May 2018 on specific tasks of the nomination committees in significant banks, and other applicable laws, in particular the Banking Law Act and the Commercial Companies Code. The assessment is also

conducted according to the Suitability assessment methodology for members of governing bodies of supervised entities published by the KNF. The individual and collective suitability assessments are conducted at least once a year and as required under the above-mentioned policy, e.g. when candidates are proposed for the Management Board positions (in this case, the assessment should be generally performed before the formal appointment), when membership of the Management Board changes or when the bank's business model is significantly modified.

Due to expiry of the term of office of the Management Board, on 22 March 2021 the Supervisory Board appointed existing members of the bank's Management Board for a new term of office, except for Michael McCarthy, who had announced his decision not to apply on 18 March 2021. On 26 May 2021, the Supervisory Board appointed Lech Gałkowski as a member of the bank's Management Board. The individual and collective suitability assessments confirmed that each member of the Management Board and the Management Board as a whole have appropriate knowledge and skills and meet all the suitability criteria to perform their functions.

Pursuant to Article 22b(1) of the Banking Law Act, the Management Board President and the Management Board member in charge of material risk management are appointed with the approval of the KNF. Such approval was required in relation to the appointment of Michał Gajewski as the President of the Management Board and Andrzej Burliga as the Vice President of the Management Board in charge of the Risk Management Division and the Business Intelligence Area.

### Powers of executives

The Management Board of Santander Bank Polska S.A. manages and represents the bank.

The Management Board takes decisions to raise obligations or transfer assets where the total value for one entity exceeds 5% of the bank's own funds. It may also, by way of resolution, delegate its powers to take such decisions to other committees or persons at the bank. The Management Board members run the bank's affairs jointly, and in particular: define the bank's mission, set long-term action plans and strategic objectives, prepare assumptions for the bank's business and financial plans, approve proposed plans and monitor their performance, regularly report to the Supervisory Board on the bank's position in the scope and at the dates agreed with the Supervisory Board, appoint permanent or ad hoc committees and designate individuals

responsible for managing the work of such committees. The committees are composed of both Management Board members and persons from outside the Management Board.

- ▶ Assets and Liabilities Committee (ALCO)
- ▶ Credit Policy Forum for Retail Portfolios
- ▶ Credit Policy Forum for SME Portfolios
- ▶ Credit Policy Forum for Business and Corporate Portfolios
- ▶ Provisions Committee
- ▶ Operational Risk Management Committee (ORMCO)
- ▶ Disclosure Committee
- ▶ Information Management Committee
- ▶ Risk Management Committee
- ▶ Model Risk Management Committee
- ▶ Savings and Investment Products Strategy Committee (Deposit Working Group)
- ▶ Marketing Forum
- ▶ Credit Risk Committee
- ▶ Market and Investment Risk Committee
- ▶ Regulatory and Reputational Risk Committee

Management Board members acting severally do not have any specific powers and cannot take decisions on issuing or redeeming shares.

Permanent committees operating at the bank include:

- ▶ Anti-Money Laundering and Counter-Terrorism Financing Committee Procurement Investment Committee
- ▶ Credit Committee
- ▶ Local Marketing and Monitoring Committee
- ▶ Public Policy Committee
- ▶ Restructuring Committee
- ▶ Responsible Banking and Corporate Culture Committee
- ▶ Capital Committee
- ▶ Suppliers Panel
- ▶ Capital Stress Test Forum
- ▶ Investment Advisory Committee
- ▶ Risk Control Committee
- ▶ Special Situations Management Committee
- ▶ Operations Committee of the Business Model Transformation Area
- ▶ General Compliance Committee

## Rules of procedure of the Management Board

The Management Board operations are primarily governed by Banking Law, the Commercial Companies Code, the bank's Statutes and the Terms of Reference of the Management Board, available on the bank's website.

According to the bank's Statutes, the following individuals are authorised to represent and bind the bank: a) the Management Board President acting individually, and b) two members of the Management Board acting jointly, or a member of the Management Board acting jointly with a commercial representative (prokurent), or two commercial representatives acting jointly. Attorneys may be appointed and authorised to act individually or jointly with any of the persons indicated in b) or with another appointed and authorised attorney.

The Management Board deals with all issues which have not been restricted to the remit of the General Meeting or the Supervisory Board. The Management Board takes decisions in the form of resolutions which are adopted by absolute majority in open voting.

The Management Board adopts resolutions in a secret ballot in cases stipulated by law. Management Board meetings are held as required. The Management Board members convene in a single location, or in different locations using remote communication channels.

The table below presents the composition of the Management Board of Santander Bank Polska S.A. as at 31 December 2021 and 31 December 2020 and the roles and responsibilities of its members. The bank's organisational structure is presented in Chapter X "Organisational and Infrastructure Development".

Role in the Management Board	No.	Composition as at 31.12.2021	Reporting area as at 31.12.2021	No.	Composition as at 31.12.2020	Reporting area as at 31.12.2020
<b>President of the Management Board:</b>	1.	Michał Gajewski	Units reporting directly to the President: 1) Legal and Compliance Division 2) Units outside of the divisional structure: Internal Audit Area, Corporate Communication and Marketing Area, Strategy and Transformation Area, Corporate Governance Department, Classified Data Protection Unit	1.	Michał Gajewski	Units reporting directly to the President: 1) Legal and Compliance Division 2) Units outside of the divisional structure: Internal Audit Area, Corporate Communication and Marketing Area, Strategic and Business Model Transformation Area, Customer Excellence Centre, Classified Data Protection Unit, Corporate Governance Office
	2.	Andrzej Burliga	1) Risk Management Division 2) Business Intelligence Area (unit outside the divisional structure)	2.	Andrzej Burliga	1) Risk Management Division 2) Business Intelligence Area (unit outside the divisional structure)
<b>Vice Presidents of the Management Board:</b>	–	–	–	3.	Michael McCarthy	Business and Corporate Banking Division
	3.	Juan de Porras Aguirre	Corporate and Investment Banking Division	4.	Juan de Porras Aguirre	Corporate and Investment Banking Division
	4.	Arkadiusz Przybył	Retail Banking Division	5.	Arkadiusz Przybył	Retail Banking Division
	5.	Lech Gałkowski	Business and Corporate Banking Division	–	–	–
<b>Members of the Management Board:</b>	6.	Patryk Nowakowski	Digital Transformation Division	6.	Patryk Nowakowski	Digital Transformation Division
	7.	Maciej Reluga	Financial Management Division	7.	Maciej Reluga	Financial Management Division
	8.	Carlos Polaino Izquierdo	Financial Accounting and Control Division	8.	Carlos Polaino Izquierdo	Financial Accounting and Control Division
	9.	Dorota Strojowska	Business Partnership Division	9.	Dorota Strojowska	Business Partnership Division

All members sitting on the bank's Management Board as at 31 December 2021 were appointed by the Supervisory Board for a joint three-year term of office on 22 March 2021, except for Lech Gałkowski, who joined the Management Board on 26 May 2021. Furthermore, Michael McCarthy, who sat on the Management Board as at 31 December 2020, decided not to apply for a new term of office on 18 March 2021.

The professional activities of the Management Board members focused on the performance of obligations connected with their role in the Management Board. The Management Board members complied with the limitation of the positions held with other companies, as stipulated in Article 22aa of the Banking

Law Act. The succession of the Management Board members and the continued delivery of the business processes at the senior management levels is ensured by the Nomination and Succession Planning Policy for Management Board Members and Key Function Holders at Santander Bank Polska S.A. and the succession plans in place.

The information about the academic background and professional experience of the bank's Management Board members is presented below. The extended version is also published on the bank's website at <https://www.santander.pl/en/investor-relations/about-company/authorities>.



## Management Board Members of Santander Bank Polska S.A.



### Michał Gajewski

**President of the Management Board**

**Academic background:**

**Legal counsel**

- ▶ Graduate of the Adam Mickiewicz University in Poznań, Northwestern University in Chicago and London Business School

**Professional background:**

- ▶ 1992–2008: WBK Group and BZ WBK Group (including the role of BZ WBK Management Board Member in charge of Retail Banking)
- ▶ 2008–2011: Vice President of the Management Board of BGŻ S.A. in charge of Retail, SME and Corporate Banking
- ▶ 2012–2015: Bank Millennium S.A. (Macroregional Director in the Retail Banking Division)
- ▶ 2015: Member of the Management Board of Bank Millennium S.A. in charge of the Retail Banking Division
- ▶ since 2016: President of the Management Board of Santander Bank Polska S.A.



### Andrzej Burliga

**Vice President of the Management Board  
Risk Management Division**

**Academic background:**

- ▶ Graduate of the Faculty of Theoretical Mathematics at Wrocław University
- ▶ Completed programmes in management and risk management (e.g. INSEAD International Executives Development Programme, BZ WBK Development Programme for Executives, LMC Consulting – Lilley Moncrieff Taylor)
- ▶ Member of Professional Risk Managers' International Association (PRMIA)

**Professional background:**

- ▶ 1995–2001: Treasury Department of Bank Zachodni S.A. (including the role of the Head of the Department)
- ▶ 2001–2006: Head of the Risk Management Department at Bank Zachodni WBK S.A.
- ▶ 2007–2017: Member of the Management Board of Bank Zachodni WBK S.A.
- ▶ since 2017: Vice President of the Management Board of Santander Bank Polska S.A. in charge of the Risk Management Division



### Juan de Porras

**Vice President of the Management Board  
Corporate and Investment Banking Division**

**Academic background:**

- ▶ Graduate of Universidad de Granada (Law)
- ▶ MBA degree from Escuela Superior de Administración y Dirección de Empresas in Barcelona
- ▶ Completed the Investment Banking Executive Programme at Northwestern University in Chicago

**Professional background:**

- ▶ 1989–1998: Commerzbank and Lloyds Bank (credit risk)
- ▶ 1997–2004: Société Générale (manager of relationships with telecommunication and energy companies, Deputy Head of the Madrid-based Corporate & Investment Banking)
- ▶ 2004–2005: Rabobank in Madrid (responsible for building the Spanish energy and telecom sector portfolio)
- ▶ 2005–2007: Senior Director at Royal Bank of Scotland in Madrid, responsible for the energy, oil and gas sectors
- ▶ since 2007: Managing Director of Global Banking & Markets at Banco Santander S.A.
- ▶ 2011–2017: Member of the Management Board of Bank Zachodni WBK S.A.
- ▶ since 2017: Vice President of the Management Board of Santander Bank Polska S.A. in charge of the Corporate and Investment Banking Division



### Arkadiusz Przybył

**Vice President of the Management Board  
Retail Banking Division**

**Academic background:**

- ▶ Graduate of the University of Łódź (Management, Finance and Banking)
- ▶ MBA degree from INSEAD, France

**Professional background:**

- ▶ 1997–2005: Engagement Manager at McKinsey & Company in Warsaw
- ▶ 2005–2008: Head of Retail Banking at GE Money for Central and Eastern Europe, Zurich/Paris Headquarters
- ▶ 2009–2010: Executive Director at GE Money Bank (Latvia) and GE Money (Latvia)
- ▶ 2011–2012: Business Director in the Headquarters of Santander Consumer Finance in Madrid, responsible for strategy development, market integration and company acquisition projects
- ▶ 2012–2017: President of the Management Board of Santander Consumer Bank S.A. in Wrocław
- ▶ 2017: Member of the Management Board of Santander Bank Polska S.A.
- ▶ since 2018: Vice President of the Management Board of Santander Bank Polska S.A. in charge of the Retail Banking Division



### Lech Gatkowski

**Member of the Management Board  
Business and Corporate Banking Division**

**Academic background:**

- ▶ Graduate of the SGH Warsaw School of Economics (Finance and Banking)
- ▶ Holder of scholarship at Staffordshire University Business School

**Professional background:**

- ▶ 1996–1998: Senior Auditor responsible for the banking sector, Coopers & Lybrand sp. z o.o.
- ▶ 1998–2003: Senior Banker responsible for the automotive, consumer and healthcare sectors, ABN AMRO Bank (Polska) S.A.
- ▶ 2003–2007: CFO and commercial representative, Volvo Auto Polska sp. z o.o.
- ▶ 2008–2012: Member of the Management Board in charge of Corporate and Investment Banking, RBS Bank (Polska) S.A. (formerly ABN AMRO Bank (Polska) S.A.)
- ▶ since 2010: Chairman of the Supervisory Board of Telestrada S.A.
- ▶ 2012–2021: Head of the Corporate and Investment Banking Department (until 2018) and – following an organisational change – Head of the Investment Banking Department of Santander Bank Polska S.A. responsible for development and implementation of a customer relationship strategy
- ▶ since 2021: Member of the Management Board of Santander Bank Polska S.A. in charge of the Business and Corporate Banking Division



### Patryk Nowakowski

**Member of the Management Board  
Digital Transformation Division**

**Academic background:**

- ▶ MSc in Economics from the Poznań University of Economics (IT and Econometrics)

**Professional background:**

- ▶ 2004–2007: gained international experience as Business Intelligence Consultant at Business & Decision AG Zurich, and then as Associate Director in UBS AG and Senior Principal Consultant in Oracle
- ▶ since 2002 (except the period above): employed with Bank Zachodni WBK S.A., initially as IT Systems Development Specialist
- ▶ 2008–2016: in charge of the Management Information Team, Information Management Competence Centre, Systems Development Area and CRM and Business Development Area
- ▶ 2016–2019: Chief Information Officer, including from 2017 to 2018 he managed acquisition of the demerged part of Deutsche Bank Polska S.A. and completed the legal and operational merger as well as migration of products held by retail and business customers of the acquired bank to the systems of Santander Bank Polska S.A.
- ▶ since 2019: Member of the Management Board of Santander Bank Polska S.A. in charge of the Digital Transformation Division



### Carlos Polaino Izquierdo

**Member of the Management Board  
Financial Accounting and Control Division**

**Academic background:**

- ▶ Graduate of Universidad Autónoma de Madrid (Business Administration)

**Professional background:**

- ▶ until 1998: Ernst & Young
- ▶ since 1998: Santander Group:
- ▶ Internal Audit of Banco Santander Spain
- ▶ since 2006: Deputy Head of Internal Audit, Santander Brazil
- ▶ Active role in the merger of the different banks from Santander Group
- ▶ since 2011: Chief Audit Executive of
- ▶ Bank Zachodni WBK Group
- ▶ since 2015: Member of the Management Board of Santander Bank Polska S.A. in charge of the Financial Accounting and Control Division



### Maciej Reluga

**Member of the Management Board  
Financial Management Division**

**Academic background:**

- ▶ Graduate of the faculty of Economic Science at Warsaw University; completed the Finance Management Programme at the University of Namur (Belgium)
- ▶ Studied at ICAN Institute's Strategic Leadership Academy and completed Senior Management Programme in Banking at Swiss Finance Institute
- ▶ Attended a number of programmes and training courses (including at the University of Cambridge)

**Professional background:**

- ▶ 1996–1998: Analyst at NBP
- ▶ 1998–2002: Economist at ING Bank Śląski and ING Barings
- ▶ since 2002: Chief Economist at Bank Zachodni WBK S.A.
- ▶ since 2017: Member of the Management Board of Santander Bank Polska S.A. in charge of the Financial Management Division



### Dorota Strojowska

**Member of the Management Board  
Business Partnership Division**

**Academic background:**

- ▶ Graduate of Polish and Classical Philology at the Adam Mickiewicz University in Poznań
- ▶ Postgraduate of Poznań University of Economics and Business and Kozminski University
- ▶ Completed a number of training courses on HR management, coaching, strategic planning, financial management and business psychology, including Development of Managerial Skills at Nottingham Trent University and Advanced Leadership Programme at ICAN Institute, Harvard Business Review

**Professional background:**

- ▶ 2005–2012: Team Manager in the CRM and Sales Support Department of Bank Zachodni WBK S.A.
- ▶ 2012–2013: Retail Banking Business Model Coherency Director at Bank Zachodni WBK S.A.
- ▶ 2013–2016: Head of the Organisational Effectiveness Area at Bank Zachodni WBK S.A.
- ▶ from April to December 2016: Head of the HR Division at PKO BP
- ▶ since 2017: Member of the Management Board of Santander Bank Polska S.A. in charge of the Business Partnership Division

## 5. Remuneration Policy

### Remuneration of Management and Supervisory Board members

#### Remuneration of Supervisory Board members

##### Internal regulations concerning remuneration for supervisory function holders

As at 31 December 2021, the remuneration for the Supervisory Board members was set in accordance with the Remuneration Policy for Members of the Supervisory Board of Santander Bank Polska S.A., which was adopted by virtue of Resolution no. 49 of the Annual General Meeting of 22 June 2020. The foregoing policy complies with EU regulations, Polish laws and corporate governance principles for supervised entities.

##### Remuneration principles

The remuneration of members of the Supervisory Board of Santander Bank Polska S.A. is set by the bank's General Meeting, depending on the function performed on the Supervisory Board, membership of the Supervisory Board Committees and

the related additional tasks performed. The General Meeting may authorise the Supervisory Board to determine additional remuneration for the Supervisory Board members entrusted with ongoing individual oversight. The remuneration for Supervisory Board members is paid in cash only.

No additional discretionary pension benefits or early retirement programmes are envisaged for the Supervisory Board members.

##### Amount of remuneration

The amount of remuneration of Supervisory Board members is specified in AGM Resolution no. 30 of 22 March 2021. Members of the Supervisory Board are paid monthly remuneration for performing their role on the Supervisory Board and additional remuneration for participating in each of the meetings of the Supervisory Board Committees on which they sit. The following four members of the Supervisory Board related to Santander Group did not receive remuneration: Gerry Byrne, José García Cantera, Isabel Guerreiro and José Luis de Mora.

The table below presents the remuneration paid to members of the Supervisory Board of Santander Bank Polska S.A. in 2020 and 2021.

First and last name	Position	2021		2020	
		Period	PLN k	Period	PLN k
Gerry Byrne <sup>1)</sup>	Chairman of the Supervisory Board	01.01.2021-22.03.2021	–	01.01.2020-31.12.2020	–
Antonio Escámez Torres <sup>2)</sup>	Chairman of the Supervisory Board	22.03.2021-31.12.2021	227	nd.	nd.
José Luis de Mora <sup>1)</sup>	Deputy Chairman of the Supervisory Board	01.01.2021-31.12.2021	–	01.01.2020-31.12.2020	–
Dominika Bettman	Member of the Supervisory Board	01.01.2021-31.12.2021	303	22.06.2020-31.12.2020	128
José García Cantera <sup>1)</sup>	Member of the Supervisory Board	01.01.2021-31.12.2021	–	01.01.2020-31.12.2020	–
Danuta Dąbrowska	Member of the Supervisory Board	01.01.2021-31.12.2021	283	01.01.2020-31.12.2020	249
Isabel Guerreiro <sup>1)</sup>	Member of the Supervisory Board	01.01.2021-31.12.2021	–	01.01.2020-31.12.2020	–
David Hexter	Member of the Supervisory Board	01.01.2021-31.12.2021	346	01.01.2020-31.12.2020	320
John Power	Member of the Supervisory Board	01.01.2021-31.12.2021	307	01.01.2020-31.12.2020	289
Jerzy Surma	Member of the Supervisory Board	01.01.2021-31.12.2021	329	01.01.2020-31.12.2020	302
Marynika Woroszyńska-Sapieha	Member of the Supervisory Board	01.01.2021-31.12.2021	282	01.01.2020-31.12.2020	254

1. Gerry Byrne, José García Cantera, José Luis de Mora and Isabel Guerreiro did not receive remuneration for their membership of the Supervisory Board.

2. Antonio Escámez Torres replaced Gerry Byrne as the Chairman of the Supervisory Board as of 22 March 2021.

John Power additionally received PLN 90k in 2020 (PLN 99k in 2020) for his membership of the Supervisory Board of the bank's subsidiaries.

#### Remuneration of Management Board members

##### Internal regulations concerning remuneration for management function holders

The rules regarding fixed and variable components of remuneration for the Management Board members are set out in the Remuneration Policy for Members of the Management Board of Santander Bank Polska S.A. introduced by virtue of Supervisory Board Resolution no. 49 of 22 June 2020 and in the Remuneration Policy of Santander Bank Polska Group updated in July 2021.

##### Agreements between Santander Bank Polska S.A. and its executives

The Management Board members signed employment contracts with Santander Bank Polska S.A. for the current term of office. The contractual terms and conditions comply with general laws and internal regulations, in particular with the Remuneration Policy for Members of the Management Board of Santander Bank Polska S.A. The Management Board members also signed agreements prohibiting competitive activity after termination of their employment with Santander Bank Polska S.A.

A Management Board member who is not appointed for a new term of office or is removed from the Board is entitled to one-off severance pay. It does not apply to Management Board members who accept a new role in the bank, are removed due to gross violation of their obligations or standards of integrity, culture and professional conduct, resign or are not granted discharge.

Santander Bank Polska S.A. does not have an obligation to pay pension or other similar benefits to former members of the Management Board or the Supervisory Board.

### Fixed remuneration

Pursuant to the Statutes of Santander Bank Polska S.A. and the aforementioned regulations, the remuneration of the President and members of the Management Board is set by the Supervisory Board, taking into account recommendations of the Remuneration Committee. The Committee defines the remuneration policy for Management Board members and individual terms and conditions as part of remuneration packages for each Management Board member.

Fixed remuneration includes base salary, additional benefits specified in the internal awarding regulations (e.g. health

insurance) as well as severance pay and compensation arising from external regulations.

When determining the amount of the base salary of a Management Board member, the following criteria are specifically taken into account: function performed, scope of organisational responsibility at the bank, qualifications and professional experience and market competitiveness of the remuneration offered. No additional discretionary pension benefits or early retirement programmes are envisaged for the Management Board members.

The table below presents the total remuneration and additional benefits received by members of the Management Board of Santander Bank Polska S.A. in 2021 and 2020 for their membership of the Management Board.

First and last name	Position	2021 <sup>1)</sup>			2020		
		Period	Remuneration (PLN k)	Additional benefits <sup>2)</sup> (PLN k)	Period	Remuneration (PLN k)	Additional benefits <sup>2)</sup> (PLN k)
Michał Gajewski	President of the Management Board	01.01.2021-31.12.2021	2 817	174	01.01.2020-31.12.2020	2 603	159
Andrzej Burliga	Vice President of the Management Board	01.01.2021-31.12.2021	1 296	131	01.01.2020-31.12.2020	1 308	123
Michael McCarthy	Vice President of the Management Board	01.01.2021-22.03.2021	297	16	01.01.2020-31.12.2020	1 384	25
Juan de Porras Aguirre	Vice President of the Management Board	01.01.2021-31.12.2021	1 029	701	01.01.2020-31.12.2020	1 478	217
Arkadiusz Przybył	Vice President of the Management Board	01.01.2021-31.12.2021	1 320	101	01.01.2020-31.12.2020	1 332	89
Lech Gatkowski	Member of the Management Board	26.05.2021-31.12.2021	637	62	n/a.	n/a	n/a
Patryk Nowakowski	Member of the Management Board	01.01.2021-31.12.2021	1 053	101	01.01.2020-31.12.2020	972	88
Carlos Polaino Izquierdo	Member of the Management Board	01.01.2021-31.12.2021	1 300	630	01.01.2020-31.12.2020	1 565	254
Maciej Reluga	Member of the Management Board	01.01.2021-31.12.2021	1 053	127	01.01.2020-31.12.2020	972	115
Dorota Strojowska	Member of the Management Board	01.01.2021-31.12.2021	1 076	101	01.01.2020-31.12.2020	1 074	89

1) Changes to the composition of the Management Board in 2021 are presented above in the „Management Board” section.

2) Additional benefits received by the Management Board members include, among other things, life insurance cover without pension option and, in case of Juan de Porras Aguirre and Carlos Polaino Izquierdo, also medical cover, accommodation, travel expenses and school fees

In 2021, Management Board members were paid allowances in lieu of annual leave of PLN 798.7k. In 2020, no such allowance was paid.

In neither of the analysed periods did Management Board members receive remuneration for their membership of the governing bodies of the subsidiaries or associates.

### Variable remuneration

The general rules for determining variable remuneration for Management Board members of Santander Bank Polska S.A. are laid down in the Remuneration Policy for Members of the Management Board of Santander Bank Polska Group, and defined in more detail in the Remuneration Policy of Santander Bank Polska Group.

The annual bonus of a Management Board member depends on the annual base bonus, the availability of the bonus pool and the overall evaluation of the Management Board member's performance.

Variable remuneration is awarded to the Management Board members based on the evaluation of their performance. The selection of metrics (as well as their granularity) for individual Management Board members takes into account their individual duties and responsibilities in the process of managing the bank.

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 and adjusted by a multiplier, which arises, among other things, from assessment of performance against a three-year horizon, as proposed by the Supervisory Board Remuneration Committee and approved by the Supervisory Board.

In 2021, the assessment of delivery of the objectives set out in the Responsible Banking Strategy, including measures related to environmental protection and prevention of climate change, became one of the criteria for determining the bonus for members of the Management Board and the Chairman of the

Supervisory Board. This process takes into account the progress made in a given year in the following three main areas of the Responsible Banking Strategy: promotion of diversity, financial empowerment and education, and development of green products and services.

The base bonus is set on the basis of an individual scope of responsibility, taking into account market conditions and other criteria. Each year, the Remuneration Committee reviews the performance of each Management Board member in line with a separate policy and a detailed procedure for evaluating the performance of the Management Board members. The final decision on the amount of the annual bonus for the Management Board members is taken by the Supervisory Board based on the Committee's recommendation.

The level of the annual bonus is determined on the basis of global quantitative, qualitative and risk indicators as well as potential adjustments in respect of unexpected events. The indicators are set in accordance with the bank's financial plan and strategic goals and take into account risk management requirements. The bank's performance used to define variable components of remuneration takes into account the cost of credit, the cost of capital, and liquidity risk in a long-term perspective.

The total variable remuneration paid to Management Board members and material risk takers for a given calendar year cannot exceed 100% of the total fixed remuneration paid. However, in

exceptional cases, this limit may be increased up to 200% of fixed remuneration subject to the approval of the bank's General Meeting.

Variable remuneration is awarded in accordance with bonus regulations and paid in cash or financial instruments (shares or related instruments such as phantom stock). The remuneration paid in financial instruments may not be lower than 50% of the total amount of variable remuneration. Payment of min. 40% of variable remuneration (min. 60% in the case of variable remuneration exceeding an equivalent of EUR 1m) is conditional and deferred for the period of at least four years (five years in the case of Management Board members and senior executives). It is paid in equal annual instalments in arrears during the deferral period, unless there are reasons for reduction or non-payment.

The Management Board members may also receive variable remuneration provided for in the long-term incentive programmes designed to reinforce the connection between the long-term financial effectiveness of the bank, expectations of shareholders and awards for executives while adhering to market standards. Subject to certain criteria, the programmes enable their participants to take up a certain number of the bank's shares.

The table below presents awards paid to the Management Board members in 2021 and 2020.

First and last name	Position	2021		2020	
		Period	Awards paid <sup>2)</sup> (PLN k)	Period	Awards paid <sup>2)</sup> (PLN k)
Michał Gajewski	President of the Management Board	01.01.2021-31.12.2021	1 713	01.01.2020-31.12.2020	2 058
Andrzej Burliga	Vice President of the Management Board	01.01.2021-31.12.2021	617	01.01.2020-31.12.2020	910
McCarthy Michael	Vice President of the Management Board	01.01.2021-22.03.2021	850	01.01.2020-31.12.2020	1 193
Juan de Porras Aguirre	Vice President of the Management Board	01.01.2021-31.12.2021	1 008	01.01.2020-31.12.2020	1 413
Arkadiusz Przybył	Vice President of the Management Board	01.01.2021-31.12.2021	744	01.01.2020-31.12.2020	917
Lech Gałkowski	Member of the Management Board	26.05.2021-31.12.2021	n/a	n/a	n/a
Patryk Nowakowski	Member of the Management Board	01.01.2021-31.12.2021	294	01.01.2020-31.12.2020	186
Carlos Polaino Izquierdo	Member of the Management Board	01.01.2021-31.12.2021	616	01.01.2020-31.12.2020	874
Maciej Reluga	Member of the Management Board	01.01.2021-31.12.2021	558	01.01.2020-31.12.2020	663
Dorota Strojowska	Member of the Management Board	01.01.2021-31.12.2021	533	01.01.2020-31.12.2020	611

1) Changes to the composition of the Management Board in 2021 are presented above in the „Management Board” section.

2) The awards paid in 2021 include part of the award for 2016–2019 which was conditional and deferred in time, and non-deferred part of the award paid for 2020.

3) The awards paid in 2020 include part of the award for 2018, 2017, 2016 and 2015 which was conditional and deferred in time, and non-deferred part of the award paid for 2019 r.

Pursuant to the remuneration system applicable at the bank, Management Board members may be conditionally entitled to a bonus for 2021 which would be paid in part in 2022 and thereafter, if specific criteria are met. As at the date of these financial statements, the Supervisory Board did not take a decision in this respect.

## Incentive Programme

As at the approval date of the Annual Report of Santander Bank Polska Group for 2021, the periodical “Performance Shares” Incentive Programme was not renewed.

In 2020, Santander Bank Polska S.A. settled the sixth edition of the three-year incentive programme (6th Incentive Programme) addressed to the employees of the bank and its subsidiaries (up

to 250 people) who contributed significantly to an increase in the value of the organisation.

The 6th Incentive Programme was launched under resolution of the bank's Annual General Meeting of 17 May 2017. Its objective was to retain and incentivise executives and – in the long term – to facilitate the achievement of the quantitative and qualitative indicators at the levels set by the Supervisory Board.

In view of the fulfillment of the economic criteria for payment of the award, on 22 June 2020 the bank's Annual General Meeting approved the final list of participants in the programme (197 names) and passed a resolution on raising the bank's share capital by issuing new shares. As part of the programme, the bank issued 101,009 series O shares at PLN 10 per share.



## Shares and conditional rights held by Supervisory and Management Board members

As at the release dates of the financial reports for the periods ended 31 December 2021, 30 September 2021 and 31 December

2020, none of the members of the Supervisory Board held any shares or attached conditional rights to shares of Santander Bank Polska S.A.

The table below shows shares and attached conditional rights to shares of Santander Bank Polska S.A. held by Management Board members as at the release dates of the above-mentioned reports.

Management Board members as at 31.12.2021	23.02.2022	27.10.2021	23.02.2021
	Number of shares of Santander Bank Polska S.A.		
Michał Gajewski	4 795	4 795	4 795
Andrzej Burliga <sup>1)</sup>	1 884	3 884	3 884
Lech Gałkowski <sup>1)</sup>	951	951	n/a
Michael McCarthy <sup>2)</sup>	n/a	n/a	4 403
Patryk Nowakowski <sup>3)</sup>	–	1 055	1 055
Carlos Polaino Izquierdo	3 126	3 126	3 126
Juan de Porras Aguirre	3 379	3 379	3 379
Arkadiusz Przybył	2 999	2 999	2 999
Maciej Reluga	2 301	2 301	2 301
Dorota Strojowska	2 732	2 732	2 732
<b>Total</b>	<b>22 167</b>	<b>25 222</b>	<b>28 674</b>

1) On 24 November 2021 Patryk Nowakowski disposed of all of its shares in Santander Bank Polska S.A. On 13 January 2021 Andrzej Burliga sold 2,000 shares.

2) Lech Gałkowski took up his role as a Management Board member on 26 May 2021.

3) Michael McCarthy decided not to apply for a new term of office as the Management Board member.

## Relationship between the remuneration paid to Management Board members and key managers and long-term business and financial objectives of the company

The remuneration policy of Santander Bank Polska S.A., which regulates variable components of remuneration paid to material risk takers (identified employees), has an overall objective to incentivise employees to meet short-, medium- and long-term objectives of the Group, exceed plans, and achieve progress in individual performance.

The criteria that affect the type and amount of fixed and variable remuneration paid to the Management Board members were defined so as to support the delivery of the bank's business strategy, long-term interests and stability, in particular by:

- setting annual objectives in accordance with the bank's financial and strategic plans, and assessing the performance of individual Management Board members;
- applying a flexible remuneration policy by maintaining a proper balance between fixed and variable components;
- awarding part of remuneration in the form of financial instruments and deferring payment of variable remuneration for a minimum of four years (with an option to extend that period to five years) ensuring that the bank's financial performance has influence on remuneration in the long-term perspective;
- applying malus clauses ensuring proper and effective risk management and discouraging excessive taking of risk which might materialise in the deferral period;
- awarding the variable components of remuneration only if it does not represent any threat to the solid capital base of the bank or the Group in the long-term horizon;

- a possibility to set up incentive programmes to support delivery of the bank's strategy in a three-year perspective ("Performance Shares" programme).

Variable remuneration of identified persons (including the Management Board members) depends on assessment of their individual performance and on the results of their organisational unit, area under management and the bank. The individual performance is assessed in accordance with the standard procedure, based on financial and non-financial criteria. The performance review covers the period of minimum three years and takes into account the bank's economic cycle and business risk. At least 50% of variable remuneration is paid in the form of phantom stock based on the bank's shares. In addition, payment of min. 40% of variable remuneration is deferred for the period of at least four years (five years in the case of Management Board members and senior executives). It is paid in equal annual instalments in arrears during the deferral period, unless there are reasons for reduction or non-payment.

Santander Bank Polska Group has a formal process in place for identification, assessment and ex-post review of performance resulting in adjustment of the variable remuneration for identified employees (material risk takers) and other employees subject to those regulations.

The variable components of remuneration for the identified employees responsible for risk management, compliance with the law, internal regulations and market standards, and internal audit are reviewed and monitored by the Remuneration Committee of the Supervisory Board. Variable remuneration of the heads of the compliance and internal audit areas is approved by the Supervisory Board.

In addition, Management Board members and key employees may receive awards under long-term incentive programmes (and take up the bank's shares at their nominal value). The purpose

of these programmes is to retain the above-mentioned staff and improve the efficiency and value of the organisation. The programmes set out in detail the criteria that must be met by the Management Board members and other participants for an award to be granted, and the right of the bank's Supervisory Board to change the terms and conditions of the incentive programme, e.g. in the event of any substantial deterioration of the financial standing or risk profile. In 2020, the bank completed the 6th Incentive Programme described above in the section on the "Performance Shares" programme.

## 6. Diversity Policy

### Foundations of the diversity management approach

Santander Bank Polska S.A. complies with the laws on diversity, inclusion and equal opportunities. It is committed to promoting diversity in accordance with best practice and ensuring equal treatment of employees and other stakeholders regardless of their gender, age, education, health conditions, race, religion, national or ethnic origin, political beliefs, trade union membership, family status or sexual orientation.

Aspects such as respect for individuality, promotion of equal treatment and the prevention of discrimination are addressed by a number of policies and procedures applicable at the bank, including the Sustainability Policy, the Human Rights Policy, the Respect and Dignity Policy and the Corporate Culture Policy of Santander Bank Polska Group. These policies are presented in Chapter XIV "Statement on Non-Financial Information for 2021", Section 4 "Employee Policies and their Outcomes", Subsection "Protection and promotion of diversity".

As a signatory to the Diversity Charter (the international initiative supported by the European Commission), Santander Bank Polska S.A. committed itself to respecting and promoting diversity.

### Diversity policy regarding the governing bodies

The bank pursues its diversity strategy as part of selection, assessment of suitability and succession of members of supervisory and management bodies. Not only does it strive to ensure that members of the Management and Supervisory Boards have a wide range of capabilities, professional skills, adequate experience and good reputation, but it is also committed to having a balanced representation of men and women on these boards, while ensuring diversity in terms of age, academic and professional background and geographical origin.

The above processes are delivered in a way preventing discrimination on any grounds, particularly based on gender, race,

## Other transactions with the bank's executives

### Loans and advances

Loans and advances granted by Santander Bank Polska S.A. to the bank's managers and their relatives totalled PLN5 996k as at 31 December 2021 vs PLN 6,528k as at 31 December 2020. These facilities were sanctioned on regular terms.

Deposits placed with Santander Bank Polska S.A. by the bank's executives and their relatives totalled PLN 14 014k as at 31 December 2021 (PLN 18,351k as at 31 December 2020).

### Accruals for employee benefits

Accruals for unused holidays of PLN 45 018k (PLN 42,614k in 2020) disclosed in Note 55 to the Consolidated Financial Statements of Santander Bank Polska Group for 2021 also include accruals for unused holidays related to members of the bank's Management Board.

colour, ethnic or social origin, genetic features, religion or beliefs, membership of a national minority, property, birth, disability, age or sexual orientation.

The bank's internal regulations in this respect are based on the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders EBA/GL/2017/12 and complies with the applicable laws, including the Banking Law Act and the Commercial Companies Code. They also comply with new Guidelines EBA/GL/2021/06 effective as of 31 December 2021.

The Management Board Diversity Policy of Santander Bank Polska S.A. promotes diversity among Management Board members in terms of their qualities and skills to ensure different perspectives and extensive experience, prevents exclusion (promotes inclusion) and supports independent judgment and informed decision making based on a wide range of criteria.

Pursuant to the above policy, the Supervisory Board strives to achieve minimum 30% representation of women in the Management Board by 2025 and increase diversity in terms of age and geographical provenance.

Furthermore, the Appointment and Succession Policy for Management Board Members and Key Function Holders of Santander Bank Polska S.A. is to ensure the continuity of business processes delivered by senior managers, while maintaining the best possible balance of the management team in terms of gender, knowledge, skills and experience.

The diversity of the Supervisory Board is governed by the Policy on the Suitability Assessment of the Supervisory Board Members in Santander Bank Polska S.A. and the Nomination and Succession Planning Policy for Supervisory Board Members in Santander Bank Polska S.A., which require that – apart from having adequate education, professional experience and good repute – the candidates for the Supervisory Board and the Management Board positions should possess a wide spectrum of qualities and skills and independence of mind. Moreover, the former policy sets out an objective of 40%–60% female representation on the

Supervisory Board by 2025.

To ensure min. 30% share of women on the Management and Supervisory Boards, the Nominations Committee of the Supervisory Board takes into account all personnel of Santander Group and business objectives related to cross-border activities. Further to this, it takes measures to ensure that the succession plans include an appropriate percentage of women to achieve the set objective and that the women considered in such plans are ready to take up their role within the prescribed time frame.

As at 31 December 2021, there were four women on the bank's Supervisory Board: Danuta Dąbrowska, Dominika Bettman,

Isabel Guerreiro and Marynika Woroszylska-Sapieha (40% of membership) and one woman on the Management Board: Dorota Strojowska, Head of the Business Partnership Division (11% of membership). Women accounted for 26% of the supervisory and management bodies and taking into account key managers –29%. They represented 45% of senior management and 56% of middle management.

The current composition of the Supervisory and Management Boards ensures diversity in terms of gender, age, experience and academic background. The tables and graphs below show diversity of the above-mentioned bodies:

Gender	Women	Men
Supervisory Board	4	6
Management Board	1	8

Age	31-40	41-50	51-60	over 60
Supervisory Board	-	2	5	3
Management Board	-	5	4	-

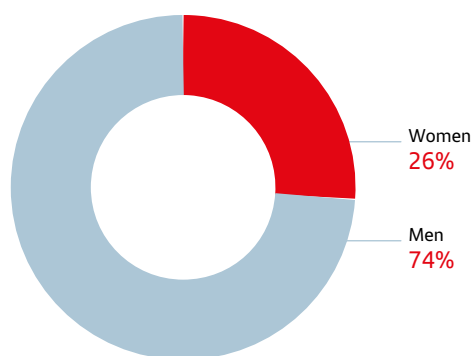
  

Years of employment with Santander Bank Polska S.A.	up to 5	6-10	11-15	16-20	21-25	over 26
Supervisory Board	3	5	1	1	-	-
Management Board	2	3	2	1	1	1

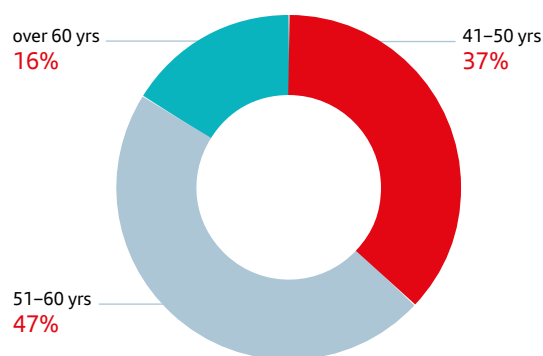
  

Work experience	Number of persons
Supervisory Board	7
Management Board	4

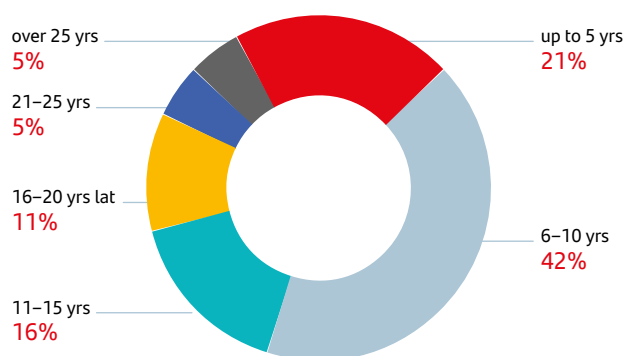
> GENDER OF SUPERVISING AND EXECUTIVE STAFF OF SANTANDER BANK POLSKA S.A.



> AGE OF SUPERVISING AND EXECUTIVE STAFF OF SANTANDER BANK POLSKA S.A.



> WORK EXPERIENCE OF SUPERVISING AND EXECUTIVE STAFF WITH SANTANDER BANK POLSKA S.A.



## 7. Internal Control and Risk Management Systems

### Objective of the internal control system

Santander Bank Polska Group has an internal control system in place, which together with the risk management system (described in Chapter XII "Risk and Capital Management") is a fundamental element of the Group's management system.

The internal control system supports decision-making processes, contributes to an increase in operational efficiency of the organisation, and ensures adherence to risk management principles, laws, internal regulations and standards, regulatory requirements and best market practice. The effective system allows the bank to ensure the reliability of financial reporting and its compliance with laws, international standards, internal regulations and supervisory recommendations.

### Organisation and operation of the internal control system

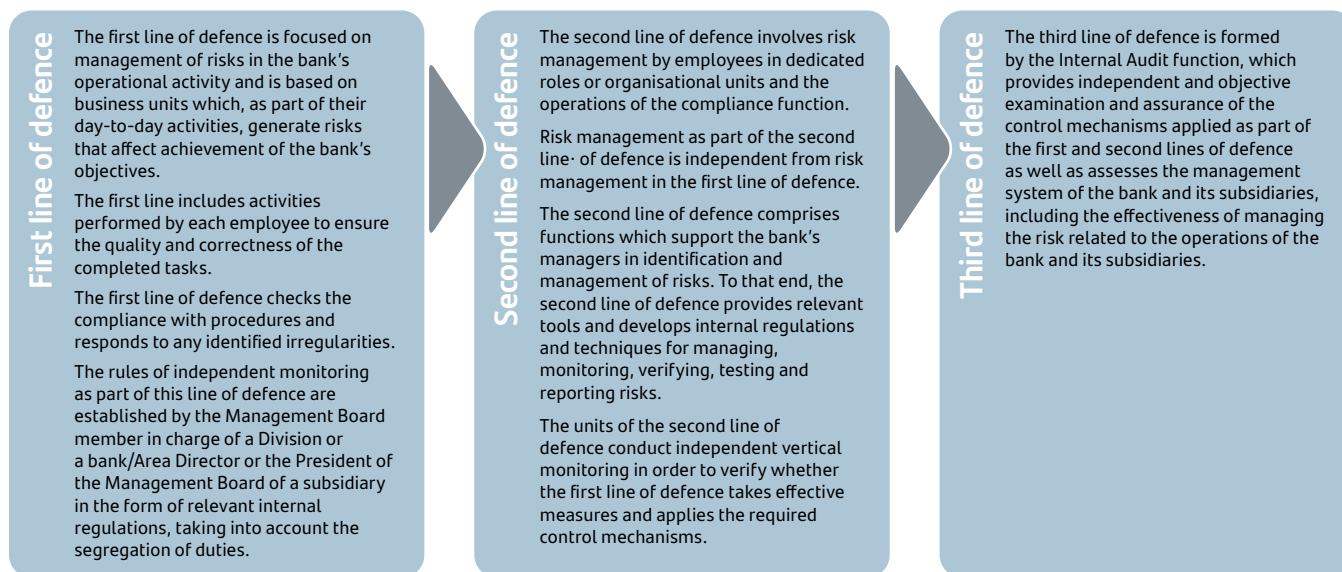
The bank's Management Board is responsible for developing and implementing an effective internal control system in all organisational units, and for updating internal regulations and establishing adequacy and effectiveness criteria for evaluating that system. Its role is to ensure continuity of the system and to verify control mechanisms and procedures, as well as to define and take relevant measures to remove any deficiencies after they are identified. The Supervisory Board monitors the effectiveness of the internal control system and performs annual assessment of adequacy and effectiveness of the control function based on the opinion of the Audit and Compliance Committee.

The internal control system of Santander Bank Polska S.A. is tailored to the organisational structure, risk management system and market environment. It covers the Business Support Centre, branches, partner outlets and subsidiaries. It includes but is not limited to:

- a control function, which includes positions, task forces and organisational units which are responsible for ensuring that the control mechanisms defined as part of such processes as Operational Risk Self-assessment are properly implemented (for more information, please see Chapter XII "Risk and Capital Management");
- a compliance function, which is a separate organisational unit (Compliance Area and Money Laundering and Terrorist Financing Risk Management Department), whose goal is to support Santander Bank Polska Group's executives in managing compliance risks to ensure that the Group adheres to laws, regulatory requirements and best practices;
- an internal audit function, i.e. an independent and unbiased organisational unit (Internal Audit Department), which assesses the adequacy and effectiveness of the risk management and internal control system as part of the first and second line of defence, reports critical deficiencies (significant weaknesses) to the bank's Management Board and to the Supervisory Board or its Audit and Compliance Committees, and recommends measures to be taken to improve existing processes.

The internal control and risk management systems are based on three lines of defence.

## THREE LINES OF DEFENCE IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS



The Internal Control System Policy of Santander Bank Polska S.A. defines, among other things, the objective, structure and scope of the internal control system. Detailed regulations describe responsibilities as part of the internal control system, rules for identifying processes and risks that are material from the point of view of the control environment, along with their control mechanisms, risk control mechanisms and inspections carried out as part of independent monitoring of control mechanisms. The purpose of monitoring, testing and reporting is to ensure that the control environment is effective in terms of design and operation of the controls, and to strengthen the control culture at all levels within the organisation.

The Group's internal control system enables regular verification of control mechanisms in terms of their effectiveness. The results are escalated to and reviewed by the bank's Management Board and the Audit and Compliance Committee of the Supervisory Board of Santander Bank Polska S.A.

### Control mechanisms related to financial reporting

One of the key objectives of the internal control system is to ensure full accuracy and credibility of financial reporting.

Data inputs in the source systems are subject to formal operational and approval procedures which state the responsibilities of individual staff members. Data processing for the purpose of financial reporting is subject to relevant control mechanisms and covered by specialist internal controls whose objective is to monitor and test the correctness and accuracy of data. Any manual corrections or management overrides are also under strict control. Santander Bank Polska Group has a business continuity plan in place, which covers all IT systems used to prepare financial reports. The plan is updated on an ongoing basis.

To manage risk associated with the preparation of financial statements, the bank monitors legal and regulatory changes to reporting obligations and updates its accounting principles and disclosures accordingly. The bank exercises oversight of its consolidated entities through its representatives sitting on the supervisory boards of individual subsidiaries.

Financial reporting is subject to multi-stage verification:

- Financial statements are formally approved by the Disclosure Committee, which is responsible for ensuring that the financial disclosures of Santander Bank Polska Group comply with all legal and regulatory requirements before they are released.
- The bank's management confirms that the control mechanisms in place effectively mitigate the risk of any failure to identify any material error in the financial statements.
- Annual and interim financial statements are also reviewed by the Audit and Compliance Committee of the Supervisory Board and approved by the Supervisory Board.
- The Audit and Compliance Committee monitors the financial reporting process, taking into account information about changes in the accounting and reporting policies, and analyses all recommendations issued for the bank's Management Board by an external auditor along with the Management Board's response, and supervises their implementation.
- The effectiveness of control mechanisms related to financial reporting is additionally assessed by an independent external auditor as part of the annual certification process for compliance with the Sarbanes-Oxley Act.

### Internal control under the Sarbanes-Oxley Act and other regulations

In the light of the Sarbanes-Oxley Act, Santander Bank Polska Group operates as a material and independent organisation within the structure of Santander Group and as such is required to implement, maintain and assess the effectiveness of the internal control environment pursuant to the above-mentioned act.

The certification process for compliance with the Sarbanes-Oxley Act in 2021 covered all key business areas of Santander Bank Polska S.A. and was carried out using solutions and methodology based on Santander Group's approach. The scope of testing included risk factors which were particularly significant for the reliability and accuracy of financial statements, taking into account the local control environment.

In view of the requirements arising from external regulations, Santander Bank Polska S.A. took measures to ensure that its internal control system complies with the Volcker Rule (section

619 of Dodd-Frank Wall Street Reform and Consumer Protection Act), RDA/RRF (Basel Committee on Banking Supervision 239: Principles for effective risk data aggregation and risk reporting), the Regulation of the Minister of Finance on the risk management system, internal control system, remuneration policy and detailed method of internal capital estimation in banks, and KNF's Recommendation H on the internal control system in banks.

The assessment of the design and effectiveness of the internal control system covers all available information and related

recommendations, including audit and post-inspection recommendations. Results of assessments and tests form the basis for the bank's management to make representations on the effectiveness of the control environment.

As part of the SOX certification process for 2021, the bank's management confirmed that no incidents had been identified in Santander Bank Polska Group which could significantly affect the relevant processes or threaten the effectiveness of the internal control over financial reporting.

## 8. External auditor

### Entity authorised to audit financial statements

In accordance with the bank's Statutes and applicable regulations and pursuant to the recommendation of the Audit and Compliance Committee issued in line with the applicable principles, on 23 February 2021 the bank's Supervisory Board adopted Resolution no. 24/2021 reappointing PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. (PwC) to:

- review the bank's semi-annual financial statements and the Group's semi-annual consolidated financial statements for H1 2021 and H1 2022;
- audit the bank's financial statements and the Group's consolidated financial statements for 2021 and 2022.

On 9 June 2021, the bank signed an agreement with PwC on the audit and review of financial statements for the above-mentioned periods of 2021. On 3 August 2021, an annex to the agreement was signed in relation to voluntary audit of the condensed interim special purpose financial statements for the period from 1 January to 30 June 2021, which was one of the conditions precedent to payment of an interim dividend.

The audit firm has been providing services to the bank since 2016. The bank uses advice services provided by this firm and other entities from the PwC network. In the bank's view, the above services do not affect the impartiality or independence of the auditor.

The audit firm has been providing services to the bank since 2016. The bank uses advice services provided by this firm and other entities from the PwC network. In the bank's view, the above services do not affect the impartiality or independence of the auditor.

Santander Bank Polska S.A. and Banco Santander S.A. retain auditors from the same network, which ensures a consistent approach to the audit process across Santander Group.

Santander Bank Polska S.A. selects an entity authorised to audit financial statements pursuant to the Policy of Auditor Selection (adopted by the Supervisory Board on 4 October 2017 pursuant to the recommendation of the Audit and Compliance Committee, and amended on 25 April 2019). The Policy complies with Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and the Polish Act of 11 May 2017 on statutory auditors, audit firms and public oversight.

Detailed rules of cooperation with the audit firm and the audit team are specified in the Audit Services Policy of Santander Bank Polska S.A. of 6 May 2021.

### Selection of an external auditor

A decision to appoint or reappoint an entity authorised to audit the bank's and the Group's financial statements is made by the bank's Supervisory Board based on the recommendation of the Audit and Compliance Committee.

Pursuant to the Policy of Auditor Selection at Santander Bank Polska S.A., the bank selects an audit firm pursuant to the following rules:

- The bank and the Committee may invite any audit firm to place bids for carrying out statutory audits on condition of a four-year cooling-off period after the end of the relationship following the expiry of the maximum duration of the engagement.
- An audit firm is selected taking into account findings and conclusions made in the final report of the Audit Supervision Authority (KNA) published on its website.
- The Audit and Compliance Committee's recommendation regarding the selection of an entity authorised to audit financial statements takes into consideration the following aspects where applicable:

#### Initial engagement of an auditor:

- ▶ at least two audit firms to choose from, along with the rationale and the Committee's justified preference for one of them;
- ▶ competencies of the audit firms and their ability to perform the required services;
- ▶ independence of the auditor;
- ▶ legal requirements;
- ▶ consistency and effectiveness of the audit from the Group's perspective as well as from the higher-level consolidation perspective;
- ▶ comparison of individual proposals in accordance with the agreed criteria, having regard to the weights allocated on the basis of a relevant questionnaire.

#### Reappointment of the auditor:

- ▶ assessment of the quality of services provided to date;
- ▶ independence of the auditor;
- ▶ legal requirements;
- ▶ consistency and efficiency of the audit from local Group perspective as well as from the higher level consolidation perspective.



→ The same auditor is appointed for the audit of financial statements of the bank and consolidated financial statements of the Group. The same auditor may be appointed to perform all other audit-related services.

→ The bank/ the Group complies with the applicable laws with respect to the minimum and maximum duration of an audit engagement and the minimum cooling-off period.

**As part of statutory measures aimed at prevention and containment of Covid-19 and other contagious diseases and management of crisis situations caused by them, the Act on statutory auditors was amended on 31 March 2020, whereby the mandatory 5-year audit firm rotation for public interest entities was repealed. Currently, EU Regulation No 537/2014 is directly applicable, stipulating that the maximum engagement of the same audit firm cannot exceed 10 years.**

The recommendation issued by the Audit and Compliance Committee before the appointment of PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. (formerly: PricewaterhouseCoopers sp. z o.o.) to review and audit the financial statements of Santander Bank Polska S.A. and Santander Bank Polska Group for 2021 and 2022 met all the required criteria and was presented to the Supervisory Board as part of the selection procedure carried out in accordance with the applicable principles (reappointment of the auditor). The process included, among other things, the assessment of PwC's independence and the quality of services provided to date.

## Permitted non-audit services

The rules for provision of permitted non-audit services to Santander Bank Polska S.A. by the audit firm performing the audit, entities connected with the audit firm or by members of the audit firm network are laid down in the Policy for audit related and non-audit services rendered by the auditor, which was reviewed by the Audit and Compliance Committee and approved by the Supervisory Board on 29 September 2021. The Policy meets the requirements arising from Act of 11 May 2017 on statutory auditors, audit firms and public oversight as well as EU regulations, including Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 on statutory audits of annual accounts and consolidated accounts.

Pursuant to the foregoing policy:

- Appointment of an auditor to render audit-related or permitted non-audit services must be approved by the Audit and Compliance Committee based on the assessment of whether such services will not affect independence of the auditor.
- Once a year, before the conclusion of the audit of the Group's annual financial statements, summary information on non-audit services is sent to the Committee for assessment of their potential impact on the auditor's independence and objectivity.
- When the statutory auditor or the audit firm provides permitted non-audit services to the audited entity, its parent undertaking or its controlled undertakings, for a period of three or more consecutive years, the total fees for such services must not exceed 70% of the average total fees paid in the last three consecutive years for statutory audits of separate and consolidated financial statements of the above-mentioned entities. The above limit does not apply if the auditor has not rendered non-audit services for at least one year.

The scope of permitted services (i.e. services which, under the existing regulations, the statutory auditor can provide when auditing the financial statements of the bank/ Group) includes

audit-related services (e.g. review of interim financial statements, assurance services) and non-audit services (e.g. tax services and general advisory services).

The Policy also lists prohibited services. Specifically, the auditor must not:

- audit and/or review its own work (self-review);
- perform a management role in the audited company or in relation to the services provided (management functions);
- represent the audited company or Group (advocacy).

In addition, it is not permitted to provide accounting, financial, actuarial, outsourcing (as part of internal audit) and mediation services as well as services related to valuation, design and implementation of financial information systems and specific tax services.

In 2021, PwC, the audit firm appointed to audit the financial statements of Santander Bank Polska S.A. and its Group for 2020 and 2021 (along with other entities from the PwC network) provided the following permitted non-audit services:

- review of interim financial statements of the bank/ Group;
- verification of consolidation packs;
- verification of capital adequacy disclosures;
- verification of reports on remuneration of the Management and Supervisory Boards;
- services connected with an issue prospectus;
- assurance services related to safekeeping of customers' assets and disclosures regarding variable remuneration.

The Audit and Compliance Committee approved the appointment of PwC and other entities from its network to provide the foregoing permitted non-audit services. Before the relevant recommendations were presented to the Supervisory Board, the independence of the auditor had been verified with a positive outcome.

## Remuneration of external auditor

The table below shows the remuneration paid to PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. in 2020 and 2019 for audit of the financial statements of Santander Bank Polska S.A. and its subsidiaries, and for audit-related services and other permitted assurance services rendered under the agreements in place.

Remuneration of External Auditors (in PLN k)	Reporting year ended on 31.12.2021	Reporting year ended on 31.12.2020
Audit fees in respect of the parent bank <sup>1)</sup>	3 693	2 738
Audit fees in respect of the subsidiaries	2 239	2 148
Audit fees related to assurance services, including the review of the parent bank and subsidiaries <sup>2)</sup>	1 258	1 146
Fees for non-assurance services <sup>3)</sup>	354	349

1) Remuneration for audits performed by PricewaterhouseCoopers sp. z o.o. Audyt sp. k. in 2021 and 2020 under the Agreements with Santander Bank Polska S.A. on audit and review of financial statements of 9 June 2021 and of 16 June 2020, respectively, including assurance services on compliance with the ESEF standard. Based on Annex 1 of 3 August 2021 to the Agreement of 9 June 2021, PwC also performed the audit of the Interim Condensed Special Purpose Financial Statements of Santander Bank Polska S.A. for 6 months ended on 30 June 2021.

2) Remuneration for the review of financial statements under the agreements referred to in point 1 and for services related to verification of capital adequacy disclosures and assessment of compliance with requirements regarding the custody of customers' assets. The amounts also include remuneration for reports on risk management system and information prospectuses for Santander TFI S.A.

3) Remuneration paid in respect of non-assurance services refers to the agreed procedures related to the Jessica projects and remuneration for issuance of attestation letters made in connection with the EMTN prospectus.

## 9. Pending court proceedings

The table below displays cases pending before court with regard to claims made by or against the bank or its subsidiaries as at 31 December 2021 and 31 December 2020.

Court Proceedings with Santander Bank Polska Group as a Party (in PLN m)	31.12.2021	31.12.2020
Amounts claimed by the Group	1 133.8	1 004.7
Claims against the Group <sup>1)</sup>	2 533.3	1 261.6
Receivables due to bankruptcy or arrangement cases	54.8	51.6
<b>Value of all litigation</b>	<b>3 721.9</b>	<b>2 317.9</b>
Completed significant court proceedings	659.3	735.2

For more information on legal proceedings, including disputes over foreign currency mortgage loans, see Note 49 "Contingent liabilities" to the Consolidated Financial Statements of Santander Bank Polska Group for 2021.

# XIV. Statement on Non-Financial Information for 2021

## 1. Business model and key non-financial ratios

In accordance with the bank's strategy and business model, each banking activity and process are analysed from the perspective of customers and their needs. The bank is aware of its impact on the quality of lives of its stakeholders and on the social and economic growth, in accordance with the lines of action mapped out by the UN Sustainable Development Goals 2015–2030. The bank uses, among other things, financial capital (e.g. deposits), human capital (e.g. employees), intellectual capital (licenses, processes), and

social capital (e.g. relationships with stakeholders). In addition, like any other company, it draws on environmental capital (e.g. uses energy resources). By processing these capitals through its strategy, activities and products, it creates value not only for shareholders, but also for a wider group of stakeholders. The business model allows the bank and the Group to contribute to the achievement of the UN Sustainable Development Goals 2015–2030.

### Value creation model of Santander Bank Polska S.A.



The comprehensive offering of Santander Bank Polska S.A. satisfies customer needs with regard to personal and business accounts, credit, savings, investment, settlement, insurance and card products. The financial services include cash management, payments, transactions in the capital, money, FX and derivative markets, as well as guarantees, trade finance and brokerage services.

The bank's customers also have access to products offered by other companies from Santander Bank Polska Group, such as investment funds, asset portfolios as well as insurance, lease and factoring products.

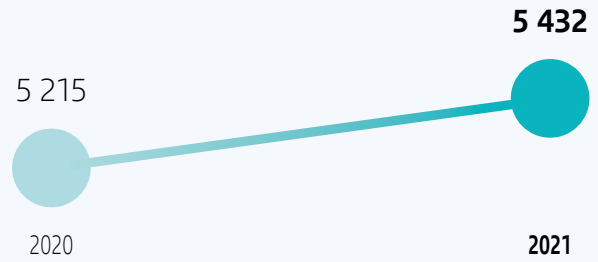
## Key performance indicators



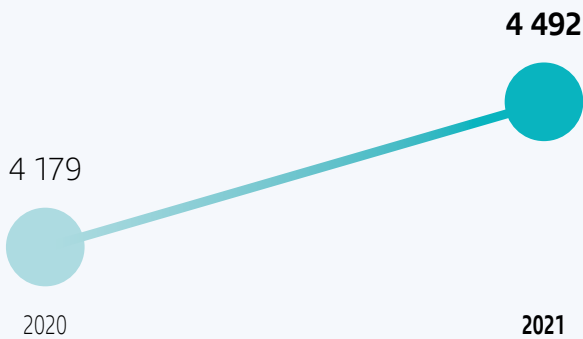
Total number of bank customers (in thousands) (Group)



Total number of bank customers (in thousands) (bank)



Number of electronic banking users (in thousands) (bank)



Number of branches (branches, off-site locations and Santander Zones)



Number of partner outlets



## 2. Responsible Banking/ ESG Strategy

Santander Bank Polska S.A. creates long-term value for all stakeholders in a sustainable way. The Responsible Banking Strategy is an integral part of the overall business strategy of the bank. It specifies the bank's approach to ESG and defines sustainable development.

The bank aligns its Responsible Banking Agenda with the challenges and requirements of society to help people and meet their needs in accordance with the best international standards. This particularly refers to compliance with the Sustainable

Development Goals (SGD), the Paris Agreement, UNEP FI Principles for Responsible Banking (PRB), Net Zero Banking Alliance and other relevant international, regional and local frameworks.

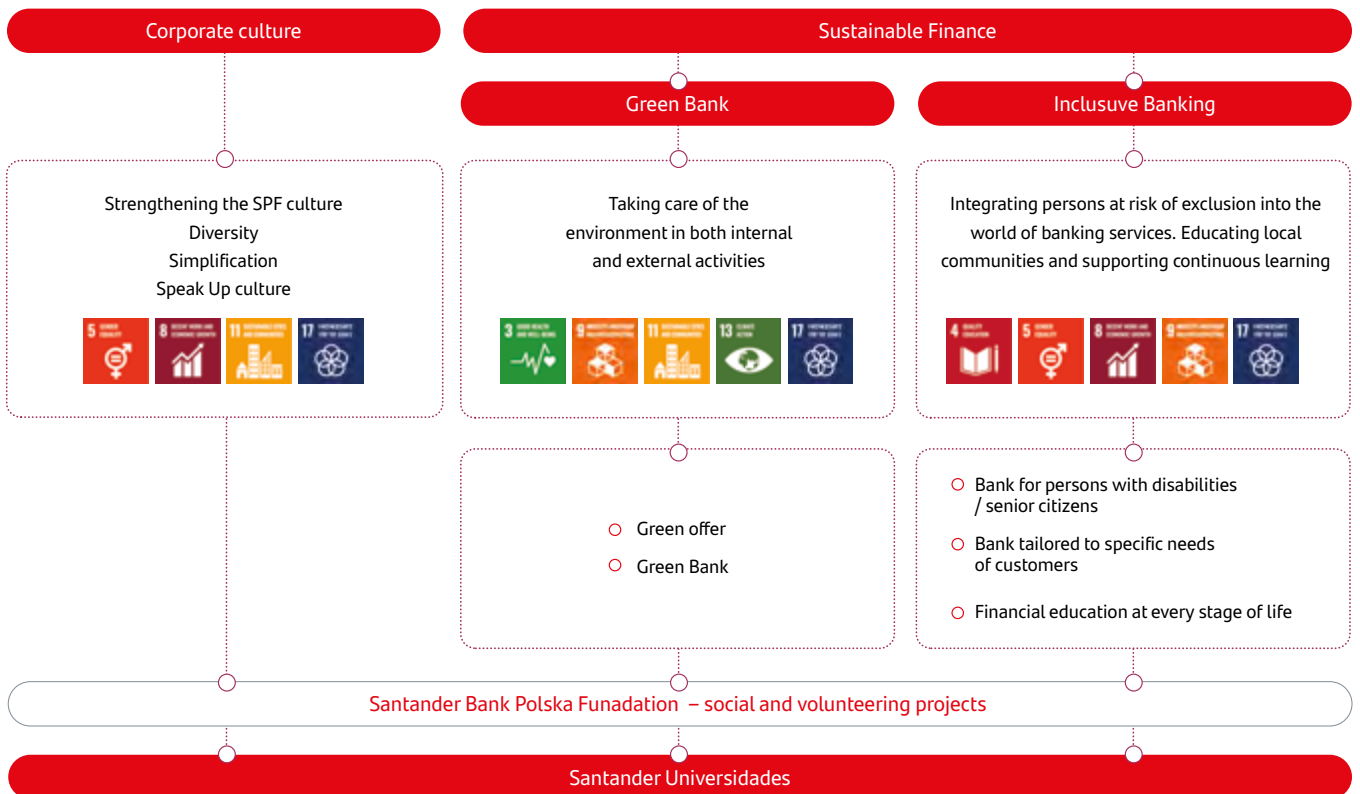
The bank's ESG strategy contributes to delivery of the 2030 Agenda of the UN. In its business activity, the bank focuses on the areas on which it has real impact as a financial institution. These include:

### Key sustainable development goals of the 2030 un agenda pursued by Santander Bank Polska S.A.



Responsible banking pillars, i.e. corporate culture and sustainable finance.

### Pillars of responsible banking at Santander Bank Polska S.A.



## Responsible sales

As responsible sales are one of the key aspects of responsible banking, Santander Bank Polska S.A. became one of the initiators and signatories of the Declaration on Responsible Sales.

The project, launched by financial institutions and led by the Consumer Federation, was created to raise awareness and promote ethical standards in customer relations, educate the business and consumers, increase confidence in the financial industry and prevent unfair practices. This is the first such cooperation between companies that care about improving the quality of banking services. Its initiators are ANG Spółdzielnia, Santander Bank Polska S.A. and BNP Paribas Bank Polska S.A. KPMG is the first auditor of the project.

## Policies and documents defining the Group's approach to sustainable development

The Sustainability Policy, which sets out general voluntary commitments and ethical, social and environmental standards that go beyond the legal framework. The Policy is accompanied by the following documents:

- Environmental, Social and Climate Change Risk Management Policy;
- Human Rights Policy;
- Corporate Volunteering Policy;
- Defence Sector Policy.

In 2021, delivery of the selected goals of the Responsible Banking Strategy, including the tasks related to the protection of the environment and prevention of climate change, has been one of the criteria for determining a bonus for members of the bank's Management Board and Supervisory

Board. A particular focus is placed on the progress made in the three key areas of the Responsible Banking Strategy, namely:

- promoting diversity;
- providing financial support by ensuring an easier access to financial services and financial education;
- developing green products and services.

In addition to this, the delivery of the Responsible Banking agenda is one of the objectives set for the Management Board members, senior executives and all employees. Since 2021, the implementation of the Responsible Banking priorities, which is one of the bank's operational strategy objectives, has accounted for min. 10% of individual performance assessment in the WHAT dimension.

Delivery of the Responsible Banking objectives	2020	2021
Top 10 company to work for (position in ranking)	Top Employer Certificate	Top Employer Certificate
Women in managerial positions (%)	35%	34.7%
Equal Pay Gap (%)	2.4%	2.4%
Number of financially empowered people since 1 January 2019 (in thousands)	70 767	130 992
Green finance provided (EUR m)*	144	214
Electricity from renewable sources** (%)	85%	82%
Reduction of single-use plastics (%)	100%	100%
Scholarships, internships and entrepreneurship programmes (number)	3 283	6 422
Number of people helped (in thousands)	363 464	305 652

\* Excluding Corporate and Investment Banking Division

\*\* Change in the presentation of the ratio vs the previous statement. Currently, the ratio additionally includes the energy that is not purchased directly from suppliers (e.g. branches).



## Green Bank

### Sustainable finance

#### Climate policy

Climate and environmental protection are key areas under the Responsible Banking Strategy of Santander Bank Polska S.A. One of the pillars of the Strategy is Green Banking, whose overarching goal is to counteract the effects of climate change. The bank's climate strategy is based on four pillars:

### The Climate Strategy of Santander Group is based on 4 pillars

**The Group-wide ambition is to achieve net-zero emissions by 2050**



#### Aligning our portfolio to meet the Paris agreement goals

Aligning the portfolio to ensure the projected carbon emissions are in line with the target of **limiting temperature increase to 1.5°C** in accordance with the NZBA and the NZAMI.



#### Supporting our customers in the green transition

Helping customers in their **transition to low carbon economy** by offering guidance, advice and investment and business solutions.



#### Reducing our environmental footprint

Becoming **carbon neutral and using electricity from renewable sources by 2025** to reduce our impact on the environment.



#### Embedding climate in risk management

Complying with **regulatory/supervisory** expectations and embedding climate in **risk management**.

The bank supports customers in implementing long-term strategies to transform their businesses to low- or zero-emission ones. Santander Bank Polska S.A. actively participates in the green transformation of the Polish energy sector, and in the upcoming years will continue financing the transition from coal-based to renewable energy. As one of Poland's largest banks, Santander Bank Polska S.A. is aware of its role in the transformation of the Polish economy and the importance of its actions, policies and lending for that process.

At Santander Bank Polska S.A. environmental matters are embedded in decision-making processes. The ESG (environmental, social, governance) guidelines are used for evaluating the assets to be financed by the bank.

#### Climate goals

Already back in 2019, the bank decided not to engage in financing any new thermal coal mines or new power units fired by steam coal.

Starting from 2020, all agreements made by the bank with entities using coal explicitly forbid allocating the funds granted by the bank for coal mining or production.

As part of its contribution to the Net Zero Strategy goal (to achieve climate neutrality by 2050), the bank has declared that by 2030 it will have stopped providing financial services to power generation clients with more than 10% of revenues dependent on thermal coal.

Moreover, by 2030 the bank plans to completely reduce its exposure to thermal coal producers. In 2022, further decarbonisation targets will be set for other sectors – oil and gas, transport and metals.

During the next five years, Santander Bank Polska S.A. intends to revise its product strategy so as to be able to offer customers products that reduce or eliminate carbon emissions in each area of activity, and at the same time meet their expectations.

Santander Group has set climate-related targets that are pursued by entities from all the countries in which the Group operates. These targets include:

- acquiring and providing EUR 120 billion in green financing by 2025;
- ensuring that by 2025 all the energy used originates from renewable sources;
- achieving net zero carbon emissions by 2050;
- becoming carbon neutral in own business in 2020 (net zero carbon emissions) – target achieved with compensation mechanism applied;
- removing unnecessary single-use plastics from the bank's branches and corporate buildings by the end of 2021 – the target has been achieved. The only single-use plastic were bottles, which were completely withdrawn from use in 2020 and replaced with water filters.

In order to ensure appropriate skills and knowledge to achieve the set targets, Santander Bank Polska S.A. organised internal training sessions on sustainable development and ESG, including

training on carbon footprint calculation. In addition, a special ESG section was added to the intranet.

## Sustainable products

Santander Bank Polska Group was the first institution in Poland to offer financial solutions with a margin based on the satisfaction of ESG criteria (ESG-Linked Loans). The bank has both local and global expertise in ESG, which makes it stand out in the Polish banking services market. The Polish team consists of people who introduced the first ESG financial solutions (both credit facilities and bonds) to the Polish market. In turn, on the global level, Santander has a dedicated team of experts in key ESG fields with

experience in building new ESG products, as well as in specialised areas such as hydrogen technology.

The offer of sustainable financing is addressed to various customer groups, including customers from most climate-sensitive sectors, i.e. energy, oil and gas and industry sectors. For this reason, sustainable financing has focused on customers from those areas. Since 2021, the bank has noted an increasing interest in this type of financing also in other sectors, which is largely related to greater customer awareness and the publicly announced sustainable development strategy.

Santander Bank Polska S.A. offers a full range of green finance products, including:

- loans designed to support sustainable projects, including investments in renewable energy;
- loans linked to the Sustainable Development Goals;
- green bonds, social bonds and sustainability bonds;
- sustainability-linked bonds;
- advice in terms of acquiring sustainable finance;
- financial advice in the ESG area.

Using both global and local experience, Santander Bank Polska S.A. is able to provide clients with financing in accordance with best practices. The bank seeks to build an environmentally and socially sustainable credit portfolio. This ambition is manifested in particular by the bank's commitment to ESG-linked finance or solutions specifically dedicated to sustainability-linked projects (such as investments in renewable energy). ESG-linked/sustainability-linked finance complies with relevant international standards, including the ICMA, LMA or the EU taxonomy.

The bank does not provide finance to tropical timber wholesalers if they buy or sell timber without the appropriate FSC certification. Likewise, no financing is provided to jewelry makers if they use rough diamonds originating from countries torn by armed conflicts or not certified under the Kimberley process.

An example of ESG-linked finance is municipal investments in green transport. In 2021, Santander Bank Polska S.A. together with the state development bank BGK financed the purchase

of 37 electric buses for the city of Poznań. The new vehicles significantly reduce the negative environmental impact of urban transport and improve air quality.

Also in 2021, Santander Bank Polska S.A. in cooperation with other banks signed PLN 479m (EUR 105m) worth of agreements to finance a portfolio of renewable energy sources owned by an independent producer of renewable energy. The funding will be used to build a portfolio of 4 wind farms and 29 photovoltaic projects that won RSE auctions. Their total power output will be 106 MW.

In 2021, Santander Leasing S.A., acting on the basis of Santander Bank Polska Group standards, introduced simplified application rules for solar panels financing. The loans are granted for a term of 10 years and are secured by a BGK guarantee. In addition, the company began work on launching products co-financed under the state programme "My Electrician" ("Mój elektryk").

### The green offer of Santander Leasing S.A. includes:

- leasing/pożyczka na zakup środków transportu nieemisyjnych/hybrydowych środków transportu dla biznesu,
- pożyczka na zakup instalacji fotowoltaicznych dla konsumenta,
- leasing/pożyczka na zakup maszyn efektywnych energetycznie (w tym maszyn agro) dla biznesu.

In terms of green financing, after 12 months of 2021, Santander Leasing S.A. can boast having financed PLN 693m worth of projects, 66% more than in the same period of 2020.

### Support for green transformation in 2021

- Santander Leasing S.A. offers as many as eight products in the following categories: Renewables, Clean Mobility, Agro, Circular Economy.
  - Lease or loan for the purchase of zero-emission or hybrid vehicles for business. As part of this project, two special leasing deals were offered to customers between 1 January 2021 and 18 November 2021: 100% for the purchase of an electric vehicle and 102% for the purchase of a hybrid vehicle.
  - Customers were offered a loan for the purchase of zero-emission or hybrid vehicles for consumers.
  - Lease or loan for the purchase of solar panels for business;
  - Loan for the purchase of solar panels for consumers (a new product in the market);
  - Lease or loan for the purchase of energy-efficient machines (including farming machines) for business.
- The Corporate and Investment Banking Division made the second largest issuance of green bonds for a non-financial company with a total value of 400 mln zł.
- In 2021, the bank issued 860.7 thousand eco-friendly cards (42.4% of all cards).
- The product range was extended to include the first Eco Loan, with reimbursement of a fee for customers using loan proceeds to purchase eco-friendly solutions.

In 2022, the bank is going to implement the Sustainable Finance Classification System (SFCS) that sets the taxonomy-based technical criteria for classifying investments as green (in terms of both general and specific targets).

The bank has the Corporate Sustainability Bonds Framework Policy and the Green Bonds Framework Policy in place, which define the bank's commitment to allocating funds from the issue of green bonds to projects related to renewable energy (solar and wind energy).

Concurrently, work is underway in Santander Group to develop new corporate framework policies that will be aligned with SFCS in all aspects.

In 2021, Santander Bank Polska S.A. developed the Sustainability Issuance Framework, which received a second party opinion from an independent rating agency. The bank was the first institution in Poland to issue sustainability debt securities totalling PLN 750m.

## Green finance in 2021

Area	Green finance granted in 2021	
	EUR m	PLN m
Green construction	107.8	495.7
Renewable energy	109.5	503.7
Clean mobility	79.1	363.6
Agri	76.2	350.5
Circular economy	0.2	0.9
<b>Total</b>	<b>372.8</b>	<b>1 714.4</b>

### Taxonomy-eligible economic activity

The bank's objectives are compliant with the EU taxonomy. The bank's sustainable financing proposal supporting transformation of customers takes into account EU standards and taxonomy improvements. See Section "Sustainable finance".

Regulation (EU) 2020/852 of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (the "EU Taxonomy") lays down a unified classification system for sustainable activities designed to support investors in taking investment decisions. Under the EU Taxonomy, institutions that are required to publish non-financial information must meet a number of reporting obligations, which in the case of credit institutions will become effective in the full scope in 2024. The main performance indicator for credit institutions will be the green asset ratio (GAR), which shows the proportion of exposures related to and assets invested in taxonomy-aligned activities

compared to the total covered assets (adjusted assets) of those credit institutions. The calculation of the GAR for on-balance sheet exposures covers financial assets, including loans and advances, debt securities, equity holdings and repossessed collaterals in the portfolio of financial institutions, non-financial undertakings, households, and local governments. The analysis does not include exposures to central governments and central banks and the trading portfolio.

The tables below contain inter alia information to be disclosed in the transitional period in accordance with Article 10.3(a)(b) and (c) of Commission Delegated Regulation (EU) 2021/2178 supplementing Regulation 2020/852. Source data used for the calculation of percentage shares indicated in the tables are derived from FINREP reports, i.e. financial statements consolidated for prudential purposes, prepared for central banks. The components and aggregates have the same information content and limitations as FINREP reports.

## Structure of gross total assets as at 31/12/2021

Items not covered for GAR calculation	Share as at 31/12/2021 <sup>1)</sup>
Exposures to central governments <sup>2)</sup>	20.5%
Exposures to central banks	2.8%
Trading portfolio	0.2%
<b>Total</b>	<b>23.5%</b>
Items covered for GAR calculation	Share as at 31/12/2021 <sup>1)</sup>
Exposures to households	35.1%
Exposures to undertakings that are not obliged to publish non-financial information <sup>3)</sup>	20.0%
Exposures to undertakings that are obliged to publish non-financial information <sup>4)</sup>	12.9%
Derivatives <sup>5)</sup>	1.5%
On demand interbank loans <sup>5)</sup>	0.3%
Other assets <sup>5)</sup>	6.7%
<b>Total</b>	<b>76.5%</b>

1) All the above items are presented in relation to the consolidated gross total assets as per FINREP reporting.

2) The above percentage share includes exposures towards local governments, as in FINREP reports they are disclosed in aggregate with central institutions.

3) Exposures to SMEs

4) Non-financial information must be published by undertakings that meet the criteria referred to in Article 19a or 29a of Directive 2013/34/EU. The value takes into account all exposures to financial institutions and non-financial undertakings reduced by the SME portfolio.

5) Assets accounting for 11.1% of the assets included in the GAR denominator and excluded from the numerator, not subject to analysis in terms of taxonomy eligibility.

In the transitional period, the taxonomy alignment analysis covers only the taxonomy eligibility of particular exposures with regard to two climate objectives (climate change mitigation or climate change adaptation). As part of full disclosures, the taxonomy alignment analysis will also cover technical screening criteria and additional criteria in relation to six environmental objectives. As at 31 December 2021, the analysis covered 76.5% of gross total

assets. 88.9% of exposures included in those assets were subject to taxonomy eligibility assessment (less assets excluded from the GAR numerator). 26.6% of this part of assets is taxonomy-eligible (fits with the stated category of NACE codes) in the mandatory approach, and 40.1% is taxonomy-eligible in the voluntary approach.

## Share of taxonomy-eligible activities as at 31/12/2021

Taxonomy eligible activities <sup>2)</sup>	Share of taxonomy-eligible activities as at 31.12.2021 <sup>1)</sup>	Share of taxonomy-non-eligible activities as at 31.12.2021 <sup>1)</sup>
Loans to households secured by residential properties (mandatory approach)	26.6%	73.4%
The above loans with exposures to non-financial undertakings and financial institutions estimated as taxonomy-eligible (voluntary approach)	40.1%	59.9%

1) The categories included in the table are presented in relation to the total assets included in the GAR calculation and calculated based on FINREP reporting.

2) Taxonomy-eligible economic activity means an economic activity in sectors that contribute substantially to climate objectives (climate change mitigation or climate change adaptation), specifically: activity carried out by financial institutions, undertakings and households.

3) Taxonomy-non-eligible economic activity means the activity carried out in sectors that do not contribute substantially to climate objectives.

Some of the data included in the table above are based on estimates and represent voluntary disclosures.

The taxonomy eligibility assessment of economic activities was conducted on the basis of estimates, using appropriate ratios:

- 5% with respect to financial instruments from the portfolio of financial institutions, calculated based on the publication on sustainable finance in the European financial market published on the ECB site.
- 39% for non-financial undertakings, calculated as a result of analysis of the types of activities (by PKD [Polish Classification of Activities] codes mapped to NACE codes) carried on by Group-financed non-financial undertakings listed on stock exchange or undertakings that fulfil the criteria specified

for undertakings that are obliged to publish non-financial information. The level of 39% relates to the share of credit exposures to the above-defined taxonomy-eligible non-financial undertakings (i.e. those from sectors which according to the regulator contribute substantially to climate objectives) in the portfolio of total loans and advances to those entities.

In estimates, relevant ratios were applied to the total value of debt and equity instruments portfolios, loans and advances to financial institutions and non-financial undertakings.

Exposures to households include loans secured by residential properties, which are taxonomy-eligible in full. They account for 26.6% of the assets included in the GAR calculation and are subject to disclosure under the mandatory approach.

## Green office and infrastructure

The ambition of Santander Bank Polska S.A. is to achieve climate neutrality by 2050. The bank's Net Zero Strategy assumes reduction of greenhouse gas emissions, including in-house emissions due to the use of electricity, business travel and car fleet as well as emissions attributable to lending, advisory and investment services provided to customers from all segments.

Since 2020, 100% of electricity the bank purchases directly from its sellers has come from green sources (mainly hydroelectric

power plants). The bank has the ECO Premium certificate from Tauron Group, which confirms that 100% of electricity sold to the bank is covered by the Green Energy Sale Guarantee scheme and is generated from renewable energy sources.

In 2021, the bank continued to increase the energy efficiency of the organisation, e.g. it replaced energy-consuming fluorescent lights with LEDs in 42 branches. The bank is also replacing its fleet vehicles with hybrid low-emission cars with lower fuel consumption.

Energy consumption [MWh]	2021	2020	2019
Total electrical energy consumption	26 449.0	29 917.0	33 144.0
– Including total consumption of energy from non-renewable resources	14 174.3	11 078.9	18 018.2
– natural gas	12 399.4	9 408.6	15 100.4
– fuel oil	1 549.4	1 351.4	1 776.7
– gas oil	225.6	318.8	1 141.2
% of green energy purchased by the bank in 2020	100%	100%	15%

### Direct emissions (scope 1) and indirect emissions (scope 2)

Type of emission	Scope	2021	2020	2019
CO <sub>2</sub> emissions related to the purchase of electricity for the bank's purposes [tonnes]	Scope 2	3 347.6 <sup>1)</sup>	4 395.0	25 355.2
CO <sub>2</sub> emissions related to heat generation [tonnes]	Scope 1	2 705.4 <sup>2)</sup>	2 031.8	3 315.5

1) Source: "Wskaźniki emisyjności CO<sub>2</sub>, SO<sub>2</sub>, NO<sub>x</sub>, CO i pyłu całkowitego dla energii elektrycznej na podstawie informacji zawartych w Krajowej bazie o emisjach gazów cieplarnianych i innych substancji za 2020 rok", Warsaw, December 2021

2) Source: KOBIZE report: "Wartości opatowe (WO) i wskaźniki emisji CO<sub>2</sub> (WE) w roku 2018 do raportowania w ramach Systemu Handlu Uprawnieniami do Emisji za rok 2021". In 2021, the bank used more natural gas for heating purposes than in 2020.

Car fleet	2021	2020
Number of petrol cars	12	85
Number of diesel cars	3	7
Number of hybrid/ electric cars	1 317	1 303

Paper consumption	2021	2020
Branch Banking [tonnes]	177	186
Business Support Centre [tonnes]	19	34

Paper waste and other waste, incl. electronic data storage devices (disposal)	2021		
	Branches	Business Support Centre	Total
Paper waste [kg]	532 439	684 121	1 216 560
Magnetic storage devices (disposal) [kg]	1 650	12 120	13 770

To reduce the use of plastics, already back in 2020 the bank opted out of water in plastic bottles and spring water dispensers. Water filters were installed in all locations. Kitchens and staff rooms were equipped with water carafes and glasses.

In 2021, Santander Bank Polska S.A. started to issue eco-friendly cards made in 85% of recycled plastic. Thanks to the use of sustainable materials for this payment solution, the carbon footprint is reduced to 75%. The cards have a new uniform vertical design across all Santander Group entities in Europe.

The bank steadily reduces paper consumption. It encourages customers to sign agreements in an electronic form – over 50% of the transactions made in branches in 2021 were paperless. The bank has procedures in place to send documents to customers electronically. In addition, an increasing share of documents are

stored in electronic rather than paper format.

## Inclusive banking

For Santander Bank Polska S.A., inclusive banking means catering for the needs of diverse customer groups. Inclusion is one of the pillars of the Responsible Banking Strategy. The bank makes sure that its product range, services and communication are suitable for all customers and continuously increases accessibility using the latest technologies and providing appropriate conditions to people choosing traditional branches.

For more than ten years, Santander Bank Polska S.A. has been running and developing the "Barrier-Free Banking" ("Obstuga bez Barrier") programme, designed to ensure access to the bank's services and products for customers with diverse needs (people

with disabilities, the elderly, pregnant women). The bank steadily improves accessibility using advanced technologies and ensuring appropriate conditions in traditional branches.

All branches and partner outlets adhere to the barrier-free banking standards which take into account diverse customer needs, including the needs of people with disabilities. At branches, customers may use priority-service points. There are mini magnifying glasses and signature frames for blind or visually-impaired customers. At each outlet, hearing-impaired customers may talk online with the bank's advisor who uses Polish sign language. This option is also available via Santander mobile, Santander internet and the bank's website.

37 (as at 10 December 2021 r.) branches are equipped with portable induction loops, i.e. devices which facilitate interactions with customers who use hearing aids. There are special procedures in place regarding statements of will made by customers who cannot read and/or write. Barrier-free branches may be equipped with additional tools such as tactile ground surface indicators and maps in Braille with a bell to be rung for assistance, and the TOTUPOINT navigation and information system, which supports spatial awareness and increases safety for people with visual impairment. In 2021, the number of branches offering these solutions increased by two, with the next ones to follow in 2022.

The bank conducts regular audits at branches to make sure they are accessible to customers with disabilities. At the end of 2021, Santander Bank Polska S.A. had a network of 157 (as at 10 December 2021 r.) certified barrier-free outlets.

The bank also has a network of audio-enabled ATMs which

are easier to use by people with visual impairment. They are labelled with dedicated high-contrast stickers in Braille. When the customer makes a transaction at the ATM using their earphones, they can switch off the screen to increase security and comfort. The ATMs can also be switched into a high-contrast mode. Currently, there are 1,430 (as at 10 December 2021 r.) such machines in place (nearly 90% of the entire bank's ATM network).

Special solutions were also implemented in remote channels. Online and mobile banking services are regularly developed and audited in terms of accessibility for customers with disabilities. Users can log into the mobile app using Face ID or Touch ID, while customers calling the Multichannel Communication Centre can be identified using voice recognition. In July 2021, the bank introduced cards with a blind notch on the side, which makes them easier to use for blind and partially sighted people when using ATMs or making payments.

The bank's advertising messages are adapted to the needs of the visually and hearing impaired. The videos published on the website of the Barrier-Free Banking Programme and the bank's YouTube channel are available with subtitles, audio description (voice-over) and translation by the Polish sign language interpreter.

In accordance with the Accessibility Act of 19 July 2019, the bank also provides an option to request the accessible documents (e.g. nonpersonalised contract templates, terms and conditions) remotely or in branches. In 2021, the bank ran regular communication and education campaigns addressed to its employees and customers, through training sessions, meetings and webinars with experts as well as social media campaigns.

### 3. Risk Management System

Santander Bank Polska S.A. has risk management policies in place to:

- identify and measure the risk taken;
- define the best risk-reward ratio;
- regularly set and review the relevant limits that mitigate risk exposure.

Santander Bank Polska Group modifies and develops risk management methods on an ongoing basis, taking into consideration changes in the Group's risk profile, economic environment, regulatory requirements and best market practice. The directions are set by the Management Board and the Supervisory Board, which actively support the risk management strategy by approving key risk management policies, having its representatives on the committees responsible for risk management, reviewing and approving risks and risk reports.

The risk management system of the bank and the Group complies with the banking industry standards and legal and regulatory guidelines and recommendations. Selected units are responsible for identification, measurement, monitoring and mitigation of risks. Based on the overall risk level, a risk profile is defined. Risk appetite, together with a number of risk limits, is reflected in the Risk Appetite Statement adopted by the Management Board and approved by the Supervisory Board.

The risk management system of Santander Bank Polska S.A. covers the following material risks:

- credit risk (including concentration risk)
- operational risk
- market risk (in the banking book and in the trading book)
- liquidity risk
- model risk
- reputational risk
- compliance risk
- business risk
- capital risk
- risk of excessive leverage.

From the point of view of negative impact of those risks on society, environment, employees, human rights and anti-corruption measures, particular importance is attached to operational risk, compliance risk and reputational risk. In addition, the bank has identified social and environmental risks (including climate risks) related to financing customers from sensitive sectors.



## ESG risk management as part of the risk management framework

Santander Bank Polska S.A. is of the opinion that environmental and climate-related risks may affect the bank's operations in the medium to long term. Risks result from factors related to the physical effects of climate change (caused by one-off events as well as by chronic changes in the environment), as well as from factors embedded in the transition to the growth model characterised by lower emissions with changes in legislation and technology, and in behaviours of business entities. Climate risk is one of the key risks that have been identified as having adverse impact on the bank's reputation among its employees, customers, shareholders/ investors, and communities.

Since 2015, ESG governance has been regulated by appropriate policies. The bank has been consistently introducing ESG risk management procedures in all its business lines, and has identified social and environmental risks (including climate risks) related to financing customers from sensitive sectors.

The bank analyses the impact of climate-related opportunities and threats on its business, strategy and financial plans in the short, medium and long term. When taking credit decisions, the bank is aware that relying solely on historical financial data may lead to misguided conclusions. But if this process is supported by an analysis of non-financial data, this may shed new light on risk perception and capital allocation. In the opinion of Santander Bank Polska S.A. the environmental risk analysis enhances the traditional credit risk analysis, and non-financial data permit a better understanding of the borrower's exposure to environmental and climate change risks.

Better quality of available non-financial data means better quality of risk analysis, which in turn helps lower costs for the bank and borrowers. In 2022, Santander Bank Polska S.A. is going to implement the Sustainable Finance Classification System for selected customer segments (largest customers, mortgage and leasing customers), setting the technical criteria for classifying dedicated or general-purpose financing as green or socially sustainable.

### ESG risk assessment

Identification and proper risk assessment are fundamental to effective risk management and control. For this reason, Santander Bank Polska S.A. takes part in the Group's Climate Stress Tests (two physical risks have been identified for Poland: flood and drought).

In 2019, the environmental and social aspects of risk management were incorporated into the bank's assessment criteria for projects delivered by the Corporate and Investment Banking segment. In 2021, the environmental and climate change risk assessment procedure was implemented for customers from the Corporate and Investment Banking segment. The activities of customers from that segment may be subject to exclusions or limitations, as specified in the Environmental, Social and Climate Change Risk Management Policy and in internal procedures. The scope of the risk analysis depends on several factors, including the sector and size of the company.

The environmental and social risk manager in the Wholesale Risk Department is responsible for analysing this risk and issuing recommendations on the customer or transaction. Credit partners are required to verify whether the environmental and social risk

analysis has been conducted and whether the recommendation of the environmental and social risk manager has been included in the credit application.

Additionally, all issues which may trigger reputational risk (including activities subject to restrictions) must be consulted with the compliance unit.

The above procedures must be applied by the bank and its subsidiaries, excluding Santander Consumer Bank S.A. As part of consolidated risk management, the bank seeks to harmonise the above procedures in keeping with the proportionality principle and taking into account the specific nature of activities of each entity. This means that the solutions presented in those procedure are generally reflected in the internal regulations of Santander Consumer Bank S.A., but specific solutions may be different.

### Sectoral policies

In considering financial product or service requests from sensitive sector entities, the bank applies appropriate policies and conducts a social and environmental risk analysis. In the first place, the bank's business units assess the environmental impact of a specific transaction/ activity and look at compliance with policy requirements. On that basis, a recommendation is prepared for the bank's risk units (in accordance with internal regulations).

The policies of Santander Bank Polska S.A. set out the criteria used by the bank when granting financial products and/or services (including all forms of financing, insurance, asset management, equity investments and advisory services) with respect to customers and projects related to the activities described in those policies.

In 2021, the Environmental, Social and Climate Change Risk Management Policy was implemented. The policy superseded three previous sectoral policies for soft commodities, energy, and mining and metal sectors.

### Responsibility for ESG risk management

Since 2021, the responsibility for planning the activities of Santander Bank Polska S.A. under the Responsible Banking Strategy has rested with the ESG Forum, which is chaired by the bank's CEO, and consists of 11 representatives of all divisions of the bank. The Forum's role is to analyse challenges, opportunities and risks related to the EU Sustainable Finance agenda, including ESG risks, and to plan activities, and coordinate their implementation at the bank.

The ESG Forum regularly reports the results of its work to the bank's Management Board and, twice a year, to the Responsible Banking and Corporate Culture Committee.

The bank's Management Board is responsible for supervising and approving the responsible banking strategy and ensuring that ESG criteria are reflected in the bank's overall business strategy (in the short-, medium- and/or long term), and in the risk management framework.

At Santander Bank Polska S.A. all members of the Management Board are responsible for ESG risks. The Risk Management Division acts as the second line of defense in ESG risk management.

## 4. Anti-Corruption Policies and their Outcomes

### Ethics

At Santander Bank Polska S.A., all employees are required to act in accordance with corporate values.

The bank reinforces ethical standards and promotes the culture of responsible and ethical conduct among its employees in line with the Simple, Personal and Fair values.

Corporate behaviours promoted among employees:

- show respect
- bring passion
- talk straight
- keep promises
- embrace change
- actively collaborate
- support people
- truly listen.

All employees of Santander Bank Polska S.A. are expected to follow the ethical standards defined in the General Code of Conduct. The Code sets directions of ethical business practice and provides guidelines to be followed in specific circumstances. It also establishes ethical principles to be applied by all employees, explains what to do in different situations and provides information about the consequences of breaches. The principles concern the following:

- non-competition;
- conflict of interest;
- relations with suppliers;
- relations with customers,
- accepting benefits;
- prevention of corruption;
- confidentiality of information;
- personal data protection;
- marketing and sale of financial services;
- prevention of money laundering and terrorism financing;
- conduct in the securities markets;
- accounting and financial information obligations;
- relations with public officials;
- intellectual property rights.

Furthermore, the Code specifies the scope of responsibility of individual units for implementing ethical principles and defines the role of the compliance function's management, Committee for Compliance with Santander Group's Regulatory Requirements, Internal Audit, Audit and Compliance Committee, Supervisory Board, the HR function and the Business Ethics Council.

Any employee of the Group who becomes aware of a breach of the Code or of other codes, policies, procedures or internal conduct regulations, of suspected offence, corruption or money laundering, or of violation of any other laws and the Human Rights Policy applicable in the Group must promptly report this fact.

The Respect and Dignity Policy provides detailed information on how to report breaches of ethical principles and other misconduct via dedicated channels and establishes rules for handling the reported cases.

The employees who report breaches in good faith are ensured that the case will be thoroughly investigated and that the report will be kept in strict confidence. Whistleblowers must not be subject to any reprisal or other type of negative action. Employees can use different channels, including:

- ethics helpline – to report (including anonymously) breaches of law or ethical principles, violation of internal procedures, instances of corruption, fraud, money laundering, confidential information leaks and excessive risk-taking;
- employee relations helpline – to report instances of discrimination, bullying, harassment and other misconduct related to employee relations, including non-compliance with corporate values and behaviours;
- dedicated mailbox;
- KLAkson intranet application.

Each of these channels may be used to report concerns anonymously.

In 2021, employees reported 205 cases via whistleblowing channels. Each case was investigated and resolved. Allegations were confirmed in 34 cases and disciplinary action was taken in 23 cases.

In 2021, the bank took measures to revise and update the policy in accordance with the EU Directive on protection of whistleblowers and the Act on protection of persons reporting breaches. New terms and conditions for reporting breaches were defined in line with the foregoing Act.

The Code is publicly available on the bank's website: [https://www.santander.pl/regulation\\_file\\_server/time20210115133556/download?id=160538&lang=pl\\_PL](https://www.santander.pl/regulation_file_server/time20210115133556/download?id=160538&lang=pl_PL)

### Prevention of corruption

Santander Bank Polska S.A. combats any forms of corruption. Prevention of corruption is one of the elements of the General Code of Conduct. The Code is supplemented with other policies. They include the Conflict of Interest Prevention Policy, which was updated in 2021 and approved by the Management Board of Santander Bank Polska S.A.

The purpose of the policy is to provide guidelines to employees, managers and Group subsidiaries for prevention and management of conflicts of interest that may arise in the course of business. Specifically, the policy sets forth the guidelines for:

- identifying the relationships and events (services, operations, transactions and contracts) where conflicts of interest may arise;
- taking measures to prevent conflict of interest to the extent possible;
- defining a process for identifying and assessing the importance of actual or potential conflicts of interest, determining mitigating measures and reporting any significant conflicts of interest;

- managing conflicts, including ways to handle unavoidable conflicts and notify them to individuals or entities concerned;
- documenting properly the process of implementing measures introduced for the foregoing purposes so as to ensure internal control over conflicts of interest that can be demonstrated to regulators;
- making a list of categories of potential conflicts of interest, including examples.

Santander Bank Polska Group applies a zero tolerance policy on corruption. The policy is fleshed out in the Anti-Corruption Programme, which sets out the rules for prevention of corruption, notwithstanding other control mechanisms that may be required under other relevant laws or local requirements.

The Programme is applied in accordance with the General Compliance Framework, the General Code of Conduct and other regulations as well as local law.

The Anti-Corruption Programme contains:

- provisions on prevention of corruption;
- general guidelines with respect to gifts and hospitalities to public officials;
- guidelines on gifts and hospitalities to employees;
- relations with third parties;
- application of additional control mechanisms;
- whistleblowing channels.

In 2021, one suspected corruption incident was reported. An employee accepted a discount shopping card from a customer with a renewable limit. The card was sent back to the customer along with a letter in which the bank expressed its disapproval of such practices. The customer apologised for his behaviour.

The bank's employees can broaden their knowledge about ethics, prevention of corruption and the Corporate Defense Policy through a revised e-learning course available to anyone interested. The course covers the following topics:

- applicable ethical standards;
- avoidance of situations which may give rise to conflicts of interest;
- whistleblowing channels available at the bank;
- procedures to be followed in specific circumstances, e.g. in relations with public officials, agents or intermediaries;
- practices and situations to be avoided by employees as potentially corrupt ones – not only giving money but also giving, offering or accepting benefits of any kind such as offering goods and services below market prices, giving gifts, funding trips, hotel accommodation, meals, tickets, hiring friends.

The training includes practical exercises and ends with a test. Every two years, each employee of Santander Bank Polska Group must complete the training, confirm that they have read the General Code of Conduct, the Anti-Corruption Programme and the Corporate Defense Policy, and have the test score of min. 80%.

In 2021, 97.3% of employees completed the revised e-learning course on ethics and compliance (matters covered by the General Code of Conduct, the Anti-Corruption Programme and Corporate Defense Policy).

In 2021, the bank undertook a range of initiatives to increase the awareness of ethical standards and knowledge of the corporate culture. They included:

- continuation of communication campaign designed to promote ethical behaviours and explain how to report breaches:
  - cases reported in 2020 as part of second edition of "Whistleblowing news";
  - rules for giving and accepting gifts (including an animated video);
  - series of four videos: "Whistleblowing – is there anything to be scared of?"
  - an employee survey: "Which whistleblowing channel are you most likely to use to report a breach?";
  - an animated movie: "Do you know the whistleblowing channels available at the bank?";
  - articles and materials published on the intranet: "Speak up – why is it so important?" "Anti-trust regulations", "Employee relations";
  - webinar as part of the Risk Culture Week;
- development of educational initiatives for managers based on the findings from reports;
- launch of regular meetings of the Head of the Ethics and Relations Office with Management Board members – sharing conclusions and recommendations based on reported cases.

## Supply chain

Supplier relationship management is the responsibility of the Contracts and Procurement Management Department. Suppliers are selected taking into account social, environmental and reputational criteria. Supply chain management is regulated by the following policies and procedures: Procurement Policy, Supplier Selection Policy, Policy on Cooperation with Suppliers and Outsourcing, and Procedure for Suppliers Management and Outsourcing. The rules for cooperation with suppliers are also contained in the Sustainability Policy and in the Human Rights Policy.

Supplier management is aligned to international standards of Santander Group and is developed and adjusted by the bank to the changing business and social environment. All suppliers are subject to uniform selection criteria.

When selecting suppliers, the bank:

- checks if they diversify their income and if they are not dependent on the bank;
- checks the certificates they hold, e.g. the ones related to environmental protection, employee relations, etc.;
- confirms that they apply CSR principles, ethic codes, anti-corruption programmes and publish the required reports;
- checks if they have an ethical approach to finance by controlling payment of wage contributions and taxes as well as debt to counterparties, if any.

The above information is used by the bank as the criterion for selecting a supplier.

All purchases made by the bank are governed by the Procurement Policy of Santander Bank Polska S.A. and must be coordinated by the Procurement Office. The supplier of a product or service that takes part in the procurement process must provide documentation

in the B-ZONE system. One of its elements is the CSR questionnaire that includes information about CRS activities, satisfaction of criteria concerning employment practice and respect for human rights, as well as compliance with environmental criteria (impact of goods and services on the environment). The CSR assessment made on the basis of the questionnaire is taken into account during the bidding process and may be a decisive factor in supplier selection.

During the procurement process, all organisational units of the bank are expected to follow best procurement practices such as selection of supplier according to objective and ethical standards, negotiation of bids, verification of products, services and invoices in terms of compliance with the agreed terms and conditions, and development and storage of documentation related to the supplier selection process.

The agreements with suppliers include mandatory CSR clauses requiring them to adhere to the ten principles of the United Nations Global Compact. At the beginning of the supplier certification process, the bank assigns a billing limit to each supplier with turnover above PLN 1m (taking into account the turnover for the

last year, the current year and the planned purchase amount) to make sure that it is not excessively reliant on the bank and that it diversifies its income sources. Suppliers that are subject to the certification process or provide critical services are asked about their sustainable development practices. Their answers are taken into account in the contract awarding process.

In 2021, the bank identified 50 key suppliers and sent them a request to complete the ESG questionnaire along with a cover letter. The response rate of 60% and the replies did not affect the supplier selection and certification process (the questionnaires were sent to selected suppliers and were not formally incorporated in the policies and procedures concerning cooperation with suppliers). The questionnaire was developed on the basis of material provided by Santander Group.

- 100% of bidders participating in procurement processes that completed the CSR questionnaire in B-ZONE;
- 707 – bidders who at least once completed the CSR questionnaire in B-ZONE;
- 1,304 – number of times the CSR questionnaire was completed in B-ZONE.

#### Key Performance Indicators of procurement policies

	2021	2020
Number of suppliers subject to certification with turnover above PLN 50k	1 226	1 587
Percentage share of suppliers subject to certification in the total number of suppliers (suppliers with turnover above PLN 50k)	73%	81%

## 5. Employee Policies and their Outcomes

### Employment

Employees are human and intellectual capital of Santander Bank Polska S.A. The bank provides development opportunities and encourages knowledge sharing and self-education. The bank's corporate culture is based on the values and ethical standards which help build trust and earn lasting loyalty of employees.

The guidelines and values to be followed by all employees of the bank are set out in the General Code of Conduct. It establishes standards and promotes the desired behaviours in relation to various aspects across the organisation.

Employee matters are also addressed in other documents such as:

- Terms and Conditions of Employment
- HR Policies
- Training Policy
- Remuneration Policy of Santander Bank Polska Group.

The formal corporate culture framework also includes the Sustainability Policy, which emphasises employees' contribution to the bank's success and the need to develop employee relationships that are based on mutual trust and loyalty. The bank is committed to taking measures to ensure that employees feel motivated, engaged and rewarded. Furthermore, pursuant to the Policy the bank undertakes to:

- promote employment stability, flexible working hours and work-life balance, and ensure safety in the workplace;
- make sure that employees follow the rules of ethics and responsible behaviour based on the General Code of Conduct;
- encourage employees to engage in corporate volunteering to support the well-being of local communities and strengthen employees' pride about being part of the organisation.

	2021		2020	
	Women	Men	Women	Men
Number of employees <sup>1)</sup>				
Group	7 877	3 704	8 814	3 981
Bank	6 546	3 038	7 204	3 219

1) The table includes active employees

Number of employees (Bank) by type of employment 2021

<b>Full-time employment</b>	
Women	6 192
Men	2 780
<b>Total</b>	<b>8 972</b>
<b>Part-time employment (1/2 FTE)</b>	
Women	7
Men	5
<b>Total</b>	<b>12</b>
<b>Other</b>	
Women	347
Men	253
<b>Total</b>	<b>600</b>

Number of employees (Bank) by type of contract 2021

<b>Fixed-term employment contract</b>	
Women	689
Men	385
<b>Total</b>	<b>1 074</b>
<b>Indefinite-term employment contract</b>	
Women	5 857
Men	2 653
<b>Total</b>	<b>8 510</b>

Total number of new hires (Bank) in the reporting period by: 2021

<b>Gender</b>	
Women	728
Men	424
<b>Age</b>	
Under 30	586
30–50	539
Above 50	27

Percentage of new hires (Bank) in the reporting period by: 2021

<b>Gender</b>	
Women	10.3%
Men	13.6%
<b>Age</b>	
Under 30	37.5%
30–50	7.5%
Above 50	1.8%

Total number of leavers (Bank) in the reporting period by: 2021

<b>Gender</b>	
Women	1 463
Men	617
<b>Age</b>	
Under 30	476
30–50	1 240
Above 50	365

Employee turnover ratio (Bank) in the reporting period	2021	2020
Group	20.0%	16.3%
Bank	20.0%	13.0%

Employee turnover ratio (Bank) in the reporting period	2021
<b>Gender</b>	
Women	20.6%
Men	19.7%
<b>Age</b>	
Under 30	30.4%
30–50	17.3%
Above 50	24.9%

## Training and education

### Training policies

At Santander Bank Polska S.A., training is delivered in accordance with the Training Policy and the following documents: Training Matrix – knowledge and skills, and Training organisation process.

### Key training and development programmes

#### Central programmes

The bank pursues an integrated talent management strategy designed to ensure training and development at each stage of an employee lifecycle. The strategy is based on the 70-20-10 approach, which combines learning through experience (70), through others (20) and through structured courses (10).

- Key activities related to self-study:
  - implementation of the DOJO system;
  - access to learning platforms (e.g. Udemy, EduWeb, eTutor, Inspiro);
  - assessment tests, mainly DISC, Gallup, Harrison;
  - Development Elixir (Eliksir Rozwoju) – inspirations in the form of webinars, lectures by internal and external experts, discussion panels, mailing;
  - Development Planet (Planeta Rozwoju) – an internal portal dedicated to development initiatives;
- Projects promoting knowledge-sharing:
  - YOUiversity – an internal tutoring programme (around 150 tutors);
  - mentoring;
  - BRIDGE (MOST) – an internal internship programme enabling employees to take part in projects delivered by other organisational units of the bank;

→ Mundo – an internal internships programme as part of which employees can participate in projects delivered

→ Training and workshops

→ o mandatory training for sales and head office staff, including induction training.

Santander Bank Polska S.A. offers training corresponding to the needs of the employees, their job and skills required. They include:

- Advisor of the Future (Doradca Przyszłości) – training designed to develop skills connected with services provided to customers in digital channels;
- Service Design Academy;
- Keep up the momentum (Trzymaj Rozwój) – a development programme for employees with the highest annual performance rating;
- Young Leaders – a programme run across Santander Group to develop leadership skills of a selected group of talented employees;
- Futuro – a programme for all managers of the bank designed to develop their leadership skills.

The bank's employees can also choose from a variety of training courses on social skills of the future, which are available in a cafeteria system, as well as workshops organised at the request of specific groups and units (team building, facilitation, team coaching). Alongside this, the bank supports local programmes launched by business units based on a business development pool, that is a budget earmarked for development of skills related to delivery of the bank's strategic objectives.

Senior managers are offered tailored training programmes delivered by internal trainers.

Average number of training hours per employee	2021	2020
Group	23.2	16.2
Bank	33.1	20.3

Average number of training hours in the reporting period	2021
<b>Gender</b>	
Women	35.6
Men	27.5



Grade		
Senior management		37.5
Middle management		38.4
Other employees		35.1
<b>Form of training</b>		
2021		
E-learning courses and other forms not indicated below		65%
Individual training and workshops		13%
Webcasts		22%
<b>Attendance by gender</b>		
2021		
Gender	Time (hours)	%
Women	109 418	82%
Men	23 575	18%

## Human Rights Policies and their Outcomes

### Human and employee rights

The Human Rights Policy of Santander Bank Polska Group is a formal commitment to respect human rights in accordance with the highest international standards. The key objective in this regard is to observe and promote human rights as part of the business activity and to prevent and minimise the effects of any infringement arising therefrom.

The Human Rights Policy lays down the principles and commitments arising from the international declarations that apply to the bank's and the Group's relationships with their stakeholders. Each commitment comes with a list of specific actions. The Policy establishes a set of principles regarding the relationships with various stakeholders, including equal access to employment and promotion, and protection against discrimination based on age, gender, race, religion, origin, marital status or financial situation.

In its Human Rights Policy, the bank has also undertaken to analyse and assess human rights policies and practices of its counterparties

before entering into any loan agreements or other agreements. The bank will respond to any breach of human rights in the workplace and use relevant disciplinary measures where justified.

Due to their importance, the matters covered by the Human Rights Policy are also reflected in the Sustainability Policy, which stresses the bank's commitment to respecting and promoting human rights in relation to all its stakeholders.

Human rights matters are also reflected in the Defence Sector Policy, which introduces exclusions and limitations to the bank's relationships with customers dealing with arms and dual-use technologies. The bank also notes risks related to projects carried out in the countries which have not ratified the key UN legal documents on human rights and those which are subject to UN/EU sanctions for violating human rights or using internal repressions, as defined in the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights and the Optional Protocol to the Convention on the Rights of the Child on the involvement of children in armed conflict.

Pursuant to the Human Rights Policy, the bank undertakes to:

<b>With respect to employees:</b>	<ul style="list-style-type: none"> <li>→ prevent discrimination and practices against personal dignity;</li> <li>→ prevent forced labour and child labour;</li> <li>→ respect the freedom of association and collective bargaining;</li> <li>→ protect employees' health;</li> <li>→ offer stable working conditions.</li> </ul>
<b>With respect to customers:</b>	<ul style="list-style-type: none"> <li>→ offer only the products and/or services that match customers' situation and needs, making it easy for them to understand the terms and conditions, benefits, risks and costs;</li> <li>→ avoid any unjustified discrimination when offering products, in accordance with the General Code of Conduct;</li> </ul>
<b>With respect to suppliers:</b>	<ul style="list-style-type: none"> <li>→ foster respect for human rights throughout the supply chain;</li> <li>→ apply the Supplier Selection Policy, which includes environmental, social and ethical criteria expected from suppliers;</li> <li>→ promote relationships with suppliers that demonstrate their commitment to human rights and have their own policies in this respect.</li> </ul>
<b>With respect to other business partners:</b>	<ul style="list-style-type: none"> <li>→ promote the Human Rights Policy, especially where it is required due to the origin, activity or importance to the bank;</li> </ul>

**With respect to communities in which the bank operates:**

- promote respect for human rights, particularly in those places where the legal and institutional framework is less developed;
- respect, support and promote human rights in the communities the bank serves;
- supervise and control the impact of the operations on the communities;
- guarantee security to protect human rights;
- help combat corruption.

## Equality and diversity

Diversity and inclusion are the foundations of the Group's corporate culture and are seen as the source of its strength and competitive advantage. Diversity is also addressed and recognised in the workplace, product offering, customer service and relationships with other stakeholders.

The principles supporting diversity and equal treatment are applied at each stage of the employee lifecycle, starting from recruitment and throughout the employee's time with the organisation (terms of employment, access to training and development initiatives, promotion opportunities) to the termination of employment with the bank.

The bank ensures equal treatment of female and male employees by monitoring differences in remuneration using the EPG (Equal Pay Gap) and GPG (Gender Pay Gap) indicators.

As part of diversity management, the Group aspires to have a balanced representation between men and women in all functions and responsibilities, including on management and supervisory bodies.

Since 2017, Santander Bank Polska S.A. has been a signatory to the Diversity Charter. The bank's corporate culture develops the policies and mechanisms that support equal treatment and diversity management at work.

The bank complies with the laws on diversity, inclusion and equal opportunities. It implements best practice promoting diversity. The bank ensures equal treatment of employees and other stakeholders regardless of their gender, age, education, health conditions, race, religion, national or ethnic origin, political beliefs, trade union membership, family status or sexual orientation.

Diversity is addressed in, inter alia, the Respect and Dignity Policy, which describes how to build a diversified working environment with respect for ethical standards and dignity of each employee. The Policy establishes the methods for reporting breaches of ethical standards and other irregularities, including discrimination, bullying and harassment. It determines the responsibility of management and each employee for its implementation.

Santander Bank Polska S.A. also has the Management Board Diversity Policy in place, in which the bank has undertaken 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 the ability to show independence of mind and opinions, to ensure gender balance in the composition of the Management Board and to fight any discrimination against the candidates for Management Board members. Santander Group's target is for 40% of senior executive positions to be held by women.

Diversity and inclusion is also addressed in the Corporate Culture Policy of Santander Bank Polska Group, which contains the bank's commitment to promote work environment where diversity is respected, valued and seen as an asset. The Policy acknowledges the benefits of having diverse workforce, presenting it as a source of competitive advantage and an opportunity to deliver business and strategic objectives and to recruit and retain talent.

Apart from the above-mentioned documents, diversity is also addressed in:

- Sustainability Policy
- Human Rights Policy
- commitments of the bank as a signatory to the Diversity Charter

### Key Performance Indicators of diversity policies

	2021	2020
Number of women in top management positions	28.8%	22.0%
Number of women in senior management positions	44.8%	50.0%
Number of women in middle management positions	55.5%	57.2%

Promotion of diversity and inclusion across the organisation is a key enabler of cultural transformation of the Group. The Group fosters inclusive leadership ensuring that all employees have equal opportunities in all areas.

### Selected initiatives supporting equality and diversity

- #Santander Women podcasts;
- employee groups: "Santander Women", "IT from female perspective" ("IT kobiecym okiem"), "Embrace Poland", "Santander Parents";
- May – Diversity Month;
- cooperation with FOB & Diversja;
- International Day of Persons with Disabilities;

- International Day against Homophobia, Transphobia and Biphobia;
- Equal Company certificate;
- Diversity IN Check;
- workshops: "Giving precedence to diversity" ("Precedencja na różnorodność") and "Let's talk about diversity – the place to be yourself" ("Porozmawiajmy o różnorodności – the place to be yourself");

The bank does a series of podcasts: "Santander Women", which focus on diversity and inclusion in large organisations and on women's leadership. In 2021, an initiative called "IT from female perspective" ("IT kobiecym okiem") was launched to encourage women to pursue tech-related careers.

Several employee groups were created, including "Santander Parents", "Ecology" or "Embrace" for LGBT+ people and their allies. The above initiatives support "the place to be yourself" campaign run by Santander Group to create a work environment that makes everyone feel comfortable.

As part of the Diversity Month, a range of events were organised, including webinars, workshops, panels and inspirational meetings focusing on the strength and potential of diversity and inclusion in an organisation. To promote these values, the bank also held a series of workshops: "Giving precedence to diversity" ("Przedecznosc na roznorodnosc") and meetings: "Let's talk about diversity" ("Porozmawiajmy o roznorodnosc"), which were run by the bank's leaders.

In 2021, the bank established a partnership with "Share the Care" Foundation, which will support the bank in the transposition of the EU work-life balance directive in 2022 with regard to extension of paternity leaves. This is to ensure equal opportunities for women in the labour market and change the approach to the use of parental leaves by fathers.

The bank also cooperates with UNGC Network Poland in respect of the Standard of Ethics Programme, whose key priority is to ensure equal opportunities of men and women in business.

### Gender Pay Gap

The strategic priority of Santander Bank Polska S.A. is to ensure equal opportunities and support gender equality at all levels across the organisation. Guaranteeing full pay equality between men and women is one of the key strategic commitments.

Across Santander Group, the measurement of pay equality is focused around two concepts:

- The Gender Pay Gap (GPG) metric, which measures the difference in pay regardless of the job, in an organisation or a business (vertical approach).
- Equal Pay Gap (EPG) metric, which compares compensation for women and men who hold the same job position, with the same level, in the same role. This is intended to capture "equal pay for equal work" (horizontal approach).

GPG is a structural ratio both economy and society-wise and has been used for several dozen years. Its level reflects, among

other things, the structure of the bank as that of a network-based institution that provides services to customers countrywide, with majority of its workforce being female versus predominantly male employees in, for example, IT units. These examples show the reasons for differences between average remuneration paid to men and women, regardless of their job.

Changes in GPG will be evolutionary, driven by changes in the bank's organisational structure as well as actions taken to support diversity and equal treatment, including:

- a greater female representation among senior executives;
- development programmes dedicated to women;
- ensuring gender balance in recruitment and development processes;
- a relevant female representation in succession planning;
- promoting equal treatment and inclusion among employees.

EPG is both an operational indicator used to track pay equality and actions taken in this area and a strategic one in the long and short term horizon. It is key to ensure equal treatment of male and female employees in the same jobs.

As at 31 December 2021, the bank's EPG was 2.4%, which means that on average women holding the same positions as men earned 2.4% less.

The ambition of Santander Bank Polska S.A. is to ensure equal pay for men and women in the same jobs. To this end:

- the bank has defined annual targets to reduce EPG;
- information about EPG has been included in monthly HR Dashboards provided to managers along with a list of jobs where such differences occur as well as EPG per job in their respective structures (if there are any differences);
- HR decisions are made considering their impact on EPG; the salary review process and pay rises make it possible to eliminate differences.

The bank measures and tracks both GPG and EPG in line with its corporate standards.

Employee groups (Bank)	GPG	EPG
	Regardless of the nature of the job	The same job
Key managers	26.4%	As at 31 December 2021, women earned 2.4% less than men in the same jobs.
Senior managers <sup>1)</sup>	5.2%	
Other managers	17.4%	
Other employees	30.8%	

1) Excluding of the Management Board which has a dedicated remuneration report.

Ratio of base salary by men and women (Bank) by:	2021
Senior managers	95.3%
Other managers	83.8%
Other employees	70.5%

## Percentage of employees by diversity criteria – gender

2021

Gender		
Women	4	33%
Men	8	67%
Age		
Under 30	0	0%
30–50	6	50%
Above 50 years	6	50%

## Percentage of employees by diversity criteria – gender

2021

Women		
	<b>6 542</b>	<b>68.3%</b>
Key managers	20	32.8%
Senior managers	26	44.1%
Other managers	704	56.2%
Other employees	5 792	70.6%
Men		
	<b>3 030</b>	<b>31.7%</b>
Key managers	41	67.2%
Senior managers	33	55.9%
Other managers	548	43.8%
Other employees	2 408	29.4%

## Percentage of employees by diversity criteria – age

2021

Under 30		
	<b>1 452</b>	<b>15.2%</b>
Other managers	30	2.1%
Other employees	1 422	97.9%
30–50		
	<b>6 681</b>	<b>69.8%</b>
Key managers	50	0.7%
Senior managers	43	0.6%
Other managers	1 012	15.1%
Other employees	5 576	83.5%
Above 30 years		
	<b>1 439</b>	<b>15.0%</b>
Key managers	11	0.8%
Senior managers	16	1.1%
Other managers	210	14.6%
Other employees	1 202	83.5%

## 6. Social Policies and their Outcomes

### Social responsibility

The social responsibility agenda of Santander Bank Polska S.A. is described in the Sustainability Policy and the Corporate Volunteering Policy of Santander Bank Polska S.A.

In its relations with communities, the bank supports delivery of the UN Sustainable Development Goals:

- good health and well-being
- quality education
- gender equality
- decent work and economic growth

- industry, innovation and infrastructure
- sustainable cities and communities
- climate action.

The bank participates in long-term social projects which are aimed at responding to the needs of local communities and making a positive contribution to society.

### Key sponsorship projects in 2021

In 2021, Santander Bank Polska S.A. delivered sponsorship initiatives in the following three main areas: sports, culture and education. The pandemic and the resulting sanitary regime changed the way in which projects were delivered and affected

the number of initiatives undertaken, involving a wider use of remote communication and promotion tools. The bank focused mainly on long-term projects which give a bigger opportunity to

create lasting association between a given event and the bank. It also started new image-building projects involving the bank's experts from different areas.

#### Key sponsorship and social responsibility projects continued/ launched in 2021

<b>UEFA Champions League</b>	<ul style="list-style-type: none"> <li>→ In 2021, the bank continued the sponsorship of the UEFA Champions League (UCL), the world's most prestigious football club competition.</li> <li>→ The sponsorship agreement with UEFA signed on 29 November 2017 was effective from the 2018/2019 season until the end of the 2020/2021 season. This project allowed the bank to reach a wide group of supporters and their families.</li> <li>→ As one of the UEFA Champions League sponsors, the bank was present in the media via Polsat, a broadcaster of UCL, the Domowe Rozgrywki miniseries (which promoted watching football matches with family members) and sponsorship billboards accompanying sports events, matches, trailers and the series. With the above initiatives taken between November 2020 and April 2021, the bank reached 14m viewers.</li> </ul>
<b>Santander Orchestra</b>	<ul style="list-style-type: none"> <li>→ Santander Orchestra is a cultural and educational project run by Santander Bank Polska S.A. since 2015 to support the careers of talented young musicians. The project combines top class musical workshops with lectures on a variety of topics, an element that is often not included in the traditional curriculum.</li> <li>→ As part of the last year's edition, the following works were created in partnership with Warner Music Poland:             <ul style="list-style-type: none"> <li>→ "Szymon Komasa – Piosenki z Kabaretu Starszych Panów. Laboratorium", an album featuring famous singers and young musicians from Santander Orchestra. During the recording session, the musicians (around 40 beneficiaries) took part in educational workshops on personal finance management and biohacking.</li> <li>→ Two music videos released to promote the album.</li> </ul> </li> <li>→ In 2021, Santander Orchestra also recorded a Christmas music video "Jingle Bells" with one of the contestants in the 2021 edition of The Voice of Poland.</li> </ul>
<b>"Finansiaki" economic education project</b>	<ul style="list-style-type: none"> <li>→ "Finansiaki" is another project run by Santander Bank Polska S.A. to support development of educational capabilities of parents and teachers in the area of finance and entrepreneurship by providing relevant materials (which comply with the core curriculum of kindergartens and primary schools).</li> <li>→ The key element of the project is the website <a href="https://finansiaki.pl/">https://finansiaki.pl/</a> certified as a barrier-free website. It was launched in December 2016 and can be accessed via mobile devices. The educational materials available on that website (lesson plans, tips on how to talk to children, game ideas) were developed by experts and include a variety of ideas how to teach finance management in a fun and playful way.</li> <li>→ The programme is complemented by the following initiatives:             <ul style="list-style-type: none"> <li>→ financial education classes based on ready-made lesson plans run in kindergartens and primary schools as part of corporate volunteering;</li> <li>→ a free guide for parents on how to teach entrepreneurship to children aged 3–14: "Finansiaki. To My!", available for download on the Finansiaki website since 2020;</li> <li>→ "Finansiaki to My" Facebook profile launched in December 2020, including tips for parents and teachers on how to talk with children about finance in a simple and fun way. In 2021, the bank launched cooperation with parenting influencers and bloggers.</li> </ul> </li> </ul>
<b>"How's Your Driving" campaign</b>	<ul style="list-style-type: none"> <li>→ The "How's Your Driving" ("Jak Jeździsz") campaign was launched by the bank in 2015 to promote responsible behaviour and good road manners via social media.</li> <li>→ As part of this initiative, which now has nearly 160k Facebook and Instagram followers, interesting articles on cars and safe driving are published alongside up-to-date traffic information.</li> <li>→ In 2021, the number of interactions was record high: the users not only received messages but also actively participated in discussions or initiated them. This helped increase the visibility of the project in social media.</li> <li>→ The content of both profiles, including expert articles, video quizzes on traffic regulations, online educational games, learning materials for driving tests, reaches a large number of users and directs them to the project website: <a href="https://jakjezdzisz.pl/">https://jakjezdzisz.pl/</a>.</li> </ul>

<b>"Security in Cyberspace" educational project</b>	<ul style="list-style-type: none"> <li>→ Santander Bank Polska S.A. is a partner of the "Security in Cyberspace" ("Bezpieczeństwo w Cyberprzestrzeni") project, which was launched in 2017 and is coordinated by the Warsaw Institute of Banking. The purpose of the project is to raise the awareness of online safety and to develop practical skills related to the use of new technologies.</li> <li>→ In 2021, the following initiatives were delivered as part of the project: <ul style="list-style-type: none"> <li>→ classes for primary and secondary school students, lectures, training and e-learning courses for university students;</li> <li>→ meetings with seniors and lectures for more than 1k people over 65 years of age (as part of partnership with Zaczyn Foundation started in September 2021);</li> <li>→ tutorials on cybersecurity (over 100 videos in total);</li> <li>→ materials for national, regional and student media;</li> <li>→ a new website: <a href="http://cyberbezpieczenstwo.edu.pl">http://cyberbezpieczenstwo.edu.pl</a> or <a href="https://cyber.wib.edu.pl/">https://cyber.wib.edu.pl/</a></li> <li>→ panel sessions.</li> </ul> </li> <li>→ In 2021, nearly 1.5k classes, lectures, webinars, training sessions, e-learning courses, conferences and contests were organised for more than 120k participants (children and teenagers, students, seniors). Educational materials (including videos, brochures and leaflets) were distributed by the Warsaw Institute of Banking through the local, industry and Poland-wide media, newsletters and social media.</li> </ul>
<b>Memory workout: health and wellbeing of seniors</b>	<ul style="list-style-type: none"> <li>→ In 2021, the bank started cooperation with the Stocznia Foundation, which develops specialist materials and tools for improving cognitive skills. They are available for free at: <a href="http://www.silowniapamieci.pl">www.silowniapamieci.pl</a> and are particularly addressed to elderly people who wish to train their memory, logical thinking, visual-spatial awareness, concentration, praxis and planning.</li> <li>→ Thanks to the contribution of Santander Bank Polska S.A., the Foundation printed 2k copies of "Trening umysłu dla seniorów. Scenariusze do pracy w parach senior – opiekun", a book containing ready-made activity plans, exercises and worksheets that can be used to train cognitive skills.</li> <li>→ The printed copies were distributed to the recipients across Poland, particularly to family members and support workers caring for elderly people enabling them to do exercises without any prior experience.</li> </ul>
<b>Digital Festival 2021 (3rd edition)</b>	<ul style="list-style-type: none"> <li>→ Santander Bank Polska S.A. was a partner of the 3rd edition of Digital Festival, the largest education and technology initiative in Poland aimed at promoting digital technologies. The event, which was organised by the Digital Poland Foundation under the slogan: "Digital is evolution, not revolution", was held on 1–10 October 2021 and was addressed to the people who wanted to acquire or develop their knowledge and skills.</li> <li>→ The Festival consists of several main initiatives, some of which are delivered throughout the year: Knowledge Zone (Strefa Wiedzy), Innovation Night (Noc Innowacji), SkillUp Academy (Akademia SkillUp), Digital Discounts (Cyfrowe Zniżki), Guides (Przewodniki), Reports (Raporty), Digital Arts. As part of the initiative, several dozens inspiring contests, quizzes, webinars, training sessions, hackathons, workshops and panel discussions were held, all of which were devoted to new technologies.</li> <li>→ Experts from Santander Bank Polska S.A. delivered training, gave interviews and commented on research results presented in reports provided to participants. The training presentations of the bank's experts (e.g. "What makes a professional LinkedIn profile", "How to write so that others could understand", "Non-violent communication") are now available on the platform offering free training courses on a variety of topics that are aimed to develop digital skills (Akademia SkillUp)</li> <li>→ The campaign promoting the Festival reached more than 13m people via national media and more than 7m people via social media.</li> </ul>
<b>Open Eyes Economy Summit 2021 (6th edition)</b>	<ul style="list-style-type: none"> <li>→ The bank sponsored the 6th edition of Open Eyes Economy Summit – International Congress of the Economy of Values, which was held in a hybrid formula on 16–17 November 2021 in ICE Kraków Congress Centre.</li> <li>→ This event, hosted by Kraków since 2016, brings together renowned representatives of the world of science, economics and culture. It is devoted to economy based on social values. The sixth edition covered the four main topics: firm–idea, brand–culture, city–idea and international governance.</li> <li>→ The event was attended by 1.5k participants on-site, 3.7k participants (from 37 countries) online, and 250 speakers who took part in 83 panel sessions.</li> </ul>
<b>Santander Universidades Programme</b>	<ul style="list-style-type: none"> <li>→ For the last 10 years, the bank has been cooperating with Polish universities, having the ambition to support the academic community, including through scholarship and training programmes offered via the <a href="http://www.santandergrants.com">www.santandergrants.com</a> platform. One of the activities under the Programme in 2021 was the Santander Universidades Academy – a series of webinars for students, graduates and all those who are interested in finance, economics, leadership, artificial intelligence, robotics, and auditing. The speakers were leaders from Santander Bank Polska S.A. The event was organised jointly with the Cracow University of Economics and its Academic Banking Society. The nine webinars were attended by 20 speakers and more than 1000 participants from 100 Polish universities.</li> </ul>



## Santander Bank Polska Foundation

### Activities in 2021

In 2021, Santander Bank Polska Foundation performed 59 educational, charity and cultural donation agreements in cooperation with social partners. The key cyclical projects include grant programmes.

**In 2021, the following four grant programmes were delivered:**

#### Here I live, here I make eco-friendly changes

- The aim of the "Here I live, here I make eco-friendly changes" ("Tu mieszkam, tu zmieniam EKO") programme is to introduce changes in local communities, promote environmental education and bring together residents. The jury of the competition particularly focus on original ecological initiatives responding to social needs. Projects delivered as part of the programme included creation of vertical gardens, pocket parks, rain gardens, plant murals, green libraries and public transport stops.
- Number of applications: 1,062
- Number of organisations helped: 58
- Number of beneficiaries: 538,577
- Programme budget: PLN 300,000

#### Bank of Children's Smiles

- As part of the "Bank of Children's Smiles" ("Bank Dziecięcych Uśmiechów") programme, the Foundation co-financed projects aimed to help children and teenagers who need psychological support due to, among other things, the effects of the Covid-19 pandemic.
- Number of applications: 585
- Number of organisations helped: 29
- Number of beneficiaries: 5,674
- Programme budget: PLN 150,000

#### Bank of Young Sports Champions

- The "Bank of Young Sports Champions" ("Bank Młodych Mistrzów Sportu") programme promotes active lifestyle. As part of the 2021 edition, grants were awarded to sports projects and events for young people aged 5–26 such as team sports events, competitions for people with disabilities, training and other initiatives promoting fair play and sportsmanship.
- Number of applications: 585
- Number of organisations helped: 29
- Number of beneficiaries: 5,674
- Programme budget: PLN 150,000

#### Cyberattack Defenses

- The Foundation launched the first edition of the "Cyberattack Defenses" ("Haki na Cyberataki") programme whose purpose is to award the most interesting consumer finance education projects concerning:
  - protection against financial crimes such as frauds;
  - safe use of electronic banking;
  - safe online finance management.
- Programme budget: PLN 1,200,000
- Results: 28 February 2022

#### Other programmes included:

- **2021/22 Scholarship Programme** – as part of the fourth edition of the Programme, scholarships were awarded to 31 out of 683 applications submitted in the 2021/2022 school year.
- **"Flicker Club" ("Klub Płomyka")** – a continuation of the project aimed to renovate units in educational care centres and hospitals and provide necessary equipment, books and toys. In 2021, four Flicker Clubs were opened (and the fifth and the sixth one in January 2022). Since the start of the project, nine such units have been renovated across Poland.
- **"Sow the seeds of ecological change" ("Zasiej EKO-zmianę")** – 42k bags of night-scented stock were given to customers of the bank's branches around Poland to encourage them to make eco-friendly changes in local communities. Customers sew flower seeds on balconies and in gardens and could participate in a photo contest open to the youngest customers of the bank.
- **"We Will Double Your Impact" ("Podwójna Moc Pomagania")** – a joint initiative of the Foundation and the bank.
  - As part of the first edition, Santander Bank Polska S.A., in partnership with Santander Towarzystwo Funduszy
  - Inwestycyjnych S.A., Santander Leasing S.A. and Santander Factoring sp. z o.o., donated PLN 1 million to support child psychiatry.
  - Over 10k people took part in the second edition of the fundraiser. The bank doubled the funds raised and additionally donated the difference between that amount and the declared amount of PLN 2m to support child and adolescent mental health units in 16 hospitals across Poland.

→ **4th North Macroregion Helps (Północny Pomaga) Charity Run** – virtual North Macroregion Helps Charity Run organised by volunteers from the North Macroregion and Santander Foundation. The participants were to cover the distance of 7.1 km running, walking, roller blading, cycling, by scooter, on horseback or otherwise. PLN 68.1k was raised and donated to the Eugeniusz Dutkiewicz Home Hospice in Gdańsk.

### Corporate volunteering

Corporate volunteering at the bank is supported by Santander Bank Polska Foundation. In 2021, 126 projects were carried out to support social organisations and people in need, involving 1,734 volunteers from around Poland.

The initiatives undertaken by the bank were aimed to help people with disabilities, children and teenagers with cancer, hospice patients, lonely elderly individuals, and children and teenagers in educational care centres. They also included ecological projects.

Furthermore, the volunteers took part in financial education projects for young people, e.g. in the "Bakcyl" project run in partnership with the Warsaw Institute of Banking, and in the "Małe Miasto Wągrowiec" project designed to teach children how money works and how to earn, save and spend it. As part of skill-based volunteering, employees shared their knowledge of cybersecurity, civil law and labour law with children and teenagers from educational care centres.

As part of an event organised by the volunteers from the bank's Central Macroregion, 900 books and 200 board games were donated to young people from educational care centres.

### Expenditures on social and other projects

The expenditures of Santander Bank Polska S.A on social projects and other non-core projects.

#### Expenses of Santander Bank Polska Group in 2021 for non-core activities (PLN m)

	2021
Education, including:	5.3
– Financial education	2.4
Sports	3.2
Culture	1.4
Environmental protection	1.4
Charity events and statutory activities of foundations/associations, including:	4.3
– "We Will Double Your Impact" fundraiser	2.0
Industry conferences	0.2

## XV. Statement of the Management Board

### True and Fair Presentation of the Financial Statements

To the best of the Management Board's knowledge, the financial figures and the comparable data presented in the financial statements incorporated in the "Annual Report of Santander Bank Polska S.A. for 2021" and "Annual Report of Santander Bank Polska Group for 2021" were prepared in keeping with the applicable accounting policies and give a true and fair view of the state of affairs and earnings of Santander Bank Polska S.A. and Santander Bank Polska Group. The Management Board's Report contained in this document shows a true picture of the development, achievements and position of Santander Bank Polska S.A. and its Group (including the underlying risks) in 2021.

### Auditor selection

The audit firm responsible for auditing the unconsolidated and consolidated financial statements of Santander Bank Polska S.A. for 2021 was selected in compliance with the applicable legislation. The bank has the "Auditor Appointment Policy at Santander Bank Polska S.A.", the "Auditor Services Policy at Santander Bank Polska S.A." and the "Policy for Non-Audit Services Rendered by the Auditor", which relate to the policy of selection of an audit firm and the policy of provision of non-audit services by an audit firm, a affiliate of an audit firm or a member of its network. The bank complies with the applicable legal provisions relating to the rotation of audit firms and the key statutory auditor, and the appropriate cooling-off periods.

The following persons have signed this Management Board Report with an electronic qualified signature.

Date	Name	Function	Signature
22.02.2022	Michał Gajewski	President	The original Polish document is signed with a qualified electronic signature
22.02.2022	Andrzej Burliga	Vice-President	The original Polish document is signed with a qualified electronic signature
22.02.2022	Juan de Porras Aguirre	Vice-President	The original Polish document is signed with a qualified electronic signature
22.02.2022	Arkadiusz Przybył	Vice-President	The original Polish document is signed with a qualified electronic signature
22.02.2022	Lech Gatkowski	Member	The original Polish document is signed with a qualified electronic signature
22.02.2022	Patryk Nowakowski	Member	The original Polish document is signed with a qualified electronic signature
22.02.2022	Carlos Polaino Izquierdo	Member	The original Polish document is signed with a qualified electronic signature
22.02.2022	Maciej Reluga	Member	The original Polish document is signed with a qualified electronic signature
22.02.2022	Dorota Strojowska	Member	The original Polish document is signed with a qualified electronic signature

# Independent Registered Auditor's Report





#### TRANSLATORS' EXPLANATORY NOTE

The English content of this report is a free translation of the registered auditor's report of the below-mentioned Polish Company. In Poland statutory accounts as well as the auditor's report should be prepared and presented in Polish and in accordance with Polish legislation and the accounting principles and practices generally adopted in Poland.

The accompanying translation has not been reclassified or adjusted in any way to conform to the accounting principles generally accepted in countries other than Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancies in interpreting the terminology, the Polish language version is binding.

## Independent Registered Auditor's Report

To the General Shareholders' Meeting and the Supervisory Board of Santander Bank Polska S.A.

### Report on the audit of consolidated financial statements

#### Our opinion

In our opinion, the accompanying annual consolidated financial statements:

- give a true and fair view of the consolidated financial position of the group Santander Bank Polska S.A. (the "Group"), in which Santander Bank Polska S.A. is the parent entity (the "Parent Company") as at 31 December 2021 and the Group's consolidated financial performance and the consolidated cash flows for the year then ended in accordance with the applicable International Financial Reporting Standards as adopted by the European Union and the adopted accounting policies;
- comply in terms of form and content with the laws applicable to the Group and the Parent Company's Articles of Association.

Our opinion is consistent with our additional report to the Audit Committee issued on the date of this report.

#### What we have audited

We have audited the annual consolidated financial statements of Santander Bank Polska S.A. Group which comprise:

- the consolidated statement of financial position as at 31 December 2021; and the following prepared for the financial year from 1 January to 31 December 2021:
- the consolidated income statement;
- the consolidated statement of comprehensive income
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows, and
- the additional notes to the consolidated financial statements comprising a description of the significant adopted accounting policies and other explanations.

PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k., ul. Polna 11, 00-633 Warsaw, Poland, T: +48 (22) 746 4000, F: +48 (22) 742 4040, [www.pwc.pl](http://www.pwc.pl)

PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k. is entered into the National Court Register maintained by the District Court for the Capital City of Warsaw, under KRS number 0000741448, NIP 113-23-69-979. The seat of the Company is in Warsaw at Polna 11.



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## Basis for opinion

### **Basis for opinion**

We conducted our audit in accordance with the National Standards on Auditing in the wording of the International Standards on Auditing as adopted by the resolution of the National Council of Statutory Auditors ("NSA") and pursuant to the Law of 11 May 2017 on Registered Auditors, Registered Audit Companies and Public Oversight (the "Law on Registered Auditors") and the Regulation (EU) No. 537/2014 of 16 April 2014 on specific requirements regarding the statutory audit of public-interest entities (the "EU Regulation"). Our responsibilities under NSA are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted by resolution of the National Council of Statutory Auditors and other ethical requirements that are relevant to our audit of the financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. During the audit, the key registered auditor and the registered audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Registered Auditors and in the EU Regulation.





## Our audit approach

### Overview



- The overall materiality threshold adopted for the purposes of our audit was set at PLN 155,000 thousand, which represents ca. 5% of the profit before tax adjusted by the tax on financial institutions and the costs of creating a restructuring provision. As the basis for determining the materiality level, we used the average of the last three financial years.
- We have audited the financial statements of the Parent Company and consolidation packages of subsidiaries that have a significant impact on the consolidated financial statements.
- The scope of our audit covered 91% of the Group's revenue and 82% of the absolute value of its profit or loss and 88% of total assets of all the consolidated Group companies before consolidation eliminations.
- Estimating the value of expected credit losses in the portfolio of loans and advances to customers
- Estimating risk provisions related to the portfolio of mortgage loans in Swiss franc (CHF)

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Parent Company's Management Board made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operated.



### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole, as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

<b>Overall Group materiality</b>	PLN 155,000 thousand (last year PLN 174,900 thousand)
<b>How we determined it</b>	ca. 5% of the profit before tax, adjusted by the tax on financial institutions and the costs of creating a restructuring provision. As the basis for determining the materiality level, we used the average of the last three financial years.
<b>Rationale for the materiality benchmark applied</b>	<p>We have adopted profit before tax as the basis for determining materiality because, in our opinion, it is an indicator commonly used by the users of financial statements to evaluate the Group's operations and it is a key benchmark.</p> <p>We have adjusted profit before tax by the tax on financial institutions because it is a specific tax burden and costs of creating restructuring provision treated as a one-off event. Taking into account the significant fluctuations in the level of gross profit, and at the same time no significant changes to the scale of the Group's operations, we used the average of the last three years.</p> <p>We adopted the materiality threshold of 5% because, based on our professional judgement, it is within the quantitative materiality thresholds acceptable for the auditing of profit-oriented entities in the financial sector.</p>

We agreed with the Parent Company's Audit Committee that we would report to them misstatements identified during our audit above PLN 7,750 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.



## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. They include the most significant identified risks of material misstatements, including the identified risks of material misstatement resulting from fraud. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters.

### Key audit matter

### How our audit addressed the key audit matter

#### Estimating the allowances for expected credit losses for loans and advances to customers

In accordance with the provisions of International Financial Reporting Standard 9, Financial Instruments, ("IFRS 9") the Management is required to determine expected credit loss ("ECL") that may occur over either a 12 month period or the remaining life of a financial asset, depending on the classification of individual assets into risk categories ("stages"), taking into account the impact of future macroeconomic conditions on the level of credit risk allowances.

The Group's loan portfolio consists of exposures assessed for expected credit losses:

- on an individual basis for individually significant credit exposures; and
- with the use of statistical models which estimate allowances for credit losses for each of the homogenous portfolios identified by the Group.

Estimating the level of allowances for expected credit losses requires the use of a considerable dose of professional judgement with regard to the identification of impairment triggers or a significant increase in credit risk, determination of the value of collateral and expected recoveries.

The Parent Company's Management Board monitors the correct functioning of the models, among others by comparing the results estimated by the models to actual credit losses

As part of the procedures performed, we updated our understanding of the Group's policies and procedures related to the estimation of allowances for expected credit losses, especially the changes applied to address the uncertainties resulting from changes observed in the economic environment.

We tested the effectiveness of controls applied by the management related to the recognition and measurement of credit losses including, among others, controls over:

- the completeness and accuracy of input data used;
- verification of the models of probability of default (PD), loss given default (LGD) and other parameters;
- the design of future macroeconomic scenarios, forecasted macroeconomic variables and the probability-weighting of particular scenarios.

As part of the work on statistical models, we performed the following procedures, for which we engaged our internal credit risk modelling specialists:

- assessment whether the Group's methodology related to the estimation of expected credit losses is in line with the requirements of IFRS 9, in particular verification of the Group's approach to applying the criteria to identify significant increase in credit risk, default definition, PD and LGD parameters and including forward-looking information when calculating expected credit losses;



(backtesting procedures) and performing periodic quantitative validation of the models.

In the models of expected credit losses, the Group uses large amounts of data, therefore the completeness and reliability of data may significantly affect the accuracy of allowances for credit losses.

We considered allowances for expected credit losses for loans and advances portfolio as a key audit matter due to:

- significant judgement used by the Parent Company's Management Board in modelling future scenarios and forecasting macroeconomic variables, assuming the probability of occurrence of individual scenarios;
- high degree of uncertainty related to the estimation of the allowance for expected credit losses due to dynamic changes in the economic environment, e.g. as a result of the ongoing COVID-19 pandemic, which affect the forecasted macroeconomic parameters and thus the credit risk parameters used in the models for estimating expected credit losses;
- the complexity of the audit procedures and the audit evidence obtained due to the complexity of the calculations and the amount of data used to estimate the allowances for expected credit losses.

Note 2.5 *Use of estimates*, Note 2.8 *The most significant accounting policies*, Note 4 *Risk management* and Note 22 *Loans and advances to customers* in the consolidated financial statements provide detailed information on the methods and models used and the level of allowances for the expected credit losses in the portfolio of loans and advances to customers.

- critical analysis of key judgments and assumptions, including macroeconomic scenarios and the probability-weightings assigned to particular scenarios;
- independent tests of the credit risk parameters.

In the area of the individually assessed exposures, we performed the following procedures:

- we selected a sample taking into account various risk criteria based on our professional judgement,
- for selected loans and advances we checked the stage classification as at the balance sheet date;
- for selected impaired loans and advances (stage 3) we tested the assumptions used in the expected credit loss allowances' calculation, particularly expected scenarios and probabilities assigned to them and the timing and amount of expected cash flows, including cash flows from repayments and realisation of collaterals.

Moreover, we performed the following procedures:

- we reconciled selected input data used for determining default parameters and estimating expected credit losses;
- we verified the allocation of exposures to appropriate stages;
- for the portfolio of loans we recalculated the level of expected credit losses;
- we performed analytical procedures over provision coverage of the credit portfolio, its changes in 2021 and transfers between stages in 2021;
- we analysed the results of the management's sensitivity analysis of the level of allowances for expected credit losses due to deterioration or improvement of risk parameters.

Additionally, we verified adequacy and completeness of disclosures in the financial statements in accordance with applicable accounting standards.





### Estimating the provision for legal risk related to the portfolio of mortgage loans in CHF

As at the balance sheet date, the Group has a portfolio of mortgage loans denominated in and indexed to foreign currencies, mainly to the Swiss franc, in the total amount of PLN 9,265,163 thousand. As described in the Note 48 *Legal risk connected with CHF mortgage loans* in the consolidated financial statements, the loan agreements based on which these loans were granted, contain clauses questioned by customers in courts due to abusiveness. At the moment, the jurisprudence of courts is not uniform, however, there is a negative trend for banks in relation to court judgments, which also affects the increase in the number of court cases brought by bank's clients. At the same time, banks decide to offer settlements to convert foreign currency loans into PLN loans to their customers, as proposed by the Chairman of the Polish Financial Supervision Authority, or launch settlement programs resulting in the conversion of a CHF loan into a PLN loan with the simultaneous cancellation of a part of the loan balance.

The Group estimated the impact of this situation on the recoverability of cash flows from the portfolio of mortgage CHF loans, previously estimated based on concluded contracts, and the origination of a liability resulting in future cash outflow.

As presented in Note 48 *Legal risk connected with CHF mortgage loans* in the consolidated financial statements, the Group recognizes a provision for the legal risk of the CHF loan portfolio in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, both with respect to loan agreements currently questioned by customers in court and on a portfolio basis for pending lawsuits, both for the active portfolio and for the portfolio of loans repaid before the balance sheet date.

Due to the fact that, as described in Note 48 *Legal risk connected with CHF mortgage loans*

As part of our audit procedures, we assessed whether the accounting approach applied by the Group is in line with IFRS. Our audit procedures were mainly aimed at assessing the model and the particular assumptions adopted by the Parent Company's Management Board that had a significant impact on the level of estimated provisions. In particular, we carried out the following procedures:

- We discussed with the Management Board and specialists involved in estimating the provision, including the Group's external legal experts, the assumptions made, taking into account historical observations, including information on court judgments, completed court cases and the current number of new claims;
- We verified the different scenarios applied by the Group regarding the expected number of lawsuits against the Group, prepared among others based on the number of currently filed lawsuits against the Group, based on the predictive models. In cooperation with our internal valuation specialists, we assessed the assumptions adopted in the models;
- We obtained directly from the Group's external legal experts their assessment of the expected scenarios of the resolution of court cases together with an assessment of the probability of these scenarios broken down into homogeneous portfolios identified by the Group, grouped on the basis of individual clauses in contracts;
- In cooperation with our internal legal experts, we analysed the documentation and legal opinions received directly from the Group's external legal experts for the purposes of assessing the risk of losing the court proceedings, as well as the probabilities of particular scenarios of the court verdicts;
- We analysed the method of calculating the of probable losses for each scenario assumed by the Group based on the historical data
- We verified the model used by the Group to estimate the provisions, we checked the correctness and completeness of the input data to the model, we verified the mathematical accuracy of the calculation;



in the consolidated financial statements, the Management Board did not make a decision on potential out-of-court solutions, including settlements with customers, it was not included in the scenarios adopted to estimate the level of provisions as at 31 December 2021.

Estimation of the provisions created by the Group to cover the legal risk of this portfolio is complex and requires a significant degree of judgement due to the high degree of uncertainty of the assumptions made by the Management Board in the calculation, including forecasted number of lawsuits in the future, as well as possible court settlement scenarios and estimated levels of expected losses on their basis.

Due to the uncertainty as to the assumptions described above, as well as the significant value of the portfolio constituting the basis for estimating the current and potential future claims against the Group, we considered this area to be the key audit matter.

*Note 48 Legal risk connected with CHF mortgage loans* in the consolidated financial statements provide details of the assumptions used to calculate the portfolio provision for CHF mortgage loans and possible alternative results presented in the sensitivity analysis of the estimate.

- We also verified adequacy and completeness and of disclosures in the consolidated financial statements in accordance with applicable accounting standards.

### Responsibility of the Management and Supervisory Board for the consolidated financial statements

The Management Board of the Parent Company is responsible for the preparation of the annual consolidated financial statements that give a true and fair view of the Group's financial position and results of operations, in accordance with International Financial Reporting Standards as adopted by the European Union, the adopted accounting policies, the applicable laws and the Parent Company's Articles of Association, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Parent Company's Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.





The Parent Company's Management Board and members of the Supervisory Board are obliged to ensure that the consolidated financial statements comply with the requirements specified in the Act of 29 September 1994 ("the Accounting Law"). Members of the Supervisory Board are responsible for overseeing the financial reporting process.

### Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the NSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these consolidated financial statements.

The scope of the audit does not include an assurance on the Group's future profitability nor the efficiency and effectiveness of the Parent Company's Management Board conducting its affairs, now or in future.

As part of an audit in accordance with NSA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent Company's Management Board.
- Conclude on the appropriateness of the Parent Company's Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.



We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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## Other information, including the report on the operations

### Other information

Other information comprises a Management Board Report on Santander Bank Polska Capital Group Performance in 2021 including Management Board Report on Santander Bank Polska S.A. Performance ("the Report on the operations") and the corporate governance statement and the statement on non-financial information referred to in Article 55(2b) of the Accounting Act which are separate parts of the Report on the operations, and the Annual Report for the financial year ended 31 December 2021 ("the Annual Report") (together "Other Information"). Other information does not include the consolidated financial statements and our auditor's report thereon.

### Responsibility of the Management and Supervisory Board

The Management Board of the Parent Company is responsible for the preparation of the Other Information in accordance with the law.

The Parent Company's Management Board and the members of the Supervisory Board are obliged to ensure that the Report on the operations of the Group including its separate parts complies with the requirements of the Accounting Law.

### Registered auditor's responsibility

Our opinion on the consolidated financial statements does not cover the Other Information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the information in the consolidated financial statements, our knowledge obtained in our audit, or otherwise appears to be materially misstated. If, based on the work performed, we identified a material misstatement in the Other Information, we are obliged to inform about it in our audit report.

In accordance with the requirements of the Law on the Registered Auditors, we are also obliged to issue an opinion on whether the Report on the operations has been prepared in accordance with the law and is consistent with information included in annual consolidated financial statements.

Moreover, we are obliged to issue an opinion on whether the Group provided the required information in its corporate governance statement and to inform whether the Group prepared a statement on non-financial information.



In addition, we are required to audit the financial information included in the Report on the operations in accordance with the scope described in this audit report and the requirements of the Banking Law of 29 August 1997 ("the Banking Law").

#### **Opinion on the Report on the operations**

Based on the work we carried out during our audit, in our opinion, the Report on the operations:

- has been prepared in accordance with the requirements of Article 49 of the Accounting Act para. 71 of the Regulation of the Minister of Finance dated 29 March 2018 on current and periodical information submitted by issuers of securities and conditions for considering as equivalent the information required under the legislation of a non-Member State ("Regulation on current information") and Article 111(1–2) of the Banking Law;
- is consistent with the information in the consolidated financial statements.

Moreover, based on the knowledge of the Group and its environment obtained during our audit, we have not identified any material misstatements in the Report on the operations of the Group and the remaining Other information.

#### **Opinion on the corporate governance statement**

In our opinion, in its corporate governance statement, the Group included information set out in para. 70.6 (5) of the Regulation on current information. In addition, in our opinion, information specified in paragraph 70.6 (5)(c)–(f), (h) and (i) of the said Regulation included in the corporate governance statement are consistent with the applicable provisions of the law and with information included in the consolidated financial statements.

#### **Information on non-financial information**

In accordance with the requirements of the Act on the Registered Auditors, we confirm that the Group has prepared a statement on non-financial information referred to in Article 55(2b) of the Accounting Act as a separate section of the Report on the operations.

We have not performed any assurance work relating to the statement on non-financial information and we do not provide any assurance with regard to it.

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## **Report on other legal and regulatory requirements**

### **Report on the compliance of the marking-up of consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF")**

In connection with the audit of the consolidated financial statements we have been engaged by the Parent Company's Management Board as part of our audit engagement letter to conduct a reasonable assurance engagement to express an opinion whether the consolidated financial statements of the Group as at and for the year ended 31 December 2021 prepared in the single electronic format contained in the file named ESEF\_SantanderBankPolska.zip was marked-up in accordance with the requirements in the article 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation").





### **Description of a subject matter and applicable criteria**

The consolidated financial statements were prepared in the ESEF format by the Parent Company's Management Board to comply with the technical requirements regarding the specification of a single electronic reporting format and marking-up, which are set out in the ESEF Regulation.

The subject matter of our assurance engagement is the compliance of the consolidated financial statements in the ESEF format with the requirements of the ESEF Regulation and the requirements of this regulation, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

### **Responsibility of the Management Board of the Parent Company and the Supervisory Board**

The Parent Company's Management Board is responsible for the preparation of the consolidated financial statements in the ESEF format in accordance with the technical requirements regarding the specification of a single electronic reporting format which are set out in the ESEF Regulation. This responsibility includes the selection and application of appropriate markups in iXBRL using taxonomy specified in the ESEF Regulation. The responsibility of the Management Board includes also designing, implementing and maintaining internal controls relevant for the preparation of the consolidated financial statements in the ESEF format which are free from material non-compliance with the requirements of the ESEF Regulation and their marking-up in compliance with these requirements.

Members of the Parent Company's Supervisory Board are responsible for overseeing the financial reporting process, which includes also the preparation of the consolidated financial statements in accordance with the format compliant with legal requirements.

### **Our responsibility**

Our objective was to express an opinion, based on the conducted reasonable assurance engagement, whether the consolidated financial statements prepared in the ESEF format were marked-up, in all material respects, with the requirements of the ESEF Regulation.

We conducted our engagement in accordance with the National Standard on Assurance Engagements other than Audit and Review 3001 - audit of financial statements prepared in the single electronic reporting format ("KSUA 3001pl") and where relevant with the National Standards on Assurance Engagements 3000 (R) in the wording of the International Standard on Assurance Services 3000 (Revised) - 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' (as issued by the National Council of Statutory Auditors (KSUA 3000(R))). These standards require that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the consolidated financial statements in the ESEF format were marked-up, in all material aspects, in compliance with the specified criteria.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with KSUA 3001pl and KSAU 3000 (R) will always detect the existing material misstatement (significant non-compliance with the requirements).

The selection of the procedures depend on the auditor's judgement, including the auditor's assessment of the risk of material misstatements, whether due to fraud or error. In performing the assessments of this risk, the auditor shall consider the internal control related to the preparation of the consolidated financial statements in the ESEF format and its marking-up in order to plan appropriate procedures to provide the auditor with sufficient evidence appropriate to the circumstances. The



assessment of the functioning of the internal control system was not carried out in order to express an opinion on the effectiveness of its operation.

#### **Quality control and ethical requirements**

We apply the provisions of the regulation of the National Council of Statutory Auditors with regard to internal quality control in the wording of International Standard on Quality Control 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We comply with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted by resolution of the National Council of Statutory Auditors, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

#### **Summary of the work performed**

Our planned and performed procedures were aimed at obtaining reasonable assurance whether the consolidated financial statements in the ESEF format were marked-up, in all material aspects, in compliance with the applicable requirements. Our procedures included in particular:

- obtaining an understanding of the process of preparation of the consolidated financial statements in the ESEF format, including the process of selection and application by the Group of the XBRL tags and ensuring the compliance with the ESEF Regulation, including understanding the mechanism of the internal control system related to this process;
- reconciliation, on a selected sample, of the marked-up information contained in the consolidated financial statements in the ESEF format to the audited consolidated financial statements;
- compliance with the technical standards regarding the specification of a single electronic reporting format, including the use of XHTML, using a specialised IT tool and with the support of an IT expert assessment;
- evaluating the completeness of marking up the consolidated financial statements in the ESEF format using the iXBRL tags;
- evaluating the appropriateness of the use of XBRL tags selected from the ESEF taxonomy and whether the extension markups were used appropriately where no suitable element in the ESEF taxonomy has been identified;
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy from the ESEF regulation.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

#### **Conclusion**

In our opinion, based on the procedures performed, the consolidated financial statements in the ESEF format were marked-up, in all material respects, in compliance with the requirements of the ESEF Regulation.

#### **Information on compliance with prudential regulations**

The Management Board of the Parent Company is responsible for complying with the applicable prudential regulations set out in separate legislation, and in particular, for correct determination of the capital ratios.



The capital ratios as at 31 December 2021 have been presented in Note 5 of the consolidated financial statements and include capital ratio and Tier 1 ratio.

We are obliged to inform in our report on the audit of the consolidated financial statements whether the Group has complied with the applicable prudential regulations set out in separate legislation, and in particular, whether the Group has correctly determined its capital ratios. For the purposes of the said information, the following legal acts are understood as separate legislation: Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as amended ("CRR"), the Banking Law and the Act of 5 August 2015 on macro-prudential supervision over the financial system and on crisis management in the financial system ("the Act on macro-prudential supervision").

It is not the purpose of an audit of the financial statements to present an opinion on compliance with the applicable prudential regulations specified in the separate legislation specified above, and in particular, on the correct determination of the capital ratios, and therefore, we do not express such an opinion.

Based on the work performed by us, we inform you that we have not identified:

- any cases of non-compliance by the Group with the applicable prudential regulations set out in separate legislation referred to above, in the period from 1 January to 31 December 2021;
- any irregularities in the determination by the Group of the capital ratios as at 31 December 2021 in accordance with the separate legislation referred to above;

which would have a material impact on the consolidated financial statements.

#### **Statement on the provision of non-audit services**

To the best of our knowledge and belief, we declare that the non-audit services we have provided to the Parent Company and its subsidiaries are in accordance with the applicable laws and regulations in Poland and that we have not provided any non-audit services prohibited under Article 5(1) of the EU regulation and Article 136 of the Law on Registered Auditors.

The non-audit services which we have provided to the Parent Company and its subsidiaries during the audited period are disclosed in the Report on the operations.

#### **Appointment**

We were first appointed to audit the annual consolidated financial statements of the Group by resolution of the Supervisory Board dated 22 March 2016 and re-appointed by resolution dated 23 February 2021. We have been auditing the Group's financial statements without interruption since the financial year ended 31 December 2016, i.e. for six consecutive years.

The Key Registered Auditor responsible for the audit on behalf of PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k., a company entered on the list of Registered Audit Companies with the number 144, is Agnieszka Accordi.

Agnieszka Accordi  
Key Registered Auditor  
No. 11665

Warsaw, 22 February 2022



# Consolidated Financial Statements

of Santander Bank Polska  
Group for 2021



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# I. Consolidated income statement

	for the period:	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
<b>Interest income and similar to income</b>		<b>6 362 584</b>	<b>6 857 160</b>
Interest income on financial assets measured at amortised cost		5 389 776	5 946 776
Interest income on financial assets measured at fair value through other comprehensive income		955 577	853 841
Income similar to interest on financial assets measured at fair value through profit or loss		17 231	56 543
<b>Interest expense</b>		<b>(400 139)</b>	<b>(969 011)</b>
<b>Net interest income</b>	<b>Note 6</b>	<b>5 962 445</b>	<b>5 888 149</b>
Fee and commission income		2 972 591	2 638 807
Fee and commission expense		(485 468)	(486 701)
<b>Net fee and commission income</b>	<b>Note 7</b>	<b>2 487 123</b>	<b>2 152 106</b>
Dividend income	Note 8	112 848	22 883
Net trading income and revaluation	Note 9	267 954	150 509
Gains (losses) from other financial securities	Note 10	94 918	257 712
Other operating income	Note 11	284 294	175 979
Impairment allowances for expected credit losses	Note 12	(1 124 188)	(1 762 812)
Operating expenses incl.:		(5 487 196)	(4 487 986)
– Staff, operating expenses and management costs	Note 13,14	(3 172 130)	(3 262 541)
– Amortisation of property, plant and equipment and Intangible assets		(411 399)	(405 263)
– Amortisation of right of use asset		(167 571)	(188 332)
– Other operating expenses	Note 15	(1 736 096)	(631 850)
Share in net profits (loss) of entities accounted for by the equity method		74 068	86 360
Tax on financial institutions		(614 438)	(602 003)
Profit before tax		2 057 828	1 880 897
<b>Corporate income tax</b>	<b>Note 16</b>	<b>(805 422)</b>	<b>(643 723)</b>
Consolidated profit for the period		1 252 406	1 237 174
of which:			
– attributable to owners of the parent entity		1 111 684	1 037 167
– attributable to non-controlling interests		140 722	200 007
<b>Net earnings per share</b>	<b>Note 17</b>		
Basic earnings per share (PLN/share)		10.88	10.16
Diluted earnings per share (PLN/share)		10.88	10.15

## II. Consolidated statement of comprehensive income

	for the period:	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
<b>Consolidated profit for the period</b>		<b>1 252 406</b>	<b>1 237 174</b>
<b>Items that will be reclassified subsequently to profit or loss:</b>		<b>(2 805 251)</b>	<b>541 358</b>
Revaluation and sales of debt financial assets measured at fair value through other comprehensive income gross	Note 24 and 42	(3 425 571)	649 030
Deferred tax		650 859	(123 316)
Revaluation of cash flow hedging instruments gross	Note 42 and 50	(37 702)	19 314
Deferred tax		7 163	(3 670)
<b>Items that will not be reclassified subsequently to profit or loss:</b>		<b>426 257</b>	<b>(23 342)</b>
Revaluation of equity financial assets measured at fair value through other comprehensive income gross	Note 24 and 42	518 751	(26 655)
Deferred and current tax		(98 352)	4 874
Provision for retirement benefits – actuarial gains/losses gross	Note 42 and 55	7 216	(1 927)
Deferred tax		(1 358)	366
<b>Total other comprehensive income, net</b>		<b>(2 378 994)</b>	<b>518 016</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>(1 126 588)</b>	<b>1 755 190</b>
Total comprehensive income attributable to:			
– owners of the parent entity		(1 220 899)	1 552 918
– non-controlling interests		94 311	202 272

### III. Consolidated statement of financial position

as at:		31.12.2021	31.12.2020
<b>ASSETS</b>			
Cash and balances with central banks	Note 18	8 438 275	5 489 303
Loans and advances to banks	Note 19	2 690 252	2 926 522
Financial assets held for trading	Note 20	4 020 117	3 182 769
Hedging derivatives	Note 21	163 177	7 654
Loans and advances to customers incl.:	Note 22	148 250 421	141 998 745
– measured at amortised cost		145 966 743	139 549 728
– measured at fair value through other comprehensive income		1 729 848	1 556 791
– measured at fair value through profit or loss		553 830	892 226
Buy–sell–back transactions		453 372	293 583
Investment securities incl.:	Note 24	71 866 260	66 783 434
– debt investment securities measured at fair value through other comprehensive income		70 064 796	65 700 052
– debt investment securities measured at fair value through profit and loss		116 977	110 155
– debt investment securities measured at amortised cost		1 421 272	–
– equity investment securities measured at fair value through other comprehensive income		259 788	857 331
– equity investment securities measured at fair value through profit and loss		3 427	115 896
Assets pledged as collateral	Note 50	534 437	657 664
Investments in associates	Note 25	932 740	998 397
Intangible assets	Note 26	692 802	708 356
Goodwill	Note 27	1 712 056	1 712 056
Property, plant and equipment	Note 28	732 909	803 429
Right of use assets	Note 29	517 102	710 657
Current income tax assets		216 884	–
Net deferred tax assets	Note 30	2 383 710	1 996 552
Fixed assets classified as held for sale	Note 31	4 817	11 901
Other assets	Note 32	1 267 009	1 030 287
<b>Total assets</b>		<b>244 876 340</b>	<b>229 311 309</b>
<b>LIABILITIES AND EQUITY</b>			
Deposits from banks	Note 33	4 400 138	5 373 312
Hedging derivatives	Note 21	1 762 334	1 775 098
Financial liabilities held for trading	Note 20	3 878 081	3 030 340
Deposits from customers	Note 34	185 373 443	171 522 255
Sell–buy–back transactions	Note 45	510 277	653 687
Subordinated liabilities	Note 35	2 750 440	2 754 605
Debt securities in issue	Note 36	12 805 462	11 241 312
Lease liabilities	Note 51	452 499	624 690
Current income tax liabilities		–	79 049
Provisions for off balance sheet credit facilities	Note 37	60 811	64 541
Other provisions	Note 38	2 358 989	952 115
Other liabilities	Note 39	3 310 290	2 582 315
<b>Total liabilities</b>		<b>217 662 764</b>	<b>200 653 319</b>
<b>Equity</b>			
<b>Equity attributable to owners of parent entity</b>		<b>25 531 680</b>	<b>26 994 750</b>
Share capital	Note 40	1 021 893	1 021 893
Other reserve capital	Note 41	22 178 344	21 296 994
Revaluation reserve	Note 42	(1 354 715)	1 839 292
Retained earnings		2 574 474	1 799 404
Profit for the period		1 111 684	1 037 167
<b>Non–controlling interests in equity</b>	<b>Note 43</b>	<b>1 681 896</b>	<b>1 663 240</b>
<b>Total equity</b>		<b>27 213 576</b>	<b>28 657 990</b>
<b>Total liabilities and equity</b>		<b>244 876 340</b>	<b>229 311 309</b>

Notes presented on pages 194–320 constitute an integral part of these Financial Statements

## IV. Consolidated statement of changes in equity

Consolidated statement of changes in equity 1.01.2021 – 31.12.2021	Equity attributable to owners of parent entity				Total	Non-controlling interests	Total equity
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period			
Note	40	41	42			43	
<b>As at the beginning of the period</b>	<b>1 021 893</b>	<b>21 296 994</b>	<b>1 839 292</b>	<b>2 836 571</b>	<b>26 994 750</b>	<b>1 663 240</b>	<b>28 657 990</b>
Total comprehensive income	–	–	(2 332 583)	1 111 684	(1 220 899)	94 311	(1 126 588)
<i>Consolidated profit for the period</i>	–	–	–	1 111 684	1 111 684	140 722	1 252 406
<i>Other comprehensive income</i>	–	–	(2 332 583)	–	(2 332 583)	(46 411)	(2 378 994)
Profit allocation to other reserve capital	–	1 110 963	–	(1 110 963)	–	–	–
Interim dividend*	–	(220 729)	–	–	(220 729)	–	(220 729)
Profit allocation to dividends	–	–	–	–	–	(75 655)	(75 655)
Transfer of revaluation of equity financial assets measured at fair value through other comprehensive income**	–	–	(839 982)	839 982	–	–	–
Other changes	–	(8 884)	(21 442)	8 884	(21 442)	–	(21 442)
<b>As at the end of the period</b>	<b>1 021 893</b>	<b>22 178 344</b>	<b>(1 354 715)</b>	<b>3 686 158</b>	<b>25 531 680</b>	<b>1 681 896</b>	<b>27 213 576</b>

\* details in Note 57

\*\* details in Note 47

Consolidated statement of changes in equity 1.01.2020 – 31.12.2020	Equity attributable to owners of parent entity				Total	Non-controlling interests	Total equity
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period			
Note	40	41	42			43	
<b>As at the beginning of the period</b>	<b>1 020 883</b>	<b>20 141 925</b>	<b>1 316 061</b>	<b>2 953 118</b>	<b>25 431 987</b>	<b>1 547 523</b>	<b>26 979 510</b>
Total comprehensive income	–	–	515 751	1 037 167	1 552 918	202 272	1 755 190
<i>Consolidated profit for the period</i>	–	–	–	1 037 167	1 037 167	200 007	1 237 174
<i>Other comprehensive income</i>	–	–	515 751	–	515 751	2 265	518 016
Issue of shares	1 010	–	–	–	1 010	–	1 010
Profit allocation to other reserve capital	–	1 153 463	–	(1 153 463)	–	–	–
Profit allocation to dividends	–	–	–	–	–	(86 555)	(86 555)
Share-based payment	–	1 606	–	–	1 606	–	1 606
Transfer of revaluation of equity financial assets measured at fair value through other comprehensive income	–	–	251	(251)	–	–	–
Other changes	–	–	7 229	–	7 229	–	7 229
<b>As at the end of the period</b>	<b>1 021 893</b>	<b>21 296 994</b>	<b>1 839 292</b>	<b>2 836 571</b>	<b>26 994 750</b>	<b>1 663 240</b>	<b>28 657 990</b>

Notes presented on pages 194-320 constitute an integral part of these Financial Statements



## V. Consolidated statement of cash flows

	for the period	1.01.2021 -31.12.2021	1.01.2020 -31.12.2020
<b>Cash flows from operating activities</b>			
<b>Profit before tax</b>		<b>2 057 828</b>	<b>1 880 897</b>
<b>Adjustments for:</b>			
Share in net profits of entities accounted for by the equity method		(74 068)	(86 360)
Depreciation/amortisation		578 970	593 595
Profit from investing activities		(84 139)	(236 801)
Interest accrued excluded from operating activities		(666 017)	(480 479)
Dividends		(224 269)	(22 689)
Impairment losses (reversal)		64 941	48 740
<b>Changes in:</b>			
Provisions		1 403 144	504 932
Financial assets / liabilities held for trading		26 158	(110 894)
Assets pledged as collateral		123 227	431 894
Hedging derivatives		(128 911)	789 038
Loans and advances to banks		(32 369)	(9 989)
Loans and advances to customers		(11 676 576)	(4 669 195)
Deposits from banks		(1 618 367)	1 255 240
Deposits from customers		15 506 863	16 210 291
Buy-sell/ Sell-buy-back transactions		(274 182)	(151 958)
Other assets and liabilities		625 390	513 722
Interest received on operating activities		5 391 466	6 170 272
Interest paid on operating activities		(85 022)	(576 945)
Paid income tax		(925 151)	(1 180 644)
<b>Net cash flows from operating activities</b>		<b>9 988 916</b>	<b>20 872 667</b>
<b>Cash flows from investing activities</b>			
<b>Inflows</b>		<b>15 787 343</b>	<b>8 180 856</b>
Sale/maturity of investment securities		14 424 187	7 049 099
Sale of intangible assets and property, plant and equipment		88 314	98 017
Dividends received		224 269	22 689
Interest received		1 050 573	1 011 051
<b>Outflows</b>		<b>(21 095 319)</b>	<b>(30 908 013)</b>
Purchase of investment securities		(20 670 962)	(30 519 023)
Purchase of intangible assets and property, plant and equipment		(424 357)	(388 990)
<b>Net cash flows from investing activities</b>		<b>(5 307 976)</b>	<b>(22 727 157)</b>
<b>Cash flows from financing activities</b>			
<b>Inflows</b>		<b>17 810 873</b>	<b>10 108 930</b>
Debt securities in issue		11 363 650	5 532 720
Proceeds from issuing/shares		-	1 010
Drawing of loans		6 447 223	4 575 200
<b>Outflows</b>		<b>(17 777 690)</b>	<b>(11 888 050)</b>
Debt securities buy out		(9 706 612)	(5 185 553)
Repayment of loans and advances		(7 388 946)	(6 102 565)
Repayment of lease liability		(188 317)	(192 785)
Dividends to shareholders		(296 384)	(86 555)
Interest paid		(197 431)	(320 592)
<b>Net cash flows from financing activities</b>		<b>33 183</b>	<b>(1 779 120)</b>
<b>Total net cash flows</b>		<b>4 714 123</b>	<b>(3 633 610)</b>
<b>Cash and cash equivalents at the beginning of the accounting period</b>		<b>13 632 245</b>	<b>17 265 855</b>
<b>Cash and cash equivalents at the end of the accounting period</b>		<b>18 346 368</b>	<b>13 632 245</b>

Information regarding liabilities arising from financing activities relating to loans received, subordinated liabilities and the issue of debt securities were presented respectively in Notes 33-36.

Notes presented on pages 194-320 constitute an integral part of these Financial Statements

# VI. Additional notes to consolidated financial statements

## 1. General information about the issuer

Santander Bank Polska SA is a bank located in Poland, 00-854 Warszawa, al. Jana Pawła II 17, National Court Registry identification number is 0000008723, TIN os 896-000-56-73, National Official Business Register number (REGON) is 930041341.

Consolidated financial statement of Santander Bank Polska Group includes the Bank's financial information as well as information of its subsidiaries (forming together the "Group").

The immediate and ultimate parent entity of Santander Bank Polska is Banco Santander, having its registered office in Santander, Spain.

Santander Bank Polska Group offers a wide range of banking services to individual and business customers and operates

in domestic and interbank foreign markets. It also offers the following services:

- intermediation in trading in securities,
- leasing,
- factoring,
- asset/ fund management,
- insurance distribution services,
- trading in shares of commercial companies,
- brokerage services.

## Santander Bank Polska Group consists of the following entities:

### Subsidiaries:

Subsidiaries	Registered office	[%] of votes on AGM at 31.12.2021	[%] of votes on AGM at 31.12.2020
1. Santander Finanse sp. z o.o.	Poznań	100%	100%
2. Santander Factoring sp. z o.o.	Warsaw	100% of AGM votes are held by Santander Finanse sp. z o.o.	100% of AGM votes are held by Santander Finanse sp. z o.o.
3. Santander Leasing S.A.	Poznań	100% of AGM votes are held by Santander Finanse sp. z o.o.	100% of AGM votes are held by Santander Finanse sp. z o.o.
4. Santander Leasing Poland Securitization 01	Dublin	subsidiary of Santander Leasing S.A.	subsidiary of Santander Leasing S.A.
5. Santander Inwestycje sp. z o.o.	Warsaw	100%	100%
6. Santander F24 S.A.	Poznań	100% of AGM votes are held by Santander Finanse sp. z o.o.	100% of AGM votes are held by Santander Finanse sp. z o.o.
7. Santander Towarzystwo Funduszy Inwestycyjnych S.A. <sup>1)</sup>	Poznań	50%	50%
8. Santander Consumer Bank S.A.	Wrocław	60%	60%
9. Santander Consumer Finanse sp. z o.o. <sup>2)</sup>	Warsaw	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
10. PSA Finance Polska sp. z o.o. <sup>3)</sup>	Warsaw	50% of AGM votes are held by Santander Consumer Bank S.A. and 50% of AGM votes are held by Banque PSA Finance S.A.	50% of AGM votes are held by Santander Consumer Bank S.A. and 50% of AGM votes are held by Banque PSA Finance S.A.
11. PSA Consumer Finance Polska sp. z o.o. <sup>3)</sup>	Warsaw	100% of AGM votes are held by PSA Finance Polska sp. z o.o.	100% of AGM votes are held by PSA Finance Polska sp. z o.o.
12. Santander Consumer Multirent sp. z o.o.	Wrocław	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
13. SCM POLAND AUTO 2019-1 DAC <sup>4)</sup>	Dublin	subsidiary of Santander Consumer Multirent S.A.	subsidiary of Santander Consumer Multirent S.A.
14. Santander Consumer Financial Solutions Sp. z o.o. <sup>5)</sup>	Wrocław	subsidiary of Santander Consumer Multirent S.A.	subsidiary of Santander Consumer Multirent S.A.
15. S.C. Poland Consumer 15-1 sp.z o.o. <sup>6)</sup>	Warsaw	–	subsidiary of Santander Consumer Bank S.A.
16. S.C. Poland Consumer 16-1 sp.z o.o. <sup>6)</sup>	Warsaw	subsidiary of Santander Consumer Bank S.A.	subsidiary of Santander Consumer Bank S.A.

1. As at 31.12.2021, Santander Bank Polska was a co-owner of Santander Towarzystwo Funduszy Inwestycyjnych SA, together with Banco Santander SA. Both owners are members of Santander Group and each holds an equal stake of 50% in the company's share capital. In practice, Santander Bank Polska exercises control over the subsidiary Santander Towarzystwo Funduszy Inwestycyjnych SA because through it, Banco Santander implements its policy in Poland. Consequently, the company is treated as a subsidiary.

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

3. According to the Management Board of Santander Bank Polska Group, the investment in PSA Finance Polska Sp. z o.o. is an investment in a subsidiary for the purpose of consolidated financial statements due to the fact that it is controlled by Santander Consumer Bank S.A. (directly) and Santander Bank Polska S.A. (indirectly).

4. On 18 November 2019, SCM Poland Auto 2019-1 Designated Activity Company with its registered office in Dublin was incorporated under Irish law. It is a special purpose vehicle established to securitise the lease portfolio. The company is controlled by Santander Consumer Multirent Sp. z o.o and its shareholder is a legal person that is not connected with the Group.

5. On 27 August 2020, Santander Consumer Financial Solutions Sp. z o.o. (SCFS Sp. z o.o.) with its registered office in Wrocław was incorporated under Polish law. The company offers lease of passenger cars, lease loans and finance lease for consumers. It is a wholly-owned subsidiary of Santander Consumer Multirent Sp. z o.o.

6. SC Poland Consumer 15-1 sp. z o.o. and SC Poland Consumer 16-1 sp. z o.o. were set up for the purpose of securitisation of a part of the loan portfolio; their shareholder is a Polish legal entity who has no ties with the Group; the companies are controlled by Santander Consumer Bank, in accordance with the control criteria set out in IFRS 10.7. Due to completion of the securitisation transaction in 2020, SC Poland Consumer 15-1 Sp. z o.o., a company set up to execute that transaction, was not controlled by the Group as at 31 December 2020. On 18 June 2021, a resolution was adopted at SC Poland Consumer 15-1 Sp. z o.o. to wind up the company and start the liquidation process.

### Associates:

Associates	Registered office	[%] of votes on AGM at 31.12.2021	[%] of votes on AGM at 31.12.2020
1. POLFUND – Fundusz Poręczeń Kredytowych S.A.	Szczecin	50%	50%
2. Santander – Aviva Towarzystwo Ubezpieczeń S.A.	Warsaw	49%	49%
3. Santander – Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Warsaw	49%	49%

## 2. Basis of preparation of consolidated financial statements

### 2.1. Statement of compliance

These consolidated financial statements of Santander Bank Polska S.A. Group were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, which are applied on a consistent basis, as at 31 December 2021, in the case of matters not governed by the above Standards, in accordance with the provisions of the Accounting Act of 29 September 1994 (consolidated text: Journal of Law 2021, item 217) and related implementing acts as well as the requirements imposed on issuers whose securities

are admitted to trading on regulated markets or issuers who have applied to have securities admitted to trading on regulated markets outlined in the Act of 29 July 2005 on Public Offering, on Conditions for the Introduction of Financial Instruments to the Organized Trading System and on Public Companies.

These consolidated financial statements have been approved for publication by the Management Board of Santander Bank Polska S.A. on 22.02.2022.

### 2.2. Basis of preparation of financial statements

These consolidated financial statements have been prepared on the assumption that the Group companies will continue as going concern in the foreseeable future, i.e. for a period of at least 12 months from the date on which these financial statements were prepared.

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

Consolidated financial statements are presented in PLN, rounded to the nearest thousand.

These consolidated financial statements of Santander Bank Polska S.A. Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union. Santander Bank Polska S.A. Group prepared consolidated financial statements in accordance with following valuation rules:

Item	Balance sheet valuation rules
Held-for-trading financial instruments	Fair value through profit or loss
Loans and advances to customers which do not meet the contractual cash flows test	Fair value through profit or loss
Financial instruments measured at fair value through other comprehensive income	Fair value through other comprehensive income
Share-based payment transactions	According to IFRS 2 "Share-based payment" requirements
Equity investment financial assets	Fair value through other comprehensive income – an option
Equity financial assets	Fair value through profit or loss
Debt securities measured at fair value through profit or loss	Fair value through profit or loss
Non-current assets	The purchase price or production cost reduced by total depreciation charges and total impairment losses
Non-current assets held for sale and groups of non-current assets designated as held for sale	Are recognised at the lower of their carrying amount and their fair value less costs of disposal.

The accounting principles have been applied uniformly by all the entities forming Santander Bank Polska S.A. Group.

The same accounting principles were applied as in the case of the consolidated financial statements for the period ending 31

December 2020, changes resulting from application of new standards are described in p.2.4. of these consolidated financial statements.

## 2.3. New standards and interpretations or changes to existing standards or interpretations which can be applicable to Santander Bank Polska S.A. Group and are not yet effective and have not been early adopted

IFRS	Nature of changes	Effective from	Influence on Santander Bank Polska S.A. Group
Annual improvements to IFRS standards 2018-2020	As a result of annual improvements project, amendments to four IFRSs were introduced (IFRS1, IFRS9, IFRS16, IAS 41). Amendments to IFRS 9 clarify which fees an entity applies when "10% test" is performed for derecognition of financial liabilities. For IFRS 16 an illustrative example for lease incentives treatments was changed, in order not to cause confusion.	1 January 2022	The amendment will not have a significant impact on consolidated financial statements.
Amendments to IAS 37 Provisions	The changes concern the clarification of the scope of costs that should be taken into account in assessing whether the contract is a onerous contract	1 January 2022	The amendment will not have a significant impact on consolidated financial statements.
Amendments to IAS 16 Property, Plant and Equipment	The changes indicate, i.a, that revenues from the sale of goods produced in the course of bringing an asset to the desired location and condition, cannot be deducted from the costs associated with this asset. Instead, such revenues should be recognized in the profit and loss account along with the costs of manufacturing these products	1 January 2022	The amendment will not have a significant impact on consolidated financial statements.
Amendments to IFRS 3 Business combinations	IFRS 3 "Business Combinations" was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities.	1 January 2022	The amendment will not have a significant impact on consolidated financial statements.
IFRS 17 Insurance Contracts	IFRS 17 defines a new approach to the recognition, valuation, presentation and disclosure of insurance contracts. The main purpose of IFRS 17 is to guarantee the transparency and comparability of insurers' financial statements. In order to meet this requirement the entity will disclose a lot of quantitative and qualitative information enabling the users of financial statements to assess the effect that insurance contracts have on the financial position, financial performance and cash flows of the entity. IFRS 17 introduces a number of significant changes in relation to the existing requirements of IFRS 4. They concern, among others: aggregation levels at which the calculations are made, methods for the valuation of insurance liabilities, recognition a profit or loss over the period, reinsurance recognition, separation of the investment component and presentation of particular items of the balance sheet and profit and loss account of reporting units including the separate presentation of insurance revenues, insurance service expenses and insurance finance income or expenses.	1 January 2023	The standard will not have a significant impact on consolidated financial statements.*
Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Amendments to IAS 8 include definition of accounting estimates, which should help to distinguish between accounting policies and accounting estimates.	1 January 2023	The amendment will not have a significant impact on consolidated financial statements.*
Amendments to IAS 12	Amendments clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.	1 January 2023	The amendment will not have a significant impact on consolidated financial statements.*
Amendments to IAS 1	There are two amendments to IAS 1. The first one affect requirements for the classification of liabilities as non-current. The second one concerns accounting policy disclosures.	1 January 2023	The amendment will not have a significant impact on consolidated financial statements.*

\* New standards and amendments to the existing standards issued by the IASB, but not yet adopted by EU.

## 2.4 Standards and interpretations or changes to existing standards or interpretations which were applied for the first time in the accounting year 2021

IFRS	Nature of changes	Effective from	Influence on Santander Bank Polska S.A. Group
Amendments to IFRS 16 Leasing-extension	The amendments provide the possibility of exempting lessees from recognizing rental concessions as modifications in accordance with IFRS 16, if they meet certain conditions and result from COVID-19. Extension by one year for rent concessions beyond 30 June 2021 ( May 2020 amendment)	1 April 2021	The amendment does not have a significant impact on consolidated financial statements.*
IBOR reform -Phase 2 (amendments to IFRS 9, IAS 39,IFRS 7,IFRS 4, IFRS 16)	The amendments complement the changes introduced in Phase 1 and relate to the following areas: changes in cash flows, hedge accounting and disclosures. The change in cash flows resulting from reform will only require updating the EIR, without affecting the gross carrying amount of the financial instrument or the need to derecognise it.	1 January 2021	The amendment does not have a significant impact on consolidated financial statements.**

\* New standards and amendments to the existing standards issued by the IASB, but not yet adopted by EU.

\*\* For details of Interest Rate Benchmark Reform please refer to Risk Management section p. Interest Rate Benchmark Reform.

## 2.5 Use of estimates

Preparation of financial statement in accordance with the IFRS requires the management to make subjective judgements and assumptions, which affects the applied accounting principles as well as presented assets, liabilities, revenues and expenses.

The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and assumptions are reviewed on an ongoing basis. Changes to estimates are recognised in the period in which the estimate is changed if the change affects only that period, or in the period of the change and future periods if the change affects both current and future periods.

### Key accounting estimates made by Santander Bank Polska S.A. Group

Key estimates include:

- Allowances for expected credit losses
- Fair value of financial instruments
- Estimates for legal claims
- Estimated collective provisions for risk arising from mortgage loans in foreign currencies
- Estimates regarding reimbursement of fees related to early repaid consumer loans

### Allowances for expected credit losses in respect of financial assets

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.

As a result, ECL allowances are estimated using the adopted model developed using many inputs and statistical techniques. Structure of the models that are used for the purpose of ECL estimation consider models for the following parameters:

- PD – Probability of Default, i.e. the estimate of the likelihood of default over a given time horizon (12-month or lifetime);
- LGD – Loss Given Default, i.e. the part of the exposure amount that would be lost in the event of default;
- EAD – Exposure at Default, i.e. expectation for the amount of exposure in case of default event in a given horizon 12-month or lifetime.

Changes in these estimates and the structure of the models may have a significant impact on ECL allowances.

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.

For the purpose of the collective evaluation of ECL, financial assets are grouped on the basis of similar credit risk characteristics that indicate the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of the Group's credit risk evaluation or the grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The rating/scoring systems have been internally developed and are continually being enhanced, e.g. through external analysis that helps to underpin the aforementioned factors which determine the estimates of impairment charges.

In the individual approach, the ECL charge was determined based on the calculation of the total probability-weighted impairment charges estimated for all the possible recovery scenarios, depending on the recovery strategy currently expected for the customer.

In the scenario analysis, the key strategies / scenarios used were as follows:

- Recovery from the operating cash flows / refinancing / capital support;
- Recovery through the voluntary liquidation of collateral;
- Recovery through debt enforcement;
- Recovery through systemic bankruptcy/recovery proceeding/ liquidation bankruptcy;
- Recovery by take-over of the debt / assets / sale of receivables
- Recovery as part of legal restructuring.

In addition, for exposures classified as POCI (purchased or originated credit impaired) – i.e. purchased or arising financial assets that are impaired due to credit risk upon initial recognition, expected credit losses are recognized over the remaining life horizon. Such an asset is created when impaired assets are initially recognized and the POCI classification is maintained over the life of the asset.

### A credit-impaired assets

Credit-impaired assets are classified as Stage 3 or POCI. A financial asset or a group of financial assets are impaired if, and only if, there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset or asset was recognized as POCI and that impairment event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. It may not be possible to identify a single, event that caused the impairment, rather the combined effect of several events may have caused the impairment. Objective evidence that a financial asset or group of assets was impaired includes observable data:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, e.g. delay in repayment of interest or principal over 90 days in an amount exceeding the materiality

threshold (PLN 400 for individual and small and medium-sized enterprises and PLN 2,000 for business and corporate clients) and at the same time relative thresholds (above 1% of the amount past due in relation to the balance sheet amount);

- the Santander Bank Polska S.A. Group, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the Santander Bank Polska S.A. Group would not otherwise consider, which fulfill below criteria:
    - (1) contingent restructuring transactions that meet the criteria for reclassification into basket 3 (quantitative and / or qualitative),
    - (2) contingent restructuring transactions previously classified as non-performing, which have been refinanced or restructured, or are more than 30 days past due to the customer's with observed financial difficulties,
    - (3) restructured transactions, where contractual clauses have been applied that defer payments through a grace period for repayment of the principal for a period longer than two years,
    - (4) restructured transactions including debt write-off, interest grace periods or repaid in installments without contractual interest,
    - (5) restructured transactions, where there was a change in the net present value of cash flows (NPV) of at least 1% compared to the NPV before the application of the forbearance measures,
    - (6) transactions where:
      - inadequate repayment schedules (initial or later, if used) were applied, which are related to, inter alia, repeated situations of non-compliance with the schedule, changes in the repayment schedule in order to avoid situations of non-compliance with it, or
      - a repayment schedule that is based on expectations, unsupported by macroeconomic forecasts or credible assumptions about the borrower's ability or willingness to repay was applied.
    - (7) transactions for which the Group has reasonable doubts as to the probability of payment by the customer.
  - it becoming probable that the debtor will enter bankruptcy, recovery proceedings, arrangement or other financial reorganisation;
  - the disappearance of an active market for that financial asset because of financial difficulties;
  - exposures subject to the statutory moratorium, the so-called Shield 4.0 (Act of 19 June 2020 on interest subsidies for bank loans granted to entrepreneurs affected by COVID-19) – application of a moratorium on the basis of a declaration of loss of source of income.
- Impaired exposures (Stage 3) can be reclassified to Stage 2 or Stage 1 if the reasons for their classification to Stage 3 have ceased to apply (particularly if the borrower's economic and financial standing has improved) and a probation period has been completed (i.e. a period of good payment behaviour meaning the lack of arrears above 30 days), subject to the following:
- In the case of individual customers, the probation period is 180 days.

- In the case of SME customers, the probation period is 180 days, and assessment of the customer's financial standing and repayment capacity is required in some cases. However, the exposure cannot be reclassified to Stage 1 or 2 in the case of fraud, client's death, discontinuation of business, bankruptcy, or pending restructuring/ liquidation proceedings.
- In the case of business and corporate customers, the probation period is 92 days, and positive assessment of the financial standing is required (the Group assesses all remaining payments as likely to be repaid as scheduled in the agreement). The exposure cannot be reclassified to Stage 1 or 2 in the case of fraud, discontinuation of business, or pending restructuring/ insolvency/ liquidation proceedings.
- Additionally, if the customer is in Stage 3 and subject to the forbearance process (incl. so-called Shield 4.0 moratoria), they may be reclassified to Stage 2 not earlier than after 365 days (from the start of forbearance or from the downgrade to the NPL portfolio, whichever is later) of regular payments, repayment by the client of the amount previously overdue / written off (if any) and after finding that there are no concerns as to the further repayment of the entire debt in accordance with the agreed terms of restructuring.

Detailed disclosures regarding credit risk are included in Section 4 Risk management.

## A significant increases in credit risk

One of the key elements of IFRS 9 is the identification of a significant increase in credit risk which determines the classification to Stage 2. The Group has developed detailed criteria for the definition of a significant increase in the level of risk based on the following main assumptions:

### Average threshold (per annum) of the probability of default

mortgage loans	3.04%
consumer loans	13.95%
corporate loans	13.17%

The fact of being covered by aid measures related to COVID-19 (excluding exposures subject to statutory moratoria (Shield 4.0)) does not automatically result in classification into Stage 2 or Stage 3. Additional client's risk is monitored on an ongoing basis. In order to manage credit risk following COVID-19 pandemic, management reports and early warning systems have been expanded, the most vulnerable populations are reviewed in detail.

- Exposure in Stage 2 may be re-classified into Stage 1 without probation period as soon as significant increase in credit risk indicators after its initial recognition end e.g. when the following conditions are met: client's current situation does not require constant monitoring, no restructuring actions towards exposure are taken, exposure has no payment delay over 30 days for significant amounts, no suspension of the contact due to Shield 4.0, and according to risk buffer method no risk increase occurs.

Santander Bank Polska S.A. Group does not identify low credit risk exposures under IFRS 9 standard rules, which allows to recognize 12-month expected loss even in cease of significant increase of credit risk since initial recognition.

- Qualitative assumptions:
  - Implementing dedicated monitoring strategies for the customer following the identification of early warning signals that indicate a significant increase in credit risk
  - Restructuring actions connected with making concessions to the customers as a result of their difficult financial standing
  - Delay in payment as defined by the applicable standard, i.e. 30 days past due combined with the materiality threshold
- Quantitative assumptions:
  - A risk buffer method based on the comparison of curves illustrating the probability of default over the currently remaining lifetime of the exposure based on the risk level assessment at exposure recognition and at reporting date. Risk buffer is set in relative terms for every single exposure based on its risk assessment resulting from internal models and other parameters of exposure impacting assessment of the Group whether the increase might have significantly increased since initial recognition of the exposure (such parameters considered types of the products, term structure as well as profitability). Risk buffer methodology was prepared internally and is based on the information gathered in course of the decisioning process as well as in process of transactions structuring.

Thresholds (determining the maximum permissible value of the probability of default (PD) as at the reporting date after the change in relation to the PD value at the moment of initial recognition) for classification into basket 2 are specified individually for each exposure. The table presents the average annual values of the PD thresholds, taking into account the time to maturity of the exposure.

## ECL measurement

Another key feature introduced by IFRS 9 is the approach to the estimation of risk parameters. For the purpose of estimating allowances for expected losses, Santander Bank Polska S.A. Group uses its own estimates of risk parameters that are based on internal models. Expected credit losses are the sum of individual products for each exposure of the estimated values of PD, LGD and EAD parameters in particular periods (depending on the stage either in the horizon of 12 months or in lifetime) discounted using the effective interest rate.

The estimated parameters are adjusted for macroeconomic scenarios in accordance with the assumptions of IFRS 9. To this end, the Group determines the factors which affect individual asset classes to estimate an appropriate evolution of risk parameters. The Group uses scenarios developed internally by the analytical team, which are updated on a monthly basis at least every six months. The models and parameters generated for the needs of IFRS 9 are subject to model management process and periodic calibration and validation. These tools are also used in the financial planning process.

## Determination of forward-looking events and their likelihood

Forward-looking events are reflected both in the process of estimating ECL and when determining a significant increase in credit risk, by developing appropriate macroeconomic scenarios and then reflecting them in the estimation of parameters for each scenario. The final parameter value and the ECL is the weighted average of the parameters weighted by the likelihood of each scenario. Group uses three scenario types: the baseline scenario and two alternative scenarios, which reflect the probable alternative options of the baseline scenario: upside and downside scenario. Scenario weights are determined using the expected GDP path and the confidence intervals for this forecast in such a way that the weights reflect the uncertainty about the future development of this factor.

The Groups's models most often indicate the dependence of the quality of loan portfolios on the market situation in terms of the level of deposits, loans, as well as the levels of measures related to interest rates.

### Baseline scenario

In the baseline scenario the economic growth will be supported by looser fiscal policy (Polish Deal programme) and new EU funds, with 4.9% and 3.6% GDP growth rates envisaged for 2022 and 2023. As for end of 2021, EU Recovery Fund was not available, but the scenario assumes that the government will be able to reach an agreement with the European Commission and unlock new funds in 2022. Strong domestic demand along with weaker PLN, energy hikes and higher commodity prices driven by worldwide supply chain disruptions will be fuelling CPI inflation, which is

expected to average 6.2% in 2022. In late 2021 the NBP started tightening the monetary policy and hiked interest rates in October and November by a total of 115bp, to 1.25%. Interest rates are expected to reach 3.00% at the end of 2022.

### Best case scenario

The upside scenario was built under an assumption that no new coronavirus waves or lockdowns appears. EU funds are unlocked and supply disruptions disappear. In 2022 the economy is expected to grow by 6.2% and then to decelerate gradually, but to remain strong. Strong growth will fuel the already elevated inflation, averaging 6.5% in 2022 and 4.1% in 2023. The NBP will continue its tightening cycle. Interest rates are expected to climb to 3.00% at the end of 2022.

### Worst case scenario

The downside scenario was built under an assumption that the new coronavirus wave will lead to a renewal of epidemic restrictions. At the same time, the conflict between the Polish government and the European Commission will not be resolved anytime soon, so Recovery Fund means will not be disbursed. In 2022 the economy is expected to rise by 3.3% and then to slow down to 1.3% in 2023. Despite slower growth, CPI inflation is expected to remain elevated and to average 6.2% in 2022. Deterioration of the economic outlook will find the MCP during its hiking cycle, so after applying rate increases bringing the reference rate to 3.00% in 2Q22 rates will go down to 1.50% in 1Q23.

The tables below present the key economic indicators arising from the respective scenarios.

Scenario as at 2021.12.31		baseline		best case		worst case	
likelihood		60%		20%		20%	
		2022	average, next 3 years	2022	average, next 3 years	2022	average, next 3 years
GDP	YoY	4.9%	3.0%	6.2%	4.8%	3.3%	1.3%
WIBOR 3M	average	3.0%	3.0%	3.0%	3.0%	2.8%	1.8%
unemployment rate	% active	3.2%	3.0%	3.2%	2.7%	3.2%	3.4%
CPI	YoY	6.2%	3.1%	6.5%	3.4%	6.3%	2.5%
EURPLN	period-end	4.46	4.34	4.39	4.3	4.73	4.51

Scenario as at 2020.12.31		baseline		best case		worst case	
likelihood		60%		20%		20%	
		2021	average, next 3 years	2021	average, next 3 years	2021	average, next 3 years
GDP	YoY	3.1%	3.1%	4.4%	4.1%	1.8%	2.2%
WIBOR 3M	average	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
unemployment rate	% active	2.6%	2.1%	2.4%	1.9%	2.7%	2.4%
CPI	YoY	2.9%	2.0%	3.4%	2.4%	2.5%	1.7%
EURPLN	period-end	4.30	4.27	4.23	4.17	4.36	4.38

## Management provision covering risk resulting from COVID-19 pandemic

In 2021, in connection with the cyclical review of risk parameters for expected credit losses calculation, the models and macroeconomic scenarios were updated, taking into account the

current forecasts of the future economic situation in accordance with the requirements of IFRS 9.

The Group decided to withdraw the management adjustment in respect of COVID-19, which in previous periods covered a very high uncertainty about the development of macroeconomic factors. Its aim was also to capture the impact of significant and

short-term economic shocks on the long-term path of economic growth. Currently, this uncertainty regarding forecasts has significantly decreased, and it was decided to take into account both the realization of the risk factors observed during the pandemic and the expectations of these factors in the future directly in the parameters of expected credit losses.

At the end of 2021, in addition to the ECL write-offs resulting from the complex calculation model implemented in the system, management adjustments were also created, updating the risk level with current and expected events in the future:

- A management reserve of PLN 17 200 k related to changes in the classification of exposures on the retail and SME portfolio resulting from the implementation of the KNF R recommendation at the beginning of 2022, in particular:
  - when the Group has balance sheet exposures towards the obligor which are past due more than 90 days and which constitute over 20% of all balance sheet exposures towards this obligor, all balance sheet and off-balance sheet exposures towards that obligor are considered non-performing
  - a delay in repayment for a given exposure exceeding 90 days in a situation where the materiality criterion of an overdue credit obligation has not been met for a given exposure results in the classification to stage 2

- A management reserve for the corporate portfolio of PLN 20 000 k created to reflect the estimated impact of new additional constraints related to the protracted COVID-19 pandemic on the hospitality business. When determining the amount of the additional write-off, the Group assumed an additional classification to stage 2 of the sector with a probability of 50%, and the current stage 2 with an additional probability of 2% will be reclassified to stage 3. In the calculation of the management provision, the average coverage with a write-off for the hotel industry portfolio was assumed.
- A management reserve for the SME portfolio in the amount of PLN 35 000 k related to planned changes in LGD models (planned separation of separate portfolios with lower expected recoveries for exposures after the implementation of GDM collateral and in bankruptcy, as well as exclusion for the SME leasing portfolio during the estimation of historical recoveries at a level not currently implemented).

### Potential variability of ECL

Changes in forecasts of macroeconomic indicators may result in significant effects affecting the level of created provisions. Adoption of macroeconomic parameter estimates at only one scenario level (upside or downside scenario) will result in a one-off change in ECL at the level below.

Scenario	in PLN m			ECL change	
	consumer	mortgage	corporate	31.12.2021	31.12.2020
worst case	4.7	1.8	14.0	Total 20.5	Total 45.3
best case	(6.7)	(0.2)	(13.2)	(20.1)	(43.7)

Data for Santander Bank Polska S.A.

The sensitivity of individual portfolios to changes in the environment largely depends on the correlation between the default risk and market indicators. This relationship is different for different portfolios, and the expected risk may depend on changes in unemployment, CPI, exchange rates, etc.

Based on the GDP indicator as the main factor determining the condition of the economy, Santander Bank Polska S.A. Group estimates that the target level of gross domestic production will be reduced by 1% in 2022, would translate into an increase in

expected credit losses in the amount of PLN 14 776 k. The above analysis was made assuming the preservation of the relationship between macroeconomic factors.

Significant volatility for the income statement may be reclassifications to stage 2 from stage 1. The reclassification of given percentage of exposures from stage 1 with the highest risk level to stage 2 for each type of exposure would result in an increase in ECL according to below table.

Reclassification from stage 1 to stage 2	additional expected credit loss (PLN m)				
	individual	mortgage	corporate	Total 31.12.2021	Total 31.12.2020
1%	27.7	13.0	6.1	46.8	34.3
5%	144.0	54.7	33.6	232.3	166.2
10%	281.3	86.8	62.0	430.1	305.5

The theoretical reclassification of 1% of exposures from stage 1 with the highest risk level to stage 2 for each type of exposure would result in an increase in ECL by PLN 46 800 k according to the portfolio as of 31 December 2021 for Santander Bank Polska S.A. Group (in relation to PLN 34 300 k as at 31 December 2020).

The above estimates show expected variability of loss allowances as a result of transfers between stage 1 and stage 2, resulting in significant changes in the degree to which exposures are covered with allowances in respect of different ECL horizons.

### Fair value of financial instruments, including instruments which do not meet the contractual cash flows test

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Santander Bank Polska S.A. Group applies a methodology for measuring the fair value of credit exposures and debt instruments

measured at fair value through profit or loss.

In the case of the instruments with distinguishable on-balance sheet and off-balance sheet components, the extent of fair value measurement will depend on the nature of the underlying exposure, and:

- the on-balance sheet portion always will be measured at fair value;
- the off-balance sheet portion will be measured at fair value only if at least one of the following conditions is met:
  - condition 1: the exposure has been designated as measured at fair value (option) or
  - condition 2: the exposure may be settled net in cash or through another instrument or
  - condition 3: Santander Bank Polska S.A. Group sells the obligation immediately after its granting or
  - condition 4: the obligation was granted below the market conditions.

The fair value is measured with the use of valuation techniques appropriate in the circumstances and for which sufficient data are available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The Group applies the following valuation techniques:

- market approach – uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g. a business unit)
- income approach – converts future amounts (cash flows or income and expenses) to a single current (discounted) date. When the income approach is used, the fair value measurement reflects the current market expectations as to the future amounts.

Santander Bank Polska S.A. Group uses the income approach for fair value measurement relating to financial instruments which do not meet contractual cash flows test.

The following arguments support the use of the income approach:

- no active market;
- the cost approach is not used in the case of financial assets (it usually applies to property, plant and equipment and property investments).

In the case of credit exposures and debt instruments, the present value method within income approach is typically used. In this method, the expected future cash flows are estimated and discounted using a relevant interest rate. In the case of the present value method, Santander Bank Polska S.A. Group uses the following elements in the valuation:

- expectations as to the future cash flows;
- expectations as to potential changes in cash flow amounts and timing (uncertainties are inherent in cash flow estimates);
- the time value of money, estimated using risk-free market rates;
- the price of uncertainty risk inherent in cash flows (risk premium) and
- other factors that market participants would take into account in the circumstances.

The present value measurement approach used by Santander Bank Polska S.A. Group is based on the following key assumptions:

- cash flows and discount rates reflect the assumptions that market participants would adopt in the measurement of an asset;
- cash flows and discount rates reflect only the factors allocated to the asset which was subject to measurement;
- discount rates reflect the assumptions which are in line with the cash flow assumptions;
- discount rates are consistent with the key economic factors relating to the currency in which the cash flows are denominated.

The fair value determination methodology developed by Santander Bank Polska S.A. Group provides for adaptation of the fair value measurement model to the characteristics of the financial asset subject to measurement. When determining the need for adaptation of the model to the features of the asset subject to measurement, Santander Bank Polska S.A. Group takes into account the following factors:

- approach to the measurement (individual/collective) given the characteristics of the instrument subject to measurement;
- whether a schedule of payments is available;
- whether the asset subject to measurement is still offered by Santander Bank Polska S.A. Group and whether the products recently provided to customers can be a reference group for that asset.

Other significant groups of financial instruments measured at fair value are all derivatives, financial assets held within a residual business model, debt investment financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and equity investment financial assets. These financial instruments are either measured with reference to a quoted market price for that instrument or by using a respective measurement model.

Where the fair value is calculated using financial-markets pricing models, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, securities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices.

In justified cases, for financial instruments whose carrying amount is based on current prices or valuation models, Santander Bank Polska S.A. Group takes into account the need to identify additional adjustments to the fair value of the counterparty credit risk.

The fair value measurement models are reviewed periodically.

A summary of the carrying amounts and fair values of the individual groups of assets and liabilities is presented in Note 47.

## Estimates for legal claims

Santander Bank Polska S.A. Group raises provisions for legal claims on the basis of likelihood of unfavourable verdict and recognises them in accordance with IAS 37.

The provisions have been estimated considering the likelihood of payment, and their impact is presented in other operating income and cost.



As at 31 December 2021, Santander Bank Polska S.A. Group increased provisions for legal claims in connection with the inflow of new court cases and a change in the estimated probabilities of negative conclusions for the Group.

Details on the value of the provisions and the assumptions made for their calculation are provided in Notes 38, 48 and 49.

### Estimated collective provisions for risk arising from mortgage loans in foreign currencies

In connection with the CJEU's ruling described in Note 48, there is an increased risk that clauses in agreements from the portfolio of mortgage loans denominated in or indexed to foreign currencies may be effectively challenged by customers. The Management Board considered the risk that the scheduled cash flows may not be fully recoverable and/or a liability may arise resulting in a future cash outflow. The Group decided to maintain additional collective provision for legal risk, in addition to provisions for individual court cases.

The collective provision, in particular the provision for mortgage loans denominated in or indexed to foreign currencies, has been estimated on the basis of a specific time horizon, the likelihood of a number of events, such as finding contractual clauses abusive or losing a court case, and different scenarios for possible judgments.

The Group, based on observed data, has changed portfolio provision for mortgage loans in foreign currencies as at 31 December 2021, and will carry on with monitoring of the risk in subsequent reporting periods. As at 31 December 2021 collective provision amounts to PLN 838 843k (PLN 278 247k as at 31

December 2020). Result of collective provisions impacts other operating income and cost.

Details on the value of the provisions and the assumptions made for their calculation are provided in Notes 38, 48 and 49.

### Estimates regarding reimbursement of fees related to early repaid consumer loans

The Group has changed estimated future cash flows for cash loan portfolio due to early prepayments done by clients. Change in cash flows was assessed on the base of historical prepayment levels, volume and portfolio characteristics and amounted to PLN 4 016k in 2021. The decrease in cash flows was recognised as an adjustment to gross carrying amount of loan receivables and decrease in interest income.

In addition, due to early prepayments causing shorter tenors, the Group decided to adjust third party intermediary cost calculated according to EIR in respect of expected early prepayments. The adjustment amounted to PLN 8 129k, and was recognised as an adjustment to gross carrying amount of loan receivables and decrease in interest income. As at 31 December 2020 intermediary cost adjustment amounted to PLN 35 155k.

### Potential variability

Change in client's behavior regarding complaints may cause current provisions levels to be changed in following manner. Extension of the period for which the Group expects consumer complaints to continue is assessed by Bank as a pessimistic scenario, whereas the shortening is regarded as optimistic.

in PLN m	change in provision level	
Scenario	31.12.2021	31.12.2020
pessimistic	12.7	27.3
optimistic	(11.4)	(26.4)

## 2.6 Judgements that may significantly affect the amounts recognized in the financial statements

When applying the accounting principles, the management of Santander Bank Polska S.A. Group makes various judgements that may significantly affect the amounts recognized in financial statements.

### Consolidation scope

The preparation of consolidated financial statements by Santander Bank Polska S.A. as a parent entity of Santander Bank Polska S.A. Group requires an extensive use of judgement and multiple assumptions as to the nature of entities in which the investment is made including, determination of whether Santander Bank Polska S.A. as a parent entity exercises control over the investee. Presented below are the key judgements and assumptions regarding the bank's equity investments where the bank has 50% voting rights in the investee.

According to the Management Board of Santander Bank Polska S.A. Group, investment in Santander Towarzystwo Funduszy Inwestycyjnych S.A. is an investment in a subsidiary for the purpose of preparation of the consolidated financial

statement in the light of the strategy adopted by the ultimate parent entity. As at 31 December 2021 and 2020, Santander Bank Polska S.A. co-owed Santander Towarzystwo Funduszy Inwestycyjnych S.A. with Banco Santander S.A. Both owners are members of Banco Santander Group and each holds 50% of the shares in the company. Santander Bank Polska S.A. exercises control over the subsidiary company, Santander Towarzystwo Funduszy Inwestycyjnych S.A. due to the fact that:

- Santander Bank Polska S.A. has rights to manage significant current operations,
- Santander Bank Polska S.A. has rights to variable returns due to its exposure and
- Santander Bank Polska S.A. may use its powers to affect the amount of its financial results.

The investment in POLFUND – Fundusz Poręczeń Kredytowych S.A., where 50% of the voting rights are held by the Santander Bank Polska S.A. on Annual General Meeting, in accordance with the best knowledge and estimates was



classified, as an investment in an associate as the ownership structure does not allow Santander Bank Polska S.A. to control and to joint-control the company.

According to Santander Bank Polska S.A. Group Management Board, the investment in PSA Finance Polska Sp. z o.o. is treated as an investment in a subsidiary, due to the fact that Santander Consumer Bank SA has a direct control and Santander Bank Polska S.A. has indirect control over the investment. The control over the company results from the fact that:

- Santander Consumer Bank S.A. has control over PSA Finance Polska Sp. z o.o. as it has existing rights that give it the current ability to direct the relevant activities, namely the activities which materially influence the returns made by PSA Finance Polska Sp. z o.o. Taking into account the core business of PSA Finance Polska Sp. z o.o., which is leasing, activities supporting financial services, car lease and rental of cars and activities of insurance agents and brokers, and the sector in which PSA Finance Polska Sp. z o.o. is active, Santander Bank Polska S.A. has decided that PSA Finance Polska Sp. z o.o. relevant activities are:
  - funding and ALM activity;
  - risk management activity and
  - commercial activity.

On the basis of an analysis of written agreements between the shareholders of PSA Finance Polska Sp. z o.o., Santander Consumer Bank S.A. manages the first two types of activities indicated above, namely the activity connected with the provision of funding and risk management. The right to manage those activities results from the fact that committee members appointed by Santander Consumer Bank S.A. have casting votes in the event of a tied vote, and the fact that Santander Consumer Bank S.A. has the right to shape the company's external funding policy in a manner consistent with the internal rules of Santander Consumer Bank S.A.

- As Santander Consumer Bank S.A. plays a key role in funding the activities of PSA Finance Polska Sp. z o.o., the former is exposed to variable returns from its investment into the investee and
- Santander Consumer Bank S.A. may use its power to affect returns from its investment into PSA Finance Polska Sp. z o.o. as the former does not act for or on behalf of another entity (acts as a principal rather than as an agent).

The list of fully consolidated subsidiaries is presented in note 1 "Information about the issuer".

## Assessment whether contractual cash flows are solely payments of principal and interest

The key issue for Santander Bank Polska S.A. Group's business, is to assess whether the contractual terms related to financial assets component indicate the existence of certain cash flow dates, which are only the repayment of the nominal value and interest on the outstanding nominal value.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition and 'interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, Santander Bank Polska S.A. Group considers the contractual terms of the instrument. This includes assessing whether the financial assets contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment the Santander Bank Polska S.A. Group considers:

- contingent events that would change the amount and timing of cash flows,
- leverage features,
- prepayment and extension terms,
- terms that limit Santander Bank Polska S.A. Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements),
- features that modify consideration for the time value of money.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

In the process of applying Santander Bank Polska S.A. Group's accounting policy management assessed whether financial assets, including loan agreements, whose interest rate construction contains a multiplier greater than 1, meet classification criteria allowing their valuation at Amortised cost, that is:

- business model and
- characteristics of contractual cash flows.

The most significant portfolio of financial assets, whose interest rate construction contained a multiplier greater than 1, includes credit cards granted until 01.08.2016, whose interest rate formula was based on 4x lombard rate and did not contain direct reference to the provisions of the Civil Code in the regard of interest cap.

This financial asset portfolio is maintained in a business model whose objective is to hold financial assets in order to collect contractual cash flows. Credit risk for these assets is the basic risk managed in portfolios, and historical analysis of frequency and volume of sales do not indicate significant sales of asset portfolios for reasons other than credit risk.

In addition, it was not found that:

- fair value was a key performance indicator (KPI) for assessing portfolio performance for internal reporting purposes,
- the assessment of the portfolio's results was based only on the fair value of assets in the analyzed portfolio,
- remuneration of portfolio managers was related to the fair value of assets in the analyzed portfolio.

Whereas contractual terms related to a financial asset indicate that there are specific cash flow terms that are not solely payments of principal and interest on the principal outstanding due to the existence of a financial leverage in the construction of interest rate. It increases the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest. The credit card portfolio with the above characteristics has been reclassified from the portfolio measured at amortised cost to the portfolio measured at fair value through profit or loss.

## 2.7 Basis of consolidation

### Subsidiaries

Santander Bank Polska S.A. defines the consolidation scope by assessing whether it controls an investee. Santander Bank Polska S.A. controls an entity if, due to its involvement, Santander Bank Polska S.A. is exposed or has rights to variable returns and can affect those returns through its power over the investee.

Santander Bank Polska S.A., being the parent entity, controls directly or indirectly an investee when:

- if has power over the investee;
- if has exposure or rights to variable returns from its involvement with the investee;
- if has the ability to use its power over the investee to affect the amount of its own financial results.

When assessing whether it controls an investee, Santander Bank Polska S.A. considers all facts and circumstances, among other things following factors:

- the purpose and design of the investee;
- what the relevant activities are and how decisions about those activities are made;
- whether the rights of Santander Bank Polska S.A. give it the current ability to direct the relevant activities;
- whether Santander Bank Polska S.A. is exposed or has rights to variable returns from its involvement with the investee;
- whether Santander Bank Polska S.A. has the ability to use its power over the investee to affect the amount of the investor's returns.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

### Acquisition method

Santander Bank Polska S.A. Group applies the acquisition method to account for acquisition of subsidiaries. Under this method, the acquirer has to:

## 2.8 The most significant accounting policies

With the exception of the changes described in point 2.3, the Santander Bank Polska S.A. Group consistently applied the adopted accounting principles both for the reporting period for which the statement is prepared and for the comparative period.

### Business Model Assessment

Business models at Santander Bank Polska S.A. Group are determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on the intentions of the Santander Bank Polska S.A. Group management regarding a particular instrument, which is why the model is assessed at a higher level of aggregation.

All business models, quantitative and qualitative criteria used for business model assessment are described in section 2.9 regarding financial asset classification.

- recognise and measure all identifiable acquired assets and liabilities and any non-controlling interest in the acquiree as at the acquisition date (the date on which the acquirer obtains control of the acquiree);
- recognise and measure goodwill or gain from a bargain purchase.

The acquirer measures:

- identifiable assets acquired and liabilities assumed – at fair value as at the acquisition date;
- any non-controlling interest – at fair value or pro-rata to their share in the identifiable net assets of the acquiree.

### Associates

Associates are those entities in which Santander Bank Polska S.A. Group has significant influence, but are not subsidiaries, neither joint ventures.

They are accounted for in accordance with the equity method in consolidated financial statements.

The consolidated financial statements include Santander Bank Polska S.A. Group's share of the profits and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When Santander Bank Polska S.A. Group's share of losses exceeds its interest in an associate, Santander Bank Polska S.A. Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that Santander Bank Polska S.A. Group has incurred legal or constructive obligations or made payments on behalf of an associate.

### Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or incomes (including dividends) and expenses arising from intragroup transactions, are eliminated in the preparation of consolidated financial statement.

The accounting policies have been applied consistently by Santander Bank Polska S.A. Group entities.

## Foreign currency

### Foreign currency transactions

The Polish zloty (PLN) is the functional currency of the units which are members of Santander Bank Polska S.A. Group with the exception of Santander Leasing Securitization 01 for which the functional currency is the EUR.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Resulting from these transactions monetary assets and liabilities denominated in foreign currencies, are translated at the foreign exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the reporting currency at the foreign exchange rates ruling at the dates that the fair values were determined. Foreign exchange differences arising on translation are recognised in profit or loss except for differences arising on retranslation of instruments of other entities measured at fair value through other comprehensive income, which are recognised in other comprehensive income.

## Financial assets and liabilities

### Recognition and derecognition

#### Initial recognition

Santander Bank Polska S.A. Group recognises a financial asset or a financial liability in its statement of financial position when, and only when, it becomes bound by contractual provisions of the instrument.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, at the settlement date.

#### Derecognition of financial assets

Santander Bank Polska S.A. Group derecognises a financial asset when and only when, if:

- contractual rights to the cash flows from that financial asset have expired, or
- Santander Bank Polska S.A. Group transfers a financial asset, and such operation meets the derecognition criteria specified further in this policy.

Santander Bank Polska S.A. Group transfers a financial asset when and only when, if:

- Santander Bank Polska S.A. Group transfers contractual rights to the cash flows from that financial asset, or
- Santander Bank Polska S.A. Group retains contractual rights to receive the cash flows from that financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions specified further in this policy.

When Santander Bank Polska S.A. Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), then Santander Bank Polska S.A. Group treats the transaction as

a transfer of a financial asset if, and only if, all of the following three conditions are met:

- Santander Bank Polska S.A. Group has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset,
- Santander Bank Polska S.A. Group is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows,
- Santander Bank Polska S.A. Group has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, Santander Bank Polska S.A. Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents (as defined in IAS 7 Statement of Cash Flows) during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

When Santander Bank Polska S.A. Group transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset. In such a case:

- if Santander Bank Polska S.A. Group transfers substantially all of the risks and rewards of ownership, then it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;
- if Santander Bank Polska S.A. Group retains substantially all the risks and rewards of ownership, then it shall continue to recognise the financial asset;
- if Santander Bank Polska S.A. Group neither transfers nor retains substantially all the risks and rewards of ownership, then it shall verify if it has retained control of the financial asset. In such a case:
  - a) if Santander Bank Polska S.A. Group has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;
  - b) if Santander Bank Polska S.A. Group has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The transfer of risks and rewards is evaluated by comparing Santander Bank Polska S.A. Group's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. Santander Bank Polska S.A. Group has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer. Santander Bank Polska S.A. Group transfers substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset.

Santander Bank Polska S.A. Group derecognises a part of financial asset (or a part of a group of similar financial assets) when and only when, if the part of the asset to be derecognised fulfills one of the three conditions:

- that part comprises only specifically identified cash flows on a financial asset (or a group of similar financial assets),
- that part comprises only a fully proportionate (pro rata) share of cash flows from that financial asset (or a group of similar financial assets),
- that part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).

In all other cases, Santander Bank Polska S.A. Group derecognises a financial asset (or a group of similar financial assets) as a whole.

### Derecognition of financial liabilities

Santander Bank Polska S.A. Group shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished — i.e. when the obligation specified in the contract is discharged or cancelled or expires.

An exchange between Santander Bank Polska S.A. Group and the lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

If Santander Bank Polska S.A. Group repurchases a part of a financial liability, Santander Bank Polska S.A. Group shall allocate the previous carrying amount of the financial liability between the part that continues to be recognised and the part that is derecognised based on the relative fair values of those parts on the date of the repurchase. The difference between:

- the carrying amount allocated to the part derecognised, and
- the consideration paid, including any non-cash assets transferred or liabilities assumed, for the part derecognised, are recognised in profit or loss.

## Classification of financial assets and financial liabilities

### Classification of financial assets

#### Classification of financial assets which are not equity instruments

Unless Santander Bank Polska S.A. Group has made a prior decision to measure a financial asset at fair value through profit or loss, the Santander Bank Polska S.A. Group classifies financial asset that are not an equity instrument as subsequently measured at amortised cost or at fair value through other comprehensive income or fair value through profit or loss on the basis of both:

- the business model of Santander Bank Polska S.A. Group for managing the financial assets and

- the contractual cash flow characteristics of the financial asset.

A financial asset is measured at amortised cost if both of the following conditions are fulfilled:

- the financial asset is held in a business model whose purpose is to hold financial assets to collect contractual cash flows, and
- the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are fulfilled:

- the financial asset is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset is not measured at amortised cost or at fair value through other comprehensive income, it is measured at fair value through profit or loss.

Santander Bank Polska S.A. Group may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

#### Classification of financial assets which are equity instruments

Santander Bank Polska S.A. Group measures the financial asset that is an equity instrument at fair value through profit or loss, unless Santander Bank Polska S.A. Group made an irrevocable election at initial recognition for particular investments in equity instruments to present subsequent changes in fair value in other comprehensive income.

#### Business models

Business models at Santander Bank Polska S.A. Group are determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on the intentions of the Santander Bank Polska S.A. Group key management regarding a particular instrument.

The business model refers to how Santander Bank Polska S.A. Group manages its financial assets in order to generate cash flows. That is, the business model determines whether cash flows will result from:

- collecting contractual cash flows
- selling financial assets
- or both.

Consequently, the business model assessment is not performed on the basis of scenarios that Santander Bank Polska S.A. Group does not reasonably expect to occur, such as so-called "worst case" or "stress case" scenarios.

Santander Bank Polska S.A. Group determines the business model on the basis of the assessment of qualitative and quantitative criteria.

### Qualitative criteria for the assessment of a business model

The business model for managing financial assets is a matter of fact and not merely an assertion. It is observable through the activities undertaken to achieve the objective of the business model. Santander Bank Polska S.A. Group uses judgement when it assesses its business model for managing financial assets and that assessment is not determined by a single factor or activity. Santander Bank Polska S.A. Group considers all relevant qualitative and quantitative criteria available at the date of business model assessment.

Such relevant evidence includes the following issues:

- policies and business objectives applicable to a given portfolio and their effective delivery. In particular, the assessment covers the management strategy for generating income from contractual interest payments, maintaining a specific profile of portfolio interest rates, managing liquidity gap and generating cash flows from the sale of financial assets;
- method for assessing the profitability of the financial asset portfolio and its reporting and analysis by the key management personnel;
- risks which affect the profitability and effectiveness of a specific business model (and financial assets held within such a business model) as well as method for managing such risks;
- method for remunerating business managers as part of a specific business model, i.e. whether the remuneration payable to the key management personnel depends on changes in the fair value of financial assets or the value of contractual cash flows.

### Quantitative criteria for the assessment of a business model

In addition to qualitative criteria, the business model should also be reviewed in terms of quantitative aspects, unless the initial analysis of qualitative criteria clearly implies a residual model managed on the fair-value basis.

The purpose of the analysis of quantitative criteria of business model assessment is to determine if the sale of financial assets during the analysed period exceeds the pre-determined threshold values (in percentage terms) defined in internal regulations.

As part of the analysis of quantitative criteria, Santander Bank Polska S.A. Group reviews the frequency, values and the time of sale of financial assets in the previous reporting periods, reasons for such sale and expectations as to the future sales activity.

In the analysis of the quantitative criteria of the business model assessment, Santander Bank Polska S.A. Group determines that a business model whose objective is to hold assets in order to collect contractual cash flows enables the sale of those assets, without affecting the current business model, in the following cases:

- if the sale is due to the increase in credit risk related to the assets,
- if the sale is infrequent (even if its value is significant),
- if the value of the sale is insignificant (even if the sale is frequent),
- if the assets are sold to improve liquidity in a stress case scenario,

- if the sale is required by third parties (it applies to the assets which have to be sold owing to e.g. the requirements of supervisory authorities, but were originally held to collect contractual cash flows),
- if the sale results from exceeding the concentration limits specified in internal procedures and is a part of the credit risk management policy,
- if the sale is made close to the maturity date of the financial assets and the proceeds from the sale are approximations of the contractual cash flows that Santander Bank Polska S.A. Group would have collected if it had held the assets until their maturity date.

Other forms of the sale of assets as part of the business model whose objective is to hold assets in order to collect contractual cash flows (e.g. frequent sales of significant value) result in the need to change the business model and reclassify the financial assets which were originally allocated to that model.

### Business model types

The analysis of qualitative and quantitative criteria makes it possible to identify three basic business models applied in the operations of Santander Bank Polska S.A. Group:

- the business model whose objective is to hold assets in order to collect contractual cash flows (hold to collect),
- the business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold to collect and sell),
- the other/ residual business model (the business model whose objective is achieved by selling assets).

Presented below are characteristics of all business models, with an indication of the financial instruments assigned to each.

#### A business model whose objective is to hold assets in order to collect contractual cash flows

Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the whole life of the instrument. That is, Santander Bank Polska S.A. Group manages the assets held within the portfolio to collect those particular contractual cash flows (instead of managing the overall return on the portfolio by both holding and selling assets). In determining whether cash flows are going to be realised by collecting the financial assets' contractual cash flows, it is necessary to consider the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity. However, sales in themselves do not determine the business model and therefore cannot be considered in isolation. Instead, information about past sales and expectations about future sales provide evidence related to how Santander Bank Polska S.A. Group's stated objective for managing the financial assets is achieved and, specifically, how cash flows are realised. Santander Bank Polska S.A. Group each time considers information about past sales within the context of the reasons for those sales and the conditions that existed at that time as compared to current conditions. Although the objective of the business model may be to hold financial assets in order to collect contractual cash flows, Santander Bank Polska S.A. Group needs not hold all of those instruments until maturity. Thus, Santander Bank Polska S.A. Group's business model can be to hold financial assets to collect



contractual cash flows even when sales of financial assets occur or are expected to occur in the future.

A business model whose objective is to hold assets in order to collect contractual cash flows spans the entire spectrum of credit activity, including but not limited to corporate loans, mortgage and consumer loans, credit cards, loans granted and debt instruments (e.g. treasury bonds, corporate bonds), which are not held for liquidity management purposes. Financial assets on account of trading settlements are substantially also recognised under this model. Such assets are recognised in the books of Santander Bank Polska S.A. Group on the basis of an invoice issued payable within maximum one year.

### **A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets**

Santander Bank Polska S.A. Group may hold financial assets in a business model whose objective is achieved both by collecting contractual cash flows and by selling financial assets. In this type of business model, the key management personnel of Santander Bank Polska S.A. Group decided that both collecting contractual cash flows and selling financial assets are integral to achieving the business model's objective. There are various objectives that may be consistent with this type of business model. For example, the objective of the business model may be to manage everyday liquidity needs, to maintain a particular interest yield profile or to match the duration of the financial assets to the duration of the liabilities that those assets are funding. To achieve such an objective, Santander Bank Polska S.A. Group will both collect contractual cash flows and sell financial assets.

Compared to a business model whose objective is to hold financial assets to collect contractual cash flows, this business model will typically involve greater frequency and value of sales. This is because selling financial assets is integral to achieving the business model's objective instead of being only incidental to it. However, there is no specific frequency or sales value threshold that must be achieved in this business model as collecting contractual cash flows and selling financial assets are both integral to achieving the model's objective.

A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets includes:

- financial assets acquired for the purpose of liquidity management, such as State Treasury bonds or NBP bond and
- loans and advances subject to underwriting, i.e. portion of credit exposures that are planned to be sold before maturity for reasons other than increase in credit risk.

### **Other/ residual business model**

Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. A business model that results in measurement at fair value through profit or loss is one in which Santander Bank Polska S.A. Group manages the financial assets with the objective of realising cash flows through the sale of the assets. Santander Bank Polska S.A. Group makes decisions based on the assets' fair values and manages the assets to realise those fair values. In this case, Santander Bank Polska S.A. Group's objective will typically result in active buying and selling. Even though Santander Bank

Polska S.A. Group will collect contractual cash flows while it holds the financial assets, the objective of such a business model is not achieved by both collecting contractual cash flows and selling financial assets. This is because the collection of contractual cash flows is not integral to achieving the business model's objective; instead, it is incidental to it.

Other, residual, model is used for classifying assets held by Santander Bank Polska S.A. Group but not covered by the first or second category of the business model. They include assets from the "held for trading" category in the financial statements, such as listed equity instruments, commercial bonds acquired for trading purposes and derivatives (e.g. options, IRS, FRA, CIRS, FX Swap contracts) which are not embedded derivatives.

The business model whose objective is to hold assets in order to collect contractual cash flows is the most frequent business model in Santander Bank Polska S.A. Group except in the case of:

- debt instruments measured at fair value through other comprehensive income that are maintained in the ALM segment and credits and loans covered by underwriting process described above; those instruments are subject to the business model whose objective is achieved by both collecting contractual cash flows and selling financial assets,
- instruments held for trading, including debt instruments and derivative instruments which are not subject to hedge accounting; those instruments are covered by the other/ residual business model.

### **Changing the business model**

Santander Bank Polska S.A. Group reclassifies all affected financial assets when, and only when, it changes its business model for managing financial assets. Such changes are expected to be very infrequent. They are determined by the senior management of Santander Bank Polska S.A. Group as a result of external or internal changes and must be significant to the Santander Bank S.A. Polska Group's operations and demonstrable to external parties. Accordingly, a change in the business model of Santander Bank Polska S.A. Group will occur only when Santander Bank Polska S.A. Group either begins or ceases to perform an activity that is significant to its operations (for example, when a business line has been acquired, disposed of or terminated).

The objective of the business model of Santander Bank Polska S.A. Group is changed before the reclassification date.

The following are not changes in business model:

- a change in intention related to particular financial assets (even in circumstances of significant changes in market conditions),
- the temporary disappearance of a particular market for financial assets,
- a transfer of financial assets between segments of Santander Bank Polska S.A. Group with different business models.

If Santander Bank Polska S.A. Group reclassifies a financial asset, it applies the reclassification prospectively from the reclassification date.

If Santander Bank Polska S.A. Group reclassifies a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is established at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss.



## Characteristics of contractual cash flows

Santander Bank Polska S.A. Group classifies financial assets on the basis of the contractual cash flow characteristics of the financial asset if that asset is held within a business model:

- whose objective is to hold assets to collect contractual cash flows or
- whose objective is achieved by both collecting contractual cash flows and selling financial assets unless Santander Bank Polska S.A. Group has designated that financial asset to be measured at fair value through profit or loss.

For this purpose, Santander Bank Polska S.A. Group determines if the contractual cash flows generated by the asset in question are solely payments of principal and interest on the principal amount outstanding.

Principal is the fair value of the financial asset at initial recognition. However, that principal amount may change over the life of the financial asset (for example, if there are repayments of principal).

Interest should include the consideration for:

- the time value of money,
- credit risk associated with the outstanding principal amount,
- other basic lending risks and costs,
- and a profit margin.

The time value of money is the element of interest that provides consideration for only the passage of time. That is, the time value of money element does not provide consideration for other risks or costs associated with holding the financial asset. In order to assess whether the element provides consideration for only the passage of time, Santander Bank Polska S.A. Group applies its own judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for Santander Bank Polska S.A. Group by failing to discharge an obligation. In other words, credit risk refers to the possibility of the Customer's failure to repay the principal and interest due within the contractual deadline.

Other basic lending risks and costs include for example administration costs related to the analysis of the credit application, assessment of the customer's repayment capacity, monitoring of the customer's economic and financial standing, etc.

Financial instruments which do not meet the requirements of contractual cash flow characteristics are valued with fair value through profit and loss, include:

- credit card portfolios whose interest rates are set on the basis of principles applicable in Santander Bank Polska S.A. Group until 1 August 2016;
- instruments providing for participation of Santander Bank Polska S.A. Group in the customer's profit or loss; and
- other instruments whose contractual cash flows do not meet the definition of interest due to the lack of an economic relationship between the amount of interest accrued and the amount of interest payable to Santander Bank Polska S.A. Group.

## Classification of financial liabilities

Santander Bank Polska S.A. Group classifies all financial liabilities as subsequently measured at amortised cost, except for:

- financial liabilities measured at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- financial guarantee contracts. After initial recognition, the issuer shall measure contract at the higher of:
  - (1) amount of the expected credit loss allowance,
  - (2) initial recognised amount, less respective cumulated income recognised as per IFRS 15;
- commitments to provide a loan at a below-market interest rate. If the liability is not measured at fair value through profit or loss, the issuer shall subsequently measure it at the higher of:
  - (1) amount of the expected credit loss allowance,
  - (2) initial recognised amount, less respective cumulated income recognised as per IFRS 15;
- contingent consideration recognised by the acquire under the business combination arrangement governed by IFRS 3. Such contingent consideration shall subsequently be measured at fair value with changes recognised in profit or loss.

Upon initial recognition of the liability, Santander Bank Polska S.A. Group may irrevocably classify such item as the one measured at fair value through profit or loss if such an accounting method provides a better view of the accounts, because:

- it eliminates or largely prevents the accounting mismatch that would arise if assets or liabilities or related profit or loss were recognised under different accounting methods, or
- a group of financial liabilities or financial assets and liabilities is managed and measured at fair value as per the documented strategy for risk management and investments, and information about these items are provided to key management personnel within the Santander Bank Polska S.A. Group (as per the definition specified in IAS 24 Related Party Disclosures).

## Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative, but a separate financial instrument.

For financial assets, that meet the definition of hybrid contracts with an embedded derivative, a derivative that is a component

of such a contract is not separated from the host contract which is not a derivative, the entire contract is assessed in terms of the contractual cash flow characteristics.

## Measurement of financial assets and financial liabilities

### Initial measurement

At initial recognition, Santander Bank Polska S.A. Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, Santander Bank Polska S.A. Group recognises this instrument on that date as follows:

- when the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, then Santander Bank Polska S.A. Group recognises the difference between the transaction price and the fair value at initial recognition as a gain or loss.
- in all other cases, at the measurement adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, Santander Bank Polska S.A. Group recognises that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

At initial recognition, Santander Bank Polska S.A. Group shall measure trade receivables that do not have a significant financing component (determined in accordance with IFRS 15) at their transaction price (as defined in IFRS 15).

### Subsequent measurement of financial assets

After initial recognition, Santander Bank Polska S.A. Group recognises a financial asset:

- at amortised cost, or
- fair value through other comprehensive income, or
- at fair value through profit or loss.

Allowances for expected credit losses are not calculated for financial assets measured at fair value through profit or loss.

### Subsequent measurement of financial liabilities

After initial recognition, Santander Bank Polska S.A. Group recognises a financial liability:

- at amortised cost, or
- at fair value through profit or loss.

Liabilities measured at amortised costs include: deposits from banks, deposits from customers, liabilities due to repo transactions, loans and advances obtained, issued debt instruments and subordinated liabilities.

Liabilities are recognised as subordinated liabilities which in the event of liquidation or bankruptcy of Santander Bank Polska S.A. Group are repaid after satisfaction of claims of all other Santander Bank Polska S.A. Group's creditors. Financial liabilities are

classified as subordinated liabilities by the decision of the Polish Financial Supervision Authority issued at the request of Santander Bank Polska S.A. Group.

### Amortised cost measurement

#### Financial assets

#### Effective interest method

Interest revenue is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for credit-impaired financial assets. At the time a financial asset or a group of similar financial assets is reclassified to stage 3, interest revenue is calculated on the basis of a net value of a financial asset and presented at the interest rate used for the purpose of discounting the future cash flows for the purpose of measurement of impairment.

This does not apply to POCI assets, in the case of which the interest revenue is calculated on the basis of the net carrying amount, applying the effective interest rate adjusted for credit risk over the lifetime of the asset. The credit-adjusted effective interest rate is calculated by taking into account the future cash flows adjusted for the effect of credit risk over the lifetime of the asset.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, Santander Bank Polska S.A. Group shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses.

The calculation includes paid and received fees (e.g. arrangement and grant of loan, arrangement of loan tranche, prolongation of loan, renewal of loan restructure fees and fees for annexes which modify payments) transaction costs and all other premiums or discounts.

Costs that can be directly related to the sales of loan products are partially accounted for in interest income using the effective interest method, if there is a possibility of direct allocation to the specific loan agreement, and partly recognised in the fee income, at the moment of realisation, if there is no possibility of direct allocation to the specific loan agreement.

Credit-adjusted effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, Santander Bank Polska S.A. Group estimates the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the remaining life of a financial instrument (or group of financial instruments), Santander Bank Polska S.A. Group uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

The gross carrying amount of a financial asset is its amortised cost, before adjusting for any expected credit loss allowances.

### **Purchased or originated credit-impaired assets (POCI)**

Santander Bank Polska S.A. Group distinguished the category of purchased or originated credit-risk assets. POCI are assets that are credit-impaired on initial recognition. Financial asset that were classified as POCI at initial recognition should be treated as POCI in all subsequent periods until they are derecognized.

At initial recognition, POCI assets are recognized at their fair value. After initial recognition POCI assets are measured at amortized costs.

Valuation of POCI assets is based on the effective interest rate adjusted for the effect of credit risk.

For POCI assets (purchased or originated credit impaired) expected credit losses are recognised over the lifetime of the asset.

## **Modification of contractual cash flows**

### **The concept of modification**

Changes to the contractual cash flows in respect of the financial asset are regarded by Santander Bank Polska S.A. Group as modification if made in the form of an annex. Changes to the contractual cash flows arising from performance of the contractual obligations are not considered to be a modification.

If the terms of the financial asset agreement change, the Santander Bank Polska S.A. Group assesses whether the cash flows generated by the modified asset differ significantly from cash flows generated by financial asset before modification of the terms of the asset agreement.

### **Modification criteria**

When assessing whether a modification is substantial or minor, Santander Bank Polska S.A. Group takes into account both quantitative and qualitative criteria. Both criteria groups are each time analyzed together.

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

### **Quantitative criteria**

To determine the significance of the impact of modifications, the so-called "10% test" is carried out which is based on a comparison of discounted cash flows of the modified financial instrument (using the original effective interest rate) with discounted (also with the original effective interest rate) cash flows of the financial instrument before modification, whose value should correspond to the value of undue capital, increased by the value of undue interest and adjusted for the amount of unsettled commission.

### **Qualitative criteria**

During the qualitative analysis, Santander Bank Polska S.A. Group takes into account the following aspects:

- adding / removing a feature that violates the contractual cash flow test result,
- currency conversion – except for currency conversions resulting from the transfer of the contract for collection,

- change of the main debtor – change of the contractor results in a significant modification of contractual terms and
- consolidation of several exposures into one under an annex.

### **Substantial modification**

Identification of substantial modification resulting in the exclusion of a financial instrument from the statement of financial position is based on qualitative and quantitative criteria described above.

In addition, a substantial modification occurs when the cash flows of the modified financial instrument are "materially different" from the original financial instrument, i.e. when the difference between discounted cash flows of the modified financial instrument (using the original effective interest rate) and the discounted (also with the original effective interest rate), cash flows of the financial instrument before the modification, is higher than 10%.

If the modification of a financial asset results in derecognition of the existing financial asset and recognition of the modified financial asset, the modified asset is considered as a "new" financial asset. The new asset is recognized at fair value and the new effective interest rate applied to the new asset is calculated.

### **Minor modification**

If neither the qualitative criteria, not the quantitative are met, the modification is regarded by Santander Bank Polska S.A. Group as insignificant.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with this policy, Santander Bank Polska S.A. Group recalculates the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset. Change in gross carrying amount is amortised into interest income/cost using effective interest rate method.

### **Write-off**

Santander Bank Polska S.A. Group directly reduces the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event. Financial asset can be written off partially or in its entirety.

Santander Bank Polska S.A. Group writes off financial assets if at least one of the following conditions apply:

- Santander Bank Polska S.A. Group has documented the irrecoverability of the debt ;
- there are no reasonable expectations of recovering the financial asset in full or in part;
- the debt is due and payable in its entirety and the value of the credit loss allowance corresponds to the gross value of the exposure, while the expected debt recovery proceeds are nil;

- the asset originated as a result of a crime and the perpetrators have not been identified or
- Santander Bank Polska S.A. Group has received:
  - a decision on discontinuation of debt enforcement proceedings due to irrecoverability of the debt (in relation to all obligors), issued by a relevant enforcement authority pursuant to Article 824 § 1 (3) of the Polish Code of Civil Procedure, which is recognised by the creditor (Santander Bank Polska S.A. Group) as corresponding to the facts; or
  - a court decision:
    - dismissing a bankruptcy petition, if the insolvent debtor's assets are insufficient to cover the cost of the proceedings or suffice to cover this cost only; or
    - discontinuing the bankruptcy proceedings or
    - closing the bankruptcy proceedings.

Financial assets written off are then recorded off balance sheet.

## Impairment

### General approach

Santander Bank Polska S.A. Group recognises allowances for expected credit losses on a financial asset in respect of:

- financial assets measured at amortised cost or at fair value through other comprehensive income;
- lease receivables;
- contract assets, i.e. the consideration to which Santander Bank Polska S.A. Group is entitled in exchange for the goods or services transferred to the customer in accordance with IFRS 15 Revenue from Contracts with Customers;
- loan commitments and
- off-balance sheet credit liabilities and financial guarantees.

Santander Bank Polska S.A. Group applies the impairment requirements for the recognition and measurement of a loss allowance for financial assets that are measured at fair value through other comprehensive income. However, the loss allowance is recognised in the profit or loss account and does not reduce the carrying amount of the financial asset in the statement of financial position.

At each reporting date, Santander Bank Polska S.A. Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition — whether assessed on an individual or collective basis — considering all reasonable and supportable information, including that which is forward-looking.

If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, Santander Bank Polska S.A. Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

For loan commitments and financial guarantee contracts, the date that Santander Bank Polska S.A. Group becomes a party to

the irrevocable commitment shall be considered to be the date of initial recognition for the purposes of applying the impairment requirements.

If Santander Bank Polska S.A. Group has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, but determined at the current reporting date that the credit risk for that financial instrument has declined, Santander Bank Polska S.A. Group measures the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

Santander Bank Polska S.A. Group recognises in profit or loss, as an impairment gain or loss, the amount of expected credit losses that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised.

Santander Bank Polska S.A. Group charges interest on exposures classified in Stage 3 on the net exposure value.

## Simplified approach for trade receivables and contract assets

In the case of trade receivables and contract assets, Santander Bank Polska S.A. Group always measures the loss allowance at an amount equal to lifetime expected credit losses for trade receivables or contract assets that result from transactions that are within the scope of IFRS 15, and that do not contain a significant financing component.

## Purchased or originated credit-impaired financial assets (POCI assets)

At the reporting date, Santander Bank Polska S.A. Group recognises only the changes in lifetime expected credit losses as a loss allowance for purchased or originated credit-impaired financial assets.

Interest revenue on POCI assets is calculated on the basis of the net carrying amount, applying the effective interest rate adjusted for credit risk over the lifetime of the asset. The credit-adjusted effective interest rate is calculated by taking into account the future cash flows adjusted for the effect of credit risk over the lifetime of the asset.

At each reporting date, Santander Bank Polska S.A. Group recognises in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss. Santander Bank Polska S.A. Group recognises favourable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

## Contingent liabilities

Santander Bank Polska S.A. Group creates provisions for impairment risk-bearing irrevocable contingent liabilities (irrevocable credit lines, financial guarantees, letters of credit, etc.). The value of the provision is determined as the difference between the estimated amount of available contingent exposure set using the Credit Conversion Factor (CCF) and the current value of expected future cash flows under this exposure.

Santander Bank Polska S.A. Group raises provisions for off – balance sheet liabilities subject to credit risk, broken down into 3 stages.

## Gains and losses

A gain or loss on a financial asset or liability measured at fair value is recognised in profit or loss unless the asset or liability is:

- a part of a hedging relationship,
- an investment into an equity instrument and Santander Bank Polska S.A. Group has decided to present gains and losses on that investment in other comprehensive income,
- a financial liability designated as measured at fair value through profit or loss and Santander Bank Polska S.A. Group is required to present the effects of changes in the liability's credit risk in other comprehensive income; or
- is a financial asset measured at fair value through other comprehensive income and Santander Bank Polska S.A. Group is required to recognise some changes in fair value in other comprehensive income.

Dividends are recognised in profit or loss only if:

- the right of Santander Bank Polska S.A. Group to receive payment of the dividend is established,
- it is probable that the economic benefits associated with the dividend will flow to Santander Bank Polska S.A. Group, and
- the amount of the dividend can be measured reliably.

A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss through the amortisation process or in order to recognise impairment gains or losses. A gain or loss on a financial liability that is measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the financial liability is derecognised and through the amortisation process.

With regard to the financial assets recognised by Santander Bank Polska S.A. Group at the settlement date, any change in the fair value of the asset to be received during the period between the trade date and the settlement date is not recognised for assets measured at amortised cost. For assets measured at fair value, however, the change in fair value is recognised in profit or loss or in other comprehensive income. The trade date means the date of initial recognition for the purposes of applying the impairment requirements.

## Investments in equity instruments

Investments in equity instruments are measured at fair value through profit or loss unless at their initial recognition Santander Bank Polska S.A. Group makes an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this policy that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

If Santander Bank Polska S.A. Group has elected to measure equity instruments at fair value through other comprehensive income, dividends from that investment are recognised in profit or loss.

## Liabilities designated as measured at fair value through profit or loss

Santander Bank Polska S.A. Group presents a gain or loss on a financial liability that is designated as measured at fair value through profit or loss as follows:

- the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, and
- the remaining amount of change in the fair value of the liability is presented in profit or loss unless the treatment of the effects of changes in the liability's credit risk described in (a) would create or enlarge an accounting mismatch in the profit or loss of Santander Bank Polska S.A. Group.

If the requirements specified above would create or enlarge an accounting mismatch in the profit or loss of Santander Bank Polska S.A. Group, Santander Bank Polska S.A. Group presents all gains or losses on that liability (including the effects of changes in the credit risk of that liability) in profit or loss.

Santander Bank Polska S.A. Group presents in profit or loss all gains and losses on loan commitments and financial guarantee contracts that are designated as measured at fair value through profit or loss.

## Assets measured at fair value through other comprehensive income

A gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized. If the financial asset is derecognised, Santander Bank Polska S.A. Group accounts for the cumulative gain or loss that was previously recognised in other comprehensive income in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

## Financial instruments held for trading

A financial asset or financial liability is classified by Santander Bank Polska S.A. Group as held for trading if:

- it has been acquired or incurred principally for the purpose of selling or repurchasing in the near term,
- on initial recognition it is a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Derivative financial instruments are recognised at fair value without any deduction for transactions costs to be incurred on sale. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price i.e. the fair value of the consideration given or received.

If a hybrid contract contains a host contract that is not an asset within the scope of this IFRS 9, Santander Bank Polska S.A. Group separates the embedded derivative from the host contract and accounts for it as other derivatives if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and the host contract is not carried at fair value through profit or loss. Embedded derivatives are measured at fair value with changes recognised in the profit and loss account.

Santander Bank Polska S.A. Group uses derivative financial instruments to hedge its exposure to FX risk and interest rate



risk arising from Santander Bank Polska S.A. Group's operations. The derivatives that do not qualify for hedge accounting are accounted for as instruments held for trading and recognised at fair value.

## Hedge accounting

Pursuant to paragraph 7.2.21 of IFRS 9, Santander Bank Polska S.A. Group chose to continue to apply the hedge accounting requirements and hedging relationships arising from IAS 39.

Hedge accounting recognises the offsetting effects on the income statement of changes in the fair values of the hedging instrument and the hedged item. At the inception of the hedge there is formal designation and documentation of the hedging relationship and risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction and the nature of the risk being hedged. The Santander Bank Polska S.A. Group also documents, at inception and on ongoing basis, an assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in the fair value of the hedged item.

The Santander Bank Polska S.A. Group uses derivative financial instruments among others to hedge its exposure to interest rate risks arising from Santander Bank Polska S.A. Group operational, financing and investment activities.

The Santander Bank Polska S.A. Group discontinues hedge accounting when:

- it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
- the derivative expires, or is sold, terminated, or exercised;
- the hedged item matures or is sold, or repaid,
- the hedging relationship ceases.

## Fair value hedge

This is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised commitment, or an identified portion of such an asset, liability that is attributable to a particular risk and could affect the income statement.

A fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) shall be recognised in profit or loss; and the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. This rule applies if the hedged item is otherwise measured at amortised cost or is a financial asset measured at fair value through other comprehensive income.

## Cash flow hedge

This is a hedge of the exposure to variability in cash flows that:

1. is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction; and
2. could affect profit and losses.

A cash flow hedge is accounted for as follows: the portion of the gain or loss on the hedging instrument that is determined

to be an effective hedge shall be recognised directly in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument shall be recognised in income statement.

Interest income and expenses on hedged and hedging instruments are recognised as net interest income.

Amounts recognised in 'Other comprehensive income' are reclassified to profit or loss during the period of time in which the hedged item affects the income statement.

If the hedging instrument expires or is sold or the hedge accounting relationship is terminated, Santander Bank Polska S.A. Group discontinues hedge accounting. All profits or losses on the hedging instrument pertaining to the effective hedge recognised in other comprehensive income remains an element of equity until the forecast transaction occurs, when it is recognised in income statement.

If the transaction is no longer expected to occur, the cumulative gain or loss relating to the hedging instrument recognised in other comprehensive income is reclassified to profit or loss.

## Repurchase and reverse repurchase transactions

The Santander Bank Polska S.A. Group also generates/invests funds by selling/purchasing financial instruments under repurchase/reverse repurchase agreements whereby the instruments must be repurchased/resold at the previously agreed price.

Securities sold subject to repurchase agreements ("repo and sell-buy-back transaction") are not derecognised from the statement of financial position at the end of the reporting period. The difference between sale and repurchase price is treated as interest cost and accrued over the life of the agreement.

Securities purchased subject to resale agreements ("reverse repo and buy-sell-back transactions") are not recognised in the statement of financial position at the end of the reporting period. The difference between purchase and resale price is treated as interest income and accrued over the life of the agreement.

The principles described above are also applied by Santander Bank Polska S.A. Group to transaction concluded as separate transaction of sale and repurchase of financial instruments but having the economic nature of repurchased and reverse repurchase transactions.

## Property, plant and equipment

### Owned fixed assets

Property, plant and equipment including those under operating leases, are stated at cost or deemed cost less accumulated depreciation and impairment losses.

### Leased assets

#### Cost model

The Santander Bank Polska S.A. Group as a lessee shall measure the right-of-use asset at cost:

- a) less any accumulated depreciation and any accumulated impairment losses; and
- b) adjusted for any remeasurement of the lease liability



## Subsequent expenditure

Santander Bank Polska S.A. Group recognises in the carrying amount of property, plant and equipment the cost of replacing part of such an asset when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to Santander Bank Polska S.A. Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

## Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated economic useful lives of each part of an item of property, plant and equipment.

The estimated economic useful lives are as follows:

- buildings: 22-40 years
- IT equipment: 3-5 years
- transportation means: 3-4 years
- other fixed assets: 3-14 years.

Right-of-use assets are depreciated on a straight basis over the assets's useful life.

Depreciation rates are verified annually. On the basis of this verification, depreciation periods might be changed.

## Goodwill and Intangible assets

### Goodwill

Goodwill as of the acquisition date measured as the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities, contingent liabilities less impairment. Goodwill value is tested for impairment annually.

### Licences, patents, concessions and similar assets

Acquired computer software licences are recognized on the basis of the costs incurred to acquire and bring to use the specific software.

Expenditures that are directly associated with the production of identifiable and unique software products controlled by Santander Bank Polska S.A. Group, and that will probably generate economic benefits exceeding expenditures beyond one year, are recognised as intangible assets.

### Development costs

Santander Bank Polska S.A. Group capitalises direct costs and a justified part of indirect costs related to the design, construction and testing of a chosen alternative for new or improved processes, systems or services.

Santander Bank Polska S.A. Group recognises the development costs as intangible assets based on the future economic benefits and fulfilment of conditions specified in IAS 38, i.e.: Santander Bank Polska S.A. Group:

- has the ability and intention to complete and use the asset that is being generated,
- has the adequate technical and financial measures to complete the works and use the asset that is being generated and

- can reliably measure the amount of expenditure incurred during the development works that can be allocated to the generated intangible asset.

The economic life of development costs is definite. The amortisation rates are adjusted to the length of the economic life. Santander Bank Polska S.A. Group indicates separately the costs from internal development.

Development expenditure comprises all expenditure that is directly attributable to development activities.

### Other intangible assets

Other intangible assets that are acquired by Santander Bank Polska S.A. Group are stated at cost less accumulated amortisation and total impairment losses.

### Expenditure on intangible assets

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed in the income statement as incurred.

### Amortisation

Amortisation is charged to the income statement on a straight-line or degressive method (for intangible assets resulting from business combinations) over the estimated economic useful lives of intangible assets, which for the majority of intangibles equals to three years.

Amortisation rates are verified annually. On the basis of this verification, amortisation periods might be changed.

## Leasing

### Separating elements of the leasing contract

#### Lessee

Santander Bank Polska S.A. Group (the lessee) does not separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component for each underlying asset class where it is not possible and where the share of non-lease components is not significant compared to total net lease payments.

#### Lessor

For a contract that contains a lease component and one or more additional lease or non-lease components, Santander Bank Polska S.A. Group (the lessor) allocates the consideration in the contract applying the provisions of the accounting policy in respect of revenue from contracts with customers.

### Lease term

Santander Bank Polska S.A. Group determines the lease term as the non-cancellable period of a lease, together with both:

- periods covered by an option to extend the lease if the Santander Bank Polska S.A. Group (the lessee) is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the Santander Bank Polska S.A. Group (the lessee) is reasonably certain not to exercise that option.

The lease term is updated upon the occurrence of either a significant event or a significant change in circumstances.

## Santander Bank Polska Group as the lessee

### Recognition

At the commencement date, Santander Bank Polska Group (the lessee) recognises a right-of-use asset and a lease liability.

### Initial measurement of the right-of-use asset

At the commencement date, Santander Bank Polska Group (the lessee) measures the right-of-use asset at cost.

The cost of the right-of-use asset comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by Santander Bank Polska Group (the lessee); and
- an estimate of costs to be incurred by Santander Bank Polska Group (the lessee) in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

### Initial measurement of the lease liability

At the commencement date, Santander Bank Polska Group (the lessee) measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, the Santander Bank Polska S.A. Group (the lessee) uses its incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- net fixed payments (including in-substance fixed payments), less any lease incentives;
- net variable lease payments that depend on an index or a rate;
- net amounts expected to be payable by the lessee under residual value guarantees;
- net exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of net penalties for terminating the lease, if the lease term reflects that Santander Bank Polska Group (the lessee) may exercise an option to terminate the lease.

## Lease modifications

Santander Bank Polska Group (the lessee) accounts for a lease modification as a separate lease if :

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate

lease, at the effective date of the lease modification Santander Bank Polska Group (the lessee):

- does not allocate the consideration in the modified contract;
- determines the lease term of the modified lease; and
- remeasures the lease liability by discounting the revised lease payments using a revised discount rate.

## Recognition exemptions

Santander Bank Polska Group (the lessee) does not apply the recognition and measurement requirements arising from the accounting policy to:

- leases that have a leasing period of no more than 12 months at the start date; and
- leases for which the underlying asset is of low value (i.e. if the net value of a new asset is lower or equal to PLN 20,000).

In the case of short-term leases or leases for which the underlying asset is of low value, the Santander Bank Polska S.A. Group (the lessee) recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

## Santander Bank Polska Group as the lessor

### Classification of leases

Santander Bank Polska Group (the lessor) classifies each of its leases as either an operating lease or a finance lease.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Lease classification is made at the inception date and is reassessed only if there is a lease modification.

### Finance lease

### Recognition and measurement

At the commencement date, Santander Bank Polska Group (the lessor) recognises assets held under a finance lease in its statement of financial position and presents them as a receivable at an amount equal to the net investment in the lease.

#### Initial measurement

Santander Bank Polska Group (the lessor) uses the interest rate implicit in the lease to measure the net investment in the lease.

Initial direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term.

#### Initial measurement of the lease payments included in the net investment in the lease.

At the commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:

- net fixed payments less any lease incentives payable;
- net variable lease payments that depend on an index or

a rate, initially measured using the index or rate as at the commencement date;

- any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;
- net exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects that the lessee may exercise an option to terminate the lease.

### Subsequent measurement

Finance income is recognised over the lease term based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

Santander Bank Polska Group (the lessor) allocates finance income over the lease term on a systematic and rational basis. The lease payments relating to the period are allocated against the net investment in the lease.

Santander Bank Polska Group (the lessor) applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease.

## Operating lease

### Recognition and measurement

Santander Bank Polska Group (the lessor) recognises lease payments from operating leases as income on a straight-line basis.

Santander Bank Polska Group (the lessor) recognises costs, including depreciation, incurred in earning the lease income as an expense.

Santander Bank Polska Group as the lessor, adds initial direct costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognises those costs as an expense over the lease term on the same basis as the lease income.

### Other items of the statement of financial position

#### Non-current assets held for sale

On initial date of classification of non-current assets as assets held-for-sale, Santander Bank Polska S.A. Group measures them at the lower of carrying amount and fair value less cost to sell.

Possible reduction of the carrying amount of assets held for sale as at the date of their initial classification as well as subsequent write-downs to the fair value less costs to sell is recognized in the income statement.

#### Other trade and other receivables

Trade receivables and other receivables payable within 12 months from the origination are measured at the initial recognition at par due to the immaterial effect of discounting. Trade receivables and other receivables payable within 12 months are at the balance sheet day recognised in the amount of the required payment less impairment loss.

## Trade payables and other liabilities

Other liabilities payable within 12 months from the initial recognition are measured at par due to the immaterial effect of discounting. Like other liabilities payable within 12 months, trade payables are recognised at the balance sheet day in the amount of the payment due.

## Equity

Equity comprises capital and funds created in accordance with applicable law, acts and the Articles of Association. Equity also includes retained earnings and prior year losses carried forward.

Share capital is stated at its nominal value in accordance with the Articles of Association and the entry in the court register.

Supplementary capital is created from profit allocations and share issue premiums.

Reserve capital is created from profit allocations and may be earmarked for covering balance sheet losses or dividend payment.

The result of valuation of management share-based incentive program is included in reserve capital (IFRS 2.53).

The supplementary, reserve, general banking risk fund and share premium are presented jointly under category "Other reserve funds".

Revaluation reserve is comprised of adjustments relating to the valuation of financial assets measured at fair value through other comprehensive income and adjustments relating to the valuation of effective cash flow hedges taking into account deferred tax and actuarial gains from estimating provision for retirement. The revaluation reserve is not distributable.

Except for own equity, non-controlling interests are also recognised in Santander Bank Polska S.A. Group capital.

On derecognition of all or part of financial assets measured at fair value through other comprehensive income the total effects of periodical change in the fair value reflected in the revaluation reserve are reversed. The value of a given financial asset measured at fair value through other comprehensive income is increased or decreased by the whole amount or an adequate portion of the impairment allowance made previously. The effects of the fair value changes are removed from the revaluation reserve with a corresponding change in the income statement.

The net financial result for the accounting year is the profit disclosed in the income statement of the current year adjusted by the corporate income tax charge.

## Custody services

Income from custody services is an element of the fee and commission income. The corresponding customer assets do not form part of Santander Bank Polska S.A. Group's assets and as such are not disclosed in the consolidated statement of financial position.

## Capital payments (Dividends)

Own dividends for a particular year, which have been approved by the General Meeting of Shareholders but not paid at the end of the reporting period are recognised as dividend liabilities in "other liabilities" item.

## Provisions

A provision is recognised when Santander Bank Polska S.A. Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the amount is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Santander Bank Polska S.A. Group raised provisions for legal risk related to loans indexed/denominated in foreign currencies and for reimbursements of portion of fees related to early repayment of consumer loans. Both provisions are presented as Other provisions.

## Income statement

### Net interest income

Santander Bank Polska S.A. Group presents the interest income recognised at the effective interest rate and credit-adjusted effective interest rate in separate lines of the income statement: "Interest income from financial assets measured at amortised cost" and "Interest income from assets measured at fair value through other comprehensive income".

In turn, the interest income from financial assets which do not meet the contractual cash flows test is presented in line "Income similar to interest – financial assets measured at fair value through profit or loss".

### Net fee and commission income

Santander Bank Polska S.A. Group recognizes the fee and commission income that is not accounted for using the effective interest rate in such a manner so as to reflect the transfer of the goods or services promised to a customer in an amount reflecting the consideration to which it will be entitled in return for the goods or services in accordance with the 5 -stage model for recognizing income.

The Group identifies separate obligations to perform the service to which it assigns a transaction price. If the amount of remuneration is variable, the transaction price includes part or all of the variable remuneration to the extent that there is a high probability that there will be no refund of previously recognized revenues. Revenues equal to the transaction price are recognized when the service is performed or when it is performed by providing the customer with the promised good or service. The costs leading to the conclusion of the contract and the costs of performing the contract are activated and then systematically depreciated by the Group taking into account the period of transferring goods or services to the customer.

The significant commission income of the Santander Bank Polska S.A. Group includes:

1. Fee and commission income from loans includes fees charged by Santander Bank Polska Group in respect of reminders, certificates, guarantees, debt collection activities as well as commitment fees. Due to its nature, the majority of such income is taken to profit or loss on a one-off basis, i.e. when a specific operation is performed for a customer. Other income, such as a guarantee fee, is settled over time during the term of an agreement with a customer.

2. Fee and commission income from credit cards includes fees in respect of card issuance, ATM withdrawals, issuance of a new card, generation of a credit card statement or activation of optional credit card-related services. The vast majority of income is recognised at a specific point in time, i.e. when a specific operation is performed for a customer. Fees in respect of additional services related to credit cards are recognised over time.
3. Income from asset management is recognised in accordance with a 5-step model based on the value of assets provided to Santander Bank Polska Group for management. Pursuant to the agreements in place, Santander Bank Polska Group does not receive any upfront fees or additional commissions calculated after the end of the accounting year on the basis of factors beyond the Santander Bank Polska S.A. Group's control.

### Net income on bancassurance

For the selected loan products, where linkage to the insurance product has been identified, the Santander Bank Polska S.A. Group splits realised income into a portion recognised as interest income according to effective interest rate method and a portion recognised as fee income. The Santander Bank Polska S.A. Group qualifies distributed insurance products as linked to loans in particular if the insurance product influences contractual provisions of a loan.

To determine what part of income is an integral part of the credit agreement recognised as interest income using effective interest rate, the Santander Bank Polska S.A. Group separates the fair value of the financial instrument offered and the fair value of the intermediation service of insurance product sold together with such instrument. The portion that represents an element of the amortised cost of the financial instrument and the portion that represents remuneration for the agency services are split in proportion to the fair value of the financial instrument and the fair value of the agency service cost, respectively, relative to the sum of the two values.

The portion of income that is considered an agency fee for sales of an insurance product linked to a loan agreement is recognised by the Santander Bank Polska S.A. Group as fee income when the fee is charged for sales of an insurance product.

The Santander Bank Polska S.A. Group verifies the accuracy of the assumed allocation of different types of income at least annually.

## Employee benefits

### Short-term employee benefits

The Santander Bank Polska S.A. Group's short-term employment benefits which include wages, bonuses, holiday pay and social insurance payments are recognised as an expense as incurred.

### Long-term employee benefits

The Santander Bank Polska S.A. Group's obligation in respect of long-term employee benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The accrual for retirement bonus is estimated using actuarial valuation method. The valuation of those provisions is updated at least once a year.

### Equity-settled share-based payment transactions

For equity-settled share-based payment transactions, the entity measures the goods or services received, and the corresponding

increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Santander Bank Polska S.A. Group cannot estimate reliably the fair value of the goods or services received, the Santander Bank Polska S.A. Group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

Vesting conditions included in the terms of the grant are not taken into account in estimating fair value except where those terms are dependent on market conditions. Non-market vesting conditions are taken into account by adjusting the number of awards included in the measurement of the cost of employee services so that ultimately, the amount recognised in the income statement reflects the number of vested awards.

The expense related to share based payments is credited to shareholder's equity. Where the share based payment arrangements give rise to the issue of new shares, the proceeds of issue of the shares are credited to share capital (nominal amount) and share premium (if any) when awards are exercised.

### Cash-settled share-based payment transactions

For cash-settled share-based payment transactions, the Santander Bank Polska S.A. Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Santander Bank Polska S.A. Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period. The Santander Bank Polska S.A. Group recognises the services received, and a liability to pay for those services, as the employees render the service. The liability is measured, initially and at each reporting date until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered the service to that date.

## Net trading income and revaluation

Net trading income and revaluation include profits and losses resulting from changes in fair value of financial assets and liabilities classified as held for trading that are measured at fair value through profit and loss. Interest cost and income related to the debt instruments are also reflected in the net interest income.

## Dividend income

Dividends are taken to the income statement at the moment of acquiring rights to them by shareholders provided that it is probable that the economic benefits will flow to the Santander Bank Polska S.A. Group and the amount of income can be measured reliably.

## Gain on disposal of subsidiaries, associates and joint ventures

Gain or loss on the sale of shares in subsidiaries is determined as the difference between the subsidiary's net asset value adjusted for unwritten-off portion of goodwill and the sale price.

Profit on the sale of interests in associates and joint ventures is the difference between the carrying amount and their sale price.

## Gains or loss on other financial instruments

Gains or loss on other financial instruments include:

- gains and losses on disposal of equity instruments and debt instruments classified to the portfolio of financial assets measured at fair value through other comprehensive income; and
- changes in the fair value of hedged and hedging instruments, including ineffective portion of cash flow hedges.

Santander Bank Polska S.A. Group uses fair value hedge accounting and cash flow hedge accounting. Details are presented in Note 44 "Hedge accounting".

## Other operating income and other operating costs

Other operating income and cost include the cost of provisions for legal risk, in particular legal risk related to the portfolio of loans denominated / indexed to CHF, as well as operating cost and income not directly related to the statutory activity of Santander Bank Polska S.A. Group, including i.e. revenues and cost from the sale and liquidation of fixed assets, revenues from the sale of other services, received and paid damages, penalties and fines.

## Impairment losses on loans and advances

The line item "Net impairment losses on loans and advances" presents impairment losses on balance sheet and off-balance sheet exposures and the gains/losses on the sale of credit receivables.

The result on loan receivables' sale is computed at the assets' derecognition date in the difference between balance sheet amount and remuneration received.

## Staff and general and administrative expenses

The "Staff expenses" line item presents the following costs:

- remuneration and social insurance (including pension benefit contributions);
- provisions for unused leaves;
- pension provisions;
- bonus provisions;
- the programme for variable components of remuneration paid to individuals holding managerial positions, a part of which is recognised as an obligation on account of share-based payment in cash, in accordance with IFRS 2 Share-Based Payment; and
- employee training and other salary and non-salary benefits for employees.

The line item "General and administrative expenses" presents the following costs:

- maintenance and lease of fixed assets;
- IT and ICT services;
- administrative activity;
- promotion and advertising;



- property protection;
- short term lease costs and low-value assets lease cost
- charges paid to the Bank Guarantee Fund, the Financial Supervision Authority, the National Depository of Securities;
- taxes and fees (property tax, payments to the National Fund for the Rehabilitation of the Disabled, municipal and administrative fees, perpetual usufruct fees);
- insurance;
- repairs not classified as fixed asset improvements.

## Tax on financial institutions

Introduced by an act implemented on 1 February 2016, the tax on financial institutions is calculated on the excess of the entity's total assets over the PLN 4 billion level; in the case of banks the excess results from the statement of turnover and balances at the end of each month. Banks are permitted to reduce the tax base by e.g. the value of own funds and the value of treasury securities. In addition, banks reduce the tax base by the value of assets purchased from the National Bank of Poland held as collateral for a refinancing credit facility granted by the latter. The tax rate for all tax payers is 0.0366% per month, and the tax is paid monthly by the 25th day of the month following the month it relates to.

Santander Bank Polska S.A. Group reports the tax charge under "Tax on financial institutions", separately from the income tax charge.

## Corporate income tax

Corporate income tax comprises current and deferred tax. Income tax is recognised in income statement except to the extent that it relates to items recognised in equity.

Current tax is the tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are provided, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their values arising from the statement of financial position. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the end of the reporting period and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised at realizable amount – it is to the extent that is probable that the Santander Bank Polska S.A. Group generates taxable profit allowing partial or wholly realisation of deferred tax assets. The carrying value of deferred tax assets is verified at the end of each reporting period. The Santander Bank Polska S.A. Group reduces the carrying amount of the deferred tax asset to the realizable value – that is, to the extent that it is probable that taxable income will be sufficient to partially or fully realize the deferred tax asset.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

## 3. Operating segments reporting

Presentation of information about business segments in Santander Bank Polska Group bases on management information model which is used for preparing of reports for the Management Board, which are used to assess performance of results and allocate resources. Operational activity of Santander Bank Polska Group has been divided into five segments: Retail Banking, Business & Corporate Banking, Corporate & Investment Banking, ALM (Assets and Liabilities Management) and Centre, and Santander Consumer. They were identified based on customers and product types.

Profit before tax is a key measure which Management Board of the Bank uses to assess performance of business segments activity.

Income and costs assigned to a given segment are generated on sale and service of products or services in the segment, according to description presented below. Such income and costs are recognized in the profit and loss account for Santander Bank Polska Group and may be assigned to a given segment either directly or based on reasonable assumptions.

Interest and similar income split by business segments is assessed by Management Board of the Bank on the net basis including costs of internal transfer funds and without split by interests income and costs.

Settlements among business segments relate to rewarding for delivered services and include:

- sale and/or service of customers assigned to a given segment, via sale/service channels operated by another segment;
- sharing of income and costs on transactions in cases where a transaction is processed for a customer assigned to a different segment;
- sharing of income and cost of delivery of common projects.

Income and cost allocations are regulated by agreements between segments, which are based on single rates for specific services or breakdown of total income and/or cost.

Assets and liabilities of a given segment are used for the operational activity and may be assigned to the segment directly or on a reasonable basis.

Santander Bank Polska Group focuses its operating activity on the domestic market.

In 2021 introduced the following changes:

- customer resegmentation between business segments; Once a year, Santander Bank Polska Group carries out the resegmentation / migration of customers between operating segments which results from the fact that customer meets the criteria of assignment for different operating segment than before. This change is intended to provide services at the highest level of quality and tailored to individual needs or the scale of customer operations.



- Transfer of Investments in associates of Santander – Aviva Towarzystwo Ubezpieczeń S.A. and Santander – Aviva Towarzystwo Ubezpieczeń na Życie S.A. and the Share in net profits of entities accounted for by the equity method from Segment ALM and Centre to Segment Retail Banking as an effect of presentation change in reporting to the chief operating decision maker in Santander Bank Polska S.A. Group

Comparable data are adjusted accordingly.

In the part regarding Santander Bank Polska, the provisions for legal risk connected with the portfolio of FX mortgage loans and the provisions for legal risk connected with reimbursement of portion of fees related to early repayment of consumer loans were presented in Retail Banking segment. Simultaneously, in the part regarding Santander Consumer Bank, the provisions for legal risk connected with the portfolio of FX mortgage loans and the provisions for legal risk connected with reimbursement of portion of fees related to early repayment of consumer loans were presented in the Santander Consumer segment. More details regarding the above provisions are described in Note 38.

Additional write-off for expected credit losses in the form of so-called adjustments to values resulting from post model adjustments in the amount of PLN 121,414 thousand was estimated and presented in the results of particular business segments in comparable data for 31 December 2020 while release of described provision in the amount of 121,414 thousand was presented in data for 31 December 2021. The adjustment was also described in notes 2.6 and 12 of these Financial Statements.

The principles of income and cost identification, as well as assets and liabilities for segmental reporting purposes are consistent with the accounting policy applied in Santander Bank Polska Group.

## Retail Banking

Retail Banking generates income from the sale of products and services to personal customers and small companies. In the offer for customers of this segment there are a wide range of savings products, consumer and mortgage loans, credit and debit cards, insurance and investment products, clearing services, brokerage house services, GSM phones top-ups, foreign payments and Western Union and private-banking services. For small companies, the segment provides, among others, lending and deposit taking services, cash management services, leasing, factoring, letters of credit and guarantees. Furthermore, the Retail Banking segment generates income through offering asset management services within investment funds and private portfolios.

## Business & Corporate Banking

Business & Corporate Banking segment covers products and activities targeted at business entities, local governments and the public sector, including medium companies. In addition to

banking services covering lending and deposit activities, the segment provides services in the areas of cash management, leasing, factoring, trade financing and guarantees. It also covers insourcing services provided to retail customers based on mutual agreements with other banks and financial institutions.

## Corporate & Investment Banking

In the Corporate & Investment Banking segment, Santander Bank Polska Group derives income from the sale of products and services to the largest international and local corporations, including:

- transactional banking with such products as cash management, deposits, leasing, factoring, letters of credit, guarantees, bilateral lending and trade finance;
- lending, including project finance, syndicated facilities and bond issues;
- FX and interest rate risk management products provided to all the Bank's customers (segment allocates revenues from this activity to other segments, the allocation level may be subject to changes in consecutive years);
- underwriting and financing of securities issues, financial advice and brokerage services for financial institutions.

Through its presence in the interbank market, segment also generates revenues from interest rate and FX risk positioning activity.

## ALM and Centre

The segment covers central operations such as financing of other Group's segments, including liquidity, interest rate risk and FX risk management. It also includes managing the Bank's strategic investments and transactions generating income and/or costs that cannot be directly or reasonably assigned to a given segment.

## Santander Consumer

This segment includes activities of the Santander Consumer Group. Activities of this segment focus on selling products and services addressed to both individual and business customers. This segment focuses mainly on loans products, i.e. car loans, credit cards, cash loans, installment loans and lease products. In addition, Santander Consumer segment includes term deposits and insurance products (mainly related to loans products).

## Consolidated income statement by business segments

1.01.2021-31.12.2021	Retail Banking Segment*	Business and Corporate Banking Segment	Corporate & Investment Banking Segment	ALM and Centre Segment	Santander Consumer Segment	Total
<b>Net interest income</b>	<b>3 109 461</b>	<b>772 539</b>	<b>254 996</b>	<b>638 150</b>	<b>1 187 299</b>	<b>5 962 445</b>
incl. internal transactions	(3 691)	(3 652)	7 497	10 150	(10 304)	-
<b>Net fee and commission income</b>	<b>1 456 970</b>	<b>547 348</b>	<b>381 952</b>	<b>(30 933)</b>	<b>131 786</b>	<b>2 487 123</b>
incl. internal transactions	188 022	121 628	(303 546)	(3 146)	(2 958)	-
<b>Other income</b>	<b>87 351</b>	<b>54 174</b>	<b>218 168</b>	<b>224 207</b>	<b>63 266</b>	<b>647 166</b>
incl. internal transactions	(813)	56 258	(51 349)	(3 720)	(376)	-
<b>Dividend income</b>	-	-	<b>1 833</b>	<b>110 994</b>	<b>21</b>	<b>112 848</b>
<b>Operating costs</b>	<b>(3 180 544)</b>	<b>(438 308)</b>	<b>(282 202)</b>	<b>(228 486)</b>	<b>(778 686)</b>	<b>(4 908 226)</b>
incl. internal transactions	-	-	-	2 831	(2 831)	-
<b>Depreciation/amortisation</b>	<b>(344 479)</b>	<b>(65 837)</b>	<b>(23 521)</b>	<b>(90 137)</b>	<b>(54 996)</b>	<b>(578 970)</b>
<b>Impairment losses on loans and advances</b>	<b>(547 643)</b>	<b>(225 424)</b>	<b>(127 884)</b>	<b>(6 394)</b>	<b>(216 843)</b>	<b>(1 124 188)</b>
<b>Share in net profits (loss) of entities accounted for by the equity method</b>	<b>73 836</b>	-	-	<b>232</b>	-	<b>74 068</b>
<b>Tax on financial institutions</b>	-	-	-	<b>(583 793)</b>	<b>(30 645)</b>	<b>(614 438)</b>
<b>Profit before tax</b>	<b>654 952</b>	<b>644 492</b>	<b>423 342</b>	<b>33 840</b>	<b>301 202</b>	<b>2 057 828</b>
Corporate income tax						(805 422)
<b>Consolidated profit for the period</b>						<b>1 252 406</b>
of which:						
attributable to owners of the parent entity						1 111 684
attributable to non-controlling interests						140 722

\* Includes individual customers, small companies and Wealth Management (private banking and Santander TFI SA)

## Consolidated statement of financial position by business segments

31.12.2021	Retail Banking Segment*	Business and Corporate Banking Segment	Corporate & Investment Banking Segment	ALM and Centre Segment	Santander Consumer Segment	Total
Loans and advances to customers	84 604 164	33 638 827	14 492 128	-	15 515 302	148 250 421
Investments in associates	886 796	-	-	45 944	-	932 740
Other assets	9 219 383	1 934 470	4 970 472	74 596 583	4 972 271	95 693 179
<b>Total assets</b>	<b>94 710 343</b>	<b>35 573 297</b>	<b>19 462 600</b>	<b>74 642 527</b>	<b>20 487 573</b>	<b>244 876 340</b>
Deposits from customers	126 071 524	38 796 117	8 506 831	2 715 742	9 283 229	185 373 443
Other liabilities	1 333 555	453 845	5 112 100	18 007 372	7 382 449	32 289 321
Equity	6 141 628	3 230 653	1 961 664	12 057 735	3 821 896	27 213 576
<b>Total equity and liabilities</b>	<b>133 546 707</b>	<b>42 480 615</b>	<b>15 580 595</b>	<b>32 780 849</b>	<b>20 487 574</b>	<b>244 876 340</b>

\* includes individual customers, small companies and Wealth Management (private banking and Santander TFI SA)

## Consolidated income statement by business segments

1.01.2020-31.12.2020	Retail Banking Segment*	Business and Corporate Banking Segment	Corporate & Investment Banking Segment	ALM and Centre Segment	Santander Consumer Segment	Total
<b>Net interest income</b>	<b>3 262 742</b>	<b>918 051</b>	<b>307 149</b>	<b>94 928</b>	<b>1 305 279</b>	<b>5 888 149</b>
incl. internal transactions	(2 167)	(2 874)	5 315	10 642	(10 916)	–
<b>Net fee and commission income</b>	<b>1 286 904</b>	<b>441 580</b>	<b>294 427</b>	<b>(31 081)</b>	<b>160 276</b>	<b>2 152 106</b>
incl. internal transactions	165 392	101 152	(262 438)	(268)	(3 838)	–
<b>Other income</b>	<b>37 509</b>	<b>42 650</b>	<b>135 138</b>	<b>301 207</b>	<b>67 696</b>	<b>584 200</b>
incl. internal transactions	4 247	48 977	(49 286)	19 529	(23 467)	–
Dividend income	–	–	194	22 654	35	22 883
<b>Operating costs</b>	<b>(2 223 170)</b>	<b>(424 853)</b>	<b>(241 053)</b>	<b>(322 698)</b>	<b>(682 617)</b>	<b>(3 894 391)</b>
incl. internal transactions	–	–	–	2 313	(2 313)	–
<b>Depreciation/amortisation</b>	<b>(341 717)</b>	<b>(57 614)</b>	<b>(22 290)</b>	<b>(110 048)</b>	<b>(61 926)</b>	<b>(593 595)</b>
<b>Impairment losses on loans and advances</b>	<b>(948 673)</b>	<b>(335 072)</b>	<b>(116 306)</b>	<b>(39 544)</b>	<b>(323 217)</b>	<b>(1 762 812)</b>
<b>Share in net profits (loss) of entities accounted for by the equity method</b>	<b>85 921</b>	<b>–</b>	<b>–</b>	<b>439</b>	<b>–</b>	<b>86 360</b>
<b>Tax on financial institutions</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(560 781)</b>	<b>(41 222)</b>	<b>(602 003)</b>
<b>Profit before tax</b>	<b>1 159 516</b>	<b>584 742</b>	<b>357 259</b>	<b>(644 924)</b>	<b>424 304</b>	<b>1 880 897</b>
Corporate income tax						(643 723)
<b>Consolidated profit for the period</b>						<b>1 237 174</b>
of which:						
attributable to owners of the parent entity						1 037 167
attributable to non-controlling interests						200 007

\* includes individual customers, small companies and Wealth Management (private banking and Santander TFI SA)

## Consolidated statement of financial position by business segments

31.12.2020	Retail Banking Segment*	Business and Corporate Banking Segment	Corporate & Investment Banking Segment	ALM and Centre Segment	Santander Consumer Segment	Total
Loans and advances to customers	79 943 150	32 662 656	13 486 099	–	15 906 840	141 998 745
Investments in associates	952 686	–	–	45 711	–	998 397
Other assets	5 836 621	1 052 307	3 467 155	71 482 558	4 475 526	86 314 167
<b>Total assets</b>	<b>86 732 457</b>	<b>33 714 963</b>	<b>16 953 254</b>	<b>71 528 269</b>	<b>20 382 366</b>	<b>229 311 309</b>
Deposits from customers	114 564 280	36 877 378	6 776 275	3 771 434	9 532 888	171 522 255
Other liabilities	632 986	606 003	3 926 625	16 889 133	7 076 317	29 131 064
<b>Equity</b>	<b>5 845 825</b>	<b>3 333 447</b>	<b>1 992 303</b>	<b>13 713 254</b>	<b>3 773 161</b>	<b>28 657 990</b>
<b>Total equity and liabilities</b>	<b>121 043 091</b>	<b>40 816 828</b>	<b>12 695 203</b>	<b>34 373 821</b>	<b>20 382 366</b>	<b>229 311 309</b>

\* includes individual customers, small companies and Wealth Management (private banking and Santander TFI SA)

## 4. Risk management

Santander Bank Polska Group is exposed to a variety of risks in its ordinary business activities. The objective of risk management is to ensure that the Group takes risk in a responsible and controlled manner when maximising the value for shareholders. Risk is a possibility of materialisation of events impacting the achievement of the Group's strategic goals.

Risk management policies are designed to identify and measure risk, define the most profitable return within the accepted risk

level (risk-reward), and to continually set and verify appropriate risk mitigation limits. Santander Bank Polska Group modifies and develops risk management methods on an ongoing basis, taking into consideration changes in the Group's risk profile, economic environment, regulatory requirements and best market practice.

The Management Board and Supervisory Board set the business direction and actively support the risk management strategies. This is achieved by defining the risk management and risk appetite

strategy, as well as approving the key risk management policies, participation of the Management Board Members in the risk management committees, reviewing and signing off on the key risks and risk reports.

The **Supervisory Board** continuously oversees the risk management system. The Supervisory Board approves the strategy, key risk management policies and risk appetite, and monitors the use of internal limits in relation to the current business strategy and macroeconomic environment. It conducts the reviews of the key risk areas, the identification of threats and the process of defining and monitoring remedial actions. The Supervisory Board assesses if the control activities performed by the Management Board are effective and aligned with the Supervisory Board's policy. The assessment also includes the risk management system.

The **Audit and Compliance Committee** supports the Supervisory Board in fulfilment of its oversight obligations. The Committee performs annual reviews of the Group's financial controls, and receives reports from the independent audit function and the compliance function. The Committee also receives regular quarterly reports on the degree of implementation of post-audit recommendations, and on that basis evaluates the quality of the actions taken. The Committee assesses the effectiveness of internal control system and risk management system. Moreover, the Audit Committee monitors financial audits, in particular inspections carried out by the audit company, controls, monitors and assesses independence of the chartered auditor and audit company, and reports the outcomes of inspections to the Supervisory Board. In addition, the Committee develops the policy and procedure for selecting the audit company and to present to the Supervisory Board the recommendations on election, re-election and recalling of External Auditor and on the External Auditor's fee.

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

Moreover, the Supervisory Board in the Bank is also supported by the **Remuneration Committee** and the **Nominations Committee**, however outside the risk management area.

The **Management Board** is responsible for the effectiveness of risk management. In particular, it introduces the organisational structure aligned with the level and profile of the risk being undertaken, split of the responsibilities providing the separation of the risk measurement and control function from the operational activity, implements and updates the written risk management strategies, and ensures transparency of the activities. The Management Board reviews the financial results of the Group. It established a number of committees which are directly responsible for the development of the risk management methodology and monitoring of risk levels in particular areas.

The Bank's Management Board also manages the risk through its committees: the Risk Management Committee and the Risk Control Committee.

The **Risk Management Committee (RMC)** ratifies the key credit decisions (above specific decision-making thresholds), approves annual limits for securities trading and ALM transactions, and signs-off on the risk assessment models plan.

The **Risk Control Committee** monitors the risk level across different areas of the bank's operations and supervises the

activities of lower-level risk management committees set up by the Management Board. These committees, acting within the respective remits defined by the Management Board, are directly responsible for developing risk management methods and monitoring risk levels in specific areas.

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

**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/ SME Portfolios/ Business and Corporate Loans Portfolios**, which are authorised to approve and supervise the the risk measurement policy and methodology, and monitoring credit risk only in relation to their respective business segments.

The **Credit Committee** takes credit decisions within the assigned lending discretions.

The **Provisions Committee** which takes decisions on impairment charges in an individual and collective approach for credit exposures, as well as other financial instruments and assets and on legal risk provisions. Moreover, the Committee monitors credit loss allowances, reviews the adequacy of parameters applied when setting the impairment in an individual and collective approach for Santander Bank Polska Group, excluding Santander Consumer Bank S.A., and takes decisions about debts sales.

The **Recovery Committee** takes decisions as to the dealing with borrowers in distress, including with respect to the relationship management strategy, approval of the causes of loss analysis and monitoring of the portfolio and effectiveness of recovery processes.

**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;

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

The **Information Management Committee** is responsible for the quality and organisation of data related to risk management and other areas of the bank's operations.

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

**CyberTechRisk Forum** 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;

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

The **Assets and Liabilities Management Committee** supervises the activity on the bank's and the Group's banking book,

manages liquidity and interest rate risk in the banking book and is responsible for the funding and balance sheet management, including for the pricing policy.

The **Liquidity Forum** 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.

The **Capital Committee** is responsible for capital management, in particular the ICAAP.

The **Disclosure Committee** verifies if the financial information published by Santander Bank Polska Group meets the legal and regulatory requirements.

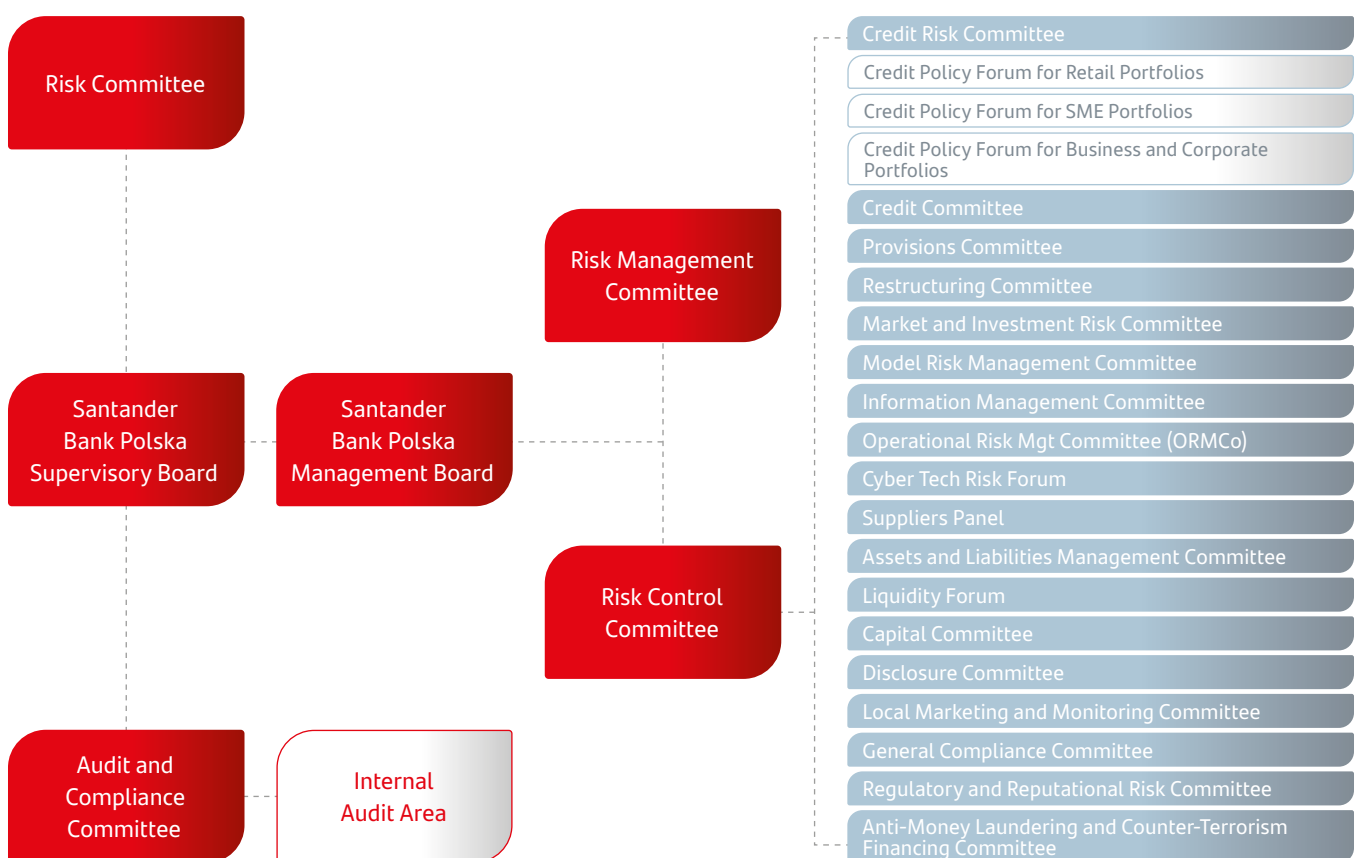
The **Local Marketing and Monitoring Committee** approves new products and services to be implemented in the market, taking into account the reputation risk analysis.

The **General Compliance Committee** is responsible for setting standards with respect to the management of compliance risk and the codes of conduct adopted by the Group.

The **Regulatory and Reputational Risk Committee** is responsible for monitoring and taking decisions on cases relating to the Group's compliance with law, regulatory guidelines and market/industry standards relating to the Group's operations.

The **Anti-Money Laundering and Counter-Terrorism Financing Committee** approves the bank's policy on prevention of money laundering and the financing of terrorism. It approves and monitors the Group's activities in this area.

The chart below presents the corporate governance in relation to the risk management process.



Risk management is in line with the risk profile resulting from risk. At Santander Bank Polska Group, risk appetite is expressed as quantitative limits and captured in the "Risk Appetite Statement" adopted by the Management Board and approved by the Supervisory Board. Those limits are used to set watch limits and shape risk management policies.

The Group continuously analyses the risks, identifies their sources, creates the relevant risk management mechanisms including among others the measurement, control, mitigation and reporting. The key risks the Group is exposed to include:

- credit risk
- concentration risk
- market risk in the banking book and trading book
- liquidity risk

- operational risk,
- compliance risk.

The key rules, roles and responsibilities of the Group companies are set out in relevant internal policies relating to the management of individual risk types.

Santander Bank Polska Group pays special attention to the consistency of risk management processes across the Group, which ensures adequate control of the risk exposure. The subsidiaries implement risk management policies and procedures reflecting the principles adopted by Santander Bank Polska Group.

Acting under the applicable law, the bank exercises oversight of risk management in Santander Consumer Bank S.A. in line with the same oversight rules as applied to other Santander Bank Polska Group companies. The bank's representatives on the Supervisory Board of Santander Consumer Bank S.A. are: the

Management Board member in charge of the Risk Management Division and the Management Board member in charge of the Retail Banking Division they are responsible for supervision over Santander Consumer Bank S.A. and they ensure, together with the company's Supervisory Board, that the company operates in line with adopted plans and operational security procedures. The bank monitors the profile and level of Santander Consumer Bank S.A. risk via risk management committees of Santander Bank Polska S.A.

From the point of view of negative impact of those risks on society, environment, employees, human rights and anti-corruption measures, particular importance is attached to operational risk, compliance risk and reputational risk. In addition, the bank has identified social and environmental risks (including climate risks) related to financing customers from sensitive sectors.

## Credit risk

Santander Bank Polska Group's credit activities focus on growing a high quality loan book with a good quality, a good yield and customer satisfaction.

Credit activity includes all products subject to credit risk (credit facilities), originated by the Bank or its leasing and factoring subsidiaries.

Credit risk is defined as the possibility of suffering a loss as a result that a borrower will fail to meet its credit obligation, including interest and fees. Credit risk arises from the impairment of credit assets and contingent liabilities, resulting from worsening of the borrower's 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 given default of the borrower.

Credit risk in Santander Bank Polska Group arises mainly from lending activities on the retail, SME, business, 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 as well as on the basis of discretionary limits allocated to individual credit officers based on their knowledge and experience. The Group's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan book. Additionally the Group uses large set of credit risk mitigation tools, both collaterals (financial and non-financial) and specific credit provisions and clauses (covenants).

The Group continues to develop and implement risk based methods of grading loans, allocating capital and measuring returns. Risk valuation models are used for all credit portfolios.

The Group also continues to review processes and procedures of managing and monitoring of credit portfolio risk adjusting them to the revised regulatory requirements, especially to Recommendations of KNF and EBA.

In 2021, the Group focused on implementation of the EBA Guidelines on loan origination and monitoring EBA/GL/2020/06. These guidelines set out standards for credit risk taking, management and monitoring, and require that institutions apply appropriate practices in relation to consumer protection and prevention of money laundering. Alongside this, the bank implemented changes to credit processes in line with KNF Recommendation S on best practice in the management of mortgage-backed credit exposures. While the recommendation

covers only mortgage-backed loans, changes also indirectly affected credit processes related to unsecured loans. The operational and management reports were adjusted to include the elements introduced by the recommendation. Also by the end of the year guidelines resulting from Recommendation R were implemented issued by KNF. They lay out the rules of classifying credit exposure, the assessment and calculation of expected credit losses, as well as credit risk management

In 2021, the Group thoroughly analysed developments in the macroeconomic environment and monitored credit exposures in individual customer segments and sectors in order to promptly and duly align the credit policy parameters where required. The Group continued to focus on dealing with the impact of the Covid-19 pandemic, placing an increased emphasis on risk trends in credit portfolios, particularly in connection with lockdowns affecting many economic activities. Appropriate management reports were maintained in order to identify deteriorated financial position of business customers from the Covid-19 hardest-hit sectors.

In 2021, the Group took further measures as part of the government support programmes for customers in financial distress due to the Covid-19 pandemic (aid granted by the Polish Development Fund (PFR) until August 2021, guarantees issued by BGK, and Shield 4.0). At the same time, it contributed to and adopted the second moratorium developed by the banking sector under the auspices of the Polish Bank Association, which laid down uniform rules for offering tools to aid those customers.

## Credit risk management committees

Consolidated credit risk oversight at Santander Bank Polska Group is performed by the **Credit Risk Committee (CRC)**. Its key responsibilities include development and approval of the best sectoral practice, industry analyses, credit policies, individual credit discretion systems and risks grading systems. The CRC also receives advanced credit portfolio analyses and recommends to the Management Board credit risk appetite limits to ensure balanced and safe growth of the credit portfolio.

The Bank also has three committees referred to as Credit Policy Forums, which deal with the key customer segments: **Retail segment, SME segment and the Business and Corporate segment**. These committees are responsible for shaping the credit policy and processes within their respective segments. If needed, their decisions may be escalated to the Credit Risk Committee.

In turn, oversight over credit risk models and the risk valuation methodology is the responsibility of the **Models Risk Management Committee**.

## Risk Management Division

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.

## Credit Policies

Credit policies refer to particular business segments, loan portfolios and banking products. They contain guidelines for the identification of the areas where specific types of risks manifest



themselves, specifying the methods of their measurement and mitigation to the level acceptable to the bank (e.g. "Loan-to-Value" ratios, FX risk in the case of foreign currency loans).

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

## Credit Decision Making Process

As part of risk management, the credit decision making process is based upon individual credit discretions commensurate with employees' knowledge and experience in relation to individual business segments. Exposures in excess of PLN 50m are referred to the Credit Committee composed of senior managers. Transactions above stated thresholds (from PLN 48.75m to PLN 195m, depending on the transaction type) are additionally signed off by the Management Board's Risk Management Committee.

The Group strives to provide credit service of the highest quality while satisfying the borrowers' expectations and ensuring security of the credit portfolio. To this end, the existing system of credit discretions ensures segregation of the credit risk approval function from the sales function.

## Credit Grading

Santander Bank Polska Group develops its credit risk assessment tools, adapting them to the KNF's guidelines, International Accounting Standards/ International Financial Reporting Standards (IAS/IFRS) and best market practice.

The Group uses credit risk grading models for most credit portfolios, including corporate customers, SMEs, home loans, property loans, cash loans, credit cards and personal overdrafts.

The Group monitors credit grading in accordance with the rules described in the lending manuals. Additionally, for selected models, credit grade is automatically verified based on the

number of days past due or an analysis of behavioural factors. Credit grade is also verified at subsequent credit assessments.

## Credit Reviews

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

## Collateral

In the Group's security model, the Collateral and Credit Agreements Department is the central unit responsible for creation and maintenance of securities. The Security Manual as a procedure describing legal standards for the application of collateral security is managed by the Legal and Compliance Division. The Collateral and Credit Agreements Department is the owner of the security contract templates.

The role of the department is to ensure that security covers are duly established and held effective in line with the lending policy for all business segments. The unit is also responsible for developing standardised internal procedures with respect to perfecting and maintaining validity of collateral as well as ensuring that establishment, monitoring and release of security covers is duly effected.

Furthermore, the Collateral and Credit Agreements Department provides assistance to credit units in credit decision making and development of credit policies with respect to collateral. The unit gathers data on collateral and ensures appropriate management information. The tables below show types of collateral that can be used to secure loans and advances to customers from non-banking sector.

### Retail customers

Type of loan/receivables	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 accounts; court registered pledge on movables; transfer of ownership, mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee)

### Business customers

Type of loan/receivables	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 accounts; court registered pledge on movables; transfer of ownership, mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee)

## Collateral management process

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

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

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

- verification of signed collateral documentation received from law firms, whether complete and compliant with the Bank's internal procedures (verification carried out before or immediately after disbursement);
- registration and verification of the data in information systems,
- collateral monitoring and reporting,

- reporting on the status of collateral by segments
- releasing of the security.

In managing its receivables, Santander Bank Polska Group carries out the process of collateral execution. Selection of proper action towards execution 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 execution. When there is no evidence of cooperation with a collateral provider, the Group's rights are fulfilled in compliance with the law and internal regulations in the bankruptcy and enforcement proceedings.

## Financial effect of the collateral

The financial effect of the accepted collateral was calculated as a change in the credit loss allowance as a result of exclusion of the cash flow from collateral (non-performing exposures are assessed on a case-by-case basis). For other portfolios (mortgage, SME and corporate loans), this effect was calculated by adjusting the LGD parameter to the level observed for particular clients on unsecured products.

The table below present financial effect of collateral of Santander Bank Polska Group as at 31.12.2021:

31.12.2020

Financial effect of collateral	Gross Amount	Allowance for impairment	Financial effect of collateral
Loans and advances to customers			
individuals	27 794 125	(2 260 518)	(10)
housing loans	56 599 967	(799 862)	(482 576)
business	56 155 127	(2 375 653)	(886 530)
<b>Total balance sheet</b>	<b>140 549 219</b>	<b>(5 436 033)</b>	<b>(1 369 116)</b>
<b>Total off-balance sheet</b>	<b>36 541 487</b>	<b>(60 811)</b>	<b>(7 537)</b>

The table below present financial effect of collateral of Santander Bank Polska Group as at 31.12.2020:

31.12.2020

Financial effect of collateral	Gross Amount	Allowance for impairment	Financial effect of collateral
loans and advances to customers			
housing loans	52 758 103	(779 551)	(447 528)
business	55 235 227	(2 690 790)	(1 199 445)
<b>Total balance sheet</b>	<b>107 993 330</b>	<b>(3 470 341)</b>	<b>(1 646 974)</b>
<b>Total off-balance sheet</b>	<b>34 724 982</b>	<b>(64 541)</b>	<b>(5 763)</b>

## Credit risk stress testing

Stress testing is a part of the credit risk management process used to evaluate potential effects of specific events or movement of a set of financial and macroeconomic variables or change in risk profile on Santander Bank Polska Group's condition. Stress tests are composed of assessment of potential changes in credit portfolio quality when faced with adverse conditions. The process also delivers management information about adequacy of agreed limits and internal capital allocation.

## Impairment calculation

Santander Bank Polska Group makes impairment allowances in accordance with International Financial Reporting Standard 9 (IFRS 9). IFRS 9 introduced a new approach to the estimation of allowances for credit losses. The approach is based on estimation of the expected credit loss (ECL). ECL allowances reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money; and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at an amount equal to

a 12-month ECL or the lifetime ECL, when it is deemed there has been a significant increase in credit risk since initial recognition. Accordingly, the ECL model gives rise to measurement uncertainty, especially in relation to:

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

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

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

Lifetime expected losses are recognised also for the exposures classified as POCI (purchased or originated credit-impaired). Such an asset is created when an impaired asset is recognized, and the POCI classification is maintained throughout the life of the asset.

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 from KNF and EBA.

The rules for including past due in the identification of default are in line with the EBA Guidelines on the application of the definition of default and with the Regulation of the Minister of Finance, Investments and Development on the materiality level of past due credit obligations.

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 regular 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.

The tables below present Santander Bank Polska Group's exposure to credit risk.

Assets have been classified into respective risk grades based on the one-year probability of default arising from current credit rating (business customers) or score (personal customers) used for the purpose of business processes or, if not available, based on the one-year probability of default used for calculation of expected credit losses. Non-impaired assets (stages 1 and 2) have been divided into five categories (very good, good, average, acceptable, weak).

Limits of individual categories depend on the type of receivables, are presented in the table below:

Thresholds defining risk grades based on the probability of default for:

Risk grades levels	individuals	housing loans	business
very good	[0%-1%]	[0%-0.05%]	[0%-0.2%]
good	[1%-2.5%]	[0.05%-0.25%]	[0.2%-0.75%]
average	[2.5%-7.5%]	[0.25%-0.5%]	[0.75%-2%]
acceptable	[7.5%-15%]	[0.5%-2%]	[2%-7.5%]
weak	[15%-100%]	[2%-100%]	[7.5%-100%]

Stage 1	Risk level according to rating groups	Loans and advances to customers measured at amortised cost				Contingent liabilities – granted
		individuals	housing loans	business	Total	
31.12.2021						
	very good	5 844 672	25 354 908	23 084 816	54 284 396	14 591 065
	good	7 332 000	21 617 427	17 300 704	46 250 131	19 955 490
	average	6 640 821	3 300 441	13 639 114	23 580 376	8 079 362
	acceptable	4 402 036	2 275 194	2 890 841	9 568 071	1 839 491
	weak	440 865	1 142 317	1 518 359	3 101 541	112 515
<b>Stage 1 – Gross amount</b>		<b>24 660 394</b>	<b>53 690 287</b>	<b>58 433 834</b>	<b>136 784 515</b>	<b>44 577 923</b>
<b>Other</b>					<b>58 372</b>	
Impairment					(694 132)	(35 491)
<b>Net amount</b>					<b>136 148 755</b>	<b>44 542 432</b>

Stage 2		Loans and advances to customers measured at amortised cost				Contingent liabilities – granted
31.12.2021	Risk level according to rating groups	individuals	housing loans	business	Total	
	very good	2 465	45 766	289 281	337 512	32 169
	good	21 200	160 633	387 321	569 154	26 637
	average	61 155	147 769	977 407	1 186 331	136 541
	acceptable	212 648	284 102	1 229 949	1 726 699	385 818
	weak	936 017	590 741	2 071 911	3 598 669	311 472
<b>Stage 2 – Gross amount</b>		<b>1 233 485</b>	<b>1 229 011</b>	<b>4 955 869</b>	<b>7 418 365</b>	<b>892 637</b>
<b>Other</b>						
	Impairment				(594 211)	(9 251)
<b>Net amount</b>					<b>6 824 154</b>	<b>883 386</b>

Stage 3 and POCI		Loans and advances to customers measured at amortised cost				Contingent liabilities – granted
31.12.2021	Risk level according to rating groups	individuals	housing loans	business	Total	
	very good	–	–	–	–	–
	good	–	–	–	–	–
	average	5	–	2	7	–
	acceptable	–	–	–	–	–
	weak	2 693 466	968 650	3 265 459	6 927 575	68 532
<b>Stage 3 – Gross amount</b>		<b>2 693 471</b>	<b>968 650</b>	<b>3 265 461</b>	<b>6 927 582</b>	<b>68 532</b>
Stage 3 – Impairment					(4 356 659)	(16 069)
<b>POCI</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>635 202</b>	
Impairment-POCI					(212 291)	
<b>Net amount</b>					<b>2 993 834</b>	<b>52 463</b>

Stage 1		Loans and advances to customers measured at amortised cost				Contingent liabilities – granted
31.12.2020	Risk level according to rating groups	individuals	housing loans	business	Total	
	very good	9 228 957	24 090 985	1 886 000	35 205 942	18 956 702
	good	11 515 934	20 109 863	18 756 233	50 382 030	14 747 408
	average	7 588 474	3 200 608	21 707 073	32 496 155	6 447 705
	acceptable	625 562	1 814 131	6 147 442	8 587 135	1 086 026
	weak	258 547	716 789	1 058 149	2 033 485	84 611
<b>Stage 1 – Gross amount</b>		<b>29 217 474</b>	<b>49 932 376</b>	<b>49 554 897</b>	<b>128 704 747</b>	<b>41 322 452</b>
<b>Other</b>						
	Impairment				(385 313)	(25 609)
<b>Net amount</b>					<b>128 346 099</b>	<b>41 296 843</b>

31.12.2020	Risk level according to rating groups	Loans and advances to customers measured at amortised cost				Contingent liabilities - granted
		individuals	housing loans	business	Total	
	very good	123 548	46 871	56 554	226 973	3 875
	good	57 817	127 707	24 184	209 708	27 394
	average	295 046	169 316	207 280	671 642	137 435
	acceptable	691 367	399 728	1 475 865	2 566 960	412 741
	weak	697 866	1 075 546	3 209 009	4 982 421	284 591
<b>Stage 2 – Gross amount</b>		<b>1 865 645</b>	<b>1 819 167</b>	<b>4 972 892</b>	<b>8 657 704</b>	<b>866 036</b>
Other						
Impairment					(801 265)	(12 146)
<b>Net amount</b>					<b>7 856 439</b>	<b>853 890</b>

31.12.2020	Risk level according to rating groups	Loans and advances to customers measured at amortised cost				Contingent liabilities - granted
		individuals	housing loans	business	Total	
	very good	-	-	-	-	-
	good	-	-	-	-	-
	average	-	276	-	276	-
	acceptable	-	-	-	-	-
	weak	3 293 119	957 911	3 459 380	7 710 410	122 411
<b>Stage 3 – Gross amount</b>		<b>3 293 119</b>	<b>958 187</b>	<b>3 459 380</b>	<b>7 710 686</b>	<b>122 411</b>
Stage 3 – Impairment					(4 666 097)	(26 786)
<b>POCI</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>725 705</b>	
Impairment-POCI					(221 470)	-
<b>Net amount</b>					<b>3 548 824</b>	<b>95 625</b>

The tables below present the quality of 'Loans and advances to business customers measured at fair value through other

comprehensive income' broken down into stages as at 31.12.2021 and in the comparative period:

31.12.2021	Risk level according to rating groups	Loans and advances to customers measured at fair value through OCI			
		Stage 1	Stage 2	Stage 3	Total
	very good	-	-	-	-
	good	1 332 096	-	-	1 332 096
	average	400 799	-	-	400 799
	acceptable	-	-	-	-
	weak	-	-	-	-
<b>Gross amount</b>		<b>1 732 895</b>	<b>-</b>	<b>-</b>	<b>1 732 895</b>
Impairment		(3 047)	-	-	(3 047)
<b>Net amount</b>		<b>1 729 848</b>	<b>-</b>	<b>-</b>	<b>1 729 848</b>

## Loans and advances to customers measured at fair value through OCI

31.12.2020	Risk level according to rating groups	Stage 1	Stage 2	Stage 3	Total
	very good	-	-	-	-
	good	1 208 122	-	-	1 208 122
	average	200 798	-	-	200 798
	acceptable	-	-	-	-
	weak	-	-	199 392	199 392
<b>Gross amount</b>		<b>1 408 920</b>	<b>-</b>	<b>199 392</b>	<b>1 608 312</b>
Impairment		(1 292)	-	(50 229)	(51 521)
<b>Net amount</b>		<b>1 407 628</b>	<b>-</b>	<b>149 163</b>	<b>1 556 791</b>

The tables below present the quality of financial assets of Santander Bank Polska Group broken down into stages and by ratings as at 31.12.2021 and in the comparative period:

## Stage 1

31.12.2021	Loans and advances to banks	Loans and advances to customers – Debt securities measured at amortised cost	Debt and equity securities measured at fair value through other comprehensive income	Debt investment securities measured at amortised cost	Debt and equity securities measured at fair value through profit or loss	Financial assets held for trading
<b>Credit quality level *</b>						
1 (AAA to AA-)	143 300	-	1 379 157	-	120 404	-
2 (A+ to A-)	2 237 140	-	68 682 163	1 421 272	-	307 684
3 (BBB+ to BBB-)	188 622	-	-	-	-	3 510
4 (BB+ to BB-)	40	-	-	-	-	-
5 (B+ to B-)	16	-	-	-	-	-
6 (<B-)	-	-	-	-	-	-
<b>none</b>	<b>121 134</b>	<b>173 052</b>	<b>259 788</b>	<b>-</b>	<b>-</b>	<b>50 485</b>
<b>Total Stage 1</b>	<b>2 690 252</b>	<b>173 052</b>	<b>70 321 108</b>	<b>1 421 272</b>	<b>120 404</b>	<b>361 679</b>

\* according to Fitch

There are no instruments in Stage 2 as at 31 December 2021.

## Stage 3

31.12.2021	Loans and advances to banks	Loans and advances to customers – Debt securities measured at amortised cost	Debt and equity securities measured at fair value through other comprehensive income	Debt investment securities measured at amortised cost	Debt and equity securities measured at fair value through profit or loss	Financial assets held for trading
<b>Credit quality level *</b>						
1 (AAA to AA-)	-	-	-	-	-	-
2 (A+ to A-)	-	-	-	-	-	-
3 (BBB+ to BBB-)	-	-	-	-	-	-
4 (BB+ to BB-)	-	-	-	-	-	-
5 (B+ to B-)	-	-	-	-	-	-
6 (<B-)	-	-	-	-	-	-
<b>none</b>	<b>-</b>	<b>217 882</b>	<b>3 476</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Stage 3</b>	<b>-</b>	<b>217 882</b>	<b>3 476</b>	<b>-</b>	<b>-</b>	<b>-</b>

\* according to Fitch



## Stage 1

31.12.2020	Loans and advances to banks	Loans and advances to customers – Debt securities measured at amortised cost	Debt and equity securities measured at fair value through other comprehensive income	Debt and equity securities measured at fair value through profit or loss	Financial assets held for trading
<b>Credit quality level *</b>					
1 (AAA to AA-)	131 638	–	850 966	226 051	–
2 (A+ to A-)	2 252 946	–	64 849 086	–	158 166
3 (BBB+ to BBB-)	522 783	–	–	–	2 061
4 (BB+ to BB-)	–	–	–	–	–
5 (B+ to B-)	324	–	–	–	–
6 (<B-)	–	–	–	–	–
<b>none</b>	<b>18 831</b>	<b>41 210</b>	<b>857 331</b>	<b>–</b>	<b>18 571</b>
<b>Total Stage 1</b>	<b>2 926 522</b>	<b>41 210</b>	<b>66 557 383</b>	<b>226 051</b>	<b>178 799</b>

\* according to Fitch

## Stage 2

31.12.2020	Loans and advances to banks	Loans and advances to customers – Debt securities measured at amortised cost	Debt and equity securities measured at fair value through other comprehensive income	Debt and equity securities measured at fair value through profit or loss	Financial assets held for trading
<b>Credit quality level *</b>					
1 (AAA to AA-)	–	–	–	–	–
2 (A+ to A-)	–	–	–	–	–
3 (BBB+ to BBB-)	–	–	–	–	–
4 (BB+ to BB-)	–	–	–	–	–
5 (B+ to B-)	–	–	–	–	–
6 (<B-)	–	–	–	–	–
<b>none</b>	<b>–</b>	<b>6 667</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total Stage 2</b>	<b>–</b>	<b>6 667</b>	<b>–</b>	<b>–</b>	<b>–</b>

\* according to Fitch

## Stage 3

31.12.2020	Loans and advances to banks	Loans and advances to customers – Debt securities measured at amortised cost	Debt and equity securities measured at fair value through other comprehensive income	Debt and equity securities measured at fair value through profit or loss	Financial assets held for trading
<b>Credit quality level *</b>					
1 (AAA to AA-)	–	–	–	–	–
2 (A+ to A-)	–	–	–	–	–
3 (BBB+ to BBB-)	–	–	–	–	–
4 (BB+ to BB-)	–	–	–	–	–
5 (B+ to B-)	–	–	–	–	–
6 (<B-)	–	–	–	–	–
<b>none</b>	<b>–</b>	<b>282 964</b>	<b>7 492</b>	<b>–</b>	<b>–</b>
<b>Total Stage 3</b>	<b>–</b>	<b>282 964</b>	<b>7 492</b>	<b>–</b>	<b>–</b>

\* according to Fitch

Loans and advances to banks are assessed using ratings. The assessment method was set out in the Group's internal regulations. Each institutional client (exposure) is assigned a rating by one of the reputable rating agencies (Fitch, Moody's, S&P), in accordance with the CRR. Then, a relevant grade is allocated to the client. There are no overdue or impaired loans and advances to banks.

Financial instruments are assessed in accordance with the sovereign rating (treasury bonds, securities issued by the National Bank of Poland [NBP], Bank Gospodarstwa Krajowego [BGK] debt instruments). The sovereign rating is the same as the NBP/BGK rating. All have the same rating as Poland, according to Fitch it is A-

For all instruments presented above (including also loans and advances to customers measured at fair value through other comprehensive income), there is no overdue or impairment, therefore they are classified to Stage 1. In accordance with its definition – as exposures with no significant increase in risk since initial recognition, i.e. the likelihood of the exposure being downgraded to the impaired portfolio (Stage 3) has not increased. For such exposures, 12-month expected credit losses will be recognized.

The significant majority of exposures at fair value through profit or loss (95% of the credit card portfolio) was rated 'average' or above (good, very good).

## Credit exposures with assistance tools due to COVID-19

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

The range of tools included:

- 1) debt moratoria resulting from the banks' position regarding the unification of the rules for offering aid tools to clients of

the banking sector (i.e. non-legislative moratorium within the meaning of the guidelines of the European Banking Authority (EBA)),

- 2) Anti-Crisis Shield 4.0. (legislative moratoria);
- 3) financing to stabilize the liquidity situation, under which BGK collaterals were used;

The table below presents data on the assistance tools provided by the Group as part of initiatives aimed at mitigating the negative effects of the COVID-19 epidemic as at 31 December 2021.

Type of assistance tool	Number of clients with granted assistance tools	Gross carrying amount of granted assistance tools (kPLN)
non-legislative moratoria	146 809	16 110 055
legislative moratoria	3 681	250 187
<b>Moratoria</b>	<b>150 490</b>	<b>16 360 242</b>
liquidity BGK	20 670	5 103 184
<b>All assistance tools</b>	<b>171 160</b>	<b>21 463 426</b>

The table below shows the size of the provided assistance tools in the form of statutory and non-statutory moratoria as at 31 December 2021.

				Gross carrying amount					
	Granted	Expired	Active	Performing			Non performing		
				Of which: exposures with forbearance measures	Of which: Instruments with SICR but not credit-impaired (Stage 2)			Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days
<b>Loans and advances subject to moratorium</b>	<b>16 360 242</b>	<b>16 360 240</b>	<b>2</b>	<b>15 151 134</b>	<b>1 225 689</b>	<b>2 407 265</b>	<b>1 209 108</b>	<b>576 487</b>	<b>688 955</b>
<b>of which: Households</b>	<b>7 150 734</b>	<b>7 150 732</b>	<b>2</b>	<b>6 402 190</b>	<b>168 711</b>	<b>483 166</b>	<b>748 544</b>	<b>368 709</b>	<b>420 210</b>
Santander Bank Polska	6 421 603	6 421 603	-	5 826 145	168 533	367 330	595 458	358 109	373 526
Santander Consumer Bank	729 126	729 124	2	576 040	178	115 836	153 086	10 600	46 684
Santander Leasing	5	5	-	5	-	-	-	-	-
<b>Collateralised by residential immovable property</b>	<b>5 368 497</b>	<b>5 368 497</b>	<b>-</b>	<b>5 065 225</b>	<b>123 915</b>	<b>309 739</b>	<b>303 272</b>	<b>224 539</b>	<b>258 512</b>
Santander Bank Polska	5 099 241	5 099 241	-	4 822 221	123 915	275 643	277 020	222 849	240 899
Santander Consumer Bank	269 256	269 256	-	243 004	-	34 096	26 252	1 690	17 613
<b>Consumer loans</b>	<b>1 782 237</b>	<b>1 782 235</b>	<b>2</b>	<b>1 336 965</b>	<b>44 796</b>	<b>173 427</b>	<b>445 272</b>	<b>144 170</b>	<b>161 698</b>
Santander Bank Polska	1 322 362	1 322 362	-	1 003 924	44 618	91 687	318 438	135 260	132 627
Santander Consumer Bank	459 870	459 868	2	333 036	178	81 740	126 834	8 910	29 071
Santander Leasing	5	5	-	5	-	-	-	-	-
<b>of which: Non-financial corporations</b>	<b>9 209 508</b>	<b>9 209 508</b>	<b>-</b>	<b>8 748 944</b>	<b>1 056 977</b>	<b>1 924 099</b>	<b>460 564</b>	<b>207 778</b>	<b>268 745</b>
Santander Bank Polska	7 784 261	7 784 261	-	7 405 030	1 056 977	1 700 619	379 231	207 778	224 343
Santander Consumer Bank	301 169	301 169	-	297 298	-	5 267	3 871	-	659
Santander Leasing	1 124 078	1 124 078	-	1 046 616	-	218 213	77 462	-	43 743
<b>SME loans</b>	<b>2 065 106</b>	<b>2 065 106</b>	<b>-</b>	<b>1 803 814</b>	<b>83 099</b>	<b>256 835</b>	<b>261 292</b>	<b>95 651</b>	<b>119 251</b>
Santander Bank Polska	1 765 638	1 765 638	-	1 518 019	83 099	239 495	247 619	95 651	112 877
Santander Consumer Bank	223 621	223 621	-	219 907	-	5 267	3 714	-	502
Santander Leasing	75 847	75 847	-	65 888	-	12 073	9 959	-	5 872
<b>Corporate loans</b>	<b>7 144 402</b>	<b>7 144 402</b>	<b>-</b>	<b>6 945 130</b>	<b>973 878</b>	<b>1 667 264</b>	<b>199 272</b>	<b>112 127</b>	<b>149 494</b>
Santander Bank Polska	6 018 623	6 018 623	-	5 887 011	973 878	1 461 124	131 612	112 127	111 466
Santander Consumer Bank	77 548	77 548	-	77 391	-	-	157	-	157
Santander Leasing	1 048 231	1 048 231	-	980 728	-	206 140	67 503	-	37 871

Data for Santander Consumer Bank concern whole SCB Group

## Accumulated impairment, accumulated negative changes in fair value due to credit risk

	Gross carrying amount of granted moratoria	Accumulated impairment	Performing			Non performing		
			Of which: exposures with forbearance measures	Of which: Instruments with SICR but not credit-impaired (Stage 2)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days	
<b>Loans and advances subject to moratorium</b>	<b>16 360 242</b>	<b>(857 099)</b>	<b>(233 594)</b>	<b>(85 106)</b>	<b>(160 932)</b>	<b>(623 505)</b>	<b>(257 956)</b>	<b>(292 420)</b>
<b>of which: Households</b>	<b>7 150 734</b>	<b>(485 599)</b>	<b>(86 713)</b>	<b>(9 919)</b>	<b>(46 742)</b>	<b>(398 886)</b>	<b>(167 652)</b>	<b>(185 897)</b>
Santander Bank Polska	6 421 603	(355 133)	(56 641)	(9 918)	(25 545)	(298 492)	(160 931)	(158 749)
Santander Consumer Bank	729 126	(130 466)	(30 072)	(1)	(21 197)	(100 394)	(6 721)	(27 148)
Santander Leasing	5	-	-	-	-	-	-	-
<b>Collateralised by residential immovable property</b>	<b>5 368 497</b>	<b>(122 316)</b>	<b>(19 623)</b>	<b>(3 634)</b>	<b>(12 188)</b>	<b>(102 693)</b>	<b>(73 757)</b>	<b>(86 198)</b>
Santander Bank Polska	5 099 241	(104 151)	(15 886)	(3 634)	(9 161)	(88 265)	(72 976)	(76 866)
Santander Consumer Bank	269 256	(18 165)	(3 737)	-	(3 027)	(14 428)	(781)	(9 332)
<b>Consumer loans</b>	<b>1 782 237</b>	<b>(363 283)</b>	<b>(67 090)</b>	<b>(6 285)</b>	<b>(34 554)</b>	<b>(296 193)</b>	<b>(93 895)</b>	<b>(99 699)</b>
Santander Bank Polska	1 322 362	(250 982)	(40 755)	(6 284)	(16 384)	(210 227)	(87 955)	(81 883)
Santander Consumer Bank	459 870	(112 301)	(26 335)	(1)	(18 170)	(85 966)	(5 940)	(17 816)
Santander Leasing	5	-	-	-	-	-	-	-
<b>of which: Non-financial corporations</b>	<b>9 209 508</b>	<b>(371 500)</b>	<b>(146 881)</b>	<b>(75 187)</b>	<b>(114 190)</b>	<b>(224 619)</b>	<b>(90 304)</b>	<b>(106 523)</b>
Santander Bank Polska	7 784 261	(335 320)	(140 066)	(75 187)	(110 211)	(195 254)	(90 304)	(95 244)
Santander Consumer Bank	301 169	(3 769)	(1 426)	-	(131)	(2 343)	-	(427)
Santander Leasing	1 124 078	(32 411)	(5 389)	-	(3 848)	(27 022)	-	(10 852)
<b>SME loans</b>	<b>2 065 106</b>	<b>(224 220)</b>	<b>(52 743)</b>	<b>(13 181)</b>	<b>(33 688)</b>	<b>(171 477)</b>	<b>(66 723)</b>	<b>(73 067)</b>
Santander Bank Polska	1 765 638	(216 594)	(51 203)	(13 181)	(33 316)	(165 391)	(66 723)	(71 311)
Santander Consumer Bank	223 621	(3 476)	(1 160)	-	(131)	(2 316)	-	(400)
Santander Leasing	75 847	(4 150)	(380)	-	(241)	(3 770)	-	(1 356)
<b>Corporate loans</b>	<b>7 144 402</b>	<b>(147 280)</b>	<b>(94 138)</b>	<b>(62 006)</b>	<b>(80 502)</b>	<b>(53 142)</b>	<b>(23 581)</b>	<b>(33 456)</b>
Santander Bank Polska	6 018 623	(118 726)	(88 863)	(62 006)	(76 895)	(29 863)	(23 581)	(23 933)
Santander Consumer Bank	77 548	(293)	(266)	-	-	(27)	-	(27)
Santander Leasing	1 048 231	(28 261)	(5 009)	-	(3 607)	(23 252)	-	(9 496)

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

### Credit risk concentration

Santander Bank Polska Group adheres to the standards provided for in the Banking Law with regard to the concentration of risk bearing exposures to a single entity or a group of entities connected in terms of capital or organisation. As at 31.12.2021, pursuant to art. 71 of the Banking Law Act, the maximum limits for the Group amounted to:

→ PLN 6,279,286 k (25% of Group's own funds).

As at 31.12.2020, pursuant to art. 71 of the Banking Law Act, the maximum limits for the Group amounted to:

→ PLN 6,775,402 k (25% of Group's own funds).

The policy pursued by the Group aims at minimising the credit concentration risk, by for example applying more rigorous than regulatory rules in this respect. The effect of this policy is maintenance of high level of diversification of exposures towards individual customers.

The analysis of the Group's exposures in terms of sector concentrations, proved that the Group does not have any exposures in excess of the limits imposed by the regulator in 2020.

A list of the 20 largest borrowers (or capital-related group of borrowers) of Santander Bank Polska Group (performing loans) as at 31.12.2021.

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
35	POWER INDUSTRY	1 875 000	–	1 875 000
61	TELECOMMUNICATION	1 690 600	1 052 200	638 400
64	OTHER FINANCIAL SERVICES	1 499 580	447 580	1 052 000
61	TELECOMMUNICATION	1 400 340	388 940	1 011 400
06	MINING	1 334 520	1 250 020	84 500
65	REINSURANCE	1 101 640	740 760	360 880
68	REAL ESTATE SERVICES	1 029 780	977 350	52 430
35	POWER INDUSTRY	981 300	175 610	805 690
19	REFINERY	900 990	–	900 990
68	REAL ESTATE SERVICES	836 450	585 220	251 230
56	OTHER SERVICES	717 400	572 890	144 510
19	REFINERY	714 320	76 320	638 000
19	REFINERY	601 210	–	601 210
41	CONSTRUCTION	559 500	–	559 500
41	CONSTRUCTION	558 020	496 530	61 490
64	OTHER FINANCIAL SERVICES	550 000	–	550 000
20	CHEMICAL INDUSTRY	524 170	29 120	495 050
07	MINING	454 920	–	454 920
41	CONSTRUCTION	451 960	378 840	73 120
20	CHEMICAL INDUSTRY	440 430	386 430	54 000
<b>Total gross exposure</b>		<b>18 222 130</b>	<b>7 557 810</b>	<b>10 664 320</b>

A list of the 20 largest borrowers (or capital-related group of borrowers) of Santander Bank Polska Group (performing loans) as at 31.12.2020.

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
35	POWER INDUSTRY	1 875 000	–	1 875 000
61	TELECOMMUNICATION	1 630 420	1 157 140	473 280
64	OTHER FINANCIAL SERVICES	1 500 000	–	1 500 000
06	MINING	1 304 520	20	1 304 500
19	REFINERY	1 159 970	567 040	592 930
68	REAL ESTATE SERVICES	1 075 060	1 022 450	52 610
65	REINSURANCE	1 050 810	658 560	392 250
35	POWER INDUSTRY	985 000	296 400	688 600
68	REAL ESTATE SERVICES	843 680	501 810	341 870
56	OTHER SERVICES	757 360	567 400	189 960
41	CONSTRUCTION	729 500	–	729 500
35	POWER INDUSTRY	724 320	–	724 320
61	TELECOMMUNICATION	631 620	499 620	132 000
47	RETAIL SALES	625 960	446 100	179 860
41	CONSTRUCTION	583 490	521 790	61 700
64	OTHER FINANCIAL SERVICES	550 000	–	550 000
68	REAL ESTATE SERVICES	501 520	413 060	88 460
64	OTHER FINANCIAL SERVICES	499 900	447 900	52 000
07	MINING	475 640	–	475 640
70	CONSULTING	447 380	403 120	44 260
<b>Total gross exposure</b>		<b>17 951 150</b>	<b>7 502 410</b>	<b>10 448 740</b>

## Industry concentration

The credit policy of Santander Bank Polska Group assumes diversification of credit exposures. Risk of particular industry affects value of the exposure limit. In order to ensure adequate portfolio diversification and control the risk of overexposure to a single industry, the Group provides funding to sectors and

groups or capital units representing a variety of industries.

As at 31.12.2021, the highest concentration level was recorded in the "manufacturing" sector (11% of the Santander Bank Polska Group exposure), "distribution" (10%) and "property" (7%).

## Groups of PKD by industries:

Industry	Gross exposure	
	31.12.2021	31.12.2020
Manufacturing	17 728 361	15 788 888
Distribution	16 427 676	14 710 131
Property	8 510 502	9 662 269
Energy	4 324 956	3 899 942
Transportation	3 586 606	2 776 831
Agriculture	2 790 830	2 973 004
Construction	2 021 929	1 686 964
Financial sector	1 664 713	3 108 555
Other industries	9 592 830	8 745 148
<b>A Total Business Loans</b>	<b>66 648 403</b>	<b>63 351 732</b>
<b>B Retail (including mortgage loans)</b>	<b>85 126 409</b>	<b>82 447 109</b>
<b>A+B Santander Bank Polska Group portfolio</b>	<b>151 774 812</b>	<b>145 798 841</b>
<b>C Other receivables (commercial bonds)</b>	<b>49 224</b>	<b>26 665</b>
<b>A+B+C Total Santander Bank Polska Group</b>	<b>151 824 036</b>	<b>145 825 506</b>

## Climate related risk

Climate and environmental protection are key areas under the Responsible Banking Strategy of Santander Bank Polska S.A. One of the pillars of the Strategy is Green Banking, whose overarching goal is to counteract the effects of climate change. As part of its activities, the Bank is committed to:

- offering green products and solutions;
- undertaking educational initiatives addressed to customers, employees and local communities;
- implementing internal initiatives aimed at reducing the bank's environmental footprint.

The Bank supports customers in implementing long-term strategies to transform their businesses to make them more environmentally friendly and sustainable. Santander Bank Polska S.A. actively participates in the green transformation of the Polish energy sector, and in the upcoming years will continue financing the transition from coal-based to renewable energy. As one of Poland's largest banks, Santander Bank Polska S.A. is aware of its role in the transformation of the Polish economy and the importance of its actions, policies and lending for that process.

At Santander Bank Polska S.A. environmental matters are embedded in decision-making processes. The ESG (environmental, social, governance) guidelines are used for evaluating the assets to be financed by the Bank.

More broadly, issues related to climate goals, climate policy as well as initiatives and actions taken by the Bank and the Group are described in the Management Board Report on Santander Bank Polska Group Performance in 2021 (including Report on Santander Bank Polska Performance) chapter XIV "Statement on Non-Financial Information for 2021".

The Bank and the Group entities considered the climate-related risks when preparing the financial statements in accordance with International Financial Reporting Standards, and where necessary, the Standards were applied in a manner that takes this into account.

The subject of the considerations was, in particular, the impact of environmental issues on the Bank and the Group's entities in the context of the application of:

- IAS 1: Presentation of Financial Statements
- IAS 12: Income Taxes
- IAS 36: Impairment of Assets
- IFRS 9: Financial Instruments
- IFRS 13: Fair Value
- IAS 37: Provisions, Contingent Liabilities and Contingent Assets

At the same time, based on the conducted analysis, no significant impact of environmental issues on the financial statements as a whole was found.

## ESG risk management as part of the risk management framework

Santander Bank Polska S.A. recognises that environmental and climate-related risks may affect the bank's operations in the medium to long term. Risks result from factors related to the physical effects of climate change (caused by one-off events as well as by chronic changes in the environment), as well as from factors embedded in the transition to the growth model characterised by lower emissions with changes in legislation and technology, and in behaviours of business entities. Climate risk is one of the key risks that have been identified as having adverse impact on the Bank's reputation among its employees, customers, shareholders/investors, and communities.

Since 2015, ESG governance has been regulated by appropriate policies. The Bank has been consistently introducing ESG risk management procedures in all its business lines, and has identified social and environmental risks (including climate risks) related to financing customers from sensitive sectors. With regard to its largest clients (from the Business and Investment Banking segment), the Bank has conducted an analysis and prepared a roadmap to transforming coal-based power generation services into low-emission energy sources.

The Bank analyses the impact of climate-related opportunities and threats on its business, strategy and financial plans in the short, medium and long term. When taking credit decisions, the Bank is aware that relying solely on historical financial data may lead to misguided conclusions. But if this process is supported by an analysis of non-financial data, this may shed new light on risk perception and capital allocation. In the opinion of Santander Bank Polska S.A. the environmental risk analysis enhances the traditional credit risk analysis, and non-financial data permit a better understanding of the borrower's exposure to environmental and climate change risks.

Better quality of available non-financial data means better quality of risk analysis, which in turn helps lower costs for the Bank and borrowers. In 2022, Santander Bank Polska S.A. is going to implement the Sustainable Finance Identification System for selected customer segments (largest customers, mortgage and leasing customers).

The Group has identified the following climate-related risk factors as having an impact on the Group's financial instruments and included them in its principal risk management processes.

– **Industries exposed to increased transition risks:** The Group has identified industries that are subject to increased risk of climate regulation negatively affecting their business model. The Group Credit Committee has set overall lending limitation for these industries.

– **Physical risk to real estate:** The Group has identified areas in which it operates that are exposed to increased physical risk such as hurricanes or floods. Heightened physical risk is considered in valuing collateral, such as real estate, plant or inventory. Stress Test relating this risk is under preparation, and should be executed Q3 2022.

## Responsibility for ESG risk management

The responsibility for planning the activities of Santander Bank Polska S.A. under the Responsible Banking strategy rests with the ESG Forum, which is chaired by the Bank's CEO, and consists of 11 representatives of all divisions of the Bank. The Forum's role is to analyse challenges, opportunities and risks related to the EU Sustainable Finance agenda, including ESG risks, and to plan activities, and coordinate their implementation at the Bank.

The ESG Forum regularly reports the results of its work to the Bank's Management Board and, twice a year, to the Responsible Banking and Organisational Culture Committee.

The Bank's Management Board is responsible for supervising and approving the responsible banking strategy and ensuring that ESG criteria are reflected in the Bank's overall business strategy (in the short-, medium- and/or long term), and in the risk management framework.

At Santander Bank Polska S.A. all members of the Management Board are responsible for ESG risks. The Risk Management

Division acts as the second line of defense in ESG risk management.

## 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. 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, 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 Department, 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 and stressed 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 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 risk 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 of Financial Market Area.

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. The relevant desks are responsible for suitable risk activity (interest rate or 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 Financial Market Area.

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 2021 and 2020 are shown in the table below (in PLN m). 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.

1 day holding period	NII Sensitivity		MVE Sensitivity	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Maximum	552	410	832	613
Average	440	334	480	339
as at the end of the period	291	396	356	135
<b>Limit</b>	<b>700</b>	<b>505</b>	<b>875</b>	<b>540</b>

In 2021, the interest rate risk limits, notably the MVE sensitivity limit, were utilised to a larger extent due to dynamic growth in the balance and stable part of the non-interest bearing and non-maturity deposit portfolio resulting from interest rate cuts and inflow of funds as part of state aid schemes connected with the Covid-19 pandemic. The above factors led to the decision to increase the sensitivity limits in July 2021. Since October, the levels of limit utilization have decreased significantly, mainly due to a series of interest rate increases by the Monetary Policy Council and a more realistic modeling of deposits without a maturity date, taking into account the latest history of the massive inflow of funds during the COVID-19 pandemic in the models.

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

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

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

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

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

The table below shows risk measures at the end of 2021 and 2020 for 1-day position holding period (in PLN m):

1 day holding period	VAR	
	31.12.2021	31.12.2020
Average	4 395	3 308
Maximum	19 540	25 900
Minimum	657	658
as at the end of the period	2 703	684
<b>Limit</b>	<b>9 744</b>	<b>6 645</b>

In 2021, the VaR limit for interest rate risk was exceeded in October and November, with a slight excess in December. The excesses resulted from the elevated fluctuations in the interest rate market due to several decisions taken by the Monetary Policy Council to increase the reference rate. When the excesses occurred, the Bank limited its open interest rate position, which was directly reflected in the low utilisation of BPV limits. In addition, the Bank's Market and Investment Risk Committee increased VaR limits for the interest rate risk in the trading book to adapt them to the current market situation. In the first half of the year, the Bank continued handling the pandemic relief programmes of the state development bank BGK and the Polish

Development Fund. As a result, in its trading book the Bank had to maintain temporary positions in bonds issued by the above entities. In those periods, the maximum observed VaR levels above the limit were approved by the Supervisory Board.

FX risk is the risk that adverse movements in foreign exchange rates will have an impact on performance (and result in losses). This risk is managed on the basis of the VaR limit for the open currency positions in the Group's trading portfolio and the portfolio of Santander Brokerage Poland which manages open positions linked to the market maker activity. Stress tests are used in addition to this measure by providing an estimate of the

potential losses in the event of materialisation of the stressed conditions in the market. Stress tests use the currency exposure and the scenarios of extreme movements in currency rates based on historical data. Furthermore, the stop-loss mechanism is used for managing the risk of losses on trading positions.

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

Open FX positions of subsidiaries are negligible and are not included in the daily risk estimation. In the case of Santander Consumer Bank S.A., it has a separate banking license and independently manages risk, which management is controlled by the Market and Investment Risk Committee of Santander Bank Polska.

The table below illustrates the risk measures at the end of December 2021 and 2020 (in PLN m).

FX risk	31.12.2021	31.12.2020
<b>1 day holding period</b>		
Average	614	552
Maximum	2 447	1 935
Minimum	62	80
as at the end of the period	538	294
<b>Limit</b>	<b>3 045</b>	<b>2 769</b>

In 2021, the VaR limit for currency risk was not exceeded.

The tables below present the Group's key FX positions as at 31 December 2021 and in the comparable period.

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

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

The gap in the currency position in CHF results from the surplus of mortgage loans in CHF over deposits in this currency. It is gradually decreasing due to the repayment of the mortgage portfolio. CHF loans are now largely financed using CIRS transactions. On the liabilities side, there was an increase in foreign currency deposits, mainly in EUR.

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

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

The market risk management in Santander Brokerage Poland is supervised by the Market and Investment Risk Committee of Santander Bank Polska S.A. This 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 2021 and 2020 (in PLN m).

Equity risk	VAR	
1 day holding period	31.12.2021	31.12.2020
Average	316	275
Maximum	595	729
Minimum	113	77
as at end of the period	364	240
<b>Limit</b>	<b>1 969</b>	<b>1 846</b>

In 2021, the VaR limit for equity risk was not exceeded.

### Interest Rate Benchmark reform

In connection with the entry into force of the Regulation of the European Parliament of July 2016 (2016/1011) regarding indices used as benchmarks for financial instruments and financial contracts (BMR Regulation) and the decision to terminate by the end of 2021 LIBOR indices calculation by ICE Benchmark Administration Limited (IBA), Santander Bank Polska launched a development program aimed at preparing the Bank for changes resulting from these decisions (IBOR Program).

In particular, the IBOR Program focuses on changes necessary to introduce new products based on interest rate indices compliant with the BMR Regulation, in particular indices replacing the interim LIBOR (mainly GBP, EUR, CHF and USD). At the same time, work is underway to prepare the Bank to introduce changes to transactions concluded with a maturity date / time after December 31, 2021, i.e. after the date of cessation of the LIBOR calculation.

The portfolios of the Bank and its Subsidiaries contain products based on EONIA and LIBOR rates for CHF, EUR, GBP and USD currencies respectively. The largest portfolio are mortgage contracts based on the LIBOR CHF rate (approximately 32 thousand contracts in SBP and approximately 14 thousand contracts in SCB). The second largest portfolio in terms of the number of contracts are mortgage contracts based on EUR LIBOR (approximately 1600 contracts).

According to the announcement issued by the FCA (Financial Conduct Authority) on 5th March 2021, LIBOR rates for all currencies, excluding LIBOR USD, will either cease to be provided by any administrator or no longer be representative at the end of 2021. In the case of LIBOR USD interest rate, all tenors, excluding 1-week and 2-month tenors, will be published until June 30, 2023.

For products based on the LIBOR CHF rate, the European Commission issued a decision, which was published on 14th October 2021 in the form of the Implementing Regulation. The European Commission has designated an alternative rate SARON as a substitute for the CHF LIBOR reference rate. Thanks to the decision issued by the European Commission, there is no need to individually renegotiate individual contracts with the customers. At the end of December 2021, a communication was sent to customers with products based on CHF LIBOR, informing about the application by the Bank of the Implementing Regulation of the European Commission and presenting a description of this solution. From 1st January 2022, all references to CHF LIBOR in

contracts and financial instruments will be automatically replaced with references to the SARON rate. The Spread Adjustment will be applied to minimize the economic impact of introducing the substitute rate due to the difference between the LIBOR CHF and SARON values. The value of this adjustment is equal to the spread published for each relevant maturity and calculated on 5th March 2021 as the historical median of the difference between a given CHF LIBOR rate and the relevant compounded SARON rate over a five-year retrospective period for each given maturity. The replacement will take place automatically from 1st January 2022, and the contracts will be able to be continued without the need for the parties of the contract to intervene. The parties will be able to decide on a bilateral renegotiation of the agreements. In the event that the parties choose to do so, the rate settled in accordance with the Implementing Regulation will not apply.

For products based on the EONIA indicator, the European Commission Implementing Regulation published on 22th October 2021 applies. The Regulation designates the risk-free rate €STR as a substitute rate for the EONIA interest rate. A fixed value of the Spread Adjustment will also be applied between the EONIA and the €STR, in order to minimize the economic impact of introducing the substitute rate due to the difference between the EONIA and the €STR. The Bank's portfolio includes 19 contracts based on the EONIA rate.

For products based on the LIBOR EUR interest rate, the Bank decided to use EURIBOR as an alternative rate. For customers with mortgage loans, the final version of the annex to the contract has been delivered by mid-June 2021, along with the mandatory BMR information package.

For products based on the LIBOR GBP interest rate, the Bank decided to use SONIA as an alternative rate. For the customers with mortgages (9 contracts), the delivery of communication with annexes and the mandatory BMR information package to customers took place in the third quarter of 2021. For contracts without signed annexes, the Bank will apply the last interest rate determined according to the EUR LIBOR rate published in 2021 until the end of the contract term.

For products based on the LIBOR USD interest rate, the Bank decided to use SOFR as an alternative rate. According to the announcement issued by the FCA (Financial Conduct Authority) on 5th March 2021, the LIBOR USD interest rate for all tenors, excluding the 1-week and 2-month tenors, will be published until 30th June 2023. In connection with this announcement, the Bank mainly annexed agreements that are renewable products based on the USD LIBOR interest rate and multilines, for which one of the interest rates used was USD LIBOR.

In the portfolios of the Bank and its Subsidiaries, there are no LIBOR JPY exposures with maturity above year 2021.

The Bank monitors risks with regard to potential changes in WIBOR and EURIBOR rates. In 2020-2021, the Program focused on portfolios based on vanishing LIBOR and EONIA rates. In 2022, the program will be continued, the portfolios based on LIBOR USD, WIBOR, WIBID and EURIBOR will be the priority.

Actions have already been taken in the area of WIBOR and EURIBOR rates. For some products, contract templates containing fall-back clauses have been introduced. For the historical portfolio, exposures and annexed agreements introducing appropriate fall-back clauses are monitored. For WIBOR and EURIBOR rates, where contracts were based on regulations

or general financing conditions, changes were introduced by updating these documents. This applies to the deposit, lending and treasury areas in all customer segments.

Work under the IBOR Programme is carried out mainly by a wide range of experts representing all business lines of the Bank, supported by experts from renowned consulting companies, under the supervision of the Steering Committee, which consists mainly of members of the Management Board.

Work in Santander Bank Polska S.A. is coordinated with ongoing preparations both in subsidiaries and at the level of the entire Santander Group.

The tables present break down of assets and liabilities of Santander Bank Polska Group as at 31 December 2021:

31.12.2021	Gross Carrying Value		Notional	of which: Have yet to transition to an alternative benchmark interest rate (SARON) as at 31 December 2021:		
	Assets	Liabilities		Assets	Liabilities	Notional
<b>Assets and liabilities exposed to CHF LIBOR</b>						
<b>Measured at amortised cost</b>	<b>9 275 285</b>	<b>-</b>		<b>9 275 285</b>	<b>-</b>	
Cash and balances at central banks	-	-		-	-	
Loans and advances to/deposits from banks	-	-		-	-	
Loans and advances to/deposits from customers	9 271 589	-		9 271 589	-	
Reverse repurchase/repurchase agreements		-		-	-	
Lease receivables/liabilities	3 696	-		3 696	-	
<b>Total carrying value of assets and liabilities exposed to CHF LIBOR</b>	<b>9 275 285</b>	<b>-</b>		<b>9 275 285</b>	<b>-</b>	
Trading derivatives (notional)			353 608			353 608
Hedging Derivatives (notional)			6 828 294			6 828 294

	Gross Carrying Value		Notional	of which: Have yet to transition to an alternative benchmark interest rate (SONIA and synthetic LIBOR) as at 31 December 2021:		
	Assets	Liabilities		Assets	Liabilities	Notional
<b>Assets and liabilities exposed to GBP LIBOR</b>						
<b>Measured at amortised cost</b>	<b>25 293</b>	<b>-</b>		<b>25 293</b>	<b>-</b>	
Cash and balances at central banks	-	-		-	-	
Loans and advances to/deposits from banks	-	-		-	-	
Loans and advances to/deposits from customers	25 293	-		25 293	-	
Reverse repurchase/repurchase agreements		-		-	-	
Lease receivables/liabilities	-	-		-	-	
<b>Total carrying value of assets and liabilities exposed to GBP LIBOR</b>	<b>25 293</b>	<b>-</b>		<b>25 293</b>	<b>-</b>	
Derivatives (notional)			-			-

	Gross Carrying Value		Notional	of which: Have yet to transition to EURIBOR or last applied interest rate in 2021 as at 31 December 2021:		
	Assets	Liabilities		Assets	Liabilities	Notional
<b>Assets and liabilities exposed to EUR LIBOR</b>						
<b>Measured at amortised cost</b>	<b>315 346</b>	<b>-</b>		<b>315 346</b>	<b>-</b>	
Cash and balances at central banks	-	-		-	-	
Loans and advances to/deposits from banks	-	-		-	-	
Loans and advances to/deposits from customers	310 818	-		310 818	-	
Reverse repurchase/repurchase agreements	-	-		-	-	
Lease receivables/liabilities	4 528	-		4 528	-	-
<b>Total carrying value of assets and liabilities exposed to EUR LIBOR</b>	<b>315 346</b>	<b>-</b>		<b>315 346</b>	<b>-</b>	
Derivatives (notional)			-			-

The bank's portfolio based on LIBOR rates as of 31st December 2021 will be migrated in January 2022. For LIBOR CHF and EONIA rates the migration respectively to SARON and €STR as designated by the Regulation of the European Commission took place starting from 1st and 3rd January 2022. Changes of indices are being made successively from the first interest period beginning in 2022, so they are made in different dates for particular contracts. Similarly, for the LIBOR GBP rate the migration to SONIA or Synthetic LIBOR takes place from the first full interest period beginning in 2022. For the LIBOR EUR rate switch to EURIBOR rate took place in relation to agreements for which clients accepted the new terms in the annexes from the first interest period following the annex signature. For the clients that did not sign the annexes proposed, the Bank will calculate the interests until the end of the agreement based on the last LIBOR EUR value used in 2021 for a particular contract.

In connection with the IBOR Reform, the Group is exposed to the following risks:

### Business Risk:

Switching to alternative benchmarks may lead to a risk of abuse or misconduct towards clients, resulting in customer complaints, penalties or reputational damage. Possible risks include: risk of misleading customers, risk of market abuse (including insider dealing and market manipulation), risk of anti-competitive practices, both during and after the transition (e.g. collusion and exchange of information) and risks caused by conflicts of interest. The Group has strong transition management structures in place to ensure risk mitigation.

### Price risk:

The transition to alternative benchmarks and the discontinuation of the use of interest rate benchmarks may affect the pricing mechanisms applied by the Group for certain transactions, including the establishment of a Standard Variable Rate applicable to mortgage loans. For some financial instruments, it will be necessary to develop new pricing models.

### Risk associated with the interest rate base:

This risk consists of two components:

- if bilateral negotiations with the Group's counterparties are not

successful before the IBOR ceases to apply, there is significant uncertainty as to the future interest rate. This situation leads to additional interest rate risk, which was not taken into account at the time of entering into contracts and is not the subject of our interest rate risk management strategy. For example, in some cases, provisions on the use of other indicators in contracts where the IBOR rate is applied, may result in the remaining period maintaining a fixed interest rate at the level of the last IBOR rate. The Group works closely with all counterparties to avoid such a situation, but if it occurs, the interest rate risk management policy applied in the Group will be applied as standard and may result in liquidation of the interest rate swaps or the conclusion of new swaps to maintain the combination of variable and fixed interest rates for the debt held.

- interest rate risk may also arise where the transition to alternative benchmarks for non-derivatives and derivatives held to manage the interest rate risk associated with the non-derivative occurs at different times. This risk may also occur if you switch to different rates for back-to-back derivatives at different times. The Group will monitor that the risk management referred to above is carried out in accordance with the applicable risk management principles, updated to allow for a temporary mismatch not exceeding 12 months and to establish an additional basis for interest rate swaps, if required.

### Liquidity risk:

The IBOR rates and alternative benchmarks to be adopted by the Group differ significantly. IBOR rates are forward-looking rates set for a specific period (e.g. three months) at the beginning of such a period and take into account the bank spread. Alternative benchmarks are usually risk-free overnight rates published at the end of the day that do not include a credit spread.

The differences referred to above will create additional uncertainty as to the payment of interest at variable interest rates, requiring additional liquidity management. The Group's liquidity risk management policies have been updated to ensure adequate liquid resources in the event of unexpected increases in overnight rates.

### Accounting:

If the transition to alternative benchmarks for certain contracts does not allow the application of the exemptions provided for by



the Phase 2 amendments, then the effect may be to terminate the hedging relationship and, consequently, increased volatility in the income statement. This may happen if the newly designated hedging relationships are not carried out or if the non-derivative financial instruments are amended or removed from the financial statements.

In the case of loan agreements related to the LIBOR CHF rate, the Bank switched to RFR ratios in accordance with the decision of the European Commission, and in the case of derivatives that hedge this portfolio, the LIBOR CHF rate will change in accordance with the ISDA Protocol standard.

Based on the effectiveness test based on new CHF rates – both for the loan portfolio and for the hedging instrument – the Bank assessed that there is a high probability that the effectiveness requirement of the established hedging relationships will be met in the future.

Therefore, in the case of the strategies hedging the CHF loan portfolio, the Bank decided to continue the established hedging relationships based on the existing instruments.

## Risk of legal proceedings:

In the absence of agreement on the implementation of the Interest Rate Benchmark Reform for existing contracts (e.g. due to different interpretations of the applicable provisions on the use of other benchmarks), there is a risk of litigation and protracted disputes with counterparties, which may result in additional costs, e.g. legal costs. The Group works closely with all contractors to avoid such a situation.

## Regulatory risk:

Regulatory models and methodologies are currently being updated (e.g. to take account of new market data). There is a risk that full updates, testing and acceptance of models by regulators will not take place on time.

## Operational risk:

We are updating our IT systems to fully manage the transition to alternative benchmarks. There is a risk that such updates will not be fully on time, resulting in additional manual procedures involving operational risk.

## 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 Committee 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; under normal and stress conditions;
- set a scale of the liquidity risk in the form of various internal limits;
- ensure proper organisation of the liquidity management process within the whole Santander Bank Polska Group;
- prepare the organisation for emergence of adverse factors, either external or internal;
- ensure compliance with regulatory requirements, both qualitative and quantitative.

The general principle adopted by Santander Bank Polska Group in its liquidity management process is that all expected outflows occurring within one month in respect of deposits, current account balances, loan drawdowns, guarantee payments and transaction settlements should be at least fully covered by the anticipated inflows or available High Quality Liquid Assets (HQLA) assuming normal or predictable conditions for the Group's operations. The HQLA category substantially includes: cash on hand, funds held in the nostro account with the NBP (National Bank of Poland) in excess of the minimum reserve requirement and securities which may be sold or pledged under repo transactions or NBP lombard loans. As at 31 December 2021, the value of the HQLA buffer was PLN 72.01 bn for the Bank and PLN 75.00 bn for the Group.

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 and wholesale funding;
- level of encumbered assets;
- ratios laid down in CRD IV/CRR – LCR and NSFR;
- survival horizon under stressed conditions;
- the HQLA buffer;
- the buffer of assets which might be liquidated over an intraday horizon.

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

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

- maintains sufficient capacity to meet its obligations as they fall due;
- reviews the key liquidity risk drivers and ensures that stress testing reflects these drivers and that they are appropriately controlled;

- provides a record of both the liquidity risk management and governance processes;
- carries out assessment of counterbalancing capacity.

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

## Risk identification and measurement

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

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

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

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

Concurrently, liquidity is measured in accordance with KNF Resolution no. 386/2008 on setting liquidity standards for banks (in force as at 31 December 2021), and with the requirements laid down in the CRD IV/ CRR package and in their implementing provisions.

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

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

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

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

## Risk reporting

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

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

## Risk prevention and mitigation

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

The bank has a liquidity contingency plan approved by the Management Board and Supervisory Board to cater for unexpected liquidity problems, whether caused by external or internal factors.

The plan, accompanied by stress tests, includes different types of scenarios and enables the bank to take adequate and effective actions in response to unexpected external or internal liquidity pressure through:

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

In 2021, Santander Bank Polska Group focused on the effective allocation of the liquidity surplus earned on the inflow of customer deposits in connection with state support programmes related to COVID-19. As at 31 December 2021, the loan-to-deposit ratio was 80% compared to 83% as at 31 December 2020, the consolidated Liquidity Coverage Ratio was 215%, and 207% as at 31 December 2020.

In 2021 and in the comparable period, all key regulatory ratios applicable to the bank and Group were maintained at the required levels.

The tables below show the cumulated liquidity gap for Santander Bank Polska S.A. Group as at 31 December 2021 and in the comparable period (by nominal value).

31.12.2021	On demand	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	above 5 years
Assets	23 196 074	16 151 313	11 481 410	10 979 981	23 975 490	29 154 191	61 310 276	60 763 755
Liabilities and equity	160 757 692	11 752 711	9 070 134	5 074 839	5 592 794	8 782 879	3 373 543	2 724 904
<b>including:</b>	-	-	-	-	-	-	-	-
- Sell-buy-back transactions	-	244 000	-	44 511	222 553	-	-	-
- Deposits from banks	528 663	683 098	724 968	919 149	1 023 077	64 391	437 697	19 094
- Deposits from customers	160 229 029	10 170 384	5 067 632	3 218 724	2 673 986	1 825 344	1 623 460	844 161
- Debt securities in issue	-	-	3 747 834	850 000	1 394 325	6 621 178	185 387	-
- Subordinated liabilities	-	-	-	-	-	-	1 011 868	1 730 578
- Lease liabilities	-	19 949	29 700	42 455	84 090	112 562	102 653	126 005
Contractual liquidity mismatch/ gap	(137 222 415)	4 404 480	1 915 767	5 912 460	18 398 376	20 190 997	57 938 368	58 038 850
Cumulative liquidity gap	(137 222 415)	(132 817 936)	(130 902 169)	(124 989 709)	(106 591 333)	(86 400 336)	(28 461 968)	29 576 882
Net derivatives	-	-	-	-	-	-	-	-
Gross asset derivatives	-	40 411 652	32 720 567	10 179 777	12 945 720	18 080 398	12 547 466	2 569 712
Gross liabilities derivatives	-	40 535 889	32 389 349	10 077 416	12 654 608	18 005 230	13 033 621	2 931 020
Off balance positions Total	39 533 266	2 971 930	1 032 105	418 837	1 239 945	331 116	51 390	582
- guarantees & letters of credits	8 708 673	-	-	-	-	-	-	-
- credit lines	7 722 455	2 945 243	751 954	196 955	-	-	-	-

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

31.12.2020	On demand	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	above 5 years
Assets	16 123 289	12 589 749	9 660 613	9 109 985	14 599 788	31 548 981	60 297 061	60 598 888
Liabilities and equity	140 904 002	11 394 995	8 984 317	6 188 389	8 620 771	6 327 350	3 788 592	2 334 370
<b>including:</b>	-	-	-	-	-	-	-	-
- Sell-buy-back transactions	-	14 387	-	-	-	-	-	-
- Deposits from banks	386 976	1 015 757	912 337	1 282 671	1 216 461	1 134 272	632 909	-
- Deposits from customers	140 517 026	9 068 255	6 234 543	3 944 718	3 871 826	2 230 378	315 016	47 904
- Debt securities in issue	-	608 261	1 837 437	961 000	1 001 579	2 962 700	1 917 707	-
- Subordinated liabilities	-	-	-	-	2 307 400	-	922 960	2 286 465
- Lease liabilities	-	13 585	35 642	44 969	85 018	152 374	242 537	43 911
Contractual liquidity mismatch/ gap	(124 780 713)	1 194 755	676 296	2 921 595	5 979 017	25 221 631	56 508 469	58 264 519
Cumulative liquidity gap	(124 780 713)	(123 585 958)	(122 909 662)	(119 988 067)	(114 009 049)	(88 787 418)	(32 278 949)	25 985 570
Net derivatives	-	-	-	-	-	-	-	-
Gross asset derivatives	-	38 162 376	17 283 584	8 983 887	8 562 762	6 373 285	9 412 011	6 685 302
Gross liabilities derivatives	-	38 076 776	16 745 798	9 011 885	8 589 824	6 361 714	10 039 287	7 091 227
Off balance positions Total	35 615 827	4 750 671	623 169	240 631	195 658	227 800	69 020	559
- guarantees & letters of credits	6 946 339	-	-	-	-	-	-	-
- credit lines	7 627 005	3 186 590	418 034	88 690	-	-	-	-

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

The tables below show maturity analysis of financial liabilities and receivables for Santander Bank Polska Group as at 31 December 2021 and in the comparable period (the undiscounted cash flow – capital and interests).

31.12.2021	On demand	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	above 5 years
Assets	23 198 725	16 599 526	12 453 008	13 049 477	28 146 214	35 967 497	74 632 093	85 532 788
Liabilities	160 994 403	11 788 946	9 111 792	5 436 586	6 185 078	9 753 468	5 426 132	4 117 140
including:	–	–	–	–	–	–	–	–
– Repurchase agreement transactions	–	244 038	–	44 511	222 553	–	–	–
– Liabilities to banks	527 521	683 014	724 168	918 997	1 022 604	66 321	438 460	19 053
– Liabilities to customers	160 466 882	10 173 264	5 074 729	3 231 123	2 688 370	1 826 356	1 627 846	848 753
– Own emissions	–	–	3 747 834	869 334	1 456 228	6 699 312	245 657	–
– Subordinated liabilities	–	–	13 848	19 274	50 477	104 792	1 307 144	1 816 475
– Lease liabilities	–	20 633	30 048	43 780	87 454	120 728	114 016	147 176
Contractual liquidity gap	(137 456 475)	4 816 458	2 845 707	7 620 210	21 976 816	26 033 715	69 207 596	81 415 648
Cummulated contractual liquidity gap	(137 456 475)	(132 640 017)	(129 794 310)	(122 174 101)	(100 197 285)	(74 163 569)	(4 955 973)	76 459 675
Net derivatives	–	26 151	(53 519)	(62 588)	(60 229)	(89 978)	(35 524)	359
Gross asset derivatives	–	40 454 392	32 745 058	10 302 634	13 227 256	18 546 929	13 287 915	2 680 273
Gross liabilities derivatives	–	40 567 586	32 416 529	10 179 867	12 879 268	18 433 498	13 468 547	3 007 652
Off-balance positions Total	39 533 266	2 971 930	1 032 105	418 837	1 239 945	331 116	51 390	582
– guarantees & letters of credits	8 708 673	–	–	–	–	–	–	–
– credit lines	7 722 455	2 945 243	751 954	196 955	–	–	–	–

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

31.12.2020	On demand	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	above 5 years
Assets	16 124 789	12 914 322	10 203 632	10 040 833	16 443 296	34 563 305	66 956 165	74 199 559
Liabilities	140 922 139	11 424 020	9 023 704	6 224 657	8 689 763	6 398 266	3 998 014	2 455 762
including:	–	–	–	–	–	–	–	–
– Repurchase agreement transactions	–	14 387	–	–	–	–	–	–
– Liabilities to banks	386 976	1 017 603	913 566	1 285 669	1 220 171	1 139 739	638 345	–
– Liabilities to customers	140 535 163	9 090 371	6 259 461	3 958 726	3 888 719	2 233 900	315 116	47 904
– Own emissions	–	42 413	988 717	1 722 630	1 334 593	4 432 043	2 757 994	3 971 761
– Subordinated liabilities	–	–	12 435	26 710	54 098	91 977	241 893	2 841 116
– Lease liabilities	–	14 551	37 642	47 572	89 440	159 252	251 759	61 890
Contractual liquidity gap	(124 797 350)	1 490 302	1 179 928	3 816 175	7 753 534	28 165 038	62 958 150	71 743 797
Cummulated contractual liquidity gap	(124 797 350)	(123 307 048)	(122 127 120)	(118 310 945)	(110 557 412)	(82 392 373)	(19 434 223)	52 309 574
Net derivatives	–	14 591	(12 932)	(62 561)	38 728	37 296	688 587	42 978
Gross asset derivatives	–	38 153 153	17 288 672	9 032 980	8 652 207	6 546 161	9 901 584	6 828 727
Gross liabilities derivatives	–	38 060 409	16 742 550	9 047 661	8 649 306	6 482 010	10 376 711	7 194 472
Off-balance positions Total	35 615 827	4 750 671	623 169	240 631	195 658	227 800	69 020	559
– guarantees & letters of credits	6 946 339	–	–	–	–	–	–	–
– credit lines	7 627 005	3 186 590	418 034	88 690	–	–	–	–

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

In the tables above, the liquidity gap analysis does not take into account the effect of uncertainty related to flows related to CHF-indexed mortgage loans. Due to the risks described in note 48, cash flows may occur in terms, currencies and amounts other than currently included in In the opinion of the bank, however, this should not cause problems related to compliance with the liquidity regulations of the Group.

## 5. Capital management

### Introduction

It is the policy of Santander Bank Polska Group to maintain a 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 the bank and Santander Bank Polska Group and capital requirements estimated for unexpected losses is determined in accordance with:

- The so-called CRD IV / CRR package, which consists of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR) and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (CRD IV), which became effective on 1 January 2014 by the decision of the European Parliament and the European Banking Authority (EBA).
- Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012
- Regulation (EU) 2019/630 of the European Parliament and of the Council of 17 April 2019 amending Regulation (EU) No 575/2013 as regards minimum loss coverage for non-performing exposures.
- 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,
- These requirements include the recommendations of the KNF regarding the use of national options and higher risk weight for exposures secured by real estate mortgages, including: residential real estate, for which the amount of principal or interest installment depends on changes in exchange rates or currencies other than the currencies of revenue achieved by the debtor, where a risk weight of 150% is assigned, and office premises or other commercial real estate located in the Republic of Poland, where a risk weight of 100% is assigned, except for exposures secured on commercial real estates

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 three notch, the maximum potential additional security on account of those instruments would be PLN 97 m. At the same time, it should be noted that this potential obligation is not unconditional and its final value would depend on negotiations between the bank and its counterparty concerning the transactions.

which are used by borrower to conduct his own business and do not generate income by rent or proceeds from their sale where a risk weight of 50% is assigned,

- The Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system ("Macroprudential Supervision Act"), implementing CRD IV into the Polish law with regard to, among other things, additional capital buffers to be maintained by banks.
- Recommendations of the KNF regarding an additional capital requirement relating to the portfolio of FX mortgage loans for households.

The Management Board is accountable for capital management, calculation and maintenance processes, including the assessment of capital adequacy in different economic conditions and the evaluation of stress test results and their impact on internal and regulatory capital and capital ratios. Responsibility for the general oversight of internal capital estimation rests with the Supervisory Board.

The Management Board has delegated ongoing capital management to the Capital Committee which conducts a regular assessment of the capital adequacy of the bank and Santander Bank Polska Group, including in extreme conditions, the monitoring of the actual and required capital levels and the initiation of transactions affecting these levels (e.g. by recommending the value of dividends to be paid). The Capital Committee is the first body that defines the capital policy, principles of capital management and principles of capital adequacy assessment. All decisions regarding any increase or decrease in capital are taken ultimately by relevant authorities within the bank in accordance with the applicable law and the bank's Statutes.

Pursuant to the bank's information strategy, details about the level of own funds and capital requirements are presented in the separate report entitled "Information on capital adequacy of Santander Bank Polska Group as at 31 December 2021".

In 2021, the Bank and Santander Bank Polska Group met all regulatory requirements regarding capital management.

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.

Having analysed Regulation No. 2017/2395, Santander Bank Polska Group 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.

Since 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. Based on the changes resulting from the above-mentioned Regulation and Art. 473a (7a) since 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.

As at 31 December 2021, the total own funds of Santander Bank Polska Group were PLN 357.224 k higher than the Group's total own funds which would have otherwise been calculated if the transitional arrangements for mitigating the introduction of IFRS 9 had not been applied.

The Group's total capital ratio is 22 bps higher than the total capital ratio if no transitional arrangements were applied for mitigating the impact of the introduction of IFRS 9.

The Group's Tier I ratio is 23 bps higher than the Tier I ratio if no transitional arrangements were applied for mitigating the impact of the introduction of IFRS 9.

Santander Bank Polska Group has disclosed own funds, risk-weighted assets, 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.

For details see the Information on capital adequacy of Santander Bank Polska Group as at 31 December 2021 (Chapter III, Section 3 "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds").

## Capital Policy

As at 31 December 2021, the minimum capital ratios satisfying the provisions of the CRR and the Macroprudential Supervision Act as well as regulatory recommendations regarding additional own funds requirements under Pillar 2 at the level of Santander Bank Polska S.A. were as follows:

- Tier 1 capital ratio of 9.25%;
- total capital ratio of 11.25%;

For Santander Bank Polska Group, those ratios were as follows:

- Tier 1 capital ratio of 9.272%;
- total capital ratio of 11.279%.

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.

The aforementioned capital ratios take into account:

- The minimum capital ratios as required by the CRR: Common Equity Tier 1 ratio at 4.5%, Tier 1 capital ratio at 6.0% and total capital ratio at 8.0%.
- The KNF's decision of 5 November 2019, under which the previous recommendations issued on 15 October 2018 and 28 November 2018 regarding an additional capital requirement for Santander Bank Polska S.A. relating to the portfolio of FX mortgage loans for households have expired: the decision followed the process of annual identification of banks with material exposure in respect of FX mortgage-backed loans which concluded that Santander Bank Polska S.A. had not reached the materiality threshold in relation to such loans. Accordingly, the KNF did not impose an additional buffer at the bank level to mitigate the risk arising from mortgage loans for individuals.
- The additional capital requirement was set at the level of Santander Bank Polska Group in accordance with the KNF's decision of 16 November 2021. As at 31 December 2021, the buffer related to the portfolio of FX mortgage loans for households was 0.029 p.p. for the total capital ratio, 0.022 p.p. for the Tier 1 capital ratio and 0.016 p.p. for the Common Equity Tier 1 ratio.
- The capital buffer for Santander Bank Polska S.A. as other systemically important institution: according to the letter of 19 December 2017, the KNF identified Santander Bank Polska S.A. as other systemically important institution and imposed on it an additional capital buffer. Pursuant to the KNF's decision of 14 October 2019, Santander Bank Polska S.A. maintains additional own funds of 0.75 p.p. Santander Bank Polska Group keeps the capital buffer at the same level.
- The capital conservation buffer maintained in accordance with the Macroprudential Supervision Act: following adaptation to the CRR requirements, in 2019 the buffer reached the maximum level of 2.50 p.p.
- The countercyclical buffer implemented by the Macroprudential Supervision Act and amended by the Minister of Finance by a way of regulation: since 1 January 2016, the countercyclical buffer has been set at 0 p.p. for credit exposures in Poland.

In addition, on 11 February 2022 the Bank received a letter from the Polish Financial Supervision Authority regarding the additional capital add-on. More information on this subject is provided in Note 58 'Events which occurred subsequently to the end of the reporting period'.



Components of the minimum capital requirement		31.12.2021	31.12.2020
<b>Minimum capital ratios</b>	Common Equity Tier 1 capital ratio	4.5%	4.5%
	Tier 1 capital ratio	6%	6%
	Total capital ratio	8%	8%
Santander Bank Polska		no requirement	no requirement
Santander Bank Polska Capital Group:			
<b>Additional capital requirement for Santander Bank Polska relating to the portfolio of FX mortgage loans for households</b>	– for total capital ratio:	✓ 0.029 p.p.	✓ 0.034 p.p.
	– Tier 1 capital ratio:	✓ 0.022 p.p.	✓ 0.026 p.p.
	– for Common Equity Tier 1 capital ratio:	✓ 0.016 p.p.	✓ 0.019 p.p.
The capital buffer for Santander Bank Polska as other systemically important institution		✓ 0.75 p.p.	✓ 0.75 p.p.
The capital conservation buffer maintained in accordance with the Macroprudential Supervision Act		✓ 2.5 p.p.	✓ 2.5 p.p.
The countercyclical buffer (BRS)		✓ 0 p.p.	✓ 0 p.p.

## Regulatory Capital

The capital requirement for Santander Bank Polska Group is determined in accordance with Part 3 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR), as amended, inter alia, by 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, which was the official legal basis as at the reporting date, i.e. 31 December 2021.

Santander Bank Polska Group uses the standardised approach to calculate the capital requirement for credit risk, market risk and operational risk. According to this approach, the total capital requirement for credit risk is calculated as the sum of risk-weighted exposures multiplied by 8%.

The exposure value for these assets is equal to the carrying amount, while the value of off-balance sheet liabilities corresponds to their balance sheet equivalent. Risk-weighted exposures are calculated by means of applying risk weights to all exposures in accordance with the CRR.

The table below presents the calculation of the capital ratio for Santander Bank Polska Group as at 31 December 2021 and in the comparative period.

		31.12.2021	31.12.2020*
<b>I</b>	<b>Total Capital requirement (Ia+Ib+Ic+Id+Ie), of which:</b>	<b>10 817 526</b>	<b>10 819 372</b>
Ia	– due to credit risk & counterparty credit risk	9 318 997	9 384 034
Ib	– due to market risk	190 717	141 891
Ic	– due to credit valuation adjustment risk	29 887	32 973
Id	– due to operational risk	1 250 170	1 260 474
Ie	– due to securitisation	27 755	–
<b>II</b>	<b>Total own funds*</b>	<b>27 274 048</b>	<b>29 570 640</b>
<b>III</b>	<b>Reductions</b>	<b>2 156 905</b>	<b>1 960 227</b>
<b>IV</b>	<b>Own funds after reductions (II–III)</b>	<b>25 117 143</b>	<b>27 610 413</b>
<b>V</b>	<b>CAD [IV/(I*12.5)]</b>	<b>18.58%</b>	<b>20.42%</b>
<b>VI</b>	<b>Tier I ratio</b>	<b>16.63%</b>	<b>18.38%</b>

\* The data include profits as part of own funds, taking into account the decisions of the Polish Financial Supervision Authority and the applicable EBA guidelines

\*\* On 20 July 2021, the Bank received an individual recommendation from the KNF with regard to the Bank's dividend policy in H1 2020. As at 31 March 2021 (the Bank's quarterly data on own funds) and 31 May 2021 (monthly data on the receivables portfolio), the Bank met all the key dividend policy criteria to be able to pay dividends up to 100% of its net profit earned in the period from 1 January 2020 to 31 December 2020. When applying the additional KNF criteria relating to the Bank's portfolio of foreign currency mortgage loans for households, the dividend yield at standalone and consolidated level was adjusted by a total of 70 p.p. In consequence, after the application of the additional criteria, the maximum dividend yield may be up to 30% of the profit achieved in 2020. In view of the above KNF recommendations, pursuant to Article 349 of the Commercial Companies Code and § 50(4) of the Bank's Statutes in relation to resolution no. 6 of the Annual General Meeting of the Bank of 22 March 2021, the Bank's Management Board adopted a resolution to pay interim dividend of PLN 220,728,918.24 from the reserve capital created from the profit for 2020 (29.89% of the profit). The dividend was PLN 2.16 per share. The date of the interim dividend payment was 15 October 2021.

## Internal Capital

Notwithstanding the regulatory methods for measuring capital requirements, Santander Bank Polska S.A. carries out an independent assessment of current and future capital adequacy

as part of the internal capital adequacy assessment 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 bank's strategy, the process of defining risk appetite and the process of planning.

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

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

The 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 business of Santander Bank Polska S.A. and to take account of any new risks and the management's judgement.

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

## Subordinated Liabilities

In 2016, the bank amended the agreement under which subordinated registered bonds were issued on 5 August 2010 and taken up by the European Bank for Reconstruction and Development. Under the new issue conditions, the maturity of the bonds has been extended to 5 August 2025. Pursuant to the KNF's decision of 18 May 2017, the bank was authorised to allocate EUR 100m of the new issue to Tier 2 capital. Since 5 August 2020, it is subject to amortization due to the final 5 years of the loan maturity according to Art. 64 CRR.

As part of the strategy to increase the Tier 2 capital, on 2 December 2016 Santander Bank Polska issued own bonds of EUR 120m, allocating them to Tier 2 in accordance with the KNF's decision of 24 February 2017.

On 22 May 2017, the bank issued additional subordinated bonds with a nominal value of EUR 137.1m and by the KNF's decision of 19 October 2017 was authorised to allocate them to the Tier 2 capital.

On 12 June 2018, Santander Bank Polska S.A. obtained the KNF's approval for allocating series F subordinated bonds with a total nominal value of PLN 1bn, issued on 5 April 2018, to Tier 2 capital instruments.

For more information on subordinated liabilities, see Note 35.

## 6. Net interest income

Interest income and income similar to interest	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
<b>Interest income on financial assets measured at amortised cost</b>	<b>5 389 776</b>	<b>5 946 776</b>
Loans and advances to enterprises and leasing agreements	1 795 208	2 001 263
Loans and advances to individuals, of which:*	3 576 670	3 859 371
<i>Home mortgage loans</i>	1 190 860	1 349 027
Loans and advances to banks	2 909	12 103
Loans and advances to public sector	5 926	7 917
Reverse repo transactions	6 351	16 334
Interest recorded on hedging IRS	-	49 788
Debt securities	2 712	-
<b>Interest income on financial assets measured at fair value through other comprehensive income</b>	<b>955 577</b>	<b>853 841</b>
Loans and advances to enterprises	45 769	40 498
Debt securities	909 808	813 343
<b>Income similar to interest – financial assets measured at fair value through profit or loss</b>	<b>17 231</b>	<b>56 543</b>
Loans and advances to enterprises	849	1 342
Loans and advances to individuals	16 382	42 377
Debt securities	-	12 824
<b>Total income</b>	<b>6 362 584</b>	<b>6 857 160</b>

	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
<b>Interest expenses</b>		
<b>Interest expenses on financial liabilities measured at amortised cost</b>	<b>(400 139)</b>	<b>(969 011)</b>
Liabilities to individuals	(88 594)	(450 480)
Liabilities to enterprises	(48 311)	(218 073)
Repo transactions	(2 364)	(7 400)
Liabilities to public sector	(13 967)	(20 913)
Liabilities to banks	(26 526)	(54 366)
Lease liability	(14 758)	(18 952)
Subordinated liabilities and issue of securities	(162 246)	(198 827)
Interest recorded on hedging IRS	(43 373)	-
<b>Total costs</b>	<b>(400 139)</b>	<b>(969 011)</b>
<b>Net interest income</b>	<b>5 962 445</b>	<b>5 888 149</b>

\* Details on the impact of the CJEU judgment in case C 383/18 on interest income are presented in note 48

## 7. Net fee and commission income

	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
<b>Fee and commission income</b>		
Electronic and payment services	248 663	223 091
Current accounts and money transfer	399 322	312 649
Asset management fees	292 456	248 099
Foreign exchange commissions	572 573	468 817
Credit commissions incl. factoring commissions and other	439 428	405 219
Insurance commissions	227 342	220 559
Commissions from brokerage activities	128 779	131 390
Credit cards	143 237	148 950
Card fees (debit cards)	343 816	338 476
Off-balance sheet guarantee commissions	111 482	91 981
Finance lease commissions	23 023	22 876
Issue arrangement fees	22 614	10 569
Distribution fees	19 856	16 131
<b>Total</b>	<b>2 972 591</b>	<b>2 638 807</b>
<b>Fee and commission expenses</b>		
Electronic and payment services	(59 734)	(55 140)
Distribution fees	(13 070)	(11 234)
Commissions from brokerage activities	(16 499)	(18 888)
Credit cards	(13 179)	(18 990)
Card fees (debit cards)	(90 238)	(123 926)
Credit commissions paid	(96 364)	(77 093)
Insurance commissions	(17 780)	(17 533)
Finance lease commissions	(33 983)	(29 344)
Asset management fees and other costs	(22 784)	(21 628)
Other	(121 837)	(112 925)
<b>Total</b>	<b>(485 468)</b>	<b>(486 701)</b>
<b>Net fee and commission income</b>	<b>2 487 123</b>	<b>2 152 106</b>

The figures above include fee and commission income on credits, credit cards, off-balance sheet guarantees and leases of PLN 717 170 k (31.12.2020: PLN 669 026 k) and fee and commission expenses on credit cards, leases and paid to credit

agents of PLN (143 526) k (31.12.2020: PLN (125 427) k) other than fees included in determining the effective interest rate, relating to financial assets and liabilities not carried at air value through profit and loss.

## 8. Dividend income

Dividend income	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
Dividend income from investment securities measured at fair value through other comprehensive income	110 015	21 272
Dividend income from investment securities measured at fair value through profit or loss	1 000	1 417
Dividend income from equity financial assets held for trading	1 833	194
<b>Total</b>	<b>112 848</b>	<b>22 883</b>

## 9. Net trading income and revaluation

Net trading income and revaluation	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
Derivative instruments	(134 036)	(559 432)
Interbank FX transactions and other FX related income	368 919	716 030
Net gains on sale of equity securities measured at fair value through profit or loss	29 013	19 715
Net gains on sale of debt securities measured at fair value through profit or loss	(1 661)	(10 460)
Change in fair value of loans and advances mandatorily measured at fair value through profit or loss	5 719	(15 344)
<b>Total</b>	<b>267 954</b>	<b>150 509</b>

The amounts include CVA and DVA adjustments which in 2021 and 2020 totalled PLN 8 003 k and PLN (5,240)k respectively.

## 10. Gains (losses) from other financial securities

Gains (losses) from other financial securities	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
Net gains on sale of debt securities measured at fair value through other comprehensive income	91 751	228 723
Net gains (losses) on sale of debt securities mandatorily measured at fair value through profit or loss	8	(85)
Net gains on sale of equity securities measured at fair value through profit and loss	8 148	-
Change in fair value of financial securities mandatorily measured at fair value through profit or loss	2 173	33 202
Impairment losses on securities	(4 015)	(8 535)
<b>Total gains (losses) on financial instruments</b>	<b>98 065</b>	<b>253 305</b>
Change in fair value of hedging instruments	481 960	(159 141)
Change in fair value of underlying hedged positions	(485 107)	163 548
<b>Total gains (losses) on hedging and hedged instruments</b>	<b>(3 147)</b>	<b>4 407</b>
<b>Total</b>	<b>94 918</b>	<b>257 712</b>

## 11. Other operating income

Other operating income	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
Income from services rendered	29 536	30 265
Release of provision for legal cases and other assets	65 650	44 018
Release of provisions for legal risk*	21 386	–
Recovery of other receivables (expired, cancelled and uncollectable)	436	431
Settlements of leasing agreements	5 212	3 702
Gain on sales or liquidation of fixed assets, intangible assets and assets for disposal	–	8 290
Received compensations, penalties and fines	1 636	884
Gains on lease modifications	21 283	14 217
Income from settlement of sale of Aviva shares	46 834	–
Other	92 321	74 172
<b>Total</b>	<b>284 294</b>	<b>175 979</b>

\* Additional information in Note 38.

## 12. Impairment allowances for expected credit losses

Impairment allowances for expected credit losses on loans and advances measured at amortised cost	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
<b>Charge for loans and advances to banks</b>	<b>1</b>	<b>(11)</b>
Stage 1	1	(11)
Stage 2	–	–
Stage 3	–	–
POCI	–	–
<b>Charge for loans and advances to customers</b>	<b>(1 131 876)</b>	<b>(1 760 707)</b>
Stage 1	(150 317)	(114 099)
Stage 2	(108 787)	(604 538)
Stage 3	(920 166)	(1 069 734)
POCI	47 394	27 664
<b>Recoveries of loans previously written off</b>	<b>3 904</b>	<b>(4 411)</b>
Stage 1	–	–
Stage 2	–	–
Stage 3	3 904	(4 411)
POCI	–	–
<b>Off-balance sheet credit related facilities</b>	<b>3 783</b>	<b>2 317</b>
Stage 1	(10 682)	4 847
Stage 2	3 693	(3 699)
Stage 3	10 772	1 169
POCI	–	–
<b>Total</b>	<b>(1 124 188)</b>	<b>(1 762 812)</b>

As at 31.12.2021 management provision accounting for the risk related to the COVID-19 situation was released in the amount

PLN 121,414 k. As at 31.12.2020, the corresponding provision totalled PLN 121,414 k – details are described in Note 2.5.

## 13. Employee costs

Employee costs	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
Salaries and bonuses	(1 379 741)	(1 307 404)
Salary related costs	(241 902)	(228 441)
Cost of contributions to Employee Capital Plans	(8 987)	(9 218)
Staff benefits costs	(38 306)	(46 119)
Professional training	(9 293)	(7 107)
Retirement fund, holiday provisions and other employee costs	(3 164)	7 791
Restructuring provision	(12 817)	(153 586)
<b>Total</b>	<b>(1 694 210)</b>	<b>(1 744 084)</b>

## 14. General and administrative expenses

General and administrative expenses	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
Maintenance of premises	(131 439)	(118 592)
Short-term lease costs	(8 671)	(10 075)
Low-value assets lease costs	(2 176)	(2 410)
Costs of variable lease payments not included in the measurement of the lease liability	(145)	(144)
Non-tax deductible VAT	(47 263)	(43 982)
Marketing and representation	(131 325)	(93 921)
IT systems costs	(381 648)	(330 446)
Cost of BFG, KNF and KDPW	(293 748)	(435 899)
Postal and telecommunication costs	(64 038)	(63 795)
Consulting and advisory fees	(75 349)	(82 381)
Cars, transport expenses, carriage of cash	(53 329)	(54 907)
Other external services	(138 000)	(138 029)
Stationery, cards, cheques etc.	(19 885)	(20 414)
Sundry taxes and charges	(43 445)	(43 784)
Data transmission	(9 538)	(10 245)
KIR, SWIFT settlements	(28 740)	(26 015)
Security costs	(25 650)	(25 304)
Costs of repairs	(11 376)	(6 296)
Other	(12 155)	(11 818)
<b>Total</b>	<b>(1 477 920)</b>	<b>(1 518 457)</b>

## 15. Other operating expenses

Other operating expenses	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
Charge of provisions for legal cases and other assets*	(1 005 626)	(322 057)
Charge of provisions for legal risk portfolio*	(549 965)	(201 193)
Impairment loss on property, plant, equipment, intangible assets covered by financial lease agreements and other fixed assets	(60 942)	(42 405)
Gain on sales or liquidation of fixed assets, intangible assets and assets for disposal	(15 768)	-
Costs of purchased services	(10 673)	(6 175)
Other membership fees	(1 111)	(1 192)
Paid compensations, penalties and fines	(1 853)	(2 095)
Donations paid	(8 410)	(8 455)
Other	(81 748)	(48 278)
<b>Total</b>	<b>(1 736 096)</b>	<b>(631 850)</b>

\* Additional information in Note 38



## 16. Corporate income tax

	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
Corporate income tax		
Current tax charge in the income statement	(445 723)	(909 651)
Deferred tax charge in the income statement	(361 827)	263 010
Adjustments from previous years for current and deferred tax	2 128	2 918
<b>Total tax on gross profit</b>	<b>(805 422)</b>	<b>(643 723)</b>
Current tax charge in the retained earnings (equity)	(196 772)	(176)
<b>Total corporate income tax</b>	<b>(1 002 194)</b>	<b>(643 899)</b>
Corporate total tax charge information		
Profit before tax	2 057 828	1 880 897
Tax rate	19%	19%
Tax calculated at the tax rate	(390 987)	(357 370)
Non-tax-deductible expenses	(26 438)	(26 827)
Provisions for legal claims regarding fx loans	(254 233)	(70 652)
The fee to the Bank Guarantee Fund	(49 889)	(78 080)
Tax on financial institutions	(116 744)	(114 380)
Non-taxable income	28 060	17 769
Non-tax deductible bad debt provisions	(10 778)	(14 948)
Adjustment of prior years tax	2 128	2 918
Tax effect of consolidation adjustments	20 614	-
Other	(7 155)	(2 153)
<b>Total tax on gross profit</b>	<b>(805 422)</b>	<b>(643 723)</b>
Sales of equity securities measured at fair value through other comprehensive income	(196 772)	(176)
<b>Total corporate income tax</b>	<b>(1 002 194)</b>	<b>(643 899)</b>
Deferred tax recognised in other comprehensive income	31.12.2021	31.12.2020
Relating to valuation of debt investments measured at fair value through other comprehensive income	357 326	(293 533)
Relating to valuation of equity investments measured at fair value through other comprehensive income	(38 342)	(136 762)
Relating to cash flow hedging activity	8 995	1 832
Relating to valuation of defined benefit plans	(3 272)	(1 914)
<b>Total</b>	<b>324 707</b>	<b>(430 377)</b>

## 17. Earnings per share

	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
Earnings per share		
Profit for the period attributable to ordinary shares	1 111 684	1 037 167
Weighted average number of ordinary shares	102 189 314	102 115 148
<b>Earnings per share (PLN)</b>	<b>10,88</b>	<b>10,16</b>
Profit for the period attributable to ordinary shares	1 111 684	1 037 167
Weighted average number of ordinary shares	102 189 314	102 115 148
Weighted average number of potential ordinary shares	-	95 372
Total weighted average number of ordinary and potential shares	102 189 314	102 210 520
<b>Diluted earnings per share (PLN)</b>	<b>10,88</b>	<b>10,15</b>

The weighted average number of ordinary shares contains dilutive instruments in the form of share capital presented in Note 40 and the share based incentive scheme included in Note 56.

## 18. Cash and balances with central banks

Cash and balances with central banks	31.12.2021	31.12.2020
Cash	2 664 945	2 761 280
Current accounts in central banks	5 773 330	1 128 023
Term deposits	–	1 600 000
<b>Total</b>	<b>8 438 275</b>	<b>5 489 303</b>

Santander Bank Polska S.A. and Santander Consumer Bank S.A. hold an obligatory reserve in a current account in the National Bank of Poland. The figure is calculated at a fixed percentage of minimal statutory reserve of the monthly average balance of the customers' deposits, which until 29 November 2021 was 0.5%.

According to the decision of the Monetary Policy Council of 6 October 2021, the required reserve ratio has been increased to 2.0% and applies from the required reserve maintained from 30 November 2021, calculated on the basis of data from October 2021.

In accordance with the applicable regulations, the amount of the calculated provision is reduced by the equivalent of EUR 500 k.

## 19. Loans and advances to banks

Loans and advances to banks	31.12.2021	31.12.2020
Loans and advances	98 232	87 351
Current accounts	2 592 126	2 839 277
<b>Gross receivables</b>	<b>2 690 358</b>	<b>2 926 628</b>
Allowance for impairment	(106)	(106)
<b>Total</b>	<b>2 690 252</b>	<b>2 926 522</b>

Fair value of loans and advances to banks is presented in Note 47.

Loans and advances to banks  
31.12.2021

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
<b>As at the beginning of the period</b>	<b>2 926 628</b>	–	–	–	<b>2 926 628</b>
Transfers					–
Transfer to Stage 1	–	–	–	–	–
Transfer to Stage 2	–	–	–	–	–
Transfer to Stage 3	–	–	–	–	–
New financial assets originated	128 962	–	–	–	128 962
Changes in existing financial assets	35 836	–	–	–	35 836
Financial assets derecognised that are not write-offs	(278 540)	–	–	–	(278 540)
Write-offs	–	–	–	–	–
Other movements incl. FX differences	(122 528)	–	–	–	(122 528)
<b>As at the end of the period</b>	<b>2 690 358</b>	–	–	–	<b>2 690 358</b>

Loans and advances to banks  
 31.12.2020

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
<b>As at the beginning of the period</b>	<b>3 716 677</b>	-	-	-	<b>3 716 677</b>
Transfers					-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
New financial assets originated	3 702 736	-	-	-	3 702 736
Changes in existing financial assets	(8 352)	-	-	-	(8 352)
Financial assets derecognised that are not write-offs	(4 661 077)	-	-	-	(4 661 077)
Write-offs	-	-	-	-	-
Other movements incl. FX differences	176 644	-	-	-	176 644
<b>As at the end of the period</b>	<b>2 926 628</b>	-	-	-	<b>2 926 628</b>

## 20. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading	31.12.2021		31.12.2020	
	Assets	Liabilities	Assets	Liabilities
<b>Trading derivatives</b>	<b>3 658 438</b>	<b>3 492 496</b>	<b>3 003 970</b>	<b>2 963 339</b>
<b>Interest rate operations</b>	<b>2 273 851</b>	<b>2 266 649</b>	<b>1 526 067</b>	<b>1 593 606</b>
Forward	25	79	4	-
Options	84 846	40 605	26 983	25 099
IRS	2 170 085	2 156 214	1 487 455	1 553 747
FRA	18 895	69 751	11 625	14 760
<b>FX operations</b>	<b>1 384 587</b>	<b>1 225 847</b>	<b>1 477 903</b>	<b>1 369 733</b>
CIRS	199 083	203 848	280 036	324 456
Forward	158 411	272 319	249 420	87 337
FX Swap	854 660	557 991	790 605	787 108
Spot	3 026	790	17 544	30 290
Options	169 407	190 899	140 298	140 542
<b>Debt and equity securities</b>	<b>361 679</b>	-	<b>178 799</b>	-
<b>Debt securities</b>	<b>313 350</b>	-	<b>147 405</b>	-
Government securities:	299 046	-	132 109	-
- bonds	299 046	-	132 109	-
Commercial securities:	14 304	-	15 296	-
- bonds	14 304	-	15 296	-
<b>Equity securities:</b>	<b>48 329</b>	-	<b>31 394</b>	-
- listed	48 329	-	31 394	-
<b>Short sale</b>	-	<b>385 585</b>	-	<b>67 001</b>
<b>Total</b>	<b>4 020 117</b>	<b>3 878 081</b>	<b>3 182 769</b>	<b>3 030 340</b>

Financial assets and liabilities held for trading – trading derivatives include the change in the value of counterparty risk in

the amount of PLN (8,043) k as at 31.12.2021 and PLN (10,708) k as at 31.12.2020.

The table below presents nominal values of derivatives.

Nominal values of derivatives	31.12.2021	31.12.2020
<b>Term derivatives (hedging)</b>	<b>27 276 570</b>	<b>21 345 493</b>
Single-currency interest rate swap (IRS)	5 029 341	5 511 137
Macro cash flow hedge – purchased (IRS)	50 000	50 000
Macro cash flow hedge – purchased (CIRS)	9 862 218	6 783 343
Macro cash flow hedge – sold (CIRS)	11 497 988	8 150 331
FX Swap cash flow hedge – purchased (FX)	414 425	424 272
FX Swap cash flow hedge – sold (FX)	422 598	426 410
<b>Term derivatives (trading)</b>	<b>661 823 482</b>	<b>508 521 772</b>
Interest rate operations	370 178 979	299 528 614
– Single-currency interest rate swap	339 859 952	279 650 203
– FRA – purchased amounts	21 691 000	11 575 000
– Options	8 374 127	8 298 411
– Forward – purchased amounts	243 900	–
– Forward – sold amounts	10 000	5 000
FX operations	291 644 503	208 993 158
– FX swap – purchased amounts	92 696 875	61 814 043
– FX swap – sold amounts	92 654 613	61 801 342
– Forward – purchased amounts	19 178 299	12 683 796
– Forward – sold amounts	19 078 735	12 537 728
– Non-Deliverable Forward (NDF) – purchased amounts	620 919	427 658
– Non-Deliverable Forward (NDF) – sold amounts	626 202	427 657
– Window Forward – purchased amounts	129 701	38 769
– Window Forward – sold amounts	129 475	38 715
– Cross-currency interest rate swap (CIRS) – purchased amounts	16 148 572	14 816 140
– Cross-currency interest rate swap (CIRS) – sold amounts	16 178 507	14 865 516
– FX options – purchased CALL	8 490 058	7 367 741
– FX options – purchased PUT	8 611 245	7 403 156
– FX options – sold CALL	8 484 775	7 367 742
– FX options – sold PUT	8 616 527	7 403 155
<b>Currency transactions– spot</b>	<b>4 271 117</b>	<b>10 085 971</b>
Spot-purchased	2 136 775	5 036 654
Spot-sold	2 134 342	5 049 317
<b>Transactions on equity financial instruments</b>	<b>48 423</b>	<b>30 777</b>
Derivatives contract – purchased	101	39
Derivatives contract – sold	48 322	30 738
<b>Total</b>	<b>693 419 592</b>	<b>539 984 013</b>

In the case of single-currency transactions (IRS, FRA, non-FX options) only purchased amounts are presented.

## 21. Hedging derivatives

Hedging derivatives	31.12.2021		31.12.2020	
	Assets	Liabilities	Assets	Liabilities
Derivatives hedging fair value	163 177	29 105	754	344 311
Derivatives hedging cash flow	–	1 733 229	6 900	1 430 787
<b>Total</b>	<b>163 177</b>	<b>1 762 334</b>	<b>7 654</b>	<b>1 775 098</b>

As at 31.12.2021 in the line item Hedging derivatives – derivatives hedging cash flow include value adjustments day first profit

or loss for start forward CIRS transactions in the amount of PLN (5,404) k and PLN (6,456) k as at 31.12.2020.

## 22. Loans and advances to customers

31.12.2021				
Loans and advances to customers	Measured at amortised cost	Measured at fair value through other comprehensive income	Measured at fair value through profit or loss	Total
Loans and advances to enterprises	56 155 127	1 732 895	49 667	57 937 689
Loans and advances to individuals, of which:	84 394 092	–	504 163	84 898 255
Home mortgage loans	56 599 967	–	–	56 599 967
Finance lease receivables	10 937 915	–	–	10 937 915
Loans and advances to public sector	278 530	–	–	278 530
Other receivables	58 372	–	–	58 372
<b>Gross receivables</b>	<b>151 824 036</b>	<b>1 732 895</b>	<b>553 830</b>	<b>154 110 761</b>
Allowance for impairment	(5 857 293)	(3 047)	–	(5 860 340)
<b>Total</b>	<b>145 966 743</b>	<b>1 729 848</b>	<b>553 830</b>	<b>148 250 421</b>

31.12.2020				
Loans and advances to customers	Measured at amortised cost	Measured at fair value through other comprehensive income	Measured at fair value through profit or loss	Total
Loans and advances to enterprises	55 235 227	1 608 312	66 068	56 909 607
Loans and advances to individuals, of which:	80 561 733	–	826 158	81 387 891
Home mortgage loans	52 758 103	–	–	52 758 103
Finance lease receivables	9 783 366	–	–	9 783 366
Loans and advances to public sector	211 489	–	–	211 489
Other receivables	33 691	–	–	33 691
<b>Gross receivables</b>	<b>145 825 506</b>	<b>1 608 312</b>	<b>892 226</b>	<b>148 326 044</b>
Allowance for impairment	(6 275 778)	(51 521)	–	(6 327 299)
<b>Total</b>	<b>139 549 728</b>	<b>1 556 791</b>	<b>892 226</b>	<b>141 998 745</b>

As at 31.12.2021 the fair value adjustment due to hedged risk on individual loans was PLN 13,433 k.

At Santander Bank Polska Group (except for Santander Consumer Bank S.A.) the gross carrying amount of a financial asset is its amortised cost, before adjusting for any expected credit loss allowances and without accounting for penalty interest accrued on overdue principal whose estimated recoverability is low. If penalty interest on overdue principal was recognised in its full amount, the gross carrying amount of loans and advances to customers and expected credit loss allowances would increase by PLN 684,743 k as at 31 December 2021 and PLN 698,578 k as at 31 December 2020.

Santander Consumer Bank S.A. calculates the gross carrying amount taking into consideration estimated recoverable penalty interest and applying a partial write-off of the gross carrying amount of financial assets in relation to the penalty interest based on the analysis of prospects of recovering any cash flows in this respect.

As at 31 December 2020, the total amount of penalty interest written off and partly recognised on SCB's off-balance sheet accounts was PLN 336,967 k and as at 31 December 2020 – PLN 338,705 k.

The Santander Bank Polska Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amount of such assets written off during the year ended 31 December 2021 was PLN 583,479 k PLN and PLN 410,037 k in 2020.

Lease receivables are presented in Note 51. Fair value of loans and advances to customers is presented in Note 47.

Loans and advances to customers  
 31.12.2021

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
<b>As at the beginning of the period</b>	<b>128 731 409</b>	<b>8 657 704</b>	<b>7 710 688</b>	<b>725 705</b>	<b>145 825 506</b>
Transfers					
Transfer to Stage 1	5 528 282	(5 409 498)	(118 784)	–	–
Transfer to Stage 2	(8 060 146)	8 308 907	(248 761)	–	–
Transfer to Stage 3	(511 456)	(1 478 315)	1 989 771	–	–
New financial assets originated	38 527 081	–	–	–	38 527 081
Changes in existing financial assets	(5 122 557)	(852 471)	(704 951)	(128 123)	(6 808 102)
Financial assets derecognised that are not write-offs	(23 908 112)	(620 489)	(326 876)	(64 281)	(24 919 758)
Write-offs	–	–	(1 619 288)	–	(1 619 288)
FX and others movements	1 658 387	(1 187 474)	245 783	101 901	818 597
<b>As at the end of the period</b>	<b>136 842 888</b>	<b>7 418 364</b>	<b>6 927 582</b>	<b>635 202</b>	<b>151 824 036</b>

 Movements on allowances for expected credit losses on loans  
 and advances to customers measured at amortised cost for  
 reporting period 1.01.2021 – 31.12.2021

	Stage 1	Stage 2	Stage 3	Total
<b>As at the beginning of the period</b>	<b>(586 958)</b>	<b>(801 232)</b>	<b>(4 666 118)</b>	<b>(6 054 308)</b>
Transfers				
Transfer to Stage 1	(52 896)	474 919	36 024	458 047
Transfer to Stage 2	173 560	(659 781)	116 985	(369 236)
Transfer to Stage 3	19 550	270 083	(1 035 795)	(746 162)
New financial assets originated	(358 393)	–	–	(358 393)
Changes in credit risk of existing financial assets	15 133	79 102	(464 620)	(370 385)
Changes in models and risk parameters	(23 935)	37 703	(25 983)	(12 215)
Financial assets derecognised that are not write-offs	147 070	13 057	166 204	326 331
Write-offs	–	–	1 442 635	1 442 635
FX and others movements	(27 265)	(8 062)	74 012	38 685
<b>As at the end of the period</b>	<b>(694 134)</b>	<b>(594 211)</b>	<b>(4 356 656)</b>	<b>(5 645 001)</b>

 Reconciliation to Note 12: Impairment allowances for expected  
 credit losses measured at amortised cost

	Stage 1	Stage 2	Stage 3	Total
Movements on allowances for expected credit losses on loans and advances to customers measured at amortised cost for reporting period 1.01.2021 – 31.12.2021	(107 175)	207 021	309 460	409 306
Transfers that do not go through profit and loss	(41 733)	(316 509)	273 243	(84 999)
Write-offs	(265)	–	(1 567 266)	(1 567 531)
Impairment allowances for expected credit losses on loans measured at fair value through other comprehensive income (underwriting)	(1 754)	–	50 229	48 475
FX differences	611	701	14 168	15 480
<b>Total</b>	<b>(150 316)</b>	<b>(108 787)</b>	<b>(920 166)</b>	<b>(1 179 269)</b>

## Movements on impairment losses on purchased or originated credit-impaired loans (POCI)

	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
<b>As at the beginning of the period</b>	<b>(221 470)</b>	<b>(204 198)</b>
Charge/write back of current period	1 256	(16 829)
Write off/Sale of receivables	7 659	170
F/X differences	(141)	(333)
Other	404	(280)
<b>As at the end of the period</b>	<b>(212 292)</b>	<b>(221 470)</b>



Loans and advances to customers  
 31.12.2020

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
<b>As at the beginning of the period</b>	<b>132 377 036</b>	<b>6 546 105</b>	<b>6 834 386</b>	<b>769 208</b>	<b>146 526 735</b>
Transfers					
Transfer to Stage 1	7 586 579	(7 478 514)	(108 065)	–	–
Transfer to Stage 2	(12 064 030)	12 208 630	(144 600)	–	–
Transfer to Stage 3	(234 809)	(1 912 955)	2 147 764	–	–
New financial assets originated	29 301 653	404 267	114 430	–	29 820 350
Changes in existing financial assets	(7 801 695)	(984 704)	(451 998)	(59 595)	(9 297 992)
Financial assets derecognised that are not write-offs	(22 595 859)	(537 049)	(270 998)	(61 721)	(23 465 627)
Write-offs	–	–	(728 619)	–	(728 619)
FX and others movements	2 162 534	411 924	318 388	77 813	2 970 659
<b>As at the end of the period</b>	<b>128 731 409</b>	<b>8 657 704</b>	<b>7 710 688</b>	<b>725 705</b>	<b>145 825 506</b>

 Movements on allowances for expected credit losses on loans  
 and advances to customers measured at amortised cost for  
 reporting period 1.01.2020 – 31.12.2020

	Stage 1	Stage 2	Stage 3	Total
<b>As at the beginning of the period</b>	<b>(571 410)</b>	<b>(582 508)</b>	<b>(3 886 248)</b>	<b>(5 040 166)</b>
Transfers				
Transfer to Stage 1	(154 867)	661 785	40 938	547 856
Transfer to Stage 2	223 862	(1 029 293)	64 847	(740 584)
Transfer to Stage 3	18 353	341 324	(1 154 585)	(794 908)
New financial assets originated	(188 438)	(62 290)	(97 901)	(348 629)
Changes in credit risk of existing financial assets	30 637	(117 542)	(472 973)	(559 878)
Changes in models and risk parameters	(46 980)	(38 125)	(22 653)	(107 758)
Financial assets derecognised that are not write-offs	150 688	27 026	127 498	305 212
Write-offs	–	–	713 395	713 395
FX and others movements	(48 803)	(1 609)	21 564	(28 848)
<b>As at the end of the period</b>	<b>(586 958)</b>	<b>(801 232)</b>	<b>(4 666 118)</b>	<b>(6 054 308)</b>

 Reconciliation to Note 12: Impairment allowances for expected  
 credit losses measured at amortised cost

	Stage 1	Stage 2	Stage 3	Total
Movements on allowances for expected credit losses on loans and advances to customers measured at amortised cost for reporting period 1.01.2020 – 31.12.2020	(15 549)	(218 725)	(779 869)	(1 014 143)
Transfers that do not go through profit and loss	(100 411)	(390 977)	450 347	(41 041)
Write-offs	(1 177)	–	(716 461)	(717 638)
Impairment allowances for expected credit losses on loans measured at fair value through other comprehensive income (underwriting)	812	–	(50 229)	(49 417)
FX differences	2 226	5 164	26 478	33 868
<b>Total</b>	<b>(114 099)</b>	<b>(604 538)</b>	<b>(1 069 734)</b>	<b>(1 788 371)</b>

Loans and advances to enterprises  
 31.12.2021

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
<b>As at the beginning of the period</b>	<b>46 614 785</b>	<b>4 488 420</b>	<b>3 883 644</b>	<b>248 378</b>	<b>55 235 227</b>
Transfers					
Transfer to Stage 1	2 370 501	(2 331 236)	(39 265)	-	-
Transfer to Stage 2	(3 853 432)	3 876 374	(22 942)	-	-
Transfer to Stage 3	(143 460)	(655 521)	798 981	-	-
New financial assets originated	15 585 776	-	-	-	15 585 776
Changes in existing financial assets	2 377 070	(481 986)	(420 190)	(36 720)	1 438 174
Financial assets derecognised that are not write-offs	(15 314 654)	(481 887)	(97 831)	(26 313)	(15 920 685)
Write-offs	-	-	(795 359)	-	(795 359)
FX and others movements	634 597	51 945	(108 330)	33 781	611 993
<b>As at the end of the period</b>	<b>48 271 183</b>	<b>4 466 109</b>	<b>3 198 708</b>	<b>219 126</b>	<b>56 155 126</b>

 Movements on allowances for expected credit losses on loans  
 and advances to enterprises measured at amortised cost for  
 reporting period 1.01.2021 – 31.12.2021

	Stage 1	Stage 2	Stage 3	Total
<b>As at the beginning of the period</b>	<b>(183 437)</b>	<b>(350 386)</b>	<b>(2 156 967)</b>	<b>(2 690 790)</b>
Transfers				
Transfer to Stage 1	(44 941)	154 735	15 930	125 724
Transfer to Stage 2	65 421	(225 722)	8 281	(152 020)
Transfer to Stage 3	5 757	78 659	(289 391)	(204 975)
New financial assets originated	(48 869)	-	-	(48 869)
Changes in credit risk of existing financial assets	(10 584)	23 166	(256 860)	(244 278)
Changes in models and risk parameters	(11 534)	48 592	(19 607)	17 451
Financial assets derecognised that are not write-offs	30 213	3 484	42 603	76 300
Write-offs	-	-	769 109	769 109
FX and others movements	10 163	(2 455)	(31 015)	(23 307)
<b>As at the end of the period</b>	<b>(187 811)</b>	<b>(269 927)</b>	<b>(1 917 917)</b>	<b>(2 375 655)</b>

 Movements on impairment losses on purchased or originated  
 credit-impaired loans and advances to enterprises (POCI)

	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
<b>As at the beginning of the period</b>	<b>(38 544)</b>	<b>(41 075)</b>
Charge/write back of current period	(13 628)	2 854
Write off/Sale of receivables	2 844	-
F/X differences	(10)	(272)
Other	(107)	(51)
<b>As at the end of the period</b>	<b>(49 445)</b>	<b>(38 544)</b>

 Loans and advances to enterprises  
 31.12.2020

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
<b>As at the beginning of the period</b>	<b>50 056 781</b>	<b>3 007 869</b>	<b>3 765 774</b>	<b>334 677</b>	<b>57 165 101</b>
Transfers					
Transfer to Stage 1	2 821 585	(2 784 324)	(37 261)	-	-
Transfer to Stage 2	(5 838 730)	5 890 927	(52 197)	-	-
Transfer to Stage 3	(86 368)	(919 350)	1 005 718	-	-
New financial assets originated	12 721 273	24 773	3 147	-	12 749 193
Changes in existing financial assets	(352 380)	(645 766)	(259 038)	(65 713)	(1 322 897)
Financial assets derecognised that are not write-offs	(14 974 891)	(413 617)	(84 101)	(36 075)	(15 508 684)
Write-offs	-	-	(261 015)	-	(261 015)
FX and others movements	2 267 515	327 908	(197 383)	15 489	2 413 529
<b>As at the end of the period</b>	<b>46 614 785</b>	<b>4 488 420</b>	<b>3 883 644</b>	<b>248 378</b>	<b>55 235 227</b>

Movements on allowances for expected credit losses on loans and advances to enterprises measured at amortised cost for reporting period 1.01.2020 – 31.12.2020

	Stage 1	Stage 2	Stage 3	Total
<b>As at the beginning of the period</b>	<b>(179 783)</b>	<b>(208 414)</b>	<b>(1 817 216)</b>	<b>(2 205 413)</b>
Transfers				
Transfer to Stage 1	(60 001)	240 348	9 004	189 351
Transfer to Stage 2	103 410	(461 791)	15 918	(342 463)
Transfer to Stage 3	7 640	144 734	(363 459)	(211 085)
New financial assets originated	(48 184)	(1 971)	(18 625)	(68 780)
Changes in credit risk of existing financial assets	(13 664)	(59 346)	(248 887)	(321 897)
Changes in models and risk parameters	(21 638)	(17 242)	(18 771)	(57 651)
Financial assets derecognised that are not write-offs	53 829	19 972	40 221	114 022
Write-offs	–	–	294 221	294 221
FX and others movements	(25 046)	(6 676)	(49 373)	(81 095)
<b>As at the end of the period</b>	<b>(183 437)</b>	<b>(350 386)</b>	<b>(2 156 967)</b>	<b>(2 690 790)</b>

Loans and advances to individuals  
31.12.2021

	Stage 1	Stage 2	Stage 3	POCI	Total
<b>As at the beginning of the period</b>	<b>72 945 044</b>	<b>3 497 182</b>	<b>3 645 254</b>	<b>474 253</b>	<b>80 561 733</b>
Transfers					
Transfer to Stage 1	2 458 160	(2 403 290)	(54 870)	–	–
Transfer to Stage 2	(3 204 486)	3 413 176	(208 690)	–	–
Transfer to Stage 3	(335 575)	(654 472)	990 047	–	–
New financial assets originated	19 246 294	–	–	–	19 246 294
Changes in existing financial assets	(5 877 488)	(175 188)	(214 176)	(90 746)	(6 357 598)
Financial assets derecognised that are not write-offs	(8 102 399)	(103 255)	(223 224)	(37 872)	(8 466 750)
Write-offs	–	–	(822 287)	–	(822 287)
FX and others movements	1 044 126	(1 206 508)	326 961	68 121	232 700
<b>As at the end of the period</b>	<b>78 173 676</b>	<b>2 367 645</b>	<b>3 439 015</b>	<b>413 756</b>	<b>84 394 092</b>

Movements on allowances for expected credit losses on loans and advances to individuals measured at amortised cost for reporting period 1.01.2021 – 31.12.2021

	Stage 1	Stage 2	Stage 3	Total
<b>As at the beginning of the period</b>	<b>(378 963)</b>	<b>(423 819)</b>	<b>(2 407 783)</b>	<b>(3 210 565)</b>
Transfers				
Transfer to Stage 1	(2 358)	297 570	17 956	313 168
Transfer to Stage 2	98 300	(396 767)	106 085	(192 382)
Transfer to Stage 3	13 284	177 489	(711 934)	(521 161)
New financial assets originated	(295 156)	–	–	(295 156)
Changes in credit risk of existing financial assets	20 876	61 586	(182 154)	(99 692)
Changes in models and risk parameters	(12 400)	(10 889)	(6 376)	(29 665)
Financial assets derecognised that are not write-offs	115 988	8 586	116 380	240 954
Write-offs	–	–	670 188	670 188
FX and others movements	(37 158)	(5 618)	106 708	63 932
<b>As at the end of the period</b>	<b>(477 587)</b>	<b>(291 862)</b>	<b>(2 290 930)</b>	<b>(3 060 379)</b>

Movements on impairment losses on purchased or originated credit-impaired loans and advances to individuals (POCI)

 1.01.2021-  
31.12.2021

 1.01.2020-  
31.12.2020

	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
<b>As at the beginning of the period</b>	<b>(182 546)</b>	<b>(162 653)</b>
Charge/write back of current period	14 503	(19 602)
Write off/Sale of receivables	4 815	-
FX differences	(132)	(62)
Other	513	(229)
<b>As at the end of the period</b>	<b>(162 847)</b>	<b>(182 546)</b>

 Loans and advances to individuals  
31.12.2020

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
<b>As at the beginning of the period</b>	<b>73 455 322</b>	<b>2 979 061</b>	<b>2 887 387</b>	<b>431 017</b>	<b>79 752 787</b>
Transfers					
Transfer to Stage 1	3 971 962	(3 917 405)	(54 557)	-	-
Transfer to Stage 2	(5 074 957)	5 139 779	(64 822)	-	-
Transfer to Stage 3	(130 605)	(877 529)	1 008 134	-	-
New financial assets originated	13 879 875	372 334	110 653	-	14 362 862
Changes in existing financial assets	(5 776 601)	(195 743)	(144 889)	6 458	(6 110 775)
Financial assets derecognised that are not write-offs	(7 277 870)	(93 638)	(177 141)	(25 546)	(7 574 195)
Write-offs	-	-	(436 137)	-	(436 137)
FX and others movements	(102 082)	90 323	516 626	62 324	567 191
<b>As at the end of the period</b>	<b>72 945 044</b>	<b>3 497 182</b>	<b>3 645 254</b>	<b>474 253</b>	<b>80 561 733</b>

Movements on allowances for expected credit losses on loans and advances to individuals measured at amortised cost for reporting period 1.01.2020 – 31.12.2020

	Stage 1	Stage 2	Stage 3	Total
<b>As at the beginning of the period</b>	<b>(372 066)</b>	<b>(350 533)</b>	<b>(1 971 794)</b>	<b>(2 694 393)</b>
Transfers				
Transfer to Stage 1	(88 066)	394 469	29 843	336 246
Transfer to Stage 2	109 535	(526 805)	43 472	(373 798)
Transfer to Stage 3	10 411	187 531	(766 658)	(568 716)
New financial assets originated	(131 660)	(60 260)	(77 986)	(269 906)
Changes in credit risk of existing financial assets	46 350	(58 931)	(201 279)	(213 860)
Changes in models and risk parameters	(26 122)	(20 434)	(1 701)	(48 257)
Financial assets derecognised that are not write-offs	96 115	6 335	82 017	184 467
Write-offs	-	-	387 707	387 707
FX and others movements	(23 460)	4 809	68 596	49 945
<b>As at the end of the period</b>	<b>(378 963)</b>	<b>(423 819)</b>	<b>(2 407 783)</b>	<b>(3 210 565)</b>

 Finance lease receivables  
31.12.2021

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
<b>As at the beginning of the period</b>	<b>8 926 396</b>	<b>672 107</b>	<b>181 786</b>	<b>3 077</b>	<b>9 783 366</b>
Transfers					
Transfer to Stage 1	699 622	(674 973)	(24 649)	-	-
Transfer to Stage 2	(1 002 228)	1 019 358	(17 130)	-	-
Transfer to Stage 3	(32 420)	(168 323)	200 743	-	-
New financial assets originated	3 695 011	-	-	-	3 695 011
Changes in existing financial assets	(1 713 862)	(195 297)	(70 585)	(657)	(1 980 401)
Financial assets derecognised that are not write-offs	(491 059)	(35 346)	(5 821)	(96)	(532 322)
Write-offs	-	-	(1 642)	-	(1 642)
FX and others movements	(20 336)	(32 913)	27 152	-	(26 097)
<b>As at the end of the period</b>	<b>10 061 124</b>	<b>584 613</b>	<b>289 854</b>	<b>2 324</b>	<b>10 937 915</b>

Movements on allowances for expected credit losses on finance lease receivables measured at amortised cost for reporting period 1.01.2021 – 31.12.2021

	Stage 1	Stage 2	Stage 3	Total
<b>As at the beginning of the period</b>	<b>(24 562)</b>	<b>(27 029)</b>	<b>(101 365)</b>	<b>(152 956)</b>
Transfers				
Transfer to Stage 1	(5 597)	22 613	2 138	19 154
Transfer to Stage 2	9 839	(37 292)	2 620	(24 833)
Transfer to Stage 3	509	13 935	(34 470)	(20 026)
New financial assets originated	(14 368)	–	–	(14 368)
Changes in credit risk of existing financial assets	4 841	(5 651)	(25 606)	(26 416)
Changes in models and risk parameters	–	–	–	–
Financial assets derecognised that are not write-offs	869	987	7 221	9 077
Write-offs	–	–	3 338	3 338
FX and others movements	(270)	12	(1 684)	(1 942)
<b>As at the end of the period</b>	<b>(28 739)</b>	<b>(32 425)</b>	<b>(147 808)</b>	<b>(208 972)</b>

Movements on impairment losses on purchased or originated credit-impaired on finance lease receivables (POCI)

	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
<b>As at the beginning of the period</b>	<b>(382)</b>	<b>(471)</b>
Charge/write back of current period	382	(81)
Write off/Sale of receivables	–	170
<b>As at the end of the period</b>	<b>–</b>	<b>(382)</b>

Finance lease receivables  
31.12.2020

	Stage 1	Stage 2	Stage 3	POCI	Total
<b>As at the beginning of the period</b>	<b>8 523 051</b>	<b>559 178</b>	<b>181 224</b>	<b>3 516</b>	<b>9 266 969</b>
Transfers					
Transfer to Stage 1	793 031	(776 784)	(16 247)	–	–
Transfer to Stage 2	(1 150 342)	1 177 924	(27 582)	–	–
Transfer to Stage 3	(17 837)	(116 075)	133 912	–	–
New financial assets originated	2 700 505	7 159	630	–	2 708 294
Changes in existing financial assets	(1 576 015)	(143 194)	(48 071)	(339)	(1 767 619)
Financial assets derecognised that are not write-offs	(343 098)	(29 794)	(9 757)	(100)	(382 749)
Write-offs	–	–	(31 467)	–	(31 467)
FX and others movements	(2 899)	(6 307)	(856)	–	(10 062)
<b>As at the end of the period</b>	<b>8 926 396</b>	<b>672 107</b>	<b>181 786</b>	<b>3 077</b>	<b>9 783 366</b>

Movements on allowances for expected credit losses on finance lease receivables measured at amortised cost for reporting period 1.01.2020 – 31.12.2020

	Stage 1	Stage 2	Stage 3	Total
<b>As at the beginning of the period</b>	<b>(19 564)</b>	<b>(23 560)</b>	<b>(97 237)</b>	<b>(140 361)</b>
Transfers				
Transfer to Stage 1	(6 801)	26 968	2 092	22 259
Transfer to Stage 2	10 917	(40 698)	5 457	(24 324)
Transfer to Stage 3	303	9 059	(24 468)	(15 106)
New financial assets originated	(8 594)	(59)	(1 290)	(9 943)
Changes in credit risk of existing financial assets	(2 049)	734	(22 807)	(24 122)
Changes in models and risk parameters	779	(450)	(2 180)	(1 851)
Financial assets derecognised that are not write-offs	744	719	5 259	6 722
Write-offs	–	–	31 467	31 467
FX and others movements	(297)	258	2 342	2 303
<b>As at the end of the period</b>	<b>(24 562)</b>	<b>(27 029)</b>	<b>(101 365)</b>	<b>(152 956)</b>

## 23. Securitisation of assets

### Santander Bank Polska S.A.

On 7 December 2018, Santander Bank Polska S.A. signed a synthetic securitisation agreement with the European Investment Fund (EIF) with respect to PLN 2,150,031k worth of cash loan portfolio. The purpose of the transaction is to release capital to finance projects supporting the development of SME, corporate and public sector customers. The agreement was activated on 28 August 2019 after the Bank had satisfied the contractual conditions precedent. The cash loan portfolio of PLN 2,150,031k (principal amount only) was secured by a guarantee. The transaction is set to expire by 10 September 2031.

The transaction has been executed to transfer credit risk to the EIF and optimise the Bank's Tier 1 capital. It is a synthetic securitisation which does not involve financing and covers the selected portfolio of cash loans which remain on the Bank's balance sheet. The entire securitised portfolio is risk weighted in accordance with the standardised approach.

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 1,720,025.0k, the mezzanine tranche was PLN 397,755.8k and the junior tranche amounted to PLN 32,250.5k.

The senior and mezzanine tranches are fully guaranteed by the EIF. 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 the Common Equity Tier 1 items in accordance with Article 36(1)(k)

of the CRR. Deduction from the Common Equity Tier 1 means the application of the "full deduction approach", as stipulated in Article 245(1)(b) of the CRR.

According to the terms of the transaction, losses up to the junior tranche amount are covered by the Bank, and only after this level is exceeded can they be covered from the guarantee issued by the EIF. To ensure stability of the portfolio structure, the transaction provides for a synthetic excess spread mechanism that makes it possible to allocate losses up to 1.45% of the portfolio per year outside the securitisation structure during the first two years after activation of the guarantee. The mechanism is to be renewed after 12 months. Likewise, for the first two years after activation of the securitisation, the amortised part of the portfolio may be replenished by other eligible loans.

As at 31 December 2021, the gross carrying amounts of the individual tranches were as follows: senior tranche: PLN 1,086,470.5k, mezzanine tranche: PLN 251,246.3k and junior tranche: PLN 32,335.1k. In the reporting period, credit losses allocated outside the securitisation structure using the synthetic excess spread mechanism totalled PLN 23,406.4k. 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.

Pursuant to IFRS 9, the contractual terms of the transaction do not satisfy the criteria for not recognising the securitised assets in Santander Bank Polska statement of financial position.

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

	Transaction value – gross		Transaction value by capital amount		Retained Risk Value	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
<b>Balance sheet portfolio, incl:</b>	<b>1 370 052</b>	<b>1 662 719</b>	<b>1 364 407</b>	<b>1 657 847</b>	<b>37 895</b>	<b>37 123</b>
Senior tranche	1 086 470	1 324 179	1 081 955	1 320 282	4 516	3 898
Mezzanine tranche	251 246	306 216	250 202	305 315	1 044	901
Junior tranche	32 335	32 324	32 250	32 250	32 335	32 324
Value of losses allocated to Synthetic Excess Spread	23 406	14 351	23 406	14 351	23 406	14 351
Value of available Synthetic Excess Spread allocated to be used	18 772	26 963	18 772	26 963	–	–

### Santander Leasing S.A.

Since 2018, Santander Leasing S.A. (Company) has performed the securitisation agreement with respect to two tranches of EUR 330m and PLN 1,202.5m, respectively. The PLN tranche was amortised starting from May 2020. The liquidity securitisation of that tranche was settled in full in May 2021 and the transaction was closed.

The EUR tranche remained active as at 31 December 2021. The bonds and the loan mature in March 2036.

The transaction is a traditional securitisation consisting in the transfer of ownership of the securitised debt to Santander Leasing

Poland Securitization 01 DAC with its registered office in Ireland (SPV).

Based on the purchased assets, the SPV issued bonds of EUR 330m. To mitigate liquidity and credit risk associated with the transaction, Santander Leasing S.A. granted a subordinated loan to the SPV to be paid after repayment of bond debt.

As a result of securitisation of both tranches, Santander Leasing S.A. raised funding in exchange for rights to future cash flows from the securitised portfolio.

The securitisation transaction is one of the sources of funding. It positively affects the capital adequacy ratios, liquidity and



diversification of funding.

Pursuant to IFRS 9, the contractual terms of the transaction do

not satisfy the criteria for not recognising the securitised assets in Santander Leasing statement of financial position.

	Transaction value – gross		Risk value retained in the Group		Fair Value	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Balance sheet value – Assets	1 886 874	3 149 466	1 886 874	3 149 466	1 884 270	3 157 258
Balance sheet value – Liabilities	2 062 531	3 277 144	2 062 531	3 277 144	2 065 817	3 297 460
Net amount	(175 657)	(127 678)	(175 657)	(127 678)	(181 547)	(140 202)

In June 2020, Santander Leasing S.A. securitised a portfolio of loans and leasing facilities totalling PLN 2,000,000k. As part of the transaction, the Company entered into a guarantee agreement with the EIF to secure the selected portfolio of the above-mentioned facilities. The transaction is set to expire on 31 May 2031.

The transaction made by Santander Leasing S.A. is synthetic securitisation which does not involve financing and covers the selected portfolio which remains on the Company's balance sheet.

The securitised portfolio is divided into three tranches: senior (85%), mezzanine (14.2%) and junior (0.8%). The senior and mezzanine tranches are fully guaranteed by the EIF.

In addition, the mezzanine tranche is secured by a counter-guarantee from the European Investment Bank (EIB). The first loss tranche (synthetic excess spread) of 0.7% of the portfolio was retained by Santander Leasing S.A. The transaction was executed

to transfer credit risk to the EIF and optimise Tier 1 capital.

As at 31 December 2021, the senior tranche totalled PLN 1,483.4m, the mezzanine tranche was PLN 247.8m and the junior tranche amounted to PLN 14m. In the reporting period, there were no credit losses allocated outside the securitisation structure as part of the synthetic excess spread mechanism.

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

Pursuant to IFRS 9, the contractual terms of the transaction do not satisfy the criteria for not recognising the securitised assets in Santander Leasing statement of financial position.

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

	Transaction value – gross		Transaction value by capital amount		Retained Risk Value	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
<b>Balance sheet portfolio, incl:</b>	<b>1 851 940</b>	<b>2 053 136</b>	<b>1 745 167</b>	<b>1 920 576</b>	<b>106 773</b>	<b>132 560</b>
Senior tranche	1 574 149	1 745 166	1 483 392	1 632 489	90 757	112 676
Mezzanine tranche	262 975	291 545	247 814	272 722	15 162	18 824
Junior tranche	14 816	16 425	13 961	15 365	854	1 060
Value of losses allocated to Synthetic Excess Spread	329	26	329	26	329	26
Value of available Synthetic Excess Spread allocated to be used	12 902	14 000	12 902	14 000	–	–

On 16 December 2021, Santander Leasing S.A. signed a guarantee agreement with the European Investment Fund (EIF) to secure the portfolio of leases and loans totalling approx. PLN 2.7bn. The contractual maturity date of the transaction is 30 November 2030.

The guarantee agreement concluded by Santander Leasing S.A. meets the synthetic securitisation criteria set out in the Capital Requirements Regulation (CRR) (amended by Regulation 2017/2041). The transaction is synthetic securitisation which does not involve financing and covers the selected portfolio of lease and loan agreements which remains on the Company's balance sheet.

As part of the transaction, the securitised portfolio is divided into two tranches: senior (87.5%) and junior, i.e. the first loss tranche (12.5%). As at the guarantee activation date, the senior tranche totalled PLN 2,394,191,718.96 and the junior tranche amounted to PLN 342,027,388.42. The junior tranche is guaranteed by the EIF. Both the principal component and the interest component of the underlying exposures are secured by the EIF guarantee. The transaction does not involve the synthetic excess spread mechanism.

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

31.12.2021	Transaction value – gross	Transaction value by capital amount	Retained Risk Value
<b>Balance sheet portfolio, incl:</b>	<b>2 833 915</b>	<b>2 643 328</b>	<b>190 587</b>
Senior tranche	2 479 676	2 312 912	166 763
Junior tranche	354 239	330 416	23 824

## Santander Consumer Bank S.A.

In July 2019, Santander Consumer Bank S.A. (SCB) restructured the securitisation of the cash loan portfolio. The transaction is a traditional and revolving securitisation under which the ownership of the securitised exposures was transferred to a special purpose vehicle – SC Poland Consumer 16-1 Sp. z o.o with its registered office in Poland (SPV3). The amounts of tranches A and C were revised and their maturities were extended. Tranche B was redeemed. Net contractual cash flows were settled on the date the restructuring documents were signed.

Based on the securitised assets, SPV3 issued bonds of PLN 2,000,000k as at 31 December 2021, secured by a registered pledge on SPV3 assets. The bonds bear an interest rate of 1M WIBOR plus margin. As a result of the securitisation, SCB raised funding in exchange for rights to future cash flows from the securitised credit portfolio. The bonds expire on 16 July 2030, but SCB expects that they will be fully redeemed within three years of the transaction date.

To finance the transaction, SCB provided SPV3 with a subordinated loan totalling PLN 443 281k. As at 31 December 2021, the Bank revised the fair value measurement of this loan at PLN 15,771k. The loan is subordinated to the senior secured bonds. Interest on the loan is paid in a specific order from SPV3 funds, while the principal will be repaid upon the full redemption of bonds. The loan bears a fixed interest rate.

Pursuant to IFRS 9, the contractual terms of both securitisations do not satisfy the criteria for not recognising the securitised assets in the Bank's statement of financial position. Accordingly, as at 31 December 2021 the Bank disclosed the securitised assets of PLN 1,897,863k under loans and advances to customers.

The fair value of the net securitised assets measured as at 31 December 2021 was PLN 1,846,309k. At the same time, SCB recognises the liability in respect of cash flows from securitisation under deposits from customers. As at 31 December 2021, it totalled PLN 2,446,972k.

	Transaction value		Risk value retained in the Group		Fair Value	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Balance sheet value – Assets	1 897 863	1 938 496	1 897 863	1 938 496	1 846 309	1 840 419
Balance sheet value – Liabilities	2 446 972	2 445 456	2 446 972	2 445 456	2 446 972	2 445 456
Net amount	(549 109)	(506 960)	(549 109)	(506 960)	(600 663)	(605 037)

As at December 31, 2021, the estimated fair value of the liability for securitization flows was 2,431 201 k.

As at 31 December 2021, SCB also had liabilities of PLN 177k in respect of ongoing settlements with SPV, which were disclosed under other liabilities.

The securitisation transaction executed by the Bank in 2015 in relation to the portfolio of instalment loans expired in 2020. The transaction was a traditional securitisation involving the transfer of ownership of the securitised exposures to a special purpose vehicle – SC Poland Consumer 2015-1 Sp. z o.o with its registered office in Poland (SPV2).

	Transaction value – gross		Transaction value by capital amount		Retained Risk Value	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
<b>Balance sheet portfolio, incl:</b>	<b>1 493 650</b>	<b>1 734 102</b>	<b>1 493 650</b>	<b>1 734 102</b>	<b>20 809</b>	<b>20 809</b>
Senior tranche	1 214 945	1 413 293	1 214 945	1 413 293	–	–
Mezzanine tranche	257 896	300 000	257 896	300 000	–	–
Junior tranche	20 809	20 809	20 809	20 809	20 809	20 809
Value of losses allocated to Synthetic Excess Spread	–	–	–	–	–	–
Value of available Synthetic Excess Spread allocated to be used	7 307	12 502	7 307	12 502	n/a	n/a

In 2019, SCB securitised a portfolio of cash and instalment loans granted by the Bank. The purpose of the transaction was to obtain a capital relief in relation to the portfolio of retail loans, ensuring an additional capacity to finance projects supporting the growth of SME customers. The transaction is a synthetic securitisation and consists of three tranches. On 5 July 2019, the Bank signed an agreement with the EIF under which the EIF issued a financial guarantee to secure 100% of senior and mezzanine tranches (A- and B-class). At the same time, the Bank retained 100% of the C-class first loss tranche, which was deducted from the Common Equity Tier 1 in accordance with Article 36(1)(k) of the CRR. Deduction from the Common Equity Tier 1 means the application of the "full deduction approach," as stipulated in Article 245(1)(b) of the CRR. In the case of mezzanine

tranches, the EIF received a financial counter-guarantee from the European Investment Bank. The transaction meets the criteria stipulated in Article 245(4) and Article 245(1)(b) of the CRR. It provides for synthetic excess spread, which is equal to 1.40% of the performing portfolio and is used in accordance with the "use it or lose it" mechanism. As part of the transaction, the Bank retains randomly selected exposures which account for not less than 5% of the notional amount of the securitised exposures in accordance with Article 405(1)(c) of the CRR. The guarantee was activated on 21 November 2019, while the impact on the Bank's risk-weighted assets was recognised in December 2019. The guarantee covered the portfolio of cash and instalment loans of PLN 1,734,101k (principal amount). The securitised portfolio is risk weighted in accordance with the standardised approach. The transaction

includes a two-year revolving period during which the Bank may replenish the amortised amount of the securitised portfolio with new exposures that meet the criteria specified in the agreement.

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

Pursuant to IFRS 9, the contractual terms of the transaction do not satisfy the criteria for not recognising the securitised assets in Santander Bank Polska statement of financial position.

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

## Santander Consumer Multirent

In July 2020, Santander Consumer Multirent Sp. z o.o. (SCM) securitised a portfolio of lease agreements. The transaction is a traditional and revolving securitisation consisting in the transfer of ownership of the securitised exposures to a special purpose vehicle – SCM POLAND AUTO 2019-1 DAC with its registered office in Ireland (SPV3).

Based on the securitised assets, SPV3 issued bonds of PLN 740,000k as at 31 December 2021. The bonds bear an interest rate of 1M WIBOR plus margin. As a result of the securitisation, SCM raised funding in exchange for rights to future cash flows from the securitised credit portfolio.

To finance the transaction, SCM provided SPV3 with a subordinated loan totalling PLN 215,383k as at 31 December 2021. The loan is subordinated to the senior secured bonds. Interest on the loan is paid in a specific order from SPV3 funds, while the principal will be repaid upon the full redemption of bonds. The loan bears a floating interest rate based on 1M WIBOR.

Pursuant to IFRS 9, the contractual terms of the transaction do not satisfy the criteria for not recognising the securitised assets in SCM's statement of financial position. Accordingly, as at 31 December 2021 SCM disclosed the securitised assets of PLN 948,742k under finance lease receivables.

At the same time, SCM recognises the liability in respect of cash flows from securitisation under other liabilities. As at 31 December 2021, it totalled PLN 955,383k.

As at December 31, 2021, SCM also had receivables of 6 544 k, in respect of ongoing settlements with SPV, which were disclosed under trade and other receivables.

	Transaction value		Risk value retained in the Group		Fair Value	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Balance sheet value – Assets	948 742	948 742	948 742	948 742	978 413	980 065
Balance sheet value – Liabilities	956 415	955 954	956 415	955 954	956 415	955 954
Net amount	(7 673)	(7 212)	(7 673)	(7 212)	21 996	24 111

## 24. Investment securities

Investment securities	31.12.2021	31.12.2020
<b>Debt investment securities measured at fair value through other comprehensive income</b>	<b>70 064 796</b>	<b>65 700 052</b>
Government securities:	49 225 514	46 149 191
– bills	-	1 415 983
– bonds	49 225 514	44 733 208
Central bank securities:	6 997 960	4 999 904
– bills	6 997 960	4 999 904
Other securities:	13 841 322	14 550 957
– bonds	13 841 322	14 550 957
<b>Debt investment securities measured at fair value through profit and loss</b>	<b>116 977</b>	<b>110 155</b>
<b>Debt investment securities measured at amortised cost</b>	<b>1 421 272</b>	<b>-</b>
Government securities:	1 421 272	-
– bonds	1 421 272	-
<b>Equity investment securities measured at fair value through other comprehensive income</b>	<b>259 788</b>	<b>857 331</b>
– listed	64 320	30 594
– unlisted	195 468	826 737
<b>Equity investment securities measured at fair value through profit and loss</b>	<b>3 427</b>	<b>115 896</b>
– unlisted	3 427	115 896
<b>Total</b>	<b>71 866 260</b>	<b>66 783 434</b>

Movements on investment securities 1.01.2021 – 31.12.2021	Debt investment securities measured at fair value through other comprehensive income	Debt investment securities measured at fair value through profit and loss	Debt investment securities measured at amortised cost	Equity investment securities measured at fair value through other comprehensive income	Equity investment securities measured at fair value through profit and loss	Total
<b>As at the beginning of the period</b>	<b>65 700 052</b>	<b>110 155</b>	<b>-</b>	<b>857 331</b>	<b>115 896</b>	<b>66 783 434</b>
Additions	212 852 965	-	1 415 626	428	-	214 269 019
Disposals (sale and maturity)	(204 782 394)	(500)	-	(1 116 722)**	(116 422)	(206 016 038)
Fair value adjustment	(3 885 857)*	(1 768)	-	518 751	3 968	(3 364 906)
Movements on interest accrued	(22 601)	-	5 646	-	-	(16 955)
Impairment losses on securities	(4 015)	-	-	-	-	(4 015)
FX differences	206 646	9 090	-	-	(15)	215 721
<b>As at the end of the period</b>	<b>70 064 796</b>	<b>116 977</b>	<b>1 421 272</b>	<b>259 788</b>	<b>3 427</b>	<b>71 866 260</b>

\* The increase in profitability of the debt securities portfolio in connection with commencement of the monetary policy tightening cycle by the National Bank of Poland (interest rate increases) resulted in a decrease in the valuation of those securities.

\*\* It mainly concerns the sale of shares AVIVA TUZ S.A., AVIVA TUO S.A. and PTE Aviva Santander S.A., details in note 47.

Movements on investment securities 1.01.2020 – 31.12.2020	Debt investment securities measured at fair value through other comprehensive income	Debt investment securities measured at fair value through profit and loss	Equity investment securities measured at fair value through other comprehensive income	Equity investment securities measured at fair value through profit and loss	Total
<b>As at the beginning of the period</b>	<b>40 248 937</b>	<b>194 285</b>	<b>884 912</b>	<b>-</b>	<b>41 328 134</b>
Additions	138 478 639	-	-	101 550	138 580 189
Disposals (sale and maturity)	(113 856 649)	(102 550)	(1 000)	-	(113 960 199)
Fair value adjustment	805 545	15 957	(26 581)	17 245	812 166
Movements on interest accrued	(59 450)	-	-	-	(59 450)
Impairment losses on securities	(8 535)	-	-	-	(8 535)
FX differences	91 565	2 463	-	(2 899)	91 129
<b>As at the end of the period</b>	<b>65 700 052</b>	<b>110 155</b>	<b>857 331</b>	<b>115 896</b>	<b>66 783 434</b>

## 25. Investments in associates

Balance sheet value of associates	31.12.2021	31.12.2020
Polfund – Fundusz Poręczeń Kredytowych S.A.	45 944	45 712
Santander – Aviva Towarzystwo Ubezpieczeń S.A. and Santander – Aviva Towarzystwo Ubezpieczeń na Życie S.A.	886 796	952 685
<b>Total</b>	<b>932 740</b>	<b>998 397</b>

Movements on investments in associates	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
<b>As at the beginning of the period</b>	<b>998 397</b>	<b>903 113</b>
Share of profits/(losses)	74 068	86 360
Dividends	(113 254)	-
Other	(26 471)	8 924
<b>As at the end of the period</b>	<b>932 740</b>	<b>998 397</b>

The table below presents information regarding the Group's share in the capital of associates:

Name of associate	Country of incorporation and place of business	The Group's share in capital / voting power		Valuation method	Scope of business
		2021	2020		
Santander – Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poland Warsaw	49.00	49.00	Equity method	insurance activity, life insurance
Santander – Aviva Towarzystwo Ubezpieczeń S.A.	Poland Warsaw	49.00	49.00	Equity method	insurance activity, property and personal insurance
POLFUND – Fundusz Poręczeń Kredytowych S.A.	Poland Szczecin	50.00	50.00	Equity method	providing lending guarantees, investing and managing funds invested in companies

The table below presents condensed financial information regarding associates which have a significant contribution to the Group:

	Santander – Aviva Towarzystwo Ubezpieczeń na Życie S.A.		Santander – Aviva Towarzystwo Ubezpieczeń S.A.	
	2021 *	2020	2021 *	2020
Loans and advances to banks	75 971	32 164	15 169	25 611
Financial assets held for trading	137 800	132 816	1 112	1 183
Investment securities	590 201	681 873	309 301	376 479
Deferred tax assets	3 140	–	3 350	–
Net life insurance assets where the deposit (investment) risk is incurred by the insuring party	153 649	181 932	–	–
Other settlements	48 536	25 113	33 616	36 795
Prepayments	362 312	334 538	70 027	86 243
Other items	678	998	82	135
<b>Total assets</b>	<b>1 372 287</b>	<b>1 389 434</b>	<b>432 657</b>	<b>526 446</b>
Technical insurance provisions	869 334	831 707	149 002	174 752
Reinsurers' share in provisions	(6 373)	(7 909)	(16 439)	(37 054)
Estimated recourses and recoveries (negative value)	–	–	(1 078)	(1 242)
Other liabilities	321 124	303 627	56 615	74 387
Prepayments and accruals	2 566	1 365	12 147	23 741
Special funds	91	81	67	63
<b>Total liabilities</b>	<b>1 186 742</b>	<b>1 128 871</b>	<b>200 314</b>	<b>234 647</b>
Income	282 050	235 942	119 933	150 751
Profit (loss) for the period	95 427	112 645	55 259	62 704
Dividends paid to Santander Bank Polska S.A.	64 917	–	48 337	–

\* data are based on estimates of companies

Carrying value of the investments in the associates accounted for using the equity method is different from the share of the Group in their net assets by the amount of goodwill initially recognised in the carrying value of the investment.

2020 data are based on audited financial report of companies

Santander – Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Santander – Aviva Towarzystwo Ubezpieczeń S.A.

Data published in Annual Report for 2020 were based on estimates of companies. The differences between estimates and real data are irrelevant.

## 26. Intangible assets

Intangible assets Year 2021	Licences, patents etc.	Other	Expenditure on intangible assets	Total
<b>Value at purchase price – beginning of the period</b>	<b>2 219 644</b>	<b>427 107</b>	<b>234 365</b>	<b>2 881 116</b>
<b>Additions from:</b>				
– purchases	–	–	266 112	266 112
– transfers from expenditures	198 871	–	–	198 871
– transfers	82	542	1 393	2 017
<b>Disposals from:</b>				
– liquidation	(29 558)	(207 893)	(12 950)	(250 401)
– transfers from expenditures	–	–	(198 871)	(198 871)
– transfers	–	(77)	(501)	(578)
<b>Value at purchase price – end of the period</b>	<b>2 389 039</b>	<b>219 679</b>	<b>289 548</b>	<b>2 898 266</b>
<b>Accumulated depreciation – beginning of the period</b>	<b>(1 850 572)</b>	<b>(322 188)</b>	<b>–</b>	<b>(2 172 760)</b>
<b>Additions/disposals from:</b>				
– current year amortization	(222 726)	(34 431)	–	(257 157)
– liquidation, sale	24 145	200 308	–	224 453
– transfers	(14)	14	–	–
<b>Accumulated depreciation – end of the period</b>	<b>(2 049 167)</b>	<b>(156 297)</b>	<b>–</b>	<b>(2 205 464)</b>
Balance sheet value				
Purchase value	2 389 039	219 679	289 548	2 898 266
Accumulated depreciation	(2 049 167)	(156 297)	–	(2 205 464)
<b>As at 31 December 2021</b>	<b>339 872</b>	<b>63 382</b>	<b>289 548</b>	<b>692 802</b>

Intangible assets Year 2020	Licences, patents etc.	Other	Expenditure on intangible assets	Total
<b>Value at purchase price – beginning of the period</b>	<b>1 869 149</b>	<b>642 114</b>	<b>280 106</b>	<b>2 791 369</b>
<b>Additions from:</b>				
– purchases	–	–	220 553	220 553
– transfers from expenditures	244 370	–	–	244 370
– transfers	215 562	–	962	216 524
<b>Disposals from:</b>				
– liquidation	(99 409)	–	(7 979)	(107 388)
– transfers from expenditures	–	–	(244 370)	(244 370)
– transfers	(10 028)	(215 007)	(14 907)	(239 942)
<b>Value at purchase price – end of the period</b>	<b>2 219 644</b>	<b>427 107</b>	<b>234 365</b>	<b>2 881 116</b>
<b>Accumulated depreciation – beginning of the period</b>	<b>(1 550 482)</b>	<b>(468 770)</b>	<b>–</b>	<b>(2 019 252)</b>
<b>Additions/disposals from:</b>				
– current year amortization	(194 882)	(59 676)	–	(254 558)
– liquidation, sale	98 118	–	–	98 118
– transfers	(203 326)	206 258	14 129	17 061
Write down/Reversal of impairment write down	–	–	(14 129)	(14 129)
<b>Accumulated depreciation – end of the period</b>	<b>(1 850 572)</b>	<b>(322 188)</b>	<b>–</b>	<b>(2 172 760)</b>
Balance sheet value				
Purchase value	2 219 644	427 107	234 365	2 881 116
Accumulated depreciation	(1 850 572)	(322 188)	–	(2 172 760)
<b>As at 31 December 2020</b>	<b>369 072</b>	<b>104 919</b>	<b>234 365</b>	<b>708 356</b>



## 27. Goodwill

As at 31 December 2021 and in the corresponding period, the goodwill covered in the amount of PLN 1,712,056 k the following items:

- PLN 1,688,516 k – goodwill arising from the merger of Santander Bank Polska and Kredyt Bank on 4 January 2013,
- PLN 23,540 k – goodwill arising from the fact that Santander Bank Polska holds 60% shares of Santander Consumer Bank, which, in turn, has 50% stake in PSA Finance Polska. Santander Bank Polska discloses 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.

In accordance with IFRS 3 the goodwill was calculated as the surplus of the cost of acquisition over the fair value of assets and liabilities acquired.

### Test for impairment of goodwill arising from the merger between Santander Bank Polska and Kredyt Bank

In 2021 and in the comparative period, the Bank conducted tests for impairment of goodwill arising from the merger with Kredyt

Bank on 4 January 2013. The carrying amount as at 31 December 2021 was PLN 1,688,516 k (the same as at 31 December 2020).

### Recoverable amount based on value in use

The recoverable amount of cash-generating units is the higher of fair value less costs of disposal and value in use. Value in use which is higher than the fair value less costs of disposal is measured on the basis of a discounted cash flow model relevant for banks and other financial institutions. The future expected cash flows generated by business segments of Santander Bank Polska are in line with the 3-year financial projections of the Bank's management for 2022-2024.

Taking into account the stability of Santander Bank Polska and sustainable financial performance, and comparing the value in use with the carrying amount of the cash-generating unit, no impairment was identified.

### Key assumptions for measuring value in use

For the purposes of goodwill impairment testing Bank applies the following allocation of goodwill to historical business segments. The allocation results from the initial recognition as at acquisition date:

	Retail Banking Segment	Business and Corporate Banking Segment	Corporate and Investment Banking Segment	ALM and Centre Segment	Total
<b>Goodwill</b>	<b>764 135</b>	<b>578 808</b>	<b>222 621</b>	<b>122 952</b>	<b>1 688 516</b>

Due to accepted valuation model, assumptions used to determine the value in use for the individual segments are the same.

### Financial projection

The financial projection for 2022–2024 was prepared in line with the strategic and operational plans for 2022–2024 as well as macroeconomic and market forecasts. The extrapolation of cash flows beyond the period covered by the financial plan was based on growth rates reflecting the National Bank of Poland's long-term inflation target of 2.5 p.p. as at 31 December 2021.

Pursuant to the financial projection, the Bank will continue to develop its products and services, focusing on the main product lines, services for retail customers, financing for SMEs, savings products and transactional banking services.

### Discount rate

The discount rate of 10.13% used in the model is equal to the cost of capital rate assumed for 2021 which had been calculated on the basis of the Capital Assets Pricing Model, taking into account: risk-free rate (1.95%), beta coefficient for Santander Bank Polska S.A. (1.14) and market risk premium (5.37%) taking into account the market factor of 1.25.

### Growth rate in the period beyond the financial projections

The extrapolation of cash flows beyond the 3-year period subject to the financial projection (residual value) was based on an annual growth rate of 2.5%, i.e. equal to the inflation target.

### Minimum capital ratio imposed by the regulator

An increase in the required capital amount results in a decrease in the amount of capital available for distribution theoretical dividends as part of the test.

Under Polish law, the value of dividends payable by commercial banks in respect of their prior year profits depends on fulfilment of the minimum criteria laid down in the KNF's dividend policy. As recommended by the KNF, the banks which simultaneously meet the required total capital ratio (TCR), Tier 1 capital ratio and Common Equity Tier 1 (CET 1) ratio, should be able to pay in dividends up to 50% of their profit.

In addition, in the case of banks which have exposures on account of foreign currency loans to households, the dividend payout ratio should be adjusted depending on the share of:

- currency mortgage loans for households in the entire portfolio of receivables from the non-financial sector; and
- currency mortgage loans dating from 2007 and 2008 in the portfolio of currency mortgage loans to households.

All the above factors have a negative impact on the capital available for distribution and, consequently, on the results of the goodwill impairment test.

The capital ratio required by the KNF for Santander Bank Polska S.A. to pay up to 50% of the profit was 14.28%, taking into account the additional capital buffer in respect of the risk attached to foreign currency mortgage loans to households, the buffer for other systemically important institutions (OSII) and the conservation buffer.

While the increased capital requirements ensure stability and security for Santander Bank Polska S.A. as they strengthen its capital base, they cause a corresponding reduction in dividends payable to shareholders, which in turn affect the cash-generating unit's value in use.

Detailed informations on the dividend policy are disclosed in Note 57.

As at 31 December 2021, no goodwill impairment was identified.

## Test for impairment of goodwill arising from the purchase of shares of PSA Finance Polska

The bank conducted a test for impairment of goodwill arising from the final settlement of acquisition of shares of PSA Finance Polska sp. z o.o. and, indirectly, PSA Consumer Finance Polska sp. z o.o. by Santander Consumer Bank S.A. The test results showed an excess of the value of non-controlling interests (70%) and the payment made over the carrying amount of the identified net assets.

The test was prepared using the income approach.

As at 31 December 2021, no goodwill impairment was identified.

## 28. Property, plant and equipment

Property, plant & equipment not subject to operating lease Year 2021	Land and buildings	IT Equipment	Transportation means	Other fixed assets	Fixed assets under construction	Total
<b>Value at purchase price – beginning of the period</b>	<b>608 045</b>	<b>958 379</b>	<b>142 247</b>	<b>237 594</b>	<b>68 442</b>	<b>2 014 707</b>
<b>Additions from:</b>						
– purchases	–	–	10 384	–	135 266	145 650
– transfers from expenditures	12 719	77 156	5 023	12 117	–	107 015
– transfers	–	591	146	49	7	793
<b>Disposals from:</b>						
– sale, liquidation, donation	(105 954)	(45 909)	(36 675)	(36 760)	(2 784)	(228 082)
– transfers from expenditures	–	–	–	–	(107 014)	(107 014)
– transfers	–	–	–	(686)	(962)	(1 648)
<b>Value at purchase price – end of the period</b>	<b>514 810</b>	<b>990 217</b>	<b>121 125</b>	<b>212 314</b>	<b>92 955</b>	<b>1 931 421</b>
<b>Accumulated depreciation – beginning of the period</b>	<b>(429 263)</b>	<b>(638 316)</b>	<b>(25 252)</b>	<b>(173 517)</b>	<b>–</b>	<b>(1 266 348)</b>
<b>Additions/disposals from:</b>						
– current year amortization	(21 779)	(102 940)	(11 821)	(17 702)	–	(154 242)
– sale, liquidation, donation	83 208	45 388	16 369	33 713	–	178 678
– transfers	(3)	–	(42)	(9)	–	(54)
Write down/Reversal of impairment write down	5 156	70	–	–	–	5 226
<b>Accumulated depreciation– end of the period</b>	<b>(362 681)</b>	<b>(695 798)</b>	<b>(20 746)</b>	<b>(157 515)</b>	<b>–</b>	<b>(1 236 740)</b>
<b>Balance sheet value</b>						
Purchase value	514 810	990 217	121 125	212 314	92 955	1 931 421
Accumulated depreciation	(362 681)	(695 798)	(20 746)	(157 515)	–	(1 236 740)
<b>As at 31 December 2021</b>	<b>152 129</b>	<b>294 419</b>	<b>100 379</b>	<b>54 799</b>	<b>92 955</b>	<b>694 681</b>

Property, plant & equipment not subject to operating lease Year 2020	Land and buildings	IT Equipment	Transportation means	Other fixed assets	Fixed assets under construction	Total
<b>Value at purchase price – beginning of the period</b>	<b>683 072</b>	<b>872 898</b>	<b>157 457</b>	<b>248 938</b>	<b>111 382</b>	<b>2 073 747</b>
<b>Additions from:</b>						
– purchases	–	–	37 049	–	112 894	149 943
– transfers from expenditures	24 518	99 548	4 430	19 854	–	148 350
– transfers	213	9 509	332	3	4	10 061
<b>Disposals from:</b>						
– sale, liquidation, donation	(99 758)	(23 574)	(56 595)	(31 201)	(282)	(211 410)
– transfers from expenditures	–	–	–	–	(148 351)	(148 351)
– transfers	–	(2)	(426)	–	(7 205)	(7 633)
<b>Value at purchase price – end of the period</b>	<b>608 045</b>	<b>958 379</b>	<b>142 247</b>	<b>237 594</b>	<b>68 442</b>	<b>2 014 707</b>
<b>Accumulated depreciation – beginning of the period</b>	<b>(488 446)</b>	<b>(560 602)</b>	<b>(38 629)</b>	<b>(185 078)</b>	<b>–</b>	<b>(1 272 755)</b>
<b>Additions/disposals from:</b>						
– current year amortization	(22 731)	(97 043)	(13 308)	(17 623)	–	(150 705)
– sale, liquidation, donation	82 833	22 402	26 708	29 050	–	160 993
– transfers	3	(3 073)	(23)	134	7 088	4 129
Write down/Reversal of impairment write down	(922)	–	–	–	(7 088)	(8 010)
<b>Accumulated depreciation – end of the period</b>	<b>(429 263)</b>	<b>(638 316)</b>	<b>(25 252)</b>	<b>(173 517)</b>	<b>–</b>	<b>(1 266 348)</b>
<b>Balance sheet value</b>						
Purchase value	608 045	958 379	142 247	237 594	68 442	2 014 707
Accumulated depreciation	(429 263)	(638 316)	(25 252)	(173 517)	–	(1 266 348)
<b>As at 31 December 2020</b>	<b>178 782</b>	<b>320 063</b>	<b>116 995</b>	<b>64 077</b>	<b>68 442</b>	<b>748 359</b>

Property, plant & equipment subject to operating lease Year 2021	Transportation means	Fixed assets under construction	Total
<b>Value at purchase price – beginning of the period</b>	<b>61 550</b>	<b>107</b>	<b>61 657</b>
<b>Additions from:</b>			
– purchases	–	22 979	22 979
– transfers from expenditures	21 138	–	21 138
– transfers	8 510	–	8 510
<b>Disposals from:</b>			
– sale, liquidation, donation	(49 175)	(411)	(49 586)
– transfers from expenditures	–	(21 138)	(21 138)
– transfers	(945)	9	(936)
<b>Value at purchase price – end of the period</b>	<b>41 078</b>	<b>1 546</b>	<b>42 624</b>
<b>Accumulated depreciation – beginning of the period</b>	<b>(6 587)</b>	<b>–</b>	<b>(6 587)</b>
<b>Additions/disposals from:</b>			
– current year amortization	(6 949)	–	(6 949)
– sale, liquidation, donation	10 177	–	10 177
– transfers	(1 027)	–	(1 027)
Write down/Reversal of impairment write down	(10)	–	(10)
<b>Accumulated depreciation – end of the period</b>	<b>(4 396)</b>	<b>–</b>	<b>(4 396)</b>
<b>Balance sheet value</b>			
Purchase value	41 078	1 546	42 624
Accumulated depreciation	(4 396)	–	(4 396)
<b>As at 31 December 2021</b>	<b>36 682</b>	<b>1 546</b>	<b>38 228</b>

Property, plant & equipment subject to operating lease Year 2020	Transportation means	Fixed assets under construction	Total
<b>Value at purchase price – beginning of the period</b>	<b>81 874</b>	<b>–</b>	<b>81 874</b>
<b>Additions from:</b>			
– purchases	–	55 542	55 542
– transfers from expenditures	55 434	–	55 434
– transfers	203	–	203
<b>Disposals from:</b>			
– sale, liquidation, donation	(63 017)	–	(63 017)
– transfers from expenditures	–	(55 435)	(55 435)
– transfers	(12 944)	–	(12 944)
<b>Value at purchase price – end of the period</b>	<b>61 550</b>	<b>107</b>	<b>61 657</b>
<b>Accumulated depreciation – beginning of the period</b>	<b>(8 788)</b>	<b>–</b>	<b>(8 788)</b>
Additions/disposals from:			
– current year amortization	(9 782)	–	(9 782)
– sale, liquidation, donation	9 592	–	9 592
– transfers	2 395	–	2 395
Write down/Reversal of impairment write down	(4)	–	(4)
<b>Accumulated depreciation – end of the period</b>	<b>(6 587)</b>	<b>–</b>	<b>(6 587)</b>
<b>Balance sheet value</b>			
Purchase value	61 550	107	61 657
Accumulated depreciation	(6 587)	–	(6 587)
<b>As at 31 December 2020</b>	<b>54 963</b>	<b>107</b>	<b>55 070</b>

## 29. Right of use assets

Right of use assets Year 2021	Land and buildings	IT Equipment	Other	Total
<b>Gross value – beginning of the period</b>	<b>1 061 815</b>	<b>3 184</b>	<b>9 594</b>	<b>1 074 593</b>
<b>Additions from:</b>				
– new lease contracts	35 571	–	146	35 717
– lease modifications and lease period update	24 506	279	61	24 846
<b>Disposals from:</b>				
– lease modifications and lease period update	(108 945)	(579)	(515)	(110 039)
<b>Gross value – end of the period</b>	<b>1 012 947</b>	<b>2 884</b>	<b>9 286</b>	<b>1 025 117</b>
<b>Accumulated depreciation – beginning of the period</b>	<b>(359 000)</b>	<b>(1 561)</b>	<b>(3 375)</b>	<b>(363 936)</b>
Additions from:				
– current year amortization	(158 160)	(975)	(1 487)	(160 622)
Disposals from:				
– lease modifications (including settlement) and lease period update	52 096	559	282	52 937
Write down/Reversal of impairment write down *	(36 286)	–	(108)	(36 394)
<b>Accumulated depreciation – end of the period</b>	<b>(501 350)</b>	<b>(1 977)</b>	<b>(4 688)</b>	<b>(508 015)</b>
<b>Balance sheet value</b>				
Gross amount	1 012 947	2 884	9 286	1 025 117
Accumulated depreciation	(501 350)	(1 977)	(4 688)	(508 015)
<b>As at 31 December 2021</b>	<b>511 597</b>	<b>907</b>	<b>4 598</b>	<b>517 102</b>

\* The recognised impairment allowance results from the closure of the bank's branches, and relates to the entire carrying amount of these branches.

Right of use assets Year 2020	Land and buildings	IT Equipment	Other	Total
<b>Gross value – beginning of the period</b>	<b>1 044 083</b>	<b>2 166</b>	<b>9 360</b>	<b>1 055 609</b>
Additions from:				
– new lease contracts	58 188	1 175	322	59 685
– lease modifications and lease period update	66 919	–	430	67 349
– expenditures	10 643	–	–	10 643
Disposals from:				
– lease modifications and lease period update	(118 019)	(157)	(517)	(118 693)
<b>Gross value – end of the period</b>	<b>1 061 814</b>	<b>3 184</b>	<b>9 595</b>	<b>1 074 593</b>
<b>Accumulated depreciation – beginning of the period</b>	<b>(213 970)</b>	<b>(939)</b>	<b>(1 908)</b>	<b>(216 817)</b>
Additions from:				
– current year amortization	(175 962)	(1 001)	(1 587)	(178 550)
Disposals from:				
– lease modifications (including settlement) and lease period update	48 914	379	200	49 493
Write down/Reversal of impairment write down *	(17 982)	–	(80)	(18 062)
<b>Accumulated depreciation – end of the period</b>	<b>(359 000)</b>	<b>(1 561)</b>	<b>(3 375)</b>	<b>(363 936)</b>
<b>Balance sheet value</b>				
Gross amount	1 061 814	3 184	9 595	1 074 593
Accumulated depreciation	(359 000)	(1 561)	(3 375)	(363 936)
<b>As at 31 December 2020</b>	<b>702 814</b>	<b>1 623</b>	<b>6 220</b>	<b>710 657</b>

\* The recognised impairment allowance results from the closure of the bank's branches, and relates to the entire carrying amount of these branches.

## 30. Net deferred tax assets

Deferred tax assets	31.12.2021	Changes recognised in other comprehensive income*	Changes recognised in profit or loss	Changes in temporary differences	31.12.2020
Allowance for expected credit losses	948 111	–	(58 780)	(58 780)	1 006 891
Valuation of derivative financial instruments	987 596	–	88 043	88 043	899 553
Valuation of cash flow hedges instruments	345 923	344 091	–	344 091	1 832
Other provisions	211 434	–	46 421	46 421	165 013
Deferred income	510 498	–	(12 269)	(12 269)	522 767
Differences between carrying and tax value of lease	431 614	–	(20 649)	(20 649)	452 263
Unrealised interest expenses on loans, deposits and securities	87 841	–	(300 723)	(300 723)	388 564
Tax loss	57 857	–	9 371	9 371	48 486
Other negative temporary differences	43 484	–	3 030	3 030	40 454
<b>Total assets of deferred tax</b>	<b>3 624 358</b>	<b>344 091</b>	<b>(245 556)</b>	<b>98 535</b>	<b>3 525 823</b>

Deferred tax liabilities	31.12.2021	Changes recognised in other comprehensive income*	Changes recognised in profit or loss	Changes in temporary differences	31.12.2020
Valuation of investment securities	(18 061)	412 351	–	412 351	(430 412)
Provisions for retirement allowances	(3 272)	(1 358)	–	(1 358)	(1 914)
Valuation of derivative financial instruments	(723 791)	–	(148 963)	(148 963)	(574 828)
Unrealised interest income on loans, securities and interbank deposits	(238 336)	–	(8 086)	(8 086)	(230 250)
Prepayments regarding amortization of applied investment relief	(1 020)	–	175	175	(1 195)
Difference between balance sheet and taxable value of non-financial assets	(11 668)	–	6 482	6 482	(18 150)
Valuation of shares / interests in subsidiaries	(140 173)	–	(1)	(1)	(140 172)
Other positive temporary differences	(104 327)	–	28 023	28 023	(132 350)
<b>Total liabilities of deferred tax</b>	<b>(1 240 648)</b>	<b>410 993</b>	<b>(122 370)</b>	<b>288 623</b>	<b>(1 529 271)</b>
<b>Net deferred tax assets</b>	<b>2 383 710</b>	<b>755 084</b>	<b>(367 926)</b>	<b>387 158</b>	<b>1 996 552</b>

\* The changes recognized in other comprehensive income do not reflect the deferred tax effect in relation to the item recognized in non-controlling interests.

As at 31.12.2021 the calculation of deferred tax assets did not include purchased receivables in the amount of gross

PLN 78,017 k and provisions for loans that did not become tax expense in the amount of gross PLN 92,908 k.

Deferred tax assets	31.12.2020	Changes recognised in other comprehensive income*	Changes recognised in profit or loss	Changes in temporary differences	31.12.2019
Allowance for expected credit losses	1 006 891	–	89 085	89 085	917 806
Valuation of derivative financial instruments	899 553	–	401 110	401 110	498 443
Valuation of cash flow hedges instruments	1 832	(3 670)	–	(3 670)	5 502
Other provisions	165 013	–	(15 565)	(15 565)	180 578
Deferred income	522 767	–	11 931	11 931	510 836
Differences between carrying and tax value of lease	452 263	–	(65 565)	(65 565)	517 828
Unrealised interest expenses on loans, deposits and securities	388 564	–	120 883	120 883	267 681
Tax loss	48 486	–	48 413	48 413	73
Other negative temporary differences	40 454	–	630	630	39 824
<b>Total assets of deferred tax</b>	<b>3 525 823</b>	<b>(3 670)</b>	<b>590 922</b>	<b>587 252</b>	<b>2 938 571</b>

Deferred tax liabilities	31.12.2020	Changes recognised in other comprehensive income*	Changes recognised in profit or loss	Changes in temporary differences	31.12.2019
Valuation of investment securities	(430 412)	(118 266)	–	(118 266)	(312 146)
Provisions for retirement allowances	(1 914)	366	–	366	(2 280)
Valuation of derivative financial instruments	(574 828)	–	(286 785)	(286 785)	(288 043)
Unrealised interest income on loans, securities and interbank deposits	(230 250)	–	(18 032)	(18 032)	(212 218)
Prepayments regarding amortization of applied investment relief	(1 195)	–	118	118	(1 313)
Difference between balance sheet and taxable value of non-financial assets	(18 150)	–	8 263	8 263	(26 413)
Valuation of shares / interests in subsidiaries	(140 172)	–	–	–	(140 172)
Other positive temporary differences	(132 350)	–	(24 281)	(24 281)	(108 069)
<b>Total liabilities of deferred tax</b>	<b>(1 529 271)</b>	<b>(117 900)</b>	<b>(320 717)</b>	<b>(438 617)</b>	<b>(1 090 654)</b>
<b>Net deferred tax assets</b>	<b>1 996 552</b>	<b>(121 570)</b>	<b>270 205</b>	<b>148 635</b>	<b>1 847 917</b>

\* The changes recognized in other comprehensive income do not reflect the deferred tax effect in relation to the item recognized in non-controlling interests.

As at 31.12.2020 the calculation of deferred tax assets did not include purchased receivables in the amount of gross

PLN 81,431 k and provisions for loans that did not become tax expense in the amount of gross PLN 99,341 k.

Movements on net deferred tax	31.12.2021	31.12.2020
As at the beginning of the period	1 996 552	1 847 916
Changes recognised in income statement	(372 976)	263 010
Changes recognised in other comprehensive income	755 084	(121 570)
Other	5 050	7 196
<b>Balance at the end of the period</b>	<b>2 383 710</b>	<b>1 996 552</b>

Temporary differences recognised in other comprehensive income comprise deferred tax on available for sale securities, cash flow hedges and provisions for retirement allowances.

Temporary differences recognised in the income statement comprise deferred tax on the valuation of other financial assets, allowance for impairment of loans and receivables and other assets and liabilities used in the Group's ongoing operations.



## 31. Fixed assets classified as held for sale

Fixed assets classified as held for sale	31.12.2021	31.12.2020
Land and buildings	4 308	4 308
Other fixed assets	509	7 593
<b>Total</b>	<b>4 817</b>	<b>11 901</b>

## 32. Other assets

Other assets	31.12.2021	31.12.2020
Interbank settlements	22 036	1 501
Sundry debtors	965 117	719 869
Prepayments	189 698	185 738
Repossessed assets	48	–
Settlements of stock exchange transactions	57 673	113 522
Other	32 437	9 657
<b>Total</b>	<b>1 267 009</b>	<b>1 030 287</b>
of which financial assets *	1 044 826	834 892

\* Financial assets include all items of Other assets, with the exception of Prepayments, Repossessed assets and Other.

As at 31.12.2021, the allowance for impairment of other assets was PLN 103 025 k (31.12.2020 PLN 109 526 k).

The significant majority of 'Other assets' items are non-past due and unimpaired. The most significant items concern the

companies AVIVA, KDPW, WSE and a number of other entities with a good financial standing and good cooperation history, most of them rated A– (Fitch).

## 33. Deposits from banks

Deposits from banks	31.12.2021	31.12.2020
Term deposits	123 051	433 629
Loans received from banks	2 974 651	2 302 496
Current accounts	1 302 436	2 637 187
<b>Total</b>	<b>4 400 138</b>	<b>5 373 312</b>

As at 31.12.2021 the adjustment of the value of the hedged risk of deposits covered by hedge accounting amounted to PLN nil

(as at 31.12.2020 – PLN nil).

The fair value of "Deposits from banks" is presented in Note 47.

Movements in loans received from banks	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
<b>As at the beginning of the period</b>	<b>2 302 496</b>	<b>3 213 874</b>
<b>Increase (due to):</b>	<b>6 342 717</b>	<b>4 403 428</b>
– loans received	6 311 623	4 363 000
– interest on loans received	17 770	40 428
– FX differences and other changes	13 324	–
<b>Decrease (due to):</b>	<b>(5 670 562)</b>	<b>(5 314 806)</b>
– repayment of loans	(5 655 493)	(5 266 987)
– interest repayment	(15 069)	(44 099)
– FX differences and other changes	–	(3 720)
<b>As at the end of the period</b>	<b>2 974 651</b>	<b>2 302 496</b>

## 34. Deposits from customers

Deposits from customers	31.12.2021	31.12.2020
<b>Deposits from individuals</b>	<b>106 267 792</b>	<b>98 213 401</b>
Term deposits	14 078 671	18 443 221
Current accounts	91 990 149	79 562 177
Other	198 972	208 003
<b>Deposits from enterprises</b>	<b>71 375 840</b>	<b>67 954 371</b>
Term deposits	9 951 599	7 393 581
Current accounts	58 318 901	56 745 875
Loans received from financial institution	1 403 413	3 013 707
Other	1 701 927	801 208
<b>Deposits from public sector</b>	<b>7 729 811</b>	<b>5 354 483</b>
Term deposits	558 431	281 162
Current accounts	7 171 126	5 073 320
Other	254	1
<b>Total</b>	<b>185 373 443</b>	<b>171 522 255</b>

As at 31.12.2021 deposits held as collateral totaled PLN 1 019 306 k (as at 31.12.2020 – PLN 350 008 k).

The fair value of "Deposits from customers" is presented in Note 47.

Movements in loans received from other financial institutions	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
<b>As at the beginning of the period</b>	<b>3 013 707</b>	<b>3 536 953</b>
<b>Increase (due to):</b>	<b>153 437</b>	<b>357 766</b>
– loans received	135 600	212 200
– interest on loans received	17 837	41 315
– FX differences and other changes	–	104 251
<b>Decrease (due to):</b>	<b>(1 763 731)</b>	<b>(881 012)</b>
– repayment of loans	(1 733 453)	(835 578)
– interest repayment	(18 741)	(45 434)
– FX differences and other changes	(11 537)	–
<b>As at the end of the period</b>	<b>1 403 413</b>	<b>3 013 707</b>

The Group did not note any violations of contractual terms related to liabilities in respect of loans received.

## 35. Subordinated liabilities

Subordinated liabilities	Redemption date	Currency	Nominal value
Issue 1	05.08.2025	EUR	100 000
Issue 2	03.12.2026	EUR	120 000
Issue 3	22.05.2027	EUR	137 100
Issue 4	05.04.2028	PLN	1 000 000
SCF Madrid	18.05.2028	PLN	100 000

Movements in subordinated liabilities	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
<b>As at the beginning of the period</b>	<b>2 754 605</b>	<b>2 630 271</b>
<b>Additions from:</b>	<b>69 446</b>	<b>207 281</b>
– interest on subordinated loans	69 446	79 595
– FX differences	–	127 686
<b>Disposals from:</b>	<b>(73 611)</b>	<b>(82 947)</b>
– interest repayment	(69 234)	(82 947)
– FX differences	(4 377)	–
<b>As at the end of the period</b>	<b>2 750 440</b>	<b>2 754 605</b>
Short-term	13 436	13 256
Long-term (over 1 year)	2 737 004	2 741 349

Other details of subordinated liabilities are disclosed in Note 5.

## 36. Debt securities in issue

Debt securities in issue on 31.12.2021

Name of the entity issuing the securities	Type of securities	Nominal value	Currency	Date of issue	Redemption date	Book value (In thousands of PLN)
Santander Bank Polska S.A.	Bonds	100 000	EUR	18.12.2020	18.12.2023	459 969
Santander Bank Polska S.A.	Bonds	750 000	EUR	29.11.2021	29.11.2024	3 450 264
Santander Bank Polska S.A.	Certificates of deposits	750 000	PLN	22.12.2021	22.12.2023	750 649
Santander Factoring Sp. z o.o.	Bonds	655 000	PLN	03.08.2021	03.02.2022	654 782
Santander Leasing S.A.	Bonds	1 100 000	PLN	11.03.2021	11.03.2022	1 016 060
Santander Leasing S.A.	Bonds	850 000	PLN	23.06.2021	23.06.2022	849 103
Santander Leasing Poland Securitization 01	Bonds	330 000	EUR	25.03.2020	20.03.2036	1 517 801
Santander Consumer Bank S.A.	Bonds	261 400	PLN	06.10.2017	07.10.2022	262 094
Santander Consumer Bank S.A.	Bonds	60 000	PLN	07.12.2017	07.10.2022	60 159
Santander Consumer Bank S.A.	Bonds	60 000	PLN	29.03.2018	29.03.2022	60 155
Santander Consumer Bank S.A.	Bonds	100 000	PLN	01.04.2021	03.04.2023	100 145
Santander Consumer Multirent sp. z o.o.	Bonds	160 000	PLN	27.05.2021	26.05.2023	160 283
Santander Consumer Multirent sp. z o.o.	Bonds	250 000	PLN	27.09.2021	25.02.2022	250 205
Santander Consumer Multirent sp. z o.o.	Bonds	250 000	PLN	27.09.2021	28.03.2022	250 234
Santander Consumer Multirent sp. z o.o.	Bonds	220 000	PLN	06.12.2021	06.12.2023	220 350
S.C. Poland Consumer 16-1 sp. z o.o.	Bonds	800 000	PLN	25.07.2019	16.07.2030	801 010
S.C. Poland Consumer 16-1 sp. z o.o.	Bonds	1 200 000	PLN	25.07.2019	16.07.2030	1 201 515
SCM POLAND AUTO 2019-1 DAC	Bonds	740 000	PLN	20.07.2020	31.07.2028	740 684
<b>Total</b>						<b>12 805 462</b>

## Debt securities in issue on 31.12.2020

Name of the entity issuing the securities	Type of securities	Nominal value	Currency	Date of issue	Redemption date	Book value (In thousands of PLN)
Santander Bank Polska S.A.	Bonds	500 000	EUR	10.09.2018	20.09.2021	2 310 842
Santander Bank Polska S.A.	Bonds	100 000	EUR	18.12.2020	18.12.2023	461 509
Santander Factoring Sp. z o.o.	Bonds	445 000	PLN	30.07.2020	29.01.2021	445 013
Santander Factoring Sp. z o.o.	Bonds	670 000	PLN	19.11.2020	19.05.2021	669 469
Santander Leasing S.A.	Bonds	440 000	PLN	10.03.2020	10.03.2021	76 690
Santander Leasing S.A.	Bonds	450 000	PLN	22.09.2020	22.06.2021	449 630
Santander Leasing S.A.	Bonds	715 000	PLN	08.12.2020	08.12.2021	714 583
Santander Leasing Poland Securitization 01	Bonds	1 202 500	PLN	24.05.2019	20.02.2035	774 173
Santander Leasing Poland Securitization 01	Bonds	330 000	EUR	25.03.2020	20.03.2036	1 522 884
Santander Consumer Bank S.A.	Bonds	300 000	PLN	04.08.2017	09.08.2021	301 441
Santander Consumer Bank S.A.	Bonds	261 400	PLN	06.10.2017	07.10.2022	261 967
Santander Consumer Bank S.A.	Bonds	60 000	PLN	07.12.2017	07.10.2022	60 129
Santander Consumer Bank S.A.	Bonds	100 000	PLN	02.03.2018	05.03.2021	100 274
Santander Consumer Bank S.A.	Bonds	60 000	PLN	29.03.2018	29.03.2022	60 126
Santander Consumer Bank S.A.	Bonds	156 000	PLN	15.05.2018	14.05.2021	156 150
Santander Consumer Bank S.A.	Bonds	90 000	PLN	17.05.2018	18.05.2021	90 078
Santander Consumer Bank S.A.	Bonds	45 000	PLN	17.05.2018	18.05.2021	45 039
S.C. Poland Consumer 16-1 sp. z o.o.	Bonds	800 000	PLN	25.07.2019	16.07.2030	800 403
S.C. Poland Consumer 16-1 sp. z o.o.	Bonds	1 200 000	PLN	25.07.2019	16.07.2030	1 200 605
SCM POLAND AUTO 2019-1 DAC	Bonds	740 000	PLN	20.07.2020	31.07.2028	740 307
<b>Total</b>						<b>11 241 312</b>

Movements in debt securities in issue	1.01.2021-31.12.2021	1.01.2020-31.12.2020
<b>As at the beginning of the period</b>	<b>11 241 312</b>	<b>10 629 516</b>
<b>Increase (due to):</b>	<b>11 447 566</b>	<b>6 980 147</b>
– debt securities in issue	11 363 650	6 585 637
– interest on debt securities in issue	83 916	113 675
– FX differences	–	280 835
<b>Decrease (due to):</b>	<b>(9 883 416)</b>	<b>(6 368 351)</b>
– debt securities repurchase	(9 706 612)	(5 185 553)
– debt securities redemption	–	(1 052 917)
– interest repayment	(79 820)	(129 425)
– FX differences	(87 766)	–
– other changes	(9 218)	(456)
<b>As at the end of the period</b>	<b>12 805 462</b>	<b>11 241 312</b>

## 37. Provisions for off balance sheet credit facilities

Provisions for off balance sheet credit related commitments	31.12.2021	31.12.2020
Provisions for financial commitments to grant loans and credit lines	43 872	45 146
Provisions for financial guarantees	16 406	18 733
Other provisions	533	662
<b>Total</b>	<b>60 811</b>	<b>64 541</b>

Change in provisions for off balance sheet credit related commitments		31.12.2021
As at the beginning of the period		64 541
Provision charge		127 213
Write back		(130 996)
Other changes		53
<b>As at the end of the period</b>		<b>60 811</b>
Short-term		39 064
Long-term		21 747

Change in provisions for off balance sheet credit related commitments		31.12.2020
<b>As at the beginning of the period</b>		<b>66 109</b>
Provision charge		142 088
Write back		(144 405)
Other changes		749
<b>As at the end of the period</b>		<b>64 541</b>
Short-term		48 305
Long-term		16 236

## 38. Other provisions

Other provisions	31.12.2021	31.12.2020
Provisions for legal claims*	1 344 893	408 485
Provisions for legal risk*	919 788	395 968
Provisions for restructuring**	94 308	147 662
<b>Total</b>	<b>2 358 989</b>	<b>952 115</b>

\* As at 31.12.2021, the Group's provisions inter alia for disputes over contractual clauses in mortgage loan agreements indexed to and denominated in foreign currencies totalled PLN 1 216 809k (PLN 324,920k as at 31.12.2020).

\*\* As at 31.12.2021, the Group's collective provisions for legal risk totalled PLN 838 843k (PLN 278,247k as at 31.12.2020) inter alia for disputes over contractual clauses in mortgage loan agreements indexed to and denominated in foreign currencies. The above provisions for Santander Bank Polska S.A. was PLN 611 713k and for Santander Consumer Bank S.A. was PLN 227 129k (PLN 191,900k and 86,347k, respectively, as at 31.12.2020).

Change in other provisions on 31.12.2021	Provisions for legal claims	Provisions for legal risk	Provisions for restructuring*	Total
<b>As at the beginning of the period</b>	<b>408 485</b>	<b>395 968</b>	<b>147 662</b>	<b>952 115</b>
Provision charge	1 028 339	582 858	19 592	1 630 789
Utilization	(39 886)	(36 665)	(72 946)	(149 497)
Release of provisions	(52 045)	(22 373)	–	(74 418)
<b>As at the end of the period</b>	<b>1 344 893</b>	<b>919 788</b>	<b>94 308</b>	<b>2 358 989</b>

\* The Management Board of Santander Bank Polska intends to carry out the collective redundancies process, started in 2020, by 31 December 2022, while the Management Board of Santander Consumer Bank expects that in 2022 it will finalise the employment restructure that was not fully completed as part of the collective redundancies in 2021.

Change in other provisions on 31.12.2020	Provisions for legal claims	Provisions for legal risk	Provisions for restructuring	Total
<b>As at the beginning of the period</b>	<b>135 659</b>	<b>295 216</b>	<b>14 740</b>	<b>445 615</b>
Provision charge	310 363	201 193	156 686	668 242
Utilization	(937)	(97 861)	(7 725)	(106 523)
Release of provisions	(36 600)	–	(16 039)	(52 639)
Reclassification	–	(2 580)	–	(2 580)
<b>As at the end of the period</b>	<b>408 485</b>	<b>395 968</b>	<b>147 662</b>	<b>952 115</b>

## 39. Other liabilities

Other liabilities	31.12.2021	31.12.2020
Settlements of stock exchange transactions	64 259	126 778
Interbank and interbranch settlements	319 716	500 973
Employee provisions	383 915	266 220
Sundry creditors	1 588 584	904 997
Liabilities from contracts with customers	194 578	243 738
Public and legal settlements	100 489	98 280
Accrued liabilities	452 625	297 787
Finance lease related settlements	177 348	131 781
Other	28 776	11 761
<b>Total</b>	<b>3 310 290</b>	<b>2 582 315</b>
of which financial liabilities *	2 986 447	2 228 536

\* Financial liabilities include all items of Other liabilities with the exception of Public and legal settlements, Liabilities from contracts with customers and Other.

Change in employee provisions 1.01.2021 – 31.12.2021		of which: Provisions for retirement allowances
<b>As at the beginning of the period</b>	<b>266 220</b>	<b>48 266</b>
Provision charge	347 407	1 832
Utilization	(200 731)	(1 394)
Release of provisions	(28 981)	(5 976)
<b>As at the end of the period</b>	<b>383 915</b>	<b>42 728</b>
Short-term	341 187	–
Long-term	42 728	42 728

Change in employee provisions 1.01.2020 – 31.12.2020		of which: Provisions for retirement allowances
As at the beginning of the period	368 514	44 636
Provision charge	249 117	5 279
Utilization	(238 679)	(7)
Release of provisions	(112 732)	(1 642)
<b>As at the end of the period</b>	<b>266 220</b>	<b>48 266</b>
Short-term	217 954	–
Long-term	48 266	48 266

Employee related provisions consists of items outlined in Note 55.



## 40. Share capital

31.12.2021

Series/ issue	Issue	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue in PLN k
A	bearer	none	none	5 120 000	51 200
B	bearer	none	none	724 073	7 241
C	bearer	none	none	22 155 927	221 559
D	bearer	none	none	1 470 589	14 706
E	bearer	none	none	980 393	9 804
F	bearer	none	none	2 500 000	25 000
G	bearer	none	none	40 009 302	400 093
H	bearer	none	none	115 729	1 157
I	bearer	none	none	1 561 618	15 616
J	bearer	none	none	18 907 458	189 075
K	bearer	none	none	305 543	3 055
L	bearer	none	none	5 383 902	53 839
M	bearer	none	none	98 947	990
N	bearer	none	none	2 754 824	27 548
O	bearer	none	none	101 009	1 010
				102 189 314	1 021 893

The nominal value of one share is PLN 10. All issued shares are fully paid up.

The shareholders having minimum 5% of the total number of votes at the Santander Bank Polska General Meeting of

Shareholders was Banco Santander with a controlling stake of 67.41% and Nationale-Nederlanden Otwarty Fundusz Emerytalny funds (managed by Nationale-Nederlanden Powszechna Towarzystwo Emerytalne S.A.) with a stake of 5.01%.

31.12. 2020

Series/ issue	Issue	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue in PLN k
A	bearer	none	none	5 120 000	51 200
B	bearer	none	none	724 073	7 241
C	bearer	none	none	22 155 927	221 559
D	bearer	none	none	1 470 589	14 706
E	bearer	none	none	980 393	9 804
F	bearer	none	none	2 500 000	25 000
G	bearer	none	none	40 009 302	400 093
H	bearer	none	none	115 729	1 157
I	bearer	none	none	1 561 618	15 616
J	bearer	none	none	18 907 458	189 075
K	bearer	none	none	305 543	3 055
L	bearer	none	none	5 383 902	53 839
M	bearer	none	none	98 947	990
N	bearer	none	none	2 754 824	27 548
O	bearer	none	none	101 009	1 010
				102 189 314	1 021 893

The nominal value of one share is PLN 10. All issued shares are fully paid up.

The shareholders having minimum 5% of the total number of votes at the Santander Bank Polska General Meeting of Shareholders was Banco Santander with a controlling stake of 67.41% and the funds managed by Nationale-Nederlanden Powszechna Towarzystwo Emerytalne S.A.: Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny.

On 25 September 2020, the Management Board of Santander Bank Polska informed about registration of amendments to the Statute of Santander Bank Polska resulting in Santander Bank Polska share capital increase related to the issuance of O series shares. The share capital of Santander Bank Polska was increased from PLN 1 020 883 050 to PLN 1 021 893 140, i.e. by PLN 1 010 090, including 101 009 ordinary bearer series O shares with a nominal value of PLN 10 each. The shares in the increased share capital have been paid up in full.

## 41. Other reserve capital

Other reserve capital	31.12.2021	31.12.2020
General banking risk fund	649 810	649 810
Share premium	7 981 974	7 981 974
Other reserves of which:	13 546 560	12 665 210
Reserve capital	13 057 083	12 219 389
Supplementary capital	1 146 922	1 102 055
Adjustment to equity from acquisition/loss of controlling interest in subsidiaries	(657 445)	(656 234)
<b>Total</b>	<b>22 178 344</b>	<b>21 296 994</b>

Share (issue) premium is created from surplus over the nominal value of shares sold less costs of share issuance and constitutes the Bank's supplementary capital.

Reserve capital as at 31.12.2021 includes share option scheme charge of PLN 143 949 k and reserve capital as at 31.12.2020 includes share option scheme charge of PLN 143 949 k.

Other movements of other reserve capital are presented in "movements on consolidated equity" for 2021 and 2020.

Statutory reserve (supplementary) capital is created from net profit appropriation in line with the prevailing banking legislation and the Bank's Statute. The capital is not subject to split and is earmarked for covering balance sheet losses. Allocations from profit for the current year to reserve capital should amount to at least 8% of

profit after tax and are made until supplementary capital equals at least one third of the Bank's share capital. The amount of allocations is adopted by the General Meeting of Shareholders.

The reserve capital is created out of allocations from the after-tax profit, in an amount resolved by the General Shareholders' Meeting and from other sources.

The reserve capital is earmarked for covering balance sheet losses, should they exceed the supplementary capital, or for other purposes, particularly for dividend pay-outs. Decisions on using the reserve capital are taken by the General Shareholders' Meeting.

Pursuant to the decision of the Annual General Meeting, PLN 369 205 859,36 worth of dividend reserve was set aside from the capital reserve. For details, please see Note 57.

## 42. Revaluation reserve

Revaluation reserve 1.01.2021 – 31.12.2021	Total gross	Deferred tax adjustment	Net total
<b>Opening balance, of which:</b>	<b>2 270 826</b>	<b>(431 534)</b>	<b>1 839 292</b>
Debt securities measured at fair value through other comprehensive income	1 551 084	(294 706)	1 256 378
Equity securities measured at fair value through other comprehensive income	720 637	(136 998)	583 639
Valuation of cash flow hedging instruments	(10 583)	2 011	(8 572)
Actuarial gains on retirement allowances	9 688	(1 841)	7 847
Change in valuation of debt securities measured at fair value through other comprehensive income	(3 774 962)	717 243	(3 057 719)
Transfer from revaluation reserve to profit and loss resulting from the sale of debt securities measured at fair value through other comprehensive income	(91 751)	17 433	(74 318)
Transfer from revaluation reserve to profit and loss due to fair value measurement of securities covered by hedge accounting	462 766	(87 926)	374 840
Change in valuation of equity securities measured at fair value through other comprehensive income	518 751	(98 352)	420 399
Transfer from revaluation reserve to retained earnings profit on sale of equity securities	(1 036 754)	196 772	(839 982)
Change in valuation of cash flow hedging instruments	(33 133)	6 296	(26 837)
Transfer from profit and loss to revaluation reserve resulting from cash flow hedges	5 156	(980)	4 176
Change in provision for retirement allowances – actuarial gains/losses gross	6 692	(1 258)	5 434
<b>Closing balance, of which:</b>	<b>(1 672 409)</b>	<b>317 694</b>	<b>(1 354 715)</b>
Debt securities measured at fair value through other comprehensive income	(1 852 863)	352 044	(1 500 819)
Equity securities measured at fair value through other comprehensive income	202 634	(38 578)	164 056
Valuation of cash flow hedging instruments	(38 560)	7 327	(31 233)
Actuarial gains on retirement allowances	16 380	(3 099)	13 281

Revaluation reserve 1.01.2020 – 31.12.2020	Total gross	Deferred tax adjustment	Net total
<b>Opening balance, of which:</b>	<b>1 624 767</b>	<b>(308 706)</b>	<b>1 316 061</b>
Debt securities measured at fair value through other comprehensive income	895 733	(170 189)	725 544
Equity securities measured at fair value through other comprehensive income	747 123	(141 954)	605 169
Valuation of cash flow hedging instruments	(30 156)	5 730	(24 426)
Actuarial gains on retirement allowances	12 067	(2 293)	9 774
<b>Change in valuation of debt securities measured at fair value through other comprehensive income</b>	<b>1 039 213</b>	<b>(197 450)</b>	<b>841 763</b>
Transfer from revaluation reserve to profit and loss resulting from the sale of debt securities measured at fair value through other comprehensive income	(228 723)	43 457	(185 266)
Transfer from revaluation reserve to profit and loss due to fair value measurement of securities covered by hedge accounting	(155 139)	29 476	(125 663)
Change in valuation of equity securities measured at fair value through other comprehensive income	(26 561)	4 780	(21 781)
Transfer from revaluation reserve to retained earnings profit on sale of equity securities	75	176	251
Change in valuation of cash flow hedging instruments	(33 148)	6 298	(26 850)
Transfer from revaluation reserve to profit and loss resulting from cash flow hedges	(5 869)	1 115	(4 754)
Transfer from profit and loss to revaluation reserve resulting from cash flow hedges	58 590	(11 132)	47 458
Change in provision for retirement allowances – actuarial gains/losses gross	(2 379)	452	(1 927)
<b>Closing balance, of which:</b>	<b>2 270 826</b>	<b>(431 534)</b>	<b>1 839 292</b>
Debt securities measured at fair value through other comprehensive income	1 551 084	(294 706)	1 256 378
Equity securities measured at fair value through other comprehensive income	720 637	(136 998)	583 639
Valuation of cash flow hedging instruments	(10 583)	2 011	(8 572)
Actuarial gains on retirement allowances	9 688	(1 841)	7 847

## 43. Non – controlling interests

Name of the subsidiary	Country of incorporation and place of business	Percentage share of non-controlling interests in share capital / voting rights		Net profit for the period attributable to non-controlling interests		Accumulated non-controlling interests	
		31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	Poland Poznań	50.00	50.00	58 483	57 655	67 739	66 912
Santander Consumer Bank S.A.	Poland Wrocław	40.00	40.00	82 239	142 352	1 614 157	1 596 328
<b>Total</b>				<b>140 722</b>	<b>200 007</b>	<b>1 681 896</b>	<b>1 663 240</b>

The table below presents condensed financial information of the subsidiaries with non-controlling interests significant for the Group:

	Santander Towarzystwo Funduszy Inwestycyjnych S.A.		Santander Consumer Bank Group	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Loans and advances to banks	150 160	142 578	355 737	319 685
Loans and advances to customers	–	–	20 663 923	21 537 703
Investments in subsidiaries	–	–	170 934	166 175
Investment securities	–	474	2 933 051	2 393 594
Assets pledged as collateral	–	–	512 975	643 272
Net deferred tax assets	7 839	7 006	652 173	665 537
Other items	34 816	39 851	695 126	539 024
<b>Total assets</b>	<b>192 815</b>	<b>189 909</b>	<b>25 983 919</b>	<b>26 264 990</b>
Deposits from banks	–	–	2 538 643	3 180 314
Deposits from customers	–	–	12 854 030	13 030 086
Sell-buy-back transactions	–	–	488 829	639 299
Debt securities in issue	–	–	4 106 832	3 816 518
Other items	57 336	56 085	2 004 144	1 659 531
<b>Total liabilities</b>	<b>57 336</b>	<b>56 085</b>	<b>21 992 478</b>	<b>22 325 748</b>
Income	293 300	248 960	1 744 088	2 045 751
Net profit (loss) for the period	116 965	115 310	204 231	334 117
Dividends paid to non-controlling shareholders	57 655	86 555	–	–
Total net cash flows:	7 582	29 227	185 763	115 364
– from operating activities	127 095	117 731	1 131 239	1 816 396
– from investing activities	(1 321)	87 477	(552 828)	(254 276)
– from financing activities	(118 192)	(175 980)	(392 648)	(1 446 756)

## 44. Hedge accounting

Santander Bank Polska Group uses hedging strategies within hedge accounting in line with the risk management principles set out in note 4 to the consolidated financial statements.

### Fair value hedges

Santander Bank Polska Group uses fair value hedge accounting in relation to the following classes of financial instruments:

- Debt securities with a fixed interest rate in PLN and EUR;
- Loans with a fixed interest rate granted by the Bank in PLN;
- Loans with a fixed interest rate in EUR taken out by Santander Leasing S.A.

To hedge the fair value, Santander Bank Polska S.A. uses Interest Rate Swaps (IRS), for which the Bank pays a fixed interest rate and receives a variable interest rate. The hedged risk is the change in the fair value of an instrument or a portfolio resulting

from changes in market interest rates. The transactions do not hedge against fair value changes relating to credit risk.

Hedging items are measured at fair value. Hedged items are measured at amortised cost taking into account fair value adjustments on account of the risk being hedged.

Since January 2016, Santander Bank Polska S.A. has used portfolio-based hedge accounting for the fair value of interest rate risk with respect to the portfolio of fixed interest rate loans in PLN. The fair value hedges are IRS for which the bank pays a fixed rate and receives a variable rate. The purpose of the hedge is to eliminate the risk of changes in the fair value of the fixed interest rate loans portfolio resulting from movements in market interest rates. Credit margin is excluded from the hedging relationship.

Details of the hedging transactions of Santander Bank Polska S.A. as at 31.12.2021 and in the comparative period are presented in the tables below:

## Distribution of nominal values of cash flows

Nominal value of hedging instruments	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
<b>31.12.2021</b>						
Assets representing derivative hedging instruments	569 167	150 000	1 794 167	9 599 523	2 235 180	14 348 037
IRS	–	150 000	1 225 000	2 077 000	983 000	4 435 000
CIRS	–	–	–	505 934	–	505 934
CCIRS	569 167	–	569 167	7 016 589	1 252 180	9 407 103
Liabilities arising from derivative hedging instruments	741 400	150 000	1 966 400	10 440 648	2 606 666	15 905 114
IRS	–	150 000	1 225 000	2 077 000	983 000	4 435 000
CIRS	–	–	–	505 934	–	505 934
CCIRS	741 400	–	741 400	7 857 714	1 623 666	10 964 180
<b>31.12.2020</b>						
Assets representing derivative hedging instruments	–	–	434 775	6 989 113	3 911 068	11 334 956
IRS	–	–	335 000	2 713 000	1 722 000	4 770 000
CIRS	–	–	–	230 740	276 888	507 628
CCIRS	–	–	99 775	4 045 373	1 912 180	6 057 328
Liabilities arising from derivative hedging instruments	–	–	441 602	7 857 141	4 319 037	12 617 780
IRS	–	–	335 000	2 713 000	1 722 000	4 770 000
CIRS	–	–	–	230 740	276 888	507 628
CCIRS	–	–	106 602	4 913 401	2 320 149	7 340 152

Pricing parameters for hedging instruments	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years
<b>31.12.2021</b>					
Assets representing derivative hedging instruments					
Average fixed interest rate	0.6900	0.2925	0.8094	0.9491	0.9768
Average exchange rate (CHF/PLN)	4.4484	4.4484	4.4484	4.4484	4.4484
Average exchange rate (EUR/PLN)	4.5994	4.5994	4.5994	4.5994	4.5994
Liabilities arising from derivative hedging instruments					
Average fixed interest rate	(0.2023)	2.9500	3.8598	1.1008	1.3089
Average exchange rate (CHF/PLN)	4.4484	4.4484	4.4484	4.4484	4.4484
Average exchange rate (EUR/PLN)	4.5994	4.5994	4.5994	4.5994	4.5994

<b>31.12.2020</b>					
Assets representing derivative hedging instruments					
Average fixed interest rate	–	–	0.2710	0.2593	0.2180
Average exchange rate (CHF/PLN)	4.2641	4.2641	4.2641	4.2641	4.2641
Average exchange rate (EUR/PLN)	4.6148	4.6148	4.6148	4.6148	4.6148
Liabilities arising from derivative hedging instruments					
Average fixed interest rate	–	–	2.8904	2.2080	1.1948
Average exchange rate (CHF/PLN)	4.2641	4.2641	4.2641	4.2641	4.2641
Average exchange rate (EUR/PLN)	4.6148	4.6148	4.6148	4.6148	4.6148

Hedging instruments designated as fair value hedges	31.12.2021		31.12.2020	
	Hedged item: Fixed-coupon bonds	Hedged item: Fixed-rate loan portfolio	Hedged item: Fixed-coupon bonds	Hedged item: Fixed-rate loan portfolio
Nominal value of hedging instrument	4 615 934	275 000	4 727 628	500 000
Fair value measurement of a hedging instrument due to hedged risk including:	161 451	12 943	(287 996)	(9 637)
Receivables arising from hedging instruments	177 154	13 106	–	–
Liabilities arising from hedging instruments	15 703	163	287 996	9 637
Line item in the statement of financial position that includes the hedging instrument	Hedging derivatives (IRS and CIRS)	Hedging derivatives (IRS)	Hedging derivatives (IRS and CIRS)	Hedging derivatives (IRS)
Hedged risk	Interest rate risk	Interest rate risk	Interest rate risk	Interest rate risk
Period over which instruments have impact on the Bank's results	up to 2029	up to 2024	up to 2029	up to 2024

Items subject to fair value hedge accounting	31.12.2021		31.12.2020	
	Fixed-coupon bonds	Fixed-rate loan portfolio	Fixed-coupon bonds	Fixed-rate loan portfolio
Carrying amount of the hedged item, including:				
Assets	4 615 934	275 000	4 727 628	500 000
Liabilities	–	–	–	–
Accumulated amount of fair value hedge adjustments on the hedged item included in the statement of comprehensive income and in the carrying amount, including:				
Assets	(164 938)	(13 433)	297 828	9 601
Liabilities	–	–	–	–
Line item in the statement of financial position that includes the hedged instrument	Investment securities	Loans and advances to customers	Investment securities	Loans and advances to customers

As at 31.12.2021, Santander Leasing SA had one derivative instrument – CIRS (Currency Interest Rate Swap), designated to hedge accounting of fair value, which hedges the company against the interest rate.

Details of this transactions as at 31.12.2021 and at comparative period are presented in tables below:

#### Distribution of nominal values of cash flows

Nominal value of hedging instruments	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
<b>31.12.2021</b>						
Assets representing derivative hedging instruments	–	69 203	69 203	–	–	138 406
CIRS	–	69 203	69 203	–	–	138 406
Liabilities arising from derivative hedging instruments	–	69 203	69 203	–	–	138 406
CIRS	–	69 203	69 203	–	–	138 406
<b>31.12.2020</b>						
Assets representing derivative hedging instruments	–	69 435	75 204	138 870	–	283 509
CIRS	–	69 435	75 204	138 870	–	283 509
Liabilities arising from derivative hedging instruments	–	69 435	75 204	138 870	–	283 509
CIRS	–	69 435	75 204	138 870	–	283 509



Pricing parameters for hedging instruments	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years
<b>31.12.2021</b>					
Assets representing derivative hedging instruments					
Average fixed interest rate	(0.2400)	(0.2400)	(0.2400)	–	–
Average exchange rate (EUR/PLN)	4.5994	4.5994	4.5994	–	–
Liabilities arising from derivative hedging instruments					
Average variable interest rate	(0.5930)	(0.5930)	(0.5930)	–	–
Average exchange rate (EUR/PLN)	4.5994	4.5994	4.5994	–	–
<b>31.12.2020</b>					
Assets representing derivative hedging instruments					
Average fixed interest rate	(0.2420)	(0.2423)	(0.2400)	(0.2400)	–
Average exchange rate (EUR/PLN)	4.6148	4.6148	4.6148	4.6148	–
Liabilities arising from derivative hedging instruments					
Average variable interest rate	(0.5820)	(0.5820)	(0.5820)	(0.5820)	–
Average exchange rate (EUR/PLN)	4.6148	4.6148	4.6148	4.6148	–

31.12.2021      31.12.2020

Hedging instruments designated as fair value hedges	Hedged item: Received fixed-rate loans	
Nominal value of hedging instrument	138 406	283 509
Fair value measurement of a hedging instrument due to hedged risk including:	202	896
<i>Receivables arising from hedging instruments</i>	360	1 559
<i>Liabilities arising from hedging instruments</i>	158	663
Line item in the statement of financial position that includes the hedging instrument	Hedging derivatives (CIRS)	Hedging derivatives (CIRS)
Hedged risk	Interest rate risk	Interest rate risk
Period over which instruments have impact on the Santander Leasing results	up to 2022	up to 2022

31.12.2021      31.12.2020

Items subject to fair value hedge accounting	Received fixed-rate loans	
Carrying amount of the hedged item, including:	(138 407)	(283 509)
<i>Assets</i>	–	–
<i>Liabilities</i>	138 407	283 509
Accumulated amount of fair value hedge adjustments on the hedged item included in the statement of comprehensive income and in the carrying amount, including:	(694)	(132)
<i>Assets</i>	–	–
<i>Liabilities</i>	694	132
Line item in the statement of financial position that includes the hedged instrument	Deposits from banks	Deposits from banks

## Cash flow hedging

Santander Bank Polska Group uses hedge accounting for future cash flows with respect to variable-rate commercial and mortgage loans in PLN and denominated in EUR and CHF, with maximum maturity of 31 years, and with respect to own securities issues in EUR with maturity of 3 years.

The hedging strategies used by Santander Bank Polska Group are designed to protect the Group's exposures against the risk of changes in the value of future cash flows resulting from interest rate risk or – in the case of credit portfolios denominated in foreign currency – also from currency fluctuations.

Hedging relationships are created using Interest Rate Swaps (IRS), Cross Currency Interest Rate Swaps (CCIRS) and FX Swap. In order to measure hedge effectiveness the Bank uses the hypothetical derivative approach whereby the hedged credit portfolio is reflected by a derivative transaction with specific characteristics.

Hedged items are measured at amortised cost, while hedging items are measured at fair value. Subject to fulfilment of the criteria for effectiveness of hedging relationships, changes in the fair value of hedging instruments are recognised in OCI.

Details of this transactions of Santander Bank Polska SA as at 31.12.2021 and at comparative period are presented in tables below:

Hedging instruments designed as cash flow hedges / hedges of a net investment in a foreign operation	31.12.2021			31.12.2020		
	Hedged item: Portfolio of floating interest rate loans in PLN	Hedged item: Portfolio of floating interest rate loans denominated in EUR and CHF	Hedged item: Issues in EUR	Hedged item: Portfolio of floating interest rate loans in PLN	Hedged item: Portfolio of floating interest rate loans denominated in EUR and CHF	Hedged item: Portfolio of floating interest rate loans denominated in EUR and CHF
Nominal value of hedging instrument	50 000	7 490 330	3 473 850	50 000	7 340 152	
Fair value measurement of a hedging instrument, due to hedged risk including:	2 248	(12 442)	(7 081)	(6 901)	(20 254)	
<i>Receivables arising from hedging instruments</i>	9 872	(19 658)	(3 166)	2 884	(22 160)	
<i>Liabilities arising from hedging instruments</i>	7 624	(7 216)	3 915	9 785	(1 906)	
Line item in the statement of financial position that includes the hedging instrument	Hedging derivatives (IRS, CCIRS)	Hedging derivatives (IRS, CCIRS)	Hedging derivatives (IRS, CCIRS)	Hedging derivatives (IRS, CCIRS)	Hedging derivatives (IRS, CCIRS)	Hedging derivatives (IRS, CCIRS)
Change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period	2 248	(1 957)	(7 081)	(6 901)	(7 190)	
Balance of hedging gains or losses of the reporting period that were recognised in other comprehensive income	2 248	(12 442)	(7 081)	(6 901)	(20 253)	
Value of hedge ineffectiveness recognised in profit or loss	–	10 484	–	–	13 063	
Line item in the income statement that includes the recognised hedge ineffectiveness	Net trading income and revaluation	Net trading income and revaluation	Net trading income and revaluation	Net trading income and revaluation	Net trading income and revaluation	Net trading income and revaluation
Hedged risk	Interest rate risk	Interest rate risk and currency risk	Interest rate risk and currency risk	Interest rate risk	Interest rate risk and currency risk	
Period over which instruments have impact on the Bank's results	up to 2027	up to 2028	up to 2023	up to 2027	up to 2028	

Items subject to cash flow hedge accounting	31.12.2021			31.12.2020		
	Portfolio of floating interest rate loans in PLN	Portfolio of floating interest rate loans denominated in EUR and CHF	Issues in EUR	Portfolio of floating interest rate loans in PLN	Portfolio of floating interest rate loans denominated in EUR and CHF	Issues in EUR
Change in the value of the hedged item used as the basis for recognising hedge ineffectiveness for the period	2 248	(12 442)	(7 081)	(6 901)	(20 253)	

Details of this transactions of Santander Consumer Bank SA as at 31.12.2021 and at comparative period are presented in tables below:

## Distribution of nominal values of cash flows

Nominal value of hedging instruments	Distribution of nominal values of cash flows					Total
	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	
<b>31.12.2021</b>						
Assets representing derivative hedging instruments	–	–	139 790	714 864	–	854 654
FXSWAP	–	–	–	399 539	–	399 539
CCIRS	–	–	139 790	315 325	–	455 115
Liabilities arising from derivative hedging instruments	–	–	266 904	689 502	–	956 406
FXSWAP	–	–	111 210	311 388	–	422 598
CCIRS	–	–	155 694	378 114	–	533 808
<b>31.12.2020</b>						
Assets representing derivative hedging instruments	–	–	563 899	579 513	–	1 143 412
FXSWAP	–	–	292 999	124 398	–	417 397
CCIRS	–	–	270 900	455 115	–	726 015
Liabilities arising from derivative hedging instruments	–	–	596 974	639 615	–	1 236 589
FXSWAP	–	–	298 487	127 923	–	426 410
CCIRS	–	–	298 487	511 692	–	810 179

Pricing parameters for hedging instruments	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years
<b>31.12.2021</b>					
Assets representing derivative hedging instruments					
Average fixed interest rate	–	–	0.9650	1.8459	–
Average exchange rate (CHF/PLN)	4.4484	–	–	–	–
Average exchange rate (EUR/PLN)	4.5994	–	–	–	–
Liabilities arising from derivative hedging instruments					
Average fixed interest rate	–	–	(0.7704)	(0.7784)	–
Average exchange rate (CHF/PLN)	4.4484	–	–	–	–
Average exchange rate (EUR/PLN)	4.5994	–	–	–	–

<b>31.12.2020</b>					
Assets representing derivative hedging instruments					
Average fixed interest rate	–	–	0.4250	0.4865	–
Average exchange rate (CHF/PLN)	4.2641	–	–	–	–
Liabilities arising from derivative hedging instruments					
Average fixed interest rate	–	–	(0.7744)	(0.7729)	–
Average exchange rate (CHF/PLN)	4.2641	–	–	–	–

	31.12.2021	31.12.2020
Hedging instruments designed as cash flow hedges / hedges of a net investment in a foreign operation		
	Hedged item: Portfolio of loans denominated in CHF	
Nominal value of hedging instrument	956 406	1 236 589
Fair value measurement of a hedging instrument, due to hedged risk including:	(93 579)	(91 039)
Receivables arising from hedging instruments	854 654	1 143 412
Liabilities arising from hedging instruments	948 233	1 234 451
Line item in the statement of financial position that includes the hedging instrument	Hedging derivatives (CCIRS, FXSWAP)	Hedging derivatives (CCIRS, FXSWAP)
Change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period	(25 045)	286
Balance of hedging gains or losses of the reporting period that were recognised in other comprehensive income	(24 312)	(526)
Value of hedge ineffectiveness recognised in profit or loss	(733)	812
Line item in the income statement that includes the recognised hedge ineffectiveness	Net trading income and revaluation	Net trading income and revaluation
Hedged risk	Currency risk	Currency risk
Period over which instruments have impact on the Bank's results	up to 2024	up to 2024

	31.12.2021	31.12.2020
Items subject to cash flow hedge accounting		
	Hedged item: Portfolio of loans denominated in CHF	
Change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period	(93 579)	(91 039)

Measurement to fair value of the hedging instrument, less deferred tax, is recognised in comprehensive income and accumulated in the Group's equity during the period and are presented in note 42.

## Impact of the IBOR reform

Santander Bank Polska Group uses cash flow hedges that are affected by the IBOR reform.

The items hedged as part of hedge accounting include:

- variable-rate commercial and mortgage loans in PLN, EUR and CHF;

- fixed-rate cash and mortgage loans in PLN;
- fixed-rate debt securities in PLN and EUR;
- own securities issues in EUR.

As at 31 December 2021, there were 160 hedging relationships established at Santander Bank Polska S.A. The above-mentioned portfolios are hedged with IRS and CIRS transactions for PLN and EUR exposures (105 relationships connected with 105 IRS transactions and 6 relationships connected with 6 CIRS transactions), and CCIRS transactions for EUR and CHF exposures (49 relationships connected with 36 CCIRS transactions).

The interest rate of the foregoing derivatives is based on the following variable rates: 3M or 6M WIBOR (108 derivative transactions), 3M or 6M EURIBOR (16 derivative transactions) and 3M CHF LIBOR (23 derivative transactions). The relationships are set to expire gradually by 2029: 45 relationships in 2022, 103 relationships over the next five years and 12 relationships by 2029 (including three relationships in 2029 alone).

In the case of loan agreements referencing CHF LIBOR, the Bank replaced the above benchmark with RFRs in accordance with the decision of the European Commission. In the case of derivatives used to hedge the above-mentioned portfolio, CHF LIBOR will be changed in line with the ISDA Protocol standard.

Based on the effectiveness test conducted for both the loan portfolio and the hedging instruments using new rates for CHF, the Bank concluded that it is highly likely that the requirement for effectiveness of future hedging relationships will be met.

Accordingly, with regard to the hedging strategies for the CHF loan portfolio, the Bank decided to keep the existing hedging relationships based on the currently used underlying instruments.

Detailed information about derivative and non-derivative financial instruments subject to the interest rate benchmark reform

together with the summary of measures taken by the Bank to manage the risk arising from the reform and the accounting impact, including the impact on hedging relationships, is presented in Note 4 "Risk management" and in Note 44 "Hedge accounting" (section on hedging derivatives).

The subsidiaries of Santander Bank Polska S.A. also use hedge accounting that may be affected by the IBOR reform. As at the end of 2021, it was the case of one relationship at Santander Leasing S.A. The hedged item is the fixed-rate loan in EUR. The hedging instrument is the IRS transaction which is based on a variable rate, i.e. 1M EURIBOR (interest paid by Santander Leasing S.A.), and a fixed rate (interest received by Santander Leasing S.A.). The relationship expires in September 2022.

In the case of Santander Consumer Bank S.A. (SCB), there were three active CIRS transactions based on 3M LIBOR/3M WIBOR as at the end of 2021. The CIRS that expired in 2021 was not renewed.

In addition, SCB entered into three long-term CHF/PLN FX Swap transactions for the period of up to one year (CHF 20m), two years (CHF 40m) and three years (CHF 25m). They were also linked to mortgage loans as part of hedge accounting.

## 45. Sell-buy-back and buy-sell-back transactions

Santander Bank Polska Group raises funds by selling financial instruments under agreements to repurchase these instruments at future dates at a predetermined price.

Repo and sell-buy back transactions may cover securities from the Group's balance sheet portfolio.

	31.12.2021	31.12.2020
	Balance sheet value	Balance sheet value
Liabilities valued at amortised cost (contains sell-buy-back)	510 277	653 687
Fair value of securities held as collateral for sell-buy-back/repo transactions	534 437	657 664
Buy-sell-back transactions	453 372	293 583
Fair value of securities held for buy-sell-back/reverse repo transactions	453 153	293 737
<b>Buy-sell-back transactions</b>	<b>31.12.2021</b>	<b>31.12.2020</b>
Buy-sell-back transactions from banks	256 548	223 803
Buy-sell-back transactions from customers	196 824	69 780
<b>Total</b>	<b>453 372</b>	<b>293 583</b>
<b>Sell-buy-back transactions</b>	<b>31.12.2021</b>	<b>31.12.2020</b>
Sell-buy-back transactions from banks	510 277	642 226
Sell-buy-back transactions from customers	-	11 461
<b>Total</b>	<b>510 277</b>	<b>653 687</b>

Securities being the subject of repo and sell-buy-back transactions constituting the Group's portfolio are not removed from the balance sheet, because the Group retains all rewards (i.e. interest income on pledged securities) and risks (interest rate risk and the issuer's credit risk) attaching to these assets.

All of the above-mentioned risks and costs related to the holding of the underlying debt securities in the sell-buy-back transactions remain with the Group, as well as power to dispose them.

The Group also acquires reverse repo and buy-sell-back transactions financial instruments at the same price increased by the pre-determined amount of interest.

Financial instruments covered by reverse repo and buy-sell-back transactions are not recognised in the balance sheet, because the Group does not retain any rewards or risks attaching to these assets.

Financial assets which are subject to reverse repo and buy-sell-back transactions represent a security cover accepted by the Group which the Group may sell or pledge.

Financial instruments held as security for (reverse repo) repurchase agreements may be sold or repledged under standard agreements, under the obligation to return these to the counterparty on maturity date of the transaction.

## 46. Offsetting financial assets and financial liabilities

The Group enters into master agreements such as ISDA (International Swaps and Derivatives Association Master Agreements) and GMRA (Global Master Repurchase Agreement) providing for the possibility to terminate and settle the transaction with a counterparty in the event of default on the basis of a net amount of mutual receivables and payables.

In addition, under CSA (Credit Support Annex), the counterparty hedges derivative exposures with a deposit margin. The table presents fair value amounts of derivative instruments (both held for trading and designated as hedging instruments under hedge accounting) and cash collateral covered by master agreements providing for the right of set-off under specific circumstances. The value of instruments not subject to set-off are presented separately.

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure	Amounts not subject to enforceable netting arrangements	Balance sheet total
				Financial instruments	Cash collateral received			
Offsetting Financial Assets and Financial Liabilities on 31.12.2021	(a)	(b)	(c) = (a) - (b)	(d)	(e)	(c) - (d) - (e)	(f)	(c) + (f)
<b>Assets</b>								
Due from other banks								
– Reverse sale and repurchase agreements with other banks	256 548	–	256 548	–	255 384	1 164	–	256 548
Loans and advances to customers								
– Reverse sale and repurchase agreements	196 824	–	196 824	–	196 134	690	–	196 824
Other financial assets:								
– Financial derivatives	8 392 406	4 922 340	3 470 066	2 249 311	749 809	470 946	351 549	3 821 615
<b>TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT</b>	<b>8 845 778</b>	<b>4 922 340</b>	<b>3 923 438</b>	<b>2 249 311</b>	<b>1 201 327</b>	<b>472 800</b>	<b>351 549</b>	<b>4 274 987</b>
<b>Liabilities</b>								
Financial derivatives	9 791 214	4 922 340	4 868 874	2 249 311	2 197 654	421 909	385 956	5 254 830
Sale and repurchase agreements	510 277	–	510 277	–	436 830	73 447	–	510 277
<b>TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT</b>	<b>10 301 491</b>	<b>4 922 340</b>	<b>5 379 151</b>	<b>2 249 311</b>	<b>2 634 484</b>	<b>495 356</b>	<b>385 956</b>	<b>5 765 107</b>

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure	Amounts not subject to enforceable netting arrangements	Balance sheet total
	(a)	(b)	(c) = (a) - (b)	Financial instruments	Cash collateral received	(c) - (d) - (e)	(f)	(c) + (f)
<b>Offsetting Financial Assets and Financial Liabilities on 31.12.2020</b>								
<b>Assets</b>								
Due from other banks								
– Reverse sale and repurchase agreements with other banks	223 803	–	223 803	–	209 156	14 647	–	223 803
Loans and advances to customers								
– Reverse sale and repurchase agreements	69 780	–	69 780	–	63 800	5 980	–	69 780
Other financial assets:								
– Financial derivatives	6 162 729	3 782 229	2 380 500	1 557 945	386 071	436 484	631 124	3 011 624
<b>TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT</b>	<b>6 456 312</b>	<b>3 782 229</b>	<b>2 674 083</b>	<b>1 557 945</b>	<b>659 027</b>	<b>457 111</b>	<b>631 124</b>	<b>3 305 207</b>
<b>Liabilities</b>								
Financial derivatives	8 269 335	3 782 229	4 487 106	1 557 945	2 488 692	440 469	251 331	4 738 437
Sale and repurchase agreements	653 687	–	653 687	–	634 915	18 772	–	653 687
<b>TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT</b>	<b>8 923 022</b>	<b>3 782 229</b>	<b>5 140 793</b>	<b>1 557 945</b>	<b>3 123 607</b>	<b>459 241</b>	<b>251 331</b>	<b>5 392 124</b>

## 47. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Below is a summary of the book values and fair values of the individual groups of assets and liabilities not carried at fair value in the financial statements.

	31.12.2021		31.12.2020	
	Book value	Fair value	Book value	Fair value
<b>ASSETS</b>				
Cash and balances with central banks	8 438 275	8 438 275	5 489 303	5 489 303
Loans and advances to banks	2 690 252	2 690 252	2 926 522	2 926 522
Loans and advances to customers measured at amortised cost	145 966 743	148 763 917	139 549 728	138 836 783
– individuals	25 533 607	25 506 355	25 372 616	25 382 329
– housing loans	55 800 105	58 508 076	51 978 552	52 147 194
– business	53 779 474	53 895 929	55 235 227	54 343 927
Debt investment securities measured at amortised cost	1 421 272	1 411 022	–	–
<b>LIABILITIES</b>				
Deposits from banks	4 400 138	4 400 138	5 373 312	5 373 312
Deposits from customers	185 373 443	185 272 700	171 522 255	171 554 319
Subordinated liabilities	2 750 440	2 743 086	2 754 605	2 736 671



Below is a summary of the key methods and assumptions used in the estimation of fair values of the financial instruments shown in the table above.

## Financial assets and liabilities not carried at fair value in the statement of financial position

The Group has financial instruments which in accordance with the IFRS are not carried at fair value in the consolidated financial statements. The fair value of such instruments is measured using the following methods and assumptions.

**Loans and advances to banks:** The fair value of deposits is measured using discounted cash flows at the current money market interest rates for receivables of similar credit risk, maturity and currency. In the case of demand deposits without a fixed maturity date or with maturity up to 6 months, it is assumed that their fair value is not significantly different than their book value. The process of fair value estimation for these instruments is not affected by the long-term nature of the business with depositors. Loans and advances to banks were classified in their entirety as Level 3 of the fair value hierarchy due to application of a measurement model with significant unobservable inputs.

**Loans and advances to customers:** Carried at net value after impairment charges. Fair value is calculated as the discounted value of the expected future cash flows in respect of principal and interest payments. It is assumed that loans and advances will be repaid at their contractual maturity date. The estimated fair value of the loans and advances reflects changes in the credit risk from the moment of sanction (margins) and changes in interest rates. Loans and advances to customers were classified in their entirety as Level 3 of the fair value hierarchy due to application of a measurement model with significant unobservable inputs, i.e. current margins achieved on new credit transactions.

Debt investment financial assets measured at amortized cost: fair value estimated based on market quotes. Instruments classified as category I of the fair value hierarchy.

**Deposits from banks and deposits from customers:** Fair value of the deposits with maturity exceeding 6 months was estimated based on the cash flows discounted by the current market rates for the deposits with similar maturity dates. In the case of demand deposits without a fixed maturity date or with maturity up to 6 months, it is assumed that their fair value is not significantly different than their book value. The process of fair value estimation for these instruments is not affected by the long-term nature of the business with depositors. Deposits from banks and deposits from customers were classified in their entirety as Level 3 of the fair value hierarchy due to application of a measurement model with significant unobservable inputs.

**Debt securities in issue and subordinated liabilities:** The Group has made an assumption that fair value of those securities is based on discounted cash flows methods incorporating adequate interest rates. Debt securities in issue and subordinated liabilities were classified in their entirety as Level 3 of the fair value hierarchy due to application of a measurement model with significant unobservable inputs.

For Debt securities in issue and other items of liabilities, not carried at fair value in the financial statements, including: lease liabilities and other liabilities – the fair value does not differ significantly from the presented carrying amounts.

## Financial assets and liabilities carried at fair value in the statement of financial position

As at 31.12.2021 and in the comparable periods the Group made the following classification of its financial instruments measured at fair value in the statement of financial position:

**Level I (active market quotations):** debt, equity and derivative financial instruments which at the balance sheet date were measured using the prices quoted in the active market. The Group allocates to this level fixed-rate State Treasury bonds, treasury bills, shares of listed companies and WIG 20 futures.

**Level II (the measurement methods based on market-derived parameters):** This level includes derivative instruments. Derivative instruments are measured using discounted cash flow models based on the discount curve derived from the inter-bank market.

**Level III (measurement methods using material non-market parameters):** This level includes equity securities that are not quoted in the active market, measured using the expert valuation model; investment certificates measured at the balance sheet date at the price announced by the mutual fund and debt securities. This level includes also part of credit cards portfolio and loans and advances subject to underwriting, i.e. portion of credit exposures that are planned to be sold before maturity for reasons other than increase in credit risk.

The objective of using a valuation technique is to determine the fair value, i.e., prices, which were obtained by the sale of an asset in an orderly transaction between market participants carried out under current market conditions between market participants at the measurement date.

## Sale of shares of AVIVA TUŻ S.A. and AVIVA TUO S.A. and PTE AVIVA Santander S.A.

On 26 March 2021:

- the Bank executed a share purchase agreement relating to: 4,125 shares in AVIVA Towarzystwo Ubezpieczeń na Życie S.A., representing ca. 10% of the share capital of this company; and 2,968 shares in AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A., representing ca. 10% of the share capital of this company, to ALLIANZ HOLDING EINS GMBH ("Allianz"), for the total purchase price of EUR 243,000,000 (whereby the purchase price may be subject to adjustments as set out in the share purchase agreement);
- the Bank undertook to executed a share purchase agreement relating to 1,370 shares in AVIVA Powszechnie Towarzystwo Emerytalne Aviva Santander S.A., representing ca. 10% of the share capital of this company, to AVIVA Towarzystwo Ubezpieczeń na Życie S.A., for the purchase price of EUR 14,000,000 (whereby the purchase price may be subject to adjustments as set out in the share purchase agreement); and
- the Bank undertook to execute with Aviva International Holdings Limited, Aviva International Insurance Limited, Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Santander Aviva Towarzystwo Ubezpieczeń S.A. a termination agreement effective as at the completion of the aforementioned transactions involving the agreements concerning the cooperation of the Bank and Aviva International Holdings Limited in Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Santander Aviva Towarzystwo Ubezpieczeń S.A. (including the shareholders

agreements relating to Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Santander Aviva Towarzystwo Ubezpieczeń S.A.),

Pursuant to the share purchase agreement, PLN 89m worth of dividends paid to the bank by Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. in June 2021 was deducted from the amount to be paid to the bank by Allianz at the time of closing the transaction.

In connection with the receipt of all required approvals of the relevant authorities, including the required decisions of the Polish Financial Supervision Authority and the European Commission, as well as other terms and conditions agreed between the parties to the Transaction concluded on 29 and 30 of November, of the Transaction involving:

1. the sale by the Bank of (i) 4,125 shares in AVIVA Towarzystwo Ubezpieczeń na Życie S.A., representing approximately 10% of the share capital of that company, and (ii) 2,968 shares in AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A., representing approximately 10% of the share capital of that company, to ALLIANZ HOLDING EINS GMBH ("Allianz") for a total sale price of Euro 223 317 482;
2. the sale by the Bank of 1,370 shares in AVIVA Powszechnie Towarzystwo Emerytalne Aviva Santander S.A., which

constitute approximately 10% of the share capital of that company, to AVIVA Towarzystwo Ubezpieczeń na Życie S.A., for the sale price amounting to Euro 14 184 080.

3. the termination of the agreements (including shareholder agreements) relating to the cooperation between the Bank and Aviva International Holdings Limited within Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Santander Aviva Towarzystwo Ubezpieczeń S.A.;
4. the conclusion of shareholders' agreements by the Bank with Allianz, concerning Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Santander Aviva Towarzystwo Ubezpieczeń S.A., with Allianz holding approximately 51% of the shares in these companies as a result of the Transaction;
5. the conclusion by the Bank of new bancassurance agreements with Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Santander Aviva Towarzystwo Ubezpieczeń S.A.

### Sensitivity analysis of the fair value of the credit cards portfolio

The analysis covered the population of credit cards disclosed as 'Loans and advances to customers measured at fair value through other comprehensive income' as at the end of 2021 and in the comparable period for interest rate changes.

Fair value in respective scenarios

in PLN m	baseline	1 p.p. decrease in interest rates	2 p.p. decrease in interest rates	1 p.p. increase in interest rates	2 p.p. increase in interest rates
31.12.2021	504.2	504.2	502.2	503.7	503.5
31.12.2020	826.2	823.9	817.2	821.6	829.4

The fair value of the credit card portfolio was calculated for individual scenarios, taking into account the modified interest rate projections used both for calculating interest and for discounting cash flows.

### Level 3: Other valuation techniques.

Financial assets and liabilities whose fair value is determined using valuation models for which input data is not based on observable market data (unobservable input data). In this category, the Group classifies financial instruments, which are valued using internal valuation models:

LEVEL 3	VALUATION METHOD	UNOBSERVABLE INPUT
LOANS AND ADVANCES TO CUSTOMERS: credit cards and underwriting loans and advances	Discounted cash flow method	Effective margin on loans
G-SERIES PREFERENCE SHARES OF VISA INC.	Estimation of the fair value based on the current market value of the listed ordinary shares (A-series) of Visa Inc., including a discount which takes into account the limited liquidity of preferential shares	Discount taking into account the limited liquidity of preferential shares.
SHARES IN BIURO INFORMACJI KREDYTOWEJ SA	Estimation of the fair value based on the present value of the forecast results of the company	Forecast results of the company
SHARES IN POLSKI STANDARD PŁATNOŚCI SP. Z O.O.	Estimation of the fair value based on the present value of the forecast results of the company	Forecast results of the company; selection of peer group
SHARES IN SOCIETY FOR WORLDWIDE INTERBANK FINANCIAL TELECOMMUNICATION	Estimation of the fair value based on the net assets value of the company and average FX exchange rate	Net asset value of the company
SHARES IN KRAJOWA IZBA ROZLICZENIOWA S.A.	Estimation of the fair value based on the net assets value of the company	Net asset value of the company
SHARES IN WAŁBRZYSKA SPECJALNA STREFA EKONOMICZNA „INVEST-PARK” SP Z O.O.	Estimation of the fair value based on the net assets value of the company	Net asset value of the company

As at 31.12.2021 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

31.12.2021	Level I	Level II	Level III	Total
<b>Financial assets</b>				
Financial assets held for trading	361 679	3 654 553	3 885	4 020 117
Hedging derivatives	–	163 177	–	163 177
Loans and advances to customers measured at fair value through other comprehensive income	–	–	1 729 848	1 729 848
Loans and advances to customers measured at fair value through profit and loss	–	–	553 830	553 830
Debt securities measured at fair value through other comprehensive income	58 805 233	11 256 088	3 475	70 064 796
Debt securities measured at fair value through profit and loss	–	–	116 977	116 977
Equity securities measured at fair value through other comprehensive income	–	–	3 427	3 427
Equity securities measured at fair value through other comprehensive income	64 320	–	195 468	259 788
<b>Total</b>	<b>59 231 232</b>	<b>15 073 818</b>	<b>2 606 910</b>	<b>76 911 960</b>
<b>Financial liabilities</b>				
Financial liabilities held for trading	385 585	3 489 880	2 616	3 878 081
Hedging derivatives	–	1 762 334	–	1 762 334
<b>Total</b>	<b>385 585</b>	<b>5 252 214</b>	<b>2 616</b>	<b>5 640 415</b>
31.12.2020	Level I	Level II	Level III	Total
<b>Financial assets</b>				
Financial assets held for trading	178 799	3 001 906	2 064	3 182 769
Hedging derivatives	–	7 654	–	7 654
Loans and advances to customers measured at fair value through other comprehensive income	–	–	1 556 791	1 556 791
Loans and advances to customers measured at fair value through profit and loss	–	–	892 226	892 226
Debt securities measured at fair value through other comprehensive income	65 501 421	191 139	7 492	65 700 052
Debt securities measured at fair value through profit and loss	–	–	110 155	110 155
Equity securities measured at fair value through other comprehensive income	–	–	115 896	115 896
Equity securities measured at fair value through other comprehensive income	30 594	–	826 737	857 331
<b>Total</b>	<b>65 710 814</b>	<b>3 200 699</b>	<b>3 511 361</b>	<b>72 422 874</b>
<b>Financial liabilities</b>				
Financial liabilities held for trading	67 001	2 963 339	–	3 030 340
Hedging derivatives	–	1 775 098	–	1 775 098
<b>Total</b>	<b>67 001</b>	<b>4 738 437</b>	<b>–</b>	<b>4 805 438</b>

The tables below show reconciliation of changes in the balance of the valuation methods using material non-market parameters. financial instruments whose fair value is established by means of

## Level III

31.12.2021	Financial assets for trading	Loans and advances to customers measured at fair value through profit and loss	Loans and advances to customers measured at fair value through other comprehensive income	Debt securities measured at fair value through profit and loss	Debt securities measured at fair value through other comprehensive income	Equity securities measured at fair value through other comprehensive income	Equity securities measured at fair value through other comprehensive income	Financial liabilities held for trading
<b>As at the beginning of the period</b>	<b>2 064</b>	<b>892 226</b>	<b>1 556 791</b>	<b>110 155</b>	<b>7 492</b>	<b>826 737</b>	<b>115 896</b>	<b>-</b>
Profit or losses								
<i>-recognised in income statement</i>	164	22 104	-	(1 768)	-	-	3 968	1 782
<i>-recognised in equity (OCI)</i>	-	-	45 769	-	-	485 025	-	-
Purchase/granting	2 011	323 272	1 738 526	-	-	428	-	700
Sale	-	(1 978)	(845 276)	(500)	-	(1 116 722)	(116 422)	-
Matured	-	(647 734)	(661 980)	-	-	-	-	-
Transfer	(354)	(15 872)	-	-	-	-	-	134
Other	-	(18 188)	(103 982)	9 090	(4 017)	-	(281)	-
<b>As at the end of the period</b>	<b>3 885</b>	<b>553 830</b>	<b>1 729 848</b>	<b>116 977</b>	<b>3 475</b>	<b>195 468</b>	<b>3 427</b>	<b>2 616</b>

## Level III

31.12.2020	Financial assets for trading	Loans and advances to customers measured at fair value through profit and loss	Loans and advances to customers measured at fair value through other comprehensive income	Debt securities measured at fair value through profit and loss	Debt securities measured at fair value through other comprehensive income	Equity securities measured at fair value through other comprehensive income	Equity securities measured at fair value through other comprehensive income	
<b>As at the beginning of the period</b>	<b>-</b>	<b>1 196 447</b>	<b>923 811</b>	<b>194 285</b>	<b>16 027</b>	<b>864 916</b>	<b>-</b>	<b>-</b>
Profit or losses								
<i>recognised in income statement</i>	(24)	9 378	-	15 957	-	-	-	17 245
<i>recognised in equity (OCI)</i>	-	-	40 498	-	-	(37 254)	-	-
Purchase/granting	1 379	404 407	1 181 483	-	-	-	-	-
Sale	-	(3)	(275 370)	(1 000)	-	(925)	-	-
Matured	-	(591 551)	(278 668)	-	-	-	-	-
Transfer	709	(109 773)	-	(101 550)	-	-	-	101 550
Other	-	(16 679)	(34 963)	2 463	(8 535)	-	-	(2 899)
<b>As at the end of the period</b>	<b>2 064</b>	<b>892 226</b>	<b>1 556 791</b>	<b>110 155</b>	<b>7 492</b>	<b>826 737</b>	<b>115 896</b>	<b>-</b>

## 48. Legal risk connected with CHF mortgage loans

As at 31 December 2021, the Group had retail exposures of PLN 9,265,163k (compared to PLN 9,853,480k as at 31 December 2020) in respect of mortgage loans denominated in or indexed to CHF. Due to differences in the legal structure of these two types of loans and the underlying agreement templates, the assessment of legal risk varies.

There are differences in courts' rulings on CHF loan cases (for loans indexed to and denominated in foreign currency):

- rulings unfavourable to banks, which generally fall into two main categories: (1) judgments resulting in invalidation of the loan agreement due to the unfairness of the contested contractual terms (prevailing practice); (2) judgments resulting in the conversion of the loan to PLN meaning that due to the unfairness of the clause providing for loan indexation and application of an exchange rate from the bank's FX table the indexation mechanism is to be removed, and the loan concerned is to be treated as a PLN loan with an interest rate based on CHF LIBOR;
- rulings partially favourable to banks where loan indexation itself is deemed to be lawful but application of an exchange rate based on the bank's FX table is deemed to be unfair and as such it should be replaced by an objective indexation rate, i.e. an average NBP exchange rate. This may result in particular claims being admitted, but only in an amount equal to the FX differences close to the currency spread.
- rulings favourable to banks where conversion clauses are not deemed to be unfair and the case against the bank is dismissed.

In addition, due to the legal uncertainty described below, related to the lack of a comprehensive position of the Supreme Court and the pending preliminary rulings to the Court of Justice of the European Union (CJEU), other types of rulings may also appear in the ruling practice of common courts, especially first-instance courts, including those pointing to the absolute invalidity of the loan agreement due to the inconsistency with the law of certain contractual provisions. Currently, in the Group's opinion, such decisions do not have a material impact on the legal risk assessment of court cases related to CHF-based mortgage loans – due to their rarity, lack of confirmation in the ruling practice of higher courts, and the lack of well-established differences as to the practical consequences of such decisions compared to the dominant ruling practice based on the concept of nullity of the contract due to the presence of abusive clauses (therefore, they are not reflected in the estimates of provisions for legal risk created as at 31 December 2021).

The above differences result from several key rulings issued by the Court of Justice of the European Union (CJEU) and the Supreme Court, which leave a margin of interpretation.

On 3 October 2019, the CJEU issued a ruling (case file no. C-260/18) which is of key importance to the current case law in relation to the consequences of potentially unfair terms in a CHF-indexed loan agreement. The CJEU found that if the indexation clause is held to be unfair and if after the removal of the indexation mechanism the nature of the main subject matter of the agreement is likely to change, a national court may annul the agreement, having presented to the borrower the consequences of this solution and having obtained their consent. At the same

time, according to the CJEU, the national court may decide that the agreement should continue in existence

after the indexation mechanism is removed (whereby the loan at issue would be treated as a PLN loan with an interest rate based on LIBOR); however, such a solution was deemed uncertain. The CJEU precluded the possibility to substitute unfair terms of the agreement with general provisions of the Polish Law, but confirmed the possibility of replacing the gaps in the agreement with explicit supplementary provisions or other rules agreed by the parties.

Before the CJEU judgment was issued, the Supreme Court's stance as to the consequences of rendering the exchange rate calculation clause unfair was that indexed loan agreements are valid and lawful and the loan agreement, once the FX clause is eliminated, retains the features of an agreement on an indexed loan. In 2019, in some cases, the Supreme Court ruled that the indexation clause should be removed, and the agreement may be treated as an agreement on a PLN loan with an interest rate based on LIBOR. These rulings were an exception to the previous decisions made by the Supreme Court.

In its judgement of 11 December 2019 (file no. CSK 382/18) issued in the case against Santander Bank Polska S.A. (whose justification was published in April 2020), the Supreme Court decided that invalidation of indexation and continuation of the agreement as a PLN loan with a LIBOR-based interest rate is not permissible because indexation clauses are the element of the main contractual obligations of the parties, so their unfairness and elimination from the agreement makes the loan agreement invalid. This triggers the need for mutual settlements between the parties due to unjust enrichment. At the same time, the Supreme Court stated that the previous judgements of the CJEU do not preclude the bank from demanding compensation for unjustified (i.e. without an agreement) use of the loan principal as a result of invalidation of the agreement.

In its ruling of 16 February 2021 (file no. III CZP 11/20), the Supreme Court stated that the borrower whose loan agreement is declared invalid may claim reimbursement of the sums paid to the bank irrespective of whether and to what extent they owe the amounts to the bank in respect of unduly received loan proceeds (two separate claims theory). At the same time, the Supreme Court held that there are legal instruments in place, such as set-off and the right of retention, which make it possible to concurrently account for mutual settlements in relation to unjust enrichment following the invalidation of the loan agreement.

In the Group's opinion, the ruling that will significantly impact the ruling practice is the CJEU judgment issued on 29 April 2021 (file no. C-19/20) in the case against Bank BPH S.A., in which the CJEU indicated that the purpose of Directive 93/13/EEC on unfair terms in consumer contracts was not to annul the credit agreement, but to restore the contractual balance, and noted that when assessing the effects of unfairness of a contract, the court should take into account objective criteria, not only the consumer's situation. In addition, the CJEU stated that in order to ensure that the contract can continue in existence, the court should apply all available measures, including an analysis of the possibility of removing only some of the clauses considered unfair; at the same time, the national court should not change the substance of the contractual

obligation. The CJEU confirmed that the court should always inform the consumer of all potential claims that the bank might have due to possible annulment of the contract (the majority of courts do not meet this requirement). At the same time, the CJEU did not respond to questions regarding potential claims of the bank towards the borrower, which may indicate that these claims are outside the CJEU's remit and their assessment is exclusively subject to the national law.

In its resolution of 7 May 2021 (file ref. no. III CZP 6/21) adopted by a bench of seven judges (and having the force of a legal rule), the Supreme Court stated that the parties may make unjust enrichment claims in the event of annulment of the loan agreement, with the settlement being made in accordance with the two separate claims theory (confirming the position expressed in the ruling of 16 February 2021). The Supreme Court confirmed that banks may pursue their claims towards borrowers as part of the lawsuits filed by customers based on the alleged set-off or retention. The Supreme Court also pointed out that the limitation of the bank's claims for return of unjust enrichment may not commence until the contract is considered permanently ineffective, i.e. until the consumer takes an informed decision as to invalidity of the contract, after they have been duly informed about the unfairness of contractual provisions and the related effects.

Despite the above resolution adopted by the Supreme Court (having the force of a legal rule) there are still doubts as to disputes regarding loans linked to a foreign currency.

Notwithstanding the resolution of 7 May 2021, in 2021 the Supreme Court was expected to take a position at the request of the First President of the Supreme Court – (case no. III CZP 11/21) (in the form of a resolution of the entire Civil Chamber) on the key aspects of the disputes (i.e. the possibility for a loan agreement to continue in existence after removal of the unfair clauses, as well as the consequences of possible invalidation of the entire agreement, including the basic principles of settlements between the borrower and the bank in this regard). The position of the Supreme Court was to clarify the discrepancies and harmonise the case law with respect to foreign currency loans. The Supreme Court met several times, with the last session taking place on 2 September 2021. However, the resolution was not adopted, and the Supreme Court requested a preliminary ruling from the CJEU on the constitutional issues. The date of adopting the resolution is not known.

On 2 September 2021, the CJEU issued another judgment (file ref. no. C-932/19) concerning loans based on a foreign currency (case against a Hungarian bank) in which it confirmed that pursuant to Directive 93/13/ECC the objective is to restore the balance between the parties while preserving the validity of the agreement, and that the situation of one of the parties cannot be regarded by the court as the decisive criterion determining the fate of the agreement. At the same time, the CJEU confirmed that in order to uphold the agreement it is necessary to refer to the national legislation (supplementary provisions) which will ensure due performance of the agreement even if the borrower objects to it or if such legislation was not effective at the time the agreement was made.

In its judgment of 18 November 2021 on a loan indexed to a foreign currency (file ref. no. C-212/20), the CJEU held that the loan agreement must precisely define the criteria for determination of an exchange rate so that a consumer can

evaluate the economic consequences of the agreement. The CJEU also stated that the agreement may continue in existence based on a supplementary provision only if its annulment could expose the consumer to unfavourable consequences. It further upheld its stance previously presented its judgment of 3 October 2019 that gaps in the agreement cannot be filled on the basis of national provisions of a general nature which refer to the principle of equity or established customs. The CJEU reiterated that supplementary provisions or applicable provisions may be used where the parties to the agreement so agree.

Although the CJEU judgments indicate the primacy of the resolution under which the agreement should continue in existence and the balance between the parties should be restored, the majority of court decisions continue to be unfavourable to the Group.

There are also other issues pending the CJEU judgement that are relevant to the ruling practice concerning loans indexed to or denominated in a foreign currency. In August 2021, the District Court for Warsaw-Śródmieście requested a preliminary ruling from the CJEU on the settlement of benefits arising from the non-contractual use of the capital in the case of annulment of the agreement pursuant to Directive 93/13/EEC on unfair terms in consumer contracts. In November 2021, the Regional Court in Warsaw asked the CJEU to give a preliminary ruling on the commencement of the limitation of claims for return of considerations following the annulment of the agreement and the possibility to exercise the right of retention by the entity (where the return of the considerations received from the consumer would only be possible if the consumer offered to return or secured the return of the considerations received from the entity).

Pending the CJEU judgment are also the questions referred for a preliminary ruling by the District Court for Warsaw-Wola concerning the scope of application of Directive 93/13/ECC on unfair terms in consumer contracts (whether it includes the settlement of an invalid agreement) and the importance of the consumer's will for the court adjudicating on invalidation of the agreement. In October 2020, the District Court for Warsaw-Śródmieście requested a preliminary ruling from the CJEU on: the possibility to apply supplementary provisions of national law to fill the gaps caused by the removal of the unfair terms, the commencement of the limitation of the consumer's claims for return of considerations resulting from the annulment of the agreement, possibility to remove only a part of the clause considered to be unfair and modify by interpretation the part of the agreement that has not been considered unfair (for the agreement to continue in existence).

It is still difficult to assess the potential impact of the CJEU judgments on rulings of Polish courts in cases regarding foreign currency loans. To date, the Supreme Court has not taken a position to clarify the discrepancies and harmonise the case law with respect to foreign currency loans.

Due to the lack of a uniform ruling practice and in the opinion of the Management Board, it is not possible to predict the shape of the resolution of individual issues by the Supreme Court, at the time of preparing these financial statements, in its model to raise provisions for legal risk associated with the portfolio of loans indexed to and denominated in a foreign currency the Group takes into account different possible judgments, including those which are the subject of the request for the resolution of the entire Civil



Chamber of the Supreme Court. The Group is monitoring court decisions taken with regard to foreign currency loans in terms of changes in the ruling practice.

In December 2020, the Chairman of the Polish Financial Supervision Authority (KNF) presented a proposal for voluntary settlements between banks and borrowers under which CHF loans would be retrospectively settled as PLN loans bearing an interest rate based on WIBOR plus margin. The Bank continues the tests of conclusion of such settlements on subsequent groups of customers, while at the same time testing settlement solutions on the Bank's own terms. At this point in time, due to the continued high legal uncertainty and in the changing economic environment resulting from the increase in interest rates, the Bank sees the necessity to continue the tests. The overall result of the ongoing tests and analysis will be an important input to the decision on whether to proceed with settlement on a broader scale. As the final decision to commence the process of entering into settlements might have a large impact on the Group's financial position, consent from the General Meeting will be required. If the Group decides to do so, it will take into account additional scenarios in the models for calculation of provisions for legal risk and will reflect the estimated impact of settlements on the level of those provisions.

Due to the situation described above, the Group identified the risk that the scheduled cash flows from the portfolio of mortgage loans denominated in and indexed to foreign currencies might not be fully recoverable and/or that a liability might also arise, resulting in a future cash outflow. The Group raises provisions for disputes (individual court cases) and legal risk (on a collective basis) in line with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The amount of provisions calculated based on the active and repaid portfolio was estimated taking into account a number of assumptions, which significantly influence the estimate reflected in the Group's financial statements.

As at 31 December 2021, there were 8,474 pending lawsuits against the Group over loans indexed to or denominated in CHF, with the disputed amount totalling PLN 2,091,915k. This included two class actions filed under the Class Action Act:

- a class action against Santander Bank Polska S.A. in respect of 534 CHF-indexed loans, with the disputed amount of PLN 50,983k;
- a class action against Santander Consumer Bank S.A. in respect of 31 CHF-indexed loans, with the disputed amount of PLN 38k.

As at 31 December 2021, the Group raised provisions of PLN 1,216,809k (PLN 324,920k as at 31 December 2020) for legal claims concerning contractual clauses in mortgage loan agreements indexed to or denominated in foreign currencies.

As at 31 December 2021, the Group raised collective provisions for legal risk of PLN 838,843k (PLN 278,247k as at 31 December 2020). Santander Bank Polska S.A. and Santander Consumer Bank S.A. raised provisions of PLN 611,713k and PLN 227,129k, respectively (PLN 191,900k and 86,347k, respectively, as at 31 December 2020).

The total provisions for legal claims and collective provisions account for 22.2% of the active portfolio of CHF loans.

The increase in the above provisions in 2021 is mainly due to new court cases (up 4,285 compared to December 2020) and a change in total loss should the Group lose the case resulting from changes to the assumed level of the likelihood of claims being resolved in favour of customers.

The Group estimated the likelihood of claims being made by borrowers in relation to both active and repaid loans based on the existing claims against the Bank and the estimated growth in their number (using a statistical model for predicting the number of potential court cases). The model assesses risk in the lifetime horizon and is based on a range of behavioural characteristics related to the loan and the customer. The Group assumes that lawsuits have been or will be filed against the Group in relation to approx. 19.7% of loans (active and repaid). These assumptions are highly sensitive to a number of external factors, including but not limited to the ruling practice of Polish courts, the level of publicity around individual rulings, measures taken by the mediating law firms and the cost of proceedings. The Group expects that most of the lawsuits will be filed by mid 2023, and then the number of new claims will drop as the legal environment will become more structured.

For the purpose of determining the level of provisions, the Group also estimated the probabilities of possible court settlement scenarios for both pending court cases and potential claims. These likelihoods differ for indexed and denominated loans, – the Group takes into account the higher risk of losing the dispute for the portfolio of indexed loans, and lower for denominated loans. The Group also took into account disproportions in the ruling practice of courts of first and second instance, the relatively small number of final judgments and the extended waiting time for a dispute to be resolved in some courts. As of 31 December 2021, the Group received 175 final court rulings in cases pending against the Group (bearing in mind the rulings issued after the CJEU judgment of 3 October 2019) – including 148 rulings unfavourable to the Bank, and the remaining 27 rulings in full or partially favourable (as at 31 December 2020 – 49 rulings, including 27 unfavourable and 22 fully or partially favourable). When assessing these likelihoods, the Group used the support of law firms and an in-depth analysis regarding the ruling practice in cases concerning indexed and denominated loans.

As the current case law is not uniform, the Group considers the following scenarios of possible court rulings that might lead to financial losses:

- Invalidation of the whole loan agreement due to identification of unfair clauses, with no cost of capital to be reimbursed by the borrower;
- Invalidation of the loan agreement clauses identified as unfair, resulting in the loan to be converted into PLN, with the CHF LIBOR-based interest rate being maintained;
- Decisions leading to the settlement by the borrower of the cost of capital obtained:

invalidating the whole loan agreement as it contains unfair clauses, with the cost of capital to be reimbursed by the borrower;

conversion of the loan to PLN with an interest rate based on WIBOR);

- Invalidation of the loan agreement clauses identified as unfair with respect to the FX differences determination mechanism, resulting in the average NBP rate to be applied.

The likelihoods of these scenarios also vary depending on the type of agreement, and are based on a relatively small sample of rulings. They were estimated with the support of external law firms independent from the Group. Each of these scenarios has an estimated expected loss level based on the available historical data.

In the Group's opinion, the expected number of cases estimated based on the statistical model is also characterised by uncertainty due to such factors as: the duration of court proceedings (also estimated based on a relatively short time horizon of available statistics, which does not meet the conditions for application of quantitative methods) and the growing costs related to the instigation and continuation of court proceedings.

The Group will continue to monitor and evaluate the adequacy of the above-mentioned provisions in subsequent reporting periods.

Due to the high uncertainty around both individual assumptions and their total impact, the Group carried out the following sensitivity analysis of the estimated provision by estimating the impact of variability of individual parameters on the provision value.

The estimates are based on a univariate analysis of provision value sensitivity.

Taking into account the variability of the parameters outlined below, the impact on the collective provision for legal risk estimated as at 31 December 2021 is as follows:

Scenario	Change in the collective provision
Tripling the number of customers filing a lawsuit	1 676
Doubling the number of customers filing a lawsuit	838
50% reduction in the number of customers filing a lawsuit	(419)
Relative increase of 5% in likelihood of losing the case	40
Relative decrease of 5% in likelihood of losing the case	(40)
Non-recognition of reimbursement of the cost of principal	103

For all the parameters, the variability range in the sensitivity analysis was estimated taking into account the existing market conditions. The adopted variability ranges may change depending on market developments, which may significantly affect the

results of the sensitivity analysis.

Taking into account the variability of the parameters outlined below, the impact on the provision for individual legal claims estimated as at 31 December 2021 is as follows:

Scenario	Change in the individual provision
Relative increase of 5% in likelihood of losing the case	62
Relative decrease of 5% in likelihood of losing the case	(62)
Non-recognition of reimbursement of the cost of principal	171

At the same time, the Group estimated the potential impact of the solution that involves voluntary settlements on a larger scale. Assuming that 100% of current borrowers choose to convert their loans as proposed by the KNF Chairman, the Group's cost would

be in the order of PLN 4.1bn gross at the consolidated level. This amount is determined independently and in no way affects the provision estimates in the report.

## 49. Contingent liabilities

### Significant court proceedings

**As at 31.12.2021** the value of all litigation amounts to PLN 3 721 903 k. This amount includes PLN 1 133 832 k claimed by the Group, PLN 2 533 296 k in claims against the Group and PLN 54,775 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 31.12.2021 the amount of all court proceedings which had been completed amounted to PLN 659 326 k.

As at 31.12.2021, the value of provisions for legal claims was PLN 923 617 k. In 441 cases against Santander Bank Polska S.A., where the claim value was high (at least PLN 500 k), a provisions of PLN 211 070 k was raised.

**As at 31.12.2020** the value of all litigation amounts to PLN 2,317,882 k. This amount includes PLN 1,004,690 k claimed by the Group, PLN 1,261,620 k in claims against the Group and PLN 51,572 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 31.12.2020 the amount of all court proceedings which had been completed amounted to PLN 735,191 k.

As at 31.12.2020, the value of provisions for legal claims was PLN 408,485 k. In 229 cases against Santander Bank Polska S.A., where the claim value was high (at least PLN 500 k), a provisions of PLN 70,373 k was raised.

### Off-balance sheet liabilities

The values of contingent liabilities and off-balance sheet transactions are presented below. The values of liabilities granted and provisions for off-balance sheet liabilities are also presented by categories. The values of guarantees and letters of credit as set out in the table below represent the maximum possible loss that would be disclosed as at the balance sheet day if the customers did not meet any of their obligations towards third parties.

31.12.2021

Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
<b>Liabilities granted</b>	<b>44 542 432</b>	<b>883 386</b>	<b>52 463</b>	<b>45 478 281</b>
– financial	35 785 367	709 686	46 434	36 541 487
– credit lines	30 799 120	639 398	36 399	31 474 917
– credit cards debits	3 671 725	63 935	8 674	3 744 334
– import letters of credit	1 314 522	6 353	1 361	1 322 236
– guarantees	8 792 556	182 951	22 098	8 997 605
Provision for off-balance sheet liabilities	(35 491)	(9 251)	(16 069)	(60 811)
<b>Liabilities received</b>				<b>54 956 051</b>
– financial				26 439
– guarantees				54 929 612
<b>Total</b>	<b>44 542 432</b>	<b>883 386</b>	<b>52 463</b>	<b>100 434 332</b>

31.12.2020

Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
<b>Liabilities granted</b>	<b>41 296 843</b>	<b>853 890</b>	<b>95 625</b>	<b>42 246 358</b>
– financial	34 006 951	634 428	83 603	34 724 982
– credit lines	28 831 615	494 054	67 902	29 393 571
– credit cards debits	3 960 832	131 695	13 914	4 106 441
– import letters of credit	1 194 014	8 679	1 787	1 204 480
– term deposits with future commencement term	20 490	–	–	20 490
– guarantees	7 315 501	231 608	38 808	7 585 917
Provision for off-balance sheet liabilities	(25 609)	(12 146)	(26 786)	(64 541)
<b>Liabilities received</b>				<b>60 810 347</b>
– financial				153 119
– guarantees				60 657 228
<b>Total</b>	<b>41 296 843</b>	<b>853 890</b>	<b>95 625</b>	<b>103 056 705</b>

## Court proceedings relating to partial reimbursement of arrangement fees on consumer loans

As at 31.12.2021, Santander Bank Polska Group was sued in 866 cases concerning partial refund of an arrangement fee on consumer loans, including 232 cases against Santander Consumer Bank S.A. and 634 cases against Santander Bank Polska S.A. For these proceedings Santander Bank Polska Group raised provisions in the total amount of PLN 109k including provisions raised by Santander Consumer Bank S.A. in the amount of PLN 16k and provisions raised by Santander Bank Polska S.A. in the amount of PLN 94k.

On 11.09.2019, the CJEU issued a ruling in case C 383/18, in which it held that pursuant to Directive 2008/48/EC of the European Parliament and of the Council the in the event of early repayment of the loan, consumer is entitled to an equitable reduction in the total cost of the credit, irrespective of whether such costs are linked to the lending period.

On 12.12.2019 The Supreme Court issued a ruling in case III CZP 45/19 in which it held that the interpretation of art. 49 of the Consumer Credit Act indicates that the arrangement fee should be refunded in the event of early repayment of the loan. At the same time, the Supreme Court did not indicate how the fee is related to the period by which the duration of the contract was shortened and what part of the fee is covered by the period of which the duration of the contract was shortened. It is important to settle the interpretation of national law, which will indicate the method and the time horizon of settlements.

When assessing legal risk associated with Article 49 of the Consumer Credit Act, the Santander Bank Polska Group raises provisions for legal risks related to disputes regarding art. 49 of the Consumer Credit Act taking in to account interpretation differences.

## 50. Assets and liabilities pledged as collateral

Assets pledged as collateral	31.12.2021	31.12.2020
Treasury bonds blocked for REPO transactions	534 437	657 664
<b>Total</b>	<b>534 437</b>	<b>657 664</b>

The Group holds financial instruments such as:

- debt securities measured at fair value through other comprehensive income worth PLN 512,975 k (in 2020 PLN 643,272 k),
- financial assets held for trading of PLN 21,462 k (in 2020 PLN 14,392 k),

which represent collateral for liabilities under buy-sell-back transactions. The liabilities were presented in Note 45 Sell-buy-back and buy-sell-back transactions.

Apart from assets that secure liabilities that are disclosed separately in the statement of financial position when the receiving party may sell or exchange the assets for other security, the Group additionally held the following collateral for liabilities that did not meet the criterion:

	31.12.2021	31.12.2020
Treasury bonds blocked for BFG	1 021 774	1 055 355
Treasury bonds blocked for loans from banks	216 281	561 114
Deposits in financial institutions as collateralised valuation of transactions	2 261 463	3 115 789
<b>Total</b>	<b>3 499 518</b>	<b>4 732 258</b>

Assets securing funds to cover the BGF are debt securities.

In order to calculate the contribution to the deposit protection fund, Santander Bank Polska S.A. and Santander Consumer Bank S.A. applied 0,35% (0.35% in 2020) of funds deposited in all accounts with the bank, being the basis for calculating the obligatory reserve. As at 31.12. 2021, assets allocated to that end totalled PLN 1,021,774 k compared with PLN 1,055,355 k a year before.

In respect of financing granted in the form of bank loans, collateral is set through debt securities measured at fair value

through other comprehensive income blocked in KDPW (Central Securities Depository of Poland) worth PLN 216,281 k (as at 31.12.2020 – PLN 561,114 k).

In 2021, deposits opened with financial institutions to secure the value of transactions totalled PLN 2,261,463 k (in 2020 – PLN 3,115,789 k).

In 2021, the Group accepted PLN 1,050,921 k worth of deposits securing of derivative transactions (vs. PLN 392,775 k in 2020).

Other liabilities accepted as collateral are disclosed in Note 34.

## 51. Information about leases

Lease related amounts recognized in the income statement	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
Amortisation of right of use asset incl.:	(167 571)	(188 332)
– Land and buildings	(158 160)	(175 962)
– IT equipment	(975)	(1 001)
– Transportation means	(6 949)	(9 782)
– Other	(1 487)	(1 587)
Interest expenses due to lease liabilities	(14 758)	(18 952)
Short-term lease costs	(8 671)	(10 075)
Low-value assets lease costs	(2 176)	(2 410)
Costs of variable lease payments not included in the measurement of the lease liabilities	(145)	(144)
Non-tax deductible VAT	(47 263)	(43 982)
<b>Total</b>	<b>(240 584)</b>	<b>(263 895)</b>

## Lease agreements where the Group acts as a lessee

Lease liabilities	31.12.2021	31.12.2020
Lease liabilities (gross)	493 764	675 322
Discount	(41 265)	(50 632)
<b>Lease liabilities (net)</b>	<b>452 499</b>	<b>624 690</b>
Lease liabilities gross by maturity:		
Short-term	147 471	192 647
Long-term (over 1 year)	346 293	482 675
<b>Total lease liabilities (gross)</b>	<b>493 764</b>	<b>675 322</b>
Movements in lease liabilities	1.01.2021- 31.12.2021	1.01.2020- 31.12.2020
<b>As at the beginning of the period</b>	<b>624 690</b>	<b>746 632</b>
<b>Additions from:</b>	<b>58 652</b>	<b>114 127</b>
– adding a new contract	40 445	64 503
– interest on lease liabilities	14 721	18 833
– FX differences	–	23 387
– update of lease term	3 486	7 404
<b>Disposals from:</b>	<b>(230 843)</b>	<b>(236 069)</b>
– payment due to lease liabilities	(188 317)	(192 785)
– interest repayment	(14 567)	(18 687)
– FX differences	(6 224)	–
– other changes	(21 735)	(24 597)
<b>As at the end of the period</b>	<b>452 499</b>	<b>624 690</b>

## Lease agreements where the Group acts as a lessor

Santander Bank Polska Group conduct leasing activity through leasing companies which specialise in funding vehicles, means of

transport for companies and individuals, as well as in the leasing of machinery, equipment and properties.

The items "Loans and advances to customers" and "Loans and advances to banks" contain the following amounts relating to the lease obligations:

Leases gross receivables – maturity	31.12.2021	31.12.2020
less than 1 year	4 269 364	4 007 664
1-2 years	3 345 390	2 936 675
2-3 years	2 223 861	1 935 618
3-4 years	1 189 619	970 409
4-5 years	529 236	406 531
over 5 years	82 709	102 450
<b>Total</b>	<b>11 640 179</b>	<b>10 359 347</b>
Present value of minimum lease payments – maturity	31.12.2021	31.12.2020
less than 1 year	4 111 957	3 886 610
1-2 years	3 153 005	2 781 210
2-3 years	2 059 040	1 796 920
3-4 years	1 076 972	878 458
4-5 years	469 437	356 662
over 5 years	67 504	83 506
<b>Total</b>	<b>10 937 915</b>	<b>9 783 366</b>

	31.12.2021	31.12.2020
Reconciliation between the lease receivables and the present value of minimum lease payments		
Lease gross receivables	11 640 179	10 359 347
Unearned finance income	(702 264)	(575 981)
Impairment of lease receivables	(192 728)	(135 207)
<b>Present value of minimum lease payments, net</b>	<b>10 745 187</b>	<b>9 648 159</b>

## Operating leases

	31.12.2021	31.12.2020
Future minimum lease fees due to irrecoverable operating lease		
less than 1 year	13 811	11 167
1-2 years	14 015	9 542
2-3 years	1 438	1 514
<b>Total</b>	<b>29 264</b>	<b>22 223</b>

## 52. Consolidated statement of cash flows– additional information

The table below contains information on cash and cash equivalents in the cash flows statement of Santander Bank Polska Group.

	31.12.2021	31.12.2020
Cash and cash equivalents		
Cash and balances with central banks	8 438 275	5 489 303
Receivables from interbank deposits*	2 910 133	3 143 038
Debt securities measured at fair value through other comprehensive income*	6 997 960	4 999 904
<b>Total</b>	<b>18 346 368</b>	<b>13 632 245</b>
The impact of changes in currency exchange rates during the financial year on cash and cash equivalents	16 435	125 666

\* financial assets with initial maturity below three months

Santander Bank Polska S.A. and Santander Consumer Bank S.A. have restricted cash in the form of a mandatory reserve held on account with the central bank.

## 53. Related parties

The tables below present intercompany transactions. They are effected between associates and related entities. Transactions between Santander Bank Polska Group companies and its related entities are banking operations carried out on an arm's length business as part of their ordinary business and mainly represent loans, bank accounts, deposits, guarantees and leases.

Intercompany transactions effected within the Group by the Bank and its subsidiaries have been eliminated from the consolidated financial statements. In the case of internal Group transactions, a documentation is prepared in accordance with requirements of tax regulations for transfer pricing.

	31.12.2021	31.12.2020
Transactions with associates		
<b>Assets</b>	<b>63</b>	<b>77</b>
Other assets	63	77
<b>Liabilities</b>	<b>50 783</b>	<b>88 102</b>
Deposits from customers	50 708	87 998
Other liabilities	75	104
<b>Income</b>	<b>58 969</b>	<b>45 673</b>
Fee and commission income	58 969	45 673
<b>Expenses</b>	<b>65</b>	<b>1 663</b>
Interest expense	65	545
Fee and commission expense	-	1 118



Transactions with Santander Group	with the parent company		with other entities	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
<b>Assets</b>	<b>2 205 680</b>	<b>1 874 598</b>	<b>28 379</b>	<b>9 068</b>
Loans and advances to banks, incl:	406 371	766 201	20 773	8 184
Loans and advances	406 371	-	20 773	-
Current accounts	-	766 201	-	8 184
Financial assets held for trading	1 797 764	1 107 257	-	4
Other assets	1 545	1 140	7 606	880
<b>Liabilities</b>	<b>7 643 555</b>	<b>3 542 443</b>	<b>254 932</b>	<b>555 327</b>
Deposits from banks incl.:	1 879 707	1 521 825	119 507	448 183
Current accounts	138 571	490 902	119 507	448 183
Loans from other banks	1 741 136	1 030 923	-	-
Financial liabilities held for trading	1 850 935	1 556 881	-	-
Deposits from customers	-	-	84 647	84 596
Lease liabilities	-	-	25	25
Debt securities in issue	3 910 233	461 509	-	-
Other liabilities	2 680	2 228	50 753	22 523
<b>Income</b>	<b>365 524</b>	<b>2 560</b>	<b>8 717</b>	<b>7 155</b>
Interest income	(2 825)	46	20	4
Fee and commission income	8 633	1 483	280	213
Other operating income	1 172	1 031	8 417	6 938
Net trading income and revaluation	358 544	-	-	-
<b>Expenses</b>	<b>67 067</b>	<b>278 522</b>	<b>105 416</b>	<b>73 585</b>
Interest expense	22 354	26 375	13	83
Fee and commission expense	7 811	7 042	697	138
Net trading income and revaluation	-	209 683	246	547
Operating expenses incl.:	36 902	35 422	104 460	72 817
Staff, Operating expenses and management costs	36 837	35 422	104 460	72 817
Other operating expenses	65	-	-	-
<b>Contingent liabilities</b>	<b>5 325 641</b>	<b>5 120 775</b>	<b>64 355</b>	<b>64 329</b>
Sanctioned:	-	-	32 536	32 505
guarantees	-	-	32 536	32 505
Received:	5 325 641	5 120 775	31 819	31 824
guarantees	5 325 641	5 120 775	31 819	31 824
<b>Nominal values of derivatives</b>	<b>165 965 533</b>	<b>128 147 610</b>	<b>-</b>	<b>5 000</b>
Cross-currency interest rate swap (CIRS) – purchased	6 941 045	4 721 675	-	-
Cross-currency interest rate swap (CIRS) – sold	6 976 396	4 987 120	-	-
Single-currency interest rate swap (IRS)	74 002 414	54 371 535	-	-
Forward rate agreement (FRA)	2 981 000	3 100 000	-	-
Options interest rate	7 549 446	7 757 651	-	-
FX swap – purchased amounts	24 401 830	18 356 797	-	-
FX swap – sold amounts	24 286 741	18 503 137	-	-
FX options – purchased CALL	4 201 387	3 928 551	-	-
FX options – purchased PUT	4 196 081	3 983 999	-	-
FX options – sold CALL	4 909 590	3 866 848	-	-
FX options – sold PUT	5 041 365	3 846 814	-	-
Spot – purchased	121 087	223 412	-	-
Spot – sold	120 956	222 556	-	-
Forward – purchased	53 128	118 843	-	-
Forward – sold	53 365	119 906	-	5 000
Window Forward – purchased amounts	65 190	19 281	-	-
Window Forward – sold amounts	64 512	19 485	-	-
Equity derivatives contract – purchased	-	-	-	-

## Factoring – risk participation agreements

In H2 2019, Santander Factoring Sp. z o.o. and Banco Santander S.A. signed risk participation agreements whereby Santander Factoring Sp. z o.o. would be able to transfer credit risk onto Banco Santander S.A. headquartered in Madrid or Banco Santander S.A. Branch in Frankfurt. Banco Santander S.A. may participate in the risk through Unfunded Risk Participation (whereby it issues a guarantee) or Funded Risk Participation (whereby it provides financing and assumes the insolvency risk for the debtor of Santander Factoring Sp. z o.o.). Assumption of the debtor's insolvency risk reduces the RWA ratio for the Company's assets.

Santander Factoring Sp. z o.o. pays an agreed remuneration to Banco Santander S.A., both for the guarantee issued and for the financing provided. In the case of Funded Risk Participation, interest on financing is calculated at the base rate (WIBOR/EURIBOR) increased by a margin set for the factoring agreement in question. In the case of Unfunded Risk Participation, the remuneration is calculated by multiplying the guaranteed amount (for a given month) and the margin.

As at 31 December 2021, the debt of Santander Factoring Sp. z o.o. in respect of the loans granted by Banco Santander S.A. and its Branch in Frankfurt was PLN 1,738,397 k (principal and interest). As at 31 December 2021, factoring receivables financed with the foregoing loans totalled

31.12.2021

	Carrying amount	Fair value
Loans from Banco Santander S.A., Frankfurt Branch	1 738 397	1 738 397
Factoring receivables financed with the loans	1 195 648	1 195 648

As at 31.12.2021, Santander Factoring Sp. z o.o. held the following assets secured by guarantees:

- PLN 856,911 k – assets secured under the Funded Risk Participation Agreement signed with Banco Santander S.A. Branch in Frankfurt on 20 September 2019;
- PLN 338,737 k – assets secured under the Funded Risk Participation Agreement signed with Banco Santander S.A. on 22 November 2019;
- PLN 44,853 k – assets secured under the Unfunded Risk Participation Agreement signed with Banco Santander S.A. on 22 November 2019;
- PLN 1,168,464 k – assets secured by guarantees granted by a third party bank;
- PLN 2,010 k – assets secured by guarantees granted by a third party bank.

After the risk was assumed by Banco Santander S.A. and its Branch in Frankfurt, the impairment allowance for factoring receivables was decreased by PLN 1,200 k as at 31 December 2021.

PLN 1 195 648 k. As the conditions for transferring financial assets have not been met, the receivables covered by the Funded Risk Participation Agreement are still recognised in the statement of financial position.

As at 31 December 2021, the difference between the amount of the loans granted and the value of the factoring receivables financed with those loans was PLN 542 750 k. The difference was attributed to the early repayment of the factoring receivables and a lower-than-projected value of invoices submitted for financing by customers as part of individual tranches.

The tranches are to be repaid in the period from January to April 2022. Repayment of the tranches is conditioned upon the repayment to Santander Factoring Sp. z o.o. of the factoring receivables financed from the funds granted. At the same time, Santander Factoring Sp. z o.o. cannot sell or pledge the factoring receivables financed with the funds provided by Banco Santander S.A. and its Branch in Frankfurt.

The table below compares the carrying amounts and fair values of liabilities towards Banco Santander S.A. and its Branch in Frankfurt as at 31 December 2021 in respect of the loans granted to finance factoring receivables. Given the short maturities of financial assets and financial liabilities and the fact that credit risk is included in the carrying amount of the financial assets it is assumed that their fair value does not differ significantly from their carrying amount.

## Transactions with Members of Management and Supervisory Boards

### Remuneration of Santander Bank Polska Management Board Members, Supervisory Board Members and key management personnel and loans and advances granted to the key management personnel.

As at 31.12.2021 and 31.12.2020 members of the Management Board were bound by the non-compete agreements which remain in force after they step down from their function. If a Member of the Management Board is removed from their function or not appointed for another term, he/she is entitled to a once-off severance pay. The severance pay does not apply if the person accepts another function in the Bank.

Loans and advances have been sanctioned on regular terms and conditions.

Transactions with members of Management Board and Key Management Personnel	Management Board Members		Key Management Personnel	
	2021	2020	2021	2020
Fixed remuneration	11 877	12 689	51 600	54 817
Additional benefits (e.g among others, life insurance cover without pension option, medical cover, travel expenses and school fees) **	2 143	1 159	1 800	1 439
Variable remuneration paid in 2021 and 2020 *	6 933	8 826	20 673	23 768
Equivalent paid for unused annual leave	799	–	313	92
Additional compensation for termination of the contract and the non-competition clause	1 056	–	3 444	656
Loans and advances made by the Bank to the Members of the Management Board/Key Management and to their relatives	5 996	6 528	23 580	27 088
Deposits from the Management Board/Key management and their relatives	14 014	18 351	15 577	23 134
Provisions for retirement benefits and provision for unused holidays	660	1 157	4 981	5 428
The number of conditional rights to shares	–	–	–	–

\* including part of the award for 2020, 2019, 2018, 2017 and 2016 which was conditional and deferred in time.

\*\* In 2021, selected components of remuneration were moved from the "Fixed remuneration" to "Additional benefits" category.

The category of key management personnel includes the persons covered by the principles outlined in the "Santander Bank Polska Group Remuneration Policy" and in the justified cases – by the principles separately specified in the companies.

Santander Bank Polska Group applies the "Santander Bank Polska Group Remuneration Policy". The Policy has been approved by the bank's Management Board and Supervisory Board and is reviewed annually or each time significant organisational changes are made.

Persons holding managerial positions are paid variable remuneration once a year following the end of the settlement period and release of the bank's results. Variable remuneration is awarded in accordance with applicable bonus regulations and paid in cash and in the form of shares or related financial instruments – phantom shares. The latter shall represent min.

50% of the total amount of variable remuneration. Payment of min. 40% of variable remuneration referred to above is conditional and deferred for the period of three years with the possibility of extending the period to 5 years. Variable remuneration is paid in arrears in equal annual instalments depending on individual performance in the period subject to assessment and the value of the shares or related financial instrument.

In 2021, the total remuneration paid to the Supervisory Board Members of Santander Bank Polska totalled PLN 2,077 k (1,542 k in 2020). Mr. John Power received remuneration of PLN 90 k for his membership in Supervisory Boards of Bank's subsidiaries (99 k in 2020).

## 54. Acquisitions and disposals of investments in subsidiaries and associate

### Start of liquidation of SC Poland Consumer 15-1 Sp. z o.o.

On 18 June 2021, a resolution was adopted at SC Poland Consumer 15-1 Sp. z o.o. to dissolve the company and start the liquidation process. The Group lost control over the company.

## 55. Employee benefits

Staff benefits include the following categories:

- Short-term benefits (remuneration, social security contributions, paid leaves, profit distributions and bonuses and non-cash benefits, provided free of charge or subsidized). Value of short-term employee benefits are undiscounted,
- Post-employment benefits (retirement benefits and similar payments, life insurance or medical care provided after the term of employment).

Within these categories, the companies of the Santander Bank Polska Group create the following types of provisions:

### Provisions for unused holidays

Liabilities related to unused holidays are stated in the expected amount (based on current salaries) without discounting.

### Provisions for employee bonuses

Liabilities related to bonuses are stated in the amount of the probable payment without discounting.

## Provisions for retirement allowances

Based on internal regulations in respect to remuneration, the employees of the Bank are entitled to defined benefits other than remuneration:

- retirement benefits,
- retirement pension.

The present value of such obligations is measured by an independent actuary using the projected unit credit method.

The amount of the retirement and pension benefits and death-in-service benefits is dependent on length of service and amount of remuneration received by the employee. The expected present value of the benefits is calculated, taking into account the financial discount rate and the probability of an individual get to the retirement age or die while working respectively. The financial discount rate is determined by reference to up-to-date market yields of government bonds. The probability of an individual get to the retirement age or die while working is determined using the multiple decrement model, taking into consideration the following risks: possibility of dismissal from service, risk of total disability to work and risk of death.

These defined benefit plans expose the Group to actuarial risk, such as:

- interest rate risk – the decrease in market yields on government bonds would increase the defined benefit plans obligations,

- remuneration risk – the increase in remuneration of the Bank's employees would increase the defined benefit plans obligations,
- mobility risk – changes in the staff rotation ratio,
- longevity risk – the increase in life expectancy of the Bank's employees would increase the defined benefit plans obligations.

The principal actuarial assumptions adopted by an independent actuary as at 31 December 2021 are as follows:

- the discount rate for future benefits at the level of 3.22% (1.55% as at 31 December 2020),
- the future salary growth rate at the level of 2.0% (2,0% as at 31 December 2020),
- the probable number of leaving employees calculated on the basis of historical data concerning personnel rotation in the Group,
- the mortality adopted in accordance with Life Expectancy Tables for men and women, published the Central Statistical Office, adequately adjusted on the basis of historical data of the Bank.

## Reconciliation of the present value of defined benefit plans obligations

The following table presents a reconciliation from the opening balances to closing balances for the present value of defined benefit plans obligations.

	31.12.2021	31.12.2020
<b>As at the beginning of the period</b>	<b>48 266</b>	<b>44 636</b>
Current service cost	2 246	1 604
Past service cost	(1 577)	(1 350)
Interest expense	1 009	1 449
Actuarial (gains) and losses	(7 216)	1 927
<b>Balance at the end of the period</b>	<b>42 728</b>	<b>48 266</b>

## Sensitivity analysis

The following table presents how the impact on the defined benefits obligations would have increased (decreased) as a result

Defined benefit plan obligations	1 percent increase	1 percent decrease
Discount rate	(7.76)%	8.37%
Future salary growth rate	8.43%	(7.89)%

The following table presents how the impact on the defined benefits obligations would have increased (decreased) as a result

Defined benefit plan obligations	1 percent increase	1 percent decrease
Discount rate	(8.43)%	9.16%
Future salary growth rate	9.07%	(8.44)%

of a change in the respective actuarial assumptions by one percentage point as at 31 December 2021.

of a change in the respective actuarial assumptions by one percentage point as at 31 December 2020.

## Other staff-related provisions

These are provisions for the National Fund of Rehabilitation of

the Disabled, redundancies, overtime and staff training. These liabilities are stated at the amounts of expected payment without discounting.

The balances of the respective provisions are shown in the table below:

Provisions	31.12.2021	31.12.2020
Provisions for unused holidays	45 018	42 614
Provisions for employee bonuses	276 439	166 387
Provisions for retirement allowances	42 728	48 266
Other staff-related provisions	19 730	8 953
<b>Total</b>	<b>383 915</b>	<b>266 220</b>

Detailed information on employee provisions is presented in Note 39.

## 56. Share based incentive scheme

Santander Bank Polska S.A. did not have active share-based payment incentive scheme as at 31 December 2021.

The sixth edition of the incentive scheme terminated as at 20/02/2020. The vesting level was 100% in relation to annual award for 2017 and 2018 and 65.34% of the annual award for 2019. Its realization through issuance of new shares and their allocation to individual accounts of entitled individuals was finalised in Q3 2020.

Three-year Incentive Scheme no. VI was approved on 17.05.2017 by the Annual General Meeting of the Shareholders of Santander Bank Polska S.A. its participants are employees of the Santander Bank Polska Group (including Members of the Management Board), however not more than 250 individuals. On 26.06.2017 the Supervisory Board approved the list of entitled individuals ("grant date").

The vesting condition were considered from two perspectives, separately for every year of operation of the scheme and on a cumulative basis after 3 years.

In every single year annual award not exceeding one third on total award was considered. Shares were vested on a straight-line basis between 25% and 100% contingent on profit after tax (PAT) growth and on RORWA ratio growth. The range of the scale required PAT growth between "lower level" set to 80% of assumed level of realization in 2017 and "upper level" of nominal growth at 17.8% in first year and between "lower level" set to 80% of assumed level of realization in 2018 and 2019 and "upper level" of nominal growth at 13.4% in second and third year of the scheme duration. The range of the scale required RORWA ratio growth between "lower level" set to 80% of assumed level of

realization in 2017 and "upper level" of nominal growth at 2.24% in the first year, between "lower level" set to 80% of assumed level of realization in 2018 and "upper level" of nominal growth at 2.37% in the second year and between "lower level" set to 80% of assumed level of realization in 2019 and "upper level" of nominal growth at 2.5% in the third year of duration of scheme.

Additionally, qualitative factors were taken into account. The participants were entitled to annual award depending on the level of an external customer satisfaction and engagement survey results (an internal customer). The level of customer satisfaction would be met when in the peer group the Bank was on the second place in the first and second year and on the first place in the third year of the scheme duration. The engagement survey results could not be lower than 50% in the first year, 60% in the second year and 70% in the third year of the scheme duration..

Additionally, after 3 years cumulative award was considered. Shares were vested on a straight-line basis between 25% and 100% contingent on PAT compound annual growth rate in 3 years' time between 11.7% and 15% and on average value of RORWA ratio in 3 years' time between 1.9% and 2.38%. If the number of shares resulting from cumulative assessment would be higher than the sum of annual awards vested to date, additional shares would be allocated to individuals up to the amount resulting from cumulative assessment.

The Black Scholes model was used to value awards granted at the grant date. The expected volatility of the values of shares is based on an analysis of historical volatility of share prices based on 160 sessions preceding the grant date. The following table details the assumptions used, and the resulting fair value.

### Share based payments granted in 2017:

	2017
Number of share based payments	131 262
Share price	350.00 PLN
Exercise price in PLN	10
Vesting period	3 years
Expected volatility of share prices	30.07%
Award life	3 years
Discounted risk free rate	2.12%
Fair value per award	323.36 PLN
Dividend yield	1.71%

### The following table summarizes the share based payments changes:

	12 months of 2021	12 months of 2020
	Number of share based payments (options)	Number of share based payments (options)
<b>As at the beginning of the period</b>	-	<b>115 219</b>
Granted	-	120
Exercised	-	(101 009)
Forfeited	-	(1 695)
Expired	-	(12 635)
<b>As at the end of the period</b>	-	-
<b>Exercisable at 31 December</b>	-	-

For the share based payments outstanding as at 31 December 2021 and as at 31 December 2020 the average remaining contractual life is 0 years for both periods.

The expenses of sixth edition of equity settled share-based payments scheme recognized in profit and loss account for 12

months of 2021 and 2020 amounts to PLN 0.00 and PLN 1,606 k.

The table below presents information about the number of conditional rights to shares vested in Santander Bank Polska S.A. Management Board members under the Long-term 6th Incentive Scheme.

No. of awards	2021	2020
<b>As at the beginning of the period</b>	-	<b>25 160</b>
Granted	-	-
Expired	-	(2 900)
Exercised	-	(22 260)
Resignation from the function	-	-
<b>As at the end of the period</b>	-	-

The table below presents information about the number of conditional rights to shares vested in Santander Bank Polska S.A. Group Key Management.

No. of awards	2021	2020
<b>As at the beginning of the period</b>	-	<b>38 303</b>
Granted	-	120
Expired	-	(4 743)
Exercised	-	(31 367)
Change due to inclusion in key management personnel	-	3 604
Change due to exclusion from key management personnel	-	(5 917)
Resignation from the function	-	-
<b>As at the end of the period</b>	-	-

## 57. Dividend per share

The Management Board of Santander Bank Polska S.A. announced that on 17 March 2021 it had decided to change its recommendation presented in the current report of 23 February 2021, i.e. to retain the Bank's entire net profit of PLN 738,411,718.72 for the accounting year from 1 January 2020 to 31 December 2020 and to allocate 50% of that amount, i.e. PLN 369,205,859.36 to the capital reserve, and leave PLN 369,205,859.36 undistributed.

When taking the decision to change its recommendation of 23 February 2021, the Management Board took into account the current macroeconomic environment as well as the

recommendations and current position of the Polish Financial Supervision Authority (KNF). The Management Board also considered the fact that profit distribution falls within the exclusive powers of the Annual General Meeting.

The amended recommendation was approved by the Bank's Supervisory Board and the Annual General Meeting.

As recommended by the Management Board, the Bank's Annual General Meeting distributed the Bank's net profit of PLN 738,411,718.72 for the accounting year from 1 January 2020 to 31 December 2020 as follows:



- PLN 369,205,859.36 was allocated to the capital reserve;
- PLN 369,205,859.36 was allocated to the dividend reserve.

Both of the above-mentioned amounts are presented in the financial statements under "Other reserve capital".

The Annual General Meeting set aside the capital reserve for payment of dividend/ interim dividend ("dividend reserve") and authorised the Management Board to use this reserve to pay interim dividend pursuant to Article 349(2) of the Commercial Companies Code.

The Annual General Meetings of the following subsidiaries: Santander Consumer Bank S.A., Santander Consumer Multirent sp. z o.o., PSA Finance Polska sp. z o.o., PSA Consumer Finance Polska sp. z o.o., Santander Factoring sp. z o.o., Santander Leasing S.A., Santander Finanse sp. z o.o., Santander Towarzystwo Funduszy Inwestycyjnych S.A. decided to allocate PLN 372,550,854.30 of the net profit for the financial year from 1 January 2020 to 31 December 2020 to the supplementary capital and capital reserve.

## Polish Financial Supervision Authority information in respect on dividend policy in the second half of 2021 and the individual stress test add-on used in the dividend policy.

The Management Board of Santander Bank Polska S.A. announced that on 2 July 2021 the Bank received a letter from the Polish Financial Supervision Authority regarding the dividend policy of commercial banks for H2 2021, providing for the conditions to be satisfied by banks for dividend payout in the amount of up to 50%, 75% and 100% of net profit respectively adopted by PFSA on June 24, 2021.

In their letter, the PFSA also communicated the individual add-on ST for the Bank. The add-on ST measures the Bank's sensitivity to an adverse macroeconomic scenario. It is defined as the difference between the total capital ratio (TCR) in the baseline scenario and the TCR in the stress scenario as at the end of the forecast period (2021), considering the supervisory adjustments. As a result of analyses made during the stress tests conducted by the PFSA, the individual add-on ST for the Bank was set, considering the supervisory adjustments, at 1.73%. The PFSA stated that the Bank's sensitivity is identical for both the payout from up to 75% and 100% of net profit.

As at 31st March 2021 the Bank met the criteria to pay a dividend up to 100% of the Bank's net profit for the period from 1st January 2020 to 31st December 2020. After applying additional criteria regarding exposure arising from foreign currency home loans the dividend payout is adjusted by 70 p.p. As a consequence, the maximum dividend payout, after applying additional criteria, can reach up to 30% of profit for 2020.

## Individual recommendation of the Polish Financial Supervision Authority regarding the fulfillment of the criteria for the payment of dividends from the net profit generated in 2020.

With reference to the current report of July 2, 2021, the Management Board of Santander Bank Polska S.A. announced that on July 20, 2021, it received an individual recommendation

of the Polish Financial Supervision Authority regarding the Bank's dividend policy.

In accordance with the PFSA Recommendation, the Bank, as at 31 March 2021 (the Bank's quarterly data on own funds) and as at 31 May 2021 (the Bank's monthly data on the receivables portfolio, in terms of the basic criteria of the dividend policy), met the requirements qualifying for the payment of up to 100% of the dividend from the Bank's profit generated in the period from 1 January 2020 to 31 December 2020.

After applying additional criteria specified by the Polish Financial Supervision Authority in the dividend policy for the portfolio of foreign currency housing loans for households held by the Bank, the dividend rate at the individual and consolidated level was adjusted by a total of 70 p.p. Consequently, the maximum dividend yield after applying additional criteria may amount up to 30% of the profit generated in 2020.

In addition, the Polish Financial Supervision Authority recommended the Bank not to take other actions, in particular those outside the scope of current business and operating activities, which could result in a reduction of the capital base, including possible dividend payments from undistributed profit from previous year i.e. from 2019 and previous years and share buybacks.

## Decision of Santander Bank Polska S.A. Management Board on the payout of an interim dividend for the accounting year from 1 January 2021 to 31 December 2021

The Management Board of Santander Bank Polska S.A. informed that pursuant to Article 349 of the Code of Commercial Companies and § 50(4) of the Bank's Statutes on 1 September 2021 it decided to pay out an interim dividend for the accounting year from 1 January 2021 to 31 December 2021 ("Interim Dividend") and to allocate PLN 220,728,918.24 to that payment.

The Interim Dividend was paid 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 22 March 2021 referred to above, the Annual General Meeting allocated to the Dividend Reserve 50% of the net profit earned by the Bank in the accounting year from 1 January 2020 to 31 December 2020 (i.e. PLN 369,205,859.36).

On 1 September 2021, 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 2.16.

The ex-dividend date for the interim dividend was 8 October 2021.

The date of the interim dividend payment was 15 October 2021.

## 58. Events which occurred subsequently to the end of the reporting period

### Pillar 2 (P2G) add-on imposed by the Polish Financial Supervision Authority

The Management Board of Santander Bank Polska S.A. informed that on 11 February 2022 it 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 non-consolidated and consolidated level, own funds to cover a capital add-on in order to absorb potential losses that may arise from stress conditions; the add-on should be maintained at 0.31 p.p. above the total capital ratio referred to in Article 92 (1)(c) of

Resolution no. 575/2013, increased by the additional own funds requirement referred to in Article 138 (2)(2) of the Banking Law Act and the combined buffer requirement referred to in Article 55 (4) of the Macroprudential Supervision Act. The add-on should consist in full of Common Equity Tier 1 capital.

The Bank's total capital add-on recommended to absorb potential losses arising from stress conditions is comprised of:

- (i) the basic add-on of 0.31 p.p. recommended under Pillar 2 and
- (ii) a supplementary add-on of 0.00 p.p. recommended under Pillar 2.

### Signatures of the persons representing the entity

Date	Name	Function	Signature
22.02.2022	Michał Gajewski	President	The original Polish document is signed with a qualified electronic signature
22.02.2022	Andrzej Burliga	Vice-President	The original Polish document is signed with a qualified electronic signature
22.02.2022	Juan de Porras Aguirre	Vice-President	The original Polish document is signed with a qualified electronic signature
22.02.2022	Arkadiusz Przybył	Vice-President	The original Polish document is signed with a qualified electronic signature
22.02.2022	Lech Gałkowski	Member	The original Polish document is signed with a qualified electronic signature
22.02.2022	Patryk Nowakowski	Member	The original Polish document is signed with a qualified electronic signature
22.02.2022	Carlos Polaino Izquierdo	Member	The original Polish document is signed with a qualified electronic signature
22.02.2022	Maciej Reluga	Member	The original Polish document is signed with a qualified electronic signature
22.02.2022	Dorota Strojowska	Member	The original Polish document is signed with a qualified electronic signature

### Signature of the person responsible for maintaining the accounting records

Date	Name	Function	Signature
22.02.2022	Wojciech Skalski	Financial Accounting Area Director	The original Polish document is signed with a qualified electronic signature