

# Report on the activity of the Supervisory Board of Santander Bank Polska S.A. in 2020

Warsaw, February 2021



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# I. Activities of the Supervisory Board of Santander Bank Polska S.A. in 2020

## 1. Supervisory Board composition; discharge of duties and responsibilities

In the period from 1 January to 31 December 2020, the Supervisory Board of Santander Bank Polska S.A. worked in the following composition:

Function in the Supervisory Board	No.	Composition as at 31 December 2020	No.	Composition as at 1 January December 2020
Chairman of the Supervisory Board	1.	Gerry Byrne	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.	José Garcia Cantera	3.	José Garcia Cantera
	4.	Danuta Dąbrowska	4.	Danuta Dąbrowska
	5.	David Hexter	5.	David Hexter
	6.	John Power	6.	John Power
	7.	Jerzy Surma	7.	Jerzy Surma
	8.	Marynika Woroszyńska-Sapieha	8.	Marynika Woroszyńska-Sapieha
	9.	Isabel Guerreiro	9.	Isabel Guerreiro
	10.	Dominika Bettman		

The Bank's Supervisory Board, in its composition as at 1 January 2020, was appointed by the Annual General Meeting (AGM) held on 17 May 2017 and on 23 September 2019. On 22 June 2020, along with the appointment of the Supervisory Board for the new term of office by the AGM, Dominika Bettman joined the Supervisory Board as its member. All the Supervisory Board members were appointed for a joint three-year term of office.

On 20 May 2020, the Nominations Committee of the Supervisory Board assessed individual suitability of Dominika Bettman and all to-date members of the Supervisory Board as candidates for the Supervisory Board members in the next term of office. The Committee also assessed the collective suitability of the Supervisory Board in the proposed composition, i.e. including all the existing members and Dominika Bettman; the results of this assessment were presented to the Annual General Meeting held on 22 June 2020.

The diversified personal composition of the Supervisory Board, with members having both business experience as well as expert knowledge in different areas, evidenced by many years of practical professional experience, ensures adequate and effective discharge of supervisory duties and assures due performance of the vested duties and responsibilities.

The curricula vitae of the Supervisory Board members are available at the Bank's website.

Information on the composition of the Supervisory Board's committees is presented in point 4 below.

### 1.1. Independence of the Supervisory Board members

In line with the criteria of independence for the Supervisory Board members set out in § 25(2) of the Bank's Statutes, the Supervisory Board Terms of Reference and in the Audit and Compliance Committee's Terms of Reference, the following individuals held the status of the independent members in 2020:

- Danuta Dąbrowska,
- Marynika Woroszyńska - Sapieha,
- David Hexter,

- Dominika Bettman,
- Jerzy Surma.

Each of the listed persons made a relevant written statement.

The Supervisory Board activities and manner of discharging its duties and responsibilities are governed by the Supervisory Board's Regulations available in the Corporate Governance Office and on the Bank's Internet site.

## 2. Statistical data on the Supervisory Board's activity in 2020

In the period from 1 January to 31 December 2020, 18 Supervisory Board meetings were held at which 107 resolutions were passed. Average attendance of the Supervisory Board members was 97.7%.

## 3. Major areas of the Supervisory Board's activity in 2020

In 2020, the Supervisory Board carried out its activities based on the adopted schedule of meetings and the general work plan, which in the course of the year was adjusted to the extraordinary circumstances triggered by COVID-19 pandemic.

On an ongoing basis, the Supervisory Board requested and received from the Bank's Management Board comprehensive papers on issues covered by the agendas of its meetings as well as those pertaining to other matters important to the Bank's operations. The agenda of each meeting accommodated current business matters, important developments in the Bank, issues submitted by the Bank's Management Board for consideration and any other issues the Supervisory Board deemed necessary to be covered by the agenda.

The Supervisory Board's activities are described in detail in the minutes of its meetings which together with the adopted resolutions are kept in the Bank's registered office.

Irrespective of regular meetings, the Supervisory Board members stayed in regular contact with the Bank's Management Board which facilitated comprehensive oversight of the Management Board's operations.

In 2020, the Supervisory Board focused both on strategic matters as well as on the supervision of the Bank's day-to-day business. Individual issues were also discussed by the relevant Supervisory Board's committees which issued required opinions and recommendations to the Supervisory Board.

In 2020, the Supervisory Board activities concerned the following areas:

### Strategic projects, maintenance of business continuity during the COVID-19 pandemic, business rebound

The Supervisory Board exercised on-going oversight of strategic projects progressed in the Bank in 2020, including continued strategic transformation, development of the customer-centric strategy, PSD2 programme. The Supervisory Board focused on monitoring KPIs and the impact of individual initiatives on business and customer perspective. The Supervisory Board approved the Strategic and Business Planning Policy.

Due to the outbreak of the COVID-19 pandemic in Q1 2020, the Management Board actions geared to ensure Bank's business continuity as well as security of the Bank's employees and customers were on the top of the Supervisory Board's oversight agenda. The Supervisory Board also monitored actions taken as part of support programmes for customers (including the ones taken in liaison with the Polish Development Fund) as well as those aimed at business rebound and prevention of crisis.

### Finance

The Supervisory Board assessed the actual and forecast financial performance of the Bank and Santander Bank Polska Group on an on-going basis. The assessment was based on financial reports regularly presented by the Bank's Management Board. As part of the reports presented by the Management Board President, at each meeting the Supervisory Board was updated on the key developments related to the Bank and its environment, including up-to-date macroeconomic and market forecasts and their impact on the Polish economy as well as on the Bank's and Santander Bank Polska Group's financial and business performance.

The Supervisory Board was also updated by the Bank's Management Board about current priorities and the approach adopted to management of funding, liquidity, capital, risk (including credit risk) and costs. The ongoing oversight exercised by the Supervisory Board covered also the Management Board's actions taken as part of financial management in the context of the COVID-19 pandemic and its impact.

Moreover, the Supervisory Board monitored the issues related to the impact of the Court of Justice of the European Union's (CJEU) judgement of 3 October 2019 on the Bank's fx mortgage loans portfolio, with focus on the related provisions.

In particular, the Supervisory Board:



- assessed the Financial Statements of Santander Bank Polska S.A. for 2019, the Consolidated Financial Statements of Santander Bank Polska Group for 2019 and the Management Board Report on Santander Bank Polska Group Performance in 2019 (containing the Management Board report on Santander Bank Polska S.A. performance in 2019);
- approved the "Group's Financial Plan for 2020" and "Group's three-year Financial Plan for 2020-2022";
- approved the Management Board's resolution re approval of disclosures with regard to the capital adequacy of Santander Bank Polska Group as at 31 December 2019;
- approved the "Report on the Internal Capital Adequacy Assessment Process" (ICAAP Report) as at 31 December 2019;
- approved the "Report on the Internal Liquidity Adequacy Assessment Process" (ILAAP Report) as at 31 December 2019;
- issued an opinion with regard to the Management Board's motion on the distribution of profit for 2019;
- reviewed progress against "Santander Bank Polska Group Strategy for 2020-2022" and approved "Santander Bank Polska Group Strategy for 2021-2023" as well as the "Business Plan for 2021";
- reviewed and approved the "Financial Plan Document – ALM Strategy for 2021 – 2023".

## Relationship with the External Auditor

PricewaterhouseCoopers spółka z ograniczoną odpowiedzialnością Audyt sp. k. (**PwC**) is the entity authorised to perform the semi-annual review of the Bank's financial statements and semi-annual review of consolidated financial statements of the Bank's Group for H1 2020 as well as to perform the annual audit of the Bank's financial statements and annual audit of consolidated financial statements of the Bank's Group for 2020; the appointment was approved by the Supervisory Board in December 2019.

Taking into account the Audit and Compliance Committee's recommendations, the Supervisory Board adopted resolution no. 81/2020 whereby it amended the "Policy on Non-Audit Services rendered by the Auditor" by detailing the catalogue of permitted and banned services.

## Internal Audit

The Supervisory Board was provided with regular updates on the Internal Audit Area's (**IAA**) operations, in particular on the results of the carried out audits and performance against the post-audit recommendations in reports given by the Chairman of the Audit and Compliance Committee, reports presented directly at the Supervisory Board meetings by the Chief Audit Executive as well as in reports provided by the internal audit of Santander Brokerage Poland. The results of the Supervisory Board's assessment of the Internal Audit function are presented in point III.2 below.

The Supervisory Board approved among others:

- the IAA Strategic (long-term) IAA Plan for 2021 – 2024 and Operational Plan for 2021,
- changes to the audit plans reported throughout 2020,
- internal regulations pertaining to the internal audit function, including the Policy on monitoring the IAA's recommendations.

## Regulatory and Compliance issues

The Supervisory Board was regularly updated on the operations of the compliance unit and on compliance risk issues, both in reports given by the Chairman of the Audit and Compliance Committee and reports presented directly at the Supervisory Board meetings by the head of the compliance unit as well as in the reports on the compliance function in Santander Brokerage Poland. The results of the Supervisory Board's assessment of the compliance unit and compliance risk management function are presented in point III.3 below.

In particular, the Supervisory Board:

- approved the Compliance Programme for 2020 as well as new and amended internal regulations of the compliance unit, including the reputation risk management model, procedures and methodology as well as the Corporate Defense Policy,
- positively assessed the Bank's whistleblowing procedure,
- received reports on major court proceedings to which the Bank was a party, on proceedings instigated by regulators, on the status of the KNF's post-inspection recommendations along with assurance that the process was executed in an adequate and timely manner, information on the course and results of the supervisory review and evaluation (BION) process as well as the KNF's inspections in 2020,
- in line with Recommendation U and the Bancassurance Policy applicable in the Bank, the Supervisory Board was provided with regular updates on that business and on bancassurance risk management issues and reviewed them.

## Risk management system and internal control system

As part of supervision of the risk management system, during each meeting the Supervisory Board carried out a review of the main risk areas based on the Risk Dashboard report and paid special attention to, amongst others, trends, consumption of limits set in the Risk Appetite Statement, supervision over individual risk types, compliance with internal regulations and the KNF recommendations, the EU and the EBA regulations, as well as, to adequate identification of threats and determination of management actions. The Supervisory Board was also provided with information on the credit strategy, credit risk and condition of the credit portfolio, operational risk and other risks embedded in the Bank's operations.

Based on the conducted review, the Supervisory Board approved the risk appetite for 2020, expressed as limits set out in the Risk Appetite Statement (RAS), approved RAS updates throughout the year and monitored compliance with it.

The Supervisory Board received updates on risk management and control environment in the Bank's individual units and subsidiaries, including a report on annual ICM/SOX certification. The management of risk triggered by the COVID-19 pandemic, IT security issues and Cybersecurity Strategy were given special attention.

The assessment of the internal control system and risk management system by the Supervisory Board is presented in point III.2 below.

In 2020, the Supervisory Board approved a number of internal regulations related to risk management and internal control or their updates, including:

- Santander Bank Polska Group Operational Risk Management Strategy,
- Strategy of the Financial Markets Area, Internal Control System Policy, Control Function Matrix Methodology,
- Risk Management Strategy.

## Other issues

- The Supervisory Board reviewed the strategy and activity of individual business segments, areas of the Bank and its subsidiaries, and was regularly informed about progress in regulatory projects significant for the Bank;
- The Supervisory Board monitored the status of work on the preparation of the Recovery Plan and approved the Bank Group's Recovery Plan along with the related Policies;
- Apart from the regulations indicated above, the Supervisory Board approved other internal regulations and amendments to them as recommended by relevant committees, e.g.: Procedure for setting objectives and evaluating performance for members of the Management Board, Global mobility policy, Procedure for application of *malus clauses*;
- The Supervisory Board approved the final list of participants of the Incentive Scheme VI;
- The Supervisory Board considered and approved the level of remuneration and bonuses for the Management Board members and other key function holders in line with the applicable regulations, changes to the Remuneration Policy for the Management Board members and to Group's Remuneration Policy and other related internal regulations;
- The Supervisory Board issued positive opinions on the Management Board motions with regard to changes to the Bank's Statutes as well as draft AGM resolutions. The Supervisory Board approved the consolidated text of the Bank's Statutes.

## 4. Activities of the Supervisory Board Committees

In 2020, the Supervisory Board members worked in the following Supervisory Board's committees:

- Nominations Committee,
- Remuneration Committee,
- Audit and Compliance Committee,
- Risk Committee.

The Committees' respective procedures are set out in their Terms of Reference, introduced by relevant resolutions of the Supervisory Board. Terms of Reference of individual committees are available in the Corporate Governance Office. The members of individual Committees have knowledge and experience suitable for their roles and adequate discharge of their duties and responsibilities.

The Committees contribute a lot to improving the effectiveness of the Supervisory Board's work by supporting it in the discharge of its statutory duties, including the preparation of opinions and recommendations on specific matters considered by the Supervisory Board.

In order to enable the Supervisory Board members to appraise in full the Committees' work and give them insight into the Committees' current operations, the Chairpersons present relevant reports at the meetings of the Supervisory Board and the Supervisory Board members are provided with copies of the minutes of each meeting of the Committees.

Individual Committees received adequate information and reports from the Management Board in a timely manner allowing them to discharge their responsibilities in 2020.

## 4.1. Nominations Committee

### Role and Tasks of the 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.

### Terms of Reference

The Committee performs its duties in accordance with the Terms of Reference approved by the Supervisory Board (recent update under the Supervisory Board's resolution no. 82/2019 of 11 December 2019).

### Committee's composition

In 2020, the Nominations Committee worked in the following composition:

- Marynika Woroszyńska-Sapieha – Chairperson,
- Gerry Byrne,
- Danuta Dąbrowska,
- José Luis de Mora,
- Jerzy Surma.

### Number of meetings and attendance

In the period between 1 January and 31 December 2020, the Nominations Committee held 4 meetings with all members being present.

### The Committee's activity in 2020

In its activities in 2020, the Committee primarily focused on the following issues:

- Succession plans – the Committee presented the Supervisory Board with recommendations with respect to the list of successors of the Bank's Management Board members, and approved the list of successors for Supervisory Board members;
- Assessment of individual and collective assessment of the suitability of Management Board members – the Committee carried out the re-assessments and found that all Management Board members and the Management Board collectively met all suitability criteria and guaranteed adequate performance of their duties;
- Appointment of Supervisory Board members for new term of office – the Committee assessed the individual and collective suitability of candidates for Supervisory Board member positions, including a new candidate, Mrs. Dominika Bettman, who has not yet held a position on the Board, based on the "Policy on the suitability assessment of the Supervisory Board members in Santander Bank Polska S.A."; the Committee's recommendation on the appointment of the Supervisory Board members for another term of office was presented to the AGM;

## 4.2. Remuneration Committee

### Role and Tasks of the Committee

The role of the Remuneration Committee is to support the Supervisory Board in performing its tasks concerning remuneration of the members of the Bank's governing bodies and key function holders, to review and monitor the

Remuneration Policy and to support the Annual General Meeting of Shareholders, Supervisory Board and Management Board in designing and executing this Policy.

## Terms of Reference

The Committee performs its duties in accordance with the Terms of Reference approved by the Supervisory Board (recent update under the Supervisory Board's resolution no. 82/2019 of 11 December 2019).

## Committee's composition

In 2020, the Remuneration Committee worked in the following composition:

- Danuta Dąbrowska – Chairperson of the Committee,
- Gerry Byrne,
- José Luis de Mora,
- Marynika Woroszyńska-Sapieha,
- Dominika Bettman (starting from 22 June 2020).

## Number of meetings and attendance

In the period between 1 January and 31 December 2020, the Remuneration Committee held 4 meetings with all members being present.

## The Committee's activity in 2020

In its activities in 2020, the Committee focused on the following issues:

- Evaluation of Management Board members' performance and objectives setting for 2020 – the process was conducted in line with the "Procedure for setting objectives and evaluating performance of the Management Board members of Santander Bank Polska S.A.";
- Recommendation to the Supervisory Board concerning the level of remuneration, payment of the deferred portion of remuneration in the Bank's shares, investment objective and extension of deferral period for the Management Board's President, bonus allocation to Management Board members for 2019 and approval of rules for setting and allocating the bonus pool for Management Board members in 2020;
- Recommendation to the Supervisory Board with regard to awarding a bonus to the Chief Audit Executive, Head of the Compliance unit and review of remuneration of these individuals as well as other employees in charge of risk management in line with the requirements of the Regulation of the Minister of Development and Finance of 6 March 2019 on the risk management system and internal control system, remuneration policy and detailed method of internal capital estimation in banks;
- The Committee reviewed and assessed the compliance with the triggers for payment of variable remuneration to the individuals with the status of Identified Employees and recommended that the Supervisory Board should approve 2015 - 2018 deferred payments to be made in 2020;
- The Committee reviewed the bonus schemes for senior executives, management, employees of the Business Support Centre and the branch banking function;
- The Committee confirmed share allocation for 2019 as part of the Incentive Scheme VI (2017 - 2019); The Committee also confirmed that the conditions for allocation of the total award for 2017 and 2018 to the Participants were met;
- The Committee reviewed and assessed the Remuneration Policy and stated that it supported growth and security of the Bank's Group, in particular sound and effective risk management, and was consistent with the Bank's business strategy, objectives, values and long-term interests;
- The Committee recommended to the Supervisory Board the approval of the updates of Remuneration Policy of Santander Bank Polska Group, Remuneration Policy for Management Board members and Remuneration Policy for Supervisory Board members intended to adapt the documents to the Shareholder Rights Directive (the so-called "say on pay" directive);
- The Committee recommended the implementation of the Procedure on severance or compensation payments for early termination of employment contracts, which sets out the rules for determining and approving termination payments for Material Risk Takers;
- The Committee reviewed the MRT identification process and established that it was carried out in line with the applicable laws and internal regulations of the Bank. The Committee also recommended that the Supervisory



Board should approve the updated list of MRTs and that the terms & conditions for variable remuneration payment to MRTs should be revised; the Committee also reviewed MRTs' remuneration on the market;

- The Committee reviewed remuneration policy and practices at the Bank, taking into account the position and recommendations the Polish Financial Supervision Authority (issued on 17 April 2020), the EBA (issued on 31 March 2020 ) and the ECB (issued on 27 May 2020) in the context of the COVID-19 pandemic; The Committee established that the Bank's remuneration policies and procedures were consistent with the regulatory requirements.

## 4.3. Audit and Compliance Committee

### Role and Tasks

The purpose of the Audit and Compliance Committee is to support the Supervisory Board in discharging its oversight responsibilities to shareholders and other stakeholders in relation to: (i) the quality and integrity of accounting policies, financial statements and disclosure practices; (ii) the Bank's compliance with laws and internal regulations; (iii) the independence and effectiveness of internal and external auditors and evaluating their performance; (iv) the assessment of the effectiveness of the internal control and risk management systems.

### Terms of Reference

The Committee performs its duties in line with the Terms of Reference approved by the Supervisory Board and updated in 2020 by force of the Supervisory Board resolution no. 48/2020 of 20 May 2020. The purpose of the revision was to fully reflect the requirements arising from Best Practice for public interest entities providing rules for appointment, composition and performance of audit committees (issued by Polish Financial Supervision Authority on 24 December 2019).

### Committee's composition

From 1 January 2020 to 31 December 2020, the Audit and Compliance Committee worked in the following composition:

- David Hexter – Chairman,
- Dominika Bettman (appointed to sit on the Committee on 22 June 2020),
- Danuta Dąbrowska,
- Marynika Woroszyńska-Sapieha,
- Jerzy Surma.

All members appointed by the Supervisory Board to the Committee for the Supervisory Board's current term of office have met the independence criteria set out in Poland's Auditors Act of 11 May 2017 and the Bank's Statutes.

### Number of meetings and attendance

In 2020, the Committee met seven times and the attendance was as follows:

- |                                |      |
|--------------------------------|------|
| • David Hexter                 | 8/8  |
| • Dominika Bettman             | 6/6* |
| • Danuta Dąbrowska             | 8/8  |
| • Jerzy Surma                  | 8/8  |
| • Marynika Woroszyńska-Sapieha | 8/8  |

Apart from the Committee's members, the regular attendees are also 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 Accounting and Financial Control Division, the member of the Management Board in charge of the Financial Management Division, the head of the Internal Audit Area (Chief Audit Executive) and bank director in charge of Legal and Compliance Division.

Additionally, other members of the Management Board and executives are also invited to attend as appropriate in order to present reports and discuss issues related to the areas under their management, including the explanation of the reasons for those reports of the Internal Audit that indicate areas for improvement as well as proposed remediation plans.

*\* Dominika Bettman was appointed to sit on the Committee on 22 June 2020 and was present during all meetings from that date to the end of 2020.*

## The Committee's activity in 2020

In 2020 the Committee's activities included oversight of the Bank's financial reporting as well as the review of key controls, especially financial, operational, and regulatory compliance controls. As part of monitoring the operations of the internal audit function, compliance unit and control function, the Committee received information required to assess the effectiveness and adequacy of internal control system and presented a relevant opinion to the Supervisory Board in that 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 assessed the risk management system of the Bank as adequate and effective.

The Committee reviewed on an ongoing basis the issues within its remit, including regulatory, compliance, corporate governance, bancassurance, anti-money laundering, ICM/SOX certification and other issues.

The main areas reviewed in more detail by the Audit and Compliance Committee in 2020 included:

### Financial reporting.

The Committee reviewed the Bank's and Bank Group's audited Financial Statements for 2019 and discussed their content with the Management Board. Special focus was placed on the impairment of loans provided to customers.

The Committee discussed with the External Auditor the results of the Financial Statements' review and issues reported in this respect to the Management Board as well as reviewed with the External Auditor their additional Report to the Audit and Compliance Committee; in 2020 the Committee monitored performance against the External Auditor's recommendations presented in that report.

Based on the detailed review of the Financial Statements and the additional Report to the Committee, the Committee recommended that the Supervisory Board should approve the audited Financial Statements for inclusion in the Company's annual report for the year ended on 31 December 2019, and the Supervisory Board endorsed the Committee's recommendation.

The Committee reviewed the reports on Capital Adequacy and on the performance of the Disclosure Committee in 2019 and noted that capital ratios were above the KNF's minimum requirements as well as recommended to the Supervisory Board the approval of the disclosures related to capital adequacy of Santander Bank Polska Group as at 31 December 2019.

### Internal Audit

In 2020, the Committee exercised regular oversight of the performance of the Internal Audit Area and positively assessed the function's activity in 2019. The Committee concluded that the IAA was independent from other functions and that its work was adequate and effective.

The Committee receives, through the Chief Audit Executive, reports on the operation of internal controls within the Group. The scope, timing and frequency of such reports depend on the Audit Plan.

The Committee monitored on a on-going basis performance against the Audit Plan and presented to the Supervisory Board recommended changes to that Plan across 2020.

The Committee positively reviewed and recommended to the Supervisory Board approval of the long-term strategy of the Internal Audit Area's "Strategic Plan for 2021 - 2024", including audits at Santander Brokerage Poland (Santander BM) which is the Bank's separate brokerage unit.

The post-audit reports are presented in a manner that enables the Committee to focus on high risk areas which require improved controls. Objective indicators to track the delivery of remediation commitments across the Group were developed, whilst the Chief Audit Executive presented to the Committee regular reports on compliance with these indicators. The Committee monitors on an ongoing basis the implementation of the Internal Audit Area recommendations.

The Committee reviewed a report on the quality improvement programme for 2019 – periodic in-house quality assessment (no major issues or shortcomings) as well as remuneration, headcount and staff turnover rates in the Internal Audit Area. Succession plans for key roles within the Internal Audit Area were approved. In the Committee's opinion the staffing levels in the Internal Audit Area were adequate and the Area's independence was ensured, also as required under Standard 110 of the International Standards for the Professional practice of Internal Auditing and the KNF's Recommendation H.

As part of its oversight of the internal audit function, the Committee reviewed the reports of the head of Internal Audit in Santander Brokerage Poland – a standalone unit performing the audit function for Santander Brokerage Poland.

The Committee was also presented with the external assessment of the internal audit function's quality made by the Institute of Internal Auditors in Spain to confirm compliance with the KNF's Recommendation H and correctness of implementing the post-inspection recommendations.

In 2020, the Committee also analysed proposals to introduce and amend internal regulations concerning the Internal Audit Area and recommended their approval to the Supervisory Board.

In December 2020, the Committee reviewed and recommended to the Supervisory Board the approval of the "Operational (annual) plan for internal audits for 2021 and the strategic (long-term) plan for internal audits for 2021-2024" as well as the Area's budget for 2021.

## External Audit

There is a process in place whereby the Audit and Compliance Committee reviews and approves, within parameters established by the Supervisory Board, any non-audit services undertaken by the Auditor, and the related fees. The process ensures the objectivity and independence of the Auditor.

In 2020, Santander Bank Polska Group paid PLN 4.886 k (net) to the External Auditor for the provided audit services that included the statutory audit of the financial statements of the Bank Group, the Bank and subsidiaries (including Santander Consumer Bank) as required by law.

The fees for non-audit services amounted to PLN 1.495 k (net). Total fees paid to PWC were PLN 6.381 k (net).

The Committee is satisfied that the External Auditor provides an effective and independent assessment of the integrity of the Bank's Financial Statements and the adequacy of its internal control systems. Moreover, the External Auditor's Report from the review of the Financial Statements and additional Report to the Audit and Compliance Committee provide valuable recommendations regarding the improvement of internal controls. The Committee regularly checks if these recommendations are delivered as required and scheduled.

The Committee was also provided with a written statement from the External Auditor confirming their independence pursuant to Articles 69-74 of Poland's Auditor Act of 11 May 2017.

The Committee also reviewed: (i) Policy on auditing services at Santander Bank Polska S.A. and (ii) Policy on non-audit services provided by auditor; the Committee recommended that the Supervisory Board should approve the proposed changes intended to (i) provide more precise rules for documentation submitted to the KNF under the Recommendation L in the Policy on auditing services and (ii) enhance the scope of permitted and prohibited services provided to the Bank by its auditor as well as to provide more precise provisions to regulate this issue in the Policy on non-audit services. As recommended by the Committee, the Supervisory Board approved the proposed revisions.

The Bank is fully compliant with Poland's Auditor's Act of 11 May 2017 in terms of selection of External Auditor and determines the scope of audit services related to financial statements review and other tasks.

## Compliance

The Committee positively reviewed the report on the compliance unit operations in 2019 as well as monitored the unit's operations in 2020 on an ongoing basis.

The Committee assessed and recommended to the Supervisory Board the approval of 2020 Compliance Programme and then exercised oversight of its performance, including reports and information provided at the Committee's each meeting as well as recommended to the Supervisory Board the Programme's update.

The Committee analysed and recommended to the Supervisory Board the approval of new and amended internal regulations governing the compliance unit, including reputational risk.

The Committee paid special attention to organisational issues and employment structure in the unit, analysing them especially in terms of independence.

The analyses also covered the reports on compliance risk (including the self-assessment), commercialisation of products, regulatory proceedings, court litigations with Bank Group's entities as a party, anti-money laundering issues, implementation of the KNF's and Internal Audit's recommendations, monitoring of conduct and reputational risk indicators as well as customer complaints ratios.

The Committee also reviewed the reports of the Supervision Inspector in Santander Brokerage Poland, focusing on the compliance issues in that unit.

As part of the annual assessment, the Committee deemed that the unit was independent of other functions and that the compliance risk management was adequate, efficient and effective.

## Other matters

In 2020, the Committee also reviewed the reports on:

- status of recommendations issued by the Polish Financial Supervision Authority (KNF) and Internal Audit;
- confirmation of compliance of provisions with bonus and incentive policies and procedures in the context of the KNF's and EBA's guidelines;
- Respect and Dignity Policy (applies to cases reported by staff via dedicated whistleblowing channels) assessing positively the adequacy and effectiveness of the whistleblowing system;
- supervision of compliance with legal requirements on custodian services;
- bancassurance business, with special reference to claims rejection indicators and early termination of insurance policies;
- anti-money laundering;
- the Bank's BION (SREP) rating;
- brokerage business carried on by Santander Brokerage Poland pursuant to Article 70(2) of the Banking Law;
- staff attrition rates;

- key tax issues from the Bank's perspective;
- internal control system.

One of the key issues in 2020 was the COVID-19 pandemic and the resulting economic crisis and impact on the Bank's business model and its customers.

Mortgage loans in foreign currencies also continued to be an important matter in 2020, including their impact on the level of provisions (given the position of the KNF and External Auditor as well as judgments issued by courts) – the Committee specifically supervised the process of developing the approach to provisions and estimating their level, including ongoing meetings with the Management Board and representatives of the External Auditor. The Committee likewise supervised the issues triggered by the CJEU judgement of 11 September 2019 concerning consumer's right to have part of a fee for their loan proportionally refunded if the loan is pre-paid, including the approach to provisions. Another important aspect affecting the Bank was interest rate cuts by the Monetary Policy Council in March, April and May 2020.

The Committee reviewed Santander Bank Polska's Strategy of investments in capital market instruments that implements the KNF's Recommendation B and recommended that the Supervisory Board should approve the document.

In line with its Terms of Reference, in 2020 the Committee held individual meetings with the Vice President of the Bank's Management Board in charge of the Risk Management Division, Bank Director in charge of the Legal and Compliance Division, Head of Internal Audit Area (Chief Audit Executive) and the External Auditor (PwC).

The Committee continually reviews its process and performance. The review process includes discussions on the format of the Committee's meetings and effectiveness of the reporting process.

## Focus for 2021

- Monitoring of the effectiveness and efficiency of the internal control system, also in the context of challenges for the Bank related to the COVID-19 pandemic and business rebound;
- Internal controls related to the new remote work model;
- Monitoring of the financial reporting process, including the adequacy of provisioning and recognition of the impact of the COVID-19 pandemic;
- Monitoring and supervision of the process of determining the level of provisions and creation thereof in the context of the FX mortgage loan portfolio;
- Regular monitoring of the Internal Audit's and Compliance unit's performance.
- Monitoring of measures taken to address anti-money laundering and terrorism financing requirements;
- Review of new regulations affecting the Committee's responsibilities

## 4.4. Risk Committee

### Role and Tasks

The mission of the Risk Committee set up by the Supervisory Board is to assist the Supervisory Board in discharging its responsibilities to the shareholders and other stakeholders in relation to: (i) ongoing monitoring of the risk management system, (ii) appropriate risk management philosophy, as articulated in relevant legal regulations and regulatory recommendations and market standards; (iii) risk appetite, as reflected in policies and risk limits; (iv) a sharpened and focused oversight on the more significant business risks undertaken by the Bank; and (v) the appropriateness of the overall risk governance framework.

The primary responsibilities of the Committee are:

- issuing opinions on the current and future readiness of the Bank to take up risk;
- issuing opinions on the risk management strategy developed by the Bank's Management Board and the information tabled by the Management Board on its execution;
- supporting the Supervisory Board in overseeing the implementation of the risk management strategy in the Bank's operations by the senior management;
- verifying if the prices of assets and liabilities offered to customers fully reflect the Bank's business model and risk strategy; otherwise, the Committee presents to the Management Board proposals to ensure that the price of assets and liabilities is adequate to relevant risk types;
- issuing opinions in the process of appointing and removing the Management Board member responsible for risk as well as issuing opinions on his/her annual objectives and performance against them.

The Committee's tasks are reflected in the adopted annual work plan, in line with which the Committee discharges its responsibilities.

## Terms of Reference

The Committee performs its duties pursuant to the Terms of Reference introduced by the Supervisory Board's resolution. In 2020, the Terms of Reference updated in 2019 under the Supervisory Board's resolution no. 73/2019 of 14 October 2019 applied. The amendments included, e.g. indication of the Committee's role in the process of appointing and removing the Management Board member in charge of risk as well as reflection of the standing attendance at the Committee's meetings by the head of the compliance unit (Bank Director in charge of the Legal and Compliance Division).

## Committee's composition

In 2020, the Risk Committee worked in the following composition:

- Jerzy Surma – Chairman,
- Dominika Bettman (appointed to sit on the Committee on 22 June 2020),
- David Hexter,
- John Power.

## Number of meetings and attendance

The Committee met 6 times in 2020.

In 2020, the attendance rate was as follows:

- |                    |      |
|--------------------|------|
| • Jerzy Surma      | 6/6  |
| • Dominika Bettman | 4/4* |
| • David Hexter     | 6/6  |
| • John Power       | 6/6  |

Apart from the Committee's members, regular attendees include also representatives of the Bank's Auditor, Vice President of the Management Board in charge of the Risk Management Division, member of the Management Board in charge of the Accounting and Financial Control Division, member of the Management Board in charge of the Financial Management Division, Bank Director in charge of the Legal & Compliance Division, head of the Internal Audit Area (Chief Audit Executive) and other members of the Management Board and senior management of the Bank invited to the Committee meetings to present reports and debate on matters related to the areas they manage.

*\*Dominika Bettman was appointed to sit on the Committee on 22 June 2020 and was present during all meetings from that date to the end of 2020.*

## The Committee's activity in 2020

Discharging its responsibilities, the Committee takes into account that the the risk-taking by the Bank has to be adequate to the scale and type of its business, that the risk management is governed by the industry standards, regulatory guidance and recommendations, referring to operational risk, credit risk, market risk and liquidity risk.

The key areas of the Committee's work in 2020 were:

- monitoring of the current risk profile of Santander Bank Polska Group based on Risk Dashboards and of the consumption of internal limits from the perspective of the current business strategy and the macroeconomic environment;
- review and evaluation of Santander Bank Polska Group's Risk Appetite Statement and recommendations for the Supervisory Board with regard to risk appetite approval; opinions and recommendations for the Supervisory Board with respect to limit excesses;
- comprehensive review and assessment of credit policies and portfolio, including non-performing loans;
- assessment of the prices for assets and liabilities offered to customers;
- review of model risk management;
- review and recommendations for the Supervisory Board with regard to approving the Internal Capital Adequacy Assessment Report (ICAAP Report) for Santander Bank Polska Group and Internal Liquidity Adequacy Assessment Report (ILAAP Report) for Santander Bank Polska Group;



- review of the operational risk management process, including the management of business continuity, information security, outsourcing and insourcing risk and fraud prevention in all areas of the Bank's business, including fraud detection in e-banking;
- review of the risk management and internal control in the Bank's subsidiaries (Santander-AVIVA, Santander TFI, Santander Consumer Bank, Santander Leasing and Santander Factoring) and the Bank's different business areas (Multichannel Communication Centre, Central Operations Area, Corporate and Investment Banking Division, including Financial Markets Area and Treasury, Brokerage Business, Business and Corporate Banking Division, including the Financial Markets Area, Branch Banking – branches and partner branches, mobile and online banking);
- review of resources and succession plans in the Risk Management Division, and recommendations to the Supervisory Board with regard to the assessment of the knowledge and skills of the Management Board members in terms of operational risk management;
- recommendations for the Supervisory Board with regard to approval of the strategy and policies referring to risks embedded in the Bank's business as well as updates of these documents, including Risk Management Strategy, Operational Risk Management Strategy, Control Function Matrix Methodology, NPE Strategy for 2021-2023 and the operational plan.

The Committee reviewed the regulations on the ALM governance structure, changes to the Capital Contingency Plan and regulations and procedures on Special Situations Management. The Committee presented to the Supervisory Board recommendations related to the approval of these regulations.

The Committee also paid special attention to such issues as: (i) risks associated with the COVID-19 pandemic; (ii) risks related to the Bank's ICT environment, including the review of Cybersecurity Dashboards, information security, measures to prevent IT systems unavailability, data quality and implementation of Cybersecurity Strategy; (iii) IT Strategy for 2020-2021; (iv) risks related to the fx mortgage loans (including the issue of provisions).

As part of reviewing individual risk areas, the Committee monitored also the identification of risks as well as the results of inspections and audits carried out respectively by the KNF, Internal Audit and the External Auditor. The Committee also checked the implementation of recommendations issued after such engagements.

One of the Committee's tasks is the oversight of the stress testing undertaken by the Bank in line with its own assumptions and benchmarked against the requirements set by the KNF. These tests are one of the elements of the credit risk management process and are used to evaluate (i) potential impact of specific events on the markets, movements in financial and macroeconomic ratios as well as changes in the risk profile on the condition of the Bank and Bank Group; (ii) changes of quality of credit portfolios should adverse events materialise. The results of the stress testing are linked closely with the review of the Group's Risk Appetite Statement and provide management information on the adequacy of the set limits and allocated internal capital.

The Committee receives regular reports on Santander Bank Polska Group's risk profile, which in particular refer to: (i) performance against the defined risk appetite and exceptions in this respect, (ii) risk trends, (iii) risk concentrations; (iv) key performance indicators.

## Focus for 2021

The Committee will focus on risks embedded in the Bank's business as well as those emerging across the entire financial sector, including those arising from the COVID-19 pandemic (impact on business model transformation, recovery and customer complaints) as well as cybersecurity and IT risks. In the Committee's view one of the challenges faced by the Bank and the entire sector will be mortgage loans in foreign currencies and thus the Committee will keep it high on its agenda analysing the issue in terms of the Bank's risk management system. The Committee will additionally monitor risk issues related to risk models.

In 2021, the Committee will also review amendments to Santander Bank Polska Group's Risk Appetite Statement and continue its comprehensive monitoring of related limits. Moreover, the Committee will track on an ongoing basis issues related to mortgage loans in foreign currencies in the context of provisions and risks for the Bank.

## 5. Self-assessment of the Supervisory Board activity in 2020

The Supervisory Board assessed its activities in 2020 in accordance with point II.Z.10.2 of 2016 Code of Best Practice for WSE Listed Companies.

The Supervisory Board stated that it had duly discharged its responsibilities laid down in the Commercial Companies Code, the Banking Law, the Bank's Statutes and the KNF recommendations as it held its meetings at a frequency that ensured that all matters within the Supervisory Board's remit were duly addressed. In their actions, the Supervisory Board members were guided by the interest of the Bank and the independence of judgements and opinions. Both the composition of the Supervisory Board and knowledge and experience of its individual members, their active participation in the meetings of the Supervisory Board and its committees ensured sound and effective performance of the Supervisory Board as well as proper and effective supervision over the Bank's operations in 2020.

## II. Report of the Supervisory Board on the examination of 2020 financial statements, the Management Board report on performance in 2020 and the Bank's Management Board's motion with regard to the distribution of profit for 2020

### 1. Examination of 2020 financial statements and the Management Board report on performance in 2020

Pursuant to Article 382 (3) of the Commercial Companies Code and paragraph 32 (1) (6) of the Bank's Statutes, the Supervisory Board examined the Bank's Financial Statements and Group's Consolidated Statements for 2020 as well as the Report on the Group's Performance in 2020, incorporating the Bank's Management Board report on the Bank Performance in 2020 as regards their consistency with the books, documents and the actual status. These documents will be submitted by the Bank's Management Board to the Bank's Annual General Meeting of Shareholders .

By force of resolution no. 83/2019 of 11 December 2019, the Supervisory Board vested PricewaterhouseCoopers Sp. z ograniczoną odpowiedzialnością Audyt sp. k. (PwC, statutory auditor) with the examination of the foregoing Statements.

Having thoroughly reviewed the Financial Statements of Santander Bank Polska S.A. for 2020 and the Consolidated Financial Statements of Santander Bank Polska Group for 2020, and having read the auditor's opinion and report, the Supervisory Board positively assessed the financial statements in terms of their conformity with the books of account, documents and factual circumstances.

Furthermore, the Supervisory Board stated that the financial statements had 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. The Supervisory Board reviewed the adjustment made to the comparative data and made no comments thereon.

Pursuant to the opinion of 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 2020 as well as the standalone and consolidated financial performance and cash flows for the accounting year of 2020. They comply in terms of form and substance with the applicable laws and the Bank's Statutes.

Having thoroughly reviewed the Management Board Report on Santander Bank Polska Group Performance in 2020 (including the Management Board Report on Santander Bank Polska S.A. Performance), the Supervisory Board positively assessed 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 stated that the report had 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 2020 included in the report contains all the required elements, while the Statement on Non-Financial Information is an independent section of the Bank's Management Board report.

PwC opinions referred to above are consistent with the external auditor's additional report for the Audit and Compliance Committee.

When making the above assessment, the Supervisory Board also took into account the Audit and Compliance Committee's recommendation presented at the Supervisory Board meeting held on 22 February 2021.

Given the above, by force of Resolution no. 5/2021 of 22 February 2021, the Supervisory Board decided to submit the following documents for approval to the Annual General Meeting:

- Financial Statements of Santander Bank Polska S.A. for 2020,
- Consolidated Financial Statements of Santander Bank Polska Group for 2020,
- The Management Board Report on Santander Bank Polska Group Performance in 2020 (containing the Management Board report on Santander Bank Polska S.A. operations).

## 2. Review of the Bank's Management Board's motion with regard to the distribution of profit for 2020

On 23 February 2021 the Supervisory Board positively reviewed the Management Board's recommendation with regard to dividing profit for 2020 generated by the Bank in the accounting year commenced on 01.01.2020 and ended on 31.12.2020 in the amount of PLN 738,411,718.72 in the following way:

- PLN 369,205,859.36 shall be allocated to the reserve capital,
- PLN 369,205,859.36 shall be left undivided.

As at 31<sup>st</sup> December 2020 the capital ratios amounted:

- Tier I ratio (T1) for the Bank 20,94% and for the Group 18,01%
- Total Capital Ratio for the Bank 23,34% and for the Group 20,04%

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

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

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

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

Considering the KNF's recommendation and expectation, The Management Board recommended to retain the entire net profit for the period from 1 January to 31 December 2020 by allocating 50% of 2020 profit to the reserve capital and 50% of profit is left undivided and the Supervisory Board positively reviewed this recommendation.

On 17 March 2021 the Supervisory Board reviewed and positively assessed the Management Board's amended recommendation with regard to distribution of profit for the accounting year from 1 January 2020 to 31 December 2020.

The amended recommendation of the Management Board consisted in creating a capital reserve to be earmarked for dividend payout, including advance dividend allocations (dividend reserve) and distributing the net profit earned in 2020 of PLN 738,411,718.72 in the following way:

- PLN 369,205,859.36 - to be allocated to the capital reserve,
- PLN 369,205,859.36 - to be allocated to the dividend reserve.

The Management Board noted that when taking the decision to change its recommendation of 23 February 2021, it took into account the current macroeconomic landscape as well as the KNF's recommendations and current position, including the fact that profit distribution falls within the sole powers of the Annual General Meeting.

The profit distribution recommended to the Annual General Meeting will not preclude the Management Board's potential decision to distribute profit to shareholders in the form of advance dividend and to use the dividend reserve for that purpose in H2 2021 pursuant to the authorisation given to the Management Board in accordance with § 50(4) of the Bank's Statutes. This will be subject to the KNF's position on the dividend policy in H2 2021 that will determine the possibility to make such a payment. The Management Board's potential decision to pay advance dividend will require the approval of the Supervisory Board.

The Supervisory Board positively reviewed the amended recommendation of the Management Board in view of the Bank's capital ratios presented above and the fact that it complied with the KNF's current position. The recognition of this stance implies retaining the entire profit earned in 2020, without precluding the option to distribute profit to shareholders in H2 2021, subject to e.g. the KNF's position announced in their letter to the Bank of 14 January 2021.

## III. Assessment of Santander Bank Polska Group's performance in 2020

Acting in compliance with 2016 Code of Best Practice for WSE Listed Companies, the Supervisory Board assessed the Bank's and Santander Bank Polska Group's standing in 2020, covering the internal control system, risk management, compliance risk management, internal audit function, including financial reporting and operational business as well as the assessment of the reasonableness of the Bank's sponsoring and corporate giving policy and the assessment of the manner of discharging disclosure requirements by the Bank with regard to the application of the corporate governance rules.

### 1. Santander Bank Polska Group performance in 2020

#### Economic growth

The Polish economy entered 2020 with still good, but slowing economic growth. However, as the first diagnosed Covid-19 cases appeared in Poland in mid-March, the economic outlook deteriorated dramatically. The disease proved to be the most important factor affecting economic and financial activity until the end of the year. Restrictions in business activity and social mobility triggered a major decline in GDP growth in Q2 2020: -8.2% YoY or -8.9% QoQ after a seasonal adjustment, which was the most considerable decline since early 90s.

Q3 2020 saw a surprisingly rapid and strong rebound. However, the recovery process was uneven: some areas were improving faster, while others remained in stagnation or even deteriorated. The industrial production and retail sales returned to positive YoY growth rates, while in the construction sector, which was initially quite immune to the pandemic, the output fell significantly in Q3. According to the preliminary data, in 2020 GDP fell by 2.8%.

#### Inflation

CPI inflation began 2020 with a rise to 4.5% YoY on average in Q1 from 2.8% YoY in Q4 2019, due to electricity price hike and further strengthening of food price inflation. With the outbreak of Covid-19, inflation started to decline, but slower than expected. Only December saw a sharper decline (to 2.4% YoY). However, core inflation excluding food and energy only strengthened during the pandemic and reached 4.3% YoY in July, the highest value in more than 18 years, a level at which it stayed until November (December saw an abrupt decline to 3.7% YoY). Service prices were growing increasingly faster throughout 2020 to 7.8% YoY in November vs 6.1% in December 2019, but in December 2020 the growth rate dropped to 6.6% YoY. Goods price inflation eased to 0.9% YoY from approx. 4% in Q1 2020.

#### Monetary policy

In response to the spread of the new disease and the government's decision to impose lockdown, the MPC started cutting rates in 2020. After three moves – in March, April and May – the reference rate was 0.1%, the lowest ever. At the same time, an asset purchase programme was introduced, covering government bonds and state-guaranteed bonds. Some other, less important support instruments were also launched. Late in 2020, the NBP intervened several times on the FX market to weaken the zloty, sending EURPLN from 4.45 in early December to above 4.60 at the end of the year.

#### Deposit and credit market

The pandemic reduced the demand for loans in 2020. At the year end, the total volume of loans was down 1% vs December 2019 (after taking into account FX changes). PLN-denominated mortgage loans advanced by about 10% YoY, consumer loans went down by 2% YoY, while corporate loans declined by 7% YoY, with the most considerable decline observed in current loans (-15% YoY).

The demand for bank debt on the part of businesses was impacted by the government's financial stimuli programme. The expansive fiscal policy of the government financed by bond issues resulted in a high growth of deposits in the banking system. In mid-2020, the deposit growth rate was close to 16% YoY, while in the following months it slowed down to approx. 12% YoY in December. Depositors continued to turn away from term deposits (which declined by about 27% YoY) in favour of current deposits (which rose by about 30% YoY), mostly due to the low interest rates on the former.

## Income Statement

The profit before tax of Santander Bank Polska Group for the 12-month period ended 31 December 2020 was PLN 1,880.9m, down 42.0% YoY. The profit attributable to the Bank's shareholders declined by 51.5% YoY to PLN 1,037.2m.

On a comparative basis for individual line items, i.e. assuming a fixed level of contributions to the BFG and excluding the following items from the profit for 2020: an adjustment to interest income accounting for the refund of a portion of fees on early repaid consumer loans (PLN 165m), income from an update of parameters of the model for calculation of provisions for insurance premium refunds at SCB (PLN 103m), dividend income (PLN 22.5m), provision for legal risk connected with the foreign currency mortgage loans portfolio (PLN 201m), provision for employment restructuring (PLN 154m), provision for disputable liabilities and other assets (PLN 322m) and management provision for expected credit losses arising from a worsening economic outlook (PLN 121m), and – from the profit for 2019: an adjustment to interest income accounting for the refund of a portion of fees on early repaid consumer loans dividend income (PLN 100m), dividend income (PLN 99m), gain on the settlement of sale of an organised part of the enterprise of Investment Services Centre (Centrum Usług Inwestycyjnych) (PLN 59m), provision for employment restructuring (PLN 100m), provision for legal risk connected with the foreign currency mortgage loans portfolio (PLN 267m) and provision for disputable liabilities and other assets (PLN 60m), the underlying profit before tax declined by 21.2% YoY and profit attributable to the shareholders of Santander Bank Polska S.A. declined by 21.7% YoY.

This performance was achieved along with a 8.6% YoY decrease in total income to PLN 8,647.3m and stabilisation of total operating expense at PLN 4,488.0m (+0.5% YoY).

In 2020, the charge made by Santander Bank Polska Group to the income statement on account of expected credit loss allowances was PLN 1,762.8m vs PLN 1,219.4m in 2019. In 2020, expected credit loss allowances went up by +44.6% YoY as a result of deterioration in borrowers' standing due to the recession caused by the pandemic, revision of risk parameters and additional allowances raised to take account of uncertain negative impact of the coronavirus crisis (post-model adjustment).

## Income

Total income of Santander Bank Polska Group in 2020 was PLN 8,647.3m, down 8.6% YoY. Excluding a gain of PLN 59m from the sale of the Investment Services Centre (Centrum Usług Inwestycyjnych) in 2019, income of PLN 103m from revision of the provision calculation model of Santander Consumer Bank S.A. in relation to refunds of insurance premiums recognised in the current period and dividend income recognised in both analysed periods (PLN 23m for 2020 and PLN 99m for 2019) and a negative adjustment to net interest income on account of partial reimbursement of fees on early repaid consumer loans (PLN 165m in 2020 and PLN 100m in 2019), the underlying total income was down 7.6% YoY, impacted by interest rate cuts and volatility of financial markets.

Net interest income of Santander Bank Polska Group decreased by 10.5% YoY as a result of the pressure on net interest margin from three NBP rate cuts in H1 2020, deceleration of credit delivery caused by the Covid-19 pandemic and lower yields of the investment portfolio of debt securities.

Net fee and commission income for 2020 increased by 1.1% YoY, reflecting the well-diversified business of the Group. The Group posted significantly higher income in the capital market, particularly from brokerage services and issue arrangement, which offset a decrease in fee and commission income from the management of investment fund assets, whose average value declined YoY. At the same time, lower fee and commission income from payment transactions routed through customers' accounts, cross-border payments and credit card payments was counterbalanced by higher income from FX fees and debit card fees as well as reduced credit agency fees.

Non-interest and non-fee income of Santander Bank Polska Group totalled PLN 607.1m and decreased by 19.5% YoY, mainly due to the volatility of the financial instruments market and one-off divestment transaction recognised in 2019 (PLN 59m on account of settlement of the sale of an organised part of the enterprise) and measures taken by the financial supervision authority to ensure security of the financial system by restricting profit distributions by the supervised entities.

## Costs

In 2020, total operating expenses of Santander Bank Polska Group were stable (+0.5% YoY) and totalled PLN 4,488.0m. The main growth driver were other operating expenses which went up by 53.4% YoY, mainly on account of higher provisions for legal disputes related to foreign currency mortgage loans and higher impairment allowances in respect of property, plant and equipment and intangible assets arising from lease contracts.

On a comparative basis, i.e. assuming the fixed level of fees payable to the Bank Guarantee Fund in both analysed periods and excluding the restructuring provision and the provision for legal risk and legal disputes, the underlying total operating expenses were down 8.8% YoY, reflecting a decrease in depreciation/ amortisation and total remuneration, as well as savings in the selected cost items achieved as a result of optimisation and transformation processes.

Staff expenses in 2020 totalled PLN 1,744.1m, down 6.7% YoY. On a comparative basis, i.e. excluding employment restructuring provisions from both analysed periods, the underlying consolidated staff expenses declined by 10% YoY, reflecting lower fixed labour costs due to reduction in the average employment and bonus scheme adjustments under the new circumstances.

The Group's cost to income ratio increased moderately to 51.9% in 2020 compared to 47.2% in 2019. Adjusting for the above-mentioned cost and income items, the underlying cost to income ratio was 42.4% vs 43% in 2019.



## Assets

As at 31 December 2020, the total assets of Santander Bank Polska Group were PLN 229,311.3m, up 9.5% YoY. The value and structure of the Group's assets was determined by the parent entity, which held 88.6% of the consolidated total assets vs. 86.6% as at the end of December 2019.

## Credit portfolio

As at 31 December 2020, consolidated gross loans and advances to customers were PLN 148,274.5m and were stable YoY (-0.3%).

Loans and advances to individuals went up by 0.6% to PLN 81,387.9m. Housing loans, which were the main contributor to the figure, increased by 3.0% to PLN 52,758.1m. The second largest constituent item, i.e. cash loans, decreased by 1.4% YoY to PLN 21,307.7m. Consumer loan sales strongly decelerated both at Santander Bank Polska S.A. and Santander Consumer Bank S.A., particularly during the economic shutdown.

Loans and advances to enterprises and public sector entities declined by 2.4% to PLN 57,069.6m due to a lower demand for business loans, given the government's stimulus package and uncertainty of businesses as to the scope and scale of the COVID-19 impact on the economic prospects.

Including POCI exposures, NPL ratio was 5.8% as at 31 December 2020 compared with 5.2% a year before. The provision coverage ratio for impaired loans was 57.9% compared with 53.8% as at 31 December 2019. The growth in the coverage ratio in H2 2020 was caused by higher expected credit loss allowances connected with the selected corporate loan portfolios and sale of the NPL portfolio.

## Equity and liabilities

Compared to 31 December 2019, total equity increased by 6.2% to PLN 28,658.0m under the resolution of the Annual General Meeting of Santander Bank Polska S.A. of 22 June 2020 to retain the entire profit of PLN 2,113.5m for 2019. Of this amount, PLN 1,056.8m was earmarked for the reserve capital and the remainder was left undistributed.

Deposits from customers disclosed in the consolidated statement of financial position of Santander Bank Polska Group as at 31 December 2020 totalled PLN 171,522.3m and increased by 10% YoY on account of, among other things, customers' funds from state programmes aimed to contain the economic impact of the Covid-19 pandemic. Deposits from customers were the largest constituent item of the Group's total equity and liabilities (74.8%) and were the main source of funding for the Group's assets.

Subordinated liabilities and liabilities in respect of debt securities in issue went up by 6% YoY in connection with the issue of debt instruments by Santander Bank Polska S.A. and other members of the Group with a total nominal value of PLN 6,585.6m, repurchase of matured securities of PLN 5,185.6m and their redemption at PLN 1,052.9m. The interest rate on the variable-rate bonds issued by the Group companies in 2020 was based on WIBOR plus margin.

## Deposits

In 2020, consolidated deposits from customers increased by 9.5% YoY to PLN 171,522.3m at the end of December.

Retail deposits reached PLN 98,213.4m, up 7% as a result of higher balances in current accounts which were up 29%. The rise in current account balances was partially attributed to transfer of funds from term deposits (-38.5% YoY), which became less attractive following sharp cuts in the NBP interest rates reflected in the Group's pricing policy.

Deposits from enterprises and the public sector grew by 13.2% to PLN 73,308.9m along with an increase in current account balances (+73% YoY), including, among other things, subsidies paid to current accounts of businesses as part of financial stimulus programmes introduced by the government.

## Share price of Santander Bank Polska S.A.

Globally, the banking sector was one of the industries that were hit worst by the pandemic in 2020. Apart from lower customer activity, there were three interest rate cuts and credit moratoria granted by the banking sector which had a significant impact on the stock price of the WSE-listed banks. Although the end of the year was favourable and the stock prices visibly improved, the sector still remains under strong pressure caused by all-time low interest rates and their potential further cuts as hinted by the NBP at the end of December 2020, no dividend payments, high regulatory fees, uncertainty about the impact of the economic slowdown on the quality of assets, and the public debate about CHF loans. Despite some recovery, WIG-Banks lost as much as 29.6% YoY. The market capitalisation of Santander Bank Polska S.A. followed the same trend, decreasing by 39.6% compared with the start of the year.

In 2020, the share price of Santander Bank Polska S.A. reached its maximum of PLN 315.00 on 7 March and its minimum of PLN 123.00 per share on 30 October 2020.

Due to strong liquidity and high market capitalisation, 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.

## Rating

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

In line with the Fitch Ratings announcement of 29 September 2020, that confirmed the existing BBB+ rating of Santander Bank Polska S.A., the IDR of the Bank is driven by its intrinsic strength (as reflected in its VR) and is also underpinned by potential parental support from Banco Santander S.A. (A-/Negative/a-).

On 30 September 2020, Moody's also confirmed the Bank's A2 rating.

## 2. Assessment of the internal control system

The Supervisory Board performed the annual adequacy and effectiveness assessment of the Internal Control System in Santander Bank Polska S.A. for 2020, including annual assessment of the adequacy and effectiveness of the control function, compliance unit and the internal audit unit, taking into account in particular:

- the Audit and Compliance Committee's opinion presented at the Supervisory Board meeting,
- the information obtained from the Bank's Management Board with regard to the manner of delivering tasks referred to in recommendations 1.1 – 1.6. the KNF's Recommendation H,
- periodical reports of the compliance unit and internal audit unit as well as information from subsidiaries, including information reported by Chairpersons of Audit and Compliance Committee, and Risk Committee based on the reviews made by these Committees,
- findings of the statutory auditor, including those presented when debating the report from the audit of the financial statements,
- findings from supervisory activities performed by authorised institutions, including findings and recommendations from the KNF issued after their inspections in the Bank,
- assessment of adequacy and effectiveness of the internal control system and the risk management system presented by the Internal Audit Area.

The Supervisory Board positively assessed the Bank's internal control system (including the control function, compliance unit and internal audit unit) and deemed it adequate and effective, adjusted to the Bank's organisational structure, risk management system as well as to the size and complexity of the Bank's business.

It covers all units across the Bank as well as its subsidiaries deemed material. The internal control system covers all significant controls, including those related to the Bank's financial reporting and operational activity.

As required by the Statutes, the Bank operates an internal control system which supports the decision-making processes and contributes to the Bank's efficient operations, compliance with risk management rules, reliability of financial reporting as well as compliance with the law, international standards, internal regulations and best practice.

The Bank's Management Board is responsible for designing and implementing the effective and adequate internal control system for all organisational units and job roles, comprising a control function, a compliance unit and the internal audit unit. The Management Board also ensures the system's independence, financial resources and validity of documented procedures in this respect, and sets criteria for assessing the adequacy and effectiveness of the internal control system.

The Management Board ensures that the Internal Control System is in place in subsidiaries. Subsidiaries deemed material have adequate internal regulations and a documented internal control model in place, within which elements such as controls, tasks and functions are described and managed. These elements are subject to an annual assessment and certification process.

At Santander Bank Polska Group there is an internal control system that takes into account solutions operating in Santander Group. The Bank's Management Board ensured conformance of the system with the national legislation and Recommendation H, which is evidenced by a documented analysis certifying such conformance (mapping of the adopted system to respective recommendations contained in Recommendation H).

The Internal Control System encompasses:

- a) the control function, responsible for ensuring that controls, in particular those related to risk management, are observed. It may include individual positions, groups of employees or organisational units;
- b) the compliance function responsible for identification, assessment, control and monitoring the risk of non-compliance of the Bank's activities with the legal regulations, internal rules and market standards carried out by the compliance function, including delivery of related reports;
- c) the internal audit function, independent of any other functions or units whose objective is to provide the Management Board, Supervisory Board and other senior management with independent assurance on the quality and effectiveness of internal control, risk management (current or emerging) and governance processes and systems, thereby helping to protect the company's value, solvency and reputation.

The control function is an element of the Internal Control System and comprises:

- a) all controls in the Bank's processes, including those defined by the organisational units as part of the Operational Risk Self-Assessment;
- b) independent horizontal and vertical monitoring of compliance with these controls (including ongoing verification and testing); controls subject to independent monitoring are covered by the Group Internal Control Model;
- c) reporting as part of the control function.

The Management Board of the Bank takes regular actions ensuring the continuity of the properly designed and implemented Internal Control System, including proper interaction between all employees of the Bank within the control function and their collaboration with the compliance and the internal audit units as well as the units' employees' access to the required source documents, including documents that contain classified information subject to professional secrecy.

If deficiencies are identified by the internal control system, the Bank's Management Board takes adequate actions to eliminate them, including corrective and disciplinary measures.

The Management Board ensures that the Internal Control System is designed, introduced and operational in Santander Bank Polska Group and that it is adequately adjusted to its organisational structure and Risk Management System as well as to the size and complexity of the Group's business. It covers all units across the Bank as well as its subsidiaries. In particular, the following is taken into account when ensuring the adequacy and effectiveness of the Internal Control System in Santander Bank Polska Group:

- a) the complexity of the processes in place;
- b) available resources;
- c) the risk of irregularities occurring in particular processes, including significant processes;
- d) assessment of the adequacy and effectiveness of the existing first, second and third line of defence.

The Bank's Management Board defined the following criteria for assessing the adequacy and effectiveness of the internal control system that were approved by the Supervisory Board:

- a) the performance against the objectives of internal control system,
- b) the degree of application of controls ensuring independent monitoring of key control mechanisms set out in the Control Function Matrix;
- c) the degree of control plans for processes not covered by the Control Function Matrix but covered by the Group Model of Internal Control;
- d) timeliness and efficiency of the delivery of remediation and disciplinary actions.

The analysis of the criteria confirmed that the internal control system of Santander Bank Polska Group is adequate and effective. 30 open deficiencies were identified, but none of them was significant or critical. There is ongoing focus on timely implementation of remediation actions defined for deficiencies under the assessment and certification process.

When making the assessment of the control function, the Supervisory Board took also into account the manner in which the Bank's Management Board discharged the duties referred in part B the KNF's Recommendation H.

The internal control and risk management systems are based on the three lines of defence.

The first line of defence is focused on management of risks in the Bank's operational activity and is based on business units which, as part of their day-to-day activities, generate risks that affect achievement of the Bank's objectives. The first line includes activities performed by each employee to ensure the quality and correctness of the completed tasks. The first line of defence checks the compliance with procedures and responds to any identified irregularities.

The second line of defence consists in risk management by employees in dedicated roles or organisational units and the operations of the compliance unit. Risk management in the second line of defence is independent from risk management in the first line of defence. The second line of defence is formed by functions which support the Bank's management in risk identification and management by providing the relevant tools, internal regulations and mechanisms for managing, monitoring, ongoing verification, testing and reporting risk as well as specialised functions which assess the effectiveness of the first line controls. The second line of defence is also responsible for vertical monitoring, including ongoing vertical verification and vertical testing. The purpose of vertical monitoring is to verify whether first line of defence applies the required controls.

The third line of defence is the Internal Audit Area, whose activity is supervised by the Audit and Compliance Committee of the Supervisory Board. The Internal Audit Area provides independent and objective examination and assurance on the first and second tier controls and on the Bank's management system, including the effectiveness of managing the risk related to the Bank's business. To that end, the Internal Audit Area verifies whether Santander Bank Polska Group's risks are adequately covered, in compliance with the applicable management policies, procedures and internal and external regulations. Using its own risk matrix and knowledge, the Internal Audit Area performs a regular assessment of the present and future risks across the Bank and Santander Bank Polska Group, developing annual audit plans to cover it. Also, priorities highlighted by the Bank's management, the Audit and Compliance Committee, the external auditor, and banking supervision institutions are taken into account.

The Supervisory Board is responsible for the supervision over the implementation and maintenance of the Internal Control System. The Supervisory Board performs annual adequacy and effectiveness assessment of the Internal Control System, including annual adequacy and effectiveness assessment of the control function, compliance units and the internal audit unit, taking into account in particular:

- a) opinion of the Audit and Compliance Committee;

- b) the information from the Bank's Management Board on the manner of discharging these duties;
- c) periodical reports of the compliance unit and internal audit unit;
- d) information significant from the point of view of adequacy and effectiveness of the Internal Control System obtained from Santander Group and subsidiaries;
- e) findings of the certified auditor;
- f) findings of audit and control activities carried out by authorised institutions;
- g) any reviews and opinions issued by third parties which are significant from the point of view of adequacy and effectiveness of the Internal Control System.

The Supervisory Board receives current and accurate information on identified deficiencies and on the measures taken to eliminate them, on the extent of compliance with internal and external regulations and on adequacy and security of the IT systems.

The Supervisory Board monitors the effectiveness of the Internal Control System based on the information obtained from the compliance unit, internal audit unit, the Bank's Management Board and the Audit and Compliance Committee.

The results of control and assessment of control effectiveness are taken into account and used to improve the existing processes, data security and the Bank's infrastructure by making relevant changes to internal processes and regulations. These are regularly verified by the Internal Audit Area

The Audit and Compliance Committee of the Supervisory Board is informed about the results of assessing the risk of failure to comply with the overall objectives of the Internal Control System. The analysis of the design and effectiveness of controls made in 2020 concluded that the weaknesses identified had a little impact on the delivery of the internal control objectives.

In 2020, the open deficiencies identified in the process of the Internal Control Model certification were estimated at the lowest materiality level (Deficiency – deficient control/ task/ function). The number of deficiencies decreased by 20 YoY (50 in 2019 vs 30 in 2020 EoY). Additionally 27 deficiencies affecting control assessment had been identified in 2020 for which all mitigation action were closed before end of the year. The decrease in the number of deficiencies is due to, among others, proactive collaboration with business units, and addressing on an ongoing basis, emerging areas for improvement in the form of corrective actions. This is a low number of deficiencies relative to the total number of controls, which confirms the maturity of the Bank's Internal Control System and the effectiveness of the controls in place..

Among others, the Internal Control System addresses the Bank's compliance with:

- Sarbanes-Oxley Act;
- Volcker Rule (section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act);
- requirements of RDA/RRF (Basel Committee on Banking Supervision 239: Principles for effective risk data aggregation and risk reporting);
- KNF's Recommendation A on management of risk embedded in derivative transactions concluded by banks – e.g. by establishing a relevant control in the Financial Risk Department;
- KNF's Recommendation B on limitation of the banks' investment risk – e.g. by establishing controls in the Corporate Development Office and Financial Risk Department;
- KNF's Recommendation C on concentration risk – e.g. by establishing controls in the Risk Control and Consolidation Department;
- KNF's Recommendation D on managing IT areas and ICT security in banks – e.g. by establishing controls in the Operational Risk Management and Internal Control Department, IT Security and Technology Risk Management Department and Cybersecurity Department;
- KNF's Recommendation G on interest rate risk management in banks – e.g. by establishing controls in the Assets and Liabilities Management Department and Financial Risk Department;
- KNF's Recommendation H on the internal control system in banks – e.g. by establishing controls in the Operational Risk Management and Internal Control System and Compliance Area;
- KNF's Recommendation I on FX risk management in banks and rules for making FX risk bearing operations by banks – e.g. by establishing controls in the Financial Markets and Liquidity Services Chapter, Assets and Liabilities Management Department and Financial Risk Department;
- KNF's Recommendation M on operational risk management in banks – e.g. by establishing controls in the Operational Risk Management and Internal Control Department;
- KNF's Recommendation P on liquidity management in banks – e.g. by establishing controls in the Assets and Liabilities Management Department and Financial Risk Department;
- KNF's Recommendation R on the rules for identifying impaired balance sheet credit exposures, setting: impairment allowances on balance sheet credit exposures and provisions for off-balance sheet credit exposures – e.g. by establishing controls in the Risk Control and Consolidation Department, Risk Intelligence Department for Business Portfolio Management and Risk Intelligence Department for Retail Portfolio Management;
- KNF's Recommendation S on the best practice in the management of mortgage-backed credit exposures – e.g. by establishing controls in the Risk Intelligence Department for Business Portfolio Management and Risk Intelligence Department for Retail Portfolio Management;
- KNF's Recommendation T on the best practice in the management of risk of retail credit exposures – e.g. by establishing controls in the Risk Intelligence Department for Retail Portfolio Management;
- KNF's recommendation U on the best practice in bancassurance – e.g. by establishing control in the Bancassurance Tribe;
- KNF's Recommendation W on model risk management in banks – e.g. by establishing controls in the Risk Control and Consolidation Department, Risk Intelligence Department for Business Portfolio Management and Risk Intelligence Department for Retail Portfolio Management, Financial Risk Department and Business Intelligence Tribe.

One of the key objectives of the internal control system is to ensure full accuracy and credibility of financial reporting.

Preparation of financial data for the purpose of reporting is automated and based on the consolidated General Ledger and Data Warehouse. The underpinning IT systems are regularly reviewed and tested in terms of conformity to IT architecture and cybersecurity requirements and strictly controlled in terms of integrity and security of information.

Data inputs in the source systems are subject to formal operational and approval procedures which define 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 related to reporting obligations and updates its accounting principles and disclosures accordingly. The Bank, through its representatives sitting on the supervisory boards of individual subsidiaries, exercises oversight of its consolidated entities.

Financial statements are 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. Annual reports on operations of the Disclosure Committee are subject to a review by the Audit and Compliance Committee of the Supervisory Board.

The Audit and Compliance Committee of the Supervisory Board reviews Financial Statements, Management Board Report on the Santander Bank Polska Group's Performance and additional reports (such as information on capital adequacy) prepared as part of financial reporting on a half-yearly and yearly basis, and submits them to the Supervisory Board for acceptance/ approval. As part of its reviews, the Audit and Compliance Committee gets acquainted with the outcome of external auditor's work (both review and audit of financial statements), in particular with key risks within the scope the auditor's analysis and conclusions arising from audit engagements.

In the Supervisory Board's opinion, the controls implemented in the Bank effectively address the risk of a material misstatement in the financial statements. The effectiveness of controls in financial reporting is additionally reinforced by an independent assessment performed by an external auditor as part of the annual certification process for compliance with the Sarbanes-Oxley Act.

Detailed information on the assessment made by the Supervisory Board with regard to compliance (including the adequacy and effectiveness of the compliance unit and the compliance risk management system) as well as with regard to the adequacy and effectiveness of the internal audit unit and the risk management system is presented below in points 3 – 5.

### 3. Assessment of compliance

The applicable compliance risk management system covers the units listed below together with their scope of responsibilities:

- Compliance unit – compliance with legal and regulatory requirements in individual areas of the business activity, in particular with regard to: protection of consumer rights, implementation and sale of new products, prevention of money laundering, ethical issues, protection of confidential information and management of conflicts of interest.
- Specialist units dedicated to identifying and interpreting other legal and regulatory requirements that the Bank is obliged to fulfil as a legal entity (labour regulations, tax and reporting, prudential standards).
- Specialist committees that are supervised by the Risk Management Committee.

The Santander Bank Polska Compliance Policy adopted by the Management Board and approved by the Supervisory Board provides the compliance unit with a mandate to effectively support the process of managing compliance risk that includes the following risk categories: regulatory risk, conduct risk, money laundering and terrorism financing risk and reputational risk.

In February 2021, the Supervisory Board conducted the overall review and assessment of the compliance unit for 2020.

The Supervisory Board stated that:

- The compliance unit is a function independent from any other function and unit whose activities support the Bank's Management Board, Supervisory Board and other members of senior management with regard to the discharge of regulatory obligations and approval of internal control principles and compliance policy framework.
- The independence of the compliance unit is confirmed to the Management Board and to Audit and Compliance Committee on an annual basis and is ensured in particular by the following:
  - the compliance unit's direct reporting line to the bank director in charge of the Legal and Compliance Division who was empowered by the Management Board President to supervise the compliance risk and who was not vested with powers referred to in Article 22a(4) and (6)(2) of the Banking Law;
  - a direct and unlimited access of the compliance unit's head to the Chairman of the Audit and Compliance Committee and his participation in all meetings of that committee and the Risk Committee; holding, at least once a year, a meeting with the Audit and Compliance Committee by the compliance unit's head in absence of the Management Board members;



- participation of the unit's head in meetings of the Management Board and his membership in the Risk Control Committee and Risk Management Committee (without the voting rights in both bodies) which provides him with a full insight into the operations of those governing bodies and opportunity to express his opinion;
- a detailed procedure of appointing and removing the unit's head in place;
- unlimited access of the compliance unit to all information, documents, systems, applications and physical locations necessary to properly perform its tasks;
- reports presented directly by the compliance unit to the Management Board, Audit and Compliance Committee/ Supervisory Board; the reports are delivered periodically to all these bodies.
- The compliance risk management is adequate and effective given the scale of the Bank's business. The compliance unit has appropriate resources, knowledge and experience necessary to perform tasks stemming from the Compliance Programme. It should be highlighted that the high variability of the regulatory and business environment in a financial sector creates the need for further optimization and automation of compliance processes. The compliance unit employees qualifications are continuously upgraded by participation in specific subject matter trainings.
- The compliance unit's regulations are adequate, taking into account the commonly applicable law, the Bank's internal regulations, supervisory recommendations and requirements of the KNF's Recommendation H.
- As a part of mandatory, independent testing, the compliance unit carried out controls in line with the annual testing plan which is a part of the Compliance Programme:
  - the annual testing plan is based in particular on the risk assessment and legal requirements;
  - in the opinion of the Bank's Management Board, the compliance unit testing plan for 2020 covered all necessary issues and ensured an independent and objective manner of reviewing and assessing controls applied as part of the first and second line of defence in terms of compliance risk;
  - as a result of its testing activity, the compliance unit did not identify any significant and critical risks; all other identified risks were addressed to controlled units and action plans were prepared to mitigate those risks.
- The compliance unit is periodically audited by the Internal Audit Area.

This assessment took also into account that each quarter, as part of the compliance risk management process, the Audit and Compliance Committee reviews key compliance issues identified by the compliance unit as well as those arising from the unit's business as usual. Information in this respect as well as the Committee's opinions and recommendations are presented to the Supervisory Board as part of the Committee's report.

## 4. Assessment of the internal audit function

The Supervisory Board assesses the adequacy and effectiveness of the internal audit function based on the reports on the performance of the Internal Audit Area (IAA) provided to the Audit and Compliance Committee.

At its meeting in February 2021, the Supervisory Board conducted the overall review and assessment of the internal audit function.

As a result, the Supervisory Board stated that:

- The Internal Audit function is adequate and effective.
  - The IAA regulations in place are adequate, effective and compliant with applicable laws, the Bank's internal regulations, supervision authority recommendations and market standards adopted in the Bank. The IAA operates in line with the "International Standards for the Professional Practice of Internal Auditing" issued by the Institute of Internal Auditors, which was confirmed by their independent external assessment carried out in 2019.
  - The internal audit methodology reflects current professional standards and enables the identification of significant risks in the Santander Bank Polska Group.
  - The annual audit plan is developed based on a comprehensive risk assessment and precisely defines the objectives and scope of audit engagements. The audit plan takes into account the requirements of both the Bank's top management (the Supervisory Board and the Management Board) and the regulator. Moreover, as part of an annual risk assessment, strategic and operational audit plans have been developed.
  - In the opinion of the Bank's Management Board and the Audit and Compliance Committee, the Audit Plan for 2020 covered all significant issues and ensured an independent and objective review and assessment of controls applied as part of the first and second lines of defence as well as of the Bank's management system, including the assessment of effectiveness of managing risk related to the Bank's operations. Moreover, audit findings are used to improve existing processes and security of operations.
  - The policies and practices for monitoring the quality of internal audit work are adequate and compatible with professional standards and the approved methodology. The quality assurance report is presented annually to the Supervisory Board, the Management Board and to the Audit and Compliance Committee.

- The IAA strategy for 2020-2022 was developed adequately and duly reflects the need to cover the Bank's digital transformation by audit engagements.
- Audit findings indicating weaknesses in internal controls and risk management are presented in audit reports and represent a basis for issuing recommendations aimed at elimination of these weaknesses by the audited units.
- Each time, the IAA verifies actions taken by the audited units in response to audit recommendations as well as progress in delivering them. The implementation status recommendations is monitored and reported to the Bank's Management Board and the Audit and Compliance Committee on a regular basis. Audit findings are regularly presented at the meetings of the Audit and Compliance Committee, Management Board and Supervisory Board.
- The IAA presentation to the Supervisory Board (on 23<sup>rd</sup> February 2020) included the assessment of the internal audit function in terms of adequacy and effectiveness of the internal control and risk management system as part of the summary of the IAA's activity in 2020. This information was also provided to the Audit and Compliance Committee.
- The internal audit function is a permanent function independent of any other functions or units, whose objective is to provide independent assurance to the Bank's Management Board, Supervisory Board and other senior management with regard to the quality and effectiveness of the internal control, management of risks (existing or new), processes and systems, thus contributing to protecting the Bank's value, solvency and reputation.
- The independence of the internal audit is each year confirmed to the Management Board and the Audit and Compliance Committee and is ensured by the following:
  - In line with the Bank's Statutes, the Internal Audit Area reports directly to the President of the Management Board. The Audit and Compliance Committee supervises the activity of the internal audit function.
  - The Chief Audit Executive has direct and unlimited access to the Chairman of the Audit and Compliance Committee and participates in all meetings of that committee and the Risk Committee. At least once a year, the Chief Audit Executive holds a meeting with the Audit and Compliance Committee in absence of the Management Board members.
  - The Chief Audit Executive participates in meetings of the Management Board and is a member of the Risk Control Committee and Risk Management Committee (without the voting rights in both bodies). Thanks to that he has a full insight into the operations of those governing bodies and opportunity to express his opinion.
  - A detailed procedure of appointing and removing the Chief Audit Executive is in place.
  - The IAA employees have unlimited access to all information, documents, systems, applications and all premises required to perform their engagements.
- The Internal Audit Area has sufficient resources to carry out its responsibilities:
  - The audit plans define both the number of auditors as well as adequacy of their skills. The Chief Audit Executive reviews the human resources in place on a regular basis (at least once a year) in order to ensure their adequacy.
  - Auditors keep upskilling themselves in the process of professional certifications.
  - The Chief Audit Executive presents the proposed budget of the internal audit function which is annually approved by the Audit and Compliance Committee.
  - The remuneration of IAA employees and their performance against training plans is reported annually to the Audit and Compliance Committee for review. Conclusions from the review are submitted also to the Bank's Management Board and Supervisory Board.

## 5. Assessment of the risk management system

At its meeting in February 2021, the Supervisory Board conducted the overall review and assessment of the compliance unit.

Santander Bank Polska S.A. has implemented the „Strategy for Risk Management“, which defines key rules for risk management, compliant with requirements of Regulators. In line with the Strategy, the Bank has an integrated risk management framework ensuring that all risks having material impact on the Bank's operations are identified, measured or assessed, monitored and controlled. The risk management structure is adequate versus the size of the Bank and the risk it is exposed to. It is also being optimised on an ongoing basis, and adjusted to the changing external environment, as well as the risk profile deriving from the adopted strategy.

The risk management strategy is set by the Management Board of the Bank and its supporting committees: Risk Management Committee (RMC) and the Risk Control Committee (RCC) overseeing the activity of other numerous committees having authority to manage particular risks. The fact that Members of the Management Board and senior management sit on key Committees ensures senior management engagement in the risk management of the Bank as representatives of both first and second line of risk management. The Management Board Member in charge of Risk Management Division is assigned the function of the Chief Risk Officer (CRO) and is responsible for providing the Management Board and Supervisory Board with a comprehensive view of risk level, thanks to which they can make adequate decisions.

The responsibility for the management of individual risks was split between the Bank's organizational units that are supported by dedicated Committees.

The comprehensive structure of risk management at the organizational level comprises the so-called three lines of defence, where:

- The first line is made up by the units taking risk in their activity,
- In the second line, there are established special organizational units dedicated to control and report risk, i.e. to monitor risk levels on an ongoing basis as well as develop risk management standards,
- The third is the internal audit unit, which evaluates the efficiency of the first and the second lines of defence.

The Bank has methodologies and processes in place to identify and assess risks to determine their potential impact on the Bank's operations now and in the foreseeable future. With a view to identifying and assessing risks for the entire organisation, the review of material risks is carried out as part of the Internal Capital Adequacy Assessment Process (ICAAP). The identified risks are managed using policies and best practice to keep them at an acceptable level.

The Bank uses various risk assessment and measurement techniques depending on risk type and materiality. The methods applied are consistent with the approach in Banco Santander and they use best practices of the mother company, which is the leader in the banking sector worldwide.

The Bank aims at keeping the right risk/reward balance. The process of risk management assumes support for the Bank's development strategy, while retaining best in class risk management standards and compliance with the regulatory environment. One of the essential elements of risk management in Santander Bank Polska S.A. is defining and regular monitoring of the risk levels that the Bank is ready to accept in its day-to-day business (the so-called risk appetite). The acceptable risk level is expressed in the form of quantifiable limits set out in the *Risk Appetite Statement* of Santander Bank Polska Group, approved by the Management Board and the Supervisory Board. The Bank conducts a detailed review of the limits with regard to the existing and potential risks, market conditions as well as the financial and capital plan at least once a year. Stress testing and scenario analyses represent the key tools used to analyse the limits and ensure that the Bank retains an adequate capital position and liquidity even in extreme and severe circumstances.

The comprehensive risk management framework is supported by a consistent and transparent system aimed at monitoring and reporting risk levels and excesses against defined limits. The reporting system is defined in detail by the Bank's internal regulations and covers key management levels. The Supervisory Board receives regular reports assessing the level of identified risks and periodical assessments of the effectiveness of actions taken by the Bank's Management Board. The key report is the Risk Dashboard, also called Unit Report presented by the second line of defence to the Risk Control Committee (Management Board level) on a monthly basis as well as to Risk Committee (Supervisory Board level). The report contains key indicators for particular risks identified in the Bank's activity, the usage of internal limits resulting from Risk Appetite, risk forecast, actions being taken, etc.

Risk management in 2020 definitely focused on the threats related to the unprecedented situation caused by the outbreak COVID-19 pandemic. In the initial stage, the pre-existing crisis management structure was activated in order to make decisions to limit any risks with regard to the Bank's employees and customers contracting the disease. Thanks to the steps taken, the Bank increased their safety and maintained full business continuity.

In terms of credit risk management, the Bank monitored closely the economic situation and trends in the credit portfolios in response to the lockdown of many economic activities. For this purpose, appropriate management reports were expanded, and ratings of corporate customers were updated on an ongoing basis in line with COVID-19 classification guidelines to reflect the pandemic impact on the customers' financial standing. Early restructuring measures were strengthened to cushion the effects of the economic slowdown.

The Bank immediately joined the government anti-crisis support programmes for customers affected financially by the COVID-19 pandemic. Also a special moratorium developed by the banking sector in line with EBA guidelines was implemented. The moratorium laid down uniform rules for offering tools to aid those customers. In consequence, numerous internal regulations and processes were adapted as a matter of urgency.

In 2020, the Bank kept on monitoring closely the portfolio of FX mortgage loans. Credit risk in this portfolio is being constantly measured and legal risk is assessed from the perspective of the sentences of the Polish courts in the cases of customers against particular banks. As a result, appropriate provisions for legal risk in this portfolio were raised.

## 6. Assessment of sponsoring and corporate giving policy of Santander Bank Polska S.A.

The Bank's sponsoring and corporate giving policy is set out in the document "Strategy behind sponsoring actions and sponsoring action plan of Santander Bank Polska S.A." (Policy). The Policy implementation is the responsibility of the Public Relations Department - Sponsorship Team, and the Foundation of Santander Bank Polska S.A.

In the opinion of the Supervisory Board, the sponsoring and corporate giving policy of the Bank is well thought-out and consistent. The projects are conducted in a thought-through manner. The sponsoring and corporate giving policy in place supports building and enhancing the Bank's image as a socially responsible and trustworthy corporate citizen and contributes to the Bank's reputation and prestige among all stakeholders: shareholders, customers and employees. Such values are core factors contributing to an enhanced Santander brand corporate image.

All launched projects are primarily intended to strengthen the Bank's image as the second largest financial institution in the banking sector in Poland, the best commercial bank in Poland and a trustworthy, reliable, economically resilient institution with a nation-wide footprint. The projects areas and scope are focused on:

- promoting sport as a local community integration vehicle, active life-style and fair play rules (Bank as a partner for its customers);

- sharing culture values with various audiences and supporting young talents;
- supporting development of science and financial education (investments for the future, employer branding actions building the image of the Bank as a good employer);
- launching projects important to local communities (image building, partnership relations, employee engagement initiatives – employee volunteering)

The beginning of 2020 and the epidemic both across the world and in Poland caused that marketing campaigns and sponsoring and social projects were aimed at, in addition to supporting sales and building the image, information and education addressed at not only customers, but also employees and communities. Santander Bank Polska organised the first-in-Poland charity campaign "Double your impact" ("Podwójna moc pomagania") within which together with customers and Santander Foundation we raised over PLN 5 mln for 23 hospitals in Poland. When sharing reliable knowledge in the first months of the pandemic, we were supported by [razempokonamy.pl](http://razempokonamy.pl) portal, sectoral reports for entrepreneurs, webinars about the governmental aid programmes and by experts who were clarifying the rules of the PFR Shield.

For many years, we have been focusing on long-term sponsorship projects that offer a chance to reach a wider audience and create positive connotations of the Bank and the initiative. They also generate synergies that can be used when communicating and establishing relationship with employees and customers.

In 2020, due to the Covid-19 pandemic, sponsorship projects were mainly run online.

The key sponsoring projects of the Bank in 2020 included the following:

- Continuation of the Group's strategic project, the sponsorship of the UEFA Champions League, the world's most prestigious football club competition. The project is run under the slogan #mocfutbolu (#powerofthefootball) and allows the Bank to reach a wide group of supporters and their families through football which is a popular sport. In 2020, due to the new market reality, communication of the project was run mainly through the social media and numerous competitions for employees and customers. The Bank was also present in the media as a partner of the main UCL broadcaster: Polsat and we broadcast "Domowe rozgrywki" episodes.
- Finansiaki – a project aimed at economic education of teachers, parents and children, designed by Santander Bank Polska. The project consists of an online portal, a book for parents "Finansiaki, to My!" ("Finansiaki, that's us!", available online and in a hard copy) as well as scenarios of classes available for volunteers - Bank's employees who run classes in kindergartens and primary schools. The project aims at supporting parents and teachers in educating their children about finance and designing skills that will help children to make conscious financial decisions in the future. The project is deeply rooted in our Responsible Banking strategy (inclusive banking) and it's gaining importance both on the Polish market and within the Santander Group. This is the only financial education project in Poland that is promoted on the Group's international portal devoted to educational projects in different divisions. Its scope meets the requirements of Polish regulators. KNF, UOKiK and Financial Ombudsman underline the importance of financial education from one's early years.
- Santander Orchestra - although in 2020 concert halls were closed for the audience, Santander Orchestra played online. Two videos were created and had record-high viewership.  
Also, Santander Orchestra Academy was busy developing two main actions online that made it possible to reach a larger audience: (i) a series of tutorials run by physiotherapists on SO's FB profile. The sessions covered issues regarding biomechanics of the body and examples of exercises to be done at home. The videos have already been watched by over 32k viewers, (ii) educational podcasts broadcast on Bank's YT. The discussed issues have been selected to match the needs not only of the representatives of the artistic sector; the participants had a chance to learn how to cope with stress, how to check if their children are musically talented, how to manage young artists' finance and how to understand copyright. The podcasts have already reached 413k of listeners.
- How's Your Driving educational project includes mainly communication in the social media. As part of this initiative, which has now more than 148 followers on the project's fan page, several times a week, interesting articles on cars and safe driving are published alongside up-to-date traffic information, tips on car culture, operation and equipment and traffic regulations, as well as first aid in the event of collision and traffic accident, correct transportation of children and driving techniques. The main messages behind the project in 2020:
  - #smartoff - it aims to make drivers aware of the resulting risk and eliminate the bad habit of staring at the smartphone instead of the road; the brand's ambassador Marcin Dorociński participates in the campaign.
  - #zabawydrogowe – 30 online activities regarding road safety and education for parents and children during lockdown
  - #jakjezdziszdzieckiem - a series of holiday advice for parents about different aspects of travelling with children
  - #jakparkujesz – campaign addressed at Bank's employees about the rules of correct parking

Within the campaign, a number of social media activities were run, including engaging competitions and advice addressed at selected target groups.

In 2020, the project reached more than 5 million people in the social media. On Facebook, it reached 728k of viewers per month on average; the profile received over 6k of comments and over 2k shares.

- "Security in Cyberspace" ("Bezpieczeństwo w Cyberprzestrzeni") - a project launched in 2017 and coordinated by the Warsaw Institute of Banking. Santander Bank Polska has been the partner of the campaign from the very

beginning. The campaign is aimed at raising the awareness among children, teenagers, students, and seniors about safety online, as well as developing practical skills related to recent technologies.

In 2020 the project reached directly over 68k participants: children and teenagers, students, and seniors. The Bank organised 1304 classes, lectures, webinars, e-learning, debates, conferences and competitions. Educational materials, including videos, brochures and leaflets were distributed by the WIB through the local, industry and Poland-wide, newsletters and social media, including the channels of Santander Bank Polska.

- The Foundation of Santander Bank Polska S.A. launches a number of charity projects with its partners every year. The most important ones are the Foundation's regular grant programmes. 2020 saw another edition of "Here I live, here I make changes." The Foundation was focused on ecological projects, this is why the project has been renamed to "HERE I LIVE, HERE I MAKE ECO CHANGES." 68 grants to a total of PLN 500k have been awarded.

Together with Santander Bank Polska, the Foundation conducted two major charity campaigns.

The action "Double your impact" was participated by over 15.5k people (mainly, but not limited to, Bank's customers and employees). Together we have raised over PLN 5m that we donated to 23 hospitals all across the country for the purchase of the necessary equipment (ventilators, anaesthesia ventilators, facilities for disinfecting room, defibrillators, hospital beds for isolation rooms for Covid-19 patients). We also provided the hospital staff with protective equipment (face masks, disinfectants, and special uniforms, etc.).

613k customers of the Bank took part in the "Power to Help" ("Pomoc jest w nas") campaign, making more than 3m BLIK transactions. Thanks to daily banking and voluntary payments made by customers, we donated PLN 200k to 10 children's cancer centres in Poland to purchase the necessary medical equipment used in diagnosing cancer in the youngest of patients.

Despite the pandemic, the staff volunteering programme coordinated and financially supported by the Foundation, covered 120 projects initiated and launched by the Bank's employees. 2500 employees participated in volunteering programmes.

In 2020 Santander Foundation Scholarship Programme was extremely popular, just like in the previous year. As many as 400 persons applied, out of whom 23 successful applicants were selected for 2020/2021. Each one was offered financial support of PLN 5k. The beneficiaries come from various regions of Poland and specialise in various fields.

The Bank's sponsorship and corporate giving initiatives also support the key directions of the Bank's Corporate Sustainable Development Policy based on five pillars: support for third-level education; scientific research and entrepreneurship; projects devoted to local communities; environment protection and active dialogue with stakeholders.

In 2020, Santander Bank Polska published the seventh CSR report for 2019. In this edition of the report, special attention was paid to presenting key information from the point of view of investors, regulators and the European Union. These included ESG (Environmental, Social, Governance), guidelines of the European Union regarding disclosing non-financial information related to climate footprint and UNEP FI - Principles for Responsible Banking. A part of the report was devoted to actions that help limit financial exclusion and facilitate access to education and trainings, a.o. thanks to the Santander Universities programme; they are also in line with the sustainable development rules. In this report, the Bank for the very first time decided to launch monitoring and reporting indicators related to the emission rate of the selected group of customers.

This year's report, just like the two previous ones, is presented online in the form of an informative website. It is where we frequently publish news about the Bank's actions and initiatives. This year, we have extended the table with indicators to help our readers find specific data they require. The table has been fed with indicators that are not yet obligatory in non-financial reports, i.e. ESG, on the basis of which ratings and non-financial assessments of companies, countries and other organisations are created; it has also been extended by guidelines from TCFD - global industry standard that would enable information about financial risk of a given customer.

The report website has been adjusted to the needs of readers who are blind or visually impaired, in line with the international WCAG 2.0 standards defining the accessibility norms for people with special needs and has the certificate of "Widzialni.org." foundation.

Bank's non-financial reports are prepared in compliance with Global Reporting Initiative guidelines, they are verified by an independent auditor and published in Polish and English.

## 7. Supervisory Board's assessment of the manner of fulfilling by Santander Bank Polska S.A. the disclosure requirements with regard to the corporate governance rules set out in the WSE rules and regulations pertaining to current and periodic information published by issuers of securities

In line with rule II.Z.10 of *2016 Code of Best Practice for WSE Listed Companies* issued by the Warsaw Stock Exchange, adopted by the Annual General Meeting of Shareholders on 20 April 2016, and prior to that by the Management Board and Supervisory Board, the Supervisory Board makes and presents to the AGM the assessment of the manner of fulfilling



by Santander Bank Polska S.A. the disclosure requirements with regard to the corporate governance rules set out in the WSE rules and in regulations pertaining to current and periodic information published by issuers of securities.

As part of discharging the Bank's corporate governance information obligations, the Corporate Governance Office re-assigned individual principles to specific business units and received confirmation that Best Practice was applied.

As a result, no need to report any cases of non-compliance with any of the rules was identified.

In line with the obligation set forth in paragraph § 29(3) of the WSE Rules under the "comply or explain" formula, the non-adherence or incidental non-adherence to a given rule triggers an obligation for a company to immediately report such a situation. The required statement on compliance with the corporate governance rules arising from the Best Practice document is reported through the "Corporate Governance Statement for 2020" included in the annual report. This is treated as a fulfilment of the obligation to provide the WSE with a report on compliance with the corporate governance rules. The statement was included in Chapter XIII of the 2020 Management Board Report on Santander Bank Polska Group's performance published on 23 February 2021.

Given the above, the Bank's fulfilment of disclosure requirements in relation to the adherence to the Corporate Governance Rules in 2020 is positively assessed by the Supervisory Board, whilst the Bank's disclosures are a deemed a reliable source of information on its compliance with the corporate governance rules.

## 8. Summary

Based on the assessment whose results are presented above, the Supervisory Board states that the situation of the Santander Bank Polska S.A. and Santander Bank Polska Group is good and stable. The assessment is justified in particular by:

- good financial performance in a challenging economic environment achieved effective risk management;
- strong capital and liquidity position; and
- efficient internal control system.

The Supervisory Board notes a very good relationship with the Bank's Management Board and extends its congratulations to the Management Board and employees of Santander Bank Polska S.A. and its Group for a rewarding co-operation and overall efforts in building the Bank's strong position on the financial market, especially in the difficult conditions of 2020 resulting from the Covid - 19.

## IV. Assessment of compliance with the corporate governance rules for supervised institutions

As of 1 January 2015, Santander Bank Polska S.A. has followed and adhered to the Corporate Governance Rules for Supervised Institutions ("Corporate Governance Rules") implemented under Resolution no. 218/2014 issued by the Polish Financial Supervision Authority (KNF) on 22 July 2014. This is an important document for the Bank's corporate policy as a public trust institution.

The Corporate Governance Rules were approved by way of Resolution no. 29 passed by the Annual General Meeting held on 23 April 2015 and based on the relevant resolutions of the Bank's Management Board and Supervisory Board.

The Rules cover a wide range of issues, including among others internal and external relations of the Bank, also with the shareholders and customers, organisation and functioning of internal supervision and key internal systems and functions, statutory bodies and principles of cooperation, which requires the Bank to comply with top standards and to ensure that the obligations arising from the regulations are adequately fulfilled.

Therefore, the Bank precisely defined organisational units (the so-called business owners) responsible for the adherence to and implementation of the rules assigned to them in line with their area of responsibility in the Bank. Throughout 2020, these units took appropriate measures to ensure compliance with the Corporate Governance Rules.

At the beginning of 2021, all business owners were asked to report on their unit's compliance with the Corporate Governance Rules in 2020. All units fulfilled their obligations by confirming the application of the Corporate Governance Rules and indicating the actions taken that reflected their professionalism, integrity and diligence.

Given the above, the Supervisory Board stated that the process of implementing the Corporate Governance Rules in the Bank in 2020 was carried out adequately. The process was subject to current, in-depth supervision by the business owners. The coordination of the process and collaboration between business owners in joint implementation of certain rules were also effective.

Therefore, the Supervisory Board positively assesses the application of the Corporate Governance Rules in 2020 by the Bank.

## V. Assessment of the remuneration policy of Santander Bank Polska S.A.

This assessment was made pursuant to § 28(3) of the Corporate Governance Rules for supervised institutions approved by resolution no. 29 of the Bank's Annual General Meeting of 23 April 2015 which states that the supervising body should present the general meeting with a report on the remuneration policy of the supervised institution on an annual basis.

The remuneration principles of Santander Bank Polska S.A. are defined in the Remuneration Policy of Santander Bank Polska Group ("Remuneration Policy").

At the same time, the following apply in the Bank:

1. *Remuneration policy for members of the Supervisory Board of Santander Bank Polska S.A.*
2. *Remuneration Policy for members of the Management Board of Santander Bank Polska S.A.*
  - these policies were updated in 2020 as a result of amendments to the Act on Public offering, conditions governing the introduction of financial instruments to organised trading, and on public companies (alignment to the Shareholder Rights Directive ["say on pay" directive]).<sup>1</sup>
3. *Santander Bank Polska Rules for payment of variable remuneration to Identified Employees in 2020.*

The rules for paying fixed and variable remuneration to the Bank's Management Board members and key function holders arise from the above policies and the bonus regulations based on them as well as from regulations on variable components of remuneration paid to identified employees. The purpose of the Remuneration Policy is to lay down remuneration rules and practices consistent with the law, taking into account the best practice arising from the remuneration policy adopted by the Group's parent company. The Remuneration Policy is the key element of the remuneration strategy and serves as a reference for designing, reviewing, implementing and overseeing the remuneration practices. The Policy is linked to the organisation's strategic objectives and consistent with the interests of shareholders, employees, customers and local communities. The Remuneration Policy also embodies the responsible bank idea and supports development of a strong corporate culture by being consistent with the corporate values.

Given the applicable Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, remuneration policy and detailed method of internal capital estimation in banks, the Remuneration Department in cooperation with the legal, compliance and risk management functions at least once a year reviews all internal legal documents related to remuneration policy applicable in the Bank. Following the review in 2020, the Group Remuneration Policy statements were detailed with regard to the variable remuneration (e.g. prudent risk management principles and severance and compensation principles were highlighted) as well as the sales force and control function staff remuneration. Additionally, statements referring to the Management Board members were eliminated from Santander Bank Polska Group Remuneration Policy as there is a comprehensive updated Remuneration Policy for members of the Management Board of Santander Bank Polska S.A.

In view of the stance presented by the Polish Financial Supervision Authority on 17 April 2020 on variable components of remuneration, changes were made to the remuneration policies and rules to enable effective response to the economic implications of the COVID-19 pandemic in terms of prudent capital management and actions which might lead to weakening the capital base. To that end, more flexible rules were put in place to enable extending the deferral period or increasing the percentage of the deferred portion paid out in financial instruments to Identified Employees.

The provisions of the policies and regulations applicable in the Bank comply with statutory regulations and implementing acts which is confirmed by the results of internal audits.

Moreover, in 2020, the Internal Audit Area reviewed the documents on variable components of remuneration paid to material risk takers in Santander Bank Polska Group applicable in 2019. A "satisfactory" rating was issued, like in the previous audit.

The audit function indicated first of all that there was proper governance in place, the Remuneration Policy of Santander Bank Polska Group properly reflected the regulatory requirements, material risk takers were correctly identified, and the bonuses were adequately calculated, paid and disclosed. The Internal Audit Area did not issue any recommendations.

The Bank has a centre of excellence with sufficient knowledge and skills enabling independent update and verification of the list of material risk takers (MRTs). The Remuneration Committee of the Supervisory Board actively participated in the process of the identification of MRTs. The Supervisory Board constantly supervised the process, approving its result. The Bank identified MRTs based on the standards laid down in Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014. The MRT identification process is normally carried out in the first half of the year, while at the year-end its final verification is made to reflect any staff and organisational changes occurring in the second half of the year. The list of MRTs in 2020 includes 81 people from Santander Bank Polska S.A. and 3 people from Santander Bank Polska Group. In 2020, the identification was benchmarked to banking sector practice in Poland in cooperation with a leading consulting company. Each time the identification of MRTs is completed and the list of such individuals is approved by resolution of the Supervisory Board, a formal communication process addressed to all identified employees takes place.

The Supervisory Board performed oversight of the Remuneration Policy, also by verifying whether the Policy's criteria and conditions for payment of variable remuneration in Q1 2020 had been fulfilled. In view of the extraordinary circumstances

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<sup>1</sup>Act of 29 July 2005, consolidated text, Journal of Laws 2020, item 2080

triggered by COVID-19 pandemic, the Supervisory Board took additional supervisory measures, i.e. reviewed the applicable remuneration policies and practices related to variable remuneration in the context of the stance presented by the Polish Financial Supervision Authority, European Banking Authority and European Central Bank.

Against this background, the Supervisory Board is of the opinion that the Remuneration Policy supports growth and security of the Bank's Group, and that in particular it complies with the principles of sound and effective risk management, prudent capital management, and that it is consistent with the Bank's business strategy, objectives, values and long-term interests.