

# Report on the activities of the Supervisory Board of Santander Bank Polska S.A. in 2021

Warsaw, March 2022



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# I. Activities of the Supervisory Board of Santander Bank Polska S.A. in 2021

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

In the period from 1 January to 31 December 2021, the composition of the Supervisory Board of Santander Bank Polska S.A. was as follows:

Function in the Supervisory Board	No.	Composition as at 31.12.2021	No.	Composition as at 01.01.2021
Chairman of the Supervisory Board:	1.	Antonio Escámez Torres	1.	Gerry Byrne
Deputy Chairman of the Supervisory Board:	2.	José Luis de Mora	2.	José Luis de Mora
	3.	Dominika Bettman	3.	Dominika Bettman
	4.	José García Cantera	4.	José García Cantera
	5.	Danuta Dąbrowska	5.	Danuta Dąbrowska
Members of the Supervisory Board:	6.	Isabel Guerreiro	6.	Isabel Guerreiro
	7.	David Hexter	7.	David Hexter
	8.	John Power	8.	John Power
	9.	Jerzy Surma	9.	Jerzy Surma
	10.	Marynika Woroszyńska-Sapieha	10.	Marynika Woroszyńska-Sapieha

The Bank's Supervisory Board, in its composition as at 1 January 2021, was appointed by the Annual General Meeting ("AGM") held on 22 June 2020. All the Supervisory Board members were appointed for a joint three-year term of office.

Following Gerry Byrne's resignation from his role on the Supervisory Board on 22 February 2021, effective as of the date of the Annual General Meeting, the General Meeting held on 22 March 2021 appointed Antonio Escámez Torres as the Chairman of the Supervisory Board.

In 2021, the Nominations Committee of the Supervisory Board of Santander Bank Polska S.A. assessed the individual suitability of the Supervisory Board members as well as collective suitability of the Supervisory Board of Santander Bank Polska S.A. in accordance with the applicable regulations and the Suitability assessment methodology for members of governing bodies of supervised entities published by the KNF. These were ongoing annual suitability assessments. Additionally, the Committee assessed the individual suitability of Antonio Escámez Torres, who had not performed any role on the Bank's Supervisory Board before. The Annual General Meeting held on 22 March 2021 approved the results of the suitability assessments.

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 composition of the Supervisory Board ensures diversity in terms of gender, age, experience and academic background. The tables and graphs below show diversity of the above-mentioned bodies:

Gender	Women	Men
Number of the Supervisory Board members	4	6

Age	31-40	41-50	51-60	above 60
Number of the Supervisory Board members	-	2	5	3

Years of service with Santander Bank Polska S.A.	up to 5	6-10	11-15	16-20	21-25	above 26
Number of the Supervisory Board members	3	5	1	1	-	-

<b>International experience</b>	<b>Number of members</b>
Number of the Supervisory Board members	7

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

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

### 1.1. Independence of the Supervisory Board members and no relationship with the shareholder holding at least 5% of voting power

In line with the criteria of independence of the Supervisory Board members set out in the Act of 11 May 2017 on statutory auditors, audit firms and public oversight, § 25(2) of the Bank's Statutes, in the Supervisory Board Terms of Reference and in the Audit and Compliance Committee's Terms of Reference, the following individuals held the status of an independent member in 2021:

- Danuta Dąbrowska
- Marynika Woroszyńska-Sapieha
- David Hexter
- Dominika Bettman
- Jerzy Surma.

None of the above persons has actual or material relationship with the Bank's shareholder holding at least 5% of voting power.

Each of the above persons made a relevant statement which is subject to suitability assessment. The results of individual and collective suitability assessments of the Supervisory Board are approved by the Supervisory Board in the form of a resolution.

The Supervisory Board activities and manner of discharging its duties and responsibilities are governed by the Supervisory Board's Terms of Reference available on the Bank's website.

## 2. Statistical data on the Supervisory Board's activity in 2021

In 2021, the members of the Supervisory Board committed sufficient time to perform their functions. Last year, 23 Supervisory Board meetings were held at which 171 resolutions were passed. Average attendance of the Supervisory Board members was 97.66%.

## 3. Major areas of the Supervisory Board's activity in 2021

In 2021, the Supervisory Board carried out its activities based on the adopted schedule of meetings and the general work plan adjusted to the current circumstances on an ongoing basis.

The Supervisory Board regularly requested and received from the Bank's Management Board exhaustive materials 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 covered current business issues, important developments in the Bank, matters 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 at the Bank's headquarters.

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

The individual matters were also considered by the Supervisory Board's Committees in accordance with their powers.

In 2021, the Supervisory Board's activities concerned the following areas:

## Delivery of the strategy

The Supervisory Board exercised an ongoing oversight of strategic projects delivered in the Bank in 2021.

As part of monitoring of the KPIs set for the strategic transformation continued by the Bank, a particular focus was placed on the impact of individual initiatives on business and customer-centric approach. The Supervisory Board received and analysed comprehensive information on the pursuance of the following six strategic directions: Employee Focus, Simplification, Customer Obsession, Smart Omnichannel, Innovate to Open Platform, Safety and Trust.

The Supervisory Board particularly focused on the ongoing digital transformation, including the delivery of IT projects aimed to improve customer experience (such as accelerated digitalisation of retail banking).

The Supervisory Board approved the Strategic and Business Planning Policy and the Strategic Plan S-26.

## Finance

The Supervisory Board assessed the actual and forecast financial performance of the Bank and Santander Bank Polska Group on an ongoing 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.

Furthermore, special focus was placed on the impact of legal risks connected with the foreign currency mortgage portfolio, including on the provisions raised.

In particular, the Supervisory Board:

- assessed the Financial Statements of Santander Bank Polska S.A. for 2020, the Consolidated Financial Statements of Santander Bank Polska Group for 2020 and the Management Board Report on Santander Bank Polska Group Performance in 2020 (containing the Management Board report on Santander Bank Polska S.A. performance in 2020);
- issued an opinion with regard to the Management Board's motion on the distribution of profit for 2020, and gave consent to payment of an interim dividend in H2 2021;
- 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 2020;
- approved the Report on the Internal Capital Adequacy Assessment Process (ICAAP Report) as at 31 December 2020;
- approved the Report on the Internal Liquidity Adequacy Assessment Process (ILAAP Report) as at 31 December 2020;
- reviewed progress against Santander Bank Polska Group Strategy for 2021–2023 and approved Santander Bank Polska Group Strategy for 2022–2024 as well as the Business Plan for 2022;
- approved the Group's Financial Plan for 2022 and the Group's Three-Year Financial Plan for 2022–2024;
- reviewed and approved the Financial Plan Document – ALM Strategy for 2022–2024.

## Relationship with the External Auditor

In accordance with the Bank's Statutes and applicable regulations and pursuant to the recommendation of the Audit and Compliance Committee issued in line with the applicable principles, on 23 February 2021 the Bank's Supervisory Board adopted Resolution no. 24/2021 reappointing PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyty sp.k. ("PwC") to:

- review the bank's semi-annual financial statements and the Group's semi-annual consolidated financial statements for H1 2021 and H1 2022;
- audit the bank's financial statements and the Group's consolidated financial statements for 2021 and 2022.

This process included, among other things, the assessment of PwC's independence and the quality of services provided to date.

Following the recommendations of the Audit and Compliance Committee, the Supervisory Board approved the amendments to the Policy for non-audit services rendered by the auditor, setting out additional criteria to be applied by the Audit and Compliance Committee to assess such 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 audits and implementation of 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) Plan for 2022–2025 and Operational Plan for 2022,
- changes to the audit plans reported throughout 2021,
- 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 compliance and compliance risk management function are presented in point III. 3 below.

In particular, the Supervisory Board:

- approved the Compliance Programme for 2021 and monitored its delivery, and approved new and amended internal regulations regarding the operations of the compliance unit, including its Terms of Reference, the Conflict of Interest Prevention Policy, the Reputational Risk Management Policy and 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 implementation of the KNF's post-inspection recommendations along with assurance that the process was executed in an adequate and timely manner, and information on the course and results of the supervisory review and evaluation process (BION);
- 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;
- received comprehensive information on the current legal status and circumstances of the Bank in relation to the portfolio of foreign currency mortgage loans, particularly in the context of decisions of Polish courts and judgments of CJEU;
- monitored the progress of regulatory projects delivered by the Bank, including with respect to implementation of KNF Recommendation Z; and approved new or amended internal regulations implementing those amendments.

## 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, among other things, trends, utilisation of limits set in the Risk Appetite Statement, supervision over individual risk types, compliance with internal regulations, the KNF recommendations and the EU and the EBA regulations as well as appropriate 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 2021, 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 the risk management system by the Supervisory Board is presented in point III.2 below.

In 2021, the Supervisory Board approved a number of internal regulations related to risk management and internal control and their updates, including:

- Market Risk Policy, Currency Risk Management Policy, Credit Risk Management Policy, Santander Bank Polska Group Operational Risk Management Strategy,
- Control Function Matrix Methodology, Special Situations Management Policy,
- Cybersecurity Strategy.

## Other issues

- The Supervisory Board reviewed the strategy and activities of individual business segments, areas of the Bank and its subsidiaries, and was regularly informed about progress in delivery of regulatory projects significant to 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 their amended versions as recommended by the relevant committees.
- The Supervisory Board approved the transaction involving the divestment of three Aviva Group companies by the Bank and execution of agreements with Allianz Holding eins GMBH (Allianz) – the new majority shareholder of the Bank's associates (Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Santander Aviva Towarzystwo Ubezpieczeń S.A.).
- The Supervisory Board approved the suitability assessment of the Management Board members in accordance with the recommendation of the Nominations Committee and on 22 March 2021 it appointed the Management Board for a new term of office. On 26 May 2021, it nominated Lech Gałkowski as a Management Board member following positive assessment of his suitability.
- The Supervisory Board passed a resolution on adoption of the amended Best Practice for GPW Listed Companies.
- The Supervisory Board assessed the delivery of the objectives by the Management Board members in 2020 and approved their objectives for 2021. It also approved the amount of remuneration and bonuses of the Management Board members and other persons in accordance with the applicable regulations. The Supervisory Board approved amendments to the Remuneration Policy for members of the Management Board and to the Group's Remuneration Policy and other related internal regulations.
- The Supervisory Board approved amendments to the Terms of Reference of the Management Board and the Supervisory Board and issued positive opinions on the Management Board motions with regard to changes to the Bank's Statutes as well as draft GM resolutions. The Supervisory Board approved the consolidated text of the Bank's Statutes.

## 4. Activities of the Supervisory Board Committees

In 2021, the Supervisory Board members sat on the following Supervisory Board Committees:

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

The Committees' rules of procedure are set out in their Terms of Reference introduced by relevant resolutions of the Supervisory Board. The Terms of Reference of individual Committees are available at the Bank's headquarters (the Corporate Governance Department). The members of individual Committees have knowledge and experience suitable for their roles and adequate discharge of their duties and responsibilities.

The Committees support the activities of the Supervisory Board and facilitate the discharge of its statutory obligations. They conduct in-depth and comprehensive analyses of relevant issues and provide the results to the Supervisory Board along with opinions and recommendations.

At each meeting of the Supervisory Board, the Committee Chairmen present reports on the activities of individual Committees, as well as opinions and recommendations for the Supervisory Board on relevant matters. In addition, the Supervisory Board members are provided with minutes of all Committees' meetings.

The Committees received appropriate and timely information and reports from the Management Board enabling them to discharge their responsibilities in 2021.

### 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 (as amended by the Supervisory Board's resolution no. 82/2019 of 11 December 2019).

## Composition

In 2021, the composition of the Nominations Committee was as follows:

- Marynika Woroszyńska-Sapieha – Chairperson
- Gerry Byrne (until 22 March 2021)
- Danuta Dąbrowska
- José Luis de Mora
- Jerzy Surma
- David Hexter (starting from 29 September 2021).

## Number of meetings and attendance rate

Between 1 January and 31 December 2021, the Nominations Committee held six meetings with 100% attendance of all members.

## Committee's activities in 2021

In 2021, the Committee focused on:

- Succession plans – the Committee presented recommendations to the Supervisory Board with regard to the list of successors of the Bank's Management Board members;
- Individual and collective suitability assessments of the Supervisory Board – as part of the annual suitability reassessment, the Committee found that all members of the Supervisory Board and the Supervisory Board collectively met all suitability criteria and provided assurance of proper exercise of their duties; In addition, the Committee carried out suitability assessment of the candidate for the Chairman of the Supervisory Board (following resignation of Gerry Byrne in February 2021) and recommended that the Annual General Meeting appoint Antonio Escámez Torres to that position; the recommendation was approved by the AGM; in addition, the Committee carried out suitability assessments of those Supervisory Board members who took up new positions outside the Bank;
- Suitability assessment and appointment of the Management Board members for the next term of office – the Committee assessed the individual and collective suitability of candidates for the Management Board member positions and assessed a new candidate, Lech Gałkowski, who had not sat on the Management Board before; the Committee's recommendations on appointing the to-date members of the Management Board for the next term of office and appointing Lech Gałkowski to the Bank's Management Board were presented to and approved by the Supervisory Board;
- Review of the Diversity Policy – the Committee analysed the diversity of the Bank's governing bodies and recommended to the Supervisory Board that the Diversity Policy be updated (to emphasise the non-discrimination rule and add an age criterion);
- Review and recommendations for the Supervisory Board to align the policies on suitability assessment, selection, appointment and succession planning – the Committee conducted an analysis and recommended to the Supervisory Board that the policies be amended to ensure compliance with the KNF Recommendation Z, amended Joint ESMA and EBA Guidelines on the assessment of suitability of members of the management body and key function holders, the EBA Guidelines on internal governance and the new Best Practice for GPW Listed Companies (effective as of 1 July 2021).

## 4.2. Remuneration Committee



## Role and tasks of the Committee

The Remuneration Committee supports the Supervisory Board in performing its tasks concerning remuneration of the members of the Bank's governing bodies and key function holders, reviews and monitors the Remuneration Policy and supports the General Meeting, the Supervisory Board and the Management Board in developing and implementing that Policy.

## Terms of Reference

The Committee performs its duties in accordance with the Terms of Reference approved by the Supervisory Board (as amended by the Supervisory Board's resolution no. 109/2021 of 27 December 2021 by adding provisions to implement the KNF Recommendation Z, including indication of the Committee's obligation to support the Supervisory Board at least once a year in the review of the remuneration policy and rules and the assessment of their impact on the management of the Bank).

## Composition

In 2021, the composition of the Remuneration Committee was as follows:

- Danuta Dąbrowska – Chairperson
- Gerry Byrne (until 22 March 2021)
- José Luis de Mora
- Marynika Woroszyńska-Sapieha
- Dominika Bettman.

## Number of meetings and attendance rate

Between 1 January and 31 December 2021, the Remuneration Committee held five meetings with all members being present, except for José Luis de Mora who attended four meetings.

## Committee's activities in 2021

In 2021, the Remuneration Committee focused on:

- Evaluating the Management Board members' performance and setting the objectives for 2021 in accordance with the Procedure for setting objectives and evaluating performance of the Management Board members of Santander Bank Polska S.A., and awarding bonuses to the Management Board members for 2020.
- Recommendation for the Supervisory Board on remuneration, base bonus and additional benefits for the Management Board members following their appointment for the next term of office.
- Recommendation for the Supervisory Board on the award of bonus for 2020 to the Chief Audit Executive and the 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 2017 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 payment of certain portions of bonuses for 2016–2019 deferred until 2021.
- The Committee reviewed the bonus schemes for key executives, management, employees of the Business Support Centre and branch banking employees.
- The Committee reviewed and assessed the Remuneration Policy and concluded 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 positively assessed the draft Supervisory Board's report on remuneration of the Management Board and Supervisory Board members for 2019 and 2020 and decided to recommend its approval to the Supervisory Board and its presentation at the Bank's general meeting.

- Following the review, the Committee issued a recommendation for the Supervisory Board that the Remuneration Policy of Santander Bank Polska Group and the Rules for payment of variable remuneration to Identified Employees (MRT) should be updated to ensure compliance with the CRD V, amended provisions of the Banking Law, Regulation of the Minister of Finance, KNF's Recommendation Z and new Best Practice for GPW Listed Companies 2021 (the amendments included, among other things, a broader definition of MRT, deferral of 40% of the variable remuneration payable to MRTs for four or five years, definition of the maximum ratio of the average total gross remuneration of the Management Board members in a year to the average total gross remuneration of other employees of the Bank).
- 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 Rules for payment of variable remuneration to MRTs should be revised; the Committee also reviewed MRTs' remuneration as compared to the market.
- The Committee reviewed the employee turnover rate and actions taken by the Bank to retain talents as well as measures taken as part of the ongoing organisational transformation to increase satisfaction of employees.

### 4.3. Audit and Compliance Committee

#### Role and tasks of the Committee

The Audit and Compliance Committee supports the Supervisory Board in discharging its oversight responsibilities towards 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 evaluation of 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 (resolution no. 48/2020 of 20 May 2020).

#### Composition

From 1 January 2021 to 31 December 2021, the composition of the Audit and Compliance Committee was as follows:

- David Hexter – Chairman
- Dominika Bettman
- Danuta Dąbrowska
- Marynika Woroszyńska-Sapieha
- Jerzy Surma.

All Committee members appointed by the Supervisory Board for its current term of office meet the independence criteria set out in the Act of 11 May 2017 on statutory auditors, audit firms and public oversight, and in the Bank's Statutes.

The following Committee members have knowledge and skills in the area of accounting or auditing:

- Danuta Dąbrowska: ACCA certificate and membership since 1999.
- Dominika Bettman: degree in economics and robust professional experience gained in previous positions, including as CFO at companies from Siemens Group.
- David Hexter: degree in economics, professional experience gained in executive positions in financial institutions.

The following Committee members have knowledge and skills in the area of banking:

- David Hexter: competencies gained in executive positions in the banking and financial services sectors, including in Citibank and the EBRD.
- Dominika Bettman: competencies gained as the member of the Supervisory Board of Eurobank S.A.

#### Number of meetings and attendance rate

The Committee held nine meetings in 2021, including three joint meetings with the Risk Committee of the Supervisory Board. The attendance rate was 100% during each meeting.

Apart from the Committee's members, the regular attendees included the representatives of the Bank's Auditor, the Vice President of the Management Board in charge of the Risk Management Division, the member of the Management Board in charge of the Financial Accounting and Control Division, the member of the Management Board in charge of the Financial Management Division, the Head of the Internal Audit Area (Chief Audit Executive) and the Bank Director in charge of the Legal and Compliance Division.

Other members of the Management Board and executives were invited to attend as appropriate in order to present reports and discuss issues related to the areas under their management, including to provide explanations for the issues highlighted in the reports of the Internal Audit indicating areas for improvement as well as proposed remediation plans.

## Committee's activities in 2021

In 2021, the Committee focused on oversight of the Bank's financial reporting as well as the review of key control mechanisms, especially those related to financial, operational, and regulatory compliance controls. As part of monitoring of the operations of the internal audit function, the compliance unit and the control function, the Committee received information required to assess the effectiveness and adequacy of the internal control system and presented a relevant opinion to the Supervisory Board in that respect, noting that the system is adequate and effective.

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

One of the key issues in 2021 was the Covid-19 pandemic, the resulting economic crisis and the impact on the Bank's business model and its customers.

Another important issue was the portfolio of foreign currency mortgage loans. The Committee analysed the current position of the Bank in the light of court decisions and CJEU judgements, and supervised estimation of provisions for legal risk related to that portfolio, also during joint meetings with the Risk Committee of the Supervisory Board. To that end, the Committee held meetings with the Management Board and the representatives of the external auditor.

The main focus areas of the Audit and Compliance Committee in 2021 included:

### Financial reporting

The Committee reviewed the Bank's and the Group's audited financial statements for 2020 and discussed their content with the Management Board.

The Committee discussed with the auditor the results of the review of the financial statements and issues reported in this respect to the Management Board, and reviewed and discussed with the auditor its additional report for the Audit and Compliance Committee. In 2021, the Committee also monitored the implementation of the auditor's recommendations presented in that report by the Management Board.

Based on the detailed review of the financial statements and the auditor's additional report for 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 31 December 2020, and the Supervisory Board endorsed the Committee's recommendation.

The Committee reviewed the reports on capital adequacy and on the activities of the Disclosure Committee in 2020 and noted that the capital ratios were above the KNF's minimum requirements and recommended to the Supervisory Board that the disclosures related to the capital adequacy of Santander Bank Polska Group as at 31 December 2020 should be approved.

### Internal Audit

The Committee supervised the activity of the Internal Audit Area on a regular basis and monitored the Audit Plan delivery on an ongoing basis. During the year, the Committee also reviewed and recommended that the Supervisory Board approve changes to the Audit Plan.

The Committee positively assessed the activity of the Internal Audit Area in 2020 and concluded that the IAA was independent from other functions and that its work was adequate and effective.

The Committee monitored on an ongoing basis the implementation of the Internal Audit Area recommendations. 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 were defined to track the delivery of remediation commitments across the Group, and the Chief Audit Executive presented to the Committee regular reports on compliance with these indicators. The Committee also regularly analysed information about the KNF requests sent to the Internal Audit Area (mostly concerning audits of selected issues).

The Committee reviewed the report on the quality assurance and improvement programme for 2020 – periodic internal quality assessment (no major issues or irregularities) 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 too. 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 1110 of the International Standards for the Professional Practice of Internal Auditing and the KNF's Recommendation H.

As part of 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 also reviewed the reports of the Internal Audit Department of Santander Consumer Bank S.A.

In 2021, 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 2021, the Committee reviewed and recommended to the Supervisory Board the approval of the operational (annual) plan for internal audits for 2022, the strategic (long-term) plan for internal audits for 2022–2025 and the Area's budget for 2022. The plans take into account the audit function in Santander Brokerage Poland (a standalone organisational unit of the Bank).

## External audit

The Bank complies with the Act of 11 May 2017 on statutory auditors, audit firms and public oversight in terms of selection of an external auditor and determines the scope of services related to the audit of financial statements and other tasks.

In 2021, the Committee issued a recommendation to the Supervisory Board to appoint PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. to review and audit the financial statements of the Bank and Santander Bank Polska Group for 2021 and 2022. The process included, among other things, assessment of the independence of PwC and quality of the services provided to date.

The Committee was also provided with a written statement from the external auditor confirming their independence pursuant to Articles 69-74 of the Act of 11 May 2017 on statutory auditors, audit firms and public oversight.

Furthermore, in 2021 the Committee gave consent to PwC and other entities from its network to provide permitted non-audit services. Before the relevant recommendations were presented to the Supervisory Board, the independence of the auditor with respect to the audit of financial statements had been verified with a positive outcome. The Committee also approved the remuneration for the above-mentioned services, in line with the parameters approved by the Supervisory Board.

The Committee reviewed: (i) the Auditor Services Policy at Santander Bank Polska and (ii) the Policy of non-audit services rendered by the auditor.

The Committee is satisfied that the external auditor ensures an effective and independent assessment of accuracy of the Bank's financial statements and adequacy and effectiveness of control mechanisms. Moreover, the auditor's report on the review of financial statements and an additional report for the Audit and Compliance Committee provide valuable recommendations regarding effectiveness of the internal controls. The Committee regularly checks if these recommendations are delivered as required and scheduled.

## Compliance

The Committee positively reviewed the report on the compliance unit's operations in 2020 and monitored the unit's activities in 2021 on an ongoing basis.

The Committee assessed the Compliance Programme for 2021, recommended its approval to the Supervisory Board, supervised its implementation, including as part of reports and information provided at the Committee's meetings, and recommended its update to the Supervisory Board.

The Committee analysed and recommended to the Supervisory Board the approval of new and amended internal regulations governing the compliance unit and its tasks, including management of conflicts of interest.

The Committee paid special attention to employment in the unit, its organisational structure and independence.

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

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 concluded that the unit was independent of other functions and that compliance risk management was adequate and effective.

## Other matters

In 2021, the Committee also reviewed reports on:

- internal control system;
- confirmation of compliance of provisions with bonus and incentive policies and procedures, including in the context of the KNF's and EBA's guidelines;
- Respect and Dignity Policy (concerning 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 focus on claims rejection indicators and early termination of insurance policies;
- anti-money laundering;
- the Bank's BION (SREP) rating;
- brokerage activities carried out by Santander Brokerage Poland pursuant to Article 70(2) of the Banking Law Act;
- staff attrition rates;
- key tax and accounting issues from the Bank's perspective.

The Committee was also regularly updated on the governance in the Bank, including implementation of the KNF's Recommendation Z and compliance with the new Best Practice for GPW Listed Companies effective as of 1 July 2021. The Committee reviewed drafts of internal regulations in this respect and recommended their approval by the Supervisory Board.

In line with its Terms of Reference, in 2021 the Committee held individual meetings with the Vice President of the Bank's Management Board in charge of the Risk Management Division, the Bank Director in charge of the Legal and Compliance Division, the Head of the Internal Audit Area (Chief Audit Executive) and the External Auditor (PwC).

The Committee regularly reviews its activities and results. The review process includes discussions on the format of the Committee's meetings and effectiveness of the reporting process.

## 4.4. Risk Committee

### Role and tasks

The mission of the Risk Committee 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) enhanced oversight of more significant business risks undertaken by the Bank; and (v) the appropriateness of the overall risk governance framework.

In particular, the Committee:

- issues opinions on the current and future risk acceptance of the Bank;
- issues opinions on the risk management strategy developed by the Bank's Management Board and information about its delivery submitted by the Management Board;
- supports the Supervisory Board in overseeing the implementation of the risk management strategy in the Bank's operations by senior management;
- checks 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 prices of assets and liabilities are adequate to relevant risk types;
- participates in the appointment/ removal of the Management Board member in charge of risk management by issuing opinions to the Nominations Committee in this respect;
- issues opinions on the appointment and removal of the Management Board member in charge of risk management and reviews his/her annual objectives and their delivery.

The Committee's tasks are reflected in the 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 2021, the Terms of Reference were updated twice: pursuant to the Supervisory Board's resolution no. 100/2021 dated 27 July 2021 and the Supervisory Board's resolution no. 152/2021 dated 8 December 2021. The amendments included, among other things, indication of the Committee's role in the process of three-year financial planning and developing strategic plans (reviewing the plans in terms of risk). In addition, the changes resulted from the alignment of the Terms of Reference with the updated EBA guidelines on internal governance (EBA/GL/2021/05) – specifically, provisions were added indicating that the Committee might demand any information it deems necessary from any organisational unit of the Bank.

### Composition

In 2021, the composition of the Risk Committee was as follows:

- Jerzy Surma – Chairman
- Dominika Bettman
- David Hexter
- John Power.

## Number of meetings and attendance rate

The Committee held six meetings in 2021 with 100% attendance of all members.

All members of the Committee also participated in three joint meetings with the Audit and Compliance Committee of the Supervisory Board.

Apart from the Committee's members, regular attendees included 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 Financial Accounting and Control Division, member of the Management Board in charge of the Financial Management Division, Bank Director in charge of the Legal and 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 discuss matters related to the areas they manage.

## Committee's activities in 2021

When performing its responsibilities, the Committee takes into account the fact that risk-taking by the Bank has to be adequate to the scale and profile of its business. Risk management is governed by the industry standards and regulatory guidance and recommendations concerning, among other things, operational risk, credit risk, market risk and liquidity risk.

Accordingly, in 2021 the Committee focused on:

- monitoring of the current risk profile of Santander Bank Polska Group based on Risk Dashboards and monitoring of the internal limits utilisation 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 pricing of assets and liabilities offered to customers;
- review of model risk management;
- review and recommendations for the Supervisory Board with regard to approval of 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 business areas (Multichannel Communication Centre, Central Operations Area, Corporate and Investment Banking Division, including Financial Markets Area and Treasury, Santander Brokerage Poland, Branch Banking – branches and partner branches, mobile and online banking, Wealth Management/ Private Banking);
- review of resources and succession plans in the Risk Management Division, and issuing 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 2022-2024 and the operational plan;
- review of the three-year financial plan and strategic plan in terms of risk.

The Committee reviewed the regulations on the ALM governance structure, changes to the Capital Contingency Plan and regulations and procedures on Special Situations Management and recommended their approval to the Supervisory Board.

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 taken to prevent IT systems unavailability, data quality and implementation of the Cybersecurity Strategy; (iii) Cybersecurity Strategy for 2022-2023; (iv) risks related to foreign currency mortgage loans (including provisions).

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

Another important issue in 2021 was the portfolio of foreign currency mortgage loans. During the joint meetings with the Audit and Compliance Committee of the Supervisory Board, the Committee analysed the current position of the Bank in the light of court decisions and CJEU judgements, and supervised estimation of provisions for legal risk related to that portfolio.

One of the Committee's tasks is the oversight of the stress tests undertaken by the Bank in line with its own assumptions and 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 market developments, movements in financial and macroeconomic ratios as well as changes in the risk profile on the condition of the Bank and the Group; (ii) changes of quality of credit portfolios in the case of adverse events. The results of stress tests are closely linked 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 concentration; (iv) key performance indicators.

## 5. Self-assessment of the Supervisory Board activity in 2021

The Supervisory Board stated that in 2021 it had duly and effectively discharged its responsibilities arising from applicable laws, including the Commercial Companies Code, the Banking Law, the Bank's Statutes and the KNF recommendations, as well as from corporate governance rules.

The Supervisory Board met as often as necessary to ensure that all matters within its remit were duly addressed. It obtained all the required documents and information and regularly requested the Management Board to provide updates on the Bank and its Group.

The Supervisory Board members committed sufficient time to perform their duties as confirmed by high attendance at all meetings of the Supervisory Board (97.66% on average) and its Committees as well as active participation of the members who asked questions, made comments and discussed the matters submitted by the Management Board.

All issues regarded by the Supervisory Board or its Committees as significant for the oversight of the Bank's business were thoroughly analysed and – based on detailed questions and agreements with the Management Board – effectively monitored, both by the Supervisory Board and its Committees.

The Audit and Compliance Committee and the Risk Committee held regular joint sessions to analyse selected issues in detail in accordance with the powers and responsibilities of these Committees. This helped to improve oversight and address major issues in a comprehensive way.

While performing their duties, 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, and their active participation in the meetings of the Supervisory Board and its Committees ensured sound and effective operations of the Supervisory Board as well as proper and effective supervision over the Bank's activities in 2021.

## II. Report on the review of the financial statements for 2021, the Management Board report on performance in 2021 and the Bank's Management Board's motion on profit distribution

### 1. Review of the financial statements for 2021 and the Management Board report on performance in 2021

Pursuant to Article 382(3) of the Commercial Companies Code and § 32(1) and § 32(6) of the Bank's Statutes, the Supervisory Board reviewed the Bank's financial statements for 2021 and the Group's consolidated financial statements for 2021 as well as the Management Board report on the Group's performance in 2021, including the Management Board report on the Bank's performance in 2021 in terms of their consistency with the books of account, documents and factual circumstances. These documents will be submitted by the Bank's Management Board to the Bank's Annual General Meeting of Shareholders.

Pursuant to resolution no. 24/2021 of 23 February 2021, the Supervisory Board appointed PricewaterhouseCoopers Sp. z ograniczoną odpowiedzialnością Audyt sp. k. ("PwC", "statutory auditor") to review the foregoing statements.

Having thoroughly reviewed the financial statements of Santander Bank Polska S.A. for 2021 and the consolidated financial statements of Santander Bank Polska Group for 2021, and having read the auditor's opinion and report, the Supervisory Board positively assessed the financial statements in terms of their consistency 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 the auditor's unqualified opinion in terms of their consistency with the books of account, documents and factual circumstances.

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

Having thoroughly reviewed the Management Board Report on Santander Bank Polska Group Performance in 2021 (including the Management Board Report on Santander Bank Polska S.A. Performance), the Supervisory Board positively assessed the report in terms of its consistency 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 the independent statutory auditor, the Management Board report is consistent with the information presented in the Bank's and the Group's financial statements and does not contain any material misstatements. The Statement on Corporate Governance in 2021 included in the report contains all the required elements, and 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 assessments, the Supervisory Board also took into account the Audit and Compliance Committee's recommendation presented at the Supervisory Board meeting held on 22 February 2022.

Given the above, pursuant to resolution no. 1/2022 of 22 February 2022, 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 2021
- Consolidated Financial Statements of Santander Bank Polska Group for 2021
- Management Board Report on Santander Bank Polska Group Performance in 2021 (containing the Management Board Report on Santander Bank Polska S.A. Performance).



## 2. Review of the Bank's Management Board's motion on profit distribution

On 31 March 2022, the Supervisory Board reviewed and positively assessed the Management Board's recommendation to distribute net profit of PLN 915,877,566.59 for the accounting year from 1 January 2021 to 31 December 2021 as follows:

- PLN 273,867,361.52 to be allocated to dividend for shareholders;
- PLN 457,938,783.30 to be allocated to reserve capital;
- PLN 184,071,421.77 to be kept undistributed.

The dividend to be paid out of the profit earned in 2021 ("**Dividend**") will include 102,189,314 shares (one hundred two million one hundred eighty-nine thousand and three hundred fourteen) of series A, B, C, D, E, F, G, H, I, J, K, L, M, N and O. The Dividend represents 29.90% of the net profit earned in 2021. The Dividend per share is PLN 2.68. The Dividend record date is 25 May 2022. The Dividend will be paid on 1 June 2022.

Pursuant to Article 349 § 1 of the Commercial Companies Code and § 50(4) of the Bank's Statutes, and based on Management Board resolution no. 175/2021 of 1 September 2021 and Supervisory Board resolution no. 122/2021 of 1 September 2021, on 15 October 2021 the Bank paid interim dividend of PLN 220,728,918.24 ("**Interim Dividend**"). The Interim Dividend included 102,189,314 shares (one hundred two million one hundred eighty-nine thousand and three hundred fourteen) of series A, B, C, D, E, F, G, H, I, J, K, L, M, N and O. The Interim Dividend per share was PLN 2.16 and the record date for the Interim Dividend was 8 October 2021.

The Interim Dividend was paid from the Dividend Reserve created by force of Resolution no. 6/2021 from the part of the net profit earned by the Bank in the accounting year from 1 January 2020 to 31 December 2020; it does not reduce the Dividend to be paid out to shareholders.

On 31 March 2022, the Supervisory Board also assessed the Management Board's recommendation on distributing the undistributed net profit of PLN 1,056,761,994.64 earned by the Bank in the accounting year from 1 January 2019 to 31 December 2019 as follows:

- PLN 1,056,761,994.64 to be allocated to the Dividend Reserve created by force of Resolution no. 6 of the Annual General Meeting of 22 March 2021 on profit distribution and creation of capital reserve (Resolution no. 6/2021).

In its assessment of the recommendation, the Supervisory Board took into account that:

As at 31 December 2021, the capital ratios were:

- Tier 1 (T1) capital ratio for the Bank at 18.65%, and for the Bank's Group at 16.63%;
- total capital ratio for the Bank at 20.99%, and for the Bank's Group at 18.58%.

In its letter of 23 February 2022, the Polish Financial Supervision Authority (KNF) presented to Santander Bank Polska S.A. the following individual recommendation with regard to the dividend policy for 2022:

- As at 31 December 2021, the Bank met the baseline criteria defined in the KNF's position of 9 December 2021 on the dividend policy of commercial banks for 2022 ("**Dividend Policy**") to be able to pay dividend up to 100% of its net profit earned in the period from 1 January 2021 to 31 December 2021. When applying the additional KNF criteria relating to the Bank's portfolio of foreign currency mortgage loans for households, the dividend yield at standalone and consolidated level was adjusted by a total of 70 p.p. Having applied the said criteria, the Bank meets the requirements to pay out 30% of its net profit for 2021 in the form of a dividend.
- KNF recommendations:
  - 1) not to distribute more than 30% of the profit earned from 1 January 2021 to 31 December 2021.
  - 2) not to take any other measures which could weaken the capital base (in particular if they go beyond the scope of the ordinary business and operational activity and may reduce own funds), including a potential distribution of the profit retained in the previous years (i.e. 2020 and earlier) or repurchase of own shares, unless such measures have been agreed with the supervisor.

Taking into account the Bank's current and planned capital adequacy that ensures safety of its operations as well as the KNF's recommendations with regard to maintenance of adequate equity and the Bank's dividend policy, including the KNF's position of 9 March 2020 confirming that the Bank complies with the criteria for paying a dividend from the profit earned in 2019 as well as the guidance referred to in point 2, the Supervisory Board agreed to both recommendations of the Management Board.

The Dividend of PLN 273,867,361.52, i.e. 29.90% of the net profit earned in 2021 complies with the stance presented by the KNF.

The recommended distribution of the undistributed profit for 2019 by the Annual General Meeting will not rule out the Management Board's potential decision to distribute profit in the form of interim dividend and to use for that purpose the Dividend Reserve in H2 2022 pursuant to the authorisation given to the Management Board in accordance with § 50(4) of the Bank's Statutes.

That will be contingent in particular on the positive opinion of the KNF as well as economic situation and market conditions.

The Management Board's potential decision to pay an interim dividend in H2 2022 will also require the approval of the Supervisory Board.

## III. Assessment of Santander Bank Polska Group's performance in 2021

Pursuant to Best Practice for GPW Listed Companies 2021, the Supervisory Board assessed the Bank's and Santander Bank Polska Group's standing in 2021. The assessment covered the internal control system, risk management, compliance and internal audit function, including significant control mechanisms, including those related to reporting and operational activity.

### 1. Santander Bank Polska Group Performance in 2021

#### Economic growth

In Q1 2021, the economy was still affected by restrictions introduced in response to another coronavirus wave, so the GDP was still lower than the year before (-0.8% YoY). In Q2 2021, most restrictions were lifted and the low base effect allowed very high annual growth rates to be achieved in the remainder of the year. Eventually, GDP growth for the entire year was 5.7%. Economic revival was visible in numerous sectors, but occurred in an environment troubled by supply chain disruption and low labour availability. The industrial output advanced by about 15%. Higher domestic demand and rising commodity prices translated into a major acceleration of imports. As a result, the high current account surplus recorded in 2020 (+2.9% of the GDP) turned to a deficit (approx. -0.8% of the GDP).

#### Inflation

In 2021, inflation grew from 2.6% YoY in January to 8.6% YoY in December, reaching the highest level in 20 years. Price increases were reported for food (8.6% YoY in December), fuels (32.9% YoY) and energy (14.1% YoY), which resulted from global market tendencies, and core inflation accelerated from 3.9% YoY in January to 5.3% YoY in December. PPI inflation jumped from 1.0% YoY in January to 14.2% YoY in December, reflecting rising costs for businesses.

#### Monetary policy

The rise in inflation amid strong economic rebound encouraged the MPC to hike interest rates at meetings in October, November and December from 0.1% before the cycle started to 1.75% at the end of 2021.

#### Deposit and credit market

At the end of the year, the total loan volume was by 4.5% higher than the year before (after adjusting for FX changes). Loans for households advanced by about 5%, with mortgage loans recording a two-digit growth rate throughout the year. Consumer loans were by 2% higher than in December 2020. Corporate loan volumes started to go up in H2 2021, ending the year 4% above the level reported in December 2020. Overdrafts recorded the most considerable rebound (+14.3% YoY in December).

Deposits expanded by 8.8% YoY, with retail deposits growing by 6.1% YoY and business deposits by 10.4% YoY. Current deposits increased by 14.1% YoY and term deposits declined by 12.0% YoY. However, the latter recorded a reversal in the downward trend since October 2021.

#### Income Statement

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

On a comparative basis, i.e. assuming a fixed level of contributions to the Bank Guarantee Fund (BFG), and excluding the following items from the profit for 2021: provisions raised for legal claims and other assets (PLN 1,006m), released provisions for legal claims and other assets (PLN 66m), provisions raised for legal risk (PLN 550m), released provisions for legal risk (PLN 21m), reversal of allowance in respect of COVID-19 (PLN 121m), employment restructuring provision (PLN 13m), dividend income (PLN 113m) and an additional payment from Aviva Group (PLN 47m), and from the profit for 2020: provisions raised for legal claims and other assets (PLN 322m), released provisions for legal claims and other assets (PLN 44), provisions raised for legal risk (PLN 201m), additional allowance in respect of Covid-19 (PLN 121m), employment restructuring provision (PLN 154m), dividend income (PLN 23m)

and revision of the settlement model (PLN 103m), the profit before tax increased by 23.9% YoY and the profit attributable to the shareholders of Santander Bank Polska S.A. went up by 36.0% YoY.

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

Net fee and commission income for 2021 increased by 15.6% YoY on account of higher net income from the majority of product lines, including currency exchange, account maintenance and cash transactions, debit cards, distribution and asset management and credit services. This growth was supported by flexible pricing management in line with market developments.

Other income went up by 25.2% YoY on account of higher dividend income from the portfolio of equity investment financial assets, including PLN 89m worth of dividends from the insurance companies. The Group also generated one-off income in respect of PLN 46.8m worth of payment in connection with the completed divestment of companies from Aviva Group.

Staff and general expenses fell by 2.8% YoY to PLN 3,172.1m as an effect of a high base in the comparative period including a higher provision for severance pay for employees selected for collective redundancies in Santander Bank Polska S.A. and Santander Consumer Bank S.A. and higher contributions to the BFG resolution and guarantee funds. The underlying staff and general expenses increased by 6.4% YoY, reflecting a rise in cost of salaries, marketing, IT usage and maintenance of premises.

The Group's profit was significantly affected by other operating expenses which went up to PLN 1,736.1m on account of significant increases in provisions for legal claims and other assets and for legal risk totalling PLN 1,555.6m in 2021, the majority of which concerned foreign currency mortgage loans.

In 2021, net expected credit loss allowances were down 36.2% YoY, reflecting a stable cost of credit related to individual credit portfolios and reversal of a management allowance in respect of Covid-19.

## Income

Total income of Santander Bank Polska Group in 2021 was PLN 9,209.5m, up 6.5% YoY. Underlying total income grew by 5.7% YoY.

In 2021, net interest income totalled PLN 5,962.4m and increased by 1.3% YoY. Interest income for 2021 was PLN 6,362.6m, down 7.2% YoY. Interest expenses decreased by 58.7% YoY to PLN 400.1m.

Net fee and commission income for the 12-month period ended 31 December 2021 amounted to PLN 2,487.1m and increased by 15.6% YoY. FX fee income rose by 22.1% YoY, net fee and commission income from account maintenance and cash transactions increased by 27.1% YoY, net credit fee income went up by 3.2% YoY and net fee and commission income from distribution and asset management was up 19.5% YoY.

Non-interest and non-fee income of Santander Bank Polska Group totalled PLN 760.0m and went up by 25.2% YoY. Net trading income and revaluation increased by 78.1% YoY to PLN 268.0m supported by the volatility of the financial markets. Dividend income totalled PLN 112.8m and increased by PLN 89.9m YoY due to recognition of PLN 89m worth of dividends from two insurance companies (Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.). Other operating income went up by 61.5% YoY to PLN 284.3m as a result of recognition of an additional payment of PLN 46.8m received from Aviva Group in connection with the completed divestment of three companies from that Group. The financial result of the above increases was offset by, among other things, a decrease of 63.2% YoY in gains on other financial instruments to PLN 94.9m due to a lower gain on sale of bonds (-PLN 137.0m YoY) and a lower positive change of the fair value of Visa Inc. shares (PLN 2.2m vs PLN 33.2m in 2020).

## Costs

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

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

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

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

## Assets

As at 31 December 2021, the total assets of Santander Bank Polska Group were PLN 244,876.3m and increased by 6.8% YoY on account of loans and advances to customers, investment financial assets and balances with central banks. The value and structure of the Group's financial position was determined by the parent entity, which held 89.1% of the consolidated total assets.

## Credit portfolio

As at 31 December 2021, consolidated gross loans and advances to customers were PLN 154,110.8m and increased by 3.9% YoY. Loans and advances to individuals grew by 4.3% in 2021 to PLN 84,898.3m. Housing loans, which were the main contributor to that portfolio, totalled PLN 56,600.0m (+7.3% YoY), hitting all-time high in 2021. The second largest constituent item was cash loans which totalled PLN 20,802.0m and were relatively stable (-0.2% YoY) despite accelerated YoY growth of sales.

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

In 2021, the charge made by Santander Bank Polska Group to the income statement on account of expected credit loss allowances was PLN 1,124.2m, down 36.2% YoY.

During the reporting period, the cost of credit risk of Santander Bank Polska Group was 0.76% vs 1.21% in 2020. The NPL ratio was 5.0% as at 31 December 2021 compared with 5.8% twelve months before. The provision coverage ratio for impaired loans was 60.4% compared with 57.9% as at 31 December 2020.

## Equity and liabilities

Compared to 31 December 2020, total equity decreased by 5.0% to PLN 27,213.6m as a combined effect of the following: retention of the current period profit, negative impact of other net comprehensive income (-PLN 2,379.0m), which was under pressure from valuation of debt securities measured at fair value through other comprehensive income, and the amount of PLN 220.7m set aside for an interim dividend payment pursuant to the decision of the Management Board and the Supervisory Board of 1 September 2021. As part of equity, the revalued equity financial assets measured at fair value through other comprehensive income were transferred from revaluation reserve to retained earnings, of which PLN 840.9m concerned the divestment of Aviva Group companies.

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

In 2021, the Bank issued senior notes with a nominal value of EUR 750m as part of the EMTN Programme, and PLN 750m worth of certificates of deposit classified as sustainability bank securities in accordance with the Sustainability Issuance Framework of Santander Bank Polska S.A.

Santander Factoring Sp. z o.o. issued three series of six-month variable-rate bonds (based on 1M WIBOR) with a total nominal value of PLN 1,740m, and two series of three-month fixed-rate bonds with a total nominal value of PLN 2,000m and a put option.

Santander Leasing S.A. issued two series of variable-rate bonds (based on 3M WIBOR) with a total nominal value of PLN 1,950.0m, a maturity of up to one year and a put option.

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

## Deposits

As at 31 December 2021, consolidated deposits from customers were PLN 185,373.4m and increased by 8.1% YoY.

Retail deposits went up by 8.2% YoY to PLN 106,267.8m, driven by an increase of 15.6% YoY in current deposits. This included savings account balances, which grew by 2.5% YoY to PLN 32.4bn.

In 2021, deposits from enterprises and the public sector rose by 7.9% YoY to PLN 79,105.6m as a consequence of an increase of 5.9% YoY in current account balances and a rise of 36.9% YoY in term deposits.

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

2021 was a very successful year for companies from the banking sector. WIG-Banks, an industry index, gained as much as 67.0% and was one of the driving forces behind the growth of the whole market. Stock prices were picking up on hopes for interest rate rise brought by post-pandemic economic recovery. The shares of Santander Bank Polska S.A. outperformed the sector index during the year and gained 87.7%. The highest closing share price was PLN 382.30 on 5 November 2021 and the lowest was PLN 181.40 on 29 January 2021.

Due to strong liquidity and high market capitalisation, 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 its announcement of 23 September 2021, Fitch Ratings affirmed the international ratings of Santander Bank Polska S.A. at BBB+ (stable outlook, F2) as well as national and support ratings. The affirmation of the ratings reflects the balanced credit risk profile of the Bank and no changes to the assessment of support available to the Bank from its parent, Banco Santander S.A. The stable outlook resulted from the review and assessment of risks connected with the operating environment of Polish banks.

In its announcement of 3 June 2019, Moody's Investors Service upgraded the ratings of Santander Bank Polska S.A. to A1/P-1, stable outlook, baa2. The ratings were kept unchanged until 31 December 2021.

On 14 September 2021, the agency published the results of the last periodic review of ratings of Santander Bank Polska S.A. The Bank's baa2 BCA reflects a moderate quality of the credit portfolio, with the NPL ratio somewhat higher than the sector average and moderate exposure to CHF mortgage loans with higher legal risk. The Bank has solid capital buffers (significantly above the regulatory minimum) and generally strong profitability, although the latter remains under pressure because of elevated cost of credit and weakened net interest margin. The BCA also reflects a good liquidity buffer and a moderate level of wholesale funding.

## 2. Assessment of the internal control system

At the meeting in February 2022, the Supervisory Board performed the annual adequacy and effectiveness assessment of the internal control system in Santander Bank Polska S.A. for 2021, 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 about delivery of the 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 Chairmen of the Audit and Compliance Committee and the Risk Committee based on the reviews made by these Committees;
- findings of the statutory auditor, including those presented when discussing 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 the supervisory review and evaluation process (BION);
- assessment of adequacy and effectiveness of the internal control system and the risk management system presented by the Internal Audit Area.

Pursuant to the Statutes, the Bank has an internal control system in place 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 law, international standards, internal regulations and best practice.

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 material subsidiaries, i.e. Santander Leasing S.A., Santander Factoring sp. z o. o. and Santander Towarzystwo Funduszy Inwestycyjnych S.A. The internal control system covers all significant controls, including those related to financial reporting and operational activity of the Bank and its subsidiaries.

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

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

The internal control system of Santander Bank Polska Group takes into account the solutions used by 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 comprises:

- a) the control function responsible for ensuring that control mechanisms, in particular those related to risk management, are observed; it may include individual positions, groups of employees or organisational units;
- b) the compliance unit responsible for identification, assessment, control and monitoring of the risk of the Bank's non-compliance with laws, internal regulations and market standards, and for presentation of reports in that respect;
- c) the independent internal audit unit responsible for autonomous and impartial assessment of the adequacy and effectiveness of the risk management system and the internal control system (except for the internal audit unit).

The control function is an element of the internal control system and comprises:

- a) all control mechanisms 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 adherence to those control mechanisms (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 Bank's Management Board takes regular measures to ensure the continuity of the properly designed and implemented internal control system. It also ensures proper interaction between all employees of the Bank within the control function and their collaboration with the compliance and the internal audit units and makes sure that employees of those units have 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 also ensures that the internal control system is designed, introduced and operated by Santander Bank Polska Group entities and that it is adequately adjusted to the risk management system, the organisational structure as well as the size and complexity of the Group's operations. The system covers all units across the Bank and its subsidiaries. In particular, the following is taken into account when ensuring the adequacy and effectiveness of the internal control system of Santander Bank Polska Group:

- a) the complexity of the processes in place;
- b) available resources;
- c) the risk of deficiencies occurring in particular processes, including significant processes;
- d) assessment of the adequacy and effectiveness of the 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) performance against the objectives of the internal control system;
- b) application of controls as part of independent monitoring of key control mechanisms defined in the Control Function Matrix;
- c) delivery of control plans in relation to the processes which are not covered by the Control Function Matrix but are covered by the Group Internal Control Model;
- d) timeliness and efficiency 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. 39 deficiencies were identified. None of them was critical. There are two deficiencies classified as significant. Continued focus is placed on timely implementation of remediation actions defined for deficiencies as part of the annual assessment and certification process.

When assessing the control function, the Supervisory Board also took into account the manner in which the Bank's Management Board discharged the duties referred in part B of 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 includes management of risks in the Bank's operational activity and comprises business units which, as part of their day-to-day business, generate risks that affect achievement of the Bank's objectives. The first line of defence includes activities carried out by each employee with respect to quality and correctness of the tasks performed. The first line of defence checks adherence to the procedures and responds to any identified irregularities.
- The second line of defence involves risk management by employees in dedicated roles or organisational units and the operations of the compliance unit. Risk management as part of the second line of defence is independent from risk management in the first line of defence. The

second line of defence is formed by functions which support the Bank's executives 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 the 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 ensures independent and objective examination and assessment of control mechanisms applied by the first and second lines of defence and 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, as required by the applicable management policies, procedures and internal and external regulations. Using its own risk matrix and knowledge, the Internal Audit Area regularly assesses existing and future risks across the Bank and Santander Bank Polska Group, and develops annual audit plans to cover such risks. They also take into account the priorities defined by the Bank's management, the Audit and Compliance Committee, the external auditor and banking supervision authorities.

The Supervisory Board oversees the implementation and maintenance of the internal control system. It performs annual adequacy and effectiveness assessment of the internal control system, including annual assessment of the adequacy and effectiveness of the control function, compliance unit 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 statutory 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 controls 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. They 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 2021 concluded that the weaknesses identified had a little impact on the delivery of the internal control objectives.

In 2021, the number of outstanding deficiencies was comparable to that reported in 2020 (30 in 2020 vs 39 in 2021). The ongoing focus of cooperation with the first line of defence is on a proactive approach and the need to address areas for improvement on an ongoing basis. Nonetheless, this is still a low number of deficiencies relative to the total number of controls (39 out of 1975, i.e. 1.97% outstanding as at 2021YE) 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 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 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 controls 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 a suite of 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.

In order to manage risk associated with the preparation of financial statements, the Bank tracks legal and regulatory changes related to reporting obligations for banks and updates its accounting rules and disclosures accordingly. The Bank, through its representatives sitting on supervisory boards of individual subsidiaries, exercises oversight of its consolidated subsidiaries.

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 ensure fairness and adequacy of the financial statements. The effectiveness of control mechanisms related to financial reporting is additionally assessed by an independent external auditor as part of the annual certification process for compliance with the Sarbanes-Oxley Act.

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 assessment was based on reports on the activity of the compliance unit submitted to the Audit and Compliance Committee, opinions of the Audit and Compliance Committee, meetings and discussions between Supervisory Board members and the head of the compliance unit, as well as own analyses of reports, including by the IAA, of the unit's operations.



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, and reputational risk.

In February 2022, the Supervisory Board conducted the overall review and assessment of the compliance unit for 2021.

The Supervisory Board stated that:

- The compliance unit is a function independent from any other function or 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 voting rights in either of the bodies) which provides him with a full insight into their operations bodies and an opportunity to express his opinion;
  - a detailed procedure for appointing and removing the unit's head;
  - 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 and the Audit and Compliance Committee/ Supervisory Board; The reports are delivered periodically to all these bodies.
- Compliance risk management is adequate and effective given the scale of the Bank's business. The compliance unit has sufficient resources, knowledge and experience to carry out the duties set out in the Compliance Programme. Please note that high volatility of the regulatory and business environment of the financial sector requires a continued optimisation and automaton of compliance processes. Employee skills are continuously upgraded by participation in specific subject matter training.
- The compliance unit's regulations are adequate, taking into account the 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;
  - The compliance unit's testing plan for 2021 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;
  - The tests did not identify any significant or critical risks; All other identified risks were addressed to the controlled units and action plans were prepared to mitigate those risks.
- The compliance unit is periodically audited by the Internal Audit Area. In 2021, a comprehensive audit was carried out, as a result of which management actions were put in place to address operation of the committees and management of internal regulations, indicators, the Compliance Programme and the training programme.

The 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, opinions of the Audit and Compliance Committee, meetings and discussions between Supervisory Board members and the Chief Audit Executive, and own analyses of reports of the function's performance.

At its meeting in February 2022, 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's recommendations and market standards adopted in the Bank. The IAA operates in line with the International Professional Practices Framework (IPPF) for Internal Auditing issued by the Institute of Internal Auditors which was confirmed by an independent external assessment carried out in 2019. The assessment remains valid.
  - The internal audit methodology reflects the current professional standards and allows for identification of significant risks in Santander Bank Polska Group.
  - The annual audit plan is developed on the basis of comprehensive risk assessment and precisely defines the objectives and scope of audit engagements. The audit plan takes into account requirements both of the top management of the Bank (Supervisory Board and Management Board) and the regulator. Moreover, as part of an annual risk assessment, the strategic and operational audit plan was developed.
  - In the opinion of the Bank's Management Board and the Audit and Compliance Committee, the Audit Plan for 2021 covered all significant issues and ensured an independent and objective review and assessment of controls applied as part of the first and second line 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 the existing processes and security of operations.
  - The policies and practices for monitoring the quality of internal audit work are adequate and comply with professional standards and the approved methodology. The quality assurance report is presented to the Supervisory Board, the Management Board and the Audit and Compliance Committee on an annual basis.
  - The IAA strategy for 2021-2023 was developed adequately and duly reflects the need to cover the Bank's cybertransformation 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 status of implementation of the 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 February 2022) 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 2021. This information was also provided to the Audit and Compliance and the Management Board.
- The internal audit is a permanent function, independent of any other functions or units whose objective is to provide the Management Board, the 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 Bank's value, solvency and reputation.
- Its independence is confirmed every year 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 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 voting rights in either). Thanks to that he has a full insight into the operations of those governing bodies and an opportunity to express his opinion.
  - A detailed procedure for appointing and removing the Chief Audit Executive is in place.
  - IAA employees have unlimited access to all information, documents, systems, applications and premises required to perform their engagements.
- The Internal Audit Area has sufficient resources to carry out its duties:
  - 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 improving their skills through professional certifications.
- The Chief Audit Executive presents the proposed annual budget of the internal audit function for approval to the Audit and Compliance Committee.
- Remuneration of IAA employees and their performance against training plans is reported on a regular basis 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 2022, the Supervisory Board conducted the overall review and assessment of the risk management system of Santander Bank Polska, taking into account in particular:

- opinions presented by the Risk Committee at the meeting of the Supervisory Board,
- the information obtained from the Management Board with regard to performance of the risk management system,
- reports on risk management in individual units and information from subsidiaries, including information reported by Chairpersons of the Audit and Compliance Committee, and the Risk Committee based on the reviews made by these Committees,
- findings from supervisory activities performed by authorised institutions, including findings and recommendations from the KNF issued after the supervisory review and evaluation process (BION);
- assessment of adequacy and effectiveness of the internal control system and the risk management system presented by the Internal Audit Area as well as internal audit reports.

Santander Bank Polska S.A. has implemented the "Strategy for Risk Management" (updated annually), 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, 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.

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 committees having authority to manage particular risks. The fact that members of the Management Board and senior management sit on key Committees ensures and confirms the engagement of senior management 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 comprehensive information on the 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 risk management is based on 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 line is the internal audit unit, which reviews the adequacy and effectiveness of the first and second lines.

The Bank has implemented methodologies and processes supporting identification and assessment of 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 with the use of policies, best practice, and appropriate tools to keep them at an acceptable level.

The Bank uses various risk assessment and measurement techniques depending on the risk type and materiality. These techniques are consistent with the approach of Banco Santander Group and leverage the best practice of the parent, a leader in the banking sector.

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). Risk appetite is expressed as quantitative limits and captured in the Risk Appetite Statement of Santander Bank Polska Group agreed by the Management Board and approved by 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 Bank has in place 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 known as 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.

### Organisational changes in 2021

## Committees

As of 01.05.2021, the Management Board made a decision to dissolve the Risk Management Forum, which operated as three panels and to transform them into three independent committees:

- the Credit Risk Panel was transformed into the Credit Risk Committee;
- the Market and Investment Risk Panel was transformed into the Market and Investment Risk Committee;
- the Models & Methodology Panel was transformed into the Model Risk Management Committee.

This change was aimed at assigning the committees to the organisational units responsible for particular risks and thus enhancing the committees' operations.

## Risk unit

At the turn of 2021 and 2022, the following two organisational units were transferred from the Legal and Compliance Division to the Risk Management Division:

- Data Protection Office,
- Money Laundering and Terrorist Financing Risk Management Department (name changed from Anti-Money Laundering Department).

The purpose of the reorganisation was to shift the reporting line of the aforementioned functions directly to the Vice President of the Management Board in charge of the Risk Management Division.

## **Priorities in 2021**

In 2021, the Bank continued to thoroughly analyse developments in the macroeconomic environment and monitor credit exposures in individual customer segments and sectors in order to promptly and duly align the credit policy parameters where required. The focus was on further measures taken in response to the Covid-19 pandemic, placing an increased emphasis on risk trends in credit portfolios, particularly in connection with lockdowns affecting economic activities in H1 2021. Appropriate specialist management reports introduced in 2020 were maintained in order to identify deteriorating financial position of business customers from the sectors worst hit by the pandemic. The Bank took further measures as part of the government support programmes for customers in financial distress due to the pandemic (including aid granted by the Polish Development Fund (PFR) until August 2021, guarantees issued by BGK, and Shield 4.0). At the same time, it contributed to and adopted the second moratorium developed by the banking sector under the auspices of the Polish Bank Association, which laid down uniform rules for offering tools to aid those customers.

In 2021, a range of important regulations issued by banking supervisory authorities were implemented. In the first half of the year, the Group focused on incorporation of the EBA Guidelines on loan origination and monitoring EBA/GL/2020/06. These guidelines set out standards for credit risk taking, management and monitoring, and require that institutions apply appropriate practices in relation to consumer protection and prevention of money laundering.

Alongside this, the Bank implemented changes to credit processes in line with KNF Recommendation S on best practice in the management of mortgage-backed credit exposures. While the recommendation covers only mortgage-backed loans, changes also indirectly affected credit processes related to unsecured loans. The operational and management reports were adjusted to include the elements introduced by the recommendation.

In addition, by the end of 2021, the Bank implemented the guidelines arising from KNF Recommendation R setting out new requirements for classification of credit exposures, estimation and recognition of expected credit loss allowances and management of credit risk.

The Bank also implemented Recommendation Z on the corporate governance, incl. risk management system. The gaps identified were not significant. They mainly required some additional provisions in the regulations and slight modifications of existing processes (e.g. formalising risk analysis for transactions with the Bank's connected entities).

Measures were also taken in 2021 to optimise performance of the models used in risk management processes. The following new models were developed and implemented: models supporting monitoring and recovery of credit exposures and an application model for external retail customers. Other models used in the Bank's processes were streamlined and calibrated and their functioning was monitored as part of regular reporting and periodic validation.

During the pandemic, the importance of cyber security has increased significantly due to mass telecommuting (covering almost all processes) and the dynamically growing use of remote channels by customers in sales and after-sales processes. The Bank kept track of risks, taking mitigating measures on an ongoing basis in relation to both customers and employees. Security warnings were being released in response to cybercriminals' attempts to exploit the outbreak. The areas exposed to the risk of fraud were covered with increased surveillance.

Notwithstanding the pandemic, one of the main risk management priorities is to undertake initiatives to enable secure operations of the organisation (in accordance with the banking supervision requirements), while supporting business growth and profit generation for the shareholders. The Bank continues to develop innovative risk management solutions, including advanced risk assessment models and tools that help automate banking processes and reduce

human errors. Another rapidly developing area is data management, analysis and use in tools and reports to support prompt, accurate and secure decision-making leading to sustainable growth of business volumes.

## 6. Assessment of reasonableness of expenses incurred to support culture, sport, charity institutions, media, social organizations, trade union, etc.

In 2021, Santander Bank Polska S.A. ran a variety of sponsorship, image-building and charity projects to support education (including financial education), culture, sports, environmental protection, charity initiatives and statutory activities of foundations and associations.

These activities are undertaken in accordance with the Bank's Sponsorship and Corporate Giving Policy, whose rules are set out in the document "Sponsorship strategy and action plan of Santander Bank Polska S.A." The directions in this regard are also set in the Responsible Banking Strategy and the Sustainability Policy.

The following units are responsible for undertaking activities in accordance with the above-mentioned documents: the Public Relations Department and Santander Bank Polska Foundation, which operates in line with its Statutes.

For many years, the Bank and Santander Bank Polska Foundation have been focusing on long-term projects and programmes that offer a chance to reach a wider audience and create positive associations between the Bank/ the Foundation and the initiative. They also generate synergies that can be used in communication or relationship-building initiatives aimed at employees, customers and local communities.

All projects are primarily intended to strengthen the Bank's image as the second largest financial institution in the Polish banking sector, the best commercial bank in Poland and a trustworthy, socially responsible and economically resilient institution with a nationwide footprint. The purpose and scope of the projects are as follows:

- promotion of education (including financial education) among various target groups (as an element of the Responsible Banking and ESG agenda, investments for the future and employer branding actions aimed to build the image of the Bank as an employer of choice);
- sport as a tool for bringing together local communities and promoting active life style and fair play rules;
- promotion of culture among various audiences, supporting young talents;
- environmental protection, care about ecosystems and climate balance;
- projects impacting local communities (creating partnerships, building engagement of employees through corporate volunteering).

### Assessment of reasonableness of Expenses

In 2021, the initiatives focused mainly on education, sport, culture and environmental protection. Apart from long-term projects, the Bank took part in new initiatives that involved experts from different areas of the Bank, helping the Bank strengthen its image as a corporate citizen.

In the opinion of the Supervisory Board, the expenditures on sponsorship, image-building and charity initiatives were reasonable and well considered. The Bank continuously focused on specific areas and did not engage in any ad-hoc initiatives which are not embedded in the Bank's strategy. The projects were selected in a reasonable way, having regard to both the Bank's image and cost effectiveness, while maximising promotional benefits for the Bank. It should be noted that this approach enables the Bank to build and strengthen its image as a socially responsible, trustworthy and committed institution, enhancing its reputation and prestige among all stakeholders: shareholders, customers and employees. Such values are of great importance for creating and positioning a strong Santander brand.

### Key projects delivered in 2021:

- "Finansiaki" is the Bank's project aimed to support development of educational capabilities of parents and teachers in the area of finance and entrepreneurship by providing relevant materials (which comply with the core curriculum of kindergartens and primary schools). The project is embedded in the Bank's Responsible Banking strategy. The key element of the project is the internet portal <https://finansiaki.pl/>, certified as a barrier-free website. It was launched in December 2016 and can be accessed via mobile devices. In 2021, the page views reached 18.8k. The programme is accompanied by financial education classes as part of corporate volunteering; a free guide for parents on how to teach entrepreneurship to children aged 3–14: "Finansiaki. To My!", also available online on [Finansiaki.pl](https://finansiaki.pl/); "Finansiaki to My" Facebook profile.
- Santander Orchestra is a cultural and educational project to support the careers of talented young musicians. The project combines top class musical workshops with lectures on a variety of topics, an element that is often not included in the traditional curriculum. As part of the partnership established in 2021 between the Bank and Warner Music Poland, an album was recorded ("Szymon Komasa – Piosenki z Kabaretu Starszych Panów. Laboratorium"), and two music videos were released to promote the album, featuring famous singers and young musicians from Santander Orchestra. During the recording sessions, 40 musicians took part in educational workshops on personal finance management, among other things. In 2021, Santander Orchestra also recorded a Christmas music video "Jingle Bells" with one of the contestants of The Voice of Poland.
- The project "How's Your Driving" ("Jak Jeździsz") launched by the Bank in 2015 promotes responsible behaviour and good road manners. As part of this initiative, which now has nearly 160k Facebook and Instagram followers, interesting articles on cars and safe driving are published

alongside up-to-date traffic information. In 2021, the number of interactions was record high: the users not only received messages but also actively participated in discussions or initiated them. The content of both profiles, including expert articles, video quizzes on traffic regulations, online educational games, learning materials for driving tests, reaches a large number of users and directs them to the project website: <https://jakjezdzisz.pl/>.

- In 2021, the Bank continued to sponsor the UEFA Champions League, the world's most prestigious football club competition. The sponsorship agreement was effective from the 2018/2019 season until the end of the 2020/2021 season. This project allowed the Bank to reach a wide group of supporters and their families. As part of promotion activities, the Bank was present in the media via Polsat, a broadcaster of UCL, the Domowe Rozgrywki miniseries (which promoted watching football matches with family members). With the above initiatives taken between November 2020 and April 2021, the Bank reached 14 million viewers.
- The Bank is a partner of the "Security in Cyberspace" ("Bezpieczeństwo w Cyberprzestrzeni") project coordinated by the Warsaw Institute of Banking. Its purpose is to raise the awareness of online safety among children, teenagers, students and seniors, and to develop practical skills related to the use of new technologies. In 2021, the following initiatives were undertaken as part of the project: classes for primary and secondary school students, lectures and training courses (including e-learning courses) for university students; meetings with the elderly and lectures for more than one thousand people over 65 years of age, tutorials on cybersecurity. In all, nearly 1.5 thousand classes, lectures, webinars, training sessions, e-learning courses, conferences and contests were organised for more than 120 thousand participants.
- In 2021, the Bank established partnership with the Stocznia Foundation, which develops specialist materials and tools for improving cognitive skills. They are available for free at: [www.silowniapamieci.pl](http://www.silowniapamieci.pl) and are particularly addressed to elderly people who wish to train their memory, logical thinking, visual-spatial awareness, concentration. Thanks to the Bank's contribution, the Foundation printed 2k copies of "Trening umysłu dla seniorów. Scenariusze do pracy w parach senior – opiekun", a book for seniors containing ready-made activity plans, exercises and worksheets that can be used to train cognitive skills. The copies were distributed to family members and support workers caring for elderly people, enabling them to do exercises without any prior experience.
- The Bank was a partner of the 3rd edition of Digital Festival, the largest education and technology initiative in Poland aimed at promoting digital technologies. Several dozen inspiring contests, quizzes, webinars, training sessions, hackathons, workshops and panel discussions were held, all of which were devoted to new technologies. The Bank's experts delivered training, gave interviews and commented on research results presented in reports provided to participants. Their training presentations are now available on the Akademia SkillUp platform, which offers free training courses on a variety of topics aimed to develop digital skills.
- The Bank sponsored the 6th edition of Open Eyes Economy Summit – International Congress of the Economy of Values. This event brings together renowned representatives of the world of science, economics and culture. It is devoted to economy based on social values. The sixth edition covered the four main topics: firm–idea, brand–culture, city–idea and international governance. The event was attended by 1.5 thousand participants on-site, 3.7 thousand participants (from 37 countries) online, and 250 speakers who took part in 83 panel sessions.
- In 2021, Santander Bank Polska Foundation performed 59 educational, charity and cultural donation agreements in cooperation with social partners. The key cyclical projects include grant programmes. In 2021, the following four grant programmes were delivered:

**Here I live, here I make Eco-friendly changes (Tu mieszkam, tu zmieniam EKO)** – the aim of the programme is to introduce changes in local communities, promote environmental education and bring together residents. The jury of the competition particularly focuses on original ecological initiatives responding to social needs. Projects delivered as part of the programme included creation of vertical gardens, pocket parks, rain gardens, plant murals, green libraries and public transport stops. Number of organisations helped: 58 Number of beneficiaries: 538,577 Project budget: PLN 300,000

**Bank of Children's Smiles (Bank Dziecięcych Uśmiechów)** – as part of the programme, the Foundation co-financed projects aimed to help children and teenagers who need psychological support due to, among other things, the effects of the Covid-19 pandemic. Number of organisations helped: 15 Number of beneficiaries: 422 Project budget: PLN 150,000

**Bank of Young Sports Champions (Bank Młodych Mistrzów Sportu)** – the programme promotes active lifestyle. As part of the 2021 edition, grants were awarded to sports projects and events for young people aged 5–26 such as team sports events, competitions for people with disabilities, training and other initiatives promoting fair play and sportsmanship. Number of organisations helped: 29 Number of beneficiaries: 5,674 Project budget: PLN 150,000

**Cyberattack Defenses (Haki na Cyberataki)** – the first edition of the programme whose purpose is to award the most interesting consumer finance education projects concerning: protection against financial crimes such as frauds, safe use of electronic banking, safe online finance management. Project budget: PLN 1,200,000

Other programmes included:

- 2021/22 Scholarship Programme – as part of the fourth edition of the Programme, scholarships were awarded to 31 out of 683 applications submitted in the 2021/2022 school year.
- "Flicker Club" ("Klub Płomyka") is a project aimed to renovate units in educational care centres and hospitals and provide necessary equipment, books and toys. In 2021, four Flicker Clubs were opened (with another two opened in January 2022 in one children's home). Since the start of the project, nine locations have been renovated.
- "Sow the seeds of ecological change" ("Zasiej EKO-zmianę") – 42 thousand bags of night-scented stock were given to customers of the Bank's branches across Poland to encourage them to make eco-friendly changes in local communities. Customers sew flower seeds on balconies and in gardens and could participate in a photo contest open to the youngest customers of the Bank.

- “We Will Double Your Impact” (“Podwójna Moc Pomagania”) – a fundraiser organised by the Foundation in cooperation with Santander Bank Polska Group companies, in which PLN 2m was donated to support child and adolescent mental health units in 16 hospitals in Poland.
- 4th North Macroregion Helps (Północny Pomaga) Virtual Charity Run – the participants were to cover the distance of 7.1km running, walking, roller blading, cycling, by scooter, on horseback or otherwise. PLN 68.1k was raised and donated to the Eugeniusz Dutkiewicz Home Hospice in Gdańsk.
- Corporate volunteering – in 2021, 126 initiatives were undertaken to support social organisations and people in need, involving 1,734 volunteers. They were aimed to help people with disabilities, children and teenagers with cancer, hospice patients, lonely elderly individuals, and children and teenagers in educational care centres. They also included ecological and educational projects (competency volunteering).

## 7. Assessment of compliance with corporate governance rules and of the manner of fulfilling by Santander Bank Polska S.A. disclosure requirements with regard to the corporate governance rules set out in the Warsaw Stock Exchange Rules and regulations pertaining to current and periodic information published by issuers of securities

In line with rule 2.11.4 of Best Practice for GPW Listed Companies 2021, 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 and corporate governance rules set out in the WSE rules and in regulations pertaining to current and periodic information published by issuers of securities.

In 2021, in connection with amendments made to the Best Practice, the Supervisory Board reviewed compliance with them on a basis of a dedicated report developed by the Corporate Governance Department and evidence provided by relevant units across the Bank responsible for the fulfillment of specific obligations. The Supervisory Board approved also changes in relevant internal regulations (including the Terms of Reference of the Supervisory Board, the Terms of Reference of the Management Board, and the Bank’s Organisational Terms of Reference). No need to report any cases of non-compliance with any of the rules was identified.

Pursuant to § 29(3) of the WSE Terms of Reference, the issuer of securities publishes information indicating which of the rules set out in Best Practice for GPW Listed Companies 2021 are complied with and which are not yet applied permanently. In the latter case, the information provided explains in detail the circumstances and reasons why a specific rule is not followed. If the compliance status changes or if circumstances occur as a result of which an explanation is required as to why a specific rule is not applied or the manner of its application is modified, the issuer promptly updates the published information.

The amended Best Practice for GPW Listed Companies 2021 document effective as of 1 July 2021 was adopted by virtue of Resolution no. 13/1834/2021 of the Supervisory Board of the Warsaw Stock Exchange dated 29 March 2021. The above version of best practice was adopted by the Bank by way of Management Board Resolution no. 160/2021 of 21 July 2021 and Supervisory Board Resolution no. 108/2021 of 27 July 2021.

On 29 July 2021, the Bank published a report on application of the rules set out in Best Practice for GPW Listed Companies 2021 (it is available on the bank’s website at: [https://www.santander.pl/regulation\\_file\\_server/time20210729112136/download?id=163350&lang=pl\\_PL](https://www.santander.pl/regulation_file_server/time20210729112136/download?id=163350&lang=pl_PL)).

In addition, the Statement on Corporate Governance in 2021 was included in Chapter XIII of the 2021 Management Board Report on Santander Bank Polska Group’s performance published on 23 February 2022. The Statement has been prepared in accordance with § 70(6)(5) of the Finance Minister’s Regulation of 29 March 2018 on current and financial reports published by the issuers of securities and the rules of equal treatment of the information required by the laws of a non-member state. In accordance with Commission Recommendation of 9 April 2014 on the quality of corporate governance reporting (2014/208/EU), the Statement presents details on application of corporate governance rules regarding the topics of most importance for shareholders.

Prior to the publication of the Statement, the Supervisory Board reviewed compliance with Best Practice for GPW Listed Companies 2016 for the period from 1 January 2021 to 30 June 2021 as well as with the updated Best Practice for GPW Listed Companies 2021 for the period from 1 July 2021 to 31 December 2021, and Principles of Corporate Governance for Supervised Institutions. The review included a detailed analysis of reports describing how individual units of the Bank adhered to specific rules, along with the evidence of same.

Given the above, the Bank’s fulfilment of disclosure requirements in relation to the adherence to the corporate governance rules 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. Delivery of the diversity policy

The Bank strives to ensure diversity within the Management and Supervisory Boards in terms of competencies, knowledge and professional experience to allow a variety of views and independent opinions and facilitate informed decision-making.

The Bank pursues its diversity strategy as part of selection, assessment of suitability and succession of members of the Management Board and the Supervisory Board based on objective substantive criteria, while taking into account the benefits of diversity.

Not only does it strive to ensure that members of the Management and Supervisory Boards have the required professional skills, but it is also committed to having a balanced representation of men and women on these boards, while ensuring diversity in terms of age, academic and professional background and geographical origin.

The above processes are delivered in a way preventing discrimination on any grounds, particularly based on gender, race, colour, ethnic or social origin, genetic features, religion or beliefs, membership of a national minority, property, birth, disability, age or sexual orientation.

The Bank's internal regulations in this respect are based on the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders EBA/GL/2017/12 and complies with the applicable laws, including the Banking Law Act and the Commercial Companies Code. They also comply with new Guidelines EBA/GL/2021/06 effective as of 31 December 2021.

- Pursuant to Santander Bank Polska Management Board Diversity Policy, the Supervisory Board strives to achieve the objective of at least 30% female representation on the Management Board by 2025.
- In the case of the Supervisory Board, the notion of diversity is governed by the Policy on the Suitability Assessment of the Supervisory Board Members in Santander Bank Polska S.A. The Policy sets out an objective of 40%–60% female representation on the Supervisory Board by 2025.

To ensure the target percentage of women on the Management and Supervisory Boards, the Nominations Committee of the Supervisory Board takes into account all personnel of Santander Group and business objectives related to cross-border activities. It also takes measures to ensure that the succession plans include an appropriate percentage of women and that the women considered in such plans are ready to take up their role within the prescribed time frame.

The Nominations Committee of the Supervisory Board monitors delivery of the objectives set out in the diversity policy and reviews the progress each year based on the data and information obtained as part of collective assessment of the Management Board and the Supervisory Board. If the progress in achieving the objectives or targets is insufficient, the Committee indicates the causes and recommends appropriate measures to be taken to meet the diversity targets.

As at 31 December 2021, there were four women on the Bank's Supervisory Board: Danuta Dąbrowska, Dominika Bettman, Isabel Guerreiro and Marynika Woroszyńska-Sapieha (40% of membership) and one woman on the Management Board: Dorota Strojowska, Head of the Business Partnership Division (11% of membership). Women accounted for 26% of the supervisory and management bodies.

In terms of other criteria, the current composition of the Supervisory and Management Boards is sufficiently diverse and includes people of different geographical provenance (five EU states), age, years of service with the Bank and experience both in the financial industry and other areas of economy, representatives of science and business, having diverse academic background, including degree in economics, law, IT and new technologies.

The tables below present the delivery of the diversity policy within the Management Board and the Supervisory Board.

Gender	Women	Men
Supervisory Board	4	6
Management Board	1	8

Age	31–40	41–50	51–60	above 60
Supervisory Board	-	2	5	3
Management Board	-	5	4	-

Years of service with Santander Bank Polska S.A.	up to 5	6–10	11–15	16–20	21–25	above 26
Supervisory Board	3	5	1	1	-	-
Management Board	2	3	2	1	1	1

International experience	Number of members
Supervisory Board	7
Management Board	4



## 9. 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, as evidenced specifically by:

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

The Supervisory Board thanks the Bank's Management Board and all employees of Santander Bank Polska S.A. and its Group for a rewarding co-operation and contribution to its development and transformation, and to building the Bank's strong position on the financial market.

## 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 Principles of Corporate Governance for Supervised Institutions (Principles) 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 Principles 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 Principles 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 2021, these units took appropriate measures to ensure compliance with the Principles.

In February 2021, the Supervisory Board assessed compliance with the Principles of Corporate Governance for Supervised Institutions. The assessment was based on a detailed report and evidence from relevant units of the Bank.

All units fulfilled their obligations by confirming the application of all the Principles 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 Principles in the Bank in 2021 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 Principles in 2021 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 Principles of Corporate Governance 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 regulations apply at 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.*
3. *Rules for payment of variable remuneration to Identified Staff of Santander Bank Polska S.A. in 2021.*

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 Staff. The purpose of the Remuneration Policy is to lay down general remuneration rules and practices consistent with internal regulations and applicable law, taking into account 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 document 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 banking principle and supports development of a strong corporate culture in accordance with the corporate values.

Given the applicable Regulation of the Minister of Finance, Funds and Regional Policy of 8 June 2021 on the risk management system, the internal control system and remuneration policy at banks, 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. As part of the review in 2021, the Remuneration Policy of Santander Bank Polska Group was adapted to the amended Banking Law, the above-mentioned Regulation of the Minister of Finance, Funds and Regional Policy, Recommendation Z issued by the Polish Financial Supervision Authority (KNF), Best Practice of GPW Listed Companies and other regulations applicable to the Bank. The amendments involved in particular changes to the deferral period for variable remuneration payable to the Identified Staff and rules for applying exceptions to deferrals, introduction of the definition of senior management and incorporation of provisions emphasising gender neutrality of the remuneration policy. The updated versions of the Remuneration Policy for members of the Management Board of Santander Bank Polska S.A. and the Remuneration Policy for members of the Supervisory Board of Santander Bank Polska S.A. will be presented at the next General Meeting of 2022 (the existing provisions of the policies have not been found to be non-compliant and enabled in particular implementation of the new deferral periods with respect to variable remuneration for Management Board members).

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.

In 2021, the Internal Audit Area reviewed the documents on variable components of remuneration paid to material risk takers in Santander Bank Polska Group applicable in 2020. As the responsible units enhanced their activities, the overall "good" rating improved compared to the last audit.

The audit function concluded above all that there was proper governance in place, the policy properly reflected the regulatory requirements, material risk takers were correctly identified, and variable components of remuneration were adequately calculated, paid and disclosed. The Internal Audit Area did not issue any recommendations.

The Bank has a centre of excellence with appropriate knowledge and skills enabling independent update and verification of the list of material risk takers (MRT). The Remuneration Committee of the Supervisory Board actively participated in identification of MRTs. The Supervisory Board constantly supervised the process, approving its result. The Bank identified MRTs based on the new provisions of the Banking Law introduced in 2021 and the criteria laid down in Commission Delegated Regulation (EU) No 2021/923 of 25 March 2021. In view of the effective date of the new laws, the original list of MRTs was approved by the Supervisory Board in July 2021 and was subsequently reviewed at the end of the year to reflect personnel and organisational changes that took place in H2 2021. The list of persons identified as MRTs in 2021 includes 91 people from Santander Bank Polska S.A. and 6 people from Santander Bank Polska Group subsidiaries. In 2021, the identification was benchmarked to banking sector practices in Poland and was conducted 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 active oversight of the Remuneration Policy, both in terms of verification whether the conditions for awarding and paying variable remuneration for 2020 had been fulfilled (including application of malus clauses) as well as the review of the assumptions underpinning the remuneration strategy and main bonus schemes for 2021.

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.

Accordingly, the Supervisory Board deems the Bank's remuneration policy and rules to be appropriate and conducive to delivery of the Bank's management strategy.

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Antonio Escámez Torres  
Chairman of the Supervisory Board