

INFORMATION ON CAPITAL ADEQUACY OF SANTANDER BANK POLSKA GROUP as at 30th June 2019



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I. Introduction

This document is issued under the Santander Bank Polska Group Disclosure Strategy formulated based on Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 which formed the legal basis of the reporting date i.e. 30 June 2019.

Starting from January 1st, 2014 by the decision of the European Parliament and of the Council the new regulations of the CRD IV/CRR package come into force. The CRD IV/CRR package consist of two parts, the CRD IV Regulation and CRR Directive. The regulation is directly applicable in all EU member states. The Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system transposes CRD IV into the Polish law.

Santander Bank Polska S.A. is the significant subsidiary of Banco Santander S.A. with its seat in Spain, which is the EU parent institution. Santander Bank Polska S.A. discloses information about the capital adequacy on a consolidated basis – at the highest local level of prudential consolidation – i.e. based on the data of Santander Bank Polska S.A.

The objective of the report is to present information about the capital adequacy of Santander Bank Polska Group in accordance with the requirements set out in Article 13 of CRR. The disclosures are made pursuant to EBA/GL/2014/14 Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013 and EBA/GL/2016/11 Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013.

The data presented in the report were prepared as at 30 June 2019. The information contained herein refers to the foregoing regulations to the extent applicable to the Bank and Santander Bank Polska Group.

Disclosure of capital adequacy	Guidelines on disclosures	Article of CRR
I. Introduction		
1. Capital Group	Scope of application of the regulatory framework	Article 436
II. Own funds	Own funds	Article 437 paragraph 1
III. Capital requirements	Capital requirements	Article 438
1. Total capital requirements		
2. Credit risk	Credit risk and its mitigation	Article 442, 453
	ECAI	Article 444
3. Counterparty credit risk	Counterparty credit risk	Article 439, 444, 452
4. Market risk	Market risk	Article 445, 455
IV. Capital buffers	Macroprudential supervisory measures	Article 440
V. Capital adequacy		
1. Capital adequacy management		
2. Regulatory capital adequacy		
3. Internal capital adequacy		
VI. Leverage ratio	Leverage ratio	Article 451
VII. Remuneration Policy	Governance arrangements	Article 435 paragraph 2
	Remuneration	Article 450
N/A	Indicators of global systemic importance	Article 441
N/A	The IRB approach for credit risk purpose	Article 452
N/A	Use of internal market risk measurement models	Article 455

1. Capital Group

Santander Bank Polska S.A. forms a Group with 15 following subsidiaries which are consolidated in accordance with IFRS 10 and associates which are accounted for using the equity method.

EU L13 – OUTLINE OF THE DIFFERENCES IN THE SCOPES OF CONSOLIDATION (ENTITY BY ENTITY) AS AT 30.06.2019

Name of the entity	Accounting consolidation method	Regulatory consolidation method				Business profile
		Full consolidation	Equity method consolidation	Proportional consolidation	Neither consolidated nor deducted from common equity	
Santander Factoring Sp. z o.o.	Full consolidation	X				Factoring services
Santander F24 S.A.	Full consolidation	X				Lending services
Santander Leasing S.A.	Full consolidation	X				Lease services
Santander Finanse Sp. z o.o.	Full consolidation	X				Financial, lease and insurance intermediary services
Santander Inwestycje Sp. z o.o.	Full consolidation	X				purchase and sale of shares in commercial companies and other securities; prospecting activities
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	Full consolidation	X				Management of investment funds and financial instrument portfolios
Santander Securities S.A.	Full consolidation	X				Brokerage services
Santander Leasing Poland Securitization 01	Full consolidation	X				SPV set up for the purpose of securitisation
Santander Consumer Bank S.A.	Full consolidation	X				Banking services
Santander Consumer Multirent Sp. z o.o.	Full consolidation	X				Lease services
Santander Consumer Finanse Sp. z o.o.	Full consolidation	X				Investing cash surpluses and financial intermediary services
SC Poland Consumer 15-1 Sp. z o.o	Full consolidation	X				SPV set up for the purpose of securitisation
SC Poland Consumer 16-1 Sp. z o.o	Full consolidation	X				SPV set up for the purpose of securitisation
PSA Consumer Finance Polska Sp. z o.o.	Full consolidation	X				Financial services supporting the sale of Peugeot and Citroën vehicles (consumer loans)
PSA Finance Polska Sp. z o.o	Full consolidation	X				Financial services supporting the sale of Peugeot and Citroën vehicles (lease, factoring)
Santander AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A.	Equity method		X			Insurance services (personal and property insurance)
Santander AVIVA Towarzystwo Ubezpieczeń na Życie S.A.	Equity method		X			Insurance services (life insurance)
Polfund – Fundusz Poręczeń Kredytowych S.A.	Equity method		X			Loan guarantees

Compared with 31 December 2018, no changes were made to the composition of the bank's Group.

II. Own funds

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

Own funds are calculated in accordance with the Banking Law and legislative package of CRDIV/CRR.

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

- Tier I capital,
- Tier II capital.

Tier I capital consists of:

- Common Equity Tier I capital, which is a sum of items of Common Equity Tier I capital items after adjustments, deductions and inclusions
- Additional Tier I capital

Tier II capital includes items of Tier II capital after deductions.

Common Equity Tier I consists of:

1. Share capital, fully paid and registered at its nominal value
2. Emission premium
3. Supplementary capital
4. Profit or loss eligible- pursuant to Art. 26 of CRR, the non-audited profit for the current period or the annual profit may be included in Common Equity Tier I capital, as long as the Bank is granted approval from a relevant authority (KNF in this case). Relevant authority shall issue the approval on conditions that:
 - a. Profits have been verified by institution-independent persons responsible for analysing financial statements of the institution
 - b. The institution has satisfactorily proved that the profit amount has been reduced by all foreseeable encumbrances and dividends
5. Accumulated other comprehensive income
6. Other reserves
7. Funds for general banking risk
8. Minority interest recognised in Common Equity Tier I capital – calculated in line with the standards indicated in Art. 84 of CRR
9. Adjustment and deductions from Common Equity Tier I items:
 - a. Additional value adjustments due to the requirements of prudent valuation – acc. to Article 34 and 105 of CRR
 - b. Goodwill arising on acquisition
 - c. Other intangible assets
 - d. Surplus of deferred tax assets or liabilities exceeding 10% of Tier I - according to EBA's interpretation re. inclusion of assets and reserves under deferred tax, in line with the answer Q&A 2014_980, the Bank nets deferred tax assets and deferred tax liabilities in order to determine the threshold value necessary to calculate the deductible amount
 - e. Surplus of material exposure in financial sector institutions exceeding 10% of Tier I
 - f. Portion of deferred income tax assets depending on future profitability and arising from temporary differences, as well as direct and indirect holdings in Common Equity Tier I instruments, where the institution has invested a considerable amount of funds, which shall be deducted

- g. Defined benefit pension fund assets
- h. Adjustments re IFRS 9 phase in – acc. to Article 473a

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

Reconciliation between balance sheet items used to calculate own funds and regulatory own funds, according to methodology described in Annex I to Commission Implementing Regulation (EU) No 1423/2013 and according to article 437 (1)(a) of CRR, is presented in the table below.

TABLE 1 -DIFFERENCES IN OWN FUNDS ITEMS OF SANTANDER BANK POLSKA GROUP
DUE TO DIFFERENT SCOPE OF ACCOUNTING AND PRUDENTIAL CONSOLIDATION AS AT 30.06.2019 (PLN K)

ITEMS OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION USED FOR CALCULATION OF OWN FUNDS	as at 30.06.2019	Adjustments for companies that are not covered by prudential consolidation	Adjustments regarding transitional arrangements for the introduction of IFRS 9	Part of profit for the current period, not eligible	Other equity	Retained earnings of subsidiaries	BALANCE SHEET	item no. in the table 2
							ITEMS IMPACTING REGULATORY OWN FUNDS	
Assets								
Investment financial assets and Investments in associates	40 029 441	-	-	-	-	-	-	
-including significant investments into financial sector entities - amount not exceeding the threshold set in Article 48(1)(b)	889 227	-	-	-	-	-	889 227	73
Intangible fixed assets	742 302	-	-	-	-	-	742 302	8
Goodwill	1 712 056	-	-	-	-	-	1 712 056	8
Deferred tax assets (net)	1 776 340	124 804	-48 326	-	-	-	1 852 818	
-including assets that do not exceed the threshold set in Article 48(1)(a)	1 776 340	124 804	-48 326	-	-	-	1 852 818	75
Liabilities								
Subordinated obligations	2 627 382	-	-	-	-	-	-	
- including loans eligible as instruments under Tier II	2 518 389	-	-	-	-	-	2 518 389	46
Equity attributable to shareholders of BZ WBK S.A. including:								
Share capital	1 020 883	-	-	-	-	-	1 020 883	1
Other capital items	20 123 479	-347 920	-	-	-136 388	-	19 639 171	
Revaluation reserve	1 213 076	-	-	-	-	-	1 213 076	3
Retained earnings	886 795	-9 711	-	-	136 388	-313 664	699 808	2
Current year profit	957 901	-	-	-957 901	-	-	0	5a

As at 30 June 2019, the total own funds of the Santander Bank Polska Group amounted to PLN **23 878 687k**.

The amounts and nature of their specific items are presented in Table 2. The disclosure uses the template presented in Annex 4 to article 5 of Commission Implementing Regulation (goodwill arising from the fact that Santander Bank Polska S.A. holds 60% EU) No 1423/2013, which states the disclosure requirement of own funds items. The table is limited to lines relevant for Santander Bank Polska Group.

References in the last column of Table 1 allow the mapping between individual elements of own funds with balance sheet items used for their calculation.

TABLE 2 - THE NATURE AND AMOUNTS OF SPECIFIC ITEMS ON OWN FUNDS OF SANTANDER BANK POLSKA GROUP DURING THE INTERIM PERIOD - AS AT 30.06.2019 (PLN K)

	AMOUNT AT 30.06.2019 [PLN k]	REGULATION (EU) No 575/2013 ARTICLE REFERENCE
Common Equity Tier 1 capital: instruments and reserves		
1 Capital instruments and the related share premium accounts	9 002 857	26 (1), 27, 28, 29
of which: shares	9 002 857	EBA list 26 (3)
2 Retained earnings	699 808	26 (1) (c)
3 Accumulated other comprehensive income (and any other reserves)	12 220 463	26 (1)
3a Funds for general banking risk	649 810	26 (1) (f)
5 Minority interests (amount allowed in consolidated CET1)	979 507	84
5a Independently reviewed interim profits net of any foreseeable charge or dividend	0	26 (2)
6 Common Equity Tier 1 (CET1) capital before regulatory	23 552 445	
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7 Additional value adjustments (negative amount)	-79 310	34, 105
8 Intangible assets (net of related tax liability) (negative amount)	-2 454 358	36 (1) (b), 37
15 Defined-benefit pension fund assets (negative amount)	-10 837	36 (1) (e), 41
26b Filter for IFRS 9 phase in	206 023	473(a)
28 Total regulatory adjustments to Common Equity Tier 1 (CET1)	-2 338 482	
29 Common Equity Tier 1 (CET1) capital	21 213 963	
Additional Tier 1 (AT1) capital: instruments		
36 Additional Tier 1 (AT1) capital before regulatory adjustments	-	
Additional Tier 1 (AT1) capital: regulatory adjustments		
43 Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	
44 Additional Tier 1 (AT1) capital	-	
45 Tier 1 capital (T1 = CET1 + AT1)	21 213 963	
Tier 2 (T2) capital: instruments and provisions		
46 Capital instruments and the related share premium accounts	2 518 389	62, 63
Qualifying own funds instruments included in consolidated T2		
48 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	146 335	87, 88
51 Tier 2 (T2) capital before regulatory adjustment	2 664 724	
Tier 2 (T2) capital: regulatory adjustments		
57 Total regulatory adjustments to Tier 2 (T2) capital	-	
58 Tier 2 (T2) capital	2 664 724	
59 Total capital (TC = T1 + T2)	23 878 687	
60 Total risk-weighted assets	146 860 022	
Capital ratios and buffers		
61 Common Equity Tier 1 (as a percentage of total risk exposure amount)	14,45%	92 (2) (a)
62 Tier 1 (as a percentage of total risk exposure amount)	14,45%	92 (2) (b)
63 Total capital (as a percentage of total risk exposure amount)	16,26%	92 (2) (c)
64 Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	6,00%	CRD 128, 129, 130, 131, 133
65 of which: capital conservation buffer requirement	2,50%	
66 of which: countercyclical buffer requirement	0,00%	
67 of which: systemic risk buffer requirement	3,00%	
67a of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0,50%	
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6,45%	CRD 128
Amounts below the thresholds for deduction (before risk-weighting)		
73 Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	889 227	36 (1) (i), 45, 48
75 Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	1 852 818	36 (1) (c), 38, 48

1. Tier I

Common Equity Tier I

Share capital in accordance with the Bank's Statutes and the entry to the Court Register as at 30 June 2019 amounted to PLN **1 020 833k**.

Detailed information about prices of the above instruments, including Tier 1 capital, are presented in Table 3.

Supplementary capital is created from profit allocations and from share premium. By the Bank's Statutes, the supplementary capital is created from net profit allocations. Its purpose is to cover any balance sheet losses. The value of the allocations is determined by the General Meeting of Shareholders. As at 30 June 2019, the supplementary capital in own funds was PLN **9 039 889k**, incl. share premium of PLN **7 981 974k**.

Other reserves are created from net profit allocations in an amount approved by the General Meeting of Shareholders. Other reserve are used to cover balance sheet losses if they are greater than the supplementary capital. The decision to resort to the reserve capital is taken by the General Meeting of Shareholders. As at 30 June 2019, after including prudential consolidation adjustments, the other reserves in own funds was PLN **9 949 472k**.

Funds for general banking risk are used to cover costs and losses connected with unidentified banking risks that were not separately provided for. As at 30 June 2019, the general risk fund earmarked for unidentified risks of the banking business was PLN **649 810k**.

Net profit of Santander Bank Polska Group from 1 January 2019 to 30 June 2019 totaled PLN **1 112 909k**, including PLN 155 008k of profit attributable to shareholders who do not exercise control. As at 30 June 2019 Santander Bank Polska Group not included the current year profit in own funds.

As at 30 June 2019 in Own Funds of Santander Bank Polska Group the **retained earnings** are included in the amount of PLN **699 808k**, of which undistributed Bank's net profit from previous years amounted PLN 542 513k.

In May 2019, the General Meeting of Santander Bank Polska S.A. Shareholders agreed on the distribution of the net profit of **PLN 2 167 161k** for the accounting year from 1 January 2018 to 31 December 2018 as follows:

- PLN 541 068k was allocated to dividend for shareholders;
- PLN 1 083 581k was allocated to capital reserves;
- PLN 542 513k was left undistributed.

Additionally, AGM has allocated retained earnings resulting from recognition on financial assets in accordance with IFRS 9 in the accounting year from 1 January 2018 to 31 December 2018 in the amount of PLN 17 809k to the reserve capital.

Furthermore, the AGM decided to distribute the retained net profit of PLN **958 078k** in respect of the accounting year from 1 January 2017 to 31 December 2017 as follows:

- PLN 957 588k was allocated to dividend for shareholders;
- PLN 490k was allocated to capital reserves.

The AGM decided to distribute the retained net profit of PLN **514 767k** in respect of the accounting year from 1 January 2016 to 31 December 2016 as follows:

- PLN 514 026k was allocated to dividend for shareholders;
- PLN 741k was allocated to capital reserves.

The number of shares eligible for the dividend paid from the profit for 2018 and 2017 is 102 088 305 series A, B, C, D, E, F, G, H, I, J, K, L, M and N. The number of shares eligible for the dividend paid from the profit for 2016 is 101 989 358 series A,

B, C, D, E, F, G, H, I, J, K, L and N. The M shares series are not eligible for the dividend paid from the profit for 2016, in accordance with Annual General Meeting of the Bank no. 43 dated 17th May 2017.

Dividend per one: A, B, C, D, E, F, G, H, I, J, K, L and N series share was **PLN 19.72**.

Dividend per on M series share was **PLN 14.68**.

Minority interests

As at 30 June 2019, the minority interests recognised in the consolidated Tier 1 capital totalled PLN **979 507k** and were attributed of SCB Group.

Minority interest are no longer included in own funds based on the balance sheet value, but are calculated according to article 84 of CRR.

Adjustment and deductions from Common Equity Tier I

Santander Bank Polska Group has calculated the additional value adjustments due to the requirements for prudent valuation according to articles 34 and 105 of CRR. It amounted to PLN **(79 310)k**.

As at 30 June 2019, the adjustment of the Common Equity Tier 1 capital due to goodwill amounted to PLN **(1 712 056)k**, including:

- PLN 1 688 516k – goodwill arising from the merger of Santander Bank Polska S.A. and Kredyt Bank on 4 January 2013. The goodwill recognised as at the date of the merger between Santander Bank Polska S.A. and Kredyt Bank represents a control premium and arises from the possibility to generate additional benefits from the expected synergies, increase in revenues and market share, combination of staff competencies and an increase in the effectiveness of processes, in relation to the fair value of the acquired net assets.
- PLN 23 540k – goodwill arising from the acquisition by Santander Consumer Bank of shares in PSA Finance Polska sp. o.o. Santander Consumer Bank S.A. holds 50% of shares in PSA Finance Polska sp. o.o., in turn, Santander Bank Polska S.A. holds a 60% of shares in Santander Consumer Bank.

As at 30 June 2019, deduction from Common Equity Tier I regarding other intangible assets amounted to PLN **(742 302)k**.

2. Tier II

Subordinated liabilities

Own funds of Santander Bank Polska Group:

- include funds raised through the issuance of variable-rate registered bonds which were taken up and paid up by the European Bank for Reconstruction and Development. In 2016, the bank amended the agreement under which subordinated registered bonds had been issued on 5 August 2010. The amendments included a maturity extension to 5 August 2025, among other things. Pursuant to the KNF decision of 18 May 2016 (letter No. DBK/DBK 2/7100/2/7/2016), the foregoing subordinated bonds of EUR 100m were allocated to Tier 2 capital.

- pursuant to the KNF decision of 24 February 2017 (letter No. DBK/DBK 2/7100/6/7/2016/2017), the subordinated bonds of EUR 120m issued by Santander Bank Polska S.A. on 2 December 2016, maturing on 3 December 2026 and taken up by investors, were allocated to Tier 2 capital.
- pursuant to the KNF decision of 19 October 2017 (letter No. DBK/DBK 2/7100/1/14/2017), the subordinated bonds of EUR 137.1m issued by Santander Bank Polska S.A. on 22 May 2017, maturing on 22 May 2027 and taken up by an investor, were allocated to Tier 2 capital.
- pursuant to the Decision of KNF of 6 June 2018 (document DBK-DBK2.7100.3.2018.) subordinated loan PLN 1b with maturity of 5 May 2028 were allocated to Tier II capital

Hence, as at 30 June 2019, own funds include subordinated liabilities of PLN **2 518 389k**.

SUBORDINATED LIABILITIES OF THE SANTANDER BANK POLSKA GROUP ELIGIBLE AS TIER II CAPITAL
AS AT 30 JUNE 2019 (PLN K)

Entity	Nominal value [k]	Currency	Amount included in own funds [k]	Redemption date	Start date of amortization	Subordinated liabilities included in own funds [PLN k]
European Bank for Reconstruction and Development	100 000	EUR	100 000 EUR	05.08.2025	05.08.2020	425 200
Other financial institution (serie E)	120 000	EUR	120 000 EUR	03.12.2026	03.12.2021	510 240
International Finance Corporation (IFC green bonds)	137 100	EUR	137 100 EUR	22.05.2027	22.05.2022	582 949
Other financial institution (serie F)	1 000 000	PLN	1 000 000 PLN	05.04.2028	05.04.2023	1 000 000
						2 518 389

Instruments issued by subsidiaries that recognised in Tier II capital

Following the acquisition of control over Santander Consumer Bank in 2014, its qualifying own funds of PLN **146 335k**, calculated in accordance with Art. 88 of CRR as own funds of a subsidiary, represent another item of Tier II capital of Santander Bank Polska Group.

More details about the subordinated liabilities are presented in Note 26 to the Interim Report 2019 of the Santander Bank Polska Group.

Detailed description of capital instruments' main features is presented in Table 3.

DESCRIPTION OF MAIN FEATURES OF COMMON EQUITY TIER I AND TIER II INSTRUMENTS OF SANTANDER BANK POSKA

Capital instruments' main features						
1	Issuer	Santander Bank Polska S.A.	Santander Bank Polska S.A.	Santander Bank Polska S.A.	Santander Bank Polska S.A.	Santander Bank Polska S.A.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	PLBZ00000044	XS0531310182	PLBZ00000226	not applicable	PLBZ00000275
3	Governing law(s) of the instrument	polish	english/polish	polish	english	polish
<i>Regulatory treatment</i>						
4	Transitional CRR rules	Common Equity Tier I	Tier II	Tier II	Tier II	Tier II
5	Post-transitional CRR rules	Common Equity Tier I	Tier II	Tier II	Tier II	Tier II
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	solo and consolidated	solo and consolidated	solo and consolidated	solo and consolidated	solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	shares - Common Equity Tier I as published in Regulation (EU) No 575/2013 article 28	Tier II as published in Regulation (EU) No 575/2013 article 63	Tier II as published in Regulation (EU) No 575/2013 article 63	Tier II as published in Regulation (EU) No 575/2013 article 63	Tier II as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	PLN 1 020,883 m	PLN 425,200 m	PLN 510,240 m	PLN 582,949 m	PLN 1 b
9	Nominal amount of instrument	10 PLN	100 000 000 EUR	120 000 000 EUR	137 100 000 EUR	1 000 000 000 PLN
		Series A: 10 PLN Series B: 10 PLN Series C: 10 PLN Series D: 102 PLN Series E: 102 PLN Series F: 40 PLN Series G: 10 PLN Series H: 10 PLN Series I: 212.60 PLN Series J: "Share Exchange Ratio" re. the merger of Santander Bank Polska S.A. with Kredyt Bank, pursuant to Resolution no. 2 of the Extraordinary Meeting of Santander Bank Polska S.A. Shareholders, dd. 30.07.2012 r. Series K: 10 PLN Series L: 400.53 PLN Series M: 10 PLN Series N: "Share Exchange Ratio" re. the merger of Santander Bank Polska S.A. with Deutsche Bank Polska S.A., pursuant to Resolution no. 3 of the Extraordinary Meeting of Santander Bank Polska S.A. Shareholders, dd. 29.05.2018 r.				
9a	Issue price		100% of nominal value	100% of nominal value	100% of nominal value	100% of nominal value
9b	Redemption price	N/A	100% of nominal value	100% of nominal value	100% of nominal value	100% of nominal value
10	Accounting classification	Shareholders' equity	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost

II. OWN FUNDS

		Series A: 08.11.1991 Series B: 21.12.1996 Series C: 31.12.1996 Series D: 25.10.1999 Series E: 17.05.2000 Series F: 30.11.2000 Series G: 13.06.2001 Series H: 10.07.2009 Series I: 09.08.2012 Series J: 04.01.2013 Series K: 11.07.2014 Series L: 18.07.2014 Series M: 03.08.2017 Series N: 27.11.2018				
11	Original date of issuance		05-08-2010	02-12-2016	22-05-2017	05-04-2018
12	Perpetual or dated	N/A	Dated	Dated	dated	dated
13	Original maturity date	No maturity	05-08-2025	03-12-2026	22-05-2027	05-04-2028
14	Issuer call subject to prior supervisory approval	N/A	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates, and redemption amount	N/A	05-08-2020	03-12-2021	22-05-2022	05-04-2023
16	Subsequent call dates, if applicable	N/A	each interest period, every 3 months	each interest period, every 6 months	each interest period, every 6 months (after five years)	each interest period, every 6 months (after five years)
	<i>Coupons / dividends</i>					
17	Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating	Floating
18	Coupon rate and any related index	N/A	above three-month EURIBOR for each interest period	above six-month EURIBOR for each interest period	above six-month EURIBOR for each interest period	above six-month WIBOR for each interest period
19	Existence of a dividend stopper	No	Yes	No	Yes	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	N/A	Partially discretionary	Partially discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	N/A	Partially discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	N/A	No	No	No	No
22	Noncumulative or cumulative	Noncumulative	Cumulative	N/A	N/A	n/a
23	Convertible or non-convertible	Nonconvertible	Nonconvertible	Nonconvertible	Convertible	Non-convertible
					<p>If:</p> <p>(1)The Bonds shall be converted into a senior loan if:</p> <p>(i) there is a change in the regulatory classification of the Bonds that would be likely to result in their exclusion from the Issuer's own funds (as defined in the CRR) or reclassification as a lower quality form of own funds; or</p> <p>(2) Under BGF Act as defined in Terms and Conditions: 'Under the BGF Act, the Issuer's obligations under the Bonds may be subject to write-down or conversion on the terms set out in the BGF Act. By purchasing the Bonds, each Bondholder acknowledges the results of a decision the Bank Guarantee Fund may make on exercising its write-down or conversion powers with respect to the Bonds.'</p>	
24	If convertible, conversion trigger (s)	N/A	N/A	N/A		N/A

II. OWN FUNDS

25	If convertible, fully or partially	N/A	N/A	N/A	fully	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	The Bonds shall be converted into a senior loan at the price level agreed by both Parties.	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	mandatory	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	Senior loan or any other financial instrument defined under BGF Act, as mentioned above.	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	Santander Bank Polska S.A.	N/A
30	Write-down features	No	No	No	Under the BGF Act, the Issuer's obligations under the Bonds may be subject to write-down or conversion on the terms set out in the BGF Act. By purchasing the Bonds, each Bondholder acknowledges the results of a decision the Bank Guarantee Fund may make on exercising its write-down or conversion powers with respect to the Bonds.	No
31	If write-down, write-down trigger (s)	N/A	N/A	N/A	as above	N/A
32	If write-down, full or partial	N/A	N/A	N/A	as above	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	as above	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	as above	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	the lowest priority of satisfaction and will rank only to the extent permitted by applicable laws relating to creditors' right	the lowest priority of satisfaction and will rank only to the extent permitted by applicable laws relating to creditors' right	the lowest priority of satisfaction and will rank only to the extent permitted by applicable laws relating to creditors' right	the lowest priority of satisfaction and will rank only to the extent permitted by applicable laws relating to creditors' right
36	Non-compliant transitioned features	No	No	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

3. Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds

On 12 December 2017, the European Parliament and the Council adopted Regulation No 2017/2395 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State. This Regulation entered into force on the next day following its publication in the Official Journal of the European Union and has been applicable since 1 January 2018. The European Parliament and the Council concluded that the application of IFRS 9 may lead to a sudden significant increase in expected credit loss provisions and consequently to a sudden decrease in institutions' Common Equity Tier 1 capital.

The regulation regarding the mitigation of impact of IFRS 9 on Tier 1 capital provides for the following:

- Where an institution's opening balance sheet on the day that it first applies IFRS 9 reflects a decrease in Common Equity Tier 1 capital as a result of increased expected credit loss provisions, including the loss allowance for lifetime expected credit losses for financial assets that are credit-impaired, compared to the closing balance sheet on the previous day, Santander Bank Polska Group should be allowed to include in its Common Equity Tier 1 capital a portion of the increased expected credit loss provisions for a transitional period. That transitional period should have a maximum duration of 5 years and should start in 2018. The portion of expected credit loss provisions that can be included in Common Equity Tier 1 capital should decrease over time down to zero to ensure the full implementation of IFRS 9 on the day immediately after the end of the transitional period.
- The multipliers that can be applied in consecutive years of the transitional period are as follows: 95%, 85%, 70%, 50%, 25%.
- If Santander Bank Polska Group decides to apply the IFRS 9 transitional arrangements, it should publicly disclose its own funds, capital ratios and leverage ratio both with and without the application of those arrangements in order to enable the recipients of financial statements to determine the impact of those arrangements.
- Institution should decide whether to apply those transitional arrangements and inform the Regulatory Supervision accordingly.
- During the transitional period, Institution may reverse once its initial decision, subject to the prior permission of the Polish Financial Supervision Authority, which should ensure that such decision is not motivated by considerations of regulatory arbitrage.
- Institutions that decide to apply transitional arrangements should be required to adjust the calculation of regulatory items which are directly affected by expected credit loss provisions to ensure that they do not receive inappropriate capital relief. For example, the specific credit risk adjustments by which the exposure value is reduced under the standardised approach for credit risk should be reduced by a factor which has the effect of increasing the exposure value. This would ensure that an institution would not benefit from both an increase in its Common Equity Tier 1 capital due to transitional arrangements as well as a reduced exposure value.

Having analysed Regulation No. 2017/2395, the bank as the parent company has decided to apply the transitional arrangements provided for therein, which means that the full impact of the introduction of IFRS 9 will not be taken into account for the purpose of capital adequacy assessment of Santander Bank Polska Group.

Bank fulfilled its obligations imposed by the CRR by informing the Polish Financial Supervision Authority about its intention to apply transitional provisions (letter ref. GZP/06/01/2018 of 31 January 2018).

Below, Santander Bank Polska Group has disclosed own funds, capital ratios, as well as the leverage ratio, both including and excluding application of transitional solutions stemming from Article 473a of Regulation (EU) No 575/2013:

COMPARISON OF INSTITUTIONS' OWN FUNDS AND CAPITAL AND LEVERAGE RATIOS WITH AND WITHOUT THE APPLICATION OF TRANSITIONAL ARRANGEMENTS FOR IFRS 9 (PLN K)

Available capital (amounts)	30.06.2019	31.03.2019	31.12.2018	30.09.2018	30.06.2018
Common Equity Tier 1 (CET1) capital	21 213 963	21 319 141	20 166 059	19 657 685	19 660 476
Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	21 022 236	21 162 089	19 984 622	19 476 357	19 518 903
Tier 1 capital	21 213 963	21 319 141	20 166 059	19 657 685	19 660 476
Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	21 022 236	21 162 089	19 984 622	19 476 357	19 518 903
Total capital	23 878 687	23 994 949	22 839 754	22 323 263	22 357 159
Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	23 686 570	23 837 572	22 658 089	22 141 723	22 215 395
Risk-weighted assets (amounts)					
Total risk-weighted assets	146 860 022	145 694 924	142 927 860	126 770 298	125 769 908
Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	146 651 223	145 626 494	142 852 541	126 704 428	125 718 206
Capital ratios					
Common Equity Tier 1 (as a percentage of risk exposure amount)	14,45%	14,63%	14,11%	15,51%	15,63%
Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14,33%	14,53%	13,99%	15,37%	15,53%
Tier 1 (as a percentage of risk exposure amount)	14,45%	14,63%	14,11%	15,51%	15,63%
Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14,33%	14,53%	13,99%	15,37%	15,53%
Total capital (as a percentage of risk exposure amount)	16,26%	16,47%	15,98%	17,61%	17,78%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16,15%	16,37%	15,86%	17,48%	17,67%
Leverage ratio					
Leverage ratio total exposure measure	213 078 028	221 096 601	212 258 409	186 417 103	177 260 235
Leverage ratio	9,96%	9,64%	9,50%	10,55%	11,09%
Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	9,87%	9,58%	9,42%	10,46%	11,02%

III. Capital requirements

1. Total capital requirements

The capital requirements of Santander Bank Polska Group are set in accordance with part III of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (“CRR”), which was the official legal basis as at 30 June 2019.

In 2019, Santander Bank Polska applied the standardised approach to the calculation of capital requirement for credit, market and operational risk. Under this approach the total capital requirement for credit risk is calculated as a sum of risk-weighted assets multiplied by 8%. To calculate risk-weighted exposures, risk weights are allocated to all exposures in accordance with the CRR. The Group measures its balance sheet assets and liabilities in accordance with International Accounting Standards and International Financial Reporting Standards.

The Bank calculates and monitors capital requirements for all key risks, including:

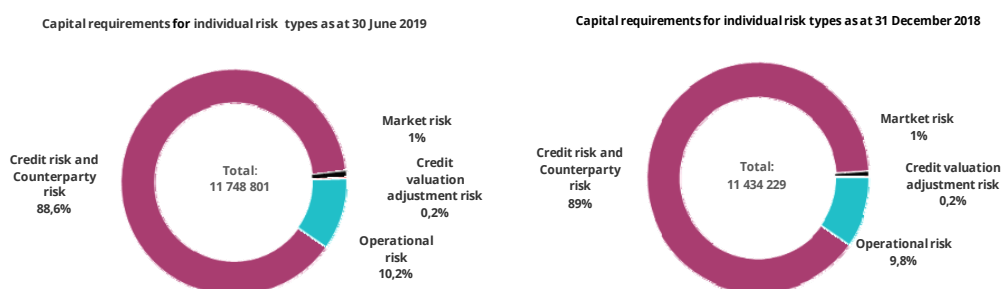
- capital requirement for credit risk
- capital requirement for market risk, including:
 - ✓ capital requirement for positions risk, including:
 - specific and general risk of debt instruments
 - specific and general risk of equity instruments
 - ✓ capital requirement for FX risk
- capital requirement for the settlement, supplier and counterparty risk
- capital requirement for credit valuation adjustments
- capital requirement for the excess of large exposures limit
- capital requirement for the excess of capital concentration limit
- capital requirement for operational risk.

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

As at 31 June 2019, the total capital requirements of Santander Bank Polska Group calculated in line with the CRR was PLN **11,748,801k**, including:

- for credit risk and counterparty credit risk **PLN 10,408,502k**
- for market risk **PLN 112,198k**
- for credit valuation adjustment risk **PLN 29,643k**
- for operational risk **PLN 1,198,458k**.

PERCENTAGE STRUCTURE OF THE CAPITAL REQUIREMENTS FOR 06/2019 AND 12/2018



EU OV1 – OVERVIEW OF RWAS (PLN K)

	RWAs		Minimum capital requirements
	30.06.2019	31.03.2019	30.06.2019
Credit risk (excluding CCR)	121 852 090	120 542 100	9 748 167
Article 438(c)(d) Of which the standardised approach	121 852 090	120 542 100	9 748 167
Article 438(c)(d) Of which the foundation IRB (FIRB) approach	0	0	0
Article 438(c)(d) Of which the advanced IRB (AIRB) approach	0	0	0
Article 438(d) Of which equity IRB under the simple risk-weighted approach or the IMA	0	0	0
Article 107 Article 438(c)(d) CCR	1 769 611	2 087 674	141 569
Article 438(c)(d) Of which mark to market	1 394 163	1 756 975	111 533
Article 438(c)(d) Of which original exposure	0	0	0
Of which the standardised approach	0	0	0
Of which internal model method (IMM)	0	0	0
Article 438(c)(d) Of which risk exposure amount for contributions to the default fund of a CCP	4 913	1 762	393
Article 438(c)(d) Of which CVA	370 535	328 937	29 643
Article 438(e) Settlement risk	0	0	0
Article 449(o)(i) Securitisation exposures in the banking book (after the cap)	0	0	0
Of which IRB approach	0	0	0
Of which IRB supervisory formula approach (SFA)	0	0	0
Of which internal assessment approach (IAA)	0	0	0
Of which standardised approach	0	0	0
Article 438 (e) Market risk	1 402 478	1 167 900	112 198
Of which the standardised approach	1 402 478	1 167 900	112 198
Of which IMA	0	0	0
Article 438(e) Large exposures	0	0	0
Article 438(f) Operational risk	14 980 731	14 980 731	1 198 458
Of which basic indicator approach	0	0	0
Of which standardised approach	14 980 731	14 980 731	1 198 458
Of which advanced measurement approach	0	0	0
Article 437(2), Article 48 and Article 60 Amounts below the thresholds for deduction (subject to 250% risk weight)	6 855 112	6 916 519	548 409
Article 500 Floor adjustment	0	0	0
Total	146 860 022	145 694 924	11 748 801

The biggest item is the total capital requirement of Santander Bank Polska Group is the capital requirement for credit risk, including counterparty credit risk, which on 30 June 2019 accounted for 88.59% of the total capital requirement. Santander Bank Polska S.A. manages credit risk on a priority basis, using its internal rating systems, credit concentration limits and sectoral exposure limits, seeking to maintain the possible highest quality of the credit portfolio.

The Santander Bank Polska uses contractual netting according to art. 295-298 of CRR.

2. Credit risk

The structure of the exposure

In the capital adequacy assessment process, Santander Bank Polska Group classified each of these exposures in accordance with the standardised approach as provided for in Article 112 CRR.

The tables below present details of exposures in accordance with EBA/GL/2016/11 guidelines.

The exposure classes for which no items have been identified, have been disregarded.

EU CR1-A - CREDIT QUALITY OF EXPOSURES BY EXPOSURE CLASS AND INSTRUMENT (PLN K)

	a) Gross carrying values of		c) Specific credit risk adjustment	d) General credit risk adjustment	e) Accumulated write-offs	f) Credit risk adjustment charges of the period	g) Net values (a+b-c-d)
	Defaulted exposures	Non-defaulted exposures					
Central governments or central banks	-	42 262 400	-	-	-	-	42 262 400
Regional governments or local authorities	-	112 174	98	-	-	-	112 076
Public sector entities	-	103 652	356	-	-	-	103 296
Multilateral development banks	-	411 313	-	-	-	-	411 313
Institutions	-	4 074 449	438	-	-	-	4 074 011
Corporates	-	27 085 084	85 755	-	8	-	26 999 329
Of which: SMEs	-	3 468 538	12 574	-	0	-	3 455 964
Retail	-	55 010 545	705 944	-	16	-	54 304 601
Of which: SMEs	-	14 253 321	234 273	-	10	-	14 019 048
Secured by mortgages on immovable property	-	60 828 725	216 555	-	92	-	60 612 170
Of which: SMEs	-	6 280 425	86 110	-	-	-	6 194 315
Exposures in default	6 625 903	-	3 079 543	-	387 607	-	3 546 360
Items associated with particularly high risk	112 506	8 952	36 401	-	-	-	85 057
Collective investments undertakings	-	1 865	-	-	-	-	1 865
Equity exposures	-	1 672 528	-	-	-	-	1 672 528
Other exposures	-	4 631 264	-	-	-	-	4 631 264
Total	6 738 409	196 202 951	4 125 090	-	387 724	-	198 816 270
Of which: Loans	6 700 241	138 764 298	4 087 543	-	387 724	-	141 376 996
Of which: Debt securities	-	38 874 956	160	-	-	-	38 874 796
Of which: Offbalance-sheet exposures	23 195	5 460 426	17 482	-	-	-	5 466 139

Pursuant to Article 1 of Commission Delegated Regulation (EU) No 183/2014 of 20 December 2013 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, with regard to regulatory technical standards for specifying the calculation of specific and general credit risk adjustments, the bank's capital adequacy account includes adjustments connected with general and specific risk which were applied to Tier 1 capital to reflect losses related to credit risk, in accordance with the applicable accounting standards, and disclosed accordingly in the income statement, regardless of whether they arise from impairment, value adjustment or provisions for off-balance sheet items.

EU CR1-B – CREDIT QUALITY OF EXPOSURES BY INDUSTRY OR COUNTERPARTY TYPES (PLN K)

	a)		b)	c)	d)	e)	f)	g)
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values	
	Defaulted exposures	Non-defaulted exposures						(a+b-c-d)
Agriculture, forestry and fishing	175 832	2 874 618	138 798	-	-	-	2 911 652	
Mining and quarrying	395 614	955 324	51 215	-	-	-	1 299 723	
Manufacturing	605 231	14 592 648	390 237	-	6 969	-	14 807 642	
Electricity, gas, steam and air conditioning supply	9 662	1 737 858	31 446	-	0	-	1 716 074	
Water supply	16 032	357 308	13 240	-	244	-	360 100	
Construction	489 626	3 516 506	195 736	-	28 422	-	3 810 396	
Wholesale and retail trade	806 405	15 020 675	604 193	-	13 268	-	15 222 887	
Transport and storage	166 465	4 509 378	145 366	-	3 193	-	4 530 477	
Accommodation and food service activities	200 876	1 726 452	110 580	-	16	-	1 816 748	
Information and communication	148 504	3 370 206	85 091	-	153	-	3 433 619	
Financial and insurance activities	22 222	13 263 805	22 241	-	1 715	-	13 263 786	
Real estate activities	604 902	7 703 548	71 548	-	4 097	-	8 236 902	
Professional, scientific and technical activities	136 665	4 152 892	114 253	-	557	-	4 175 304	
Administrative and support service activities	84 251	1 554 261	61 773	-	4 855	-	1 576 739	
Public administration and defence, compulsory social security	696	32 808 370	378	-	-	-	32 808 688	
Education	15 627	275 128	13 780	-	161	-	276 975	
Human health services and social work activities	23 815	1 774 403	30 536	-	92	-	1 767 682	
Arts, entertainment and recreation	11 197	316 982	8 392	-	30	-	319 787	
Other services	75 310	5 729 215	76 508	-	16 217	-	5 728 017	
Retail	2 749 477	75 332 110	1 959 779	-	307 734	-	76 121 808	
Other	-	4 631 264	-	-	-	-	4 631 264	
Total	6 738 409	196 202 951	4 125 090	-	387 724	-	198 816 270	

EU CR1-C – CREDIT QUALITY OF EXPOSURES BY GEOGRAPHY (PLN K)

	a)		b)	c)	d)	e)	f)	g)
	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values	
	Defaulted exposures	Non-defaulted exposures						(a+b-c-d)
Europe	6 737 890	195 775 221	4 124 558	0	387 666	0	198 388 553	
Belgium	68	297 121	38	-	1	-	297 151	
Czech Republic	37	119 771	945	-	-	-	118 863	
Denmark	1	99 785	-	-	-	-	99 786	
France	102	345 754	71	-	3	-	345 785	
Spain	110	1 217 970	34	-	0	-	1 218 046	
Netherlands	717	430 045	913	-	-	-	429 849	
Luxembourg	25	2 269 442	3 150	-	-	-	2 266 317	
Germany	158	320 254	80	-	20	-	320 332	
Poland	6 725 197	189 545 893	4 114 723	-	387 604	-	192 156 367	
Switzerland	5	13 601	6	-	-	-	13 600	
United Kingdom	708	674 238	503	-	1	-	674 443	
Other countries	10 762	441 347	4 095	-	37	-	448 014	
Other geographical areas	519	427 730	532	-	58	-	427 717	
Łącznie	6 738 409	196 202 951	4 125 090	-	387 724	-	198 816 270	

EU CR1-D – AGEING OF PAST-DUE EXPOSURES (PLN K)

	a)	b)	c)	d)	e)	f)
	Gross carrying values					
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	5 010 113	881 776	558 293	773 717	1 024 788	3 154 959
Debt securities	4 058	-	-	-	-	-
Off-balance-sheet exposures	41 815	2 328	1 515	1 125	1 304	4 787
Total exposures	5 055 986	884 104	559 808	774 842	1 026 092	3 159 746

EU CR1-E – NON-PERFORMING AND FORBORNE EXPOSURES (PLN K)

	a)	b)	c)	d)	e)	f)	g)	h)	i)	j)	k)	l)	m)
	Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
	Total	Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing		Of which non-performing			On performing exposures		On non-performing exposures		On non-performing exposures
			Total	Of which defaulted	Of which impaired	Of which forborne	Total	Of which forborne	Total	Of which forborne			
Debt securities	38 874 956	-	-	-	-	-	-	160	-	-	-	-	-
Loans and advances	145 464 539	1 051 276	2 134 260	6 700 243	6 700 243	6 700 259	284 317	1 000 036	53 513	3 087 507	190 930	42 992	6 126
Off-balance-sheet exposures	5 483 621	2 810	103	23 195	23 195	23 195	195	8 761	14	8 720	-	345	-

EU CR2-A – CHANGES IN THE STOCK OF GENERAL AND SPECIFIC CREDIT RISK ADJUSTMENTS (PLN K)

	a)	b)
	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance	-3 440 852	0
Increases due to amounts set aside for estimated loan losses during the period	(1 008 708)	-
Decreases due to amounts reversed for estimated loan losses during the period	513 575	-
Decreases due to amounts taken against accumulated credit risk adjustments	719 891	-
Transfers between credit risk adjustments	255 085	-
Impact of exchange rate differences	2 593	-
Business combinations, including acquisitions and disposals of subsidiaries	-	-
Other adjustments	(121 127)	-
Closing balance	-3 079 543	0
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	13 834	-
Specific credit risk adjustments directly recorded to the statement of profit or loss	-	-

EU CR2-B – CHANGES IN THE STOCK OF DEFAULTED AND IMPAIRED LOANS AND DEBT SECURITIES (PLN K)

	Gross carrying value defaulted exposures
Opening balance	7 034 525
Loans and debt securities that have defaulted or impaired since the last reporting period	602 061
Returned to non-defaulted status	(157 648)
Amounts written off	(387 448)
Other changes	(353 082)
Closing balance	6 738 409

Credit risk mitigation

The Group uses credit risk mitigation techniques both for funded credit protection and for unfunded credit protection.

In the latter case, borrowers protected by guarantees are allocated a risk grade that corresponds to the risk grade of the guarantor. Most providers of unfunded credit protection are banks, including Bank Gospodarstwa Krajowego (with its “de minimis” guarantee programme) and the Ministry of Finance as a State unit.

On 10 February 2017, Santander Bank Polska (“the Bank”) signed a guarantee agreement (“Guarantee”) with the European Investment Bank (EIB) providing for unfunded credit protection with respect to the portfolio of selected corporate loans of the bank in accordance with EU Regulation No 575/2013.

As at the date of the agreement, the value of the bank’s loans portfolio secured by the guarantee was PLN 2,499m PLN. The coverage ratio is now 50%, which means that the maximum guarantee amount is PLN 1,249m PLN. The guarantee expires on 15 December 2034. The bank may terminate the guarantee before its expiry.

The guarantee coverage ratio depends on the volume of lending provided by the bank after the date of the guarantee agreement to SMEs which meet the definition set out in Commission Recommendation 2003/361/EC of 6 May 2003 and additional criteria stipulated in the guarantee agreement. As at the date of this report, the weighted average coverage ratio was 30.33%.

As at 30 June 2019, the Group's debt instruments portfolio included PLN **1 583 529k** worth of bonds of Bank Gospodarstwa Krajowego, which were fully guaranteed by the State Treasury. They were allocated a preferential risk weight of 0%.

In the case of funded credit protection, Santander Bank Polska Group recognizes exposures secured by financial collateral.

EU CR3 – CRM TECHNIQUES – OVERVIEW (PLN K)

	a) Exposures unsecured – Carrying amount	b) Exposures secured – Carrying amount	c) Exposures secured by collateral	d) Exposures secured by financial guarantees	e) Exposures secured by credit derivatives
Total loans (include off balance exposure)	143 335 307	3 507 828	221 903	3 285 925	-
Total debt securities	37 176 767	1 698 029	-	1 698 029	-
Total exposures	180 512 074	5 205 857	221 903	4 983 954	-
Of which defaulted	3 588 130	34 338	1 804	32 534	-

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

Exposure classes	a) Exposures before CCF and CRM		c) Exposures post CCF and CRM		e) RWAs and RWA density		f)
	b)		d)		f)		
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density	
Central governments or central banks	42 262 400	-	44 889 159	-	4 909 521	-	4%
Regional governments or local authorities	97 204	79 564	97 192	-	22 413	-	0%
Public sector entities	99 524	67 005	99 417	-	50 262	-	0%
Multilateral development banks	411 313	-	983 258	-	-	-	0%
Institutions	3 992 933	657 278	3 678 900	518 769	1 535 427	-	1%
Corporates	24 500 170	21 615 145	22 314 898	1 984 451	23 451 938	-	18%
Retail	52 228 994	8 507 829	51 684 437	2 037 283	37 891 926	-	29%
Secured by mortgages on immovable property	59 834 994	3 737 424	59 556 031	770 385	50 800 038	-	39%
Exposures in default	3 531 886	45 425	3 497 892	14 131	4 216 258	-	3%
Items associated with particularly high risk	85 057	33 630	85 057	-	127 585	-	0%
Collective investments undertakings	1 865	-	1 865	-	1 865	-	0%
Equity exposures	1 672 528	-	1 672 528	-	3 006 368	-	2%
Other exposures	4 631 264	-	4 631 264	-	2 693 601	-	2%
Total	193 350 132	34 743 300	193 191 898	5 402 472	128 707 202	-	100%

Allocating risk weights to the credit portfolio

The risk weights used in the calculation of capital requirement for credit risk in the standardised approach are based on the provision of Chapter 2, Title II, Part III of the CRR. Risk weights are allocated in line with the category of the exposure and the credit quality of the exposure/entity.

Defaulted exposures have their risk weight allocated in accordance with the rules laid down in Article 127 of the CRR.

Pursuant to Article 125(2) of the CRR, Santander Bank Polska S.A. additionally assigns a preferential risk weight of 35% to a part of an exposure which is fully and completely secured by a mortgage on a residential property and whose value does not exceed 80% of the market value of the property in question. Santander Bank Polska S.A. has not identified exposures effectively secured by mortgage on a commercial property, to which preferential risk weights are applied in accordance with Article 126.

Pursuant to Regulation of the Minister of Economic Development and Finance of 25 May 2017 on a higher risk weight for exposures secured with mortgages on properties, for exposures secured by mortgages on a residential property, where the principal or interest instalment is linked to an exchange rate of a currency or currencies other than the currency of the debtor's revenue, the risk weight is set at 150%.

In each asset class, appropriate risk weight is allocated depending on the available credit rating of external rating institutions or export credit agencies. The Bank accepts ratings of the following agencies:

- Fitch Ratings;
- Moody's Investors Service;
- Standard and Poor's Ratings Services.

If two credit ratings are available for an exposure and the ratings are linked to different risk weight of the particular exposure, the Bank uses the higher risk weight. If for an exposure three or more credit ratings are available, the Bank uses two ratings with the lowest risk weights and if the two are different, the higher risk weight is applied.

EU CR5 – STANDARDISED APPROACH (PLN K)

Exposure classes	Risk weight													Others	Deducted	Total	Of which unrated		
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%					1250%	
Central governments or central banks	40 971 746	-	-	1 477 376	648 692	-	-	-	-	-	-	-	1 852 818	-	-	-	-	44 950 632	4 758 983
Regional governments or local authorities	-	-	-	-	112 065	-	-	-	-	-	-	-	-	-	-	-	-	112 065	112 065
Public sector entities	-	-	-	-	-	-	-	100 524	-	-	-	-	-	-	-	-	-	100 524	100 524
Multilateral development banks	983 257	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	983 257	1 437
Institutions	-	-	-	-	1 880 669	-	2 315 413	-	-	1 587	-	-	-	-	-	-	-	4 197 669	467 517
Corporates	-	-	-	-	-	-	197 035	-	-	24 102 314	-	-	-	-	-	-	-	24 299 349	22 567 317
Retail	-	-	-	-	-	-	-	-	53 721 719	-	-	-	-	-	-	-	-	53 721 719	53 721 719
Secured by mortgages on immovable property	-	-	-	-	-	20 994 787	-	-	-	28 215 314	11 116 315	-	-	-	-	-	-	60 326 416	60 074 734
Exposures in default	-	-	-	-	-	-	-	-	-	2 103 553	1 408 470	-	-	-	-	-	-	3 512 023	3 512 023
Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	85 057	-	-	-	-	-	-	85 057	85 057
Collective investments undertakings	-	-	-	-	-	-	-	-	-	1 865	-	-	-	-	-	-	-	1 865	1 865
Equity exposures	-	-	-	-	-	-	-	-	-	783 301	-	889 227	-	-	-	-	-	1 672 528	1 672 528
Other exposures	1 929 870	-	-	-	9 742	-	-	-	-	2 691 652	-	-	-	-	-	-	-	4 631 264	4 631 264
Total	43 884 873	-	-	1 477 376	2 651 168	20 994 787	2 612 972	-	53 721 719	57 899 586	12 609 842	2 742 045	-	-	-	-	-	198 594 368	151 707 033

3. Counterparty credit risk

The structure of the exposition

The tables below present detailed information about instruments held in trading and non-trading portfolios in relation to counterparty credit risk (CCR).

Santander Bank Polska Group uses the mark to market accounting approach to calculate the exposures and risk weighted assets for counterparty credit risk.

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

	a)	b)	c)	d)	e)	f)	g)
	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWAs
Mark to market		1 627 022	1 400 208			3 027 230	1 338 825
Original exposure	-	-	-	-	-	-	-
Standardised approach							
IMM (for derivatives and SFTs)				-	-	-	-
Of which securities financing transactions				-	-	-	-
Of which derivatives and long settlement transactions				-	-	-	-
Of which from contractual crossproduct netting				-	-	-	-
Financial collateral simple method (for SFTs)						-	-
Financial collateral comprehensive method (for SFTs)						277 770	55 338
VaR for SFTs						-	-
Total							1 394 163

EU CCR3 – STANDARDISED APPROACH – CCR EXPOSURES BY REGULATORY PORTFOLIO AND RISK (PLN K)

Exposure classes	Risk weight											Total	Of which unrated	
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%			Others
Central governments or central banks	70 070	-	-	-	51 643	-	-	-	-	-	-	-	121 713	-
Regional governments or local authorities	-	-	-	-	0	-	-	-	-	-	-	-	0	-
Public sector entities	-	-	-	-	10 668	-	605	-	-	-	-	-	11 273	11 273
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	118 748	418 364	-	-	980 327	-	902 565	-	-	5 037	-	-	2 425 041	770 975
Corporates	-	-	-	-	-	-	36 281	-	-	687 598	373	-	724 252	593 628
Retail	-	-	-	-	-	-	-	22 504	-	-	216	-	22 720	22 720
Secured by mortgages on immovable property	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in default	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investments undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	188 818	418 364	-	-	1 042 638	-	939 451	-	22 504	692 635	589	-	3 304 999	1 398 596

EU CCR2 – CVA CAPITAL CHARGE (PLN K)

	a)	b)
	Exposure value	RWAs
Total portfolios subject to the advanced method	-	-
(i) VaR component (including the 3x multiplier)		-
(ii) SVaR component (including the 3x multiplier)		-
All portfolios subject to the standardised method	1 418 509	370 535
Based on the original exposure method	-	-
Total subject to the CVA capital charge	1 418 509	370 535

EU CCR8 – EXPOSURES TO CCPS (PLN K)

	a) EAD post CRM	b) RWAs
Exposures to QCCPs (total)		13 281
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	418 364	8 367
(i) OTC derivatives	418 364	8 367
(ii) Exchange-traded derivatives	-	-
(iii) SFTs	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	118 748	
Non-segregated initial margin	-	-
Prefunded default fund contributions	72 310	4 913
Alternative calculation of own funds requirements for exposures		
Exposures to non-QCCPs (total)		-
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	-	-
(i) OTC derivatives	-	-
(ii) Exchange-traded derivatives	-	-
(iii) SFTs	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	
Non-segregated initial margin	-	-
Prefunded default fund contributions	-	-
Unfunded default fund contributions	-	-

Credit risk mitigation

The Santander Bank Polska S.A. uses contractual netting according to art. 295-298 of CRR.

EU CCR5-A – IMPACT OF NETTING AND COLLATERAL HELD ON EXPOSURE VALUES (PLN K)

	a) Gross positive fair value or net carrying amount	b) Netting benefits	c) Netted current credit exposure	d) Collateral held	e) Net credit exposure
Derivatives	3 308 274	1 681 252	1 608 324	-	3 027 230
SFTs	11 205 148	-	11 205 148	11 590 656	277 770
Cross-product netting	-	-	-	-	-
Total	14 513 422	1 681 252	12 813 472	11 590 656	3 305 000

EU CCR5-B – COMPOSITION OF COLLATERAL FOR EXPOSURES TO CCR (PLN K)

Collateral used in SFTs	
Fair value of collateral received	Fair value of posted collateral
3 486	85
Total	85

4. Market risk

The table below presents the elements of own funds requirements for market risk under the standardized approach.

EU MR1 – MARKET RISK UNDER THE STANDARDISED APPROACH (PLN K)

	a) RWAs	b) Capital requirements
Outright products		
Interest rate risk (general and specific)	1 362 995	109 040
Equity risk (general and specific)	39 483	3 159
Foreign exchange risk	-	-
Commodity risk	-	-
Options		
Simplified approach	-	-
Delta-plus method	-	-
Scenario approach	-	-
Securitisation (specific risk)		
	-	-
Total	1 402 478	112 198

IV. Capital buffers

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

In relation to the entry into force on 1 January 2018 of the Regulation of the Minister of Economic Development and Finance of 1 September 2017 on the systemic risk buffer (3%), the KNF set the minimum capital ratios for banks in 2018. As of 2018, banks should maintain Tier 1 capital ratios at the minimum levels under Pillar 1 as set out in Article 92 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (Official Journal of the European Union of 2013, p. 1, as amended; "CRR") and under Pillar 2 ("add-on") arising from Article 138(1)(2a) of Banking Law (consolidated text: Journal of Laws of 2017, item 1876) and combined buffer requirement set out in Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management (consolidated text: Journal of Laws of 2017, item 1934).

From 1 January 2019 the conservation buffer is 2.5 p.p.

Based on the assessment of the systemic importance of the bank, the KNF in its decision of 19 December 2018, as presented in letter No DAZ/7105/5/7/2017, identified the bank as an other systemically important institution (O-SII). O-SII buffer imposed on the bank was 0.50 p.p. Pursuant to the KNF letter No DAZ-W5.754.1.2018 dated 2 August 2018 The KNF has established that there are no premises to repeal or change the KNF's decision regarding identification the Bank as the other systemically important institution in its wording agreed under the decision of 19 December 2017.

Pursuant to the KNF letter No DBK-DBK 2.700.21.2018 dated 15 October 2018, the bank was required to maintain own funds at the level sufficient to cover an additional capital requirement (add-on) for risk attached to foreign currency home mortgages at 0.51 p.p. above the total capital ratio, referred to in Article 92(1)(c) of Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms ("Regulation"). It should include at least 75% of Tier 1 capital (which corresponds to a capital requirement of 0.38 p.p. above Tier 1 capital ratio referred to in Article 92(1)(b) of the Regulation) and at least 56% of Common Equity Tier 1 capital (which corresponds to a capital requirement of 0.29 p.p. above Common Equity Tier 1 capital referred to in Article 92(1)(a) of the Regulation). The decision in this respect was expanded upon in the KNF's recommendation of 28 November 2018, as presented in letter No DBK-DBK 2.7111.189.2018, whereby the buffer pertaining to foreign currency mortgages to households for Santander Bank Polska Group was set at the level of 0.47 p.p. in excess of the total capital ratio, which includes at least 75% of Tier 1 capital (which corresponds to a capital requirement of 0.35 p.p. above Tier 1 capital ratio) and at least 56% of the Common Equity Tier 1 capital (which corresponds to a capital requirement of 0.26 p.p. above the Common Equity Tier 1 capital).

Taking into account the above requirements, the minimum capital ratios as at 30 June 2019 are as follows:

- ✓ Tier 1 capital ratio of 12.38% and 12.35% for the Bank and the Group, respectively;
- ✓ total capital ratio of 14.51% and 14.47% for the Bank and the Group, respectively.

The table below presents unconsolidated and consolidated minimum ratios.

CAPITAL BUFFERS OF BANK AND GROUP FOR 2019

	2 019			
	BANK		GRUPA	
	CAR	TIER 1	CAR	TIER 1
Base	8%	6%	8%	6%
Systemic risk buffer	3%	3%	3%	3%
Fx buffer	0,51%	0,38%	0,47%	0,35%
Capital conservation buffer	2,500%	2,500%	2,5%	2,5%
O-SII buffer	0,5%	0,5%	0,5%	0,5%
Total minimum ratio	14,51%	12,38%	14,47%	12,35%

IV. CAPITAL BUFFERS

CAPITAL BUFFER AND RATIOS OF SANTANDER BANK POLSKA GROUP AS AT 30.06.2019



Since 1 January 2016, the countercyclical capital buffer ratio of 0% has been applied to credit exposures in Poland. The ratio shall be effective until it is changed by way of an ordinance of the Finance Minister.

Santander Bank Polska Group calculates the bank-specific countercyclical capital buffer in accordance with the Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management.

THE AMOUNT OF THE INSTITUTION SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER (PLN k)

	As at 30.06.2019
Total risk exposure amount [PLN k]	146 860 022
Institution specific countercyclical buffer rate [%]	0,00195
Institution specific countercyclical buffer requirement [PLN k]	2 859

IV. CAPITAL BUFFERS

GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTERCYCLICAL CAPITAL BUFFER (PLN K)

No.	Country	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements			Own funds requirements weights (%)	Countercyclical capital buffer rate (%)	
		Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book exposure for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures			Total
1.	Poland	151 444 229	-	1 024 675	-	-	-	9 659 517	413	-	9 659 930	98,23766	0,00000
2.	Luxembourg	1 286 418	-	-	-	-	-	102 902	-	-	102 902	1,04648	0,00000
3.	United States	252 380	-	-	-	-	-	13 195	-	-	13 195	0,13419	0,00000
4.	Netherlands	143 662	-	-	-	-	-	11 511	-	-	11 511	0,11706	0,00000
5.	Cyprus	119 544	-	-	-	-	-	9 564	-	-	9 564	0,09726	0,00000
6.	Czech Republic	116 545	-	-	-	-	-	9 299	-	-	9 299	0,09456	1,25000
7.	United Kingdom	91 958	-	-	-	-	-	7 301	-	-	7 301	0,07424	1,00000
8.	Malta	62 681	-	-	-	-	-	5 014	-	-	5 014	0,05099	0,00000
9.	Mexico	40 757	-	-	-	-	-	3 258	-	-	3 258	0,03314	0,00000
10.	Spain	36 106	-	-	-	-	-	352	-	-	352	0,00358	0,00000
11.	Ireland	32 891	-	-	-	-	-	3 074	-	-	3 074	0,03126	0,00000
12.	Estonia	15 417	-	-	-	-	-	1 233	-	-	1 233	0,01254	0,00000
13.	Germany	11 465	-	-	-	-	-	746	-	-	746	0,00758	0,00000
14.	Romania	11 209	-	-	-	-	-	897	-	-	897	0,00912	0,00000
15.	Korea, Republic of	10 943	-	-	-	-	-	875	-	-	875	0,00890	0,00000
16.	Oman	10 767	-	-	-	-	-	861	-	-	861	0,00876	0,00000
17.	Liechtenstein	6 384	-	-	-	-	-	766	-	-	766	0,00779	0,00000
18.	Ukraine	5 118	-	-	-	-	-	363	-	-	363	0,00369	0,00000
19.	China	4 585	-	-	-	-	-	366	-	-	366	0,00372	0,00000
20.	Russian Federation	3 980	-	-	-	-	-	317	-	-	317	0,00323	0,00000
21.	Switzerland	3 630	-	-	-	-	-	225	-	-	225	0,00229	0,00000
22.	Monaco	3 611	-	-	-	-	-	217	-	-	217	0,00220	0,00000
23.	France	1 882	-	-	-	-	-	120	-	-	120	0,00122	0,00000
24.	Belarus	1 402	-	-	-	-	-	99	-	-	99	0,00101	0,00000
25.	Sweden	1 378	-	-	-	-	-	113	-	-	113	0,00115	2,00000
26.	Italy	1 350	-	-	-	-	-	81	-	-	81	0,00083	0,00000
27.	Peru	1 142	-	-	-	-	-	91	-	-	91	0,00093	0,00000
28.	Belgium	1 442	-	-	-	-	-	124	-	-	124	0,00126	0,00000
29.	Slovakia	614	-	-	-	-	-	37	-	-	37	0,00038	1,25000
30.	Tunisia	562	-	-	-	-	-	45	-	-	45	0,00046	0,00000
31.	Dominican Republic	490	-	-	-	-	-	29	-	-	29	0,00030	0,00000
32.	New Zealand	374	-	-	-	-	-	45	-	-	45	0,00046	0,00000
33.	India	326	-	-	-	-	-	22	-	-	22	0,00022	0,00000
34.	Turkey	304	-	-	-	-	-	20	-	-	20	0,00020	0,00000
35.	Seychelles	230	-	-	-	-	-	14	-	-	14	0,00014	0,00000
36.	Australia	210	-	-	-	-	-	13	-	-	13	0,00013	0,00000
37.	Hungary	181	-	-	-	-	-	11	-	-	11	0,00011	0,00000
38.	Lithuania	149	-	-	-	-	-	9	-	-	9	0,00010	1,00000
39.	Portugal	138	-	-	-	-	-	-	-	-	-	0,00000	0,00000
40.	Morocco	116	-	-	-	-	-	9	-	-	9	0,00009	0,00000
41.	Chile	91	-	-	-	-	-	5	-	-	5	0,00006	0,00000
42.	Greece	89	-	-	-	-	-	11	-	-	11	0,00011	0,00000
43.	United Arab Emirates	86	-	-	-	-	-	5	-	-	5	0,00005	0,00000
44.	Finland	79	-	-	-	-	-	5	-	-	5	0,00005	0,00000
45.	Bangladesh	74	-	-	-	-	-	5	-	-	5	0,00005	0,00000

IV. CAPITAL BUFFERS

No.	Country	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements			Own funds requirements weights (%)	Countercyclical capital buffer rate (%)	
		Exposure value for SA	Exposure value for IRB	Sum of long and short position of trading book exposure for SA	Value of trading book exposures for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures			Total
46.	Serbia	71	-	-	-	-	-	4	-	-	4	0,0004	0,0000
47.	Thailand	68	-	-	-	-	-	4	-	-	4	0,0004	0,0000
48.	Bulgaria	60	-	-	-	-	-	4	-	-	4	0,0004	0,0000
49.	Armenia	55	-	-	-	-	-	3	-	-	3	0,0003	0,0000
50.	Nepal	44	-	-	-	-	-	3	-	-	3	0,0003	0,0000
51.	Austria	37	-	-	-	-	-	2	-	-	2	0,0002	0,0000
52.	Venezuela, Bolivarian Republic of	34	-	-	-	-	-	2	-	-	2	0,0002	0,0000
53.	Anguilla	29	-	-	-	-	-	2	-	-	2	0,0002	0,0000
54.	Latvia	27	-	-	-	-	-	2	-	-	2	0,0002	0,0000
55.	Denmark	26	-	-	-	-	-	2	-	-	2	0,0002	0,5000
56.	Georgia	24	-	-	-	-	-	1	-	-	1	0,0001	0,0000
57.	Moldova, Republic of	23	-	-	-	-	-	2	-	-	2	0,0002	0,0000
58.	Congo	22	-	-	-	-	-	1	-	-	1	0,0001	0,0000
59.	Albania	18	-	-	-	-	-	1	-	-	1	0,0001	0,0000
60.	Brazil	16	-	-	-	-	-	1	-	-	1	0,0001	0,0000
61.	Taiwan, Province of China	15	-	-	-	-	-	1	-	-	1	0,0001	0,0000
62.	Panama	13	-	-	-	-	-	1	-	-	1	0,0001	0,0000
63.	Nigeria	12	-	-	-	-	-	1	-	-	1	0,0001	0,0000
64.	Viet Nam	12	-	-	-	-	-	1	-	-	1	0,0001	0,0000
65.	Pakistan	9	-	-	-	-	-	1	-	-	1	0,0001	0,0000
66.	Canada	9	-	-	-	-	-	1	-	-	1	0,0001	0,0000
67.	Slovenia	9	-	-	-	-	-	1	-	-	1	0,0001	0,0000
68.	Uzbekistan	8	-	-	-	-	-	1	-	-	1	0,0001	0,0000
69.	Kazakhstan	8	-	-	-	-	-	1	-	-	1	0,0001	0,0000
70.	Kyrgyzstan	7	-	-	-	-	-	-	-	-	-	0,0000	0,0000
71.	Azerbaijan	6	-	-	-	-	-	-	-	-	-	0,0000	0,0000
72.	Philippines	6	-	-	-	-	-	-	-	-	-	0,0000	0,0000
73.	Kenya	6	-	-	-	-	-	-	-	-	-	0,0000	0,0000
74.	Argentina	5	-	-	-	-	-	-	-	-	-	0,0000	0,0000
75.	Saudi Arabia	4	-	-	-	-	-	-	-	-	-	0,0000	0,0000
76.	Gibraltar	4	-	-	-	-	-	-	-	-	-	0,0000	0,0000
77.	Cameroon	3	-	-	-	-	-	-	-	-	-	0,0000	0,0000
78.	Norway	3	-	-	-	-	-	-	-	-	-	0,0000	2,0000
79.	Tajikistan	2	-	-	-	-	-	-	-	-	-	0,0000	0,0000
80.	Zimbabwe	2	-	-	-	-	-	-	-	-	-	0,0000	0,0000
81.	Indonesia	2	-	-	-	-	-	-	-	-	-	0,0000	0,0000
82.	Israel	2	-	-	-	-	-	-	-	-	-	0,0000	0,0000
83.	Iraq	2	-	-	-	-	-	-	-	-	-	0,0000	0,0000
84.	Egypt	2	-	-	-	-	-	-	-	-	-	0,0000	0,0000
85.	Ethiopia	1	-	-	-	-	-	-	-	-	-	0,0000	0,0000
86.	Mongolia	1	-	-	-	-	-	-	-	-	-	0,0000	0,0000
87.	Japan	1	-	-	-	-	-	-	-	-	-	0,0000	0,0000
88.	Libyan Arab Jamahiriya	1	-	-	-	-	-	-	-	-	-	0,0000	0,0000
89.	Ghana	1	-	-	-	-	-	-	-	-	-	0,0000	0,0000
90.	Belize	1	-	-	-	-	-	-	-	-	-	0,0000	0,0000
TOTAL		153 727 700	0	1 024 675	0	0	0	9 832 809	413	0	9 833 222	100	

V. Capital adequacy

The capital requirements of Bank Zachodni WBK Group are set in accordance with part III of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR"), which was the official legal basis as at 30 June 2019.

The **total capital ratio** as at 30 June 2019 vs. 31 December 2018 was impacted by the following:

- inclusion of N series shares in own funds
- allocation of the profit for 2018 to Tier 1 capital;
- dividend payment from the retained earnings 2016-2017
- increase in the value of risk weighted assets for credit risk arising from the business activity.

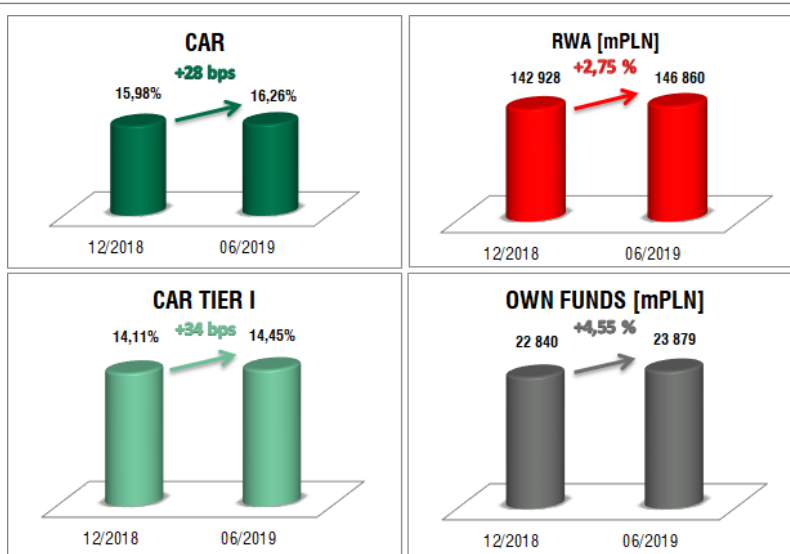
The minimum capital ratios set by the Polish Financial Supervision Authority (KNF) for Santander Bank Polska Group are as follows:

- a Tier 1 capital ratio of 12.35%;
- a total capital ratio of 14.47%.

The above-mentioned capital ratios include a conservation buffer, buffer for an additional capital requirement due to risk attaching to foreign currency home mortgages and buffer for other systemically important institution (OSII). The capital ratios of Santander Bank Polska Group calculated in accordance with the CRR requirements and an individual capital decision of the supervisory body are above the minimum requirements.

The charts below presents a details of own funds, risk weighted assets and capital adequacy ratios as at 30 June 2019 vs. 31 December 2018.

OWN FUNDS, RISK WEIGHTED ASSETS AND CAPITAL RATIOS AS AT 30 JUNE 2019 VS.31 DECEMBER 2018



VI. Leverage ratio

The leverage ratio of Santander Bank Polska Group is set in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR") and Commission delegated Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio.

The leverage ratio (LR) shall be calculated as an institution's capital measure divided by that institution's total exposure measure and shall be expressed as a percentage.

A reference day for the following data is 30 June 2019. Presented leverage ratio is calculated in relation to Tier 1 capital phase in definition. Santander Bank Polska Group disclose the information on sub-consolidated basis. Fiduciary items are not eliminated from the total leverage ratio exposure.

SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES AS AT 30.06.2019 (PLN K)

	Reference date	30.06.2019
	Entity name	Santander Bank Polska S.A.
	Level of application	sub consolidated
		Applicable Amounts
1	Total assets as per published financial statements	205 826 460
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
4	Adjustments for derivative financial instruments	1 400 208
5	Adjustments for securities financing transactions "SFTs"	137 848
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	7 264 605
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	(1 551 093)
8	Total leverage ratio exposure	213 078 028

VI. LEVERAGE RATIO

LEVERAGE RATIO COMMON DISCLOSURE AS AT 30.06.2019 (PLN K)

		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	203 924 367
2	(Asset amounts deducted in determining Tier 1 capital)	(2 338 483)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	201 585 884
Derivative exposures		
4	Replacement cost associated with <i>all</i> derivatives transactions (i.e. net of eligible cash variation margin)	1 367 021
5	Add-on amounts for PFE associated with <i>all</i> derivatives transactions (mark-to-market method)	1 400 208
EU-5a	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	Total derivative exposures (sum of lines 4 to 10)	2 767 229
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	1 322 462
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	137 848
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	1 460 310
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	34 808 355
18	(Adjustments for conversion to credit equivalent amounts)	(27 543 750)
19	Other off-balance sheet exposures (sum of lines 17 to 18)	7 264 605
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Capital and total exposures		
20	Tier 1 capital	21 213 963
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	213 078 028
Leverage ratio		
22	Leverage ratio	9,96%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	"phase in"
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	-

PROCEDURES USED FOR THE PURPOSE OF MANAGEMENT OF EXCESSIVE LEVERAGE RISK AND FACTORS AFFECTING THE LEVERAGE RATIO BETWEEN THE CURRENT PERIOD AND THE LAST PERIOD FOR WHICH THE RATIO WAS PRESENTED

1	Description of the processes used to manage the risk of excessive leverage	The Santander Bank Polska Group has the Leverage & Excessive Leverage Risk Policy in place which defines the objectives and addresses the key aspects of measurement, monitoring and reporting the leverage ratio and its compliance with the regulatory requirements as well as identification, management and monitoring of excessive leverage risk. The document sets out the roles and responsibilities of the parties involved in the relevant processes.
2	Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers	As at 30 June 2019, the leverage ratio of Santander Bank Polska Group totalled 9.96% and was three-fold higher than the minimum requirement of 3%. It was driven by worth of profit which was taken to own funds.

VII. Policy of variable components of remuneration

Information on the variable components of remuneration is the fulfillment of the obligations in accordance with Part eighth CRR and complements the information in the annual report Information on Capital Adequacy of Santander Bank Polska Group as at December 31, 2018.

SUMMARY SUMMARY INFORMATION ON THE VARIABLE REMUNERATION OF THE SANTANDER BANK POLSKA EMPLOYEES COVERED BY THE VARIABLE REMUNERATION POLICY, PRESENTED BY AREAS OF ACTIVITY AND EXECUTIVES CONCERNED (PLN K)

Area	Management Board*	Retail Banking	Business and Corporate Banking	Global Corporate Banking	Business Support	Subsidiaries	Total
Variable remuneration**	14 770	3 031	2 220	4 004	8 050	1 953	34 028

* The "Management Board" line shows the aggregated data for periods during which the persons acted as the Management Board members. The remaining part of the remuneration payable to the persons who did not sit on the Management Board for 12 months was included in a relevant group.

** Variable remuneration granted for 2018.

Data also refer to the former employees covered by the rules regarding identified employees in the Remuneration Policy of the Santander Bank Poland Group.

VARIABLE REMUNERATION (PLN K)

	VARIABLE REMUNERATION FOR 2018*			
	Headcount	Deferred bonus for 2018	Non-redeemed phantom shares (number of phantom shares)	Long-term performance share programme started in 2017 (number of BZ WBK shares)
Management Board**	12	14 770	20 183	11 558
Other persons holding managerial positions including number of individuals being remunerated between 1,5- 2 million EUR	125	19 258	22 386	13 326
TOTAL	137	34 028	42 569	24 884

* Variable remuneration granted for 2018.

** The "Management Board" line shows the aggregated data for periods during which the persons acted as the Management Board members. The remaining part of the remuneration payable to the persons who did not sit on the Management Board for 12 months was included in a relevant group.

Data also refer to the former employees covered by the rules regarding identified employees in the Remuneration Policy of the Santander Bank Poland Group.

The above data presents information on additional components of variable remuneration that have not been presented in the information on variable remuneration components presented in the annual report Information on capital adequacy of Santander Bank Polska Group as at 31 December 2018.

Signatures of the persons representing the entity

Date	Name	Function	Signature
22.07.2019	Michał Gajewski	President	
22.07.2019	Andrzej Burliga	Vice-President	
22.07.2019	Michael McCarthy	Vice-President	
22.07.2019	Juan de Porras Aguirre	Vice-President	
22.07.2019	Arkadiusz Przybył	Vice-President	
22.07.2019	Patryk Nowakowski	Member	
22.07.2019	Carlos Polaino Izquierdo	Member	
22.07.2019	Maciej Reluga	Member	
22.07.2019	Dorota Strojowska	Member	