

INTERNAL CONTROL SYSTEM OF SANTANDER BANK POLSKA

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

The internal control system covers the control function, compliance unit and an independent internal audit unit.

The internal control system addresses the requirements of the Banking Law Act, Recommendation H issued by the Polish Financial Supervision Authority and the Regulation of the Minister of Finance, Funds and Regional Policy of 8 June 2021 on the risk management system, internal control system and remuneration policy in banks.

■ OBJECTIVES OF THE INTERNAL CONTROL SYSTEM

The Bank ensures delivery of the internal control system objectives by means of relevant controls adapted to the specific nature of the particular area of the Bank's operations, the flow and complexity of processes, any attendant risks and the degree and severity of irregularities, effectiveness of IT systems supporting those processes, availability of human resources and the oversight exercised.

The objective of the internal control system is to ensure:

- a) effective and efficient operation of the Bank,
- b) reliable financial reporting,
- c) compliance with the risk management principles at the Bank,
- d) compliance of the Bank's business with laws, internal regulations and market standards.

As part of the general objectives of the internal control system, the Bank defines specific objectives which are linked to the processes delivered at the Bank. While defining specific objectives of the internal control system, the Bank takes into account the following aspects:

- a) the scope and complexity of the Bank's operations,
- b) the scope of application of specific legal provisions, market standards and internal regulations which the Bank is obliged to observe,
- c) the extent to which the Bank's operational and business plans have been achieved,
- d) completeness, correctness and complexity of accounting principles,
- e) quality (accuracy and reliability) of the accounting, reporting and operational system,
- f) adequacy, functionality and security of the ICT,
- g) the Bank's organisational structure, breakdown of competences and terms of coordination of activities between the respective organisational units, sections and posts, as well as the system of documents and information creation and circulation,
- h) the scope of activities outsourced by the Bank to third parties and their impact over the effectiveness of the internal control system at the Bank.

The internal control system has five inter-connected components:

- a) control environment – organisation, process management, ethical values and competencies of employees that impact the control awareness,
- b) risk assessment – actions taken to identify and assess the materiality of the risks associated with the achievement of the Bank's objectives,
- c) control activities – actions and procedures aimed at implementation of the management guidelines and mitigation of the risk that may impede successful delivery of objectives,
- d) information and communication – a procedure designed to define, capture and communicate, in a relevant form and timely manner, the information that helps the staff to fulfil their roles effectively,
- e) monitoring – measures taken to evaluate the internal control system over time.

■ ROLES IN THE INTERNAL CONTROL SYSTEM

The Supervisory Board oversees the implementation of an appropriate and effective internal control system. Each year, the Supervisory Board assesses the Bank's internal control system which is adequately adjusted to the Bank's organisational structure, risk management system and the size and complexity of the Bank's business. It covers all units across the Bank as well as its subsidiaries. The internal control system covers all significant controls, including those related to reporting and the Bank's operational activity.

As part of its supervision over the Group's operations, 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 Committee.

The Supervisory Board approves the criteria for the adequacy and effectiveness of the internal control system and performs its annual assessment, also taking into account the responsibilities of the Bank's Management Board regarding the internal control system.

The Supervisory Board appointed the Audit and Compliance Committee to assist the Supervisory Board in fulfilling its oversight responsibilities to shareholders and other stakeholders in relation to:

- a) quality and integrity of the accounting policies, financial statements and disclosure practices,
- b) compliance of the Bank's business with laws and internal regulations,
- c) independence and effectiveness of activities undertaken by internal and external auditors,
- d) assessment of the effectiveness of the system of internal control and management of financial and non-financial risks.

The Risk Committee and the Audit & Compliance Committee are updated on a regular basis on the operation of the internal control system from the units of the second and third lines of defence which facilitates the on-going monitoring of the system's effectiveness. The control findings are taken into account and used to improve the existing processes and safety by making relevant changes to internal processes and regulations. These are regularly verified by the Internal Audit Area.

The Audit & Compliance Committee is informed about the results of assessing the risk of failure to comply with the general objectives of the internal control system.

The Management Board is responsible for developing and implementing the internal control system and ensuring that an adequate and effective internal control system is in place at all operational units, including subsidiaries, updating documented procedures of the internal control system as well as establishing the adequacy and effectiveness criteria for assessing the internal control system. The Management Board of the Bank is also responsible for overseeing the effectiveness of the internal control system, improving it and adapting to the level of risk related to the operations of Santander Bank Polska Group, business environment and malfunction of systems and processes.

The Management Board of the Bank is responsible for establishing a control function matrix and defining actions aimed at ensuring its application. The control function matrix is a tool implemented in accordance with KNF's Recommendation H that outlines the Bank's relevant processes, linking them to the general and specific objectives of the internal control system and the key controls and checks for horizontal and vertical monitoring.

The Bank's Management Board is also responsible for appointing individuals charged with interim, at least annual, review of internal controls and procedures in the Bank and for determining relevant remedial measures to remove irregularities identified by the internal control system, and at least once a year informs the Supervisory Board about:

- a) the process of designing, developing and implementing an adequate and effective internal control system in all organisational units, ensuring the achievement of the underlying objectives,
- b) the scale and nature of significant and critical irregularities and the most important remediation actions aimed at removing these irregularities, including corrective and disciplinary measures taken. The corrective measures include designing new and updating existing control mechanisms (e.g. change of procedure, training).

■ THREE LINES OF DEFENSE

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

The first line of defence is focused on the management of risks in the Bank's operational activity and is based on business units which, as part of their day-to-day activities, generate risks that affect the achievement of the Bank's objectives. The first line of defence includes activities carried out by each employee and business unit 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.

Any significant and critical irregularities detected by the first line of defence are immediately reported to the organisational unit of the second line of defence responsible for independent monitoring of the process in which that significant or critical irregularity was identified, and to the internal audit unit. Any critical irregularities are also reported to the Management Board.

The second line of defence consists of units which support the Bank's management in risk identification and management by providing the relevant tools, internal regulations and mechanisms for managing, monitoring, ongoing verification, testing and reporting risk as well as specialised functions which assess the effectiveness of the first-line controls. The second line of defence involves risk management by employees in dedicated organisational units and the operations of the compliance unit.

The key units of the second line of defence are as follows:

- 1) The Internal Control Model function is performed by the Operational Risk Management and Internal Control Department (part of the Risk Management Division), whose responsibilities include but are not limited to:
 - a. Establishing the methodology for the operation and quality assurance of the internal control system and the control function matrix.
 - b. Assessment and ongoing, independent monitoring of the proper functioning of the internal control system, including measurement of the associated risk profile and the effectiveness of the control environment.
 - c. Verification and reporting on the adequacy and effectiveness of the internal control system, including providing opinions on the achievement of each of the system's objectives.
 - d. Verification of the classification of significant and critical irregularities at the Santander Bank Polska Group level, as well as reporting on the implementation of action plans, including key measures taken to mitigate operational risk to the appropriate management bodies.
 - e. Reporting the results of an analysis of impact of the relevant recommendations from internal and external audit, reports by supervisors and operational risk instruments (including metrics, scenarios, events and RCSA, Certification of the Internal Control Model, including the controls set out in the control function matrix), and analysis of internal and external factors (technological, regulatory and organisational changes, etc.) on the internal control system.
 - f. Supporting analyses of controls in cooperation with the compliance function, internal audit, specialist control functions, and risk management functions (first and second line of defence).
 - g. Promoting collaboration between the various units involved in the internal control system, such as those liaising with regulators and financial reporting teams, to present a consistent view of the control environment across the Group.
- 2) The Financial Accounting and Control function that supports the Bank's management through assuring correct and reliable reflection of the Bank and Santander Bank Polska Group's standing in (internal and external) financial disclosures.
- 3) Compliance function, whose purpose is to support Santander Bank Polska Group's management in managing compliance risks to ensure that the Group complies with legislation, regulatory requirements and best practices, having regard to the fact that the compliance function is independently responsible for controls safeguarding compliance with legislation, internal regulations and market standards related to the type of business.

The responsibility for ensuring compliance in specialist areas, such as, inter alia, prudential rules, taxation, company law, employment law and health and safety, is allocated to an appropriate specialist function;

- 4) Risk Management function whose role is to provide assurance that the key risks are being identified and managed by the management, and that the Bank acts in line with internal risk policies. The units of the Risk Management function support the Bank's management in the process of identifying and managing risk by providing relevant tools for risk management, monitoring and reporting.

Other units responsible for independent risk control, including Money Laundering and Terrorism Financing Risk Management Department, Office of the Data Protection Officer as well as Anti-Fraud Processes Department and Control Centre.

Operational rules and areas of responsibilities of the units forming the second line of defence are presented in detail in internal regulations, which take into account segregation of duties.

Significant and critical irregularities detected in the second line of defence are immediately reported to the internal audit unit. Critical irregularities are also reported to the Management Board and the Supervisory Board (Audit and Compliance Committee).

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 is responsible for an independent and unbiased evaluation of the adequacy and effectiveness of the internal control system at the first and the second line of defence, including the effectiveness of managing risk connected with the Bank's and its subsidiaries activity.

Critical irregularities identified by the internal audit unit are reported to the Bank's Management Board and the Supervisory Board or the Audit and Compliance Committee. Critical irregularities identified by the first line of defence are presented – by the decision of the head of the internal audit – to the Supervisory Board or the Audit and Compliance Committee. Critical irregularities detected in the third line of defence are immediately reported to the Bank's Management Board.

■ COOPERATION BETWEEN LOD FUNCTIONS

All three lines of defence co-operate closely by exchanging information about the dates, scope and results of checks/audits.

All organizational units of the Group's first line of defence have to co-operate with the second- and third-line defence units and specifically have to provide them with access to any information, documents, papers, systems, rooms and opinions and explanations from employees required to carry out checks/audits.

The audited units with identified irregularities must develop and effectively implement remedial actions, in line with the agreed schedule.

■ THE RULES FOR ASSESSMENT OF THE EFFECTIVENESS AND ADEQUACY OF THE INTERNAL CONTROL SYSTEM BY THE SUPERVISORY BOARD

The principles of categorising irregularities detected by the internal control system are approved by the Bank's Management Board and the Supervisory Board.

The following categories of irregularities are distinguished:

- a) A critical irregularity (significant weakness) involves a reasonable possibility of a material error in financial information that is not prevented or detected in time or that, due to its relevance in other areas, prevents the achievement of the organization's objectives or has a significant impact on customers/shareholders, requiring formal communication to the market,
- b) A material irregularity is a weakness of lower importance than critical irregularity but sufficiently serious to be reported to the Management Board and the Audit and Compliance Committee/ Supervisory Board,
- c) other irregularities.

The Supervisory Board assesses the adequacy and effectiveness of the control function, the compliance unit and the internal audit unit, taking into account in particular:

- a) the information from the Bank's Management Board on the manner of discharging duties related to the internal control system,
- b) periodical reports of the compliance unit and internal audit unit,
- c) information significant in terms of the adequacy and effectiveness of the internal control system, obtained from Santander Group and subsidiaries,
- d) findings of the certified auditor,
- e) findings of audit and control activities carried out by authorised institutions,
- f) 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.