



TRANSLATORS' EXPLANATORY NOTE

The English content of this report is a free translation of the registered auditor's report of the below-mentioned Polish Company. In Poland statutory accounts as well as the auditor's report should be prepared and presented in Polish and in accordance with Polish legislation and the accounting principles and practices generally adopted in Poland.

The accompanying translation has not been reclassified or adjusted in any way to conform to the accounting principles generally accepted in countries other than Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancies in interpreting the terminology, the Polish language version is binding.

Independent Registered Auditor's Report

To the General Shareholders' Meeting and the Supervisory Board of Santander Bank Polska S.A.

Report on the audit of annual financial statements

Our opinion

In our opinion, the attached annual financial statements of Santander Bank Polska S.A. ("the Bank"):

- give a true and fair view of the financial position of the Bank as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with the applicable International Financial Reporting Standards as adopted by the European Union ("IFRS") and the adopted accounting policies;
- comply in terms of form and content with the laws applicable to the Bank and the Bank's Articles of Association;
- have been prepared on the basis of properly maintained books of account in accordance with the provisions of Chapter 2 of the Accounting Act of 29 September 1994 ("the Accounting Act" – Consolidated text: Journal of Laws of 2019, item 351, as amended).

Our opinion is consistent with our additional report to the Audit and Compliance Committee issued on the date of this report.

What we have audited

We have audited the annual financial statements of Santander Bank Polska S.A. which comprise:

- the statement of financial position as at 31 December 2019;
- and the following prepared for the financial year from 1 January to 31 December 2019:
- the income statement;
 - the statement of comprehensive income;
 - the statement of changes in equity;
 - the statement of cash flows, and
 - additional notes to financial statements including a description of the adopted accounting policies and other explanations.

Basis for opinion

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing as adopted as National Standards on Auditing by the National Council of Statutory Auditors (“NSA”) and pursuant to the Act of 11 May 2017 on Registered Auditors, Registered Audit Companies and Public Oversight (“the Act on Registered Auditors” – Journal of Laws of 2019, item 1421, as amended) and Regulation (EU) No. 537/2014 of 16 April 2014 on specific requirements regarding the statutory audit of public-interest entities (“the EU Regulation” – Journal of Laws EU L158). Our responsibilities under those NSA are further described in the *Auditor’s responsibilities for the audit of the financial statements* section of our report.

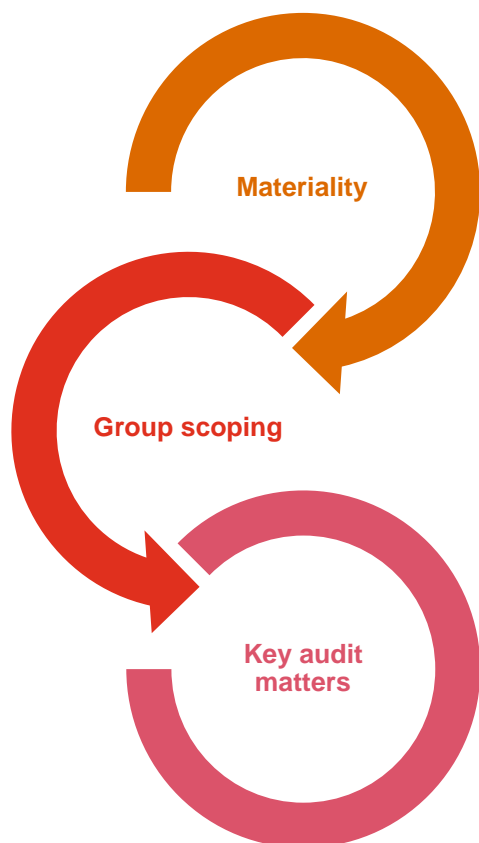
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and ethics

We are independent of the Bank in accordance with the International Federation of Accountants’ Code of Ethics for Professional Accountants (“the IFAC Code”) as adopted by resolutions of the National Council of Statutory Auditors and other ethical requirements that are relevant to our audit of the financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC’s Code. During the audit, the key registered auditor and the registered audit firm remained independent of the Bank in accordance with the independence requirements set out in the Act on Registered Auditors and in the EU Regulation.

Our audit approach

Overview



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- The overall materiality threshold adopted for the purposes of our audit was set at PLN 160,000 thousand, which represents 5% of the profit before tax, adjusted by the tax on financial institutions.

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- We have audited the financial statements of the Bank for the period ended 31 December 2019.

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- Estimating the portfolio provision for risk related to the portfolio of mortgage loans in foreign currency.
 - Estimates regarding the returns of commissions in case of early repayments of loans.
 - Estimating the expected credit losses for loans and advances to customers.
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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Bank's Management Board made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by the adopted materiality level. Our audit was designed to obtain reasonable assurance that the financial statements as a whole are free from material misstatement. Misstatements may arise due to fraud or error.

They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole, as presented below. These thresholds, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

The concept of materiality is used by the registered auditor both in planning and conducting an audit, as well as in assessing the effect of the misstatements identified during the audit and the unadjusted misstatements (if any), on the financial statements, and also when forming the registered auditor's report. Therefore, all opinions, assertions and statements contained in the registered auditor's report have been made taking into consideration the quantitative and qualitative materiality levels determined in accordance with the audit standards and the registered auditor's professional judgement.

Overall Bank materiality

PLN 160,000 thousand (last year PLN 140,000 thousand)

How we determined it

5% of the profit before tax, adjusted by the tax on financial institutions (last year 5% of the profit before tax adjusted by the tax on financial institutions and one-off transactions)

Rationale for the materiality benchmark applied

We have adopted profit before tax as the basis for determining materiality because, in our opinion, it is an indicator commonly used by the users of financial statements to evaluate the Bank's operations and it is a key benchmark for Management and Supervisory Board. We have adjusted profit before tax by tax on financial institutions because it is treated by the Bank and users of financial statements as a specific tax burden.

We adopted the materiality threshold of 5% because it is within the quantitative materiality thresholds acceptable for the auditing of profit-oriented entities in the financial sector.

We agreed with the Audit and Compliance Committee that we would report to them misstatements identified during our audit above

PLN 8,000 thousand as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. They include the most significant identified risks of material misstatements, including the identified risks of material misstatement resulting from fraud. These matters were

addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We summarized our response to these risks and, when deemed appropriate, presented the most important observations relating to these risks. We do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

Estimating the portfolio provision for risk related to the portfolio of mortgage loans in foreign currency

As at the balance sheet date, the Bank has a portfolio of mortgage loans denominated in and indexed to foreign currencies, mainly to the Swiss franc, in the total amount of PLN 7,752,690 thousand. The loan agreements based on which these loans were granted contain clauses questioned by customers in court due to abusiveness. On 3 October 2019, the Court of Justice of the European Union ("CJEU") (file reference number C-260/18) issued a ruling on a loan indexed to the Swiss franc, which affected the jurisdiction of Polish courts and confirmed the increased legal risk of this portfolio.

The Bank assessed that this may impact the recoverability of previously estimated cash flows from the portfolio of mortgage loans denominated in and indexed to foreign currencies, and/or trigger the liability resulting in an outflow of future cash flows.

Therefore, based on the requirements of International Accounting Standard 37 *Provisions, Contingent Liabilities and Contingent Assets*, the Bank estimated the portfolio provision to cover the aforementioned risk, both in relation to the outstanding portfolio and loans repaid before the balance sheet date, in the amount of PLN 149,000 thousand as at 31 December 2019.

The estimation of the provision created by the Bank to cover the legal risk of this portfolio is complex and requires a significant degree of judgment, in particular in respect of the assumptions made regarding the number of expected lawsuits against the Bank, the probability of courts' decisions and the amount of the expected loss if the Bank loses a court case. The Bank's estimates in this respect are based on historical observations, which show significant uncertainty resulting primarily from the short observation period from the moment the CJEU judgment was issued to the date of the

As part of our audit procedures, we assessed whether the accounting approach adopted by the Bank is consistent with IFRS. We focused on assessing the Bank's approach to estimating the provision recognized and the scope of disclosures in the financial statements.

Our procedures were mainly aimed at challenging the model and individual assumptions adopted by the Management Board of the Bank that had a significant impact on the level of estimated portfolio provision. In particular, we carried out the following procedures:

- We conducted inquiries with the Management Board of the Bank and specialists involved in the estimation of the provision, including the Bank's lawyers, with regards to the assumptions made taking into account historical observations, as well as information and events after the balance sheet date;
- We got acquainted with the projections regarding the expected number of court actions against the Bank in the perspective of the adopted time horizon, prepared on the basis of historical data on reported actions against the Bank, as well as the number of certificates issued by the Bank to customers required to start a lawsuit;
- In cooperation with our internal law experts, we analysed the documentation and opinions of external law firms obtained by the Bank for the purposes of assessing the risk of considering clauses in the Bank agreements as abusive, as well as the probabilities of individual scenarios;

preparation of the financial statements by the Bank and the lack of a uniform ruling line in existing court decisions. Therefore, this estimate will need to be updated in subsequent reporting periods.

Due to the significant value of the portfolio underlying the potential future claims against the Bank, as well as the complexity and uncertainty regarding the assumptions used to estimate the portfolio provision, we have considered this area as a key audit matter.

Note 2.6 *Use of estimates* and Note 44 *Contingent liabilities* in the financial statements contain detailed information on the assumptions used to calculate the portfolio provision for the mortgage loan portfolio in foreign currencies and possible alternative results presented as part of the estimation sensitivity analysis.

- With respect to the portfolio of loans granted by the Bank, we obtained directly from external law firms cooperating with the Bank their positions developed on the basis of the current court case law as to the expected resolution of court cases together with an assessment of the probability of these decisions;
- We analysed the method of calculating the value of potential losses under individual scenarios assumed by the Bank;
- We verified the model used by the Bank to estimate the provision, checked the correctness and completeness of the data constituting the basis of the calculations carried out, and confirmed the mathematical correctness of the calculations;
- We assessed the adequacy of the disclosures in the financial statements.

Estimates regarding the returns of commissions in case of early repayments of loans

On 11 September 2019, the CJEU (file reference number C 383/18) issued a ruling on the scope of consumer credit costs to be reduced in the event of early repayment of loans, which clarified doubts related to the interpretation of applicable regulations in this respect. From that date, the Bank is obliged to refund the commissions to all customers who make prepayments for loans covered by these regulations.

Therefore, the Bank recognised a provision for expected refunds of commission regarding historical prepayments made by customers during the period of application of these regulations and a liability for commission returns related to earlier repayments made since the date of CJEU ruling. The total charges recognised in 2019 amounted to PLN 30,000 thousand. There is a requirement to reimburse commission to the customer in the amount corresponding to the costs related to the period by which the duration of the contract has been reduced. The Bank, for the purpose of creating provisions and liabilities and for actual commission returns, applied the proportion to interest method (the amount to be returned was calculated as a proportion of the sum of interest payments in the periods following the period in which the overpayment occurred and the total sum of interest payments in the initial loan period).

In order to verify the correctness of the Bank's estimates, we performed the following procedures:

- We performed an analysis of the level of the provision for returns of commissions resulting from loan prepayments made by customers, including challenging the assumptions adopted by the Management Board of the Bank; in particular, the assumptions regarding expected level of customer complaints estimated on the basis of historical observations taking into account trends observed after the balance sheet date;
 - We performed an analysis of the level of amounts payable to customers in respect of commissions related to early repayments of loans made after the date of the CJEU ruling and before the reporting date;
 - We performed an analysis of the legal position regarding the approach taken to calculate the amount to be recovered;
 - We analysed the differences in estimates of the level of reimbursements between different calculation methods observed on the market;
 - We checked the calculation prepared by the Bank, its mathematical correctness and input data constituting the basis for this calculation;
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Due to the complexity of estimates of commission refunds due to customers, we have considered this issue as a key audit matter.

Note 2.6 *Use of estimates* and Note 44 *Contingent liabilities* in the financial statements contain detailed information on the assumptions used to calculate the provision and liability for the refund of commissions to customers resulting from earlier loan repayments.

- We assessed the adequacy of the disclosures in the financial statements.

Estimating the expected credit losses for loans and advances to customers

In accordance with the provisions of IFRS 9 *Financial Instruments* the Management of the Bank is required to determine expected credit loss ('ECL') that may occur over either a 12 month period or the remaining life of an asset, depending on the categorisation of the individual asset. This categorisation is determined by an assessment of whether there has been a significant increase in credit risk ('SICR') of the borrower since loan origination. It is also necessary to consider the impact of different future macroeconomic conditions in the determination of ECLs.

The accuracy of the assumptions used in the models, including the macroeconomic scenarios, impacts the level of expected credit loss allowances. The Management of the Bank monitors the accuracy of performance of the ECL models, to ensure that the models appropriately estimate losses relative to actual results ('back-testing procedures') and that the level of the expected credit loss allowances is adequate.

ECL provision calculations require the use of large volumes of data. The completeness and reliability of data can significantly impact accuracy of the modelled expected credit loss allowances. The accuracy of data flows and the implementation of related controls is critical for the integrity of the estimated expected credit loss allowances.

Given the significance of judgements and the high complexity related particularly to the calculation of ECL we considered this area as a key audit matter.

Note 2.6 *Use of estimates*, Note 2.8 *Accounting policies*, Note 3 *Risk management* and Note 21 *Loans and advances to customers* included in the financial statements provide detailed information on the methods and models used and the level of the expected credit loss allowances for loans and advances to customers.

We have started our audit procedures with updating our understanding of the internal control environment related to recognition and measurement of expected credit loss allowances and tested the effectiveness of the selected key controls, in particular:

- procedures regarding implementation of client data in expected credit loss calculation;
- data flow between Bank's core IT systems and ECL calculation engine;
- procedures regarding timing and completeness identification of significant increase in credit risk (stage 2) and impairment (stage 3).

We assessed whether the impairment methodology used by the Bank is in line with IFRS 9 requirements. Particularly we assessed the approach of the Bank regarding application of SICR criteria, definition of default, PD, LGD and incorporation of forward-looking information in the calculation of ECL.

We performed assessment of Bank's assumptions and expert adjustments implemented in models including historical credit data and in monitoring process. For individually insignificant loans and advances which are assessed for impairment on a portfolio basis we performed particularly the following procedures:

- we tested the reliability of key data inputs and related management controls;
 - we challenged key judgements and assumptions, including the macro-economic scenarios and the associated probability weights;
 - we performed independent test of credit risk parameters ('backtesting procedures');
 - we analysed impairment coverage of credit portfolio and its changes in 2019 as
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well as transfers of exposures between stages in 2019.

For these audit procedures we made use of our internal credit risk modelling specialists.

We applied our professional judgement in the selection of significant loans and advances assessed for impairment on an individual basis – we selected the sample taking into account different risk criteria:

- for selected loans and advances we checked the stage classification as at the balance sheet date,
- for selected impaired loans and advances (stage 3) we tested the assumptions used in the expected credit loss allowances' calculation, particularly expected scenarios and probabilities assigned to them and the timing and amount of expected cash flows, including cash flows from repayments and realisation of collaterals.

Responsibility of the Management and Supervisory Board for the financial statements

The Management Board of the Bank is responsible for the preparation, based on the properly maintained books of account, of annual financial statements that give a true and fair view of the Bank's financial position and results of operations, in accordance with IFRS, the adopted accounting policies, the applicable laws and the Bank's Articles of Association, and for such internal control as the Management Board of the Bank determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Bank's Management Board is responsible for assessing

the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Bank's Management Board and members of its Supervisory Board are obliged to ensure that the financial statements comply with the requirements specified in the Accounting Act. Members of the Supervisory Board are responsible for overseeing the financial reporting process.

Auditor's responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the NSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these financial statements.

The scope of the audit does not cover an assurance on the Bank's future profitability or the efficiency and effectiveness of the Bank's Management Board conducting its affairs, now or in future.

As part of an audit in accordance with the NSA, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those

risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank's Management Board;
- conclude on the appropriateness of the Bank's Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Audit and Compliance Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Compliance Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit and Compliance Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Management Board Report on Santander Bank Polska S.A. Group Performance in 2019 including Management Board Report on Santander Bank Polska S.A. Performance

Other information

Other information consists of the Management Board Report on Santander Bank Polska Group Performance in 2019 including Management Board Report on Santander Bank Polska S.A. Performance ("the Report on the operations") and the corporate governance statement and the statement on non-financial information referred to in Article 49b(1) of the Accounting Act which are separate parts of the Report on the operations (together "Other Information").

Responsibility of the Management and Supervisory Board

The Management Board of the Bank is responsible for preparing Other Information in accordance with the law.

The Bank's Management Board and the members of the Supervisory Board are obliged to ensure that the Report on the operations including its separate parts complies with the requirements of the Accounting Act.

Registered auditor's responsibility

Our opinion on the audit of the financial statements does not cover Other Information.

In connection with our audit of the financial statements, our responsibility is to read Other Information and, in doing so, consider whether it is materially inconsistent with the information in the financial statements, our knowledge obtained in our audit, or otherwise appears to be materially misstated. If, based on the work performed, we identified a material misstatement in Other Information, we are obliged to inform about it in our audit report. In accordance with the requirements of the Act on the Registered Auditors, we are also obliged to issue an opinion on whether the Report on the operations has been prepared in accordance with the law and is consistent with information included in annual financial statements.

Moreover, we are obliged to issue an opinion on whether the Bank provided the required information in its corporate governance statement and to inform whether the Bank prepared a statement on non-financial information.

In addition, we are required to audit the financial information included in the Report on the operations in accordance with the scope described in this audit report and the requirements of the Banking Law of 29 August 1997 ("the Banking Law" – Journal of Laws of 2019, item 2357, as amended).

Opinion on the Report on the operations

Based on the work we carried out during the audit, in our opinion, the Report on the operations:

- has been prepared in accordance with the requirements of Article 49 of the Accounting Act and para. 70 of the Regulation of the Minister of

Finance dated 29 March 2018 on current and periodical information submitted by issuers of securities and conditions for considering as equivalent the information required under the legislation of a non-Member State ("Regulation on current information" – Journal of Laws 2018, item 757) and Article 111(1–2) of the Banking Law;

- is consistent with the information in the financial statements.

Moreover, based on the knowledge of the Bank and its environment obtained during our audit, we have not identified any material misstatements in the Report on the operations.

Opinion on the corporate governance statement

In our opinion, in its corporate governance statement, the Bank included information set out in para. 70.6 (5) of the Regulation on current information. In addition, in our opinion, information specified in paragraph 70.6 (5)(c)–(f), (h) and (i) of the said Regulation included in the corporate governance statement are consistent with the applicable provisions of the law and with information included in the financial statements.

Information on non-financial information

In accordance with the requirements of the Act on the Registered Auditors, we confirm that the Bank has prepared a statement on non-financial information referred to in Article 49b(1) of the Accounting Act as a separate section of the Report on the operations.

We have not performed any assurance work relating to the statement on non-financial information and we do not provide any assurance with regard to it.

Report on other legal and regulatory requirements

Information on compliance with prudential regulations

The Management Board of the Bank is responsible for complying with the applicable prudential regulations set out in separate legislation, and in particular, for correct determination of the capital ratios.

The capital ratios as at 31 December 2019 have been presented in Note 4 of the financial statements and include Common Equity Tier 1 capital ratio, Tier 1 capital ratio and the total capital ratio.

We are obliged to inform in our report on the audit of the financial statements whether the Bank has

complied with the applicable prudential regulations set out in separate legislation, and in particular, whether the Bank has correctly determined its capital ratios. For the purposes of the said information, the following legal acts are understood as separate legislation: Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as amended ("CRR"), the Banking Law and the Act of 5 August 2015 on macro-prudential supervision over the financial system and on crisis management in the financial system ("the Act on

macro-prudential supervision” – Journal of Laws of 2019, item 483).

It is not the purpose of an audit of the financial statements to present an opinion on compliance with the applicable prudential regulations specified in the separate legislation specified above, and in particular, on the correct determination of the capital ratios, and therefore, we do not express such an opinion.

Based on the work performed by us, we inform you that we have not identified:

- any cases of non-compliance by the Bank with the applicable prudential regulations set out in separate legislation referred to above, in the period from 1 January to 31 December 2019;
- any irregularities in the determination by the Bank of the capital ratios as at 31 December 2019 in accordance with the separate legislation referred to above; which would have a material impact on the financial statements.

Statement on the provision of non-audit services

To the best of our knowledge and belief, we declare that the non-audit services we have provided to the Bank and its subsidiaries are in accordance with the laws and regulations applicable in Poland and that we have not provided any non-audit services prohibited under Article 5(1) of the EU regulation and Article 136 of the Act on Registered Auditors.

The non-audit services which we have provided to the Bank and its subsidiaries in the audited period are disclosed in the Report on operations.

The Key Registered Auditor responsible for the audit on behalf of PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k., a company entered on the list of Registered Audit Companies with the number 144., is Agnieszka Accordi.

Agnieszka Accordi
Key Registered Auditor
No. 11665

Warsaw, 20 February 2020

Appointment

We have been appointed for the first time to audit the annual financial statements of the Bank by resolution of the Supervisory Board dated 22 March 2016 and re-appointed by resolution dated 12 December 2018. We have been auditing the Bank's financial statements without interruption since the financial year ended 31 December 2016, i.e. for 4 consecutive years.