

Selected Financial Information on Santander Bank Polska Group for 2018

The content of this report represents insider information as defined in Regulation (EU) No 596/2014 of the European Parliament and the Council of 16 April 2014 on market abuse. The legal basis of this notification is article 17 (1) of the market abuse regulation (MAR).

The financial information for the quarter and the year ended 31 December 2018 as included in this document covers selected, preliminary and unaudited data prepared for information purposes only, in addition to the statutory interim reporting obligations of Santander Bank Polska Group. The scope of disclosures contained herein does not meet the definition of an interim report required by the International Accounting Standard 34 „Interim Financial Reporting” or the Regulation of the Ministry of Finance dated 29 March 2018 on current and periodic information provided by issuers of securities and the rules of equal treatment of the information required by the laws of a non-member state. Some financial data may be subject to revision in the Group’s Annual Report 2018 to be published on 22 February 2019 along with the independent auditor’s opinion.

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In thousands of PLN

I. Consolidated income statement

for reporting period:	01.10.2018- 31.12.2018	01.01.2018- 31.12.2018	01.10.2017- 31.12.2017	01.01.2017- 31.12.2017
Interest income and similar to interest	1 982 843	7 213 796	1 684 729	6 529 307
Interest income on financial assets measured at amortised cost	1 730 271	6 340 514	-	-
Interest income on financial assets measured at fair value through other comprehensive income	210 699	737 996	-	-
Income similar to interest - financial assets measured at fair value through profit or loss	41 873	135 286	-	-
Interest expense	(448 690)	(1 471 391)	(305 281)	(1 252 410)
Net interest income	1 534 153	5 742 405	1 379 448	5 276 897
Fee and commission income	664 230	2 526 572	642 813	2 476 209
Fee and commission expense	(166 952)	(468 770)	(127 427)	(463 083)
Net fee and commission income	497 278	2 057 802	515 386	2 013 126
Dividend income	255	100 116	180	76 816
Net gains/(losses) on subordinated entities	-	(65)	-	3 757
Net trading income and revaluation	68 512	197 129	47 321	194 974
Gains (losses) from other financial securities	(12 796)	37 480	15 593	47 502
Other operating income	34 159	213 842	52 372	150 587
Gain on acquisition of organized part of enterprise	387 733	387 733	-	-
Impairment losses on loans and advances	(422 753)	(1 137 658)	(212 942)	(690 473)
Operating expenses incl.:	(965 363)	(3 768 969)	(870 166)	(3 372 414)
-Staff, Operating expenses and management costs	(828 437)	(3 242 758)	(755 269)	(2 939 432)
-Depreciation/amortisation	(88 975)	(333 470)	(84 657)	(318 933)
-Other operating expenses	(47 951)	(192 741)	(30 240)	(114 049)
Share in net profits (loss) of entities accounted for by the equity	20 413	62 667	19 718	58 264
Tax on financial institutions	(132 729)	(466 330)	(106 991)	(423 815)
Profit before tax	1 008 862	3 426 152	839 919	3 335 221
Corporate income tax	(168 312)	(727 139)	(215 548)	(816 707)
Consolidated profit for the period	840 550	2 699 013	624 371	2 518 514
of which:				
-attributable to owners of Santander Bank Polska SA	767 109	2 365 222	548 991	2 213 054
-attributable to non-controlling interests	73 441	333 791	75 380	305 460
Net earnings per share (PLN/share)				
Basic earnings per share	7,92	23,72	5,65	22,29
Diluted earnings per share	7,91	23,68	5,62	22,25

In thousands of PLN

II. Consolidated statement of comprehensive income

	01.10.2018- for reporting period: 31.12.2018	01.01.2018- 31.12.2018	01.10.2017- 31.12.2017	01.01.2017- 31.12.2017
Consolidated profit for the period	840 550	2 699 013	624 371	2 518 514
Other comprehensive income which can be transferred to the profit and loss account:	264 329	333 945	76 179	452 578
Available-for sale financial assets valuation gross	-	-	118 816	533 774
Deferred tax	-	-	(22 575)	(101 417)
Cash flow hedges valuation gross	17 488	29 991	(24 768)	24 964
Deferred tax	(3 322)	(5 698)	4 706	(4 743)
Debt securities measured at fair value through other comprehensive income gross	308 844	382 287	-	-
Deferred tax	(58 681)	(72 635)	-	-
Other comprehensive income which can't be transferred to the profit and loss account:	(17 697)	15 576	(7 618)	(7 622)
Equity securities measured at fair value through other comprehensive income gross	(21 127)	6 702	-	-
Deferred tax	4 014	(1 273)	-	-
Profit on sale of equity securities measured at fair value through other comprehensive income gross	-	(142)	-	-
Current tax	-	12	-	-
Provision for retirement allowances – actuarial gains/losses gross	(721)	12 688	(9 405)	(9 410)
Deferred tax	137	(2 411)	1 787	1 788
Other comprehensive income for the period net of income tax	246 632	349 521	68 561	444 956
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1 087 182	3 048 534	692 932	2 963 470
Total comprehensive income attributable to:				
Owners of Santander Bank Polska SA	1 012 432	2 714 256	618 348	2 651 427
Non-controlling interests	74 750	334 278	74 584	312 043

In thousands of PLN

III. Consolidated statement of financial position

	as at:	31.12.2018	30.09.2018	31.12.2017
ASSETS				
Cash and balances with central banks		8 907 552	6 835 281	4 146 222
Loans and advances to banks		2 936 214	1 743 975	2 136 474
Financial assets held for trading		9 769 851	9 734 852	3 416 108
Hedging derivatives		73 221	111 100	218 061
Loans and advances to customers incl.:		137 460 378	116 590 007	107 839 897
- measured at amortised cost		134 554 879	115 127 536	-
- measured at fair value through other comprehensive income		1 455 169	-	-
- measured at fair value through profit or loss		1 450 330	1 462 471	-
Buy-sell-back transactions		177 482	259 599	-
Financial assets available for sale		-	-	28 415 812
Investment securities incl.:		39 179 100	35 314 771	-
- debt securities measured at fair value through other comprehensive income		38 221 051	34 342 101	-
- debt securities measured at fair value through profit and loss		136 511	131 330	-
- equity securities measured at fair value through other comprehensive income		821 538	841 340	-
Investments in associates		891 952	871 776	889 372
Intangible assets		819 409	526 149	490 327
Goodwill		1 712 056	1 712 056	1 712 056
Property, plant and equipment		986 384	918 828	930 717
Net deferred tax assets		1 760 121	1 577 736	1 414 227
Assets classified as held for sale		12 145	13 985	103
Other assets		1 166 995	1 189 768	1 065 068
Total assets		205 852 860	177 399 883	152 674 444
LIABILITIES AND EQUITY				
Deposits from banks		2 832 928	3 646 033	2 783 083
Hedging derivatives		912 482	848 089	578 798
Financial liabilities held for trading		1 233 713	1 120 687	1 237 704
Deposits from customers		149 616 658	124 629 188	111 481 135
Sell-buy-back transactions		9 340 788	8 850 189	2 650 846
Subordinated liabilities		2 644 341	2 641 923	1 488 602
Debt securities in issue		9 368 617	8 208 916	5 895 814
Current income tax liabilities		288 300	140 937	192 925
Provisions for off balance sheet credit facilities		81 048	65 656	50 652
Other provisions		132 881	118 947	102 482
Other liabilities		2 732 893	2 582 437	2 868 774
Total liabilities		179 184 649	152 853 002	129 330 815
Equity				
Equity attributable to owners of Santander Bank Polska SA		25 104 027	23 057 027	21 907 220
Share capital		1 020 883	993 335	993 335
Other reserve capital		18 969 482	17 962 140	16 920 129
Revaluation reserve		1 019 373	774 943	714 466
Retained earnings		1 729 067	1 728 496	1 066 236
Profit for the current period		2 365 222	1 598 113	2 213 054
Non-controlling interests in equity		1 564 184	1 489 854	1 436 409
Total equity		26 668 211	24 546 881	23 343 629
Total liabilities and equity		205 852 860	177 399 883	152 674 444

In thousands of PLN

IV. Consolidated statement of changes in equity

Consolidated statement of changes in equity	Equity attributable to equity holders of parent entity				Total	Non-controlling interests	Total equity
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period			
Equity as at 31.12.2017	993 335	16 920 129	714 466	3 279 290	21 907 220	1 436 409	23 343 629
Impact of the implementation of IFRS 9	-	-	(25 329)	(229 125)	(254 454)	-	(254 454)
Impact of the implementation of IFRS 9 (reclassification of Visa Inc)	-	-	(18 718)	18 718	-	-	-
Equity as at 1.01.2018 (restated)	993 335	16 920 129	670 419	3 068 883	21 652 766	1 436 409	23 089 175
Coverage of negative impact of IFRS 9	-	-	-	222 905	222 905	-	222 905
Total comprehensive income	-	-	349 034	2 365 222	2 714 256	334 278	3 048 534
<i>Consolidated profit for the period</i>	-	-	-	2 365 222	2 365 222	333 791	2 699 013
<i>Other comprehensive income</i>	-	-	349 034	-	349 034	487	349 521
Issue of shares *	27 548	-	-	-	27 548	-	27 548
Agio	-	1 004 291	-	-	1 004 291	-	1 004 291
Profit on sale of equity securities measured at fair value through other comprehensive income	-	-	130	(130)	-	-	-
Profit allocation to other reserve capital	-	1 032 851	-	(1 032 851)	-	-	-
Profit allocation to dividends	-	-	-	(307 627)	(307 627)	(206 503)	(514 130)
Profit allocation to cover negative impact of IFRS 9 implementation	-	-	-	(222 905)	(222 905)	-	(222 905)
Share scheme charge	-	12 445	-	-	12 445	-	12 445
Equity adjustment due to merger and liquidation of subsidiaries and controlling stake at the other subsidiaries	-	(234)	(210)	792	348	-	348
As at 31.12.2018	1 020 883	18 969 482	1 019 373	4 094 289	25 104 027	1 564 184	26 668 211

* On 9.11.2018, Santander Bank Polska SA was informed that on 9.11.2018 the amendments to the Statute of Santander Bank Polska SA resulting in Bank's share capital increase related to the demerger of Deutsche Bank Polska SA was registered by the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register. The amendments to the Bank's Statute were adopted by the Extraordinary General Meeting on 29.05.2018. The registered amendment to the Statutes includes an increase in the capital of Santander Bank Polska SA. The share capital of Bank was increased from PLN 993,334,810 to PLN 1,020,883,050 i.e. by PLN 27,548,240.

As at the end of the period revaluation reserve in the amount of PLN 1,019,373 k comprises valuation of debt securities and valuation of equity securities of PLN 553,742 k and PLN 518,983 k respectively and additionally valuation of cash flow hedge activities of PLN (64,189) k and accumulated actuarial gains - provision for retirement allowances of PLN 10,837 k.

In thousands of PLN

Consolidated statement of changes in equity	Equity attributable to equity holders of parent entity				Total	Non-controlling interests	Total equity
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period			
Equity as at 31.12.2017	993 335	16 920 129	714 466	3 279 290	21 907 220	1 436 409	23 343 629
Impact of the implementation of IFRS 9	-	-	(25 329)	(229 125)	(254 454)	-	(254 454)
Impact of the implementation of IFRS 9 (reclassification of Visa Inc)	-	-	(18 718)	18 718	-	-	-
Equity as at 1.01.2018 (restated)	993 335	16 920 129	670 419	3 068 883	21 652 766	1 436 409	23 089 175
Coverage of negative impact of IFRS 9 implementation *	-	-	-	222 905	222 905	-	222 905
Total comprehensive income	-	-	103 711	1 598 113	1 701 824	259 528	1 961 352
Consolidated profit for the period	-	-	-	1 598 113	1 598 113	260 350	1 858 463
Other comprehensive income	-	-	103 711	-	103 711	(822)	102 889
Profit on sale of equity securities measured at fair value through other comprehensive income	-	-	130	(130)	-	-	-
Profit allocation to other reserve capital	-	1 032 851	-	(1 032 851)	-	-	-
Profit allocation to dividends	-	-	-	(307 627)	(307 627)	(206 503)	(514 130)
Profit allocation to cover negative impact of IFRS 9 implementation*	-	-	-	(222 905)	(222 905)	-	(222 905)
Share scheme charge	-	9 394	-	-	9 394	-	9 394
Equity adjustment due to merger and liquidation of subsidiaries and controlling stake at the subsidiaries	-	(234)	683	221	670	420	1 090
As at 30.09.2018	993 335	17 962 140	774 943	3 326 609	23 057 027	1 489 854	24 546 881

*General Meeting of Santander Bank Polska SA and Santander Factoring decided to allocate part of the retained earnings to cover the negative impact of the implementation of IFRS 9 respectively in the amount PLN 218,466 k and PLN 4,439 k.

As at the end of the period revaluation reserve in the amount of PLN 774,943 k comprises valuation of debt securities and valuation of equity securities of PLN 305,126 k and PLN 536,756 k respectively and additionally valuation of cash flow hedge activities of PLN (78,296) k and accumulated actuarial gains - provision for retirement allowances of PLN 11,357 k.

In thousands of PLN

Consolidated statement of changes in equity	Equity attributable to equity holders of parent entity				Total	Non-controlling interests	Total equity
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period			
Equity as at 31.12.2016	992 345	15 791 555	276 093	2 720 834	19 780 827	1 237 649	21 018 476
Total comprehensive income	-	-	438 373	2 213 054	2 651 427	312 043	2 963 470
<i>Consolidated profit for the period</i>	-	-	-	2 213 054	2 213 054	305 460	2 518 514
<i>Other comprehensive income</i>	-	-	438 373	-	438 373	6 583	444 956
Issue of shares *	990	-	-	-	990	-	990
Profit allocation to other reserve capital	-	1 123 497	-	(1 123 497)	-	-	-
Profit allocation to dividends	-	-	-	(535 866)	(535 866)	(110 962)	(646 828)
Share scheme charge	-	(2 512)	-	-	(2 512)	-	(2 512)
Equity adjustment due to merger and liquidation of subsidiaries and controlling stake at the subsidiaries	-	7 589	-	4 765	12 354	(2 321)	10 033
As at 31.12.2017	993 335	16 920 129	714 466	3 279 290	21 907 220	1 436 409	23 343 629

*On 3.08.2017, Santander Bank Polska SA was informed that on 3.08.2017, the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register, entered into the National Court Register the changes to the Bank's statute adopted by the Annual General Meeting of the shareholders of the Bank held on 17.05.2017. Given the above, the Bank's share capital was increased from PLN 992,345,340 to PLN 993,334,810, i.e. by PLN 989,470. The shares acquired in the increased share capital were paid up in full.

This increase of the share capital took place within the private placement with the exclusion of the pre-emptive rights of the present shareholders in respect of the shares of the M series ordinary bearer shares covered by Incentive Scheme V participants.

As at the end of the period revaluation reserve in the amount of PLN 714,466 k comprises valuation of debt securities and valuation of equity securities of PLN 245,104 k and PLN 557,499 k respectively and additionally valuation of cash flow hedge activities of PLN (88,574) k and accumulated actuarial gains - provision for retirement allowances of PLN 437 k.

In thousands of PLN

V. Consolidated statement of cash flows

	for the period	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
Profit before tax		3 426 152	3 335 221
Total adjustments:			
Share in net profits of entities accounted for by the equity method		(62 667)	(58 264)
Depreciation/amortisation		333 470	318 933
Gain on acquisition of organized part of enterprise		(387 733)	-
Impairment losses		12 959	8 765
Profit from investing activities		(79 107)	(62 297)
		3 243 074	3 542 358
Changes:			
Provisions		32 586	23 006
Trading portfolio financial instruments		(6 345 807)	(1 506 362)
Hedging derivatives		478 524	(1 594 962)
Loans and advances to banks		151 667	(95)
Loans and advances to customers		(11 063 294)	(4 771 359)
Deposits from banks		(4 094 278)	110 032
Deposits from customers		23 883 844	(781 067)
Buy-sell/ Sell-buy-back transactions		6 689 942	1 018 233
Other assets and liabilities		(400 553)	277 134
		9 332 631	(7 225 440)
Interest accrued excluded from operating activities		(369 152)	(414 692)
Dividends		(98 989)	(76 270)
Paid income tax		(947 002)	(693 049)
Net cash flows from operating activities		11 160 562	(4 867 093)
Inflows		6 309 947	4 461 677
Sale/maturity of financial assets available for sale		-	3 673 594
Sale/maturity of investment securities		5 358 065	-
Sale of intangible assets and property, plant and equipment		105 615	45 342
Dividends received		98 989	76 270
Interest received		747 278	666 471
Outflows		(11 671 083)	(4 206 618)
Acquisition of organized part of enterprise net of cash acquired		(186 482)	-
Purchase of subordinated entities net of cash acquired		(19 990)	-
Purchase of financial assets available for sale		-	(3 792 409)
Purchase of investment securities		(10 883 425)	-
Purchase of intangible assets and property, plant and equipment		(581 186)	(414 209)
Net cash flows from investing activities		(5 361 136)	255 059
Inflows		11 102 519	4 983 948
Debt securities in issue		7 430 794	3 562 288
Proceeds from issuing/shares		-	990
Drawing of loans		3 671 725	1 420 670
Outflows		(6 552 006)	(4 548 345)
Debt securities buy out		(2 975 000)	(2 095 000)
Repayment of loans		(2 781 861)	(1 568 408)
Dividends and other payments to shareholders		(514 130)	(646 828)
Interest paid		(281 015)	(238 109)
Net cash flows from financing activities		4 550 513	435 603
Total net cash flows		10 349 939	(4 176 431)
Cash and cash equivalents at the beginning of the accounting period		7 662 368	11 838 799
Cash and cash equivalents at the end of the accounting period		18 012 307	7 662 368

In thousands of PLN

VI. Income statement of Santander Bank Polska

	01.10.2018- 31.12.2018	01.01.2018- 31.12.2018	01.10.2017- 31.12.2017	01.01.2017- 31.12.2017
Interest income and similar to interest	1 445 587	5 174 209	1 204 956	4 703 187
Interest income on financial assets measured at amortised cost	1 218 932	4 397 291	-	-
Interest income on financial assets measured at fair value through other comprehensive income	197 597	688 604	-	-
Income similar to interest - financial assets measured at fair value through profit or loss	29 058	88 314	-	-
Interest expenses	(353 537)	(1 111 153)	(219 261)	(917 638)
Net interest income	1 092 050	4 063 056	985 695	3 785 549
Fee and commission income	509 808	1 900 245	519 710	1 997 881
Fee and commission expenses	(94 398)	(283 342)	(71 098)	(271 233)
Net fee and commission income	415 410	1 616 903	448 612	1 726 648
Dividend income	246	492 607	27 276	299 518
Net gains/(losses) on subordinated entities	-	(65)	(288)	(288)
Net trading income and revaluation	41 165	175 990	43 664	183 229
Gains (losses) from other financial securities	(10 471)	40 522	14 813	44 614
Other operating income	22 551	154 335	22 852	83 763
Gain on acquisition of organized part of enterprise	364 765	364 765	-	-
Impairment losses on loans and advances	(315 901)	(799 937)	(157 294)	(540 375)
Operating expenses incl.:	(763 444)	(3 023 043)	(682 267)	(2 679 341)
-Staff, Operating expenses and management costs	(657 647)	(2 590 275)	(590 762)	(2 323 197)
-Depreciation/amortisation	(73 931)	(280 350)	(71 256)	(274 954)
-Other operating expenses	(31 866)	(152 418)	(20 249)	(81 190)
Tax on financial institutions	(122 782)	(427 069)	(97 646)	(387 987)
Profit before tax	723 589	2 658 064	605 417	2 515 330
Corporate income tax	(100 928)	(490 903)	(156 254)	(599 174)
Profit for the period	622 661	2 167 161	449 163	1 916 156
Net earnings per share (PLN/share)				
Basic earnings per share	6,41	21,73	4,63	19,30
Diluted earnings per share	6,35	21,69	4,61	19,27

In thousands of PLN

VII. Statement of comprehensive income of Santander Bank Polska

	for reporting period:		01.10.2018- 31.12.2018	01.01.2018- 31.12.2018	01.10.2017- 31.12.2017	01.01.2017- 31.12.2017
Profit for the period			622 661	2 167 161	449 163	1 916 156
Other comprehensive income which can be transferred to the profit and loss account:			260 315	331 641	80 103	438 053
Available-for sale financial assets valuation gross			-	-	120 365	515 926
Deferred tax			-	-	(22 869)	(98 026)
Cash flow hedges valuation gross			17 306	30 274	(21 473)	24 880
Deferred tax			(3 288)	(5 752)	4 080	(4 727)
Debt securities measured at fair value through other comprehensive income gross			304 070	379 159	-	-
Deferred tax			(57 773)	(72 040)	-	-
Other comprehensive income which can't be transferred to the profit and loss account:			(17 891)	18 865	(7 504)	(7 504)
Equity securities measured at fair value through other comprehensive income gross			(21 538)	10 412	-	-
Deferred tax			4 092	(1 978)	-	-
Profit on sale of equity securities measured at fair value through other comprehensive income gross			-	(142)	-	-
Current tax			-	12	-	-
Provision for retirement allowances – actuarial gains/losses gross			(550)	13 038	(9 264)	(9 264)
Deferred tax			105	(2 477)	1 760	1 760
Other comprehensive income for the period net of income tax			242 424	350 506	72 599	430 549
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD			865 085	2 517 667	521 762	2 346 705

In thousands of PLN

VIII. Statement of financial position of Santander Bank Polska

	31.12.2018	30.09.2018	31.12.2017
ASSETS			
Cash and balances with central banks	8 841 902	6 785 568	4 114 801
Loans and advances to banks	2 859 479	1 666 604	2 012 118
Financial assets held for trading	9 776 705	9 739 679	3 421 547
Hedging derivatives	52 554	81 132	146 724
Loans and advances to customers incl.:	117 492 490	98 110 623	90 537 003
- measured at amortised cost	114 968 181	97 042 703	-
- measured at fair value through other comprehensive income	1 455 169	-	-
- measured at fair value through profit or loss	1 069 140	1 067 920	-
Buy-sell-back transactions	177 482	259 599	-
Financial assets available for sale	-	-	25 784 029
Investment securities incl.:	36 372 113	32 470 131	-
- debt securities measured at fair value through other comprehensive income	35 439 836	31 523 313	-
- debt securities measured at fair value through profit and loss	131 005	125 320	-
- equity securities measured at fair value through other comprehensive income	801 272	821 498	-
Investments in subsidiaries and associates	2 396 937	2 376 937	2 377 037
Intangible assets	775 908	488 130	459 976
Goodwill	1 688 516	1 688 516	1 688 516
Property, plant and equipment	870 686	814 404	821 532
Net deferred tax assets	950 886	802 144	709 867
Assets classified as held for sale	11 123	12 702	8
Other assets	771 783	918 544	790 110
Total assets	183 038 564	156 214 713	132 863 268
LIABILITIES AND EQUITY			
Deposits from banks	1 039 979	1 683 343	1 414 448
Hedging derivatives	903 170	840 523	578 798
Financial liabilities held for trading	1 238 002	1 128 754	1 263 859
Deposits from customers	139 469 776	114 933 480	102 155 522
Sell-buy-back transactions	8 233 994	7 757 304	1 479 667
Subordinated liabilities	2 543 940	2 540 610	1 488 602
Debt securities in issue	3 311 969	3 138 730	1 240 244
Current income tax liabilities	186 769	75 460	61 143
Provisions for off balance sheet credit facilities	58 143	44 478	25 384
Other provisions	83 644	72 183	57 216
Other liabilities	2 108 821	2 039 467	2 259 548
Total liabilities	159 178 207	134 254 332	112 024 431
Equity			
Share capital	1 020 883	993 335	993 335
Other reserve capital	18 150 998	17 143 655	16 176 183
Revaluation reserve	1 030 661	788 237	712 303
Retained earnings	1 490 654	1 490 654	1 040 860
Profit for the current period	2 167 161	1 544 500	1 916 156
Total equity	23 860 357	21 960 381	20 838 837
Total liabilities and equity	183 038 564	156 214 713	132 863 268

In thousands of PLN

IX. Statement of changes in equity of Santander Bank Polska

Statement of changes in equity	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total
Equity as at 31.12.2017	993 335	16 176 183	712 303	2 957 016	20 838 837
Impact of the implementation of IFRS 9	-	-	(14 339)	(218 466)	(232 805)
Impact of the implementation of IFRS 9 (reclassification of Visa Inc)	-	-	(17 939)	17 939	-
Equity as at 1.01.2018 (restated)	993 335	16 176 183	680 025	2 756 489	20 606 032
Coverage of negative impact of IFRS 9 implementation	-	-	-	218 466	218 466
Total comprehensive income	-	-	350 506	2 167 161	2 517 667
<i>Profit for the period</i>	-	-	-	2 167 161	2 167 161
<i>Other comprehensive income</i>	-	-	350 506	-	350 506
Issue of shares *	27 548	-	-	-	27 548
Agio	-	1 004 291	-	-	1 004 291
Profit on sale of equity securities measured at fair value through other comprehensive income	-	-	130	(130)	-
Profit allocation to other reserve capital	-	958 078	-	(958 078)	-
Profit allocation to dividends	-	-	-	(307 627)	(307 627)
Profit allocation to cover negative impact of IFRS 9 implementation	-	-	-	(218 466)	(218 466)
Share scheme charge	-	12 446	-	-	12 446
As at 31.12.2018	1 020 883	18 150 998	1 030 661	3 657 815	23 860 357

*On 9.11.2018, Santander Bank Polska SA was informed that on 9.11.2018 the amendments to the Statute of Santander Bank Polska SA resulting in Bank's share capital increase related to the demerger of Deutsche Bank Polska SA was registered by the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register. The amendments to the Bank's Statute were adopted by the Extraordinary General Meeting on 29.05.2018.

The registered amendment to the Statutes includes an increase in the capital of Santander Bank Polska SA. The share capital of Bank was increased from PLN 993,334,810 to PLN 1,020,883,050 i.e. by PLN 27,548,240.

As at the end of the period revaluation reserve in the amount of PLN 1,030,661 k comprises valuation of debt securities and valuation of equity securities of PLN 544,394 k and PLN 542,291 k respectively and additionally valuation of cash flow hedge activities of PLN (66,907) k and accumulated actuarial gains - provision for retirement allowances of PLN 10,883 k.

In thousands of PLN

Statement of changes in equity	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total
Equity as at 31.12.2017	993 335	16 176 183	712 303	2 957 016	20 838 837
Impact of the implementation of IFRS 9	-	-	(14 339)	(218 466)	(232 805)
Impact of the implementation of IFRS 9 (reclassification of Visa Inc)	-	-	(17 939)	17 939	-
Equity as at 1.01.2018 (restated)	993 335	16 176 183	680 025	2 756 489	20 606 032
Coverage of negative impact of IFRS 9 implementation*	-	-	-	218 466	218 466
Total comprehensive income	-	-	108 082	1 544 500	1 652 582
<i>Profit for the period</i>	-	-	-	1 544 500	1 544 500
<i>Other comprehensive income</i>	-	-	108 082	-	108 082
Profit on sale of equity securities measured at fair value through other comprehensive income	-	-	130	(130)	-
Profit allocation to other reserve capital	-	958 078	-	(958 078)	-
Profit allocation to dividends	-	-	-	(307 627)	(307 627)
Profit allocation to cover negative impact of IFRS 9 implementation*	-	-	-	(218 466)	(218 466)
Share scheme charge	-	9 394	-	-	9 394
As at 30.09.2018	993 335	17 143 655	788 237	3 035 154	21 960 381

*On 16.05.2018 General Meeting of Santander Bank Polska SA decided to allocate part of the retained earnings to cover the negative impact of the implementation of IFRS 9.

As at the end of the period revaluation reserve in the amount of PLN 788,237 k comprises valuation of debt securities and valuation of equity securities of PLN 298,097 k and PLN 559,736 k respectively and additionally valuation of cash flow hedge activities of PLN (80,925) k and accumulated actuarial gains - provision for retirement allowances of PLN 11,329 k.

Statement of changes in equity	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total
Equity as at 31.12.2016	992 345	15 132 993	281 754	2 622 428	19 029 520
Total comprehensive income	-	-	430 549	1 916 156	2 346 705
<i>Profit for the period</i>	-	-	-	1 916 156	1 916 156
<i>Other comprehensive income</i>	-	-	430 549	-	430 549
Issue of shares *	990	-	-	-	990
Profit allocation to other reserve capital	-	1 045 702	-	(1 045 702)	-
Profit allocation to dividends	-	-	-	(535 866)	(535 866)
Share scheme charge	-	(2 512)	-	-	(2 512)
As at 31.12.2017	993 335	16 176 183	712 303	2 957 016	20 838 837

*On 3.08.2017, Santander Bank Polska SA was informed that on 3.08.2017, the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register, entered into the National Court Register the changes to the Bank's statute adopted by the Annual General Meeting of the shareholders of the Bank held on 17.05.2017. Given the above, the Bank's share capital was increased from PLN 992,345,340 to PLN 993,334,810, i.e. by PLN 989,470. The shares acquired in the increased share capital were paid up in full.

This increase of the share capital took place within the private placement with the exclusion of the pre-emptive rights of the present shareholders in respect of the shares of the M series ordinary bearer shares covered by Incentive Scheme V participants.

The revaluation reserve of PLN 712,303 k comprises valuation of debt securities and valuation of equity securities of PLN 237,275 k and PLN 566,134 k respectively, valuation of cash flow hedges of PLN (91,429) k and accumulated actuarial gains - provision for retirement allowances of PLN 323 k.

In thousands of PLN

X. Statement of cash flows of Santander Bank Polska

	for reporting period:	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
Profit before tax		2 658 064	2 515 330
Total adjustments:			
Depreciation/amortisation		280 350	274 954
Gain on acquisition of organized part of enterprise		(364 765)	-
Profit from investing activities		(78 408)	(58 698)
Impairment losses		13 054	8 342
		2 508 295	2 739 928
Changes in:			
Provisions		21 523	16 255
Trading portfolio financial instruments		(6 369 088)	(1 469 353)
Hedging derivatives		418 542	(1 462 967)
Loans and advances to banks		(99 654)	(273)
Loans and advances to customers		(8 366 572)	(3 434 613)
Deposits from banks		(4 164 926)	201 824
Deposits from customers		23 435 073	(636 987)
Buy-sell/ Sell-buy-back transactions		6 754 327	1 479 667
Other assets and liabilities		(355 130)	278 379
		11 274 095	(5 028 068)
Interest accrued excluded from operating activities		(516 747)	(522 528)
Dividends		(491 480)	(298 972)
Paid income tax		(580 950)	(411 583)
Net cash flows from operating activities		12 193 213	(3 521 223)
Inflows		5 638 949	3 934 371
Sale of investments in subsidiaries		35	-
Sale/maturity of financial assets available for sale		-	3 012 773
Sale/maturity of investment securities		4 383 747	-
Sale of intangible assets and property, plant and equipment		73 277	22 226
Dividends received		491 480	298 972
Interest received		690 410	600 400
Outflows		(10 411 044)	(3 818 079)
Acquisition of organized part of enterprise net of cash acquired		(186 482)	-
Purchase of subordinated entities net of cash acquired		(19 990)	-
Purchase of financial assets available for sale		-	(3 491 908)
Purchase of investment securities		(9 728 225)	-
Purchase of intangible assets and property, plant and equipment		(476 347)	(326 171)
Net cash flows from investing activities		(4 772 095)	116 292
Inflows		5 659 259	2 031 978
Debt securities in issue		4 290 794	1 988 788
Proceeds from issuing/shares		-	990
Drawing of loans		1 368 465	42 200
Outflows		(2 808 677)	(2 675 575)
Debt securities buy out		(1 235 000)	(1 430 000)
Repayment of loans		(1 173 101)	(630 728)
Dividends and other payments to shareholders		(307 627)	(535 866)
Interest paid		(92 949)	(78 981)
Net cash flows from financing activities		2 850 582	(643 597)
Total net cash flows		10 271 700	(4 048 528)
Cash and cash equivalents at the beginning of the accounting period		7 506 027	11 554 555
Cash and cash equivalents at the end of the accounting period		17 777 727	7 506 027

XI. Controlling stake at organized part of enterprise

Summary of acquisition

On 09 November 2018 the Santander Bank Polska (the Bank) acquired an organized part of business of Deutsche Bank Polska S.A. (DBPL) consisting of DBPL's retail and SME banking, private banking, business banking, as well as 100% of shares in DB Securities S.A. a brokerage house of DBPL group. Pursuant to the Transaction Agreement, the branch network along with the external sales channels - vendors and agents of DBPL has been integrated with Santander Bank's current network. Apart from that investment product distribution and asset management businesses were transferred along with the Acquired Business. Transaction excluded corporate and investment banking business and retail FX mortgages that will remain in DBPL.

Business rationales of the transaction

The acquisition of organized part of enterprise Deutsche Bank Polska S.A. enables Santander Bank Polska SA to improve its position in the Polish banking sector throughout of acquisition of attractive, low risk customer base and by increasing its presence in affluent customers, private banking, and SME segments. Provides also reinforcement of Bank's sales network in regions of strategic significance (e.g. Silesia). Moreover, in the opinion of the management, the business combination will effects in significant cost and income synergies mostly resulting from potential upside from cheaper funding and cross-selling opportunities.

After the acquisition Santander Bank Polska Group increased its loan market share to 12.0% (unaudited information) to PLN 137 bn of net loans and advances to customers. From the segmentation point of view, transaction provided inflow of attractive client base and highly complementary business franchise. It significantly improved the Bank's position in the growing Private Banking, Select and Mid Market segments (+95k clients), and also in the mass segment with new 226k clients. In addition, new 35k SME clients have been acquired.

As a result exclusion from transaction perimeter FX denominated mortgages, transaction reduced Santander Bank Polska FX mortgage loans weighting to 9.2%.

Preliminary purchase price

According to the terms and conditions of the agreement signed on the 14th of December 2017, parties established the preliminary purchase price of PLN 1,289,799,000, which can be broken down into:

1. Transferred BD Business Preliminary Purchase Price of PLN 1,269,799,000; and
2. DB Securities Preliminary Purchase Price of PLN 20,000,000.

Transferred BD Business Preliminary Purchase Price has been calculated based on its initial level of risk weighted assets multiplied by 13.875% and discounted by the agreed multiple of 0.60x.

The DB Securities Preliminary Purchase Price of PLN 20,000,000 has been determined by the Parties on the basis of the DB Securities Financials and an agreed discount to the Base Equity.

Preliminary Purchase Price was paid in cash in the amount of PLN 257,959,800 representing 20% of total established price whereas the rest of consideration has been transferred in form of 2,754,824 Demerger Shares of Acquirer. The number of the shares issued as part of the consideration was based on their fair value, being an arithmetical average of daily prices weighted by trade volume of Acquiring Bank's shares which were traded on the Warsaw Stock Exchange during the period between 14 November 2017 and 13 December 2017, and totaled PLN 374.56.

Details of the purchase consideration are as follows:

Purchase consideration	
Cash paid	257 960
Ordinary shares issued	1 031 839
Total purchase consideration	1 289 799

In thousands of PLN

Final Purchase Price

Due to the fact that the date of the initial price determination was significantly distant from the date of transfer of balances being the subject of the contract, the parties agreed that the final payment price will be equal to the preliminary purchase price, adjusted by the final level of the RWA price component as well as the impact of changes in significant business volumes such as loans, customer deposits and customer funds under management. Conditional is, the final settlement of the price paid is expected by the end of March 2019.

Analysis of acquired assets and liabilities on a merger day

As at the date of issuance of the report, the Group of Santander Bank Polska S.A. performed valuation process related to the acquisition of an organized part of Deutsche Bank Polska S.A. and Deutsche Bank Securities S.A. The valuation included review of balance sheet items (such as loans and advances to customers, non-current assets, deposits from customers and banks) and contingent liabilities. Apart from that, during the acquisition Bank recognized additional assets that meet the conditions for recognition as intangible assets. These assets resulted from the revaluation of customer relationships created in DBPL on deposit products (PLN 142.2m) and investment and insurance products (PLN 50.4m). The depreciation of the intangible assets shall be allocated to the profit and loss accounts on a non-linear basis over their useful lives, directly linked to life of underlying products.

The following table shows the fair value of acquired assets and liabilities.

	as at: 09.11.2018 Carve out of DB DB Securities	
ASSETS		
Cash and balances with central banks	51 073	-
Loans and advances to banks	405	159 690
Financial assets held for trading	24 049	-
Loans and advances to customers measured at amortised cost	18 781 513	-
- Mortgage loans	8 442 540	-
- Consumer loans	3 092 067	-
- Business loans	7 246 906	-
Investment securities incl.:	83 090	271
- debt securities measured at fair value through other comprehensive income	63 077	-
- debt securities measured at fair value through profit and loss	20 013	-
- equity securities measured at fair value through other comprehensive income	-	271
Intangible assets	195 977	1 041
Property, plant and equipment	19 043	125
Net deferred tax assets	52 972	940
Other assets	37 017	17 896
Total assets	19 245 139	179 963
LIABILITIES		
Deposits from banks	4 430 226	74
Financial liabilities held for trading	12 122	-
Deposits from customers	13 041 354	130 095
Provisions for off balance sheet credit facilities	7 945	-
Other provisions	5 230	-
Other liabilities	113 698	6 826
Total liabilities	17 610 575	136 995
Net assets acquired	1 634 564	42 968

In thousands of PLN

Non-controlling interest

Due to the fact that the business combination considered acquisition of an organized part of business, no non-controlling interests were recognized in the consolidated financial statements of Santander Bank Polska Group.

Calculation of the preliminary gain of the acquisition

As at the date of issuance of the report, the Group of Santander Bank Polska performed preliminary settlement of the acquisition of an organized part of business of Deutsche Bank Polska S.A. and DB Securities S.A. Table below presents calculation of the preliminary gain from acquisition, which is disclosed in the 'Gains from acquisition of organized part of the enterprise' in the consolidated profit and loss accounts for the year ended 2018.

Preliminary gain of the acquisition	
Consideration paid	1 289 799
less: fair value of identifiable net assets	(1 677 532)
Total	(387 733)

Purchase consideration – cash outflow

Outflow of cash to acquire assets and liabilities, net of cash acquired	
Cash consideration	(257 960)
less: Balances acquired	51 488
<i>Cash</i>	51 073
<i>Current accounts</i>	415
<i>Other cash equivalents</i>	-
Net outflow of cash, investing activities	(206 472)

Acquisition-related costs

In 2018 Santander Bank Polska SA incurred acquisition-related costs of PLN 108,870 k which were a result of a process of preparation of internal resources and capabilities to execute overnight data migration of customer records from demerged business. These costs were included in the administrative expenses in profit or loss accounts and in operating cash flows in the statement of cash flows. Table below presents a functional break down of the above mentioned costs:

Salaries and bonuses	26 529
Consulting fees	30 061
IT costs	10 330
Administrative expenses	23 364
Marketing and communication	12 899
Other costs	5 687
Total	108 870

In addition, Santander Bank Polska S.A. recognized additional allowance for impairment receivables taken over in the purchase transaction for the amount of PLN 130,473 k.

XII. Overview of Santander Bank Polska Group Performance in 2018

Financial and Business Highlights of Santander Bank Polska Group for 2018

Total income	<ul style="list-style-type: none"> Total income of Santander Bank Polska Group for 2018 increased by 12.5% YoY to PLN 8,736.4m. Adjusting for PLN 387.7m gain from the acquisition of a demerged part of Deutsche Bank Polska S.A., the underlying total income grew by 7.5% YoY.
Net interest income	<ul style="list-style-type: none"> Net interest income increased by 8.8% YoY to 5,742.4m alongside a narrowing net interest margin in the continuously low interest rate environment, reflecting: <ul style="list-style-type: none"> dynamic growth of the Group's net interest earning assets supported by robust lending and acquisition of assets of Deutsche Bank Polska S.A. (PLN 18.8bn of loans as at 9 November 2018); additional funding base for increasing assets (deposits, loans from global financial institutions, own securities issues); solid balance sheet structure (high share of retail loans and low-cost current account balances); flexible management of pricing and product parameters.
Fee and commission income	<ul style="list-style-type: none"> Net fee and commission income grew by 2.2% YoY to PLN 2,057.8m as a combined effect of: <ul style="list-style-type: none"> higher net fee and commission income from growing credit portfolios, currency exchange (supported by appreciation of foreign exchange rates) and an increasing base of debit cards with high transaction turnover; lower/stable fee and commission income from brokerage services, insurance sales and distribution of investment funds affected by external factors (stock market downturn and regulations pertaining to business models related to bancassurance and investment companies); stable fee and commission income from credit cards attributed, among others, to fewer cash transactions and transfers effected with credit cards, and changed customer preferences in favour of cash loans; lower fee and commission income from current accounts due to promotional campaigns and favourable changes in the Bank's terms and conditions from the point of view of customers.
Other income ¹⁾	<ul style="list-style-type: none"> Other income was PLN 936.2m and PLN 548.5m on a comparable basis (excluding the gain of PLN 387.7m from the acquisition of an organised part of Deutsche Bank Polska S.A.). The underlying increase of 15.8% YoY results from recognition of the PLN 44.3m gain from the sale of real estate located in Wrocław and higher dividend income (mainly from Aviva Group companies). The 2018 figure additionally includes PLN 21.6m from reclassification of VISA Inc.'s shares from equity instruments measured at fair value through other comprehensive income to debt instruments measured at fair value through profit or loss.
Total costs	<ul style="list-style-type: none"> Total costs went up by 11.8% YoY to PLN 3,769.0m, with an increase of 10.3% YoY in staff and general expenses driven by expanding business activity and strategic development projects. Excluding two flagship projects, i.e. rebranding (PLN 66.4m) and acquisition and integration of a demerged part of Deutsche Bank Polska S.A. (PLN 108.9m), the underlying total costs of the Group were up 7.0% YoY (5.1% YoY excluding provisions for legal disputes), whereas the underlying staff and general expenses were up 4.9% YoY.
Costs/Income	<ul style="list-style-type: none"> Cost to income ratio (C/I) was 43.1% versus 43.4% for 2017. It was 43.0% on a comparable basis.
Net impairment allowances	<ul style="list-style-type: none"> Net impairment allowances amounted to PLN 1,137.7m compared with PLN 690.5m in 2017. Adjusting for the gain from the sale of credit receivables (PLN 21.6m in 2018 and PLN 224.2m in 2017) and the allowance made for loans and advanced acquired along with a part of Deutsche Bank Polska S.A. (PLN 130.5m), the underlying net allowance was PLN 1,028.8m and higher by 12.5% YoY in line with expanding business volumes and as a result of IFRS 9 implementation.
Tax on financial institutions	<ul style="list-style-type: none"> Tax on financial institutions was PLN 466.3m and increased by 10% as a result of the growth in taxable assets.
Profit	<ul style="list-style-type: none"> Profit before tax amounted to PLN 3,426.2m, up 2.7% YoY. Profit attributable to the shareholders of Santander Bank Polska S.A. was PLN 2,365.2m and increased by 6.9% YoY.

1) Other income includes the following items of the comprehensive income statement: dividend income; net profit on shares in subordinate entities; net trading income and revaluation; gains on other financial instruments; other operating income and gain on acquisition of an organised part of enterprise.

Financial and Business Highlights of Santander Bank Polska Group for 2018 (cont.)

Capital ratio	<ul style="list-style-type: none"> Capital ratio stood at 16.70% (16.69% as at 31 December 2017), ensuring security of operations and stable growth.
ROE	<ul style="list-style-type: none"> Return on Equity was 11.9% (12.2% as at 31 December 2017).
Credit quality	<ul style="list-style-type: none"> The NPL ratio was 4.5% as at 31 December 2018 vs. 5.8% as at 31 December 2017, while the ratio of impairment losses to the average gross credit volumes was 0.90% vs. 0.63% a year before.
Loans to customers	<ul style="list-style-type: none"> Gross loans to customers increased by 25.9% YoY to PLN 141,845.4m due to the growth of 29.2% YoY in personal loans and 22.8% YoY in loans to enterprises and the public sector to PLN 74,696.4m and PLN 58,929.5m, respectively. The dynamic credit growth was a combined effect of robust lending and acquisition of a demerged part of Deutsche Bank Polska S.A. on 9 November 2018, alongside a credit portfolio of PLN 18.8bn.
Deposits from customers	<ul style="list-style-type: none"> Deposits from customers grew by 34.2% to PLN 149,616.7m as a result of an increase of 35.7% YoY in personal deposits to PLN 88,211.4m and 32.1% YoY in deposits from enterprises and the public sector to PLN 61,405.3m. The accelerated growth in customer deposits was driven by an effective acquisition of deposits by Santander Bank Polska S.A. and takeover of a part of a deposit base of Deutsche Bank Polska S.A. (PLN 13.0bn) as a result of the demerger.
Loans/Deposits	<ul style="list-style-type: none"> Net customer loans to deposits ratio was 91.9% as at 31 December 2018 compared with 96.7% as at 31 December 2017.
Net assets under management	<ul style="list-style-type: none"> Net value of assets in investment funds and portfolios managed by Santander TFI totalled PLN 15.4bn, down 6.1% YoY.
Customer portfolios of investments and insurance products acquired with a part of Deutsche Bank Polska S.A.	<ul style="list-style-type: none"> As a result of acquisition of an organised part of Deutsche Bank Polska S.A., the portfolio of investment funds held by customers increased by PLN 2.1bn and the insurance portfolio by PLN 1.2bn as at 31 December 2018.
Electronic banking	<ul style="list-style-type: none"> The number of customers with access to Santander24 electronic banking services was 4.0m (+18.6% YoY). The number of "digital" customers (those who used the Santander24 platform at least once a month) was 2.4m (+13.2% YoY), including over 1.3m customers with access to mobile services (+22.1% YoY). The Santander Bank Polska Group payment card base (excluding prepaid cards) included nearly 4m debit cards (+9.9% YoY) and more than 1.3m credit cards of Santander Bank Polska S.A. and Santander Consumer Bank S.A. (+4.3% YoY).
Customer base	<ul style="list-style-type: none"> The total customer base was close to 7m, including 4.9m customers of Santander Bank Polska S.A.

Selected items affecting the comparability of periods in the income statement of Santander Bank Polska Group
Type of impact

	2018	2017
Gain from the acquisition of an organised part of the enterprise	<ul style="list-style-type: none"> Gain of PLN 387.7m from the settlement of the acquisition of a demerged part of Deutsche Bank Polska S.A. (a surplus of the fair value of the acquired net assets over the purchase price) 	<ul style="list-style-type: none"> No acquisition of an enterprise or its organised part
Reclassification of convertible preferred shares of VISA Inc.	<ul style="list-style-type: none"> PLN 21.6m – impact of the reclassification of VISA Inc.'s shares from equity instruments measured at fair value through other comprehensive income to debt instruments measured at fair value through profit or loss 	<ul style="list-style-type: none"> Classification of the shares to the portfolio of available-for-sale debt instruments measured at fair value through other comprehensive income in accordance with IAS 39
Profit before tax on the sale of credit receivables	<ul style="list-style-type: none"> PLN 21.6m on account of the sale of credit receivables of Santander Bank Polska S.A. and Santander Consumer Bank S.A. 	<ul style="list-style-type: none"> PLN 224.2m on account of the sale of credit receivables of Santander Bank Polska S.A. and Santander Consumer Bank S.A.
Dividend income	<ul style="list-style-type: none"> PLN 100.1m, including a dividend of PLN 91.4m paid by Aviva Group companies from the portfolio of equity investments of Santander Bank Polska S.A. 	<ul style="list-style-type: none"> PLN 76.8m, including a dividend of PLN 68.6m paid by Aviva Group companies from the portfolio of equity investments of Santander Bank Polska S.A.
Gains/Losses on the sale or liquidation of fixed assets and assets held for sale	<ul style="list-style-type: none"> PLN 51.4m, including PLN 44.3m on account of the sale of real estate of Santander Bank Polska S.A. in Wrocław 	<ul style="list-style-type: none"> PLN 11.5m
Gains/Losses on the sale of equity instruments	<ul style="list-style-type: none"> No respective profit 	<ul style="list-style-type: none"> PLN 26.5m, including PLN 10.8m and PLN 13.5m on account of the sale of all shares of Polimex-Mostostal S.A. and PBG S.A. from the bank's portfolio of equity investments
Impairment charge for loans and advances to customers acquired along with a part of Deutsche Bank Polska S.A.	<ul style="list-style-type: none"> PLN 130.5m 	<ul style="list-style-type: none"> No acquisition of an enterprise or its organised part
Costs related to the acquisition of a demerged part of Deutsche Bank Polska S.A.	<ul style="list-style-type: none"> PLN 108.9m – cost of the project designed to acquire and integrate an organised part of Deutsche Bank Polska S.A. 	<ul style="list-style-type: none"> PLN 14.1m
Costs of rebranding	<ul style="list-style-type: none"> PLN 66.4m 	<ul style="list-style-type: none"> No respective costs
Provisions raised and released and other income connected with legal disputes and other assets	<ul style="list-style-type: none"> PLN -61.8m – a combined impact of legal disputes on the Group's financial performance for 2018 reflecting the sum of the provisions raised (recognised in other operating expenses) and the provisions released as well as other income (recognised in other operating income). 	<ul style="list-style-type: none"> PLN 8.0m

Key macroeconomic factors impacting financial and business performance of Santander Bank Polska Group in 2018

Economic growth	<ul style="list-style-type: none"> Continued robust economic growth. Data pointing to some deceleration in the eurozone, in particular with regard to international trade. Negative revision of the global outlook by international institutions. Turmoil in selected emerging markets, particularly in Turkey, Argentina and Brazil.
Labour market	<ul style="list-style-type: none"> Favourable conditions in the labour market with record-low unemployment and accelerating wage growth in support of private consumption. Private consumption growing at approx. 5% YoY with consumer confidence at high levels. Shortage of workforce, making it difficult for companies to expand. Growing labour costs.
Inflation	<ul style="list-style-type: none"> Fairly stable inflation rate below 2%. A significant increase in wholesale energy prices. An increase in house prices coupled with a slight slowdown in real estate sales.
Monetary policy	<ul style="list-style-type: none"> NBP interest rates remaining at all-time lows, with subdued expectations of future rate hikes, even though the United States, and, in our region, the Czech Republic and Romania, already began to increase interest rates.
Credit market	<ul style="list-style-type: none"> Solid demand for credit from companies and households.
Trade	<ul style="list-style-type: none"> Increased protectionism in international trade. Execution of USMCA (United States–Mexico–Canada Agreement). Slowdown in Polish export growth amid lower external demand.
Financial markets	<ul style="list-style-type: none"> Changes of mood in international financial markets influenced by the expected policy orientation of the main central banks (Federal Reserve, ECB), incoming macroeconomic data, worries about the geopolitical situation, including concerns about the results of negotiations between the UK and the EU, the impact of trade wars on the global growth, and the political situation in Italy. Limited volatility of the zloty exchange rate versus the main currencies. Declining yields of Polish treasury bonds.

Profit before tax of Santander Bank Polska Group

- The profit before tax of Santander Bank Polska Group for 2018 increased by 2.7% YoY to PLN 3,426.2m mainly on account of:
 - ✓ strategic projects delivered by the Group, in particular the rebranding and the acquisition and integration of a demerged part of Deutsche Bank Polska S.A.;
 - ✓ a dynamic rise in the key business volumes (driven by organic growth and acquisition of selected portfolios of Deutsche Bank Polska S.A. on 9 November 2018), which fuelled an increase of 8.8% YoY and 2.2% YoY in net interest income and net fee and commission income, respectively.

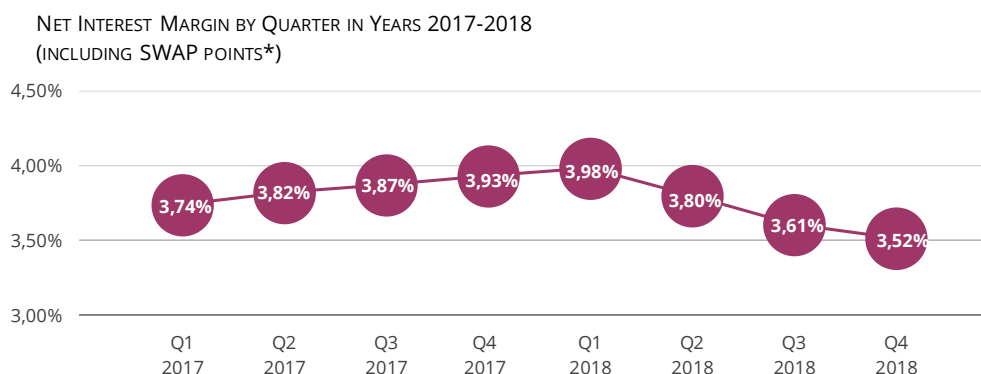
Selected components of profit before tax of Santander Bank Polska Group

Total income

- Total income of Santander Bank Polska Group for 2018 increased by 12.5% YoY to PLN 8,736.4m. Adjusting for the PLN 387.7m gain from the acquisition of an organised part of Deutsche Bank Polska S.A., the underlying total income grew by 7.5% on account of an increase in the Group's income from the core business.

Net interest income

- Net interest income for 2018 amounted to PLN 5,742.4m and increased by 8.8% YoY, impacted by an increased base of earning assets and their funding deposits, a sound balance sheet structure and flexible pricing management.
- The Group's interest expenses went up by 17.5% YoY to PLN 1,471.4m, outpacing interest income growth of 10.5% to PLN 7,213.8m:



* The calculation of the net interest margin of Santander Bank Polska S.A. takes account of swap points allocation from derivative instruments used for the purpose of liquidity management but excludes interest income from the portfolio of debt instruments held for trading.

- After a steady increase observed since the beginning of 2017, the quarterly net interest margin (annualised on a quarterly basis) gradually reduced starting from Q2 2018, down to 3.52% in Q4 2018 (-0.41 p.p. YoY), due to growing costs of asset funding in connection with the accelerated acquisition of deposits as well as enhanced activity in the area of own securities issue as part of preparations for the acquisition of a demerged business of Deutsche Bank Polska S.A. Increasing credit volumes (cash loans, mortgage loans and business loans) and investment portfolios of debt securities fuelled the growth of interest income, which was nevertheless outpaced by a YoY increase in interest expense.
- In line with the downward trend of a quarterly margin (annualised on a quarterly basis), the annual cumulative net interest margin reduced from 3.84% in 2017 to 3.68% in 2018.

Impairment allowances

Impairment losses on loans and advances (in PLN m)	Measured at amortised cost under IFRS 9 ¹⁾			Total IFRS 9 ¹⁾	Total IAS 39 ²⁾
	Stage 1	Stage 2	Stage 3	2018	2017
Charge on loans and advances to banks	(0,1)	-	-	(0,1)	
Charge on loans and advances to customers	(125,5)	4,0	(1 020,9)	(1 142,4)	(733,6)
Recoveries of loans previously written off	-	-	11,9	11,9	43,5
Off-balance sheet credit related facilities	(5,0)	4,5	(6,6)	(7,1)	(0,4)
Total	(130,6)	8,5	(1 015,6)	(1 137,7)	(690,5)

1) Valuation of impairment allowances on loans and advances in accordance with IFRS 9, based on the expected loss model.

2) Valuation of impairment allowances on loans in accordance with IAS 39, based on the incurred loss model.

- In 2018, the loan impairment charge to the income statement of Santander Bank Polska Group was PLN 1,137.7m vs. PLN 690.5m last year.
- The increase in impairment allowances is attributed to:
 - ✓ a significantly lower gain on the sale of credit receivables in 2018 (PLN 21.6m) compared to 2017 (PLN 224.2m);
 - ✓ an additional impairment allowance in respect of loans and advances acquired along with a demerged part of Deutsche Bank Polska S.A. (PLN 130.5m);
 - ✓ dynamic growth in the Group's credit portfolio;
 - ✓ impact of implementation of IFRS 9, update of the parameters used in calculation of expected credit losses and PLN depreciation.

Total costs

- The total costs of Santander Bank Polska Group amounted to PLN 3,769.0m, and were 11.8% higher YoY.
- Excluding two flagship projects, i.e. rebranding (PLN 66.4m) and acquisition and of a demerged part of Deutsche Bank Polska S.A. (PLN 108.9m), the underlying total costs of the Group were up 7.0% YoY, largely impacted by a 110.5% YoY increase in provisions for legal disputes recognised in other operating costs. Adjusting for the above-mentioned provisions, the cost base grew by 5.1% mainly on account of staff and general expenses.
- Excluding the foregoing two projects, the underlying staff and general expenses were up 4.9% YoY due to an increase in the Group's headcount following the acquisition of an organised part of Deutsche Bank Polska S.A., introduction of new bonus schemes for employees, implementation of IT projections supporting the digital transformation and strategic and operating programmes, purchase of equipment for a new branch model and the new Business Support Centre building in Wrocław commissioned in 2018, as well as higher cost of third party services.
- The Group's cost to income ratio amounted to 43.1% vs 43.4% in 2017. It was broadly flat (43.0%) when adjusted for non-recurring items.

Selected ratios

Selected Financial Ratios of Santander Bank Polska Group	2018	2017
Total costs/Total income	43,1%	43,4%
Net interest income/Total income	65,7%	68,0%
Net interest margin ¹⁾	3,68%	3,84%
Net commission income/Total income	23,6%	25,9%
Customer net loans/Customer deposits	91,9%	96,7%
NPL ratio ²⁾	4,5%	5,8%
NPL coverage ratio ³⁾	52,3%	63,1%
Credit risk ratio ⁴⁾	0,90%	0,63%
ROE ⁵⁾	11,9%	12,2%
ROTE ⁶⁾	14,1%	14,3%
ROA ⁷⁾	1,3%	1,5%
Capital ratio ⁸⁾	16,70%	16,69%
Tier I ratio ⁹⁾	14,83%	15,28%
Book value per share (in PLN)	261,23	235,00
Earnings per share (in PLN) ¹⁰⁾	23,72	22,29

1) Net interest income (excluding interest income from the portfolio of debt securities held for trading) to average net earning assets as at the end of subsequent quarters after the end of 2017 (excluding financial assets held for trading, hedging derivatives and other loans and advances to customers).

2) Gross loans and advances to customers classified to stage 3 to the portfolio of gross loans and advances to customers measured at amortised cost at the end of the reporting period.

3) Impairment allowances for loans and advances to customers classified to stage 3 and measured at amortised cost to gross value of such loans and advances at the end of the reporting period.

4) Impairment losses (for the accounting year) to average gross loans and advances to customers measured at amortised cost (as at the end of the reporting period and the end of the preceding year).

5) Profit attributable to the parent's shareholders (for the accounting year) to average equity (as at the end of the reporting period and the end of the preceding year), net of non-controlling interests, current period profit and the undistributed portion of the profit.

6) Profit attributable to the parent's shareholders (for the accounting year) to average tangible equity (as at the end of the reporting period and the end of the preceding year) defined as common equity attributable to the parent's shareholders less revaluation reserve, current period profit, undistributed portion of the profit, intangible assets and goodwill.

7) Profit attributable to the shareholders of the parent entity (for the accounting year) to average total assets (as at the end of the reporting period and the end of the preceding year).

8) The capital ratio was calculated on the basis of own funds and the total capital requirements established for the individual risk types by means of the standardised approach, in line with the CRD IV/CRR package. The capital ratio for 2018 was calculated taking account of a capital increase on acquisition of an organised part of Deutsche Bank Polska S.A. The Bank is in the process of obtaining a relevant consent from the regulator.

9) Tier 1 ratio is Tier 1 capital expressed as a percentage of risk weighted assets for credit, market and operational risk.

10) Net profit for the period attributable to the shareholders of the parent entity divided by the average weighted number of ordinary shares.