

Management Board Report on Santander Bank Polska Performance in H1 2019



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I. Overview of Santander Bank Polska Group Activities in H1 2019

1. Introduction

Change of brand name

Pursuant to the resolution of the Annual General Meeting (AGM) of Bank Zachodni WBK S.A. adopted on 16 May 2018, on 7 September 2018 the bank's name was changed from "Bank Zachodni WBK Spółka Akcyjna" to "Santander Bank Polska Spółka Akcyjna". The names of the bank's subsidiaries and associates were changed accordingly: "BZ WBK" was replaced with "Santander".

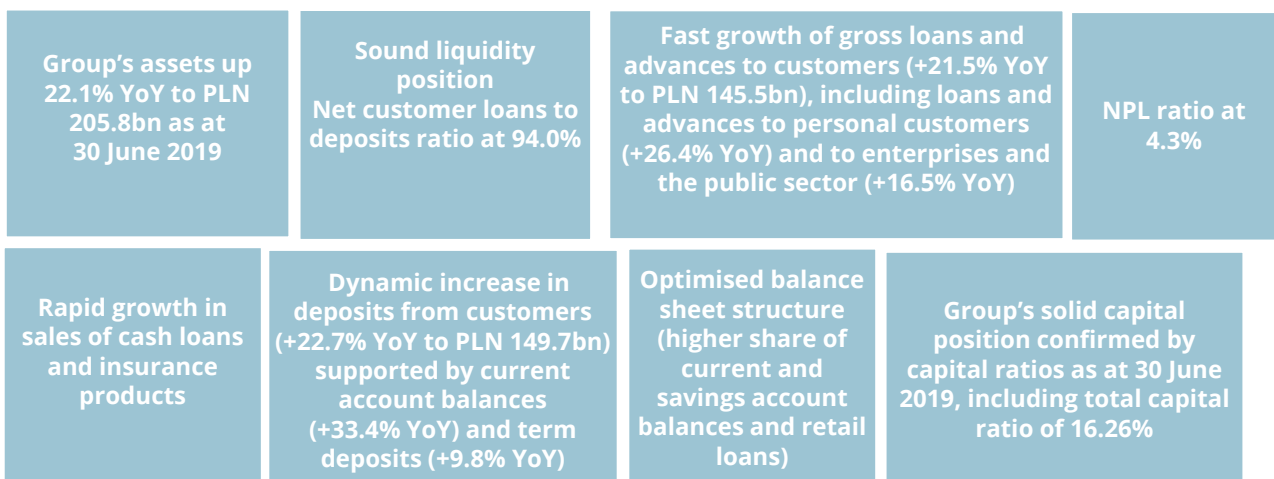
Except the "Historical background" section in Chapter II "Overview of Santander Bank Polska Group Performance in H1 2019", the name "Santander Bank Polska S.A." is used in this document both with reference to the periods before and after the rebranding.

Comparability of periods

The consolidated financial results of Santander Bank Polska Group for the period ended 30 June 2019 are not fully comparable with the same period last year due to the extended scope of operations following the acquisition of the demerged part of Deutsche Bank Polska S.A. on 9 November 2018 (retail banking, private banking and business banking) and significant costs associated with own restructuring initiatives and systemic regulatory fees. The comparability of periods in annual terms has also been affected by the change in accounting policies as described in Note 2 "Rules on preparing condensed interim financial statements" to the Condensed Interim Consolidated Financial Statements of Santander Bank Polska Group for the 6-month period ended 30 June 2019.

2. Key Achievements

Strong growth in business volumes



Satisfactory income from core and non-core activities

Increase of 11.2% YoY in total income to PLN 4.6bn	Net interest income up 16.0% YoY	Significant rise in income from credit fees (+11.4% YoY) and FX fees (+16.4% YoY)	Increase of 15.2% in net trading income and of 355.8% YoY in gain on other financial instruments	Strong performance of leasing and factoring subsidiaries of Santander Bank Polska S.A. (profit before tax up 33.2% YoY)
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Strong position in the banking sector

Poland's largest private bank	Poland's second largest bank in terms of total assets, net loans, total equity and attributable profit <i>(according to the financial statements as at 31 March 2019)</i>	Upgrade of Santander Bank Polska S.A.'s ratings by Moody's Investors Service
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Organisational development and innovation

Integration with the acquired part of Deutsche Bank Polska S.A.	Advanced implementation of the Agile methodology in the bank	Institution of the Year 2018 (Moжебankowanie.pl)
Golden Bank title for the best multichannel services (Bankier.pl and Puls Biznesu)	Continuous development and growing use of remote channels in the sales and after-sales processes	

3. Financial and Business Highlights of Santander Bank Polska Group for the First Half of 2019 Compared to Previous Year

Key financial data of Santander Bank Polska Group

Selected Income Statement data		H1 2019	H1 2018	YoY Change (%)
Total income	PLN m	4 640,8	4 172,3	11,2%
Total costs	PLN m	(2 265,5)	(1 887,0)	20,1%
Profit before tax	PLN m	1 503,5	1 631,0	-7,8%
Net profit attributable to Santander Bank Polska S.A.	PLN m	957,9	1 092,2	-12,3%
Impairment losses on loans and advances	PLN m	(619,2)	(461,2)	34,3%
Selected Balance Sheet data		30.06.2019	31.06.2018	YoY Change (%)
Total assets	PLN m	205 826,5	168 517,2	22,1%
Total equity	PLN m	25 599,5	23 988,4	6,7%
Net loans and advances to customers	PLN m	140 725,7	114 177,0	23,3%
Deposits from customers	PLN m	149 675,5	122 024,3	22,7%
Selected off-Balance Sheet data		30.06.2019	31.06.2018	YoY Change (%)
Net assets of Santander mutual funds ¹⁾	PLN bn	15,8	16,3	-3,1%
Selected ratios ²⁾		30.06.2019	31.06.2018	YoY Change (p.p.)
Total costs/Total income	%	48,8%	45,2%	3,6%
Total capital ratio	%	16,26%	17,78%	-1,5%
ROE	%	10,3%	11,4%	-1,1%
NPL ratio	%	4,3%	4,8%	-0,5%
Credit risk ratio	%	0,88%	0,79%	0,1%
Customer net loans/customer deposits	%	94,0%	93,6%	0,4%

Key non-financial data of Santander Bank Polska Group

Selected non-financial data		30.06.2019	31.06.2018	YoY Change
Internet and mobile banking customers ³⁾	m	4,2	3,5	0,7
Digital (active) internet and mobile banking customers ⁴⁾	m	2,4	2,1	0,3
Digital (active) mobile banking customers	m	1,5	1,2	0,3
Debit cards	m	4,1	3,7	0,4
Credit cards	m	1,3	1,3	0,0
Customer base	m	7,0	6,5	0,5
Branches	locations	682	693	-11
Partner outlets	locations	306	281	25
Employment	FTEs	14 058	14 286	-228

1) Assets in investment funds (excluding individual portfolios) managed by Santander Towarzystwo Funduszy Inwestycyjnych S.A.

2) For definitions of ratios presented in the table above, see Section 3 "Selected Financial Ratios" of Chapter VIII "Financial Performance of Santander Bank Polska Group in H1 2019".

3) Registered users of Santander Bank Polska mobile and internet banking services.

4) Active users of Santander Bank Polska electronic banking who at least once used the online or mobile service in the last reporting month.

4. Key External Factors

Key macroeconomic factors impacting financial and business performance of Santander Bank Polska Group in H1 2019

Economic growth	<ul style="list-style-type: none"> Continued robust economic growth, yet probably lower than the exceptionally strong performance recorded in 2018. Data pointing to some deceleration in the eurozone, in particular with regard to international trade. Downward revision of global growth forecasts by supranational institutions.
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 above 4% with consumer confidence close to all-time highs. Shortage of workforce, making it difficult for companies to expand. Rising labour costs.
Inflation	<ul style="list-style-type: none"> Climbing CPI and core inflation, accompanied by a gradual rise in inflationary expectations. 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.
Credit market	<ul style="list-style-type: none"> Still solid demand for credit from households and companies.
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 negotiations between the UK and the EU and the impact of trade wars on the global growth. Slight zloty appreciation amid still low exchange rate volatility. A noticeable decline in the Polish bond yields.

5. Corporate Events

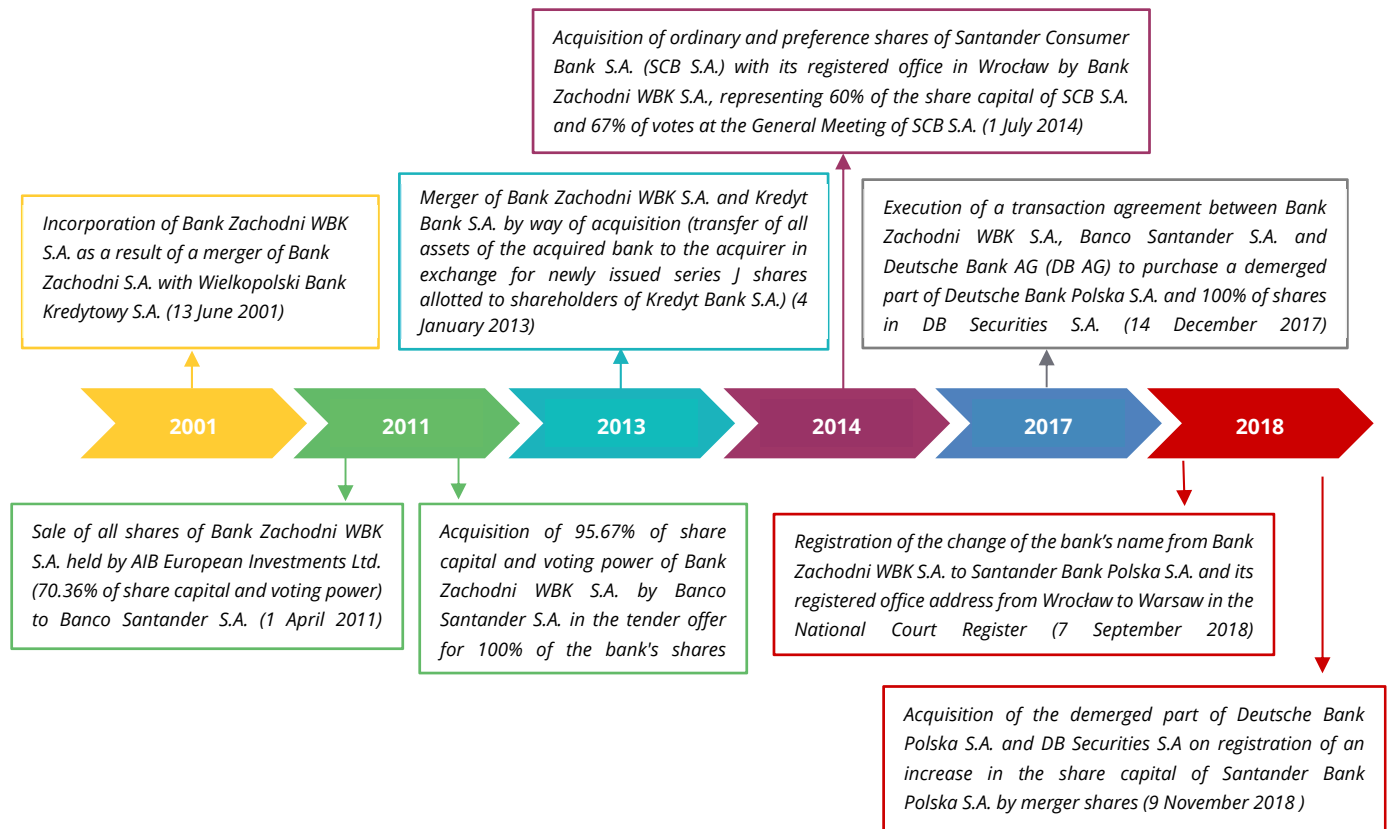
Major corporate events in the reporting period (until the release date of the report for H1 2019)

January	<ul style="list-style-type: none"> Letter from the KNF dated 18 January 2019 setting out individual dividend policy assumptions for Santander Bank Polska S.A., including: <ul style="list-style-type: none"> ✓ Criteria for distribution of up to 75% of the profit for 2018 (in accordance with the regulatory assumptions for a dividend policy of commercial banks and other financial entities set out in KNF letter of 15 January 2019) ✓ Criteria for distribution of up to 100% of the profit for 2018 (taking into account the bank's sensitivity to an adverse macroeconomic scenario)
	<ul style="list-style-type: none"> Agreement with trade unions signed at the end of January 2019 regarding collective redundancies to take place in Santander Bank Polska S.A. from February till December 2019 and cover up to 1,400 employees (for more information see Chapter VI "Human Resources Management")
February	<ul style="list-style-type: none"> Consent from the KNF dated 22 February 2019 to allocate series N shares of Santander Bank Polska S.A. (issued in relation to the acquisition of a demerged business of Deutsche Bank Polska S.A. and 100% shares in DB Securities S.A.) to Common Equity Tier 1
	<ul style="list-style-type: none"> Recommendation from the KNF dated 25 February 2019 regarding an increase in own funds by retaining at least 75% of the profit earned between 1 January 2018 and 31 December 2018 in relation to satisfaction of the criteria for allocating maximum 25% of the profit earned in 2018 to dividend
March	<ul style="list-style-type: none"> Changes to the membership of the Supervisory and Management Boards: <ul style="list-style-type: none"> ✓ On 4 March 2019, José Manuel Campa stepped down as a member of the bank's Supervisory Board (effective as of 4 March 2019) due to his involvement in the process of selecting the Executive Director of the European Banking Authority (EBA). ✓ On 20 March 2019, Feliks Szyszkowiak resigned from the position of the Vice-President of the bank's Management Board (effective as of 30 April 2019) due to taking up a global executive position in Banco Santander Group.
	<ul style="list-style-type: none"> Resolution adopted by the bank's Management Board (approved by the Supervisory Board) whereby 25% of the net profit for 2018 was recommended to be paid as dividend in accordance with the individual recommendation issued by the KNF on 25 February 2019 regarding an increase in own funds. Recommendation of the bank's Management Board to allocate the following amounts to dividend: PLN 514.0m of the undistributed net profit for 2016, PLN 957.6m of the undistributed profit for 2017 and PLN 541.1m of the net profit for 2018. The recommendation, which was approved by the bank's Supervisory Board, was justified by the sound capital position of Santander Bank Polska S.A. and its Group. The proposed dividend per series A, B, C, D, E, F, G, H, I, J, K, L and N share was PLN 19.72, while the proposed dividend per series M share was PLN 14.68.
April	<ul style="list-style-type: none"> Decision of the Management Board of 10 April 2019 re issue of series J bearer certificates of deposit with a nominal value of PLN 550m and an interest rate of 2.02% p.a.
May	<ul style="list-style-type: none"> The Annual General Meeting of Shareholders of Santander Bank Polska S.A. held on 16 May 2019, approving the distribution of the bank's profit and pay-out of dividend in accordance with the recommendation issued by the Management Board on 5 March 2019.
June	<ul style="list-style-type: none"> Upgrade of Santander Bank Polska S.A.'s ratings by Moody's Investors Service on 3 June 2019. For more information see Chapter II "Overview of Santander Bank Polska Group Performance in H1 2019", Section 4 "Ratings of Santander Bank Polska S.A."
	<ul style="list-style-type: none"> Appointment of Patryk Nowakowski as the Management Board member in charge of the Digital Transformation Division on 5 June 2019
	<ul style="list-style-type: none"> First announcement (12 June 2019) of the planned division of Santander Securities S.A. and transfer of an organised part of the enterprise to Santander Bank Polska S.A. (brokerage services) and to Santander Finanse Sp. z o.o. (training activities).
	<ul style="list-style-type: none"> Resolution of the Management Board of Krajowy Depozyt Papierów Wartościowych S.A. (Central Securities Depository of Poland) of 26 June 2019 re assimilation of 98,947 series M bearer shares with 101,989,358 series A, B, C, D, E, F, G, H, I, J, K, L and N shares as of 1 July 2019

II. Overview of Santander Bank Polska Group Performance in H1 2019

1. History, Ownership Structure and Profile

Historical background



Ownership structure

Structure of share capital

The table below presents the entities with significant holdings of Santander Bank Polska S.A. shares as at 30 June 2019 and 31 December 2018.

Shareholders	Number of Shares and Voting Rights Held		% in the Share Capital & Voting Power at AGM	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
Banco Santander S.A.	68 880 774	68 880 774	67,47%	67,47%
Others	33 207 531	33 207 531	32,53%	32,53%
Total	102 088 305	102 088 305	100,00%	100,00%

To the best knowledge of the Management Board of Santander Bank Polska S.A., as at 30 June 2019, Banco Santander S.A. was the only shareholder holding more than 5% of the share capital and the total number of votes at the bank's General Meeting, with shareholding of 67.47%.

Majority shareholder

Santander Bank Polska S.A. is a member of Santander Group, with Banco Santander S.A. as a parent entity.

Banco Santander S.A. is one of the largest commercial banks in the world with a more than 160-year history, having its operational headquarters in Madrid. As at 31 March 2019, assets and net attributable profit of Santander Group were EUR 1,506.2bn and EUR 1,840m, respectively. The Group serviced 140 million customers and conducted operations through 13.3k branches. Banco Santander S.A. is the largest bank in the Eurozone and the 17th largest bank in the world in terms of market capitalisation.

While it specialises in retail banking services, the bank is also very active in the private banking and corporate banking, asset management and insurance markets.

Banco Santander S.A. is characterised by significant geographic diversification of its business, however, it focuses on its 10 core markets – both developed and emerging, including Spain, Poland, Portugal, Germany, the UK, Brazil, Argentina, Mexico, Chile and the USA.

Business profile of Santander Bank Polska Group

Santander Bank Polska S.A. is a universal bank which provides a full range of services for personal customers, SMEs, large companies, corporates and public sector institutions. The bank's offering is modern, comprehensive and satisfies diverse customer needs with regard to current/personal accounts, credit, savings, investment, settlement, insurance and card products. The financial services of Santander Bank Polska S.A. include cash management, payments, trade finance and transactions in the capital, money, FX and derivative markets, as well as underwriting, brokerage and custody services.

The bank's own product range is complemented by specialist products offered by its group of related companies, including: Santander Towarzystwo Funduszy Inwestycyjnych S.A., Santander Leasing S.A., Santander Factoring Sp. z o.o., Santander Aviva Towarzystwo Ubezpieczeń S.A. and Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A. In cooperation with all these companies, the bank provides its customers with access to investment funds, asset portfolios, insurance, leasing and factoring products.

The bank continually develops its product range to ensure that solutions offered to customers are transparent, simple, digital, flexible and available in self-service channels. It offers unique solutions which are developed within Santander Group based on its global presence, infrastructure and market potential. Customers are provided with comprehensive services in traditional sales channels and via remote channels.

Santander Consumer Bank S.A., which was incorporated into the structures of Santander Bank Polska Group on 1 July 2014, specialises in consumer finance and term deposit accounts for personal and business customers.

As at 30 June 2019, Santander Bank Polska Group provided services to more than 7m customers, including over 2m customers of Santander Consumer Bank S.A.

Business model framework

The fundamental element of the strategy and business model of Santander Bank Polska Group is customer-centricity, an approach whereby each initiative and banking process is judged from the customer's viewpoint, with a concentration on the customer's needs and experience in order to build lasting mutual relationships underpinned by an attractive, simple and innovative products portfolio and high service quality.

The Group creates value for customers focusing on modern technologies, digitalisation and omnichannel banking. The Group also gives priority to developing a friendly work environment and corporate culture by promoting cooperation and increasing the motivation, engagement and professionalism of employees. It conducts its business activity taking into consideration the interests of all stakeholders, including shareholders and communities it operates in.

The Group focuses on diversification of income, expansion in high-margin market segments, maintenance of a solid capital position and effective risk management. This translates into balanced growth in business volumes, an increasing presence in the most profitable market segments and strong and recurring financial performance.

The organisation's business model is gradually adapted to the rapid changes in the business environment and improved in terms of its effectiveness, suitability to customers' needs, technologies used, the scope of automation, digitalisation and integration of distribution channels

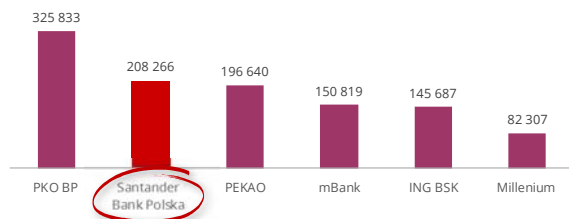
Position of Santander Bank Polska S.A. and its Group in the Polish banking sector

Position in the banking sector

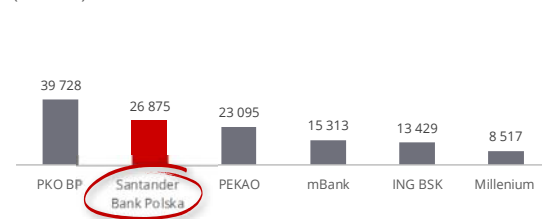
Santander Bank Polska S.A. is ranked among the top three banks in the Polish banking sector (together with PKO BP and Pekao S.A.) and is the largest private bank in Poland.

According to the financial statements for the quarter ended 31 March 2019, which at the date of approval of this Management Board report (22 July 2019) were the most up-to-date source of comparable data on the performance of banks listed on the Warsaw Stock Exchange (WSE), Santander Bank Polska S.A. – including its subsidiaries and associates – was Poland’s second largest banking group in terms of total assets, net loans, total equity and attributable profit, and No. 3 in terms of deposit value.

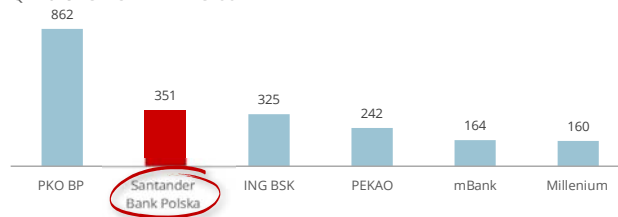
TOTAL ASSETS (PLN M) OF SANTANDER BANK POLSKA GROUP AS AT 31.03.2019 AGAINST THE PEER GROUP



TOTAL EQUITY OF SANTANDER BANK POLSKA GROUP (IN PLN M) AS AT 31.03.2019 AGAINST THE PEER GROUP



PROFIT ATTRIBUTABLE TO SANTANDER BANK POLSKA (PLN M) FOR Q1 2019 AGAINST THE PEER GROUP



Share in key market segments

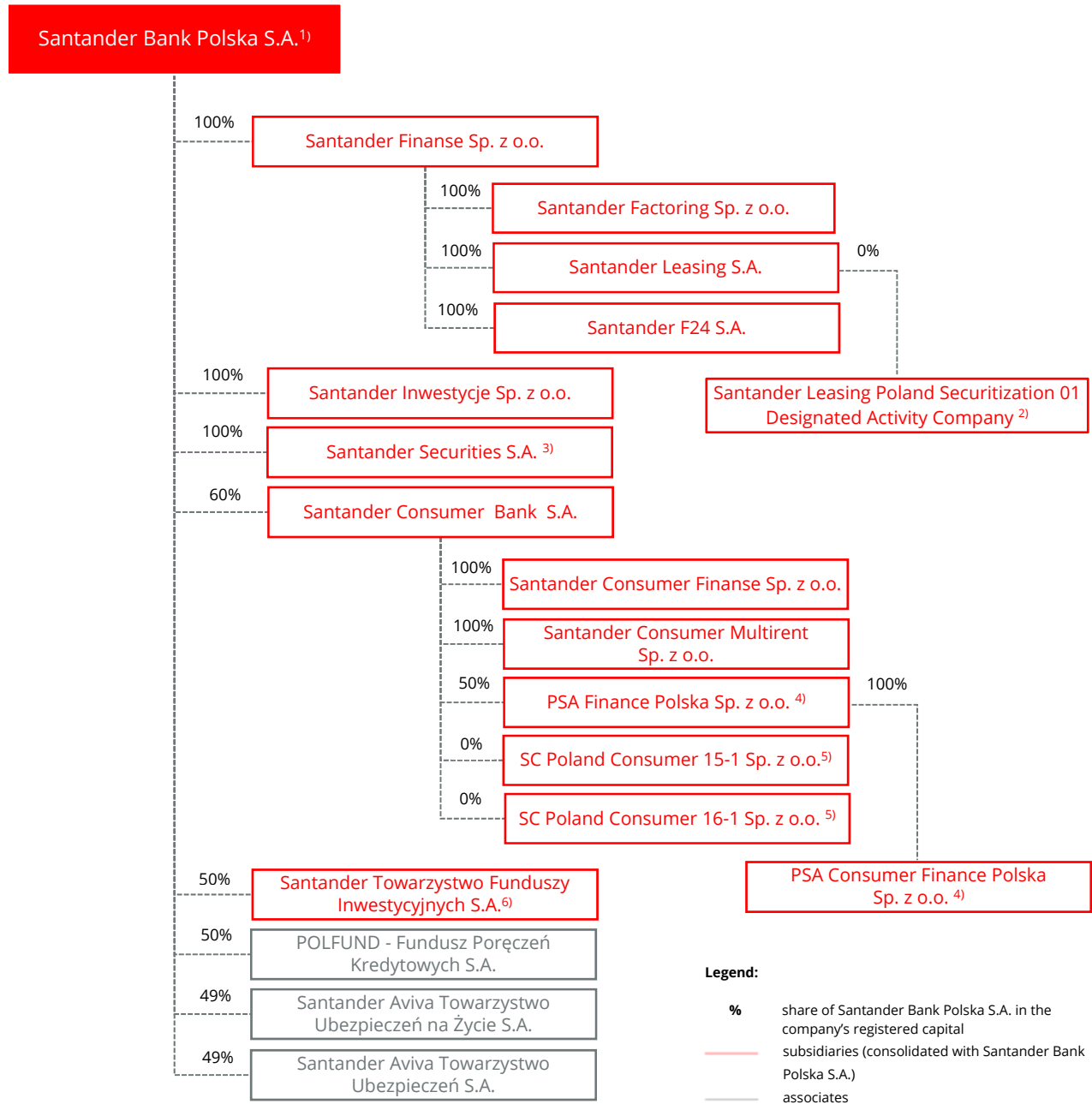
According to the available NBP statistics, as at the end of June 2019 the market share of Santander Bank Polska Group was 11.8% for loans and deposits.

The Group has a strong presence in the factoring and leasing markets via its subsidiaries, holding a market share of 10.8% and 7.8%, respectively (according to the Polish Factors Association as at 30 June 2019 and the Polish Leasing Association as at 31 December 2018). During this period, the Group’s share in the retail investment funds market was 10.2% (as at 31 March 2019 according to Analityz Online) while in the equity and futures markets it held 4.2% and 9.9%, respectively (as at 30 June 2019 according to the Warsaw Stock Exchange).



2. Structure of Santander Bank Polska Group

SUBSIDIARIES AND ASSOCIATES OF SANTANDER BANK POLSKA S.A. AS AT 30 JUNE 2019



- Pursuant to the resolution of the General Meeting of 16 May 2018, on 7 September 2018 Bank Zachodni WBK S.A. was rebranded as Santander Bank Polska S.A. The names of the bank's subsidiaries and associates were changed accordingly.
- Santander Leasing Poland Securitization 01 Designated Activity Company with its registered office in Dublin is a special purpose vehicle incorporated on 30 August 2018 for the sole purpose of securitisation of the lease and credit portfolio. The company does not have any capital or personal connections with Santander Leasing S.A., its parent entity under IFRS 10.7.
- Santander Securities S.A. (formerly DB Securities S.A.) is a brokerage company acquired on 9 November 2018 along with a demerged part of Deutsche Bank Polska S.A.
- On 1 October 2016, Santander Consumer Bank S.A. (SCB S.A.) acquired 50% shares of PSA Finance Polska Sp. z o.o. and, indirectly, 50% stake in PSA Consumer Finance Polska Sp. z o.o. Both companies are controlled by SCB S.A. as they meet the conditions set out in IFRS 10.7.
- SC Poland Consumer 15-1 Sp. z o.o. and SC Poland Consumer 16-1 Sp. z o.o. are SPVs set up for the purpose of securitisation of a part of SCB S.A. credit portfolio. Their shareholder is a legal person that has no ties with the Group. The companies are controlled by SCB S.A. as they meet the conditions laid down in IFRS 10.7.
- Both owners of Santander Towarzystwo Funduszy Inwestycyjnych S.A. (Santander TFI S.A.), i.e. Santander Bank Polska S.A. and Banco Santander S.A., are members of Santander Group, each holding an equal stake of 50% in the company's share capital. Santander TFI S.A. is controlled by Santander Bank Polska S.A.

Subsidiaries

As at 30 June 2019, Santander Bank Polska Group comprised Santander Bank Polska S.A. and the following subsidiaries:

1. Santander Consumer Bank S.A. (SCB S.A.)
2. Santander Consumer Finanse Sp. z o.o. (subsidiary of SCB S.A.)
3. Santander Consumer Multirent Sp. z o.o. (subsidiary of SCB S.A.)
4. SC Poland Consumer 15-1 Sp. z o.o. (subsidiary of SCB S.A.)
5. SC Poland Consumer 16-1 Sp. z o.o. (subsidiary of SCB S.A.)
6. PSA Finance Polska Sp. z o.o. (subsidiary of SCB S.A.)
7. PSA Consumer Finance Polska Sp. z o.o. (subsidiary of PSA Finance Polska Sp. z o.o.)
8. Santander Towarzystwo Funduszy Inwestycyjnych S.A.
9. Santander Finanse Sp. z o.o.
10. Santander Factoring Sp. z o.o. (subsidiary of Santander Finanse Sp. z o.o.)
11. Santander Leasing S.A. (subsidiary of Santander Finanse Sp. z o.o.)
12. Santander Leasing Poland Securitization 01 Designated Activity Company (subsidiary of Santander Leasing S.A.)
13. Santander F24 S.A. (subsidiary of Santander Finanse Sp. z o.o.)
14. Santander Inwestycje Sp. z o.o.
15. Santander Securities S.A.

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

All the entities within Santander Bank Polska Group are consolidated with the bank in accordance with IFRS 10 as at 30 June 2019.

Associates

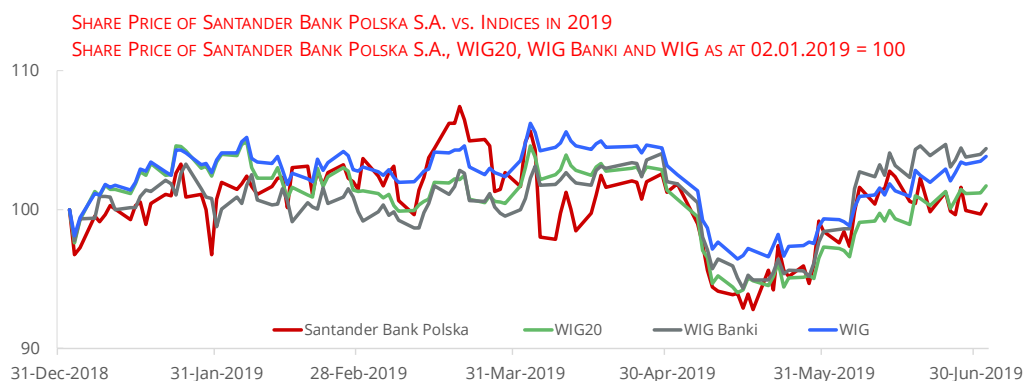
In the consolidated financial statements of Santander Bank Polska Group for the 6-month period ended 30 June 2019, the following companies are accounted for using the equity method in accordance with IAS 28:

1. Santander Aviva Towarzystwo Ubezpieczeń S.A. (Santander Aviva TU S.A.)
2. Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A. (Santander Aviva TUnŻ S.A.)
3. POLFUND - Fundusz Poręczeń Kredytowych S.A.

Compared with 31 December 2018, the list of associates did not change.

3. Share Price vs. Indices

In H1 2019, the banking sector was not among the market leaders at the Warsaw Stock Exchange as mandatory charges and contributions were frowned upon by investors and weighed heavily on the performance of the entire sector and diminished its appeal for investors. The uncertain outlook for the troubled and capital-seeking Getin Holding Group caused additional concerns. Another factor was the continued dovish policy of the Monetary Policy Council, despite more hawkish rhetoric of some of its members. The share price of Santander Bank Polska S.A. performed relatively well against this background, yielding one of the highest rates of return in the sector. Including the dividend of PLN 19.72 paid on 14 June 2019, the bank's rate of return for the first six months was 9.5%, outperforming WIG-Banks (6.1%), the industry index. In H1 2019, the share price of Santander Bank Polska S.A. ranged from the maximum of PLN 398.60 on 20 March to the minimum of PLN 344.40 on 17 May during the market downturn.



Share price and market capitalisation of Santander Bank Polska S.A.

	Unit	Price /Value
Closing share price at the end of December 2018	PLN	358,20
Closing share price at the end of June 2019	PLN	370,80
Ytd change in the share price	%	3,5%
Maximum closing share price in H1 2019	PLN	398,60
Minimum closing share price in H1 2019	PLN	344,40
Market capitalisation at the end of December 2018	PLN m	36 568,03
Market capitalisation at the end of June 2019	PLN m	37 854,34

4. Ratings of Santander Bank Polska S.A.

Santander Bank Polska S.A. has bilateral credit rating agreements with Fitch Ratings Ltd. and Moody's Investors Service.

Rating by Fitch Ratings

The table below shows rating actions taken by Fitch Ratings in relation to Santander Bank Polska S.A., affirmed by the agency on 12 October 2018 and applicable as at 30 June 2019.

Rating Category of Fitch Ratings	Ratings affirmed as at 12.10.2018
Long-term Issuer Default Rating (long-term IDR)	BBB+
Outlook for the long-term IDR rating	stable
Short-term Issuer Default Rating (short-term IDR)	F2
Viability rating (VR)	bbb+
Support rating	2
National long-term rating	AA(pol)
Outlook for the national long-term rating	stable
Long-term senior unsecured debt rating	BBB+
Short-term senior unsecured rating for eurobonds	F2
Long-term senior unsecured rating for eurobonds	BBB+

Rating by Moody's Investors Service

The table below sums up the ratings assigned by Moody's Investors to Santander Bank Polska S.A., as announced on 3 June 2019 (and applicable as at 30 June 2019) and their levels before the last credit decision.

Category of Moody's Ratings	Ratings upgraded as at 3.06.2019	Ratings affirmed in credit opinion as at 27.12.2018
Counterparty Risk Rating	A1/P-1	A2/P-1
Bank Deposits	A2/P-1	A3/P-2
Outlook for long-term deposits	stable	positive
Baseline Credit Assessment	baa2	baa3
Adjusted Baseline Credit Assessment	baa1	baa2
Counterparty Risk Assessment	A1 (cr)/P-1 (cr)	A2 (cr)/ P-1 (cr)
Long-term foreign-currency ratings to senior unsecured eurobonds under EMTN programme	A3	Baa1
Outlook for the bonds	stable	positive
Long-term domestic and foreign-currency senior unsecured EMTN Programme	(P)A3	(P)Baa1

On 3 June 2019, Moody's Investors Service upgraded the following ratings of Santander Bank Polska S.A.:

- ✓ long-term deposit rating from A3 to A2;
- ✓ short-term deposit rating from Prime-2 to Prime-1;
- ✓ baseline credit assessment (BCA) from baa3 to baa2;
- ✓ adjusted BCA from baa2 to baa1;
- ✓ counterparty risk assessment from A2 (cr) to A1 (cr);
- ✓ long-term counterparty risk rating from A2 to A1;
- ✓ long-term senior unsecured debt rating from Baa1 to A3;
- ✓ change in the outlook on the long-term deposit and senior unsecured debt ratings from positive to stable.

The upgrade of long-term deposit and senior unsecured debt ratings for Santander Bank Polska S.A. is driven by: a) the upgrade of the bank's BCA to baa2 from baa3; b) improved results of Moody's Advanced Loss-Given-Failure (LGF) analysis; c) uplift from the rating agency's assumption of moderate parental support from Banco Santander S.A.; d) higher government support assumptions owing to the bank's increased market share and greater importance for the Polish banking system following the acquisition of the majority of Deutsche Bank AG's business as well as organic growth.

The upgrade of the BCA reflects the bank's continued strong performance that has been broadly in line with expectations. The bank's non-performing loans (NPL) ratio declined in December 2018 on a YoY basis and drew near to the average for the Polish banking sector and its main competitors. The NPL coverage ratio decreased to a still good level as of December 2018. Moody's expects the bank's asset quality to remain stable driven by the favourable economic environment as well as seasoning of the loan book, which grew significantly in the past several years. The Tier 1 ratio of Santander Bank Polska S.A. (Moody's adjusted) fell to 13.43% at the end of December 2018 due to the acquisition of Deutsche Bank Polska S.A.'s core businesses. The rating agency expects the drop in the capital ratio to be temporary and that capitalisation will be supported by the bank's strong profitability (despite dividend payments in 2019). The bank's return on assets (ROA) was 1.3% in 2018, boosted by good revenue generation but constrained by significant credit costs. Profitability will likely experience significant pressure from rising contributions to Poland's bank guarantee fund (resolution fund) and potential legislation on foreign currency mortgages, which account for 7% of the bank's total loan book.

III. Description of External Environment in H1 2019

Economic growth

Poland still shows quite big resilience to deterioration of global economic outlook, although the high-frequency data suggest that the pace of economic growth started to decelerate slightly. As a result, GDP growth probably slowed down in Q2 2019 to approx. 4.5% from 4.7% in Q1 2019 and 4.9% in Q4 2018. Slight deceleration is likely to continue over the next quarters, although the pace of economic growth should reach approx. 4.3% on average in 2019, which will still be one of the best results in the European Union. The worsening of growth outlook is caused mainly by slowing external demand, especially worse business climate in the eurozone. Private consumption is still the main driver of growth in Poland, supported by solid wage growth, low unemployment and record-high consumer sentiment. In the second half of the year, the consumption will get additional boost from growing social transfers due to implementation of the government's pre-election promises. Investment growth clearly accelerated at the start of the year, which was largely due to the revival of private sector's investment spending. Later this year, investments will continue to grow, but probably at a diminishing pace, mainly due to slowing public investments. Gradual deceleration of exports and relative strength of imports (supported by solid internal demand) should in turn result in the increase in trade deficit in the next quarters.

Labour market

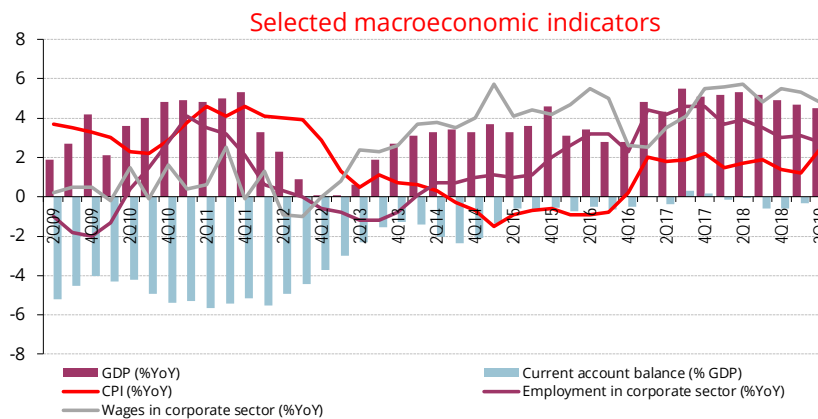
The pace of job creation is fading. Employment in the corporate sector is rising but the pace of growth is decelerating (3.4% YoY on average in 2018, 3% YoY in Q1 2019 and 2.8% YoY in April-May 2019), while according to LFS, the number of the employed has already started to decline. The labour shortage is one of the main challenges for the Polish companies and this problem is rather unlikely to disappear soon since the flow of immigrants is losing pace. That is why it seems more likely that the wage pressure will strengthen rather than ease in the quarters to come. In Q2 2019, the pace of wage growth in the corporate sector remained at approx. 7% YoY. The positive trend is that a growing number of companies try to respond to the labour challenges through automation, which is reflected in the rebound of private investments, mainly in the segment of machines and equipment.

Inflation

The price growth has accelerated in the year to date with the flash June CPI showing 2.6% YoY, its highest since November 2012. This upside trend is expected to continue in the quarters to come, pushing inflation to nearly 3% at the year-end and close to 4% in early 2020 (this level may be reached if food and energy prices rise more than we expect). Although part of this rise originates from the factors that can be only temporary or from a change of price level in some categories (fast rise in food prices, higher energy prices and likely introduction of a retail sales tax) but it should be noted that the rise of the core CPI is becoming a significant driver of the headline inflation growth. In our view, this is rather unlikely to cease as the persisting cost pressure on companies may translate into higher prices. As a result, inflation may stay above the NBP target longer than assumed by the central bank (according to the July NBP projection, CPI is expected to peak slightly below 3.5% in early 2020 and ease later on).

Monetary policy

The significant rise in inflation and continued high pace of Poland's GDP growth did not change the stance of the Monetary Policy Council (MPC). The MPC's rhetoric is still neutral and NBP governor is of the opinion that in the light of the available forecasts interest rates could stay on hold at least until the end of 2021. We think that the dovish shift in the global central banks' policies (the Federal Reserve is likely to start interest rate cuts this summer and the ECB may restart its QE programme) will influence the MPC's policy and we expect that interest rates will stay unchanged at least until 2020, despite a temporary rise in CPI well above the inflation target.



Credit and deposit markets

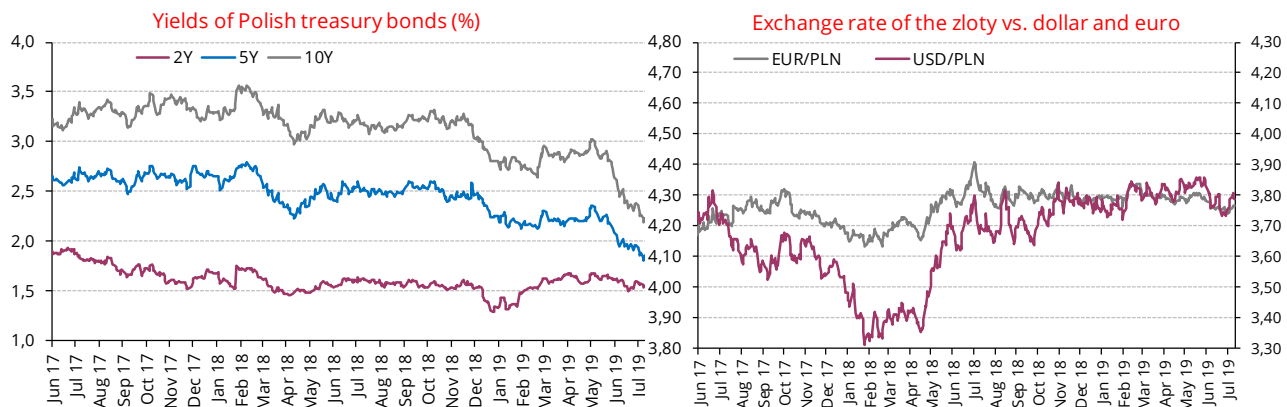
The total loan growth decelerated slightly but is still solid. According to our estimates, in May the FX-adjusted growth rate of loans was close to 6.5% YoY, i.e. similar as the last year. In April-May, the FX-adjusted loans for individuals rose by approx. 6% YoY, i.e. at a similar pace as in the previous two quarters. The zloty-denominated loans for households maintained almost a double-digit pace (consumer loans increased by over 9% YoY and mortgage loans by over 11% YoY). In the corporate sector, the loan growth (after FX adjustment) decelerated to approx. 4.5% YoY from almost 7% YoY at the end of 2018. FX-adjusted corporate revolving loans rose by approx. 8% YoY, while investment loans remained stable. Deposits grew by approx. 10.0% YoY at the beginning of 2019 (after FX adjustment), i.e. slightly faster than at the end of 2018. Household deposits increased by nearly 12% YoY, with the most pronounced growth reported for demand deposits (over 14% YoY in Q1 2019).

Financial markets

The prolonged trade war between the USA and China and continued weak economic data in the eurozone prompted the main global central banks to soften their rhetoric. The ECB extended the expected period of stable interest rates and the Federal Reserve governor said the US central bank was ready to support the economic growth if needed, as a result of which nearly all the main emerging market currencies gained vs. the dollar in Q2 2019. Due to the risk of a slower global economic growth, the interest rate market aggressively priced in the rate cuts in the USA and the restart of the monetary policy easing by the ECB. As a result, the 10Y German bond yield reached its all-time low (approx. 0.40%) and the 10Y UST yield fell to its lowest since late 2016 (approx. 1.95%).

After a pause in Q1 2019, in the second half of Q2 Polish 5Y and 10Y bond yields resumed the downward trend driven by strengthening seen on the core debt market, positive information about Polish central state budget performance leading to limited bond issuance at the auctions, and the neutral rhetoric of the MPC. As a result, the 5Y and 10Y bond yields reached their lowest since Q1 2015, i.e. 1.90% and 2.27%, respectively. The 2Y bond yield was trading at around 1.70%, holding close to the level seen at the end of Q1 2019.

The combination of internal factors (still no signs of a noticeable economic slowdown) and external factors (market pricing rate cuts in the USA) pushed EUR/PLN down to below 4.25 at the end of Q2 2019, its lowest since May 2018. The zloty appreciation vs the euro and the dollar in Q2 was the sixth biggest among the main emerging market currencies, while only in Q1 the zloty was clearly underperforming. In Q2 2019, USD/PLN reached its 2019 peak at approx. 3.88 but this was only temporary and for the better part of the quarter the exchange rate was close to the Q1 average (3.79). Similar trend was seen in the case of CHF/PLN where the Q2 average was equal to Q1 (3.80). GBP/PLN fell to approx. 4.75 from around 5.0 amid the global depreciation of the pound.



Stock market

In H1 2019, the Warsaw stock exchange was highly volatile, while the European stock markets were at their best in the last two decades. The yields of the Polish indexes were quite poor and did not keep up with their western counterparts. During the first six months of the year, large cap stocks performed statistically worst. WIG, the broad-based index, gained 4.3%, while WIG20 rose only by 2.2%. The mid-cap indexes fared better, with mWIG40 up 4.4%. sWIG80, the small-cap index, topped the league table with 11.8% on the rise. The stock indexes, particularly the blue-chip ones, would have gained much more, had it not been for the political turmoil in Q2 2019. After the fairly stable first two months of the year, the emerging markets, including WSE, faced significant outflows of foreign capital, caused mainly by the trade war between the US and China. Investors also fled risky assets, including Polish stock, due to growing tensions between the US and Iran, which triggered further decrease in the yield of Polish treasury securities. With its strong economic growth in the first half of the year, Poland stood out from other EU member states; however, this was not reflected in the performance of the majority of Polish stock. Following the plunge in May, the Warsaw market recovered in June amid more positive investor sentiment, but it did not fully make up for the price falls recorded the month before.

Regulatory environment of the banking sector

The table below shows the selected legislation and regulatory recommendations which came into effect in H1 2019 and have impact on the financial sector in Poland.

Legislation	Effective date	Purpose	Selected regulations affecting the financial sector
<p>The Act on employee capital plans of 4 October 2018</p> <p>Act amending the Act on employee capital plans, the Act on the organisation and functioning of pension funds and the Banking Law Act of 16 May 2019</p>	01.01.2019	<ul style="list-style-type: none"> Establishment of universal system of voluntary savings scheme as part of employee capital plans (PPKs) to secure the needs of people aged over 60. 	<ul style="list-style-type: none"> The employer and the employee will make contributions which will be reinvested. On reaching 60 years of age, the employee will receive monthly payments. The contribution will cause an increase in staff costs for the employer. Employees will automatically be signed up for the scheme, but may opt out at any time. PPKs will be managed by e.g. investment fund companies.
<p>Act of 9 November 2018 amending certain acts to strengthen oversight over financial markets and protection of investors</p>	01.01.2019	<ul style="list-style-type: none"> Reinforcement of oversight over the financial market. 	<ul style="list-style-type: none"> The changes relate to the Polish Financial Supervision Authority (KNF) and the Office of the Financial Supervision Authority (UKNF): <ul style="list-style-type: none"> ✓ Transformation of the UKNF into a state-owned legal person; ✓ A change in the method of financing the KNF and the UKNF – financing to be ensured directly from contributions made by the supervised financial market entities; ✓ Extension of the KNF membership; ✓ Establishment of a legal framework for the communication between the KNF, its members and other bodies.
<p>Act of 23 October 2018 amending the PIT Act, CIT Act and the provisions of the Tax Ordinance Act and some other acts</p>	01.01.2019 in the part relating to the withholding tax	<ul style="list-style-type: none"> Ensuring that tax authorities have quick access to information on potentially aggressive tax planning; identifying areas with tax gaps; tightening the tax system. 	<p>An obligation imposed on the bank to provide information on tax schemes in relation to customer transactions. The obligation relates to cross-border tax schemes and other tax schemes (including domestic ones), depending on whether the beneficiary is a qualified entity.</p>
<p>Act of 6 December 2018 on changes to the Civil Code Act</p>	15.02.2019	<ul style="list-style-type: none"> Liquidation of the privilege previously enjoyed by credit institutions, which could accrue interest on overdue interest before a lawsuit was filed. 	<ul style="list-style-type: none"> Repealing Article 482(2) of the Polish Civil Code.

Legislation	Effective date	Purpose	Selected regulations affecting the financial sector
<p>Act of 17 January 2019 amending the Act on the Bank Guarantee Fund, deposit guarantee scheme and resolution, and certain other acts</p>	<p>Most amendments have been applicable since 7.03.2019</p>	<ul style="list-style-type: none"> Implementation of Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017 amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy (BCH Directive). 	<ul style="list-style-type: none"> Excluding mortgage banks (as non-deposit-taking entities) from the group of entities covered by the guarantee scheme, and repealing a number of statutory requirements imposed on these banks by the previous version of the Banking Guarantee Fund Act. Introducing the possibility for the banks' guarantee fund and the credit unions' guarantee fund to be resorted to if either of these funds runs short of money for guaranteed payouts due to depositors. Making it possible for the Bank Guarantee Fund to join the procedure of adopting a group resolution plan by way of a "joint decision" where a group subsidiary is classified as a significant entity. Extension of the catalogue of instruments that can be used to meet the minimum requirement for own funds and eligible liabilities (MREL).
<p>Act of 21 February 2019 amending selected acts in order to ensure compliance with Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC ("GDPR")</p>	<p>04.05.2019</p>	<ul style="list-style-type: none"> Adaptation of domestic legislation to the GDPR. 	<ul style="list-style-type: none"> The amendments relate to 169 acts, including: the Banking Law Act, the Telecommunications Law Act and the Act on providing services by electronic means. For the purpose of repayment capacity assessment, banks may use any data which meet the general data minimisation principle provided for in the GDPR. The customer has the right to receive free-of-charge information about the factors considered by the bank in its credit decision. The new legislation introduces the customer's implicit consent to profiling in the process of repayment capacity assessment (submission of a credit application is sufficient for this purpose). The Banking Law provisions authorising banking institutions to process personal data after expiry of the obligation (regardless of the customer's consent) remain unaffected.
<p>Recommendation B relating to limitation of the banks' investment risk - update</p>	<p>March 2019</p>	<ul style="list-style-type: none"> Indicating best practices with regard to selected aspects of investment risk management by banks. Excluding from the scope of the Recommendation provisions relating to derivative instruments (covered by Recommendation A) and outsourcing (covered by the Banking Law). 	<ul style="list-style-type: none"> The Recommendation deals with limitation of investment risk at banks. As expected by the regulator, banks' investment strategy and policies should present an integrated approach and take into account individual investment areas. The KNF expects the updated Recommendation to be implemented by banks by 31 December 2019.

IV. Development Strategy of Santander Bank Polska Group

1. Strategy of Santander Bank Polska S.A.

Mission, vision and objectives

The strategy of Santander Bank Polska Group for 2019–2021 is a continuation of the previous course of action and is based on the same values and assumptions as applied before. The Group’s mission, vision and values have not changed for years:

Mission	<ul style="list-style-type: none"> To help people and businesses prosper
Vision	<ul style="list-style-type: none"> To be the best retail and commercial bank that earns the lasting loyalty of its employees, customers, shareholders and communities
Values	<ul style="list-style-type: none"> Simple Personal Fair

As part of its strategic vision, Santander Bank Polska S.A. intends to:

- Become a leading bank in terms of service quality, focusing on customer needs and expectations;
- Build long-term relationships with customers based on trust, loyalty and enhanced customer experience;
- Anticipate and respond to customers’ needs with tailored products, services and solutions;
- Modernise banking services through digital transformation, including end-to-end processes and change the operating model to a more effective and less capital-intensive one;
- Increase the number of digital customers;
- Focus on the growth of profitable business, strengthening its position in the key market segments and expanding its business model through both organic and inorganic growth;
- Grow faster than peers;
- Create an engaging work environment through collaboration, communication and bottom-up initiatives raised in all the bank’s units;
- Enhance effectiveness and streamline internal processes in line with an Agile methodology;
- Combine the maximisation of shareholder value with the commitment to the growth of local communities.

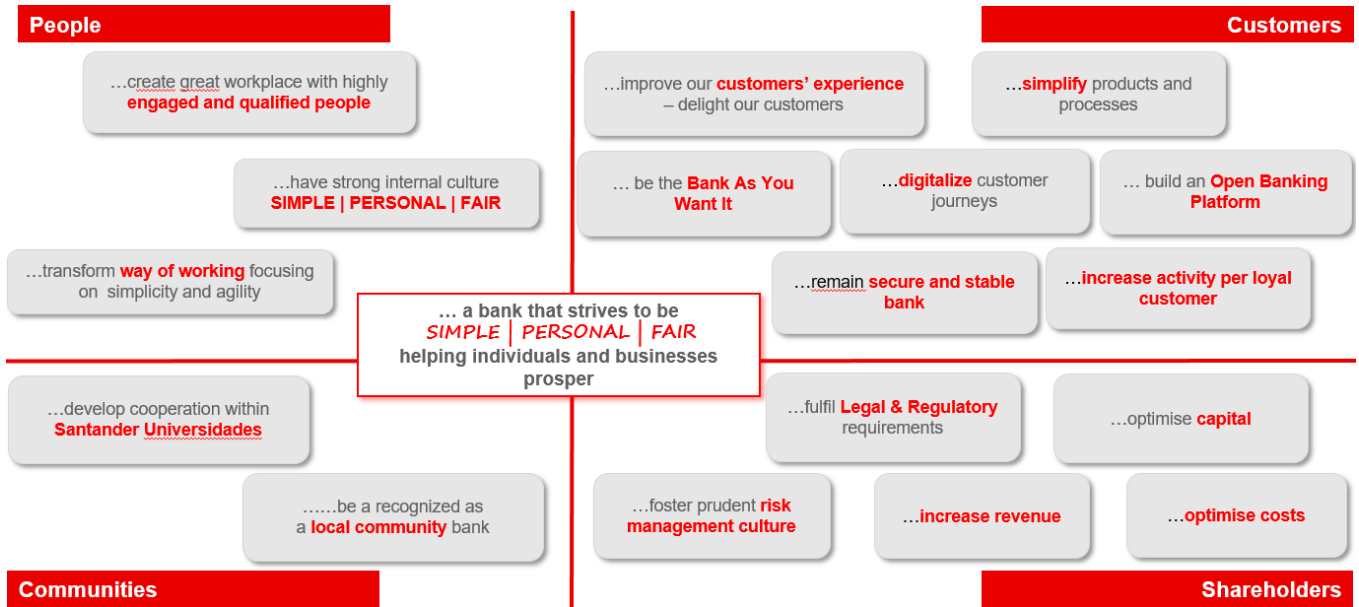
The above assumptions are reflected in the Group’s strategic goal for 2019–2021, which is to:

Achieve the **leadership position** in the financial services market owing to:

- **customer-centric and digital services** in line with the **Simple, Personal and Fair** values
- earning **lasting loyalty** of employees, customers, shareholders and communities.

The strategy of Santander Bank Polska S.A. promotes a customer-centric approach to business management, continuous improvement of service quality and product range through digitalisation, increase in operational efficiency, innovative and simple solutions, and transparency. One of its fundamental elements is the corporate culture which is focused on increasing engagement and motivation of employees and social responsibility of the organisation.

The overall goal has been divided in a number of specific objectives for 2019–2021 related to the key stakeholder groups: employees, customers, communities and shareholders. The key performance indicators have been defined for each of the above areas to facilitate the assessment of progress in delivery of the strategy.



In view of dynamic and complex changes in the macroeconomic environment, the strategy of Santander Bank Polska Group is regularly verified, which helps to take prompt action in response to emerging market trends. The external and internal developments may also require the Group to revise its key performance indicators.

Brand promise and values

Bank As You Want It

The bank's brand promise reflected in the concepts of "Bank As You Want It" ("Bank Jaki Chcesz") and "You Bank As You Want It" ("Bankujesz jak chcesz") focuses on the fundamental consumer need of having influence and control. While placing customers at the heart of its business, the bank strives to identify their needs and provide solutions and functionalities that are tailored to individual requirements. At the same time, the bank provides customers with tools that enable them to personalise products and services on their own (without engaging branch advisors). It is helped by the digitalisation of banking processes and by a growing number of customers who prefer to bank via remote channels.

Corporate culture

The corporate culture of Santander Bank Polska Group and Banco Santander Group is enshrined in the Simple, Personal and Fair values. In accordance with the above values, the Group promotes the following behaviours among employees:

-  *Actively collaborate*
-  *Support people*
-  *Truly listen*
-  *Talk straight*
-  *Show respect*
-  *Keep promises*
-  *Embrace change*
-  *Bring passion*

2. Strategy of Santander Consumer Bank S.A.

The strategy of Santander Consumer Bank S.A. in the key areas can be summarised as follows:

Car finance

- Improve the range of products and services and achieve dynamic growth of the lease business
- Ensure stable growth in the volume of new car finance by increasing the number of active dealers
- Achieve a dynamic growth in the volume of second hand car finance granted in remote distribution channels
- Acquire new partners, importers and units for the purpose of cooperation with PSA companies

Consumer finance

- Maintain high volume of cash loans and expand the range of products and services for new customer groups
- Ensure a stable volume of instalment loans, while reducing the share of sales in lower profitability channels
- Develop end-to-end online sales of cash loans and instalment loans
- Increase sales of co-branded cards to new customers
- Develop mobile payments and e-commerce solutions
- Enter the DIY sector with the instalment loan proposition
- Develop digital business

Sources of funding

- Ensure a stable deposit base
- Finance working capital requirements through retail deposits, credit lines from financial institutions and securitisation
- Long-term CHF funding
- Ensure a diversified structure of funding
- Maintain LCR > 115%

IT and operations

- Provide IT support for development of distribution channels, in particular remote ones
- Develop infrastructure and mobile technologies
- Optimise and streamline processes

Risk, cost and financial management and other areas

- Maintain stable risk level, including steady non-performing loans ratio and high provision coverage ratio
- Achieve operational excellence: optimise branch structure, review the cost base in terms of possible improvements, review the scope of management
- Deliver the digitalisation project in the following areas: DIGI business, DIGI process, paperless bank

V. Business Development of Santander Bank Polska Group in H1 2019

1. Group's Business Management Structure

Operating structure

Santander Bank Polska S.A., together with its non-banking subsidiaries, carries on its operations through the following central units: Retail Banking Division, Business and Corporate Banking Division and Corporate and Investment Banking Division.

Santander Consumer Bank Group (SCB Group), which specialises in consumer finance, forms a separate business segment with its own customer base, product range and distribution channels.

Segment reporting

The business management structure presented above corresponds to operating segments identified as part of segment reporting (Note 3 to the Condensed Interim Consolidated Financial Statements of Santander Bank Polska Group for the 6-month period ended 30 June 2019). They are complemented by the ALM and Central Operations segment, which covers funding, management of strategic investments and transactions which generate expenses/ revenues that cannot be allocated to individual segments..



The table below presents the business segments of Santander Bank Polska Group in three dimensions: customer profile, key product lines and service model.

Segment	Area	Operating model
RETAIL BANKING	<ul style="list-style-type: none"> Customer profile 	<ul style="list-style-type: none"> Personal customers (divided into Standard, Premium, Select or Private Banking customer segments based on their diverse needs and expectations) Small and medium companies with low turnover
	<ul style="list-style-type: none"> Key product lines 	<ul style="list-style-type: none"> Savings products, consumer and mortgage loans, credit and debit cards, insurance and investment products, clearing services, brokerage services, GSM phones top-ups, foreign payments, Western Union and services for high-net-worth customers Business loans, business deposits, cash management, lease, factoring, letters of credit and guarantees Asset management services within investment funds and private portfolios
	<ul style="list-style-type: none"> Service model 	<ul style="list-style-type: none"> The bank has relationship-building, sales and after-sales contacts with retail customers mainly through the network of branches and partner outlets, phone banking (Multichannel Communication Centre) and electronic banking (Santander internet and Santander mobile). Premium customers are serviced by dedicated advisors as part of their individual portfolios, based on a personalised approach and regular contacts aimed at strengthening customer relationships and customer loyalty. Private Banking and Select customers benefit from a personalised service model under which they may use the support of specialised advisors and the Select Line operated as part of the Multichannel Communication Centre, which offers support via telephone. Firms with relatively low turnover are handled by SME advisors in branches and partner outlets. They may also use the services of the Multichannel Communication Centre and electronic channels (Santander internet and Santander mobile and dedicated services: Mini Firma, Moja Firma plus and iBiznes24).

Segment	Area	Operating model
BUSINESS AND CORPORATE BANKING	• Customer profile	• Businesses and corporations with turnover of PLN 8m-PLN 1.2bn, local administration units and the public sector
	• Key product lines	• Payment transactions, loans, deposits, cash management, lease, factoring, letters of credit and guarantees • Services to customers of other banks and financial institutions under agreements with those institutions
	• Service model	• Services are provided by 18 Business and Corporate Banking Centres (operating from the largest economic centres in Poland) and the Business and Corporate Banking Department – Premium, with the support of units specialised in transaction structuring, lending and product development. • Customers have dedicated advisors who are responsible for the overall relationship. • They are also provided with access to the bank's products and services via remote channels, including internet and mobile iBiznes24 platform (featuring such functionalities as currency exchange and trade finance) as well as phone services of specialised operating centres (Business Service Centre, SME Service Centre and Trade Finance Service Centre).
CORPORATE AND INVESTMENT BANKING	• Customer profile	• Largest corporate customers allocated to that segment based on the turnover (nearly 250 of the largest companies and groups) • Corporations serviced within the international Santander Corporate and Investment Banking structures • Treasury, syndicated lending and advisory services for customers handled by other Divisions
	• Key product lines	• Transactional banking (including cash management), deposits, w/c finance, mid- and long-term finance, lease, factoring, letters of credit, guarantees and trade finance • Project finance, syndicated loans, arranging and financing of securities issues, financial advisory and brokerage services for financial institutions • FX and interest rate risk management products (offered to all customers of the bank)
	• Service model	• Customers have dedicated advisors who are responsible for the overall relationship • They are provided with access to the bank's products and services via remote channels, including internet and mobile iBiznes24 platform as well as phone services of the Business Service Centre and Trade Finance Centre
SANTANDER CONSUMER	• Customer profile	• Personal and business customers
	• Key product lines	• Instalment loans, cash loans (including consolidation loans), credit cards, car finance (refinance solutions, lease facilities and lease loans), business loans, factoring and bank guarantees • Term deposits and insurance products (mainly linked to credit facilities)
	• Service model	• The bank sells its products through: <ul style="list-style-type: none"> ✓ an own network of branches and franchise outlets, which offer cash loans, credit cards and retail deposits ✓ a structure for mobile sales of car loans and lease facilities ✓ a structure for mobile sales of corporate deposits ✓ remote channels, including a call centre and the internet and mobile banking used to sell cash loans, credit cards and instalment loans ✓ a network of partners offering the bank's car loans and lease facilities (car dealers, second-hand car dealers and intermediaries) as well as instalment loans and credit cards (retail networks and stores) ✓ a remote channel for car loans.

2. Business Development of Santander Bank Polska S.A. and Non-Banking Subsidiaries

2.1. Retail Banking Division

Key development directions

In H1 2019, the Retail Banking Division focused on:

- further improvement of customer service quality;
- growth of the portfolios of consumer loans, mortgage loans and insurance products;
- increase in sales via remote channels;
- transformation of the bank into an Agile organisation;
- further integration with a demerged part of Deutsche Bank Polska S.A.;
- further optimisation of the distribution network and mass roll-out of the New Branch Model;
- implementation of the new credit process for small and medium companies;
- activation of retail customers of Santander Brokerage Poland through the use of additional services (expert analysis, free advisory services, access to analytical programmes);
- increase in access to products of Santander Brokerage Poland, and digitalisation and automation of brokerage services.

Development of selected business areas

In H1 2019, the individual product lines of the Retail Banking Segment focused on the following activities:

Products for retail customers	Measures taken in H1 2019
Consumer loans	<ul style="list-style-type: none"> • In H1 2019 new editions of cash loan promotion were launched, including: <ul style="list-style-type: none"> ✓ a consolidation loan called "Lower instalment" ("Lżejsza rata") (June 2019), available in branches, partner outlets and over the phone ✓ a cash loan bundled with the Account As I Want It or the VIP Account for Select customers, supporting the migration of customers to internet and mobile banking (June 2019). • The half-yearly cash loan sales hit an all-time high of PLN 3.9bn, up 63.2% YoY, supported by a new distribution channel for cash loans (agents acquired from Deutsche Bank Polska S.A.) and attractive pricing terms offered to holders of selected personal accounts with Santander Bank Polska S.A. Special deals accessible only via remote channels boosted cash loan sales via the internet and mobile platform (up 151% YoY and 62% QoQ in total). • The cash loan portfolio of Santander Bank Polska S.A. was up 56.1% YoY and totalled PLN 12.8bn at the end of June 2019.

Products for retail customers
Measures taken in H1 2019
Mortgage loans

- The bank modified the pricing of mortgage loans, which resulted in changes to the structure of sales (reduced share of loans with a low down payment) and income (higher average margin and arrangement fee).
- In H1 2019, the value of new mortgage loans totalled PLN 3.0 bn and dropped by 4.1% YoY.
- The gross mortgage portfolio of Santander Bank Polska S.A. grew by 31.1%, reaching PLN 48.4 bn as at 30 June 2019. The value of PLN mortgage loans amounted to PLN 38.6bn, up 46.9% YoY.

Personal accounts and bundled products

- The bank continued extensive promotion and sponsorship activities to increase sales of personal accounts, payment cards and mobile payments. In particular, it:
 - ✓ Acquired personal accounts with salaries as part of the second edition of the campaign called "PLN 200 for an account with a salary" ("200 zł za konto z wynagrodzeniem") and the third edition of the campaign called "PLN 150 for an account with a salary" ("150 zł za konto z wynagrodzeniem");
 - ✓ Grew sales of credit and debit cards through the following campaigns: "Grab a voucher and go shopping at H&M" ("Łap voucher i leć na zakupy do H&M") and "Shopping at H&M with the Account As I Want It" ("Zakupy w H&M z Kontem Jakiej Chcę");
 - ✓ Acquired new credit cards as part of campaigns delivered by the bank itself (e.g. promotion of Visa Platinum called "Platinum holidays"/ "Platynowe wakacje") and in cooperation with partners: two editions of a special deal called "Coins from Santander Bank Polska S.A." ("Monety od Santander Bank Polska S.A.") organised with Allegro, and a promotion called "Welcome points at Santander Bank Polska" ("Punkty powitalne Santander Bank Polska") launched with Mastercard for customers who sign up for World Mastercard and Mastercard Silver cards;
 - ✓ Encouraged young people to use banking products by launching the "I help with Santander" ("Pomagam z Santander") programme in branches and partner outlets, combined with a promotion called "A youngster does not pay for a card" ("Młody nie płaci za kartę"), and an acquisition promotion for students called "PLN 50 for students with min. GPA of 4.0" ("50 zł dla uczniów z min. 4.0 na świadectwie");
 - ✓ Promoted mobile payments and built up the image of the leader of the mobile payments market through sponsorship of Garmin MTB Series and Garmin Iron Triathlon 2019;
 - ✓ Promoted BLIK payments as part of Blikomania lottery organised by Polski Standard Płatności.
- Payment cards (personal debit cards, credit cards and business cards) held by customers of the former Deutsche Bank Polska S.A. were replaced with cards offered by Santander Bank Polska S.A.
- As at 30 June 2019, the volumes of key products offered by Santander Bank Polska S.A. as part of the above-mentioned product line were as follows:
 - ✓ The number of personal accounts grew by 12.8%YoY and reached 3.7m (1.5m Accounts As I Want It). Including FX accounts, the personal accounts base totalled nearly 4.5m.
 - ✓ The personal debit card portfolio (excluding prepaid cards) comprised more than 3.8m cards and increased by 8.6% YoY. Taking business cards into account, the total number of debit cards reached 4.1m, up 9.7% YoY.
 - ✓ The credit card portfolio comprised 836k instruments, an increase of 3.9% YoY.
 - ✓ The number of digital cards used to make HCE, Google Pay, Garmin Pay and Apple Pay mobile payments added up to 598.5k (+173% YoY).

Deposits

- In H1 2019, the bank focused on optimising the structure of the deposit portfolio by increasing the share of investment solutions and balances of current and savings accounts.
- The Regular Savings Account (Konto Systematyczne) offered together with the Account As I Want It (Konto Jakiej Chcę) continued to be the main deposit product for Standard and Premium customers. The number of customers holding the above savings account increased from 240 k at the end of 2018 to 350k at the end of June 2019.
- Many Select and Private Banking customers signed up for the special offer called "Activity pays off 5" ("Aktywność procentuje 5"), as part of which they could earn up to 2% p.a. on their savings accounts if they actively used their personal accounts.
- At the end of June 2019, total retail deposits of Santander Bank Polska S.A. amounted to PLN 83.8bn, up 31.1% YoY and up 2.6% Ytd. The total balance of savings accounts was PLN 37.7bn and increased by 43.2% YoY and by 9.3% Ytd as the main source of current account balances. Following the optimisation of interest rates, the volume of term deposits declined by 4.5% Ytd but increased by 29.7% YoY.

Products for retail customers	Measures taken in H1 2019
Investment products, including:	<ul style="list-style-type: none"> • Customers were offered a wide range of investment products and services such as brokerage services, structured deposits and investment funds, including funds managed by Santander Towarzystwo Funduszy Inwestycyjnych S.A. (Santander TFI S.A.), the bank's subsidiary, as well as selected Polish and foreign funds. • The most significant change regarding investment products was the new fast-track procedure for Standard and Premium customers handled by branches.
➤ Structured deposits	<ul style="list-style-type: none"> • In H1 2019, Santander Bank Polska S.A. offered 41 structured deposits offering different investment terms in the total of 15 subscriptions. The bank also signed individual structured deposit agreements with Private Banking customers. The total funds acquired through structured deposits exceeded PLN 600m and were 167% higher YoY.
➤ Investment funds	<ul style="list-style-type: none"> • Corporate bond sub-funds and government bond sub-funds were the most popular funds among Santander Bank Polska S.A. customers in H1 2019, which put them among TOP 10 in the retail market in terms of a half-year net sales. • As at 30 June 2019, the total net assets of investment funds managed by Santander TFI S.A. were PLN 15.8bn, up 5.2% on 31 December 2018 and down 3.0% on 30 June 2018. During the first six months of 2019, the highest increase in net assets was reported by the following sub-funds: Santander Prestiz Corporate Bonds, Santander Prestiz Government Bonds, Santander Corporate Bonds and Santander Government Bonds. • On 28 May 2019, Santander TFI S.A. was entered into the Employee Capital Plans Register kept by Polski Fundusz Rozwoju S.A. with its registered office in Warsaw. As part of Santander PPK SFIO, participants of Employee Capital Plans were offered 8 target-date sub-funds. The Management Board of Santander TFI S.A. reduced a management fee for the new sub-funds to 0% p.a. until the end of 2020.
Brokerage services	<ul style="list-style-type: none"> • In H1 2019, Santander Brokerage Poland took measures to increase competitiveness of its products and services in terms of pricing and functionality. In particular, it: <ul style="list-style-type: none"> ✓ reduced the fee for access to online foreign market quotations for retail customers and launched a special deal for employees of financial institutions in relation to investments in foreign markets; ✓ included information about its products and services on the bank's redesigned websites and in Santander internet; ✓ implemented a new system for market makers and offered institutional investors an opportunity to place orders via DMA; ✓ delivered projects aimed at providing customers with an option to open brokerage accounts by click via Santander internet and at expanding the functionality of a mobile application for retail customers (to be implemented in H2 2019). • Santander Brokerage Poland continued to sell structured products as part of private placements for Private Banking customers (subscription of six products from January to May 2019).
Bancassurance	<ul style="list-style-type: none"> • In H1 2019, the value of premiums written hit an all-time high (+37% YoY). • Sales of insurance linked to banking products grew by 33% YoY, while sales of non-linked insurance products went up by 66% YoY. The profitability of Bancassurance was significantly impacted by higher sales of cash loans and focus on sales of non-linked insurance in all distribution channels. • The bank successfully implemented the model of cooperation with business partners (insurers) in accordance with the Agile methodology as part of the Bancassurance Tribe, which is expected to enhance operational efficiency.
Wealth Management	<ul style="list-style-type: none"> • In H1 2019, the range of products and services offered by Santander Bank Polska S.A. to Private Banking customers was expanded to include: <ul style="list-style-type: none"> ✓ in terms of investment solutions: structured certificates which were first issued in the form of private placement; ✓ in terms of payment products and services: prestigious black Mastercard World Elite credit card.

Products for small and medium companies	Measures taken in H1 2019
Business accounts and bundled products	<ul style="list-style-type: none"> • In the reporting period, the bank launched new special deals for business customers: <ul style="list-style-type: none"> ✓ a business account promotion called "Promotion for entrepreneurs" ("Promocja dla przedsiębiorców") targeted at sole traders and available in remote channels (e-request, electronic and phone banking) from April to July 2019. Customers who signed up for the special offer were exempt from selected business account fees for 24 months and could get cashback if they executed certain operations; ✓ two special deals for new and existing holders of Mastercard Business Debit card (available from May 2019 to March 2020): "On a journey 2/4/6" ("W podróży 2/4/6") and "On a journey 2" ("W podróży 2"). • In H1 2019, a fast increase was reported in the number of users of e-Accounting services (accounting services integrated with Mini Firma electronic banking services and implemented in December 2018).
POS terminals	<ul style="list-style-type: none"> • In April 2019, Santander Bank Polska S.A. offered modern mobile mPOS terminals to sole traders. • At the beginning of the year, the bank extended the "I got a Six III" ("Dostałem Szóstkę III") special offer for new and existing customers who sign a payment terminal agreement. • The half-yearly sales of POS terminals increased by 70% YoY.
Business loans	<ul style="list-style-type: none"> • In January 2019, the bank launched a new SME loans distribution channel: a network of external agents. • In March 2019, customers were provided with an opportunity to apply for a new credit line with a lower margin under the agreement with the European Investment Bank (EIB). • In June 2019, a new credit system – Smart Loans – was deployed across the branch network. The system makes it possible to check the available loan amount and pricing, sign up for a loan, and grant and disburse the loan automatically. This solution shortens the time-to-cash to one business day on average and increases the average amount of the credit transaction. Ultimately, the system will replace the existing credit tools for the SME segment.

2.2. Business and Corporate Banking Division

Key development directions

In H1 2019, as in the previous periods, the Business and Corporate Banking Division continued its efforts focused on improving comprehensive customer service, particularly in the areas which build competitive advantage in the value chain, including:

- foreign trade and transactional banking;
- offer for selected sectors;
- digitalisation of processes and products for the corporate segment;
- effectiveness of risk management processes;
- development of electronic banking channels as well as CRM and Big Data tools.

Development of selected business areas

The table below presents the activities of the Business and Corporate Banking Segment in H1 2019 according to the selected development directions.

Development direction	Measures taken in H1 2019
Supporting international expansion of Polish firms	<ul style="list-style-type: none"> • The Division leveraged the global presence of Santander Group to offer exporters and importers a range of opportunities to share their knowledge and experience and establish relationships with new business partners (mainly in the commercial sectors that are considered strategic by the bank): <ul style="list-style-type: none"> ✓ Conferences, meetings and seminars held as part of the 8th edition of the long-term Export Development Programme (including meetings on how to do business in the UK). ✓ A trade mission organised in cooperation with the Polish-German Chamber of Commerce (AHK) for furniture sector companies interested in entering the German market. ✓ A trade mission to the North Carolina organised in cooperation with the Polish Investment and Trade Agency (PAIH) (March 2019). ✓ Participation as an expert in workshops in Wrocław on the consequences of Brexit, organised at the initiative of the Polish-British Chamber of Commerce and Wrocław Technology Transfer Centre for companies importing/exporting goods to Great Britain or interested in doing business there (April 2019). ✓ Organisation of a shared exhibition stand of Santander Poland and Santander UK at the Aerospace & Defense Meetings Central Europe show held in Rzeszów (May 2019). ✓ "Direction Mexico" Economic and Business Seminar held in the headquarters of the Pomerania Development Agency in Gdańsk to present the extent of bank's support available for Polish firms planning to expand their business in Mexico and its service model combining the International Desk in Poland, Banco Santander (Mexico), Santander Trade Portal and Santander Trade Club (May 2019). ✓ Participation in a networking meeting organised by the Mayor of Stalowa Wola and the Polish-German Chamber of Industry and Commerce (AHK) with participation of representatives of local authorities, business-related institutions and AHK Poland affiliated companies (June 2019). ✓ Presentation of the bank's offer to visitors of the Automechanika Birmingham show (June 2019).
Cross-selling	<ul style="list-style-type: none"> • Creating value for customers by providing expertise, facilitating B2B networking and offering tools and products to support delivery of business plans. • Optimising the cross-selling process as part of the transactional banking offer using Big Data and CRM tools. • Acquiring customers with complex transactional banking needs based on a range of specialised banking products such as host to host, EBICS, blik cheques, bulk direct credits, bulk direct debits, reconciliation of incoming transfers and other non-standard, customised banking solutions. • Gradual migration of customer transactions at branches (cash deposits/withdrawals, transfers, account instructions) into automatic, digital or third party solutions (electronic banking, mobile banking, ATMs/CDMs, third party transport services).
Cross-segment expertise-based sector approach	<ul style="list-style-type: none"> • Continuing measures to support the process of building expertise within the organisation and among customers. Regular publication of reports on strategic sectors (automotive/ TFL, food/ FMCG, industrial production, windows & doors and services) and participation of the bank's experts in industry meetings. • Ongoing cooperation with industry organisations: co-organising, acting as a partner and actively participating in industry initiatives (meeting of transport industry leaders in Gorzów Wielkopolski; 21st Conference of Fish Processors and the General Meeting of Polish Fish Processors Association and export workshops organised by the Centre for Industry Analysis on the sale of windows and doors in Italy).

Development direction	Measures taken in H1 2019
<p>Focus on development of the iBiznes24 platform</p>	<ul style="list-style-type: none"> • iBiznes24 internet: <ul style="list-style-type: none"> ✓ New features added to the card module to improve card and operation data browsing capabilities. ✓ Introducing NIP (tax identification number) as an additional identifier which is directly uploaded to a transfer order for the Tax Office. • iBiznes24 mobile: <ul style="list-style-type: none"> ✓ Implementing 3DTouch, a pop-up menu for logging, mobile signature, currencies and transaction registration. ✓ Introducing a security mechanism which requires the user to enter a friendly name (different than the user's NIK) ✓ Providing an option to view requests submitted via iBiznes24 internet. ✓ Introducing registration forms for: (a) SWIFT FX transactions (transfers to the accounts of pre-defined beneficiaries); (b) transfers to the Tax Office with edit and clone options. ✓ Adding an inbox functionality for two-way communication between the customer and the bank. ✓ Giving users other convenient features, including the option to customise the screen to their own preferences.
<p>Leasing business</p>	<ul style="list-style-type: none"> • Continuation by Santander Leasing S.A. to develop its product range and enhance the quality of lease services: <ul style="list-style-type: none"> ✓ Establishing a vendor finance scheme with a manufacturer and distributor of plant cultivation equipment, as a result of which the company may offer joint customers attractive financing on promotional terms. ✓ Extending the product range to include the sale of bank accounts for firms as part of a special offer arranged in cooperation with Santander Bank Polska S.A. (account maintenance on preferential conditions with an additional exemption from fees and charges for certain operations related to loan or lease agreements during the term of the special offer) (April 2019). ✓ Renewing cooperation with Poland's best manufacturer of agricultural trailers (April 2019). ✓ Developing and implementing, in cooperation with Santander Bank Polska S.A., a new comprehensive package of car benefits for employees of Santander Bank Polska Group (June 2019). As part of the offer, employees may buy a new car for cash with an up to 25% discount and rent a car for 12/24/36 months with a comprehensive maintenance package (insurance, MOTs, tyre change, registration, replacement car). ✓ Again acquiring financing of PLN 2.1bn from the European Investment Bank (EIB) to support projects carried out by micro, small and medium-sized companies and offer them more attractive pricing conditions. ✓ Expanding the product range to include group life insurance: Safe Instalment and Safe Customer, innovative solutions in the insurance market, which include assistance insurance with rehabilitation and a medical package (including medical consultations). ✓ Streamlining the contract execution process by extending the group of customers handled under the fast-track procedure. ✓ Extending the promotion for 100% lease of electric cars. • In H1 2019, Santander Leasing S.A. financed fixed assets of more than PLN 2.5.bn, including PLN 1.1 bn worth of machines and equipment.

2.3. Corporate and Investment Banking Division

Key development directions

- In H1 2019, the Corporate and Investment Banking Division (CIB) continued its comprehensive services for the biggest corporate clients of Santander Bank Polska S.A. The Division also rendered services to corporations within the international Santander Corporate and Investment Banking structures and cooperated with several Santander Group units with regard to the sale of Polish bonds to foreign investors and trade in Latin American bonds in Poland. The bank is one of the leaders in the banking sector in such areas as: public offerings, bond issue, arrangement of finance and supply chain finance.
- During the period under review the Division took further measures to enhance customer experience, including:
 - ✓ development of distribution channels dedicated to treasury products;
 - ✓ digitalisation of processes related to handling equity products for institutional clients;
 - ✓ expanding the range of transactional banking solutions, particularly in the area of cash management and solutions for financial institutions;
 - ✓ starting work as part of the Financial Markets Tribe, operating in the Agile model and constituting operational support for the Financial Markets Area.
- The Division optimised the structure of the income statement and the balance sheet by growing the fee-generating business and selling selected credit exposures.

Development of selected business areas

In H1 2019, individual units of the Corporate and Investment Banking Segment focused on the following initiatives:

Unit	Focus areas in H1 2019
Credit Markets Department	<ul style="list-style-type: none"> • The Department provided funding towards medium- and long-term investments delivered by CIB customers, through loans and corporate bonds issues, both single-handedly and in cooperation with other units. • It completed two issues of green eurobonds for a public sector entity, an issue of mortgage bonds for a customer from the financial sector and an issue of bonds for companies operating in production, mining and property sectors. • It participated in syndicated lending for customers from the chemical, telecommunications, distribution, medical, oil & gas and production sectors. • The Department also received a mandate to arrange Poland's and CEE region's first ESG Linked Loan, in which a part of the margin is linked to the borrower's fulfillment of certain environmental, social and governance targets. The facility is to be provided to a company from the energy sector. • It optimised its balance sheet position through the sale of the selected credit exposures and offered debt-related rating advice. • The Department provided analytical and advisory services to customers and was engaged as a financial/ transactional advisor in relation to the acquisition of companies from the industry and hotels sectors. • It also provided analytical and advisory services to customers and was engaged as a financial/ transactional advisor in:
Capital Markets Department	<ul style="list-style-type: none"> ✓ tender offers for shares of companies from hotel, industrial, distribution, IT, engineering and property sectors; ✓ sale of shares of a company from the industrial sector as part of an accelerated book-building; ✓ purchase of own shares by companies from the development and construction sectors; ✓ intermediation for a property company in the issuance of stock dividend.

Unit	Focus areas in H1 2019
Global Transactional Banking Department	<ul style="list-style-type: none"> The Department closed a number of deals in relation to financing, guarantees and supply chain finance with companies from the chemical, retail and wholesale, railway, construction, industrial, pharmaceutical, transport and food processing sectors. It provided comprehensive transaction and currency exchange services for a company from the automotive sector and offered a GTB Connect service for a mining company to facilitate cash flow management. It signed agreements to execute cross-border transactions for an international company offering payment services.
Treasury Services Department	<ul style="list-style-type: none"> The Department continued a number of projects aimed at ensuring excellent customer service, including further development of distribution channels. It cooperated with Continental Europe bankers as part of Santander Group structures to enhance relations with international clients in new markets. It strongly focused on development of investment products for business/ corporate and retail customers in cooperation with the Private Banking segment.
Financial Market Transactions Department	<ul style="list-style-type: none"> The Department continued measures to set up a new trading platform used by Banco Santander S.A. to acquire new liquidity providers in the currency market. It continued to build the portfolio of global business customers in cooperation with the London branch of Santander Corporate and Investment Banking. It acted as an intermediary in relation to the sale of products and services offered by the bank and Santander Group in Poland (including government bonds issued by peripheral eurozone states and South American countries). The Department also arranged a roadshow for institutional customers in Asian countries.
Institutional Clients Department	<ul style="list-style-type: none"> The Department focused on further development of systems to automate processes connected with brokerage services offered to business customers. It continued work on implementation of a new product offering new investment opportunities both in Poland and abroad. It launched cooperation with the Central Securities Depository of Poland (KDPW) in terms of an innovative technological solution to facilitate voting at the General Meetings of Shareholders. It started work with a global supplier as part of cooperation with Banco Santander S.A. to create an online portal dedicated to research products. The Department made more than 50 recommendations regarding listed companies, including OTP Bank and Komerční Banka. It organised two industry conferences: "Santander Investor's Open Day" and "Construction Investor's Open Day". It joined the Stock Exchange Analysis Support Programme financed by the Warsaw Stock Exchange.
Działalność faktoringowa	<ul style="list-style-type: none"> In H1 2019, the receivables purchased by Santander Factoring Sp. z o.o. came in at PLN 14.2bn, up 11.0% YoY, which gave the company a market share of 10.8% and the fourth position in the ranking of members of the Polish Association of Factoring Companies. As at the end of June 2019, the company's credit exposure was PLN 5.2bn, up 12.0% YoY.

3. Business Development of Santander Consumer Bank Group

Key development directions

In H1 2019, Santander Consumer Bank Group focused on:

- maintaining the leadership position in the hire purchase market, with a stable share in traditional sales and a growing share in online sales, as well as identifying new sales growth opportunities and maintaining the profitability of collaboration with trade partners
- acquiring customers based on installment loans and credit cards and leveraging cross-selling and up-selling opportunities
- optimising cash loan proposition and maximising customer contacts, including by delivering remote channel development projects such as online sale of cash loans and launch of mobile application (June 2019)
- increasing car finance amid favourable conditions in the lease and CFM markets supported by growing sale of new vehicles, bank's dynamic initiatives aimed at small and medium companies and financing for individuals who are not sole traders.

Development of selected business areas

Strategic areas	Measures taken in H1 2019
Consumer finance	<ul style="list-style-type: none"> • Strengthening the business position and image of Santander Consumer Bank Group as the leading institution in the consumer finance market (instalment loans, cash loans, credit cards and car finance). • Maintenance of strong sales of high-margin consumer loans, including cash loans (PLN 2.7 bn), credit cards (PLN 0.6 bn) and car finance (1 bn) • Launch of deployment of Google Pay services • Implementation of the second stage of regulatory changes connected with PSD2 in the area of credit cards
Car finance and financing solutions for car dealers	<ul style="list-style-type: none"> • Increase in the volume of car finance with a growing share of lease facilities (+14% YoY). • Further development of the Full Service Leasing, a product offering additional benefits such as car service by approved repairers and full motor insurance • 5-year extension of an agreement with one of the key car manufacturers and execution of a 3-year contract with a new partner (with Santander Consumer Bank S.A. being the sole car finance provider under both agreements and the sole stock finance provider under one of them).
Digitalisation of business	<ul style="list-style-type: none"> • Higher sales in remote channels: e-commerce instalment loans (+37% YoY) and cash loans (+19% YoY) • 181 k active users of internet banking (+24% YoY) • Launch of mobile application in June 2019 • 24% of instalment loan agreements signed using the Quicksign electronic signature
Customer satisfaction	<ul style="list-style-type: none"> • One of the best customer satisfaction ratios in the market (NPS=42)
Diversification and increase in stable sources of funding and optimisation of cost of funding	<ul style="list-style-type: none"> • Increase in the balance of the most stable sources of funding such as long-term deposits and credit lines • Increase in the share of corporate deposits • Stable FX financing using repo transactions
Effective risk and capital management	<ul style="list-style-type: none"> • Stable risk level and high provision coverage ratio • Solid capital position and dividend payout in June 2019
Other initiatives	<ul style="list-style-type: none"> • Digitalisation of car finance • Development of Full Service Leasing and preparations for expanding the product range to include an unsecured car loan • Continuation of IT area transformation • Launch of online sale of cash loans and instalment loans • Development of two non-linked insurance products: OnkoPomoc and Mój Pakiet (in progress)

VI. Human Resources Management

Human Resources

As at 30 June 2019, the number of FTEs in Santander Bank Polska Group was 14,058 vs. 15,347 as at 31 December 2018. These headcount figures include 11,113 FTEs of Santander Bank Polska S.A. (12,253 as at 31 December 2018) and 2,464 FTEs of SCB Group (2,628 as at 31 December 2018).

In H1 2019, employment in the Group decreased by 8.4% as a result of ongoing transformation of the business model of Santander Bank Polska S.A. through digitalisation, continued migration of sales and banking services to remote distribution channels and gradual implementation of technological and organisational solutions increasing the Group's operational efficiency. As part of the reorganisation processes, the bank also eliminates duplicated areas identified after the acquisition of the demerged part of Deutsche Bank Polska S.A.

The purpose of these activities is also to increase the organisation's efficiency and maximise concentration of efforts and resources on business and competency development. The implemented changes lead to a steady reduction of headcount in the bank's branches, with a concurrent increase in the number of FTEs in business support areas. The HR movements are taking place mainly as part of the collective redundancies process launched in March 2019, but also take into account natural employee attrition and the present business needs and market conditions.

Programme of support for employees selected for collective redundancies

As part of the activities aimed at reorganising the business model and increasing the operational efficiency of Santander Bank Polska S.A., on 10 January 2019, the bank's Management Board decided to start a process of collective redundancies covering a maximum of 1,400 employees. The process is to continue until the end of 2019. The collective redundancies were agreed with and approved by all the trade unions at the end of January 2019. Redundant employees are entitled to a statutory severance pay and additional cash benefits on account of employment contract termination. A provision of PLN 80m was raised for the employment restructure. By the end of June 2019, 844 employees left the organisation as part of the collective redundancies process.

As a socially responsible employer, the bank implemented a comprehensive programme of support for redundant employees to assist them with their reintegration into the labour market and equip them with useful knowledge and skills. The programme is voluntary, uses internet-based platform and ensures access to complementary support areas, including:

- Workshops on re-entering the labour market, creating own brand, using latest recruitment channels and networking;
- Assistance with active job search – facilitating contacts with potential employers;
- Consultations with labour market specialists, including professional career advice that will help redundant employees make informed choices about their career;
- Training to develop and strengthen skills most wanted by employees in the local labour market;
- Group and individual support sessions, and employee self-learning through access to a library with useful materials and practical guidance;
- Counselling sessions for employees in need of emotional support.

Changes in the compensation and benefits system

Remuneration Policy

On 16 May 2019, the Supervisory Board adopted a new Remuneration Policy of Santander Bank Polska Group, which came into force on 15 June 2019. The changes support the Group's strategic priorities and the process of building an attractive workplace through development of the compensation and benefits proposition for employees. They are also the result of the annual review of remuneration regulations at the bank and their harmonisation with the updated Remuneration Policy of Santander Group.

The updated policy:

- introduces references to the responsible banking principle;
- strengthens the regulations ensuring maintenance of a solid capital base of the institution;
- refines provisions regarding guaranteed variable pay, compensation for variable pay, retention plans, severance pays and indemnities;
- determines decision-making levels for the fixed remuneration of Management Board members and Material Risk Takers.

Started in H1 2019, the annual remuneration review at the bank places focus on individual performance and behaviours of employees, talent retention and building and strengthening the bank's positive reputation as an employer. The total remuneration package for 2018, including additional benefits, was presented to all employees in the form of a TRS report "Here I work – here I gain" to build their awareness and increase their satisfaction with the scope and value of total remuneration offered by the bank.

Moreover, in H1 2019, the bank revised the incentive schemes applicable in 2019, harmonising their rules concerning qualitative and business objectives.

Satisfactory financial results for 2018 enabled the bank to launch annual bonus payments for employees in 2019

Social and employee benefits

Santander Bank Polska S.A. offers its employees a wide range of employee benefits designed to cater to the needs of different generation groups to the highest extent, enhance the comfort and security of employees and their families and promote healthy lifestyle and work-life balance. The benefits include, for example, a Multisport card, group life insurance plans, discounts for products offered by business partners, refund of the purchase of corrective eyeglasses, financial aid and comprehensive private medical care.

In H1 2019, the benefits package was expanded to include a car programme for employees, including:

- purchase of a new car for cash at an attractive discount;
- a preferential car loan;
- car rent for 12/24/36 months with extra benefits (insurance, MOTs, tyre change, registration, replacement car);
- possibility to participate in an e-auction organised in cooperation with Santander Leasing S.A., i.e. buy a reliable off-lease company car at an attractive price.

For the second year in a row, Santander Bank Polska S.A. won the Poland-wide competition "Best Benefits Strategy" for the most interesting and most effective strategy of non-salary benefits for employees.

Key strategic initiatives in HR management

Strategic HR initiative	Scope of actions
Agile way of working	<ul style="list-style-type: none"> • Support for the implementation of the Agile model in the organisation through various development and cultural activities (for more details, see the table below with "key subject streams").
New internship programme	<ul style="list-style-type: none"> • Following the analysis of the "competencies of the future", i.e. those which are necessary for further development and implementation of the organisation's business objectives, in 2019 an internship programme was established whose purpose is to help interns acquire and develop the desired competencies in the area of Software Engineering, User Experience, Cyber Security, Big Data and Robotics. • As part of the programme, more than 20 students/ university graduates will do an internship at the bank (for three to six months) and will be covered by a dedicated development programme.
Santander Week	<ul style="list-style-type: none"> • The bank organised the 6th edition of Santander Week – an internal celebration of Santander Group employees all over the world featuring many attractive events (including meetings, workshops, webinars presenting important projects and challenges faced by the organisation in various business areas).
Delivery of strategic objectives and daily tasks in line with the "Simple, Personal, Fair" values	<ul style="list-style-type: none"> • Santander as a technology platform – including a programme of technology internships for people with competencies of the future; participation in key technology conferences and organisation of internal technology initiatives (Tech Break). • Extension of a mentoring programme for women and preparation of a series of inspirational meetings, including as part of cooperation with Vital Voices and the Lesław Paga Foundation. • Focus on fostering the customer-centric culture. • Continuation of the Differently Abled (Różnosprawni) project to promote the employment of people with disabilities. • Promoting the corporate culture – shared by all members of Santander Group, and based on eight attitudes and behaviours as well as mutual recognition (StarMeUp platform).

Strategic HR initiative	Scope of actions
Digitalisation of HR processes	<ul style="list-style-type: none"> • Preparing the organisation to deal with changes resulting from implementation of the Workday system across Santander Group. The system is to affect about 45% of all HR processes. • The system is being implemented in stages based on a list of priorities. The 10 most complex, time-consuming and challenging HR processes will be introduced in the first place. • Constant focus on Candidate and Employee Experience – mapping and improving HR processes connected with recruitment, induction, development, training and termination of employment. • Ensuring strong technological support for the Programme from the HR Systems Transformation and Technological Support Department, a newly established unit of the Digital Transformation Division which is dedicated to HR digitalisation.

Training and Development

The Business Partnership Division provides development programmes and business-as-usual training to support the development of employees and management and facilitate delivery of the bank's strategic goals and key business projects. Increasingly often, the adopted development and training model makes use of the solutions available within the global Santander Group.

Training and development activities carried out at Santander Bank Polska S.A. in H1 2019 covered a wide range of topics and used diverse methodological approaches and tool solutions. They supported development of the following employee groups: senior management, lower-level management, female leaders, talents identified in the organisation, Agile staff and employees with special development requirements. Their main areas of focus were the following subject streams.

Streams	Key training programmes/initiatives in H1 2019
Building cohesion of leadership in the organisation – development of leadership competencies	<ul style="list-style-type: none"> • „Aiming at Development” workshop • “Leaders for Employees” – a series of workshops and individual sessions supporting the senior management • “Leader's Quest” programme – an induction path for new managers • “Inclusive Leadership” workshop
Creating a self-learning organisation; building the “Be Your Best Possible Self” concept – supporting employees' development in their preferred directions; building a community of employees sharing knowledge and experience in various fields	<ul style="list-style-type: none"> • Inspiring meetings with senior management members as part of “Leaders for Employees” programme • “Elixir of Development” programme – a series of inspirations in the area of development, with various topics and forms (emails, webinars, inspirational sessions) • DISC assessment – behavioural styles test • 270-degree and 360-degree assessment providing feedback from co-workers • YOUniversity – a platform bringing together internal tutors and allowing them to share best practices • #narzędziownia – a platform collecting key information, tips and tools facilitating development. • Access to articles and audiobooks through Harvard Business Review • Change Ambassadors – building employees' engagement through their active participation in streamlining processes
Supporting the implementation of the Agile work model	<ul style="list-style-type: none"> • Advanced Design Thinking workshop for new PO • 2nd edition of Agile lab – development of core competences for POLCAC • Catalogue of audiobooks for Agile employees • Workshops on Agile-non Agile cooperation • “Creative Flipcharts” workshops – developing the skills of creative thinking and visualisation

Streams	Key training programmes/initiatives in H1 2019
<p>Building new customer experiences – mandatory training for advisors at branches resulting from regulatory requirements and customer service quality targets; development of skills of selling selected products of the bank and the Group, in line with the needs identified in individual customer segments</p>	<ul style="list-style-type: none"> • Behavioural segmentation – development of skills in identification of needs of various customer profiles and in customer service • Customer experience building • “Understanding SME customers” training
<p>Local and global talent programmes – meetings with a varied development agenda</p>	<ul style="list-style-type: none"> • The “Young Leaders” global programme – a series of training courses dedicated to young talent leaders; including workshops, participation in banking projects; meetings with senior management members • 3:3 programme – additional development activities for employees with the highest annual performance rating

VII. Organisational and Infrastructure Development

1. Implementation of the Agile methodology

In 2018, Santander Bank Polska S.A. started to implement a new work model in accordance with the Agile methodology to achieve a long-term success in a dynamically developing environment (including technology-wise).

One of the objectives of the Agile transformation is to move away from complex hierarchical structures towards small interdisciplinary teams that are capable of quick and effective implementation of new solutions in accordance with customer needs. As at 30 June 2019 the new work model covered more than 840 employees of the bank grouped in 15 tribes and 10 units from IT area.

In H1 2019, the following new business tribes were set up: Wealth Management, Bancassurance, SME, Corporate Products and Processes, Corporate Lending Processes and e-Channels, Effective Distribution and Financial Markets.

The first technological tribe – Client Data Platforms, responsible for development of API, platforms for sharing data and building solutions for processing customer data (including biometric data) – has become operational within the Digital Transformation Division. Another unit of this type – Core Banking Platforms – had its structure approved and is about to be deployed. The unit will be responsible for development and maintenance of the bank’s central product systems. Finally, the Payments Tribe has been established to supervise development of payment solutions, and the Content Management & Process Automation Tribe has been set up to devise digital solutions supporting the flow of documents and automation of processes. These units deliver common components, i.e. develop solutions for multiple customer segments.

IT Area Leaders were appointed in the above units to manage technological aspects of operations.

The optimisation of banking structures and methods of operation are aimed at increasing organisational capability, and above all to ensure harmonised, high quality customer service to achieve NPS growth.

2. Planned Changes to the Structure of Santander Bank Polska Group

Planned division of Santander Securities S.A.

Transaction

On 12 June 2019, the bank announced its intention to divide its subsidiary, Santander Securities S.A. with its registered office in Warsaw, by transferring its assets to the bank and to Santander Finanse Sp. z o.o. The division will be effected in accordance with the procedure set out in Article 529 § 1(1) of the Commercial Companies Code through:

- transferring to the bank an organised part of the enterprise of Santander Securities S.A. connected with brokerage services;
- transferring to Santander Finanse Sp. z o.o. an organised part of the enterprise of Santander Securities S.A. connected with training services.

The bank is the sole shareholder of Santander Securities S.A. therefore its share capital is not planned to be increased as a result of acquisition of the assets of that company.

In turn, the share capital of Santander Finanse Sp. z o.o. is to be increased by issuing new shares, the number of which will be defined in accordance with the agreed exchange ratio.

As the sole shareholder of the company being divided, the bank will take up all newly issued shares, i.e. 60 shares with the nominal value of PLN 50 each and the total nominal value of PLN 3,000.

Santander Securities S.A. will be wound up without liquidation on the date on which it is struck off the register, which will occur immediately upon the increase in the share capital of Santander Finanse Sp. z o.o. as a result of the division.

The Division Plan of Santander Securities S.A., agreed by all transaction parties and signed on 12 June 2019, is published on the bank's website.

The transaction is subject to the approval of the bank's General Meeting of Shareholders in the form of a resolution.

Economic rationale

At present, the brokerage business of Santander Group in Poland ("Group") is conducted by Santander Bank Polska S.A. and Santander Securities S.A. under different business and operating models. As a result of the division, the investment activity of Santander Securities S.A. will be integrated into the bank's structures and standardised, while the training activity will be transferred to Santander Finanse Sp. z o.o., which has experience in providing training to the network of agents and employees.

The consolidation of brokerage services within a single entity will enable the Group to improve operational efficiency by:

- creating a single centre of excellence within the Group;
- harmonising products and services;
- providing customers with uniform access channels;
- adopting a consistent approach to customers based on standardised segmentation rules;
- streamlining processes and procedures for customers and employees;
- simplifying the operational structure;
- shortening the time-to-market for new products and processes for customers, including mobile solutions;
- achieving cost and operational synergies.

As a result of the division, the customers of Santander Securities S.A. will be provided with a more attractive proposition, both in terms of scope and quality. Specifically, they will be offered access to a greater number of products and services (including investment advice), foreign markets and a mobile channel for order placement. The integration of brokerage services within the bank will make it possible to better use the existing resources and potential, thus increasing the bank's competitive edge in the brokerage services market.

The integration of training activities within Santander Finanse Sp. z o.o. will help expand the scope and increase competitiveness of training offered by the company. Training activities will be optimised and standardised across the Group, particularly in terms of mandatory training for the bank's employees and contractors, and for third parties.

3. Key Projects

The table below presents the IT projects delivered by Santander Bank Polska Group in 2019. They include global initiatives of Santander Group, local projects and regulatory projects.

Initiative	Key projects underway in 2019
Global optimisation initiatives of Santander Group	<ul style="list-style-type: none"> • Big Data/ Machine Learning – development of models to optimise conversion in sales, anti-money laundering and recovery processes, among other things • Optimisation of the sales funnel (CRO) – improvement of conversion in online sales processes • Optimisation of the Multichannel Contact Centre – streamlining of processes based on new technologies
Development of common services for distribution (transfer of technology) as part of Santander Group	<ul style="list-style-type: none"> • Common Mobile Platform – development of reusable mobile banking modules and design of the target mobile banking architecture • Common APIs – design of a standardised interface for banking services across Santander Group • Intelligent Document Processing – automation of document circulation • Virtual Assistant – development of AI-powered assistants that will be able to attend to customers or support bank staff in this respect • Authentication & Access – design of a technology for identification of customers and authentication of transactions, with a focus on biometric solutions
Other Group projects	<ul style="list-style-type: none"> • Santander One Pay FX – an electronic banking service which makes it possible for customers to make instant payments to and from banks which are members of Santander Group; the service covers transfers in GBP and PLN between Poland and the UK and is planned to be expanded to include payments in EUR and PLN between Poland and Spain
Implementation of regulatory requirements	<ul style="list-style-type: none"> • PSD2 – adapting the processes and procedures to the requirements of the PSD2 (directive on payment services in the internal market) at the regulatory level – building an API for communication with TPPs (third party providers, who provide payment initiation services and account information services) and preparing for full implementation of the Strong Customer Authentication
Automation and optimisation of operational processes	<ul style="list-style-type: none"> • Processing customer payments traffic with a foreign banking partner through a dedicated API – as part of the solution, Santander Bank Polska S.A. provides comprehensive payment transaction service for the customers of a major foreign bank – accepts and settles payment orders, returns transaction statuses and ensures statements in formats expected by the client • Automation of Elixir payments – eliminating manual tasks, ensuring security and top quality of services and settlements in response to a growing number of payments • Launching a platform for servicing network brokers • Implementing new robots or upgrading the existing robots with new functionalities – including in relation to the following processes: declaration of repayments in Santander internet; closing savings accounts; parameterisation of self-service devices and repayment of arrears • CUSTODIAN – technical and business deployment of an application dedicated to securities and corporate rights • PPD module – launch of electronic processing of SWIFT messages from third-party banks in SLINK (a system for managing the settlement of international and mass payments, Cash Management and Treasury transactions) as part of the paperless bank initiative • Implementation of a new credit process for sole traders -a new automatic credit process for sole traders from the SME segment, complete with a credit simulator
Strategic projects	<ul style="list-style-type: none"> • PSD2 – using the possibilities resulting from the directive – work undertaken to start activities as a TPP (entity providing customers with account aggregation and initiating transactions from other banks in the electronic banking of Santander Bank Polska SA) • Mortgage Bank – preparation of systems necessary to start operational activity • Digital HR (design of processes and technological solutions supporting HR management) – implementation of changes in SAP to optimise personnel and payroll processes; planned deployment of Workday, an HR platform, across the Group. • Data Lake – development of Data Lake as the bank's single and universal data repository • Cybersecurity – improving user experience and security of online services, building awareness of threats and secure practices among employees and customers (broadening knowledge of how to use banking products in a secure way and promoting cybersecurity culture) • IT services – work on improving availability of remote services during planned maintenance • Cooperation with startups/ fintechs – delivery of external acceleration programmes: <ul style="list-style-type: none"> ✓ Poland Prize with Huge Thing – dedicated to foreign startups ✓ AccelUp with Accelpoint – targeted at startups from Poland

4. Development of Distribution Network

Development of distribution channels of Santander Bank Polska S.A.

Branch network

In H1 2019, another eight branches were adapted to the new, innovative format in accordance with the New Distribution Model. At the same time, the sales network continued to be optimised.

During the first six months of 2019, the number of branches (locations) decreased by 80 to 532 (down 8 YoY), while the number of partner outlets increased by 1 do 124 (up 11 YoY).

Remote channels

Internet and mobile banking

Along with the modernisation of the brick-and-mortar network, Santander Bank Polska S.A. developed its digital channels with a view to increasing their share in acquisition and sale over the next years.

- A new channel was set up for distribution of the bank's strategic products such as personal and business accounts and cash loans, based on active cooperation with affiliate networks in Poland and the largest online platforms. Sale of credit cards is about to be launched in the new channel over the next months.
- The internet banking platform was further upgraded to enhance user experience (including improved application procedure for cash loans, simpler tax transfers and changes aimed to ensure more ergonomic layout).
- Santander mobile users were provided with an option to change the language of the application (without changing the language of the phone) and log in faster via Android using a fingerprint.
- The bank continued to develop its iBiznes24 platform for business customers. The features implemented in H1 2019 are presented in Chapter V "Business Development of Santander Bank Polska Group in H1 2019", Section 1.2. "Business and Corporate Banking Division".
- The smsCode was shortened from eight to six digits to simplify operations in electronic channels while ensuring the same level of security.
- A redesigned website (www.santander.pl) was launched on 1 June 2019.

ATM network

As part of development of self-service channels, in H1 2019 the bank continued branch network rationalisation and installed new cash recyclers (devices enabling withdrawal of cash that is previously deposited in a recycler by other customers), which helped to reduce costs associated with cash services and increase accessibility of cash deposits and withdrawals.

During the first six months of 2019, the number of cash recyclers increased by 20 to 364, whereas the number of dual machines decreased by 13 to 543. The number of ATMs was reduced by 43 to 815.

Basic Statistics on Distribution Channels

Santander Bank Polska S.A.	30.06.2019	31.12.2018	30.06.2018
Branches (location)	532	612	540
Partner Outlets	124	123	113
Business and Corporate Banking Centres	18	12	12
ATMs	815	858	922
CDMs	4	4	10
Dual Function Machines	907	900	807
Registered internet and mobile banking customers (in thousands)	4 229	4 019	3 526
Digital (active) internet banking customers (in thousands) ¹⁾	2 408	2 345	2 136
Digital (active) mobile banking customers (in thousands) ²⁾	1 461	1 337	1 183
Registered iBiznes24 companies ³⁾ (in thousands)	17	17	16

1) Number of active users of Santander24 (digital customers) who at least once used the system in the last month of the reporting period.

2) Number of active users of the Santander mobile service.

3) Only the customers using iBiznes24 – a strategic electronic platform for business customers (the customers having access to Moja Firma plus and Mini Firma platforms are not included), data as at 31.05.2019.

Development of distribution channels of Santander Consumer Bank S.A.

The table below presents the main sales channels.

Basic Statistics on Distribution Channels

Santander Consumer Bank	30.06.2019	31.12.2018	30.06.2018
Branches	150	152	153
Partner Outlets	182	170	168
Auto Loan lending Partners	747	707	693
Installment Loan Lending Partners	7 219	7 504	8 737
Registered electronic banking users (in thousands) ¹⁾	181	209	146

1) Users who signed an agreement with Santander Consumer Bank S.A. and at least once used the banking electronic system in the reporting period.

Awards and recognitions for Santander Bank Polska Group

Award	Santander Bank Polska S.A.
Golden Bank	<ul style="list-style-type: none"> The Golden Bank title for the best multichannel services in a survey carried out by Obserwatorium.biz and Kantar Polska on behalf of Bankier.pl and Puls Biznesu (April 2019). The bank was assessed against six categories: helpline service, messaging platform service, branch service, online account opening and user-friendliness of internet banking platform and mobile application. The Account As I Want It (Konto Jakiej Chce) and a cash loan offered by Santander Bank Polska S.A. voted best products in the market.
Main accolade for Santander mobile application at Mobile Trend Awards	<ul style="list-style-type: none"> Santander mobile application voted best product by internet users during Mobile Trends Awards (March 2019). Third position in the ranking for eAccounting – online accounting services for small companies using simplified accounting offered by the bank via the Mini Firma electronic banking services.
Institution of the Year 2018	<ul style="list-style-type: none"> The Institution of the Year 2018 title awarded by experts of Mojebankowanie.pl. The bank won in five categories: “Best remote channel services”, “Best business customer service”, “Best bank in business lending”, “Best bank in leasing” and “Socially Responsible Bank”.
Capital Market Leader	<ul style="list-style-type: none"> The Capital Market Leader title awarded for the fifth time in recognition of the highest share in the volume of trading in index options without market making transactions.
5 stars for MasterCard World Elite credit card	<ul style="list-style-type: none"> Top 5-star rating for the black Mastercard World Elite credit card for high net worth customers in the 8th edition of the Private Banking services rating held by Forbes monthly.

Award	Santander TFI S.A.
Alfa Awards	<ul style="list-style-type: none"> Awards and recognitions granted by Anality Online for four sub-funds managed by Santander TFI S.A. in recognition of above-average risk-adjusted returns compared to peers (March 2019): <ul style="list-style-type: none"> ✓ Alfa award in the category of the Best Stable Growth Fund for Credit Agricole Stable Growth ✓ Accolade in the category of the Best Stable Growth Fund for Santander Stable Growth ✓ Accolade in the category of the Best Polish Equity Fund for Santander Polish Equity ✓ Accolade in the category of the Best Selling Fund for Santander Prestiż Short Duration.
Golden Wallet for Santander Platinum Conservative	<ul style="list-style-type: none"> Golden Wallet award for Santander Platinum Conservative fund for the best performance among mixed funds based on the sub-fund strategy (March 2019).
Award	Santander Leasing S.A.
Fleet Innovation Leader	<ul style="list-style-type: none"> The Fleet Innovation Leader title awarded at the Fleet Trends 2019 conference held in April 2019 in recognition of the best financial product supporting ecomobility, i.e. 100% lease to finance electric cars.
Institution of the Year 2018	<ul style="list-style-type: none"> The Institution of the Year 2018 title granted in the survey of financial services for business customers conducted by experts of Mojebankowanie.pl. The survey covered, among other things, the process of applying for a lease in 16 banks.
Award	Santander Consumer Bank S.A.
Awards for a cash loan	<ul style="list-style-type: none"> Master Cash Loan (Mistrzowski Kredyt Gotówkowy) named the best cash loan in the ranking published by Bankier.pl (January and May 2019)
Awards for a car loan	<ul style="list-style-type: none"> Car loan offered by Santander Consumer Bank S.A. ranked top in the ranking by TotalMoney.pl (January 2019) Super Brand 2019 accolade granted by Biznes Trendy for the sixth year in a row.
Top Employer 2019	<ul style="list-style-type: none"> Top Employer Poland 2019 awarded by Top Employers Institute on the basis of an audit and independent survey.
Sollers Award	<ul style="list-style-type: none"> Sollers Award for Transformation into Digital Leader granted at an international conference "Innovation in Insurance".
Customer Friendly Company 2019	<ul style="list-style-type: none"> Santander Consumer Bank S.A. named Customer Friendly Company in recognition of strong results in the four categories: customer satisfaction, satisfactory relationship, service quality and likelihood of recommendation (January 2019). The accolade is awarded as a result of an independent customer satisfaction survey coordinated by Obserwatorium Zarządzania.
Service Quality Star 2019	<ul style="list-style-type: none"> An accolade awarded by the Polish Service Quality Programme to brands which demonstrate top customer service standards based on customers' feedback (March 2019).

VIII. Financial Performance of Santander Bank Polska Group in H1 2019

1. Income Statement

Structure of Santander Bank Polska Group's profit before tax

Condensed Consolidated Income Statement of Santander Bank Polska Group in PLN m (for analytical purposes)	H1 2019	H1 2018	YoY Change
Total income	4 640,8	4 172,3	11,2%
- Net interest income	3 232,1	2 786,0	16,0%
- Net fee & commission income	1 042,4	1 044,9	-0,2%
- Other income ¹⁾	366,3	341,4	7,3%
Total costs	(2 265,5)	(1 887,0)	20,1%
- Staff, general and administrative expenses	(1 870,1)	(1 613,9)	15,9%
- Depreciation/amortisation ²⁾	(309,8)	(162,4)	90,8%
- Other operating expenses	(85,6)	(110,7)	-22,7%
Impairment losses on loans and advances	(619,2)	(461,2)	34,3%
Profit attributable to the entities accounted for using the equity method	30,3	25,5	18,8%
Tax on financial institutions	(282,9)	(218,6)	29,4%
Consolidated profit before tax	1 503,5	1 631,0	-7,8%
Tax charges	(390,6)	(357,5)	9,3%
Net profit for the period	1 112,9	1 273,5	-12,6%
- Net profit attributable to Santander Bank Polska shareholders	957,9	1 092,2	-12,3%
- Net profit attributable to non-controlling shareholders	155,0	181,3	-14,5%

1) Other income includes total non-interest and non-fee income of the Group. It comprises in particular the following items of the full income statement: dividend income, net gain/ loss on shares in subordinate entities, net trading income and revaluation, gain/ loss on other financial instruments and other operating income.

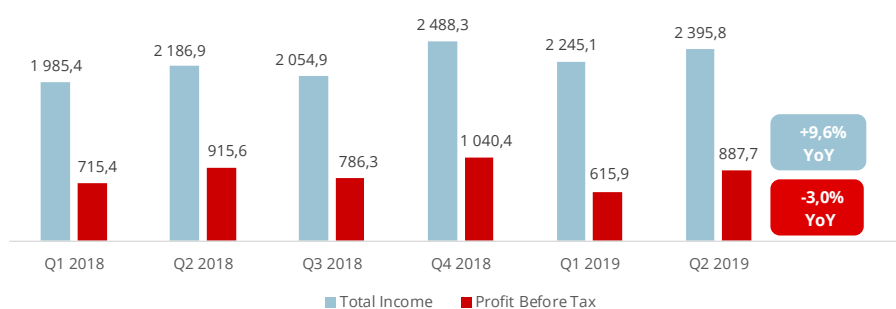
2) Amortisation/ depreciation includes depreciation of property, plant and equipment, amortisation of intangible assets and depreciation of the right-of-use asset in accordance with IFRS 16 effective as of 1 January 2019.

Determinants of the Group's profit

- In H1 2019, Santander Bank Polska Group reported an increase of 11.2% YoY in total income, driven by growth in income from the core business and operations in the financial instruments market, including:
 - ✓ a 16.0% YoY increase in net interest income supported by organic growth of business volumes and acquisition of an organised part of Deutsche Bank Polska S.A. in November 2018;
 - ✓ a 7.3% YoY rise in other income on account of gain on other financial instruments (+355.8% YoY) and higher net trading income and revaluation (+15.2% YoY).
- Net fee and commission income was stable (-0.2% YoY), as a result of measures taken by the Group to improve cost-attractiveness of selected products and services, application of specific rules for recognition and settlement of various fees (e.g. recognition of non-recurring costs of maintenance and development of the partner network of Santander Consumer Bank S.A. in H1 2019) and lower income from the areas affected by the stock market volatility (e.g. asset management, brokerage services).
- In the reporting period, an increase of 15.9% YoY was recorded in charges made to the Group's income statement in respect of staff and general expenses. They were attributed to:
 - ✓ expansion of the Group's business scale as a result of an organic growth and acquisition of the demerged part of Deutsche Bank Polska S.A.;

- ✓ restructuring provisions of PLN 86.3m for collective redundancies in Santander Bank Polska S.A. started in March 2019 and staff expense optimisation programme in Santander Consumer Bank S.A.;
 - ✓ increase in the total contribution to the bank guarantee fund and the bank resolution fund managed by the Bank Guarantee Fund (+PLN 81.1m).
- A significant rise of 90.8% YoY was recorded with respect to amortisation/depreciation, including depreciation of the right-of-use asset of PLN 107.4m, which was recognised in accordance with the accounting model implemented under IFRS 16 Leases. This new item replaces lease expenses disclosed under general and administrative expenses as maintenance of premises which reported a decline of 50.2% YoY.
 - An increase was noted in credit impairment allowances (+34.3% YoY) and tax on financial institutions (+29.4% YoY) following the growth in taxable assets.
 - As a result, in H1 2019 Santander Bank Polska Group posted a profit before tax of PLN 1,503.5m, down 7.8% YoY. Profit attributable to the shareholders of Santander Bank Polska S.A. decreased by 12.3% YoY to PLN 957.9m.
 - Assuming the constant level of contributions to the BFG and excluding the restructuring provision, the underlying profit before tax increased by 2.5% YoY and the profit attributable to the shareholders of the parent entity went up by 1.6% YoY.

THE GROUP'S TOTAL INCOME AND PROFIT BEFORE TAX BY QUARTER IN 2018 AND 2019 (PLN M)



Profit before tax by contributing entities

Components of Santander Bank Polska Group Profit Before Tax in PLN m (by contributing entities)	H1 2019	H1 2018	YoY Change
Santander Bank Polska S.A.	1 459,4	1 438,2	1,5%
Subsidiary undertakings:	502,6	561,2	-10,4%
Santander Consumer Bank S.A. and its subsidiaries ¹⁾	363,5	410,6	-11,5%
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	105,2	122,2	-13,9%
Santander Finanse Sp. z o.o. and its subsidiaries (Santander Leasing S.A., Santander Leasing Poland Securitization 01 Designated Activity Company, Santander Factoring Sp. z o.o., Santander F24 S.A.)	37,7	28,3	33,2%
Other companies ²⁾	(3,8)	0,1	-
Equity method valuation	30,3	25,5	18,8%
Elimination of dividends received by Santander Bank Polska S.A. and consolidation adjustments ³⁾	(488,8)	(393,9)	24,1%
Profit before tax	1 503,5	1 631,0	-7,8%

1) As at 30 June 2019, SCB Group comprised Santander Consumer Bank S.A. and the following entities: Santander Consumer Multirent Sp. z o.o., Santander Consumer Finanse Sp. z o.o., SC Poland Consumer Finance 15-1 Sp. z o.o., SC Poland Consumer Finance 16-1 Sp. z o.o., PSA Finance Polska Sp. z o.o. and PSA Consumer Finance Polska Sp. z o.o. The amounts provided above represent profit before tax of SCB Group (after intercompany and consolidation adjustments) for the periods indicated.

2) Santander Inwestycje Sp. z o.o. and Santander Securities S.A.

3) Includes consolidation adjustments and dividends: PLN 335.1m from SCB S.A. (PLN 259.9m in H1 2018), PLN 95.0m from Santander TFI S.A. (PLN 33.3m in H1 2018), PLN 58.7m from Santander Aviva TU S.A. and Santander Aviva TUnż S.A. (PLN 60.7m in H1 2018) and PLN 38.8m from Santander Finanse Sp. z o.o. in H1 2018.

Santander Bank Polska S.A. (parent entity of Santander Bank Polska Group)

The unconsolidated profit before tax of Santander Bank Polska S.A. was PLN 1,459.4m for H1 2019, up 1.5% YoY.

- The bank posted solid income from the core business, including an increase in:
 - ✓ net interest income (+19.2% YoY to PLN 2,346.8m) on account of dynamic annual growth of the credit portfolio;
 - ✓ net fee and commission income (+4.7% YoY to PLN 840.4m), largely due to FX and credit fees.
- Significant changes were also reported for the following items:
 - ✓ increase in gain on other financial instruments (+321.5% YoY to PLN 95.7m) driven by higher profit on the sale of debt securities and valuation of shares of Visa Inc.;
 - ✓ decrease in other operating income (-57.5% YoY to PLN 49.6m) as a high base effect caused by the gain on the sale of the real estate in Wrocław in 2018, among other things.
- In the same period, an increase was recorded in charges made to the income statement in respect of:
 - ✓ credit impairment allowances (+35.1% YoY to PLN 432.9m) due to dynamic annual growth of the credit portfolio and higher loss on the sale of credit receivables;
 - ✓ total amortisation/depreciation (+92.8% YoY to PLN 265.2m), including depreciation of the right-of-use asset of PLN 82.5m recognised as a result of changed classification of lease expenses under IFRS 16 (previously cost of maintenance of premises under general and administrative expenses);
 - ✓ higher staff and general expenses (+18.2% YoY to PLN 1,527.6m) resulting from expansion of the business scale following the acquisition of an organised part of Deutsche Bank Polska S.A., restructuring provision of PLN 80m and higher mandatory contributions to the Bank Guarantee Fund (+PLN 68.1m YoY in total);
 - ✓ increase in the tax on financial institutions (+31.6% YoY to PLN 261.9m) caused by significant growth in the value of taxable assets.

Subsidiaries

- The subsidiaries consolidated by Santander Bank Polska S.A. reported a decrease of 10.4% YoY in their total profit before tax as a result of lower profitability of Santander Consumer Bank S.A. and Santander TFI S.A. compared with the same period last year.

SCB Group

- The contribution of SCB Group to the consolidated profit before tax of Santander Bank Polska Group for the first half of 2019 was PLN 363.5m (after intercompany transactions and consolidation adjustments) and decreased by 11.5% YoY due to the following changes:
 - ✓ An increase of 7.5% YoY in net interest income to PLN 792.5m, driven by steady growth of the credit portfolio and favourable changes in its structure (e.g. a bigger share of high-margin products such as cash loans, credit cards and leases).
 - ✓ A decrease of 30.9% YoY in net fee and commission income to PLN 58.1m caused by lower insurance income (resulting from reduction of a premium to make insurance products more attractive) and different recognition of one-off fees for partners in relation to development of retail sales network.
 - ✓ A rise of 28.8% YoY in impairment allowances on financial assets totalling PLN 161.1m, arising from lower volume of sales of overdue receivables with a lower YoY positive impact on the income statement and growth of the overall credit portfolio, with an increasing share of cash loans and a lower share of mortgage loans.
 - ✓ An increase of 15.1% YoY in total operating expenses to PLN 348.9m driven by higher contributions to the Bank Guarantee Fund and changes in the recognition of general and administrative expenses over time compared with 2018.

Other subsidiaries

- Profit before tax of Santander TFI S.A. for the first six months of 2019 declined by 13.9% YoY as a result of lower income from management fees caused by a decrease in the average value of net assets managed by the company as well as a drop in the margin resulting from changes in the asset structure towards a higher share of low-margin sub-funds (such as corporate bond sub-funds or government bond sub-funds). The management margin was also curbed by the alignment process instigated by the implementation of the Regulation of the Minister of Finance of 13 December 2018 on the maximum amount of fixed remuneration for investment fund companies for managing open-end investment funds or specialised open-end investment funds.

- Total profit before tax posted by companies controlled by Santander Finanse Sp. z o.o. grew by 33.2% YoY due to higher profitability of the factoring company (+15.7% YoY) and other entities associated with Santander Finanse Sp. z o.o. and Santander Leasing S.A. (+44.0% YoY). Dynamic business growth (including an increase of 13% YoY in performing lease receivables and 12,0% YoY in factoring exposure, respectively) caused a rise in net interest income posted by the two aforementioned companies and higher net insurance income generated by Santander Leasing S.A. (+21% YoY). The quality of both portfolios remained very good, with lower allowances for lease losses reported by the leasing company.

Structure of Santander Bank Polska Group's profit before tax

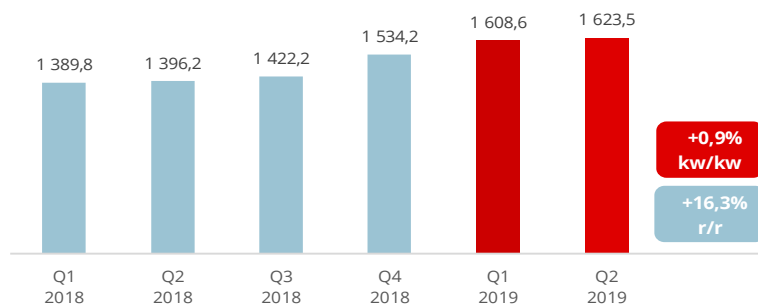
Total income

Total income of Santander Bank Polska Group for the first half of 2019 increased by 11.2% YoY to PLN 4,640.8m.

Net interest income

Net interest income for the first six months of 2019 amounted to PLN 3,232.1m and was up 16.0% YoY due to higher net earning assets, favourable developments in the Group's balance sheet structure (YoY increase in cash loans and balances of personal current accounts) and flexible pricing management.

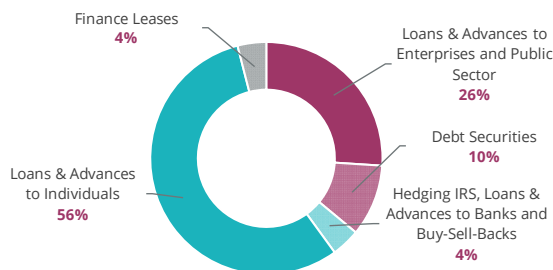
Net Interest Income by Quarter in 2018 and 2019 (PLN m)



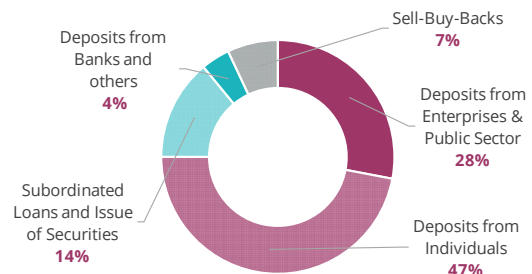
Interest income rose by 22.6% YoY to PLN 4,198.1m in the analysed period, driven by higher credit receivables (resulting from the organic growth and the acquisition of a demerged part of Deutsche Bank Polska S.A.) and debt securities portfolio.

Interest expense grew by 51.1% YoY to PLN 966.0m as a result of the incorporation of a retail deposit portfolio of Deutsche Bank Polska S.A., successful acquisition of term deposits, growth of savings balances and increased issue of own debt securities throughout 2018 aimed at strengthening the Group's liquidity position before the intended acquisition.

STRUCTURE OF INTEREST REVENUES IN H1 2018



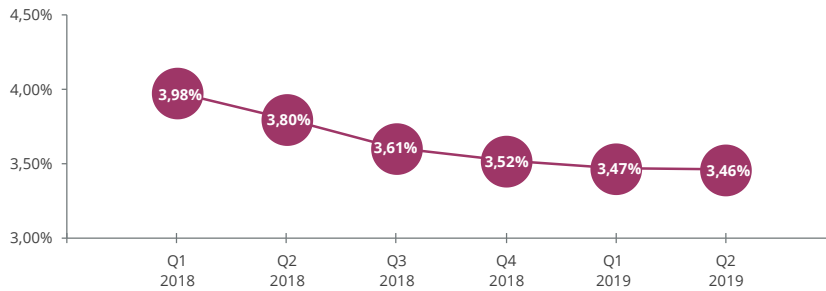
STRUCTURE OF INTEREST EXPENSE IN H1 2019



In Q2 2019, the annualised quarterly net interest margin was 3.46% and held steady QoQ (3.47%). Loans and deposits grew at a similar rate during the quarter, while interest expense still outpaced interest income.

In line with the downward trend of a quarterly margin (annualised on a quarterly basis) observed since the beginning of 2018, the cumulative net interest margin (annualised on a year-to-date basis) shrank from 3.87% in H1 2018 to 3.46% in H1 2019. The underlying cause was the growing costs of asset funding in connection with the acquisition of deposits (as a result of the organic growth and acquisition of an organised part of the enterprise of Deutsche Bank Polska S.A.) as well as high activity in the area of own securities issue. 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 an increase in interest expenses.

NET INTEREST MARGIN BY QUARTER IN THE YEARS 2018-2019
(INCLUDING SWAP POINTS*)



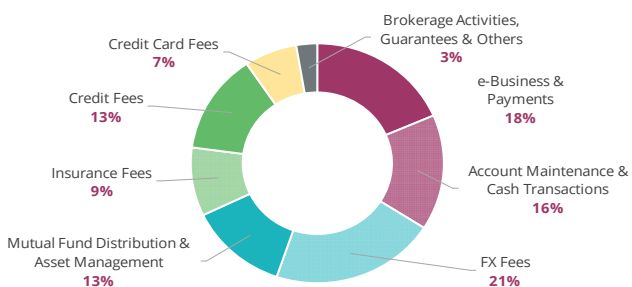
* The calculation of the net interest margin of Santander Bank Polska S.A. takes account of swap points allocation from derivative instruments used for the purpose of liquidity management but excludes interest income from the portfolio of debt instruments held for trading.

Net fee and commission income

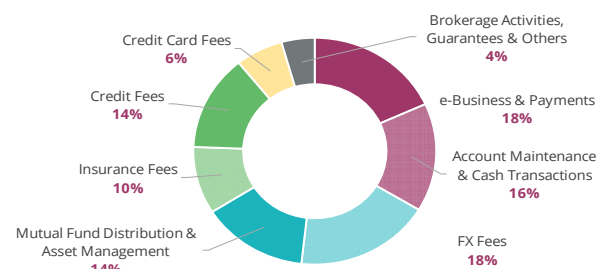
Net Fee and Commission Income (in PLN m)	H1 2019	H1 2018	YoY Change
FX fees	220,6	189,6	16,4%
E-Business and payments ¹⁾	192,6	190,1	1,3%
Account maintenance and cash transactions ²⁾	162,3	161,3	0,6%
Credit fees ³⁾	140,2	142,2	-1,4%
Asset management and distribution	132,2	148,8	-11,2%
Insurance fees	96,2	100,2	-4,0%
Credit cards	70,4	66,4	6,0%
Guarantees and sureties ⁴⁾	27,5	27,4	0,4%
Brokerage activities	27,4	32,1	-14,6%
Other ⁵⁾	(27,0)	(13,2)	104,5%
Total	1 042,4	1 044,9	-0,2%

- 1) Fees for foreign and mass payments, Western Union transfers, trade finance, debit cards, services for third party institutions as well as other electronic and telecommunications services.
- 2) Fee income from account maintenance and cash transactions has been reduced by the corresponding expenses which are disclosed under "Other" in Note 7 to the Condensed Interim Consolidated Financial Statements of Santander Bank Polska Group for the 6-month period ended 30 June 2019 (PLN 0.5m for H1 2019 vs. PLN 0.6m for H1 2018).
- 3) Net fee and commission income from lending, factoring and lease activities which is not amortised to net interest income. This line item includes, inter alia, the cost of credit agency.
- 4) Fee income from guarantees and sureties has been reduced by the corresponding expenses which are disclosed under "Other" in Note 7 to the Condensed Interim Consolidated Financial Statements of Santander Bank Polska Group for the 6-month period ended 30 June 2019 (PLN 6.8m for H1 2019 vs. PLN 2.4m for H1 2018).
- 5) Issue arrangement and others.

NET COMMISSION INCOME STRUCTURE FOR H1 2019



NET COMMISSION INCOME STRUCTURE FOR H1 2018

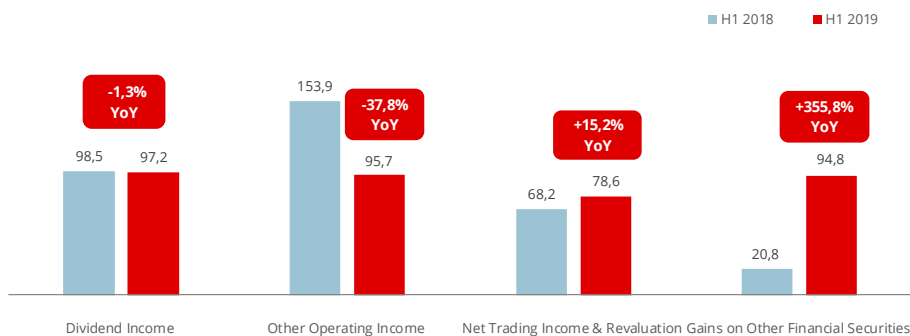


After the first six months of 2019, net fee and commission income amounted to PLN 1,042.4m and was stable YoY (-0.2%), driven by the performance of business lines of Santander Bank Polska S.A. and its subsidiaries. The key changes were as follows:

- An improvement in net FX fee income (+16.4% YoY) is attributed to the positive impact of exchange rates and the Group's comprehensive measures taken to support foreign trade and develop e-FX services in iBiznes24 and Kantor Santander currency exchange platform available in Santander online and Santander mobile.
- Net fee and commission income from issuance and management of a combined portfolio of credit cards of Santander Bank Polska S.A. and Santander Consumer Bank S.A. increased by 6% YoY due to a rise in non-cash turnover generated by the above instruments and income from monthly fees.
- Net fee and commission income aggregated under the "eBusiness and payments" line item rose by 1.3% YoY as a result of an increase in income from issuance and management of debit cards driven by the growth of this instrument base (+9.7 YoY) and cash and non-cash transactions made with such cards.
- Despite a 12.6% YoY rise in income from credit fees and fees associated with lease contracts, driven by a growing portfolio of loans and advances to customers, net fee and commission income from lending declined by 1.4% YoY, reflecting a significant growth of credit agency costs (+73.5% YoY) as a result of different recognition of one-off costs paid by Santander Consumer Bank S.A. to its partners in respect of maintenance and development of the sales network, and higher agency costs connected with the agency model acquired by Santander Bank Polska S.A. from Deutsche Bank Polska S.A.
- Brokerage fees went down by 14.6% YoY due to a decrease in customer trading in the secondary market in accordance with the market trend observed in H1 2019, lower share of retail customers in the total stock market turnover and growing competition from remote stock exchange members.
- A 11.2% YoY drop in net fee income from distribution and asset management was due to lower income from management fees associated with investment fund assets and individual portfolios resulting from:
 - ✓ a decline in the average value of net assets managed by Santander TFI S.A. (outflow of assets caused by stock market downturn in 2018);
 - ✓ a decrease in margin caused by changes in the asset structure in favour of low-margin sub-funds (e.g. government bond and corporate bond funds) and reduction of management fees in respect of certain sub-funds in accordance with the applicable regulations setting the maximum fixed remuneration for investment fund companies for management of investment funds (open-end or specialised ones).
- A decrease of 4.0% YoY in net fee and commission income from insurance business is attributed to higher costs associated with products acquired from former Kredyt Bank S.A. and retail part of Deutsche Bank Polska S.A. An increase in insurance income reported by Santander Bank Polska S.A. (with an all-time high growth in sales of cash loan insurance and non-linked products) and Santander Leasing S.A. was partly offset by a drop in income generated by Santander Consumer Bank S.A. as a result of reduction of an insurance premium to increase the competitiveness of the bank's offer.

Other income

Components of Other Income (PLN m) in H1 2019 vs. H1 2018



The Group's other income was up 7.3% YoY at PLN 366.3m. Included in this is non-interest income and non-fee income.

- Dividend income totalled PLN 97.2m and fell by 1.3% YoY due to lower dividends from Aviva Group companies from the bank's portfolio of equity investments (PLN 88.6m in H1 2019 vs. PLN 91.4m in H1 2018).
- Net trading income reported by Santander Bank Polska Group for the first half of 2019 was PLN 78.6m, up 15.2% YoY. This figure improved due to:
 - ✓ Total gain of PLN 82.3m (up 15.2% YoY) from transactions in the derivative market and in the interbank FX market. This line item excludes net interest income from the CIRS and IRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 89.6m for H1 2019 vs. PLN 105.4m for H1 2018), which is disclosed under "Interest income".
 - ✓ Positive change in the fair value of credit receivables mandatorily measured at fair value through profit or loss totalling PLN 19.0m versus a loss of PLN 11.7m in the corresponding period last year.

At the same time, trading in debt and equity securities measured at fair value through profit or loss brought in a loss of PLN 22.7m in the current period (mainly due to trading in government bonds) vs. a profit of PLN 8.5m in the corresponding period.

- Gains on other financial instruments and shares in subordinate entities totalled PLN 94.8m vs. PLN 20.8m in the same period last year, and comprised mainly profit of PLN 49m from the sale of debt securities (PLN 7.7m in H1 2018) and a positive change in the fair value of shares in Visa Inc. amounting to PLN 42.2m (PLN 15.0m in H1 2018).
- Other operating income totalled PLN 95.7m and decreased by 37.8% YoY due to a high base effect resulting from the sale of the bank's real estate in Wrocław at a profit of PLN 44.3m as well as the release of high provisions for legal disputes and other assets.

Impairment allowances

Impairment losses on loans and advances measured at amortised cost (in PLN m)	Stage 1		Stage 2		Stage 3		POCI		Total	Total
	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018
Charge on loans and advances to banks	-	-	-	-	-	-	-	-	-	-
Charge on loans and advances to customers	(46,7)	(10,5)	(246,6)	28,0	(392,7)	(515,9)	39,0	19,0	(647,0)	(479,4)
Recoveries of loans previously written off	-	-	-	-	1,6	16,4	-	-	1,6	16,4
Off-balance sheet credit related facilities	15,8	(0,6)	3,3	5,5	7,1	(3,1)	-	-	26,2	1,8
Total	(30,9)	(11,1)	(243,3)	33,5	(384,0)	(502,6)	39,0	19,0	(619,2)	(461,2)

In H1 2019, the credit impairment charge to the income statement of Santander Bank Polska Group was PLN 619.2m vs. PLN 461.2m in the corresponding period last year. Impairment allowances of Santander Consumer Bank Group totalled PLN 161.1m vs. PLN 125.1m in H1 2018.

The increase in impairment allowances on loans and advances to the Group's customers (from PLN 479.4m for H1 2018 to PLN 647.0m for H1 2019) is attributed to the dynamic growth in the Group's credit portfolio supported by lending to personal and business customers (with a rapidly growing share of cash loans in total sales) and acquisition of a retail loan portfolio of Deutsche Bank Polska S.A. In addition, in H1 2019 the Group reported a worse result on the sale of credit receivables (a loss of PLN 10.1m vs. a profit of PLN 15.8m in H1 2018 on a consolidated pre-tax basis).

- Santander Bank Polska S.A. sold PLN 429.7m worth of the portfolio of matured receivables from personal and business customers, with a negative impact on the profit before tax for the current period totalling PLN 20.3m. In H1 2018, the loss on sales amounted to PLN 6m and related to credit receivables totalling PLN 319.3m.
- Santander Consumer Bank S.A. sold the written-off portfolio of cash loans and instalment loans of PLN 103.6m, generating a profit before tax of PLN 10.2m. Last year, the company sold written-off cash loans, instalment loans, credit cards and car loans in the total amount of PLN 691.4m, which brought in a profit before tax of PLN 21.8m.

The NPL ratio of Santander Bank Polska Group was 4.3% (4.8% at the end of June 2018 on a comparable basis), as calculated using the approach modified in late 2018 (for details see part 2 below "Statement of Financial Position", Section "Credit portfolio"). At the same time, the cost of credit increased from 0.79% for H1 2018 to 0.88% for H1 2019. As a result of the calculation method adopted by the bank, the lower level in the base period reflects the positive impact of the sale of matured credit receivables in H2 2017 on the level of the Group's impairment allowances for the 12-month period ended 30 June 2018.

Total costs

Total costs of (in PLN m)	H1 2019	H1 2018	YoY Change
Staff, general and administrative expenses, of which:	(1 870,1)	(1 613,9)	15,9%
- Staff expenses	(982,8)	(789,0)	24,6%
- General and administrative expenses	(887,3)	(824,9)	7,6%
Depreciation/amortisation	(309,8)	(162,4)	90,8%
- Depreciation/amortisation of PP&E and intangible assets	(202,4)	(162,4)	24,6%
- Depreciation of right-of-use assets	(107,4)	-	-
Other operating expenses	(85,6)	(110,7)	-22,7%
Total costs	(2 265,5)	(1 887,0)	20,1%

The total costs of Santander Bank Polska Group for the first six months of 2019 amounted to PLN 2,265.5m, and were 20.1% higher YoY due to higher total mandatory contributions to the Bank Guarantee Fund (+PLN 81.1m) recognised in H1 2019 and restructuring provisions of PLN 86.3m, including PLN 80.0m for collective redundancies in Santander Bank Polska S.A. launched in March 2019 and PLN 6.3m for optimisation of fixed staff expenses in Santander Consumer Bank S.A.

Adjusting for the above items, the Group's underlying operating expenses increased by 11.2% YoY along with the expansion of operations and business volumes resulting from the organic growth and the acquisition of the demerged part of Deutsche Bank Polska S.A. and 100% of shares in DB Securities S.A. in November 2018.

Along with the total cost base, the Group's cost to income ratio grew from 45.2% for H1 2018 to 48.8% for H1 2019. Adjusting for the above cost items, the underlying ratio was 45.2% and was stable YoY.

Staff expenses

Staff expenses of Santander Bank Polska Group for six months of 2019 totalled PLN 982.8m and increased by 24.6% YoY. Excluding the restructuring provision for severance pay for employees of Santander Bank Polska S.A. selected for collective redundancies and for optimisation measures taken by Santander Consumer Bank S.A., the underlying staff expenses amounted to PLN 896.5m and were up 13.6% YoY on account of an increase in employment following the acquisition of a retail business of Deutsche Bank Polska S.A. and 100% shares in DB Securities S.A. as well as due to salary review in Santander Bank Polska S.A. and implementation of new bonus schemes in 2018. Santander Consumer Bank Group's contribution to the above figure was PLN 137.8m and up 8.0% YoY.

General and administrative expenses

During the first six months of 2019, general and administrative expenses of Santander Bank Polska Group went up by 7.6% YoY to PLN 887.3m. Costs incurred by Santander Consumer Bank Group totalled PLN 143.1m and were 1.1% higher YoY.

The consolidated general and administrative expenses increased on account of:

- higher fees (+54.0% YoY) payable by the Group members to market regulators (BFG, KNF and KDPW) resulting from a 90.7% YoY rise in the annual contribution to the BFG's bank resolution fund (to PLN 199.3m), which coupled with a 24.5% decrease in the contribution to the bank guarantee fund (to PLN 42.0m) for two quarters of 2019 caused an increase of PLN 81.1m YoY in the charge to the income statement in respect of the BFG contributions for H1 2019;
- growing cost of IT usage (+10.4% YoY), resulting from higher spend on digitalisation of processes in Santander Consumer Bank S.A.;
- higher cost of marketing and entertainment (+13.6% YoY) connected with image-building and marketing campaigns, including two advertising campaigns (multi-currency package and mobile services for holders of the Account As I Want It/ Konto Jakie Chce);
- expanded scale of business following the acquisition of the part of Deutsche Bank Polska S.A. (increase in postal and telecommunication fees, car fleet maintenance and transport costs, cost of consumables, prints and cards, costs of car insurance and property tax as part of other taxes and charges).

At the same time, a decrease was reported in:

- costs of maintenance of premises (-50.2% YoY) as a result of changes to the accounting treatment of lease contracts arising from IFRS 16, whereby lease expenses are disclosed under depreciation of right-of-use assets (PLN 107.4m), non-tax deductible VAT has been removed and disclosed under the Group's general and administrative expenses, and other expense items have been separated such as the expense relating to short-term leases, the expense relating to variable lease payments not included in the measurement of lease liabilities and expense relating to low-value assets;
- consultancy and advisory fees (-15.9% YoY) because of lower expenses in this regard following the completion of the acquisition of the demerged part of Deutsche Bank Polska S.A.

Effective tax rate

The consolidated effective tax rate for H1 2019 was 26.0% vs. 21.9% in the corresponding period due to higher contributions to the Bank Guarantee Fund, tax on financial institutions, written-off credit receivables and unrealised FX differences on the carrying amount of finance lease receivables which are not tax deductible.

2. Statement of Financial Position

Consolidated assets

As at 30 June 2019, the total assets of Santander Bank Polska Group were PLN 205,826.5m, and were stable on 31 December 2018 and up 22.1% on 30 June 2018, reflecting the increase in business volumes resulting from the organic growth and acquisition of an organised part of Deutsche Bank Polska S.A. The value and structure of the Group's financial position was determined by the parent entity, which held 88.1% of the consolidated total assets vs. 88.9% as at the end of December 2018.



Structure of consolidated assets (condensed presentation)

Assets in PLN m (condensed presentation for analytical purposes)	30.06.2019	Structure 30.06.2019	31.12.2018	Structure 31.12.2018	30.06.2018	Structure 30.06.2018	Ytd Change	YoY Change
	1	2	3	4	5	6	1/3	1/5
Loans and advances to customers ¹⁾	140 725,7	68,4%	137 460,4	66,8%	114 177,0	67,7%	2,4%	23,3%
Investment financial assets	39 164,2	19,0%	39 179,1	19,0%	34 865,9	20,7%	0,0%	12,3%
Financial assets held for trading and hedging derivatives	9 184,2	4,5%	9 843,1	4,8%	6 178,3	3,7%	-6,7%	48,7%
Cash and operations with Central Banks	6 041,1	2,9%	8 907,6	4,3%	4 681,4	2,8%	-32,2%	29,0%
Fixed assets, intangibles, goodwill and right-of-use assets	4 124,8	2,0%	3 517,8	1,7%	3 108,1	1,8%	17,3%	32,7%
Loans and advances to banks	2 310,8	1,1%	2 936,2	1,4%	1 704,5	1,0%	-21,3%	35,6%
Other assets ²⁾	4 275,7	2,1%	4 008,7	2,0%	3 802,0	2,3%	6,7%	12,5%
Total	205 826,5	100,0%	205 852,9	100,0%	168 517,2	100,0%	0,0%	22,1%

1) Net loans and advances to customers include the portfolio measured at amortised cost and the portfolios measured at fair value through other comprehensive income and through profit or loss.

2) Other assets include the following items of the full version of financial statements: receivables from repurchase transactions, investments in associates, net deferred tax assets, assets classified as held for sale and other assets.

In the above condensed statement of financial position as at 30 June 2019, net loans and advances to customers were the key item of consolidated assets. They totalled PLN 140,725.7m and were up 2.4% on 31 December 2018, mainly on account of strong credit delivery to retail customers, notably record sales of cash loans.

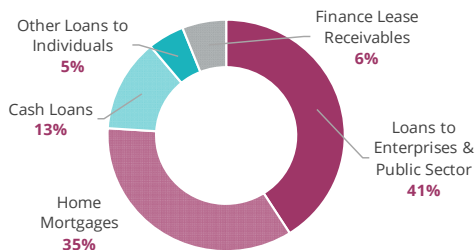
In accordance with IFRS 16 (effective as of 1 January 2019), the Group identified and recognised right-of-use assets of PLN 922.1m, which resulted in a 17.3% Ytd increase in the aggregate line item encompassing the above assets along with property, plant and equipment, intangible assets and goodwill.

As part of the Group's ongoing liquidity management, the cash and balances with central banks declined by 32.2%, as did the value of financial assets held for trading and hedging derivatives (-6.7% Ytd), following a decrease in the value of government bonds held for trading. Loans and advances to banks went down by 21.3% Ytd along with a drop in the balance of term deposits and credit facilities.

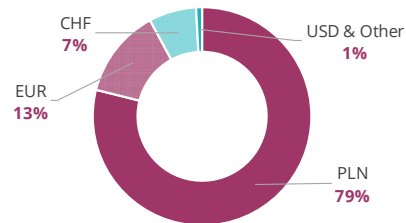
Credit portfolio

Gross Loans and Advances to Customers (in PLN m)	30.06.2019	31.12.2018	30.06.2018	Ytd Change	YoY Change
	1	2	3	1/2	1/3
Loans and advances to individuals	77 374,5	74 696,4	61 238,0	3,6%	26,4%
Loans and advances to enterprises and public sector customers	59 417,0	58 928,8	50 993,4	0,8%	16,5%
Finance lease receivables	8 728,8	8 204,3	7 504,8	6,4%	16,3%
Other	25,4	15,2	13,4	67,1%	89,6%
Total	145 545,7	141 844,7	119 749,6	2,6%	21,5%

PRODUCT STRUCTURE OF CONSOLIDATED LOANS & ADVANCES TO CUSTOMERS AS AT 30.06.2019

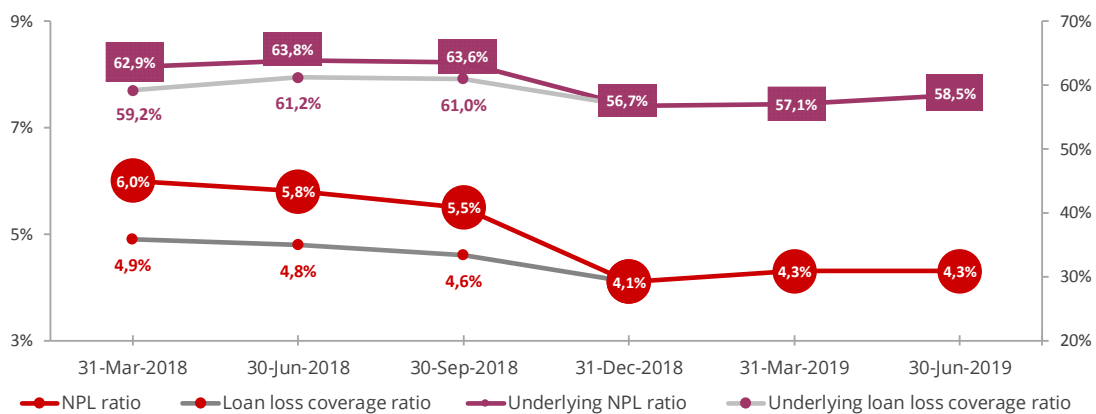


FX STRUCTURE OF CONSOLIDATED LOANS AND ADVANCES TO CUSTOMERS AS AT 30.06.2019



- As at 30 June 2019, consolidated gross loans and advances to customers were PLN 145,545.7m and increased by 2.6% on 31 December 2018. The portfolio includes loans and advances to customers measured at fair value through profit or loss, totalling PLN 1,254.3m, and loans and advances to customers measured at fair value through other comprehensive income, totalling PLN 419.5m.
 - Loans and advances to individuals increased by 3.6% to PLN 77,374.5m. Housing loans, which were the main contributor to this figure, increased by 2.0% to PLN 50,193.5m. The second largest constituent item, i.e. cash loans, went up by 8.2% to PLN 19,373.8m, supported by promotional campaigns (including special deals in the internet and mobile channels) as well as the new structure of agents acquired from Deutsche Bank Polska S.A.
 - Loans and advances to enterprises and public sector entities were PLN 59,417.0m and were broadly stable on 31 December 2018 (+0.8%). This line item includes credit exposures of Santander Leasing S.A., Santander Consumer Multirent Sp. z o.o. and PSA Finance Polska Sp. z o.o. related to financing machines and vehicles which increased consistently to reach PLN 3.9bn at the end of June 2019.
 - Finance lease portfolios of leasing subsidiaries increased by 6.4% to PLN 8,728.8m driven by sales in the segments of machines and equipment, and of vehicles.

CREDIT QUALITY RATIOS BY QUARTER IN 2018 AND 2019



* As of 31 December 2018, the calculation of credit quality indicators does not include POCL exposures.

As at 30 June 2019, non-performing loans to customers accounted for 4.3% of the gross portfolio of Santander Bank Polska Group vs. 4.1% six months before and 4.8% twelve months before (on a comparable basis). The provision coverage ratio for impaired loans was 58.5% as at 30 June 2019 compared with 56.7% as at 31 December 2018 and 61.2% as at 30 June 2018 (on a comparable basis). As of 31 December 2018, the calculation of credit quality indicators does not include the portfolio of purchased or originated credit impaired financial assets (POCI). As of 30 June 2018 the calculations have been based on loans and advances measured at amortised cost.

Structure of consolidated equity and liabilities (condensed presentation)

Liabilities & Equity in PLN m (condensed presentation for analytical purposes)	30.06.2019	Structure 30.06.2019	31.12.2018	Structure 31.12.2018	30.06.2018	Structure 30.06.2018	Ytd Change	YoY Change
	1	2	3	4	5	6	1/3	1/5
Deposits from customers	149 675,5	72,7%	149 616,7	72,7%	122 024,3	72,4%	0,0%	22,7%
Subordinated liabilities and debt securities in issue	12 516,1	6,1%	12 013,0	5,8%	8 734,6	5,2%	4,2%	43,3%
Sell-buy-back transactions	7 816,4	3,8%	9 340,8	4,5%	5 376,7	3,2%	-16,3%	45,4%
Deposits from banks	3 456,3	1,7%	2 832,9	1,4%	3 252,6	1,9%	22,0%	6,3%
Financial liabilities held for trading and hedging derivatives	2 604,2	1,3%	2 146,2	1,0%	2 205,9	1,3%	21,3%	18,1%
Other liabilities ¹⁾	4 158,5	2,0%	3 261,3	1,6%	2 934,7	1,8%	27,5%	41,7%
Total equity	25 599,5	12,4%	26 642,0	13,0%	23 988,4	14,2%	-3,9%	6,7%
Total	205 826,5	100,0%	205 852,9	100,0%	168 517,2	100,0%	0,0%	22,1%

1) Other liabilities include lease liabilities, current income tax, provisions for off-balance sheet liabilities subject to credit risk, other provisions and other liabilities.

Deposits from customers disclosed in the consolidated statement of financial position of Santander Bank Polska Group as at 30 June 2019 totalled PLN 149,675.5m and held steady compared with the end of 2018. These liabilities were the largest constituent item of the Group's total equity and liabilities (72.7%) and were the main source of funding the Group's assets.

Compared with 31 December 2018, a significant increase was recorded in deposits from banks (+22.0% Ytd), driven by the balances of loans and terms deposits acquired by the subsidiaries.

The aggregated subordinated liabilities and liabilities in respect of debt securities went up by 4.2% Ytd in connection with the issue of debt instruments by several members of Santander Bank Polska S.A. with a total nominal value of PLN 2,734.5m as well as redemption of matured securities totalling PLN 2,187.9m. During the first half of 2019, Santander Bank Polska S.A. issued two series of certificates of deposit with a total nominal value of PLN 632m. Santander Factoring Sp. z o.o. issued two series of 6-month bonds with a total nominal value of PLN 900m. In addition, Santander Leasing Poland Securitization 01, a special purpose vehicle, issued senior bonds of PLN 1,202.5m as part of the securitisation agreement made in December 2018.

Compared with 31 December 2018, financial liabilities held for trading and hedging derivatives increased by 21.3% on account of interest rate and currency hedges, while other liabilities went up by 27.5% as a result of first-time recognition of lease liabilities totalling PLN 783.7m in accordance with the new model of accounting for lease contracts under IFRS 16.

At the same time, a significant decline was reported in liabilities in respect of repurchase transactions (-16.3% Ytd) made mainly with banks and other institutions from the financial market.

Deposit base

Deposits by entities

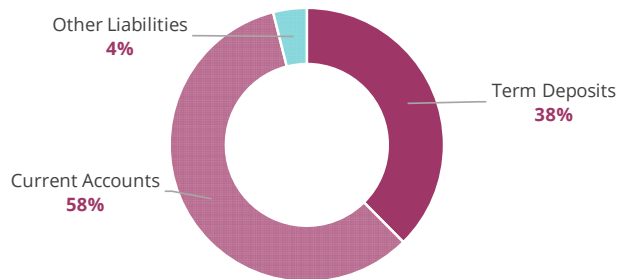
	30.06.2019	31.12.2018	30.06.2018	Ytd Change	YoY Change
Deposits from Customers	1	2	3	1/2	1/3
Deposits from individuals	90 496,9	88 211,4	70 021,9	2,6%	29,2%
Deposits from enterprises and public sector customers	59 178,6	61 405,3	52 002,4	-3,6%	13,8%
Total	149 675,5	149 616,7	122 024,3	0,0%	22,7%

Compared with the end of 2018, consolidated deposits from customers were broadly stable and amounted to PLN 149,675.5m as at the end of June 2019:

- The retail deposit base was up 2.6% at PLN 90,496.9m, driven by an increase in current deposits (+6.0%), notably in the balances of savings accounts (e.g. the Regular Savings Account/ Konto Systematyczne) promoted by Santander Bank Polska S.A. as part of measures taken to encourage customers to deposit their cash surpluses and make more transactions. The share of the current and savings account balances increased at the expense of term deposits, which declined by 3.2% in the analysed period.
- Compared with the end of 2018, deposits from enterprises and the public sector dropped by 3.6% to PLN 59,178.6m, due to a decrease of 5.4% in term deposits and of 3.5% in current account balances.

Deposits by tenors

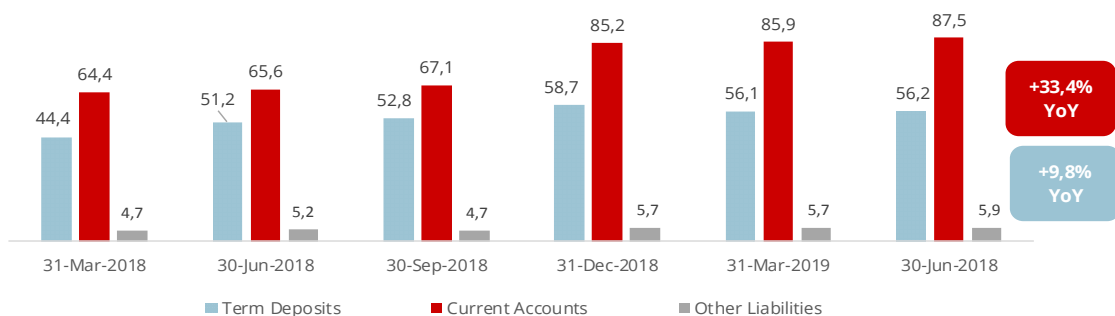
STRUCTURE OF CONSOLIDATED CUSTOMER DEPOSITS AS AT 30.06.2019



The Group's total term deposits from customers amounted to PLN 56,237.1m and declined by 4.2%. Current account balances rose by 2.7% to PLN 87,512.6m, and other liabilities were PLN 5,925.7m, up 3.6% YoY.

Loans and advances (PLN 4,739.3m vs. PLN 4,751.9m as at 31 December 2018) were the largest constituent item of other liabilities (disclosed under "deposits from enterprises"), which included loans granted by international financial organisations (the European Investment Bank, the European Bank for Reconstruction and Development and the Council of Europe Development Bank) to finance credit delivery of the bank and its subsidiaries. In H1 2019, Santander Factoring Sp. z o.o. was disbursed a loan of PLN 200m maturing on 8 April 2022 under an agreement with the European Bank for Reconstruction and Development (with Santander Bank Polska S.A. acting as the guarantor). There was also a disbursement of the second tranche of EUR 60m under an agreement made by Santander Leasing S.A. and the Council of Europe Development Bank on 25 October 2018 for EUR 120m worth of financing. Also, Santander Consumer Bank S.A. made a drawdown of PLN 214.4m on a credit line under an agreement with the European Investment Bank signed in 2018. The impact of the above loan disbursements on the Group's liabilities in respect of loans and advances was set off by loan repayments scheduled for H1 2019.

TERM DEPOSITS AND CURRENT ACCOUNTS * AT QUARTER-ENDS OF 2018 AND 2019 (IN PLN BN)



* including savings accounts

3. Selected Ratios

Selected Financial Ratios of Santander Bank Polska Group	H1 2019	H1 2018
Total costs/Total income	48,8%	45,2%
Net interest income/Total income	69,6%	66,8%
Net interest margin ¹⁾	3,46%	3,87%
Net commission income/Total income	22,5%	25,0%
Customer net loans/Customer deposits	94,0%	93,6%
NPL ratio ²⁾	4,3%	4,8%
NPL coverage ratio ³⁾	58,5%	61,2%
Credit risk ratio ⁴⁾	0,88%	0,79%
ROE ⁵⁾	10,3%	11,4%
ROTE ⁶⁾	12,3%	13,4%
ROA ⁷⁾	1,1%	1,4%
Total Capital ratio ⁸⁾	16,26%	17,78%
Tier I ratio ⁹⁾	14,45%	15,63%
Book value per share (in PLN)	250,76	241,49
Earnings per share (in PLN) ¹⁰⁾	9,38	11,00

1) Net interest income annualised on a year-to-date basis (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 2018 (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 current 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 current reporting period.

4) Impairment allowances (for four consecutive quarters) to average gross loans and advances to customers (as at the end of the last year and the end of the current reporting period).

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

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

7) Profit attributable to the parent's shareholders (for four consecutive quarters) to average total assets (as at the end of the last accounting year and the end of the current reporting period).

8) The total 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.

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 shareholders of the parent entity divided by the average weighted number of ordinary shares.

Capital ratios

The table below presents calculation of the total capital ratio and Tier 1 ratio of Santander Bank Polska Group as at 30 June 2019 and 31 December 2018.

Capital Ratios of Santander Bank Polska Group	30.06.2019	31.12.2018
I Total capital requirement	11 748,8	11 434,2
II Own funds after reductions	23 878,7	22 839,8
Total Capital Ratio [II/(I*12.5)]	16,26%	15,98%
Tier I Ratio	14,45%	14,11%

The table below shows the total capital ratio and Tier 1 ratio of Santander Bank Polska S.A. and Santander Consumer Bank S.A. as at 30 June 2019 and 31 December 2018.

Santander Bank Polska Capital Ratios	30.06.2019	31.12.2018
Total Capital Ratio	18,51%	18,04%
Tier I Ratio	16,37%	15,85%

SCB Capital Ratios	30.06.2019	31.12.2018
Total Capital Ratio	18,97%	19,12%
Tier I Ratio	17,57%	17,70%

4. Additional Financial Information

Selected transactions with related entities

Key intercompany transactions with subsidiaries

Transactions between Santander Bank Polska S.A. and its related entities are banking operations carried out on an arm's length basis as part of their ordinary business and mainly represent loans, bank accounts, deposits, guarantees and leases.

As at 30 June 2019, the bank's total exposure on loans to banking and non-banking subsidiaries (e.g. Santander Factoring Sp. z o.o., Santander Leasing S.A. i Santander Consumer Multirent Sp. z o.o.) amounted to PLN 9,262.6m compared with PLN 9,453m as at 31 December 2018.

The deposits held with the bank by the aforementioned subsidiaries (e.g. (m.in. Santander Finanse Sp. z o.o., Santander Securities S.A., Santander Towarzystwo Funduszy Inwestycyjnych S.A.) totalled PLN 372.5m vs. PLN 506.8m as at 31 December 2018.

Contingent financial liabilities were PLN 4,212.2m compared with PLN 5,495.3m as at 31 December 2018. Guarantees to subsidiaries amounted to PLN 1,668.1m vs. PLN 1,995.9m as at 31 December 2018.

These intercompany items are excluded from the consolidated accounts.

Intercompany transactions with the parent entity

The bank's receivables from the parent entity (Banco Santander S.A.) were PLN 415.9m compared with PLN 955.5m as at 31 December 2018, while obligations were PLN 125.4m compared with PLN 294.9m as at 31 December 2018.

A full disclosure on related party transactions is available in Note 34 to the Condensed Interim Consolidated Financial Statements of Santander Bank Polska Group for the 6-month period ended 30 June 2019 and in Note 34 to the Condensed Interim Financial Statements of Santander Bank Polska S.A. for the 6-month period ended 30 June 2019.

Contingent liabilities and court proceedings

Guarantees

The tables below present contingent liabilities of Santander Bank Polska Group and pending court proceedings.

Conditional liabilities (granted) in PLN m	30.06.2019	31.12.2018
Financial:	28 557,3	28 477,2
- credit lines	23 719,5	23 563,8
- credit cards	4 152,6	4 105,2
- import letters of credit	674,1	800,6
- term deposits with future commencement date	11,0	7,6
Guarantees	6 250,9	5 606,8
Provision for off-balance sheet liabilities	(54,7)	(81,1)
Total	34 753,5	34 002,9

Pending court proceedings

Court Proceedings with Santander Bank Polska Group as a Party (PLN m)	30.06.2019	31.12.2018
Amounts claimed by the Group	671,7	730,1
Claims against the Group ¹⁾	541,5	550,8
Receivables due to bankruptcy or arrangement cases	48,6	47,2
Value of all litigation	1 261,8	1 328,1
Share [%] of all litigation in equity	4,93%	4,98%
Completed significant court proceedings	343,5	565,3

As at 30 June 2019, there were over 1,051 pending lawsuits against the Group over loans indexed to, or denominated in, a foreign currency (mainly CHF), where the disputed amount totalled PLN 240m. This included two class actions filed under the Act on pursuing claims through group proceedings:

- ✓ a class action against Santander Bank Polska S.A. covering 530 loans indexed to CHF, with the disputed amount of PLN 47m;
- ✓ a class action against Santander Consumer Bank S.A. covering 31 loans indexed to CHF, with the disputed amount of PLN 38.1k.

The current legal context has been expounded in Note 32 "Contingent liabilities" of "Condensed Interim Consolidated Financial Statement of Santander Bank Polska Group for the 6-month period ended 30 June 2019".

Dividend

In accordance with the individual recommendation issued by the KNF on 25 February 2019 regarding an increase in own funds, the Management Board of Santander Bank Polska S.A. recommended that 25% of the net profit for 2018 be paid as dividend. At the same time, given the strong capital position of the bank and the Group, the Management Board made a proposal, subsequently approved by the Supervisory Board and adopted by way of resolution of the AGM of 16 May 2019, to allocate to dividend the following amounts of the retained net profit for 2016 and 2017:

- PLN 514.0m of the bank's undistributed net profit for 2016;
- PLN 957.6m of the bank's undistributed net profit for 2017;
- PLN 541.1m of the bank's net profit for 2018.

The dividend paid out of the profit earned in 2018 and 2017 included shares of all series (i.e. from A to N), while the dividend paid out from the profit generated in 2016 did not include series M shares, as stipulated in the AGM resolution no. 43 of 17 May 2017.

Accordingly, the dividend per one share of series A, B, C, D, E, F, G, H, I, J, K, L and N was PLN 19.72, while the dividend per series M share was PLN 14.68.

The dividend record date was 30 May 2019 and the dividend payment date was 14 June 2019.

In 2018, PLN 307,627k of the bank's retained net profit for 2016 was allocated to the dividend for shareholders. The dividend was PLN 3.10 per share.

5. Factors Which May Affect Future Financial Results in H2 2019

The following external developments may have a significant impact on the financial performance and activity of Santander Bank Polska Group in H2 2019:

- Gradual economic slowdown in Poland coupled with a growing inflation rate.
- Growth in real disposable income of households on account of the continued employment and wage growth.
- Rise in social transfers to households that will lead to further increase in disposable income and may (temporarily) support consumption growth.
- Further rise of labour market tension due to the shortage of a qualified workforce.
- Deregulation of energy prices for medium and large companies.
- Rising protectionism in the global economy.
- Further development of situation in relation to mortgage loans indexed to/denominated in CHF as described in Note 32 "Contingent Liabilities" of "Condensed Interim Consolidated Financial Statement of Santander Bank Polska Group for the 6-month period ended 30 June 2019".

- Low financing costs for households and businesses, which should stimulate demand for bank debt. At the same time, low interest on deposits should encourage bank customers to seek alternative savings/investment options.
- Further developments in the global equity markets and their impact on demand for investment fund units or, alternatively, safe bank deposits.
- A possible increase in volatility in financial markets in the event of a more negative outlook for global economic growth amid intensification of the trade wars or the unexpected geopolitical events.
- Possible changes in the monetary policy of the ECB and the Federal Reserve.
- Effect of UK-EU Brexit negotiations.
- Fluctuations in commodity prices.
- Changes in regulations, including start of Employees' Capital Plans (PPK).

IX. Risk and Capital Management

1. Key Risk Management Principles

Both the bank and other members of Santander Bank Polska Group are exposed to various risks within their day-to-day activities which adversely affect the delivery of strategic priorities of the organisation. The main types of risks include: credit risk, concentration risk, market risk (in the banking book and in the trading book), liquidity risk, operational risk (including technological risk), compliance risk and reputational risk.

The main objective of risk management in the bank and Santander Bank Polska Group is to ensure safe and effective operations to generate profit and grow within the approved risk parameters. Risk management practice is defined in keeping with the industry benchmark, regulatory guidance and recommendations from banking supervision authorities.

Risk management in the bank and Santander Bank Polska Group is consistent with the risk profile which corresponds to the general risk appetite defined by the bank. Risk appetite is expressed as quantitative limits and captured in the Risk Appetite Statement approved by the Management Board and the Supervisory Board. Limits are set using stress tests and scenario analyses to ensure stability of the bank's position even if adverse circumstances materialise. The approved limits are used to set watch limits and define risk management policies.

The integrated risk management structure contains dedicated organisational units responsible for identification, measurement, monitoring and mitigation of risks in a way that ensures independence of risk management functions from risk-taking units. The responsibilities of these units are defined by the risk management framework that governs the process of identifying, measuring and reporting the risks taken. Furthermore, limits are set on a regular basis to mitigate exposure to individual risks.

Risk management structure

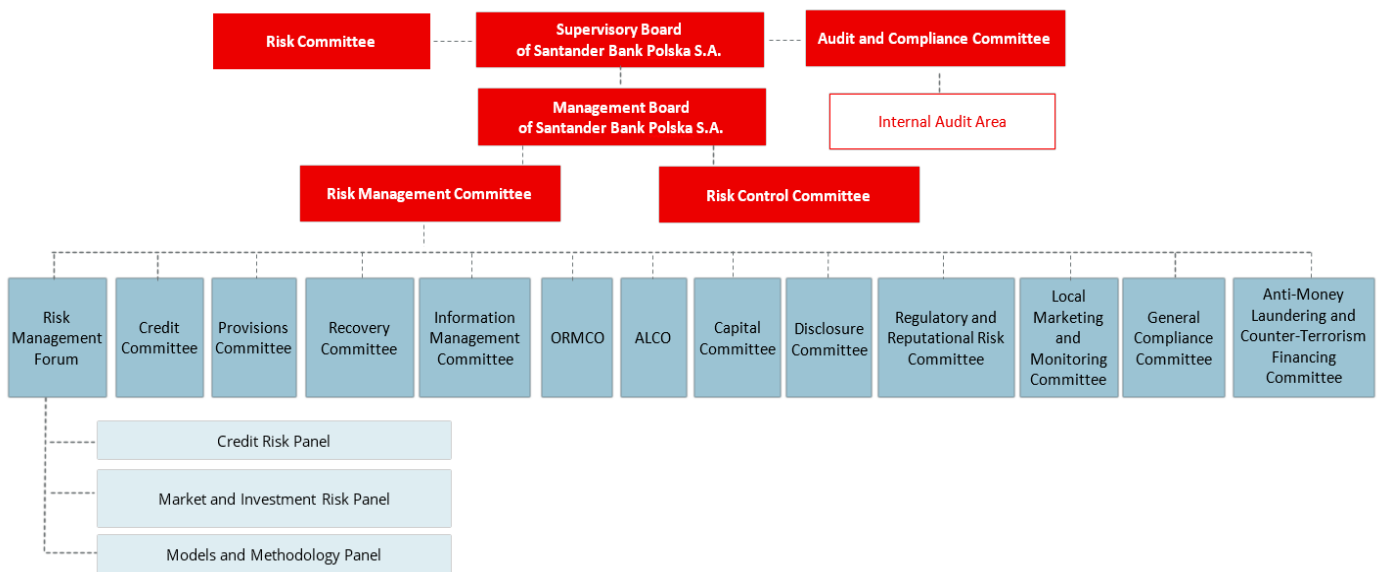
The bank's Supervisory Board, supported by the Audit and Compliance Committee and the Risk Committee, is responsible for ongoing supervision of the risk management system in Santander Bank Polska S.A. The Supervisory Board approves the strategy, key risk management policies and risk appetite, and monitors the use of internal limits from the perspective of current business strategy and the macroeconomic environment. It conducts the reviews of the key risk areas, the identification of threats and the process of defining and monitoring remedial actions. The Supervisory Board also assesses the effectiveness of measures taken by the Management Board.

The bank's Management Board is responsible for implementing an effective risk management system compliant with the bank's regulatory obligations and internal regulations. Specifically, the bank's role in this regard is to set up an organisational structure tailored to the size and profile of the risks taken, to segregate responsibilities in order that risk assessment and control functions remain independent of operational functions, to introduce and update a risk management strategy and ensure an adequate information policy.

The Management Board fulfils its risk management role through the following two committees:

- The Risk Management Committee, which is an executive committee responsible for taking key decisions concerning risk management across the Group and approving the most significant decisions of key risk committees.
- The Risk Control Committee, which monitors the risk level across different areas of the bank's operations and supervises the activities of lower-level risk management committees set up by the Management Board.

Corporate governance structure for risk supervision and management



The Risk Control Committee supervises the following committees responsible for risk management in the Group:

- The Risk Management Forum composed of panels dedicated to credit risk, market risk, equity investments and underwriting, and models and methodology
- Credit Committee
- Restructuring Committee
- Provisions Committee
- Information Management Committee
- Operational Risk Management Committee/ ORMCO
- Assets and Liabilities Management Committee / ALCO
- Capital Committee
- Disclosure Committee
- Local Marketing and Monitoring Committee
- General Compliance Committee
- Regulatory and Reputational Risk Committee
- Anti-Money Laundering and Counter-Terrorism Financing Committee

These committees, acting within the respective remits defined by the Management Board, are directly responsible for developing risk management methods and monitoring risk levels in specific areas. Through these committees, the bank also supervises the risk attached to the operations of its subsidiaries.

The subsidiaries implement risk management policies and procedures that reflect the approach adopted by Santander Bank Polska S.A., which ensures the consistency of risk management processes across the Group. The bank's representatives sitting on the supervisory boards of the subsidiaries monitor if the risk management system complies with the rules established by the bank. Risks involved in the activities of the subsidiaries are operationally monitored by respective departments of the bank.

In addition, the subsidiaries are subject to regular reviews carried out by the Risk Committee of the bank's Supervisory Board and by the Supervisory Board itself.

In the case of Santander Consumer Bank S.A. (SCB S.A.), the bank exercises oversight of risk management under the applicable law and in line with the same oversight rules as applied to other Santander Bank Polska Group companies. The representatives of Santander Bank Polska S.A. on the Supervisory Board of SCB S.A. are two Vice Presidents of the bank's Management Board in charge of the Risk Management Division and the Retail Banking Division. Pursuant to the Santander Bank Polska S.A. strategy of investments in capital market instruments, they are responsible, together with other members of the Supervisory Board of SCB S.A., for supervision over SCB S.A., ensuring that the company operates in line with the adopted plans and operational security procedures. The bank monitors the profile and level of SCB S.A. risk via risk management committees of Santander Bank Polska S.A.

2. Risk Management Priorities

The Group's main risk management priority is to undertake initiatives to ensure secure operations of the organisation (in accordance with the banking supervision requirements), while supporting business growth and profit generation by the shareholders. To that end, the Group continues to develop innovative risk management solutions, including advanced risk assessment models and tools that help automate banking processes and reduce human errors. Another rapidly developing area is data management, analysis and use in tools and reports to support prompt, effective and secure decision-making that ensures sustainable growth of business volumes.

In H1 2019, the bank focused on the implementation of new EU guidance on non-performing and restructured loans which is aimed at more effective management and steady reduction of distressed exposures. Work is being finalised to implement a centralised system for identifying, measuring, modelling and reporting on interest rate risk and liquidity risk to facilitate balance sheet management and ensure best-in-class standards in data quality assurance. The bank completed the stage of the project involving the development of a data model and measurement of interest rate risk on the banking book. Measures are continued to implement advanced balance sheet scenario analysis and measurement of liquidity risk.

3. Material Risk Factors Expected in H2 2019

Adverse macroeconomic developments such as increased risk of trade conflict following the steps taken by the US, growing geopolitical tensions connected with ongoing armed conflicts and difficult political and military situation in certain regions, concerns about the global economic outlook, risk of continued depreciation of the zloty, labour market tension resulting in an increased wage pressure and labour shortage may have a negative impact on the performance of companies and their investments, which in turn may affect the results of the banking sector. The bank monitors potential impact on an ongoing basis. So far, the situation has been stable.

Market observations give rise to concerns about possible deterioration of the economic situation in the subsequent months of 2019. The threats include the increasing number of bankruptcies and insolvencies among companies despite the rapid economic growth in Poland, as well as the growing risk of slowdown in the industrial sector in 2019, signalled by the low PMI (Purchasing Managers' Index) which is below 50 points. The stability of the bank's market environment may also be affected by potentially ineffective remedial actions taken by the banking sector entities as part of their restructuring plans. Faced with the observed threats, the bank is undertaking preventive actions. First of all, it continues the strategy based on the best understanding of the business customers through the use of a sectoral approach, development of risk assessment models and focus on financing companies with good and very good financial position. It also offers tailored credit products and services for high-net-worth individuals whose share in the bank's customer base increased as a result of acquisition of the demerged part of Deutsche Bank Polska S.A. At the same time, the bank maintains the overall risk profile in line with the regulatory requirements with a view to ensuring its stability even in adverse circumstances.

Loans indexed to/denominated in foreign currency still remain a challenge. The current legal framework applicable to relevant issues has been explained in Note 32 "Contingent Liabilities" of "Condensed Interim Consolidated Financial Statement of Santander Bank Polska Group for the 6-month period ended 30 June 2019".

What remains as a material risk factor is the scope and pace of changes in the regulatory environment, requiring the involvement of appropriate resources, starting from the stage of monitoring regulatory initiatives to analysis and design of changes, to their implementation. The bank continues to implement the requirements arising from the Directive of the European Parliament and of the Council on payment services in the internal market ("PSD2"), which is to become fully effective in H2 2019. The Directive may reduce banks' competitive advantage that they enjoy at present as the only institutions that have access to information about customers' income and expenses. Under PSD2, non-banking entities will be able to examine behavioural data on customers' accounts while being subject to less stringent legal requirements than those imposed on banks. Another challenge is the reference rate reform and the need to ensure the continuity of agreements and financial instruments in the event when new standards for respective rates in the local and foreign markets are not developed.

Particularly important to the banking sector is the continuation of talks regarding the legislation on the resolution of banks ensuring stability of the financial system. The new regulations will result in further requirements imposed on banks in relation to the issue of eligible liabilities that meet the prudential requirements under MREL (minimum requirement for own funds and eligible liabilities).

Banks continue to be exposed to cyber risk, which is yet another significant risk factor resulting from the dynamic development of new technologies and digital economy as well as from globalisation. Cybercrime was named by the ECB as one of the top three challenges for banks in 2019. Cyber attacks have become more sophisticated and specialised. Particularly popular are attacks based on new technologies offered by cybercriminals under a service model. These threats are addressed in the Cybersecurity Strategy of Santander Bank Polska Group for 2019–2020 and specific mitigants are defined in the Cybersecurity Plan.

4. Capital Management

Pursuant to the policy in place, Santander Bank Polska Group maintains a level of capital adequate to the type and scale of operations and the level of risk.

The level of own funds required to ensure safe operations of the bank and Santander Bank Polska Group and capital requirements estimated for unexpected losses is determined in accordance with the provisions of the CRD IV/CRR package and the Macroprudential Supervision Act, taking into account KNF's recommendations.

The Management Board is accountable for capital management, calculation and maintenance processes, including the assessment of capital adequacy in different economic conditions and the evaluation of stress test results and their impact on internal and regulatory capital and capital ratios. Responsibility for the general oversight of internal capital estimation rests with the Supervisory Board.

The Management Board has delegated ongoing capital management to the Capital Committee which regularly assesses the capital adequacy of the bank and Santander Bank Polska Group (including in stressed conditions), monitors the actual and required capital levels and initiates measures affecting these levels (e.g. by recommending the value of dividends to be paid). The Capital Committee is the first body that defines the capital policy, principles of capital management and principles of internal capital adequacy assessment. However, ultimate decisions regarding any increase or decrease in capital are taken by relevant authorities within the bank in accordance with the applicable law and the bank's Statutes.

Pursuant to the bank's information strategy, details about the level of own funds and capital requirements are presented in the separate report entitled "Information on capital adequacy of Santander Bank Polska Group as at 30 June 2019".

In H1 2019, the bank and Santander Bank Polska Group met all regulatory requirements regarding capital management.

Below are the minimum levels of capital ratios as at 30 June 2019, satisfying the provisions of the CRR and the Macroprudential Supervision Act as well as regulatory recommendations regarding additional own funds requirements under Pillar 2 at the level of Santander Bank Polska S.A and Santander Bank Polska Group.

Minimum capital ratio levels as at 30.06.2019	Tier 1	Total capital ratio
Santander Bank Polska S.A.	12.38%	14.51%
Santander Bank Polska Group	12.35%	14.47%

The above capital ratios of the bank and Santander Bank Polska Group as at 30 June 2019 are provided in Section 4 "Additional Financial Information" of Chapter VIII "Financial Performance of Santander Bank Polska Group in H1 2019".

X. Governing Bodies

Annual General Meetings of Shareholders of Santander Bank Polska S.A.

The Annual General Meeting of Shareholders of Santander Bank Polska S.A. (AGM) held on 16 May 2019 approved the reports for 2018 submitted by the Management Board and the Supervisory Board, granted discharge to members of these governing bodies for the performance of their duties in the previous year and agreed on the distribution of the net profit for 2018 and the retained net profit for 2016 and 2017, including dividend payment of PLN 19.72 per one share of series A, B, C, D, E, F, G, H, I, J, K, L and N and PLN 14.68 per one share of series M (for more information see Chapter VIII "Financial Performance of Santander Bank Polska S.A. in H1 2019", Section "Additional Financial Information"). The Annual General Meeting changed the remuneration for the Supervisory Board members and approved the Policy on the suitability assessment of Supervisory Board members of Santander Bank Polska S.A. and Nomination and Succession Planning Policy for Supervisory Board Members of Santander Bank Polska S.A. It also amended the bank's Statutes to reflect the amended payment services act, bank's entry to the investment agents register and the oversight of the compliance function by the President of the Management Board in accordance with the KNF Recommendation H regarding the internal control system in banks.

Supervisory Board

The table below presents the composition of the Supervisory Board of Santander Bank Polska S.A. as at 30 June 2019 and 31 December 2018:

Role in the Supervisory Board	Ref.	Composition as at 30.06.2019	Ref.	Composition as at 31.12.2018
Chairman of the Supervisory Board:	1.	Gerry Byrne	1.	Gerry Byrne
Vice Chairman of the Supervisory Board:	2.	José Luis de Mora	2.	José Luis de Mora
		-	3.	José Manuel Campa
	3.	José Garcia Cantera	4.	José Garcia Cantera
	4.	Danuta Dąbrowska	5.	Danuta Dąbrowska
Members of the Supervisory Board:	5.	David Hexter	6.	David Hexter
	6.	Witold Jurcewicz	7.	Witold Jurcewicz
	7.	John Power	8.	John Power
	8.	Jerzy Surma	9.	Jerzy Surma
	9.	Marynika Woroszyńska-Sapieha	10.	Marynika Woroszyńska-Sapieha

The bank's Supervisory Board, in its composition as at 30 June 2019, was appointed for a new term of office by the Annual General Meeting held on 17 May 2017. In H1 2019, the number of Supervisory Board members was reduced by one, after José Manuel Campa stepped down due to his involvement in the process of selecting the Executive Director of the European Banking Authority (EBA), effective as of 4 March 2019.

Details about the academic background and professional experience of the bank's Supervisory Board members are published on the bank's website at <https://santander.pl/investor-relations/company/supervisory-board/supervisory-board.html>.

The Supervisory Board members sit on the following Committees:

		Supervisory Board Committees			
Ref.	Composition as at 30.06.2019	Audit and Compliance Committee	Risk Committee	Nominations Committee	Remuneration Committee
1.	Gerry Byrne			●	●
2.	José Luis de Mora			●	●
3.	José García Cantera				
4.	Danuta Dąbrowska	●		●	●
5.	David Hexter	●	●		
6.	Witold Jurcewicz	●		●	●
7.	John Power		●		
8.	Jerzy Surma	●	●	●	
9.	Marynika Woroszyńska-Sapieha	●		●	●

● Chairman
● Members

As at 30 June 2019, the following members of the Supervisory Board held independent status: Danuta Dąbrowska, David Hexter, Witold Jurcewicz, Jerzy Surma and Marynika Woroszyńska-Sapieha.

Management Board

The table below presents the composition of the Management Board of Santander Bank Polska S.A. as at 30 June 2019 and 31 December 2018 and the roles and responsibilities of its members.

Role in the Management Board	Ref.	Composition as at 30.06.2019	Reporting Areas as at 30.06.2019	Ref.	Composition as at 31.12.2018	Reporting Areas as at 31.12.2018
President:	1.	Michał Gajewski	Units reporting directly to the President: Legal & Compliance Division, Internal Audit Area, Corporate Communications, Marketing and Service Quality Management Area, Business Model Transformation Area, Board Office, Strategic Transformation Office	1.	Michał Gajewski	Units reporting directly to the President: Legal & Compliance Division, Internal Audit Area, Corporate Communications, Marketing and Service Quality Management Area, Business Model Transformation Area, Board Office, Strategic Transformation Office
	2.	Andrzej Burliga	Risk Management Division, Business Intelligence Area	2.	Andrzej Burliga	Risk Management Division, Business Intelligence Area
Vice Presidents:	3.	Michael McCarthy	Business & Corporate Banking Division	3.	Michael McCarthy	Business & Corporate Banking Division
	4.	Juan de Porras Aguirre	Santander Corporate & Investment Banking	4.	Juan de Porras Aguirre	Santander Corporate & Investment Banking
	5.	Arkadiusz Przybył	Retail Banking Division, Wealth Management Programme	5.	Arkadiusz Przybył	Retail Banking Division, Wealth Management Programme
	-	-	-	6.	Feliks Szyszkowski ¹⁾	Digital Transformation Division
Members of the Board:	6.	Patryk Nowakowski ¹⁾	Digital Transformation Division	-	-	-
	7.	Carlos Polaino Izquierdo	Financial Accounting & Control Division	7.	Carlos Polaino Izquierdo	Financial Accounting & Control Division
	8.	Maciej Reluga	Financial Management Division	8.	Maciej Reluga	Financial Management Division
	9.	Dorota Strojowska	Business Partnership Division	9.	Dorota Strojowska	Business Partnership Division

1) Following the resignation of Feliks Szyszkowski as the Vice President of the Management Board as of 30 April 2019, Patryk Nowakowski was appointed as a member of the bank's Management Board in charge of the Digital Transformation Division as of 5 June 2019.

Except for Patryk Nowakowski, on 16 May 2018, all members sitting on the bank's Management Board as at 30 June 2019 were appointed by the Supervisory Board for a three-year term of office. Patryk Nowakowski took up the position of the Management Board member in charge of the Digital Transformation Division as of 5 June 2019 after Feliks Szyszkowiak stepped down as the Vice President of the Management Board due to his appointment for a global executive position in Banco Santander Group.

Details about the academic background and professional experience of the bank's Management Board members are published on the bank's website at <https://santander.pl/investor-relations/company/management-board/management-board.html>.

Shares of Santander Bank Polska S.A. held by Supervisory and Management Board members

As at the release dates of the Report of Santander Bank Polska Group for H1 2019 and the Report of Santander Bank Polska Group for Q1 2019, none of the members of the Supervisory Board held any shares or conditional rights to shares of Santander Bank Polska S.A.

The table below shows shares and attached conditional rights to shares of Santander Bank Polska S.A. held by Management Board members (as part of the 6th Incentive Programme) as at the release dates of the above-mentioned reports for the periods ended 30 June 2019 and 31 March 2019.

Management Board Members	23.07.2019		30.04.2019	
	No. of Santander Bank Polska shares	Rights (6th Incentive Scheme)	No. of Santander Bank Polska shares	Rights (6th Incentive Scheme)
Michał Gajewski	-	5 420	-	5 420
Andrzej Burliga	1 389	2 820	1 389	2 820
Michael McCarthy	1 528	3 250	1 528	3 250
Patryk Nowakowski ¹⁾	329	820	n/a	n/a
Carlos Polaino Izquierdo	631	2 820	631	2 820
Juan de Porras Aguirre	1 397	2 240	1 397	2 240
Arkadiusz Przybył	-	3 390	-	3 390
Maciej Reluga	505	2 030	505	2 030
Dorota Strojowska	635	2 370	635	2 370
Feliks Szyszkowiak ¹⁾	n/a	n/a	1 621	2 880
Total	6 414	25 160	7 706	27 220

1) Changes to the composition of the Management Board in Q2 2019 are presented above in Section "Management Board".

XI. Representations of the Management Board

True and Fair Presentation of the Financial Statements

To the best of the Management Board's knowledge, the financial figures and the comparable data presented in the financial statements incorporated in the "Condensed Interim Consolidated Financial Statement of Santander Bank Polska Group for the 6-month period ended 30 June 2019" and "Condensed Interim Financial Statement of Santander Bank Polska S.A. for the 6 month period ended 30 June 2019" were prepared in keeping with the applicable accounting policies and give a true and fair view of the state of affairs and earnings of Santander Bank Polska and Santander Bank Polska Group.

The half-yearly Management Board's report contained in this document shows a true picture of the development, achievements and position of Santander Bank Polska S.A. and Santander Bank Polska Group (including the underlying risks) in the first half of 2019.

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