Condensed Interim Financial Statements of Santander Bank Polska SA for the 6-month period ended 30 June 2022

In thousands of PLN

I. Condensed income statement

	for the period	1.04.2022-30.06.2022	1.01.2022-30.06.2022	1.04.2021-30.06.2021* restated	1.01.2021-30.06.2021* restated
Interest income and similar to income		**2 892 715**	**4 865 582**	**1 118 050**	**2 210 938**
Interest income on financial assets measured at amortised cost		2 371 712	3 954 890	900 725	1 780 635
Interest income on financial assets measured at fair value through other comprehensive income		506 645	884 571	213 999	424 401
Income similar to interest on financial assets measured at fair value through profit or loss		14 358	26 121	3 326	5 902
Interest expense		**(354 923)**	**(485 999)**	**(53 678)**	**(117 306)**
Net interest income	Note 6	**2 537 792**	**4 379 583**	**1 064 372**	**2 093 632**
Fee and commission income		666 377	1 339 562	588 924	1 176 962
Fee and commission expense		(108 445)	(196 718)	(76 838)	(143 913)
Net fee and commission income	Note 7	**557 932**	**1 142 844**	**512 086**	**1 033 049**
Dividend income		170 558	170 787	268 878	269 227
Net trading income and revaluation	Note 8	(36 826)	18 834	54 261	122 215
Gains (losses) from other financial securities	Note 9	(34 149)	(33 005)	36 490	58 182
Gain/loss on derecognition of financial instruments measured at amortised cost		(22 738)	(38 911)	717	1 511
Other operating income	Note 10	13 098	27 006	28 407	38 395
Impairment losses on loans and advances	Note 11	(110 252)	(235 904)	(187 799)	(492 386)
Cost of legal risk associated with foreign currency mortgage loans	Note 33	(720 731)	(798 406)	(432 521)	(597 886)
Operating expenses incl.:		(1 175 894)	(2 159 686)	(743 347)	(1 610 144)
-Staff, operating expenses and management costs	Note 12 and 13	(1 048 599)	(1 904 129)	(595 489)	(1 311 269)
-Amortisation of property, plant and equipment and Intangible assets		(80 963)	(163 521)	(88 962)	(180 345)
-Amortisation of right of use asset		(31 703)	(63 275)	(37 024)	(75 212)
-Other operating expenses	Note 14	(14 629)	(28 761)	(21 872)	(43 318)
Tax on financial institutions		(183 786)	(353 037)	(140 161)	(284 879)
Profit before tax		**995 004**	**2 120 105**	**461 383**	**630 916**
Corporate income tax	Note 15	(317 008)	(643 895)	(161 309)	(283 831)
Profit for the period		**677 996**	**1 476 210**	**300 074**	**347 085**
Net earnings per share		-	-	-	-
Basic earnings per share (PLN/share)		6,63	14,45	2,94	3,40
Diluted earnings per share (PLN/share)		6,63	14,45	2,94	3,40

*Details in note 2.5.

In thousands of PLN

II. Condensed statement of comprehensive income

for the period:	1.04.2022-30.06.2022	1.01.2022-30.06.2022	1.04.2021-30.06.2021	1.01.2021-30.06.2021
Profit for the period	**677 996**	**1 476 210**	**300 074**	**347 085**
Items that will be reclassified subsequently to profit or loss:	**1 166 238**	**(23 394)**	**(297 146)**	**(444 819)**
Revaluation and sales of debt financial assets measured at fair value through other comprehensive income gross*	1 620 539	278 278	(404 902)	(593 759)
Deferred tax	(307 903)	(52 873)	76 931	112 814
Revaluation of cash flow hedging instruments gross	(180 738)	(307 159)	38 055	44 600
Deferred tax	34 340	58 360	(7 230)	(8 474)
Items that will not be reclassified subsequently to profit or loss:	**(14 737)**	**(14 727)**	**(21 983)**	**355 935**
Revaluation of equity financial assets measured at fair value through other comprehensive income gross	(18 193)	(18 181)	(27 115)	439 450
Deferred and current tax	3 456	3 454	5 132	(83 515)
Total other comprehensive income, net	**1 151 501**	**(38 121)**	**(319 129)**	**(88 884)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1 829 497**	**1 438 089**	**(19 055)**	**258 201**

* in the period ended 30 June 2022 the Bank changed the classification of specific bonds portfolio - details in note 21

In thousands of PLN

III. Condensed statement of financial position

as at:		30.06.2022	31.12.2021* restated	01.01.2021* restated
ASSETS				
Cash and balances with central banks	Note 16	6 192 926	8 167 900	5 369 638
Loans and advances to banks	Note 17	5 296 085	2 743 994	2 918 962
Financial assets held for trading	Note 18	8 770 746	4 020 966	3 218 460
Hedging derivatives	Note 19	761 558	163 043	6 901
Loans and advances to customers incl.:	Note 20	134 583 116	123 979 402	118 660 194
- measured at amortised cost		132 161 453	121 798 998	116 368 885
- measured at fair value through other comprehensive income		2 134 840	1 729 848	1 556 791
- measured at fair value through profit and loss		286 823	450 556	734 518
Buy-sell-back transactions		1 286 283	453 372	293 583
Investment securities incl.:	Note 21	59 732 690	68 865 411	64 355 667
- debt securities measured at fair value through other comprehensive income**		44 704 468	67 138 415	63 312 701
- debt securities measured at fair value through profit and loss		114 000	113 733	106 639
- debt investment securities measured at amortised cost**		14 740 412	1 421 272	-
- equity securities measured at fair value through other comprehensive income		173 810	191 991	823 633
- equity securities measured at fair value through profit and loss		-	-	112 694
Assets pledged as collateral		190 539	21 462	14 392
Investments in subsidiaries and associates	Note 22	2 377 407	2 377 407	2 377 407
Intangible assets		549 170	590 959	628 643
Goodwill		1 688 516	1 688 516	1 688 516
Property, plant and equipment		479 364	545 431	576 975
Right of use asset		478 118	460 682	642 396
Current income tax assets		235 482	212 204	-
Net deferred tax assets		1 194 577	1 568 080	1 199 689
Fixed assets classified as held for sale	Note 23	4 308	4 308	4 308
Other assets		1 024 589	852 009	767 587
Total assets		**224 845 474**	**216 715 146**	**202 723 318**

* details are described in Note 2.5

** in the period ended 30 June 2022 the Bank changed the classification of specific bonds portfolio - details in note 21

In thousands of PLN

as at:		30.06.2022	31.12.2021* restated	01.01.2021* restated
LIABILITIES AND EQUITY				
Deposits from banks	Note 24	1 770 106	1 337 573	2 993 349
Hedging derivatives	Note 19	1 965 580	1 641 824	1 686 042
Financial liabilities held for trading	Note 18	8 313 108	3 880 926	3 053 416
Deposits from customers	Note 25	173 722 678	175 354 581	161 133 491
Sell-buy-back transactions		190 780	21 448	14 387
Subordinated liabilities	Note 26	2 690 953	2 649 991	2 654 394
Debt securities in issue	Note 27	7 087 480	4 660 882	2 772 351
Lease liabilities		573 469	556 169	712 304
Current income tax liabilities		-	-	138 782
Provisions for off balance sheet credit facilities	Note 28	69 853	73 130	74 436
Other provisions	Note 29	433 209	339 907	253 493
Other liabilities	Note 30	3 036 684	2 371 363	1 814 029
Total liabilities		199 853 900	192 887 794	177 300 474
Equity				
Share capital		1 021 893	1 021 893	1 021 893
Other reserve capital		22 305 509	20 790 808	20 273 125
Revaluation reserve		(1 349 168)	(1 311 047)	1 819 661
Retained earnings		1 537 130	2 409 820	1 569 753
Profit for the period		1 476 210	915 878	738 412
Total equity		24 991 574	23 827 352	25 422 844
Total liabilities and equity		**224 845 474**	**216 715 146**	**202 723 318**

* details are described in Note 2.5

In thousands of PLN

IV. Condensed statement of changes in equity

Statement of changes in equity 1.01.2022 - 30.06.2022	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total
As at the beginning of the period	**1 021 893**	**20 790 808**	**(1 311 047)**	**3 325 698**	**23 827 352**
Total comprehensive income	-	-	(38 121)	1 476 210	1 438 089
Profit for the period	-	-	-	*1 476 210*	*1 476 210*
Other comprehensive income	-	-	*(38 121)*	-	*(38 121)*
Profit allocation to other reserve capital	-	1 514 701	-	(1 514 701)	-
Profit allocation to dividends	-	-	-	(273 867)	(273 867)
As at the end of the period	**1 021 893**	**22 305 509**	**(1 349 168)**	**3 013 340**	**24 991 574**

As at the end of the period revaluation reserve in the amount of PLN (1,349,168) k comprises: revaluation of debt securities in the amount of PLN (1,210,971) k, revaluation of equity securities in the amount of PLN 120,159 k, revaluation of cash flow hedge activities in the amount of PLN (270,494) k and accumulated actuarial gains - provision for retirement allowances of PLN 12,138 k.

Statement of changes in equity 1.01.2021 - 30.06.2021	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total
As at the beginning of the period	**1 021 893**	**20 273 125**	**1 819 661**	**2 308 165**	**25 422 844**
Total comprehensive income	-	-	(88 884)	347 085	258 201
Profit for the period	-	-	-	*347 085*	*347 085*
Other comprehensive income	-	-	*(88 884)*	-	*(88 884)*
Profit allocation to other reserve capital	-	738 412	-	(738 412)	-
Transfer of revaluation of equity financial assets measured at fair value through other comprehensive income	-	-	100	(100)	-
As at the end of the period	**1 021 893**	**21 011 537**	**1 730 877**	**1 916 738**	**25 681 045**

As at the end of the period revaluation reserve in the amount of PLN 1,730,877 k comprises: revaluation of debt securities in the amount of PLN 759,997 k, revaluation of equity securities in the amount of PLN 938,209 k, revaluation of cash flow hedge activities in the amount of PLN 25,277 k and accumulated actuarial gains - provision for retirement allowances of PLN 7,394 k.

In thousands of PLN

V. Condensed statement of cash flows

for the period	1.01.2022-30.06.2022	1.01.2021-30.06.2021* restated
Cash flows from operating activities		
Profit before tax	**2 120 105**	**630 916**
Adjustments for:		
Depreciation/amortisation	226 796	255 557
Profit from investing activities	(163)	(37 589)
Interest accrued excluded from operating activities	(841 637)	(302 995)
Dividends	(170 658)	(268 612)
Impairment losses (reversal)	6 449	15 699
Changes in:		
Provisions	90 025	31 002
Financial assets / liabilities held for trading	(348 963)	(556 171)
Assets pledged as collateral	(169 077)	(78 532)
Hedging derivatives	(263 653)	(338 013)
Loans and advances to banks	(321 574)	2 789
Loans and advances to customers	(14 162 579)	150 579
Deposits from banks	460 730	(1 440 441)
Deposits from customers	(1 223 884)	3 574 510
Buy-sell/ Sell-buy-back transactions	(312 803)	(216 718)
Other assets and liabilities	764 820	465 858
Interest received on operating activities	3 781 815	1 789 990
Interests paid on operating activities	(504 896)	(60 929)
Paid income tax	(284 727)	(438 019)
Net cash flows from operating activities	**(11 153 874)**	**3 178 881**
Cash flows from investing activities		
Inflows	**5 015 369**	**4 811 514**
Sale/maturity of investment securities	4 386 410	4 194 742
Sale of intangible assets and property, plant and equipment	17 747	16 803
Dividends received	62 764	147 230
Interest received	548 448	452 739
Outflows	**(2 039 247)**	**(13 694 474)**
Purchase of investment securities	(1 967 580)	(13 590 916)
Purchase of intangible assets and property, plant and equipment	(71 667)	(103 558)
Net cash flows from investing activities	**2 976 122**	**(8 882 960)**
Cash flows from financing activities		
Inflows	**2 325 350**	**-**
Debt securities in issue	2 325 350	-
Outflows	**(429 173)**	**(1 333 279)**
Repayment of loans and advances	(23 954)	(1 204 608)
Repayment of lease liabilities	(75 568)	(82 014)
Dividends to shareholders	(273 867)	-
Interest paid	(55 784)	(46 657)
Net cash flows from financing activities	**1 896 177**	**(1 333 279)**
Total net cash flows	**(6 281 575)**	**(7 037 358)**
Cash and cash equivalents at the beginning of the accounting period	**18 029 977**	**13 411 198**
Cash and cash equivalents at the end of the accounting period	**11 748 402**	**6 373 840**

* details are described in Note 2.5

VI. Additional notes to condensed interim financial statements

1. General information about issuer

Santander Bank Polska SA is a bank seated in Poland, 00-854 Warszawa, al. Jana Pawła II 17, under National Court Registry number 0000008723, TIN 896-000-56-73, National Official Business Register number (REGON) 930041341.

The immediate and ultimate parent entity of Santander Bank Polska is Banco Santander, having its registered office in Santander, Spain.

Santander Bank Polska Group offers a wide range of banking services for individual and business customers and operates in domestic and interbank foreign markets. Additionally, it offers also the following services:

- intermediation in trading securities,
- leasing,
- factoring,
- asset/ fund management,
- distribution insurance services,
- trading in stock and shares of commercial companies,
- brokerage activity.

In thousands of PLN

2. Basis of preparation of condensed interim financial statements

2.1. Statement of compliance

These condensed interim financial statements of Santander Bank Polska S.A. were prepared in accordance with the International Accounting Standard 34 " Interim financial reporting" as adopted by the European Union.

Santander Bank Polska S.A. applied the same accounting principles and calculation methods as in the preparation of the financial statements for the year ended as at 31 December 2021, except for the income tax charge, which was calculated in accordance with the principles set out in IAS34.30c and changes in the accounting policy regarding legal risk for the portfolio of mortgage loans denominated / indexed to foreign currencies and income statement presentation changes, both described in point 2.5.

2.2. Basis of preparation of financial statements

Presented condensed interim financial statement does not contain information and disclosures required in annual financial statement and should be read together with financial statements as at 31 December 2021.

These financial statements have been prepared on the assumption that the Bank will continue as going concern in the foreseeable future, i.e. for a period of at least 12 months from the date on which these financial statements were prepared.

In its assessment, the Management Board considered, inter alia, the impact of current situation in Ukraine and has determined that it does not create material uncertainty about the Bank's ability to continue as a going concern.

Presented financial statements are presented in PLN, rounded to the nearest thousand.

These condensed interim financial statements of Santander Bank Polska S.A. have been prepared in accordance with the International Accounting Standard 34 " Interim financial reporting" adopted by the European Union. Santander Bank Polska S.A. prepared financial statements in accordance with following valuation rules:

Item	Balance sheet valuation rules
Held-for-trading financial instruments	Fair value through profit or loss
Loans and advances to customers which do not meet the contractual cash flows test	Fair value through profit or loss
Financial instruments measured at fair value through other comprehensive income	Fair value through other comprehensive income
Share-based payment transactions	According to IFRS 2 "Share-based payment" requirements
Equity investment financial assets	Fair value through other comprehensive income – an option
Equity financial assets	Fair value through profit or loss
Debt securities measured at fair value through profit or loss	Fair value through profit or loss
Non-current assets	The purchase price or production cost reduced by total depreciation charges and total impairment losses
Non-current assets held for sale and groups of non-current assets designated as held for sale	Are recognised at the lower of their carrying amount and their fair value less costs of disposal.

In thousands of PLN

2.3. New standards and interpretations or changes to existing standards or interpretations which can be applicable to Santander Bank Polska S.A. and are not yet effective and have not been early adopted

IFRS	Nature of changes	Effective from	Influence on Santander Bank Polska S.A.
IFRS 17 Insurance Contracts	IFRS 17 defines a new approach to the recognition, valuation, presentation and disclosure of insurance contracts. The main purpose of IFRS 17 is to guarantee the transparency and comparability of insurers' financial statements. In order to meet this requirement the entity will disclose a lot of quantitative and qualitative information enabling the users of financial statements to assess the effect that insurance contracts have on the financial position, financial performance and cash flows of the entity. IFRS 17 introduces a number of significant changes in relation to the existing requirements of IFRS 4. They concern, among others: aggregation levels at which the calculations are made, methods for the valuation of insurance liabilities, recognition a profit or loss over the period , reassurance recognition, separation of the investment component and presentation of particular items of the balance sheet and profit and loss account of reporting units including the separate presentation of insurance revenues, insurance service expenses and insurance finance income or expenses.	1 January 2023	The standard will not have a significant impact on financial statements.
Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Amendments to IAS 8 include definition of accounting estimates, which should help to distinguish between accounting policies and accounting estimates.	1 January 2023	The amendment will not have a significant impact on financial statements.
Amendments to IAS 12	Amendments clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.	1 January 2023	The amendment will not have a significant impact on financial statements.*
Amendments to IAS 1	There are two amendments to IAS 1. The first one affect requirements for the presentation of liabilities. Specifically, they clarify one of the criteria for classifying a liability as non-current. The second one concern accounting policy disclosures with regard to the scope of such disclosures.	1 January 2023	The amendment will not have a significant impact on financial statements.*

*New standards and amendments to the existing standards issued by the IASB, but not yet adopted by EU.

In thousands of PLN

2.4 Standards and interpretations or changes to existing standards or interpretations which were applied for the first time in the accounting year 2022

IFRS	Nature of changes	Effective from	Influence on Santander Bank Polska S.A.
Annual improvements to IFRS standards 2018-2020	As a result of annual improvements project, amendments to four IFRSs were introduced (IFRS1, IFRS9, IFRS16, IAS 41). Amendments to IFRS 9 clarify which fees an entity applies when "10% test" is performed for derecognition of financial asset. For IFRS 16 an illustrative example for lease incentives treatments was changed, not to cause confusion.	1 January 2022	The amendment does not have a significant impact on financial statements.
Amendments to IAS 37 Provisions	The changes concern the clarification of the scope of costs that should be taken into account in assessing whether the contract is a onerous contract	1 January 2022	The amendment does not have a significant impact on financial statements.
Amendments to IAS 16 Property, Plant and Equipment	The changes indicate, i.a, that revenues from the sale of goods produced in the course of bringing an asset to the desired location and condition, cannot be deducted from the costs associated with this asset. Instead, such revenues should be recognized in the profit and loss account along with the costs of manufacturing these products	1 January 2022	The amendment does not have a significant impact on financial statements.
Amendments to IFRS 3 Business combinations	IFRS 3 "Business Combinations" outlines the accounting when an acquirer obtains control of a business (e.g. an acquisition or merger). Such business combinations are accounted for using the 'acquisition method', which generally requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date.	1 January 2022	The amendment does not have a significant impact on financial statements.

2.5 Comparability of previous periods

Change (1): Legal risk related to the mortgage loans portfolio denominated and indexed in foreign currencies.

Based on the analysis, due to the applicable legal situation related to mortgage loans portfolio denominated and indexed in foreign currencies, the Bank decided to change the accounting policy for their recognition, starting from 1 January 2022.

Prior to the amendment, the legal risk of this portfolio was recognized in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. From 1 January 2022, the Bank decided to apply IFRS 9 Financial Instruments.

Due to the inability to recover some of the planned cash flows, the Bank decided to reduce, from 1 January 2022, the gross carrying amount of mortgage loans denominated and indexed in foreign currencies in accordance with IFRS 9 (IFRS 9 B5.4.6) and in the absence of exposure or insufficient exposure, create provision according to IAS 37.

Taking into consideration the significance of portfolio`s legal risk cost and in accordance with paragraph 29 of IAS 1 Presentation of financial statements, the Bank decided to present a separate line in the consolidated income statement ("Impact of legal risk of mortgage loans in convertible currencies"), which presents the overall impact of the portfolio's legal risk on the income statement.

The change in accounting policy was intended to provide users of financial statements with more useful information on the impact of the legal risk of the portfolio of loans denominated and indexed in foreign currencies on the financial position, financial result and cash flows of theBank.

The change also aligned the approach used in the Bank financial statements with the market practice observed in this respect.

Comparative data as at 1 January 2021 and 31 December 2021 and all reporting periods in between have been appropriately restated in order to assure comparability.

In thousands of PLN

The introduced change in accounting policy did not affect the amount of the Bank's net assets as at the moment of introduction, i.e. as of January 1, 2022, as well as the value of net assets in the comparative period, i.e. as of January 1, 2021 and December 31, 2021. .

Change (2): Change in the presentation of selected items of the income statement

To present the financial position and financial performance of the Bank in the most transparent way, as well as to provide the highest informative value for the readers of the Bank's financial statements, the Bank decided to present "Gain/loss on derecognition of financial instruments measured at amortised cost" in the income statement

Income statement

	for the period: 1.01.2021-30.06.2021			
	before	adjustment (1)	adjustment (2)	after
Interest income and similar to income	**2 212 449**	**-**	**(1 511)**	**2 210 938**
Interest income on financial assets measured at amortised cost	1 782 146	-	(1 511)	1 780 635
Interest income on financial assets measured at fair value through other comprehensive income	424 401	-	-	424 401
Income similar to interest on financial assets measured at fair value through profit or loss	5 902	-	-	5 902
Interest expense	**(117 306)**	**-**	**-**	**(117 306)**
Net interest income	**2 095 143**	**-**	**(1 511)**	**2 093 632**
Fee and commission income	1 176 962	-	-	1 176 962
Fee and commission expense	(143 913)	-	-	(143 913)
Net fee and commission income	**1 033 049**	**-**	**-**	**1 033 049**
Dividend income	269 227	-	-	269 227
Net trading income and revaluation	122 215	-	-	122 215
Gains (losses) from other financial securities	58 182	-	-	58 182
Gain/loss on derecognition of financial instruments measured at amortised cost	-	-	1 511	1 511
Other operating income	51 411	(13 016)	-	**38 395**
Impairment losses on loans and advances	(492 386)	-	-	(492 386)
Cost of legal risk associated with foreign currency mortgage loans	-	(597 886)	-	(597 886)
Operating expenses incl.:	(2 221 046)	610 902	-	(1 610 144)
-Staff, operating expenses and management costs	(1 311 269)	-	-	(1 311 269)
-Amortisation of property, plant and equipment and Intangible assets	(180 345)	-	-	(180 345)
-Amortisation of right of use asset	(75 212)	-	-	(75 212)
-Other operating expenses	(654 220)	610 902	-	(43 318)
Tax on financial institutions	(284 879)	-	-	(284 879)
Profit before tax	**630 916**	**-**	**-**	**630 916**
Corporate income tax	(283 831)	-	-	(283 831)
Profit for the period	**347 085**	**-**	**-**	**347 085**
Net earnings per share				
Basic earnings per share (PLN/share)	3,40	-	-	3,40
Diluted earnings per share (PLN/share)	3,40	-	-	3,40

1) Adjustment resulting from changes in accounting policy

2) Adjustment resulting from changes in the presentation

In thousands of PLN

Statement of financial position

	as at: 31.12.2021		
	before	adjustment (1)	after
Loans and advances to customers incl.:	125 449 130	(1 469 728)	123 979 402
- measured at amortised cost	123 268 726	(1 469 728)	121 798 998
Total assets	**218 184 874**	**(1 469 728)**	**216 715 146**
Other provisions	1 809 635	(1 469 728)	339 907
Total liabilities	**194 357 522**	**(1 469 728)**	**192 887 794**

1) Adjustment resulting from changes in accounting policy

	as at: 01.01.2021		
	before	adjustment (1)	after
Loans and advances to customers incl.:	119 077 346	(417 152)	118 660 194
- measured at amortised cost	116 786 037	(417 152)	116 368 885
Total assets	**203 140 470**	**(417 152)**	**202 723 318**
Other provisions	670 645	(417 152)	253 493
Total liabilities	**177 717 626**	**(417 152)**	**177 300 474**

1) Adjustment resulting from changes in accounting policy

Statement of cash flows

	for the period: 1.01.2021 - 30.06.2021		
	before	adjustment (1)	after
Changes in:			
Provisions	534 512	(503 510)	31 002
Loans and advances to customers	(352 931)	503 510	150 579

1) Adjustment resulting from changes in accounting policy

Based on the analysis, due to the applicable legal situation related to mortgage loans portfolio denominated and indexed in foreign currencies, the Bank decided to change the accounting policy for their recognition, starting from 1 January 2022.

Prior to the amendment, the legal risk of this portfolio was recognized in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. From 1 January 2022, the Bank decided to apply IFRS 9 Financial Instruments.

Due to the inability to recover some of the planned cash flows, the Bank decided to reduce, from 1 January 2022, the gross carrying amount of mortgage loans denominated and indexed in foreign currencies in accordance with IFRS 9 (IFRS 9 B5.4.6) and in the absence of exposure or insufficient exposure, create provision according to IAS 37.

Taking into consideration the significance of portfolio`s legal risk cost and in accordance with paragraph 29 of IAS 1 Presentation of financial statements, the Bank decided to present a separate line in the consolidated income statement ("Impact of legal risk of mortgage loans in convertible currencies"), which presents the overall impact of the portfolio's legal risk on the income statement.

The change in accounting policy was intended to provide users of financial statements with more useful information on the impact of the legal risk of the portfolio of loans denominated and indexed in foreign currencies on the financial position, financial result and cash flows of theBank.

The change also aligned the approach used in the Bank financial statements with the market practice observed in this respect.

Comparative data as at 1 January 2021 and 31 December 2021 and all reporting periods in between have been appropriately restated in order to assure comparability.

The introduced change in accounting policy did not affect the amount of the Bank's net assets as at the moment of introduction, i.e. as of January 1, 2022, as well as the value of net assets in the comparative period, i.e. as of January 1, 2021 and December 31, 2021. .

2.6 Use of estimates

Preparation of financial statement in accordance with the IFRS requires the management to make subjective judgements and assumptions, which affects the applied accounting principles as well as presented assets, liabilities, revenues and expenses.

The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and assumptions are reviewed on an ongoing basis. Changes to estimates are recognised in the period in which the estimate is changed if the change affects only that period, or in the period of the change and future periods if the change affects both current and future periods.

Key accounting estimates made by Santander Bank Polska S.A.

Key estimates include:

- Allowances for expected credit losses
- Fair value of financial instruments
- Estimates for legal claims
- Estimates for legal risk arising from mortgage loans in foreign currencies

Allowances for expected credit losses in respect of financial assets

The IFRS 9 approach is based on estimation of the expected credit loss (ECL). ECL allowances reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money; and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at an amount equal to a 12-month ECL or the lifetime ECL, when it is deemed there has been a significant increase in credit risk since initial recognition (Stage 2) or impairment (Stage 3). Accordingly, the ECL model gives rise to measurement uncertainty, especially in relation to:

- measurement of a 12-month ECL or the lifetime ECL;
- determination of when a significant increase in credit risk occurred;
- determination of any forward-looking events reflected in ECL estimation, and their likelihood.

As a result, ECL allowances are estimated using the adopted model developed using many inputs and statistical techniques. Structure of the models that are used for the purpose of ECL estimation consider models for the following parameters:

- PD - Probability of Default, i.e. the estimate of the likelihood of default over a given time horizon (12-month or lifetime);
- LGD - Loss Given Default, i.e. the part of the exposure amount that would be lost in the event of default;
- EAD – Exposure at Default, i.e. expectation for the amount of exposure in case of default event in a given horizon 12-month or lifetime.

Changes in these estimates and the structure of the models may have a significant impact on ECL allowances.

In accordance with IFRS 9, the recognition of expected credit losses depends on changes in credit risk level which occur after initial recognition of the exposure. The standard defines three main stages for recognising expected credit losses:

- Stage 1 – exposures with no significant increase in credit risk since initial recognition, i.e. the likelihood of the exposure being downgraded to the impaired portfolio (Stage 3 exposures) has not increased. For such exposures, 12-month expected credit losses is recognised.
- Stage 2 – exposures with a significant increase in credit risk since initial recognition, but with no objective evidence of impairment. For such exposures, lifetime expected credit losses is recognised.
- Stage 3: exposures for which the risk of default has materialised (objective evidence of impairment has been identified). For such exposures, lifetime expected credit losses is recognised.

For the purpose of the collective evaluation of ECL, financial assets are grouped on the basis of similar credit risk characteristics that indicate the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of the Bank’s credit risk evaluation or the grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. The rating/scoring systems have been internally developed and are continually being enhanced, e.g through external analysis that helps to underpin the aforementioned factors which determine the estimates of impairment charges.

In the individual approach, the ECL charge was determined based on the calculation of the total probability-weighted impairment charges estimated for all the possible recovery scenarios, depending on the recovery strategy currently expected for the customer.

In the scenario analysis, the key strategies / scenarios used were as follows:

- Recovery from the operating cash flows / refinancing / capital support;
- Recovery through the voluntary liquidation of collateral;
- Recovery through debt enforcement;
- Recovery through systemic bankruptcy/recovery proceeding/liquidation bankruptcy;
- Recovery by take-over of the debt / assets / sale of receivables
- Recovery as part of legal restructuring.

In addition, for exposures classified as POCI (purchased or originated credit impaired) - i.e. purchased or arising financial assets that are impaired due to credit risk upon initial recognition, expected credit losses are recognized over the remaining life horizon. Such an asset is created when impaired assets are initially recognized and the POCI classification is maintained over the life of the asset.

A credit-impaired assets

Credit-impaired assets are classified as Stage 3 or POCI. A financial asset or a group of financial assets are impaired if, and only if, there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset or asset was recognized as POCI and that impairment event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. It may not be possible to identify a single, event that caused the impairment, rather the combined effect of several events may have caused the impairment. Objective evidence that a financial asset or group of assets was impaired includes observable data:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, e.g. delay in repayment of interest or principal over 90 days in an amount exceeding the materiality threshold (PLN 400 for individual and small and medium-sized enterprises and PLN 2,000 for business and corporate clients) and at the same time relative thresholds (above 1% of the amount past due in relation to the balance sheet amount);
- Santander Bank Polska S.A., for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the Santander Bank Polska S.A. would not otherwise consider, which fulfill below criteria:
    (1) contingent restructuring transactions that meet the criteria for reclassification into basket 3 (quantitative and / or qualitative),
    (2) contingent restructuring transactions previously classified as non-performing, which have been refinanced or restructured, or are more than 30 days past due to the customer's with observed financial difficulties,
    (3) restructured transactions, where contractual clauses have been applied that defer payments through a grace period for repayment of the principal for a period longer than two years,
    (4) restructured transactions including debt write-off, interest grace periods or repaid in installments without contractual interest,
    (5) restructured transactions, where there was a change in the net present value of cash flows (NPV) of at least 1% compared to the NPV before the application of the forbearance measures,
    (6) transactions where:
        - inadequate repayment schedules (initial or later, if used) were applied, which are related to, inter alia, repeated situations of non-compliance with the schedule, changes in the repayment schedule in order to avoid situations of non-compliance with it, or

- a repayment schedule that is based on expectations, unsupported by macroeconomic forecasts or credible assumptions about the borrower's ability or willingness to repay was applied.

(7) transactions for which the Bank has reasonable doubts as to the probability of payment by the customer.

- it becoming probable that the debtor will enter bankruptcy, recovery proceedings, arrangement or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- exposures subject to the statutory moratorium, the so-called Shield 4.0 (Act of 19 June 2020 on interest subsidies for bank loans granted to entrepreneurs affected by COVID-19) - application of a moratorium on the basis of a declaration of loss of source of income.

Impaired exposures (Stage 3) can be reclassified to Stage 2 or Stage 1 if the reasons for their classification to Stage 3 have ceased to apply (particularly if the borrower's economic and financial standing has improved) and a probation period has been completed (i.e. a period of good payment behaviour meaning the lack of arrears above 30 days), subject to the following:

- In the case of individual customers, the probation period is 180 days.
- In the case of SME customers, the probation period is 180 days, and assessment of the customer's financial standing and repayment capacity is required in some cases. However, the exposure cannot be reclassified to Stage 1 or 2 in the case of fraud, client`s death, discontinuation of business, bankruptcy, or pending restructuring/ liquidation proceedings.
- In the case of business and corporate customers, the probation period is 92 days, and positive assessment of the financial standing is required (Bank assesses all remaining payments as likely to be repaid as scheduled in the agreement). The exposure cannot be reclassified to Stage 1 or 2 in the case of fraud, discontinuation of business, or pending restructuring/ insolvency/ liquidation proceedings.
- Additionally, if the customer is in Stage 3 and subject to the forbearance process (incl. so-called Shield 4.0 moratoria), they may be reclassified to Stage 2 not earlier than after 365 days (from the start of forbearance or from the downgrade to the NPL portfolio, whichever is later) of regular payments, repayment by the client of the amount previously overdue / written off (if any) and after finding that there are no concerns as to the further repayment of the entire debt in accordance with the agreed terms of restructuring.

Changes in the classification resulting from Recommendation R

From January 2022, Santander Bank Polska S.A. adjusted the rules of exposure classification to the new guidelines resulting from the KNF recommendation. The main changes in the classification of exposures relate to the situation where:

- the Bank has balance sheet exposures towards the obligor which are past due more than 90 days and which constitute over 20% of all balance sheet exposures towards this obligor, all balance sheet and off-balance sheet exposures towards this obligor are considered non-performing
- delay in repayment for a given exposure exceeding 90 days in a situation where the materiality criterion of an overdue credit obligation has not been met for a given exposure results in classification into a stage 2

A significant increases in credit risk

One of the key elements of IFRS 9 is the identification of a significant increase in credit risk which determines the classification to Stage 2. Bank has developed detailed criteria for the definition of a significant increase in the level of risk based on the following main assumptions:

- Qualitative assumptions:
  - Implementing dedicated monitoring strategies for the customer following the identification of early warning signals that indicate a significant increase in credit risk
  - Restructuring actions connected with making concessions to the customers as a result of their difficult financial standing
  - Delay in payment as defined by the applicable standard, i.e. 30 days past due combined with the materiality threshold
- Quantitative assumptions:
  - A risk buffer method based on the comparison of curves illustrating the probability of default over the currently remaining lifetime of the exposure based on the risk level assessment at exposure recognition and at reporting date. Risk buffer is set in relative

terms for every single exposure based on its risk assessment resulting from internal models and other parameters of exposure impacting assessment of the Bank whether the increase might have significantly increased since initial recognition of the exposure (such parameters considered types of the products, term structure as well as profitability). Risk buffer methodology was prepared internally and is based on the information gathered in course of the decisioning process as well as in process of transactions structuring.

The fact that the exposure is supported by the Borrowers' Support Fund is reported as a forborne and a significant increase in credit risk (Stage 2), and in justified cases (previously identified impairment, a delay in repayment over 30 days, subsequent forbearance , no possibility to service the debt according to the current schedule) exposure is classified in Stage 3.

- Exposure in Stage 2 may be re-classified into Stage 1 without probation period as soon as significant increase in credit risk indicators after its initial recognition end e.g. when the following conditions are met: client`s current situation does not require constant monitoring, no restructuring actions towards exposure are taken, exposure has no payment delay over 30 days for significant amounts, no suspension of the contact due to Shield 4.0, and according to risk buffer method no risk increase occurs.

Santander Bank Polska S.A. does not identify low credit risk exposures under IFRS 9 standard rules, which allows to recognize 12-month expected loss even in cease of significant increase of credit risk since initial recognition.

ECL measurement

Another key feature introduced by IFRS 9 is the approach to the estimation of risk parameters. For the purpose of estimating allowances for expected losses, Santander Bank Polska S.A. uses its own estimates of risk parameters that are based on internal models. Expected credit losses are the sum of individual products for each exposure of the estimated values of PD, LGD and EAD parameters in particular periods (depending on the stage either in the horizon of 12 months or in lifetime) discounted using the effective interest rate.

The estimated parameters are adjusted for macroeconomic scenarios in accordance with the assumptions of IFRS 9. To this end, the Bank determines the factors which affect individual asset classes to estimate an appropriate evolution of risk parameters. The Bank uses scenarios developed internally by the analytical team, which are updated on a monthly basis at least every six months. The models and parameters generated for the needs of IFRS 9 are subject to model management process and periodic calibration and validation. These tools are also used in the financial planning process.

Determination of forward-looking events and their likelihood

Forward-looking events are reflected both in the process of estimating ECL and when determining a significant increase in credit risk, by developing appropriate macroeconomic scenarios and then reflecting them in the estimation of parameters for each scenario. The final parameter value and the ECL is the weighted average of the parameters weighted by the likelihood of each scenario. Bank uses three scenario types: the baseline scenario and two alternative scenarios, which reflect the probable alternative options of the baseline scenario: upside and downside scenario.

Baseline

Year 2022 with still high momentum, very high inflation and rising interest rates, was hit by a new shock: war in Ukraine, weighing on Polish exports and enhancing supply-side problems, including increasing commodity prices and total cut of natural gas imports from Russia. War shock and monetary policy shock will bring the economic growth down, probably to a recession in 2H22, followed by a moderate rebound. Inflation, however, is likely to remain elevated for an extended period. In the baseline scenario, in 2022 the economy is expected to grow by 5%, mostly thanks to the strong economic momentum in IH22. In 2H 2022 the economy is likely to enter a technical recession and then to rebound, also supported by EU Recovery Funds. However, the transfers of the funds will be contingent on fulfillment of certain requirements. In 2023 GDP growth is expected at 1.2%. CPI is to remain elevated, with 13.3% average growth in 2022 and 9.2% in 2023.

The government responded to rising inflation with more fiscal stimulus (cuts in taxes, new benefits) and this is one of factors increasing the inflation's persistence. In general, high inflation environment will be favourable for the central budget inflows, so after a temporary jump in deficit in 2022, a consolidation is expected. The NBP will continue with interest rate hikes, bringing the main rate from 1.75% at the end of 2021 to 7.25% in 1Q23. Further on, the NBP will reduce interest rates to 5.25%, but keep them at elevated level due to heightened inflation. EURPLN was under influence of negative shocks and positive inflation spread between Poland and the euro zone. Temporarily EURPLN reached 5.00 in reaction to war in Ukraine. The zloty is expected to appreciate somewhat, but to generally remain historically weak with above 4.50 per euro. The upward tendency in interest rates will undermine demand for loans, especially on the mortgage and consumer market, while companies' demand will remain in the post-pandemic upswing. In general, however, loan growth is expected to remain low and this will also translate into weaker growth of deposits. However, change in interest rates will yield a major change in deposit breakdown, with strong upward tendency of term deposits.

In thousands of PLN

Downside

The downside scenario was built under an assumption that inflation will continue to rise further, despite monetary policy tightening, triggering a stronger reaction of the National Bank of Poland and thus undermining the economy stronger than expected in the baseline scenario. In 2023 the economy is expected to shrink by 1.0% and then to rebound by 2.0% in 2024. CPI will remain in double-digit territory in 2022 and 2023 and then decline to 8.2% in 2024.

High inflation will encourage the NBP to continue with the hiking cycle, bringing the NBP reference rate to 9.0% in 4Q22. Later the NBP will respond to the slowing economic growth, bringing the rate down to 4.0% in 3Q24. Weaker economic performance and high inflation will be undermining the zloty, averaging 4.60 per euro in 2023 and 2024. Lower economic activity will negatively affect the demand for loans in the banking system, especially in the household sector, as companies could be in need of liquidity loans. Deposits growth rate will also be slowing down.

Upside

The upside scenario was built under an assumption that supply shock will be dissipating in 2H22, lowering probability of new supply-side inflation shocks, allowing for a faster economic growth and for a less strict monetary policy. In 2023 the economy is expected to expand by 3.2% and then by 5.3% in 2024. CPI will remain in double-digit territory in 2022 and 2023 and then decline to 9.4% in 2024.

High inflation will encourage the NBP to continue with the hiking cycle, bringing the NBP reference rate to 7.25% in 4Q22. Later the NBP will adjust its rates to 5.75% in 3Q24. Stronger economic performance will support the zloty, which however will remain relatively elevated due to heightened inflation, averaging 4.49 per euro in 2023 and 2024. Stronger economic activity will positively affect the demand for loans in the banking system, but relatively high rates will act in the opposite direction, so the total loan growth is expected to remain moderate, translating also into moderate growth of deposits.

Scenario as at 2022.06.30		baseline		best case		worst case	
likehood		60%		20%		20%	
		2022	average, next 3 years	2022	average, next 3 years	2022	average, next 3 years
GDP	YoT	5,0%	2,8%	5,8%	4,4%	4,6%	1,2%
WIBOR 3M	average	6,5%	6,2%	7,2%	7,0%	7,6%	5,7%
unemployment rate	% active	2,9%	3,2%	2,9%	2,8%	2,9%	3,4%
CPI	YoY	13,3%	7,4%	13,3%	8,3%	14,2%	7,9%
EURPLN	period-end	4,55	4,53	4,52	4,49	4,59	4,59

Management provisions

At the end of the first half of 2022, in addition to the ECL resulting from the complex calculation model implemented in the system, Santander Banka Polska S.A. Bank accounted for management adjustments, updating the risk level with current and expected future events:

- A management provision for retail portfolio and portfolio covered by SME rating in the amount of PLN 35 400k PLN related to the planned implementation of new LGD models in the third quarter of 2022 (models under validation).
- A management provision for the PLN Mortgage portfolio in the amount of PLN 6 400k due to high uncertainity as to the future level of interest rates.
- A management provision for the Cash portfolio in the amount of PLN 14 400k related to the observed increase share of our customers in consumer finance companies (CFC).
- A management provision for the SME portfolio in the amount of PLN 11 400k due to the observed increase of overdues in the construction and transport sectors.
- A management provision for the Corporate customers in the amount of PLN 20 000k due to the estimated impact of increasing costs for borrowers on risk profile of the portfolio with high leverage ratio.

.In the second quarter of 2022, the Bank reviewed the risk parameters used to calculate the expected credit losses, in particular it updated the systemically applied macroeconomic scenarios, as a consequence the existing management adjustment of PLN 59,400k established to reflect the impact of the deterioration of the macroeconomic outlook was withdrawn. Other management adjustments were also reviewed. The total amount of withdrawn management adjustments amounted to PLN 134 785k.

In thousands of PLN

Potential ECL variability

Significant volatility for the income statement may be reclassifications to Stage 2 from Stage 1. The theoretical reclassification of given percentage of exposures from Stage 1 with the highest risk level to Stage 2 for each type of exposure would result in an increase in write-offs according to below table (portfolio as at 30 June 2022).

	additional expected credit loss (mPLN)			
reclassification from stage 1 to stage 2	**individuals**	**mortgage loans**	**business**	**Total**
1%	4,9	11,6	5,6	22,0
5%	29,5	40,6	28,4	98,5
10%	56,3	61,1	53,9	171,3

The above estimates show expected variability of loss allowances as a result of transfers between Stage 1 and Stage 2, resulting in material changes in the degree to which exposures are covered with allowances in respect of different ECL horizons.

Changes in forecasts of macroeconomic indicators may result in significant effects affecting the level of created provisions. Adoption of macroeconomic parameter estimates at only one scenario level (pessimistic or optimistic) will result in a one-off change in ECL at the level below.

	in PLN m	change in ECL level			
scenario	30.06.2022				31.12.2021
	individuals	housing loans	business	Total	Total
pessimistic	10,5	3,6	17,8	31,9	18,9
optimistic	-19,3	-2,2	-18,1	-39,6	-18,7

Estimates for legal claims

Santander Bank Polska S.A. raises provisions for legal claims accordance with IAS 37. The provisions have been estimated considering the likelihood unfavourable verdict and amount to be paid, and their impact is presented in other operating income and cost.

Details on the value of the provisions and the assumptions made for their calculation are provided in Notes 29, 32 and 33.

Estimates for legal risk arising from mortgage loans in foreign currencies

Due to the revolving legal situation related to mortgage loans portfolio denominated and indexed to foreign currencies, and inability to recover all contractual cash flows risk materialisation, Bank estimates impact of legal risk on future cash flows.

Legal risk is estimated based on a number of assumptions, taking into account: a specific time horizon, a number of probabilities such as the probability of possible settlements and the probability of submitting claims by borrowers.

Legal risk is estimated individually for each exposure in the event of litigation and in terms of portfolio in the absence of such.

Santander Bank Polska S.A. takes into account the impact of legal risk as an adjustment to the gross book value of this portfolio. If there is no credit exposure or its value is insufficient, the impact of legal risk is presented as a provision for legal claims according to IAS 37.

The result on legal risk is presented in a separate position in income statement "Impact of legal risk related to mortgage loans in foreign currencies"

In the second quarter of 2022, Bank recognized PLN 720 731k as cost of legal risk related to mortgage loans in foreign currencies.

Bank will continue to monitor this risk in subsequent reporting periods.

Details presenting impact of the above-mentioned risk on financial statement and the assumptions adopted for their calculation are contained in notes 29 and 33, respectively.

2.7 Judgements that may significantly affect the amounts recognized in the financial statements

When applying the accounting principles, the management of Santander Bank Polska S.A. makes various judgements that may significantly affect the amounts recognized in financial statements.

On 14 July 2022, the President of the Republic of Poland signed the Act on crowdfunding for business and support for borrowers. One of the purposes of the Act is to help the mortgage borrowers by enabling them to defer their repayments.

As at the 30 June 2022 balance sheet date, there was no final and precise version of regulations on payment deferral that is a necessary prerequisite that would enable making a reliable estimate of how these regulations will impact the Bank's financial position. Consequently, management applied their judgement and has decided to recognise the impact of the payment deferrals on the day the corresponding regulations were substantively enacted in July 2022. In July 2022, the impact will be recognised as an adjustment of gross carrying value of the mortgage loans and a corresponding reduction of interest income. Once enacted, the legislation drives timing and/or amounts of the contractual cash flows that the lender is able to legally enforce, thus resulting in the revision of the gross carrying value of the loans.

Details in note 43.

2.8 Change of accounting policy

Santander Bank Polska S.A. consistently applied the adopted accounting principles both for the reporting period for which the report is prepared and for the comparative period, except for the changes resulting from the change in accounting policy with regard to the legal risk of mortgage loans denominated / indexed to foreign currencies and income statement presentation changes, both described in point 2.5.

3. Operating segments reporting

Data regarding the respective business segments are presented in „Condensed interim consolidated financial statements of Santander Bank Polska Group for 6-month period ended 30 June 2022" published on 28 July 2022.

4. Risk management

Information on risk management included in „Condensed interim consolidated financial statements of Santander Bank Polska Group for 6-month period ended 30 June 2022" fully stand in for notes to this condensed interim financial statements.

5. Capital management

Details on capital management have been presented in document „Information on Capital Adequacy of Santander Bank Polska Group as at 30 June 2022".

In thousands of PLN

6. Net interest income

Interest income and similar to interest	1.04.2022-30.06.2022	1.01.2022-30.06.2022	1.04.2021-30.06.2021	1.01.2021-30.06.2021
Interest income on financial assets measured at amortised cost	**2 371 712**	**3 954 890**	**900 725**	**1 780 635**
Loans and advances to enterprises and leasing agreements	814 119	1 356 083	323 295	641 272
Loans and advances to individuals, of which:	1 350 457	2 319 516	577 895	1 139 201
Home mortgage loans	*840 909*	*1 382 407*	*271 182*	*534 585*
Loans and advances to banks	87 440	115 109	(1 710)	(2 771)
Loans and advances to public sector	6 369	9 281	1 134	2 491
Reverse repo transactions	42 574	64 986	111	442
Debt securities	70 650	87 442	-	-
Interest recorded on hedging IRS	103	2 473	-	-
Interest income on financial assets measured at fair value through other comprehensive income	**506 645**	**884 571**	**213 999**	**424 401**
Loans and advances to enterprises	30 134	45 741	12 832	24 149
Debt securities	476 511	838 830	201 167	400 252
Income similar to interest - financial assets measured at fair value through profit or loss	**14 358**	**26 121**	**3 326**	**5 902**
Loans and advances to enterprises	1 354	2 019	207	414
Loans and advances to individuals	8 728	16 611	2 611	5 370
Debt securities	4 276	7 491	508	118
Total income	**2 892 715**	**4 865 582**	**1 118 050**	**2 210 938**

Interest expenses	1.04.2022-30.06.2022	1.01.2022-30.06.2022	1.04.2021-30.06.2021	1.01.2021-30.06.2021
Interest expenses on financial liabilities measured at amortised cost	**(354 923)**	**(485 999)**	**(53 678)**	**(117 306)**
Liabilities to individuals	(76 901)	(95 085)	(9 978)	(25 937)
Liabilities to enterprises	(128 647)	(172 083)	(2 385)	(6 338)
Repo transactions	(45 079)	(64 890)	383	486
Liabilities to public sector	(36 589)	(52 175)	(56)	(769)
Liabilities to banks	(13 968)	(18 859)	(909)	(2 171)
Lease liability	(3 995)	(7 573)	(4 051)	(8 499)
Subordinated liabilities and issue of securities	(49 744)	(75 334)	(21 171)	(43 230)
Interest recorded on hedging IRS	-	-	(15 511)	(30 848)
Total costs	**(354 923)**	**(485 999)**	**(53 678)**	**(117 306)**
Net interest income	**2 537 792**	**4 379 583**	**1 064 372**	**2 093 632**

In thousands of PLN

7. Net fee and commission income

Fee and commission income	1.04.2022-30.06.2022	1.01.2022-30.06.2022	1.04.2021-30.06.2021	1.01.2021-30.06.2021
eBusiness & payments	66 956	130 184	60 473	118 974
Current accounts and money transfer	106 624	224 142	94 268	191 889
Foreign exchange commissions	177 671	360 426	136 633	256 447
Credit commissions incl. factoring commissions and other	94 686	177 908	72 634	163 053
Insurance commissions	28 701	57 137	22 133	42 340
Commissions from brokerage activities	27 872	72 475	29 891	74 693
Credit cards	22 096	42 224	21 054	40 321
Debit cards	98 751	183 314	87 007	172 242
Off-balance sheet guarantee commissions	24 776	51 673	26 826	53 047
Issue arrangement fees	2 651	5 490	15 645	21 363
Distribution fees	15 593	34 589	22 360	42 593
Total	**666 377**	**1 339 562**	**588 924**	**1 176 962**

Fee and commission expenses	1.04.2022-30.06.2022	1.01.2022-30.06.2022	1.04.2021-30.06.2021	1.01.2021-30.06.2021
eBusiness & payments	(18 363)	(32 674)	(13 696)	(26 215)
Commissions from brokerage activities	(3 174)	(8 157)	(3 595)	(8 917)
Credit cards	(1 729)	(3 223)	(1 869)	(3 372)
Debit cards	(30 510)	(50 845)	(24 504)	(45 602)
Credit commissions paid	(8 046)	(23 105)	(14 168)	(22 695)
Insurance commissions	(4 408)	(8 786)	(4 420)	(8 494)
Finance lease commissions	(245)	(383)	(151)	(229)
Other	(41 970)	(69 545)	(14 435)	(28 389)
Total	**(108 445)**	**(196 718)**	**(76 838)**	**(143 913)**
Net fee and commission income	**557 932**	**1 142 844**	**512 086**	**1 033 049**

8. Net trading income and revaluation

Net trading income and revaluation	1.04.2022-30.06.2022	1.01.2022-30.06.2022	1.04.2021-30.06.2021	1.01.2021-30.06.2021
Derivative instruments	(140 363)	(122 668)	220 156	328 808
Interbank FX transactions and other FX related income	89 395	115 168	(165 127)	(218 694)
Net gains on sale of equity securities measured at fair value through profit or loss	(13 132)	(6 908)	17 746	28 847
Net gains on sale of debt securities measured at fair value through profit or loss	20 504	29 831	(17 421)	(14 284)
Change in fair value of loans and advances mandatorily measured at fair value through profit or loss	6 770	3 411	(1 093)	(2 462)
Total	**(36 826)**	**18 834**	**54 261**	**122 215**

The above amounts included CVA and DVA adjustments in the amount of PLN 11,198k for H1 2022, PLN 8,724k for 2Q 2022 and PLN 5,126k for H1 2021, PLN 2,251k for 2Q 2021.

In thousands of PLN

9. Gains (losses) from other financial securities

Gains (losses) from other financial securities	1.04.2022-30.06.2022	1.01.2022-30.06.2022	1.04.2021-30.06.2021	1.01.2021-30.06.2021
Net gains on sale of debt securities measured at fair value through other comprehensive income	-	-	10 005	34 656
Net gains on sale of equity securities measured at fair value through profit and loss	-	-	8 148	8 148
Change in fair value of financial securities measured at fair value through profit or loss	(14 389)	(11 756)	18 294	11 150
Impairment losses on securities	(1 066)	(1 066)	(4 015)	(4 015)
Total gains (losses) on financial instruments	**(15 455)**	**(12 822)**	**32 432**	**49 939**
Change in fair value of hedging instruments	415 785	578 645	40 250	162 971
Change in fair value of underlying hedged positions	(434 479)	(598 828)	(36 192)	(154 728)
Total gains (losses) on hedging and hedged instruments	**(18 694)**	**(20 183)**	**4 058**	**8 243**
Total	**(34 149)**	**(33 005)**	**36 490**	**58 182**

10. Other operating income

Other operating income	1.04.2022-30.06.2022	1.01.2022-30.06.2022	1.04.2021-30.06.2021	1.01.2021-30.06.2021
Income from services rendered	6 569	15 388	4 210	7 776
Release of provision for legal cases and other assets*	1 137	2 499	3 729	4 686
Recovery of other receivables (expired, cancelled and uncollectable)	20	26	27	48
Gain on sales or liquidation of fixed assets, intangible assets and assets for disposal	-	-	4 183	2 933
Settlements of leasing agreements	-	-	74	1 213
Received compensations, penalties and fines	338	741	282	479
Gains on lease modifications	1 882	1 882	10 783	11 901
Income from claims received from the insurer	4	1 000	342	956
Other	3 148	5 470	4 777	8 403
Total	**13 098**	**27 006**	**28 407**	**38 395**

*Details in note 29

In thousands of PLN

11. Impairment allowances for expected losses

Impairment allowances for expected credit losses on loans and advances measured at amortised cost	1.04.2022-30.06.2022	1.01.2022-30.06.2022	1.04.2021-30.06.2021	1.01.2021-30.06.2021
Charge for loans and advances to banks	**3**	**(18)**	**7**	**8**
Stage 1	3	(18)	7	8
Stage 2	-	-	-	-
Stage 3	-	-	-	-
POCI	-	-	-	-
Charge for loans and advances to customers	**(100 994)**	**(234 973)**	**(186 242)**	**(497 781)**
Stage 1	(15 941)	(76 918)	(34 569)	(33 866)
Stage 2	(20 348)	(58 655)	66 682	41 773
Stage 3	(78 932)	(136 894)	(218 712)	(515 577)
POCI	14 227	37 494	357	9 889
Recoveries of loans previously written off	**(3 071)**	**(4 508)**	**(2 724)**	**(1 460)**
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	(3 071)	(4 508)	(2 724)	(1 460)
POCI	-	-	-	-
Off-balance sheet credit related facilities	**(6 190)**	**3 595**	**1 160**	**6 847**
Stage 1	(2 421)	3 983	(1 026)	(2 831)
Stage 2	(1 209)	1 331	684	2 126
Stage 3	(2 560)	(1 719)	1 502	7 552
POCI	-	-	-	-
Total	**(110 252)**	**(235 904)**	**(187 799)**	**(492 386)**

12. Employee costs

Employee costs	1.04.2022-30.06.2022	1.01.2022-30.06.2022	1.04.2021-30.06.2021	1.01.2021-30.06.2021
Salaries and bonuses	(303 111)	(591 081)	(267 511)	(540 558)
Salary related costs	(55 152)	(110 778)	(48 555)	(100 671)
Cost of contributions to Employee Capital Plans	(1 964)	(3 778)	(1 787)	(3 516)
Staff benefits costs	(6 641)	(13 626)	(6 500)	(12 656)
Professional trainings	(1 890)	(3 289)	(1 612)	(2 913)
Total	**(368 758)**	**(722 552)**	**(325 965)**	**(660 314)**

In thousands of PLN

13. General and administrative expenses

General and administrative expenses	1.04.2022-30.06.2022	1.01.2022-30.06.2022	1.04.2021-30.06.2021	1.01.2021-30.06.2021
Maintenance of premises	(26 399)	(50 600)	(23 749)	(47 871)
Short-term lease costs	(1 998)	(3 974)	(2 096)	(4 461)
Low-value assets lease costs	(295)	(607)	(361)	(661)
Costs of variable lease payments not included in the measurement of the lease liability	(162)	(676)	(38)	(126)
Non-tax deductible VAT	(8 208)	(16 986)	(9 903)	(19 828)
Marketing and representation	(27 377)	(46 264)	(24 261)	(38 538)
IT systems costs	(91 705)	(181 064)	(76 047)	(150 524)
Cost of BFG, KNF and KDPW	(3 703)	(259 922)	(32 540)	(199 844)
Cost for paument to protection system (IPS)*	(407 263)	(407 263)	-	-
Postal and telecommunication costs	(13 956)	(27 916)	(10 747)	(21 482)
Consulting and advisory fees	(13 186)	(26 500)	(19 066)	(28 762)
Cars, transport expenses, carriage of cash	(14 593)	(26 964)	(13 029)	(25 324)
Other external services	(36 266)	(66 911)	(27 931)	(55 291)
Stationery, cards, cheques etc.	(3 936)	(7 769)	(2 726)	(5 874)
Sundry taxes and charges	(9 830)	(18 581)	(9 066)	(17 016)
Data transmission	(4 827)	(8 282)	(2 065)	(4 442)
KIR, SWIFT settlements	(6 653)	(13 010)	(5 654)	(11 803)
Security costs	(5 086)	(10 335)	(5 641)	(11 253)
Costs of repairs	(866)	(1 655)	(1 601)	(3 150)
Other	(3 532)	(6 298)	(3 003)	(4 705)
Total	**(679 841)**	**(1 181 577)**	**(269 524)**	**(650 955)**

*Details in note 38

14. Other operating expenses

Other operating expenses	1.04.2022-30.06.2022	1.01.2022-30.06.2022	1.04.2021-30.06.2021	1.01.2021-30.06.2021
Charge of provisions for legal cases and other assets*	(6 009)	(8 955)	(9 309)	(13 396)
Impairment loss on property, plant, equipment, intangible assets covered by financial lease agreements and other fixed assets	(2 913)	(5 383)	(2 901)	(11 684)
Gain on sales or liquidation of fixed assets, intangible assets and assets for disposal	3 375	162	-	-
Costs of purchased services	(4 311)	(5 378)	(1 114)	(1 985)
Other membership fees	(278)	(593)	(289)	(473)
Paid compensations, penalties and fines	(20)	(165)	(8)	(19)
Donations paid	(1 000)	(1 490)	(3 500)	(3 500)
Other	(3 473)	(6 959)	(4 751)	(12 261)
Total	**(14 629)**	**(28 761)**	**(21 872)**	**(43 318)**

*Details in note 29.

In thousands of PLN

15. Corporate income tax

Corporate income tax	1.04.2022-30.06.2022	1.01.2022-30.06.2022	1.04.2021-30.06.2021	1.01.2021-30.06.2021
Current tax charge in the income statement	(200 354)	(254 581)	(118 168)	(173 404)
Deferred tax charge in the income statement	(109 786)	(382 446)	(45 945)	(113 232)
Adjustments from previous years for current and deferred tax	(6 868)	(6 868)	2 804	2 805
Total tax on gross profit	**(317 008)**	**(643 895)**	**(161 309)**	**(283 831)**

Corporate total tax charge information	1.04.2022-30.06.2022	1.01.2022-30.06.2022	1.04.2021-30.06.2021	1.01.2021-30.06.2021
Profit before tax	995 004	2 120 105	461 383	630 916
Tax rate	19%	19%	19%	19%
Tax calculated at the tax rate	(189 051)	(402 820)	(87 663)	(119 874)
Non-tax-deductible expenses	(6 951)	(11 910)	(4 121)	(6 893)
Cost of legal risk associated with foreign currency mortgage loans	(110 414)	(134 489)	(75 401)	(104 528)
The fee to the Bank Guarantee Fund	728	(46 524)	(4 898)	(35 404)
Tax on financial institutions	(34 919)	(67 077)	(26 631)	(54 127)
Non-taxable income	32 360	32 360	51 038	51 038
Non-tax deductible bad debt provisions	(2 862)	(4 658)	(3 911)	(5 102)
Adjustment of prior years tax	(6 868)	(6 868)	2 806	2 806
Other	969	(1 909)	(12 528)	(11 747)
Total tax on gross profit	**(317 008)**	**(643 895)**	**(161 309)**	**(283 831)**

Deferred tax recognised in other comprehensive income	30.06.2022	31.12.2021
Relating to valuation of debt investments measured at fair value through other comprehensive income	284 055	336 928
Relating to valuation of equity investments measured at fair value through other comprehensive income	(28 187)	(31 641)
Relating to cash flow hedging activity	63 449	5 089
Relating to valuation of defined benefit plans	(2 849)	(2 849)
Total	**316 468**	**307 527**

16. Cash and balances with central banks

Cash and balances with central banks	30.06.2022	31.12.2021
Cash	3 212 207	2 657 668
Current accounts in central banks	2 980 719	5 510 232
Total	**6 192 926**	**8 167 900**

Santander Bank Polska SA hold an obligatory reserve in a current account in the National Bank of Poland. The figure is calculated at a fixed percentage of minimal statutory reserve of the monthly average balance of the customers' deposits, which until 29 November 2021 was 0.5%.

Pursuant to the Monetary Policy Council's decision of 6 October 2021, the minimum reserve ratio was increased from 0.5% to 2.0%. It applied to minimum reserves held as of 30 November 2021 and calculated on the basis of the data for October 2021.

On 8 February 2022, the Monetary Policy Council decided to further increase the minimum reserve ratio from 2.0% to 3.5%. It applies to minimum reserves held as of 31 March 2022.

In accordance with the applicable regulations, the amount of the calculated provision is reduced by the equivalent of EUR 500 k.

In thousands of PLN

17. Loans and advances to banks

Loans and advances to banks	30.06.2022	31.12.2021
Loans and advances	1 835 436	300 606
Current accounts	3 460 739	2 443 460
Gross receivables	**5 296 175**	**2 744 066**
Allowance for impairment	(90)	(72)
Total	**5 296 085**	**2 743 994**

18. Financial assets and liabilities held for trading

	30.06.2022		31.12.2021	
Financial assets and liabilities held for trading	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Trading derivatives	**7 998 285**	**7 639 801**	**3 659 287**	**3 495 341**
Interest rate operations	5 603 934	5 469 578	2 275 127	2 269 494
FX operations	2 394 351	2 170 223	1 384 160	1 225 847
Debt and equity securities	**772 461**	**-**	**361 679**	**-**
Debt securities	**749 383**	**-**	**313 350**	**-**
Government securities:	735 451	-	299 046	-
- bonds	735 451	-	299 046	-
Other securities:	13 932	-	14 304	-
- bonds	13 932	-	14 304	-
Equity securities	**23 078**	**-**	**48 329**	**-**
Short sale	**-**	**673 307**	**-**	**385 585**
Total	**8 770 746**	**8 313 108**	**4 020 966**	**3 880 926**

Financial assets and liabilities held for trading - trading derivatives include the change in the value of counterparty risk in the amount of PLN 1,089 k as at 30.06.2022 and PLN (8,097) k as at 31.12.2021.

19. Hedging derivatives

	30.06.2022		31.12.2021	
Hedging derivatives	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Derivatives hedging fair value	736 713	13 072	163 043	29 105
Derivatives hedging cash flow	24 845	1 952 508	-	1 612 719
Total	**761 558**	**1 965 580**	**163 043**	**1 641 824**

Hedging derivatives – derivatives hedging cash flow include value adjustments day first profit or loss for start forward CIRS transactions in the amount of PLN (4,883) k as at 30.06.2022 and PLN (5,404) k as at 31.12.2021.

In thousands of PLN

20. Loans and advances to customers

	30.06.2022			
Loans and advances to customers	**Measured at amortised cost**	**Measured at fair value through other comprehensive income**	**Measured at fair value through profit or loss**	**Total**
Loans and advances to enterprises	65 052 479	2 140 368	47 234	67 240 081
Loans and advances to individuals, of which:	70 162 739	-	239 589	70 402 328
*Home mortgage loans**	*52 480 852*	-	-	*52 480 852*
Loans and advances to public sector	631 109	-	-	631 109
Other receivables	73 540	-	-	73 540
Gross receivables	**135 919 867**	**2 140 368**	**286 823**	**138 347 058**
Allowance for impairment	(3 758 414)	(5 528)	-	(3 763 942)
Total	**132 161 453**	**2 134 840**	**286 823**	**134 583 116**

* Includes changes in gross receivables recognized in note 33 Legal risk connected with CHF mortgage loans

	31.12.2021			
Loans and advances to customers	**Measured at amortised cost**	**Measured at fair value through other comprehensive income**	**Measured at fair value through profit or loss**	**Total**
Loans and advances to enterprises	55 967 496	1 732 895	49 199	57 749 590
Loans and advances to individuals, of which:	69 245 409	-	401 357	69 646 766
*Home mortgage loans**	*51 816 096*	-	-	*51 816 096*
Loans and advances to public sector	277 067	-	-	277 067
Other receivables	49 224	-	-	49 224
Gross receivables	**125 539 196**	**1 732 895**	**450 556**	**127 722 647**
Allowance for impairment	(3 740 198)	(3 047)	-	(3 743 245)
Total	**121 798 998**	**1 729 848**	**450 556**	**123 979 402**

* Includes changes in gross receivables recognized in note 33 Legal risk connected with CHF mortgage loans

Impact of the legal risk of mortgage loans in foreign currency	**Gross carrying amount of mortgage loans in foreign currency before adjustment due to legal risk costs**	**Impact of the legal risk of mortgage loans in foreign currency**	**Gross carrying amount of mortgage loans in foreign currency after adjustment due to legal risk costs**
30.06.2022			
Mortgage loans in foreign currency - adjustment to gross carrying amount	7 123 407	2 124 195	4 999 212
Provision in respect of legal risk connected with foreign currency mortgage loans		235 296	
Total		**2 359 491**	
31.12.2021			
Mortgage loans in foreign currency - adjustment to gross carrying amount	7 277 559	1 469 728	5 807 831
Provision in respect of legal risk connected with foreign currency mortgage loans		128 043	
Total		**1 597 771**	

In thousands of PLN

Loans and advances to enterprises 30.06.2022	Gross carrying amount	Allowance for expected credit losses	Net
Stage 1	57 558 113	(161 461)	57 396 652
Stage 2	4 393 915	(287 541)	4 106 374
Stage 3	2 833 714	(1 727 805)	1 105 909
POCI	266 737	(49 006)	217 731
Total	**65 052 479**	**(2 225 813)**	**62 826 666**

Loans and advances to individuals 30.06.2022	Gross carrying amount	Allowance for expected credit losses	Net
Stage 1	65 717 171	(237 120)	65 480 051
Stage 2	2 293 644	(140 435)	2 153 209
Stage 3	1 827 137	(1 087 051)	740 086
POCI	324 787	(67 995)	256 792
Total	**70 162 739**	**(1 532 601)**	**68 630 138**

Loans and advances to enterprises 31.12.2021	Gross carrying amount	Allowance for expected credit losses	Net
Stage 1	48 895 196	(148 053)	48 747 143
Stage 2	3 901 379	(255 216)	3 646 163
Stage 3	2 951 940	(1 759 676)	1 192 264
POCI	218 981	(47 948)	171 033
Total	**55 967 496**	**(2 210 893)**	**53 756 603**

Loans and advances to individuals 31.12.2021	Gross carrying amount	Allowance for expected credit losses	Net
Stage 1	65 418 748	(210 974)	65 207 774
Stage 2	1 612 340	(146 467)	1 465 873
Stage 3	1 911 322	(1 099 884)	811 438
POCI	302 999	(71 980)	231 019
Total	**69 245 409**	**(1 529 305)**	**67 716 104**

In thousands of PLN

Movements on allowances for expected credit losses on loans and advances to customers measured at amortised cost for reporting period	1.01.2022-30.06.2022	1.01.2021-30.06.2021
Balance at the beginning of the period	**(3 740 198)**	**(4 106 731)**
Charge/write back of current period	**(268 093)**	**(397 350)**
Stage 1	(75 165)	(32 299)
Stage 2	(58 655)	41 773
Stage 3	(136 895)	(395 624)
POCI	2 622	(11 200)
Write off/Sale of receivables	**195 616**	**389 039**
Stage 1	-	-
Stage 2	-	-
Stage 3	195 616	389 039
POCI	-	-
Transfer	**68 717**	**41 754**
Stage 1	36 430	23 866
Stage 2	34 336	64 395
Stage 3	(2 879)	(46 439)
POCI	830	(68)
FX differences	**(14 456)**	**10 364**
Stage 1	(821)	611
Stage 2	(1 973)	1 428
Stage 3	(11 137)	7 916
POCI	(525)	409
Balance at the end of the period	**(3 758 414)**	**(4 062 924)**

In thousands of PLN

21. Investment securities

Investment securities	30.06.2022	31.12.2021
Debt investment securities measured at fair value through other comprehensive income	**44 704 468**	**67 138 415**
Government securities:	42 042 044	46 299 133
- bonds	42 042 044	46 299 133
Central Bank securities:	-	6 997 960
- bills	-	6 997 960
Other securities:	2 662 424	13 841 322
-bonds	2 662 424	13 841 322
Debt investment securities measured at fair value through profit and loss	**114 000**	**113 733**
Debt investment securities measured at amortised cost	**14 740 412**	**1 421 272**
Government securities:	2 473 509	1 421 272
- bonds	2 473 509	1 421 272
Other securities:	12 266 903	-
- bonds	12 266 903	-
Equity investment securities measured at fair value through other comprehensive income	**173 810**	**191 991**
- unlisted	173 810	191 991
Total	**59 732 690**	**68 865 411**

Change of classification of specific bonds portfolio

In the first quarter of 2022 the Management of the Bank performed a review of its asset and liability management policy.

Considering the following external factors observable in the economy and markets and constituting a material change of a scenario for inflation and interest rates in Poland:

- An unprecedented increase in inflation expectations globally and locally;
- Significant acceleration in interest rate increases with more increases expected;
- Russian invasion in Ukraine resulting in headwinds to economic growth and fuelling global inflationary pressure further;
- Highly increased volatility of the Polish currency and interest rates;
- Polish inflation forecasts adjusted significantly upwards and for a longer period;

the Management identified the necessity to revise the existing strategy and related business model regarding the management of customer deposits.

The Bank's business model strategy for customer deposits has assumed to-date that any deposit including all current accounts, regardless of its existing price characteristics, may be subject to repricing risk and its price is linked to prevailing market rates depending on market conditions and/or the liquidity position of the Bank. This in turn has had a direct impact on the ALCo business model, which in the past was limited to investments into assets classified as Held To Collect and for Sale ("HTC&S"). The option to sell these assets and reinvest was required for the Bank to be able to manage and protect the net interest margin in case the deposits would need to be remunerated.

The analyses performed by the Management resulted in the following conclusions. The stable part of the current accounts, including retail current accounts and the *"Konto Jakie Chcę"* ("KJC") specifically, has been and remains the main source of interest rate risk in the liability side of the balance sheet (long-term fixed rate positions which are modelled by the Bank). As such, in order to manage risk in the balance sheet (to protect the balance sheet i.e. the market/economic value of equity - MVE) a corresponding fixed rate position is required in the asset side of the balance sheet. This can be obtained either by directly investing into fixed rate assets or via derivative hedging (via interest rate swaps). Given the excess liquidity of the Bank historically and specifically since the beginning of 2020 i.e. the start of Covid support programs leading to the excess liquidity across the market, the strategy has been to utilize the excess liquidity to purchase fixed rate assets to the ALCO portfolio. Given that in order to fund COVID support programs the Polish government decided BGK and PFR would issue long term bonds, the Bank decided to acquire them as part of the strategy mentioned above – which was reflected in a dedicated ALCo mandate for these securities valid from April 2020. The evolution of EVE sensitivity showed that the growth in current accounts had been constantly fuelling growth in risk exposure, and despite model recalibration to account for potential uncertainty regarding the pricing of these deposits the decision to purchase the COVID bonds was directly linked to the management of risk (management of rising EVE sensitivity exposure) resulting from the growth in stable PLN current accounts, including the KJC.

In thousands of PLN

In the light of the increased repricing risk for the deposit base in general, given the change in macroeconomic conditions described above, the Bank decided to cease an element of its significant commercial activity to date, namely to resign from the possibility to remunerate the KJC account going forward. This was confirmed by formal decisions of the Asset and Liability Management Committee ("ALCo") and the Management Board of the Bank in March 2022.

The direct consequence of the change in strategy for these particular current accounts that will be managed differently going forward is simultaneously triggering a change in the investment strategy of the underlying assets. The protection strategy has to change as the fixed rate assets which hedge the interest rate risk exposure of the KJC portfolio have to be included in a new business model: Held To Collect ("HTC"). Under that strategy, the Bank invests in fixed rate assets which will be held to maturity to offset interest rate risk of this portfolio.

We have identified that the specific portfolio of fixed rate bonds described above should be reclassified to HTC model as the sale option is no longer valid for the purpose of the execution of the revised strategy. The bonds are invested on the basis that the core deposits (specifically KJC current accounts) are stable, therefore do not require reinvestment option. All bonds with required specification have been included in the revised business model.

All the criteria stipulated in IFRS 9 as required to implement a change in the business model have been fulfilled. It is infrequent, stimulated by external factors, considered to have significant impact for the business and visible for external parties. Also the decision about the change of the business model (and consequently the change of classification of financial instruments) has been made under the prescribed governance regime, with ALCo and the Management Board decisions.

Following the provisions of IFRS 9, as the decision on the change of the business model was made in the first quarter of 2022, and the Bank publishes interim financial statements on a quarterly basis, the reclassification has been included in the next interim financial report, i.e. this financial report for H1 2022, with effective date of implementation as at 1.04.2022.

The impact of the reclassification of specific financial instruments on the financial position of the Bank and its assets structure as at 1.04.2022 is as follows. Debt investment securities measured at fair value through other comprehensive income of PLN 10,521.72m have been reclassified and related fair value adjustment has been reversed, also related deferred tax asset of PLN 353.11m has been released. Debt investment securities measured at amortised cost of PLN 12,380.19m have been recognised. The changes resulted in the net other comprehensive income increase in the amount of PLN 1,505.36m.

Following the change of classification from HTC&S into HTC category in accordance with IFRS 9, the Bank is required to make the accounting entries in order to measure the portfolio of the bonds at the reclassification date as if it had always been measured at amortised cost. The portfolio has been reclassified at fair value and at the reclassification date the cumulative loss previously recognised in other comprehensive income was removed from equity and adjusted against the fair value of the portfolio of bonds. Deferred tax asset related to cumulative loss previously recognised in other comprehensive income was reversed accordingly. There were no significant expected credit losses recognised for respective bonds.

The table below shows the value of gains/losses from changes in the fair value of investment securities that would have been recognized in the revaluation reserve if the investment securities had not been reclassified.

Reclassification of investment securities from measured at fair value through other comprehensive income to measured at amortized cost	**30.06.2022**	**1.04.2022**
Reclassification date - 1.04.2022		
Measurement of debt investment securities measured at fair value through other comprehensive income	9 925 017	10 521 724
Gains/losses from changes in the fair value of investment securities that would have been recognized in the revaluation reserve if the investment securities had not been reclassified (after taking into account the tax effect)	(483 332)	n/a

22. Investments in subsidiaries and associates

Investments in subsidiaries and associates	**30.06.2022**	**31.12.2021**
Subsidiaries	2 340 801	2 340 801
Associates	36 606	36 606
Total	**2 377 407**	**2 377 407**

In thousands of PLN

23. Fixed assets classified as held for sale

Fixed assets classified as held for sale	30.06.2022	31.12.2021
Land and buildings	4 308	4 308
Total	**4 308**	**4 308**

24. Deposits from banks

Deposits from banks	30.06.2022	31.12.2021
Term deposits	298 663	123 052
Current accounts	1 471 443	1 208 421
Loans received from banks	-	6 100
Total	**1 770 106**	**1 337 573**

25. Deposits from customers

Deposits from customers	30.06.2022	31.12.2021
Deposits from individuals	**99 616 915**	**101 137 806**
Term deposits	15 574 765	9 417 860
Current accounts	83 977 796	91 650 943
Other	64 354	69 003
Deposits from enterprises	**67 403 723**	**66 806 591**
Term deposits	9 039 423	6 403 857
Current accounts	54 852 124	58 556 403
Loans from financial institution	143 541	161 388
Other	3 368 635	1 684 943
Deposits from public sector	**6 702 040**	**7 410 184**
Term deposits	448 428	238 804
Current accounts	6 247 353	7 171 126
Other	6 259	254
Total	**173 722 678**	**175 354 581**

26. Subordinated liabilities

Subordinated liabilities	Redemption date	Currency	Nominal value
Issue 1	05.08.2025	EUR	100 000
Issue 2	03.12.2026	EUR	120 000
Issue 3	22.05.2027	EUR	137 100
Issue 4	05.04.2028	PLN	1 000 000

Movements in subordinated liabilities	1.01.2022-30.06.2022	1.01.2021-30.06.2021
As at the beginning of the period	**2 649 991**	**2 654 394**
Increase (due to):	**74 976**	**32 951**
- interest on subordinated loans	45 526	32 951
- FX differences	29 450	-
Decrease (due to):	**(34 014)**	**(66 371)**
- interest repayment	(34 014)	(33 452)
- FX differences	-	(32 919)
As at the end of the period	**2 690 953**	**2 620 974**
Short-term	24 499	12 512
Long-term (over 1 year)	2 666 454	2 608 462

27. Debt securities in issue

Debt securities in issue on 30.06.2022

Name of the entity issuing the securities	Type of securities	Nominal value	Currency	Date of issue	Redemption date	Book Value (In thousands of PLN)
Santander Bank Polska S.A.	Bonds	100 000	EUR	18.12.2020	18.12.2023	468 466
Santander Bank Polska S.A.	Bonds	750 000	EUR	29.11.2021	29.11.2024	3 515 163
Santander Bank Polska S.A.	Certificates of deposits	750 000	PLN	22.12.2021	22.12.2023	751 422
Santander Bank Polska S.A.	Bonds	500 000	EUR	30.03.2022	30.03.2024	2 352 429
Total						**7 087 480**

Debt securities in issue on 31.12.2021

Name of the entity issuing the securities	Type of securities	Nominal value	Currency	Date of issue	Redemption date	Book Value (In thousands of PLN)
Santander Bank Polska S.A.	Bonds	100 000	EUR	18.12.2020	18.12.2023	459 969
Santander Bank Polska S.A.	Bonds	750 000	EUR	29.11.2021	29.11.2024	3 450 264
Santander Bank Polska S.A.	Certificates of deposits	750 000	PLN	22.12.2021	22.12.2023	750 649
Total						**4 660 882**

Movements in debt securities in issue	1.01.2022-30.06.2022	1.01.2021-30.06.2021
As at the beginning of the period	**4 660 882**	**2 772 351**
Increase (due to):	**2 438 416**	**9 392**
- debt securities in issue	2 325 350	-
- interest on debt securities in issue	29 096	8 952
- FX differences	83 970	-
- other changes	-	440
Decrease (due to):	**(11 818)**	**(56 115)**
- interest repayment	(11 818)	-
- FX differences	-	(56 115)
As at the end of the period	**7 087 480**	**2 725 628**

28. Provisions for off balance sheet credit facilities

Provisions for off balance sheet credit facilities	30.06.2022	31.12.2021
Provisions for financial commitments to grant loans and credit lines	52 254	39 442
Provisions for financial guarantees	16 887	15 155
Other provisions	712	18 533
Total	**69 853**	**73 130**

In thousands of PLN

Change in provisions for off balance sheet credit facilities	30.06.2022
As at the beginning of the period	**73 130**
Provision charge	56 266
Write back	(59 860)
Other changes	318
As at the end of the period	**69 854**
Short-term	47 098
Long-term	22 755

Change in provisions for off balance sheet credit facilities	30.06.2021
As at the beginning of the period	**74 436**
Provision charge	59 767
Write back	(66 613)
Other changes	(255)
As at the end of the period	**67 335**
Short-term	51 776
Long-term	15 559

29. Other provisions

Other provisions	30.06.2022	31.12.2021
Provision for legal risk connected with foreign currency mortgage loans	235 296	128 042
Provisions for reimbursement of costs related to early repayment of consumer loans	33 976	38 392
Provisions for legal claims and other	102 311	100 447
Provisions for restructuring	61 626	73 026
Total	**433 209**	**339 907**

Change in other provisions 1.01.2022 - 30.06.2022	Provision for legal risk connected with foreign currency mortgage loans	Provisions for reimbursement of costs related to early repayment of consumer loans	Provisions for legal claims and other	Provisions for restructuring	Total
As at the beginning of the period	**128 042**	**38 392**	**100 447**	**73 026**	**339 907**
Provision charge	99 037	(4 416)	32 333	(15)	126 939
Utilization	(6 051)	-	(30 469)	(11 385)	(47 905)
Other	14 268	-	-	-	14 268
As at the end of the period	**235 296**	**33 976**	**102 311**	**61 626**	**433 209**

Change in other provisions 1.01.2021 - 30.06.2021	Provision for legal risk connected with foreign currency mortgage loans	Provisions for reimbursement of costs related to early repayment of consumer loans	Provisions for legal claims and other	Provisions for restructuring	Total
As at the beginning of the period	**40 649**	**117 722**	**83 628**	**147 662**	**389 661**
Provision charge	28 766	-	7 591	(14 986)	21 371
Utilization	-	(10 519)	(2 878)	(7 561)	(20 958)
Other	270	(174)	(51)	-	45
As at the end of the period	**69 685**	**107 029**	**88 290**	**125 115**	**390 119**

In thousands of PLN

30. Other liabilities

Other liabilities	30.06.2022	31.12.2021
Settlements of stock exchange transactions	39 320	64 259
Interbank and interbranch settlements	894 656	319 297
Employee provisions	243 518	312 052
Sundry creditors	643 713	1 144 204
Liabilities from contracts with customers	122 233	132 132
Public and law settlements	118 584	107 092
Accrued liabilities	974 660	292 327
Total	**3 036 684**	**2 371 363**
of which financial liabilities *	2 795 867	2 132 139

*financial liabilities include all items of Other liabilities except of Public and law settlements and Liabilities from contracts with customers

Change in employee provisions 1.01.2022 - 30.06.2022		*of which: Provisions for retirement allowances*
As at the beginning of the period	**312 052**	***36 628***
Provision charge	133 009	-
Utilization	(201 543)	-
As at the end of the period	**243 518**	***36 628***
Short-term	206 891	-
Long-term	36 627	*36 628*

Change in employee provisions 1.01.2021 - 30.06.2021		*of which: Provisions for retirement allowances*
As at the beginning of the period	**201 834**	**41 205**
Provision charge	114 718	*305*
Utilization	(110 610)	-
Other changes	156	-
As at the end of the period	**206 098**	***41 510***
Short-term	164 588	-
Long-term	41 510	*41 510*

31. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In thousands of PLN

Below is a summary of the book values and fair values of the individual groups of assets and liabilities not carried at fair value in the financial statements.

	30.06.2022		31.12.2021	
ASSETS	Book Value	Fair value	Book Value	Fair value
Cash and balances with central banks	6 192 926	6 192 926	8 167 900	8 167 900
Loans and advances to banks	5 296 085	5 296 085	2 743 994	2 743 994
Loans and advances to customers measured at amortised cost, of which:	132 161 453	133 301 582	121 798 998	124 857 528
-individuals	16 668 020	17 111 228	14 976 845	15 206 717
-housing loans*	51 962 118	52 567 029	52 739 259	55 447 229
-business	62 826 666	62 918 676	53 756 603	53 877 291
Debt investment securities measured at amortised cost	14 740 412	12 186 702	1 421 272	1 411 022
LIABILITIES				
Deposits from banks	1 770 106	1 770 106	1 337 573	1 337 573
Deposits from customers	173 722 678	173 707 567	175 354 581	175 343 081
Debt securities in issue	7 087 480	7 068 810	4 660 882	4 659 490
Subordinated liabilities	2 690 953	2 666 762	2 649 991	2 637 846

*fair value measurement takes into account the impact of the payment deferral solutions described in the Note 43

Below is a summary of the key methods and assumptions used in the estimation of fair values of the financial instruments shown in the table above.

Financial assets and liabilities not carried at fair value in the statement of financial position

The Bank has financial instruments which in accordance with the IFRS are not carried at fair value in the consolidated financial statements. The fair value of such instruments is measured using the following methods and assumptions.

Loans and advances to banks: The fair value of deposits is measured using discounted cash flows at the current money market interest rates for receivables of similar credit risk, maturity and currency. In the case of demand deposits without a fixed maturity date or with maturity up to 6 months, it is assumed that their fair value is not significantly different than their book value. The process of fair value estimation for these instruments is not affected by the long-term nature of the business with depositors.

Loans and advances to customers: Carried at net value after impairment charges. Fair value is calculated as the discounted value of the expected future cash flows in respect of principal and interest payments. It is assumed that loans and advances will be repaid at their contractual maturity date. The estimated fair value of the loans and advances reflects changes in the credit risk from the moment of sanction (margins) and changes in interest rates. Loans and advances to customers were classified in their entirety as Level 3 of the fair value hierarchy due to application of a measurement model with significant unobservable inputs, i.e. current margins achieved on new credit transactions.

Deposits from banks and deposits from customers: Fair value of the deposits with maturity exceeding 6 months was estimated based on the cash flows discounted by the current market rates for the deposits with similar maturity dates. In the case of demand deposits without a fixed maturity date or with maturity up to 6 months, it is assumed that their fair value is not significantly different than their book value. The process of fair value estimation for these instruments is not affected by the long-term nature of the business with depositors.

Debt securities in issue and subordinated liabilities: The Bank has made an assumption that fair value of those securities is based on discounted cash flows methods incorporating adequate interest rates. Debt securities in issue and subordinated liabilities were classified in their entirety as Level 3 of the fair value hierarchy due to application of a measurement model with significant unobservable inputs.

For other items of liabilities, not carried at fair value in the financial statements, including: sell-buy-back transactions,lease liabilities and other liabilities - the fair value does not differ significantly from the presented carrying amounts.

Financial assets and liabilities carried at fair value in the statement of financial position

As at 30.06.2022 and in the comparable periods the Bank made the following classification of its financial instruments measured at fair value in the statement of financial position:

In thousands of PLN

Level I (active market quotations): debt, equity and derivative financial instruments which at the balance sheet date were measured using the prices quoted in the active market. The Bank allocates to this level fixed-rate State Treasury bonds, treasury bills, shares of listed companies and WIG 20 futures.

Level II (the measurement methods based on market-derived parameters): This level includes derivative instruments. Derivative instruments are measured using discounted cash flow models based on the discount curve derived from the inter-bank market.

Level III (measurement methods using material non-market parameters): This level includes equity securities that are not quoted in the active market, measured using the expert valuation model; investment certificates measured at the balance sheet date at the price announced by the mutual fund and debt securities. This level includes also part of credit cards portfolio and loans and advances subject to underwriting, i.e. portion of credit exposures that are planned to be sold before maturity for reasons other than increase in credit risk.

The objective of using a valuation technique is to determine the fair value, i.e., prices, which were obtained by the sale of an asset in an orderly transaction between market participants carried out under current market conditions between market participants at the measurement date.

Sensitivity analysis of the fair value of the credit cards portfolio and underwriting loans

The analysis covered the population of credit cards disclosed as 'Loans and advances to customers measured at fair value through other comprehensive income' and underwritting loans as at the end of June 2022 and in the comparable period for interest rate changes.

		Fair value in respective scenarios		
in PLN m		baseline	1 p.p. decrease in interest rates	1 p.p. increase in interest rates
30.06.2022	Credit cards portfolio	239,6	239,6	239,6
	Underwritting loans	2 134,8	2 078,6	2 191,0
31.12.2021	Credit cards portfolio	401, 4	400, 8	401,5
	Underwritting loans	**1 729,8**	**1 670,0**	**1 789,6**

The fair value of the credit card portfolio and underwritting loans portfolio was calculated for individual scenarios, taking into account the modified interest rate projections used both for calculating interest and for discounting cash flows.

Level 3: Other valuation techniques.

Financial assets and liabilities whose fair value is determined using valuation models for which input data is not based on observable market data (unobservable input data). In this category, the Bank classifies financial instruments, which are valued using internal valuation models:

LEVEL 3	VALUATION METHOD	UNOBSERVABLE INPUT
LOANS AND ADVANCES TO CUSTOMERS	Discounted cash flow method	Effective margin on loans
C-SERIES PREFERENCE SHARES OF VISA INC.	Estimating the fair value based on the current market value of the listed ordinary shares (A-series) of Visa Inc., including a discount which takes into account the limited liquidity of preferential shares.	Discount taking into account the limited liquidity of preferential shares.
SHARES IN BIURO INFORMACJI KREDYTOWEJ SA	Estimation of the fair value based on the present value of the forecast results of the company	Forecast results of the company
SHARES IN POLSKI STANDARD PŁATNOŚCI SP. Z O.O.	Estimation of the fair value based on the present value of the forecast results of the company	Forecast results of the company; selection of peer group
SHARES IN SOCIETY FOR WORLDWIDE INTERBANK FINANCIAL TELECOMMUNICATION	Estimation of the fair value based on the net assets value of the company and average FX exchange rate	Net asset value of the company
SHARES IN KRAJOWA IZBA ROZLICZENIOWA SA SHARES IN WAŁBRZYSKA SPECJALNA STREFA EKONOMICZNA „INVEST-PARK" SP Z O.O.	Estimation of the fair value based on the net assets value of the company	Net asset value of the company

In thousands of PLN

As at 30.06.2022 and in the comparable periods the Bank classified its financial instruments to the following fair value levels:

30.06.2022	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	772 461	7 985 134	13 151	8 770 746
Hedging derivatives	-	761 558	-	761 558
Loans and advances to customers measured at fair value through other comprehensive income	-	-	2 134 840	2 134 840
Loans and advances to customers measured at fair value through profit and loss	-	-	286 823	286 823
Debt securities measured at fair value through other comprehensive income	44 540 900	161 158	2 410	44 704 468
Debt securities measured at fair value through profit and loss	-	-	114 000	114 000
Equity securities measured at fair value through other comprehensive income	-	-	-	-
Equity securities measured at fair value through other comprehensive income	-	-	173 810	173 810
Total	**45 313 361**	**8 907 850**	**2 725 034**	**56 946 245**
Financial liabilities				
Financial liabilities held for trading	673 307	7 628 128	11 673	8 313 108
Hedging derivatives	-	1 965 580	-	1 965 580
Total	**673 307**	**9 593 708**	**11 673**	**10 278 688**

31.12.2021	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	361 679	3 655 402	3 885	4 020 966
Hedging derivatives	-	163 043	-	163 043
Loans and advances to customers measured at fair value through other comprehensive income	-	-	1 729 848	1 729 848
Loans and advances to customers measured at fair value through profit and loss	-	-	450 556	450 556
Debt securities measured at fair value through other comprehensive income	55 878 852	11 256 088	3 475	67 138 415
Debt securities measured at fair value through profit and loss	-	-	113 733	113 733
Equity securities measured at fair value through other comprehensive income	-	-	-	-
Equity securities measured at fair value through other comprehensive income	-	-	191 991	191 991
Total	**56 240 531**	**15 074 533**	**2 493 488**	**73 808 552**
Financial liabilities				
Financial liabilities held for trading	385 585	3 492 725	2 616	3 880 926
Hedging derivatives	-	1 641 824	-	1 641 824
Total	**385 585**	**5 134 549**	**2 616**	**5 522 750**

The tables below show reconciliation of changes in the balance of financial instruments whose fair value is established by means of the valuation methods using material non-market parameters.

In thousands of PLN

Level III

30.06.2022	Financial assets held for trading	Loans and advances to customers measured at fair value through profit and loss	Loans and advances to customers measured at fair value through other comprehensive income	Debt securities measured at fair value through profit and loss	Debt securities measured at fair value through other comprehensive income	Equity securities measured at fair value through other comprehensive income	Financial liabilities held for trading
As at the beginning of the period	**3 885**	**450 556**	**1 729 848**	**113 733**	**3 475**	**191 991**	**2 616**
Profit or losses							
-recognised in income statement	*7 940*	*26 135*	-	*267*	-	-	*8 820*
-recognised in equity (OCI)	-	-	*45 741*	-	-	*(18 181)*	-
Purchase/granting	*2 358*	82 953	671 204	-	-	-	915
Sale	-	(7 453)	(300 000)	-	-	-	-
Matured	-	(265 368)	(17 907)	-	-	-	-
Transfer	(1 032)	-	-	-	-	-	(678)
Other	-	-	5 954	-	(1 065)	-	-
As at the end of the period	**13 151**	**286 823**	**2 134 840**	**114 000**	**2 410**	**173 810**	**11 673**

Level III

31.12.2021	Financial assets for trading	Loans and advances to customers measured at fair value through profit and loss	Loans and advances to customers measured at fair value through other comprehensive income	Debt securities measured at fair value through profit and loss	Debt securities measured at fair value through other comprehensive income	Equity securities measured at fair value through other comprehensive income	Equity securities measured at fair value through profit and loss	Financial liabilities held for trading
As at the beginning of the period	**2 064**	**734 518**	**1 556 791**	**106 639**	**7 492**	**823 633**	**112 694**	**-**
Profit or losses								
recognised in income statement	164	*14 815*	-	*(1 745)*	-	-	*4 009*	*1 782*
recognised in equity (OCI)	-		*45 769*	-	-	*484 653*	-	-
Purchase/granting	2 011	312 207	1 738 526	-	-	428	-	700
Sale	-	(1 978)	(845 276)	-	-	(1 116 722)	(116 422)	-
Matured	-	(609 006)	(661 980)	-	-	-	-	-
Transfer	(354)	-	-	-	-	-	-	134
Other	-	-	(103 982)	8 839	(4 017)	-	(281)	-
As at the end of the period	**3 885**	**450 556**	**1 729 848**	**113 733**	**3 475**	**191 991**	**-**	**2 616**

32. Contingent liabilities

Significant court proceedings

As at 30.06.2022 the value of all litigation amounts to PLN 3 493 795 k. This amount includes PLN 860 103 k claimed by the Bank, PLN 2 633 692 k in claims against the Bank.

The amount of all court proceedings which had been completed in the period from 1.01.2022 to 30.06.2022 amounted to PLN 73 150k.

In thousands of PLN

As at 31.12.2021 the value of all litigation amounts to PLN 2,958,469 k. This amount includes PLN 847,955 k claimed by the Bank, PLN 2,110,514 k in claims against the Bank.

As at **31.12.2021** the amount of all court proceedings which had been completed amounted to PLN 122,671 k.

As at **31.12.2021**, the value of provisions for legal claims was PLN 1,075,114 k. In 684 cases against Santander Bank Polska SA, where the claim value was high (at least PLN 500 k), a provision of PLN 326,868 k was raised.

Off-balance sheet liabilities

The value of contingent liabilities and off-balance sheet transactions are presented below. The value of liabilities sanctioned and provision for off-balance sheet liabilities are presented also presented by categories. The values of guarantees and letters of credit as set out in the table below represent the maximum possible loss that would be disclosed as at the balance sheet day if the customers did not meet any of their obligations towards third parties.

Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
Liabilities granted	**40 492 736**	**884 863**	**28 418**	**41 406 017**
- financial	**30 056 739**	**657 386**	**33 858**	**30 747 983**
- credit lines	25 963 089	610 759	21 333	26 595 181
- credit cards debits	3 064 995	39 520	9 018	3 113 533
- import letters of credit	898 878	7 107	3 507	909 492
- term deposits with future commencement term	129 777	-	-	129 777
- guarantees	**10 463 885**	**234 701**	**29 301**	**10 727 887**
Provision for off-balance sheet liabilities	**(27 888)**	**(7 224)**	**(34 741)**	**(69 853)**
Liabilities received				**48 051 601**
- financial				**100 000**
- guarantees				**47 951 601**
Total	**40 492 736**	**884 863**	**28 418**	**89 457 618**

	31.12.2021			
Contingent liabilities	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Liabilities granted	**45 056 861**	**787 370**	**29 864**	**45 874 095**
- financial	**31 673 438**	**596 093**	**40 536**	**32 310 067**
- credit lines	27 130 042	538 933	32 474	27 701 449
- credit cards debits	3 228 533	50 807	6 701	3 286 041
- import letters of credit	1 314 863	6 353	1 361	1 322 577
- guarantees	**13 415 109**	**199 951**	**22 098**	**13 637 158**
Provision for off-balance sheet liabilities	**(31 686)**	**(8 674)**	**(32 770)**	**(73 130)**
Liabilities received				**48 506 129**
- financial				**26 439**
- guarantees				**48 479 690**
Total	**45 056 861**	**787 370**	**29 864**	**94 380 224**

Court proceedings relating to a partial reimbursement of arrangement fees on consumer loans

As at 30.06.2022, Santander Bank Polska S.A was sued in 735 cases concerning partial refund of an arrangement fee on consumer loans. For these proceedings Santander Bank Polska S.A raised provisions in the amount of PLN 96 k.

On 11.09.2019, the CJEU issued a ruling in case C 383/18, in which it held that pursuant to Article 16(1) in conjunction with Article 3(g) of Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers ("Directive") the consumer is entitled to an equitable reduction in the total cost of the credit (except for notarial fees and taxes), irrespective of whether such costs are linked to the lending period.

On 12.12.2019 The Supreme Court issued a ruling in case III CZP 45/19 in which it held that the interpretation of art. 49 of the Consumer Credit Act indicates that the arrangement fee should be refunded in the event of early repayment of the loan. At the same time, the Supreme Court did not indicate how the fee is related to the period by which the duration of the contract was shortened and what part of the fee is covered by the period of which the duration of the contract was shortened. It is important to settle the interpretation of national law, which will indicate the method and the time horizon of settlements.

When assessing legal risk associated with Article 49 of the Consumer Credit Act, the Santander Bank Polska G raises provisions for legal risks related to disputes regarding art. 49 of the Consumer Credit Act taking in to account interpretation differences.

33. Legal risk connected with CHF mortgage loans

As at 30 June 2022, the Bank had retail exposures of PLN 7,123,407 k (before adjustment to the gross carrying amount under IFRS 9 at PLN 2, 124, 195k) (PLN 7,277,559k as at 31 December 2021 before the adjustment of PLN PLN 1,469,728k to the gross carrying amount in line with IFRS 9) in respect of mortgage loans denominated in and indexed to CHF.

Owing to differences in the legal structure of these two types of loans and the underlying agreement templates, the assessment of legal risk varies.

There are differences in court rulings on loans indexed to or denominated in foreign currencies:

– rulings unfavourable to banks, which generally fall into two main categories: (1) judgments resulting in the invalidation of the loan agreement owing to the unfairness of the clauses providing for loan indexation and for the application of an exchange rate from the bank's FX table (prevailing practice); (2) judgments resulting in the conversion of the loan to PLN, meaning that owing to the unfairness of the said clauses, the indexation mechanism is to be removed and the loan concerned is to be treated as a PLN loan with an interest rate based on CHF LIBOR;

– rulings partially favourable to banks where loan indexation itself is deemed to be lawful but application of an exchange rate based on the bank's FX table is deemed to be unfair and as such it should be replaced by an objective indexation rate, i.e. an average NBP exchange rate. This may result in particular claims being admitted, but only in an amount equal to the FX differences close to the currency spread.

– rulings favourable to banks where conversion clauses are not deemed to be unfair and the case against the bank is dismissed.

In addition, due to the legal uncertainty described below, related to the lack of a conclusive position of the Supreme Court and the pending preliminary rulings of the Court of Justice of the European Union (CJEU), other types of rulings may also be expected in the ruling practice of common courts, especially first-instance courts, including those pointing to the absolute invalidity of the loan agreement due to unlawfulness of certain contractual provisions. Currently, in the Bank's opinion, such rulings do not have a material impact on the legal risk assessment of court cases related to CHF mortgage loans – due to their rarity, lack of confirmation in the ruling practice of higher courts, and the lack of well-established differences as to the practical consequences of such rulings compared to the prevailing ruling practice based on the concept of nullity of the contract due to the presence of unfair clauses (therefore, they are not reflected in the estimates of provisions for legal risk raised as at 30 June 2022).

The above differences result from several key rulings issued by the CJEU and the Supreme Court, which leave a margin of interpretation.

On 3 October 2019, the CJEU issued a ruling (C-260/18) regarding the consequences of potentially unfair terms in a CHF-indexed loan agreement. The ruling is of key importance to the current ruling practice. The CJEU found that if the indexation clause is held to be unfair and if after the removal of the indexation mechanism the nature of the main subject matter of the agreement is likely to change, a national court may annul the agreement, having presented to the borrower the consequences of this solution and having obtained their consent. At the same time, according to the CJEU, the national court may decide that the agreement should continue in existence after the indexation mechanism is removed (whereby the loan at issue would be treated as a PLN loan with an interest rate based on LIBOR); however, such a solution was deemed uncertain. The CJEU precluded the possibility to substitute unfair terms of the agreement with general provisions of the Polish law, but confirmed the possibility of replacing the gaps in the agreement with explicit supplementary provisions or other rules agreed by the parties.

Before the CJEU judgment was issued, the Supreme Court's stance as to the consequences of rendering the exchange rate calculation clause unfair was that indexed loan agreements are valid and lawful and the loan agreement, once the FX clause is eliminated, retains the features of an agreement on an indexed loan. In 2019, in some cases, the Supreme Court ruled that the indexation clause should be removed, and the agreement may be treated as an agreement on a PLN loan with an interest rate based on LIBOR. These rulings were an exception to the previous decisions made by the Supreme Court.

In its judgement of 11 December 2019 issued in the case against Santander Bank Polska S.A. (V CSK 382/18, justification published in April 2020), the Supreme Court decided that invalidation of indexation and continuation of the agreement as a PLN loan with a LIBOR-based interest rate is not permissible because indexation clauses are the element of the main contractual obligations of the parties, so their unfairness and elimination from the agreement makes the loan agreement invalid. This triggers the need for mutual settlements between the parties owing to unjust enrichment. At the same time, the Supreme Court stated that the previous judgements of the CJEU do not preclude the bank from demanding compensation for unjustified (i.e. without an agreement) use of the loan principal as a result of invalidation of the agreement.

In its ruling of 16 February 2021 (III CZP 11/20), the Supreme Court stated that the borrower whose loan agreement is annulled may claim reimbursement of the sums paid to the bank irrespective of whether and to what extent they owe the amounts to the bank in respect of unduly received loan proceeds (two separate claims theory). At the same time, the Supreme Court held that there are legal instruments in place, such as set-off and the right of retention, which make it possible to concurrently account for mutual settlements in relation to unjust enrichment following the annulment of the loan agreement.

In the Bank's opinion, another important development affecting the ruling practice was the CJEU judgment issued on 29 April 2021 (C-19/20), in which the CJEU indicated that the purpose of Directive 93/13/EEC on unfair terms in consumer contracts was not to annul the credit agreement, but to restore the contractual balance, and noted that when assessing the effects of unfairness of a contract, the court should take into account objective criteria, not only the consumer's situation. In addition, the CJEU stated that in order to ensure that the contract can continue in existence, the court should apply all available measures, including an analysis of the possibility of removing only some of the clauses considered unfair; at the same time, the national court should not change the substance of the contractual obligation. The CJEU confirmed that the court should always inform the consumer of all potential claims that the bank might have due to possible annulment of the contract (the majority of courts do not meet this requirement). At the same time, the CJEU did not respond to questions regarding potential claims of the bank towards the borrower, which may indicate that these claims are outside the CJEU's remit and their assessment is exclusively subject to the national law.

In its resolution of 7 May 2021 (III CZP 6/21) adopted by a bench of seven judges (and having the force of a legal rule), the Supreme Court stated that the parties may make unjust enrichment claims in the event of annulment of the loan agreement, with the settlement being made in accordance with the two separate claims theory (confirming the position expressed in the ruling of 16 February 2021). The Supreme Court confirmed that banks may pursue their claims towards borrowers as part of the lawsuits filed by customers based on the alleged set-off or retention. The Supreme Court also pointed out that the limitation of the bank's claims for return of unjust enrichment may not commence until the contract is considered permanently ineffective, i.e. until the consumer takes an informed decision as to invalidity of the contract, after they have been duly informed about the unfairness of contractual provisions and the related effects.

Despite the above resolution adopted by the Supreme Court (having the force of a legal rule) there are still doubts as to disputes regarding loans linked to a foreign currency.

Notwithstanding the resolution of 7 May 2021, in 2021 the Supreme Court was expected to take – at the request of the First President of the Supreme Court (III CZP 11/21) – a position in the form of a resolution of the entire Civil Chamber on the key aspects of the disputes (i.e. the possibility for a loan agreement to continue in existence after removal of the unfair clauses, as well as the consequences of possible annulment of the entire agreement, including the basic principles of settlements between the borrower and the bank in this regard). The position of the Supreme Court was to clarify the discrepancies and harmonise the case law with respect to foreign currency loans. The Supreme Court met several times, with the last session taking place on 2 September 2021. However, the resolution was not adopted, and the Supreme Court requested a preliminary ruling from the CJEU on the constitutional issues. The date of adopting the resolution is not known.

On 2 September 2021, the CJEU issued another judgment (C-932/19) concerning loans based on a foreign currency (case against a Hungarian bank) in which it confirmed that pursuant to Directive 93/13/ECC the objective is to restore the balance between the parties while preserving the validity of the agreement, and that the situation of one of the parties cannot be regarded by the court as the decisive criterion determining the fate of the agreement. At the same time, the CJEU confirmed that in order to uphold the agreement it is necessary to refer to the national legislation (supplementary provisions) which will ensure due performance of the agreement even if the borrower objects to it or if such legislation was not effective at the time the agreement was made.

In its judgment of 18 November 2021 on a loan indexed to a foreign currency (C-212/20), the CJEU held that the loan agreement must precisely define the criteria for determination of an exchange rate so that a consumer can evaluate the economic consequences of the agreement. The CJEU also stated that the agreement may continue in existence based on a supplementary provision only if its annulment could expose the consumer to unfavourable consequences. It further upheld its stance previously presented in its judgment of 3 October 2019 that gaps in the agreement cannot be filled on the basis of national provisions of a general nature which refer to the principle of equity or established customs. The CJEU reiterated that supplementary provisions or applicable provisions may be used where the parties to the agreement so agree.

Although the CJEU judgments indicate the primacy of the resolution under which the agreement should continue in existence and the balance between the parties should be restored, the majority of court decisions is not favourable to the Bank.

There are also other issues pending the CJEU judgement that are relevant to the ruling practice concerning loans indexed to or denominated in a foreign currency. In August 2021, the District Court for Warsaw–Śródmieście requested a preliminary ruling from the CJEU on the settlement of benefits arising from the non-contractual use of the capital in the case of annulment of the agreement pursuant to Directive 93/13/EEC on unfair terms in consumer contracts. In November 2021, the Regional Court in Warsaw asked the CJEU to give a preliminary ruling on the commencement of the limitation of claims for return of considerations following the annulment of the agreement and the possibility to exercise the right of retention by the entity (where the return of the considerations received from the consumer would only be possible if the consumer offered to return or secured the return of the considerations received from the entity). In January 2022, new requests for preliminary rulings were submitted to the CJEU by the Regional Court in Kraków (regarding the possibility to exercise the right of retention as part of settlement of an annulled agreement) and by the District Court for Warsaw-Śródmieście (regarding the legal basis for the annulment of a loan agreement and the resulting settlements as well as the effect of a contractual clause being entered in the register of unfair clauses in the course of an abstract review in relation to individual court proceedings). In addition, in March 2022 the District Court in Warsaw approached the CJEU with a request for a preliminary ruling on the court's use of a precautionary measure (securing a claim) which consists in suspending the performance of the agreement for the duration of the proceedings.

Pending the CJEU judgment are also the questions referred for a preliminary ruling by the District Court for Warsaw-Wola concerning the scope of application of Directive 93/13/ECC on unfair terms in consumer contracts (whether it includes the settlement of an invalid agreement) and the importance of the consumer's will for the court adjudicating on the annulment of the agreement. In October 2020, the District Court for Warsaw-Śródmieście requested a preliminary ruling from the CJEU on: the possibility to apply supplementary provisions of national law to fill the gaps caused by the removal of the unfair terms, the commencement of the limitation of the consumer's claims for return of considerations resulting from the annulment of the agreement, possibility to remove only a part of the clause considered to be unfair and modify by interpretation the part of the agreement that has not been considered unfair (for the agreement to continue in existence).

It is still difficult to assess the potential impact of the CJUE judgments on rulings of Polish courts in cases regarding foreign currency loans. To date, the Supreme Court has not taken a position to clarify the discrepancies and harmonise the case law with respect to foreign currency loans.

As there is no uniform ruling practice and – in the Management Board's opinion – it is not possible to predict the Supreme Court's decisions on individual cases, as at the date of these financial statements the Bank estimated legal risk associated with the portfolio of loans indexed to and denominated in a foreign currency using a model which considers different possible judgments (in the form of adjustment to the gross carrying amount for active exposures or provisions for inactive exposures), including those which are the subject of the request for the resolution of the entire Civil Chamber of the Supreme Court. The Bank is monitoring court decisions taken with regard to foreign currency loans in terms of changes in the ruling practice.

In December 2020, the Chairman of the Polish Financial Supervision Authority (KNF) presented a proposal for voluntary settlements between banks and borrowers under which CHF loans would be retrospectively settled as PLN loans bearing an interest rate based on WIBOR plus margin. The Bank has been testing such settlements in relation to different customer groups in parallel with own settlement solutions. The tests will need to be continued due to lingering legal uncertainty and unstable economic environment caused by interest rate hikes. The results of ongoing tests have been included in the model which is currently used to calculate legal risk provisions, both in terms of the impact of proposed settlements to customers' willingness to bring the case to court and with respect to the potential outcomes of court proceedings.

In view of the above, the Bank identified the risk that the scheduled cash flows from the portfolio of mortgage loans denominated in and indexed to foreign currencies might not be fully recoverable and/or that a liability might arise, resulting in a future cash outflow. Total cumulative impact of legal risk associated with foreign currency mortgage loans is recognised in line with the requirements arising from:

- IFRS 9 Financial Instruments – in the case of outstanding loans and
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets – in the case of loans repaid in full or if the gross carrying amount of an outstanding loan is lower than the value of risk.

The adjustment to the gross carrying amount (in accordance with IFRS 9) and provisions (in accordance with IAS 37) were estimated taking into account a number of assumptions which significantly influence the estimate reflected in the Bank's financial statements.

As at 30 June 2022, there were 7,447 pending lawsuits against the Bank over loans indexed to or denominated in CHF, with the disputed amount totalling PLN 2,212,094k. This included one class actions filed under the Class Action Act and relating to 534 CHF-indexed loans, with the disputed amount of PLN 50,983k;

In thousands of PLN

As at 31 December 2021, there were 6,182 pending lawsuits against the Bank over loans indexed to or denominated in CHF, with the disputed amount totalling PLN 1,692,963k. This included one class action filed under the Class Action Act and relating to 534 CHF-indexed loans with the disputed amount of PLN 50,983k.

As at 30 June 2022, the total cumulative impact of legal risk associated with foreign currency mortgage loans in the Bank was estimated at PLN 2,359,492k, including:

- IFRS 9 adjustment to the gross carrying amount at PLN 2,124,195k
- IAS 37 provision at PLN 235,297k

As at 31 December 2021, the total cumulative impact of legal risk associated with foreign currency mortgage loans in the Bank was estimated at PLN 1,597,771k, including:

- IFRS 9 adjustment to the gross carrying amount at PLN 1 469,728k
- IAS 37 provision at PLN 128,043k

The tables below present the total cost of legal risk connected with mortgage loans recognised in the Bank's income statement and statement of financial position:

Cost of legal risk connected with foreign currency mortgage loans	1.04.2022-30.06.2022	1.01.2022-30.06.2022	1.04.2021-30.06.2021	1.01.2021-30.06.2021
Impact of legal risk associated with foreign currency mortgage loans recognised as adjustment to gross carrying amount	(575 284)	(622 200)	(379 175)	(511 190)
Impact of legal risk associated with foreign currency mortgage loans recognised as provision	(101 890)	(99 037)	(43 815)	(65 647)
Other costs	(43 557)	(77 169)	(9 531)	(21 049)
Total cost of legal risk associated with foreign currency mortgage loans	**(720 731)**	**(798 406)**	**(432 521)**	**(597 886)**

	30.06.2022	31.12.2021
Adjustment to gross carrying amount owing to legal risk associated with foreign currency mortgage loans	2 124 195	1 469 728
Provision for legal risk associated with foreign currency mortgage loans	235 297	128 043
Total cumulative impact of legal risk associated with foreign currency mortgage loans	**2 359 492**	**1 597 771**

Total adjustment to the gross carrying amount and provisions for legal risk and legal provisions (for legal claims and a collective portion) account for 33.1% of the active portfolio of CHF loans.

The change in the above provisions in H1 2022 is due to factors such as new court cases (up 1,265 compared to December 2021) and a change in total loss should the Bank lose the case resulting from changes to the assumed level of the likelihood of claims being resolved in favour of customers.

In H1 2022, we also observed more court rulings (most of which, as specified above, declare loan agreements invalid as a result of the unfairness of contractual terms), but the number of cases ended with a final and non-appealable judgment remains relatively low.

The Bank used a statistical model to estimate the likelihood of claims being made by borrowers in relation to both active and repaid loans based on the existing claims against the Bank and the estimated growth in their number. The model assesses the so-called lifetime risk and is based on a range of behavioural characteristics related to the loan and the customer. The Bank assumes that lawsuits have been or will be filed against the Bank in relation to approx. 20.6% of loans (active and repaid). These assumptions are highly sensitive to a number of external factors, including but not limited to the ruling practice of Polish courts, the level of publicity around individual rulings, measures taken by the mediating law firms and the cost of proceedings. The Bank expects that most of the lawsuits will be filed by mid-2023, and then the number of new claims will drop as the legal environment will become more structured.

For the purpose of calculation of provisions, the Bank also estimated how likely it is that a specific number of lawsuits will be filed and what the possible end scenarios are in this respect. The likelihood ratios differ between indexed and denominated loans. The likelihood of unfavourable ruling for the Bank is higher for the former and lower for the latter. The Bank also considered the disproportion in rulings issued by first and second instance courts, the relatively low number of final and non-appealable judgments and protracted proceedings in some courts. As at 30 June 2022, 350 final and non-appealable judgments were issued in cases against the Bank (including those passed after the CJEU ruling of 3 October 2019), of which 312 were unfavourable to the Bank, and 38 were entirely or partially favourable to the Bank (compared to 139 judgments as at 31 December 2021, including 119 unfavourable ones and 20 entirely or partially favourable). When assessing these likelihoods, the Bank used the support of law firms and conducted thorough analysis of the ruling practice in cases concerning indexed and denominated loans.

In thousands of PLN

As the current ruling practice is not uniform, the Bank considers the following scenarios of possible court rulings that might lead to financial losses:

- annulment of the whole loan agreement due to identification of unfair clauses, with no cost of capital to be reimbursed by the borrower;
- annulment of the loan agreement clauses identified as unfair, resulting in the loan to be converted into PLN, with the CHF LIBOR-based interest rate being maintained;
- decisions leading to the settlement by the borrower of the cost of capital obtained:
  - annulment of the whole loan agreement as it contains unfair clauses, with the cost of capital to be reimbursed by the borrower;
  - conversion of the loan to PLN with an interest rate based on WIBOR;
- annulment of the loan agreement clauses identified as unfair with respect to the FX differences determination mechanism, resulting in the average NBP rate to be applied.

The likelihoods of these scenarios also vary depending on the type of agreement, and are based on a relatively small sample of rulings. They were estimated with the support of external law firms independent from the Bank. Each of these scenarios has an estimated expected loss level based on the available historical data.

In the Bank's opinion, the expected number of cases estimated based on the statistical model is also characterised by uncertainty owing to such factors as: the duration of court proceedings (also estimated based on a relatively short time horizon of available statistics, which does not meet the conditions for application of quantitative methods) and the growing costs related to the instigation and continuation of court proceedings.

The Bank prepared a settlement scenario as at 30 June 2022 which reflects the level of losses for future settlements. The scenario is based on acceptance levels and losses for loans in line with the settlement tests described above. The acceptance level of future settlements is affected by factors such as the interest rate of PLN, the CHF/PLN conversion rate, the development of the ruling practice and the duration of proceedings.

The Bank will continue to monitor and evaluate the adequacy of the above-mentioned provisions in subsequent reporting periods.

Due to the high uncertainty around both individual assumptions and their total impact, the Bank carried out the following sensitivity analysis of the estimated provision by estimating the impact of variability of individual parameters on the provision value.

The estimates are prepared in the form of a univariate analysis of provision value sensitivity.

Taking into account the variability of the parameters outlined below, the impact on the collective provision for legal risk estimated as at 30 June 2022 is as follows:

Scenario	Change in the collective provision [in PLN m]
Tripling the number of customers filing a lawsuit	1311
Doubling the number of customers filing a lawsuit	656
50% reduction in the number of customers filing a lawsuit	(328)
Relative increase of 5% in likelihood of losing the case	31
Relative decrease of 5% in likelihood of losing the case	(31)
Non-recognition of reimbursement of the cost of principal	71

For all the parameters, the variability range in the sensitivity analysis was estimated taking into account the existing market conditions. The adopted variability ranges may change depending on market developments, which may significantly affect the results of the sensitivity analysis.

In thousands of PLN

Taking into account the variability of the parameters outlined below, the impact on the provision for individual legal claims estimated as at 30 June 2022 is as follows:

Scenario	Change in the individual provision [in PLN m]
Relative increase of 5% in likelihood of losing the case	73
Relative decrease of 5% in likelihood of losing the case	(73)
Non-recognition of reimbursement of the cost of principal	164

34. Shareholders with min. 5% voting power

Shareholder	Number of shares held		% in the share capital		Number of votes at AGM		Voting power at AGM	
	28.07.2022	26.04.2022	28.07.2022	26.04.2022	28.07.2022	26.04.2022	28.07.2022	26.04.2022
Banco Santander S.A.	68 880 774	68 880 774	67,41%	67,41%	68 880 774	68 880 774	67,41%	67,41%
Nationale-Nederlanden OFE *	5 123 581	5 123 581	5,01%	5,01%	5 123 581	5 123 581	5,01%	5,01%
Others	28 184 959	28 184 959	27,58%	27,58%	28 184 959	28 184 959	27,58%	27,58%
Total	**102 189 314**	**102 189 314**	**100%**	**100%**	**102 189 314**	**102 189 314**	**100%**	**100%**

* Nationale-Nederlanden OFE is managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne SA

According to the information held by the Bank's Management Board, the shareholders with a min. 5% of the total numer of votes at the Santander Bank Polska General Meeting as at the publication date of the condensed interim report for 1H 2022 /28.07.2022/ are Banco Santander SA and Funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne SA.

35. Related parties

The tables below present intercompany transactions. Transactions between Santander Bank Polska SA 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. In the case of internal Group transactions, a documentation is prepared in accordance with requirements of tax regulations for transfer pricing.

Transactions with subsidiaries	30.06.2022	31.12.2021
Assets	**17 210 213**	**11 664 894**
Loans and advances to banks	301 667	203 738
Financial assets held for trading	25	1 141
Loans and advances to customers	16 836 908	11 440 135
Other assets	71 613	19 880
Liabilities	**462 904**	**607 209**
Deposits from banks	4 475	4 733
Financial liabilities held for trading	10 437	2 845
Deposits from customers	268 187	415 942
Lease liabilities	179 789	183 616
Other liabilities	16	73
Contingent Liabilities	**4 842 565**	**6 552 214**
Sanctioned:	3 942 565	6 052 214
financial	*1 551 104*	*1 412 112*
guarantees	*2 391 461*	*4 640 102*
Received:	900 000	500 000
guarantees	*900 000*	*500 000*

In thousands of PLN

Transactions with subsidiaries	1.01.2022-30.06.2022	1.01.2021-30.06.2021
Income	**228 388**	**86 012**
Interest income	196 267	45 437
Fee and commission income	28 007	36 910
Other operating income	4 114	3 665
Net trading income and revaluation	-	-
Expenses	**14 379**	**18 709**
Interest expenses	5 614	1 445
Fee and commission expenses	92	178
Net trading income and revaluation	8 505	12 533
Operating expenses incl.:	168	4 553
Bank's staff, operating expenses and management costs	*158*	*330*
Other	*10*	*4 223*

Transactions with associates	30.06.2022	31.12.2021
Liabilities	**66 988**	**50 708**
Deposits from customers	66 988	50 708

Transactions with associates	1.01.2022-30.06.2022	1.01.2021-30.06.2021
Income	**29 159**	**24 468**
Fee and commission income	29 159	24 468
Expenses	**618**	**1**
Interest expense	618	1

	with the parent company		with other entities	
Transactions with Santander Group	30.06.2022	31.12.2021	30.06.2022	31.12.2021
Assets	**6 045 019**	**2 205 680**	**9 373**	**28 379**
Loans and advances to banks, incl:	1 643 449	406 371	9 317	20 773
current accounts	*579 412*	*406 371*	*9 317*	*20 773*
term deposits and loans	*1 064 037*	-	-	-
Financial assets held for trading	4 401 539	1 797 764	-	-
Other assets	31	1 545	56	7 606
Liabilities	**11 051 061**	**5 902 386**	**231 286**	**254 222**
Deposits from banks incl.:	288 585	138 538	118 633	119 507
current accounts	*288 585*	*138 538*	*118 633*	*119 507*
Financial liabilities held for trading	4 403 246	1 850 935	-	-
Deposits from customers	-	-	56 810	84 647
Lease liabilities	-	-	25	25
Debt securities in issue	6 336 058	3 910 233	-	-
Other liabilities	23 172	2 680	55 818	50 043
Contingent liabilities	**3 625 208**	**5 280 787**	**22 237**	**64 355**
Sanctioned:	2 100	-	12 752	32 536
financial	*2 100*	-	-	-
guarantees	-	-	*12 752*	*32 536*
Received:	3 623 108	5 280 787	9 485	31 819
guarantees	*3 623 108*	*5 280 787*	*9 485*	*31 819*

In thousands of PLN

Transactions with Santander Group	with the parent company 1.01.2022-30.06.2022	with the parent company 1.01.2021-30.06.2021	with other entities 1.01.2022-30.06.2022	with other entities 1.01.2021-30.06.2021
Income	**540 258**	**296 583**	**5 198**	**451**
Interest income	(317)	(1 149)	3	9
Fee and commission income	5 934	3 462	458	66
Other operating income	84	1	4 377	376
Net trading income and revaluation	534 557	294 269	360	-
Expenses	**51 317**	**28 561**	**63 207**	**47 562**
Interest expense	25 752	6 298	1 899	-
Fee and commission expense	2 870	4 663	236	97
Net trading income and revaluation	-	-	-	102
Operating expenses incl.:	22 695	17 600	61 072	47 363
staff,operating expenses and management costs	*22 693*	*17 535*	*61 072*	*47 363*
other operating expenses	*2*	*65*	-	-

Transactions with key management personnel

Remuneration of Santander Bank Polska Management Board Members, Supervisory Board Members and key management personnel.

Loans and advances granted to key management personnel

As at 30.06.2022, 31.12.2021 and 30.06.2021 members of the Management Board were bound by the non-compete agreements which remain in force after they step down from their function. If a Member of the Management Board is removed from their function or not appointed for another term, he/she is entitled to a once-off severance pay. The severance pay does not apply if the person accepts another function in the Bank.

Loans and advances have been sanctioned on regular terms and conditions.

Remuneration of Management Board Members and Key Management Personnel	Management Board Members 1.01.2022-30.06.2022	Management Board Members 1.01.2021-30.06.2021	Key Management Personnel 1.01.2022-30.06.2022	Key Management Personnel 1.01.2021-30.06.2021
Fixed renumeration	7 121	6 590	13 268	12 692
Additional benefits (e.g among others, life insurance cover without pension option, medical cover, travel expenses and school fees)	1 395	878	612	544
Variable remuneration paid in 2022 and 2021*	10 988	7 069	8 482	6 323
Equivalent paid for unused annual leave	-	-	17	-
Additional compensation for termination of the contract and the non-competition clause	-	396	-	-
Provisions for retirement benefits and provision for unused holidays	2 032	1 396	4 274	4 511
The number of conditional rights to shares	-	-	-	-

* included part of the award for 2021, 2020, 2019, 2018, 2017 and 2016 which was conditional and deferred in time

	Management Board Members 30.06.2022	Management Board Members 31.12.2021	Key Management Personnel 30.06.2022	Key Management Personnel 31.12.2021
Loans and advances made by the Bank to the Members of the Management Board/Key Management and to their relatives	5 481	5 996	19 846	23 571
Deposits from The Management Board/Key management and their relatives	8 743	14 014	18 076	15 577

The category of key management personnel includes the persons covered by the principles outlined in the "Santander Bank Polska Group Remuneration Policy".

Santander Bank Polska SA applies the "Santander Bank Polska Group Remuneration Policy". The Policy has been approved by the bank's Management Board and Supervisory Board and is reviewed annually or each time significant organisational changes are made.

Persons holding managerial positions are paid variable remuneration once a year following the end of the settlement period and release of the bank's results. Variable remuneration is awarded in accordance with applicable bonus regulations and paid in cash and in the form of shares or related financial instruments - phantom shares. The latter shall represent min. 50% of the total amount of variable remuneration. Payment of min. 40% of variable remuneration referred to above is conditional and deferred for the period of three years with the possibility of extending the period to 5 years. Variable remuneration is paid in arrears in equal annual instalments depending on individual performance in the period subject to assessment and the value of the shares or related financial instrument.

In H1 2022, the total remuneration paid to the Supervisory Board Members of Santander Bank Polska totalled PLN 1,091.9 k (1,042 k in H1 2021). Mr John Power received remuneration of PLN 54.4 k from subsidiaries for his membership in their Supervisory Boards (47.5 k in H1 2021).

36. Changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, whether those assets or liabilities are recognized at fair value or amortised costs

The monetary policy tightening cycle started by the National Bank of Poland in 2021 and continued in 2022 (by increasing the level of interest rates) resulted in a further increase in the profitability of the debt securities portfolio and, consequently, a decrease in the valuation of those securities.

37. Any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period

No such events took place in the reporting period and the comparable period.

38. Character and amounts of items which are extraordinary due to their nature, volume or occurrence

Creation of a new IPS system for commercial banks

On June 10, 2022, the Polish Financial Supervision Authority approved the draft agreement and recognized the commercial bank protection scheme (IPS – Institutional Protection Scheme) referred to in Article 4.1.9a of the Banking Law Act of 29 August 1997.

Santander Bank Polska S.A. with 7 other commercial banks (Alior Bank S.A., BNP Paribas Bank Polska S.A., ING Bank Śląski S.A., mBank S.A., Bank Millennium S.A., Bank Polska Kasa Opieki S.A., PKO Bank Polski S.A.) (Member Banks) signed an agreement and created a joint-stock company being the protection scheme managing entity (Managing Entity). Currently, it is under the process of registration. The share capital of the Managing Entity shall be PLN 1,000,000. The Bank will take up 12,914 shares of the Managing Entity, of the total par value of PLN 129,140 or ca. 12,9% of its share capital.

The Managing Entity shall establish an aid fund to ensure resources for funding the tasks of the protection scheme. The aid fund will be formed of the contributions made by Member Banks being 0,4% of the amount of the guaranteed funds of the given bank covered by the mandatory deposit guarantee scheme, referred to in Article 2.34 of the Act on the Bank Guarantee Fund, the Deposit Guarantee Scheme and Resolution of 10 June 2016 (BGF Act). Given the level of guaranteed funds of the Bank as at the end of Q1 2022, it is estimated that the Bank will pay the amount of PLN 407,263,243 to the aid fund after the entity's registration. Due to the fact that the agreement was signed and approved by the KNF Office, this amount was recognized in the Bank's financial result for the second quarter of 2022 presented in these financial statements. Subsequent contributions to the aid fund shall require a unanimous resolution of the general meeting of the Managing Entity.

Based on Article. 34 sec. 1 of the Act of April 7, 2022 Amending the Act on Covered Bonds and Mortgage Banks and Certain Other Acts (Journal of Laws, item 872, "Act Amending the Act on Covered Bonds"), obligation to make contributions due for 2022 to the obligatory deposit guarantee scheme contributed by banks and branches of foreign banks was suspended until October 31, 2022, for fees which were not paid before the effective date of this provision, i.e. by May 7, 2022. Therefore, the Bank Guarantee Fund did not specify the amount of contributions to the obligatory deposit guarantee scheme made by banks and branches of foreign banks due for the second quarter of 2022.

39. Information concerning issuing loan and guarantees by an issuer or its subsidiary

As at 30.06.2022 and 31.12.2021 Santander Bank Polska SA and its subsidiaries had not issued any guarantees to one business unit or a subsidiary totalling a minimum of 10% of the issuer's equity.

40. Creation and reversal of impairment charges for financial assets, tangible fixed assets, intangible fixed assets and other assets

Details in Note 10 and 14.

41. Material purchases or sales of tangible fixed assets and material obligations arising from the purchase of tangible fixed assets

As at 30.06.2022 and 31.12.2021 or Santander Bank Polska S.A. or its subsidiaries have not made significant sales and purchases of property, plant and equipment. There were no significant liabilities arising from purchase of fixed assets either.

42. Dividend per share

The Management Board's recommendation on the distribution of profit for 2021 and undistributed profit for 2019.

The Management Board of Santander Bank Polska S.A. informed that on 31 March 2022 it issued a recommendation on the distribution of profit for 2021 and undistributed profit for 2019. The recommendation was approved by the Bank's Supervisory Board.
In line with the decision taken, the Bank's Management Board recommended that the profit of PLN 915,877,566.59 for 2021 be distributed as follows:

- PLN 273,867,361.52 to be allocated to dividend for shareholders;
- PLN 457,938,783.30 to be allocated to reserve capital;
- PLN 184,071,421.77 to be kept undistributed.
- the undistributed profit of PLN 1,056,761,994.64 for 2019 be allocated to the Dividend Reserve created by force of resolution no. 6 of the Annual General Meeting of 22 March 2021 on profit distribution and creation of capital reserve.

In addition, the Management Board recommends that the dividend to be paid out of the profit earned in 2021 should include 102,189,314 shares of series A, B, C, D, E, F, G, H, I, J, K, L, M, N and O; the Dividend will represent 29.90% of the net profit earned in 2021; the Dividend per share will be PLN 2.68; the Dividend record date will be 25 May 2022 and the Dividend will be paid on 1 June 2022.
The Bank's Management Board and Supervisory Board presented this proposal along with the recommendation at the Bank's Annual General Meeting.
The Bank hereby informed that:

1. Pursuant to Article 349 § 1 of the Commercial Companies Code and § 50(4) of the Bank's Statutes, and based on Management Board resolution no. 175/2021 of 1 September 2021 and Supervisory Board resolution no. 122/2021 of 1 September 2021, on 15 October 2021 the Bank paid interim dividend of PLN 220,728,918.24 ("Interim Dividend"). The Interim Dividend included 102,189,314 shares (one hundred two million one hundred eighty-nine thousand and three hundred fourteen) of series A, B, C, D, E, F, G, H, I, J, K, L, M, N and O. The Interim Dividend per share was PLN 2.16 and the record date for the Interim Dividend was 8 October 2021.

2. The Interim Dividend was paid from the Dividend Reserve created by force of resolution of the Annual General Meeting no. 6/2021 of 22 March 2021 from the part of the net profit earned by the Bank in 2020; it does not reduce the Dividend to be paid out to shareholders.

When taking its decision, the Management Board took into account the current macroeconomic environment as well as the recommendations and current position of the Polish Financial Supervision Authority (KNF), including that outlined in the KNF's letter of 23 February 2022, of which the Bank informed in its current report no. 5/2022 of 23 February 2022, as well as the position outlined in the letter of 9 March 2020 confirming the Bank's compliance with the criteria for paying a dividend from the profit earned in 2019, of which the Bank informed in its current report no. 4/2020 of 10 March 2020.

Annual General Meeting of Santander Bank Polska S.A. - resolution re. dividend payment.

Santander Bank Polska S.A. informed that the Annual General Meeting of the Bank, held on 27 April 2022, adopted a resolution on dividend payment.

It was decided to allocate to dividend for shareholders the amount of PLN 273,867,361.52 from the Bank's net profit for 2021.

102,189,314 (say: one hundred two million, one hundred eighty nine thousand and three hundred fourteen) series A, B, C, D, E, F, G, H, I, J, K, L, M, N and O shares give entitlement to the dividend to be paid out from 2021 profit.

Dividend per one: A, B, C, D, E, F, G, H, I, J, K, L, N and O series share was PLN 2.68.

The Dividend record day was 25 May 2022 and the Dividend was paid out on 1 June 2022.

43. Events which occurred subsequently to the end of the reporting period

Act on crowdfunding for business and support for borrowers

On 14 July 2022, the President of the Republic of Poland signed the Act on crowdfunding for business and support for borrowers. One of the purposes of the Act is to help the mortgage borrowers by enabling them to defer their repayments.

According to the Act:

– the borrowers will be able to defer the repayment of loan instalments in two months of Q3 and Q4 2022 and in one month of each quarter of 2023;

– the deferred instalments will extend the lending period;

– the payment deferral will be available to the borrowers who are repaying PLN mortgage loans taken out for housing purposes before 1 July 2022;

– the borrowers who have taken out more than one mortgage loan can only defer the repayment of one of their loans;

– the bank will not accrue interest on the deferred instalment.

The Bank estimates that the impact of the introduced payment deferral solutions on the Bank’s profit before tax in Q3 2022 will be approximately PLN 1.346bn, assuming that the solution is fully used by 50% of eligible customers. The Bank estimates that any change in the number of eligible borrowers fully using the credit holidays by 10% will result in a change of the above estimation by PLN 269 million. The actual impact from payment deferral solutions on the Banks’s financial performance will depend on factors such as the number of customers who will use the solution, the number of instalments deferred by each of these customers and the time they start applying the payment deferral.

As at the 30 June 2022 balance sheet date, there was no final and precise version of regulations on payment deferral that is a necessary prerequisite that would enable making a reliable estimate of how these regulations will impact the Bank’s financial position. Consequently, management applied their judgement and has decided to recognise the impact of the payment deferrals on the day the corresponding regulations were substantively enacted in July 2022. In July 2022, the impact will be recognised as an adjustment of gross carrying value of the mortgage loans and a corresponding reduction of interest income. Once enacted, the legislation drives timing and/or amounts of the contractual cash flows that the lender is able to legally enforce, thus resulting in the revision of the gross carrying value of the loans.

The new regulations also provide for strengthening the Borrowers Support Fund. The Bank estimates its share in the Fund at PLN 140m which will be charged to the Bank’s profit before tax in Q3 2022. The final amount of contributions will be set by the Board of the Borrowers Support Fund at a later date.

Signatures of the persons representing the entity

Date	Name	Function	Signature
27.07.2022	Michał Gajewski	President	
27.07.2022	Andrzej Burliga	Vice-President	
27.07.2022	Juan de Porras Aguirre	Vice-President	
27.07.2022	Arkadiusz Przybył	Vice-President	
27.07.2022	Lech Gałkowski	Member	
27.07.2022	Patryk Nowakowski	Member	
27.07.2022	Carlos Polaino Izquierdo	Member	
27.07.2022	Maciej Reluga	Member	
27.07.2022	Dorota Strojkowska	Member	

Signature of a person who is responsible for maintaining the book of account

Date	Name	Function	Signature
27.07.2022	Wojciech Skalski	Financial Accounting Area Director	