Annual report of Santander Bank Polska for 2019

FINANCIAL HIGHLIGHTS

		PLN k		EUR k	
		31.12.2019	31.12.2018* restated	31.12.2019	31.12.2018* restated
	Stand alone financial statement				
I	Net interest income	4 817 426	4 063 056	1 119 863	952 227
II	Net fee and commission income	1 698 437	1 616 903	394 820	378 941
III	Profit before tax	2 735 089	2 664 958	635 801	624 565
IV	Profit for the period	2 113 524	2 174 055	491 312	509 516
V	Total net cash flows	(2 031 081)	11 296 071	(472 147)	2 647 372
VI	Total assets	181 471 487	183 850 769	42 613 946	42 755 993
VII	Deposits from banks	1 506 141	1 039 979	353 679	241 856
VIII	Deposits from customers	144 760 017	139 469 776	33 993 194	32 434 832
IX	Total liabilities	157 293 901	160 055 160	36 936 457	37 222 130
X	Total equity	24 177 586	23 795 609	5 677 489	5 533 863
XI	Number of shares	102 088 305	102 088 305		
XII	Net book value per share in PLN/EUR	236,83	233,09	55,61	54,21
XIII	Capital ratio	19,58%	18,04%	-	-
XIV	Profit per share in PLN/EUR	20,70	21,80	4,81	5,11
XV	Diluted earnings per share in PLN/EUR	20,68	21,76	4,81	5,10
XVI	Declared or paid dividend per share in PLN/EUR*	19,72	3,10	4,58	0,73

* Detailed information are described in Note 53.

The following rates were applied to determine the key EUR amounts for selected financial data:

- for balance sheet items – average NBP exchange rate as at 31.12.2019: EUR 1 = PLN 4.2585 and as at 31.12.2018: EUR 1 = PLN 4.3000
- for profit and loss items – as at 31.12.2019 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in 2019: EUR 1 = PLN 4.3018; as at 31.12.2018 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in 2018: EUR 1 = PLN 4.2669

As at 31.12.2019, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 251/A/NBP/2019 dd. 31.12.2019.

Financial Statements of Santander Bank Polska for 2019

In thousands of PLN

I. Income statement

	for the period	1.01.2019-31.12.2019	1.01.2018-31.12.2018* restated
Interest income and similar to income		**6 243 772**	**5 174 209**
Interest income on financial assets measured at amortised cost		5 341 992	4 401 909
Interest income on financial assets measured at fair value through other comprehensive income		781 164	683 986
Income similar to interest on financial assets measured at fair value through profit or loss		120 616	88 314
Interest expense		**(1 426 346)**	**(1 111 153)**
Net interest income	Note 5	**4 817 426**	**4 063 056**
Fee and commission income		2 017 476	1 900 245
Fee and commission expense		(319 039)	(283 342)
Net fee and commission income	Note 6	**1 698 437**	**1 616 903**
Dividend income	Note 7	608 752	492 607
Net gains/(losses) on subordinated entities		-	(65)
Net trading income and revaluation	Note 8	204 721	153 564
Gains (losses) from other financial securities	Note 9	184 634	40 522
Other operating income	Note 10	194 267	154 335
Gain on acquisition of enterprise	Note 50	-	405 089
Impairment losses on loans and advances	Note 11	(868 538)	(777 511)
Operating expenses incl.:		(3 550 242)	(3 023 043)
-Staff, operating expenses and management costs	Note 12 and 13	(2 762 161)	(2 590 275)
-Amortisation of property, plant and equipment and Intangible assets		(368 386)	(280 350)
-Amortisation of right of use asset		(165 475)	-
-Other operating expenses	Note 14	(254 220)	(152 418)
Tax on financial institutions		(554 368)	(460 499)
Profit before tax		**2 735 089**	**2 664 958**
Corporate income tax	Note 15	(621 565)	(490 903)
Profit for the period		**2 113 524**	**2 174 055**
Net earnings per share	Note 16		
Basic earnings per share (PLN/share)		20,70	21,80
Diluted earnings per share (PLN/share)		20,68	21,76

* details in Note 2.4.

Notes presented on pages 13 – 150 constitute an integral part of this Financial Statements.

In thousands of PLN

II. Statement of comprehensive income

for the period:	1.01.2019-31.12.2019	1.01.2018-31.12.2018* restated
Profit for the period	**2 113 524**	**2 174 055**
Other comprehensive income which can be transferred to the profit and loss net account:	**215 996**	**331 641**
Valuation and sales of debt securities measured at fair value through other comprehensive income gross	217 416	379 159
Deferred tax	(41 309)	(72 040)
Valuation of cash flow hedging instruments gross	49 246	30 274
Deferred tax	(9 357)	(5 752)
Other comprehensive income which can't be transferred to the profit and loss net account:	**46 259**	**18 865**
Valuation and sales of equity securities measured at fair value through other comprehensive income gross	64 472	10 270
Deferred and current tax	(17 178)	(1 966)
Provision for retirement allowances – actuarial gains/losses gross	(1 278)	13 038
Deferred tax	243	(2 477)
Total other comprehensive income for the period net	**262 255**	**350 506**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**2 375 779**	**2 524 561**

* details in Note 2.4.

In thousands of PLN

III. Statement of financial position

as at:		31.12.2019	31.12.2018 * restated	1.01.2018 * restated
ASSETS				
Cash and balances with central banks	Note 17	7 821 831	8 841 902	4 114 801
Loans and advances to banks	Note 18	3 851 564	2 859 479	2 012 118
Financial assets held for trading	Note 19	2 066 616	1 193 717	1 435 201
Hedging derivatives	Note 20	37 608	52 554	146 724
Loans and advances to customers incl.:	Note 21	118 356 427	117 492 490	90 292 999
- measured at amortised cost		116 566 001	116 056 599	89 157 480
- measured at fair value through other comprehensive income		923 811	366 751	-
- measured at fair value through profit or loss		866 615	1 069 140	1 135 519
Buy-sell-back transactions	Note 42	1 851 171	9 189 763	5 631 488
Investment securities incl.:	Note 22	39 591 351	36 372 113	25 768 311
- debt securities measured at fair value through other comprehensive income		38 542 546	35 439 836	24 889 479
- debt securities measured at fair value through profit and loss		187 536	131 005	90 175
- equity securities measured at fair value through other comprehensive income		861 269	801 272	788 657
Assets pledged as collateral	Note 45	30 737	374 150	875 003
Investments in subsidiaries and associates	Note 23	2 377 407	2 405 699	2 377 037
Intangible assets	Note 24	718 532	775 908	459 976
Goodwill	Note 25	1 688 516	1 688 516	1 688 516
Property, plant and equipment	Note 26	630 233	870 686	821 532
Right of use asset	Note 27	767 280	-	-
Net deferred tax assets	Note 28	1 013 450	950 886	764 476
Assets classified as held for sale	Note 29	2 016	11 123	8
Other assets	Note 30	666 748	771 783	790 110
Total assets		**181 471 487**	**183 850 769**	**137 178 300**
LIABILITIES AND EQUITY				
Deposits from banks	Note 31	1 506 141	1 039 979	1 414 448
Hedging derivatives	Note 20	979 550	903 170	578 798
Financial liabilities held for trading	Note 19	1 857 837	1 485 690	1 494 754
Deposits from customers	Note 32	144 760 017	139 469 776	102 155 522
Sell-buy-back transactions	Note 42	30 774	8 789 749	5 768 917
Subordinated liabilities	Note 33	2 529 855	2 543 940	1 488 602
Debt securities in issue	Note 34	2 687 960	3 311 969	1 240 244
Lease liabilities	Note 46	816 365	-	-
Current income tax liabilities		329 095	186 769	61 143
Provisions for off balance sheet credit facilities	Note 35	56 064	58 143	49 873
Other provisions	Note 36	256 508	83 644	57 216
Other liabilities	Note 37	1 483 735	2 182 331	2 276 651
Total liabilities		157 293 901	160 055 160	116 586 168
Equity				
Share capital	Note 38	1 020 883	1 020 883	993 335
Other reserve capital	Note 39	19 214 757	18 093 257	16 176 183
Revaluation reserve	Note 40	1 315 180	1 030 661	680 025
Retained earnings		513 242	1 476 753	840 173
Profit for the period		2 113 524	2 174 055	1 902 416
Total equity		24 177 586	23 795 609	20 592 132
Total liabilities and equity		**181 471 487**	**183 850 769**	**137 178 300**

* details in Note 2.4.

Notes presented on pages 13 – 150 constitute an integral part of this Financial Statements.

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In thousands of PLN

IV. Statement of changes in equity

Statement of changes in equity	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total
Note	38	39	40		
Equity as at 31.12.2018	**1 020 883**	**18 150 998**	**1 030 661**	**3 657 815**	**23 860 357**
Effect of a change in the tax on financial institutions as a result of an adjustment to repo transactions [1)]	-	-	-	(47 331)	(47 331)
Settlement of acquisition of demerged part of Deutsche Bank Polska SA [2)]	-	(57 741)	-	40 324	(17 417)
Equity as at 1.01.2019 (restated)	**1 020 883**	**18 093 257**	**1 030 661**	**3 650 808**	**23 795 609**
Total comprehensive income	-	-	262 255	2 113 524	2 375 779
Profit for the period	-	-	-	*2 113 524*	*2 113 524*
Other comprehensive income	-	-	*262 255*	-	*262 255*
Profit allocation to other reserve capital	-	1 102 619	-	(1 102 619)	-
Profit allocation to dividends	-	-	-	(2 012 683)	(2 012 683)
Share scheme charge	-	11 474	-	-	11 474
Profit on sale of equity securities measured at fair value through other comprehensive income	-	-	22 264	(22 264)	-
Equity adjustment due to liquidation of Santander Securities SA	-	7 407	-	-	7 407
Equity as at 31.12.2019	**1 020 883**	**19 214 757**	**1 315 180**	**2 626 766**	**24 177 586**

[1)] details in Note 2.4.
[2)] details in Note 2.4.

In thousands of PLN

Statement of changes in equity	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total
Note	38	39	40		
Equity as at 31.12.2017	**993 335**	**16 176 183**	**712 303**	**2 957 016**	**20 838 837**
Impact of the implementation of IFRS 9	-	-	(32 278)	(200 527)	(232 805)
Equity as at 1.01.2018 (considering the impact of the implementation of IFRS 9)	**993 335**	**16 176 183**	**680 025**	**2 756 489**	**20 606 032**
Effect of a change in the tax on financial institutions as a result of an adjustment to repo transactions [1)]	-	-	-	(13 901)	(13 901)
Equity as at 1.01.2018 (restated)	**993 335**	**16 176 183**	**680 025**	**2 742 588**	**20 592 131**
Coverage of negative impact of IFRS 9 implementation	-	-	-	218 466	218 466
Total comprehensive income	-	-	350 506	2 174 055	2 524 561
Profit for the period [1)]	-	-	-	*2 174 055*	*2 174 055*
Other comprehensive income	-	-	*350 506*	-	*350 506*
Issue of shares [3)]	27 548	-	-	-	27 548
Agio [2)]	-	946 550	-	-	946 550
Profit allocation to other reserve capital	-	958 078	-	(958 078)	-
Profit allocation to dividends	-	-	-	(307 627)	(307 627)
Profit allocation to cover negative impact of IFRS 9 implementation	-	-	-	(218 466)	(218 466)
Share scheme charge	-	12 446	-	-	12 446
Profit on sale of equity securities measured at fair value through other comprehensive income	-	-	130	(130)	-
Equity as at 31.12.2018 (restated)	**1 020 883**	**18 093 257**	**1 030 661**	**3 650 808**	**23 795 609**

[1)] details in Note 2.4.
[2)] details in Note 2.4.
[3)] details in Note 38.

In thousands of PLN

V. Statement of cash flows

for the period	1.01.2019-31.12.2019	1.01.2018-31.12.2018* restated
Profit before tax	**2 735 089**	**2 664 958**
Total adjustments:		
Depreciation/amortisation	533 861	280 350
Gain on acquisition of enterprise	-	(405 089)
Profit from investing activities	(222 555)	(78 408)
Impairment losses (reversal)	40 070	13 054
	3 086 465	**2 474 865**
Changes in:		
Provisions	170 785	21 523
Financial assets / liabilities held for trading	(409 446)	231 175
Assets pledged as collateral	343 413	500 853
Hedging derivatives	(69 467)	238 946
Loans and advances to banks	(47 792)	(139 901)
Loans and advances to customers	(6 058 862)	(12 568 655)
Deposits from banks	480 119	(4 157 149)
Deposits from customers	7 845 057	24 479 467
Buy-sell/ Sell-buy-back transactions	(1 421 517)	675 436
Other assets and liabilities	(493 303)	(317 133)
	338 987	**8 964 562**
Interest received on operating activities	5 546 408	4 510 216
Interests paid on operating activities	(1 220 701)	(1 139 894)
Interest accrued excluded from operating activities	(549 393)	(516 747)
Dividends	(607 315)	(491 480)
Paid income tax	(608 216)	(580 950)
Net cash flows from operating activities	**5 986 235**	**13 220 572**
Inflows	**7 683 632**	**5 638 949**
Sale of investments in subsidiaries	-	35
Sale/maturity of investment securities	6 075 628	4 383 747
Sale of intangible assets and property, plant and equipment	171 636	73 277
Dividends received	607 199	491 480
Interest received	829 169	690 410
Outflows	**(11 325 694)**	**(10 414 032)**
Acquisition of demerged part of Deutsche Bank Polska SA net of cash acquired	-	(189 470)
Acquisition of subordinated entities net of cash acquired	-	(19 990)
Purchase of investment securities	(11 002 378)	(9 728 225)
Purchase of intangible assets and property, plant and equipment	(323 316)	(476 347)
Net cash flows from investing activities	**(3 642 062)**	**(4 775 083)**
Inflows	**632 000**	**5 659 259**
Debt securities in issue	632 000	4 290 794
Drawing of loans	-	1 368 465
Outflows	**(5 007 254)**	**(2 808 677)**
Debt securities buy out	(1 232 000)	(1 235 000)
Repayment of loans	(1 433 269)	(1 173 101)
Repayment of lease liability	(150 116)	-
Dividends to shareholders	(2 012 683)	(307 627)
Interest paid	(179 186)	(92 949)
Net cash flows from financing activities	**(4 375 254)**	**2 850 582**
Total net cash flows	**(2 031 081)**	**11 296 071**
Cash and cash equivalents at the beginning of the accounting period	**19 187 947**	**7 891 876**
Cash and cash equivalents at the end of the accounting period	**17 156 866**	**19 187 947**

* details in Note 2.4.

Information regarding liabilities arising from financial activities in loans received, subordinated liabilities and the issue of debt securities were presented respectively in Notes 31-34.

Notes presented on pages 13 – 150 constitute an integral part of this Financial Statements.

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VI. Additional notes to financial statements of Santander Bank Polska

1. General information about issuer

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

On 7.09.2018, the District Court for Wrocław-Fabryczna in Wrocław, VI Economic Unit of the National Court Register, entered into the register of entrepreneurs changes in the Bank's statute resulting in, among others, the change of the Bank's name from the Bank Zachodni WBK SA to Santander Bank Polska SA.

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

Santander Bank Polska SA offers a wide range of banking services to individual and business customers and operates in domestic and interbank foreign markets. It also offers the following services:

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

In thousands of PLN

2. Basis of preparation of financial statements

2.1. Statement of compliance

This separate annual financial statements of Santander Bank Polska S.A. was prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union, which are applied on a consistent basis, as at 31 December 2019, with the exception of IFRS 16, which is applied prospectively and, in the case of matters not governed by the above Standards, in accordance with the provisions of the Accounting Act of 29 September 1994 (consolidated text: Journal of Law 2019, item 351) and related implementing acts as well as the requirements imposed on issuers whose securities are admitted to trading on regulated markets or issuers who have applied to have securities admitted to trading on regulated markets outlined in the Act of 29 July 2005 on Public Offering, on Conditions for the Introduction of Financial Instruments to the Organized Trading System and on Public Companies.

This financial statements has been approved for publication by the Management Board of Santander Bank Polska S.A. on 19.02.2020

2.2. 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 or have neither been implemented earlier

IFRS	Nature of changes	Effective from	Influence on Santander Bank Polska S.A.
Conceptual Framework for Financial Reporting	The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters: • Chapter 1 – The objective of financial reporting • Chapter 2 – Qualitative characteristics of useful financial information • Chapter 3 – Financial statements and the reporting entity • Chapter 4 – The elements of financial statements • Chapter 5 – Recognition and derecognition • Chapter 6 – Measurement • Chapter 7 – Presentation and disclosure • Chapter 8 – Concepts of capital and capital maintenance The Conceptual Framework was published together with the justification for the changes. The Board has also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the Conceptual Framework. In most cases, the standard references are updated to refer to the Conceptual Framework. There are exemptions in developing accounting policies for regulatory account balances for two standards, namely, IFRS 3 Business Combinations and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.	Effective immediately for the IASB and the IFRS IC. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.	The amendment will not have a significant impact on financial statement.
IAS 1 Presentation of financial statements and IAS 8 Accounting principles (policy), changes in estimates and correction of errors *	The Board has published a new definition of 'materiality'. Amendments to IAS 1 and IAS 8 clarify the definition materiality and increase consistency across standards	1 January 2020	The amendment will not have a significant impact on financial statement.

In thousands of PLN

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, service expenses and insurance finance income or expenses.	1 January 2021	The standard will not have a significant impact on financial statement.
Amendments to IFRS 3 Business combinations *	As a result of the amendments to IFRS 3, the definition of a "business" has been modified. The definition has been narrowed down and is likely to result in more acquisitions being classified as a purchase of assets.	1 January 2020	The amendment will not have a significant impact on financial statement.
Improvements to IFRS 10 and IAS 28*	Improvements to IFRS 10 and IAS 28 cover sales or contributions of assets between an investor and its associate/joint venture. The improvements eliminate the inconsistencies between IFRS 10 and IAS 28. The accounting treatment hinges on whether the non-monetary assets sold or contributed to an associate/joint venture constitute a business. Should the non-monetary assets constitute a business, the investor shall recognize the profit or loss in full. Should the assests not constitute a business, the profit or loss shall be recognised only to the extent of unrelated investors' interests in the associate or joint venture. The improvements were published on 11 September 2014.	The International Accounting Standards Board has not establised the validity date of the amended regulations.	The amendment will not have a significant impact on financial statement.
Amendments to IAS 1*	The amendments affect requirements in IAS 1 for the presentation of liabilities. Specifically, they clarify one of the criteria for classifying a liability as non-current.	1 January 2022	The amendment will not have a significant impact on financial statement.

In thousands of PLN

2.3. Standards and interpretations or changes to existing standards or interpretations which were applied for the first time in the accounting year 2019

IFRS	Nature of changes	Effective from	Influence on Santander Bank Polska S.A.
IFRS 16 Leases	The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. All lease transactions results in the lessee's right to use the assets and the obligation to make a payment. Accordingly, the classification of leases into operating lease and finance lease as per IAS 17 no longer applies under IFRS 16, as the new standard introduces a single model for accounting for leases by the lessee. The lessee will be required to present the following: (a) assets and liabilities in respect of all leases executed for more than 12 months, except where an asset is of low value; and (b) depreciation charge for the leased asset separately from the interest expense on the lease liability in the statement of profit or loss and other comprehensive income. The principles of accounting for leases by the lessor established in IFRS 16 are largely the same as in IAS 17. As a consequence, the lessor continues to use the classification into operating lease and finance lease and accounts for them accordingly.	1 January 2019	Standard's implementation impact is described in Note 2.3 below
IAS 19, Plan Amendment, Curtailment or Settlement	Amendments to IAS 19 specifies how an entity determines pension expenses when changes to a defined benefit pension plan occur. IAS 19 'Employee Benefits' specifies how an entity accounts for a defined benefit plan. When a change to a plan – an amendment, curtailment or settlement- takes place, IAS 19 requires an entity to remeasure its net defined benefit liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.	1 January 2019	The amendment does not have a significant impact on financial statement.
Amendment to IFRS 9 Financial Instruments Prepayment right with negative compensation	Amendments to IFRS 9 introduce the statements with reference to contractual prepayment feature, when the lender could be forced to accept the prepayment amount that is substantially less than unpaid amounts of principal and interest. Such a prepayment amount would be a payment to the borrower from the lender, instead of compensation from the borrower to the lender. Such a financial asset would be eligible to be measured at amortized cost or fair value through other comprehensive income (subject to an assessment of the business model in which they are held), however, the negative compensation must be reasonable compensation for early termination of the contract.	1 January 2019	The amendment did not have a significant impact on financial statement.
IFRIC 23 Uncertainty over Income Tax Treatments	Interpretation clarifies how the recognition and measurement requirements of IAS 12 "Income taxes" are applied where there is uncertainty over income tax treatments. An uncertain tax treatment is any tax treatment applied where there is uncertainty over whether that treatment will be accepted by the tax authority. IFRIC Interpretation 23 addresses, in particular, when there is uncertainty over income tax treatments, whether an entity considers uncertain tax treatments separately, what assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, tax rates and how an entity considers changes in facts and circumstances. According to the interpretation the impact of the uncertainty should be measured using the method that best predicts the resolution of the uncertainty - either the most likely amount method or the expected value method.	1 January 2019	The amendment did not have a significant impact on financial statement.

In thousands of PLN

2015-2017 Cycle	Following is a summary of the amendments from the 2015-2017 annual improvements cycle: **IFRS 3 Business Combinations** - Previously held Interests in a joint operation • The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. • In doing so, the acquirer remeasures its entire previously held interest in the joint operation. • An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. **IFRS 11 Joint Arrangements** - Previously held Interests in a joint operation • A party that own shares in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. • An entity applies those amendments to transactions in which it obtains joint control on or **IAS 12 Income Taxes** - Income tax consequences of payments on financial instruments classified as equity • The amendments clarify that the income tax consequences of dividends payments are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends payments in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. • An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends payments recognised on or after the beginning of the earliest comparative period. **IAS 23 Borrowing Costs** - Borrowing costs eligible for capitalisation • The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. • An entity applies those amendments to borrowing costs incurred on or after the beginning of the first annual reporting period beginning on or after 1 January 2019 • An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.	1 January 2019	The amendment does not have a significant impact on financial statement.
Amendments to IFRS 9 , IAS 39 and IFRS 7 resulting from IBOR reform (interest rate benchmark reform)	Amendments to IFRS 9, IAS 39 and IFRS 7 modify certain requirements in the area of hedge accounting so that the expected IBOR reform generally does not result in termination of hedge accounting. Amendments to the standards require the entity to assume that the interest rate on which the hedged cash flow is based will not change as a result of the reform. As a result, the requirement of highly probable flows is met even where secured cash flows may change as a result of the IBOR reform.	1 January 2019	The SBP Group exercised its right to apply earlier changes to the standards and therefore did not verify the effectiveness of hedging relationships. A working group of representatives of Santander Bank Polska S.A. and subsidiaries is working on the implementation of changes resulting from the IBOR reform.

In thousands of PLN

Impact of IFRS 16 on the assets and financial position of Santander Bank Polska S.A.

IFRS 16 Leases has a significant impact on the financial statements of Santander Bank Polska S.A.

In 2019, the change in the classification of expenses appeared in the income statement (lease rents were replaced by amortisation/depreciation and interest expenses), as well as the timing of their recognition (under the new model, lease expenses are recognised relatively earlier compared to the previous model for recognition of operating lease expenses) and the balance sheet total will increase.

The table below presents the value of each class of right-of-use assets:

Class of right-of-use assets	Real estate	Other	TOTAL
TOTAL	663 784	2 267	666 051

As at the initial application of IFRS 16, all assets indicated above, which are the subjects of lease contracts, were recognised separately from other assets under "Right-of-use assets". Such contracts were classified as operating lease in accordance with IAS 17. Consequently, during the term of the contract, the related fees were recognised in operating expenses under "Operating costs".

The table below presents the difference between future fees under operating leases payable by Santander Bank Polska S.A. and disclosed at the end of 2018 in accordance with IAS 17 and lease liabilities recognised in the statement of financial position as at initial application of IFRS 16:

Description	Value
Total liabilities arising from non-cancellable operating leases of Santander Bank Polska S.A. as at 31 December 2018	790 910
Discount based on the incremental borrowing rate of Santander Bank Polska S.A. as the lessee	(93 016)
Lease liabilities classified as finance lease before initial application of IFRS 16	190 953
Value of contractual liabilities considering extension and termination options	11 963
Exclusion – short-term leases	(17 685)
Exclusion – leases of low-value assets	(3 291)
Lease liabilities as per IFRS 16 as at 1 January 2019 – TOTAL	**879 833**

The value of right-of-use assets does not equal the value of lease liabilities to the fact that :

- determined by Santander Bank Polska S.A.the provisions for onerous leases as an alternative to performing an impairment review. The use of this expedient entailed an adjustment of the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application and totalling PLN 8 397 k.
- adjusted the carrying amount of the right-of-use asset by assets and liabilities recognized in line with IFRS 3 "Business combinations" relating to favourable and unfavourable terms of opertating leases acquired as part of a business combination in amount PLN 21 578 k,
- decommisioning provision. As regards the lease contracts providing for the obligation of Santander Bank Polska S.A. to reinstate the leased asset to its original condition after termination of the lease. Decommissioning costs for non-current assets are incurred in relation to the right-of-use asset and amortised over the estimated economic life. The fair value of decommissioning costs for non-current assets is estimated by Santander Bank Polska S.A. on the basis of average historical costs of asset reinstatement for the last 12 months. As at 1 January 2019, the present value of provisions for reinstatement of assets to their original condition is PLN 7 146 k and will be presented in the statement of financial position under "Other liabilities".

The table below presents right-of-use assets reconciliations with lease liabilities:

Description	Value
Right-of-use assets as per IFRS 16 as at 1 January 2019 , including:	666 051
- lease liabilities as per IFRS 16 as at 1 January 2019	688 880
- provisions for onerous contracts	(8 397)
- adjustment for the value of assets and liabilities recognized in applying IFRS 3	(21 578)
- decommissioning provision	7 146

Lease liabilities were measured at the present value of the lease payments not paid starting from 1 January 2019, including net fixed payments.

Lease liabilities do not include:

- variable lease payments that do not depend on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option.

Due to the fact that contracts do not provide for such types of payments, and in the case of the purchase option, it is not reasonably certain whether the lessee will exercise that option.

There are no variable payments that depend on external factors such as sales generated on the leased premises.

Santander Bank Polska S.A. applied the two exemptions regarding:

- short-term leases (with a term up to 12 months from the begining of the contract and no purchase options); and
- low-value assets (assets with the initial value of PLN 20k or less)

by taking them directly to costs, usually on a straight-line basis, over the lease term.

For the purpose of the initial application of the standard, Santander Bank Polska S.A. used a modified retrospective approach and measured right-of-use assets at the amount of lease liabilities and avoided to restate comparative data.

At the date of initial application of the standard, Santander Bank Polska S.A. decided to use additional expedients available for first-time adopters, other than those specified above, specifically:

- exclude any initial direct costs from measurement of the right-of-use asset;
- apply a single discount rate to the portfolio of leases with substantially similar characteristics (such as leases with a similar remaining lease term for a similar class of the underlying asset in a similar economic environment);
- determine the provisions for onerous leases as an alternative to performing an impairment review.

For contracts that contain a lease component and one or more additional lease or non-lease components and not showing how the remuneration is divided into lease and non-lease elements, Santander Bank Polska S.A. used the practical expedient provided under IFRS 16 and did not allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. As a practical expedient, Santander Bank Polska S.A. elected not to separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component.

Santander Bank Polska S.A. as a lessor was not required under IFRS 16 to make any adjustments on transition for leases where it is the lessor. However, Santander Bank Polska S.A. as the intermediate lessor, reassessed subleases that were classified as operating leases applying IAS 17 and are ongoing at the date of initial application. As a result of assessment of subleases, Santander Bank Polska S.A. continued to classify all sublease contracts as operating leases.

2.4. Comparability with the results presented in prior periods

Final settlement of the acquisition of an organised part of the enterprise of Deutsche Bank Polska S.A.

In 2019, the Bank finalised purchase price allocation for the transaction of the acquisition of an organised part of the enterprise of Deutsche Bank Polska S.A.

The table below presents the impact of adjustments to the provisional values relating to the acquisition of an organised part of the enterprise of Deutsche Bank Polska S.A. on the key data presented in the Income Statement and the Statement of Financial Position of Santander Bank Polska.

Detailed information on the final settlement of acquisition of an organised part of the enterprise of Deutsche Bank Polska S.A. is provided in point 50.

In thousands of PLN

Changes	Gain on acquisition 2018	Net profit for the period 1.01.2018-31.12.2018	Other capital as at 31.12.2018
Provisional values	**364 765**	**2 167 161**	**18 150 998**
Fair value adjustment of consideration in the form of demerger shares	57 741	57 741	(57 741)
Adjustement to cash consideration	(2 988)	(2 988)	-
Update of the fair value of the identified net assets	(14 429)	(14 429)	-
Restated value	**405 089**	**2 207 485**	**18 093 257**

1. The adjustment to the value of the demerger shares takes into account the result of recalculating the fair value of the partial consideration in the form of the demerger shares and applying the market price of shares of the acquiring entity as at the transaction date.
2. The adjustment to the value of the cash consideration results from the update of consideration due to the changes of the key financial data of the acquired entities between the date of the agreement and the effective date of the transaction.
3. As regards the update of the fair value of the acquired net assets, the changes result from the review of financial data of the acquired entities, specifically the update of the value of the acquired portfolio of non-performing loans and selected other liabilities.

Correction of errors

In the Financial Statements of Santander Bank Polska for 2019, changes were introduced due to error corrections which had impacted financial data for comparable periods.

The analysis conducted by the Bank in 2019 revealed incorrect recognition of selected sale/ purchase transactions in debt securities in the previous years. As a consequence, of the transactions which were recognised previously as separate sale/ purchase transactions, were corrected and recognised as sell-buy-back/ buy-sell-back transactions. The change in the recognition of these transactions did not affect financial results except for an additional tax on financial institutions plus statutory interest.

Furthermore, *Assets pledged as collateral* were separated and presented as an additional line in the statement of financial position.

In addition, *Interest received in relation to operating activities* and *Interest paid in relation to operating activities* were separated and presented as additional lines in the statement of cash flows.

Impact of correction of errors and final settlement of the acquisition of an organised part of the enterprise of Deutsche Bank Polska S.A. on the comparable data

As a result of both: correction of errors and finalisation of purchase price allocation in relation to the acquisition of an organised part of the enterprise of Deutsche Bank Polska S.A., the following adjustments were made to the comparative data in the primary statements.

In thousands of PLN

Statement of financial position

			31.12.2018		
as at:	Before	Adjustment	Adjustment	Adjustment	After
ASSETS					
Cash and balances with central banks	8 841 902	-	-		8 841 902
Loans and advances to banks	2 859 479	-	-		2 859 479
Financial assets held for trading	9 776 705	-	(8 208 838) 2)	(374 150) 3)	1 193 717
Hedging derivatives	52 554	-	-	-	52 554
Loans and advances to customers incl.:	117 492 490	-	-	-	117 492 490
- measured at amortised cost	116 056 599	-	-	-	116 056 599
- measured at fair value through other comprehensive income	366 751	-	-	-	366 751
- measured at fair value through profit or loss	1 069 140	-	-	-	1 069 140
Buy-sell-back transactions	177 482	-	9 012 281 2)	-	9 189 763
Investment securities incl.:	36 372 113	-	-	-	36 372 113
- debt securities measured at fair value through other comprehensive income	35 439 836	-	-	-	35 439 836
- debt securities measured at fair value through profit and loss	131 005	-	-	-	131 005
- equity securities measured at fair value through other comprehensive income	801 272	-	-	-	801 272
Assets pledged as collateral	-	-	-	374 150 3)	374 150
Investments in subsidiaries and associates	2 396 937	8 762 1)	-	-	2 405 699
Intangible assets	775 908	-	-	-	775 908
Goodwill	1 688 516	-	-	-	1 688 516
Property, plant and equipment	870 686	-	-	-	870 686
Right of use asset	-	-	-	-	-
Net deferred tax assets	950 886	-	-	-	950 886
Assets classified as held for sale	11 123	-	-	-	11 123
Other assets	771 783	-	-	-	771 783
Total assets	**183 038 564**	**8 762**	**803 443**	**-**	**183 850 769**
LIABILITIES AND EQUITY					
Deposits from banks	1 039 979	-	-	-	1 039 979
Hedging derivatives	903 170	-	-	-	903 170
Financial liabilities held for trading	1 238 002	-	247 688 2)	-	1 485 690
Deposits from customers	139 469 776	-	-	-	139 469 776
Sell-buy-back transactions	8 233 994	-	555 755 2)	-	8 789 749
Subordinated liabilities	2 543 940	-	-	-	2 543 940
Debt securities in issue	3 311 969	-	-	-	3 311 969
Lease liabilities	-	-	-	-	-
Current income tax liabilities	186 769	-	-	-	186 769
Provisions for off balance sheet credit facilities	58 143	-	-	-	58 143
Other provisions	83 644	-	-	-	83 644
Other liabilities	2 108 821	26 179 1)	47 331 2)	-	2 182 331
Total liabilities	159 178 207	26 179	850 774	-	160 055 160
Equity					
Share capital	1 020 883	-	-	-	1 020 883
Other reserve capital	18 150 998	(57 741) 1)	-	-	18 093 257
Revaluation reserve	1 030 661	-	-	-	1 030 661
Retained earnings	1 490 654	-	(13 901) 2)	-	1 476 753
Profit for the period	2 167 161	40 324 1)	(33 430) 2)	-	2 174 055
Total equity	23 860 357	(17 417)	(47 331)	-	23 795 609
Total liabilities and equity	**183 038 564**	**8 762**	**803 443**	**-**	**183 850 769**

1) Changes resulting from the finalisation of purchase price allocation in relation to the acquisition of an organised part of the enterprise of Deutsche Bank Polska S.A. and DB Securities S.A.

2) Changes in the recognition of selected government debt securities transactions from separate purchase and sale transactions to buy-sell-back and sell-buy-back transactions, including related tax on financial institutions.

3) Changes resulting from separate presentation of *Assets pledged as collateral* in the statement of financial position.

In thousands of PLN

Statement of financial position

	01.01.2018 *					
as at:	Before	Adjustment		Adjustment		After
ASSETS						
Cash and balances with central banks	4 114 801	-		-		4 114 801
Loans and advances to banks	2 012 118	-		-		2 012 118
Financial assets held for trading	3 421 547	(1 111 343)	2)	(875 003)	3)	1 435 201
Hedging derivatives	146 724	-		-		146 724
Loans and advances to customers incl.:	90 292 999	-		-		90 292 999
- measured at amortised cost	89 157 480	-		-		89 157 480
- measured at fair value through profit or loss	1 135 519	-		-		1 135 519
Buy-sell-back transactions	-	5 631 488	2)	-		5 631 488
Investment securities incl.:	25 768 311	-		-		25 768 311
- debt securities measured at fair value through other comprehensive income	24 889 479	-		-		24 889 479
- debt securities measured at fair value through profit and loss	90 175	-		-		90 175
- equity securities measured at fair value through other comprehensive income	788 657	-		-		788 657
Assets pledged as collateral	-	-		875 003	3)	875 003
Investments in subsidiaries and associates	2 377 037	-		-		2 377 037
Intangible assets	459 976	-		-		459 976
Goodwill	1 688 516	-		-		1 688 516
Property, plant and equipment	821 532	-		-		821 532
Net deferred tax assets	764 476	-		-		764 476
Assets classified as held for sale	8	-		-		8
Other assets	790 110	-		-		790 110
Total assets	**132 658 155**	**4 520 145**		**-**		**137 178 300**
LIABILITIES AND EQUITY						
Deposits from banks	1 414 448	-		-		1 414 448
Hedging derivatives	578 798	-		-		578 798
Financial liabilities held for trading	1 263 859	230 895	2)	-		1 494 754
Deposits from customers	102 155 522	-		-		102 155 522
Sell-buy-back transactions	1 479 667	4 289 250	2)	-		5 768 917
Subordinated liabilities	1 488 602	-		-		1 488 602
Debt securities in issue	1 240 244	-		-		1 240 244
Current income tax liabilities	61 143	-		-		61 143
Provisions for off balance sheet credit facilities	49 873	-		-		49 873
Other provisions	57 216	-		-		57 216
Other liabilities	2 262 750	13 901	2)	-		2 276 651
Total liabilities	112 052 122	4 534 046		-		116 586 168
Equity						
Share capital	993 335	-		-		993 335
Other reserve capital	16 176 183	-		-		16 176 183
Revaluation reserve	680 025	-		-		680 025
Retained earnings	840 334	(161)	2)	-		840 173
Profit for the period	1 916 156	(13 740)	2)	-		1 902 416
Total equity	20 606 033	(13 901)		-		20 592 132
Total liabilities and equity	**132 658 155**	**4 520 145**		**-**		**137 178 300**

* data as at 1.01.2018 with implementation of IFRS 9

2) Changes in the recognition of selected government debt securities transactions from separate purchase and sale transactions to buy-sell-back and sell-buy-back transactions, including related tax on financial institutions.

3) Changes resulting from separate presentation of *Assets pledged as collateral* in the statement of financial position.

In thousands of PLN

Statement of cash flows

for the period	1.01.2018 - 31.12.2018					
	Before	Adjustment	Adjustment	Adjustment	Adjustment	After
Profit before tax	**2 658 064**	**40 324** [1]	**(33 430)** [2]	**-**	**-**	**2 664 958**
Total adjustments:						
Depreciation/amortisation	280 350	-	-	-	-	280 350
Gain on acquisition of enterprise	(364 765)	(40 324) [1]	-	-	-	(405 089)
Profit from investing activities	(78 408)	-	-	-	-	(78 408)
Impairment losses (reversal)	13 054	-	-	-	-	13 054
	2 508 295	**-**	**(33 430)**	**-**	**-**	**2 474 865**
Changes in:						
Provisions	21 523	-	-	-	-	21 523
Financial assets / liabilities held for trading	(6 369 088)	-	7 114 288 [2]	(500 853) [3]	(13 172) [4]	231 175
Assets pledged as collateral	-	-	-	500 853 [3]	-	500 853
Hedging derivatives	418 542	-	-	-	(179 596) [4]	238 946
Loans and advances to banks	(99 654)	-	-	-	(40 247) [4]	(139 901)
Loans and advances to customers	(8 366 572)	-	-	-	(4 202 083) [4]	(12 568 655)
Deposits from banks	(4 164 926)	-	-	-	7 777 [4]	(4 157 149)
Deposits from customers	23 435 073	-	-	-	1 044 394 [4]	24 479 467
Buy-sell/ Sell-buy-back transactions	6 754 327	-	(6 089 917) [2]	-	11 026 [4]	675 436
Other assets and liabilities	(355 130)	2 988 [1]	33 430 [2]	-	1 579 [4]	(317 133)
	11 274 095	**2 988**	**1 057 801**	**-**	**(3 370 322)**	**8 964 562**
Interest received on operating activities	-	-	-	-	4 510 216 [4]	4 510 216
Interests paid on operating activities	-	-	-	-	(1 139 894) [4]	(1 139 894)
Interest accrued excluded from operating activities	(516 747)	-	-	-	-	(516 747)
Dividends	(491 480)	-	-	-	-	(491 480)
Paid income tax	(580 950)	-	-	-	-	(580 950)
Net cash flows from operating activities	**12 193 213**	**2 988**	**1 024 371**	**-**	**-**	**13 220 572**
Inflows	**5 638 949**	**-**	**-**	**-**	**-**	**5 638 949**
Sale of investments in subsidiaries	35	-	-	-	-	35
Sale/maturity of investment securities	4 383 747	-	-	-	-	4 383 747
Sale of intangible assets and property, plant and equipment	73 277	-	-	-	-	73 277
Dividends received	491 480	-	-	-	-	491 480
Interest received	690 410	-	-	-	-	690 410
Outflows	**(10 411 044)**	**(2 988)**	**-**	**-**	**-**	**(10 414 032)**
Acquisition of demerged part of Deutsche Bank Polska SA net of cash acquired	(186 482)	(2 988) [1]	-	-	-	(189 470)
Acquisition of subordinated entities net of cash acquired	(19 990)	-	-	-	-	(19 990)
Purchase of investment securities	(9 728 225)	-	-	-	-	(9 728 225)
Purchase of intangible assets and property, plant and equipment	(476 347)	-	-	-	-	(476 347)
Net cash flows from investing activities	**(4 772 095)**	**(2 988)**	**-**	**-**	**-**	**(4 775 083)**
Inflows	**5 659 259**	**-**	**-**	**-**	**-**	**5 659 259**
Debt securities in issue	4 290 794	-	-	-	-	4 290 794
Drawing of loans	1 368 465	-	-	-	-	1 368 465
Outflows	**(2 808 677)**	-	-	-	-	**(2 808 677)**
Debt securities buy out	(1 235 000)	-	-	-	-	(1 235 000)
Repayment of loans	(1 173 101)	-	-	-	-	(1 173 101)
Dividends and other payments to shareholders	(307 627)	-	-	-	-	(307 627)
Interest paid	(92 949)	-	-	-	-	(92 949)
Net cash flows from financing activities	**2 850 582**	**-**	**-**	**-**	**-**	**2 850 582**
Total net cash flows	**10 271 700**	**-**	**1 024 371**	**-**	**-**	**11 296 071**
Cash and cash equivalents at the beginning of the accounting period	**7 506 027**	**-**	**385 849** [2]	**-**	**-**	**7 891 876**
Cash and cash equivalents at the end of the accounting period	**17 777 727**	**-**	**1 410 220** [2]	**-**	**-**	**19 187 947**

[1] Changes resulting from the finalisation of purchase price allocation in relation to the acquisition of an organised part of the enterprise of Deutsche Bank Polska S.A. and DB Securities S.A.

[2] Changes in the recognition of selected government debt securities transactions from separate purchase and sale transactions to buy-sell-back and sell-buy-back transactions, including related tax on financial institutions.

[3] Changes resulting from separate presentation of *Assets pledged as collateral* in the statement of financial position.

[4] Changes resulting from separate presentation of *Interest received on operating activities* and *Interests paid on operating* activities in the statement of cash flows.

In thousands of PLN

Income statement

for the period:	1.01.2018 - 31.12.2018		
	Before	Adjustment	After
Interest income and similar to income	**5 174 209**	**-**	**5 174 209**
Interest income on financial assets measured at amortised cost	4 401 909	-	4 401 909
Interest income on financial assets measured at fair value through other comprehensive income	683 986	-	683 986
Income similar to interest on financial assets measured at fair value through profit or loss	88 314	-	88 314
Interest expense	**(1 111 153)**	**-**	**(1 111 153)**
Net interest income	**4 063 056**	**-**	**4 063 056**
Fee and commission income	1 900 245	-	1 900 245
Fee and commission expense	(283 342)	-	(283 342)
Net fee and commission income	**1 616 903**	**-**	**1 616 903**
Dividend income	492 607	-	492 607
Net gains/(losses) on subordinated entities	(65)	-	(65)
Net trading income and revaluation	153 564	-	153 564
Gains (losses) from other financial securities	40 522	-	40 522
Other operating income	154 335	-	154 335
Gain on acquisition of enterprise	364 765	40 324 [1]	405 089
Impairment losses on loans and advances	(777 511)	-	(777 511)
Operating expenses incl.:	(3 023 043)	-	(3 023 043)
-Staff, operating expenses and management costs	(2 590 275)	-	(2 590 275)
-Depreciation/amortisation	(280 350)	-	(280 350)
-Other operating expenses	(152 418)	-	(152 418)
Tax on financial institutions	(427 069)	(33 430) [2]	(460 499)
Profit before tax	**2 658 064**	**6 894**	**2 664 958**
Corporate income tax	(490 903)	-	(490 903)
Profit for the period	**2 167 161**	6 894	**2 174 055**

[1] Changes resulting from the finalisation of purchase price allocation in relation to the acquisition of an organised part of the enterprise of Deutsche Bank Polska S.A. and DB Securities S.A.
[2] Changes in the recognition of selected government debt securities transactions from separate purchase and sale transactions to buy-sell-back and sell-buy-back transactions, including related tax on financial institutions.

Statement of comprehensive income

for the period	1.01.2018 - 31.12.2018		
	Before	Adjustment	After
Profit for the period	**2 167 161**	**6 894** [1),2)]	**2 174 055**
Other comprehensive income which can be transferred to the profit and loss net account:	**331 641**	**-**	**331 641**
Valuation and sales of debt securities measured at fair value through other comprehensive income gross	379 159	-	379 159
Deferred tax	(72 040)	-	(72 040)
Valuation of cash flow hedging instruments gross	30 274	-	30 274
Deferred tax	(5 752)	-	(5 752)
Other comprehensive income which can't be transferred to the profit and loss net account:	**18 865**	**-**	**18 865**
Valuation and sales of equity securities measured at fair value through other comprehensive income gross	10 270	-	10 270
Deferred and current tax	(1 966)	-	(1 966)
Provision for retirement allowances – actuarial gains/losses gross	13 038	-	13 038
Deferred tax	(2 477)	-	(2 477)
Total other comprehensive income for the period net	**350 506**	**-**	**350 506**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**2 517 667**	**6 894** [1),2)]	**2 524 561**

[1] Changes resulting from the finalisation of purchase price allocation in relation to the acquisition of an organised part of the enterprise of Deutsche Bank Polska S.A. and DB Securities S.A.
[2] Changes in the recognition of selected government debt securities transactions from separate purchase and sale transactions to buy-sell-back and sell-buy-back transactions, including related tax on financial institutions.

2.5. Basis of preparation of financial statements

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

The financial statements of Santander Bank Polska S.A. have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted in the European Union. Santander Bank Polska S.A. prepared the separate financial statements in accordance with the historical cost principle, except for the items specified below:

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
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.

The same accounting principles were applied as in the case of the separate financial statements for the period ending 31 December 2018, except for changes arising from the implementation of IFRS 16 Leases as of 1 January 2019 (described in the later part of this document) .

2.6. Use of estimates

Preparation of financial statement in accordance with the IFRS requires the management to make subjective judgements, estimations 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 judgements 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.

Main estimates made by Santander Bank Polska S.A.

Impairment allowances for expected credit losses in respect of financial assets

IFRS 9 introduces a new approach to the estimation of allowances for credit losses. The 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. 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 sake 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, which might be higher than losses arising from materialisation of credit risk as part of the existing portfolio of financial instruments.

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

- Stage 1 – exposures with no significant increase in 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 will be recognised.
- Stage 2 – exposures with a significant increase in risk since initial recognition, but with no objective evidence of default. For such exposures, lifetime expected credit losses will be recognised.
- Stage 3: exposures for which the risk of default has materialised (indications of impairment have been identified). For such exposures, lifetime expected credit losses will be recognised.

ECL is caclucalted using the individual (for individually significant exposures in Stage 3) or collective approach (for remaining exposures in Stage 3 as well as for all exposures in Stage 1 and 2).

For the purpose of the collective evaluation of ECL, financial assets are grouped on the basis of similar credit risk characteristics that were indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of the Santander Bank Polska S.A.'s credit risk evaluation or the grading process that considered asset type, industry, geographical location, collateral type, past-due status and other relevant factors). The characteristics chosen were 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 were continually being enhanced, e.g. through external indicator 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 likelihood-weighted impairment charges estimated for all the possible recovery scenarios, depending on the recovery strategy currently employed vis-à-vis 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.

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 losses will be recognized over the remaining life horizon. Such an asset is created when impaired assets are 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 500 for individual and small and medium-sized enterprises and PLN 3,000 for business and corporate clients)
- the 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;

- 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;
- observable data indicating that there was a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease could not yet be identified with the individual financial assets, including:
  - (i) adverse changes in the payment status of debtors in the Santander Bank Polska S.A.,
  - (ii) national or local economic conditions that correlated with defaults on the assets in the Santander Bank Polska S.A..

A significant increases in credit risk

One of the key aspects of implementation of IFRS 9 is to work out a definition of a significant increase in credit risk that determines the classification of an exposure into Stage 2. Santander Bank Polska S.A. has developed detailed criteria for identifying a significant increase in 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 consistent with the threshold used in the definition of impairment.
- 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.

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. However, necessary modifications were made in the context of IFRS 9 requirements (such as estimating the parameters over the lifetime of the exposure or taking into account future macroeconomic conditions). Santander Bank Polska S.A. has developed a methodology for models' parameters and built models compliant with IFRS 9. Expected credit losses are equal to the estimated PD parameter multiplied by the estimated LGD and EAD parameters. The final value of expected credit losses is the sum of expected losses from all periods (depending on the stage, either in 12 months or in the entire 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 internally developed scenarios, which are updated 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.

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. The bank uses three scenario types: the baseline scenario and two alternative scenarios, which reflect the probable alternative options of the baseline scenario: best case and worst case.

In thousands of PLN

The tables below present the key economic indicators arising from the respective scenarios as at 31 December 2018 and 31 December 2019.

Scenario as at 31 December 2019		Baseline		Best case		Worst case	
Likelihood		60%		20%		20%	
		2020	average, next 3 years	2020	average, next 3 years	2020	average, next 3 years
GDP	YoY	3,50%	3,10%	4,60%	4,20%	2,40%	2,00%
3M WIBOR	average	1,60%	1,60%	1,60%	1,60%	1,60%	1,60%
unemployment rate	% active	2,80%	2,40%	2,80%	2,20%	2,90%	2,60%
CPI	YoY	3,50%	2,40%	3,60%	2,70%	3,40%	2,10%
EURPLN	period-end	4,30	4,28	4,26	4,19	4,34	4,37

Scenario as at 31 December 2018		Baseline		Best case		Worst case	
Likelihood		60%		20%		20%	
		2019	average, next 3 years	2019	average, next 3 years	2019	average, next 3 years
GDP	YoY	3,70%	3,20%	4,60%	4,30%	2,80%	2,00%
3M WIBOR	average	1,80%	2,50%	1,90%	3,20%	1,70%	1,80%
unemployment rate	% active	2,80%	2,30%	2,80%	1,80%	3,20%	5,20%
CPI	YoY	2,10%	2,90%	2,30%	3,50%	1,90%	2,20%
EURPLN	period-end	4,25	4,23	4,18	4,06	4,32	4,37

Potential variability – Santander Bank Polska S.A.

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

in PLN m	change in write-offs level	
scenario	31.12.2019	31.12.2018
worst case	8,5	19,3
best case	-9,8	-13,2

The above estimates are a theoretical estimate of the change in the level of parameters, without taking into account potential migration of classifications between baskets when changing scenarios.Significant volatility for the income statement may be reclassifications to stage 2 from stage 1. The theoretical reclassification of 1% 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 by PLN 20,1 million according to the portfolio as of 2019.12.31 for Santander Bank Polska S.A. (in relation to 47,1 PLN million as at December 12, 2018).

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. Another essential factor which affects the variability of estimates is the application of macroeconomic forecasts in the ECL calculation.

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 siginificant increase of credit risk since initial recognition.

Measurement of right-of-use assets and lease liabilities

For lease contracts and contracts that contain a lease component, Santander Bank Polska S.A. made estimates which affect the value of right-of-use assets and their corresponding lease liabilities. The following items were estimated:

- a lease term; and
- an interest rate used for the purpose of discounting future cash flows.

Lease term

Santander Bank Polska S.A. determined the lease term as the non-cancellable period of a lease, together with:

1. periods covered by an option to extend the lease if Santander Bank Polska S.A., the lessee, is reasonably certain to exercise that option; and
2. periods covered by an option to terminate the lease if Santander Bank Polska S.A., the lessee, is reasonably certain not to exercise that option.

In assessing whether Santander Bank Polska S.A., the lessee, is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, Santander Bank Polska S.A. considered all relevant facts and circumstances that create an economic incentive for Santander Bank Polska S.A. to exercise the option to extend the lease, or not to exercise the option to terminate the lease.

For fixed-term contracts, Santander Bank Polska S.A. assumed the lease term equal to the term of the lease contract, unless Santander Bank Polska S.A. was aware of circumstances indicating that an extension or termination option would be exercised. For contracts made for an indefinite period, the lease term typically equals three years, unless a given property is subject to redevelopment. In such a case, the lease term does not exceed five years. In the case of right-of-use assets which are accessory to the underlying asset, the lease term is determined as the term of lease of the underlying asset. Where an underlying asset is subleased by Santander Bank Polska S.A., the head lessee ("intermediate lessor"), to a third party, and the lease ("head lease") between the head lessor and lessee remains in effect, the term of the sublease contract does not exceed the term of the head lease contract.

Incremental borrowing rate

The discount rate equals Santander Bank Polska S.A.'s incremental borrowing rate (as the lessee) at the time of the initial application of IFRS 16. The rate is the sum of:

1. risk-free rate
2. credit spread.

Average weighted incremental borrowing rates applied for lease liabilities as at the first application date for individual currencies are as follows:

- PLN: 3.19%
- USD: 3.36%
- EUR: 1.24%.

Fair value of financial instruments, including instruments which do not meet the contractual cash flows test

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.

Santander Bank Polska S.A. applies a methodology for measuring the fair value of credit exposures and debt instruments measured at fair value through profit or loss.

In the case of the instruments with distinguishable on-balance sheet and off-balance sheet components, the extent of fair value measurement will depend on the nature of the underlying exposure, and:

- the on-balance sheet portion always will be measured at fair value;
- the off-balance sheet portion will be measured at fair value only if at least one of the following conditions is met:
  - condition 1: the exposure has been designated as measured at fair value (option) or
  - condition 2: the exposure may be settled net in cash or through another instrument or
  - condition 3: Santander Bank Polska S.A. sells the obligation immediately after its granting or
  - condition 4: the obligation was granted below the market conditions.

The fair value is measured with the use of valuation techniques appropriate in the circumstances and for which sufficient data are available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Three widely used valuation techniques are:

- *market approach* – uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g. a business unit)
- *cost approach* – reflects the amount that would be required currently to replace the service capacity of an asset
- *income approach* – converts future amounts (cash flows or income and expenses) to a single current (discounted) date. When the income approach is used, the fair value measurement reflects the current market expectations as to the future amounts.

Santander Bank Polska S.A. uses the income approach for fair value measurement relating to financial instruments which do not meet contractual cash flows test.

The following arguments support the use of the income approach:

- no active market;
- the cost approach is not used in the case of financial assets (it usually applies to property, plant and equipment and property investments).

In the case of credit exposures and debt instruments, the present value method within income approach is typically used. In this method, the expected future cash flows are estimated and discounted using a relevant interest rate. In the case of the present value method, Santander Bank Polska S.A. uses the following elements in the valuation:

- expectations as to the future cash flows;
- expectations as to potential changes in cash flow amounts and timing (uncertainties are inherent in cash flow estimates);
- the time value of money, estimated using risk-free market rates;
- the price of uncertainty risk inherent in cash flows (risk premium) and
- other factors that market participants would take into account in the circumstances.

The present value measurement approach used by Santander Bank Polska S.A. is based on the following key assumptions:

- cash flows and discount rates reflect the assumptions that market participants would adopt in the measurement of an asset;
- cash flows and discount rates reflect only the factors allocated to the asset which was subject to measurement;
- discount rates reflect the assumptions which are in line with the cash flow assumptions;
- discount rates are consistent with the key economic factors relating to the currency in which the cash flows are denominated.

The fair value determination methodology developed by Santander Bank Polska S.A. provides for adaptation of the fair value measurement model to the characteristics of the financial asset subject to measurement. When determining the need for adaptation of the model to the features of the asset subject to measurement, Santander Bank Polska S.A. takes into account the following factors:

- approach to the measurement (individual/ collective) given the characteristics of the instrument subject to measurement;
- whether a schedule of payments is available;
- whether the asset subject to measurement is still offered by Santander Bank Polska S.A. and whether the products recently provided to customers can be a reference group for that asset.

Other significant groups of financial instruments measured at fair value are all derivatives, financial assets held within a residual business model, debt investment financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and equity investment financial assets. These financial instruments are either measured with reference to a quoted market price for that instrument or by using a respective measurement model.

Where the fair value is calculated using financial-markets pricing models, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, securities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices.

In justified cases, for financial instruments whose carrying amount is based on current prices or valuation models, Santander Bank Polska S.A. takes into account the need to identify additional adjustments to the fair value of the counterparty credit risk.

The fair value measurement models are reviewed periodically.

A summary of the carrying amounts and fair values of the individual groups of assets and liabilities is presented in Note 43.

Estimates for legal claims

Santander Bank Polska S.A raises provisions for cases disputed in court on the basis of likelihood of unfavourable verdict and recognises them in accordance with IAS 37.

The provisions have been estimated considering the likelihood of payment.

Estimated collective provisions for risk arising from mortgage loans in foreign currencies

In connection with the CJEU's ruling described in Note 44, there is an increased risk that clauses in agreements from the portfolio of mortgage loans denominated in or indexed to foreign currencies may be effectively challenged by customers. As at 31 December 2019, the balance of such loans was PLN 7,752,690 k. The Management Board considered the risk that the scheduled cash flows may not be fully recoverable and/or a liability may arise resulting in a future cash outflow. Following an analysis of the applicability of respective accounting principles, the Santander Bank Polska S.A. applied IAS 37 and, in addition to the already recognised provisions for individual court cases in that portfolio, recognised an additional collective provision for legal risk at PLN 149,000 k.

The collective provision, in particular the provision for mortgage loans denominated in or indexed to foreign currencies, has been estimated on the basis of a specific time horizon, the likelihood of a number of events, such as finding contractual clauses abusive or losing a court case, and different scenarios for possible judgments.

The Management Board stresses that the estimates come with significant uncertainty and may be subject to major changes in the future. A detailed description of the assumptions underpinning the calculation of specific collective provisions is presented in Note 36.

Estimates regarding reimbursement of fees related to early repaid consumer loans

In connection with the CJEU's ruling of 11 September 2019, Santander Bank Polska S.A. recognised a provision for potential customer claims in respect of a partial reimbursement of fees on consumer loans repaid ahead of their contractual maturity, before the date of the ruling.

The above provision has been estimated on the basis of product type, repayment formula, and amount of the fee to be reimbursed.

Please note that in view of the assumptions applied to provisions for partial reimbursement of fees, the approach described above does not reflect claims arising from early repayment of the loans after the CJEU's ruling, i.e. after 11 September 2019, in respect of which a relevant liability has been recognised by the Santander Bank Polska S.A. in full, following the decision to reimburse the fees in full amount to all customers affected. Both estimates, i.e. the provision and the liability, are based on the reimbursement amount calculated as the outstanding interest payments in the periods following the overpayment to all the interest payments in the original credit period.

In addition, the Santander Bank Polska S.A. restated the amortised external credit intermediation costs as part of measurement of the credit receivables at amortised cost using the effective interest rate in respect of expected prepayments in the loan portfolio (held as at 31 December 2019) subject to the reimbursement (see Note 36 for more details).

Other accounting estimates and judgements

Provisions for employee benefits paid on termination of employment, i.e. post-employment benefits, are estimated on the basis of an actuarial valuation. The actuarial valuation of those accruals is updated at least on an annual basis.

See Note 51 for details about provisions for staff benefits.

For each performance obligation the Santander Bank Polska S.A. estimates, whether it will fulfill performance obligation over time or at the point of time.

The fair value of awards granted under an incentive scheme is determined using the share based payments pricing models, which take into account the exercise price of the award, the share price at date of grant, discount rate - the risk free rate, the expected volatility of the share price over the life of the award and other relevant factors influencing fair value. The Santander Bank Polska S.A. assesses probability of the programme vesting which affects the programme value in the costs of the reporting period. Description of the share-based incentive scheme is contained in Note 52.

2.7. Evaluations that may significantly affect the amounts recognized in the financial statements

When applying the accounting principles, the management of Santander Bank Polska S.A., in addition to assessments that require estimates, makes various subjective assessments that may significantly affect the amounts recognized in financial statements.

Assessment whether contractual cash flows are solely payments of principal and interest

The key issue for Santander Bank Polska S.A.'s business, is to assess whether the contractual terms related to financial assets component indicate the existence of certain cash flow dates, which are only the repayment of the nominal value and interest on the outstanding nominal value.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition and 'interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, Santander Bank Polska S.A. considers the contractual terms of the instrument. This includes assessing whether the financial assets contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment the Santander Bank Polska S.A. considers:

- contingent events that would change the amount and timing of cash flows,
- leverage features,
- prepayment and extension terms,
- terms that limit Santander Bank Polska S.A.'s claim to cash flows from specified assets (e.g. non-recourse asset arrangements)
- features that modify consideration for the time value of money.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual paramount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

In the process of applying Santander Bank Polska S.A.'s accounting policy management assessed whether financial assets, including loan agreements, whose interest rate construction contains a multiplier greater than 1, meet classification criteria allowing their valuation at amortised cost, that is:

- business model and
- characteristics of contractual cash flows.

The most significant portfolio of financial assets, whose interest rate construction contained a multiplier greater than 1, includes credit cards granted until 01.08.2016, whose interest rate formula was based on 4x lombard rate and did not contain direct reference to the provisions of the Civil Code in the regard of interest cap.

This financial asset portfolio is maintained in a business model whose objective is to hold financial assets in order to collect contractual cash flows. Credit risk for these assets is the basic risk managed in portfolios, and historical analysis of frequency and volume of sales do not indicate significant sales of asset portfolios for reasons other than credit risk.

In addition, it was not found that:

- fair value was a key performance indicator (KPI) for assessing portfolio performance for internal reporting purposes,
- the assessment of the portfolio's results was based only on the fair value of assets in the analyzed portfolio,
- remuneration of portfolio managers was related to the fair value of assets in the analyzed portfolio.

Whereas contractual terms related to a financial asset indicate that there are specific cash flow terms that are not solely payments of principal and interest on the principal outstanding due to the existence of a financial leverage in the construction of interest rate. It increases the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest. The credit card portfolio with the above characteristics s disclosed as a portfolio measured at fair value through profit or loss.

Business Model Assessment

Business models at Santander Bank Polska S.A. are determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on the intentions of the Santander Bank Polska S.A. management regarding a particular instrument, which is why the model is assessed at a higher level of aggregation.

The business model refers to how Santander Bank Polska S.A. manages its financial assets in order to generate cash flows. That is, the business model determines whether cash flows will result from:

- a contract (a business model whose objective is to hold assets in order to collect contractual cash flows)
- the sale of financial assets (other/residual business model) or
- from both of those sources (a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets).

The assessment of a business model involves the analysis of qualitative and quantitative criteria (both presented in the section concerning classification of financial assets).

If Santander Bank Polska S.A. changes the business model for financial asset management, the entire portfolio of assets covered by that business model is reclassified on the level of a specific reporting segment, and the consequences arising from the change of the assessment category are recognised at a point of time in the profit and loss account or other comprehensive income.

Santander Bank Polska S.A. expects that such changes will take place rarely. They are determined by Santander Bank Polska S.A.'s senior management as a result of external or internal changes and must be significant to Santander Bank Polska S.A.'s operations and demonstrable to external parties.

Leasing of low value assets

Lease agreements regarding assets with an initial value not exceeding PLN 20 k, Santander Bank Polska S.A. evaluates as a low value lease.

2.8. Accounting policies

With the exception of the changes described in point 2.2, the Santander Bank Polska S.A. consistently applied the adopted accounting principles both for the reporting period for which the statement is prepared and for the comparative period.

Foreign currency

Foreign currency transactions

The Polish zloty (PLN) is the functional currency of Santander Bank Polska S.A. Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Resulting from these transactions monetary assets and liabilities denominated in foreign currencies, are translated at the foreign exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the reporting currency at the foreign exchange rates ruling at the dates that the fair values were determined. Foreign exchange differences arising on translation are recognised in profit or loss except for differences arising on retranslation of equity instruments of other entities measured at fair value through other comprehensive income, which are recognised in other comprehensive income.

Financial assets and liabilities

Recognition and derecognition

Initial recognition

Santander Bank Polska S.A. recognises a financial asset or a financial liability in its statement of financial position when, and only when, it becomes bound by contractual provisions of the instrument.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, at the settlement date.

Derecognition of financial assets

Santander Bank Polska S.A. derecognises a financial asset when and only when, if:

- contractual rights to the cash flows from that financial asset have expired, or
- Santander Bank Polska S.A. transfers a financial asset, and such operation meets the derecognition criteria specified further in this policy.

Santander Bank Polska S.A. transfers a financial asset when and only when, if:

- Santander Bank Polska S.A. transfers contractual rights to the cash flows from that financial asset, or
- Santander Bank Polska S.A. retains contractual rights to receive the cash flows from that financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions specified further in this policy.

When Santander Bank Polska S.A. retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), then Santander Bank Polska S.A. treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met:

- Santander Bank Polska S.A. has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset,
- Santander Bank Polska S.A. is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows,
- Santander Bank Polska S.A. has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, Santander Bank Polska S.A. is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents (as defined in IAS 7 Statement of Cash Flows) during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

When Santander Bank Polska S.A. transfers a financial asset, it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset. In such a case:

- if Santander Bank Polska S.A. transfers substantially all of the risks and rewards of ownership, then it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;
- if Santander Bank Polska S.A. retains substantially all the risks and rewards of ownership, then it shall continue to recognise the financial asset;
- if Santander Bank Polska S.A. neither transfers nor retains substantially all the risks and rewards of ownership, then it shall verify if it has retained control of the financial asset. In such a case:
    a) if Santander Bank Polska S.A. has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer;
    b) if Santander Bank Polska S.A. has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The transfer of risks and rewards is evaluated by comparing Santander Bank Polska S.A.'s exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. Santander Bank Polska S.A. has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer. Santander Bank Polska S.A. transfers substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset.

Santander Bank Polska S.A. derecognises a part of financial asset (or a part of a group of similar financial assets) when and only when, if the part to be derecognised fulfills one of the three conditions:

- that part comprises only specifically identified cash flows on a financial asset (or a group of similar financial assets),
- that part comprises only a fully proportionate (pro rata) share of cash flows from that financial asset (or a group of similar financial assets),
- that part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).

In all other cases, Santander Bank Polska S.A. derecognises a financial asset (or a group of similar financial assets) as a whole.

Derecognition of financial liabilities

Santander Bank Polska S.A. shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished — i.e. when the obligation specified in the contract is discharged or cancelled or expires.

An exchange between Santander Bank Polska S.A. and the lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

If Santander Bank Polska S.A. repurchases a part of a financial liability, Santander Bank Polska S.A. shall allocate the previous carrying amount of the financial liability between the part that continues to be recognised and the part that is derecognised based on the relative fair values of those parts on the date of the repurchase. The difference between:

- the carrying amount allocated to the part derecognised, and
- the consideration paid, including any non-cash assets transferred or liabilities assumed, for the part derecognised, arerecognised in profit or loss.

Classification of financial assets and financial liabilities

Classification of financial assets

Classification of financial assets which are not equity instruments

Unless Santander Bank Polska S.A. has made a prior decision to measure a financial asset at fair value through profit or loss, the Santander Bank Polska S.A. classifies financial asset that are not an equity instrument as subsequently measured at amortised cost or at fair value through other comprehensive income or fair value through profit or loss on the basis of both:

- the business model of Santander Bank Polska S.A. for managing the financial assets and
- the contractual cash flow characteristics of the financial asset.

A financial asset is measured at amortised cost if both of the following conditions are fulfilled:

- the financial asset is held in a business model whose purpose is to hold financial assets to collect contractual cash flows, and
- the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are fulfilled:

- the financial asset is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset is not measured at amortised cost or at fair value through other comprehensive income, it is measured at fair value through profit or loss.

Santander Bank Polska S.A. may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Classification of financial assets which are equity instruments

Santander Bank Polska S.A. measures the financial asset that is an equity instrument at fair value through the profit or loss, unless Santander Bank Polska S.A. made an irrevocable election at initial recognition for particular investments in equity instruments to present subsequent changes in fair value in other comprehensive income.

Santander Bank Polska S.A. classifies investments in other entities that meet criterion of a debt financial instrument as measured at fair value through profit or loss.

Business models

Business models at Santander Bank Polska S.A. are determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on the intentions of the Santander Bank Polska S.A. key management regarding a particular instrument.

The business model refers to how Santander Bank Polska S.A. manages its financial assets in order to generate cash flows. That is, the business model determines whether cash flows will result from:

- collecting contractual cash flows
- selling financial assets
- or both.

Consequently, the business model assessment is not performed on the basis of scenarios that Santander Bank Polska S.A. does not reasonably expect to occur, such as so-called “worst case” or “stress case” scenarios.

Santander Bank Polska S.A. determines the business model on the basis of the assessment of qualitative and quantitative criteria.

Qualitative criteria for the assessment of a business model

The business model for managing financial assets is a matter of fact and not merely an assertion. It is observable through the activities undertaken to achieve the objective of the business model. Santander Bank Polska S.A. uses judgement when it assesses its business model for managing financial assets and that assessment is not determined by a single factor or activity. Santander Bank Polska S.A. considers all relevant qualitative and quantitative criteria available at the date of business model assessment. Such relevant evidence includes the following issues:

- policies and business objectives applicable to a given portfolio and their effective delivery. In particular, the assessment covers the management strategy for generating income from contractual interest payments, maintaining a specific profile of portfolio interest rates, managing liquidity gap and generating cash flows from the sale of financial assets;
- method for assessing the profitability of the financial asset portfolio and its reporting and analysis by the key management personnel;
- risks which affect the profitability and effectiveness of a specific business model (and financial assets held within such a business model) as well as method for managing such risks;
- method for remunerating business managers as part of a specific business model, i.e. whether the remuneration payable to the key management personnel depends on changes in the fair value of financial assets or the value of contractual cash flows.

Quantitative criteria for the assessment of a business model

In addition to qualitative criteria, the business model should also be reviewed in terms of quantitative aspects, unless the initial analysis of qualitative criteria clearly implies a residual model managed on the fair-value basis.

The purpose of the analysis of quantitative criteria of business model assessment is to determine if the sale of financial assets during the analysed period exceeds the pre-determined threshold values (in percentage terms) defined in internal regulations.

As part of the analysis of quantitative criteria, Santander Bank Polska S.A. reviews the frequency, values and the time of sale of financial assets in the previous reporting periods, reasons for such sale and expectations as to the future sales activity.

In the analysis of the quantitative criteria of the business model assessment, Santander Bank Polska S.A. determines that a business model whose objective is to hold assets in order to collect contractual cash flows enables the sale of those assets, without affecting the current business model, in the following cases:

- if the sale is due to the increase in credit risk related to the assets,

- if the sale is infrequent (even if its value is significant),
- if the value of the sale is insignificant (even if the sale is frequent),
- if the assets are sold to improve liquidity in a stress case scenario,
- if the sale is required by third parties (it applies to the assets which have to be sold owing to e.g. the requirements of supervisory authorities, but were originally held to collect contractual cash flows),
- if the sale results from exceeding the concentration limits specified in internal procedures and is a part of the credit risk management policy,
- if the sale is made close to the maturity date of the financial assets and the proceeds from the sale are approximations of the contractual cash flows that Santander Bank Polska S.A. would have collected if it had held the assets until their maturity date.

Other forms of the sale of assets as part of the business model whose objective is to hold assets in order to collect contractual cash flows (e.g. frequent sales of significant value) result in the need to change the business model and reclassify the financial assets which were originally allocated to that model.

Business model types

The analysis of qualitative and quantitative criteria makes it possible to identify three basic business models applied in the operations of Santander Bank Polska S.A.:

- the business model whose objective is to hold assets in order to collect contractual cash flows (hold to collect),
- the business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold to collect and sell),
- the other/ residual business model (the business model whose objective is achieved by selling assets).

Presented below are characteristics of all business models, with an indication of the financial instruments assigned to each.

A business model whose objective is to hold assets in order to collect contractual cash flows

Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the whole life of the instrument. That is, Santander Bank Polska S.A. manages the assets held within the portfolio to collect those particular contractual cash flows (instead of managing the overall return on the portfolio by both holding and selling assets). In determining whether cash flows are going to be realised by collecting the financial assets' contractual cash flows, it is necessary to consider the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity. However, sales in themselves do not determine the business model and therefore cannot be considered in isolation. Instead, information about past sales and expectations about future sales provide evidence related to how Santander Bank Polska S.A.'s stated objective for managing the financial assets is achieved and, specifically, how cash flows are realised. Santander Bank Polska S.A. each time considers information about past sales within the context of the reasons for those sales and the conditions that existed at that time as compared to current conditions. Although the objective of the business model may be to hold financial assets in order to collect contractual cash flows, Santander Bank Polska S.A. needs not hold all of those instruments until maturity. Thus, Santander Bank Polska S.A.'s business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur or are expected to occur in the future.

A business model whose objective is to hold assets in order to collect contractual cash flows spans the entire spectrum of credit activity, including but not limited to corporate loans, mortgage and consumer loans, credit cards, loans granted and debt instruments (e.g. treasury bonds, corporate bonds), which are not held for liquidity management purposes. Financial assets on account of trading settlements are substantially also recognised under this model. Such assets are recognised in the books of Santander Bank Polska S.A. on the basis of an invoice issued payable within maximum one year.

A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets

Santander Bank Polska S.A. may hold financial assets in a business model whose objective is achieved both by collecting contractual cash flows and by selling financial assets. In this type of business model, the key management personnel of Santander Bank Polska S.A. decided that both collecting contractual cash flows and selling financial assets are integral to achieving the business model's objective. There are various objectives that may be consistent with this type of business model. For example, the objective of the business model may be to manage everyday liquidity needs, to maintain a particular interest yield profile or to match the duration of the financial assets to the duration of the liabilities that those assets are funding. To achieve such an objective, Santander Bank Polska S.A. will both collect contractual cash flows and sell financial assets.

Compared to a business model whose objective is to hold financial assets to collect contractual cash flows, this business model will typically involve greater frequency and value of sales. This is because selling financial assets is integral to achieving the business model's objective instead of being only incidental to it. However, there is no specific frequency or sales value threshold that must be achieved in this business model as collecting contractual cash flows and selling financial assets are both integral to achieving the model's objective.

A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets includes:

- financial assets acquired for the purpose of liquidity management, such as State Treasury bonds or NBP bond 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.

Other/ residual business model

Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. A business model that results in measurement at fair value through profit or loss is one in which Santander Bank Polska S.A. manages the financial assets with the objective of realising cash flows through the sale of the assets. Santander Bank Polska S.A. makes decisions based on the assets' fair values and manages the assets to realise those fair values. In this case, Santander Bank Polska S.A.'s objective will typically result in active buying and selling. Even though Santander Bank Polska S.A. will collect contractual cash flows while it holds the financial assets, the objective of such a business model is not achieved by both collecting contractual cash flows and selling financial assets. This is because the collection of contractual cash flows is not integral to achieving the business model's objective; instead, it is incidental to it.

Other, residual model is used for classifying assets held by Santander Bank Polska S.A. but not covered by the first or second category of the business model. They include assets from the “held for trading” category in the financial statements, such as listed equity instruments, commercial bonds acquired for trading purposes and derivatives (e.g. options, IRS, FRA, CIRS, FX Swap contracts) which are not embedded derivatives.

The business model whose objective is to hold assets in order to collect contractual cash flows is the most frequent business model in Santander Bank Polska S.A. except in the case of:

- debt instruments measured at fair value through other comprehensive income that are maintained in the ALM segment and credits and loans covered by underwriting process described above; those instruments are subject to the business model whose objective is achieved by both collecting contractual cash flows and selling financial assets,
- instruments held for trading, including debt instruments and derivative instruments which are not subject to hedge accounting; those instruments are covered by the other/ residual business model.

Changing the business model

Santander Bank Polska S.A. reclassifies all affected financial assets when, and only when, it changes its business model for managing financial assets. Such changes are expected to be very infrequent. They are determined by the senior management of Santander Bank Polska S.A. as a result of external or internal changes and must be significant to the Santander Bank Polska ‘s S.A. operations and demonstrable to external parties. Accordingly, a change in the business model of Santander Bank Polska S.A. will occur only when Santander Bank Polska S.A. either begins or ceases to perform an activity that is significant to its operations (for example, when a business line has been acquired, disposed of or terminated).

The objective of the business model of Santander Bank Polska S.A. is changed before the reclassification date.

The following are not changes in business model:

- a change in intention related to particular financial assets (even in circumstances of significant changes in market conditions),
- the temporary disappearance of a particular market for financial assets,
- a transfer of financial assets between segments of Santander Bank Polska S.A. with different business models.

If Santander Bank Polska S.A. reclassifies a financial asset, it applies the reclassification prospectively from the reclassification date.

If Santander Bank Polska S.A. reclassifies a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is established at the reclassification date.

Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss.

Characteristics of contractual cash flows

Santander Bank Polska S.A. classifies financial assets on the basis of the contractual cash flow characteristics of the financial asset if that asset is held within a business model:

- whose objective is to hold assets to collect contractual cash flows or
- whose objective is achieved by both collecting contractual cash flows and selling financial assets unless Santander Bank Polska S.A. has designated that financial asset to be measured at fair value through profit or loss.

For this purpose, Santander Bank Polska S.A. determines if the contractual cash flows generated by the asset in question are solely payments of principal and interest on the principal amount outstanding.

Principal is the fair value of the financial asset at initial recognition. However, that principal amount may change over the life of the financial asset (for example, if there are repayments of principal).

Interest should include the consideration for:

- the time value of money,
- credit risk associated with the outstanding principal amount,
- other basic lending risks and costs,
- and a profit margin.

The time value of money is the element of interest that provides consideration for only the passage of time. That is, the time value of money element does not provide consideration for other risks or costs associated with holding the financial asset. In order to assess whether the element provides consideration for only the passage of time, Santander Bank Polska S.A. applies its own judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for Santander Bank Polska S.A. by failing to discharge an obligation. In other words, credit risk refers to the possibility of the Customer's failure to repay the principal and interest due within the contractual deadline.

Other basic lending risks and costs include for example administration costs related to the analysis of the credit application, assessment of the customer's repayment capacity, monitoring of the customer's economic and financial standing, etc.

Financial instruments which do not meet the requirements of contractual cash flow characteristics include:

- credit card portfolios whose interest rates are set on the basis of principles applicable in Santander Bank Polska S.A. until 1 August 2016;
- instruments providing for participation of Santander Bank Polska S.A. in the customer's profit or loss; and
- other instruments whose contractual cash flows do not meet the definition of interest due to the lack of an economic relationship between the amount of interest accrued and the amount of interest payable to Santander Bank Polska S.A..

Classification of financial liabilities

Santander Bank Polska S.A. classifies all financial liabilities as subsequently measured at amortised cost, except for:

- financial liabilities measured at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- financial guarantee contracts. After initial recognition, the issuer shall measure contract at the higher of:
  (1) amount of the expected credit loss allowance,
  (2) initial recognised amount, less respective cumulated income recognised as per IFRS 15;
- commitments to provide a loan at a below-market interest rate. If the liability is not measured at fair value through profit or loss, the issuer shall subsequently measure it at the higher of:
  (1) amount of the expected credit loss allowance,
  (2) Initial recognised amount, less respective cumulated income recognised as per IFRS 15;

- contingent consideration recognised by the acquire under the business combination arrangement governed by IFRS 3. Such contingent consideration shall subsequently be measured at fair value with changes recognised in profit or loss.

Upon initial recognition of the liability, Santander Bank Polska S.A. may irrevocably classify such item as the one measured at fair value through profit or loss if such an accounting method provides a better view of the accounts, because:

- it eliminates or largely prevents the accounting mismatch that would arise if assets or liabilities or related profit or loss were recognised under different accounting methods, or
- a group of financial liabilities or financial assets and liabilities is managed and measured at fair value as per the documented strategy for risk management and investments, and information about these items are provided to key management personnel within the Santander Bank Polska S.A. (as per the definition specified in IAS 24 Related Party Disclosures).

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative, but a separate financial instrument.

For financial assets that meet the definition of embedded derivatives, a derivative which is a component of a hybrid contract is not separated from the host contract which is not a derivative.

Measurement of financial assets and financial liabilities

Initial measurement

At initial recognition, Santander Bank Polska S.A. measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, Santander Bank Polska S.A. recognises this instrument on that date as follows:

- when the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, then Santander Bank Polska S.A. recognises the difference between the transaction price and the fair value at initial recognition as a gain or loss.
- in all other cases, at the measurement adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, Santander Bank Polska S.A. recognises that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

At initial recognition, Santander Bank Polska S.A. shall measure trade receivables that do not have a significant financing component (determined in accordance with IFRS 15) at their transaction price (as defined in IFRS 15).

Subsequent measurement of financial assets

After initial recognition, Santander Bank Polska S.A. recognises a financial asset:

- at amortised cost, or
- at fair value through other comprehensive income, or
- at fair value through profit or loss.

Allowances for expected credit losses are not calculated for financial assets measured at fair value through profit or loss.

Subsequent measurement of financial liabilities

After initial recognition, Santander Bank Polska S.A. recognises a financial liability:

- at amortised cost, or
- at fair value through profit or loss.

Liabilities measured at amortised costs include: deposits from banks, deposits from customers, liabilities due to repo transactions, loans and advances obtained, issued debt instruments and subordinated liabilities.

Liabilities are recognised as subordinated liabilities which in the event of liquidation or bankruptcy of Santander Bank Polska S.A. are repaid after satisfaction of claims of all other Santander Bank Polska S.A. creditors. Financial liabilities are classified as subordinated liabilities by the decision of the Polish Financial Supervision Authority issued at the request of Santander Bank Polska S.A..

Amortised cost measurement

Financial assets

Effective interest method

Interest revenue is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for credit-impaired financial assets. At the time a financial asset or a group of similar financial assets is reclassified to stage 3, interest revenue is calculated on the basis of a net value of a financial asset and presented at the interest rate used for the purpose of discounting the future cash flows for the purpose of measurement of impairment.

In case of interest revenue on POCI assets is calculated on the basis of the net carrying amount, applying the effective interest rate adjusted for credit risk over the lifetime of the asset. The credit-adjusted effective interest rate is calculated by taking into account the future cash flows adjusted for the effect of credit risk over the lifetime of the asset.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, Santander Bank Polska S.A. shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider potential future credit losses.

The calculation includes paid and received fees (e.g. arrangement and grant of loan, arrangement of loan tranche, prolongation of loan, renewal of loan, restructure fees and fees for annexes which modify payments) transaction costs and all other premiums or discounts.

Costs that can be directly related to the sales of loan products are partially accounted for in interest income using the effective interest method, if there is a possibility of direct allocation to the specific loan agreement, and partly recognised in the fee income, at the moment of realisation, if there is no possibility of direct allocation to the specific loan agreement.

Credit-adjusted effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset to the amortised cost of a financial asset that is a purchased or originated credit-impaired financial asset. When calculating the credit-adjusted effective interest rate, Santander Bank Polska S.A. estimates the expected cash flows by considering all contractual terms of the financial asset (for example, prepayment, extension, call and similar options) and expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the remaining life of a financial instrument (or group of financial instruments), Santander Bank Polska S.A. uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

The gross carrying amount of a financial asset is its amortised cost, before adjusting for any expected credit loss allowances, and taking into account any non-derecognised penalty interest accrued on overdue principal.

Purchased or originated credit-impaired assets (POCI)

Santander Bank Polska S.A. distinguished the category of purchased or originated credit-risk assets . POCI are assets that are credit-impaired on initial recognition. Financial asset that were classified as POCI at initial recognition should be treated as POCI in all subsequent periods until they are derecognized.

At initial recognition, POCI assets are recognized at their fair value. After initial recognition POCI assets are measured at amortized costs.

Valuation of POCI assets is based on the effective interest rate adjusted for the effect of credit risk .

For POCI assets (purchased or originated credit impaired) expected credit losses are recognised over the lifetime of the asset.

Modification of contractual cash flows

The concept of modification

Changes to the contractual cash flows in respect of the financial asset are regarded by Santander Bank Polska S.A. as modification if made in the form of an annex. Changes to the contractual cash flows arising from performance of the contractual obligations are not considered to be a modification.

If the terms of the financial asset agreement change, the Santander Bank Polska S.A. assesses whether the cash flows generated by the modified asset differ significantly from cash flows generated by financial asset before modification of the terms of the asset agreement.

Modification criteria

When assessing whether a modification is substantial or minor, Santander Bank Polska S.A. takes into account both quantitative and qualitative criteria. Both criteria groups are each time analyzed together.

Quantitative criteria

To determine the significance of the impact of modifications, the so-called "10% test" is carried out which is based on a comparison of discounted cash flows of the modified financial instrument (using the original effective interest rate) with discounted (also with the original effective interest rate) cash flows of the financial instrument before modification, whose value should correspond to the value of undue capital, increased by the value of undue interest and adjusted for the amount of unsettled commission.

Qualitative criteria

During the qualitative analysis, Santander Bank Polska S.A. takes into account the following aspects:

- adding / removing a feature that violates the contractual cash flow test result,
- currency conversion - except for currency conversions resulting from the transfer of the contract for collection,
- change of the main debtor - change of the contractor results in a significant modification of contractual terms and
- consolidation of several exposures into one under an annex.

Substantial modification

A substantial modification resulting in the exclusion of a financial instrument from the statement of financial position occurs when at least one of the qualitative criteria described above has occurred.

In addition, a substantial modification occurs when the cash flows of the modified financial instrument are "materially different" from the original financial instrument, i.e. when the difference between discounted cash flows of the modified financial instrument (using the original effective interest rate) and the discounted (also with the original effective interest rate), cash flows of the financial instrument before the modification, is higher than 10%.

If the modification of a financial asset results in derecognition of the existing financial asset and recognition of the modified financial asset, the modified asset is considered as a "new" financial asset. The new asset is recognized at fair value and the new effective interest rate applied to the new asset is calculated.

Minor modification

If the difference between the value of the future cash flows arising from the changed financial asset discounted at the original effective interest rate and the value of the future cash flows arising from the original asset discounted at the same interest rate does not exceed 10% and the qualitative criteria are not met, the modification is regarded by Santander Bank Polska S.A. as insignificant.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with this policy, Santander Bank Polska S.A. recalculates the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

Write-off

Santander Bank Polska S.A. directly reduces the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.

Financial asset can be written off partially or in its entirety.

Santander Bank Polska S.A. writes off financial assets if at least one of the following conditions apply:

- Santander Bank Polska S.A. has documented the irrecoverability of the debt
- there are no reasonable expectations of recovering the financial asset in full or in part;
- the debt is due and payable in its entirety and the value of the credit loss allowance corresponds to the gross value of the exposure, while the expected debt recovery proceeds are nil;
- the asset originated as a result of a crime and the perpetrators have not been identified or
- Santander Bank Polska S.A. has received:
    - a decision on discontinuation of debt enforcement proceedings due to irrecoverability of the debt (in relation to all obligors), issued by a relevant enforcement authority pursuant to Article 824 § 1 (3) of the Polish Code of Civil Procedure, which is recognised by the Santander Bank Polska S.A. as corresponding to the facts;
    - a court decision in respect of :
        - dismissing a bankruptcy petition, if the insolvent debtor's assets are insufficient to cover the cost of the proceedings or suffice to cover this cost only; or
        - discontinuing the bankruptcy proceedings or
        - closing the bankruptcy proceedings.

Financial assets written off are then recorded off balance sheet.Analogous premises are taken into account in the case of writing off penalty interest.

Impairment

General approach

Santander Bank Polska S.A. recognises allowances for expected credit losses on a financial asset in respect of:

- financial assets measured at amortised cost or at fair value through other comprehensive income;
- lease receivables;
- contract assets, i.e. the consideration to which Santander Bank Polska S.A. is entitled in exchange for the goods or services transferred to the customer in accordance with IFRS 15 Revenue from Contracts with Customers;
- loan commitments and
- off-balance sheet credit liabilities and financial guarantees.

Santander Bank Polska S.A. applies the impairment requirements for the recognition and measurement of a loss allowance for financial assets that are measured at fair value through other comprehensive income. However, the loss allowance is recognised in income statement and does not reduce the carrying amount of the financial asset in the statement of financial position.

At each reporting date, Santander Bank Polska S.A. measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

The objective of the impairment requirements is to recognise lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition — whether assessed on an individual or collective basis — considering all reasonable and supportable information, including that which is forward-looking.

If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, Santander Bank Polska S.A. measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

For loan commitments and financial guarantee contracts, the date that Santander Bank Polska S.A. becomes a party to the irrevocable commitment shall be considered to be the date of initial recognition for the purposes of applying the impairment requirements.

If Santander Bank Polska S.A. has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, but determined at the current reporting date that the credit risk for that financial instrument has declined, Santander Bank Polska S.A. measures the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

Santander Bank Polska S.A. recognises in profit or loss, as an impairment gain or loss, the amount of expected credit losses that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised.

Santander Bank Polska S.A. charges interest revenue on exposures classified in Stage 3 on the net exposure value.

Simplified approach for trade receivables and contract assets

In the case of trade receivables and contract assets, Santander Bank Polska S.A. always measures the loss allowance at an amount equal to lifetime expected credit losses for trade receivables or contract assets that result from transactions that are within the scope of IFRS 15, and that do not contain a significant financing component.

Purchased or originated credit-impaired financial assets (POCI assets)

At the reporting date, Santander Bank Polska S.A. recognises only the changes in lifetime expected credit losses as a loss allowance for purchased or originated credit-impaired financial assets.

Interest revenue on POCI assets is calculated on the basis of the net carrying amount, applying the effective interest rate adjusted for credit risk over the lifetime of the asset. The credit-adjusted effective interest rate is calculated by taking into account the future cash flows adjusted for the effect of credit risk over the lifetime of the asset.

At each reporting date, Santander Bank Polska S.A. recognises in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss. Santander Bank Polska S.A. recognises favourable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows on initial recognition.

Contingent liabilities

Santander Bank Polska S.A. creates provisions for impairment risk-bearing irrevocable contingent liabilities (irrevocable credit lines, financial guarantees, letters of credit, etc.). The value of the provision is determined as the difference between the estimated amount of available contingent exposure set using the Credit Conversion Factor (CCF) and the current value of expected future cash flows under this exposure.

Santander Bank Polska S.A. raises provisions for off-balance sheet liabilities subject to credit risk, broken down into 3 stages.

Approach to the estimation of risk parameters used to calculate expected losses

For the purpose of estimating allowances for expected losses, Santander Bank Polska S.A. continues using own estimates of risk parameters that are based on internal models, however with the necessary modifications (such as estimating the parameters over the lifetime of the exposure or taking into account future macroeconomic conditions). Santander Bank Polska S.A. has developed a methodology for models' parameters and built valuation models. Expected credit losses are equal to the estimated PD parameter multiplied by the estimated LGD and EAD parameters for each individual exposure. The final value of expected credit losses is the sum of expected losses from all periods (depending on the stage, either in 12 months or in the entire lifetime) discounted using the effective interest rate. The estimated parameters are adjusted for macroeconomic scenarios. The scenarios used by Santander Bank Polska S.A. are developed internally.

The models and parameters are subject to model management process and periodic calibration and validation.

Gains and losses

A gain or loss on a financial asset or liability measured at fair value is recognised in profit or loss unless the asset or liability is:

- a part of a hedging relationship,
- an investment into an equity instrument and Santander Bank Polska S.A. has decided to present gains and losses on that investment in other comprehensive income,
- a financial liability designated as measured at fair value through profit or loss and Santander Bank Polska S.A. is required to present the effects of changes in the liability's credit risk in other comprehensive income; or
- is a financial asset measured at fair value through other comprehensive income and Santander Bank Polska S.A. is required to recognise some changes in fair value in other comprehensive income.

Dividends are recognised in profit or loss only if:

- the right of Santander Bank Polska S.A. to receive payment of the dividend is established,
- it is probable that the economic benefits associated with the dividend will flow to Santander Bank Polska S.A., and
- the amount of the dividend can be measured reliably.

A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss through the amortisation process or in order to recognise impairment gains or losses. A gain or loss on a financial liability that is measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the financial liability is derecognised and through the amortisation process.

With regard to the financial assets recognised by Santander Bank Polska S.A. at the settlement date, any change in the fair value of the asset to be received during the period between the trade date and the settlement date is not recognised for assets measured at amortised cost. For assets measured at fair value, however, the change in fair value is recognised in profit or loss or in other comprehensive income, as appropriate. The trade date means the date of initial recognition for the purposes of applying the impairment requirements.

Investments in equity instruments

Investments in equity instruments are measured at fair value through profit or loss unless at their initial recognition Santander Bank Polska S.A. makes an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this policy that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

If Santander Bank Polska S.A. has elected to measure equity instruments at fair value through other comprehensive income , dividends from that investment are recognised in profit or loss.

Liabilities designated as measured at fair value through profit or loss

Santander Bank Polska S.A. presents a gain or loss on a financial liability that is designated as measured at fair value through profit or loss as follows:

- the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, and
- the remaining amount of change in the fair value of the liability is presented in profit or loss unless the treatment of the effects of changes in the liability's credit risk described in (a) would create or enlarge an accounting mismatch in the profit or loss of Santander Bank Polska S.A..

If the requirements specified above would create or enlarge an accounting mismatch in the profit or loss of Santander Bank Polska S.A., Santander Bank Polska S.A. presents all gains or losses on that liability (including the effects of changes in the credit risk of that liability) in profit or loss.

Santander Bank Polska S.A. presents in profit or loss all gains and losses on loan commitments and financial guarantee contracts that are designated as measured at fair value through profit or loss.

Assets measured at fair value through other comprehensive income

A gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised .If the financial asset is derecognised , Santander Bank Polska S.A. accounts for the cumulative gain or loss that was previously recognised in other comprehensive income in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Financial instruments held for trading

A financial asset or financial liability is classified by Santander Bank Polska S.A. as held for trading if:

- it has been acquired or incurred principally for the purpose of selling or repurchasing in the near term,
- on initial recognition it is a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Derivative financial instruments are recognised at fair value without any deduction for transactions costs to be incurred on sale. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received).

If a hybrid contract contains a host contract that is not an asset within the scope of this IFRS 9, Santander Bank Polska S.A. separates the embedded derivative from the host contract and accounts for it as other derivatives if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and the host contract is not carried at fair value through profit or loss. Embedded derivatives are measured at fair value with changes recognised in the profit and loss account.

Santander Bank Polska S.A. uses derivative financial instruments to hedge its exposure to FX risk and interest rate risk arising from Santander Bank Polska S.A.'s operations. The derivatives that do not qualify for hedge accounting are accounted for as instruments held for trading and recognised at fair value.

Hedge accounting

Pursuant to paragraph 7.2.21 of IFRS 9, Santander Bank Polska S.A. chose to continue to apply the hedge accounting requirements and hedging relationships arising from IAS 39.

Hedge accounting recognises the offsetting effects on the income statement income of changes in the fair values of the hedging instrument and the hedged item.At the inception of the hedge there is formal designation and documentation of the hedging relationship and risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction and the nature of the risk being hedged. The Santander Bank Polska S.A. also documents, at inception and on ongoing basis, an assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in the fair value of the hedged item.

The Santander Bank Polska S.A. uses derivative financial instruments among others to hedge its exposure to interest rate risks arising from Santander Bank Polska S.A. operational, financing and investment activities.

The Santander Bank Polska S.A. discontinues hedge accounting when:

- it is determined that a derivative is not, or has ceased to be, effective as a hedge;
- the derivative expires, or is sold, terminated, or exercised;
- the hedged item matures or is sold, or repaid,
- the hedging relationship ceases.

Fair value hedge

This is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the income statement.

A fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) shall be recognised in profit or loss; and the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. This rule applies if the hedged item is otherwise measured at amortised cost or is a financial asset measured at fair value through other comprehensive income.

Cash flow hedge

This is a hedge of the exposure to variability in cash flows that:

1. is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction; and
2. could affect profit and losses.

A cash flow hedge is accounted for as follows: the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised directly in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument shall be recognised in income statement.

Interest income and expenses on hedged and hedging instruments are recognised as net interest income.

Amounts recognised in 'Other comprehensive income' are reclassified to profit or loss during the period of time in which the hedged item affects the income statement.

If the hedging instrument expires or is sold or the hedge accounting relationship is terminated, Santander Bank Polska S.A. discontinues hedge accounting. All profits or losses on the hedging instrument pertaining to the effective hedge recognised in other comprehensive income remains an element of equity until the forecast transaction occurs, when it is recognised in income statement.

If the transaction is no longer expected to occur, the cumulative gain or loss relating to the hedging instrument recognised in other comprehensive income is reclassified to profit or loss.

Repurchase and reverse repurchase transactions

The Santander Bank Polska S.A. also generates/invests funds by selling/purchasing financial instruments under repurchase/reverse repurchase agreements whereby the instruments must be repurchased/resold at the previously agreed price.

Securities sold subject to repurchase agreements ("repo and sell-buy-back transaction") are not derecognised from the statement of financial position at the end of the reporting period. The difference between sale and repurchase price is treated as interest cost and accrued over the life of the agreement.

Securities purchased subject to resale agreements ("reverse repo and buy-sell-back transactions") are not recognised in the statement of financial position at the end of the reporting period. The difference between purchase and resale price is treated as interest income and accrued over the life of the agreement.

The principles described above are also applied by Santander Bank Polska S.A. to transaction concluded as separate transaction of sale and repurchase of financial instruments but having the economic nature of repurchased and reverse repurchase transactions.

Property, plant and equipment

Owned fixed assets

Property, plant and equipment including assets under operating leases are stated at cost or deemed cost less accumulated depreciation and impairment losses.

Leased assets

Cost model

Santander Bank Polska S.A as a lessee shall measure the right-of-use asset at cost:

a) less any accumulated depreciation and any accumulated impairment losses; and
b) adjusted for any remeasurement of the lease liability

Subsequent expenditure

Santander Bank Polska S.A. recognises in the carrying amount of property, plant and equipment the cost of replacing part of such an asset when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to Santander Bank Polska S.A. and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated economic useful lives of each part of an item of property, plant and equipment.

The estimated economic useful lives are as follows:

- buildings: 22-40 years
- IT equipment: 3 years
- transportation means: 4 years
- other fixed assets: 14 years.

Right-of-use assets are depreciated on a straight basis overt the assets's useful life.

Depreciation rates are verified annually. On the basis of this verification, depreciation periods might be changed.

Goodwill and Intangible assets

Goodwill

Goodwill as of the acquisition date measured as the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable acquired assets, liabilities and contingent liabilities less impairment. Goodwill value is tested for impairment annually.

Licences, patents, concession and similar assets

Acquired computer software licences are recognized on the basis of the costs incurred to acquire and bring to use the specific software.
Expenditures that are directly associated with the production of identifiable and unique software products controlled by Santander Bank Polska S.A., and that will probably generate economic benefits exceeding expenditures beyond one year, are recognised as intangible assets.

Development costs

Santander Bank Polska S.A. capitalises direct costs and a justified part of indirect costs related to the design, construction and testing of a chosen alternative for new or improved processes, systems or services.

Santander Bank Polska S.A. recognises the development costs as intangible assets based on the future economic benefits and fulfilment of conditions specified in IAS 38, i.e.:

- has the ability and intention to complete and use the asset that is being generated,
- has the adequate technical and financial measures to complete the works and use the asset that is being generated and
- can reliably measure the amount of expenditure incurred during the development works that can be allocated to the generated intangible asset.

The economic life of development costs is definite. The amortisation rates are adjusted to the length of the economic life. Santander Bank Polska S.A. indicates separately the costs from internal development. Development expenditure comprises all expenditure that is directly attributable to development activities.

Other intangible assets

Other intangible assets that are acquired by Santander Bank Polska S.A. are stated at cost less accumulated amortisation and total impairment losses.

Expenditure on intangible assets

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed in the income statement as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line or degressive method (for intangible assets resulting from business combinations) over the estimated economic useful lives of intangible assets, which for the majority of intangibles equals to three years.

Amortisation rates are verified annually. On the basis of this verification, amortisation periods might be changed.

Leasing

The new International Financial Reporting Standard 16 "Leasing", effective from January 1, 2019, replaced the existing IAS 17. Accordingly, the classification of leases into operating lease and finance lease as per IAS 17 no longer applies under IFRS 16, as the new standard introduces a single model for accounting for leases by the lessee.

Leasing is a contract or part of a contract in which the right to use the underlying asset is transferred for a given period in exchange for consideration.

Seperating elements of the leasing contract

Lessee

Santander Bank Polska (the lessee) does not separate non-lease components from lease components, and instead accounts for each lease component and any associated non-lease components as a single lease component for each underlying asset class where it is not possible and where the share of non-lease components is not significant compared to total net lease payments.

Lessor

For a contract that contains a lease component and one or more additional lease or non-lease components, Santander Bank Polska (the lessor) allocates the consideration in the contract applying the provisions of the accounting policy in respect of revenue from contracts with customers.

Lease term

Santander Bank Polska determines the lease term as the non-cancellable period of a lease, together with both:

- periods covered by an option to extend the lease if Santander Bank Polska S.A. (the lessee) is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if Santander Bank Polska S.A. (the lessee) is reasonably certain not to exercise that option.

The lease term is updated upon the occurrence of either a significant event or a significant change in circumstances.

Santander Bank Polska S.A. as the lessee

Recognition

At the commencement date, Santander Bank Polska S.A. (the lessee) recognises a right-of-use asset and a lease liability.

Measurement

Initial measurement

At the date of initial application Santander Bank Polska S.A. used a modified retrospective approach as an approach to application of IFRS 16 and measured right-of-use assets at the amount of lease liabilities at the date of initial application and no restate comparative data.

Initial measurement of the right-of-use asset

At the commencement date, Santander Bank Polska S.A. (the lessee) measures the right-of-use asset at cost.

The cost of the right-of-use asset comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by Santander Bank Polska S.A. (the lessee); and
- an estimate of costs to be incurred by Santander Bank Polska S.A. (the lessee) in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Initial measurement of the lease liability

At the commencement date, Santander Bank Polska S.A. (the lessee) measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, Santander Bank Polska S.A.(the lesse) uses its incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- net fixed lease payments (including in-substance fixed lease payments), less any lease incentives;
- net variable lease payments that depend on an index or a rate;
- net amounts expected to be payable by the lessee under residual value guarantees;
- net exercise price of a call option if the lessee is reasonably certain to exercise that option; and
- payments of net penalties for terminating the lease, if the lease term reflects that Santander Bank Polska S.A. (the lessee) may exercise an option to terminate the lease.

Lease modifications

Santander Bank Polska S.A. (the lessee) accounts for a lease modification as a separate lease if both:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification Santander Bank Polska S.A. (the lessee):

- does not allocate the consideration in the modified contract;
- determines the lease term of the modified lease; and
- remeasures the lease liability by discounting the revised lease payments using a revised discount rate.

Recognition exemptions

Santander Bank Polska S.A. (the lessee) does not apply the recognition and measurement requirements arising from the accounting policy to:

- leases which start date period of no longer than 12 months
- leases for which the underlying asset is of low value (i.e. if the net value of a new asset is lower or equal to PLN 20,000).

In the case of short-term leases or leases for which the underlying asset is of low value, Santander Bank Polska S.A. (the lessee) recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Santander Bank Polska S.A. as the lessor

Classification of leases

Santander Bank Polska S.A. (the lessor) classifies each of its leases as either an operating lease or a finance lease.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Lease classification is made at the inception date and is reassessed only if there is a lease modification.

Finance lease

Recognition and measurement

At the commencement date, Santander Bank Polska S.A. (the lessor) recognises assets held under a finance lease in its statement of financial position and presents them as a receivable at an amount equal to the net investment in the lease.

Initial measurement

Santander Bank Polska S.A. (the lessor) uses the interest rate implicit in the lease to measure the net investment in the lease.

Initial direct costs are included in the initial measurement of the net investment in the lease and reduce the amount of income recognised over the lease term.

Initial measurement of the lease payments included in the net investment in the lease.

At the commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:

- net fixed lease payments less any lease incentives payable;
- net variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- any net residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;
- net exercise price of a call option if the lessee is reasonably certain to exercise that option; and

- payments of penalties for terminating the lease, if the lease term reflects that the lessee may exercise an option to terminate the lease.

Subsequent measurement

Finance income is recognised over the lease term based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

Santander Bank Polska S.A. (the lessor) allocates finance income over the lease term on a systematic and rational basis. The lease payments relating to the period reduce the net investment in the lease Santander Bank Polska S.A. (the lessor) applies the derecognition and impairment requirements in IFRS 9 to the net investment under finance lease.

Operating lease

Recognition and measurement

Santander Bank Polska S.A. (the lessor) recognises lease payments from operating leases as income on a straight-line basis.

Santander Bank Polska S.A. (the lessor)recognises costs, including depreciation, incurred in earning the lease income as an expense.

Santander Bank Polska S.A., as the lessor, adds initial direct costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognises those costs as an expense over the lease term on the same basis as the lease income.

Before 1 January 2019, the Accounting Policy was applied in accordance with IAS 17 "Leasing".

Classification of lease contracts

Santander Bank Polska S.A. uses judgement to classify lease contracts as finance or operating leases, on the basis of an analysis of the economic substance of the transaction based on an assessment of whether or not all the risks and rewards of ownership of the leased asset have been transferred or not.

The lease contracts is classified as a finance lease if it transfers substantially all the risks and rewards of ownership of the leased asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards of ownership of the leased asset.

Operating lease

In the case of lease contracts made by Santander Bank Polska S.A. as the lessor, the leased assets are recognised in the statement of financial position because substantially all the risks and rewards of ownership were not transferred to the lessee.

In the case of lease contracts made by Santander Bank Polska S.A. as the lessee, the leased assets are not recognised in the statement of financial position.

All operating lease payments are recognised as income or expense in the income statement on a straight-line basis over the lease term.

Finance lease

Santander Bank Polska S.A. as the lessor

In the case of lease contracts under which substantially all the risks and rewards of ownership are transferred, assets subject to lease are derecognised from the statement of financial position. However, Santander Bank Polska S.A. presents a receivable at an amount equal to the present value of the minimum lease payments. Lease payments are divided between financial income and reduction of the receivable balance in a way enabling Santander Bank Polska S.A. to obtain a constant rate of return on the outstanding receivable.

Lease payments under contracts which do not meet the criteria of a finance lease are recognised as income in the income statement on a straight-line basis over the lease term.

Santander Bank Polska S.A. as the lessee

In the case of leases under which substantially all the risks and rewards of ownership are transferred to Santander Bank Polska S.A., assets subject to lease are recognised as fixed assets. Concurrently and simultaneously, liabilities are recognised at an amount equal to the present value of the minimum lease payments at inception of the lease. Lease payments are divided between lease payments expenses and reduction of the liability balance in a way enabling to obtain a fixed interest rate of return on the outstanding liability. Finance lease expenses are recognised directly in the income statement.

Fixed assets which are subject of finance lease contracts are amortised on the basis applicable to own fixed assets. However, if it is not certain whether ownership of the underlying asset is transferred, fixed assets used under finance lease contracts are amortised for the shorter of the following periods: expected useful life or lease term.

Lease payments under contracts which do not meet the criteria of a finance lease are recognised as expenses in the income statement on a straight-line basis over the lease term.

Other items of the statement of financial position

Fixed assets held for sale

On initial date of classification of non-current assets as assets held for sale, Santander Bank Polska S.A. measures them at the lower of carrying amount and fair value less cost to sell.

Potencial reduction of the carrying amount of assets held for sale as at the date of their initial classification as well as subsequent write off to the level of fair value less costs to sell are recognized in the income statement.

Other trade and other receivables

Trade receivables and other receivables with maturity less than 12 months from the origination are measured at the initial recognition at par value due to the immaterial effect of discounting. Trade receivables and other receivables payable within 12 consecutive months are recognised in the amount of the required payment less impairment loss at the balance sheet date.

Other liabilities

Other liabilities payable within 12 months from the initial recognition are measured at par value due to the immaterial effect of discounting. Like other liabilities payable within 12 consecutive months, trade payables are recognised in the amount of the payment due at the balance sheet date.

Equity

Equity comprises capital and funds created in accordance with applicable law, acts and the Articless of Association. Equity also includes retained earnings and accumulated losses.

Share capital is stated at its nominal value in accordance with the Articles of Association and the entry in the court register.
Supplementary capital is created from profit allocations and share issue premiums.
Reserve capital is created from profit allocations and is earmarked for covering balance sheet losses.
The result of valuation of management incentive program is included in reserve capital (IFRS 2.53).
The supplementary, reserve, general banking risk fund and share premium are presented jointly under category “Other reserve capital”.
Revaluation reserve is comprised of adjustments relating to the valuation of financial assets measured at fair value through other comprehensive income and adjustments relating to the valuation of effective cash flow hedges taking into account deferred tax and actuarial gains from estimating provision for retirement. The revaluation reserve is not distributable.
Except for own equity, non-controlling interests are also recognised in Santander Bank Polska S.A. capital.
On derecognition of all or part of financial assets measured at fair value through other comprehensive income the total effects of periodical change in the fair value reflected in the revaluation reserve are reversed. The value of a given financial asset measured at fair value through other comprehensive income is increased or decreased by the whole amount or an adequate portion of the impairment allowance made previously. The effects of the fair value changes are removed from the revaluation reserve with a corresponding change in the income statement.
The net financial result for the financial year is the profit disclosed in the income statement of the current year adjusted by the corporate income tax charge.

Custody services

Income from custody services is an element of the fee and commission income. The corresponding customer assets do not form part of Santander Bank Polska S.A.’s assets and as such are not disclosed in the consolidated statement of financial position.

Capital payments (Dividends)

Own dividends for a particular year, which have been approved by the General Meeting of Shareholders but not paid at the at the end of the reporting period are recognised as dividend liabilities in “other liabilities” item.

Provisions

A provision is recognised when Santander Bank Polska S.A. has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the amount is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Santander Bank Polska S.A raised provisions for legal risk related to contractual clauses in agreements on loans indexed to and denominated in foreign currencies and for reimbursements of portion of fees related to early repayment of consumer loans.

Income statement

Net interest income

Santander Bank Polska S.A. presents the interest income recognised at the effective interest rate and effective interest rate adjusted for credit risk in separate lines of the income statement: “Interest income from financial assets measured at amortised cost” and “Interest income from assets measured at fair value through other comprehensive income”.

In turn, the interest income from financial assets which do not meet the contractual cash flows test is presented in line “Income similar to interest - financial assets measured at fair value through profit or loss”.

Net commission income

Income and expenses from fees and commissions which are not accounted for using the effective interest rate in such a manner so as to reflect the transfer of the goods or services promised to a customer in an amount reflecting the consideration to which it will be entitled in return for the goods or services in accordance with the 5 -stage model for recognizing income .

Santander Bank Polska S.A. identifies separate obligations to perform the service to which Santander Bank Polska S.A. assigns a transaction price. If the amount of remuneration is variable, the transaction price includes part or all of the variable remuneration to the extent that there is a high probability that there will be no refund of previously recognized revenues. Revenues equal to the transaction price are recognized when the service is performed or when it is performed by providing the customer with the promised good or service. The costs leading to the conclusion of the contract and the costs of performing the contract are activated and then systematically depreciated by Santander Bank Polska S.A. taking into account the period of transferring goods or services to the customer.The significant commission income of the Santander Bank Polska S.A. includes:

1. commission income from loans includes fees charged by Santander Bank Polska S.A. in respect of reminders, issued certificates, debt collection, issuing guarantees and for commitment. Due to its nature, the majority of such income is taken to profit or loss on a one-off basis, i.e. when a specific operation is performed for a customer. Other income, such as a commission for issuing the guarantee, is settled over time during the term of an agreement with a customer.
2. commission income from credit cards includes fees in respect of card issuance, ATM withdrawals, issuance of a new card, generation of a credit card statement or activation of optional credit card-related services. The vast majority of income is recognised at a specific point in time, i.e. when a specific operation is performed for a customer. Commission in respect of additional services related to credit cards are recognised over time.
3. Income from asset management is recognised in accordance with a 5-step model based on the value of assets provided to Santander Bank Polska S.A. for management. Pursuant to the agreements in place, Santander Bank Polska S.A. does not receive any upfront fees or additional commissions calculated after the end of the accounting year on the basis of factors beyond the Santander Bank Polska S.A control.

Net income on bancassurance

For the selected loan products, where linkage to the insurance product has been identified, the Santander Bank Polska S.A. splits realised income into a portion recognised as interest income according to effective interest rate method and a portion recognised as commission income. The Santander Bank Polska S.A. qualifies distributed insurance products as linked to loans in particular if the insurance product influences contractual provisions of a loan.
To determine what part of income is an integral part of the credit agreement recognised as interest income using effective interest rate, the Santander Bank Polska S.A. separates the fair value of the financial instrument offered and the fair value of the intermediation service of insurance product sold together with such instrument.

The portion that represents an element of the amortised cost of the financial instrument and the portion that represents remuneration for the agency services are split in proportion to the fair value of the financial instrument and the fair value of the agency service cost, respectively, relative to the sum of the two values.
The portion of income that is considered an agency fee for sales of an insurance product linked to a loan agreement is recognised by the Santander Bank Polska S.A. as commission income when the fee is charged for sales of an insurance product.
The Santander Bank Polska S.A. verifies the accuracy of the assumed allocation of different types of income at least annually.

Employee benefits

Short-term employee benefits

The Santander Bank Polska S.A.'s short-term employment benefits which include wages, bonuses, holiday pay and social insurance payments are recognised as an expense as incurred.

Long-term employee benefits

The Santander Bank Polska S.A.'s obligation in respect of long-term employee benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The accrual for retirement bonus is estimated using actuarial valuation method. The valuation of those provisions is updated at least once a year.

Equity-settled share-based payment transactions

For equity-settled share-based payment transactions, the Santander Bank Polska S.A measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Santander Bank Polska S.A. cannot estimate reliable the fair value of the goods or services received,it measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

Vesting conditions included in the terms of the grant are not taken into account in estimating fair value except where those terms are dependent on market conditions. Non-market vesting conditions are taken into account by adjusting the number of awards included in the measurement of the cost of employee services in that way at ultimately, the amount recognised in the income statement reflects the number of vested awards.

The expense related to share based payments is credited to shareholder's equity. Where the share based payment arrangements provide for the issue of new shares, the proceeds of issue of the shares increase share capital and share premium (if any) when awards are exercised.

Cash-settled share-based payment transactions

For cash-settled share-based payment transactions, the Santander Bank Polska S.A. measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Santander Bank Polska S.A. remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period. The Santander Bank Polska S.A. recognises the services received, and a liability to pay for those services, as the employees render the service. The liability is measured, initially and at each reporting date until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered the service to that date.

Trading income and revaluation

Trading income and revaluation include profits and losses resulting from changes in fair value of financial assets and liabilities classified as held for trading that are measured at fair value through profit and loss. Interest cost and income related to the debt instruments are also reflected in the net interest income.

Dividend income

Dividends are taken to the income statement at the moment of acquiring rights to them by shareholders provided that it is probable that the economic benefits will flow to the Santander Bank Polska S.A. and the amount of income can be measured reliably.

Gains on disposal of subsidiaries, associates and join ventures

Gain or loss on the sale of shares in subsidiaries is determined as the difference between the subsidiary's net asset value adjusted for unwritten-off portion of goodwill and the sale price. Gain or loss on the sale of interests in associates and joint ventures is the difference between the carrying amount and their sale price.

Gain or loss on other financial instruments

Gain or loss on other financial instruments include:

- gain or loss on disposal of equity instruments and debt instruments classified to the portfolio of financial assets measured at fair value through other comprehensive income; and
- changes in the fair value of hedged and hedging instruments, including ineffective portion of cash flow hedges.

Santander Bank Polska S.A. uses fair value hedge accounting and cash flow hedge accounting. Details are presented in Note 41 "Hedge accounting".

Other operating income and other operating costs

Other operating income and costs include operating expenses and revenues, which are not related directly to the statutory activity of the Santander Bank Polska S.A.. These are primarily revenues and costs from the sale and liquidation of fixed assets, income from sale of other services, received and paid damages, penalties and fines.

Net impairment losses on loans and advances

The line item "Net impairment losses on loans and advances" presents impairment losses on balance sheet and off-balance sheet exposures and the gains/losses on the sale of credit receivables.

The result on loan receivables' sale is computed at the assets' derecognition date from accounts in the difference between carrying value and the amount of remuneration received.

Staff and general and administrative expenses

The "Staff expenses" line item presents the following costs:

- remuneration and social insurance (including pension benefit contributions);
- provisions for unused leaves;
- pension provisions;
- bonus provisions;
- the programme for variable components of remuneration paid to individuals holding managerial positions, a part of which is recognised as an obligation on account of share-based payment in cash, in accordance with IFRS 2 Share-Based Payment; and
- employee training and other salary and non-salary benefits for employees.

The line item "General and administrative expenses" presents the following costs:

- maintenance and lease of fixed assets;
- IT and ICT services;
- administrative activity;
- promotion and advertising;
- property protection;
- short-term lease costs and low-value assets lease cost
- charges paid to the Bank Guarantee Fund, the Financial Supervision Authority, the National Depository of Securities;
- taxes and fees (property tax, payments to the National Fund for the Rehabilitation of the Disabled, municipal and administrative fees, perpetual usufruct fees);
- insurance;
- repairs not classified as fixed asset improvements.

Tax on financial institutions

Introduced by an act implemented on 1 February 2016, the tax on financial institutions is calculated on the excess of the entity's total assets over the PLN 4 billion level; in the case of banks the excess results from the statement of turnover and balances at the end of each month. Banks are permitted to reduce the tax base by e.g. the value of own funds and the value of treasury securities. In addition, banks reduce the tax base by the value of assets purchased from the National Bank of Poland held as collateral for a refinancing credit facility granted by the latter. The tax rate for all taxpayers is 0.0366% per month, and the tax is paid monthly by the 25th day of the month following the month it relates to. Santander Bank Polska S.A. reports the tax charge under "Tax on financial institutions", separately from the income tax charge.

Corporate income tax

Corporate income tax comprises current and deferred tax. Income tax is recognised in income statement except for items that are recognized in equity..

Current tax is the tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are provided, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their values arising from the statement of financial position. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the end of the reporting period and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised at realizable amount – it is to the extent that is probable that the Santander Bank Polska S.A. generates taxable profit allowing partial or wholly realisation of deferred tax assets. The carrying value of deferred tax assets is verified at the end of each reporting period. The Santander Bank Polska S.A. reduces the carrying amount of the deferred tax asset to the realizable value - that is, to the extent that it is probable that taxable income will be sufficient to partially or fully realize the deferred tax asset.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

3. Risk management

Santander Bank Polska S.A. is exposed to a variety of risks in its ordinary business activities. The objective of risk management is to ensure that the Bank takes risk in a responsible and controlled manner when maximising the value for shareholders. Risk is a possibility of materialisation of events impacting the achievement of the Bank's strategic goals.

Risk management policies are designed to identify and measure risk, define the most profitable return within the accepted risk level (risk-reward), and to continually set appropriate risk mitigation limits. Santander Bank Polska S.A. modifies and develops risk management methods on an ongoing basis, taking into consideration changes in the Group's risk profile, economic environment, regulatory requirements and best market practice.

The Management Board and Supervisory Board set the business direction and actively support the risk management strategies. This is achieved by approving the key risk management policies, participation of the Management Board Members in the risk management committees, reviewing and signing off on the key risks and risk reports.

The **Supervisory Board** continuously oversees the risk management system. The Supervisory Board approves the strategy, key risk management policies and risk appetite, and monitors the use of internal limits in relation to the current business strategy and macroeconomic environment. It conducts the reviews of the key risk areas, the identification of threats and the process of defining and monitoring remedial actions. The Supervisory Board assesses if the control activities performed by the Management Board are effective and aligned with the Supervisory Board's policy. The assessment also includes the risk management system.

The **Audit and Compliance Committee** supports the Supervisory Board in fulfilment of its oversight obligations. The Committee performs annual reviews of the Bank's financial controls, and receives reports from the independent audit function and the compliance function. The Committee also receives quarterly reports on the degree of implementation of post-audit recommendations, and on that basis evaluates the quality of the actions taken. The Committee assesses the effectiveness of internal control system and risk management system. Moreover, the Committee monitors financial audits, in particular inspections carried out by the audit company, controls, monitors and assesses independence of the chartered auditor and audit company, and reports the outcomes of inspections to the Supervisory Board. In addition, the Committee develops the policy and procedure for selecting the audit company and presents to the Supervisory Board the recommendations on election, re-election and recalling of External Auditor and on the External Auditor's fee.

The **Risk Committee** supports the Supervisory Board in assessing the effectiveness of the internal control and risk management systems and measures adopted and planned to ensure an effective management of material risks.

Moreover,in the Bank the Supervisory Board is also supported by the **Remuneration Committee** and the **Nominations Committee**, however outside the risk management area.

The **Management Board** is responsible for the effectiveness of risk management. In particular, it introduces the organisational structure aligned with the level and profile of the risk being undertaken, split of the responsibilities providing the separation of the risk measurement and control function from the operational activity, implements and updates the written risk management strategies, and ensures transparency of the activities. The Management Board reviews the financial results of the Bank. It established a number of committees which are directly responsible for the development of the risk management methodology and monitoring of risks in particular areas.

The Management Board fulfils its risk management role also through the following committees: Risk Management Committee and Risk Control Committee, where the Management Board members are supported by key risk management officers.

The **Risk Management Committee** approves the key decisions taken by the lower-level risk committees (above established limits), approves annual limits for securities transactions as well as ALCO limits and plans for risk assessing models.

The **Risk Control Committee** monitors the risk level across different areas of the bank's operations and supervises the activities of lower-level risk management committees set up by the Management Board. These committees, acting within the respective remits defined by the Management Board, are directly responsible for developing risk management methods and monitoring risk levels in specific areas.

The Risk Control Committee supervises the activities of the below-listed committees operating in the risk management field:

The **Risk Management Forum**, which approves and supervises risk management policy and risk measurement methodology as well as monitors credit risk, models' risk, market risk on the banking book, market risk on the trading book, structural risk for the balance sheet and liquidity risk. The Forum operates through three competency panels:

- **Credit Risk Panel**
- **Market and Investment Risk Panel**
- **Models and Methodology Panel.**

The **Credit Committee** takes credit decisions within the assigned lending discretions.

The **Provisions Committee** takes decisions on impairment charges in an individual and collective approach, for credit exposures, as well as other financial instruments and assets and on legal risk provisions. Moreover, the Committee formulates the methodology, reviews and verifies the adequacy of parameters applied when setting the impairment in an individual and collective approach for Santander Bank Polska SA, excluding Santander Consumer Bank.

The **Information Management Committee** is responsible for the quality and organisation of data related to risk management and other areas of the bank's operations.

The **Operational Risk Management Committee (ORMCo)** monitors the level**,** sets the direction for strategic operational risk actions in Santander Bank Polska SAin the area of business continuity, information security and fraud prevention.

The **Assets and Liabilities Management Committee** supervises the activity on the bank's and the Group's banking book, manages liquidity and interest rate risk in the banking book and is responsible for the funding and balance sheet management, including for the pricing policy and the currency structure.

The **Capital Committee** is responsible for capital management, in particular the ICAAP.

The **Disclosure Committee** verifies if the financial information published by Santander Bank Polska SA meets the legal and regulatory requirements.

The **Local Marketing and Monitoring Committee** approves new products and services to be implemented in the market, taking into account the reputation risk analysis.

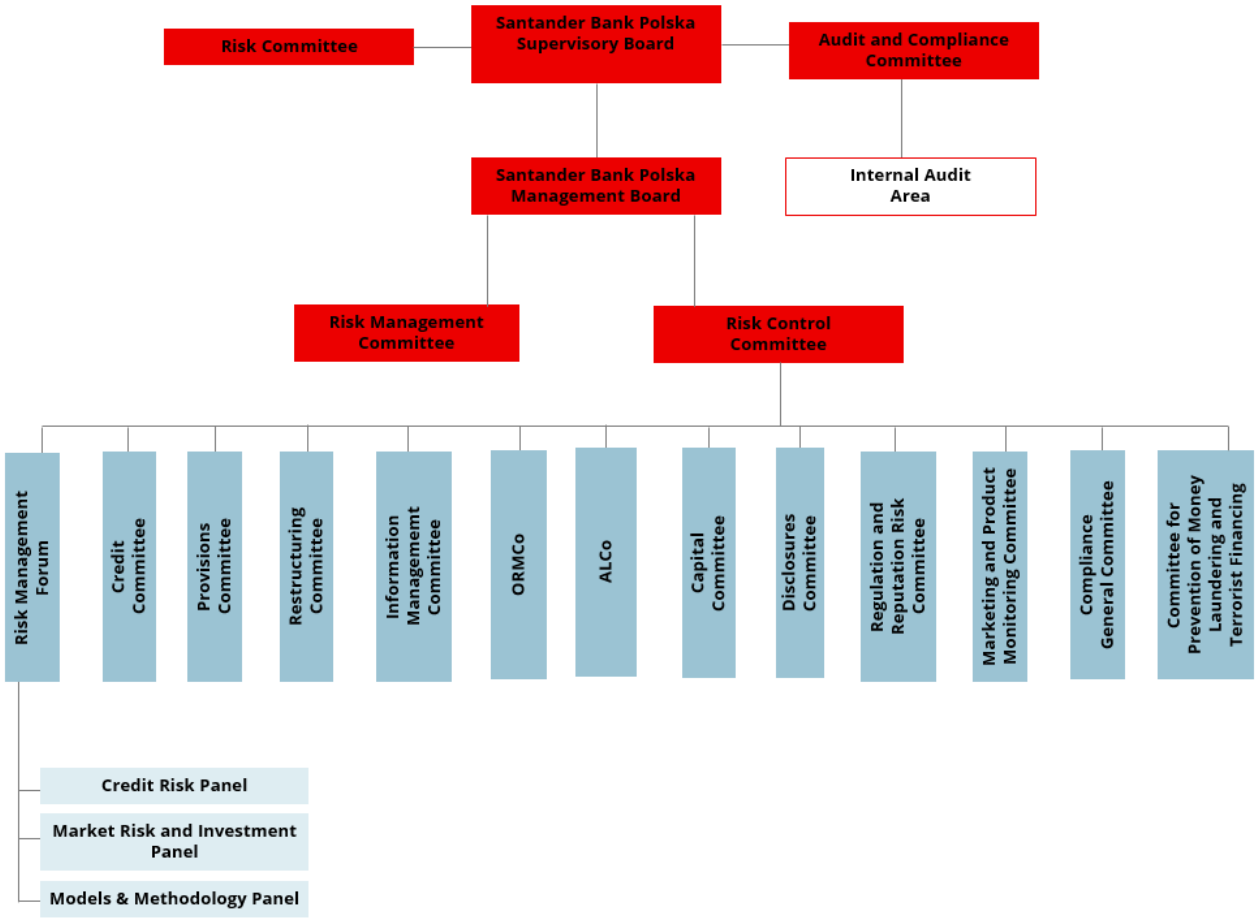
The **General Compliance Committee** is responsible for setting standards with respect to the management of compliance risk and the codes of conduct adopted in the Bank.

The **Regulatory and Reputational Risk Committee** is responsible for monitoring and taking decisions on cases relating to the compliance with law, regulatory guidelines and market/ industry standards relating to the business.

The **Anti-Money Laundering and Counter-Terrorism Financing Committee** approves the bank's policy on prevention of money laundering and the financing of terrorism. It approves and monitors the Group's activities in this area.

The **Recovery Committee** takes decisions regarding corporate clients with financial difficulties, including with respect to the relationship management strategy, approval of the causes of loss analysis and monitoring of the portfolio and effectiveness of recovery processes.

The chart below presents the corporate governance in relation to the risk management process.



Risk management is in line with the risk profile resulting from risk appetite. At Santander Bank Polska risk appetite is expressed as quantitative limits and captured in the "Risk Appetite Statement" adopted by the Management Board and approved by the Supervisory Board. Global limits are used to set watch limits and shape risk management policies.

Bank continuously analyses the risks to which it is exposed in its operations, identifies their sources, creates the relevant risk management mechanisms including among others the measurement, control, mitigation and reporting. The key risks include:

- credit risk
- concentration risk
- market risk in the banking book and trading book
- liquidity risk
- operational risk,
- compliance risk.

Detailed rules, roles and responsibilities of the Group companies are set out in relevant internal policies relating to the management of individual risk types.

Santander Bank Polska SA pays special attention to the consistency of risk management processes across the Group, which ensures adequate control of the risk exposure. The subsidiaries implement risk management policies and procedures reflecting the principles adopted by Santander Bank Polska SA.

Acting under the applicable law, the bank exercises oversight of risk management in Santander Consumer Bank in line with the same oversight rules as applied to other Santander Bank Polska Group companies. The bank's representatives on the Supervisory Board of Santander Consumer Bank are: the Management Board member in charge of the Risk Management Division and the Management Board member in charge of the Retail Banking Division. they are responsible for supervision over Santander Consumer Bank S.A. and they ensure, together with the company's Supervisory Board, that the company operates in line with adopted plans and operational security procedures. The bank monitors the profile and level of Santander Consumer Bank S.A. risk via risk management committees of Santander Bank Polska S.A.

Credit risk

Santander Bank Polska S.A. credit activities focus on growing of a loan portfolio while guaranteeing its high quality, a good yield and customer satisfaction.

Credit activity includes all products subject to credit risk (credit facilities), originated by the Bank or its leasing and factoring subsidiaries.

Credit risk is defined as the possibility of suffering a loss as a result that a borrower will fail to meet its credit obligation, including interest and fees. Credit risk arises from the impairment of credit assets and contingent liabilities, resulting from worsening of the borrower's credit quality. Credit risk measurement is based on the estimation of credit risk weighted assets, with the relevant risk weights representing both the probability of default and the potential loss given default of the borrower.

Bank's credit risk arises mainly from lending activities on the retail, SME, business, corporate and interbank markets. This risk is manager as part of the policy approved by the Management Board on the basis of the adopted credit procedures as well as on the basis of discretionary limits allocated to individual credit officers based on their knowledge and experience. The internal monitoring system and credit classification used by the Bank allows for an early identification of situations threatening the deterioration of the quality of the loan portfolio. Additionally the bank uses large set of credit risk mitigation tools, both collaterals (financial and non-financial) and specific credit provisions and clauses (covenants).

The bank continues to develop and implement risk based methods of grading loans, allocating capital and effectiveness measurement. Risk valuation models are used for all credit portfolios.

The bank also continues to review processes and procedures of measuring, monitoring and managing of credit portfolio risk adjusting them to the revised regulatory requirements, especially to Recommendations of KNF and EBA.

In 2019 the bank is closely looking at the macroeconomic environment and analysing its credit exposure to particular customer segments and economic sectors to respond with an adequate and prompt action and adjust its credit policy parameters accordingly.

The year 2019 was quite stable in this respect, and the introduced changes modified the policy only moderately, mainly optimising and harmonising the existing elements of the credit process as well as reflecting changes arising from new regulations. During 2019, no significant changes were made in the process of classification and measurement of financial instruments, other than those connected with ongoing monitoring and calibration of parameters.

In 2019, the Bank continued work on modifying the lending policy in the retail and SME segment after taking over the portfolio of Deutsche Bank Polska S.A., which was completed in the first half of 2019. At the same time, the Bank continued work on the reconstruction of credit processes for individual segments, primarily from the perspective of increasing their efficiency using modern technologies.

In 2019, the bank further improved its credit exposure monitoring tools to ensure faster identification of potential threats both at the portfolio level and at the level of individual exposures. At the same time, the bank modified its monitoring strategies, focusing on early measures designed to limit the effects of potential risk materialisation. 2019 was the first year of functioning in the business and corporate segment of a new, integrated early warning system enabling early identification of risk increases.

One of the bank's priorities in 2019 was close monitoring of foreign currency mortgage loans portfolio. In response to the legislative proposals the bank conducted analyzes and actively participated in the consultation processes. Santander Bank Polska SA pays particular attention to credit risk on these portfolios also from the perspective of the judgments of the European Union Court of Justice.

Risk Management Forum

The credit risk oversight in Santander Bank Polska S.A. is performed by Credit Policy Panel (CPP) operating within the Risk Management Forum. Its key responsibilities include development and approval of the best sectoral practice, industry analyses, credit policies as well as implementation of grading and assessment systems aimed at ensuring sustainable growth of the credit portfolio. To align the bank's management processes with the current strategic goals, three sub-committees were established within the CPP with a responsibility for the key customer segments: retail segment, SME segment and the business/corporate segment. The oversight over the credit risk models is the responsibility of the Models and Methodology Panel.

Risk Management Division

The Risk Management Division is responsible for a consolidated credit risk management process, including management and supervision of credit delivery, defining credit policies, providing decision-making tools and credit risk measurement tools, quality assurance of the credit portfolio and provision of reliable management information on the credit portfolio.

Credit Policies

Credit policies refer to particular business segments, loan portfolios and banking products. They contain guidelines for the identification of the areas where specific types of risks manifest themselves, specifying the methods of their measurement and mitigation to the level acceptable to the bank (e.g. "Loan-to-Value" ratios, FX risk in the case of foreign currency loans).

The bank reviews and updates its credit policies on a regular basis, aiming to bring them in line with the bank's strategy, current macroeconomic situation, legal developments and changes in regulatory requirements.

Credit Decision Making Process

The credit decision-making process as a part of the risk management policy is based upon Individual Credit Discretions vested in credit officers, commensurate with their knowledge and experience within the business segments. Credit exposures in excess of PLN 25m are referred to the Credit Committee composed of senior management and top executives. Transactions above PLN 195m are additionally ratified by Risk Management Committee.

Bank continually strives to ensure best quality credit service while satisfying the borrowers' expectations and ensuring security of the credit portfolio. To this end, the credit risk approval function has been segregated from the sales function.

Credit Grading

Santander Bank Polska S.A. dynamically developes credit risk assessment tools to conform to the recommendations of the Polish Financial Supervision Authority, the International Accounting Standards/International Financial Reporting Standards and the best practice in the market.

Bank uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, mortgage loans, property loan, cash loans, credit cards and personal overdrafts.

The bank regularly monitors its credit grading using the rules specified in its Lending Manuals. Additionally, for selected models, automated process of credit grade verification is carried out based on the number of overdue days or an analysis of the customer's behavioural data. Credit grade is also verified at subsequent credit assessments.

Credit Reviews

The Group performs regular reviews to determine the actual quality of the credit portfolio, confirm that adequate credit grading and provisioning processes are in place, verify compliance with the procedures and credit decisions and to objectively assess professionalism in credit management. The reviews are performed by the two specialised units: Credit Review Department and the Control Department, which are independent of the risk-taking units.

Collateral

In the Santander Bank Polska S.A. security model, the Collateral and Credit Agreements Department is the central unit responsible for creation and maintenance of securities. The Security Manual as a procedure describing legal standards for the application of collateral security is managed by the Legal and Compliance Division. The Collateral and Credit Agreements Department is the owner of the security contract templates.

The role of the department is to ensure that security covers are duly established and held effective in line with the lending policy for all business segments. The unit is also responsible for developing standardised internal procedures with respect to perfecting and maintaining validity of collateral as well as ensuring that establishment, monitoring and release of security covers is duly effected.

Furthermore, the Collateral and Credit Agreements Department provides assistance to credit units in credit decision making and development of credit policies with respect to collateral. This Department gathers data on collateral and ensures appropriate management information.

In thousands of PLN

Collateral management process

Before a credit decision is approved, in the situations provided for in internal regulations, the Collateral and Credit Agreements Department assesses the collateral quality, a process that includes:

- verification of the security valuation prepared by external valuers, and assessment of the security value,
- assessment of the legal status of the security,
- assessment of the investment process for the properties,
- seeking legal advises on the proposed securities.

The Collateral and Credit Agreements Department actively participates in credit processes, executing tasks including:

- providing draft credit documentation in the SME and corporate segments,
- verification and assessment of the signed credit documentation, and checking compliance with formal and legal conditions for loan disbursement in the corporate segment;
- verification of the data in information systems,
- collateral monitoring and reporting,
- releasing of the collateral.

In managing its receivables, Bank carries out the process of collateral execution. Selection of proper action towards execution of specific collateral depends on the type of the collateral (personal or tangible). In principle the Bank aims at voluntary proceedings in the course of collateral execution. When there is no evidence of cooperation with a collateral provider, the bank's rights are fulfilled in compliance with the law and internal regulations in the bankruptcy and enforcement proceedings.

Financial effect of the accepted collateral

The financial effect of the accepted collateral was calculated as a change in the credit loss allowance as a result of exclusion of the cash flow from collateral (non-performing exposures are assessed on an case-by-case basis). For other portfolios (mortgage, SME and corporate loans), this effect was calculated by adjusting the LGD parameter to the level observed for particular clients on unsecured products.

The table below present financial effect of collateral of Santander Bank Polska S.A. as at 31.12.2019:

Financial effect of collateral		Gross Amount	Financial effect of collateral
Loans and advances to customers			
	housing loans	48 159 764	(289 995)
	business	54 625 458	(899 693)
Total balance sheet		**102 785 222**	**(1 189 688)**
Total off-balance sheet		**27 822 080**	**(6 740)**

The table below present financial effect of collateral of Santander Bank Polska S.A. as at 31.12.2018:

Financial effect of collateral		Gross Amount	Financial effect of collateral
Loans and advances to customers			
	housing loans	45 927 616	(230 296)
	business	58 823 206	(936 791)
Total balance sheet		**104 750 822**	**(1 167 087)**
Total off-balance sheet		**22 866 807**	**(15 090)**

Credit risk stress testing

Stress testing is a part of the credit risk management process used to evaluate potential effects of specific events or movement of a set of financial and macroeconomic variables or change in risk profile on Santander Bank Polska condition. Stress tests are composed of assessment of potential changes in credit portfolio quality when faced with adverse conditions. The process also delivers management information about adequacy of agreed limit and internal capital allocation.

Impairment calculation

Santander Bank Polska posts impairment for expected losses in accordance with International Financial Reporting Standard 9 (IFRS 9). IFRS 9 introduced a new approach to the estimation of allowances for credit losses. The 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. 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.

In accordance with IFRS 9, the recognition of expected credit losses will depend on changes in risk after recognition of the exposure. The standard introduces three main stages for recognising expected credit losses:

- Stage 1 – exposures with no significant increase in 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 will be recognised.
- Stage 2 – exposures with a significant increase in risk since initial recognition, but with no objective evidence of default. For such exposures, lifetime expected credit losses will be recognised.
- Stage 3: exposures for which the risk of default has materialised (indications of impairment have been identified). For such exposures, lifetime expected credit losses will be recognised.

Lifetime expected losses are recognised also for the exposures classified as POCI (purchased or originated credit-impaired).

In the case of classification into stage 3, the bank applies objective indications of impairment, as defined in accordance with the Basel Committee's recommendations and Recommendation R. The bank did not introduce any material changes in respect of IFRS 9 implementation.

The bank estimates ECL using both an individual approach (for individually significant exposures with objectively evidenced impairment [stage 3]) and collective approach (individually insignificant exposures with objectively evidenced impairment, and incurred but not reported losses).

Twice a year, the Bank recalibrates its models and updates the forward-looking information used for estimating ECL, taking into account the impact of changes in economic conditions, modifications of the Bank's credit policies and recovery strategies, which is designed to ensure appropriate level of impairment allowances.

The tables below present Santander Bank Polska SA exposure to credit risk.

Assets have been classified into respective risk grades based on the one-year probability of default arising from current credit rating (business customers) or score (personal customers) used for the purpose of business processes or, if not available, based on the one-year probability of default used for calculation of expected credit losses. Non-impaired assets (stages 1 and 2) have been divided into five categories (very good, good, average, acceptable, weak).

Limits of individual categories depend on the type of receivables, are presented in the table below:

In thousands of PLN

Risk grades levels	Thresholds defining risk grades based on the probability of default for:		
	individuals	housing loans	business
very good	[0%-1%]	[0%-0.05%]	[0%-0.2%]
good	[1%-2.5%]	[0.05%-0.25%]	[0.2%-0.75%]
average	[2.5%-7.5%]	[0.25%-0.5%]	[0.75%-2%]
acceptable	[7.5%-15%]	[0.5%-2%]	[2%-7.5%]
weak	[15%-100%]	[2%-100%]	[7.5%-100%]

Stage 1 31.12.2019	Risk level according to rating groups	Loans and advances to customers measured at amortised cost				Contingent liabilities - sanctioned
		individuals	housing loans	business	Total	
	very good	6 697 972	21 589 826	6 126 529	34 414 327	16 188 932
	good	4 692 940	19 691 760	18 223 053	42 607 753	9 840 343
	average	2 657 211	2 895 383	17 099 420	22 652 014	14 158 951
	acceptable	721 848	1 578 594	5 776 291	8 076 733	1 051 435
	weak	164 527	884 945	1 214 379	2 263 851	179 113
Gross amount		**14 934 498**	**46 640 508**	**48 439 672**	**110 014 678**	**41 418 776**
					-	-
Other					**-**	**-**
Impairment					(319 619)	(12 730)
Net amount					**109 695 059**	**41 406 046**

Stage 2 31.12.2019	Risk level according to rating groups	Loans and advances to customers measured at amortised cost				Contingent liabilities - sanctioned
		individuals	housing loans	business	Total	
	very good	25 164	39 985	4 555	69 704	3 516
	good	37 915	119 293	136 663	293 871	19 261
	average	78 111	94 220	327 902	500 233	79 552
	acceptable	126 622	308 907	871 288	1 306 817	240 137
	weak	348 830	678 827	970 600	1 998 257	58 395
Gross amount		**616 642**	**1 241 232**	**2 311 008**	**4 168 882**	**400 862**
Other					**-**	**-**
Impairment					(326 718)	(6 583)
Net amount					**3 842 164**	**394 279**

In thousands of PLN

Stage 3 and POCI 31.12.2019	Risk level according to rating groups	Loans and advances to customers measured at amortised cost: individuals	housing loans	business	Total	Contingent liabilities - sanctioned
	very good	-	-	-	-	
	good	-	-	-	-	
	average	-	-	-	-	
	acceptable					
	weak	705 923	727 197	3 554 556	4 987 676	93 812
Stage 3 - Gross amount		**705 923**	**727 197**	**3 554 556**	**4 987 676**	**93 812**
Stage 3 - Impairment					(2 508 685)	
POCI		**313 176**		**329 496**	**642 672**	**-**
Impairment-POCI					(92 888)	(36 751)
Net amount					**3 028 775**	**57 061**

Stage 1 31.12.2018	Risk level according to rating groups	Loans and advances to customers measured at amortised cost: individuals	housing loans	business	Total	Contingent liabilities - sanctioned
	very good	5 681 108	16 969 756	5 570 166	28 221 030	14 735 083
	good	3 787 728	20 274 308	19 882 759	43 944 795	9 657 725
	average	1 962 845	4 425 118	18 803 156	25 191 119	7 497 444
	acceptable	615 365	1 675 262	7 728 734	10 019 361	1 986 753
	weak	412 235	1 061 178	1 618 565	3 091 978	347 784
Gross amount		**12 459 281**	**44 405 622**	**53 603 380**	**110 468 283**	**34 224 789**
					-	-
Other					**337 284**	**-**
Impairment					(362 452)	(15 733)
Net amount					**110 443 115**	**34 209 056**

Stage 2 31.12.2018	Risk level according to rating groups	Loans and advances to customers measured at amortised cost: individuals	housing loans	business	Total	Contingent liabilities - sanctioned
	very good	21 277	32 349	2 681	56 307	5 697
	good	32 388	101 314	14 150	147 852	24 490
	average	57 754	66 509	272 571	396 834	79 182
	acceptable	84 732	128 672	601 397	814 801	136 897
	weak	288 157	513 757	1 212 424	2 014 338	198 492
Gross amount		**484 308**	**842 601**	**2 103 223**	**3 430 132**	**444 758**
					-	-
Other					**-**	**-**
Impairment					(264 131)	(10 013)
Net amount					**3 166 001**	**434 745**

In thousands of PLN

Stage 3 and POCI 31.12.2018	Risk level according to rating groups	Loans and advances to customers measured at amortised cost: individuals	housing loans	business	Total	Contingent liabilities - sanctioned
	very good	-	-	-	-	-
	good	-	-	-	-	-
	average	-	-	-	-	-
	acceptable				-	-
	weak	640 075	464 010	3 048 681	4 152 766	104 079
Stage 3 - Gross amount		**640 075**	**464 010**	**3 048 681**	**4 152 766**	**104 079**
Stage 3 - Impairment					(2 063 502)	-
POCI		107 831	215 384	405 205	**728 420**	**-**
Impairment-POCI					(32 917)	(32 397)
Net amount					**4 848 269**	**71 682**

The tables below present the quality of financial assets of Santander Bank Polska broken down into stages and by ratings as at December 31, 2019 and in the comparative period:

Stage 1

31.12.2019	Loans and advances to banks	Loans and advances to customers - Debt securities measured at amortised cost	Loans and advances to customers measured at fair value through other comprehensive income	Debt and equity securities measured at fair value through other comprehensive income	Debt securities measured at fair value through profit or loss	Financial assets held for trading
Credit quality step *						
1 (AAA to AA-)	145 229	-	-	519 108	-	-
2 (A+ to A-)	3 029 623	-	-	38 007 411	187 536	544 473
3 (BBB+ to BBB-)	551 506	-	-	-	-	960
4 (BB+ to BB-)	-	-	-	-	-	-
5 (B+ to B-)	253	-	-	-	-	-
6 (<B-)	-	-	-	-	-	-
none	124 953	52 474	923 811	861 269	-	1 521 183
Total Stage 1	**3 851 564**	**52 474**	**923 811**	**39 387 788**	**187 536**	**2 066 616**

* according to Fitch

There are no instruments classified to Stage 2 as at 31.12.2019.

Stage 3

31.12.2019	Loans and advances to banks	Loans and advances to customers - Debt securities measured at amortised cost	Loans and advances to customers measured at fair value through other comprehensive income	Debt and equity securities measured at fair value through other comprehensive income	Debt securities measured at fair value through profit or loss	Financial assets held for trading
Credit quality step *						
1 (AAA to AA-)	-	-	-	-	-	-
2 (A+ to A-)	-	-	-	-	-	-
3 (BBB+ to BBB-)	-	-	-	-	-	-
4 (BB+ to BB-)	-	-	-	-	-	-
5 (B+ to B-)	-	-	-	-	-	-
6 (<B-)	-	-	-	-	-	-
none	-	301 406	-	16 027	-	-
Total Stage 3	**-**	**301 406**	**-**	**16 027**	**-**	**-**

* according to Fitch

In thousands of PLN

Stage 1

31.12.2018	Loans and advances to banks	Loans and advances to customers - Debt securities measured at amortised cost	Loans and advances to customers - Debt securities measured at fair value through profit or loss	Debt and equity securities measured at fair value through other comprehensive income	Debt securities measured at fair value through profit or loss	Financial assets held for trading
Credit quality step *						
1 (AAA to AA-)	528 888	-	-	235 685	-	-
2 (A+ to A-)	1 873 359	-	-	35 176 881	131 005	1 189 534
3 (BBB+ to BBB-)	335 608	923 855	-	-	-	3 232
4 (BB+ to BB-)	1 582	-	-	-	-	-
5 (B+ to B-)	1 406	-	-	-	-	-
6 (<B-)	-	-	-	-	-	-
none	118 636	63 968	106 374	828 542	-	951
Total Stage 1	**2 859 479**	**987 823**	**106 374**	**36 241 108**	**131 005**	**1 193 717**

There are no instruments classified to Stage 2 as at 31.12.2018.

Stage 3

31.12.2018	Loans and advances to banks	Loans and advances to customers - Debt securities measured at amortised cost	Loans and advances to customers - Debt securities measured at fair value through profit or loss	Debt and equity securities measured at fair value through other comprehensive income	Debt securities measured at fair value through profit or loss	Financial assets held for trading
Credit quality step *						
1 (AAA to AA-)	-	-	-	-	-	-
2 (A+ to A-)	-	-	-	-	-	-
3 (BBB+ to BBB-)	-	-	-	-	-	-
4 (BB+ to BB-)	-	-	-	-	-	-
5 (B+ to B-)	-	-	-	-	-	-
6 (<B-)	-	-	-	-	-	-
none	-	260 927	-	-	-	-
Total Stage 3	**-**	**260 927**	**-**	**-**	**-**	**-**

Loans and advances to banks are assessed using ratings. The assessment method was set out in the Bank's internal regulations. Each institutional client (exposure) is assigned a rating by one of the reputable rating agencies (Fitch, Moody's, S&P), in accordance with the CRR. Then, a relevant grade is allocated to the client. There are no overdue or impaired loans and advances to banks.

Financial instruments from the investment securities measured at fair value and held-for-trading portfolio are assessed in accordance with the sovereign rating (treasury bonds, securities issued by the National Bank of Poland [NBP], Bank Gospodarstwa Krajowego [BGK] debt instruments). The sovereign rating is the same as the NBP/BGK rating. All have the same rating as Poland, according to Fitch it is A-.

For all instruments classified to Stage 1 (including also loans and advances to customers measured at fair value through other comprehensive income), there is no overdue or impairment, therefore they are classified to Stage 1. In accordance with its definition- as exposures with no significant increase in risk since initial recognition, i.e. the likelihood of the exposure being downgraded to the impaired portfolio (Stage 3)has not increased. For such exposures, 12-month expected credit losses will be recognized.

The significant majority of exposures at fair value through other comprehensive income (99.2%) were classified as credit quality - 'average'. However, 95% of the Bank's credit card portfolio at fair value through profit or loss was rated 'average' or above (good, very good).

In thousands of PLN

Credit risk concentration

Santander Bank Polska adheres to the standards provided for in the Banking Law with regard to the concentration of risk bearing exposures to a single entity or a group of entities connected in terms of capital or organisation. As at 31.12.2019, pursuant to art. 71 of the Banking Law Act, the maximum limits for the Bank amounted to:

- PLN 5,601,427 k (25% of Bank's own funds).

As at 31.12.2018, pursuant to art. 71 of the Banking Law Act, the maximum limits for the Bank amounted to:

- PLN 5,188,801 k (25% of Bank's own funds).

The policy pursued by the Bank aims at minimising the credit concentration risk, by for example applying more rigorous than regulatory rules in this respect. The effect of this policy is maintenance of high level of diversification of exposures towards individual customers.

The analysis of the Bank's exposures in terms of sector concentrations, proved that the Group does not have any exposures in excess of the limits imposed by the regulator in 2019.

A list of the 20 largest borrowers (or capital-related group of borrowers) of Santander Bank Polska S.A. (performing loans) as at 31.12.2019.

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure	Committed credit lines, guarantees, treasury limits and capital investments
64	OTHER FINANCIAL SERVICES	7 006 600	4 061 140	2 945 460
64	OTHER FINANCIAL SERVICES	6 357 590	3 398 530	2 959 060
74	OTHER PROFESSIONAL, SCIENTIFIC AND TECHNICAL A	5 298 860	-	5 298 860
64	OTHER FINANCIAL SERVICES	3 952 280	316 590	3 635 690
35	POWER INDUSTRY	1 875 000	87 800	1 787 200
61	TELECOMMUNICATION	1 439 720	1 302 070	137 650
06	MINING	1 304 520	375 020	929 500
65	REINSURANCE	1 036 670	655 490	381 180
68	REAL ESTATE SERVICES	1 007 290	948 920	58 370
68	REAL ESTATE SERVICES	724 360	418 380	305 980
19	RAFINERY	668 180	149 050	519 130
35	POWER INDUSTRY	659 990	522 750	137 240
41	CONSTRUCTION	659 000	-	659 000
61	TELECOMMUNICATION	634 020	458 460	175 560
41	CONSTRUCTION	562 050	505 110	56 940
35	POWER INDUSTRY	543 940	486 280	57 660
06	MINING	492 610	-	492 610
68	REAL ESTATE SERVICES	431 400	232 200	199 200
35	POWER INDUSTRY	400 000	-	400 000
19	RAFINERY	391 770	391 770	-
Total gross exposure		**35 445 850**	**14 309 560**	**21 136 290**

In thousands of PLN

A list of the 20 largest borrowers (or capital-related group of borrowers) of Santander Bank Polska S.A. (performing loans) as at 31.12.2018.

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure	Committed credit lines, guarantees, treasury limits and capital investments
64	OTHER FINANCIAL SERVICES	7 219 681	5 138 988	2 080 693
64	OTHER FINANCIAL SERVICES	6 823 000	3 982 897	2 840 103
64	OTHER FINANCIAL SERVICES	3 930 626	316 557	3 614 069
61	TELECOMMUNICATION	1 716 665	1 553 263	163 402
35	POWER INDUSTRY	1 490 000	106 364	1 383 636
68	REAL ESTATE SERVICES	1 088 532	986 831	101 701
46	WHOLESALE	984 490	760 018	224 472
06	MINING	960 461	186 108	774 353
06	MINING	828 520	253 495	575 025
35	POWER INDUSTRY	810 000	210 500	599 500
61	TELECOMMUNICATION	683 281	551 281	132 000
19	RAFINERY	671 031	150 500	520 531
35	POWER INDUSTRY	619 795	581 781	38 014
41	CONSTRUCTION	602 003	531 698	70 305
41	CONSTRUCTION	539 000	-	539 000
35	POWER INDUSTRY	529 371	458 971	70 400
19	RAFINERY	397 095	397 095	-
64	OTHER FINANCIAL SERVICES	369 972	299 972	70 000
68	REAL ESTATE SERVICES	367 194	354 509	12 685
68	REAL ESTATE SERVICES	360 005	343 733	16 272
Total gross exposure		**30 990 722**	**17 164 561**	**13 826 161**

Industry concentration

The credit policy of Santander Bank Polska S.A. assumes diversification of credit exposures. Risk of particular industry affects value of the exposure limit. In order to ensure adequate portfolio diversification and control the risk of overexposure to a single industry, the Group provides funding to sectors and groups or capital units representing a variety of industries.

As at 31.12.2019, the highest concentration level was recorded in the "distribution" sector (10% of the Santander Bank Polska exposure), "manufacturing" (9%) and "property" (8%).

Groups of PKD by industries:

		Gross exposure	
	Industry	**31.12.2019**	**31.12.2018**
	Distribution	12 338 906	13 253 443
	Manufacturing	10 389 850	11 655 525
	Property	9 278 908	9 659 412
	Financial sector	8 875 101	10 484 251
	Energy	1 909 062	2 179 265
	Transportation	1 685 887	1 788 775
	Agriculture	1 441 159	1 317 813
	Construction	1 132 759	1 258 559
	Other industries	6 680 562	6 997 236
A	**Total Business Loans**	**53 732 194**	**58 594 279**
B	**Retail (including mortgage loans)**	**66 055 053**	**60 173 805**
A+B	**Santander Bank Polska SA portfolio**	**119 787 247**	**118 768 084**
C	**Other receivables (commercial bonds)**	**26 664**	**11 517**
A+B+C	**Total Santander Bank Polska SA**	**119 813 911**	**118 779 601**

Market risk

Introduction

Market risk is defined as an adverse earnings impact of changes in interest rates, FX rates, share quotations, stock exchange indices, etc. It arises both in trading and banking activity (FX products, interest rate products, equity linked trackers).

Santander Bank Polska is exposed to market risk arising from its activity in money and capital markets and services provided to customers. Additionally, the bank undertakes the market risk related to the active management of balance sheet structure (assets and liabilities management).

The activity and strategies on market risk management are directly supervised by the Risk Management Forum and are pursued in accordance with the framework set out in the Market Risk Policy and the Structural Risk Policy approved by the Management Board and the Supervisory Board.

Risk management structure and organisation

The key objective of the market risk policy pursued by the Bank is to reduce the impact of variable market factors on the bank's profitability and to grow income within the strictly defined risk limits while ensuring the bank's liquidity and market value.

The market risk policies of Santander Bank Polska establish a number of risk measurement and mitigation parameters in the form of limits and metrics. Risk limits are periodically reviewed to align them with the bank's strategy.

Interest rate and FX risks linked to the banking business are managed centrally by the Financial Management Division. The Division is also responsible for acquiring funding, managing liquidity and making transactions on behalf of ALCO. This activity is controlled by the measures and limits approved by the Risk Management Forum, the bank's Management Board and the Supervisory Board.

The debt securities and the interest rate and FX hedging portfolio is managed by ALCO, which takes all decisions on the portfolio's value and structure.

The market risk on the trading portfolio is managed by the Corporate and Investment Banking Department, which is also responsible for the activities of Santander Brokerage Poland. The Group's trading activity is subject to a system of measures and limits, including Value at Risk, stop loss, position limits and sensitivity limits. These limits are approved by the Risk Management Forum, the bank's Management Board and the Supervisory Board.

The Financial Risk Department within the Risk Management Division is responsible for ongoing risk measurement, implementation of control procedures and risk monitoring and reporting. The Department is also responsible for shaping the market risk policy, proposing risk measurement methodologies and ensuring consistency of the risk management process across the Group. Owing to the fact that the Department is a part of the Risk Management Division, the risk measurement and monitoring processes are separate from the risk-taking units.

The market risk of equity instruments held by Santander Brokerage Poland (shares, index-linked securities) is managed by Santander Brokerage Poland itself and supervised by the Risk Management Forum of Santander Bank Polska S.A.

The bank's Risk Management Forum, chaired by the Management Board member in charge of the Risk Management Division, is responsible for independent control and monitoring of market risk in the banking and trading books.

Risk identification and measurement

The trading book of Santander Bank Polska contains securities and derivatives held by the Corporate and Investment Banking Division for trading purposes. The instruments are marked to market each day, and any changes in their value are reflected in the profit and loss. Market risk in the trading book includes interest rate risk, currency risk and repricing risk.

The interest rate risk in the bank's banking book is the risk of adverse impact of interest rate changes on the Group's income and the value of its assets and liabilities. Interest rate risk arises primarily on transactions entered in the bank's branches and in the business and corporate centres, as well as the transactions made in the wholesale market by the Financial Management Division. Additionally, interest rate risk can be generated by transactions concluded by other units, e.g. through acquisition of municipal/ commercial bonds or the bank's borrowings from other sources than the interbank market.

Santander Bank Polska uses several methods to measure its market risk exposure. The methods employed for the banking portfolio are the MVE and NII sensitivity measures, stress tests and Value at Risk (VaR), while the methods used for the trading portfolio include: VaR and stressed VaR, stop loss, sensitivity measures (PV01) and stress tests. The risk measurement methodology is subject to an independent initial and periodic validation, the results of which are presented for approval to the Models and Methodology Panel (part of the Risk Management Forum).

At Santander Bank Polska, the VaR in the trading portfolio is determined using a historical method as a difference between the mark-to-market value of positions and the market values based on the most severe movements in market rates from a determined observation window. VaR is calculated separately for interest rate risk, FX risk and the two risks at the same time. VaR is also calculated for the repricing risk of the equity instruments portfolio of Santander Brokerage Poland.

Due to the limitations of the VaR methodology, the bank additionally performs sensitivity measurement (showing how position values change in reaction to price/profitability movements), Stressed VaR measurement and stress tests.

Risk reporting

The responsibility for reporting liquidity risk rests with the Risk Management Division, specifically the Financial Risk Department.

Each day, the Financial Risk Department controls the market risk exposure of the trading book in accordance with the methodology laid down in the Market Risk Policy. It verifies the use of risk limits and reports risk levels to units responsible for risk management in the trading book, to Santander Group and to the Risk Management Forum.

Once a month, the Financial Risk Department provides information about the risk exposure of the trading book and selected measures to the Risk Management Forum and prepares the Risk Dashboard (in cooperation with other units of the Risk Management Division), which is presented to the Risk Management Committee.

The results of market risk measurement with regard to the banking book are reported by the Financial Risk Department to persons responsible for operational management of the bank's balance sheet structure and to persons in charge of structural risk management on a daily basis (information about the ALCO portfolio) or on a monthly basis (interest rate gap, NII and MVE sensitivity measures, stress test results, VaR). This information is also reported each month to the bank's senior executives (Risk Management Forum, ALCO). The selected key interest rate risk measures, including risk appetite measures defined for the bank's banking book, are reported to the bank's Management Board and Supervisory Board.

Risk prevention and mitigation

The Bank has adopted a conservative approach to risk-taking both in terms of the size of exposures and the types of products. A large portion of the Financial Market Area activity revolves around mitigating the risk related to customer transactions at the retail and corporate level. In addition, flows from customer transactions are generally for non-market amounts and tenors and thus risk capacity is required to manage these mismatches with wholesale transactions.

From the Bank's perspective, the market risk limits are small and are in place to allow sufficient capacity and time to neutralise interest rate and foreign exchange risks, while at the same time allowing the Financial Market Area to hold some of portfolio positions opened to add value to the organisation.

There is a greater emphasis placed on market making over pure mark to market trading and this is reflected in both limit utilisation and budgetary targets of Financial Market Area.

The combination of transactions made by the Financial Market Area and positions transferred from the bank arising from customers' FX and derivative activity create the overall interest rate and currency risk profilesin the bank's trading portfolio, which are managed under the market risk policy and operational limits in place. The Financial Market Area subsequently decides either to close these positions or keep them open in line with market view and approved limits. The return earned is a mix of flow management and market making. However, there is no intention to keep aggressive trading positions.

The interest rate and currency risk of the Financial Market Area is managed via the trading book in accordance with the Market Risk Policy approved by the Management Board. Accounting and risk systems help to ensure allocation of each position into appropriate books. The relevant desks are responsible for suitable risk activity (interest rate or currency risk).

To ensure that the trading book positions are marketable, the bank controls the gross value of the positions (separately long and short positions) versus the entire market. This is to check if it is technically possible to close an open position one way, without taking into account other closings. The control is performed by the Financial Risk Department separately for currency positions and interest rate positions. The control results are reported to the Financial Market Area.

As regards market risk in the banking book, all positions that generate repricing risk are transferred for management to the Financial Management Division, responsible for shaping the bank's balance sheet structure, including by entering into transactions in the interbank market so as to manage the interest rate risk profile according to the approved risk strategy and in compliance with the allocated risk limits.

The interest rate risk in the banking book is managed based on the following limits:

- NII sensitivity limit (the sensitivity of net interest income to a parallel shift of the yield curve by 100 bp);
- MVE sensitivity limit (the sensitivity of the market value of equity to a parallel shift of the yield curve by 100 bp).

The sensitivity measures for 2019 and 2018 are shown in the table below. It presents the results of scenarios, in which the impact of changes in interest rates on interest income and the economic value of capital would be negative.

In thousands of PLN

	NII Sensitivity		MVE Sensitivity	
1 day holding period	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Maximum	298	273	360	375
Average	273	224	194	316
as at the end of the period	292	273	168	298
Limit	**355**	**300**	**500**	**400**

VaR in the banking portfolio is calculated separately as a combined effect of EaR (Earnings-at-Risk) and EVE VaR (value at risk of the economic value of equity).

The key methods of measurement of the interest rate risk in the trading book include the VaR methodology, stop loss, PV01 sensitivity measurement and stress tests.

The VaR is set for open positions of the Financial Market Area using the historical simulations method. Under this method the bank estimates the portfolio value of 520 scenarios generated on the basis of historically observable changes in market parameters. VaR is then estimated as the difference between the current valuation and the valuation of the 99th percentile of the lowest valuations.

The stop-loss mechanism is used to manage the risk of loss on positions subject to fair value measurement through profit or loss.

Stress tests are used in addition to these measures by providing an estimate of the potential losses in the event of materialisation of the stressed conditions in the market. The assumptions of stress scenarios are based on sensitivity reports and on extreme market rate movement scenarios set using the highest daily and monthly changes in interest rates.

The table below shows risk measures at the end of 2019 and 2018 for 1-day position holding period:

Interest rate risk	VAR	
1 day holding period	**31.12.2019**	**31.12.2018**
Average	1 341	1 702
Maximum	2 887	5 966
Minimum	574	523
as at the end of the period	876	1 508
Limit	**6 836**	**6 767**

In 2019, the VaR limit for interest rate risk was not exceeded.

FX risk is the risk that adverse movements in foreign exchange rates will have an impact on performance (and result in losses). This risk is managed on the basis of the VaR limit for the open currency positions in the Group's trading portfolio and the portfolio of Santander Brokerage Poland which manages open positions linked to the market maker activity. Stress tests are used in addition to this measure by providing an estimate of the potential losses in the event of materialisation of the stressed conditions in the market. Stress tests use the currency exposure and the scenarios of extreme movements in currency rates based on historical data. Furthermore, the stop-loss mechanism is used for managing the risk of losses on trading positions.

In accordance with its policy, the Bank does not maintain open positions on currency options. Transactions made with customers are immediately closed in the interbank market thus limiting the Group's exposure to the market risk on the currency options portfolio.

Open FX positions of subsidiaries are negligible and are not included in the daily risk estimation. In the case of Santander Consumer Bank S.A., it has a separate banking license and independently manages risk, which management is controlled by the Risk Management Forum of Santander Bank Polska.

The table below illustrates the risk measures at the end of December 2019 and 2018.

FX risk	VAR	
1 day holding period	**31.12.2019**	**31.12.2018**
Average	405	473
Maximum	1 804	1 939
Minimum	41	53
as at the end of the period	208	150
Limit	**2 848**	**2 820**

In 2019, the VaR limit for currency risk was not exceeded.

In thousands of PLN

As regards the structural exposure to currency risk in the bank's balance sheet, in 2019 the share of foreign currency assets in the bank's balance sheet continued to decrease. This was affected by the increase in PLN loans and advances to customers, and the gradual decrease in the balance of CHF loans as a result of the continuing amortisation of the CHF mortgage portfolio.

The resulting funding gap relating to individual currencies was closed by entering into swap transactions in the FX market.

The tables below present the bank's key FX positions as at 31 December 2019 and in the comparable period.

31.12.2019	PLN	EUR	CHF	USD	Other	Total
ASSETS						
Cash and balances with central banks	7 374 658	274 228	23 303	68 462	81 180	7 821 831
Loans and advances to banks	440 083	2 932 957	15 901	233 878	228 745	3 851 564
Loans and advances to customers	93 606 652	15 815 505	7 699 164	1 194 859	40 247	118 356 427
Investment securities	37 246 940	1 397 449	-	946 962	-	39 591 351
Selected assets	**138 668 333**	**20 420 139**	**7 738 368**	**2 444 161**	**350 172**	**169 621 173**
LIABILITIES						
Deposits from banks	1 194 014	291 468	975	10 688	8 996	1 506 141
Deposits from customers	121 982 921	15 764 868	417 532	5 231 273	1 363 423	144 760 017
Subordinated liabilities	1 008 173	1 521 682	-	-	-	2 529 855
Selected liabilities	**124 185 108**	**17 578 018**	**418 507**	**5 241 961**	**1 372 419**	**148 796 013**

31.12.2018	PLN	EUR	CHF	USD	Other	Total
ASSETS						
Cash and balances with central banks	8 291 811	356 753	25 593	77 185	90 560	8 841 902
Loans and advances to banks	396 844	1 514 213	6 225	686 402	255 795	2 859 479
Loans and advances to customers	91 546 461	16 482 852	8 233 865	1 211 893	17 419	117 492 490
Investment securities	34 147 558	1 468 753	-	755 802	-	36 372 113
Selected assets	**134 382 674**	**19 822 571**	**8 265 683**	**2 731 282**	**363 774**	**165 565 984**
LIABILITIES						
Deposits from banks	787 130	217 536	13 677	17 491	4 145	1 039 979
Deposits from customers	117 447 983	15 543 186	402 317	4 617 741	1 458 549	139 469 776
Subordinated liabilities	1 008 173	1 535 767	-	-	-	2 543 940
Selected liabilities	**119 243 286**	**17 296 489**	**415 994**	**4 635 232**	**1 462 694**	**143 053 695**

The risk attached to the prices of equity instruments listed in active markets is managed by Santander Brokerage Poland, which operates within the Corporate and Investment Banking Division. This risk is generated by own trades of Santander Brokerage Poland concluded in regulated markets (spot market instruments and futures).

It is measured using a Value at Risk model based on the historical analysis method.

The market risk management in Santander Brokerage Poland is supervised by the Risk Management Forum of Santander Bank Polska S.A. The Forum sets the VaR limit for Santander Brokerage Poland, approves changes in the risk measurement methodology and oversees the risk management process.

The table below presents the risk measures in 2019 and 2018.

Equity risk	VAR	
1 day holding period	**31.12.2019**	**31.12.2018**
Average	235	208
Maximum	370	584
Minimum	67	5
as at end of the period	254	106
Limit	**1 899**	**3 760**

In 2019, the VaR limit for equity risk was not exceeded.

Liquidity risk

Introduction

Liquidity risk is the risk that the bank fails to meet its contingent and non-contingent obligations towards customers and counterparties as a result of a mismatch of financial cash flows.

The activity and strategies on liquidity risk management are directly supervised by the Risk Management Forum and are pursued in accordance with the framework set out in the Liquidity Risk Policy approved by the Management Board and the Supervisory Board.

Risk management structure and organisation

The objective of the Liquidity Risk Policy of Santander Bank Polska is to:

- ensure the ability to finance assets and satisfy claims, both current and future, in a timely manner and at an economic price;
- manage the maturity mismatch between assets and liabilities, including the intraday mismatch of cash flows; under normal and stress conditions;
- set a scale of the liquidity risk in the form of various internal limits;
- ensure proper organisation of the liquidity management process within the whole Santander Bank Polska;
- prepare the organisation for emergence of adverse factors, either external or internal;
- ensure compliance with regulatory requirements, both qualitative and quantitative.

The general principle adopted by Santander Bank Polska in its liquidity management process is that all expected outflows occurring within one month in respect of deposits, current account balances, loan drawdowns, guarantee payments and transaction settlements should be at least fully covered by the anticipated inflows or available High Quality Liquid Assets (HQLA) assuming normal or predictable conditions for the Group's operations. The HQLA category substantially includes: cash on hand, funds held in the nostro account with the NBP (National Bank of Poland) in excess of the minimum reserve requirement and securities which may be sold or pledged under repo transactions or NBP lombard loans. As at 31 December 2019, the value of the HQLA buffer was PLN 40.96 bn.

The purpose of this policy is also to ensure an adequate structure of funding in relation to the growing scale of the bank's business by maintaining structural liquidity ratios at pre-defined levels.

The bank uses a suite of additional watch limits and thresholds with respect to the following:

- loan-to-deposit ratio;
- ratios of reliance on wholesale funding, which are used to assess the concentration of foreign currency funding from the wholesale market;
- concentration of deposit and wholesale funding;
- level of encumbered assets;
- M3 and M4 regulatory liquidity ratios calculated in accordance with KNF Resolution no. 386/2008;
- ratios laid down in CRD IV/CRR – LCR and NSFR;
- survival horizon under stressed conditions;
- the HQLA buffer;
- the buffer of assets which might be liquidated over an intraday horizon.

The internal liquidity limits, including the limits established in the Risk Appetite Statement, are set on the basis of both historical values of the selected liquidity ratios as well as their future values which are estimated against a financial plan. The limits also take into account the results of stress tests.

At least once a year, Santander Bank Polska carries out the Internal Liquidity Adequacy Assessment Process (ILAAP), which is designed to ensure that the bank can effectively control and manage liquidity risk. In particular, the ILAAP ensures that the bank:

- maintains sufficient capacity to meet its obligations as they fall due;
- reviews the key liquidity risk drivers and ensures that stress testing reflects these drivers and that they are appropriately controlled;
- provides a record of both the liquidity risk management and governance processes;

- carries out assessment of counterbalancing capacity.

The ILAAP results are subject to approval by the Management Board and the Supervisory Board to confirm adequacy of the liquidity level of Santander Bank Polska in terms of liquid assets, prudent funding profile and the Group's liquidity risk management and control mechanisms.

Risk identification and measurement

The responsibility for identification and measurement of liquidity risk rests with the Risk Management Division, specifically the Financial Risk Department.

The role of the Department is to draft liquidity risk management policies, carry out stress tests and to measure and report on risk on an ongoing basis.

Liquidity is measured by means of the modified liquidity gap, which is designed separately for the PLN and currency positions. The reported future contractual cash flows are subject to modifications based on: statistical analyses of the deposit and credit base behaviour and assessment of product/ market liquidity – in the context of evaluation of the possibility to liquidate Treasury securities by selling or pledging them in repo transactions or using liquidity support instruments with NBP, as well as the possibility of transaction rolling in the interbank market.

When measuring liquidity risk, the bank additionally analyses the degree of liquidity outflows arising from potential margin calls due to changes in the value of derivative transactions and collateral needs related to secured financing transactions resulting from the downgrade of the bank's credit rating, among other things.

Concurrently, liquidity is measured in accordance with KNF Resolution no. 386/2008 on setting liquidity standards for banks (in force as at 31 December 2019), and with the requirements laid down in the CRD IV/ CRR package and in their implementing provisions.

In order to establish a detailed risk profile, the bank conducts stress tests using the six following scenarios:

- baseline scenario, which assumes non-renewability of wholesale funding;
- idiosyncratic liquidity crisis scenarios (specific to the bank);
- local systemic liquidity crisis scenario;
- global systemic liquidity crisis scenario;
- combined liquidity crisis scenario (idiosyncratic crisis and local systemic crisis);
- deposit outflows in a one-month horizon.

For each of the above scenarios, the bank estimates the minimum survival horizon. For selected scenarios, the bank sets survival horizon limits which are subsequently included in the liquidity risk appetite.

In addition, the bank performs stress tests for intraday liquidity as well as reverse stress tests.

Risk reporting

The responsibility for reporting liquidity risk rests with the Risk Management Division, specifically the Financial Risk Department.

The results of liquidity risk measurement are reported by the Financial Risk Department on a daily basis to persons in charge of operational management of the bank's liquidity and to persons responsible for liquidity risk management (information about intraday and current liquidity, including FX funding ratios and LCR) and – on a monthly basis – to senior executives (other liquidity ratios, including regulatory ratios).

Risk prevention and mitigation

The responsibility for supervision over the liquidity risk management process rests with the Assets and Liabilities Committee (ALCO), which also provides advice to the Management Board. ALCO prepares management strategies and recommends to the Management Board appropriate actions with regard to strategic liquidity management, including strategies of funding the bank's activity. Day-to-day management of liquidity is delegated to the Financial Management Division. The Assets and Liabilities Management Department, which is a part of the Division, is responsible for developing and updating the relevant liquidity management strategies.

The bank has a liquidity contingency plan approved by the Management Board and Supervisory Board to cater for unexpected liquidity problems, whether caused by external or internal factors. The plan, accompanied by stress tests, includes different types of scenarios and enables the bank to take adequate and effective actions in response to unexpected external or internal liquidity pressure through:

In thousands of PLN

- identification of threats to the bank's liquidity on the basis of a set of early warning ratios which are subject to ongoing monitoring;
- effective management of liquidity/ funding, using a set of possible remedial actions and the management structure adjusted to the stressed conditions;
- communication with customers, key market counterparties, shareholders and regulators.

In 2019, as in the previous year, Santander Bank Polska focused on keeping its loan-to-deposit ratio at a comfortable level (82% as at 31 December 2019) and controlling key short and long-term liquidity measures. As at 31 December 2019, the consolidated Liquidity Coverage Ratio was 171%, and 190% as at 31 December 2018. In 2019 and in the comparable period, all key regulatory ratios applicable to the bank and Group were maintained at the required levels.

The tables below show the cumulated liquidity gap on the standalone level (for Santander Bank Polska S.A.) as at 31 December 2019 and in the comparable period (by nominal value).

31.12.2019	A'vista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	above 5 years
Assets	18 666 525	11 319 197	4 038 858	8 212 367	8 828 533	21 582 095	53 839 427	63 946 241
Liabilities and equity	97 113 070	18 351 080	11 057 697	9 780 881	5 711 521	10 507 487	10 249 551	10 285 207
including:								
- Sell-buy-back transactions	-	30 775	-	-	-	-	-	-
- Deposits from banks	152 496	83 078	134 361	297 549	155 183	945 672	456 391	25 434
- Deposits from customers	96 960 575	17 628 908	10 927 630	8 157 560	4 866 218	2 022 927	212 551	35 941
- Debt securities in issue	-	-	-	550 000	-	2 129 250	-	-
- Subordinated liabilities	-	-	-	-	-	-	-	2 520 710
- Lease liabilities	-	23 298	35 204	49 541	97 734	175 333	343 792	141 527
Contractual liquidity gap	(78 446 545)	(7 031 883)	(7 018 839)	(1 568 514)	3 117 012	11 074 609	43 589 876	53 661 034
Cummulated contractual liquidity gap	(78 446 545)	(85 478 428)	(92 497 267)	(94 065 781)	(90 948 769)	(79 874 160)	(36 284 284)	17 376 750
Net derivatives	-	-	-	-	-	-	-	-
Gross asset derivatives	-	29 348 533	17 402 723	7 518 944	6 955 626	6 082 799	8 934 291	8 105 640
Gross liabilities derivatives	-	29 363 872	17 024 018	7 550 744	6 799 811	5 898 640	9 307 750	8 447 265
Off Balance positions Total	31 595 754	55 458	300 311	418 948	480 531	236 922	216 119	2 500
-guarantees & letters of credits	6 935 865	-	-	-	-	-	-	-
-credit lines	7 574 362	-	-	-	-	-	-	-

31.12.2018	A'vista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	above 5 years
Assets	19 712 257	8 934 725	4 072 690	10 365 383	9 283 319	15 034 995	43 092 731	71 224 818
Liabilities and equity	84 231 523	25 367 261	14 912 721	13 392 784	7 670 204	2 642 065	11 824 809	8 093 930
including:								
- Sell-buy-back transactions	-	8 230 908	-	-	-	-	-	-
- Deposits from banks	147 029	15 040	77 152	262 585	421 451	771 383	1 763 029	58 243
- Deposits from customers	84 084 494	16 938 955	14 835 569	11 272 399	6 084 771	937 449	189 977	3 358
- Debt securities in issue	-	-	-	650 000	500 000	-	2 150 000	-
- Subordinated liabilities	-	-	-	-	-	-	-	2 535 530
Contractual liquidity mismatch/ gap	(64 519 266)	(16 432 536)	(10 840 031)	(3 027 401)	1 613 115	12 392 930	31 267 921	63 130 887
Cumulative liquidity gap	(64 519 266)	(80 951 802)	(91 791 833)	(94 819 234)	(93 206 120)	(80 813 189)	(49 545 268)	13 585 619
Net derivatives	-	-	-	-	-	-	-	-
Gross asset derivatives	-	25 003 863	9 740 382	4 839 635	4 517 643	7 443 686	6 714 983	9 449 532
Gross liabilities derivatives	-	24 993 842	9 749 534	4 851 060	4 536 572	7 454 492	7 002 224	9 742 823
Off Balance positions Total	31 595 754	55 458	300 311	418 948	480 531	236 922	216 119	2 500
-guarantees & letters of credits	6 935 865	-	-	-	-	-	-	-
-credit lines	7 574 362	-	-	-	-	-	-	-

The tables below show maturity analysis of financial liabilities and receivables on the standalone level (for Santander Bank Polska S.A.) as at 31 December 2019 and in the comparable period (the undiscounted cash flow – capital and interests).

In thousands of PLN

31.12.2019	A'vista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	above 5 years
Assets	18 668 738	11 775 763	4 765 677	9 518 467	11 519 492	25 913 465	62 929 423	79 607 533
Liabilities and equity	97 113 903	18 477 395	11 163 096	10 084 426	6 204 789	11 180 555	11 476 572	11 067 189
including:								
- Sell-buy-back transactions	-	30 775	-	-	-	-	-	-
- Deposits from banks	152 496	83 078	134 361	297 549	155 183	945 672	456 391	25 434
- Deposits from customers	96 961 407	17 685 655	11 016 301	8 248 559	4 946 992	2 083 395	227 352	40 385
- Debt securities in issue	-	-	-	561 080	-	2 129 250	-	-
- Subordinated liabilities	-	-	12 435	26 710	54 098	91 977	241 893	2 741 116
- Lease liabilities	-	23 298	35 204	49 541	97 734	175 333	343 792	141 527
Contractual liquidity gap	(78 445 164)	(6 701 632)	(6 397 420)	(565 959)	5 314 703	14 732 910	51 452 851	68 540 345
Cummulated contractual liquidity gap	(78 445 164)	(85 146 796)	(91 544 216)	(92 110 175)	(86 795 472)	(72 062 562)	(20 609 711)	47 930 633
Net derivatives	-	13 408	(69 036)	(32 458)	67 634	(51 438)	(94 216)	(23 031)
Gross asset derivatives	-	29 404 195	17 432 428	7 616 564	7 126 690	6 393 761	9 685 934	8 429 176
Gross liabilities derivatives	-	29 398 273	17 036 640	7 613 136	6 899 495	6 080 215	9 785 396	8 673 568
Off Balance positions Total	35 405 112	30 471	5 513 663	235 303	248 833	383 355	104 953	2 200
-guarantees & letters of credits	9 829 133	-	-	-	-	-	-	-
-credit lines	6 737 268	-	-	-	-	-	-	-

31.12.2018	A'vista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	above 5 years
Assets	21 140 284	9 381 708	4 739 300	11 531 280	11 731 875	19 093 468	52 947 764	90 833 274
Liabilities and equity	84 841 231	25 489 478	15 057 613	13 674 450	8 113 008	3 150 489	12 908 860	8 912 752
including:								
- Sell-buy-back transactions	-	8 234 700	-	-	-	-	-	-
- Deposits from banks	-	18 088	81 460	272 137	438 313	799 835	1 800 860	60 274
- Deposits from customers	84 694 199	16 999 033	14 963 588	11 414 918	6 204 374	966 905	203 212	3 740
- Debt securities in issue	-	-	-	661 633	511 250	-	-	-
- Subordinated liabilities	-	-	12 565	27 131	55 477	95 999	2 444 990	2 928 592
Contractual liquidity gap	(63 700 947)	(16 107 771)	(10 318 313)	(2 143 170)	3 618 867	15 942 979	40 038 904	81 920 521
Cummulated contractual liquidity gap	(63 700 947)	(79 808 718)	(90 127 031)	(92 270 201)	(88 651 334)	(72 708 355)	(32 669 452)	49 251 070
Net derivatives	-	40 305	(27 069)	28 923	109 327	127 622	2 179	(115 075)
Gross asset derivatives	-	25 059 614	9 771 326	4 928 013	4 688 518	7 762 862	7 570 141	9 934 645
Gross liabilities derivatives	-	(25 024 074)	(9 758 030)	(4 898 510)	(4 618 224)	(7 625 114)	(7 493 866)	(10 041 862)
Off Balance positions Total	31 595 754	55 458	300 311	418 948	480 531	236 922	216 119	2 500
-guarantees & letters of credits	6 935 865	-	-	-	-	-	-	-
-credit lines	7 574 362	-	-	-	-	-	-	-

The Bank uses secured instruments to fund its activity to a limited degree only. However, in accordance with the existing contractual provisions, if the Group's rating is reduced by three notches, the maximum potential additional security on account of those instruments would be PLN 1.62 bn. At the same time, it should be noted that this potential obligation is not unconditional and its final value would depend on negotiations between the bank and its counterparty concerning the transactions.

4. Capital management

Introduction

It is the policy of Santander Bank Polska to maintain a level of capital adequate to the type and scale of operations and the level of risk.

The level of own funds required to ensure safe operations of the bank and Santander Bank Polska Group and capital requirements estimated for unexpected losses is determined in accordance with:

- The so-called CRD IV / CRR package, which consists of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR) and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (CRD IV), which became effective on 1 January 2014 by the decision of the European Parliament and the European Banking Authority (EBA).
- Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012.
- These requirements include the recommendations of the KNF regarding the use of national options and higher risk weight for exposures secured by real estate mortgages, including: residential real estate, for which the amount of principal or interest installment depends on changes in exchange rates or currencies other than the currencies of revenue achieved by the debtor, where a risk weight of 150% is assigned, and office premises or other commercial real estate located in the Republic of Poland, where a risk weight of 100% is assigned.
- The Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system ("Macroprudential Supervision Act"), implementing CRD IV into the Polish law with regard to, among other things, additional capital buffers to be maintained by banks.
- Recommendations of the KNF regarding an additional capital requirement relating to the portfolio of FX mortgage loans for households.

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

The Management Board has delegated ongoing capital management to the Capital Committee which conducts a regular assessment of the capital adequacy of the bank and Santander Bank Polska Group, including in extreme conditions, the monitoring of the actual and required capital levels and the initiation of transactions affecting these levels (e.g. by recommending the value of dividends to be paid). The Capital Committee is the first body that defines the capital policy, principles of capital management and principles of capital adequacy assessment. All decisions regarding any increase or decrease in capital are taken ultimately by relevant authorities within the bank in accordance with the applicable law and the bank's Statutes.

Pursuant to the bank's information strategy, details about the level of own funds and capital requirements are presented in the separate report entitled "Information on capital adequacy of Santander Bank Polska Group as at 31 December 2019".

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

Capital Policy

As at 31 December 2019, the minimum capital ratios satisfying the provisions of the CRR and the Macroprudential Supervision Act as well as regulatory recommendations regarding additional own funds requirements under Pillar 2 at the level of Santander Bank Polska S.A. were as follows:

- Tier 1 capital ratio of 12.25%;
- total capital ratio of 14.25%;

The aforementioned capital ratios take into account:

- The minimum capital ratios as required by the CRR: Common Equity Tier 1 ratio at 4.5%, Tier 1 capital ratio at 6.0% and total capital ratio at 8.0%.

In thousands of PLN

- The KNF's decision of 5 November 2019, under which the previous recommendations issued on 15 October 2018 and 28 November 2018 regarding an additional capital requirement for Santander Bank Polska S.A. relating to the portfolio of FX mortgage loans for households have expired: the decision followed the process of annual identification of banks with material exposure in respect of FX mortgage-backed loans which concluded that Santander Bank Polska S.A. had not reached the materiality threshold in relation to such loans. Accordingly, the KNF did not impose an additional buffer at the bank level to mitigate the risk arising from mortgage loans for individuals.
- The capital buffer for Santander Bank Polska S.A. as other systemically important institution: according to the letter of 19 December 2017, the KNF identified Santander Bank Polska S.A. as other systemically important institution and imposed on it an additional capital buffer. Pursuant to the KNF's decision of 14 October 2019, Santander Bank Polska S.A. maintains additional own funds of 0.75 p.p. Santander Bank Polska Group keeps the capital buffer at the same level.
- The capital conservation buffer maintained in accordance with the Macroprudential Supervision Act: following adaptation to the CRR requirements, in 2019 the buffer reached the maximum level of 2.50 p.p.
- The systemic risk buffer introduced by Regulation of the Minister of Economic Development and Finance of 1 September 2017, which applies to all the exposures in Poland: since 1 January 2018, the applicable systemic risk buffer has been set at 3.00 p.p.
- The countercyclical buffer implemented by the Macroprudential Supervision Act and amended by the Minister of Finance by a way of regulation: since 1 January 2016, the countercyclical buffer has been set at 0 p.p. for credit exposures in Poland..
- The additional capital requirement was set at the level of Santander Bank Polska Group in accordance with the KNF's decision of 19 November 2019. As at 31 December 2019, the buffer related to the portfolio of FX mortgage loans for households was 0.04 p.p for the total capital ratio, 0.03 p.p. for the Tier 1 capital ratio and 0.02 p.p. for the Common Equity Tier 1 ratio

Regulatory Capital

The capital requirement for Santander Bank Polska is determined in accordance with Part 3 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR), which formed a legal basis as at the reporting date, i.e. 31 December 2019.

Santander Bank Polska uses the standardised approach to calculate the capital requirement for credit risk, market risk and operational risk. According to this approach, the total capital requirement for credit risk is calculated as the sum of risk-weighted exposures multiplied by 8%. The exposure value for these assets is equal to the carrying amount, while the value of off-balance sheet liabilities corresponds to their balance sheet equivalent. Risk-weighted exposures are calculated by means of applying risk weights to all exposures in accordance with the CRR.

The table below presents the calculation of the capital ratio for Santander Bank Polska SA as at 31 December 2019 and in the comparative period.

		31.12.2019	31.12.2018
I	**Total Capital requirement (Ia+Ib+Ic+Id)**, of which:	**9 153 695**	**9 206 462**
Ia	- due to credit risk & counterparty credit risk	8 087 490	8 223 999
Ib	- due to market risk	118 973	87 984
Ic	- due to credit valuation ajdustment risk	22 125	22 632
Id	- due to operational risk	925 107	871 847
II	Total own funds*	25 174 591	23 778 731
III	Reductions	2 768 885	3 023 528
IV	**Own funds after reductions (II-III)**	**22 405 707**	**20 755 203**
V	**CAD [IV/(I*12.5)]**	**19,58%**	**18,04%**
VI	**Tier I ratio**	**17,38%**	**15,85%**

* Pursuant to the KNF's decision of 11 October 2019, the bank received consent to allocate PLN 589,819,448 of Santander Bank Polska net profit for H1 2019 to the Common Equity Tier 1 capital.

Internal Capital

Notwithstanding the regulatory methods for measuring capital requirements, Santander Bank Polska S.A. carries out an independent assessment of current and future capital adequacy as part of the internal capital adequacy assessment process (ICAAP). The purpose of the process is to ensure that the level and nature of own funds guarantee the solvency and stability of the bank's and the Group's operations.

The capital adequacy assessment is one of the fundamental elements of the bank's strategy, the process of defining risk appetite and the process of planning.

In the ICAAP the Bank uses assessment models based on the statistical loss estimation for measurable risks, such as credit risk, market risk and operational risk, plus its own assessment of capital requirements for other material risks not covered by the model, e.g. reputational risk and compliance risk.

The internal capital is estimated on the basis of risk parameters including the probability of default (PD) by Santander Bank Polska S.A. customers and the loss given default (LGD).

The Group performs an internal assessment of capital requirements, including under stressed conditions, taking into account different macroeconomic scenarios.

Internal capital estimation models are assessed and reviewed annually to adjust them to the scale and profile of the business of Santander Bank Polska S.A. and to take account of any new risks and the management's judgement.

The review and assessment is the responsibility of the bank's risk management committees, including: the Capital Committee and the Models and Methodology Panel, which is part of the Risk Management Forum.

Subordinated Liabilities

In 2016, the bank amended the agreement under which subordinated registered bonds were issued on 5 August 2010 and taken up by the European Bank for Reconstruction and Development. Under the new issue conditions, the maturity of the bonds has been extended to 5 August 2025. Pursuant to the KNF's decision of 18 May 2017, the bank was authorised to allocate EUR 100m of the new issue to Tier 2 capital.

As part of the strategy to increase the Tier 2 capital, on 2 December 2016 Santander Bank Polska issued own bonds of EUR 120m, allocating them to Tier 2 in accordance with the KNF's decision of 24 February 2017.

On 22 May 2017, the bank issued additional subordinated bonds with a nominal value of EUR 137.1m and by the KNF's decision of 19 October 2017 was authorised to allocate them to the Tier 2 capital.

On 12 June 2018, Santander Bank Polska S.A. obtained the KNF's approval for allocating series F subordinated bonds with a total nominal value of PLN 1bn, issued on 5 April 2018, to Tier 2 capital instruments.

For more information on subordinated liabilities, see Note 33.

In thousands of PLN

5. Net interest income

Interest income and similar to interest	**1.01.2019-31.12.2019**	**1.01.2018-31.12.2018**
Interest income on financial assets measured at amortised cost	**5 341 992**	**4 401 909**
Loans and advances to enterprises and leasing agreements	2 017 425	1 779 301
Loans and advances to individuals, of which:	3 025 487	2 325 892
Home mortgage loans	*1 583 396*	*1 161 901*
Loans and advances to banks	45 430	36 156
Loans and advances to public sector	10 125	9 730
Reverse repo transactions	94 369	72 952
Interest recorded on hedging IRS	149 156	177 878
Interest income on financial assets measured at fair value through other comprehensive income	**781 164**	**683 986**
Loans and advances to enterprises	32 021	4 179
Debt securities	*749 143*	*679 807*
Income similar to interest - financial assets measured at fair value through profit or loss	**120 616**	**88 314**
Loans and advances to enterprises	1 870	2 037
Loans and advances to individuals, of which:	65 883	72 583
Debt securities	*52 863*	*13 694*
Total income	**6 243 772**	**5 174 209**

Interest expenses	**1.01.2019-31.12.2019**	**1.01.2018-31.12.2018**
Interest expenses on financial liabilities measured at amortised cost	**(1 426 346)**	**(1 111 153)**
Liabilities to individuals	(713 954)	(503 018)
Liabilities to enterprises	(403 561)	(358 765)
Repo transactions	(97 158)	(81 036)
Liabilities to public sector	(53 723)	(52 324)
Liabilities to banks	(13 672)	(15 795)
Lease liability	(22 670)	-
Subordinated liabilities and issue of securities	(121 608)	(100 215)
Total costs	**(1 426 346)**	**(1 111 153)**
Net interest income	**4 817 426**	**4 063 056**

In thousands of PLN

6. Net fee and commission income

Fee and commission income	1.01.2019-31.12.2019	1.01.2018-31.12.2018
eBusiness & payments	576 619	575 791
Current accounts and money transfer	322 582	315 053
Foreign exchange commissions	442 715	396 008
Credit commissions incl. factoring commissions and other	341 066	303 926
Insurance commissions	75 853	56 289
Commissions from brokerage activities	54 342	66 947
Credit cards	88 882	84 646
Off-balance sheet guarantee commissions	77 016	74 032
Issue arrangement fees	6 636	9 374
Distribution fees	31 765	18 179
Total	**2 017 476**	**1 900 245**
Fee and commission expenses	**1.01.2019-31.12.2019**	**1.01.2018-31.12.2018**
eBusiness & payments	(187 696)	(188 045)
Commissions from brokerage activities	(8 298)	(9 593)
Credit cards	(16 343)	(15 312)
Credit commissions paid	(33 194)	(30 006)
Insurance commissions	(19 206)	(6 554)
Finance lease commissions	(188)	(185)
Other	(54 114)	(33 647)
Total	**(319 039)**	**(283 342)**
Net fee and commission income	**1 698 437**	**1 616 903**

Included above is fee and commission income on credits, credit cards, off-balance sheet guarantees and leases of PLN 506,964 k (31.12.2018: PLN 428,488 k) and fee and commission expenses on credit cards, leases and paid to credit agents of PLN (49,537) k (31.12.2018: PLN (45,318) k) other than fees included in determining the effective interest rate, relating to financial assets and liabilities not carried at fair value through profit and loss.

7. Dividend income

Dividend income	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Dividends income from subsidiaries and associates	509 612	392 573
Dividends income from investment securities measured at fair value through other comprehensive income	96 476	98 096
Dividends income from investment securities measured at fair value through profit or loss	1 227	811
Dividends income from equity financial assets measured at fair value through profit or loss	1 437	1 127
Total	**608 752**	**492 607**

In thousands of PLN

8. Net trading income and revaluation

Net trading income and revaluation	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Derivative instruments and interbank fx transactions	201 061	142 692
Profit on equity securities measured at fair value through profit or loss	(6 950)	(3 674)
Profit on debt securities measured at fair value through profit or loss	(19 161)	22 431
Change in fair value of loans and advances mandatorily measured at fair value through profit or loss	29 771	(7 885)
Total	**204 721**	**153 564**

The amounts included CVA and DVA adjustments which in 2019 and 2018 totaled PLN (3,227) k and PLN (742) k respectively.

9. Gains (losses) from other financial securities

Gains (losses) from other financial securities	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Profit on sale of debt securities measured at fair value through other comprehensive income	124 673	28 327
Change in fair value of debt securities mandatorily measured at fair value through profit or loss	54 953	12 120
Impairment losses on securities	(11 244)	-
Total profit (losses) on financial instruments	**168 382**	**40 447**
Change in fair value of hedging instruments	(7 675)	(16 561)
Change in fair value of underlying hedged positions	23 927	16 636
Total profit (losses) on hedging and hedged instruments	**16 252**	**75**
Total	**184 634**	**40 522**

10. Other operating income

Other operating income	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Income on sale of services	29 714	31 467
Release of provision for legal cases and other assets	23 283	51 364
Profit on the preliminary settlement of the sale of an organized part of enterprise*	59 079	-
Settlements of leasing agreements	684	592
Recovery of other receivables (expired, cancelled and uncollectable)	7 442	6 280
Profit on sales or liquidation of fixed assets, intangible assets and assets for disposal	38 861	50 611
Received compensations, penalties and fines	1 028	2 274
Profit on lease modifications	13 030	-
Other	21 146	11 747
Total	**194 267**	**154 335**

* Pursuant to Article 393(3) of the Commercial Companies Code and § 24(1) of the Bank's Statutes, the Extraordinary General Meeting of Shareholders of Santander Bank Polska held on 23 September 2019 approved the sale of an organised part of the bank's enterprise, namely the Investment Services Centre, which is a separate organisational unit representing an organisationally, financially and functionally independent set of tangible and intangible assets.

In thousands of PLN

The Centre provides professional transfer agent services for Santander Towarzystwo Funduszy Inwestycyjnych and investment funds managed by that company.

The agreement also provides for the subsequent sale of an organised part of the enterprise of Santander Towarzystwo Funduszy Inwestycyjnych (a subsidiary of Santander Bank Polska), namely the Valuations and Reporting Department, which is a separate organisational unit responsible for settlements, valuations and reporting of investment funds.

*Detalis in note 49

11. Impairment losses on loans and advances

Impairment losses on loans and advances measured at amortised cost	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Charge for loans and advances to banks	**(5)**	**(66)**
Stage 1	(5)	(66)
Stage 2	-	-
Stage 3	-	-
POCI	-	-
Charge for loans and advances to customers	**(873 848)**	**(769 704)**
Stage 1	(27 122)	(181 389)
Stage 2	(202 942)	(72 670)
Stage 3	(688 520)	(566 912)
POCI	44 736	51 267
Recoveries of loans previously written off	**3 326**	**(7 717)**
Stage 1	-	-
Stage 2	-	-
Stage 3	3 326	(7 717)
POCI	-	-
Off-balance sheet credit related facilities	**1 989**	**(24)**
Stage 1	2 411	(1 348)
Stage 2	2 338	5 556
Stage 3	(2 760)	(4 232)
POCI	-	-
Total	**(868 538)**	**(777 511)**

12. Employee costs

Employee costs	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Salaries and bonuses	(1 187 666)	(1 133 392)
Salary related costs	(192 652)	(187 098)
Cost of contributions to Employee Capital Plans	(1 399)	-
Staff benefits costs	(30 113)	(29 827)
Professional trainings	(13 027)	(15 083)
Retirement fund, holiday provisions and other employee costs	7 339	29 267
Restructuring provision*	(92 400)	-
Total	**(1 509 918)**	**(1 336 133)**

*The Management Board of Santander Bank Polska SA informed that on 10 January 2019, as per the Act of 13 March 2003 on special rules of terminating employment contracts for reasons not attributable to the employees, they adopted a resolution on the intended collective redundancies and the start of the consultation procedure for collective redundancies.

A provision of PLN (92,400 k) was raised in Bank's books in relation to employment restructuring. By the end of December 2019, 1,324 employees left the organisation as part of the collective redundancies process. The provision was fully utilized until 31.01.2020. Details on charge and utilization of restructuring provision are disclosed in Note 36.

In thousands of PLN

13. General and administrative expenses

General and administrative expenses	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Maintenance of premises*	(114 269)	(289 483)
Short-term lease costs*	(12 974)	-
Low-value assets lease costs*	(5 829)	-
Costs of variable lease payments not included in the measurement of the lease liability*	(1 121)	-
Non-tax deductible VAT*	(41 791)	-
Marketing and representation	(120 326)	(122 172)
IT systems costs	(216 307)	(175 455)
Cost of BFG, KNF and KDPW	(276 031)	(196 554)
Postal and telecommunication costs	(53 001)	(45 714)
Consulting and advisory fees	(57 562)	(71 542)
Cars, transport expenses, carriage of cash	(59 795)	(62 753)
Other external services	(139 937)	(128 517)
Stationery, cards, cheques etc.	(18 454)	(21 819)
Sundry taxes and charges	(31 971)	(31 483)
Data transmission	(7 416)	(7 334)
KIR, SWIFT settlements	(31 617)	(27 518)
Security costs	(24 341)	(26 072)
Costs of repairs	(14 150)	(22 961)
Other	(25 351)	(24 765)
Total	**(1 252 243)**	**(1 254 142)**

*Details is presented in note 2.3.

14. Other operating expenses

Other operating expenses	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Charge of provisions for legal cases and other assets	(36 381)	(106 098)
Charge of provisions for legal risk*	(158 000)	-
Impairment loss on property, plant, equipment, intangible assets covered by financial lease agreements and other fixed assets	(33 082)	(13 054)
Costs of purchased services	(3 622)	(14 797)
Other membership fees	(873)	(797)
Paid compensations, penalties and fines	(2 263)	(2 106)
Donations paid	(4 890)	(4 594)
Other	(15 109)	(10 972)
Total	**(254 220)**	**(152 418)**

* Details in note 44

In thousands of PLN

15. Corporate income tax

Corporate income tax	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Current tax charge in the income statement	(748 117)	(668 355)
Deffered tax	128 164	175 169
Adjustments from previous years	(1 612)	2 283
Total tax on gross profit	**(621 565)**	**(490 903)**

Corporate total tax charge information	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Profit before tax	2 735 089	2 664 958
Tax rate	19%	19%
Tax calculated at the tax rate	(519 667)	(506 342)
Non-tax-deductible expenses	(22 044)	(10 856)
The fee to the Bank Guarantee Fund	(47 576)	(34 510)
Tax on financial institutions	(105 330)	(81 143)
The gain on acquisition of demerged part of enterprise	-	69 305
Sale of receivables	(1 256)	(6 109)
Non-taxable income	115 428	93 440
Non-tax deductible bad debt provisions	(38 078)	(17 847)
Adjustment of prior year tax	(1 612)	2 283
Other	(1 430)	876
Total tax on gross profit	**(621 565)**	**(490 903)**

Deferred tax recognised in other comprehensive income	31.12.2019	31.12.2018
Relating to valuation of debt investments measured at fair value through other comprehensive income	(169 006)	(127 697)
Relating to valuation of equity investments measured at fair value through other comprehensive income	(143 520)	(127 204)
Relating to cash flow hedging activity	6 337	15 694
Relating to valuation of defined benefit plans	(2 310)	(2 553)
Total	**(308 499)**	**(241 760)**

16. Earnings per share

Earnings per share	1.01.2019-31.12.2019	1.01.2018-31.12.2018*
Profit for the period attributable to ordinary shares	2 113 524	2 174 055
Weighted average number of ordinary shares	102 088 305	99 725 949
Earnings per share (PLN)	**20,70**	**21,80**
Profit for the period attributable to ordinary shares	2 113 524	2 174 055
Weighted average number of ordinary shares	102 088 305	99 725 949
Weighted average number of potential ordinary shares	112 862	171 095
Total weighted average number of ordinary and potential shares	102 201 167	99 897 044
Diluted earnings per share (PLN)	**20,68**	**21,76**

* restated, details in Note 2.4.

The weighted average number of ordinary shares contains dilutive instruments in the form of share capital presented in note 38 and the share based incentive scheme included in note 52.

In thousands of PLN

17. Cash and balances with central banks

Cash and balances with central banks	31.12.2019	31.12.2018
Cash	2 359 708	2 431 098
Current accounts in central banks	5 462 123	6 410 804
Total	**7 821 831**	**8 841 902**

Santander Bank Polska SA and Santander Consumer Bank 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 in all the covered periods was 3.5%. In accordance with the applicable regulations, the amount of the calculated provision is reduced by the equivalent of EUR 500 k.

18. Loans and advances to banks

Loans and advances to banks	31.12.2019	31.12.2018
Loans and advances	2 388 547	1 255 204
Current accounts	1 463 088	1 604 341
Gross receivables	**3 851 635**	**2 859 545**
Allowance for impairment	(71)	(66)
Total	**3 851 564**	**2 859 479**

Fair value of loans and advances to banks is presented in Note 43.

Loans and advances to banks

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1.01.2019	**2 859 545**	**-**	**-**	**-**	**2 859 545**
Transfers					-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
New financial assets registered	2 264 428	-	-	-	2 264 428
Changes in existing financial assets	-	-	-	-	-
Financial assets derecognised that are not write-offs	(1 148 451)	-	-	-	(1 148 451)
Write-offs	-	-	-	-	-
Other movements incl. FX differences	(123 887)	-	-	-	(123 887)
Balance as at 31.12.2019	**3 851 635**	**-**	**-**	**-**	**3 851 635**

Loans and advances to banks

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1.01.2018	**2 012 118**	**-**	**-**	**-**	**2 012 118**
Transfers					-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
New financial assets registered	1 701 482	-	-	-	1 701 482
Changes in existing financial assets	-	-	-	-	-
Financial assets derecognised that are not write-offs	(842 342)	-	-	-	(842 342)
Write-offs	-	-	-	-	-
Other movements incl. FX differences	(11 713)	-	-	-	(11 713)
Balance as at 31.12.2018	**2 859 545**	**-**	**-**	**-**	**2 859 545**

In thousands of PLN

19. Financial assets and liabilities held for trading

	31.12.2019		31.12.2018 *	
Financial assets and liabilities held for trading	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Trading derivatives	**1 482 269**	**1 525 274**	**1 088 081**	**1 062 313**
Interest rate operations	**725 861**	**768 171**	**560 854**	**545 539**
Forward	2	-	65	6 640
Options	15 764	14 648	13 898	13 911
IRS	709 556	751 686	543 493	523 788
FRA	539	1 837	3 398	1 200
Transactions on equity instruments	**1 450**	**1 450**	**3 279**	**3 279**
Options	1 450	1 450	3 279	3 279
FX operations	**754 958**	**755 653**	**523 948**	**513 495**
CIRS	163 488	199 998	192 483	206 346
Forward	73 513	115 439	40 065	61 233
FX Swap	410 748	331 886	192 760	147 492
Spot	550	594	585	376
Options	106 659	107 736	98 055	98 048
Debt and equity securities	**584 347**	**-**	**105 636**	**-**
Debt securities	**546 607**	**-**	**88 735**	**-**
Government securities:	391 616	-	84 552	-
- bonds	391 616	-	84 552	-
Central Bank securities:	149 987	-	-	-
- bills	149 987	-	-	-
Commercial securities:	5 004	-	4 183	-
- bonds	5 004	-	4 183	-
Equity securities:	**37 740**	**-**	**16 901**	**-**
- listed	37 740	-	16 901	-
Short sale	**-**	**332 563**	**-**	**423 377**
Total financial assets/liabilities	**2 066 616**	**1 857 837**	**1 193 717**	**1 485 690**

* restated, details in Note 2.4.

Financial assets and liabilities held for trading - trading derivatives include the change in the value of counterparty risk in the amount of PLN (3,979) k as at 31.12.2019 and PLN (1,017) k as at 31.12.2018.

Interest income from debt instruments and other fixed rate instruments is disclosed under interest income.

Profit and loss from fair value changes of financial assets and liabilities held for trading are disclosed under net trading income and revaluation in the income statement.

All financial assets measured at fair value through profit and loss are assigned to this category due to the trading character of the transactions. At 31.12.2019 and in comparable period there were no cases of instruments designated to financial assets measured at fair value through profit and loss at initial recognition.

Offsetting financial assets and financial liabilities

The bank enters into master agreements such as ISDA (International Swaps and Derivatives Association Master Agreements) and GMRA (Global Master Repurchase Agreement) providing for the possibility to terminate and settle the transaction with a counterparty in the event of default on the basis of a net amount of mutual receivables and payables. In addition, under CSA (Credit Support Annex), the counterparty hedges derivative exposures with a deposit margin. The table presents fair value amounts of derivative instruments (both held for trading and designated as hedging instruments under hedge accounting) and cash collateral covered by master agreements providing for the right of set-off under specific circumstances. The value of instruments not subject to set-off are presented separately.

In thousands of PLN

	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure	Amounts not subject to enforceable netting arrangements	Balance sheet total
				Financial instruments	Cash collateral received			
Offsetting Financial Assets and Financial Liabilities on 31.12.2019	**(a)**	**(b)**	**(c) = (a) – (b)**	**(d)**	**(e)**	**(c) – (d) – (e)**	**(f)**	**(c) + (f)**
Assets								
Due from other banks								
- Reverse sale and repurchase agreements with other banks	*1 585 840*	-	*1 585 840*	-	*1 540 148*	45 692	-	*1 585 840*
Loans and advances to customers								
- Reverse sale and repurchase agreements	*265 331*	-	*265 331*	-	*251 910*	13 421	-	*265 331*
Other financial assets:								
- Financial derivatives	*3 044 076*	*1 801 356*	*1 242 720*	*1 033 970*	*143 616*	65 134	*277 156*	*1 519 876*
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**4 895 247**	**1 801 356**	**3 093 891**	**1 033 970**	**1 935 674**	**124 247**	**277 156**	**3 371 047**
Liabilities							-	
Financial derivatives	4 162 674	1 801 356	2 361 318	1 033 970	1 509 186	(181 838)	143 506	2 504 824
Sale and repurchase agreements	30 774	-	30 774	-	29 205	1 569	-	30 774
TOTAL lIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**4 193 448**	**1 801 356**	**2 392 092**	**1 033 970**	**1 538 391**	**(180 269)**	**143 506**	**2 535 598**

In thousands of PLN

Offsetting Financial Assets and Financial Liabilities on 31.12.2018	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure	Amounts not subject to enforceable netting arrangements	Balance sheet total
				Financial instruments	Cash collateral received			
	(a)	(b)	(c) = (a) – (b)	(d)	(e)	(c) – (d) – (e)	(f)	(c) + (f)
Assets								
Due from other banks								
- Reverse sale and repurchase agreements with other banks	*1 587 702*	-	*1 587 702*	-	*1 501 377*	86 325	-	*1 587 702*
Loans and advances to customers								
- Reverse sale and repurchase agreements	*7 602 061*	-	*7 602 061*	-	*7 556 244*	45 817	-	*7 602 061*
Other financial assets:								
- Financial derivatives	*2 112 304*	*1 220 387*	*891 917*	*721 691*	*141 654*	28 572	*248 718*	*1 140 635*
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**11 302 067**	**1 220 387**	**10 081 680**	**721 691**	**9 199 275**	**160 714**	**248 718**	**10 330 398**
Liabilities							-	
Financial derivatives	3 073 427	1 220 387	1 853 040	721 691	1 243 510	(112 161)	112 444	1 965 484
Sale and repurchase agreements	8 789 750	-	8 789 750	-	8 714 043	75 707	-	8 789 750
TOTAL lIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**11 863 177**	**1 220 387**	**10 642 790**	**721 691**	**9 957 553**	**(36 454)**	**112 444**	**10 755 234**

In thousands of PLN

The table below presents derivatives' nominal values:

Derivatives' nominal values	31.12.2019	31.12.2018
1. Term derivatives (hedging)	**21 890 362**	**21 807 562**
a) Single-currency interest rate swap	4 963 435	2 131 000
b) Macro cash flow hedge -purchased (IRS)	1 375 000	1 575 000
c) Macro cash flow hedge -purchased (CIRS)	7 413 598	8 746 338
d) Macro cash flow hedge -sold (CIRS)	8 138 329	9 355 224
2. Term derivatives (trading)	**497 378 828**	**408 209 745**
a) Interest rate operations	304 423 952	261 807 412
Single-currency interest rate swap	274 009 254	230 258 701
FRA - purchased amounts	21 800 000	21 444 400
Options	8 601 808	7 097 193
Forward- purchased amounts	12 035	84 100
Forward- sold amounts	855	2 923 018
b) FX operations	192 954 876	146 402 333
FX swap – purchased amounts	52 680 414	37 836 903
FX swap – sold amounts	52 586 620	37 779 343
Forward- purchased amounts	11 298 628	10 183 310
Forward- sold amounts	11 366 819	10 233 343
Non-Deliverable Forward (NDF) kupiony	347 358	-
Non-Deliverable Forward (NDF) sprzedany	350 319	-
Cross-currency interest rate swap – purchased amounts	17 111 796	13 749 426
Cross-currency interest rate swap – sold amounts	17 157 779	13 768 772
FX options -purchased CALL	7 414 849	5 622 329
FX options -purchased PUT	7 612 722	5 803 289
FX options -sold CALL	7 411 888	5 622 329
FX options -sold PUT	7 615 684	5 803 289
3. Currency transactions- spot	**2 504 457**	**1 598 307**
Spot-purchased	1 252 218	799 268
Spot-sold	1 252 239	799 039
4. Transactions on equity financial instruments	**199 165**	**555 792**
Derivatives contract - purchased	81 196	270 165
Derivatives contract - sold	117 969	285 627
Total	**521 972 812**	**432 171 406**

In the case of single-currency transactions (IRS, FRA, non-FX options) only purchased amounts are presented.

20. Hedging derivatives

	31.12.2019		31.12.2018	
Hedging derivatives	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Derivatives hedging fair value	2 880	156 700	312	129 205
Derivatives hedging cash flow	34 728	822 850	52 242	773 965
Total hedging derivatives	**37 608**	**979 550**	**52 554**	**903 170**

As at 31.12.2019 in the line item Hedging derivatives - derivatives hedging cash flow include value adjustments day first profit or loss for start forward CIRS transactions in the amount of PLN (7,510) k and PLN (8,562) k as at 31.12.2018.

In thousands of PLN

21. Loans and advances to customers

Loans and advances to customers	31.12.2019 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	54 625 458	923 811	52 629	55 601 898
Loans and advances to individuals, of which:	64 849 375	-	813 986	65 663 361
Home mortgage loans	*48 159 764*	-	-	*48 159 764*
Loans and advances to public sector	312 414	-	-	312 414
Other receivables	26 664	-	-	26 664
Gross receivables	**119 813 911**	**923 811**	**866 615**	**121 604 337**
Allowance for impairment	(3 247 910)	-	-	(3 247 910)
Total	**116 566 001**	**923 811**	**866 615**	**118 356 427**

Loans and advances to customers	31.12.2018 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	58 823 206	366 751	106 374	59 296 331
Loans and advances to individuals, of which:	59 619 111	-	962 766	60 581 877
Home mortgage loans	*45 927 616*	-	-	*45 927 616*
Loans and advances to public sector	325 767	-	-	325 767
Other receivables	11 517	-	-	11 517
Gross receivables	**118 779 601**	**366 751**	**1 069 140**	**120 215 492**
Allowance for impairment	(2 723 002)	-	-	(2 723 002)
Total	**116 056 599**	**366 751**	**1 069 140**	**117 492 490**

As at 31.12.2019 the fair value adjustment due to hedged risk on loans was PLN (1,324) k.

The gross carrying amount of a financial asset is the amortised cost of the asset before adjustment by any allowances for expected credit losses, excluding calculated penalty interest on overdue principal. Recognition of a full value of the calculated penalty interest on overdue principal would result in an increase in the gross carrying amount of loans and advances to customers, while causing the value of allowances for expected credit losses to increase by PLN 819,131 k.

Fair value of loans and advances to customers is presented in Note 43.

In thousands of PLN

Loans and advances to customers

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1.01.2019	**110 468 283**	**3 430 132**	**4 152 766**	**728 420**	**118 779 601**
Transfers					
Transfer to Stage 1	6 520 854	(6 449 310)	(71 544)	-	-
Transfer to Stage 2	(9 798 053)	9 946 986	(148 933)	-	-
Transfer to Stage 3	(231 288)	(1 637 437)	1 868 725	-	-
New financial assets registered	20 246 922	-	-	-	20 246 922
Changes in existing financial assets	(462 730)	(586 240)	(251 963)	(29 946)	(1 330 879)
Financial assets derecognised that are not write-offs	(16 756 925)	(793 405)	(229 376)	(84 643)	(17 864 349)
Write-offs	-	-	(416 259)	-	(416 259)
FX and others movements	27 615	258 156	84 263	28 841	398 875
Balance as at 31.12.2019	**110 014 678**	**4 168 882**	**4 987 679**	**642 672**	**119 813 911**

Movements on impairment losses on loans and advances to customers measured at amortised cost for reporting period 1.01.2019 - 31.12.2019	Stage 1	Stage 2	Stage 3	Total
Balance as at 1.01.2019	**(362 452)**	**(264 131)**	**(2 063 502)**	**(2 690 085)**
Transfers				-
Transfer to Stage 1	(147 045)	576 267	25 863	455 085
Transfer to Stage 2	205 618	(826 448)	59 241	(561 589)
Transfer to Stage 3	11 192	205 895	(780 605)	(563 518)
New financial assets registered	(199 706)	-	-	(199 706)
Changes in credit risk of existing financial assets	100 369	(25 132)	(193 115)	(117 878)
Changes in models and risk parameters	17 992	(21 850)	(19 751)	(23 609)
Financial assets derecognised that are not write-offs	68 744	31 763	41 775	142 282
Write-offs	-	-	429 504	429 504
FX and others movements	(14 331)	(3 082)	(8 095)	(25 508)
Balance as at 31.12.2019	**(319 619)**	**(326 718)**	**(2 508 685)**	**(3 155 022)**

Loans and advances to customers

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1.01.2018	**84 789 664**	**4 173 833**	**4 302 736**	**302 895**	**93 569 128**
Transfers					
Transfer to Stage 1	1 577 739	(1 528 156)	(49 583)	-	-
Transfer to Stage 2	(2 138 524)	2 202 692	(64 168)	-	-
Transfer to Stage 3	(842 545)	(541 595)	1 384 140	-	-
New financial assets registered	39 496 799	-	-	421 518	39 918 317
Changes in existing financial assets	(2 622 498)	(373 972)	(48 286)	(21 710)	(3 066 466)
Financial assets derecognised that are not write-offs	(9 194 927)	(457 472)	(511 107)	(218 638)	(10 382 144)
Write-offs	-	-	(745 478)	-	(745 478)
FX and others movements	(597 425)	(45 198)	(115 488)	244 355	(513 756)
Balance as at 31.12.2018	**110 468 283**	**3 430 132**	**4 152 766**	**728 420**	**118 779 601**

In thousands of PLN

Movements on impairment losses on loans and advances to customers measured at amortised cost for reporting period 1.01.2018 - 31.12.2018	Stage 1	Stage 2	Stage 3	Total
Balance as at 1.01.2018	**(257 277)**	**(298 654)**	**(2 112 224)**	**(2 668 155)**
Transfers				-
Transfer to Stage 1	(12 186)	79 121	15 383	82 318
Transfer to Stage 2	72 339	(153 117)	37 149	(43 629)
Transfer to Stage 3	67 319	69 427	(588 739)	(451 993)
New financial assets registered	(489 543)	-	-	(489 543)
Changes in credit risk of existing financial assets	34 392	33 536	(300 050)	(232 122)
Changes in models and risk parameters	22 760	6 497	11 891	41 148
Financial assets derecognised that are not write-offs	41 426	26 958	328 440	396 824
Write-offs	-	-	745 478	745 478
FX and others movements	158 318	(27 899)	(200 830)	(70 411)
Balance as at 31.12.2018	**(362 452)**	**(264 131)**	**(2 063 502)**	**(2 690 085)**

Movements on impairment losses on purchased or originated credit-impaired loans (POCI)	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Balance at the beginning of the period	**(32 917)**	**-**
Charge/write back of current period	(59 691)	(32 603)
Write off/Sale of receivables	-	-
F/X differences	(361)	(314)
Other	81	-
Balance at the end of the period	**(92 888)**	**(32 917)**

Loans and advances to enterprises

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1.01.2019	**53 265 502**	**1 956 745**	**3 193 667**	**407 292**	**58 823 206**
Transfers					
Transfer to Stage 1	2 496 109	(2 488 635)	(7 474)	-	-
Transfer to Stage 2	(4 592 417)	4 622 021	(29 604)	-	-
Transfer to Stage 3	(134 237)	(783 025)	917 262	-	-
New financial assets registered	7 541 425	-	-	-	7 541 425
Changes in existing financial assets	2 871 178	(461 332)	(162 341)	(16 909)	2 230 596
Financial assets derecognised that are not write-offs	(12 577 574)	(685 329)	(159 166)	(68 676)	(13 490 745)
Write-offs	-	-	(235 470)	-	(235 470)
FX and others movements	(474 869)	185 842	37 684	7 789	(243 554)
Balance as at 31.12.2019	**48 395 117**	**2 346 287**	**3 554 558**	**329 496**	**54 625 458**

In thousands of PLN

Movements on impairment losses on loans and advances to enterprises measured at amortised cost for reporting period 1.01.2019 - 31.12.2019	Stage 1	Stage 2	Stage 3	Total
Balance as at 1.01.2019	**(205 162)**	**(163 440)**	**(1 500 866)**	**(1 869 468)**
Transfers				
Transfer to Stage 1	(75 700)	265 805	3 062	193 167
Transfer to Stage 2	115 517	(405 766)	7 396	(282 853)
Transfer to Stage 3	5 872	95 020	(382 034)	(281 142)
New financial assets registered	(63 255)	-	-	(63 255)
Changes in credit risk of existing financial assets	34 158	13 479	(71 911)	(24 274)
Changes in models and risk parameters	26 076	54	(8 737)	17 393
Financial assets derecognised that are not write-offs	41 771	23 798	20 259	85 828
Write-offs	-	-	266 743	266 743
FX and others movements	(22 564)	(25 133)	(24 577)	(72 274)
Balance as at 31.12.2019	**(143 287)**	**(196 183)**	**(1 690 665)**	**(2 030 135)**

Loans and advances to enterprises

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1.01.2018	**43 083 032**	**2 766 850**	**3 060 869**	**100 922**	**49 011 673**
Transfers					
Transfer to Stage 1	1 046 793	(1 036 580)	(10 213)	-	-
Transfer to Stage 2	(1 362 063)	1 377 507	(15 444)	-	-
Transfer to Stage 3	(488 109)	(317 414)	805 523	-	-
New financial assets registered	17 462 140	-	-	327 904	17 790 044
Changes in existing financial assets	(192 385)	(297 582)	(32 987)	(10 113)	(533 067)
Financial assets derecognised that are not write-offs	(6 690 070)	(381 160)	(46 524)	(148 502)	(7 266 256)
Write-offs	-	-	(358 142)	-	(358 142)
FX and others movements	406 164	(154 876)	(209 415)	137 081	178 954
Balance as at 31.12.2018	**53 265 502**	**1 956 745**	**3 193 667**	**407 292**	**58 823 206**

Movements on impairment losses on loans and advances to enterprises measured at amortised cost for reporting period 1.01.2018 - 31.12.2018	Stage 1	Stage 2	Stage 3	Total
Balance as at 1.01.2018	**(139 164)**	**(195 808)**	**(1 459 297)**	**(1 794 269)**
Transfers				
Transfer to Stage 1	(7 454)	45 022	3 254	40 822
Transfer to Stage 2	44 795	(86 346)	10 874	(30 677)
Transfer to Stage 3	40 276	37 164	(314 285)	(236 845)
New financial assets registered	(186 161)	-	-	(186 161)
Changes in credit risk of existing financial assets	15 492	23 456	(55 147)	(16 199)
Changes in models and risk parameters	20 328	(3 001)	(2 936)	14 391
Financial assets derecognised that are not write-offs	23 259	20 027	15 015	58 301
Write-offs	-	-	358 142	358 142
FX and others movements	(16 533)	(3 954)	(56 486)	(76 973)
Balance as at 31.12.2018	**(205 162)**	**(163 440)**	**(1 500 866)**	**(1 869 468)**

In thousands of PLN

Loans and advances to individuals

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1.01.2019	**56 865 498**	**1 473 388**	**959 098**	**321 127**	**59 619 111**
Transfers					
Transfer to Stage 1	4 024 744	(3 960 675)	(64 069)	-	-
Transfer to Stage 2	(5 205 636)	5 324 966	(119 330)	-	-
Transfer to Stage 3	(97 051)	(854 411)	951 462	-	-
New financial assets registered	12 705 497	-	-	-	12 705 497
Changes in existing financial assets	(3 335 704)	(124 908)	(89 622)	(13 038)	(3 563 272)
Financial assets derecognised that are not write-offs	(4 179 350)	(108 076)	(70 210)	(15 967)	(4 373 603)
Write-offs	-	-	(180 789)	-	(180 789)
FX and others movements	502 484	72 314	46 580	21 053	642 431
Balance as at 31.12.2019	**61 280 482**	**1 822 598**	**1 433 120**	**313 175**	**64 849 375**

Movements on impairment losses on loans and advances to individuals measured at amortised cost for reporting period 1.01.2019 - 31.12.2019	Stage 1	Stage 2	Stage 3	Total
Balance as at 1.01.2019	**(157 292)**	**(100 691)**	**(562 635)**	**(820 618)**
Transfers				-
Transfer to Stage 1	(71 344)	310 462	22 801	261 919
Transfer to Stage 2	90 101	(420 682)	51 846	(278 735)
Transfer to Stage 3	5 320	110 875	(398 571)	(282 376)
New financial assets registered	(136 452)	-	-	(136 452)
Changes in credit risk of existing financial assets	66 211	(38 611)	(121 204)	(93 604)
Changes in models and risk parameters	(8 084)	(21 903)	(11 015)	(41 002)
Financial assets derecognised that are not write-offs	26 973	7 965	21 517	56 455
Write-offs	-	-	162 760	162 760
FX and others movements	8 233	22 051	16 481	46 765
Balance as at 31.12.2019	**(176 334)**	**(130 534)**	**(818 020)**	**(1 124 888)**

Loans and advances to individuals

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1.01.2018	**41 471 940**	**1 406 983**	**1 241 867**	**201 973**	**44 322 763**
Transfers					
Transfer to Stage 1	530 946	(491 576)	(39 370)	-	-
Transfer to Stage 2	(776 461)	825 185	(48 724)	-	-
Transfer to Stage 3	(354 437)	(224 180)	578 617	-	-
New financial assets registered	21 932 067	-	-	93 613	22 025 680
Changes in existing financial assets	(2 430 113)	(76 389)	(15 299)	(11 597)	(2 533 398)
Financial assets derecognised that are not write-offs	(2 504 856)	(76 313)	(464 583)	(70 136)	(3 115 888)
Write-offs	-	-	(387 336)	-	(387 336)
FX and others movements	(1 003 588)	109 678	93 926	107 274	(692 710)
Balance as at 31.12.2018	**56 865 498**	**1 473 388**	**959 098**	**321 127**	**59 619 111**

In thousands of PLN

Movements on impairment losses on loans and advances to individuals measured at amortised cost for reporting period 1.01.2018 - 31.12.2018	Stage 1	Stage 2	Stage 3	Total
Balance as at 1.01.2018	**(118 113)**	**(102 846)**	**(652 927)**	**(873 886)**
Transfers				-
Transfer to Stage 1	(4 732)	34 099	12 129	41 496
Transfer to Stage 2	27 544	(66 771)	26 275	(12 952)
Transfer to Stage 3	27 043	32 263	(274 454)	(215 148)
New financial assets registered	(303 383)	-	-	(303 383)
Changes in credit risk of existing financial assets	18 900	10 080	(244 902)	(215 922)
Changes in models and risk parameters	2 432	9 499	14 827	26 758
Financial assets derecognised that are not write-offs	18 166	6 931	313 425	338 522
Write-offs	-	-	387 336	387 336
FX and others movements	174 851	(23 946)	(144 344)	6 561
Balance as at 31.12.2018	**(157 292)**	**(100 691)**	**(562 635)**	**(820 618)**

Santander Bank Polska may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amount of such assets written off during the year ended 31 December 2019 was PLN 160,521.

Securitisation

On 7 December 2018, Santander Bank Polska S.A. signed a synthetic securitisation agreement with the European Investment Fund (EIF) with respect to PLN 2,150,031k worth of cash loan portfolio. The purpose of the transaction is to release capital to finance projects supporting the development of SME, corporate and public sector customers. The agreement was activated on 28 August 2019 after the bank had satisfied the conditions precedent. The cash loan portfolio of PLN 2,150,031k (principal amount) was secured by a guarantee. The transaction is set to expire by 10 September 2031.

The transaction has been executed to transfer credit risk to the EIF and optimise the bank's Tier 1 capital. It is a synthetic securitisation which does not involve financing and covers the selected portfolio of cash loans which remain on the bank's balance sheet. The entire securitised portfolio is risk weighted in accordance with the standardised approach.

As part of the transaction, the securitised portfolio is divided into three tranches: senior (80.0%), mezzanine (18.5%) and junior, i.e. the first loss tranche (1.5%). As at the guarantee activation date, the senior tranche totalled PLN 1,720,025k, the mezzanine tranche was PLN 397,756k and the junior tranche amounted to PLN 32,251k.

The senior and mezzanine tranches are fully guaranteed by the EIF. In addition, the mezzanine tranche is secured by a counter-guarantee from the European Investment Bank (EIB). The first loss tranche was retained by the bank and deducted from the Common Equity Tier 1 in accordance with Article 36(1)(k) of the CRR. Deduction from the Common Equity Tier 1 means the application of the "full deduction approach", as stipulated in Article 245(1)(b) of the CRR.

According to the terms of the transaction, losses up to the junior tranche amount are covered by the bank, and only after this level is exceeded can they be covered from the guarantee issued by the EIF. To ensure the stability of the portfolio structure, the transaction provides for a synthetic excess spread mechanism that makes it possible to allocate losses up to 1.45% of the portfolio per year outside the securitisation structure during the first two years after activation of the guarantee. The mechanism is to be renewed after 12 months. Likewise, for the first two years after activation of the securitisation, the amortised part of the portfolio may be replenished by eligible loans.

As at 31 December 2019, the gross carrying amounts of the respective tranches were as follows: senior tranche – PLN 1,493,495k, mezzanine tranche – PLN 345,371k and junior tranche – PLN 28,003k. In the reporting period, credit losses allocated outside the securitisation structure using the synthetic excess spread mechanism totalled PLN 1,959k. Since the activation of the transaction, losses have not exceeded the junior tranche amount and the bank has not received any payments under the guarantee issued by the EIF.

The table below presents the gross carrying amounts of the securitised loans, their principal amount subject to securitisation and the amount of risk retained by the Group:

In thousands of PLN

	Transaction value - gross		Transaction value by capital amount		Retained Risk Value	
	31.12.2019	28.08.2019	31.12.2019	28.08.2019	31.12.2019	28.08.2019
Balance sheet portfolio, incl:	**1 866 869**	**2 157 410**	**1 860 200**	**2 150 031**	**34 573**	**39 629**
tranche senior	1 493 495	1 725 928	1 488 160	1 720 025	5 336	5 903
tranche mezzanine	345 371	399 121	344 137	397 756	1 234	1 365
tranche junior	28 003	32 361	27 903	32 250	28 003	32 361
Value losses allocated to Synthetic Excess Spread	1 959	-	1 959	-	1 959	-
Value of available Synthetic Excess Spread allocated to be used	27 070	31 166	26 973	31 166	-	-

22. Investment securities

Investment securities	31.12.2019	31.12.2018
Debt investment securities measured at fair value through other comprehensive income	**38 542 546**	**35 439 836**
Government securities:	32 626 234	27 621 915
- bonds	32 626 234	27 621 915
Central Bank securities:	3 849 679	5 999 249
- bills	3 849 679	5 999 249
Other securities:	2 066 633	1 818 672
-bonds	2 066 633	1 818 672
Debt investment securities measured at fair value through profit and loss	**187 536**	**131 005**
Equity investment securities measured at fair value through other comprehensive income	**861 269**	**801 272**
- unlisted	861 269	801 272
Total	**39 591 351**	**36 372 113**

Movements on investment securities on 31.12.2019	Debt investment securities measured at fair value through other comprehensive income	Debt investment securities measured at fair value through profit and loss	Equity investment securities measured at fair value through other comprehensive income	Total
As at the beginning of the period	**35 439 836**	**131 005**	**801 272**	**36 372 113**
Additions	164 103 486	-	-	164 103 486
Disposals (sale and maturity)	(161 197 078)	-	(25 877)	(161 222 955)
Fair value adjustment	241 355	54 953	85 874	382 182
Movements on interest accrued	(24 345)	-	-	(24 345)
Impairment losses on securities	(11 244)	-	-	(11 244)
FX differences	(9 464)	1 578	-	(7 886)
As at the end of the period	**38 542 546**	**187 536**	**861 269**	**39 591 351**

In thousands of PLN

Movements on investment securities on 31.12.2018	Debt investment securities measured at fair value through other comprehensive income	Debt investment securities measured at fair value through profit and loss	Equity investment securities measured at fair value through other comprehensive income	Total
As at 31.12.2017	**24 889 479**	**-**	**894 550**	**25 784 029**
Impact of the implementation of IFRS 9	-	90 175	(105 893)	(15 718)
As at 1.01.2018 (restated)	**24 889 479**	**90 175**	**788 657**	**25 768 311**
Increases due to acquisition of demerged part of Deutsche Bank Polska SA	63 077	20 013	-	83 090
Additions	162 092 587	-	2 519	162 095 106
Disposals (sale and maturity)	(152 102 943)	-	(316)	(152 103 259)
Fair value adjustment	390 904	12 120	10 412	413 436
Movements on interest accrued	25 431	-	-	25 431
FX differences	81 301	8 697	-	89 998
As at the end of the period	**35 439 836**	**131 005**	**801 272**	**36 372 113**

23. Investments in subsidiaries and associates

Investments in subsidiaries and associates	31.12.2019	31.12.2018
Subsidiaries	2 340 801	2 369 093
Associates	36 606	36 606
Total	**2 377 407**	**2 405 699**

Fair value of „Investment in associates" is presented in Note 43.

In thousands of PLN

Investments in subsidiaries as at 31.12.2019 *

Name of entity	Santander Inwestycje Sp. z o.o.	Santander Finanse Sp. z o.o.	Santander Towarzystwo Funduszy Inwestycyjnych S.A.	Santander Securities S.A.	Santander Consumer Bank S.A.	Total
Registered office	Warszawa	Poznań	Poznań	Warszawa	Wrocław	
Type of connection	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	
% of holding	100,00	100,00	50,00	-	60,00	
Balance sheet value	46 600	131 032	6 755	-	2 156 414	**2 340 801**
Total assets of entity	43 029	260 785	248 624	-	20 741 132	**21 293 570**
Own funds of entity, of which:	42 994	251 505	191 624	-	3 241 546	**3 727 669**
Share capital	100	1 633	13 500	-	520 000	535 233
Other own funds, of which:	42 894	249 872	178 124	-	2 721 546	3 192 436
undistributed profit (uncovered loss) from previous years	(7 741)	-	-	-	467 258	459 517
net profit (loss)	175	26 184	173 111	(6 524)	510 438	703 384
Liabilities of entity	35	9 280	57 000	-	17 499 586	**17 565 901**
Revenue	326	47 306	288 666	6 994	2 153 902	**2 497 194**

* unaudited data

Name of entity	Business
Santander Inwestycje Sp. z o.o.	trading in shares of commercial companies as well as other securities; seeking investors for companies
Santander Finanse Sp. z o.o.	centralised managemet of the bank's entities: Santander Leasing S.A., Santander Faktor Sp. z o.o., Santander F24 S.A. and Santander Leasing Poland Securitization 01
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	brokerage activities: managing customer's share portfolios (listed and not listed)
Santander Securities S.A.	accepting and forwarding orders to buy and sell financial instruments, and executing them on behalf and for the account of the principal, maintaining securities accounts and the cash accounts associated with them, offering financial instruments
Santander Consumer Bank S.A.	accepting savings and term deposits, granting and taking out loans and advances

In thousands of PLN

Investments in subsidiaries as at 31.12.2018 *

Name of entity	Santander Inwestycje Sp. z o.o.	Santander Finanse Sp. z o.o.	Santander Towarzystwo Funduszy Inwestycyjnych S.A.	Santander Securities S.A.	Santander Consumer Bank S.A.	Total
Registered office	Warszawa	Poznań	Poznań	Warszawa	Wrocław	
Type of connection	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	
% of holding	100,00	100,00	50,00	100,00	60,00	
Balance sheet value	46 600	130 562	6 755	28 762	2 156 414	**2 369 093**
Total assets of entity	39 944	251 704	260 918	177 011	18 691 765	**19 421 342**
Own funds of entity, of which:	39 875	245 701	208 433	42 891	3 297 131	**3 834 031**
Share capital	100	1 630	13 500	15 000	520 000	550 230
Other own funds, of which:	39 775	244 071	194 933	27 891	2 777 131	3 283 801
undistributed profit (uncovered loss) from previous years	4 881	-	-	1 506	466 785	473 172
net profit (loss)	176	35 859	189 921	(66)	559 042	784 932
Liabilities of entity	69	6 003	52 485	134 120	15 394 634	**15 587 311**
Revenue	335	51 993	314 123	1 740	2 047 370	**2 415 561**

* unaudited data

Name of entity	Business
Santander Inwestycje Sp. z o.o.	trading in shares of commercial companies as well as other securities; seeking investors for companies
Santander Finanse Sp. z o.o.	centralised managemet of the bank's entities: Santander Leasing S.A., Santander Faktor Sp. z o.o. , Santander F24 S.A. and Santander Leasing Poland Securitization 01
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	brokerage activities: managing customer's share portfolios (listed and not listed)
Santander Securities S.A.	accepting and forwarding orders to buy and sell financial instruments, and executing them on behalf and for the account of the principal, maintaining securities accounts and the cash accounts associated with them, offering financial instruments
Santander Consumer Bank S.A.	accepting savings and term deposits, granting and taking out loans and advances

Name of associate	Country of incorporation and place of business	The Group's share in capital / voting power		Valuation method	Scope of business
		2019	2018		
Santander - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poland Warszawa	49,00	49,00	Equity method	insurance activity, life insurance
Santander - Aviva Towarzystwo Ubezpieczeń S.A.	Poland Warszawa	49,00	49,00	Equity method	insurance activity, property and personal insurance
POLFUND - Fundusz Poręczeń Kredytowych S.A.	Poland Szczecin	50,00	50,00	Equity method	providing lending guarantees, investing and managing funds invested in companies

	Santander - Aviva Towarzystwo Ubezpieczeń na Życie S.A.		Santander - Aviva Towarzystwo Ubezpieczeń S.A.	
	2019 *	2018	2019 *	2018
Loans and advances to banks	37 188	28 469	25 670	15 602
Financial assets held for trading	120 539	90 550	1 223	1 235
Investment securities	523 719	384 232	335 587	386 210
Deferred tax assets	-	277	-	-
Net life insurance assets where the deposit (investment) risk is incurred by the insuring party	211 876	257 496	-	-
Other settlements	45 923	26 456	32 997	18 948
Prepayments	321 620	226 765	114 970	148 951
Other items	329	675	410	552
Total assets	**1 261 194**	**1 014 920**	**510 857**	**571 498**
Technical insurance provisions	834 679	714 210	220 430	275 669
Reinsurers' share in provisions	(5 869)	(6 239)	(68 380)	(111 133)
Estimated recourses and recoveries (negative value)	-	-	(1 309)	(1 309)
Other liabilities	296 075	194 378	91 552	109 997
Prepayments and accruals	2 258	2 846	43 704	69 234
Special funds	64	53	47	41
Total liabilities	**1 127 207**	**905 248**	**286 044**	**342 499**
Income	338 757	293 128	140 865	175 838
Profit (loss) for the period	69 466	51 293	66 499	68 425
Dividends paid to Santander Bank Polska SA	25 132	25 035	33 529	35 660

* data are based on estimates of companies

In thousands of PLN

24. Intangible assets

Intangible assets Year 2019	Licences, patents etc.	Other	Expenditure on intangible assets	Total
Value at purchase price - beginning of the period	**1 631 240**	**426 056**	**263 575**	**2 320 871**
Intangible assets recognised on acquisition of Santander Securities S.A.	**4 230**	**-**	**-**	**4 230**
Additions from:				
- purchases	-	-	200 104	**200 104**
- transfers from expenditures	194 709	-	-	**194 709**
- transfers	447	-	-	**447**
Disposals from:				
- liquidation	(40 502)	-	(5 730)	**(46 232)**
- transfers from expenditures	-	-	(194 709)	**(194 709)**
- transfers	-	-	(105)	**(105)**
Value at purchase price - end of the period	**1 790 124**	**426 056**	**263 135**	**2 479 315**
Accumulated depreciation - beginning of the period	(1 346 428)	(198 535)	-	**(1 544 963)**
Accumulated depreciation recognised on acquisition of Santander Securities SA	**(3 774)**	**-**	**-**	**(3 774)**
Additions/disposals from:				
- current year amortization	(179 301)	(71 171)	-	**(250 472)**
- liquidation, sale	38 426	-	-	**38 426**
Write down/Reversal of impairment write down				
Accumulated depreciation- end of the period	(1 491 077)	(269 706)	-	**(1 760 783)**
Balance sheet value				
Purchase value	1 790 124	426 056	263 135	**2 479 315**
Accumulated depreciation	(1 491 077)	(269 706)	-	(1 760 783)
As at 31 December 2019	**299 047**	**156 350**	**263 135**	**718 532**

In thousands of PLN

Intangible assets Year 2018	Licences, patents etc.	Other	Expenditure on intangible assets	Total
Value at purchase price - beginning of the period	**1 431 561**	**233 428**	**189 668**	**1 854 657**
Intangible assets recognised on acquisition of a demerged part of Deutsche Bank Polska S.A.	**2 441**	**192 628**	**908**	**195 977**
Additions from:				
- purchases	-	-	278 903	**278 903**
- transfers from expenditures	205 823	-	-	**205 823**
Disposals from:				
- liquidation	(8 585)	-	(81)	**(8 666)**
- transfers from expenditures	-	-	(205 823)	**(205 823)**
Value at purchase price - end of the period	**1 631 240**	**426 056**	**263 575**	**2 320 871**
				-
Accumulated depreciation - beginning of the period	(1 216 476)	(178 205)	-	**(1 394 681)**
Additions/disposals from:	**-**	**-**	**-**	**-**
- current year amortization	(138 504)	(20 330)	-	**(158 834)**
- liquidation, sale	8 552	-	-	**8 552**
Write down/Reversal of impairment write down				
Accumulated depreciation- end of the period	(1 346 428)	(198 535)	-	**(1 544 963)**
				-
Balance sheet value				**-**
Purchase value	1 631 240	426 056	263 575	**2 320 871**
Accumulated depreciation	(1 346 428)	(198 535)	-	**(1 544 963)**
As at 31 December 2018	**284 812**	**227 521**	**263 575**	**775 908**

25. Goodwill

As at 31 December 2019 and in the coresponding period, the goodwill covered the following item:

- PLN 1,688,516 k - goodwill arising from the merger of Santander Bank Polska and Kredyt Bank on 4 January 2013.

In accordance with IFRS 3 the goodwill was calculated as the surplus of the cost of acquisition over the fair value of assets and liabilities acquired.

Test for impairment of goodwill arising from the merger between Santander Bank Polska and Kredyt Bank

In 2019 and in the comparative period, the Bank conducted tests for impairment of goodwill arising from the merger with Kredyt Bank on 4 January 2013. The carrying amount as at 31 December 2019 was PLN 1,688,516 k (the same as at 31 December 2018).

Recoverable amount based on value in use

The recoverable amount of cash-generating units is the higher of fair value less costs of disposal and value in use. Value in use which is higher than the fair value less costs of disposal is measured on the basis of a discounted cash flow model relevant for banks and other financial institutions. The future expected cash flows generated by business segments of Santander Bank Polska are in line with the 3-year financial projections of the Bank's management for 2020-2022.

Taking into account the stability of Santander Bank Polska and sustainable financial performance, and comparing the value in use with the carrying amount of the cash-generating unit, no impairment was identified.

Key assumptions for measuring value in use

For the purposes of goodwill impairment testing Bank applies the following allocation of goodwill to historical business segments. The alocation results from the initial recognition as at acquisition date:

In thousands of PLN

	Segment Retail Banking	Segment Business and Corporate Banking	Segment Corporate & Investment Banking	Segment ALM and Centre	Total
Goodwill	764 135	578 808	222 621	122 952	**1 688 516**

Due to accepted valuation model, assumptions used to determine the value in use for the individual segments are the same.

Financial projection

The financial projection for 2020–2022 was prepared in line with the strategic and operational plans for 2020–2022 as well as macroeconomic and market forecasts. According to the macroeconomic forecasts for 2020–2022, which were used as a basis for the goodwill impairment test, the YoY inflation rate will be 2.5%. Interest rates are expected to remain at the current low levels at least until the end of 2020 and to increase slightly thereafter.

Pursuant to the financial projection, the Bank will continue to develop its products and services, focusing on the main product lines, services for retail customers, financing for SMEs, savings products and transactional banking services.

Discount rate

The discount rate of 10.28% used in the model is equal to the cost of capital rate assumed for 2019 which had been calculated on the basis of the Capital Assets Pricing Model, taking into account: risk-free rate (3.32%), beta coefficient for Santander Bank Polska S.A. (1.17) and market risk premium (5.96%).

Growth rate in the period beyond the financial projections

The extrapolation of cash flows beyond the 3-year period subject to the financial projection (residual value) was based on an annual growth rate of 2.5%, i.e. equal to the inflation target.

Minimum solvency ratio imposed by the regulator

An increase in the required capital amount results in a decrease in the amount of capital available for distribution theoretical dividends as part of the test.

Under Polish law, the value of dividends payable by commercial banks in respect of their prior year profits depends on fulfilment of the minimum criteria laid down in the KNF's dividend policy. As recommended by the KNF, the banks which simultaneously meet the required total capital ratio (TCR), Tier 1 capital ratio and Common Equity Tier 1 (CET 1) ratio, should be able to pay in dividends up to 75% of their profit.

In addition, in the case of banks which have exposures on account of foreign currency loans to households, the dividend payout ratio should be adjusted depending on the share of:

- currency mortgage loans for households in the entire portfolio of receivables from the non-financial sector; and
- currency mortgage loans dating from 2007 and 2008 in the portfolio of currency mortgage loans to households.

All the above factors have a negative impact on the capital available for distribution and, consequently, on the results of the goodwill impairment test.

The minimum solvency ratio imposed by the KNF for Santander Bank Polska S.A. relating to the payment of up to 75% profit distribution, taking into account the additional capital buffer to hedge against the risk connected with the portfolio of currency mortgage loans to households, the buffer for other systemically important institution (OSII) and conservation buffer, was 15.75%.

While the increased capital requirements ensure stability and security for Santander Bank Polska S.A. as they strengthen its capital base, they cause a corresponding reduction in dividends payable to shareholders, which in turn affect the cash-generating unit's value in use.

As at 31 December 2019, no goodwill impairment was identified.

In thousands of PLN

26. Property, plant and equipment

Property, plant & equipment Year 2019	Land and buildings	IT Equipment	Transportation means	Other fixed assets	Fixed assets under construction	Total
Value at purchase price - before implementation of MSSF 16	**860 503**	**784 285**	**89 172**	**204 185**	**145 876**	**2 084 021**
Impact of the implementation of MSSF 16	(144 133)	-	(89 127)	(3 266)	(1 527)	**(238 053)**
Property, plant & equipment recognised on acquisition of Santander Securities SA	**-**	**2 263**	**186**	**147**	**-**	**2 596**
Additions from:						
- purchases	-	-	-	-	123 212	**123 212**
- transfers from expenditures	32 927	86 594	-	34 832	-	**154 353**
- transfers	6 656	108	-	82	-	**6 846**
Disposals from:						
- sale, liquidation, donation	(147 669)	(117 268)	-	(29 247)	(3 146)	**(297 330)**
- transfers from expenditures	-	-	-	-	(154 352)	**(154 352)**
- transfers	(82)	-	-	-	(447)	**(529)**
						-
Value at purchase price - end of the period	**608 202**	**755 982**	**231**	**206 733**	**109 616**	**1 680 764**
						-
Accumulated depreciation - before implementation of MSSF 16	**(509 296)**	**(505 957)**	**(32 251)**	**(165 831)**	**-**	**(1 213 335)**
Impact of the implementation of MSSF 16	5 120	-	32 206	177	-	**37 503**
Accumulated depreciation recognised on acquisition of Santander Securities SA	**-**	**(2 222)**	**(158)**	**(147)**	**-**	**(2 527)**
Additions/disposals from:						
- current year amortisation	(21 568)	(84 054)	(3)	(12 289)	-	**(117 914)**
- sale, liquidation, donation	104 055	113 546	-	28 153	-	**245 754**
- transfers	-	(3)	-	-	-	**(3)**
Write down/Reversal of impairment write down	**(9)**	**-**	**-**	**-**	-	**(9)**
Accumulated depreciation- end of the period	**(421 698)**	**(478 690)**	**(206)**	**(149 937)**	**-**	**(1 050 531)**
Balance sheet value						
Purchase value	608 202	755 982	231	206 733	109 616	**1 680 764**
Accumulated depreciation	(421 698)	(478 690)	(206)	(149 937)	-	**(1 050 531)**
As at 31 December 2019	**186 504**	**277 292**	**25**	**56 796**	**109 616**	**630 233**

In thousands of PLN

Property, plant & equipment Year 2018	Land and buildings	Financial leasing - land and buildings	Equipment	Transportation means	Other fixed assets	Financial leasing - other fixed assets	Financial leasing - expenditure	Capital expenditures	Total
Value at purchase price - beginning of the period	**826 376**	**38 976**	**716 101**	**88 845**	**226 496**	**-**	**77 989**	**87 506**	**2 062 289**
Property, plant & equipment recognised on acquisition of a demerged part of Deutsche Bank Polska S.A.	**14 101**	**-**	**3 771**	**-**	**1 171**	**-**	**-**	**-**	**19 043**
Additions from:									
- purchases	-	-	-	-	-	-	31 961	165 484	**197 445**
- leasing	-	-	-	10 279	-	-	-	-	**10 279**
- transfers from expenditures	12 397	105 157	84 812	-	11 070	3 266	-	-	**216 702**
- transfers	-	-	44	-	-	-	-	-	**44**
Disposals from:									
- sale, liquidation, donation	(100 701)	-	(20 443)	-	(37 678)	-	-	(3)	**(158 825)**
- transfers from expenditures	-	-	-	-	-	-	(108 423)	(108 280)	**(216 703)**
- transfers	(35 803)	-	-	(9 952)	(139)	-	-	(358)	**(46 252)**
Value at purchase price - end of the period	**716 370**	**144 133**	**784 285**	**89 172**	**200 920**	**3 266**	**1 527**	**144 349**	**2 084 022**
Accumulated depreciation - beginning of the period	**(566 774)**	**(2 589)**	**(453 447)**	**(26 722)**	**(191 226)**	**-**	**-**	-	**(1 240 758)**
									-
Additions/disposals from:									**-**
- current year amortisation	(24 663)	(2 531)	(72 822)	(10 060)	(11 263)	(177)	-	-	**(121 516)**
- sale, liquidation, donation	79 670	-	20 354	-	36 715	-	-	-	**136 739**
- transfers	20 645	-	(43)	4 532	119	-	-	-	**25 253**
Write down/Reversal of impairment write down	(13 054)	-	-	-	-	-	-	-	**(13 054)**
Accumulated depreciation- end of the period	**(504 176)**	**(5 120)**	**(505 958)**	**(32 250)**	**(165 655)**	**(177)**	**-**	**-**	**(1 213 336)**
Balance sheet value									
Purchase value	716 370	144 133	784 285	89 172	200 920	3 266	1 527	144 349	**2 084 022**
Accumulated depreciation	(504 176)	(5 120)	(505 958)	(32 250)	(165 655)	(177)	-	-	**(1 213 336)**
As at 31 December 2018	**212 194**	**139 013**	**278 327**	**56 922**	**35 265**	**3 089**	**1 527**	**144 349**	**870 686**

In thousands of PLN

27. Right of use assets

Right of use assets Year 2019	Land and buildings	Transportation means	Other	Leasing - expenditure	Total
Gross value transferred from property, plant and equipment due to the implementation of IFRS 16	**144 133**	**89 127**	**3 266**	**1 527**	**238 053**
Impact of the implementation of MSSF 16	663 784	-	2 267	-	**666 051**
Right of use assets recognised on aquisition of Santander Securities SA	**-**	**158**	**-**	**-**	**158**
Additions from:					
-new lease contracts	111 107	12 868	3 360	8 738	**136 073**
-lease modifications and lease period update	37 030	-	653	-	**37 683**
Disposals from:					
-lease modifications and lease period update	(72 053)	(16 144)	(1 415)	(7 178)	**(96 790)**
Gross value - end of the period	**884 001**	**86 009**	**8 131**	**3 087**	**981 228**
Accumulated depreclation transferred from property, plant and equipment due to the implementation of IFRS 16	**(5 120)**	**(32 206)**	**(177)**	**-**	**(37 503)**
Accumulated depreciation recognised on acquisition of Santander Securities SA	**-**	**(26)**	**-**	**-**	**(26)**
Additions from:					
- current year amortization	(155 410)	(8 652)	(1 413)	-	**(165 475)**
Disposals from:					
-lease modifications (including settlement) and lease period update	10 314	7 362	197	-	**17 873**
Write down/Reversal of impairment write down *	(28 528)	-	(289)	-	**(28 817)**
Accumulated depreciation- end of the period	**(178 744)**	**(33 522)**	**(1 682)**	**-**	**(213 948)**
Balance sheet value					
Gross amount	884 001	86 009	8 131	3 087	**981 228**
Accumulated depreciation	(178 744)	(33 522)	(1 682)	-	**(213 948)**
As at 31 December 2019	**705 257**	**52 487**	**6 449**	**3 087**	**767 280**

*The recognised impairment allowance results from the closure of the bank's branches, and relates to the entire carrying amount of these branches.

In thousands of PLN

28. Net deferred tax assets

Deferred tax assets	31.12.2019	Changes recognised in other comprehensive income	Changes to financial result	Changes in temporary differences	31.12.2018
Allowance for expected credit losses	669 490	-	23 917	23 917	645 573
Valuation of derivative financial instruments	498 443	-	107 616	107 616	390 827
Valuation of cash flow hedges instruments	6 337	(9 357)	-	(9 357)	15 694
Other provisions	143 089	-	4 355	4 355	138 734
Deferred income	284 340	-	(15 557)	(15 557)	299 897
Unrealised interest expenses on loans, deposits and securities	193 912	-	62 354	62 354	131 558
Other negative temporary differences	31 098	-	23 171	23 171	7 927
Total assets of deferred tax	**1 826 709**	**(9 357)**	**205 856**	**196 499**	**1 630 210**

Deferred tax liabilities	31.12.2019	Changes recognised in other comprehensive income	Changes to financial result	Changes in temporary differences	31.12.2018
Valuation of investment securities	(312 526)	(57 625)	4 208	(53 417)	(259 109)
Provisions for retirement allowances	(2 310)	243	-	243	(2 553)
Valuation of derivative financial instruments	(288 043)	-	(71 707)	(71 707)	(216 336)
Unrealised interest income on loans, securities and interbank deposits	(168 068)	-	(6 690)	(6 690)	(161 378)
Prepayments regarding amortization of applied investment relief	(1 313)	-	284	284	(1 597)
Difference between balance sheet and taxable value of non-financial assets	(25 821)	-	2 509	2 509	(28 330)
Other positive temporary differences	(15 178)	-	(5 157)	(5 157)	(10 021)
Total liabilities of deferred tax	**(813 259)**	**(57 382)**	**(76 553)**	**(133 935)**	**(679 324)**
Net deferred tax assets	**1 013 450**	**(66 739)**	**129 303**	**62 564**	**950 886**

As at 31.12.2019 the assets in the calculation of deferred tax assets do not include purchased receivables in the amount of gross PLN 82,874 k and provisions for loans that do not become tax expense in the amount of gross PLN 90,104 k.

In thousands of PLN

Deferred tax assets	31.12.2018	Changes recognised in other comprehensive income	Changes to financial result	Changes in temporary differences	31.12.2017
Allowance for expected credit losses	645 573	-	196 074	196 074	449 499
Valuation of derivative financial instruments	390 827	-	26 394	26 394	364 433
Valuation of cash flow hedges instruments	15 694	(5 752)	-	(5 752)	21 446
Other provisions	138 734	-	11 019	11 019	127 715
Deferred income	299 897	-	31 647	31 647	268 250
Unrealised interest expenses on loans, deposits and securities	131 558	-	84 781	84 781	46 777
Other negative temporary differences	7 927	-	(12 770)	(12 770)	20 697
including impact of the implementation of IFRS 9	**45 867**				
Total assets of deferred tax	**1 630 210**	**(5 752)**	**337 145**	**331 393**	**1 298 817**

Deferred tax liabilities	31.12.2018	Changes recognised in other comprehensive income	Changes to financial result	Changes in temporary differences	31.12.2017
Valuation of investment securities	(259 109)	(74 018)	3 363	(70 655)	(188 454)
Provisions for retirement allowances	(2 553)	(2 477)	-	(2 477)	(76)
Valuation of derivative financial instruments	(216 336)	-	45 163	45 163	(261 499)
Unrealised interest income on loans, securities and interbank deposits	(161 378)	-	(21 935)	(21 935)	(139 443)
Prepayments regarding amortization of applied investment relief	(1 597)	-	154	154	(1 751)
Difference between balance sheet and taxable value of non-financial assets	(28 330)	-	(36 955)	(36 955)	8 625
Other positive temporary differences	(10 021)	-	(3 669)	(3 669)	(6 352)
including impact of the implementation of IFRS 9	**8 742**				
Total liabilities of deferred tax	**(679 324)**	**(76 495)**	**(13 879)**	**(90 374)**	**(588 950)**
Net deferred tax assets	**950 886**	**(82 247)**	**323 266**	**241 019**	**709 867**

As at 31.12.2018 the assets in the calculation of deferred tax assets do not include purchased receivables in the amount of gross PLN 64,831 k and provisions for loans that do not become tax expense in the amount of gross PLN 89,020 k.

In thousands of PLN

Movements on net deferred tax	**31.12.2019**	**31.12.2018**
As at the beginning of the period	950 886	709 867
Impact of the implementation of IFRS 9	-	54 609
Changes recognised in income statement	128 164	175 169
Changes recognised in other comprehensive income	(66 739)	(82 247)
Changes on deferred tax as a results of a business combination	1 139	93 488
Balance at the end of the period	**1 013 450**	**950 886**

Temporary differences recognised in other comprehensive income comprise deferred tax on available for sale securities, cash flow hedges and provisions for retirement allowances.

Temporary differences recognised in the income statement comprise deferred tax on the valuation of other financial assets, allowance for impairment of loans and receivables and other assets and liabilities used in the bank's ongoing operations.

29. Assets classified as held for sale

Assets classified as held for sale	**31.12.2019**	**31.12.2018**
Land and buildings	2 016	11 123
Total	**2 016**	**11 123**

30. Other assets

Other assets	**31.12.2019**	**31.12.2018**
Interbank and interbranch settlements	34 289	59 395
Sundry debtors	531 056	616 481
Prepayments	70 378	63 828
Repossessed assets	4 300	6 849
Settlements of stock exchange transactions	26 673	25 179
Other	52	51
Total	**666 748**	**771 783**
of which financial assets *	592 018	701 055

* Financial assets include all items of Other assets, with the exception of Prepayments, Repossessed assets and Other.

As at 31.12.2019, allowance for impairment of other assets are PLN 91,169 k (31.12.2018 PLN 79,794 k).

The significant majority of 'Other assets' items are non-past due and unimpaired. The most significant items concern the companies AVIVA, KDPW, WSE and a number of other entities with a good financial standing and good cooperation history, most of them rated A- (Fitch).

31. Deposits from banks

Deposits from banks	**31.12.2019**	**31.12.2018**
Term deposits	193 728	144 907
Current accounts	1 312 413	895 072
Total	**1 506 141**	**1 039 979**

As at 31.12.2019 the adjustment of the value of the hedged risk of deposits covered by hedge accounting PLN nil (as at 31.12.2018 – PLN nil).

Fair value of "Deposits from banks" is presented in Note 43.

In thousands of PLN

Movements in loans received from banks	31.12.2019	31.12.2018
As at the beginning of the period	**-**	**628 107**
Increase (due to:)	**-**	**15 436**
- loans received	-	-
- interest on loans received	-	3 774
- FX differences and other changes	-	11 662
Decrease (due to):	**-**	**(643 543)**
- repayment of loans	-	(637 540)
- interest repayment	-	(6 003)
As at the end of the period	**-**	**-**

32. Deposits from customers

Deposits from customers	31.12.2019	31.12.2018
Deposits from individuals	**84 774 716**	**81 591 647**
Term deposits	23 151 720	26 315 057
Current accounts	61 519 766	55 180 825
Other	103 230	95 765
Deposits from enterprises	**55 687 913**	**54 101 104**
Term deposits	20 787 944	22 847 784
Current accounts	32 182 860	27 359 966
Loans	1 695 481	3 141 372
Other	1 021 628	751 982
Deposits from public sector	**4 297 388**	**3 777 025**
Term deposits	564 737	1 155 361
Current accounts	3 732 586	2 617 635
Other	65	4 029
Total	**144 760 017**	**139 469 776**

As at 31.12.2019 deposits held as collateral totaled PLN 319,655 k (as at 31.12.2018 - PLN 413,246 k).

Fair value of "Deposits from customers" is presented in Note 43.

Movements in loans received from other financial institutions	31.12.2019	31.12.2018
As at the beginning of the period	**3 141 372**	**2 237 211**
Increase (due to:)	**31 930**	**1 449 380**
- loans received	-	1 368 465
- interest on loans received	31 930	14 581
- FX differences and other changes	-	66 334
Decrease (due to):	**(1 477 821)**	**(545 219)**
- repayment of loans	(1 433 269)	(535 561)
- interest repayment	(32 508)	(9 658)
- FX differences and other changes	(12 044)	-
As at the end of the period	**1 695 481**	**3 141 372**

In thousands of PLN

33. 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	31.12.2019	31.12.2018
As at the beginning of the period	**2 543 940**	**1 488 602**
Increase (due to):	**80 922**	**1 118 873**
- drawing of subordinated loans	-	-
- interest on subordinated loans	80 922	66 860
- FX differences	-	46 735
- reclassification *	-	1 005 278
Decrease (due to):	**(95 007)**	**(63 535)**
- interest repayment	(81 188)	(63 535)
- FX differences	(13 819)	-
As at the end of the period	**2 529 855**	**2 543 940**
Short-term	16 161	16 426
Long-term (over 1 year)	2 513 694	2 527 514

*Bonds issued by Bank and qualified with the consent of the Polish Financial Supervision Authority to subordinated liabilities.

Other details on subordinated liabilities are disclosed in Note 4.

34. Debt securities in issue

Issuance of debt securities in 2019 (non-matured securities)	Nominal value	Currency	Redemption date
Series J bank securities	550 000	PLN	27.04.2020

Issuance of debt securities in 2018 (non-matured securities)	Nominal value	Currency	Redemption date
Series G bank securities	500 000	PLN	26.04.2019
Series H bank securities	500 000	PLN	27.09.2019
Series I bank securities	150 000	PLN	21.06.2019
Santander Bank Polska bonds 09/2018	500 000	EUR	20.09.2021

In thousands of PLN

Movements in debt securities in issue	31.12.2019	31.12.2018
As at the beginning of the period	**3 311 969**	**1 240 244**
Increase (due to):	**671 547**	**4 325 756**
- debt securities in issue	632 000	4 290 794
- interest on debt securities in issue	38 098	30 567
- FX differences	-	4 395
- other	1 449	-
Decrease (due to):	**(1 295 556)**	**(2 254 031)**
- debt securities redemption	(1 232 000)	(1 235 000)
- interest repayment	(42 820)	(13 753)
- reclassification*	-	(1 005 278)
- FX differences	(20 736)	-
As at the end of the period	**2 687 960**	**3 311 969**

*Bonds issued by Bank and qualified with the consent of the Polish Financial Supervision Authority to subordinated liabilities

35. Provisions for off balance sheet credit facilities

Provisions for off balance sheet credit facilities	31.12.2019	31.12.2018
Provisions for financial liabilities to grant loans and credit lines	38 570	43 833
Provisions for financial guarantees	16 107	12 821
Other provisions	1 387	1 489
Total	**56 064**	**58 143**

Change in provisions for off balance sheet credit facilities	31.12.2019
As at the begining of the period	**58 143**
Provision charge	122 082
Write back	(124 071)
Other changes	(90)
As at the end of the period	**56 064**
Short-term	37 651
Long-term	18 413

Change in provisions for off balance sheet credit facilities	31.12.2018
As at 31.12.2017	**25 384**
Impact of the implementation of IFRS 9	24 489
As at 1.01.2018 (restated)	**49 873**
Increases due to acquisition of demerged part of Deutsche Bank Polska SA	7 945
Provision charge	151 860
Write back	(151 836)
Other changes	301
As at the end of the period	**58 143**
Short-term	37 503
Long-term	20 640

In thousands of PLN

36. Other provisions

Other provisions	31.12.2019	31.12.2018
Provisions for legal claims	92 893	83 644
Provisions for legal risk*	155 771	-
Provisions for restructuring**	7 844	-
Total	**256 508**	**83 644**

*Details regarding the provisions for legal risk are presented in note 44.

** Details about the provisions for restructuring are presented in note 12.

Change in other provisions on 31.12.2019	Provisions for legal claims*	Provisions for restructuring	Provisions for legal risk	Total
As at the beginning of the period	**83 644**	**-**	**-**	**83 644**
Provision charge	21 211	92 400	158 000	271 611
Utilization	(785)	(84 556)	(2 229)	(87 570)
Write back	(11 177)	-	-	(11 177)
As at the end of the period	**92 893**	**7 844**	**155 771**	**256 508**

*Provisions for cases disputed in court also include individual provisions and provisions for class actions.

Change in other provisions on 31.12.2018	Provisions for legal claims*
As at the beginning of the period	**57 216**
Increases due to acquisition of demerged part of Deutsche Bank Polska SA	5 230
Provision charge	89 437
Utilization	(42 641)
Write back	(25 598)
As at the end of the period	**83 644**

*Provisions for cases disputed in court also include individual provisions and provisions for class actions.

37. Other liabilities

Other liabilities	31.12.2019	31.12.2018
Settlements of stock exchange transactions	25 264	17 039
Interbank settlements	224 358	267 632
Employee provisions	292 630	333 250
Other provisions	-	3 300
Sundry creditors	409 234	1 000 712
Liabilities from contracts with customers	194 289	160 901
Public and law settlements	100 980	149 257
Accrued liabilities	236 980	250 240
Total	**1 483 735**	**2 182 331**
of which financial liabilities *	1 188 466	1 872 173

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

In thousands of PLN

Change in provisions on 31.12.2019	Employee provisions	of which: Provisions for retirement allowances	Other provisions	Total
As at the beginning of the period	**333 250**	***34 351***	**3 300**	**336 550**
Increases due to transfer of an organized part of Santander Securities SA	5 757	*123*	-	5 757
Provision charge	281 382	*3 891*	-	281 382
Utilization	(305 587)	-	-	(305 587)
Write back	(22 172)	*(1 052)*	(3 300)	(25 472)
As at the end of the period	**292 630**	***37 313***	**-**	**292 630**
Short-term	255 317	-	-	255 317
Long-term	37 313	*37 313*	-	37 313

Change in provisions on 31.12.2018	Employee provisions	of which: Provisions for retirement allowances	Other provisions	Total
As at the beginning of the period	**340 770**	***67 225***	**3 300**	**344 070**
Increases due to acquisition of demerged part of Deutsche Bank Polska SA	16 408	*1 439*	-	16 408
Provision charge	303 881	*9 480*	-	303 881
Utilization	(243 279)	*(3 875)*	-	(243 279)
Write back	(84 530)	*(39 918)*	-	(84 530)
As at the end of the period	**333 250**	***34 351***	**3 300**	**336 550**
Short-term	298 899	-	3 300	302 199
Long-term	34 351	*34 351*	-	34 351

Employee related provisions consists of items outlined in Note 51.

In thousands of PLN

38. Share capital

31.12.2019

Series/issue	Issue	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue in PLN k
A	bearer	none	none	5 120 000	51 200
B	bearer	none	none	724 073	7 241
C	bearer	none	none	22 155 927	221 559
D	bearer	none	none	1 470 589	14 706
E	bearer	none	none	980 393	9 804
F	bearer	none	none	2 500 000	25 000
G	bearer	none	none	40 009 302	400 093
H	bearer	none	none	115 729	1 157
I	bearer	none	none	1 561 618	15 616
J	bearer	none	none	18 907 458	189 075
K	bearer	none	none	305 543	3 055
L	bearer	none	none	5 383 902	53 839
M	bearer	none	none	98 947	990
N	bearer	none	none	2 754 824	27 548
				102 088 305	**1 020 883**

Nominal value of one share is 10 PLN. All issued shares are fully paid.

The shareholders having minimum 5% of the total number of votes at the Santander Bank Polska General Meeting of Shareholders was Banco Santander with a controlling stake of 67.47% stake and 5.02% funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.: Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny.

31.12.2018

Series/issue	Issue	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue in PLN k
A	bearer	none	none	5 120 000	51 200
B	bearer	none	none	724 073	7 241
C	bearer	none	none	22 155 927	221 559
D	bearer	none	none	1 470 589	14 706
E	bearer	none	none	980 393	9 804
F	bearer	none	none	2 500 000	25 000
G	bearer	none	none	40 009 302	400 093
H	bearer	none	none	115 729	1 157
I	bearer	none	none	1 561 618	15 616
J	bearer	none	none	18 907 458	189 075
K	bearer	none	none	305 543	3 055
L	bearer	none	none	5 383 902	53 839
M	bearer	none	none	98 947	990
N	bearer	none	none	2 754 824	27 548
				102 088 305	**1 020 883**

Nominal value of one share is 10 PLN. All issued shares are fully paid.

On 9.11.2018, Santander Bank Polska SA was informed that on 9.11.2018 the amendments to the Statute of Santander Bank Polska SA resulting in Bank's share capital increase related to acquisition of a demerged part of Deutsche Bank Polska SA was registered by the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register. The amendments to the Bank's Statute were adopted by the Extraordinary General Meeting on 29.05.2018. The registered amendment to the Statutes includes an increase in the capital of Santander Bank Polska SA and introduced 2 754 824 ordinary bearer shares of the Bank, series N.

In thousands of PLN

The share capital of Bank was increased from PLN 993,334,810 to PLN 1,020,883,050 i.e. by PLN 27,548,240. Shares in the increased share capital have been allocated to Deutsche Bank AG in connection with the finalised acquisition of a demerged part of Deutsche Bank Polska SA by Santander Bank Polska SA.

The shareholders having minimum 5% of the total number of votes at the Santander Bank Polska General Meeting of Shareholders was Banco Santander with a controlling stake of 67.47% stake.

39. Other reserve capital

Other reserve capital	**31.12.2019**	**31.12.2018**
General banking risk fund	649 810	649 810
Share premium	7 981 974	7 981 974
Other reserves of which:	10 582 973	9 461 473
Reserve capital	*10 412 223*	*9 290 723*
Supplementary capital	*170 750*	*170 750*
Total	**19 214 757**	**18 093 257**

Share (issue) premium is created from surplus over the nominal value of shares sold less costs of share issuance and constitutes the Bank's supplementary capital.

Reserve capital as at 31.12.2019 includes share option scheme charge of PLN 142,343 k and reserve capital as at 31.12.2018 includes share option scheme charge of PLN 130,869 k

Other movements of other reserve capital are presented in "movements on equity" for 2019 and 2018.

Statutory reserve (supplementary) capital is created from net profit appropriation in line with the prevailing banking legislation and the Bank's Statute. The capital is not subject to split and is earmarked for covering balance sheet losses. Allocations from profit for the current year to reserve capital should amount to at least 8% of profit after tax and are made until supplementary capital equals at least one third of the Bank's share capital. The amount of allocations is adopted by the General Meeting of Shareholders.

Reserve capital is created from profit after tax allocations in the amount adopted by the General Meeting of Shareholders. The decision on reserve capital use is taken by the General Meeting of Shareholders.

In thousands of PLN

40. Revaluation reserve

Revaluation reserve on 31.12.2019	Total gross	Deferred tax adjustment	Total net
Opening balance, of which:	**1 272 422**	**(241 761)**	**1 030 661**
Debt securities measured at fair value through other comprehensive income	672 091	(127 697)	544 394
Equity securities measured at fair value through other comprehensive income	669 495	(127 205)	542 290
Valuation of cash flow hedging instruments	(82 601)	15 695	(66 906)
Actuarial gains on retirement allowances	13 437	(2 554)	10 883
Change in valuation of debt securities measured at fair value through other comprehensive income	366 028	(69 545)	296 483
Transfer from revaluation reserve to profit and loss resulting from the sale of debt securities measured at fair value through other comprehensive income	(124 673)	23 688	(100 985)
Transfer from revaluation reserve to profit and loss due to fair value measurement of securities covered by hedge accounting	(23 939)	4 548	(19 391)
Change in valuation of equity securities measured at fair value through other comprehensive income	64 472	(17 178)	47 294
Transfer from revaluation reserve to retained earnings profit on sale of equity securities	21 402	862	22 264
Change in valuation of cash flow hedging instruments	32 522	(6 179)	26 343
Transfer from revaluation reserve to profit and loss resulting from cash flow hedges	16 724	(3 178)	13 546
Change in valuation of defined benefit plans	(1 278)	243	(1 035)
Closing balance, of which:	**1 623 680**	**(308 500)**	**1 315 180**
Debt securities measured at fair value through other comprehensive income	889 507	(169 006)	720 501
Equity securities measured at fair value through other comprehensive income	755 369	(143 521)	611 848
Valuation of cash flow hedging instruments	(33 355)	6 338	(27 017)
Actuarial gains on retirement allowances	12 159	(2 311)	9 848

In thousands of PLN

Revaluation reserve on 31.12.2018	Total gross	Deferred tax adjustment	Total net
Opening balance, of which:	**879 388**	**(167 085)**	**712 303**
Debt securities measured at fair value through other comprehensive income	292 932	(55 657)	237 275
Equity securities measured at fair value through other comprehensive income	698 932	(132 798)	566 134
Valuation of cash flow hedging instruments	(112 875)	21 447	(91 428)
Actuarial gains on retirement allowances	399	(77)	322
Impact of the implementation of IFRS 9, of which:	**(39 849)**	**7 571**	**(32 278)**
Equity securities measured at fair value through other comprehensive income	(39 849)	7 571	(32 278)
Change in valuation of debt securities measured at fair value through other comprehensive income	417 316	(79 290)	338 026
Transfer from revaluation reserve to profit and loss resulting from the sale of debt securities measured at fair value through other comprehensive income	(26 412)	5 018	(21 394)
Transfer from revaluation reserve to profit and loss due to fair value measurement of securities covered by hedge accounting	(11 745)	2 232	(9 513)
Change in valuation of equity securities measured at fair value through other comprehensive income	10 270	(1 966)	8 304
Transfer from revaluation reserve to retained earnings profit on sale of equity securities	142	(12)	130
Change in valuation of cash flow hedging instruments	(14 124)	2 684	(11 440)
Transfer from revaluation reserve to profit and loss resulting from cash flow hedges	44 398	(8 436)	35 962
Change in valuation of defined benefit plans	13 038	(2 477)	10 561
Closing balance, of which:	**1 272 422**	**(241 761)**	**1 030 661**
Debt securities measured at fair value through other comprehensive income	672 091	(127 697)	544 394
Equity securities measured at fair value through other comprehensive income	669 495	(127 205)	542 290
Valuation of cash flow hedging instruments	(82 601)	15 695	(66 906)
Actuarial gains on retirement allowances	13 437	(2 554)	10 883

In thousands of PLN

41. Hedge accounting

Santander Bank Polska uses hedging strategies within hedge accounting in line with the risk management principles set out in note 3 to the financial statement.

Fair value hedges

Santander Bank Polska uses fair value hedge accounting in relation to the following classes of financial instruments:

- Debt securities with a fixed interest rate in PLN and EUR;
- Loans with a fixed interest rate granted by the Bank in PLN.

To hedge the fair value, Santander Bank Polska SA uses Interest Rate Swaps (IRS), for which the Bank pays a fixed interest rate and receives a variable interest rate. The hedged risk is the change in the fair value of an instrument or a portfolio resulting from changes in market interest rates. The transactions do not hedge against fair value changes relating to credit risk.

Hedging items are measured at fair value. Hedged items are measured at amortised cost taking into account fair value adjustments on account of the risk being hedged.

Since January 2016, Santander Bank Polska SA has used portfolio-based hedge accounting for the fair value of interest rate risk with respect to the portfolio of fixed interest rate loans in PLN. The fair value hedges are IRS for which the bank pays a fixed rate and receives a variable rate. The purpose of the hedge is to eliminate the risk of changes in the fair value of the fixed interest rate loans portfolio resulting from movements in market interest rates. Credit margin is excluded from the hedging relationship.

Details of the hedging transactions of Santander Bank Polska SA as at 31.12.2019 and in the comparative period are presented in the tables below:

	Distribution of nominal values of cash flows					
Nominal value of hedging instruments	**up to 1 month**	**from 1 month to 3 months**	**from 3 months to 1 year**	**from 1 year to 5 years**	**over 5 years**	**Total**
31.12.2019						
Assets representing derivative hedging instruments	25 000	249 775	2 406 495	5 316 035	5 754 728	13 752 033
IRS	25 000	-	1 300 000	2 588 000	1 957 000	5 870 000
CIRS	-	-	-	-	468 435	468 435
CCIRS	-	249 775	1 106 495	2 728 035	3 329 293	7 413 598
Liabilities arising from derivative hedging instruments	25 000	255 510	2 428 938	5 668 532	6 098 785	14 476 765
IRS	25 000	-	1 300 000	2 588 000	1 957 000	5 870 000
CIRS	-	-	-	-	468 435	468 435
CCIRS	-	255 510	1 128 938	3 080 532	3 673 350	8 138 330
31.12.2018						
Assets representing derivative hedging instruments	534 000	105 625	893 115	7 258 755	3 660 843	12 452 338
IRS	-	-	200 000	3 413 000	50 000	3 663 000
CIRS	-	-	-	-	43 000	43 000
CCIRS	534 000	105 625	693 115	3 845 755	3 567 843	8 746 338
Liabilities arising from derivative hedging instruments	537 500	107 500	916 245	7 546 114	3 953 865	13 061 224
IRS	-	-	200 000	3 413 000	50 000	3 663 000
CIRS	-	-	-	-	43 000	43 000
CCIRS	537 500	107 500	716 245	4 133 114	3 860 865	9 355 224

In thousands of PLN

Pricing parameters for hedging instruments	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years
31.12.2019					
Assets representing derivative hedging instruments					
Average fixed interest rate	4,8000	1,8100	2,0019	1,7896	1,6222
Average exchange rate (CHF/PLN)	3,9213	3,9213	3,9213	3,9213	3,9213
Average exchange rate (EUR/PLN)	4,2585	4,2585	4,2585	4,2585	4,2585
Liabilities arising from derivative hedging instruments					
Average fixed interest rate	1,7200	(0,4047)	1,2093	2,9376	0,9483
Average exchange rate (CHF/PLN)	3,9213	3,9213	3,9213	3,9213	3,9213
Average exchange rate (EUR/PLN)	4,2585	4,2585	4,2585	4,2585	4,2585
31.12.2018					
Assets representing derivative hedging instruments					
Average fixed interest rate	1,4650	1,3900	3,5107	1,8957	1,7278
Average exchange rate (CHF/PLN)	3,8166	3,8166	3,8166	3,8166	3,8166
Average exchange rate (EUR/PLN)	4,3000	4,3000	4,3000	4,3000	4,3000
Liabilities arising from derivative hedging instruments					
Average fixed interest rate	(0,3173)	(0,3180)	0,9013	2,4170	(0,4621)
Average exchange rate (CHF/PLN)	3,8166	3,8166	3,8166	3,8166	3,8166
Average exchange rate (EUR/PLN)	4,3000	4,3000	4,3000	4,3000	4,3000

Hedging instruments designated as fair value hedges	31.12.2019		31.12.2018	
	Hedged item: Fixed-coupon bonds	Hedged item: Fixed-rate loan portfolio	Hedged item: Fixed-coupon bonds	Hedged item: Fixed-rate loan portfolio
Nominal value of hedging instrument	4 688 435	275 000	1 856 000	275 000
Fair value measurement of a hedging instrument due to hedged risk including:	(123 737)	(1 171)	(115 874)	(1 359)
Receivables arising from hedging instruments	*2 789*	*70*	-	*296*
Liabilities arising from hedging instruments	*126 526*	*1 241*	*115 874*	*1 655*
Line item in the statement of financial position that includes the hedging instrument	Hedging derivatives (IRS)	Hedging derivatives (IRS)	Hedging derivatives (IRS and OIS)	Hedging derivatives (IRS and OIS)
Hedged risk	Interest rate risk	Interest rate risk	Interest rate risk	Interest rate risk
Period over which instruments have impact on the Bank's results	up to 2029	up to 2021	up to 2025	up to 2021

Items subject to fair value hedge accounting	31.12.2019 Fixed-coupon bonds	31.12.2019 Fixed-rate loan portfolio	31.12.2018 Fixed-coupon bonds	31.12.2018 Fixed-rate loan portfolio
Carrying amount of the hedged item, including:				
Assets	*4 688 435*	*275 000*	*1 856 000*	*275 000*
Liabilities	-	-	-	-
Accumulated amount of fair value hedge adjustments on the hedged item included in the statement of comprehensive income and in the carrying amount, including:				
Assets	*142 689*	*1 324*	*118 750*	*1 336*
Liabilities	-	-	-	-
Line item in the statement of financial position that includes the hedged instrument	Investment securities	Loans and advances to customers	Investment securities	Loans and advances to customers

Cash flow hedging

Santander Bank Polska uses hedge accounting for its future cash flows with respect to commercial and mortgage credit portfolios based on a variable interest rate, in PLN and denominated in EUR and CHF with maximum maturity of 36 years.

The hedging strategies used by Santander Bank Polska are designed to protect the Bank's exposures against the risk of changes in the value of future cash flows resulting from interest rate risk or – in the case of credit portfolios denominated in foreign currency – also from currency fluctuations.

Hedging relationships are created using Interest Rate Swaps (IRS) and dual Currency Interest Rate Swaps (CIRS). In order to measure hedge effectiveness the Bank uses the hypothetical derivative approach whereby the hedged credit portfolio is reflected by a derivative transaction with specific characteristics.

Hedged items are measured at amortised cost, while hedging items are measured at fair value. Subject to fulfilment of the criteria for effectiveness of hedging relationships, changes in the fair value of hedging instruments are recognised in equity.

In thousands of PLN

Hedging instruments designed as cash flow hedges / hedges of a net investment in a foreign operation	31.12.2019 Hedged item: Portfolio of floating interest rate loans in PLN	31.12.2019 Hedged item: Portfolio of floating interest rate loans denominated in EUR and CHF	31.12.2018 Hedged item: Portfolio of floating interest rate loans in PLN	31.12.2018 Hedged item: Portfolio of floating interest rate loans denominated in EUR, USD and CHF
Nominal value of hedging instrument	1 375 000	8 138 330	1 575 000	9 355 224
Fair value measurement of a hedging instrument, due to hedged risk including:	(6 347)	(39 531)	(8 364)	(91 566)
Receivables arising from hedging instruments	*25 844*	*(40 930)*	*38 202*	*(113 364)*
Liabilities arising from hedging instruments	*32 191*	*(1 399)*	*46 566*	*(21 798)*
Line item in the statement of financial position that includes the hedging instrument	Hedging derivatives (IRS, CIRS)	Hedging derivatives (IRS, CIRS)	Hedging derivatives (IRS, CIRS)	Hedging derivatives (IRS, CIRS)
Change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period	(6 347)	(27 737)	(8 364)	(71 527)
Balance of hedging gains or losses of the reporting period that were recognised in other comprehensive income	(6 347)	(39 530)	(8 364)	(91 566)
Value of hedge ineffectiveness recognised in profit or loss	-	11 793	-	20 039
Line item in the income statement that includes the recognised hedge ineffectiveness	Net trading income and revaluation	Net trading income and revaluation	Net trading income and revaluation	Net trading income and revaluation
Hedged risk	Interest rate risk	Interest rate risk and currency risk	Interest rate risk	Interest rate risk and currency risk
Period over which instruments have impact on the Bank's results	up to 2027	up to 2028	up to 2027	up to 2028

Items subject to cash flow hedge accounting	31.12.2019 Portfolio of floating interest rate loans in PLN	31.12.2019 Portfolio of floating interest rate loans denominated in EUR and CHF	31.12.2018 Portfolio of floating interest rate loans in PLN	31.12.2018 Portfolio of floating interest rate loans denominated in EUR, USD and CHF
Change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period	(6 347)	(39 530)	(8 364)	(91 566)

Measurement to fair value of the hedging instrument, less deferred tax, is recognised in comprehensive income and accumulated in the Bank's equity during the period and are presented in note 40.

In thousands of PLN

Impact of the IBOR reform

With reference to the amendments to IAS 39 and IFRS 9 published on 16 January 2020 (described in Note 2.3 Accounting Policy), the Bank used the option of early application of the IBOR reform in 2019 and did not verify effectiveness of hedging relationships.

Santander Bank Polska S.A. uses hedge accounting that may be affected by the IBOR reform. The hedged items include:

- fixed-rate debt securities in PLN and EUR;
- fixed-rate cash loans in PLN;
- variable-rate consumer and mortgage loans in PLN, EUR and CHF.

As at 31.12.2019, there were 200 hedging relationships at Santander Bank Polska S.A. The above-mentioned portfolios are hedged with IRS transactions (PLN and EUR exposures: 142 relationships connected with 142 IRS transactions) and CIRS transactions (EUR and CHF exposures: 58 relationships connected with 45 CIRS transactions). The interest rate of the foregoing derivatives is based on the following variable rates: 3M or 6M WIBOR (181 derivative transactions), 3M or 6M EURIBOR (24 derivative transactions) and 3M CHF LIBOR (27 derivative transactions). The relationships are set to expire by 2029: 38 relationships in 2020, 101 relationships over the next 5 years and 61 relationships by 2029 (3 relationships in the last year).

42. Sell-buy-back and buy-sell-back transaction

Santander Bank Polska SA raises funds by selling financial instruments under agreements to repurchase these instruments at future dates at a predetermined price.

Repo and sell-buy back transactions may cover securities from the Bank's balance sheet portfolio.

	31.12.2019 Balance sheet value	31.12.2018 Balance sheet value before adjustment	adjustment	31.12.2018* Balance sheet value after adjustment
Liabilities valued at amortised cost (contains sell-buy-back)	30 774	8 233 994	555 755	8 789 749
Fair value of securities held as collateral for sell-buy-back/repo transactions	30 737	8 252 397	556 286	8 808 682
Buy-sell-back transactions	1 851 171	177 482	9 012 281	9 189 763
Fair value of securities held for buy-sell-back/reverse repo transactions	1 847 061	175 818	9 010 982	9 186 800

Buy-sell-back transactions	31.12.2019	31.12.2018 before adjustment	adjustment	31.12.2018* after adjustment
Buy-sell-back transactions from banks	1 585 840	177 482	1 410 220	1 587 702
Buy-sell-back transactions from customers	265 331	-	7 602 061	7 602 061
Total	**1 851 171**	**177 482**	**9 012 281**	**9 189 763**

Sell-buy-back transactions	31.12.2019	31.12.2018 before adjustment	adjustment	31.12.2018* after adjustment
Sell-buy-back transactions from banks	30 774	173 078	470 416	643 494
Sell-buy-back transactions from customers	-	8 060 916	85 339	8 146 255
Total	**30 774**	**8 233 994**	**555 755**	**8 789 749**

*restated, details in Note 2.4

Securities being the subject of repo and sell-buy-back transactions constituting the Bank's portfolio are not removed from the balance sheet, because the Bank retains all rewards (i.e. interest income on pledged securities) and risks (interest rate risk and the issuer's credit risk) attaching to these assets.

In thousands of PLN

All of the above-mentioned risks and costs related to the holding of the underlying debt securities in the sell-buy-back transactions remain with the Bank, as well as power to dispose them.

The Bank also acquires reverse repo and buy-sell-back transactions at the same price increased by the pre-determined amount of interest.

Financial instruments covered by reverse repo and buy-sell-back transactions are not recognised in the balance sheet, because the Bank does not retain any rewards or risks attaching to these assets.

Financial assets which are subject to reverse repo and buy-sell-back transactions represent a security cover accepted by the Bank which the Bank may sell or pledge.

Financial instruments held as security for (reverse repo) repurchase agreements may be sold or repledged under standard agreements, under the obligation to return these to the counterparty on maturity date of the transaction.

43. 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.

Below is a summary of the book values and fair values of the individual groups of assets and liabilities.

	31.12.2019		31.12.2018	
ASSETS	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Cash and balances with central banks	7 821 831	7 821 831	8 841 902	8 841 902
Loans and advances to banks	3 851 564	3 851 564	2 859 479	2 859 479
Loans and advances to clients measured at amortised cost	116 566 001	117 308 731	116 056 599	116 882 451
-individuals	15 970 961	16 350 018	12 870 877	13 170 847
-housing loans	47 753 526	47 893 146	45 575 566	45 981 966
-business	52 841 514	53 065 567	57 610 156	57 729 638
LIABILITIES				
Deposits from banks	1 506 141	1 506 141	1 039 979	1 039 979
Deposits from customers	144 760 017	144 798 569	139 469 776	139 478 610
Subordinated liabilities	2 529 855	2 516 452	2 543 940	2 531 230

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 financial statements. The fair value of such instruments is measured using the following methods and assumptions.

Apart from assets that are not measured at fair value, all the other fair values fulfil conditions for classification to Level III of fair value.

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 banks were classified in their entirety as Level 3 of the fair value hierarchy due to application of a measurement model with significant unobservable inputs.

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.

In thousands of PLN

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. Deposits from banks and deposits from 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.

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.

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

As at 31.12.2019 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:

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 in an orderly transaction between market participants carried out under current market conditions between market participants at the measurement date.

Valuation of major capital investments classified to Level III:

a) AVIVA Towarzystwo Ubezpieczeń na Życie SA (AVIVA TUŻ),

b) AVIVA Powszechne Towarzystwo Emerytalne SA (AVIVA PTE),

c) AVIVA Towarzystwo Ubezpieczeń Ogólnych SA (AVIVA TUO).

are made semi-annually by specialized units of the Bank using income methods based on discounted cash flows, where the most important variables of the model are the level of forecasted dividends and the risk free rate.

Sensitivity analysis of the fair value of major capital investments

The analysis has been carried out for 5 major capital investments (3 Aviva companies, BIK and PSP) measured at fair value which book values as at the end of 2019 amounted to PLN 838 k.The table below shows the percentage movement in the total value of the package of five companies in our portfolio if:

- the dividend flow is changed by +/- 5% and +/- 10%
- the risk-free rate (1,1%) (discount) is changed by +/- 1, +/- 2 p.p.

	-10%	-5%	0%	5%	10%	***Dividend***
2 p.p.	-21%	-19%	-17%	-15%	-14%	
1 p.p.	-14%	-12%	-10%	-8%	-6%	
0	-5%	-2%	0%	2%	5%	
-1 p.p.	7%	10%	13%	16%	19%	
-2 p.p.	25%	29%	32%	36%	40%	
Risk free						

In thousands of PLN

Sensitivity analysis of the fair value of the credit cards portfolio

The analysis covered the population of credit cards measured at fair value as at the end of 2019 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**	**2 p.p. decrease in interest rates**	**1 p.p. increase in interest rates**	**2 p.p. increase in interest rates**
31.12.2019	814,0	811,3	807,8	814,0	814,0
31.12.2018	962,8	961,0	958,5	962,9	963,1

The fair value of the credit card 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 of Visa Inc., including a discount which takes into account the limited liquidity of C-series shares and the terms and conditions of the conversion of C-series shares into ordinary shares.	Discount taking into account the limited liquidity of C-series shares and the terms of converting the C-series shares into ordinary 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
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	Net asset value of the Company
SHARES IN KRAJOWA IZBA ROZLICZENIOWA 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 WAŁBRZYSKA SPECJALNA STREFA EKONOMICZNA „INVEST-PARK" SP Z O.O.	Estimation of the fair value based on the present value of the forecast results of the company	Net asset value of the Company
SHARES IN AVIVA POWSZECHNE TOWARZYSTWO EMERYTALNE AVIVA SANTANDER SA		Forecast results of the company + discount
AVIVA TOWARZYSTWO UBEZPIECZEŃ NA ŻYCIE SA		Forecast results of the company
AVIVA TOWARZYSTWO UBEZPIECZEŃ OGÓLNYCH SA		Forecast results of the company
LEGNICKA SPECJALNA STREFA EKONOMICZNA SA	Periodic valuation based on net asstes value; Estimation of the fair value based on the present value of the forecast results of the company	Net asset value and future results of the Company
POLSKI HOLDING OBRONNY SP. Z O.O. BUMAR		
WARSZAWSKI ROLNO-SPOŻYWCZY RYNEK HURTOWY SA		
AGROREG AGENCJA ROZWOJU REGIONALNEGO SA W NOWEJ RUDZIE		

In thousands of PLN

As at 31.12.2019 and in the comparable periods the bank classified its financial instruments to the following fair value levels:

31.12.2019	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	584 347	1 482 269	-	2 066 616
Hedging derivatives	-	37 608	-	37 608
Loans and advances to customers measured at fair value through other comprehensive income	-	-	923 811	923 811
Loans and advances to customers measured at fair value through profit or loss	-	-	866 615	866 615
Debt securities measured at fair value through OCI	38 526 519	-	16 027	38 542 546
Debt securities measured at fair value through profit and loss	-	-	187 536	187 536
Equity securities measured at fair value through OCI	-	-	861 269	861 269
Total	**39 110 866**	**1 519 877**	**2 855 258**	**43 486 001**
Financial liabilities				
Financial liabilities held for trading	332 563	1 525 274	-	1 857 837
Hedging derivatives	-	979 550	-	979 550
Total	**332 563**	**2 504 824**	**-**	**2 837 387**

31.12.2018	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	8 688 624	1 088 081	-	9 776 705
Hedging derivatives	-	52 554	-	52 554
Loans and advances to customers measured at fair value through other comprehensive income	-	-	366 751	366 751
Loans and advances to customers measured at fair value through profit or loss	-	90 300	978 840	1 069 140
Debt securities measured at fair value through OCI	35 412 566	-	27 270	35 439 836
Debt securities measured at fair value through profit and loss	-	-	131 005	131 005
Equity securities measured at fair value through OC	-	-	801 272	801 272
Total	**44 101 190**	**1 230 935**	**2 305 138**	**47 637 263**
Financial liabilities				
Financial liabilities held for trading	423 377	1 062 313	-	1 485 690
Hedging derivatives	-	903 170	-	903 170
Total	**423 377**	**1 965 483**	**-**	**2 388 860**

In thousands of PLN

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.

Level III	Financial assets				
31.12.2019	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 other comprehensive income	Debt securities measured at fair value through profit and loss	Equity securities measured at fair value through other comprehensive income
As at the beginning of the period	**978 840**	**366 751**	**27 270**	**131 005**	**801 272**
Profit or losses					
recognised in income statement	*106 855*	-	-	*56 531*	-
recognised in equity (OCI)	-	-	-	-	*64 308*
Purchase/ granting	505 590	645 517	-	-	-
Sale	-	(45 000)	-	-	(4 311)
Matured	(724 670)	(42 875)	-	-	-
Transfer	-	-	-	-	-
Other	-	(582)	(11 244)	-	-
As at the end of the period	**866 615**	**923 811**	**16 026**	**187 536**	**861 269**

Level III	Financial assets					
31.12.2018	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 other comprehensive income	Debt securities measured at fair value through profit and loss	Equity securities measured at fair value through other comprehensive income
As at the beginning of the period	**447**	**-**	**-**	**32 532**	**-**	**894 550**
Impact of the implementation of IFRS 9	**-**	**1 067 920**	**-**	**-**	**90 175**	**(15 718)**
Profit or losses						
recognised in income statement	*(26)*	*15 355*	-	-	*12 120*	-
recognised in equity (OCI)	-	-	-	-	-	*45 472*
Purchase/ granting	-	17 294	366 751	-	20 013	2 604
Sale	(421)	-	-	-	-	(316)
Matured	-	(18 368)	-	(5 262)	-	-
Transfer	-	(90 300)	-	-	-	(125 320)
Other	-	(13 061)	-	-	8 697	-
As at the end of the period	**-**	**978 840**	**366 751**	**27 270**	**131 005**	**801 272**

44. Contingent liabilities

Significant court proceedings

As at 31.12.2019 no proceedings were instituted by court or by state administration agencies with relation to liabilities or receivables made by or against the Bank amounting to a minimum of 10% of the Bank's equity.

The value of all litigation amounts to PLN 943,954 k, which is 3.90% of the bank's equity. This amount includes PLN 407,125 k claimed by the Bank, PLN 536,829 k in claims against the Bank.

As at 31.12.2019 the amount of all court proceedings which had been completed amounted to PLN 143,370 k.

As at 31.12.2019, the value of provisions for legal claims was PLN 92,893 k. In 61 cases against Santander Bank Polska SA, where the claim value was high (above PLN 500 k), a provision of PLN 36,672 k was raised.

Court proceedings on CHF mortgage loans

As at 31.12.2019, the bank had PLN 7,752,690k worth of retail exposures in respect of mortgage loans denominated in, or indexed to, CHF.

So far, in the vast majority of cases brought against Santander Bank Polska S.A. courts have decided in favour of the bank: 17 final and binding rulings were handed down dismissing borrowers' claims; 8 judgments were issued against the bank and in 2 cases the courts decided that the bank should replace the foreign exchange clauses referring to the bank's exchange rate tables with an average NBP rate.

So far, there have been significant differences in courts' rulings on CHF loan cases:

– Courts deciding in favour of banks hold that indexation clauses are not unfair and dismiss the cases.

– Courts deciding strongly against banks generally rule that: (1) loan indexation and application of an exchange rate from the bank's exchange rates table is unfair and therefore invalid, and the loan concerned is treated as a PLN loan with an interest rate based on CHF LIBOR; or (2) the indexation and exchange rate calculation terms are unfair and render the loan agreement null and void.

– Some courts argue that loan indexation itself is lawful but application of an exchange rate based on the bank's FX table is unfair and should be eliminated. Accordingly, an objective indexation rate should be used, 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.

The Supreme Court used to present a uniform stance as to the consequences of rendering the exchange rate calculation clause unfair: indexed loan agreements were lawful and the loan agreement at issue retained the features of an indexed loan agreement. However, in some recent cases, the Supreme Court ruled that the indexation clause was invalid and the agreement should 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.

On 3.10.2019, the Court of Justice of the European Union (CJEU) ruled on the case of a loan granted by Raiffeisen Bank Polska S.A. regarding the consequences of potentially unfair terms in a CHF-indexed loan agreement. The CJEU found that if the indexation clause was held to be unfair and if after the removal of the indexing mechanism the nature of the main subject matter of the agreement was likely to alter, the national court might annul the agreement, having presented to the borrower the consequences of such a solution and having obtained their consent. At the same time, according to the CJEU, the national court might decide that the agreement should continue in existence after the indexing 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.

The CJUE ruling does not resolve the doubts as to the consequences of potentially unfair terms in foreign currency loan agreements. It is difficult to assess the potential impact of the ruling on court judgments in cases regarding foreign currency loans. The established opinion of the Supreme Court may be of importance here.

The bank regularly monitors courts' rulings on loans indexed to, or denominated in, a foreign currency in terms of possible changes in courts' ruling practice.

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. The bank raises provisions for legal claims and legal risk in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent*

Assets. The amount of provisions was estimated taking into account a number of assumptions, which significantly influence the estimate reflected in the bank's financial statements.

As at 31.12.2019, there were 1,042 pending lawsuits against the bank over loans indexed to, or denominated in, a foreign currency (mainly CHF), with the disputed amount totalling PLN 253,155k. This included one class action filed under the Act on pursuing claims through group proceedings in respect of 527 CHF-indexed loans, with the disputed amount of PLN 47,022k.

As at 31.12.2019 the bank raised provisions for legal claims related to the above lawsuits in the amount of PLN 36,827k.

Moreover, in 2019, the bank raised collective provisions for legal risk of PLN 149,000k due to the higher number of cases related to contractual clauses in agreements on loans indexed to and denominated in foreign currencies.

The bank made assumptions as to the probability of claims being made by borrowers, determined on the basis of the existing court actions against the bank and the estimated growth in their number over three years from the balance sheet date, and taking into account the number of requested credit history statements. Due to the relatively short history of observations with regard to the claims received, and given the varying ruling practice, if the time horizon is extended this might cause an excessive variability in the estimate value and will preclude reliable estimation of the expected value. These assumptions are highly sensitive to a number of external factors, including but not limited to the ruing 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 also estimated the probability of negative rulings in relation to existing and potential claims. This assumption is primarily based on assessment whether certain contractual clauses can be deemed abusive. The estimated probabilities differ significantly between indexed loans and denominated loans. When assessing these probabilities bank used the support of external law firms.

The bank considered four scenarios of possible court rulings:

- Invalidating the loan agreement clauses identified as unfair, which causes the loan to be converted into PLN, with the interest rate based on CHF LIBOR being maintained;
- Invalidating the whole loan agreement as it contains unfair clauses;
- Invalidating the loan agreement clauses identified as unfair with respect to the FX differences determination mechanism, which causes the average NBP rate to be applied;
- Dismissing the claim.

The probabilities of these scenarios also vary depending on whether the loan is indexed or denominated, and are based on a relatively small and thus statistically unrepresentative sample of rulings, and were estimated with the support of external law firms independent from the bank. Each of these scenarios has a statistically estimated expected loss level based on the available historical data and current information on court rulings.

In the bank's opinion, the value of estimated provisions is also affected by the duration of court cases (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.

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. The following scenarios were considered:

- Extension of the calculation horizon from three years to five years;
- Doubling the likelihood of customer claims;
- 50% reduction of the likelihood of customer claims;
- Full recognition of reimbursement of the cost of capital;
- Deeming the clauses abusive in each contested case.

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.

Taking into account the different scenarios outlined above, the provision estimated as at 31.12.2019 ranges from PLN 77m to PLN 248m. Due to the highly volatile external conditions which significantly affect the estimates, the bank is unable to make a reliable assessment of how the estimated provisions will vary in the next reporting period. The value of recognised provisions will be updated in subsequent periods and is subject to change.

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

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.

However, the CJEU's ruling concerns the interpretation of the provisions of the Directive which are not directly binding and must be transposed by respective member states. Accordingly, key to resolution of disputes relating to reimbursement of arrangement fees on consumer loans is an in-depth interpretation of the national law, pointing to the relevant settlement method and the time horizon for the reimbursement.

On 12.12.2019, the Supreme Court issued a ruling in case III CZP 45/19, pointing out that the interpretation of Article 49 of the Consumer Credit Act suggests that the arrangement fee, as a part of the total credit cost, should be reimbursed in the event of early loan repayment. At the same time, the Supreme Court did not specify the link between the fee and the contractual period reduction or what portion of the fee is attributable to the period by which the contractual term was reduced.

When assessing the legal risk attached to the court cases in the context of Article 49 of the Consumer Credit Act, the bank raises provisions for legal claims and legal risk in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, taking into account interpretation differences. The bank monitors and analyses the rulings of Polish courts made in cases instigated under Article 49, and is awaiting full establishment of the local law interpretation practice.

As at 31.12.2019, Santander Bank Polska S.A. was sued in 42 cases concerning partial refund of an arrangement fee on consumer loans. For these proceedings Santander Bank Polska S.A. raised provisions for legal claims in the total amount of PLN 64k.

Moreover, based on the history of claims to date, the bank estimated the amount of fees to be reimbursed from December 2011 onwards, using a probability matrix corresponding to product types, repayment methods and the reimbursement amount.

In 2019, the bank charged financial result with PLN 54,744k in respect of the reimbursement obligation, which caused a corresponding reduction in net income. The above amount includes: (a) the cost of provisions; (b) recognised reimbursement obligations; and (c) revised value of the portfolio of loans measured at amortised cost.

(a) The provision amount was estimated taking into account changes in the legal status following the ruling issued by the CJEU on 11.09.2019 in case C 383/18. The bank recognised a provision for potential customer claims in respect of a partial reimbursement of fees on consumer loans repaid ahead of the contractual maturity, before the date of the above ruling. These amounts were estimated based on the observed history of customer claims in the period between the CJEU ruling and December 2019.

(b) Where a loan had been repaid after the above CJEU ruling, the bank recognised a liability in respect of the calculated reimbursement amount in relation to all the borrowers who prepaid their loans by 31.12.2019.

The provisions and liabilities recognised by the bank totalled PLN 30,000k. These amounts were calculated proportionally, depending on the product type. The reimbursement amount was calculated as the proportion of the sum of interest payments in the periods following the overpayment to the sum of all the interest payments in the original credit period.

(c) Furthermore, due to changes in the expected cash flows relating to the existing loans, the bank revised the amortised external credit intermediation costs as part of measurement of the credit receivables at amortised cost using the effective interest rate. As a result of the revision, the bank adjusted the balance sheet exposure in respect of credit receivables by PLN 24,744k and reduced the interest income by a corresponding amount.

As at 31.12.2018, no proceedings were instituted by court or by state administration agencies with relation to liabilities or receivables made by or against the Bank amounting to a minimum of 10% of the Bank's equity.

The value of all litigation amounts to PLN 882,136 k, which is ca. 3.7% of the Bank's equity. This amount includes PLN 387,362 k claimed by the Bank, PLN 494,774 k in claims against the Bank. There were no litigations for bankruptcy or arrangement.

As at 31.12.2018 the amount of significant court proceedings which had been completed amounted to PLN 166,553 k.

In thousands of PLN

As at 31.12.2018, the value of provisions for legal risks, for court cases against Santander Bank Polska SA was PLN 83,644 k. In 37 cases against the Bank, where the claim value was high, a provision of PLN 37,340 k was raised.

Santander Bank Polska SA raises provisions for legal risk where an internal risk assessment for a particular case indicates a possible outflow of cash. Provisions for cases disputed in court are presented in Note 36.

Off-balance sheet liabilities

The break-down of contingent liabilities and off-balance transactions into categories are presented below. 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.

	31.12.2019			
Contingent liabilities - sanctioned	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Liabilities sanctioned				
- financial	**30 902 958**	**251 182**	**61 031**	**31 215 171**
- credit lines	26 947 571	195 061	55 538	27 198 170
- credit cards debits	3 348 485	48 823	5 493	3 402 801
- import letters of credit	606 902	7 298	-	614 200
- term deposits with future commencement term	-	-	-	-
- guarantees	**10 515 818**	**149 680**	**32 781**	**10 698 279**
Provision for off-balance sheet liabilities	**(12 730)**	**(6 583)**	**(36 751)**	**(56 064)**
Total	**41 406 046**	**394 279**	**57 061**	**41 857 386**

	31.12.2018			
Contingent liabilities - sanctioned	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Liabilities sanctioned				
- financial	**26 792 453**	**303 656**	**76 549**	**27 172 658**
- credit lines	22 634 188	273 974	70 886	22 979 048
- credit cards debits	3 358 077	17 927	5 663	3 381 667
- import letters of credit	788 817	11 755	-	800 572
- term deposits with future commencement term	11 371	-	-	11 371
- guarantees	**7 432 336**	**141 102**	**27 530**	**7 600 968**
Provision for off-balance sheet liabilities	**(15 733)**	**(10 013)**	**(32 397)**	**(58 143)**
Total	**34 209 056**	**434 745**	**71 682**	**34 715 483**

45. Assets and liabilities pledged as collateral

Assets pledged as collateral	**31.12.2019**	**31.12.2018**
Treasury bonds blocked for REPO transactions	30 737	374 150
Total	**30 737**	**374 150**

The Bank holds financial instruments in the form of assets held for trading of PLN 30,737 k (in 2018 PLN 374,150 k), which represent collateral for liabilities under buy-sell-back transactions. The liabilities were presented in Note 42 Sell-buy-back and buy-sell-back transaction.

The SBB transactions are backed by debt securities deposited in the bank's account with the KDPW (Central Securities Depository of Poland). They total PLN 8,808,152k and are recognised as off-balance sheet items. The securities have been accepted by the bank as security for a loan granted by the bank as part of the BSB transactions and they have been used as security for a deposit accepted by the bank as part of the SBB transactions.

In thousands of PLN

The BSB and SBB transactions recognised as at 31 December 2018 were settled on their maturity dates.

Apart from assets that secure liabilities that are disclosed separately in the statement of financial position when the receiving party may sell or exchange the assets for other security, the bank additionally held the following collateral for liabilities that did not meet the criterion:

	31.12.2019	31.12.2018
Treasury bonds blocked with BFG	642 530	618 586
Treasury bonds blocked for loans from banks	1 343 702	1 487 201
Deposits in financial institutions as collateralised valuation of transactions	1 442 926	1 239 687
Total	**3 429 158**	**3 345 474**

Assets securing funds to cover the BGF are debt securities.

In order to calculate the contribution to the deposit protection fund, Santander Bank Polska applied percentage rate of 0.45% (0.50% in 2018) of funds deposited in all accounts with the bank, being the basis for calculating the obligatory reserve. As at 31.12. 2019, assets allocated to that end totalled PLN 642,530 k compared with PLN 618,586 k a year before.

In respect of financing granted in the form of bank loans, collateral is set through debt securities measured at fair value through other comprehensive income blocked in KDPW (Central Securities Depository of Poland) worth PLN 1,343,702 k (as at 31.12.2018 – PLN 1,487,201k).

In 2019, deposits opened with financial institutions to secure the value of transactions totalled PLN 1,442,926 k (in 2018 – PLN 1,239,687 k).

In 2019, bank accepted PLN 152,478 k worth of deposits securing of derivative transactions (vs. PLN 148,118 k in 2018).

Other liabilities accepted as collateral are disclosed in Note 32.

46. Information about leases

Lease related amounts recognized in the income statement	**1.01.2019-31.12.2019**
Amortisation of right of use asset incl.:	(165 475)
- Land and buildings	*(155 410)*
- Transportation means	*(8 652)*
- Other	*(1 413)*
Interest expenses due to lease liabilities	(22 670)
Short-term lease costs	(12 974)
Low-value assets lease costs	(5 829)
Costs of variable lease payments not included in the measurement of the lease liabilities	(1 121)
Non-tax deductible VAT	(41 791)
Total	**(249 860)**

In thousands of PLN

Movements in lease liabilities (including leaseback)	31.12.2019
As at the beginning of the period	-
Lease liabilities classified as finance lease before initial application of IFRS 16	190 953
Impact of the implementation of IFRS 16	688 880
Additions from:	**130 129**
- adding a new contract	107 459
- interest on lease liabilities	22 670
Disposals from:	**(193 597)**
- payment due to lease liabilities	(150 116)
- interest repayment	(22 670)
- FX differences	(3 517)
- other changes (including update of lease term)	(17 294)
As at the end of the period	**816 365**

Lease liabilities - maturity	31.12.2019
less than 1 month	23 298
1 - 3 months	35 204
3 - 6 months	49 541
6 - 12 months	97 734
1 - 2 years	175 333
2 - 5 years	343 792
over 5 years	141 527
Total (without discount)	**866 429**
discount	(50 064)
Total	**816 365**

Movements in leaseback liabilities	31.12.2019
As at the beginning of the period	-
Lease liabilities classified as finance lease before initial application of IFRS 16	34 246
Impact of the implementation of IFRS 16	-
Additions from:	**9 897**
- interest on lease liabilities	424
- other changes (including update of lease term)	9 473
Disposals from:	**(424)**
- interest repayment	(424)
As at the end of the period	**43 719**

In 2018 (before initial application of IFRS 16) lease liabilities classified as finance lease and the total obligations under irrevocable operating lease agreements (including the value of perpetual usufruct of land) was as follows:

Finance leases

Finance leases gross liabilities - maturity	31.12.2018
less than 1 year	26 608
between 1 and 5 years	30 437
over 5 years	133 908
Total	**190 953**

Present value of minimum lease payments - maturity	31.12.2018
less than 1 year	26 391
between 1 and 5 years	29 003
over 5 years	111 419
Total	**166 813**

In thousands of PLN

Reconciliation between the finance lease receivables and the present value of minimum lease payments	31.12.2018
Finance leases gross liabilities	190 953
Unrealised financial costs	(24 140)
Present value of minimum lease payments	**166 813**

Financial leaseback

Finance leaseback gross liabilities - maturity	31.12.2018
less than 1 year	1 954
between 1 and 5 years	1 708
over 5 years	30 584
Total	**34 246**

Present value of minimum lease payments - maturity	31.12.2018
less than 1 year	1 951
between 1 and 5 years	1 632
over 5 years	26 394
Total	**29 977**

Reconciliation between the finance lease receivables and the present value of minimum lease payments	31.12.2018
Finance leaseback gross liabilities	34 246
Unrealised financial costs	(4 269)
Present value of minimum lease payments	**29 977**

Operating leases

Lease payments - maturity	31.12.2018
less than 1 year	173 513
between 1 and 5 years	473 802
over 5 years	143 595
Total	**790 910**

47. Statement of cash flows - additional information

The table below contains information on cash and cash equivalents in the cash flows statement of Santander Bank Polska SA.

Cash and cash equivalents	31.12.2019	31.12.2018 *
Cash and balances with central banks	7 821 831	8 790 829
Receivables from interbank deposits [1)]	5 335 369	4 346 381
Debt securities measured at fair value through other comprehensive income [1)]	3 849 679	5 999 249
Debt securities held for trading [1)]	149 987	-
Cash and cash equivalents acquired in acquisition of demerged part of Deutsche Bank Polska SA and subordinated entities	-	51 488
Total	**17 156 866**	**19 187 947**
The impact of changes in currency exchange rates during the financial year on cash and cash equivalents	(8 692)	39 697

* restated, details in Note 2.4.
[1)] financial assets with initial maturity below three months

Santander Bank Polska SA has restricted cash in the form of a mandatory reserve held on account with the Central Bank.

In thousands of PLN

The table below shows acquisition of demarged part of Deutsche Bank Polska SA:

Acquisition of organized part of Deutsche Bank Polska SA and subordinated entities net of cash acquired	**09.11.2018**
Price paid by cash for the acquisition of demerged part of Deutsche Bank Polska SA and subordinated entities	260 948
- including the acquisition of DB Securities SA	20 000
Cash and balances with central banks	(51 073)
Receivables from interbank deposits [1]	(415)
Total	**209 460**

[1] financial assets with initial maturity below three months

48. 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	**31.12.2019**	**31.12.2018**
Assets	**7 973 186**	**9 462 343**
Loans and advances to banks	281 312	110 434
Financial assets held for trading	9 435	6 855
Loans and advances to customers	7 679 729	9 342 562
Other assets	2 710	2 492
Liabilities	**557 915**	**708 452**
Deposits from banks	3 885	30 595
Financial liabilities held for trading	1 370	4 742
Deposits from customers	349 570	476 177
Lease liabilities	203 023	-
Other liabilities	67	196 938
Income	**223 362**	**251 091**
Interest income	192 935	204 459
Fee and commission income	17 533	21 117
Other operating income	9 650	9 451
Net trading income and revaluation	3 244	16 064
Expenses	**12 504**	**9 261**
Interest expenses	10 692	7 383
Fee and commission expenses	1 362	2 025
Operating expenses incl.:	450	(147)
Bank's staff, operating expenses and management costs	*205*	*(229)*
Other	*245*	*82*
Contingent Liabilities	**6 533 768**	**5 495 274**
Sanctioned:	6 533 768	5 495 274
- financial	*2 545 342*	*3 499 375*
- guarantees	*3 988 426*	*1 995 899*
Derivatives' Nominal Values	**2 467 541**	**2 672 042**
Cross-currency interest rate swap (CIRS) – purchased amounts	274 491	267 162
Cross-currency interest rate swap (CIRS) – sold amounts	270 900	270 900
Single-currency interest rate swap (IRS)	1 845 510	2 132 111
Spot-purchased	38 313	934
Spot-sold	38 327	935

In thousands of PLN

Transactions with associates	31.12.2019	31.12.2018
Liabilities	**96 157**	**105 519**
Deposits from customers	96 157	105 519
Income	**43 425**	**37 882**
Fee and commission income	43 425	37 882
Expenses	**2 160**	**3 239**
Interest expense	1 584	1 512
Fee and commission expense	-	113
Operating expenses incl.:	576	1 614
General and administrative expenses	*576*	*1 614*

In thousands of PLN

Transactions with Santander Group	with the parent company 31.12.2019	with the parent company 31.12.2018	with other entities 31.12.2019	with other entities 31.12.2018
Assets	**1 409 334**	**1 364 172**	**23 855**	**6 416**
Loans and advances to banks, incl:	740 278	955 508	16 794	6 398
Loans and advances	*545 774*	*583 784*	*-*	*-*
Current accounts	*194 504*	*371 724*	*16 794*	*6 398*
Financial assets held for trading	668 115	407 364	2	-
Hedging derivatives	-	1 085	-	-
Other assets	941	215	7 059	18
Liabilities	**1 033 215**	**784 526**	**131 720**	**127 015**
Deposits from banks incl.:	381 234	294 866	26 532	10 721
Current accounts	*381 234*	*294 866*	*26 532*	*10 721*
Hedging derivatives	-	8 634	-	-
Financial liabilities held for trading	628 143	477 638	-	-
Deposits from customers	-	-	69 511	100 130
Lease liabilities	-	-	1 027	-
Other liabilities	23 838	3 388	34 650	16 164
Income	**339 351**	**120 921**	**8 487**	**16 324**
Interest income	6 608	11 036	67	235
Fee and commission income	2 304	2 595	423	414
Other operating income	990	5	7 091	94
Net trading income and revaluation	329 449	107 285	906	15 581
Expenses	**55 971**	**34 882**	**89 678**	**43 102**
Interest expense	10 764	10 592	690	459
Fee and commission expense	9 764	3 412	12	5
Operating expenses incl.:	35 443	20 878	88 976	42 638
Staff, Operating expenses and management costs	*35 443*	*20 877*	*88 976*	*42 636*
Other operating expenses	*-*	*1*	*-*	*2*
Contingent liabilities	**-**	**-**	**3 063**	**-**
Sanctioned:	-	-	3 063	-
guarantees	*-*	*-*	*3 063*	*-*
Derivatives' nominal values	**119 147 051**	**84 303 789**	**12 035**	**-**
Cross-currency interest rate swap (CIRS) – purchased	4 925 732	4 116 460	-	-
Cross-currency interest rate swap (CIRS) – sold	4 808 659	4 012 672	-	-
Single-currency interest rate swap (IRS)	49 842 362	38 879 678	-	-
Forward rate agreement (FRA)	7 750 000	4 494 400	-	-
Options interest rate	8 048 758	6 543 672	-	-
FX swap – purchased amounts	13 407 740	7 211 538	-	-
FX swap – sold amounts	13 372 060	7 198 628	-	-
FX options -purchased CALL	3 747 781	2 535 591	-	-
FX options -purchased PUT	3 711 690	2 540 293	-	-
FX options -sold CALL	4 014 426	3 086 738	-	-
FX options -sold PUT	4 251 352	3 262 996	-	-
Spot-purchased	359 458	79 412	-	-
Spot-sold	359 447	79 374	-	-
Forward- purchased	234 303	100	12 035	-
Forward- sold	235 000	100	-	-
Capital derivatives contract - purchased	78 283	262 137	-	-

In thousands of PLN

Transactions with Members of Management and Supervisory Boards

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

Loans and advances granted to the key management personnel

As at 31.12.2019 and 31.12.2018 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		Key Management Personnel	
	2019	2018	2019	2018
Fixed renumeration	12 096	12 573	26 154	24 951
Additional benefits (e.g among others, life insurance cover without pension option, medical cover, travel expenses and school fees)	950	1 066	499	544
The awards paid in 2019 and 2018 *	9 446	9 940	15 111	13 859
Equivalent paid for unused annual leave	310	146	-	29
Additional compensation for termination of the contract and the non-competition clause	-	1 105	-	107
Loans and advances made by the Bank to the Members of the Management Board/Key Management and to their relatives	9 316	10 103	26 474	25 181
Deposits from The Management Board/Key management and their relatives	16 516	13 714	29 490	26 169
Provisions for retirement benefits and provision for unused holidays	841	1 184	1 964	1 868
The number of conditional rights to shares	25 160	27 220	35 223	38 732

* included part of the award for 2018, 2017, 2016 and 2015 which was conditional and deferred in time

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 phantom stock. 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 (13.3% per annum). 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 phantom stock.

In 2019, the total remuneration paid to the Supervisory Board Members of Santander Bank Polska totalled PLN 1,648 k (PLN 1,432 k in 2018). Mr John Power received remuneration for the supervision over acquisition of a carve-out business of Deutsche Bank Poland by Santander Bank Polska in the amount of PLN 1,721k (PLN 853 k in 2018). Mr John Power received remuneration of PLN 44 k from subsidiaries for his membership in their Supervisory Boards (PLN 37 k in 2018).

49. Acquisitions and disposals of investments in subsidiaries and associates

The sale of an organised part of the bank's enterprise

On 17 September 2019, Santander Bank Polska S.A. signed, among other things, an agreement creating a commitment to sell an organised part of the enterprise, namely the Investment Services Centre (OPE–ISC). The agreement contained the following conditions precedent: 1) to obtain consent of the Extraordinary General Meeting of Santander Bank Polska S.A. for the sale of the organised part of the Bank's enterprise; 2) to obtain consent of the Supervisory Board of Santander TFI S.A. for executing the transaction; 3) to obtain consent of the Buyer's Supervisory Board for executing the transaction; 4) to sign agreements with suppliers of OPE–ISC; 5) a) the Buyer and the parties to the acquired agreements of OPE–ISC to sign agreements on the assignment of rights and obligations arising from the acquired agreements of OPE–ISC to the Buyer; or b) the Buyer to sign new agreements with OPE–ISC suppliers of the same scope as existing agreements; 6) the Buyer and the Bank to sign sub-licence agreements for OPE–ISC.

In addition, on 17 September 2019 Santander Bank Polska S.A. and Santander TFI S.A. signed a number of agreements with the Buyer of OPE–ISC to define the terms and conditions of the cooperation following the sale of OPE (including a new transfer agent agreement and a new service agreement).

Pursuant to Article 393(3) of the Commercial Companies Code and § 24(1) of the Bank's Statutes, the Extraordinary General Meeting of Shareholders of Santander Bank Polska held on 23 September 2019 approved the sale of an organised part of the bank's enterprise, namely the Investment Services Centre, which is a separate organisational unit representing an organisationally, financially and functionally independent set of tangible and intangible assets. The Centre provides professional transfer agent services for Santander Towarzystwo Funduszy Inwestycyjnych and investment funds managed by that company.

On 27 September 2019, after the conditions precedent had been met, Santander Bank Polska S.A. signed an agreement on the transfer of OPE–ISC. This way, the sale of OPE was finalised. On the closure date, the Buyer paid to the Bank the agreed OPE–ISC sale price increased by the estimated net debt of OPE–ISC.

The transaction value will be adjusted for the actual net debt of OPE–ISC, in accordance with the review procedure provided for in the sale commitment agreement.

The actual net debt and the transaction amount were finally reviewed in December 2019.

Profit on the preliminary settlement of the sale of an organized part of enterprise is PLN 59 079 k.

Division of Santander Securities S.A.

On 26 July 2019 the management board of Santander Bank Polska SA submitted a second announcement to the shareholders regarding the proposed division of Santander Securities through a transfer of a part of the assets and liabilities of the Company Being Divided to the Bank and to Santander Finanse. On 23 September 2019 Extraordinary General Meeting of Santander Bank Polska SA Shareholders adopted a resolution regarding the division of Santander Securities SA.

On 8 November 2019, the Management Board of Santander Bank Polska S.A. completed the division of Santander Securities S.A. through:

1. a transfer to the Bank of a part of the assets and liabilities and the rights and obligations of Santander Securities S.A. in the form of an organised part of the enterprise of Santander Securities S.A connected with the provision of brokerage services; and
2. a transfer to Santander Finanse sp. z o.o., with its registered office in Poznań, of a part of the assets and liabilities and the rights and obligations of Santander Securities S.A. in the form of an organised part of the enterprise of Santander Securities S.A. connected with the provision of training services.

On 8 November 2019, Santander Securities S.A. was struck off the National Court Register.

Acquisition of an organized part of the enterprise

On 09.11.2018, the transaction of acquisition of a carve-out of Deutsche Bank SA took place and taking control over a related entity Deutsche Bank Securities by Santander Bank Polska SA.

Details are described in Note 50.

In thousands of PLN

Registration of Santander Leasing Poland Securitisation 01

On 30.08.2018, a subsidiary of Santander Leasing Poland Securitisation 01 Designated Company seated in Dublin was registered under Irish law. This is a special-purpose vehicle formed for the purpose of securitisation of the leasing and loans receivables. As the control criteria set out in IFRS 10.4 are met, the company is considered as an entity controlled by Santander Leasing SA.

Liquidation of Giełdokracja sp. z o.o.

On 05.03.2018 Giełdokracja sp. z o.o. was liquidated. Final settlement of the company's assets and liabilities was made, the loss on the liquidation of the company is PLN 65 k.

50. Acquisition of an organized part of the enterprise

The below information is an update on the disclosures contained in the Financial Statements of Santander Bank Polska for 2018. The update is related to the final settlement of the acquisition of an organised part of the enterprise of Deutsche Bank Polska S.A. and DB Securities S.A.

Final purchase price

In accordance with the terms and conditions of the agreement signed on 14 December 2017 and taking into account the final post-transaction settlement, the parties set the acquisition price to PLN 1,235,055,290.20, which includes:

1. PLN 1,206,293,353.00 in respect of purchase of the demerged part of Deutsche Bank Polska S.A.;
2. PLN 28,761,937.20 in respect of purchase of DB Securities S.A.

The price for purchase of the demerged part of Deutsche Bank Polska S.A. was calculated based on the initial level of risk weighted assets multiplied by 13.875% and discounted by the agreed multiplier of 0.60x.

The fair value of the purchase price consisted of two parts: cash paid of PLN 260,948,269, which accounted for 20% of the total agreed price, and the remainder paid in the form of 2,754,824 demerger shares of the acquiring entity. The number of the shares issued as part of the consideration was based on their value, being an arithmetical average of daily prices weighted by trade volume of the acquiring bank's shares which were traded on the Warsaw Stock Exchange during the period between 14 November 2017 and 13 December 2017, and totaled PLN 374.56. The fair value of the consideration paid in the form of shares was based on the fair value of Santander Bank Polska S.A. stock quoted on the Warsaw Stock Exchange on 9 November 2018, which amounted to PLN 353.60.

The purchase price of DB Securities S.A. in the amount of PLN 28,761,937.20 was determined by the parties based on financial data of DB Securities S.A. verified after the acquisition, and the agreed discount of net assets.

Details of the payment:

	Fair value of purchase consideration as disclosed as of 31.12.2018	Change	Fair value of purchase consideration as disclosed
Cash paid	257 960	2 988	260 948
Oridinary shares issued	1 031 839	(57 732)	974 107
Total purchase consideration	**1 289 799**	**(54 744)**	**1 235 055**

Analysis of the acquired assets and liabilities on the merger date

As at the date of publishing the report, Santander Bank Polska Group made the final valuation of the assets and liabilities related to the acquisition of the organised part of Deutsche Bank Polska S.A. and DB Securities S.A. The valuation included verification of balance sheet items (such as loans and advances to customers, fixed assets and deposits from customers and banks) and contingent liabilities. In addition, as part of the acquisition, the bank identified assets which meet the conditions to be recognised as intangible assets. They are the result of the valuation of the relationships with deposit customers of Deutsche Bank Polska S.A. (PLN 142.2m) and relationships with customers using investment and insurance products (PLN 50.4m).

Details of the approach used to calculate above balances are described in the section "Significant judgements and valuation assumptions".

In thousands of PLN

The intangible assets are amortised to profit or loss using the non-straight line method. The assets' useful life was determined in relation to the life of the underlying products.

The tables below present the fair value of the acquired assets and liabilities.

	Organized part of the DB as disclosed as of 31.12.2018	change	Organized part of the DB after changes
ASSETS			
Cash and balances with central banks	51 073	-	51 073
Loans and advances to banks	405	-	405
Financial assets held for trading	24 049	-	24 049
Loans and advances to customers measured at amortised cost	18 781 513	-	18 781 513
- Mortgage loans	8 442 540	-	8 442 540
- Consumer loans	3 092 067	-	3 092 067
- Business loans	7 246 906	-	7 246 906
Investments in subsidiaries and associates	20 000		28 763
Investment securities incl.:	83 090	-	83 090
- debt securities measured at fair value through other comprehensive income	63 077	-	63 077
- debt securities measured at fair value through profit and loss	20 013	-	20 013
- equity securities measured at fair value through other comprehensive income	-	-	-
Intangible assets	195 977	-	195 977
Property, plant and equipment	19 043	-	19 043
Net deferred tax assets	52 972	-	52 972
Other assets	37 017	-	37 017
Total assets	19 265 139	8 763	19 273 902
LIABILITIES		-	
Deposits from banks	4 430 226	(12 766)	4 417 460
Financial liabilities held for trading	12 122	-	12 122
Deposits from customers	13 041 354	-	13 041 354
Provisions for off balance sheet credit risk	7 945	-	7 945
Other provisions	5 230	-	5 230
Other liabilities	113 698	35 949	149 647
Total liabilities	17 610 575	23 183	17 633 758
Net assets acquired	**1 654 564**	**(14 420)**	**1 640 144**

Significant judgements and valuation assumptions

1. Recognised intangible assets

Core Deposit Intangible (CDI)

CDI is defined as a present value of the difference between the current accounts' cost of financing and the alternative cost of financing that the bank would have had to bear if it did not own such portfolio of accounts. The fair value of the CDI was estimated with income approach. The cash flows reflecting the cost savings were calculated based on the difference between the forecasted costs of the acquired accounts and the costs of alternative market funds during the average life period of acquired accounts. The cost of alternative funds was estimated on the basis of interest rates market benchmarks for PLN and EUR funding. Computed cash flows for subsequent years were discounted with the appropriate discount rate as of the acquisition date.

In thousands of PLN

Customer relationships intangible – insurance and investments products

The value of a customer relationship is justified by the fact that such a relationship provides the bank with numerous benefits such as potentially reduced selling and marketing expenses, enhanced logistic capabilities between the bank and the customer, and a working rapport between the bank and the customer. The fair value of the intangible was estimated with income approach. The value was determined on the basis of discounted future cash flows resulting from the surplus revenue generated by the bank holding the given intangible asset. The contributory amount of general expenses (including amortisation) and other charges is deducted from such defined cash flows for each year of expected relationship. The received cash flows for each year are then discounted at the cost of equity increased by an appropriate premium to constitute the fair the value of intangible asset.

2. Acquired loans and advances to customers

Fair value measurement as of the acquisition date was based on data of the acquired portfolio provided to Santander Bank Polska S.A. in the process of migration. Valuation of loans and advances to customers was conducted taking into account the risk characteristics of the acquired portfolios.

Fair value adjustment to performing loans

The fair value adjustment on performing loans was also calculated using the Discounted Cash Flow (DCF) method. The majority of adjustments resulted mainly from the acquired mortgage and SME loans portfolio, where contractual interest rate margins are lower than interest rates currently observed on the market. The newly acquired performing loans have been classified as Stage 1 portfolio.

Fair value adjustment to non-performing loans

The fair value of non-performing loans subject to collective and individual provisions is measured using the Discounted Cash Flow (DCF) method. For non-performing exposures assessed individually Santander Bank Polska S.A. estimates expected future cash flows on a case-by-case basis. In the case of collectively assessed non-performing exposures, the future value of recoveries is based on recovery rate curves. Expected cash flows for non-performing exposures have been discounted using appropriate discount rates. The acquired non-performing loans have been classified as POCI portfolio.

As at transaction date, contractual cash flows in respect of the acquired loans were estimated at PLN 19,549,631k and the non-discounted value of non-recoverable cash flows was PLN 602,584k.

3. Significant acquired liabilities

Unfavourable rental agreements

The bank acquired rental agreements with conditions worse from the market rates as of the acquisition date, therefore additional liability resulting from such onerous contracts was recognised. Estimation of the fair value of agreements for properties (branches) rented by the demerged bank has been conducted with an income approach based on differences between market rent fees per square meter for particular locations and actual rent fees from agreements signed by the demerged bank. Differences were then discounted by risk free rate as at the acquisition date during the remaining rental contract period.

Other liabilities

Apart from the adjustments above, the bank recognised a number of minor provisions or cost accruals connected with expected litigations, debt enforcement proceedings or differences in accounting estimates related to human resources provisions and accruals. The value of liabilities was estimated on the basis of future expected outflow of funds. As the recognised liabilities are short-term in nature, no discount of cash flows was applied.

Gain from the acquisition

As at the date of release of the report, Santander Bank Polska S.A. performed the final settlement of the acquisition of an organised part of the enterprise of Deutsche Bank Polska S.A. The resulting profit, presented in the table below, is recognised as "Gain from the acquisition" in the restated income statement.

	Preliminary gain from acquisition	change	Gain from acquisition
Fair value of consideration paid	1 289 799	(54 744)	1 235 055
less: fair value of identifiable net assets	(1 654 564)	14 420	(1 640 144)
Total	**(364 765)**	**(40 324)**	**(405 089)**

In thousands of PLN

As required by IFRS 3, prior to profit recognition, the bank reassessed whether the acquired assets and assumed liabilities were identified correctly.

The analysis concluded that all assets and liabilities identified at the earlier stage were recognised properly and completely. Next, the bank reassessed procedures applied to measurement of identifiable acquired assets and liabilities and the consideration paid. The bank reviewed significant parameters in fair value models, in particular reference margins applied to the acquired loans and discount rates used in the models. In the opinion of the Management Board, the measurements appropriately reflect all available information as of the acquisition date, which justifies the recognition of the resulting gain from acquisition.

According to the preliminary settlement of the transaction, Santander Bank Polska S.A. recognised a gain of PLN 364,765k on acquisition of an enterprise and disclosed it in the financial statements for 2018.

In connection with the final settlement of the acquisition of the organised part of the enterprise of Deutsche Bank Polska S.A. and DB Securities S.A., the income statement for 2018 was restated.

The difference of PLN 40,324k between the preliminary and final settlement was recognised in the restated income statement for 2018 as an adjustment to the gain from the acquisition. More detailed information is presented in Note 2.4 Comparability with the results presented in prior periods.

	1.01.2018-31.12.2018	Change	1.01.2018-31.12.2018 restated
Interest income and similar to interest	**5 174 209**	**-**	**5 174 209**
Interest income on financial assets measured at amortised cost	4 401 909	-	4 401 909
Interest income on financial assets measured at fair value through other comprehensive income	683 986	-	683 986
Income similar to interest - financial assets measured at fair value through profit or loss	88 314	-	88 314
Interest expenses	(1 111 153)	-	(1 111 153)
Net interest income	**4 063 056**	**-**	**4 063 056**
Fee and commission income	1 900 245	-	1 900 245
Fee and commission expenses	(283 342)	-	(283 342)
Net fee and commission income	**1 616 903**	**-**	**1 616 903**
Dividend income	492 607	-	492 607
Net gains/(losses) on subordinated entities	(65)	-	(65)
Net trading income and revaluation	153 564	-	153 564
Gains (losses) from other financial securities	40 522	-	40 522
Other operating income	154 335	-	154 335
Impairment losses on loans and advances	364 765	40 324	405 089
Operating expenses incl.:	(777 511)	-	(777 511)
-Staff, Operating expenses and management costs	(3 023 043)	-	(3 023 043)
-Depreciation/amortisation	(2 590 275)	-	(2 590 275)
-Amortisation of right of use asset	(280 350)	-	(280 350)
-Other operating expenses	(152 418)	-	(152 418)
Tax on financial institutions	(427 069)	-	(427 069)
Profit before tax	**2 658 064**	**40 324**	**2 698 388**
Corporate income tax	(490 903)	-	(490 903)
Profit for the period	**2 167 161**	**40 324**	**2 207 485**

Revenue and profit contribution

As a result of the provisions of the agreement for the acquisition of the demerged part of Deutsche Bank Polska S.A.:

- Information about the opening balance as at 1 January 2018 and financial results of the demerged part of the enterprise from 1 January 2018 to the transaction date was not available to the acquirer;
- It was not possible to make significant estimates impacting performance of the demerged business for the period prior to the acquisition;
- Cost estimates in respect of funding for the demerged part of Deutsche Bank Polska S.A. differed materially from the cost potentially adopted by the acquirer;

In thousands of PLN

- Impact of material operational aspects of the demerged part of the enterprise is unknown;
- The time between the transaction date and financial closure of 2018 was too short to reliably estimate the results on the basis of extrapolation.

In view of the above, Santander Bank Polska S.A. was not able to determine and disclose the potential impact of the acquired operations on the Group's pre-acquisition results.

Purchase consideration – impact on cash flow statement

Outflow of cash to acquire assets and liabilities, net of cash acquired	
Cash consideration	(260 948)
less: Balances acquired	51 488
Cash	*51 073*
Current accounts	*415*
Other cash equivalents	*-*
Net outflow of cash, investing activities	**(209 460)**

Acquisition-related costs

Santander Bank Polska S.A. incurred acquisition-directly related costs in amounts of PLN 108 870 k in 2018.

These costs were a result of a process of preparation of internal resources and capabilities to execute data migration of customer records from demerged business.

These costs were included in the administrative expenses in profit or loss accounts and in operating cash flows in the statement of cash flows.

Table below presents a functional break down of the above mentioned costs:

Salaries and bonuses	26 529
Consulting fees	30 061
IT costs	10 330
Administrative expences	23 364
Marketing and communication	12 899
Other costs	5 688
Total	**108 870**

51. Employee benefits

Staff benefits include the following categories:

a) Short-term benefits (remuneration, social security contributions, paid leaves, profit distributions and bonuses and non-cash benefits provided free charge or subsidized). Value of short-term employee benefits are undiscounted,

b) Post-employment benefits (retirement benefits and similar payments, life insurance or medical care provided after the term of employment).

Within these categories, the companies of the Santander Bank Polska Group create the following types of provisions:

Provisions for unused holidays

Liabilities related to unused holidays are stated in the expected amount (based on current salaries) without discounting.

Provisions for employee bonuses

Liabilities related to bonuses are stated in the amount of the probable payment without discounting.

In thousands of PLN

Provisions for retirement allowances

Based on internal regulations in respect to remuneration, the employees of the Bank are entitled to defined benefits other than remuneration:

c) retirement benefits,
d) retirement pension.

The present value of such obligations is measured by an independent actuary using the projected unit credit method.
The amount of the retirement and pension benefits and death-in-service benefits is dependent on length of service and amount of remuneration received by the employee. The expected present value of the benefits is calculated, taking into account the financial discount rate and the probability of an individual get to the retirement age or die while working respectively. The financial discount rate is determined by reference to up-to-date market yields of government bonds. The probability of an individual get to the retirement age or die while working is determined using the multiple decrement model, taking into consideration the following risks: possibility of dismissal from service, risk of total disability to work and risk of death.

These defined benefit plans expose the Group to actuarial risk, such as:

- interest rate risk – the decrease in market yields on government bonds would increase the defined benefit plans obligations,
- remuneration risk – the increase in remuneration of the Bank's employees would increase the defined benefit plans obligations,
- mobility risk – changes in the staff rotation ratio,
- longevity risk – the increase in life expectancy of the Bank's employees would increase the defined benefit plans obligations.

The principal actuarial assumptions adopted by an independent actuary as at 31 December 2019 are as follows:

- the discount rate for future benefits at the level of 2.05% (3.15% as at 31 December 2018),
- the future salary growth rate at the level of 2.00% (2,0% as at 31 December 2018),
- the probable number of leaving employees calculated on the basis of historical data concerning personnel rotation in the Group,
- the mortality adopted in accordance with Life Expectancy Tables for men and women, published the Central Statistical Office, adequately adjusted on the basis of historical data of the Bank.

Reconciliation of the present value of defined benefit plans obligations

The following table presents a reconciliation from the opening balances to closing balances for the present value of defined benefit plans obligations.

	31.12.2019	31.12.2018
As at the beginning of the period	**34 351**	**67 225**
Increases due to transfer of an organized part of Santander Securities SA	123	-
Provision acquired in a business combination	-	4 670
Current service cost	1 871	2 164
Prior service cost	(1 347)	(28 357)
Interest expense	1 037	1 687
Actuarial (gains) and losses	1 278	(13 038)
Balance at the end of the period	**37 313**	**34 351**

Sensivity analysis

The following table presents how the impact on the defined benefits obligations would have increased (decreased) as a result of a change in the respective actuarial assumptions by one percentage point as at 31 December 2019.

Defined benefit plan obligations	1 percent increase	1 percent decrease
Discount rate	-14,37%	6,19%
Future salary growth rate	6,14%	-14,43%

In thousands of PLN

The following table presents how the impact on the defined benefits obligations would have increased (decreased) as a result of a change in the respective actuarial assumptions by one percentage point as at 31 December 2018.

Defined benefit plan obligations	1 percent increase	1 percent decrease
Discount rate	-13,13%	9,06%
Future salary growth rate	3,57%	-13,26%

Other staff-related provisions

These are provisions for the National Fund of Rehabilitation of the Disabled, redundancies, overtime and staff training. These liabilities are stated at the amounts of expected payment without discounting.

The balances of the respective provisions are shown in the table below:

Provisions	31.12.2019	31.12.2018
Provisions for unused holidays	38 559	45 948
Provisions for employee bonuses	204 265	240 023
Provisions for retirement allowances	37 313	34 351
Other staff-related provisions	12 493	12 928
Total	**292 630**	**333 250**

Detailed movements on employee provisions have been presented in Note 37.

52. Share based incentive scheme

On 17.05.2017, Annual General Meeting of the Shareholders of Santander Bank Polska S.A. approved three-year Incentive Scheme no. VI which participants are employees of the Santander Bank Polska Group (including Members of the Management Board), however not more than 250 individuals. On 26.06.2017 the Supervisory Board approved the list of entitled individuals ("grant date").

Vesting condition will be considered from two perspectives, separately for every year of operation of the scheme and on a cumulative basis after 3 years.

In every single year annual award not exceeding one third on total award will be considered. Shares of the eligible in the sixth edition will vest on a linear pattern between 25% and 100% contingent on profit after tax (PAT) growth and on RORWA ratio growth. The range of the scale requires PAT growth between "lower level" set to 80% of assumed level of realization in 2017 and "upper level" of nominal growth at 17,8% in first year and between "lower level" set to 80% of assumed level of realization in 2018 and 2019 and "upper level" of nominal growth at 13,4% in second and third year of duration of scheme. The range of the scale requires RORWA ratio growth between "lower level" set to 80% of assumed level of realization in 2017 and "upper level" of nominal growth at 2,24% in first year, between "lower level" set to 80% of assumed level of realization in 2018 and "upper level" of nominal growth at 2,37% in second year and between "lower level" set to 80% of assumed level of realization in 2019 and "upper level" of nominal growth at 2,5% in third year of duration of scheme.

Additionally the qualitative factors will be taken into account – participants are entitled to annual award depending on the level of an external customer satisfaction and engagement survey results (an internal customer). The level of customer satisfaction will be met when in the peer group Bank will be on second place in first and second year and on the first place in third year of duration of the scheme. The engagement survey results will not be lower than 50% in first year, 60% in second year and 70% in third year of duration of scheme.

Additionally, after 3 years cumulative award will be considered. Entitled will acquire the right to purchase will vest on a linear pattern between 25% and 100% contingent on PAT compound annual growth rate in 3 years' time between 11,7% and 15% and on average value of RORWA ratio in 3 years' time between 1,9% and 2,38%. If number of shares resulting from cumulative assessment will be higher than sum of annual awards vested over a 3-year period, additional shares will be allocated to individuals up to the amount resulting from cumulative assessment.

The Black Scholes model has been used to value awards granted at the grant date. The expected volatility of the values of shares is based on an analysis of historical volatility of share prices based on 160 sessions preceding the grant date. The following table details the assumptions used, and the resulting fair value from the adopted valuation model.

In thousands of PLN

Share based payments granted in 2017:

	2017
Number of share based payments	131 262
Share price	350.00 PLN
Excercise price in PLN	10
Vesting period	3 years
Expected volatility of share prices	30.07%
Award life	3 years
Discounted risk free rate	2.12%
Fair value per award	323.36 PLN
Dividend yield	1.71%

The following table summarizes the share based payments changes:

	12 months of 2019	12 months of 2018
	Number of share based payments	Number of share based payments
Outstanding at 1 January	**120 686**	**129 799**
Granted	-	-
Exercised	-	-
Forfeited	(5 467)	(9 113)
Expired	-	-
Outstanding at 31 December	**115 219**	**120 686**
Exercisable at 31 December	**-**	**-**

For the share based payments outstanding as at 31 December 2019 and as at 31 December 2018 the average remaining contractual life is approximately 1.5 year and 1.5 years respectively.

The expenses of sixth edition of equity settled share-based payments scheme recognized in profit and loss account for 12 months of 2019 and 2018 amounts to PLN 11,053 k and PLN 12,025 k respectively.

The table below presents information about the number of conditional rights to shares vested in Santander Bank Polska SA Management Board members under the Long-term 6th Incentive Scheme.

No. of awards	2019	2018
Outstanding at 1 January	**27 220**	**34 670**
Granted	820	-
Expired	-	-
Exercised	-	-
Resignation from the function	(2 880)	(7 450)
As at 31 December	**25 160**	**27 220**

The table below presents information about the number of conditional rights to shares vested in Santander Bank Polska Key Management.

No. of awards	2019	2018
Outstanding at 1 January	**38 732**	**37 274**
Granted	-	-
Expired	-	-
Exercised	-	-
Change due to inclusion in key management personnel	1 688	9 366
Change due to exclusion from key management personnel	(5 197)	(7 908)
Resignation from the function	-	-
As at 31 December	**35 223**	**38 732**

53. Dividend per share

As of the date of publication of this report, the Management Board of Santander Bank Polska has not finalised its analysis in respect of recommendation on dividend payout for 2019.

Regarding dividend from the Bank's net profit for 2018 and the Bank's undivided net profit for 2017 and 2016. Dividend pay – out date for 14.06.2019.

The Management Board of Santander Bank Polska S.A. informed that, acting in full compliance with the individual recommendation issued by the Polish Financial Supervision Authority on 25th February 2019 to increase the Bank's own funds, it had adopted a resolution with recommendation to allocate 25% of net profit for 2018 to dividend. The recommendation was approved by the Supervisory Board. At the same time, taking into account a good capital position of the Bank and Group, the Bank's Management Board decided to propose to allocate to the dividend for shareholders:

- PLN 514,026,364.32 from the Bank's undivided net profit for 2016,
- PLN 957,588,300.90 from the Bank's undivided net profit for 2017,
- PLN 541,068,016.50 from the Bank's net profit for 2018

which means that the proposed dividend:

- per one: A, B, C, D, E, F, G, H, I, J, K, L and N series share is PLN 19.72,
- per one: M series share is PLN 14.68.

The Management Board of the Bank proposed to set the dividend registration date for 30th May 2019 and the dividend pay-out date for 14th June 2019.

The Annual General Meeting, held on 16th May 2019, made a decision on dividend payment.

Regarding dividend 2016. Dividend pay – out date for 14 .06.2018.

On 17.04.2018 The Management Board of Santander Bank Polska SA informed that, acting in full compliance with the individual recommendation issued by the Polish Financial Supervision Authority on 16.03.2018, it had adopted a resolution recommending not to allocate to dividend any part of the net profit for 2017. The recommendation was approved by the Supervisory Board. At the same time, taking into account a good capital position of the Bank and the Group, the Bank's Management Board tabled the proposal (approved by the Supervisory Board) to allocate PLN 307,627 k from the Bank's undivided net profit for 2016 to dividend for shareholders, which translated into a dividend per share of PLN 3.10.

54. Operating segments reporting

Operating segments reporting were presented in "Consolidated Financial Statement of Santander Bank Polska Group for 2019" released on 20.02.2020.

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

There were no major events subsequent to the end of the period.

Signatures of the persons representing the entity

Date	Name	Function	Signature
19.02.2020	Michał Gajewski	President	
19.02.2020	Andrzej Burliga	Vice-President	
19.02.2020	Michael McCarthy	Vice-President	
19.02.2020	Juan de Porras Aguirre	Vice-President	
19.02.2020	Arkadiusz Przybył	Vice-President	
19.02.2020	Patryk Nowakowski	Member	
19.02.2020	Carlos Polaino Izquierdo	Member	
19.02.2020	Maciej Reluga	Member	
19.02.2020	Dorota Strojkowska	Member	

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

Date	Name	Function	Signature
19.02.2020	Wojciech Skalski	Financial Accounting Area Director	