

Management Board Report on Santander Bank Polska Group Performance in 2019

(including Management Board Report on
Santander Bank Polska S.A.)



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I. Overview of Activities of Santander Bank Polska S.A. and its Group in 2019

1. Introduction

Scope

The Management Board Report on Santander Bank Polska Group Performance in 2019 contains the information required in both consolidated and unconsolidated Management Board report on Santander Bank Polska S.A. performance.

Comparability of periods

The consolidated financial results of Santander Bank Polska S.A. for the period ended 31 December 2019 are not fully comparable with the previous year due to the extended scope of operations following the acquisition of a demerged part of Deutsche Bank Polska S.A. in November 2018, costs associated with restructuring programmes, higher systemic regulatory fees, non-recurring events and financial impact of revised premises or approach to certain transactions as described in Note 2 "Basis of preparation of consolidated financial statements" of the Consolidated Financial Statements of Santander Bank Polska Group for 2019. In addition, the comparative analysis of isolated line items of financial statements is hindered by the first-time application of IFRS 16 Leases.

2. Key Achievements

Strong growth in business volumes

Growth of gross loans and advances to retail customers (+8.3% YoY to PLN 80.9bn), including cash loans (+18.1% YoY) and home loans (+4.1% YoY)

Lease receivables up 13.0% YoY

Rapid growth of current account balances of retail customers and business and public sector customers (+11.2% YoY and +19.7% YoY, respectively)

Growth of net assets of investment funds managed by Santander TFI S.A. (+12.4% YoY to PLN 16.9bn)

Strong sales of insurance related to banking products, including a 43.3% increase in the written premium

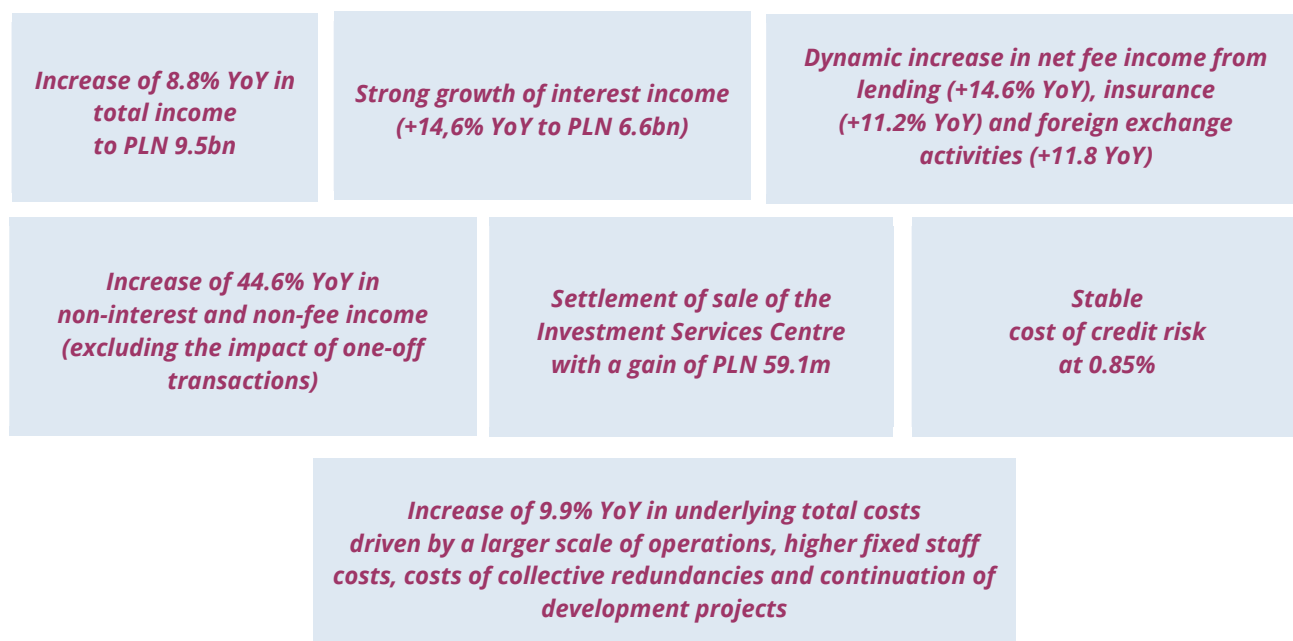
NPL ratio at 5.2%

**Sound liquidity position
Net customer loans to deposits ratio at 91.6%**

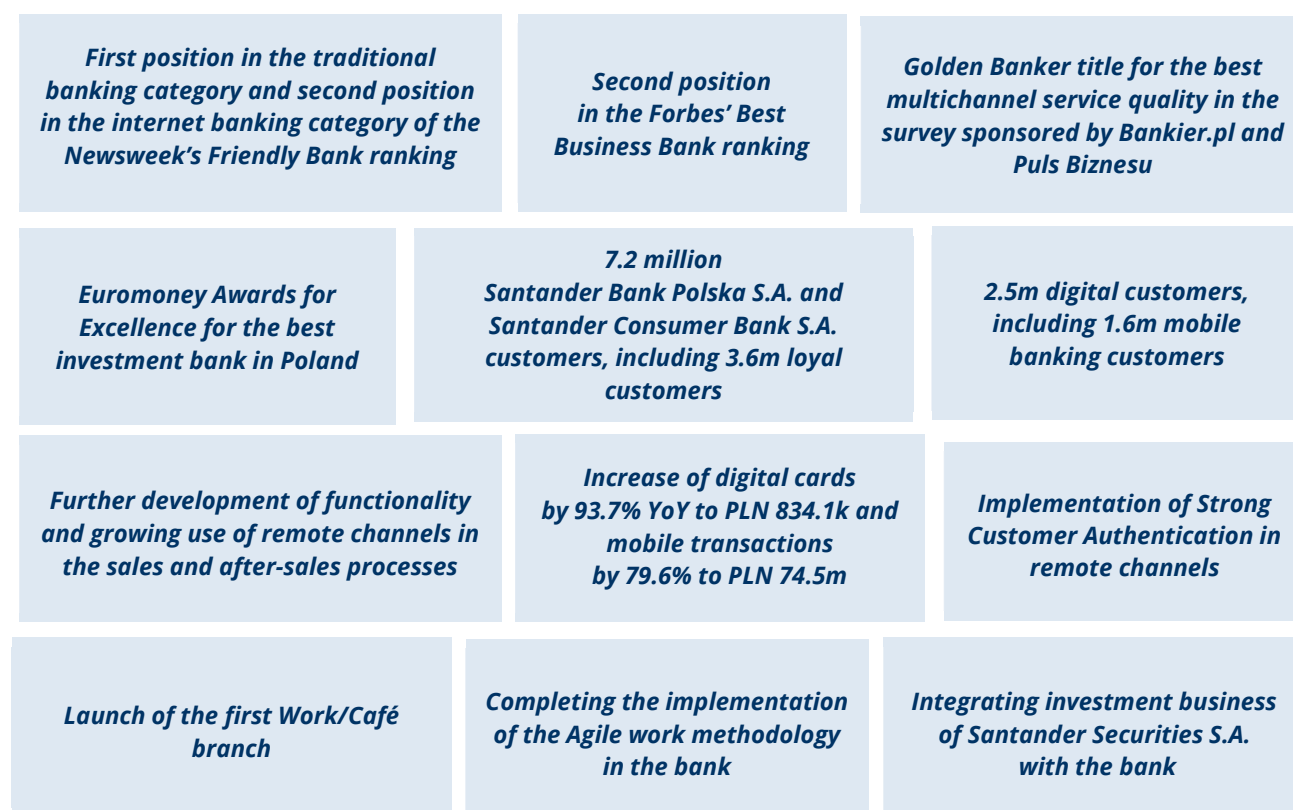
Group's solid capital position confirmed by capital ratios as at 31 December 2019, including total capital ratio of 17.07%

High diversification of funding sources

Sound results from core and non-core activities



Organisational development and innovation



3. Key financial and business data of Santander Bank Polska Group for 2019

Key financial data of Santander Bank Polska Group for 5 previous years ¹⁾

Selected Income Statement data		2019	2018	2017	2016	2015	YoY Change (2019 / 2018)
Total income	PLN m	9 484,5	8 715,5	7 763,7	7 606,2	7 540,2	8,8%
Total costs	PLN m	(4 488,7)	(3 769,0)	(3 372,4)	(3 367,7)	(3 578,9)	19,1%
Impairment losses on loans and advances	PLN m	(1 219,4)	(1 085,1)	(690,5)	(784,6)	(810,7)	12,4%
Profit before tax	PLN m	3 244,6	3 424,3	3 321,5	3 121,9	3 178,3	-5,2%
Net profit attributable to Santander Bank Polska S.A.	PLN m	2 138,3	2 363,4	2 199,3	2 166,7	2 327,3	-9,5%
Selected Balance Sheet data		31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015	YoY Change (2019 / 2018)
Total assets	PLN m	209 476,2	206 656,3	157 194,6	150 307,4	139 708,7	1,4%
Total equity	PLN m	26 979,5	26 594,7	23 329,7	21 018,3	20 568,1	1,4%
Net loans and advances to customers	PLN m	143 402,6	137 460,4	107 839,9	103 068,5	94 913,9	4,3%
Deposits from customers	PLN m	156 480,3	149 616,7	111 481,1	112 522,5	101 245,2	4,6%
Selected off-Balance Sheet data		31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015	YoY Change (2019 / 2018)
Net assets under management in investment funds ²⁾	PLN bn	16,9	15,1	16,0	13,4	12,5	1,8
Selected ratios ³⁾		2019	2018	2017	2016	2015	YoY Change (2019 / 2018)
Total costs/Total income ⁴⁾	%	47,3%	43,2%	43,4%	44,3%	48,4%	4,1 p.p.
Total capital ratio	%	17,07%	15,98%	16,69%	15,05%	14,62%	1,1 p.p.
ROE	%	9,7%	11,9%	12,1%	12,8%	15,1%	-2,2 p.p.
Basic earning per share ⁴⁾	PLN	21,0	23,7	22,2	21,8	20,7	-2,7
Book value per share	PLN	264,3	260,5	234,9	211,8	207,3	3,8
NPL ratio ⁵⁾	%	5,2%	4,6%	5,8%	6,6%	7,3%	0,6 p.p.
Credit risk ratio	%	0,85%	0,86%	0,63%	0,75%	0,85%	0 p.p.
Customer net loans/customer deposits	%	91,6%	91,9%	96,7%	91,6%	93,7%	-0,3 p.p.

Key non-financial data of Santander Bank Polska Group for 5 previous years

Selected non-financial data		2019	2018	2017	2016	2015	YoY Change (2019 / 2018)
Number of shares	items	102 088 305	102 088 305	99 333 481	99 234 534	99 234 534	0
Dividend payout ⁶⁾	PLN	19,7	3,1	5,4	13,0	-	16,6
Electronic banking users ⁷⁾	m	4,4	4,0	3,4	3,2	3,2	0,4
Digital (active) customers ⁸⁾	m	2,5	2,3	2,1	2,0	1,9	0,2
Digital (active) mobile banking customers	m	1,6	1,3	1,1	0,9	0,7	0,3
Debit cards	m	4,2	4,0	3,6	3,4	3,3	0,2
Credit cards	m	1,3	1,3	1,3	1,2	1,1	0,0
Customer base	m	7,2	7,0	6,5	6,4	6,4	0,2
Branches	locations	665	764	735	821	890	-99,0
Partner outlets	locations	317	293	262	258	251	24,0
Employment	FTEs	13 642	15 347	14 383	14 772	14 218	-1 705

1) Data for 2016–2019 reflect changes resulting from a different approach to recording certain transactions on debt securities and from the final settlement of the acquisition of an organised part of the enterprise of Deutsche Bank Polska S.A. and DB Securities S.A.

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

3) For definitions of ratios presented in the table above, see Section "Selected Financial Ratios" of Chapter XI "Financial Performance in 2019".

4) The calculations of the C/I and basic EPS ratios for 2015 use the Group's total income, total costs and profit adjusted for non-recurring items (gains on interest and a contribution made under the deposit guarantee scheme).

5) NPL ratio for 2019 and 2018 takes into account the POCI exposures.

6) In 2015, the bank did not pay a dividend in accordance with the KNF recommendation of 1 April 2015 to retain the entire profit earned in 2014.

In 2016, the bank paid a dividend from net profit earned in 2015 and undistributed net profit for 2014.

In 2017, the bank paid a dividend from undistributed net profit for 2014 and 2015.

In 2018, the bank paid a dividend from undistributed net profit for 2016.

In 2019, the bank paid a dividend from net profit earned in 2018 and from undistributed profit for 2016 and 2017. For more information, please see Chapter VII "Investor Relations".

7) Registered users of Santander electronic banking, excluding customers of Santander Consumer Bank S.A. electronic banking.

8) Active users of Santander electronic banking who at least once used the service in the last month of the reporting period. The stated numbers do not include the customers of Santander Consumer Bank S.A.

4. Key External Factors

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

Economic growth	<ul style="list-style-type: none"> Continued solid but slower economic growth compared with 2018. Further economic slowdown in the eurozone, notably in the processing and foreign trade sectors. Negative revision of the global outlook by international institutions.
Labour market	<ul style="list-style-type: none"> Favourable conditions in the labour market with record-low unemployment and accelerating wage growth in support of private consumption. Private consumption growing above 4% YoY with consumer confidence still at high levels. Slightly less severe but continuous shortage of workforce, making it difficult for companies to expand. Fast growing labour costs. Introduction of Employee Capital Plans (PPK) in large companies.
Inflation	<ul style="list-style-type: none"> Increase in CPI inflation and core inflation. Gradual rise in inflation expectations. Increase in house prices coupled with a slight decline in real estate sales.
Monetary policy	<ul style="list-style-type: none"> NBP official rates kept at the lowest level in history.
Fiscal policy	<ul style="list-style-type: none"> Increase in social transfers: reduced PIT, payment of an additional pension benefit, extension of the scope of the 500+ child benefit programme. Discipline in public finances maintained, mainly thanks to the stabilising expenditure rule.
Credit market	<ul style="list-style-type: none"> Solid demand for credit from households and lower demand from companies. Total credit growth in line with the nominal GDP growth.
Financial markets	<ul style="list-style-type: none"> Continued uncertainty about Britain's exit from the European Union. Changes of investors' mood in international financial markets influenced by expectations of policy orientation of the main central banks (Federal Reserve, ECB), incoming macroeconomic data, worries about the geopolitical situation, including concerns about the results of negotiations between the UK and the EU, and the impact of trade wars on the global growth. Stabilisation of the Polish zloty against euro in the range of 4.25-4.35; visible drop in yields of Polish treasury bonds.
Legal environment	<ul style="list-style-type: none"> Increased legal risk resulting from the rulings of the Court of Justice of the European Union regarding mortgage loans indexed to the foreign currency and pro rata reimbursement of fees on consumer loans repaid ahead of schedule.

5. Corporate Events

Major corporate events in the reporting period

January	<ul style="list-style-type: none"> Letter from the KNF dated 18 January 2019 concerning dividend policy assumptions for Santander Bank Polska S.A. for 2019. Agreement with trade unions signed at the end of January 2019 regarding collective redundancies to take place in Santander Bank Polska S.A. from February till December 2019 and cover up to 1,400 employees (for more information see Chapter V "Relations with Employees", Section 1 "Human Resources Management").
February	<ul style="list-style-type: none"> Consent from the KNF dated 22 February 2019 to allocate series N shares of Santander Bank Polska S.A. (issued in relation to the acquisition of a demerged business of Deutsche Bank Polska S.A. and 100% shares in DB Securities S.A.) to Common Equity Tier 1. Recommendation from the KNF dated 25 February 2019 regarding an increase in the bank's own funds by retaining at least 75% of the profit earned between 1 January 2018 and 31 December 2018 in relation to satisfaction of the criteria for allocating maximum 25% of the profit earned in 2018 to dividend.

Major corporate events in the reporting period (continued)

March	<ul style="list-style-type: none"> Resignation of José Manuel Campa on 4 March 2019 from his role as a member of the bank's Supervisory Board (effective as of 4 March 2019) due to his involvement in the process of selecting the Executive Director of the European Banking Authority. Resignation of Feliks Szyszkowiak on 20 March 2019 from the position of the Vice-President of the bank's Management Board (effective as of 30 April 2019) due to taking up a global executive position in Banco Santander Group. Resolution adopted by the bank's Management Board and approved by the Supervisory Board recommending that 25% of the net profit for 2018 (PLN 541.1m) be paid as dividend in accordance with the individual recommendation issued by the KNF on 25 February 2019 regarding an increase in own funds. Recommendation of the bank's Management Board to allocate the following amounts to dividend: PLN 514.0m of the undistributed net profit for 2016 and PLN 957.6m of the undistributed net profit for 2017. The recommendation, which was approved by the bank's Supervisory Board, was justified by the sound capital position of Santander Bank Polska S.A. and its Group. The proposed dividend per series A, B, C, D, E, F, G, H, I, J, K, L and N share was PLN 19.72, while the proposed dividend per series M share was PLN 14.68.
April	<ul style="list-style-type: none"> Decision of the Management Board of 10 April 2019 regarding the issue of series J bearer certificates of deposit with a total nominal value of PLN 550m and an interest rate of 2.02% p.a.
May	<ul style="list-style-type: none"> Annual General Meeting of Santander Bank Polska S.A. (AGM) held on 16 May 2019: the AGM approved the distribution of the bank's profit and pay-out of dividend in accordance with the recommendation issued by the Management Board on 5 March 2019. For more information see Chapter XIII "Statement on Corporate Governance", Section 5 "Governing Bodies".
June	<ul style="list-style-type: none"> Upgrade of Santander Bank Polska S.A.'s ratings by Moody's Investors Service on 3 June 2019. For more information see Chapter VII "Investor Relations", Section 4 "Rating of Santander Bank Polska S.A." Appointment of Patryk Nowakowski as the Management Board member in charge of the Digital Transformation Division on 5 June 2019. First notification (12 June 2019) of the planned division of Santander Securities S.A. involving two entities: Santander Bank Polska S.A. and Santander Finanse Sp. z o.o. Resolution of the Management Board of Krajowy Depozyt Papierów Wartościowych S.A. (Central Securities Depository of Poland) of 26 June 2019 regarding assimilation of 98,947 series M bearer shares with 101,989,358 series A, B, C, D, E, F, G, H, I, J, K, L and N bearer shares as of 1 July 2019.
July	<ul style="list-style-type: none"> First trading day of series M shares of Santander Bank Polska S.A. (1 July 2019). Second notification of the planned division of Santander Securities S.A. (26 July 2019).
August	<ul style="list-style-type: none"> Registration (12 August 2019) of changes adopted by the bank's AGM on 16 May 2019 with the National Court Register. For more information see Chapter XIII "Statement on Corporate Governance", Section 5 "Governing Bodies", Subsection "Method of changing the Statutes". Activation (26 August 2019) of the agreement signed by Santander Bank Polska S.A. and the European Investment Fund on 7 December 2018 regarding securitisation of a cash loan portfolio of PLN 2.2bn.
September	<ul style="list-style-type: none"> Extraordinary General Meeting (EGM) of Santander Bank Polska S.A. held on 23 September 2019: the EGM gave consent for division of Santander Securities S.A. and disposal of an organised part of the bank's enterprise (Investment Services Centre), appointed a new member of the Supervisory Board and amended the bank's Statutes, policies for assessing suitability of the Supervisory Board and Resolution of the Annual General Meeting of Shareholders of 17 May 2017 on remuneration of the Supervisory Board members. Disposal of the Investment Services Centre by Santander Bank Polska S.A. on 27 September 2019. The Centre was the bank's separate organisational unit which provided transfer agent services for Santander Towarzystwo Funduszy Inwestycyjnych S.A. Changes to the composition of the Supervisory Board of Santander Bank Polska S.A. resulting from: <ul style="list-style-type: none"> ✓ death of Witold Jurcewicz, the Supervisory Board member, on 18 September 2019; ✓ appointment of Isabel Guerreiro as the Supervisory Board member under the EGM resolution of 23 September 2019.

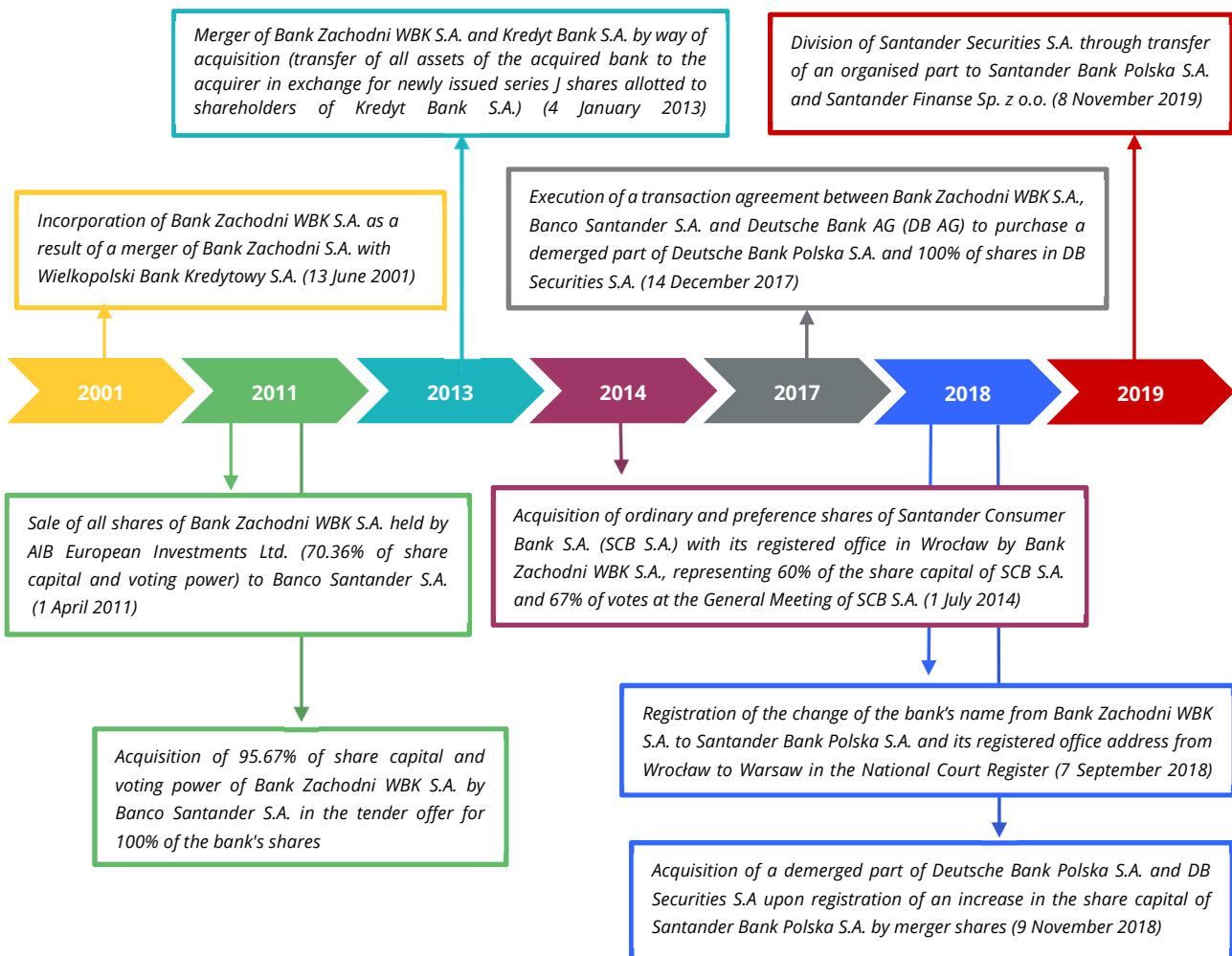
Major corporate events in the reporting period (continued)

<p>October</p>	<ul style="list-style-type: none"> • Consent issued by the KNF on 11 October 2019 to allocate: <ul style="list-style-type: none"> ✓ a part of the net profit of Santander Bank Polska S.A. for H1 2019 in the amount of PLN 589,819,448 to its unconsolidated Common Equity Tier 1 capital; ✓ a part of the net profit of Santander Bank Polska Group for H1 2019 in the amount of PLN 478,950,253 to the consolidated Common Equity Tier 1 capital. • Decision of the KNF dated 14 October 2019 (based on the decision of the Financial Stability Committee of 23 September 2019) regarding an increase in the buffer of other systemically important institution imposed on Santander Bank Polska S.A. from 0.50% to 0.75% of the total risk exposure. • Registration (30 October 2019) of changes to the bank's Statutes adopted by the EGM of 23 September 2019 with the National Court Register. For more information see Chapter XIII "Statement on Corporate Governance", Section 5 "Governing Bodies", Subsection "Method of changing the Statutes". • Santander Bank Polska S.A. ranked first in the traditional banking category and second in the internet banking category of the Newsweek's Friendly Bank ranking.
<p>November</p>	<ul style="list-style-type: none"> • Completion (8 November 2019) of division of Santander Securities S.A. through the transfer of an organised part of the enterprise connected with brokerage services and training activities to Santander Bank Polska S.A. and Santander Finanse Sp. z o.o., respectively. • Expiry of the decision for Santander Bank Polska S.A. to maintain own funds at the level sufficient to cover an additional capital requirement for risk related to foreign currency home mortgages (KNF notification dated 12 November 2019). • KNF requirement of 19 November 2019 for Santander Bank Polska S.A. to maintain own funds at the level sufficient to cover an additional capital requirement for risk attached to foreign currency home mortgages at 0.04 p.p. above the total capital ratio (at the level of Santander Bank Polska Group), calculated in accordance with the general laws. Pursuant to the previous KNF decision, the additional requirement was 0.51 p.p.
<p>December</p>	<ul style="list-style-type: none"> • Letter of 18 December 2019 from the Bank Guarantee Fund regarding the joint decision of the Single Resolution Board, the Bank Guarantee Fund and the Bank of England under which the minimum requirement for own funds and eligible liabilities (MREL) for Santander Bank Polska Group was set at 15.87% of the total liabilities and own funds ("TLOF"), corresponding to 22.146% of total risk exposure (TRE) (an objective to be achieved by 1 January 2023). • Mid-term MREL targets at the end of 2019, 2020 and 2021 in relation to TLOF were set at 10.37%, 12.202% and 14.035%, respectively. • Notification of 20 December 2019 from Nationale-Nederlanden PTE S.A. regarding the settlement of acquisition of shares in Santander Bank Polska S.A. by Nationale-Nederlanden OFE and Nationale-Nederlanden DFE on 12 December 2019. As a result of the transaction, the share of the above funds in the bank's share capital and voting power increased to 5%. • Notification of 30 December 2019 from Nationale-Nederlanden OFE regarding the settlement of acquisition of shares in Santander Bank Polska S.A. on 17 December 2019. As a result of the transaction, the share of funds managed by Nationale-Nederlanden PTE S.A. in the bank's share capital and voting power increased to 5.019%. • Letter from the KNF dated 24 December 2019 concerning dividend policy assumptions for Santander Bank Polska S.A. for 2020, including: <ul style="list-style-type: none"> ✓ Criteria for distribution of up to 50% and 75% of the profit for 2019 (the same as the regulatory assumptions for a dividend policy of commercial banks and other financial entities set out in KNF letter of 3 December 2019); ✓ Criteria for distribution of up to 100% of the profit for 2019 (including an individual add-on of 1.24 p.p. to account for the bank's sensitivity to an adverse macroeconomic scenario).

II. Basic Information about Santander Bank Polska S.A. and its Group

1. History, Ownership Structure and Profile

History and profile of Santander Bank Polska S.A. as a controlling entity



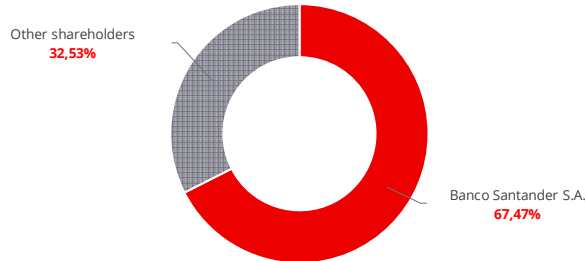
Ownership structure

Share capital

Santander Bank Polska S.A. is a subsidiary of Banco Santander S.A., which held 67.47% share in the registered capital and the total number of votes at the bank's General Meeting as at 31 December 2019. The remaining shares were held by minority shareholders, of which only the funds managed by Nationale-Nederlanden Powszechno Towarzystwo Emerytalne S.A., i.e. Nationale-Nederlanden Otwarty Fundusz Emerytalny (OFE) and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny (DFE) exceeded the 5% threshold (in relation to share

capital and votes at the bank's General Meeting) according to the information held by the bank's Management Board as at the date of approval of these statements.

OWNERSHIP STRUCTURE OF SANTANDER BANK POLSKA SHARE EQUITY
AS AT 31.12.2019 AND 31.12.2018

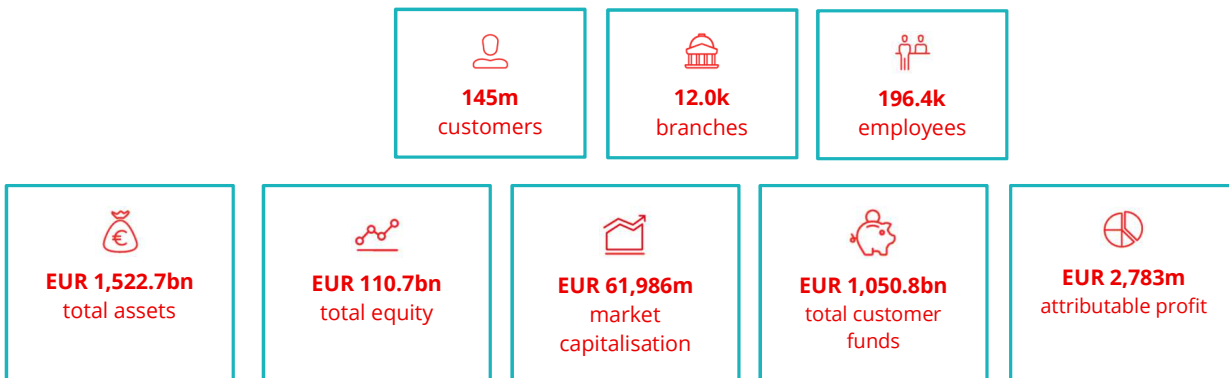


For more information about the share capital, see Chapter VII "Investor Relations" (Section 2 "Share Capital, Ownership Structure and Share Price") and Chapter XIII "Statement on Corporate Governance in 2019" (Section 4 "Issuer's Securities").

Controlling shareholder

- Santander Bank Polska S.A. is a member of Santander Group, with Banco Santander S.A. as a parent entity.
- Banco Santander S.A. is one of the largest commercial banks in the world with a more than 160-year history, having its operational headquarters in Madrid.
- While it specialises in retail banking services, the bank is also very active in the private banking and corporate banking, asset management and insurance markets.
- The business of Banco Santander S.A. is geographically diversified, but it focuses on 10 core markets – both developed and emerging, including Spain, Poland, Portugal, Germany, the UK, Brazil, Argentina, Mexico, Chile and the USA.

SANTANDER GROUP IN NUMBERS ¹⁾



2nd largest bank in the eurozone and 25th largest bank in the world in terms of market capitalisation

(source: Financial Report of Banco Santander Group for January-December 2019)

1) As at 31 December 2019

Business profile of Santander Bank Polska Group

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

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

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

Santander Consumer Bank S.A. and its subsidiaries form a separate business segment with its own customer base, offering and distribution channels. The bank is focused on provision of credit facilities to households in the consumer finance sector and car loan market. It also finances business entities, mainly car dealers and importers. Its offer include consumer loans, car finance through lease and factoring, credit facilities for car dealers, retail and business deposits, and insurance products.

As at 31 December 2019, Santander Bank Polska Group provided services to 7.2 million customers, including 2.2 million customers of Santander Consumer Bank S.A.

Business model of Santander Bank Polska Group

Business model framework

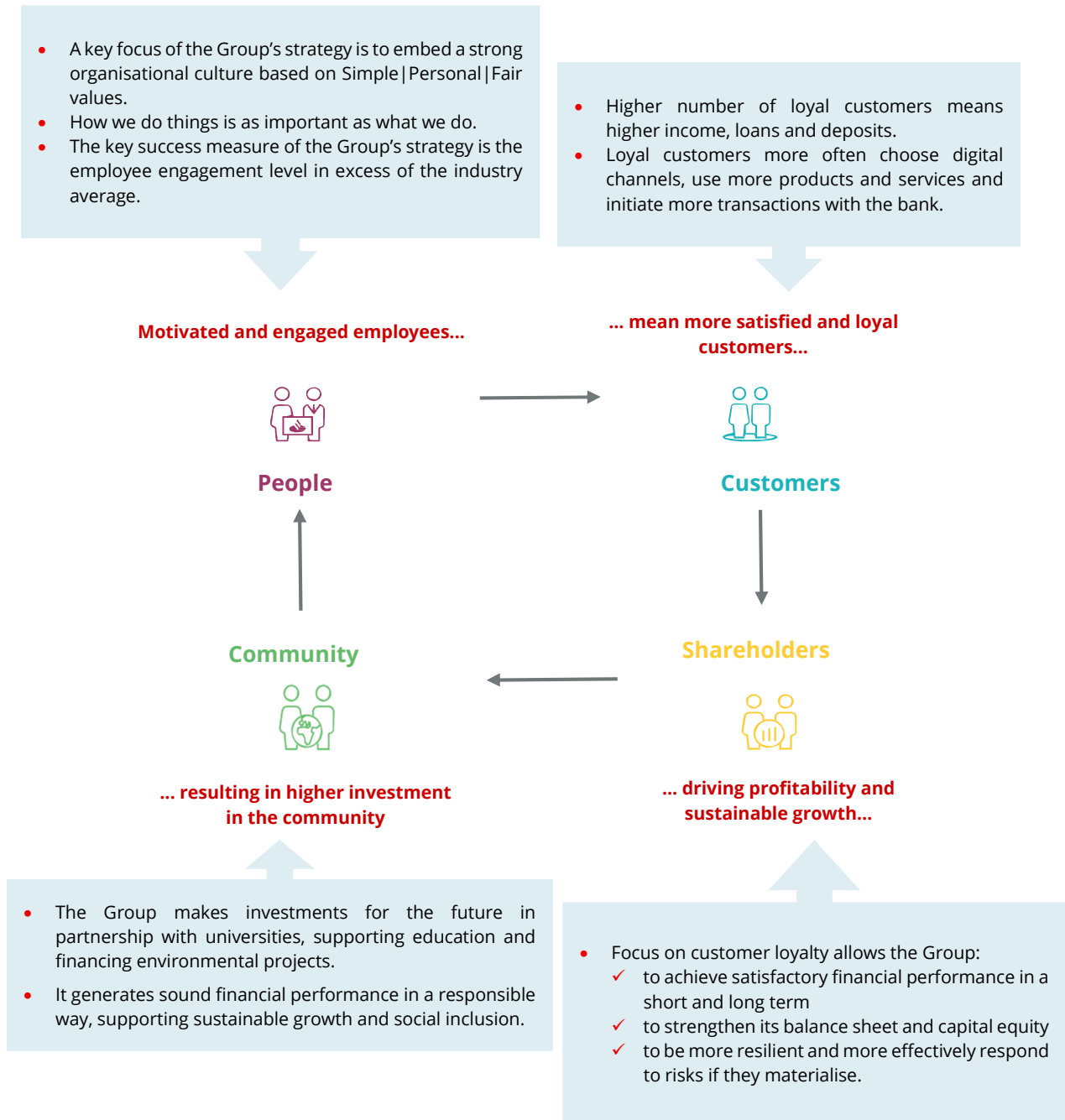
The fundamental element of the strategy and business model of Santander Bank Polska Group is customer-centricity, an approach whereby each initiative and banking process is judged from the customer's viewpoint, with a concentration on the customer's needs and experience in order to build lasting mutual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

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

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

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

Value creation



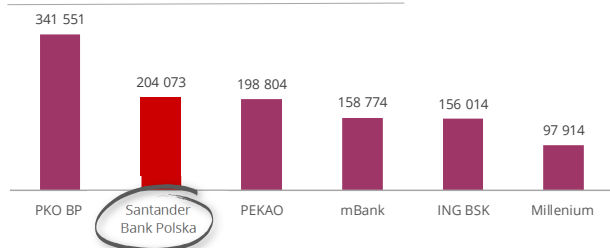
Position of Santander Bank Polska S.A. and its Group in the Polish banking sector

Position in the banking sector

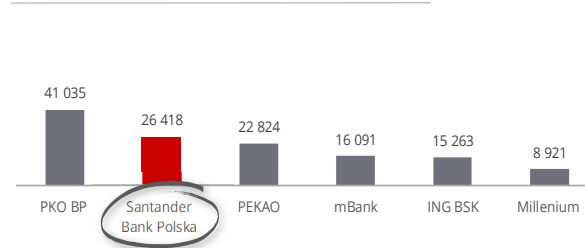
Santander Bank Polska S.A. is ranked among the top three banks in the Polish banking sector (together with PKO BP and Pekao S.A.) and is the largest private bank in Poland.

According to the financial statements for the three quarters ended 30 September 2019, which at the date of approval of this Management Board report (19 February 2020) were the most up-to-date source of comparative information about the performance of banks listed on the Warsaw Stock Exchange (WSE), Santander Bank Polska S.A. – including its subsidiaries and associates – was Poland's second largest banking group in terms of total assets, loans and advances to customers, total capital equity and profit attributable to shareholders, and third largest in terms of deposits.

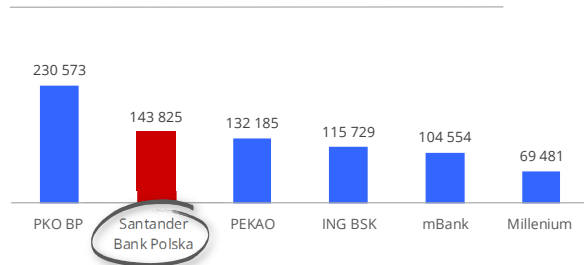
TOTAL ASSETS (PLN M) OF SANTANDER BANK POLSKA GROUP AS AT 30.09.2019 AGAINST THE PEER GROUP



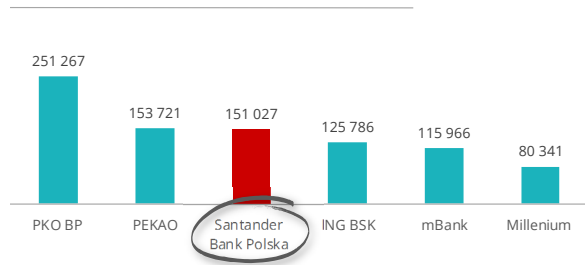
TOTAL EQUITY OF SANTANDER BANK POLSKA GROUP (IN PLN M) AS AT 30.09.2019 AGAINST THE PEER GROUP



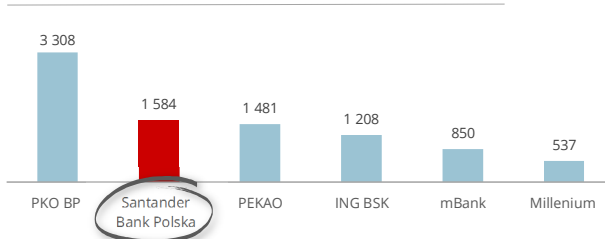
CUSTOMER LOANS AND ADVANCES OF SANTANDER BANK POLSKA GROUP (PLN M) AS AT 30.09.2019 AGAINST THE PEER GROUP



CUSTOMER DEPOSITS OF SANTANDER BANK POLSKA GROUP (PLN M) AS AT 30.09.2019 R. AGAINST THE PEER GROUP



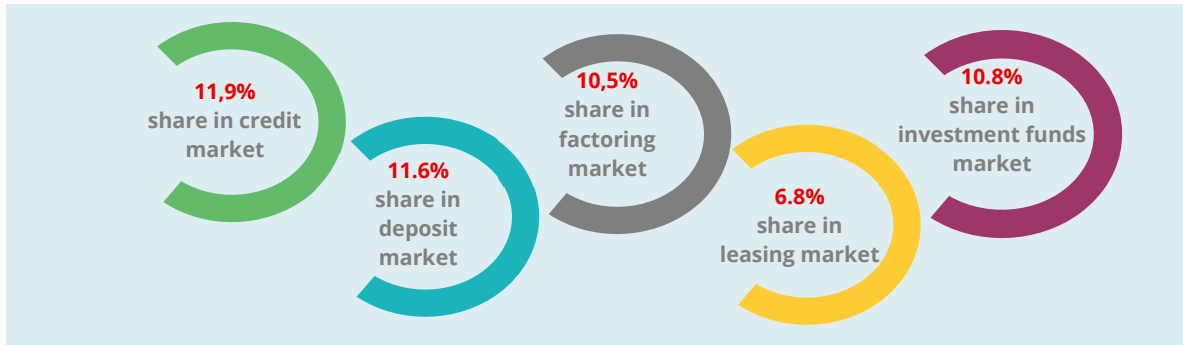
PROFIT ATTRIBUTABLE TO SANTANDER BANK POLSKA (PLN M) FOR Q1-3 2019 AGAINST THE PEER GROUP



Share in key market segments

According to NBP statistics, as at the end of December 2019 the Group's share of the market was 11.9% for loans and 11.6% for deposits.

The Group continued efforts to strengthen its presence in the factoring and leasing markets via its subsidiaries, holding a market share of 10.5% and 6.8%, respectively (according to the Polish Factors Association and the Polish Leasing Association as at the end of December 2019). During this period, the Group's share in the retail investment funds market was 10.8% (according to Anality Online) while in the equity and futures markets it held 4.1% and 8.3%, respectively (according to the Warsaw Stock Exchange).



Competitive advantages

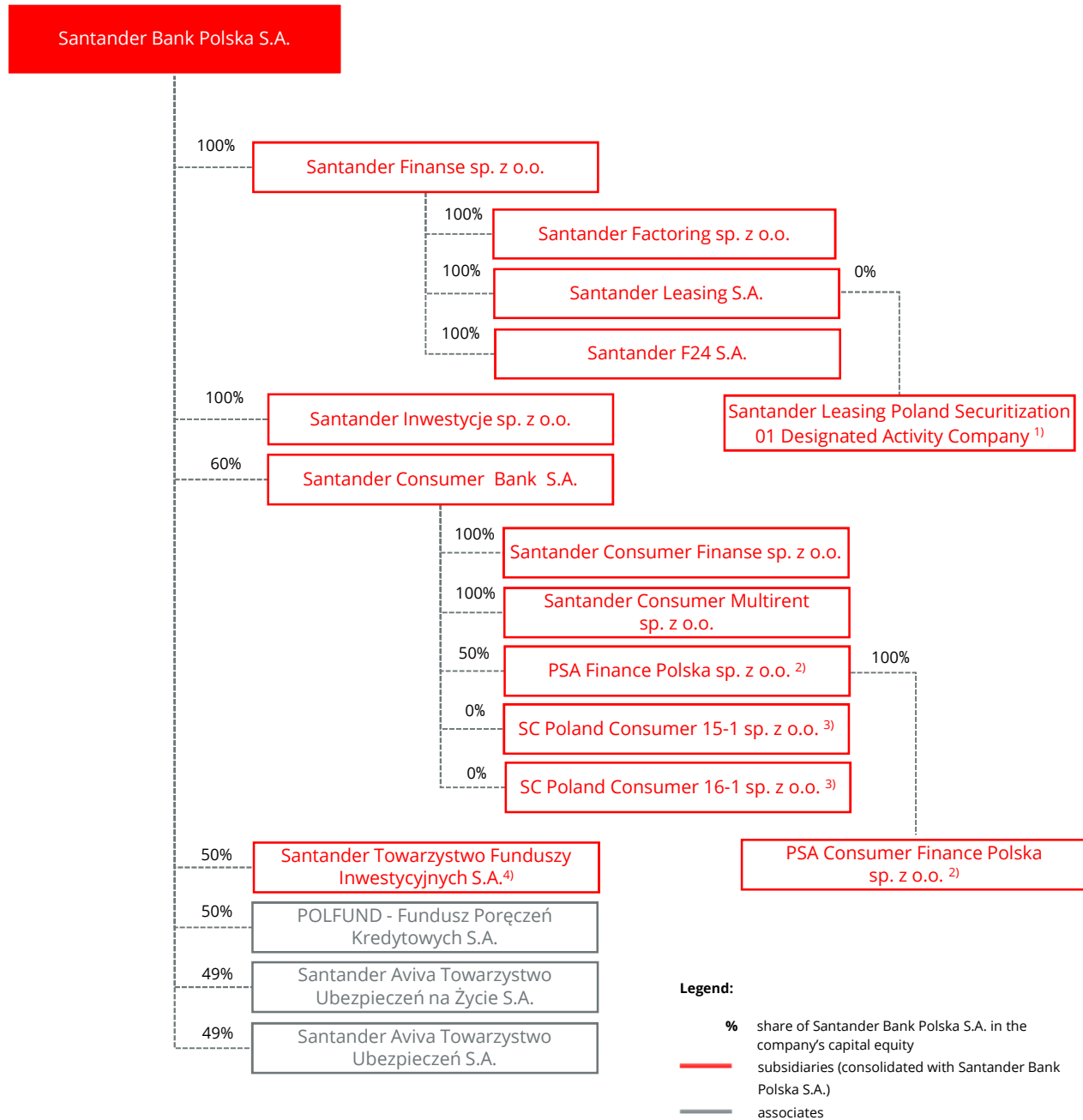
Santander Bank Polska Group has stable sources of funding, solid capital and liquidity position and a diversified asset portfolio. The Group's competitive edge is built on a clear and consistently implemented strategic vision that is focused on customer-centricity and improving effectiveness through process simplification, digitalisation and transformation of the bank into an Agile organisation. What also gives the bank an advantage is an effective and simple business model, an extensive and diversified business, options available to the bank as a member of Santander Group, use of emerging opportunities for non-organic growth and experience in mergers and acquisitions. The business scale, quality of products and services, pursuit of operational excellence and strong focus on building lasting relationships with customers allow the Group to compete successfully with the largest players in the Polish banking market. Participation in the consolidation of the banking sector, a wide array of complementary services for respective customer segments, a large Poland-wide branch network, modern banking technologies, rapidly expanding functionality, integration of remote distribution channels and competent and flexible personnel give the Group good prospects for further market penetration.

STRENGTHS OF SANTANDER BANK POLSKA S.A. AND ITS GROUP



2. Structure of Santander Bank Polska Group

ENTITIES RELATED TO SANTANDER BANK POLSKA S.A. AS AT 31 DECEMBER 2019.



1) Santander Leasing Poland Securitization 01 Designated Activity Company with its registered office in Dublin is a special purpose vehicle incorporated on 30 August 2018 for the sole purpose of securitisation of lease and credit portfolio. The company does not have any capital or personal connections with Santander Leasing S.A. which exerts control over the entity.

2) It is the opinion of the Management Board of Santander Bank Polska S.A. that the shareholding of Santander Consumer Bank S.A. (SCB S.A.) in PSA Finance Polska sp. z o.o. is a subsidiary undertaking for the purposes of the consolidated reporting given the direct control exerted by SCB S.A. and indirect control by Santander Bank Polska S.A.

3) SC Poland Consumer 15-1 Sp. z o.o. and SC Poland Consumer 16-1 Sp. z o.o. are SPVs set up for the purpose of securitisation of a part of SCB S.A. credit portfolio. Their shareholder is a legal person that has no ties with the Group. The companies are controlled by SCB S.A. as they meet the conditions laid down in IFRS 10.7.

4) Both owners of Santander Towarzystwo Funduszy Inwestycyjnych S.A. (Santander TFI S.A.), i.e. Santander Bank Polska S.A. and Banco Santander S.A., are members of Santander Group, each holding an equal stake of 50% in the company's share capital. Santander TFI S.A. is controlled by Santander Bank Polska S.A.

Subsidiaries

As at 31 December 2019, Santander Bank Polska Group comprised Santander Bank Polska S.A. and the following subsidiaries:

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

As at 31 December 2019, all the entities within Santander Bank Polska Group are consolidated with the bank in accordance with IFRS 10.

Compared with 31 December 2018, the list of the bank's subsidiaries excludes Santander Securities S.A. as a result of the division of the company and its liquidation on 8 November 2019. For more information see Chapter X "Organisational and Infrastructural Development", Section 2 "Changes in the Composition of the Santander Bank Polska Group". The consolidated financial statements Santander Bank Polska Group for 12-month period ended 31 December 2019 takes into account the financial results of the company until its liquidation.

Associates

In the consolidated financial statements of Santander Bank Polska Group for the 12 months ended 31 December 2019, the following companies are accounted for using the equity method in accordance with IAS 28:

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

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

3. Other Equity Investments

As at 31 December 2019 and 31 December 2018, Santander Bank Polska Group owned at least 5% of share capital or voting power in the following companies:

Ref.	Company' s name	% in the Share	Voting Power at	% in the Share	Voting Power at
		Capital	AGM	Capital	AGM
		31.12.2019		31.12.2018	
1.	Krynicky Recycling S.A. ¹⁾	19,19%	19,19%	19,19%	19,19%
2.	Polski Standard Płatności Sp. z o.o.	16,67%	16,67%	16,67%	16,67%
3.	Krajowa Izba Rozliczeniowa S.A.	14,23%	14,23%	14,23%	14,23%
4.	Aviva Powszechne Towarzystwo Emerytalne Aviva Santander S.A.	10,00%	10,00%	10,00%	10,00%
5.	Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	10,00%	10,00%	10,00%	10,00%
6.	Aviva Towarzystwo Ubezpieczeń na Życie S.A.	10,00%	10,00%	10,00%	10,00%
7.	Hortico S.A. ¹⁾	6,39%	6,39%	6,39%	6,39%
8.	Biuro Informacji Kredytowej S.A.	7,72%	9,22%	7,72%	9,22%
9.	Gorzowski Rynek Hurtowy S.A. ¹⁾	2,69%	5,62%	2,69%	5,62%
1.	Invico S.A. ¹⁾²⁾	-	-	21,09%	12,21%
2.	i3D S.A. ¹⁾²⁾	-	-	15,77%	15,77%
3.	Infosystems S.A. ¹⁾²⁾	-	-	7,50%	7,50%
4.	AWSA Holland II B.V. ³⁾	-	-	5,44%	5,44%

1) Companies from the equity investment portfolio of Santander Inwestycje Sp. z o.o.

2) Invico S.A., i3D S.A., Infosystems S.A. were sold on 12.09.2019.

3) The entire shareholding of Santander Bank Polska S.A. in AWSA Holland II B.V. was disposed of on 18.04.2019

III. Macroeconomic situation in 2019

Economic growth

In 2019, the domestic economy was slowing down. The economic growth decelerated from 4.8% YoY in Q1 2019 to 3.1% YoY in Q4 2019. Business sentiment indexes fell during the year indicating that the weaker economic growth might continue. Economic activity indexes of the main global economies also declined to the levels signalling the risk of a serious decrease in global economic growth. At the same time, both growth forecasts released by international institutions and central banks as well as market expectations regarding future economic growth were gradually revised down amid uncertainty related to the trade wars and the Brexit, among other things. In the eurozone, the pace of GDP growth slowed to 1.0% YoY, well below 1.9% in 2018. In Germany, the economic growth decelerated to 0.3% YoY in Q4 2019, which affected Polish exports. On the other hand, Polish exports were supported by higher trade volumes with the US, China and non-EU neighbours. In Poland, the main driver of economic growth in 2019 was private consumption supported by still strong labour market, high wage growth and rising social transfers as well as persisting consumers' optimism. After a noticeable revival of investments in Q1 (including corporate investments), the following quarters saw a slower pace of growth. High activity and price rises prevailed in the residential real estate market. In 2019, the labour demand started to fade – the main problem for companies was not labour shortage but rising labour costs which are likely to continue to grow in 2020 amid a strong rise in the minimum wage and introduction of the Employee Capital Plans (PPK). Data about the industrial output showed that the Polish economy was not entirely resilient to the slowdown in Europe and the global trade tensions. As a result, the average output growth rate fell to approx. 4.5% in 2019 (from 6% in 2018). At the same time, the rise in labour and material costs coupled with a lower number of deals hit the construction output, which fell to approx. 3.5% YoY in 2019 (from about 20% YoY in 2018). Despite the domestic demand growing at a healthy rate, the pace of imports growth decelerated. In effect, the 12-month rolling C/A balance improved in 2019 from -1% of GDP to +1.1% of GDP. Rating agencies did not change Poland's credit rating in 2019.

Labour market

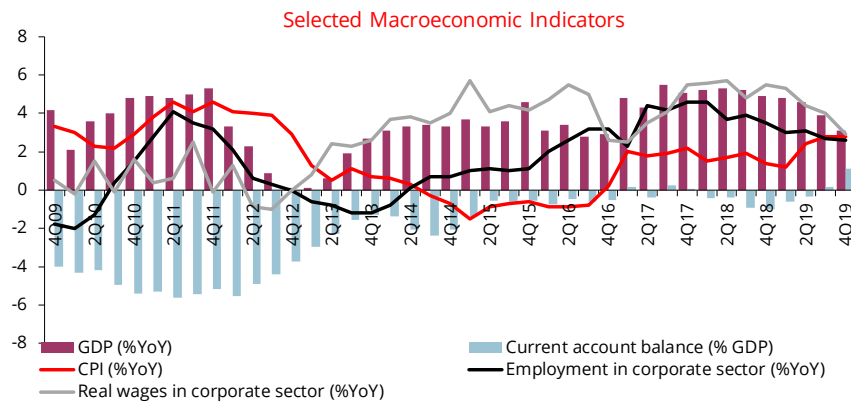
In 2019, the employment growth further decelerated due to labour shortages as well as lower labour demand caused by rising labour costs and worsening business sentiment. Despite the fact that the inflation rate was rising, the nominal wage growth did not accelerate. As a result, judging by the data from the corporate sector, the real wage growth rate fell from above 6% at the beginning of 2019 to around 3.5% at the end of the year. The unemployment rate was steadily declining during 2019, reaching an all-time low of around 5%.

Inflation

In 2019, the CPI inflation accelerated and is averaged out at 2.3% compared to 1.6% in 2018. During the summer, CPI peaked at 2.9% YoY, but then slid due to falling prices of vegetables and fuels. At the year-end the CPI inflation picked up again reaching 3.4% y/y in December. One should note that although part of this rise came from the factors that could potentially appear temporary (food), the core inflation was also rising and reached 3.1% YoY in December, its highest in eight years. Growing labour costs and still strong internal demand should push the core inflation further up. In H2 2020, the food prices will be determined by weather conditions. If there are no anomalies, the strong base effect may pull the headline CPI down towards 3% YoY. However, observed climate changes suggest that the risk for the food prices is to the upside.

Monetary policy

In 2019, NBP interest rates were held stable with the main rate still at 1.50%. In the first half of the year, this stabilisation was warranted by inflation holding below the target and forecasts showing slower economic growth later in the year and in 2020. In H2 2019, CPI started to rise but according to the NBP forecasts this phenomenon was to be only temporary. This, together with a dovish shift of the major central banks, convinced the majority of the Monetary Policy Council (MPC) members to keep the monetary policy parameters unchanged. In H2 2019, there were both motions to hike and to cut interest rates but they did not attract wide support. The discussion in the central bank is likely to remain heated, so further motions for cuts and/or hikes are likely to be filed. Still, the baseline scenario is that rates will remain unchanged. According to Governor of the NBP, given the current economic forecasts, rates could remain unchanged even until the end of the current MPC term (2022).



Credit and deposit markets

After adjusting for exchange rates, the total loan growth in the banking sector was slowing down to about 5% YoY at the year-end from above 6% at the start of 2019 (data adjusted for FX movements). The weaker growth was mostly visible in business loans, which decelerated to 3% YoY from 8% YoY in early 2019, while household loans were still advancing at robust pace. Consumer loans grew by about 8% YoY, similarly as in the previous year. The growth rate of PLN-denominated mortgages remained high at around 12% YoY. Deposit growth in 2019 remained slightly below 10% YoY, with demand deposits rising at a two-digit rate (even by 15% YoY at the end of 2019), while term deposits remained stable. Deposits from individuals grew by 9% YoY while business deposits increased by 7.5% YoY. The non-performing loan ratio remained stable at 6.8%, a level recorded in late 2018, with some improvement in the quality of business and housing loans and some deterioration in the quality of consumer loans.

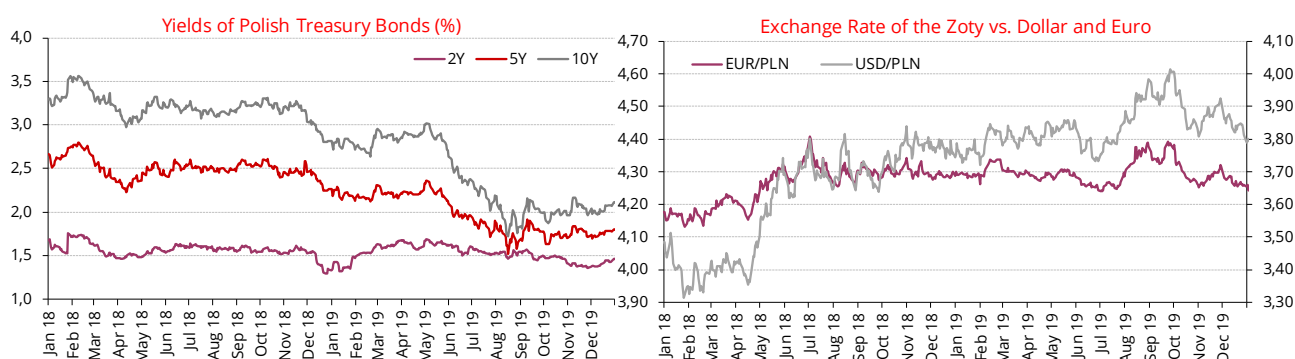
Financial markets

Bond and currency market

In 2019, the risk factors from the previous years were still present in the global markets. The US-China trade war continued and the United Kingdom was still struggling to leave the European Union. However, the market volatility was not higher than in 2018, which could be due to actions taken by central banks to counter the negative effect of uncertainty on the economic activity. The ECB cut interest rates to the lowest level in history and restarted its quantitative easing programme. The US Federal Reserve finally decided to cut interest rates, too. Despite the unhelpful geopolitical conditions and persisting concerns about the global economic growth, many stock indexes managed to reach their fresh all-time highs or at least approach the peaks recorded in the past. Monetary policy easing by central banks backed bonds whose yields were in the downward trend for the better part of the year.

In 2019, Polish bond yields followed the trends in the core debt markets. Polish 10Y bond yield reached its 2019 low at approx. 1.70% vs 2.70% at the beginning of the year, while the 5Y bond yield set the 2019 low at 1.50% vs. 2.20% in January. Apart from supportive external factors (poor global macro data and rate cuts by the ECB and the Federal Reserve), Polish bonds were supported by the low debt supply by the Ministry of Finance and the political declaration that the central state budget would be balanced in 2020. The MPC kept interest rates unchanged and there is little chance they will be changed in the nearest future. The spread between 10Y Polish and German bond yields started the year at approx. 260bp, rose to 300bp in Q2 2019 (its highest since Q2 2018) while at the end of 2019 it was near 230bp (near its lowest level since late 2015).

For the better part of 2019, EUR/PLN rate remained within the range of 4.25-4.35, similarly to 2018. Only at the turn of Q3 and Q4 the zloty temporarily depreciated more noticeably (the exchange rate jumped to 4.40) as the market was waiting for an opinion of the EU Court of Justice concerning Polish CHF mortgage loans. In the market view, the opinion was not as negative for Polish banks as many expected, which allowed EUR/PLN rate to return to the abovementioned range. While EUR/PLN rate was very stable in 2019, USD/PLN, GBP/PLN and CHF/PLN rates were much more volatile owing to changes in EUR/USD, EUR/GBP and EUR/CHF rates. The US dollar and Swiss franc appreciation in 2019 pushed USD/PLN rate temporarily above 4.0 in 2H19 (vs. 3.72 at the start of the year) and CHF/PLN rate above 4.0 for a while (from 3.75 in January). GBP/PLN rate was driven by the pound performance fueled by changing sentiment related to the UK leaving the EU. GBP/PLN rate started the year near 4.74 only to reach 5.05 in Q1 2019. In Q3, the exchange rate recorded an annual low at 4.65 and in late December it was trading back around 5.0.



Stock market

The downward trend observed in 2018 did not effectively reverse during the next 12 months. The Warsaw Stock Exchange was faced with a number of challenges and the market was fragmented, as reflected by the performance of individual indices. The major WSE indices strongly disappointed, given the boom in both the matured and developing markets. The WIG index remained broadly stable (+0.3% YoY), while WIG20, a blue chip index, lost 5.6% YoY. The market volatility also affected stocks of medium and small companies. The mWIG80, representing the former companies, closed the year with a neutral score, whereas sWIG80 gained 13.9% YoY, partially making up for last year's losses. The latter was the only index that followed the positive trends observed in the majority of global stock markets.

The relatively weak performance of Polish blue chips could be attributed to the mix of the WIG20 portfolio, with a predominant share of state-owned companies and banks. The former group did not convince investors that it could create value for shareholders. The latter one, faced with sector problems such as CHF loans and capital requirements, reported worse results. After successful January and solid first quarter, investors hoped that the WIG20 would join the top growing global indices; however, the performance in May, August and November fell short of these expectations. It was largely due to actions taken by the global MSCI equity funds as they sold much of their Polish stocks in these months, which benefited the assets held in China and the Middle East. The trade war between the USA and China weighed down on the WIG20, which, despite the agreement reached, did not make up for the losses until the end of the year. The problems on the Warsaw floor contrasted with the global rally supported by change in the policy of the US Federal Reserve, which started to reduce the cost of money in fear of recession.

Investment Funds Market

In 2019, the investment funds market grew by 4.2% YoY in terms of net asset value. After reaching the lowest level in May, the value of assets gradually increased to PLN 268.1bn as at 31 December 2019, largely due to sound management results (up PLN 6.6bn). and inflows (up PLN 1.2bn), with bond funds topping the list sales-wise.

In the retail funds market, assets grew steadily throughout the year, reaching PLN 157.3bn as at 31 December 2019 (up 5.0% YoY). This was largely attributed to strong management and sales results, which were up PLN 6.1bn and PLN 1.0bn, respectively. As regards sales, the biggest inflows were reported by bond funds (up PLN 12.7bn).

In 2019, authorised companies offered a new product as part of the third pillar of the pension system: Employee Capital Plans (PPK), with PLN 84.7m worth of assets collected as at the end of 2019.

Leasing market

In 2019, leasing companies provided a total financing of PLN 77.8bn. Businesses represent 99.4% of all customers of the Polish leasing sector. Most of them are small and medium-sized companies (72%), while companies with a turnover of more than PLN 20m account for 28% of this figure (according to the data of the Polish Leasing Association).

Last year, the portfolio of active contracts in the leasing sector grew strongly. The value of active contracts in the sector is PLN 160.4bn, up 9.4% compared to the previous year. However, the growth of new contracts signed by leasing companies last year was negative at -5.8% YoY.

The high competitiveness of the leasing market in Poland increased the price pressure in the financing area, causing a reduction of margins on the core business.

According to forecasts, the leasing sector is to see a slight recovery in 2020. Its expected growth of 5–6% in 2020 will correspond to the projected growth in private investments and the scenario of economic development in Poland. This year, the leasing sector may provide total financing of more than PLN 82.7bn, which will be slightly more than the record-breaking value of the lease market in 2018.

Regulatory environment of the banking sector

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

Legislation	Effective date	Selected regulations affecting the financial sector
Act on employee capital plans of 4 October 2018 Act of 16 May 2019 amending the Act on employee capital plans, the Act on the organisation and functioning of pension funds and the Banking Law Act	1 January 2019	<ul style="list-style-type: none"> • Launch of a universal system of voluntary savings as part of employee capital plans (PPK) to secure the needs of people aged over 60. <ul style="list-style-type: none"> ✓ The employer and the employee make contributions which are invested. ✓ The contribution increases staff costs for the employer. ✓ Employees are automatically signed up for the scheme but may opt out at any time. ✓ Employee capital plans are managed by e.g. investment fund companies.
Act of 9 November 2018 amending certain acts to strengthen oversight over financial markets and protection of investors in this market	1 January 2019	<ul style="list-style-type: none"> • The changes concern the KNF (Polish Financial Supervision Authority) and the UKNF (Office of the Polish Financial Supervision Authority) and include, among other things, conversion of the UKNF into a state-owned legal person and establish the method of financing the KNF and the UKNF (directly from contributions made by the supervised financial market entities). • The amended legislation introduces obligatory dematerialisation of bonds and redefines the role of the issue agent.
Act of 23 October 2018 amending the Personal Income Tax Act, Corporate Income Tax Act, General Tax Code Act and some other acts	1 January 2019 in the part relating to the withholding tax	<ul style="list-style-type: none"> • An obligation imposed on the bank to provide information on tax schemes in relation to customer transactions. The obligation relates to cross-border tax schemes and other tax schemes (including domestic ones), depending on whether the beneficiary is a qualified entity.
Act of 6 December 2018 amending the Civil Code Act	15 February 2019	<ul style="list-style-type: none"> • Liquidation of the privilege previously enjoyed by credit institutions, which could accrue interest on overdue interest before a lawsuit was filed.




Legislation	Effective date	Selected regulations affecting the financial sector
<p>Act of 17 January 2019 amending the Act on the Bank Guarantee Fund, deposit guarantee scheme and resolution, and certain other acts implementing Directive (EU) 2017/2399 of the European Parliament and of the Council of 12 December 2017</p>	<p>7 March 2019 (majority of amendments)</p>	<ul style="list-style-type: none"> Excluding mortgage banks (as non-deposit-taking entities) from the guarantee scheme, and repealing a number of statutory requirements imposed on these banks by the previous version of the Banking Guarantee Fund Act. Introducing the possibility for the cross use of banks' guarantee fund and the credit unions' guarantee fund if either of these funds runs short of money for guaranteed payouts due to depositors. Making it possible for the Bank Guarantee Fund to join the procedure of adopting a group resolution plan by way of a "joint decision" where a group subsidiary is classified as a significant entity. Extension of the catalogue of instruments that can be used to meet the minimum requirement for own funds and eligible liabilities (MREL).
<p>Recommendation B relating to limitation of the banks' investment risk - amendment</p>	<p>March 2019</p>	<ul style="list-style-type: none"> The Recommendation deals with limitation of investment risk at banks. As expected by the regulator, banks' investment strategy and policies should present an integrated approach and take into account individual investment areas.
<p>Regulation of the Minister of Finance of 22 February 2019 on the scope, procedure, form and time limits for the provision of information to the Polish Financial Supervision Authority (KNF) by investment companies, banks and custodian banks</p>	<p>4 April 2019</p>	<ul style="list-style-type: none"> The Regulation defines a number of new reporting obligations for banks with respect to the KNF in relation to a) brokerage activities which are not subject to licence (Article 70(2) of the Act on trading in financial instruments); b) brokerage offices; c) custodian services.
<p>Act of 21 February 2019 amending certain acts in order to ensure compliance with Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC ("GDPR")</p>	<p>4 May 2019</p>	<ul style="list-style-type: none"> For the purpose of repayment capacity assessment, banks may use any data which meet the general data minimisation principle provided for in the GDPR. The customer has the right to receive free-of-charge information about the factors considered by the bank in its credit decision. The legislation introduces the customer's implicit consent to profiling in the process of repayment capacity assessment (submission of a credit application is sufficient for this purpose). The Banking Law Act provisions authorising banking institutions to process personal data after expiry of the obligation (regardless of the customer's consent) remain unaffected.
<p>Regulation (EU) 2017/1129 of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market and repealing Directive 2003/71/EC Act of 16 October 2019 amending the Act on public offering, conditions for introducing financial instruments to organised trading, and on public companies, and certain other acts</p>	<p>30 November 2019</p>	<ul style="list-style-type: none"> Introduction of a new definition of a public offering Restrictions in transactions with related entities Increase in the squeeze-out threshold from 90% to 95% Making it possible for issuers to identify all shareholders
<p>Act of 9 August 2019 amending the Value Added Tax Act and certain other acts ("Split Payment II")</p>	<p>1 November 2019 (majority of provisions)</p>	<ul style="list-style-type: none"> Introduction of an obligatory split payment mechanism with regard to transactions in sensitive goods and services subject to reverse charge or joint and several liability whose amount exceeds PLN 15k (or its equivalent). Extension of the scope of information to be included in a VAT invoice (FV) by adding a "split payment mechanism" designation. Failure to do so in respect of the above-mentioned transaction is subject to sanction.
<p>Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) No 924/2009 as regards certain charges for cross-border payments in the Union and currency conversion charges</p>	<p>Partial implementation starting from 15 December 2019</p>	<ul style="list-style-type: none"> The Regulation provides for equalisation of charges for cross-border transfers (as part of EEA) with charges for corresponding national transactions. Banks have an obligation to provide customers with sufficiently clear information about the cost of online transfers and the cost of potential currency conversion.

Legislation	Effective date	Selected regulations affecting the financial sector
New Recommendation S on best practice in the management of mortgage-backed credit exposures	December 2019	<ul style="list-style-type: none"> • Extension of the previous provisions to include rules for managing fixed-rate and term fixed-rate home mortgages. • Introduction of provisions on the “key for debt” option, stipulating that the borrowers’ obligations towards the bank will be considered discharged if the title to the financed property is transferred to the bank.
<ul style="list-style-type: none"> • In addition, in 2019 the Court of Justice of the European Union (CJEU) issued two rulings which have an impact on the Polish banking sector: <ul style="list-style-type: none"> ✓ a ruling on the consequences of holding terms of the CHF-indexed loan agreement unfair (C-260/18); ✓ a ruling on partial reimbursement of credit fees in the event of early repayment of a consumer loan (C 383/18). • More information on the implications of the above-mentioned cases is presented in Note 46 “Contingent liabilities” to the Consolidated Financial Statements of Santander Bank Polska Group for 2019 and in Chapter XII of this report, Section 3 “Material Risk Factors Projected for 2020”. 		

IV. Development Strategy of Santander Bank Polska S.A. and its Group

1. Purpose, Aim, Values and Strategic Objectives of Santander Bank Polska S.A. for 2020–2022

The strategy of Santander Bank Polska Group for 2020–2022 is a continuation of the previous course of action and is based on the same values and assumptions as applied before. The Group’s purpose, aim and values have not changed for years:

 <p>PURPOSE</p> <p><i>To help people and businesses prosper</i></p>	 <p>AIM</p> <p><i>To be the best open financial services platform by acting responsibly and earning the lasting loyalty of employees, customers, shareholders and communities</i></p>	 <p>VALUES</p> <p><i>Simple Personal Fair</i></p>
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As part of its strategic vision, Santander Bank Polska S.A. intends to:

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

The above assumptions are reflected in the Group's strategic goal for 2020–2022, which is to:

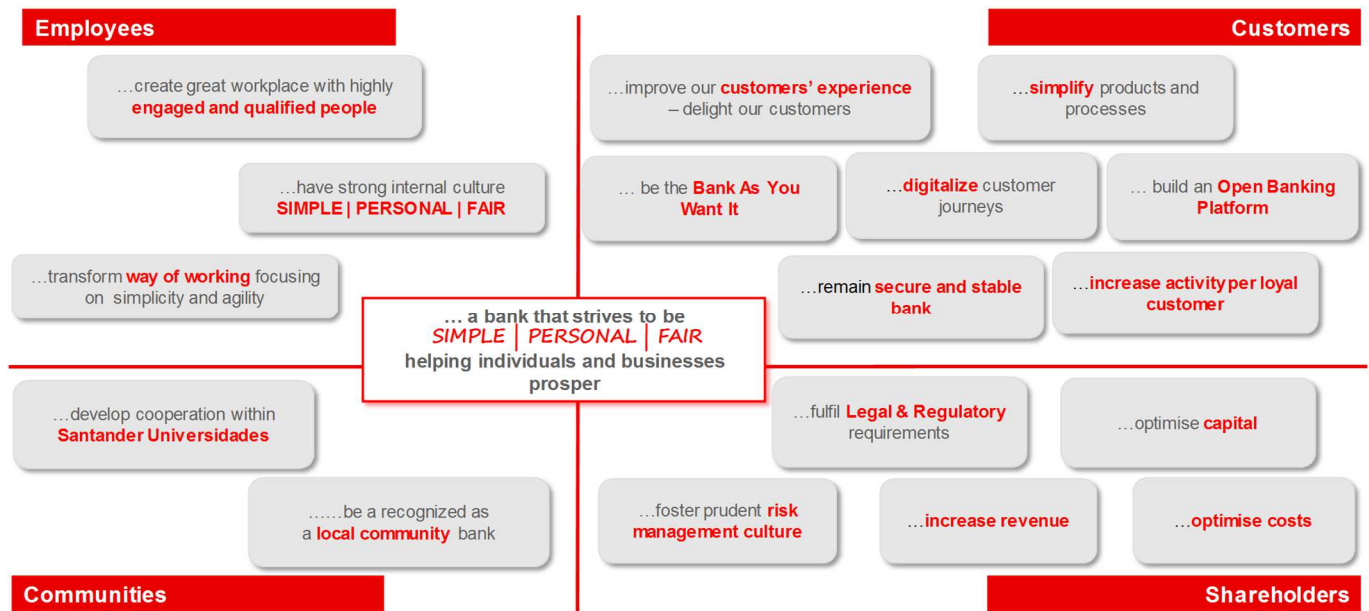
Achieve the leadership position in the financial services market owing to:

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

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

The overall goal has been divided in a number of specific objectives for 2020–2022 related to the key stakeholder groups: employees, customers, communities and shareholders.

SPECIFIC OBJECTIVES FOR 2020–2022 FOCUSED ON EMPLOYEES, CUSTOMERS, COMMUNITIES AND SHAREHOLDERS



In view of dynamic and complex changes in the macroeconomic environment, the strategy of Santander Bank Polska Group is regularly verified, which helps take prompt action in response to emerging market trends.

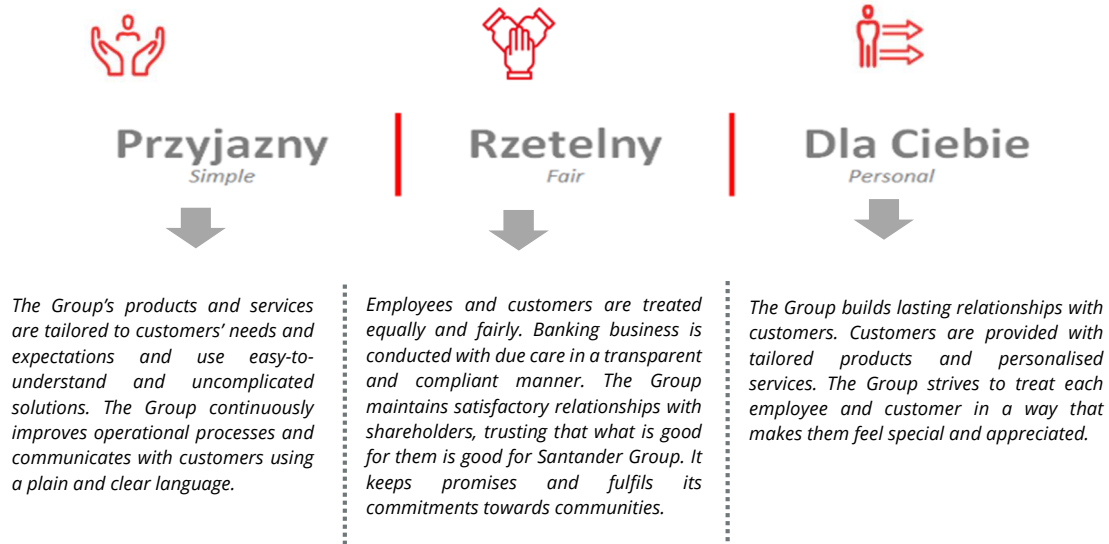
2. Brand Promise and Values

Bank As You Want It

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

Corporate culture

The corporate culture of Santander Bank Polska Group and Banco Santander Group is enshrined in the **Simple | Personal | Fair values**.



The Simple|Personal|Fair values reflect the Group's philosophy, including rules it follows when taking decisions and interacting with customers, shareholders and other stakeholders. In line with these values, the Group strives not only to fulfil its business commitments and comply with laws and regulations, but also to exceed expectations of its stakeholders, particularly customers. Particular focus is placed on the areas where the Group may significantly help customers achieve financial success and sustainable growth.

The risk culture being promoted by Santander Bank Polska S.A. was named **Risk pro**, and consists of five principles: accountability, resilience, simplicity, challenge and customer focus. Activities implemented within this culture include: education of the bank's employees; awareness-raising activities among employees relating to risks encountered in day-to-day work; providing channels for anonymous reporting of issues of concern; and features of the incentive system encouraging employees to adhere to the risk culture values.

The corporate culture of Santander Bank Polska Group is based on:

- 8 model behaviours:



- individual responsibility of each employee for risk management as part of their activities in accordance with the "risk pro" attitude

risk pro

Socially responsible bank

The Group conducts its activity in line with the Principles for Responsible Banking, understanding the role and importance of banks to customers, economy and community. It focuses on developing fair and transparent relationships with customers and making a positive contribution to communities and the environment. Particularly important are responsible sales and prevention of misselling. By embedding responsible business principles in its day-to-day management, the Group increases loyalty of its customers and delivers its strategy in a more effective way.

3. Strategy of Santander Consumer Bank S.A.

Strategic goals

The key strategic goal of Santander Consumer Bank S.A. is to strengthen the position and image of the bank as an innovative, secure and customer-friendly financial institution with a strong capital base and a structure and corporate culture harmonised with Santander Group. In terms of sales objectives, the bank is looking to maintain its strong position in the consumer and car finance markets.

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

Car finance

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

Consumer finance

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

Sources of funding

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

IT and operations

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

Risk, cost and financial management and other areas

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

Execution of Santander Consumer Bank S.A.'s strategy in 2019

The section below summarises the delivery of strategic objectives of Santander Consumer Bank Group in 2019:

- Reinforcement of business position and image of Santander Consumer Bank Group as the leading institution in the consumer finance market. In 2019, the bank was ranked:
 - ✓ 1st in the hire purchase market
 - ✓ 7th in terms of growth in the number of credit cards
 - ✓ 7th in the cash loans market
 - ✓ 3rd in the car finance market
- Maintenance of strong sales of high-margin consumer loans (up 7.5% YoY) and increase in the volume of car finance with a growing share of lease solutions (up 12.5% YoY).
- Digitalisation of business:
 - ✓ Higher sales in remote channels: e-commerce instalment loans (up 40% YoY) and eCL (up 27% YoY)
 - ✓ 580 thousand new customers (up 7.9% YoY)
 - ✓ 253 thousand active users of internet banking (up 20.7% YoY)
- 27% of instalment loan agreements signed using the Quicksign electronic signature
- One of the best customer satisfaction ratios in the market
- Diversification and increase in stable sources of funding along with optimisation of cost of financing in an environment of stable low interest rates and a changing regulatory regime. This was achieved by maintaining a steady balance of the most stable sources of funding such as long-term deposits, mid- and long-term bonds issued as part of the existing issuance programme and issue of securitisation bonds. The bank was also active in the corporate deposit market, increasing the level of financing from this source. Furthermore, the bank obtained lending from the European Investment Bank to finance small and medium-sized businesses in support of their development. FX funding based on repo transactions remained broadly flat in relation to FX assets. In addition, the bank raised a subordinated loan with the Group to improve its capital ratios.
- Stable risk level and high provision coverage ratio.
- Stable level of operating costs (excluding obligatory costs such as a banking tax) and optimised cost base: one of the most cost-effective banks in the Polish banking sector;
- Solid capital position and dividend payout.
- Projects in progress:
 - ✓ Digitalisation of the car business line
 - ✓ Launch of Full Service Leasing and an unsecured car loan
 - ✓ Continuation of IT area transformation.

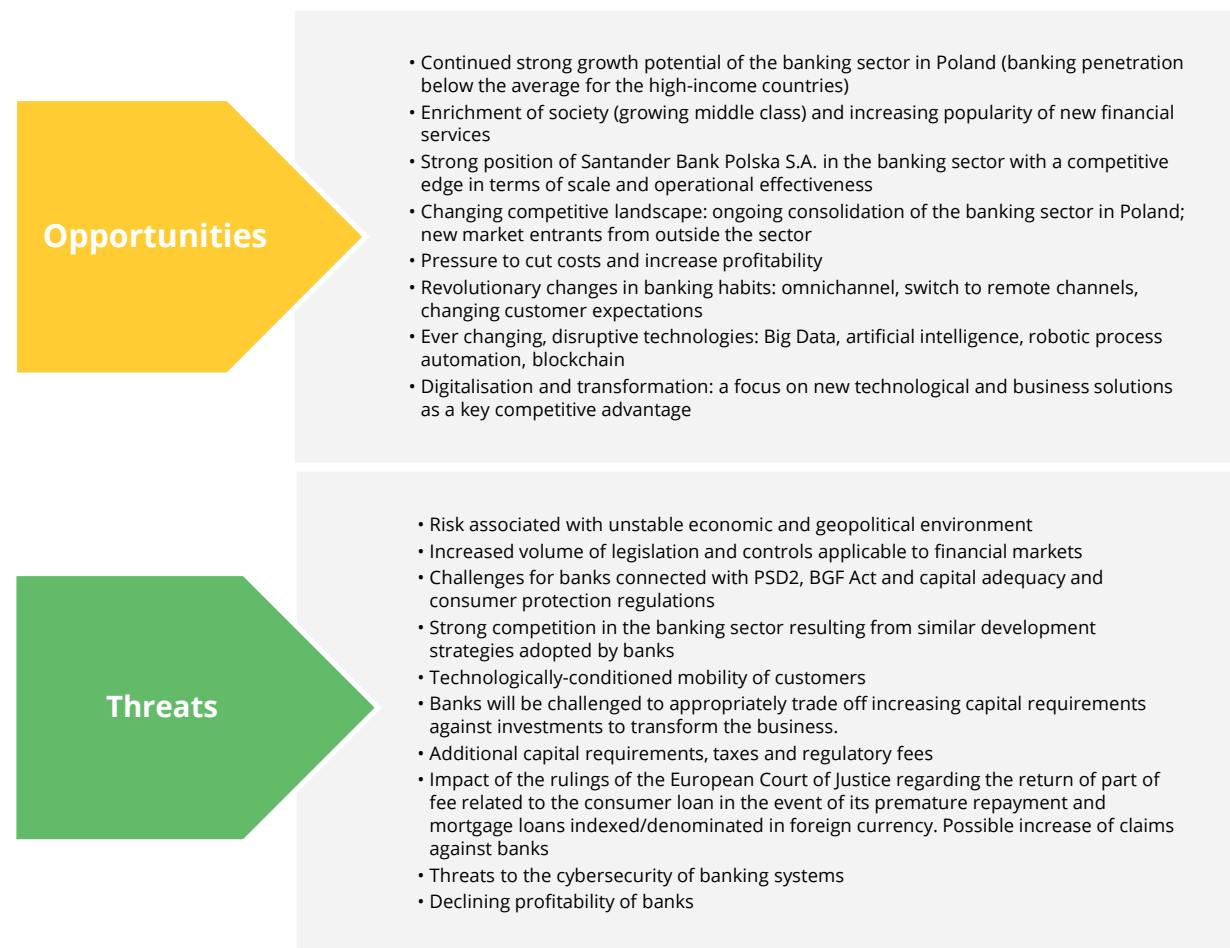
4. Effects of Strategic Initiatives in 2019

Strategic goal	Selected initiatives	Key success factor	
 People	<p><i>Best employer with a strong corporate culture.</i></p>	<ul style="list-style-type: none"> Continuation of the HR strategy on several levels: <ul style="list-style-type: none"> ✓ building a uniform, group-wide corporate culture ✓ talent management ✓ promoting diversity, equal treatment and inclusion ✓ implementing a new working model in accordance with the Agile methodology. 	<ul style="list-style-type: none"> Top employer in the banking sector Improved employee engagement ratio
 Customer	<p><i>Lasting loyalty of retail and business customers.</i></p> <p><i>Digital transformation and operational excellence.</i></p>	<ul style="list-style-type: none"> Development of solutions within electronic banking platforms (biometrics, Kantor Santander currency exchange platform, mobile banking, E2E processes, sales and after-sales processes, strong customer authentication). Automated lending process for SME customers (Smart Loans). Granting access to information of customers' accounts in other banks (AIS) and providing the payment initiation service (PIS). Supporting SMEs by offering convenient financing conditions Extending the Export Development Programme. Practical help with finding business partners. Continuing the process of implementing the new branch format 	<ul style="list-style-type: none"> 3.6m loyal customers 2.5 million digital customers Improve NPS indicator
 Shareholders	<p><i>Strong capital, effective risk management and high profitability.</i></p>	<ul style="list-style-type: none"> Maintaining a strong capital base in accordance with legal and regulatory requirements Developing profitable market segments Cost discipline High-quality assets 	<ul style="list-style-type: none"> Stable cost of credit of 0.85% Underlying cost to income ratio of 43.5% Total capital ratio of 17.07%
 Community	<p><i>Supporting local communities in which the Group operates.</i></p>	<ul style="list-style-type: none"> Continuing long-term sponsorship projects in sports, culture and education Supporting corporate volunteering Delivery of social programmes Financing pro-ecological projects. 	<ul style="list-style-type: none"> 250k beneficiaries 2000 staff volunteers

5. External Factors Affecting Strategic Development

Opportunities and threats for the commercial banking sector in Poland

Below are the selected opportunities and threats affecting the delivery and direction of the strategy of Santander Bank Polska S.A.



6. Economic Outlook for 2020

At the start of 2020 it seemed the global economy was about to rebound amid eased trade tensions and less uncertainty about Brexit, among other things. However, a new risk factor has appeared in the form of coronavirus epidemics, causing shutdowns of Chinese factories and other global supply chain disruptions.

Other significant risks are still present, particularly those connected with major emerging economies such as China or India, which, coupled with the low starting base, means that market and Santander forecasts for the euro zone or the USA for 2020 are less promising than the growth recorded in 2019. Global central banks are expected to continue their dovish monetary policy or even ease it further. The US economy will be supported by a mild monetary policy and healthy financial standing of households. Growth in the euro zone will also come predominantly from internal demand. The US threat to put tariffs on EU-made cars is still one of the risks. An expected rebound in global trade will be delayed by the coronavirus, but once it comes it should spur the economic activity in Poland. However, usually the positive impulses from the global economy affect domestic activity with a lag.

The Polish economy decelerated in H2 2019 and closed the year with 3.1% YoY GDP growth. Based on the currently available data one can assume that the slowdown was caused by weaker private consumption and a smaller increase of stocks. Consumer confidence indicators and real wage growth are declining for some time, which may result in lower private consumption growth in 2020 than in 2019., despite the support from strong labour market and social transfers (extended scope of the 500+ child benefit program, reduced PIT, payment of an additional pension benefit). Apart from this, investments could fall in YoY terms due to EU subsidies cycle (peak at the start of 2019), and limited investment plans of private entities due to worsening economic outlook and of local governments. The booming property market is an exception, with large price increases. Exports should be boosted by the rebound in the international trade, notably in Germany and the euro zone, which we expect in the course of 2020

Business climate deterioration weighed on the demand for labour, as a result of which labour shortages are now less severe for the Polish companies. Despite this, the unemployment rate is likely to stay near the historical low recorded in 2019 and wages will continue to rise at a solid pace in 2020, similar to 2019 thanks to the large rise of minimum wage.

The CPI accelerated and exceeded 4% YoY at the start of 2020. Higher inflation is due to higher prices of food (effects of the drought in 2019 and ASF and avian flu spread), energy (electricity price rise in January 2020) and communal services as well as to the core inflation. The inflation rate should start to go down after Q1 2020 and by the middle of the year it should reach the upper bound of the tolerance band (3.5% YoY) around the inflation target and at the end of the year it should descend to c3% YoY, alongside the weaker economic growth.

The Polish central bank is quite confident about the economic situation and is not expected to change interest rates this year.

Due to the weaker economic growth, the increase in loans and deposits should not exceed the levels recorded in 2019. Low interest rates will reduce the demand for term deposits and may encourage clients to look for alternative savings options.

The zloty appreciated at the beginning of 2020 but is likely to weaken during the year due to less optimistic macroeconomic outlook for Poland, with EUR/PLN rate rising towards 4.30.

V. Relations with Employees

1. Human Resources Management

Human capital

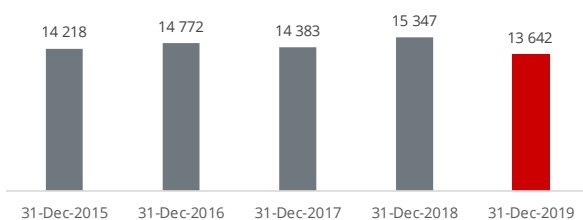
As at 31 December 2019, the number of FTEs in Santander Bank Polska Group was 13,642 vs. 15,347 as at 31 December 2018. These headcount figures include 10,726 FTEs of Santander Bank Polska S.A. (12,253 as at 31 December 2018) and 2,452 FTEs of Santander Consumer Bank Group (2,628 as at 31 December 2018).

The YoY decrease of 11.1% in the Group's employment is the result of ongoing transformation of the business model of Santander Bank Polska S.A. through digitalisation, continued migration of sales and banking services to remote distribution channels and gradual implementation of technological and organisational solutions increasing the Group's operational efficiency.

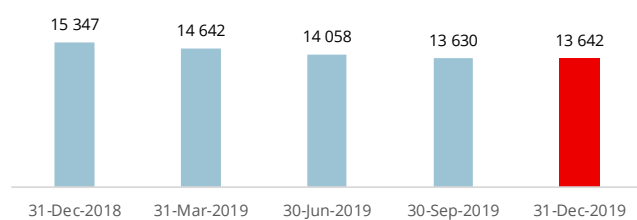
Furthermore, as part of the reorganisation processes, last year the bank eliminated the duplicated areas identified after the acquisition of the demerged part of Deutsche Bank Polska S.A.

These changes lead to a steady reduction of headcount in the bank's branches and the Business Support Centre of Santander Bank Polska S.A. The HR processes take into account the present business needs and market conditions. They are mainly delivered as part of the collective redundancies process and natural employee attrition.

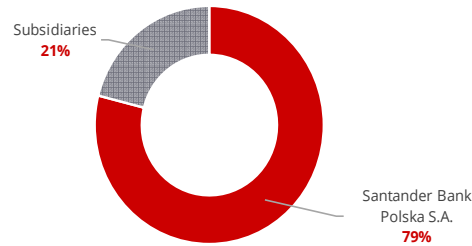
EMPLOYMENT IN SANTANDER BANK POLSKA GROUP FROM 31.12.2014 TO 31.12.2019 (IN FTEs)



EMPLOYMENT IN SANTANDER BANK POLSKA GROUP IN 2019 BY QUARTERS (IN FTEs)

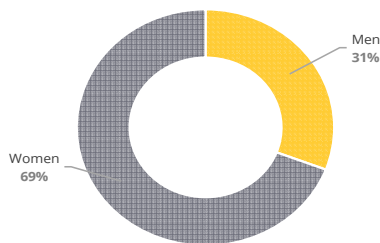


EMPLOYMENT STRUCTURE IN SANTANDER BANK POLSKA GROUP
AS AT 31.12.2019

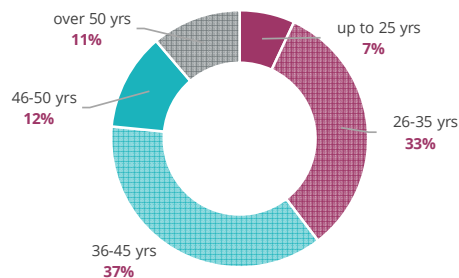


Human and intellectual capital of Santander Bank Polska Group is created by highly-qualified employees who constantly develop their competencies as part of day-to-day activities and top-quality development programmes. Development programmes for managers and employees and a strong focus on knowledge sharing contribute to the growth of the intellectual potential as well as efficiency and stability of the Group's human capital.

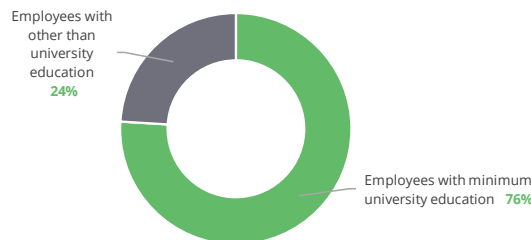
EMPLOYEE STRUCTURE OF SANTANDER BANK POLSKA GROUP
BY GENDER



EMPLOYEE STRUCTURE OF SANTANDER BANK POLSKA GROUP
BY AGE



EMPLOYEE STRUCTURE OF SANTANDER BANK POLSKA GROUP
BY EDUCATION



Programme of support for employees selected for collective redundancies

The collective redundancies process, which was launched in Santander Bank Polska S.A. in March 2019 pursuant to the Management Board's decision of 10 January 2019 and an agreement with the trade unions, covered 1,324 employees until the end of December 2019. Redundant employees were entitled to a statutory severance pay and additional cash benefits on account of employment contract termination. A provision of PLN 92.4m was raised in relation to employment restructuring.

As a socially responsible employer, the bank implemented a comprehensive programme of support for redundant employees. It was based on an internet platform and provided employees with useful knowledge and skills which helped them reintegrate into the labour market. The programme offered a range of complementary support to redundant employees:

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

Based on the platform traffic data and users' comments, the programme received very positive feedback and was recognised by the market.

Strategic priorities for HR management

In 2019, Santander Bank Polska S.A. focused on the following HR management areas:

Building positive employee experience

- The bank developed the employee journey map and identified hot spots, i.e. potential problems that an employee may encounter and that may influence their experience.
- Internal HR processes were simplified and automated to ensure they are more employee-friendly and better suit employees' needs. A number of new digital solutions were put in place and work was well under way to integrate the functionalities of different systems within one application: HR Portal.
- The range of benefits for employees was expanded to include new items (e.g. new car lease offering).

Leadership development

- To build positive employee experience and attractive work environment, a team of employees from different Santander Group units around the world (including from Poland) developed the model of Leadership Commitments that complement the Simple|Personal|Fair values and corporate behaviours. The model applies in Santander Bank Polska S.A. and sets standards to be followed by the leaders.

Transformation towards a self-learning organisation

- An internal tutelage programme called YOUiversity was launched and a number of internal training sessions were delivered.
- Measures were continued to develop the competencies of the bank's leaders and support them in their day-to-day team management.
- In connection with transformation of the business model, a catalogue of competencies of the future was created in addition to profiles of most wanted job candidates.

A responsible bank committed to diversity

- To ensure equal treatment of female and male employees, the bank monitors differences in remuneration using the EPG (Equal Pay Gap) and GPG (Gender Pay Gap) indicators.
- The EPG indicator was included in the pay increase process launched by the bank in 2019. As recommended by the Business Partnership Division, the pool of funds was divided in such a way as to ensure reduction in pay inequalities between women and men with the same role.
- As part of development programmes, female leaders built their personal brand at inspirational and mentoring sessions devoted to leadership. Santander Bank Polska S.A. was an official partner of the Women in Tech Summit – a technology conference for women from the IT industry.
- The Santander GO! portal launched in 2019 makes it possible for women to share experience and set up female groups (e.g. groups for mothers).

Elements of HR policy

Recruitment policy

Santander Bank Polska S.A. recruits new employees both internally and externally using methods and sources which are relevant to existing vacancies, including internal recruitment processes, the Referrals Programme, external service providers, specialised social media, practical training and internships, career fairs, events organised by universities, science clubs and career services.

The bank's employees have precedence over other candidates in the internal recruitment processes at Santander Bank Polska S.A. and the companies from Santander Consumer Bank Group, which increases their development opportunities and helps build individual career paths.

The candidate profiles are checked to see if they meet the required job criteria in terms of their competencies, experience, knowledge, motivation, personality and compatibility with the organisational culture. All persons involved in the recruitment process must comply with the business ethics principles arising from the Labour Code and internal policies, in particular with the confidentiality and non-discrimination regulations.

The Referrals Programme of Santander Bank Polska S.A. engages employees in the recruitment process as it provides an opportunity to recommend candidates for vacant job roles in the bank. The system helps to reach a wider group of prospective employees who have relevant skills, aptitude and motivation, and are interested in taking up a job at the bank.

The recruitment process is additionally supported by the Practical Training and Internship Programme run in cooperation with universities across Poland, which is designed to recruit young, qualified and talented individuals. In 2019, the bank offered internships in such areas as Software Engineering, Cyber Security, Big Data and User Experience, acquiring key competencies of the future in accordance with the global development strategy.

In 2019, Santander Bank Polska S.A. continued to recruit talents with a new profile that are better prepared to deal with such market challenges as volatility, digitalisation and robotisation. It also strongly focused on initiatives designed to enhance positive experience of job candidates and promote the bank as a modern and responsible employer that uses a range of technological solutions (such as a chatbot to support interaction with candidates, Waywer – a video messages sent to confirm the date of a job interview, job postings on Facebook) is active on social media (LinkedIn, Facebook) and has diversity programmes in place which are dedicated to selected candidate groups (the Differently Abled Programme promoting employment of people with disabilities).

In 2019, Santander Bank Polska S.A. started cooperation with global structures with a view to launching a common job posting platform for Santander Group employees from all countries. These initiatives are to support experience sharing across the Group and enable the bank's employees to develop their careers as part of global structures.

Performance management

Santander Bank Polska S.A. has an objectives management process in place which supports staff development and promotes behaviours in accordance with the Simple|Personal|Fair values. The process allows for flexibility (as the objectives can be modified along the way) and for communication efficiency (as it facilitates communication between employees and their line managers due to more frequent meetings, regular feedback, and support of the HRup! system). In the existing model, individual performance (assessed in two dimensions: WHAT and HOW) is closely related to the bonus level. The launch of the new process and the IT tool was preceded by extensive preparations, as part of which workshops were held for all the bank's managers.

Remuneration and incentive system

The objective of the remuneration system of Santander Bank Polska Group is to recruit and retain top talents in the financial sector, using an appropriate and competitive remuneration package including base salary, bonus schemes and attractive benefits. The long-term goal of the remuneration policy is to ensure sustainable growth of the Group, with due regard to the interests of the key stakeholder groups (employees, shareholders, customers and local communities) as well as corporate values.

The structure of the total remuneration offered by the bank is in line with the market practice, and the amount of remuneration corresponds to the levels prevailing in the banking sector.

The rules for remunerating employees are set out in the Remuneration Policy of Santander Bank Polska Group, which covers all employees of the bank and its subsidiaries, including those whose professional activity has a significant impact on the risk profile of the organisation ("Material Risk Takers"/"MRT"). The above document sets out the rules for calculating fixed and variable components of remuneration (including malus clauses) and criteria for payment of variable remuneration and other components of total remuneration (fixed and variable components, long-term incentive programmes, etc.).

The policy is based on an assumption that remuneration should be consistent with the interests of the shareholders and support creating a long-term value, while taking into account risk management, strategies, values and interests of the organisation as well as capital requirements. The policy is consistent with the remuneration policy of Santander Group, relevant EBA guidelines on sound remuneration policies (EBA/GL/2015/22) and the Regulation of the Minister of Economic Development and Finance of 6 March 2017 on the risk management system and the internal control system, remuneration policy and detailed method of internal capital estimation in banks (Journal of Laws of 2017, item 637).

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

The updated policy:

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

The annual remuneration review conducted in 2019 focused on individual performance and behaviours of employees, talent retention and building and strengthening the bank's positive reputation as an employer.

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

Satisfactory financial results for 2018 enabled the bank to launch annual bonus payments for employees in H1 2019.

Fixed remuneration

The key component of remuneration at Santander Bank Polska S.A. is the base salary, which is determined on the basis of the role performed, scope of responsibility, qualifications and experience. In its approach to job valuation, the Group uses best market practice to ensure competitiveness of remuneration. In response to dynamic changes in the labour market, the Group's remuneration system is periodically revised using payroll reports of leading advisory companies and data published by Central Statistical Office (GUS).

The last comprehensive review of base salaries took place in Q3 2019, leading to pay increases at the bank. The main objective of this process was to recognise individual performance and behaviours of employees, retain talents and adjust salaries to specialised tasks which significantly affect the bank's transformation in the long run. Another reason was to address pay gap between women and men performing the same role and build the employer brand in the labour market.

Variable components of remuneration

The bonus schemes adopted by Santander Bank Polska S.A. enhance staff motivation and support the delivery of strategic objectives set by the organisation. Such schemes are linked to the results of the bank, respective units and individual employees whose performance, delivery of objectives, behaviours and engagement are reviewed on a regular basis.

The bank's employees are set individual objectives that correspond to the activities of a given organisational unit. The objectives of the employees within the control units arise from the roles they perform and their remuneration does not depend on the financial performance of business areas they control. In the case of the sales staff, in addition to business objectives the performance review also covers the objectives related to customer service.

Variable remuneration depends on a bonus scheme relevant to a given employee (including bonus regulations for sales staff and Business Support Centre employees). Individual bonus schemes differ in terms of eligibility criteria, bonus amount and payment frequency. Bonus payment is conditioned upon the delivery of specific financial objectives (e.g. net profit growth rate or amount, credit risk cost ratio, NPL, RWA) and satisfaction of qualitative criteria (e.g. customer satisfaction).

Incentive programmes for the company's Management Board members and its key managers make their reward dependent on assessment of the company's long-term financial position, long-term growth in shareholder value, stability of the company's operations and risk appetite. In accordance with KNF guidelines, at least 50% of variable remuneration is paid in the form of phantom shares. In addition, 40% of variable remuneration is deferred for the period of three years, and payment of each deferred portion is determined by the absence of negative premises that would prevent from or reduce the amount of payment.

Variable remuneration components also include long-term (three-year) incentive programmes addressed to key employees of the bank. The award is granted in the form of the bank's shares (new issue) provided that certain business criteria defined in the terms of the Programme have been met (for more information, see Section 5 "Governing Bodies", Chapter XIII "Statement on Corporate Governance in 2019").

Santander Bank Polska Group applies formal principles of identification, assessment and ex-post review of performance for which the variable remuneration has to be adjusted based on the performance of employees categorised as material risk takers and other employees subject to those regulations.

The Group also offers additional benefits that suit employees' needs such as: health care packages or the cafeteria system which provides a wide range of cultural, sports or tourist benefits.

Social and employee benefits

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

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

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

Employees may also choose from a variety of hotel, tourist, cultural, sports and shopping options available in the cafeteria system, which may be paid for using points awarded to each employee.

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

As part of support to families with children, the bank sponsors school starter kits for children and teenagers up to 18 years old and reimburses the costs of care over children in nurseries, kindergartens, children's clubs as well as summer, winter or day camps for children. Furthermore, in connection with a childbirth the bank's employees may use an additional three-week paid leave, work reduced hours or avail of an induction period.

Each year, the bank organises the "Banker's Hike" ("Rajd Bankowca") as part of which employees and their families can travel to different interesting places in Poland and abroad. The initiative combines active family holidays with team building and good fun. In 2019, nearly 900 employees and their families took part in the event.

2019 was the third year in which the bank continued its "BeHealthy" programme, which is a part of the global corporate wellness programme of Santander Group. It is based on a holistic health model whose objective is to promote a healthy lifestyle and work-life balance. The programme covers educational and motivational campaigns and health promotion activities initiated by employees and organised in cooperation with internal and external partners. They include, among other things, health consultations at the company, webinars with experts, and articles on healthy diet, ergonomics and active leisure. In 2019, nearly 1,000 runners represented the bank in Poland-wide runs. The bank launched an application designed to encourage sports competition among employees, in which they can build their communities, share their interests, take up various challenges and motivate one another.

Training and development

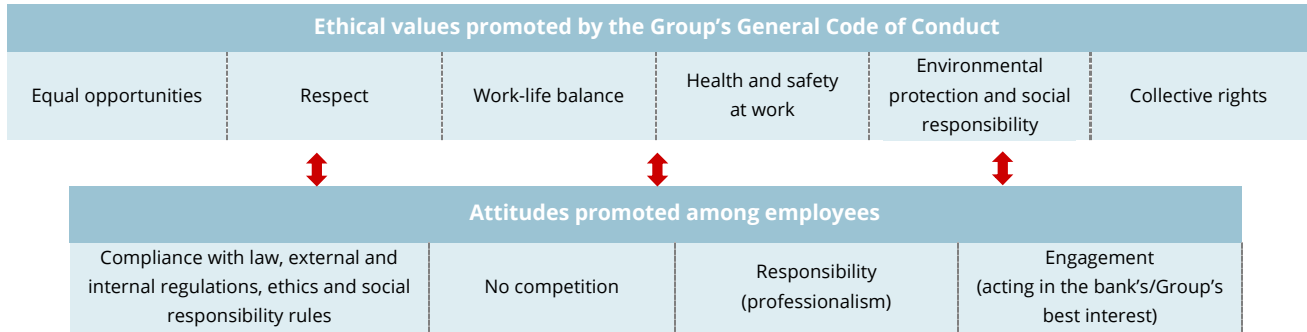
The Business Partnership Division provides development programmes and business training to support the development of employees and managers and facilitate delivery of the Group's strategic goals and key business projects. The development and training model improves the bank's performance while responding to the employees' career development needs. Increasingly often, it also makes use of the solutions available within the global Santander Group.

A wide range of training and development initiatives were delivered in 2019, using different forms, methods and tools. They supported development of senior and middle management, female leaders, talents, Agile employees, all staff as part of centralised activities and employees with specialised development needs.

2. Business Ethics

Santander Bank Polska Group is committed to maintaining high ethical standards in its relationship with shareholders, customers and employees. Integrity, fairness and honesty are fundamental elements of the Group's corporate culture.

The Santander Group's General Code of Conduct establishes standards and promotes attitudes and behaviours that are compliant with the Simple | Personal | Fair values. It provides a set of guidelines for all employees, irrespective of their role in the organisation.



The code is complemented with regulations concerning specific areas: Code of Conduct in the Securities Markets, Anti-Money Laundering Policy, Anti-Corruption Programme, Conflict of Interest Policy and many others.

The Group combats any forms of corruption in accordance with the zero tolerance for corruption policy.

The Group continually develops tools and resources to be able to minimise the materialisation of legal liability risk arising from employee offences. The Corporate Defence Model adopted in this respect is a set of internal rules aimed at mitigating this type of risk.

In order to protect its reputation, the Group continues to deliver the ethics and compliance e-learning programme (COMET), which has become a regular part of the mandatory staff training system. Ethical and reputational issues are also incorporated in the risk pro campaign that promotes risk culture across the organisation.

The reputational risk management methodology and procedure implemented in 2018 have been developed and refined to facilitate the management and improve the control of this type of risk. Reputational risk is a transversal risk which is one of the key elements of compliance risk management at the bank.

The bank consistently promotes the idea of an open dialogue with employees and provides them with special communication channels whereby they can report any breaches of the General Code of Conduct or other issues and concerns they may have, including anonymously. Apart from the etyka@santander.pl email inbox, employees may use two helplines to report ethical or employment-related issues, respectively. In 2019, the bank continued an Intranet-based training and information campaign to remind employees about communication channels available at the bank and to encourage them to report any violations.

During the year the bank finalised work connected with the design of an IT platform which will facilitate incident reporting (including anonymously) and handling.

VI. Relations with Customers

1. Service Quality and Customer Experience Management

Customer experience management strategy

Customer experience is fundamental to the strategy of Santander Bank Polska S.A. and its success. It is also one of the most competitive areas in the banking sector.

In view of changes resulting from the acquisition of the demerged part of Deutsche Bank Polska S.A. as well as the new brand and visual corporate identity, in 2019 Santander Bank Polska S.A. updated its customer experience management strategy. The main focus was placed on quality, customer responsiveness and even more effective delivery of the brand promise: Bank As You Want It/ You Bank As You Want It.

In 2019, the customer experience management strategy was based on the three main pillars:

- Voice of the customer (including in-depth analysis of business data and market trends)
- Service design
- Customer-centric projects.

Voice of the customer

As a starting point for service quality improvements in 2019, the bank identified the key areas of customer dissatisfaction based on customer surveys and analysis of business data and consumer trends.

Customer feedback is received on a regular basis at the following three levels:

- benchmarking surveys, which compare the bank to its peers;
- relationship surveys, in which customers are asked to assess their relationship with the bank;
- transactional surveys, which follow the customer's interaction with the bank (at a branch, at a partner outlet, with a Select advisor, etc.).

In addition to the above surveys, customer feedback is also obtained through mystery shopping exercises and numerous specific ad-hoc studies. They are used to better identify and meet customers' needs. In 2019, a survey team was set up in the Multichannel Communication Centre, thanks to which some of the surveys may now be conducted in house and may be flexibly managed and quickly initiated. This way, the bank is able to respond to customers' expectations in a faster and more effective way.

Service design

To ensure that the solutions proposed for hot spots (areas that need improvement based on customer experience) better suit customers' needs, workshops were organised by Service Design experts to develop prototypes based on the voice of the customer. Once tested and refined with customers, the first concepts were implemented in H2 2019 as part of initiatives undertaken by the bank as an increasingly mature and flexible Agile organisation.

The Management Board members and senior executives also contributed to developing solutions using the design thinking approach. They worked out the rules to be followed when putting together proposals for the bank's customers.

The design thinking method is becoming increasingly popular at the bank. It fits well with the Agile way of working and brings about results that improve the perception of the bank by its customers.

Customer-centric projects

In 2019, the following projects were implemented:

- New customer service standards, which encourage a more natural interaction with customers and facilitate first contact resolution;
- “Rzecz jasna”: a plain language project launched to simplify communication with customers;
- EDU Service Design: a programme designed to develop staff competencies in the area of service design;
- Definition of key qualitative indicators in the Business Support Centre in relation to the most significant customer journey points, with value created by individual organisational units.

The effects of the above measures are expected to be seen in 2020.

Major achievements in 2019

The quality awards received in 2019 confirm the effectiveness of initiatives undertaken by the bank to enhance customer experience.

QUALITY AWARDS IN 2019



Newsweek's Friendly Bank
1st place in the traditional banking category
2nd place in the online banking category



Golden Bank
main award according to the
survey carried out for Bankier.pl
and Puls Biznesu



Forbes
2nd place
in the Best Business Bank ranking

Complaints management

Santander Bank Polska S.A. not only makes sure that complaint handling complies with regulatory requirements, but also works on increasing customer satisfaction at each stage of the process – from receipt of the complaint to communicating the outcome to the customer. Customers who are not satisfied with the resolution may appeal to the Customer Care Officer, who provides the relevant support. After the end of the complaint-handling process, the bank measures the level of customer satisfaction.

Customers may submit a complaint by following a simple procedure in any of the following ways: at a branch, in writing, over the phone or via an electronic banking platform, including via a video call or chat. The reply to the complaint may have a form of a letter, a text message or a message sent via internet or mobile banking services. Customers also receive text messages informing them about the status of the process: acceptance of the complaint, closure of the process (indicating the channel in which the bank will reply) or additional time needed to resolve the complaint (if longer than 7 days).

In 2019, a number of measures were put in place to optimise the complaint-handling process:

- The bank increased robotic process automation, extending the scope of fast-track procedure involving robots to include complaints related to business accounts and savings accounts.
- Customers who received the bank's reply to their complaint via a text message were sent letters explaining how card fees had been charged for educational purposes.
- Branch employees, helpline staff and Select and Private Banking advisors were authorised to inform customers, in specific circumstances, that their complaint has been upheld right after its acceptance (with money claimed by customers to be refunded within two working days).

2. Barriers-Free Banking

Santander Bank Polska S.A. has been running and developing the “Barrier-Free Banking” (“Obsługa bez Barrier”) programme, designed to ensure comfortable access to the bank’s services and products for customers with special needs (the disabled, the elderly, pregnant women). Facilities for the disabled are created in cooperation with customers and experts. The bank seeks to ensure that all its service channels, from the branch network to mobile banking, are equally accessible to each customer.

Santander Bank Polska S.A. provides its customers with:

- a network of certified “barrier-free” branches (155 branches as at 31 December 2019); each year, new branches are covered with audits of architectural accessibility for customers with disabilities (26 branches in 2019) and re-certification audits (57 in 2019);
- remote video service in the Polish sign language (PJM) provided by advisors of the Multichannel Communication Centre;
- biometric solutions which support customer identification;
- “talking” ATMs with Braille labels, adapted for use by visually-impaired and blind customers – over 1,300 voice-guided machines with screen savers and high contrast options (as at 31 December 2019);
- online and mobile banking service, which is audited and gradually adapted to customers with disabilities;
- advertising messages adapted to the needs of the visually impaired (audio description) and hearing impaired;
- subtitles and sign language translator; video tutorials published on the website of the “Barrier-Free Banking” programme (www.santander.pl/obb) and on the bank’s YouTube channel.

In 2019, the bank undertook a number of initiatives to support people with disabilities:

- The next 5 branches were equipped with portable induction loops (small devices facilitating interactions with customers who use hearing aids), bringing the total number of such branches to 26.
- All branches were equipped with portable priority-service signs to ensure that the elderly, pregnant women and customers with disabilities are served first.
- From April to June 2019, the bank ran an educational and information campaign targeted at employees and customers, based on a video entitled: “We are not that different, are we?” (“Wcale tak bardzo się nie różnimy, prawda?”), which featured the bank’s employees and the disabled and showed the perspective of people with special needs.
- The bank designed and implemented the process of requesting access to non-personalised documents (such as agreement templates, terms and conditions or schedules of fees and charges) in accordance with the Act of 19 July 2019 on ensuring accessibility for people with special needs.

3. CRM Solutions

In 2019, Santander Bank Polska S.A. worked on customer relationship management (CRM) solutions that helped personalise communication with customers and identify events which are key to building strong relationships.

- Work was underway to develop mechanisms that enhance communication with customers. They are planned to be launched and parameterised in early 2020.
- The first real-time personalised messages were prepared and sent via electronic banking systems. Messages and documents sent to customers (including agreement templates and terms and conditions) were started to be simplified in cooperation with linguists.

Along with the growth in sales as part of CRM campaigns, the above measures caused an increase in NPS, notably in the group of customers covered by the communication initiatives.

VII. Investor Relations

1. Investor Relations in Santander Bank Polska S.A.

The ambition of Santander Bank Polska S.A. is to maintain best-in-class standards of communication with capital market participants in Poland and abroad. The bank is focused on providing accurate and transparent information, while ensuring a level playing field for all stakeholders.

As a listed company with an established market position, Santander Bank Polska S.A. is required to actively communicate with its stakeholders in order to satisfy their information requirements in accordance with the highest market standards and prevailing laws.

Particularly important is the communication with shareholders, investors and analysts. Santander Bank Polska S.A. makes best efforts to provide the above stakeholders with regular and timely access to high quality and clear information in order to facilitate the accurate assessment of the bank's financial standing, market position and effectiveness of its strategy and business model.

The bank's Investor Relations Office maintains relationships with institutional investors and stock market analysts, informing them of the bank's development and performance and other relevant aspects which may affect their decisions. This is to ensure adequate transparency of the company, build trust and promote the bank's image in capital markets.

In 2019, the following initiatives were undertaken as part of standard investor relations activities:

- The representatives of the bank's Management Board and the Investor Relations Office held 150 meetings with investors and stock market analysts.
- The bank's representatives participated in 10 brokerage conferences in Poland and abroad (including in the UK, the USA, Austria, the Czech Republic and Greece).
- In May 2019, Santander Bank Polska S.A. took part in the Wall Street Conference organised each year by the American Association of Individual Investors. The bank's representatives presented the company and its shares to retail investors.
- Four conferences were held to present market analysts with the bank's quarterly performance. In line with best market practice, they were broadcast online in both Polish and English, and recordings were made available on the bank's website (<https://bank.santander.pl/relacje-inwestorskie/serwis-relacji-inwestorskich.html>).

At the end of 2019, 16 analysts from Polish and foreign financial institutions prepared and published reports and recommendations concerning the bank's stocks.

All announcements and reports published by the bank are available on the Investor Relations website: <https://bank.santander.pl/relacje-inwestorskie/serwis-relacji-inwestorskich.html>. Results and presentations from the past years can also be found there.

2. Share Capital, Ownership Structure and Share Price

Ownership structure in 2019

As at 31 December 2019, the share capital of Santander Bank Polska S.A. totalled PLN 1,020,883,050, divided into 102,088,305 ordinary bearer shares with a nominal value of PLN 10 each.

	Number of Shares Held and Votes at AGM		% in the Share Capital & Voting Power at AGM	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Shareholders with a stake of 5% and higher				
Banco Santander S.A.	68 880 774	68 880 774	67,47%	67,47%
Funds managed by Nationale-Nederlanden PTE S.A. ¹⁾	5 123 581	n/a	5,02%	n/a
Others	28 083 950	33 207 531	27,51%	32,53%
Total	102 088 305	102 088 305	100,00%	100,00%

1) Funds managed by Nationale-Nederlanden Powszechnie Towarzystwo Emerytalne (PTE) S.A.: Nationale-Nederlanden OFE (open-end pension fund) and Nationale-Nederlanden DFE (voluntary pension fund).

Compared with the end of 2018, the share of the majority shareholder, Banco Santander S.A., did not change. As regards the minority shareholders, only the funds managed by Nationale-Nederlanden PTE S.A. exceeded a 5% threshold as a result of the following acquisitions:

- 12 December 2019 – settlement of an increase in the shareholding in Santander Bank Polska S.A. by Nationale-Nederlanden OFE and Nationale-Nederlanden DFE (funds managed by Nationale-Nederlanden PTE S.A.) by 4,581 shares to 5,108,581, representing 5.00% of the bank's share equity and voting power.
- 17 December 2019 – settlement of an increase in the shareholding in Santander Bank Polska S.A. by Nationale-Nederlanden OFE (fund managed by Nationale-Nederlanden PTE S.A.) by 15,000 shares to 5,123,581, representing 5.019% of the bank's share equity and voting power.

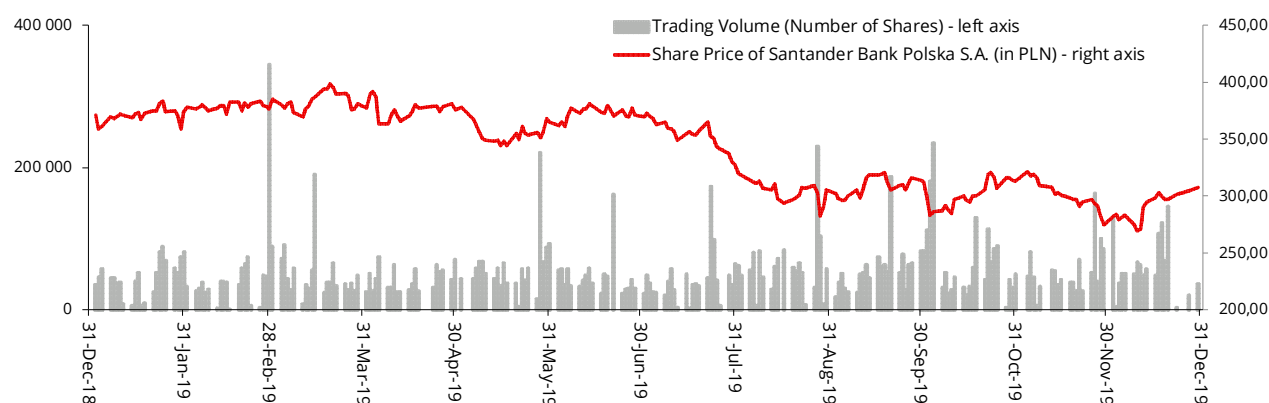
Majority shareholder

The profile of Banco Santander S.A. and its Group is presented in Chapter II "Basic Information about the Bank and Santander Bank Polska Group", Section 1 "History, Ownership Structure and Profile".

3. Share Price of Santander Bank Polska S.A. vs. the Market

SHARE PRICE OF SANTANDER BANK POLSKA S.A. AND ITS TRADING VOLUME IN 2019

Santander Bank Polska Price and their Stock Exchange Trading Volumes in 2019



Key Data on Santander Bank Polska Shares		2019	2018
Number of shares at the year-end	items	102 088 305	102 088 305
Nominal share price	PLN	10,00	10,00
Share's closing price at the year-end	PLN	307,40	358,20
YoY change in the share price	%	-14,2%	-9,6%
Share's maximum closing price over the year	PLN	398,60	442,00
Date of the share's maximum closing share price	-	20.03.2019	24.01.2018
Share's minimum closing price over the year	PLN	269,20	327,60
Date of the share's minimum closing price	-	10.12.2019	19.06.2018
Price per earning ratio (P/E) at the year-end (Bank)	-	14,85	16,82
Basic earning per share (EPS) at the year-end (Bank)	PLN	20,70	21,80
Market capitalisation at the year-end	PLN m	31 381,9	36 568,03
Dividend per share ¹⁾	PLN	19,72	3,10
Dividend registration date	-	30.05.2019	30.05.2018
Dividend payment date	-	14.06.2019	14.06.2018

1) For more information see "Dividend per share" section below

In 2019, the share price of Santander Bank Polska S.A. followed the downward trend started in 2018 when the stocks of the banking sector came under supply pressure. The decline in the bank's share price was driven by both global and local factors. The weaker performance of the banking sector was largely caused by the uncertainty over the verdict of the Court of Justice of the European Union (CJEU) and its impact on the ruling practice of the Polish courts and the number of lawsuits against banks. It was also affected by low demand for Polish stocks from local and foreign investors, reflecting the statistically confirmed negative sentiment towards Polish equities. Another contributing factor was the stance of the Monetary Policy Council, which did not decide to increase interest rates last year. A series of negative developments in the banking sector caused a 14.2% decrease in the market capitalisation of Santander Bank Polska S.A. (from PLN 36.6bn on 31 December 2018 to PLN 31.4bn on 31 December 2019). WIG-Banks, an industry index, lost 8.8% in that period.

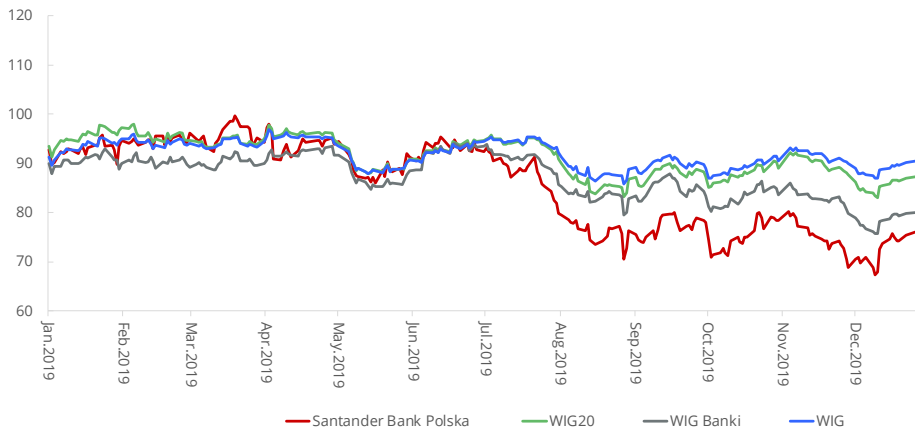
During the year, the share price of Santander Bank Polska S.A. ranged from PLN 398.60 on 20 March 2019 to PLN 269.20 on 10 December 2019. On 14 June 2019, the bank paid out a dividend of PLN 19.72 per share (PLN 14.68 per share of series M).

Due to strong liquidity and high market capitalisation, shares of Santander Bank Polska S.A. are traded in a number of stock market indices. Apart from WIG-Banks (an industry index), WIG (a broad-based index) and WIG20 (a blue-chip index), the bank is included in such index portfolios as: RESPECT, WIG-Poland, WIG30, WIG30TR and WIG20TR.

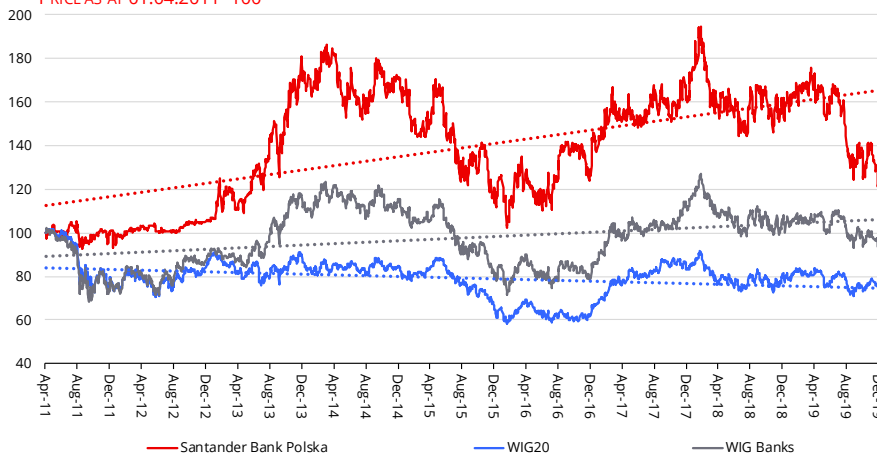
The charts below show the share price of Santander Bank Polska S.A. against main stock exchange indices in 2018 and 2019 and since the acquisition of a controlling stake by Banco Santander on 1 April 2011.

SHARE PRICE OF SANTANDER BANK POLSKA S.A. VS. KEY INDICES

SHARE PRICE OF SANTANDER BANK POLSKA S.A. VS. INDICES IN YEARS 2018-2019
SHARE PRICE OF SANTANDER BANK POLSKA S.A., WIG20, WIG BANKI AND WIG AS AT 03.01.2018 = 100



SANTANDER BANK POLSKA SHARE PRICE VS. MAIN LOCAL INDEXES FROM 2011 TO 2019
PRICE AS AT 01.04.2011=100



Dividend per share

As at the release date of this report, the Management Board of Santander Bank Polska S.A. did not finish the analysis required to issue a recommendation on dividend payment for 2019.

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

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

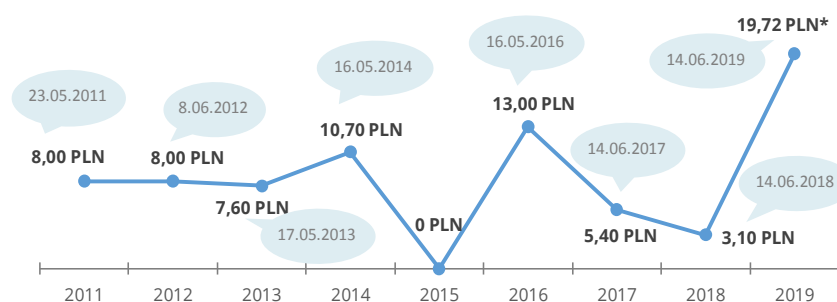
The dividend paid out of the profit earned in 2018 and 2017 included shares of all series (i.e. from A to N), while the dividend paid from the profit generated in 2016 did not include series M shares, as stipulated in the AGM resolution no. 43 of 17 May 2017.

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

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

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

**DIVIDEND PER SHARE PAID OUT BY SANTANDER BANK POLSKA S.A.
IN YEARS 2011-2019 ***



* Santander Bank Polska S.A. pays dividends in accordance with the dividend policy in place, taking into account individual recommendations of the KNF in this respect.

4. Rating of Santander Bank Polska S.A.

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

Rating by Fitch Ratings

The table below shows rating actions taken by Fitch Ratings in relation to Santander Bank Polska S.A., which were applicable on 31 December 2019 and 31 December 2018.

Rating Category of Fitch Ratings	Ratings affirmed as at 12.10.2018 and 7.10.2019
Long-term Issuer Default Rating (long-term IDR)	BBB+
Outlook for the long-term IDR rating	stable
Short-term Issuer Default Rating (short-term IDR)	F2
Viability rating (VR)	bbb+
Support rating	2
National long-term rating	AA(pol)
Outlook for the national long-term rating	stable
Long-term senior unsecured debt rating	BBB+
Short-term senior unsecured rating for eurobonds	F2
Long-term senior unsecured rating for eurobonds	BBB+

Rating by Moody's Investors Service

The table below sums up the ratings assigned by Moody's Investors Service to Santander Bank Polska S.A., which were applicable on 31 December 2019 and 31 December 2018. On 3 June 2019, Moody's Investors Service upgraded the ratings of Santander Bank Polska S.A.

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

VIII. Relations with External Environment

1. Corporate Social Responsibility at Santander Bank Polska S.A.

The objective of sustainable and socially responsible development at Santander Bank Polska Group is to build a long-term value for all stakeholders, i.e. individuals and entities which affect or are affected by the organisation (employees, customers, business partners, shareholders and communities), and to manage social and environmental risks arising from the activities of the Group and its customers. The Group's approach to sustainable development as part of responsible business has been summarised in the Sustainability Policy. The ethical, social and environmental commitments undertaken therein go beyond the legal commitments towards stakeholders.

In its activity, the bank is focused on delivery of the UN Sustainable Development Goals which are most consistent with its business operations and on which the bank, being a financial institution, can have the biggest impact.



The Group also respects international best practices concerning social aid and environmental protection, particularly the Equator Principles signed by the bank in 2009.

Responsible banking is embedded in the business strategy of the organisation and is based on the following pillars:



2. Key Sponsorship Projects in 2019

In 2019, the bank delivered sponsorship initiatives in the following three areas: sports, culture and education. The bank is focused mainly on long-term projects which can be associated with its brand and facilitate communication and relationship building activities aimed at employees and customers alike.

Key sponsorship projects continued/launched in 2019

UEFA Champions League	<ul style="list-style-type: none"> In 2019, the bank continued the Group's strategic project, namely the sponsorship of the UEFA Champions League (UCL), the world's most prestigious football club competition. The former Brazilian footballer Ronaldo Nazário is an international ambassador of Santander Group for its UEFA sponsorship. In 2019, Santander Bank Polska S.A. organised three events in Warsaw with Ronaldo as the brand ambassador: briefing with the media, a meeting for customers and a meeting for employees of the bank. The communication activities in social media – run under the slogan #mocfutbolu (#powerofthefootball) – allowed the bank to reach a wide group of supporters and their families. In 2019, the bank delivered many relationship projects, including football trips for customers, competitions for customers and employees, and football tournaments for employees. The UEFA Champions League sponsorship was promoted through the <i>Domowe Rozgrywki</i> miniseries released by the main broadcaster – Polsat TV.
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Key sponsorship projects continued/launched in 2019 (continued)

Santander Orchestra	<ul style="list-style-type: none"> • This internal project of Santander Bank Polska S.A. is designed to support the career of the most talented young musicians. • In addition to classes with world-famous musicians, students and graduates of music schools take part in lectures on copyright, financial management, biomechanics or the psychology of music. • In the previous years, the orchestra played classical music, while in 2019 it also turned to jazz. • The 5th edition of the project in 2019 included: four symphonic concerts, three chamber concerts (among others during the 2019 UEFA Champions League Final in Madrid) and "Symphosphere" tour. In 2019, Santander Orchestra performed 13 concerts for the audience of 12 thousand people.
How's Your Driving (Jak Jeździsz) (including #SMARTOFF campaign)	<ul style="list-style-type: none"> • The project "How's Your Driving" ("Jak Jeździsz") launched by the bank in 2015 promotes responsible behaviour and good road manners. • As part of this initiative, communication activities are held in social media with the support of the project ambassador, the racing driver Kuba Giermaziak. Several times a week, interesting articles on cars and safe driving are published on the project's fan page (which has now more than 130 followers) alongside up-to-date traffic information, tips on car culture, operation and equipment, traffic regulations, first aid in the event of collision and traffic accident, safe transport of children and driving techniques, etc. • In 2019, the bank launched one of the first campaigns to raise awareness of risks of using a mobile phone while driving, called "#SmartOff". The objective was to make drivers aware of the resulting risk and eliminate the bad habit of taking eyes off the road to look at the smartphone. • In 2019, the project reached more than 9 million people on social media. • In July 2019, the project's Instagram profile was set up, which has had 1.3 thousand fans to date and reached 836 thousand people.
Santander Polish Masters	<ul style="list-style-type: none"> • In 2019, the bank was the titular sponsor of Santander Polish Masters, one of Poland's largest golf tournament series, attracting a large number of players each year. This sports tournament is included in the ranking of the Polish Golf Union. • More than 1,400 competitors took part in the preliminaries and in the final of Santander Polish Masters, including customers of Santander Bank Polska S.A.
Garmin Iron Triathlon	<ul style="list-style-type: none"> • In 2019, the bank was the strategic sponsor of Garmin Iron Triathlon, Poland's oldest and biggest triathlon tournament. • The 2019 season attracted the record number of 6,850 competitors. • Competitors are supported by several dozen thousand fans and counting.
Santander Station	<ul style="list-style-type: none"> • Santander Station is a mobile pavilion which was set up in five Polish cities chosen by the bank's employees in the competition: "What can the Bank do for its local communities?". • The Station is an educational space open to everyone. In just 30 days it attracted nearly 4,000 guests, offering them 60 educational games (including "Finansiaki" and "Leaders of Europe"), 50 first aid workshops and a rowing challenge to support five local charitable organisations.

3. Social Engagement

Santander Bank Polska Foundation of I.J. Paderewski

Social programmes

Santander Bank Polska Foundation of I.J. Paderewski carries out the majority of the bank's social programmes (including internal projects) and provides organisational and financial support to corporate volunteering initiatives. In 2019, the Foundation performed around 180 agreements with social partners. The key cyclical projects included grant programmes supporting local communities, such as "The Bank of Young Sports Champions" ("Bank Młodych Mistrzów Sportu") and "Here I live, here I make changes" ("Tu mieszkam, tu zmieniam"). Through these programmes, the Foundation granted PLN 800k to various organisations.

In 2019, the Foundation ran the "I help with Santander" ("Pomagam z Santander") programme, under which books for children and young people were donated to hospitals. As a result of this initiative organised in partnership with the Zeczytani.org Foundation.

The Foundation supports talented young people through its Scholarship Programme. Almost 400 applications were submitted as part of the second edition of the Programme in 2019. Scholarship was granted to 20 people. The Foundation also continued "The Bank of Young Sports Champions" ("Bank Młodych Mistrzów Sportu") project, under which support was provided to 47 organisations. The "HAPPY SENIOR – connecting generations" ("HAPPY SENIOR – łączymy pokolenia") event was organised to bring together older and young people, promote active lifestyle and teach about financials. This was accompanied by a flash mob event open to people of all ages.

Other social projects carried out by the Group in 2019 are presented in the Statement on Non-Financial Information for 2019, Section "Social responsibility", Subsection "Social projects".

Corporate volunteering

The I.J. Paderewski Foundation also supports corporate volunteering initiatives delivered at the bank. In 2019, the bank's employees initiated and carried out around 200 projects across Poland to support social organisations and people in need. The number of volunteers at Santander Bank Polska S.A. increased from 1.3 thousand to more than 2 thousand during the year, while the number of volunteering initiatives went up by nearly one third.

Other social projects

Social projects carried out by the Group in 2019 are presented in the Statement on Non-Financial Information for 2019, Section "Social responsibility", Subsection "Social projects".

4. Communication with Stakeholders

Corporate Social Responsibility Report

The bank issues regular communications about its CSR activities, mainly by means of its annual Corporate Social Responsibility Report of Santander Bank Polska S.A., prepared in accordance with the guidelines of the Global Reporting Initiative (GRI STANDARDS) and reviewed by an independent auditor. The report for 2018 was made available online in Polish (at raport.santander.pl) and in English (at en.raport.santander.pl).

Marketing communication

Brand promise

The bank's marketing communication is founded upon its brand promise introduced in 2017: Bank As You Want It. It is an integral part of the bank's logo and one of the strongest taglines among slogans of peer banks. In accordance with its promise, the bank responds to changing customers' needs at each stage of their lives, as demonstrated by survey results. As many as 90% of customers are satisfied with tailored products and services.

Marketing campaigns

The TV campaigns, featuring Łukasz Nowicki, continued to focus on messages based on emotions (empathy, support, understanding). The ATL campaigns promoted the flagship Account As I Want It along with the bundled services. Four Poland-wide TV campaigns were run in 2019 in the segment of personal customers.

- In the first half of the year, the communication activities were focused on a multi-currency package offered to holders of the Account As I Want It and mobile payments available in the bank's electronic banking platform.
- In the second half of the year, the bank ran an image-building campaign to communicate its brand promise: Bank As You Want It. It also continued the mobile payments campaign and advertised automatic saving and instant transfers coming with the Account As I Want It.

In 2019, measures were taken to promote a new branch format – Work/Café, and a range of smaller-scale marketing initiatives were delivered to promote deposits, insurance, Blik payments, and products and services for Private Banking and Select customers, among other things. The public was also informed about the awards received by the bank such as: Mobile Trends Awards, Golden Banker, and positions in the Newsweek's and Forbes' rankings.

Social media

At present, the bank has 300 thousand Facebook fans, 19.5 thousand Twitter fans and the second biggest fan page among Polish banks. In 2019, the bank implemented a new social media strategy which is focused on the user's experience with the bank. This helped to significantly increase the number of issues resolved in a single interaction (be it through Facebook, Twitter or Instagram). Furthermore, owing to faster and integrated communication, more than 70% of issues are dealt with in less than 10 minutes. In line with the latest trends,

the bank introduced a new type of content including valuable knowledge, which ensures better quality of discussion and translates into a positive social media sentiment.

Brand awareness

In 2019, Santander Bank Polska S.A. was among the leading banking brands, ranking second in terms of unaided brand recall (Kantar, Brand Equity Tracker). After a year since the change of the corporate identity, the brand is now seen as strong, more innovative and global. Both the logo and the flame itself are well recognised compared with the visual identity elements of the peer group.

IX. Business Development in 2019

1. Group's Business Management Structure

Operating structure

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

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

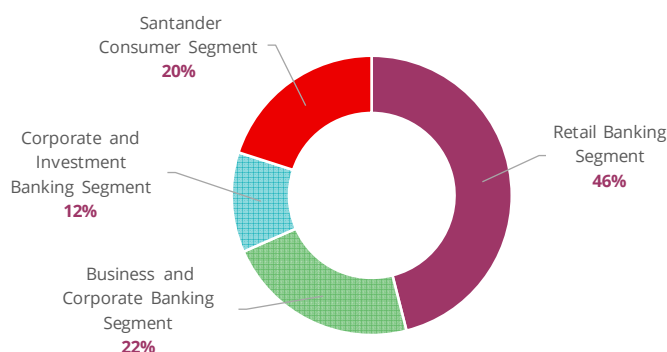
Segment reporting

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



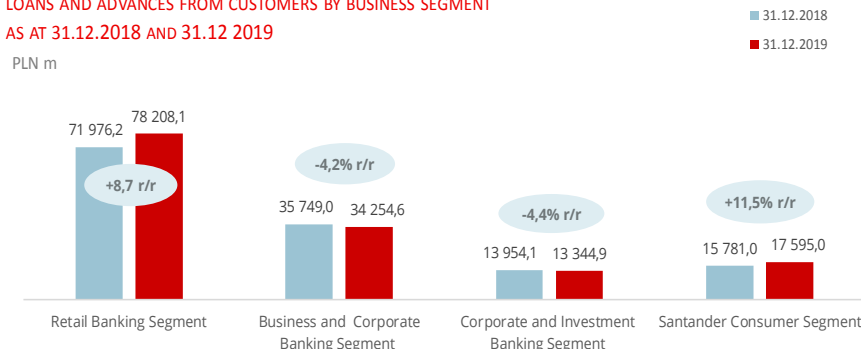
CONTRIBUTION OF BUSINESS SEGMENTS TO PROFIT BEFORE TAX OF SANTANDER BANK POLSKA GROUP FOR 2019
(EXCLUDING ALM AND OPERATIONS SEGMENT)

CONTRIBUTION OF BUSINESS SEGMENTS IN PROFIT BEFORE TAX OF
SANTANDER BANK POLSKA GROUP FOR 2019

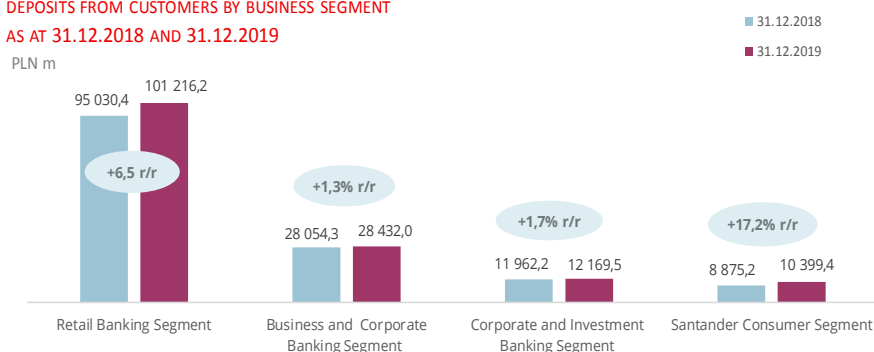


LOANS AND ADVANCES TO CUSTOMERS AND DEPOSITS FROM CUSTOMERS BY BUSINESS SEGMENT
AS AT 31.12.2018 AND 31.12.2019 (EXCLUDING ALM AND OPERATIONS SEGMENT)

LOANS AND ADVANCES FROM CUSTOMERS BY BUSINESS SEGMENT
AS AT 31.12.2018 AND 31.12.2019



DEPOSITS FROM CUSTOMERS BY BUSINESS SEGMENT
AS AT 31.12.2018 AND 31.12.2019



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

Segment	Area	Operating model
RETAIL BANKING	Customer profile	<ul style="list-style-type: none"> Personal customers (divided into Standard, Premium, Select or Private Banking customer segments based on their diverse needs and expectations). Small and medium-sized companies (with annual turnover up to PLN 8m).
	Key product lines	<ul style="list-style-type: none"> Savings products, consumer and mortgage loans, credit and debit cards, insurance and investment products, clearing services, brokerage services, GSM phones top-ups, foreign payments, Western Union money transfers and services for high-net-worth customers. Business loans, business deposits, cash management, lease, factoring, letters of credit and guarantees. Asset management services within investment funds.
	Service model	<ul style="list-style-type: none"> The bank has relationship-building, sales and after-sales contacts with retail customers mainly through the network of branches and partner outlets, phone banking (Multichannel Communication Centre) and electronic banking (Santander internet, Santander mobile in a mobile browser and Santander mobile application). Premium customers are serviced by dedicated advisors as part of their individual portfolios, based on a personalised approach and regular contacts aimed at strengthening relationships and customer loyalty. Private Banking and Select customers benefit from a personalised service model under which they may use the support of a specialised advisor and the Select Line operated as part of the Multichannel Communication Centre, which offers support via telephone. Firms with relatively low turnover are handled by SME advisors in branches and partner outlets. They may also use the services of the Multichannel Communication Centre and electronic channels (Santander internet and Santander mobile and dedicated services: Mini Firma, Moja Firma Plus and iBiznes24). Customers of Santander Brokerage Poland may invest via Inwestor online system, Inwestor mobile application, the Multichannel Communication Centre and at the bank's branches which offer brokerage services.

Segment	Area	Operating model
BUSINESS AND CORPORATE BANKING	<ul style="list-style-type: none"> Customer profile 	<ul style="list-style-type: none"> Businesses and corporations with turnover of PLN 8m–PLN 1.2bn, local authority units and the public sector.
	<ul style="list-style-type: none"> Key product lines 	<ul style="list-style-type: none"> Payment transactions, loans, deposits, cash management, lease, factoring, letters of credit and guarantees. Services to customers of other banks and financial institutions under agreements with those institutions.
	<ul style="list-style-type: none"> Service model 	<ul style="list-style-type: none"> Services are provided by 19 Business and Corporate Banking Centres (operating from the largest economic centres in Poland) and the Business and Corporate Banking Department – Premium, with the support of units specialised in transaction structuring, lending and product development. Customers have dedicated advisors who are responsible for the overall relationship. They are provided with access to the bank's products and services via remote channels, including internet and mobile iBiznes24 platform (featuring such functionalities as currency exchange and trade finance) as well as phone services of specialised operating centres (Business Service Centre, SME Service Centre and Trade Finance Service Centre).
CORPORATE AND INVESTMENT BANKING	<ul style="list-style-type: none"> Customer profile 	<ul style="list-style-type: none"> Largest corporate customers allocated to that segment based on the turnover (nearly 250 of the largest companies and groups). Corporations serviced within the international Santander Corporate and Investment Banking structures. Treasury, syndicated lending and advisory services for customers handled by other Divisions.
	<ul style="list-style-type: none"> Key product lines 	<ul style="list-style-type: none"> Transactional banking (including cash management), deposits, w/c finance, mid- and long-term finance, lease, factoring, letters of credit, guarantees and trade finance. Project finance, syndicated loans, arranging and financing of securities issues, financial advisory and brokerage services for financial institutions. FX and interest rate risk management products (offered to all customers of the bank).
	<ul style="list-style-type: none"> Service model 	<ul style="list-style-type: none"> Customers have dedicated advisors who are responsible for the overall relationship. They are provided with access to the bank's products and services via remote channels, including internet and mobile iBiznes24 platform as well as phone services of the Business Service Centre and Trade Finance Service Centre.
SANTANDER CONSUMER	<ul style="list-style-type: none"> Customer profile 	<ul style="list-style-type: none"> Personal and business customers.
	<ul style="list-style-type: none"> Key product lines 	<ul style="list-style-type: none"> Instalment loans, cash loans (including consolidation loans), credit cards, car finance (refinance solutions, lease facilities and lease loans), business loans, factoring and bank guarantees. Term deposits and insurance products (mainly linked to credit facilities).
	<ul style="list-style-type: none"> Service model 	<ul style="list-style-type: none"> The bank sells its products through: <ul style="list-style-type: none"> ✓ an own network of branches and franchise outlets, which offer cash loans, credit cards and retail deposits; ✓ a structure for mobile sales of car loans and lease facilities; ✓ a structure for mobile sales of corporate deposits; ✓ remote channels, including a call centre and the internet and mobile banking used to sell cash loans, credit cards and instalment loans; ✓ a network of partners offering the bank's car loans and lease facilities (car dealers, second-hand car dealers and intermediaries) as well as instalment loans and credit cards (retail networks and stores); ✓ a remote channel for car loans.

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

2.1. Retail Banking Segment

Main development directions

The strategy of the Retail Banking Division is to strengthen the presence in the Polish banking sector and maintain the position among the three top banks through unparalleled omnichannel services increasing the loyalty and satisfaction of customers and ensuring income growth.

In the Private Banking segment, the bank's priority is to provide superior customer service, protect and grow customers' wealth and offer a broad range of investment options with a suitable risk level.

Below are strategic focus areas of the Retail Banking Division in 2019:



Development of selected business areas

Individual product lines within the Retail Banking Segment focused on the following activities:

Product line for personal customers	Key initiatives in 2019
Personal accounts and bundled products, including:	<ul style="list-style-type: none"> In 2019, the Account As I Want It (Konto Jakie Chce) was the bank's main acquisition product for a wide group of customers. In October, the bank increased the competitiveness of this account for customers under 13 years of age by increasing interest rates on balances up to PLN 3k. High net worth customers were offered Select Account and Private Banking Account, previously sold as VIP Account and Elite Account, respectively. Along with implementation of system improvements, the account opening process was reduced and the documentation requirements were limited. Furthermore, customers were offered a possibility to authorise certain operations at the branch using a code sent via a text message, which helped reduce turnaround times, increase security and eliminate paper-based confirmations. As at 31 December 2019, the number of PLN personal accounts maintained by the bank grew by 4.2% YoY and reached 3.8m. 1.8m Accounts As I Want It were opened. Together with FX accounts, the personal accounts base totalled nearly 4.6m.
➤ <i>Payment cards</i>	<ul style="list-style-type: none"> In January 2019, Private Banking customers were offered the black Mastercard World Elite credit card which topped the <i>Forbes</i> ranking. All payment cards (personal debit cards, credit cards and business cards) held by customers of the former Deutsche Bank Polska S.A. were replaced with cards offered by Santander Bank Polska S.A. The bank continued extensive promotion and sponsorship activities to increase sales of personal accounts and payment cards. It ran more than a dozen campaigns, including special deals for the youngest customers and long-standing holders of Santander Bank Polska S.A.'s credit cards to celebrate the 20th anniversary of credit card issuance. In 2019, the bank took measures to enhance card payment authorisation systems, as a result of which the bank has the above-average acceptance rates in the systems of Visa and Mastercard payment organisations. Santander 3D ACS 2, the new system for authentication of card holders based on a new 3D Secure 2.0 protocol was EMVco certified. The system was developed in-house and may be deployed in other geographies of Santander Group. Technological changes were implemented in relation to card transactions, as required by PSD2. On 15 December 2019, the schedule of fees and charges was modified with respect to debit cards in connection with the EU regulation on cross-border payments. Charges for EUR withdrawals at ATMs in the EEA may not be higher than charges for cash withdrawals at third party ATMs in Poland. As at 31 December 2019, the volumes of card products offered by Santander Bank Polska S.A. were as follows: <ul style="list-style-type: none"> ✓ The personal debit card portfolio (excluding phased-out prepaid cards) comprised more than 3.9m cards and increased by 3.7% YoY. Taking business cards into account, the total number of debit cards reached 4.2m, up 4.6% YoY. ✓ The credit card portfolio comprised 805.0k instruments, a decrease of 5.2% YoY.
➤ <i>Payments</i>	<ul style="list-style-type: none"> The bank continued to adapt its systems to the new legislation on cross-border payments in the EU. In accordance with the regulations on cross-border payments, in December 2019 the bank reduced charges for EUR transfers to the EEA countries. To promote payment products and mobile payments, the bank became the strategic sponsor of Garmin Iron Triathlon 2019 for another year in a row. The Santander brand is increasingly associated with this event and with modern payment solutions, which translates into an increased number of users of Garmin Pay Santander Bank Polska S.A. and a higher number of transactions. As at the end of 2019, the number of digital cards used to make HCE, Google Pay, Garmin Pay and Apple Pay mobile payments added up to 834.1k (up 93.7% YoY).

Product line for personal customers	Key initiatives in 2019 (continued)
Deposit and investment products	<ul style="list-style-type: none"> In 2019, the bank's priority in terms of management of deposit and investment products was to grow volumes and profitability of the portfolio by increasing the share of investment solutions and personal and savings account balances. The range of investment products and services included brokerage services, structured deposits and investment funds, including funds managed by Santander Towarzystwo Funduszy Inwestycyjnych S.A. (Santander TFI S.A.), the bank's subsidiary, as well as selected Polish and foreign funds.
➤ <i>Deposits</i>	<ul style="list-style-type: none"> The Regular Savings Account (Konto Systematyczne) offered together with the Account As I Want It (Konto Jakiej Chceć) was the main deposit product for Standard and Premium customers. The number of customers holding the above savings account increased from 240k at the end of 2018 to 371k at the end of 2019, which was combined with a significant reduction of interest expenses connected with this product. To optimise deposit costs, in H2 2019 the bank reduced interest rates on the Regular Savings Account, off-sale savings accounts and EUR savings accounts. In the Select segment, the bank continued measures to strengthen customer relationships. In H1 2019, many customers signed up for the special offer called "Activity pays off 5" ("Aktywność procentuje 5"), as part of which they could earn up to 2% p.a. on their savings accounts if they actively used their personal accounts. In July 2019, the bank launched another special deal for Select customers called "Activity is rewarded" ("Doceniamy aktywność"), which offers 2% on deposits up to PLN 400k in savings accounts on condition of an active use of a personal account. At the end of December 2019, total retail deposits of Santander Bank Polska S.A. amounted to PLN 84.8bn, up 3.9% YoY. Current account balances increased by 11.5% YoY to PLN 61.5bn due to savings account balances totalling PLN 29.1bn (up 8.8% YoY). As a result of interest rate optimisation, term deposits decreased by 12.0% YoY to PLN 23.2bn.
➤ <i>Structured deposits</i>	<ul style="list-style-type: none"> In September, the range of structured deposits was expanded to include a 12-month Daily Range Accrual deposit linked to a EUR/PLN rate. During the subscription period, customers were also offered interest on the invested funds. The bank offered 63 products with a wide variety of tenors in the total of 27 subscriptions, including: <ul style="list-style-type: none"> ✓ 18 subscriptions of structured deposits with interest rate linked to the EUR/PLN or USD/PLN rate, and the investment strategy adopted by the customer: appreciation, depreciation or stabilisation of currency; ✓ 4 subscriptions of USD structured deposits, which paid interest depending on the USD/PLN rate; ✓ 5 subscriptions of Daily Range Accrual deposits with interest rate linked to the EUR/PLN or USD/PLN rate. The total funds acquired through structured deposits exceeded PLN 1.5bn and were 150% higher YoY.
➤ <i>Investment funds managed by Santander TFI S.A.</i>	<ul style="list-style-type: none"> In 2019, the company topped the league table in terms of total sales of products managed by funds which reached PLN 1.3bn. 82% of sales were generated in remote channels of Santander Bank Polska S.A. Customers of Santander TFI S.A. invested predominantly in corporate bond sub-funds and government bond sub-funds. The highest balance of contributions and redemptions was reported by Santander Prestiż Corporate Bonds, Santander Prestiż Government Bonds, Santander Corporate Bonds and Santander Government Bonds. Santander Prestiż Corporate Bonds sub-fund was among 10 best-selling Polish retail funds. Investment funds managed by Santander TFI S.A. posted very good returns. 18 of 34 sub-funds managed by Santander TFI S.A. reached at least the median. Santander Prestiż Technology and Innovations was one of top performing funds in 2019, with an annual rate of return at 36%. As at 31 December 2019, the total net assets in investment funds managed by Santander TFI S.A. were PLN 16.9bn and up 12.4% YoY. This gave the company the third position in the Polish sector in terms of net value of assets under management and 10.76% share in the retail market (excluding Employee Capital Plans). On 28 May 2019, Santander TFI S.A. was entered into the Employee Capital Plans Register kept by Polski Fundusz Rozwoju S.A. with its registered office in Warsaw. As part of Santander PPK SFIO, participants of Employee Capital Plans were offered 8 target-date sub-funds. The Management Board of Santander TFI S.A. reduced a management fee for the new sub-funds to 0% p.a. until the end of 2020.

**Product line
for personal
customers**

Key initiatives in 2019 (continued)

➤ *Brokerage services*

- In 2019, Santander Brokerage Poland continued to sell structured products as part of private placements for Private Banking customers (subscriptions for 13 structured products with and without capital protection). Structured products were used to strengthen relationships with customers, notably customers acquired along with an organised part of Deutsche Bank Polska S.A.
- In 2019, Santander Brokerage Poland acted as an issue agent with respect to customers' securities, including in partnerships within the Group. This helped diversify the sources of the bank's revenue in a difficult capital market environment.
- In 2019, Santander Brokerage Poland used a range of technological solutions to increase access to its services:
 - ✓ it provided customers with an option to open brokerage accounts by click via Santander internet and expanded the functionality of a mobile application for retail customers;
 - ✓ it implemented a new system for market makers and offered institutional investors an opportunity to place orders via DMA.
- All investors who used the Inwestor online application were provided with access to full information service, including expert analyses and broker recommendations.
- Due to the bank's decision to cease to provide custodian services, Santander Brokerage Poland offered support in terms of retail investments to customers who used such services.
- In view of the new legislation introducing mandatory dematerialisation of shares of non-public companies, measures were taken to prepare a relevant offer that would increase the bank's market presence in terms of share registration services.
- In 2019, Santander Brokerage Poland was preparing for acquisition of brokerage business of Santander Securities S.A., which was completed on 8 November 2019. Once migrated to the systems of Santander Bank Polska S.A. on 9 November 2019, customers of the former Santander Securities S.A. gained access to a broader range of products and services, including mobile application, Individual Retirement Account, investments in foreign markets and in options, advanced orders and intraday orders for futures.

Consumer loans

- In 2019, Santander Bank Polska S.A. harmonised credit offer, credit policy and customer service processes in the acquired part of Deutsche Bank S.A.
- The bank launched predefined cash loan propositions for sole traders and customers who aggregate their accounts.
- Credit sales processes in traditional channels were simplified and automated, and sale of consumer loans (cash loans, overdrafts and credit cards) via Santander internet and Santander mobile was modernised.
- Special pricing terms were offered to holders of the Account As I Want It, employees of financial institutions, households with Big Family Cards and customers availing of consolidation loans and applying via Santander internet and Santander mobile.
- In 2019, cash loan sales hit an all-time high of PLN 8.5bn, up 73.0% YoY. The sales growth was supported by the new cash loan distribution channel (a network of agents acquired from Deutsche Bank Polska S.A.), fully standardised credit processes in branches of Santander Bank Polska S.A. and former Deutsche Bank Polska S.A. (taking into account the credit policy and pricing terms) as well as special offers and growing number of customers with personalised credit proposition.
- Owing to special deals and the new cash loan application process, cash loan sales in internet and mobile channels grew by 183% YoY.
- The cash loan portfolio of Santander Bank Polska S.A. was up 23.3% YoY and totalled PLN 14.2bn at the end of December 2019.

Mortgage loans

- The bank modified the pricing of mortgage loans, which resulted in changes to the structure of sales (reduced share of loans with a low down payment) and income (higher average margin and arrangement fee).
- In September 2019, the bank increased the competitiveness of mortgage loans by reducing fixed interest rates for home loans and equity releases for the period of 5 years. Accordingly, the share of mortgage loans with fixed interest rate for 5 years increased to 13% of total mortgage sales.
- In 2019, the value of new mortgage loans totalled PLN 5.9bn, down 13.2% YoY.
- The gross mortgage portfolio of Santander Bank Polska S.A. grew by 4.4% YoY, reaching PLN 49.4bn at the end of December 2019. The value of PLN mortgage loans amounted to PLN 39.9bn, up 7.5% YoY.
- The bank is one of the key lenders in the market. It is ranked fifth with a share of 9.7% in terms of new mortgage loans and equity releases and third with a share of 10.7% in terms of the gross volume of the portfolio.

Product line for personal customers	Key initiatives in 2019 (continued)
Bancassurance	<ul style="list-style-type: none"> • Santander Bank Polska S.A. offers insurance products in an individual model, acting as an agent of Santander Aviva TUO, Santander Aviva TUnŻ and Compensa Towarzystwo Ubezpieczeń S.A (Vienna Insurance Group). • In 2019, the bank modified an insurance cover for borrowers taking out cash loans above PLN 80k for more than 36 months. A three-year premium was introduced, followed by premiums payable monthly. Alongside this, the sum insured was increased from PLN 200k to PLN 300k and the scope of insurance cover was extended. • Sales of insurance linked to banking products grew by 42.9% YoY, while sales of non-linked insurance products went up by 46.8% YoY. These results were largely impacted by higher sales of cash loans and focus on sales of non-linked insurance in all distribution channels. • In 2019, the value of premiums written grew by 43.3% YoY in relation to linked insurance products, mainly on account of strong cash loan sales. • The following products contributed most to insurance income: individual insurance packages for cash loan borrowers (Życie, Życie+, Praca), insurance package for business loan borrowers (Biznes Gwarant life insurance), Opiekun Rodziny life insurance and Locum/ Locum Comfort home insurance. • The bank successfully implemented the model of cooperation with business partners (insurers) in accordance with the Agile methodology as part of the Bancassurance Tribe, which is expected to further enhance operational efficiency.
Private Banking	<ul style="list-style-type: none"> • As part of restructuring of the Private Banking Department, the number of Private Bankers and branches in which they work was adjusted to portfolios of Private Banking customers, taking into account geographical distribution. As a result, 5 Macroregional Private Banking Teams were set up. • Following the review of the potential of the customers' portfolio based on the asset criterion, the portfolio of Private Banking customers was expanded. • The bank's priority in the Private Banking segment is to provide unparalleled services, protect and grow customers' wealth and offer a broad range of investment options with a suitable risk level. • In 2019, a number of initiatives were undertaken to ensure the highest level of services for Private Banking customers: <ul style="list-style-type: none"> ✓ The newly employed Private Bankers were offered an opportunity to obtain European Financial Advisor (EFA/EFPA) certificate. ✓ New internal communication mechanisms were put in place to support employees in dealing with Private Banking customers. ✓ The interest rate of negotiated deposits was optimised and the process was simplified. ✓ The process of exchange rates negotiation was modified. • Customers of Santander Private Banking had access to Global Value Proposition offered across Santander Group. When abroad, Private Banking customers may use the services of the local Private Banker as well as the local and global range of Private Banking products and services. • The Private Banking proposition was expanded to include: <ul style="list-style-type: none"> • structured certificates, which were first issued in the form of private placement; • prestigious black MasterCard World Elite credit card; • dedicated Savings Account. • A new marketing strategy of Santander Private Banking was developed to increase the awareness of the bank's brand in 2020.
Product line for SMEs	Key initiatives in 2019
Business accounts and bundled products	<ul style="list-style-type: none"> • In 2019, the bank ran several promotional campaigns targeted at small and medium-sized companies: <ul style="list-style-type: none"> ✓ From April to December 2019 a business account promotion called "Promotion for entrepreneurs" ("Promocja dla przedsiębiorców") was run which was available in remote channels only. It exempted customers from selected business account fees for 24 months while providing cashback if certain operations were executed. ✓ Continuation of two special deals on Mastercard Business Debit card: "On a journey 2/4/6" ("W podróży 2/4/6") – for customers who did not hold the above card for the last 6 months, and "On a journey 2" ("W podróży 2") – for existing holders of the card. As part of the promotions customers were offered cashback on certain card payments. • In 2019, a dynamic increase was recorded in the number of users of e-Accounting services (accounting services integrated with Mini Firma electronic banking services and implemented in December 2018). Measures were put in place to encourage business customers to perform more operations using the e-Accounting platform.

Product line for SMEs	Key initiatives in 2019 (continued)
POS terminals	<ul style="list-style-type: none"> In 2019, Santander Bank Polska S.A. expanded the range of products to include modern mobile mPOS terminals to sole traders. At the beginning of the year, the bank extended the “I got a Six III” (“Dostałem Szóstkę III”) special offer for new and existing customers who sign a payment terminal agreement.
Business loans	<ul style="list-style-type: none"> At the start of 2019, Santander Bank Polska S.A. launched a new SME loans distribution channel: a network of external agents. In March 2019, customers were provided with an opportunity to apply for a new credit line with a lower margin under the agreement with the European Investment Bank (EIB). In June 2019, a new credit system – Smart Loans – was deployed across the branch network. The system makes it possible to check the available loan amount and pricing, sign up for a loan, and grant and disburse the loan automatically. This solution shortens the time-to-cash to one business day on average and increases the average amount of the credit transaction. Ultimately, the system will replace the existing credit tools for the SME segment.
Leasing	<ul style="list-style-type: none"> In 2019, Santander Leasing S.A. financed fixed assets of more than PLN 5.3bn (down 1.8% YoY). The negative growth was attributable to the record-breaking car sales in Q4 2018 in anticipation of tax changes coming into effect on 1 January 2019. Santander Leasing consolidated its position in the segment of machinery and equipment as it financed investments totalling PLN 2.4bn with an above-market growth of 7.9% YoY. This performance was driven by e.g. financing for the agricultural sector (+13.2% YoY), construction sector (+19.3% YoY), fork-lift trucks (+102.3% YoY) and medical equipment (+18.7 % YoY). In 2019, the company continued to develop its product range and enhance the quality of lease services: <ul style="list-style-type: none"> ✓ It established a vendor finance scheme with manufacturers and distributors of plant cultivation equipment, tractors and farm machines, as a result of which the company may now provide shared customers with attractive financing on promotional terms. ✓ In partnership with Ford, the company offered access to a vendor finance scheme directly with the dealers. ✓ In April 2019, the company launched bank accounts for businesses as part of a special offer arranged in cooperation with Santander Bank Polska S.A. (the account is operated on preferential terms and certain operations related to loan or lease agreements signed during the term of the special offer are offered free of charge). ✓ The company's product range was extended to include group life insurance: Safe Instalment (Bezpieczna Rata) and Safe Customer (Bezpieczny Klient), innovative solutions in the insurance market, which include assistance insurance with rehabilitation and a medical package (including medical consultations). The company improved customer service processes through automation and standardisation. In 2019, the company took further extensive measures to diversify funding sources. Among others, the company signed a credit facility agreement with the European Bank for Reconstruction and Development (EBRD) to finance green and sustainable investments, and obtained funding through bond issue and securitisation of the debt portfolio (for details, see Chapter XI “Financial Performance in 2019”, Section 2 “Statement of Financial Position”, Subsection “Diversification of funding sources”).

2.2. Business and Corporate Banking Segment

Main development directions

The strategic objective and the top priority of the Business and Corporate Banking Division is to help customers prosper and to gain greater insights into their business in order to provide them with tailored products and services.

In 2019, the Business and Corporate Banking Division focused on measures aimed at enhancing overall customer experience. Particular emphasis was placed on the areas which add competitive advantage in the value chain such as:

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

In Q1 2019, a new business model was put in place as a consequence of operational and business changes introduced in 2018 (merger of Business Banking Centres and Corporate Banking Centres and acquisition of an organised part of Deutsche Bank Polska S.A.). The new sales model is based on the following structures:

- 19 Business and Corporate Banking Centres, which provide services to business customers with a turnover above PLN 8m and a credit exposure exceeding PLN 5m;
- Business and Corporate Banking Department – Premium, which provides support to the largest corporate customers, local authorities and the public sector, as well as customers from the property finance segment;
- Product sales teams and units dedicated to development of products, processes and tools based on the Agile methodology.

As at 31 December 2019, the Business and Corporate Banking Division provided services to 25.3 thousand entities from various sectors, supporting them in building and growing their businesses.

Development of selected business areas

The relationship-building and acquisition activities contributed to the continued positive growth in the majority of business lines along with a satisfactory quality of the credit portfolio. The table below presents the activities of the Business and Corporate Banking Division in 2019 according to the selected development directions.

Development direction	Key initiatives in 2019
Helping businesses prosper	<ul style="list-style-type: none"> • Santander Bank Polska S.A. helped business and corporate customers to grow and prosper through a comprehensive range of activities, including: <ul style="list-style-type: none"> ✓ financing investments made by customers from that segment; ✓ further delivery of projects designed to enhance customer experience; ✓ regular customer satisfaction measurement; ✓ extension of the range of products and services for shared customers of Business and Corporate Banking and Private Banking; ✓ development of platforms enabling exporters and importers to share their knowledge and experience and facilitating networking; ✓ ongoing standardisation and simplification of the credit process for business and corporate customers; ✓ implementation of the Standard Credit Facilities which helped significantly improve processes by optimising and shortening time-to-yes and time-to-cash; ✓ creating value for customers by providing expertise, facilitating B2B networking and offering tools and products to support delivery of business plans. • As part of its corporate social responsibility and sustainability agenda, on 8 August 2019 the bank signed an annex to the agreement with BGK to offer access to loans secured by a free-of-charge Biznesmax guarantee to companies investing in green solutions (previously only innovative companies).

Development direction	Key initiatives in 2019
Cross-selling	<ul style="list-style-type: none"> • The Business and Corporate Banking Division further optimised the cross-selling process as part of the transactional banking offer using Big Data and CRM tools. • It continued to acquire customers with complex transactional banking needs based on a range of specialised banking products such as host to host, EBICS, blik cheques, bulk direct credits, bulk direct debits, reconciliation of incoming transfers and other bespoke banking solutions. • It developed treasury products for business and corporate customers in cooperation with the Treasury Services Department. • Corporate and business customers were offered a possibility to migrate operations performed at branches (such as cash deposits/withdrawals, transfers, account instructions) to automatic, digital or third party solutions (electronic banking, mobile banking, ATMs/CDMs, third party transport services). • In partnership with the Corporate and Investment Banking Division, the Business and Corporate Banking Division provided customers with access to analytics and advisory services related to capital markets.
Cross-segment expertise-based sector approach	<ul style="list-style-type: none"> • As part of cross-segment sector approach, the Business and Corporate Banking Division continued measures to support the process of building expertise within the organisation and among customers. <ul style="list-style-type: none"> ✓ The Division regularly published reports on strategic sectors (automotive/ TFL, food/ FMCG, industrial production, windows & doors and services) and the bank's experts participated in industry meetings at which they could engage with the key stakeholders. ✓ The Strategic Sectors Department prepared the "Packaging revolution" report discussing extensive changes taking place in the packaging sector and the plastics industry at large. The report was presented at e.g. Mazovia Circular Congress, TAROPAK, and workshops held in partnership with the Polish-German Chamber of Commerce (AHK). ✓ Santander Bank Polska S.A. was the main partner of the "Transport of the Future" report prepared by PwC at the request and in cooperation with the Polish Transport and Logistics Employers Union. In Q4 2019, the bank held another edition of regional workshops as part of the transport sector project. ✓ Further to this, the bank published 10 market commentaries as well as periodical materials providing an overview of respective sectors.
Support for foreign expansion of Polish exporters	<ul style="list-style-type: none"> • Leveraging the global footprint of Santander Group, Santander Bank Polska S.A. continued to support Polish exporters, offering them a range of opportunities to share their knowledge and experience and establish relationships with new business partners during B2B meetings and foreign trade missions. It also reached out to foreign investors planning to enter the Polish market. • Throughout the year, the Division organised/ co-organised or participated in the following events: <ul style="list-style-type: none"> ✓ "Direction Mexico" economic and business seminar held in Gdańsk, during which the bank showcased its possibilities in terms of supporting Polish companies planning to expand their business in Mexico and presented its service model combining the International Desk in Poland and Santander Mexico (May 2019); ✓ an inbound trade mission for the automotive industry organised by Santander Bank Polska S.A. and Santander UK in partnership with the leading British automotive industry organisation (SMMT) and the Trade Department of the British Embassy in Warsaw (October 2019), including visits to production plants and numerous B2B meetings attended by Polish companies looking to expand to the UK; ✓ an inbound trade mission from Spain for companies from the cosmetic industry, organised in cooperation with the Polish-Spanish Chamber of Commerce, Polish Investment and Trade Agency (PAIH) and the Strategic Sectors Department. The mission included visits to a cosmetic production facility and B2B meetings with the participation of Polish companies interested in doing their business in Spain and establishing relationships with the Spanish distributors who took part in the mission; ✓ a networking meeting for Polish companies operating and investing in Spain held in Madrid. The meeting was organised in partnership with the Polish-Spanish Chamber of Commerce to discuss the current situation and prospects of the Polish companies in the Spanish market, develop recommendations for local authorities to support foreign investors in Spain and present products and services offered by Santander Bank Polska S.A. and Santander Factoring Sp. z o.o. in terms of security, settlement and finance (November 2019); ✓ workshops for companies from the packaging industry: "Packaging revolution. Polish producers facing changes in regulations and consumer preferences", organised in cooperation with the Polish-German Chamber of Commerce (AHK) and representatives of the Strategic Sectors Department (November 2019). Polish companies planning to set up their business in Germany could learn about legislative changes, industry trends, packaging market in Germany and growth prospects; ✓ a series of Trade business breakfasts organised by the Foreign Trade Office in 15 locations in Q3 and Q4 2019 for around 260 existing and prospective customers. Thematic panels included: Santander Trade Portal, financing solution offered together with the Treasury Services Department and Santander Factoring Sp. z o.o., International Business and Google.

Development direction

Key initiatives in 2019

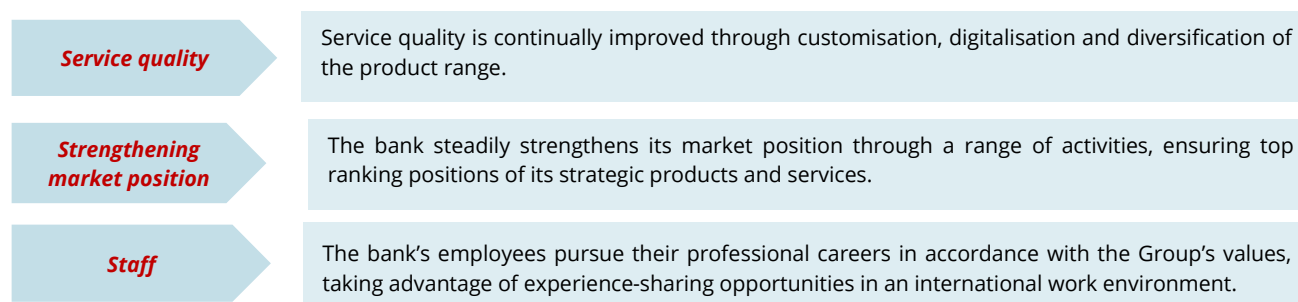
Development of iBiznes24 platform

- In 2019, the bank introduced a range of changes and enhancements in iBiznes24 electronic banking channels (internet, mobile, Connect) in response to evolving customers' needs and regulatory requirements:
 - ✓ the bank completed projects to ensure compliance with PSD2 and implemented Split Payment and Individual Taxpayer Account;
 - ✓ the range of iBiznes24 authorisation tools for corporate customers was simplified (chip cards were withdrawn and around 3 thousand iBiznes24 users had to be migrated to other authorisation tools);
 - ✓ the users of Enova financial and accounting systems were offered an option of easier, faster and cheaper integration with iBiznes24;
 - ✓ the bank launched new subpages on electronic banking for corporate customers that suit the needs of customers and employees alike.
- The bank provided ongoing support to customers and employees through:
 - ✓ updating contractual documents (terms and conditions, agreement templates, schedule of fees and charges) and system materials (user guides, manuals, publicity materials);
 - ✓ removing errors hindering the use of electronic banking channels;
 - ✓ internal training (for support and business units).

2.3. Corporate and Investment Banking Segment

Main directions

The ambition of Santander Bank Polska S.A. is to become a bank of choice for the largest corporate customers. To that end, the Corporate and Investment Banking Division (CIB) puts customers at the heart of its business, trying to suit their needs and enhance their positive experience, while focusing on service quality, market position and staff development.



In 2019, the CIB Division continued to provide an end-to-end support to the largest corporate customers of Santander Bank Polska S.A. As at 31 December 2019, the active CIB customer base included nearly 250 of the largest companies and groups in Poland (allocated to that segment based on the turnover) representing all economic sectors.

The CIB Division leveraged opportunities arising from the global presence of Santander Group, rendered services to corporations within international Corporate and Investment Banking structures and cooperated with several Santander Group units in terms of issuing bonds, selling Polish bonds to foreign investors or trading in Latin American bonds in Poland.

In 2019, the Division took extensive measures to enhance customer experience in the following areas:

- Tailor-made solutions:
 - ✓ Arrangement of an ESG-linked syndicate loan with four other banks, the first facility of this kind originated in Poland and the CEE based on assessment of the borrower's performance in the area of sustainable development and responsible business.
 - ✓ Execution of two risk participation agreements with the BGK in relation to a factoring programme, increasing access to credit, extending the cooperation between banks in Poland and bridging the gap in the financial system.
 - ✓ Conducting an NPS survey among corporate customers, along with analysis of the results and identification of the areas for improvement.

- Innovations:
 - ✓ Implementation of a technology supporting the AUTO FX service, i.e. automatic conversion of selected foreign currencies into PLN in relation to transactions in which Santander Bank Polska S.A. acts as a correspondent bank.
 - ✓ Development of the brokerage infrastructure to support services for business customers, starting from implementation of a new market-making system.
 - ✓ Enhancement of the Kantor Santander currency exchange platform, which is regarded as best practice model at the Santander Group level in terms of IT, marketing, CRM, product range and incentive scheme. 17% YoY growth in income from currency exchange via the platform and 23% increase in the number of active customers as at December 2019 vs December 2018.
 - ✓ Continuation of work as part of the Financial Markets Tribe operating in accordance with the Agile model and providing operational support for the Financial Markets Area.

The Division strengthened its market position and was ranked:

- First in the capital market in terms of the value of shares issued;
- First in terms of Confirming® and reverse factoring;
- Second in the capital market in terms of the value of bonds issued;
- Second in the M&A advisory market in terms of the volume of transactions.

Alongside this, the Division optimised the structure of the income statement and the balance sheet by growing the fee-generating business and selling selected credit exposures.

In 2019, the bank's Corporate and Investment Banking business was recognised with Euromoney award for Poland's best investment bank.

Performance of selected areas

The bank is one of the leaders in the banking sector in such areas as: public offerings, bond issue, arrangement of finance and supply chain finance.

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

Unit	Key initiatives in 2019
Credit Markets Department	<ul style="list-style-type: none"> • The Department provided funding towards medium- and long-term investments delivered by CIB customers, through loans and corporate bonds issues, both single-handedly and in cooperation with other units. • It arranged three issues of bonds for companies from the lease sector for the total amount of PLN 1.13bn. • It completed two issues of green bonds for a public sector entity, an issue of covered bonds for a customer from the financial sector and issues of bonds for companies operating in the production, extractive and property sectors. • It provided funding of PLN 120m and PLN 322m to a clearing company and a retail chain, respectively. • It participated in syndicated lending for customers from the chemical, telecommunications, distribution, medical, oil & gas and production sectors. • It acted as a coordinator, agent and ESG agent in relation to Poland's and CEE region's first ESG-linked loan agreement concluded by a syndicate of five banks and a company from the energy sector. The loan totals PLN 2bn and a part of the margin is linked to the borrower's fulfillment of certain environmental, social and governance targets. • It optimised its balance sheet position through asset turnover and sale of selected credit exposures, and offered debt-related and rating advice to companies from the energy and chemical sectors, among other things. • It participated in debt refinancing of a company from the extractive industry.

Unit	Key initiatives in 2019
Capital Markets Department	<ul style="list-style-type: none"> • The Department provided analytical and advisory services to customers and was engaged as a financial/ transactional advisor in relation to: <ul style="list-style-type: none"> ✓ tender offers for shares of companies from the construction, industrial, hotel, distribution, IT, engineering and property sectors, including the largest transaction of this kind in Poland over the past few years; ✓ sale of shares of a company from the telecommunications sector as part of an accelerated book-building; ✓ sale of shares of a construction company; ✓ sale of a service company; ✓ purchase of own shares by companies from the development and construction sectors; ✓ intermediation for a property company in the issuance of stock dividend; ✓ sale transaction in the property segment; ✓ sale of a part of the enterprise from the IT sector by a financial sector company to a strategic investor; ✓ shares-backed lending for companies from the property sector. • As part of the above initiatives, the Division participated in the largest capital market deals in 2019: <ul style="list-style-type: none"> ✓ It acted as an exclusive financial advisor for shareholders of an industrial holding company in relation to the sale of a metallurgical business to a strategic investor – one of the top five mergers and acquisitions in Poland in 2019. ✓ It secured financing for a tender offer for shares of a WSE listed company and completed a tender offer for shares of a company from the hotel sector – the largest transaction of this kind in Poland over the past few years.
Global Transactional Banking Department	<ul style="list-style-type: none"> • The Department closed a number of deals in relation to financing, guarantees and supply chain finance with companies from the retail, wholesale, chemical, paper, developer, property, automotive, railway, construction, industrial, pharmaceutical, transport, food processing, energy, extractive, gas and telecommunications industries. • As part of cash management services it: <ul style="list-style-type: none"> ✓ provided comprehensive transaction and currency exchange services for a company from the automotive sector and offered a GTB Connect service for a mining company to facilitate cash flow management; ✓ implemented a technology supporting the AUTO FX service, i.e. automatic conversion of selected foreign currencies into PLN if Santander Bank Polska S.A. acts as a correspondent bank; ✓ signed agreements to execute cross-border transactions for an international company offering payment services; ✓ started the programme of incoming payments identification for a company from the telecommunications sector; ✓ supported nine new investments for one of developers based on open residential escrow accounts; ✓ took over and optimised 100% cash management services for a company from the banking sector; ✓ signed an escrow account agreement with a property company.
Financial Markets Area	<ul style="list-style-type: none"> • As part of the bank's digital transformation, the Financial Markets Area developed a new customer-centric strategy, which indicates the following change and development areas: process effectiveness, automation and digitalisation, use of new technologies and innovations, ecosystems, 24/7 availability. • The Division steadily develops brokerage infrastructure to support institutional investors. To that end, it launched the project of a new market-making system based on one of the best solutions available in the equity market. • 351 recommendations were issued and three industry conferences were held for institutional investors, closing the year with the Utility, Oil & Gas, Metals & Mining Santander 5th Annual Conference. • Santander Bank Polska S.A. promotes Polish assets at roadshows held in Asia, the USA and Western Europe. • To improve customer experience, the bank continuously develops the Kantor Santander currency exchange platform, extending operating hours and adding new features to increase convenience for customers. • The bank works together with Santander Group entities to design a new portal for the bank's analytical products. This solution will provide access to products of all regions in which Santander Group operates.
Factoring business	<ul style="list-style-type: none"> • In 2019, the receivables purchased by Santander Factoring Sp. z o.o. came in at PLN 29.6bn, up 8.3 YoY, which gave the company a market share of 10.5% and the fourth position in the ranking of members of the Polish Association of Factoring Companies. • As at the end of December 2019, the company's credit exposure was PLN 5.6bn, 12.1% higher YoY.

3. Business Development of Santander Consumer Bank Group

Main development directions

In 2019, Santander Consumer Bank (SCB Group) Group focused on:

- Maintenance of the leadership position in the hire purchase market through stable share in traditional sales, extension of cooperation with large retailers, further development and increase in share in online sales, as well as identification of new sales growth opportunities and maintenance of profitability of collaboration with trade partners;
- Further acquisition of customers based on installment loans and credit cards and leveraging cross-selling and up-selling opportunities
- Optimisation of the range of cash loans and maximisation of value of customer relationships
- Delivery of projects related to the sale of instalment and cash loans via the internet and the mobile application
- Activities aimed at SME customers to capitalise on positive market trends, and maintenance of funding for individuals (excluding sole traders) at the expected levels.

Development of selected business areas

Business areas	Measures taken in 2019
Loans to customers	<ul style="list-style-type: none"> • Last year, SCB Group reported an increase in sales of instalment loans and leases and put a greater emphasis on business finance. • As at 31 December 2019, gross loans and advances granted by SCB Group amounted to PLN 17.6bn and were 11.5% higher YoY driven by instalment loans, cash loans, working capital loans and leases.
➤ Consumer finance	<ul style="list-style-type: none"> • Consumer loan sales grew by 7.5% YoY due to extended relationships with retail networks and effective cooperation with existing customers of the bank (cross-selling of cash loans and credit cards). • In 2019, Santander Consumer Bank S.A. extended cooperation with three key partners from the household appliances sector, reinforcing its leadership position in the consumer finance market. • The bank modified its credit proposition by increasing the maximum number of loan instalments for customers investing in renewable energy sources (from 60 to 84 months). • Customer service processes related to credit cards were improved through: <ul style="list-style-type: none"> ✓ implementation of strong customer authentication in relation to online payments ✓ introduction of instalment plans in internet and mobile banking ✓ delivery of work connected with implementation of mobile payments ✓ launch of sale of credit cards via a network of mobile financial advisors.
➤ Car finance and financing solutions for car dealers	<ul style="list-style-type: none"> • SCB Group is strengthening its position in the car finance market by liaising with car dealers and importers. • In 2019, the bank signed a cooperation agreement with an importer of Mitsubishi's vehicle brands, providing for financing of dealerships and exclusive distribution of shared financial products. • An increase of 12.5% YoY was reported in the personal car finance segment, which was attributed to market trends and competitive product range. • The bank further developed the Full Service Leasing, a product offering additional benefits such as car service by approved repairers and full motor insurance.

Business areas	Measures taken in 2019
Deposits	<ul style="list-style-type: none"> • Deposits from customers are the bank's main source of funding. • The bank focuses on the sale of deposits with tenors longer than one year, offering attractive pricing for 12-month, 24-month and 36-month deposits. Alongside this, strong growth is reported in the value of deposits collected in remote channels. In terms of value, retail deposits are the bulk of the bank's deposit base and mainly include fixed-rate term deposits. • As at 31 December 2019, deposits from customers of SCB Group totalled PLN 10.4bn and increased by 17.2% YoY with a concurrent decrease in cost of funding. Growth was reported in the balance of corporate deposits and funds from international financial institutions, among other things. • On 14 September 2018, SCB S.A. signed an agreement with the European Investment Bank under which a credit line of EUR 50m was granted to finance the activities of SMEs and mid caps. Pursuant to the agreement, a tranche of PLN 214.36m was disbursed on 1 March 2019, with quarterly amortisation for the period of five years.
Other liabilities	<ul style="list-style-type: none"> • In July 2019, the securitisation issue of SC Poland Consumer 16-1 sp. z o.o. was restructured, alongside an increase of PLN 1,183m in the issue nominal amount to PLN 2,000m. • In 2019, Santander Consumer Bank S.A. did not issue any bonds as part of the existing issuance programme for mid- and long-term securities.
Insurance	<ul style="list-style-type: none"> • In August 2019, the bank launched sale of new insurance loans which are not linked to credit facilities: <ul style="list-style-type: none"> ✓ "Onko Pomoc" cover which ensures support and treatment in the case of cancer; ✓ "Mój Pakiet" insurance covering lost keys/documents, accidents, disease, death and lost pets.
Debt sale	<ul style="list-style-type: none"> • In 2019, SCB S.A. sold the following credit portfolios: <ul style="list-style-type: none"> ✓ written-off portfolio of cash loans, instalment loans and credit cards of PLN 189.3m in total, with a P&L impact of PLN 13.2m gross; ✓ on-balance sheet portfolio of cash loans and instalment loans of PLN 124.6m in total, with a P&L impact of PLN 23.1m gross (PLN 18.7m net). In 2018, Santander Consumer Bank S.A. did not sell any on-balance sheet portfolio.
Other developments	<ul style="list-style-type: none"> • SCB S.A. signed an agreement with Santander Bank Polska S.A. to issue a guarantee of up to PLN 257.2m in favour of the European Investment Bank to secure its debt. • In 2019, the loan repayment guarantees totalling PLN 540m and securing the debt of Santander Consumer Multirent S.A. were renewed.
Awards	<ul style="list-style-type: none"> • In 2019, Santander Consumer Bank S.A. received the following accolades: <ul style="list-style-type: none"> ✓ 2nd position in the cash loan ranking published by Money.pl (November) ✓ 2nd position of the Pearl of Polish Economy ranking published by the <i>Polish Market</i> monthly, in the Financial Pearls category (November) ✓ Brand of the Decade accolade for a car loan of Santander Consumer Bank S.A. in the ranking published by <i>Biznes Trendy</i> magazine ✓ 3rd position for Mazda Finance in the 12th Independent Car Dealers Satisfaction Survey conducted by E&Y, in the financial products category ✓ 2nd place in the 27th edition of Best Bank 2019 Awards organised by <i>Gazeta Bankowa</i>, in the category: Small and Medium Commercial Banks ✓ Forbes World's Best Banks 2019 ✓ Service Quality Star 2019 ✓ Super Brand 2019 accolade granted by <i>Biznes Trendy</i> for the sixth year in a row ✓ Top Employer Poland 2019 awarded by Top Employers Institute on the basis of an audit and independent survey.

X. Organisational and Infrastructure Development

1. Organisational changes in the Business Support Centre

Vertical restructuring

In 2019, a new structure of the Digital Transformation Division was put in place. It was designed to address the existing challenges, with a focus on Customer experience and satisfaction (NPS), security, stabilisation of systems, simplification of processes and development of new technologies and innovations at the bank.

In accordance with the bank's strategy, the Division continued to lead the transformation towards implementing the Agile methodology in the organisation. Two units were established in the Central Operation Area:

- Payments Tribe, responsible for development of payment solutions;
- Content Management & Process Automation Tribe, responsible for devising digital solutions supporting the flow of documents and automation of processes.

These units deliver common components, i.e. develop solutions for multiple customer segments.

Other departments saw transformations and changes reflecting business re-segmentation. Implementation of the new organisational structure model entails changes in responsibilities of individual units, and is designed to improve people and business management.

An optimised organisational structure was implemented in Technology, with the Chief Information Officer Area, the Chief Technology Officer Area, the Chief Information Security Officer Area, and the Digital Innovation Office set up as separate functions.

The Chief Information Officer is responsible for business support by providing the highest quality IT service and implementing the DevOps best practice & culture at the bank. The Chief Technology Officer deals with IT systems and infrastructure development in the organisation. The Chief Information Security Officer is responsible for cybersecurity, data platforms, controls, anti-fraud solutions and IT risk. The role of the Digital Innovation Office is to identify, promote and deploy technology-based innovations at the bank.

At the beginning of 2019, Santander Bank Polska S.A. implemented a new business model for the customers of the Business and Corporate Banking segment. For more information, see Section 2.2 "Business and Corporate Banking Segment" of Chapter IX "Business Development in 2019".

Another key change was to demerge the Investment Services Centre from the bank. For more details, see the section below: "Sale of business".

Implementation of the Agile methodology

Since 2018, Santander Bank Polska S.A. has been steadily implementing a new work model in accordance with the Agile methodology to achieve a long-term success in a dynamically developing environment (also technology-wise).

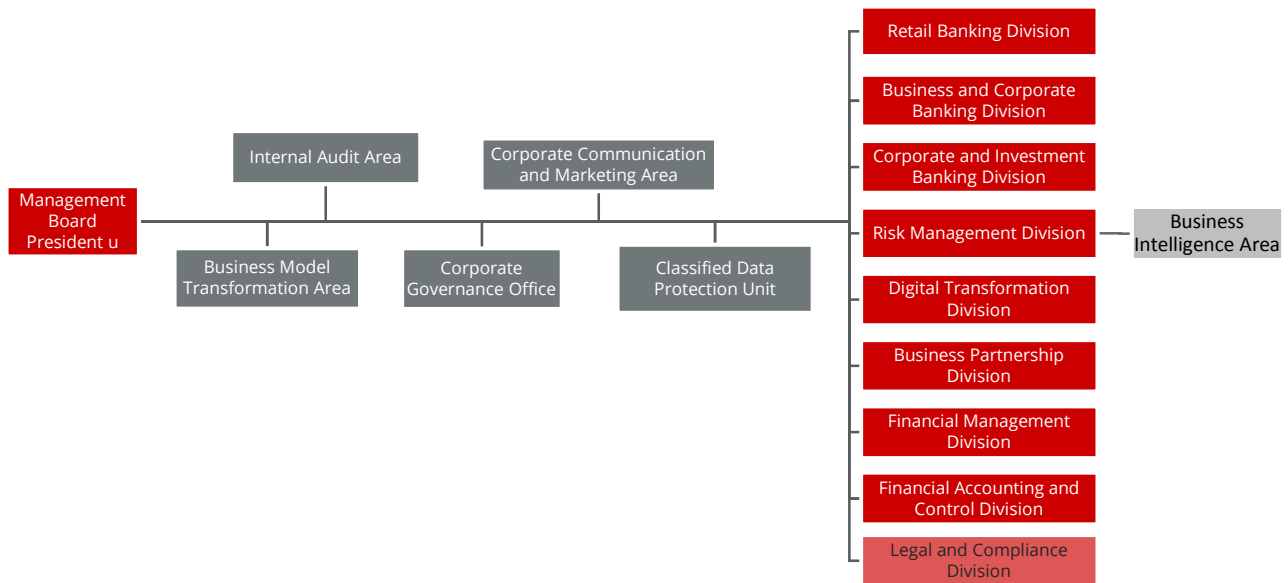
One of the objectives of the Agile transformation is to move away from complex hierarchical structures towards small interdisciplinary teams that are capable of quick and effective implementation of new solutions in accordance with customer needs. As at 31 December 2019, the new Agile working model covered more than 1,000 employees grouped in 17 tribes and 12 IT units.

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

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

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

ORGANISATIONAL UNITS IN THE BUSINESS SUPPORT CENTRE OF SANTANDER BANK POLSKA S.A.



Legend:

- divisions managed by Management Board members
- Legal and Compliance Division reporting to the President of the Management Board
- units operating outside the divisional structure and reporting to the President of the Management Board
- units operating outside the divisional structure and reporting to the Management Board member in charge of the Risk Management Division

Sale of an organised part of enterprise

As part of transformation of the business model, on 27 September 2019 Santander Bank Polska S.A. sold an organised part of the bank's enterprise, namely the Investment Services Centre (a separate organisational unit) to a third party (not related to the bank). The Investment Services Centre with its registered office in Poznań was an organisationally, functionally and financially independent set of tangible and intangible assets of the bank. The business provided professional transfer agent services to Santander Towarzystwo Funduszy Inwestycyjnych S.A. (a subsidiary of Santander Bank Polska S.A.) and to the investment funds managed by that subsidiary. The business was not engaged in banking activities.

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

2. Changes in Composition of Santander Bank Polska Group

Intention to establish a mortgage bank

Pursuant to the resolution of the Management Board of Santander Bank Polska S.A. of 7 March 2018 on the intention to set up a mortgage bank operating as Santander Bank Hipoteczny S.A. with its registered office in Warsaw (approved by the Supervisory Board on 8 March 2018), in 2019 the bank continued its work to launch the bank.

Santander Bank Polska S.A. will be the sole shareholder.

As part of its business profile, the mortgage bank will:

- ✓ handle mortgage loans for retail customers;
- ✓ purchase receivables arising from mortgage loans of retail customers to its own portfolio on the basis of a strategic cooperation with the bank;
- ✓ issue covered bonds.

The licencing process is under way. Once the required regulatory approvals have been obtained, the entity will start operations aimed at ensuring a stable and long-term source of funding for Santander Bank Polska S.A.'s mortgage lending business in the form of covered bonds. In the long-term, this will make the bank's mortgage lending proposition more attractive and will enhance the stability and security of Santander Bank Polska Group.

Division of Santander Securities S.A.

Mechanism

In accordance with the resolution of the Extraordinary General Meeting of Santander Bank Polska S.A. of 23 September 2019, on 8 November 2019, the division of Santander Securities S.A. was effected in accordance with the procedure set out in Article 529 § 1(1) of the Commercial Companies Code through:

- transferring to Santander Bank Polska S.A. an organised part of the enterprise of Santander Securities S.A. connected with brokerage services;
- transferring to Santander Finanse Sp. z o.o. (a wholly owned subsidiary of Santander Bank Polska S.A.) an organised part of the enterprise of Santander Securities S.A. connected with training activities regarding the capital market.

As part of the transaction, the share capital of Santander Finanse Sp. z o.o. was increased through the issue of new shares according to the agreed exchange ratio, i.e. 60 shares with the nominal value of PLN 50 each and the total nominal value of PLN 3,000. All the newly issued shares were taken up by Santander Bank Polska S.A. as the sole shareholder of the divided company.

The transaction did not affect the bank's share capital.

The divided company was dissolved without a liquidation procedure and struck off the register of entrepreneurs.

Operational effects

As a result of the division, the investment activity of Santander Securities S.A. was integrated into the bank's structures and standardised, while the training activity was transferred to Santander Finanse Sp. z o.o., which has experience in providing training to the network of agents and employees.

The main objective of the consolidation of brokerage services within a single entity was to improve the Group's operational efficiency by:

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

As a result of the division, the customers of Santander Securities S.A. obtained access to a greater number of products and services (including investment advice, investments in options, advanced orders and intraday orders for forward contracts), foreign markets and a mobile application. The integration of brokerage services within the bank makes it possible to better use the existing resources and potential, thus increasing the bank's competitive edge in the brokerage services market.

The integration of training activities within Santander Finanse Sp. z o.o. was aimed at expanding the scope of the training offered by the company and increasing its competitiveness.

3. Development of Distribution Channels of Santander Bank Polska S.A.

Retail business distribution strategy

In 2019, Santander Bank Polska S.A. was further developing its retail business distribution strategy, with a focus on omni-channel banking based on a wide network of branches and customer service points and best-in-class digital banking solutions.

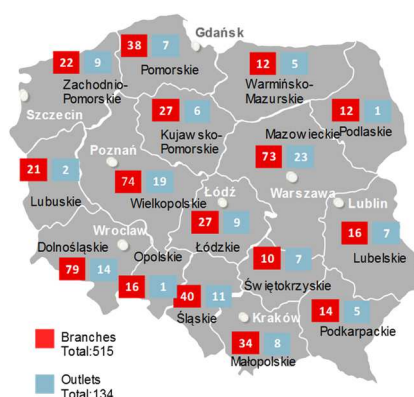
The distribution strategy redefines the role of digital channels and introduces modern and spacious branch design, new profile of advisors and an optimum geographical coverage of the branch network. In the new distribution model, the advisor's approach to customers is more open and empathic, which helps better respond to their needs and expectations.

The bank's branches develop customer relationships and provide customers with education and support with regard to the use of remote channels, increasing the share of digital channels in sales and strengthening their role as the main source of retail business.

Network of branches, partner outlets and agents

In 2019, Santander Bank Polska S.A. launched 64 premium-standard branches, where advisors may provide service in modern and spacious areas. Branches are divided into several functional zones: the self-service zone (equipped with ATMs and CDMs) which provides 24-hour access to the account; the waiting zone, the teller zone, meeting rooms and open meeting counters, where customers can use financial services in comfortable conditions, with the full support from bank advisors. As at 31 December 2019, there were 95 branches that operated according to the New Distribution Model.

THE NETWORK OF BRANCHES AND PARTNER OUTLETS AS AT 31 DECEMBER 2019



The bank steadily develops and implements innovative branch formats.

- In September 2019, the bank opened Work/Café – the first bank outlet in Poland combining co-working space and a café. This format was first implemented in Chile and was successfully rolled out across Santander Group. It meets the changing needs of customers who can have business meetings, use banking services and organise various events for customers and colleagues in one place.
- In 2019, the bank launched three new Santander Zones (acquisition stands) in shopping centres in the key locations (Warsaw, Poznań and Gdańsk), as a result of which the number of such outlets increased to 8 at the end of December. The bank intends to further develop this sales format as customers want to use banking services at different times of the day and they tend to spend more and more time in shopping centres.

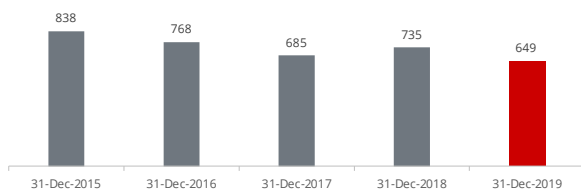
As at 31 December 2019, the branch network of Santander Bank Polska S.A. included 515 branches (612 branches at the end of 2018) and 134 partner outlets (123 outlets at the end of 2018). The branch network management structure comprised 47 regions divided into 5 macroregions.

The branch network is complemented by partner outlets which provide services to individuals and SMEs (except for Private Banking products, currency exchange and investment funds). In 2019, the bank continued to develop this network, converting another 16 branches to partner outlets.

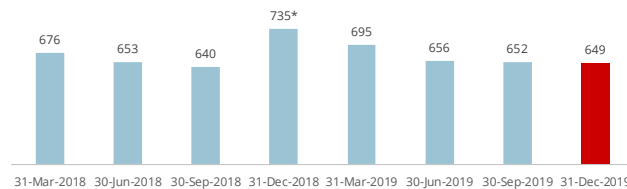
The distribution network of Santander Bank Polska S.A. also included 450 agents acquired along with an organised part of Deutsche Bank Polska S.A. who sold cash loans, mortgage loans, SME loans and loan insurance.

BRANCHES AND PARTNER OUTLETS OF SANTANDER BANK POLSKA S.A. IN RESPECTIVE QUARTERS OF 2018–2019 AND AS AT THE END OF 2015–2019

NUMBER OF BRANCHES AND OUTLETS OF SANTANDER BANK POLSKA S.A. IN YEARS 2015-2019



NUMBER OF BRANCHES AND OUTLETS OF SANTANDER BANK POLSKA S.A. BY QUARTER IN YEARS 2018-2019



* number of branches following the acquisition of the retail business of Deutsche Bank Polska S.A. in November 2018

Remote channels

Alongside the modernisation of its brick-and-mortar network, the bank continued to develop the functionality of digital contact channels and implemented new or optimised existing processes in the Multichannel Communication Centre (MCC).

Network of self-service devices

As at 31 December 2019, the network of self-service devices of Santander Bank Polska S.A. comprised 1,700 units, including 774 ATMs, 3 CDMs and 923 dual function machines (398 recyclers). The bank was ranked third among Polish banks in terms of the number of ATMs and second in terms of the number of CDMs.

In 2019, as part of development of self-service channels, 1.3 thousand machines were equipped with new screen features (such as audible instructions and high contrast), which made banking more accessible for visually-impaired customers.

Santander Bank Polska S.A. was the first bank in the world to install the latest DN S200 ATM model (recycler) with a modern design, a large touchscreen and cutting-edge technology.

55 Euronet ATMs taken over from Deutsche Bank Polska S.A. were replaced with machines of Santander Bank Polska S.A. The bank also installed new recyclers, i.e. dual function ATMs enabling withdrawal of cash that has been previously deposited by other customers. The number of such devices increased by 54 YoY. In 2019, around 90% of PLN cash deposits were made to own accounts with the use of the bank's CDMs and their monthly value exceeded record PLN 2bn.

Multichannel Communication Centre (MCC)

In 2019, Santander Bank Polska S.A. made further progress in integrating channels and extending the scope of customer service processes and tools using the latest technologies. Customers would most frequently engage with the bank via telephone, although video, audio and chat solutions were increasingly popular, too. This prompted further development of the Online Advisor service in these channels, with a particular focus on the video channel.

One of the bank's priorities was to enhance the quality of customer service in all contact channels. Apart from changes required by the PSD2, the bank continuously simplified and optimised processes, enhancing customer experience.

In 2019, more than 70 thousand customers used voice biometrics, an innovative solution based on unique voice features ensuring fast and secure customer identification.

Video-verification was also very popular among customers, notably small and medium companies (increase of 875% YoY). More than 2.1 thousand accounts were opened this way. This solution was often used by hearing-impaired customers to conclude an agreement with the assistance of an online advisor using Polish sign language that also supports branches.

In 2019, one of the main priorities of the MCC as part of the Barrier-Free Banking Programme was to design and implement a process to enable people with disabilities and special needs to request documents in accessible communication formats (Braille or large print materials, audio recordings, videos in Polish sign language, accessible PDF). The bank is going to automate this process using a workflow and introduce new and optimise existing service processes for this customer group.

Channel	Selected processes/ solutions implemented in 2019
Phone banking and Online Advisor services	<ul style="list-style-type: none"> • Implementation of an operational reporting system for the MCC • Customer satisfaction survey conducted in four contact channels (chat, audio, video, phone) to enhance service quality • Access to background information based on a phone number of the customer calling the helpline • History of customer calls available to advisors • Set up of a backup environment for the Online Advisor services

Internet and mobile banking

In 2019, Santander Bank Polska S.A. further extended the features and improved the user-friendliness of electronic banking channels to enhance customer experience.

The key changes in digital contact channels are presented below.

Electronic channel	Selected solutions and improvements introduced in 2019
Santander internet and Santander mobile	<ul style="list-style-type: none"> • New languages available in the internet banking platform and mobile application (Russian and Ukrainian) • Shorter, 6-digit smsCodes making online banking more convenient and equally secure • Strong customer authentication: additional confirmation of the user's identity with an authentication tool (not required if a computer or a mobile phone used by the customer has been added to the list of trusted devices) • Possibility for customers to set their own login for internet banking and mobile application (instead of NIK number) • Single login for personal and business customers enabling smooth switch between personal and business profiles in internet banking • Possibility to open a brokerage account via internet banking services • Upgrade of the mobile application in line with customers' needs (e.g. new start screen of the internet banking platform) • New online business account opening process for new sole traders • Improved logging in to the mobile application using fingerprint • Redesigned process of managing cards in the mobile application, including improvements to card cancellation and blocking and management of contactless cards
Santander.pl	<ul style="list-style-type: none"> • Launch of an upgraded portal including: <ul style="list-style-type: none"> ✓ refreshed look and user-friendly interface ✓ ease of use ✓ new layout ✓ useful comparison of products and fees ✓ simplified navigation ✓ Account as I Want It configuration tool and credit calculator
iBiznes24 (internet and mobile banking for business customers)	<ul style="list-style-type: none"> • Adaptation of iBiznes24 and iBiznes24 mobile in accordance with legal and security requirements • Implementation of Split Payment and changes required by PSD2 • Integration of iBiznes24 with an anti-fraud system • Improvement of functionality of iBiznes24 application

E-commerce

As part of measures taken to increase acquisition and sales via digital channels, Santander Bank Polska S.A. launched an e-commerce channel to sell strategic products online. The bank offered personal accounts, business accounts and cash loans in partnership with affiliate networks in Poland, i.e. the largest online platforms.

Digital customers

As at 31 December 2019, the number of customers with access to electronic banking was 4 million (up 10.1% YoY), including 2.5 million of digital customers, i.e. Santander24 users who at least once logged in to the bank's electronic banking system (an increase of 7% YoY). The number of mobile application users went up by 17.9% YoY to 1.6 million, including 547.7 thousand using only Santander mobile. Last year, mobile application users made 73.7 million transactions (up 80% YoY).

Basic Statistics on Distribution Channels

Santander Bank Polska S.A.	2019-12-31	31.12.2018
Branches (location)	515	612
Partner Outlets	134	123
Business and Corporate Banking Centres	19	12
ATMs and CDMs	777	862
Dual Function Machines	923	900
Registered internet and mobile banking customers (in thousands)	4 424	4 019
Digital (active) internet and mobile banking customers (in thousands) ¹⁾	2 510	2 345
Digital (active) mobile banking customers (in thousands) ²⁾	1 577	1 337
Registered iBiznes24 companies ³⁾ (in thousands)	18	17

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

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

3) Only the customers using iBiznes24 – an electronic platform for business customers (the customers having access to Moja Firma Plus and Mini Firma platforms are not included).

4. Development of Distribution Channels of Santander Consumer Bank S.A.

Basic Statistics on Distribution Channels

Santander Consumer Bank	31.12.2019	31.12.2018
Branches	150	152
Partner Outlets	183	170
Auto Loan lending Partners	780	707
Installment Loan Lending Partners	7 224	7 504
Registered electronic banking users (in thousands) ¹⁾	253	209

1) Users who signed an agreement with Santander Consumer Bank S.A. and at least once used the bank's electronic banking system.

5. IT Development

Key directions

Cooperation with Santander Group units

In 2019, Santander Bank Polska S.A. continued to work closely with IT units of Santander Group to share best practice in terms of IT architecture, work out new solutions to achieve cost synergies (e.g. Common Mobile Platform project) and effectiveness (e.g. Conversion Rate Optimisation project) and to generate new sources of revenue from the transfer of technology within the Group (e.g. Big Data/ Machine Learning projects).

The Digital Transformation Division of Santander Bank Polska S.A. provided active support to the following three global digitalisation initiatives:

Technology initiatives at the Santander Group level

- Big Data/ Machine Learning – development of models to optimise conversion in sales, debt collection and anti-money laundering processes, among other things;
- Optimisation of the sales funnel – improvement of conversion in online sales processes;
- Optimisation of the Multichannel Communication Centre – process streamlining based on new technologies.

As regards other operational initiatives, particularly noteworthy are the following ones:

Operational initiatives at the Santander Group level

- NeurOne – integration and standardisation of selected processes across the Group to improve their quality and efficiency (e.g. processes related to Trade Finance products).
- Complaints – standardisation and automation of complaint-handling processes; a common platform for chargeback processing (complaints related to card transactions).
- SWIFT – switch of SWIFT components to the Madrid-based hub to enhance security and achieve synergies in relation to the central administrative support.
- Santander One Pay FX – an electronic banking service which makes it possible for customers to make instant payments to and from banks which are members of Santander Group; the service covers transfers in GBP and PLN between Poland and the UK and payments in EUR and PLN between Poland and Spain.
- AutoFX – a new service for Group and third party banks that facilitates the conversion of incoming payments to the latter banks based in Poland

Apart from the above-mentioned global digital initiatives, the bank participated in projects connected with Common Services which are designed to achieve synergies across Santander Group. The purpose of Common Services is to develop and transfer technology in Santander Group (including wider use of existing tried-and-tested local solutions) in accordance with the “build once, deploy many” approach. The Common Services include the following projects:

Common Services projects

- Common Mobile Platform – development of reusable mobile banking modules and design of the final mobile banking architecture;
- Common APIs – design of a standardised interface for banking services across Santander Group;
- Intelligent Document Processing – automation of document circulation;
- Virtual Assistant – development of AI-powered assistants that will be able to attend to customers or support bank staff in this respect;
- Spirit Platform – development and implementation of an application in Santander Bank Polska S.A. to support services for Private Banking customers;
- Authentication & Access – design of a technology for identification of customers and authentication of transactions, with a focus on biometric solutions (Santander Bank Polska S.A. is the leader of this project and a supplier of BioHub solution).

Implementation of regulatory requirements

Similarly to the previous years, significant resources were invested in 2019 to meet regulatory requirements.

One of such initiatives was the implementation of Payment Services Directive 2 (PSD2), which imposes certain obligations on banks in relation to processing payments with the participation of third party providers and ensuring access to customers’ account information. The above project required the bank to introduce changes to its basic IT systems and presented the bank with an opportunity to improve and modernise IT solutions and obtain a variety of benefits.

Implementation of PSD2 requirements

- In 2019, the bank implemented an API environment for the purpose of communication with Third Party Providers (TPP) and introduced changes to electronic banking systems and back-end systems with respect to all business lines.
- In Q3 2019, the bank implemented Strong Customer Authentication in electronic banking.
- Work is underway to provide customers with an option to aggregate and initiate transactions from other banks in the systems of Santander Bank Polska S.A., which is a prerequisite for performing the role of TPP.

Delivery of in-house projects

In 2019, the bank focused on development of a modern operating model (based on direct services) that would cater for customers' needs and increase their satisfaction (NPS).

Development of operating model

The bank continued to develop centres of excellence in the areas which are important to customers, such as Corpo and CIB, mortgage loans and complaints. Further measures were put in place to develop services in remote channels and to automate and streamline processes. Work was also underway in connection with new-generation robots that support machine learning, OCR, Business Intelligence, Artificial Intelligence, and Paperless (digitalisation of document circulation).

In 2019, the bank continued the strategic projects and implemented a range of improvements which helped enhance quality, reduce lead times and streamline the processes.

- Processing payments with a foreign banking partner through a dedicated API.
- Automating Elixir payments.
- Launching a platform for servicing network brokers.
- Implementing new robots or upgrading the existing robots with new functionalities in relation to the following processes: declaration of repayments in Santander Internet; closing savings accounts; parameterisation of self-service devices and repayment of arrears.
- Launch of electronic processing of SWIFT messages from third-party banks in SLINK (a system used to settle foreign payments, among other things) as part of the paperless bank initiative.
- Implementation of a new credit process for sole traders – a new automatic credit process for sole traders from the SME segment, reducing the time-to-yes to 15 minutes. The process comes complete with a credit simulator which makes it possible to present an offer to the customer before they fill in a credit application.
- Preparation of the systems for services related to the mortgage bank and for the mandatory KNF audit.
- Launch of work aimed at implementation of the MyID (MojeID) service provided by the National Clearing House as part of a commercial process. This solution will allow customers to confirm their identity remotely using data from a credible source.
- Upgrade of MUREX, the main financial markets platform, including solutions facilitating execution and processing of transactions in financial markets; expansion of the functionality of Kantor Santander related to FX transactions in remote channels to include FX orders, FX alerts and standing orders.
- Implementation of Passive Domain 2.0, a solution which ensures that the bank's customers are not affected by unavailability of online channels during deployment of new upgrades; improvement of availability and performance of Cortex.

Security culture

In view of dynamic development of new information technologies and digital economy, in 2019 the bank updated its Cybersecurity Strategy to account for new global challenges.

Building cybersecurity culture

Pursuant to KNF's decision identifying the bank as a provider of key services, work was under way to meet the requirements arising from the National Cybersecurity System Act. The bank was also included in the Poland-wide cybersecurity system.

In October 2019, the bank launched the CyberRescue service for Select customers, which offers additional online protection and professional support in the event of credit fraud or social media or email hacking.

Measures were put in place to build cybersecurity culture and raise the awareness of secure banking among customers, bank's employees and youngsters. A series of workshops were delivered to promote 5 cybersecurity rules. Given the positive feedback, they are planned to be held again next year. The same campaign was run in social media (Facebook), reaching more than 5 million people.

The bank continued the information campaign in the local online media (PolskaPress) regarding online security, secure banking, domestic payments and strong passwords. The bank was also a co-sponsor of a series of press releases about security and, as a member of the Polish Bank Association (ZBP), actively contributed to creation and promotion of a series of videos about cybersecurity, which are now available on the bank's YouTube channel.

6. Capital Expenditure

In 2019, Santander Bank Polska Group incurred PLN 450.8m worth of capital expenditure compared with PLN 581.2m in 2018.

- The expenditure primarily included projects related to the development of IT systems, infrastructure and equipment.
 - ✓ The Digital Transformation Division focused on maintaining an appropriate level of IT security and ensuring appropriate quality and continuity of the bank's IT environment. Due to cybercrime threats, projects were continued to allow efficient response to potential incidents and mitigate their effects.
 - ✓ The bank also increased its capability of storing and sharing data in the data warehouse environment by replacing the previous platform with a new one. In addition, the IT infrastructure was upgraded by providing extra disk arrays for system virtualization. Moreover, the bank continued to expand its license resources to support the development of Ab Initio, Oracle and Microsoft environment products.
 - ✓ At the same time, a number of IT projects were carried out, as described in Section 5 of this Chapter "IT Development".
- Significant outlays were incurred on the digitisation of risk management processes, including mainly the development and optimisation of credit processes, and the development of arrears self-service for customers.
 - ✓ The bank acquired modern software supporting digital document workflow and digital repository management, and tools and solutions enabling further automation and robotisation of operational processes, with particular emphasis on solutions enabling the automation of capturing data from documents using artificial intelligence and machine learning (smartOCR) mechanisms.
 - ✓ Work was continued on IFRS 9 and the Asset and Liquidity Management (ALM) Programme. In particular, the bank implemented reporting from the statistical module in the ALM system and continued the deployment of the dynamic module to supplement risk measurement with additional dynamic measures of interest rate risk.
- In 2019, the bank continued to invest in the development of online, mobile and telephone banking for retail customers; improved the solutions for processing customer data (including biometric data); redesigned the iBiznes24 electronic banking platform, CRM systems and credit processes for business customers, and carried out optimisation and transformation processes in the branch network in accordance with the New Distribution Model. For more information, see Section 3 of this Chapter "Development of Distribution Channels" and Chapter IX "Business Development in 2019".
- In addition, the bank carried out obligatory projects as required under amended or new laws and regulations. The spend on regulatory projects in 2019 mainly concerned the continuation of work aimed at ensuring full compliance with the PSD2 and GDPR requirements.
 - ✓ As part of the work on PSD2, an interface was prepared that could be used by other banks and institutions to provide their customers with access to payment accounts held with Santander Bank Polska S.A. and to order payments from those accounts. A pilot project was run to enable customers to link up their PKO BP and Alior Bank accounts with Santander internet and mobile.
 - ✓ As part of the work on the GDPR, expenditure was incurred on improving the management of personal data in the organisation, including on changes in IT systems, development of tools for their safer storage and archiving of decommissioned systems complete with data cleansing. Additional system-based safeguards and reporting tools were developed in relation to data processing.
- The bank continued cost-intensive processes aimed at achieving full integration with the acquired part of Deutsche Bank Polska S.A. The expenditure was driven by the close-down of some branches, upgrades at merged branches and harmonisation of security standards across the branch network.

XI. Financial Performance in 2019

1. Income Statement of Santander Bank Polska Group

Structure of Santander Bank Polska Group's profit before tax

Condensed Consolidated Income Statement of Santander Bank Polska Group in PLN m (for analytical purposes)	2019	2018	YoY Change
Total income	9 484,5	8 715,5	8,8%
- Net interest income	6 580,2	5 742,4	14,6%
- Net fee & commission income	2 128,2	2 057,8	3,4%
- Gain on acquisition/sale of enterprise ¹⁾	59,1	419,3	-85,9%
- Other income ²⁾	717,0	496,0	44,6%
Total costs	(4 488,7)	(3 769,0)	19,1%
- Staff, general and administrative expenses	(3 426,2)	(3 242,8)	5,7%
- Depreciation/amortisation ³⁾	(628,2)	(333,5)	88,4%
- Other operating expenses	(434,3)	(192,7)	125,4%
Impairment losses on loans and advances	(1 219,4)	(1 085,1)	12,4%
Profit/loss attributable to the entities accounted for using the equity method	67,2	62,7	7,2%
Tax on financial institutions	(599,0)	(499,8)	19,8%
Consolidated profit before tax	3 244,6	3 424,3	-5,2%
Tax charges	(800,5)	(727,1)	10,1%
Net profit for the period	2 444,1	2 697,2	-9,4%
- Net profit attributable to Santander Bank Polska shareholders	2 138,3	2 363,4	-9,5%
- Net profit attributable to non-controlling shareholders	305,8	333,8	-8,4%

1) Gain of PLN 59.1m recognised in 2019 is the result of settling the sale of the Investment Services Centre which is disclosed under other operating income in the full consolidated income statement of Santander Bank Polska Group.

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

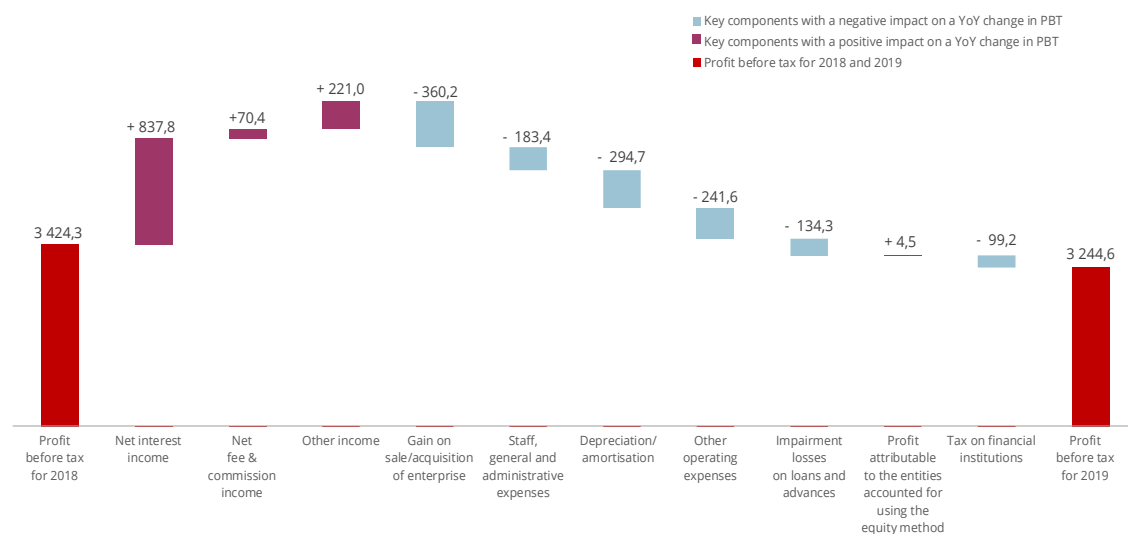
3) Amortisation/ depreciation includes depreciation of property, plant and equipment, amortisation of intangible assets and depreciation of the right-of-use asset in accordance with IFRS 16 effective as of 1 January 2019.

Profit before tax posted by Santander Bank Polska Group for 2019 was PLN 3,244.6m, down 5.2% YoY. Profit attributable to the shareholders of Santander Bank Polska S.A. declined by 9.5% YoY to PLN 2,138.3m.

Assuming the fixed level of contributions payable to the Bank Guarantee Fund and adjusting the profit for 2019 for the gain on sale of the Investment Services Centre and additional charges or provisions for payments related to the portfolio of FX mortgage loans and consumer loans, and excluding from the profit for 2018 the financial impact of acquisition of an organised part of Deutsche Bank Polska S.A. and DB Securities S.A. (as indicated in the table below: Selected items of the income statement affecting the comparability of periods), the underlying profit before tax increased by 15.9% YoY and the profit attributable to the shareholders of Santander Bank Polska S.A. went up by 19.8% YoY.

CHANGES IN THE KEY COMPONENTS OF THE CONSOLIDATED PROFIT BEFORE TAX FOR 2019 VS 2018

PLN m



Determinants of the Group's profit for 2019

Key aggregated items of the consolidated income statement of Santander Bank Polska Group for 2019 and their determinants

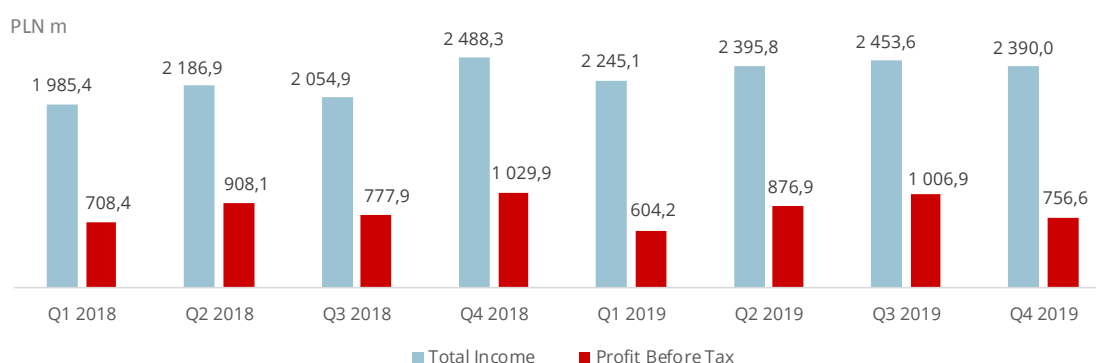
Total income

- In 2019, **total income** of Santander Bank Polska Group increased by 8.8% YoY to PLN 9,484.5m.
- **Underlying total income** grew by 14.8% YoY, when adjusted for:
 - ✓ One-off investments/ divestments of Santander Bank Polska S.A., i.e. gain of PLN 59.1m on the sale of an organised part of the bank's enterprise (Investment Services Centre) in 2019 and gain of PLN 419.3m on the acquisition of an organised part of Deutsche Bank Polska S.A. and DB Securities S.A. in 2018;
 - ✓ Charge of PLN 100.4m against net interest income of Santander Bank Polska Group for Q4 2019 in respect of partial reimbursement of fees related to early repaid consumer loans.
- The above growth in the underlying total income is attributed to an increase in the Group's income from the core business and trading in the financial instruments market. Particularly noteworthy is the following:
 - ✓ A 14.6% YoY (16.3% YoY when adjusted for the charge of PLN 100.4m) increase in **net interest income** supported by organic growth of business volumes and acquisition of an organised part of Deutsche Bank Polska S.A. in November 2018;
 - ✓ A 3.4% YoY increase in **fee and commission income** on account of growing credit portfolios, dynamic sales of insurance, foreign exchange transactions in remote channels, significant non-cash turnover generated by credit and debit cards, and a growing number of current accounts. This result was adversely affected by a decrease in fee and commission income from brokerage services, issuance of securities and distribution and management of investment fund assets impacted by external factors (stock market downturn and regulations concerning the settlement model of investment funds) as well as the cost of the Group's guarantee and restructuring transactions.
 - ✓ A 44.6% YoY rise in **other income** (i.e. non-interest, non-fee and non-investment/ divestment income) on account of gain on other financial instruments (+394.7% YoY), net trading income and revaluation (+49.1% YoY) and other operating income (+1.4% YoY).

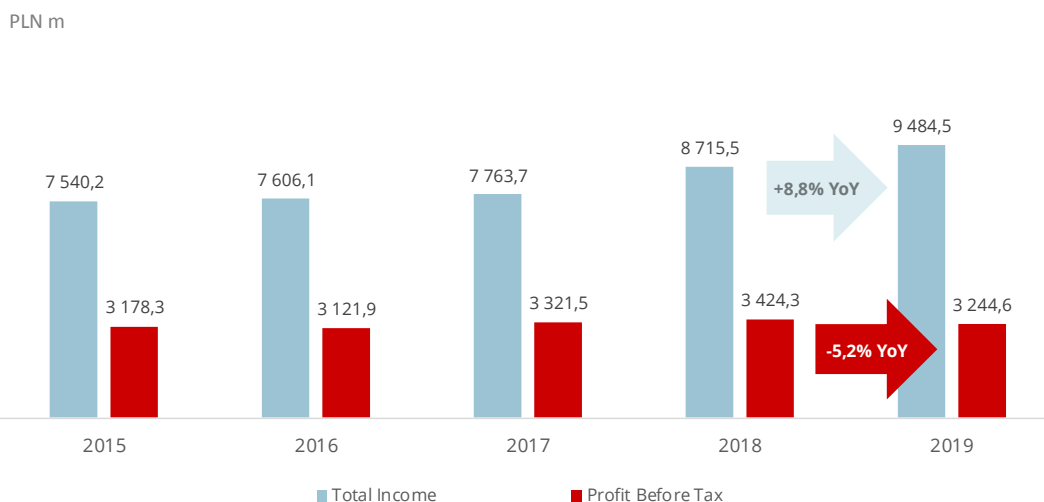
Key aggregated items of the consolidated income statement of Santander Bank Polska Group for 2019 and their determinants (continued)

Total costs	<ul style="list-style-type: none"> • Total operating expenses went up by 19.1% YoY to PLN 4,488.7m, impacted by: <ul style="list-style-type: none"> ✓ provisions of PLN 266.6m for legal risk connected with the portfolio of FX home loans and partial reimbursement of fees related to early repaid consumer loans; ✓ higher fees payable to market regulators, including a YoY increase of PLN 79.9m in the total mandatory contributions to the Bank Guarantee Fund recognised in 2019 (including a contribution of PLN 199.3m to the bank resolution fund compared with PLN 89.5m in 2018). • Excluding the above legal risk provisions and assuming the constant level of fees payable to the Bank Guarantee Fund in both analysed periods, the underlying total costs were up 9.9% YoY, mainly due to: <ul style="list-style-type: none"> ✓ a 11.9% YoY increase in staff expenses resulting from salary review and severance payments in connection with collective redundancies at Santander Bank Polska S.A.; ✓ higher amortisation and depreciation related to extension of the Group's IT infrastructure and operating assets following the acquisition of an organised part of Deutsche Bank Polska S.A.
Net impairment allowances	<ul style="list-style-type: none"> • Net impairment allowances on loans and advances went up by 12.4% YoY to PLN 1,219.4m, largely as a result of the following: <ul style="list-style-type: none"> ✓ growth in new credit exposures (with a high share of consumer and mortgage loans) on account of lending supported by an extended sales network; ✓ acquisition of the retail loans portfolio of Deutsche Bank Polska S.A. in November 2018; ✓ sale of credit portfolios by Santander Bank Polska S.A. and Santander Consumer Bank S.A.; ✓ prudent approach to credit risk.
Tax on financial institutions	<ul style="list-style-type: none"> • Tax on financial institutions was PLN 599.0m and up 19.8% YoY as a result of growth in taxable assets. The tax in the comparative period reflects the retrospective adjustment in the recognition of certain transactions in government securities.

THE GROUP'S TOTAL INCOME AND PROFIT BEFORE TAX BY QUARTER IN 2018 AND 2019



TOTAL INCOME AND PROFIT BEFORE TAX FOR THE YEARS 2015-2019



Comparability of periods

The financial data contained in the consolidated financial statements of Santander Bank Polska Group for the 12-month period ended 31 December 2019 are not fully comparable with the previous year data due to the following:

- expansion of the business scale as a result of acquisition of an organised part of Deutsche Bank Polska S.A. on 9 November 2018;
- first-time application of IFRS 16 Leases, using a modified retrospective approach (the comparative data have not been restated);
- occurrence of events described in the table below.

Selected items of the income statement affecting the comparability of periods

	2019	2018
Contributions to the Bank Guarantee Bank made by Santander Bank Polska Group <i>(general and administrative expenses)</i>	<ul style="list-style-type: none"> • PLN 282.8m, including a contribution of PLN 83.5m to the bank guarantee fund and a contribution of PLN 199.3m to the bank resolution fund 	<ul style="list-style-type: none"> • PLN 202.8m, including a contribution of PLN 113.3m to the bank guarantee fund and a contribution of PLN 89.5m to the bank resolution fund
Legal risk provision <i>(other operating expenses)</i>	<ul style="list-style-type: none"> • PLN 266.6m, including a provision of PLN 173.1m connected with a foreign currency mortgage loan portfolio and a provision of PLN 93.5m for partial reimbursement of fees in respect of early repaid consumer loans 	<ul style="list-style-type: none"> • No such provision
Charge to net interest income in respect of costs connected with reimbursement of fees related to early repaid consumer loans <i>(net interest income)</i>	<ul style="list-style-type: none"> • PLN 100.4m 	<ul style="list-style-type: none"> • No such charge

Selected items of the income statement affecting the comparability of periods

	2019	2018
Impact of investments and divestments <i>(other operating income/ gain on acquisition of an enterprise)</i>	<ul style="list-style-type: none"> • PLN 59.1m – gain on settlement of the sale of an organised part of the enterprise of Santander Bank Polska S.A., i.e. the Investment Services Centre <i>(other operating income)</i> 	<ul style="list-style-type: none"> • PLN 419.3m – gain on the final settlement of the acquisition of a demerged part of Deutsche Bank Polska S.A. and DB Securities S.A. (a surplus of the fair value of the acquired net assets over the purchase price) <i>(gain on acquisition of an enterprise)</i>
Additional allowance in respect of loans and advances from customers acquired along with an organised part of Deutsche Bank Polska S.A. <i>(net impairment allowances on loans and advances)</i>	<ul style="list-style-type: none"> • No acquisition of an enterprise or its organised part 	<ul style="list-style-type: none"> • PLN 130.5m

Comparative period restatements

The data for 2018 contained in the consolidated income statement for the 12-month period ended 31 December 2019 have been restated in comparison with the data included in the Annual Report of Santander Bank Polska Group for 2018. The table below summarises the above-mentioned changes.

Item of the income statement for 2018	Change versus the financial statements for 2018 published on 22 February 2019	Value after change	Description
Gain on acquisition of an enterprise	<ul style="list-style-type: none"> • PLN 31.6m 	<ul style="list-style-type: none"> • PLN 419.3m 	<ul style="list-style-type: none"> • Final settlement of the acquisition of an organised part of Deutsche Bank Polska S.A. and DB Securities S.A.
Tax on financial institutions	<ul style="list-style-type: none"> • - PLN 33.4m 	<ul style="list-style-type: none"> • - PLN 499.8m 	<ul style="list-style-type: none"> • Additional tax on financial institutions arising from the change of the accounting treatment of selected transactions in government debt securities.
Profit before tax	<ul style="list-style-type: none"> • - PLN 1.9m 	<ul style="list-style-type: none"> • PLN 3,424.3m 	<ul style="list-style-type: none"> • As above

The restatement of the comparative period, which was made in the consolidated statement of the financial position of Santander Bank Polska Group as at 31 December 2019 to reflect the final settlement of the acquisition of an organised part of Deutsche Bank Polska S.A. and DB Securities S.A. and the changed accounting treatment of certain transactions in Treasury debt securities, is disclosed in Note 2 "Basis of preparation of financial statements", section 2.4 "Comparability with the results presented in prior periods" of „Consolidated financial statement of Santander Bank Group for 2019“.

Structure of profit before tax earned by Santander Bank Polska Group by contributing entities

Components of Santander Bank Polska Group Profit Before Tax in PLN m (by contributing entities)	2019	2018	YoY Change
Santander Bank Polska S.A.	2 735,1	2 665,0	2,6%
Subsidiary undertakings:	948,3	1 076,3	-11,9%
Santander Consumer Bank S.A. and its subsidiaries ¹⁾	651,2	764,1	-14,8%
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	213,8	234,6	-8,9%
Santander Finanse Sp. z o.o. and its subsidiaries (Santander Leasing S.A., Santander Leasing Poland Securitization 01 Designated Activity Company, Santander Factoring Sp. z o.o., Santander F24 S.A.)	90,1	77,5	16,3%
Other companies ²⁾	(6,8)	0,1	-
Equity method valuation	67,2	62,7	7,2%
Elimination of dividends received by Santander Bank Polska S.A. and consolidation adjustments ³⁾	(506,0)	(379,7)	33,3%
Profit before tax	3 244,6	3 424,3	-5,2%

1) As at 31 December 2019, SCB Group comprised Santander Consumer Bank S.A. and the following entities: Santander Consumer Multirent Sp. z o.o., Santander Consumer Finanse Sp. z o.o., SC Poland Consumer 15-1 Sp. z o.o., SC Poland Consumer 16-1 Sp. z o.o., PSA Finance Polska Sp. z o.o. and PSA Consumer Finance Polska Sp. z o.o. The amounts provided above represent profit before tax of SCB Group for the periods indicated (after intercompany and consolidation adjustments).

2) Santander Inwestycje Sp. z o.o. and Santander Securities S.A. until the latter's division and dissolution on 8 November 2019.

3) Includes consolidation adjustments and dividends: PLN 335.1m from SCB S.A. (PLN 259.9m in 2018), PLN 95.0 m from Santander TFI S.A. (PLN 33.3m in 2018), PLN 58.7m from Santander Aviva TU S.A. and Santander Aviva TUnŻ S.A. (PLN 60.7m in 2018) and PLN 20.9m from Santander Finanse Sp. z o.o. (PLN 38.8m in 2018).

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

The standalone profit before tax of Santander Bank Polska S.A. was PLN 2,735.1m for 2019, up 2.6% YoY. Components of the profit earned by the bank are presented in the section below concerning financial performance of Santander Bank Polska S.A. in 2019.

Subsidiaries

The subsidiaries consolidated by Santander Bank Polska S.A. reported a decrease of 11.9% YoY in their total profit before tax as a result of a drop in profitability of Santander Consumer Bank Group and Santander TFI S.A.

SCB Group

The contribution of Santander Consumer Bank Group to the consolidated profit before tax of Santander Bank Polska Group for 2019 was PLN 651.2m (after intercompany transactions and consolidation adjustments) and decreased by 14.8% YoY due to the following factors:

- A 3.8% YoY increase in net interest income to PLN 1,570.2m, driven by steady growth of the credit portfolio and favourable changes in its structure (a bigger share of high-margin products such as cash loans, credit cards and leases). An additional charge of PLN 54.6m was made against the net interest income for 2019 to account for partial reimbursement of fees in respect of early repaid consumer loans.
- A 3.1% YoY increase in net fee and commission income to PLN 132.8m on account of higher insurance income (including a non-recurring item as part of cooperation with the insurance partner) and higher net fee and commission income from credit cards. This was partly offset by fee and commission expenses related to securitisation and the lack of income from spot transactions (since July 2019).
- A 10.8% YoY rise in impairment allowances on financial assets totalling PLN 300.2m due to growth of the overall credit portfolio and change of its product mix (an increasing share of cash loans and a lower share of mortgage loans).
- A 28.2% YoY increase in operating expenses to PLN 783.1m, reflecting higher contributions to the Bank Guarantee Fund, rise in staff expenses and appreciation of IT systems due to technological development, provision of PLN 24.1m related to the foreign currency mortgage loans portfolio and provision of PLN 84.5m for partial reimbursement of fees on early repaid consumer loans.

Others subsidiaries

Profit before tax of Santander TFI S.A. for 2019 declined by 8.9% YoY to PLN 213.8m as a result of lower income from management fees caused by a decrease in the average value of net assets managed by the company and a drop in the margin resulting from shift in the asset structure towards a higher share of low-margin sub-funds (such as corporate bond sub-funds or government bond sub-funds) and implementation of regulations which restrict the margin level (Regulation of the Minister of Finance of 13 December 2018 on the maximum amount of fixed remuneration for investment fund companies for managing open-end investment funds or specialised open-end investment funds).

Total profit before tax posted by companies controlled by Santander Finanse Sp. z o.o. increased by 16.3% YoY to PLN 90.1m.

- The total profit before tax of Santander Leasing S.A., Santander Finanse Sp. z o.o., Santander Leasing Poland Securitization 01 Designated Activity Company and Santander F24 S.A. grew by 16.5% YoY to PLN 62.7m. Strong results posted by the companies in terms of lease and sale of insurance facilities translated into a double-digit growth in the value of performing lease portfolio (+12% YoY), net interest income (+10.5% YoY) and net insurance income (+20% YoY). The YoY increase in net impairment allowances did not affect the quality of the lease portfolio.
- The profit before tax earned by Santander Factoring Sp. z o.o. went up by 15.5% YoY to PLN 27.4m due to a 36.9% YoY increase in net interest income on factoring exposures, which grew by 12.1% YoY, offsetting a rise in impairment allowances.

Structure of Santander Bank Polska Group's profit before tax

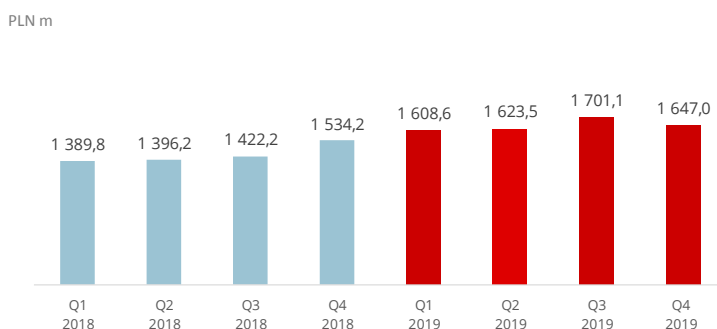
Total income

Total income of Santander Bank Polska Group for 2019 increased by 8.8% YoY to PLN 9,484.5m. Underlying total income grew by 14.8% YoY, excluding the following items from the reporting period: one-off gain of PLN 59.1m on sale of the Investment Services Centre and charge of PLN 100.4m against net interest income in respect of partial reimbursement of fees related to early repaid consumer loans, and adjusting the comparative period for gain of PLN 419.3m on acquisition of an organised part of Deutsche Bank Polska S.A.

Net interest income

Net interest income for 2019 amounted to PLN 6,580.2m and was up 14.6% YoY and 16.3% YoY on a comparative basis (excluding the above-mentioned charge of PLN 100.4m) due to higher net earning assets, favourable developments in the Group's balance sheet structure (YoY increase in low-cost balances of current accounts and high-margin cash loans) and flexible pricing and product management.

NET INTEREST INCOME BY QUARTER IN 2018 AND 2019

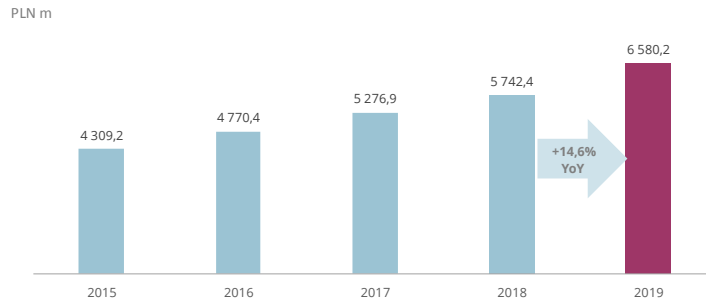


Interest income rose by 17.3% YoY to PLN 8,461.8m in the analysed period, driven by higher net earning assets (resulting from organic growth and acquisition of an organised part of Deutsche Bank Polska S.A. in November 2018), notably loans and advances and debt securities.

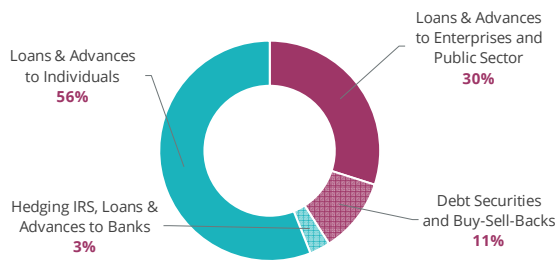
Interest expense grew by 27.9% YoY to PLN 1,881.7m as a result of incorporation of a retail deposit portfolio of Deutsche Bank Polska S.A., successful acquisition of savings balances and issue of own debt securities by the Group.

In 2019, loans to customers brought a yearly average nominal interest income of 5.0%, while customer deposits carried a yearly average nominal interest cost of 0.9%, both remaining at the previous year's level.

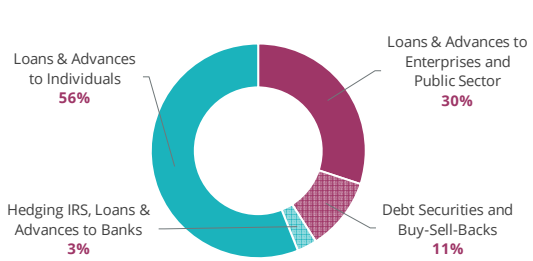
NET INTEREST INCOME IN YEARS 2015-2019



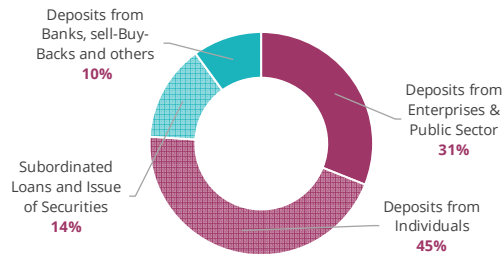
STRUCTURE OF INTEREST REVENUE IN 2019



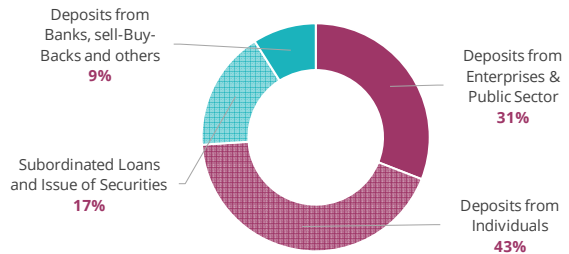
STRUCTURE OF INTEREST REVENUES IN 2018



STRUCTURE OF INTEREST EXPENSE IN 2019

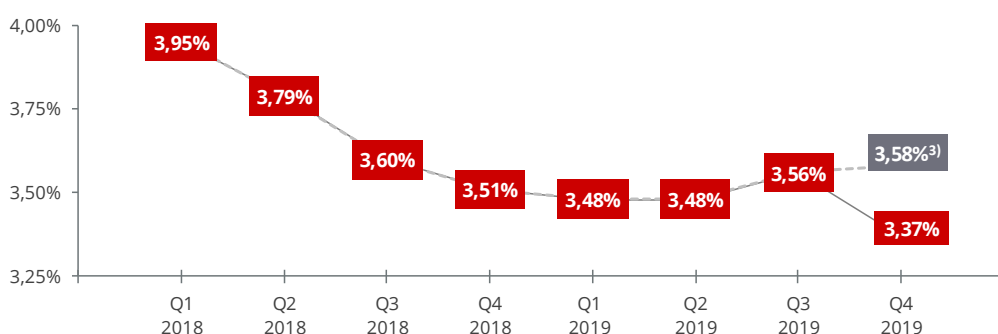


STRUCTURE OF INTEREST EXPENSE IN 2018



Cumulative net interest margin declined from 3.66% in 2018 to 3.46% in 2019 (3.52% when adjusted for an additional charge of PLN 100.4m against net interest income) amid growing costs of asset funding, which was largely impacted by acquisition of deposits (as a result of organic growth and takeover of retail portfolios of Deutsche Bank Polska S.A. in late 2018) and issue of securities by the Group.

NET INTEREST MARGIN¹⁾ BY QUARTER IN THE YEARS 2018-2019
(INCLUDING SWAP POINTS)²⁾



- 1) The net quarterly interest margin for 2018 and 2019 has been adjusted to account for the retrospective change in the accounting treatment of selected transactions in government securities.
- 2) The calculation of the net interest margin of Santander Bank Polska S.A. takes account of swap points allocation from derivative instruments used for the purpose of liquidity management but excludes interest income from the portfolio of debt securities held for trading and other exposures connected with trading.
- 3) The annualised net interest margin for Q4 2019 totalling 3.58% does not include a charge of PLN 100.4m against net interest income in respect of partial reimbursement of fees related to early repaid consumer loans.

After a steady decrease since the beginning of 2018, the quarterly net interest margin (annualised on a quarterly basis) went up from 3.48% in Q1 2019 to 3.58% in Q4 2019. This change can be attributed to optimisation of deposit proposition and dynamic growth of lending (notably cash loans for individuals). Taking account of costs related to the reimbursement of fees in relation to early repaid consumer loans, the net interest margin decreased to 3.37% in Q4.

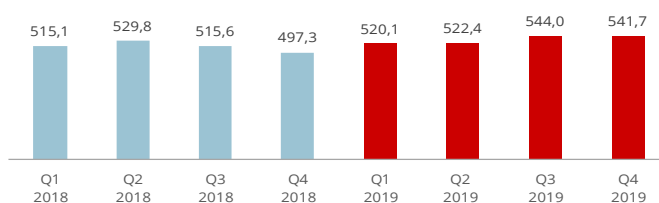
Net fee and commission income

Net Fee and Commission Income (in PLN m)	2019	2018	YoY Change
FX fees	442,7	396,0	11,8%
E-Business and payments ¹⁾	387,9	386,4	0,4%
Account maintenance and cash transactions ²⁾	324,6	317,4	2,3%
Credit fees ³⁾	302,6	264,0	14,6%
Asset management and distribution	283,9	290,4	-2,2%
Insurance fees	202,8	182,4	11,2%
Credit cards	145,8	135,7	7,4%
Brokerage activities	51,3	58,9	-12,9%
Guarantees and sureties ⁴⁾	45,7	61,6	-25,8%
Other ⁵⁾	(59,1)	(35,0)	68,9%
Total	2 128,2	2 057,8	3,4%

- 1) Fees for payments (foreign and mass payments, Western Union transfers), trade finance, debit cards, services for third party institutions as well as other electronic and telecommunications services.
- 2) Fee and commission income from account maintenance and cash transactions has been reduced by the corresponding expenses which are disclosed under "Other" in Note 7 to the Consolidated Financial Statements of Santander Bank Polska Group for 2019 (PLN 2.4m for 2019 vs. PLN 5.8m for 2018).
- 3) Net fee and commission income from lending, factoring and lease activities which is not amortised to net interest income. This line item includes, inter alia, the cost of credit agency.
- 4) Fee and commission income from guarantees has been reduced by the corresponding expenses which are disclosed under "Other" in Note 7 to the Consolidated Financial Statements of Santander Bank Polska Group for 2019 (PLN 26.7m for 2019 vs. PLN 8.9m for 2018).
- 5) Issue arrangement fees and others.

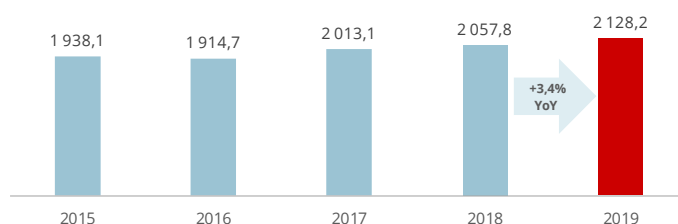
NET FEE & COMMISSION INCOME BY QUARTER IN THE YEARS 2018-2019

PLN m

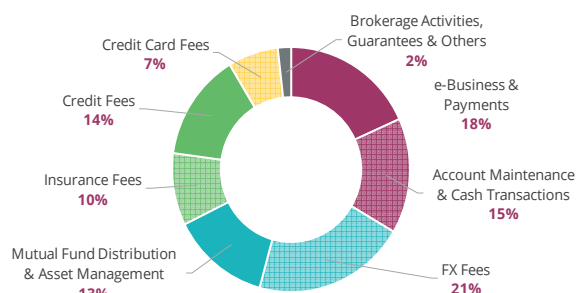


NET FEE & COMMISSION INCOME IN YEARS 2015-2019

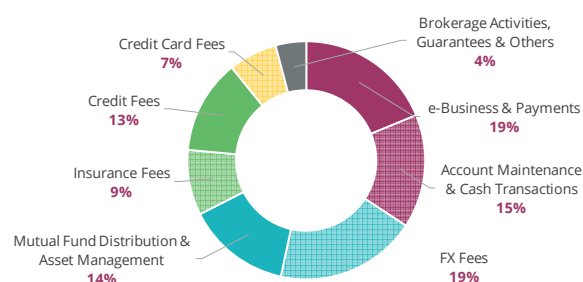
PLN m



NET COMMISSION INCOME STRUCTURE IN 2019



NET COMMISSION INCOME STRUCTURE IN 2018



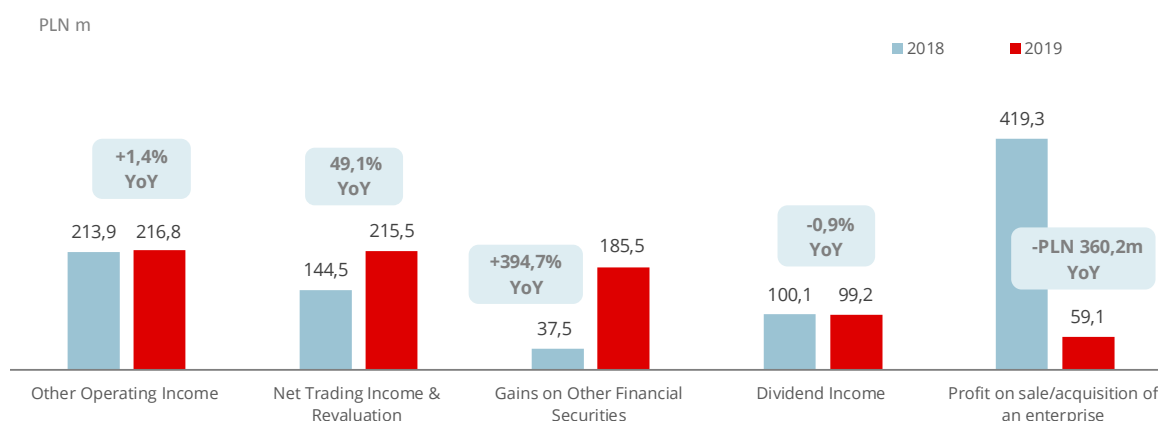
Net fee and commission income for the 12-month period ended 31 December 2019 amounted to PLN 2,128.2m and increased by 3.4% YoY, driven by the performance of business lines of Santander Bank Polska S.A. and its subsidiaries. The key changes were as follows:

- An improvement in net FX fee income (up 11.8% YoY) reflects the Group's comprehensive measures taken to support foreign trade and develop e-FX services in iBiznes24 and Kantor Santander currency exchange platform available in Santander online and Santander mobile.
- A 14.6% YoY increase in net fee and commission income from lending business is attributed to the Group's activities in relation to financing diverse borrowing needs and initiatives of customers, combined with a relatively stable level of charges (+2.9% YoY) connected with an extension of the credit agency network to include new partners and an agency operating model acquired along with a retail part of Deutsche Bank Polska S.A.
- An increase of 11.2% YoY in net fee and commission income from insurance business is a combined effect of higher revenues generated by Santander Bank Polska S.A. and Santander Leasing S.A. on account of solid growth in sales of cash loan insurance offered by the bank and motor insurance offered by the lease company, and recognition of a non-recurring item by Santander Consumer Bank S.A. as part of cooperation with an insurance partner.
- Net fee and commission income from issuance and management of a combined portfolio of credit cards of Santander Bank Polska S.A. and Santander Consumer Bank S.A. increased by 7.4% YoY due to a rise in non-cash turnover generated by the above instruments and net income from monthly fees.

- Brokerage fees went down by 12.9% YoY due to a decrease in trading in the secondary market in accordance with the market trend observed in 2019, lower share of retail customers in the total stock market turnover and growing competition from remote exchange members.
- A 2.2% YoY drop in net fee income from distribution and asset management is attributed to lower income from management fees associated with investment fund assets and individual portfolios resulting from:
 - ✓ a decline in the average value of net assets managed by Santander TFI S.A. (outflow of assets caused by stock market downturn);
 - ✓ a decrease in margin caused by changes in the asset structure in favour of low-margin sub-funds (e.g. government bond and corporate bond funds) and reduction of management fees in respect of certain sub-funds in accordance with the applicable regulations setting the maximum fixed remuneration for investment fund companies for management of investment funds.
- A 25.8% YoY decline in net fee and commission income from guarantees and a 68.9% YoY increase in loss on other fees are largely down to higher costs incurred by the bank and its subsidiaries in relation to securitisation and guarantee activities.

Non-interest and non-fee income

Components of Other Income for 2019 vs. 2018



Non-interest and non-fee income presented in the figure above totalled PLN 915.3m and decreased by 15.2% YoY, mainly as a high base effect connected with recognition of PLN 419.3m gain on acquisition of an organised part of Deutsche Bank Polska S.A. (surplus of the fair value of the acquired net assets over the purchase price). In 2019, the Group recognised gain of PLN 59.1m on sale of the Investment Services Centre as part of transformation of the business model of Santander Bank Polska S.A. The Centre, which was an organised part of the bank's enterprise, provided professional transfer agent services to Santander TFI S.A. and its investment funds.

Excluding the above gain on investments/ divestments, the Group's other income grew by 44.6% YoY to PLN 717.0m.

- Other operating income increased by 1.4% YoY to PLN 216.8m. Income from modification of lease contracts under IFRS 16 Leases recognised for the first time under this line item offset a drop in gain on sale and liquidation of fixed assets and releases of provisions for legal disputes and other assets.
- Net trading income and revaluation reported by Santander Bank Polska Group for 2019 was PLN 215.5m, up 49.1% YoY. This figure improved due to:
 - ✓ Total gain of PLN 211.5m (up 40.9% YoY) on transactions in the derivative market and in the interbank FX market. This line item excludes net interest income from the CIRS and IRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 180.9m for 2019 vs. PLN 204.7m for 2018), which is disclosed under "Interest income".
 - ✓ Positive change in the fair value of credit receivables mandatorily measured at fair value through profit or loss totalling PLN 30.2m in 2019 vs. a loss of PLN 24.4m last year.
 - ✓ At the same time, trading in debt and equity securities measured at fair value through profit or loss brought in a loss of PLN 26.1m in 2019 vs. a profit of PLN 18.8m in the comparative period.
- Gains on other financial instruments (together with loss on subordinated entities) totalled PLN 185.5m vs. PLN 37.5m last year. Amid favourable market trends, the Group generated profit of PLN 124.7m from the sale of debt securities (PLN 28.3m in 2018), notably government bonds, and recorded a positive change in the fair value of shares of Visa Inc. amounting to PLN 57.0m (PLN 12.3m in 2018).

- Dividend income totalled PLN 99.2m and fell by 0,9% YoY due to lower dividends from Aviva Group companies from the bank's portfolio of equity investments (PLN 88.6m in 2019 vs. PLN 91.4m in 2018).

Impairment allowances

Impairment losses on loans and advances measured at amortised cost (in PLN m)	Stage 1		Stage 2		Stage 3		POCI		Total	Total
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Charge on loans and advances to banks	-	(0,1)	-	-	-	-	-	-	-	(0,1)
Charge on loans and advances to customers	(93,4)	(217,7)	(436,0)	(307,7)	(772,8)	(625,1)	73,2	60,7	(1 229,0)	(1 089,8)
Recoveries of loans previously written off	-	-	-	-	(5,2)	11,9	-	-	(5,2)	11,9
Off-balance sheet credit related facilities	14,6	(5,0)	2,8	4,5	(2,6)	(6,6)	-	-	14,8	(7,1)
Total	(78,8)	(222,8)	(433,2)	(303,2)	(780,6)	(619,8)	73,2	60,7	(1 219,4)	(1 085,1)

In 2019, the credit impairment charge to the income statement of Santander Bank Polska Group was PLN 1,219.4m vs. PLN 1,085.1m last year. Impairment allowances of Santander Consumer Bank Group totalled PLN 300.2m vs. PLN 271.0m in the comparative period.

The increase in impairment allowances on loans to the Group's customers (from PLN 1,089.8m for 2018 to PLN 1,229.0m for 2019) is attributed to:

- ✓ dynamic growth in new credit exposures (with a high share of consumer and mortgage loans) on account of lending supported by an extended sales network (including branches and agents acquired along with Deutsche Bank Polska S.A.);
- ✓ acquisition of the retail loans portfolio of Deutsche Bank Polska S.A. in November 2018;
- ✓ sale of credit receivables (including cash and mortgage loans) by Santander Bank Polska S.A. and Santander Consumer Bank S.A. in the total amount of PLN 1,460.3m in 2019 vs. PLN 2,122.8m in 2018 (resulting in an increase of PLN 16.1m and PLN 24.6m in profit before tax in 2019 and 2018, respectively); for details see the "Debt sale" table below.

Factors typical of the credit risk management process such as recalibration of provision parameters, reclassification of portfolios and deterioration of individual credit ratings had a smaller impact on the above figure. In 2019, no recurring events were identified that would have affected the observed risk level. The Group maintained a prudent approach to credit risk.

Debt sale

Santander Bank Polska S.A.	<ul style="list-style-type: none"> In 2019, Santander Bank Polska S.A. sold PLN 1,146.4m worth of the portfolio of matured receivables from personal and business customers, with a negative impact on the profit before tax for the current period totalling PLN 20.2m. In 2018, the loss on sales amounted to PLN 3.1m and was related to credit receivables totalling PLN 1,361.7m.
Santander Consumer Bank S.A.	<ul style="list-style-type: none"> Santander Consumer Bank S.A. sold the written-off portfolio of cash loans, instalment loans and credit card in the total amount of PLN 189.3m, generating a profit before tax of PLN 13.2m. Last year, the company sold written-off cash loans, instalment loans, credit cards, car loans and mortgage loans in the total amount of PLN 761.1m, with a P&L impact of PLN 27.7m gross. Furthermore, in 2019 Santander Consumer Bank S.A. sold the on-balance sheet portfolio of cash loans and instalment loans of PLN 124.6m, with a P&L impact of PLN 23.1m gross. No corresponding transactions were made last year.

Excluding POCI (purchased or originated credit impaired) exposures, NPL ratio was 4.7% as at 31 December 2019 (4.1% as at 31 December 2018), while the ratio of impairment allowances to average gross loans and advances measured at amortised cost was 0.85% (0.86% the year before).

Including POCI exposures, NPL ratio totalled 5.2% in 2019 vs 4.6% in 2018. For more information on the NPL ratio calculation methodology, see Section 2 "Statement of Financial Position", Subsection "Credit portfolio".

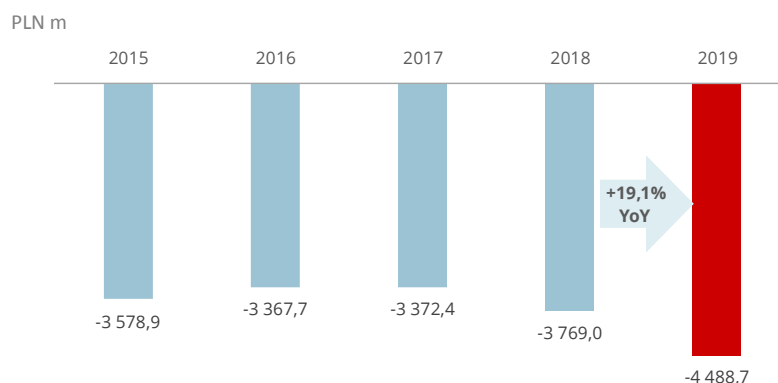
Total costs

Total costs of (in PLN m)	2019	2018	YoY Change
Staff, general and administrative expenses, of which:	(3 426,2)	(3 242,8)	5,7%
- Staff expenses	(1 869,7)	(1 670,5)	11,9%
- General and administrative expenses	(1 556,5)	(1 572,3)	-1,0%
Depreciation/amortisation	(628,2)	(333,5)	88,4%
- Depreciation/amortisation of PP&E and intangible assets	(425,2)	(333,5)	27,5%
- Depreciation of right-of-use assets	(203,0)	-	-
Other operating expenses	(434,3)	(192,7)	125,4%
Total costs	(4 488,7)	(3 769,0)	19,1%

In 2019, total operating costs of Santander Bank Polska Group increased by 19.1% YoY to PLN 4,488.7m. Assuming the fixed level of fees payable to the Bank Guarantee Fund in both analysed periods and excluding provisions of PLN 266.6m for legal risk connected with the portfolio of foreign currency mortgage loans and partial reimbursement of fees related to early repaid consumer loans, the underlying total costs grew by 9.9% YoY. This was largely due to higher staff expenses and an increase in amortisation and depreciation related to extension of the Group's IT infrastructure and operating assets following the acquisition of an organised part of Deutsche Bank Polska S.A.

Along with the total cost base, the Group's cost to income ratio grew from 43.2% in 2018 to 47.3% in 2019. Adjusting for the above-mentioned cost and income items, the underlying cost to income ratio for 2019 was 43.5%, compared with 45.4% the year before.

TOTAL COSTS IN THE YEARS 2015-2019



Staff expenses

In 2019, staff expenses of Santander Bank Polska Group increased by 11.9% YoY to PLN 1,869.7m, with a 2.3% reduction in the average annual headcount. The growth was largely driven by severance payments in respect of collective redundancies at Santander Bank Polska S.A. for which a restructuring provision of PLN 92.4m was raised. Collective redundancies at Santander Bank Polska S.A. covered 1,324 employees in total. At the same time, Santander Consumer Bank S.A. raised a provision of PLN 7.4m for optimisation of fixed cost of employment.

Total expenses of Santander Bank Polska Group related to salaries and bonuses and statutory deductions from salaries were PLN 1,716.5m and increased by 4.8% YoY, mainly as a result of salary review.

General and administrative expenses

General and administrative expenses of Santander Bank Polska Group decreased by 1.0% YoY to PLN 1,556.5m mainly as a result of changes to the accounting treatment of lease contracts arising from IFRS 16 Leases (the majority of lease expenses are now disclosed under depreciation of right-of-use assets).

Also, the Group's general and administrative expenses went down as an effect of high base in such areas as: consultancy and advisory services (-19.2% YoY), consumables (-16.6% YoY), marketing and entertainment (-2.6% YoY) and purchase and repair of machines/ office equipment (39.6% YoY). This resulted from the major projects delivered in 2018, notably acquisition of an organised part of Deutsche Bank Polska S.A., image-building campaign, commissioning and purchase of equipment for a new building in Wrocław, and design of working space in accordance with the Agile methodology.

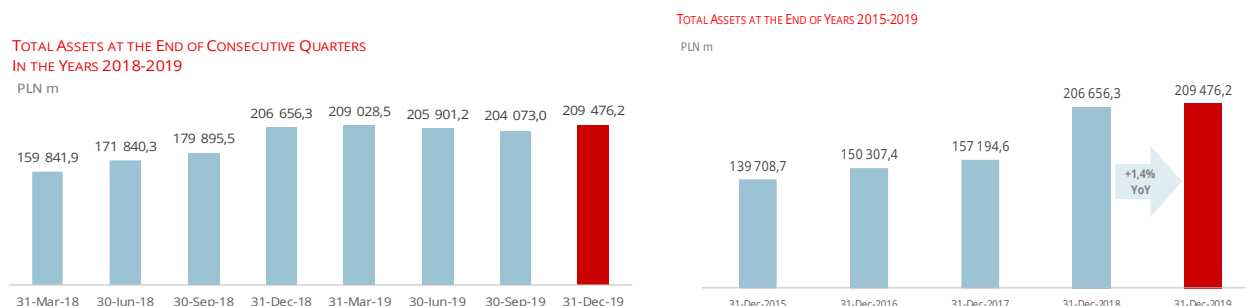
In 2019, the Group paid 41.6% YoY higher fees to market regulators (BFG, KNF and KDPW) due to a 122.6% YoY rise in the annual contribution to the BFG's bank resolution fund (to PLN 199.3m), which coupled with a 26.3% decrease in the contribution to the bank guarantee fund (to PLN 83.4m) for four quarters of 2019 caused an increase of PLN 79.9m in the charge to the income statement for 2019 in respect of contributions to the Bank Guarantee Fund.

At the same time a substantial growth was reported in the cost of IT usage (+26.1 YoY), due to a large number of projects delivered by the Group alone and in partnership with Santander Group to develop new solutions, improve IT infrastructure and support operational processes.

2. Statement of Financial Position of Santander Bank Polska Group

Consolidated assets

As at 31 December 2019, total assets of Santander Bank Polska Group were PLN 209,476.2m, up 1.4% YoY. The value and structure of the Group's financial position is determined by the parent entity, which holds 86.6% of the consolidated total assets vs. 89.0% as at the end of December 2018.



Structure of consolidated assets (condensed presentation)

Assets in PLN m (condensed presentation for analytical purposes)	31.12.2019	Structure 31.12.2019	31.12.2018	Structure 31.12.2018	YoY Change
	1	2	3	4	1/3
Loans and advances to customers ¹⁾	143 402,6	68,5%	137 460,4	66,5%	4,3%
Investment financial assets	41 328,1	19,7%	37 844,5	18,3%	9,2%
Financial assets held for trading and hedging derivatives	2 102,5	1,0%	1 260,1	0,6%	66,9%
Cash and operations with Central Banks	7 973,0	3,8%	8 907,6	4,3%	-10,5%
Fixed assets, intangibles, goodwill and right-of-use assets	4 197,1	2,0%	3 517,8	1,7%	19,3%
Loans and advances to banks	3 716,6	1,8%	2 936,2	1,4%	26,6%
Buy-sell-back transactions and assets pledged as collateral	2 940,7	1,4%	10 898,5	5,3%	-73,0%
Other assets ²⁾	3 815,6	1,8%	3 831,2	1,9%	-0,4%
Total	209 476,2	100,0%	206 656,3	100,0%	1,4%

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

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

In the above condensed statement of financial position as at 31 December 2019, net loans and advances to customers were the key item of consolidated assets. They totalled PLN 143,402.6m and were up 4.3% YoY, mainly on account of solid growth in lending to retail customers (including record sales of cash loans) and to small and medium-sized businesses.

In accordance with IFRS 16 (effective as of 1 January 2019), the Group identified and recognised right-of-use assets of PLN 838.8m, which resulted in a 19.3% YoY increase in the aggregate line item comprising the above assets along with property, plant and equipment, intangible assets and goodwill.

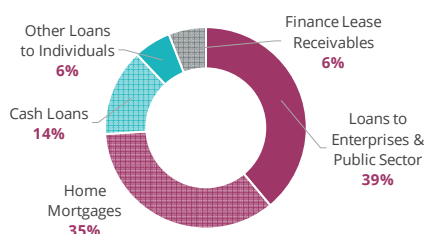
As part of management of the Group's liquidity and balance sheet structure, a drop was reported in 2019 in cash and balances at central banks (-10.5% YoY) and receivables from repo transactions disclosed under assets in respect of repo transactions and assets held as collateral (-73.0% YoY). In turn, growth was recorded in such portfolios as: investment financial assets (+9.2% YoY), loans and advances to banks (+26.6% YoY) and financial assets held for trading and hedging derivatives (+66.9% YoY).

The comparative period data contained in the Group's consolidated financial statements for 2019 were adjusted to the revised accounting treatment of the selected transactions in debt Treasury securities. As a result of an analysis, the above transactions were recognised as buy-sell-back and sell-buy-back transactions. For more details, see Note 2 "Basis of preparation of consolidated financial statements", Section 2.4 "Comparability with the results presented in prior periods" of the Consolidated Financial Statements of Santander Bank Polska Group for 2019.

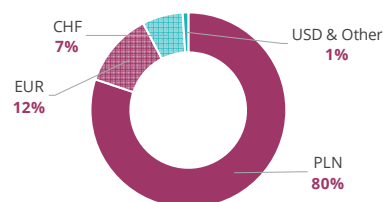
Credit portfolio

Gross Loans and Advances to Customers (in PLN m)	31.12.2019	31.12.2018	YoY Change
Loans and advances to individuals	80 895,6	74 696,4	8,3%
Loans and advances to enterprises and public sector customers	58 455,0	58 928,8	-0,8%
Finance lease receivables	9 267,0	8 204,3	13,0%
Other	29,4	15,2	93,4%
Total	148 647,0	141 844,7	4,8%

PRODUCT STRUCTURE OF CONSOLIDATED LOANS & ADVANCES TO CUSTOMERS AS AT 31.12.2019



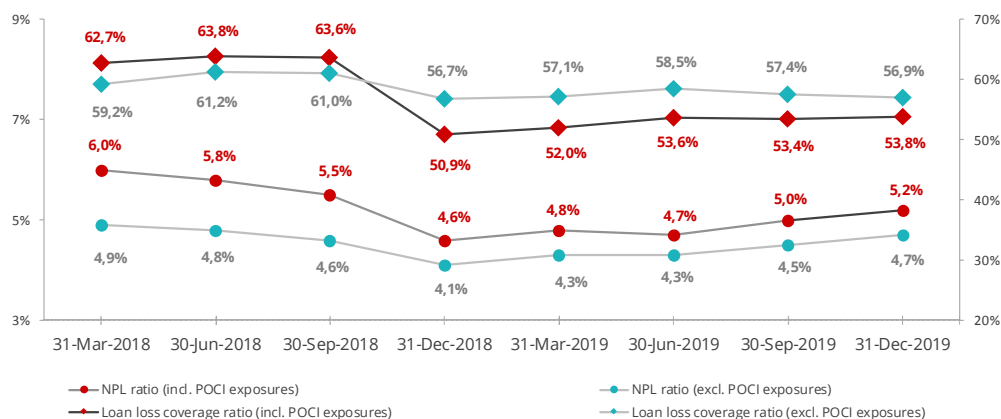
FX STRUCTURE OF CONSOLIDATED LOANS AND ADVANCES TO CUSTOMERS AS AT 31.12.2019



As at 31 December 2019, consolidated gross loans and advances to customers were PLN 148,647.0m and increased by 4.8% vs. 31 December 2018. The portfolio includes loans and advances to customers measured at fair value through profit or loss, totalling PLN 1,196.4m, and loans and advances to customers measured at fair value through other comprehensive income, totalling PLN 923.8m.

- Loans and advances to individuals increased by 8.3% to PLN 80,895.6m. Housing loans, which were the main contributor to this figure, went up by 4.1% to PLN 51,209.3m. The second largest constituent item, i.e. cash loans, grew by 18.1% to PLN 21,155.1m, supported by promotional campaigns (including activities related to other products and special deals offered in the internet and mobile channels), high quality of products and services as well as the new structure of agents acquired from Deutsche Bank Polska S.A.
- Loans and advances to enterprises and public sector entities were PLN 58,455.0m and were broadly stable on 31 December 2018. This line item includes credit exposures of Santander Leasing S.A., Santander Consumer Multirent Sp. z o.o. and PSA Finance Polska Sp. z o.o. related to financing machines and vehicles, which gradually increased to PLN 4.4bn at the end of December 2019.
- Finance lease portfolios of subsidiaries of Santander Bank Polska S.A. rose by 13.0% to PLN 9,267.0m, mainly on account of growth in the sales of machines and equipment.

CREDIT QUALITY RATIOS BY QUARTER IN 2018* AND 2019



* The NPL ratio and the NPL coverage ratio (including the POCI portfolio) for the period from 31 March 2018 to 30 September 2018 were calculated using gross value of POCI exposures and provision, without adjusting them to the fair value at initial recognition. This presentation was adjusted as of 31 December 2018.

Excluding the portfolio of POCI exposures, NPL ratio was 4.7% as at 31 December 2019 (4.1% as at 31 December 2018). The provision coverage ratio for impaired loans was 56.9% as at 31 December 2019 compared with 56.7% as at 31 December 2018.

Following the implementation of new IT solutions in relation to accounting for loans from the POCI portfolio, Santander Bank Polska Group recalculated the NPL ratio and the NPL coverage ratio including these exposures. The resulting NPL ratio totalled 5.2% as at 31 December 2019 (vs. 4.6% the year before) and the NPL coverage ratio was 53.8% (50.9% the year before). In the next reporting periods, the Group will present the above ratios taking into account the POCI portfolio.

Structure of consolidated equity and liabilities (condensed presentation)

Liabilities & Equity in PLN m (condensed presentation for analytical purposes)	31.12.2019	Structure 31.12.2019	31.12.2018	Structure 31.12.2018	YoY Change
	1	2	3	4	1/3
Deposits from customers	156 480,3	74,7%	149 616,7	72,4%	4,6%
Subordinated liabilities and debt securities in issue	13 259,8	6,3%	12 013,0	5,8%	10,4%
Sell-buy-back transactions	990,9	0,5%	9 896,5	4,8%	-90,0%
Deposits from banks	5 031,8	2,4%	2 832,9	1,4%	77,6%
Financial liabilities held for trading and hedging derivatives	2 852,4	1,4%	2 393,9	1,1%	19,2%
Other liabilities ¹⁾	3 881,5	1,8%	3 308,6	1,6%	17,3%
Total equity	26 979,5	12,9%	26 594,7	12,9%	1,4%
Total	209 476,2	100,0%	206 656,3	100,0%	1,4%

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

Deposits from customers disclosed in the consolidated statement of financial position of Santander Bank Polska Group as at 31 December 2019 totalled PLN 156,480.3m and increased 4.6% YoY. These liabilities were the largest constituent item of the Group's total equity and liabilities (74.7%) and were the main source of funding for the Group's assets.

Compared with the end of 2018, a significant drop was reported in liabilities due to repo transactions (-90.0% YoY), with a concurrent substantial increase in deposits from banks (+77.6% YoY) as well as financial liabilities held for trading and hedging derivatives (+19.2% YoY).

Other liabilities went up by 17.3% YoY as a result of recognition of lease liabilities (PLN 746.6m) in accordance with the new model of accounting for lease contracts under IFRS 16 as of 1 January 2019.

The aggregated subordinated liabilities and liabilities in respect of debt securities went up by 10.4% in connection with the issue of debt instruments by several members of Santander Bank Polska Group with a total nominal value of PLN 6,574.5m as well as redemption of matured securities totalling PLN 5,278.3m. In 2019, Santander Bank Polska S.A. issued two series of certificates of deposit with a total nominal value of PLN 632m. Santander Factoring Sp. z o.o. issued three series of bonds with a total nominal value of PLN 1,610.0m, and Santander Leasing S.A. issued three series of bonds totalling PLN 1,130.0m. In addition, Santander Leasing Poland Securitization 01, a special purpose vehicle, issued senior bonds with a nominal value of PLN 1,202.5m as part of the securitisation agreement concluded in December 2018, and SC Poland Consumer 16-1 Sp. z o.o. issued two series of securitisation bonds of PLN 2,000.0m under an agreement signed in July 2019.

Deposit base

Deposits by entity

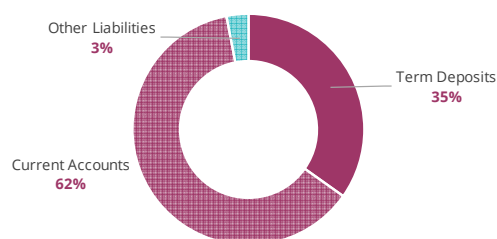
Deposits from Customers	31.12.2019	31.12.2018	YoY Change
Deposits from individuals	91 716,3	88 211,4	4,0%
Deposits from enterprises and public sector customers	64 764,0	61 405,3	5,5%
Total	156 480,3	149 616,7	4,6%

In 2019, consolidated deposits from customers increased by 4.6% YoY to PLN 156,480.3m as at the end of December 2019.

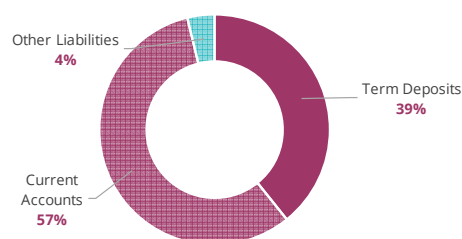
- The retail deposit base was up 4.0% at PLN 91,716.3m, driven by an increase in current deposits (+11.2% YoY), including balances of savings accounts (e.g. the Regular Savings Account/Konto Systematyczne) promoted by Santander Bank Polska S.A. (in particular in H1 2019) as part of measures taken to encourage customers to deposit their cash surpluses and make more transactions (+8.8% YoY). The share of current account balances increased at the expense of term deposits, which declined by 8.3% in the analysed period.
- Deposits from enterprises and the public sector went up by 5.5% to PLN 64,764.0m, alongside an increase in current account balances (+19.7% YoY) and a decrease in term deposits (-6.1% YoY).

Deposits by tenor

STRUCTURE OF CONSOLIDATED CUSTOMER DEPOSITS AS AT
31.12.2019



STRUCTURE OF CONSOLIDATED CUSTOMER DEPOSITS AS AT
31.12.2018

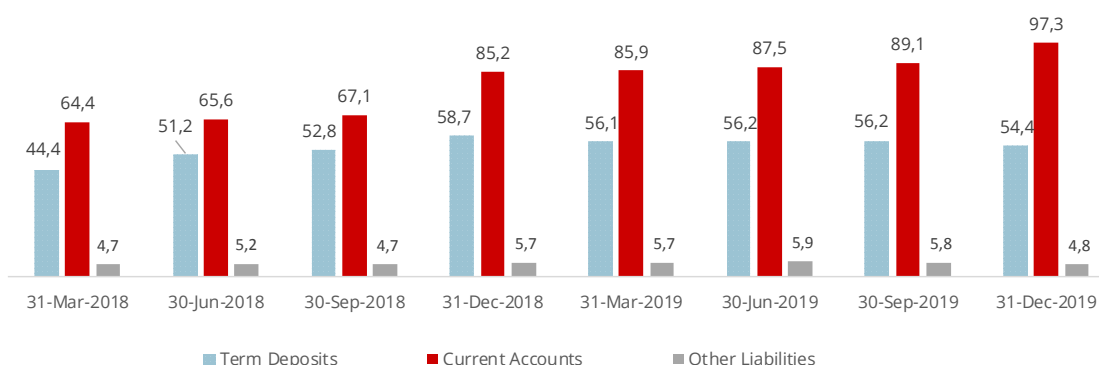


The Group's total term deposits from customers amounted to PLN 54,390.7m and declined by 7.3% YoY. Current account balances rose by 14.2% YoY to PLN 97,306.9m, and other liabilities were PLN 4,782.8m, down 16.4% YoY.

Loans and advances (PLN 3,537.0m vs. PLN 4,751.9m as at 31 December 2018) were the largest constituent item of other liabilities and were disclosed under deposits from enterprises, which included loans granted by international financial organisations (the European Investment Bank/ EIB, the European Bank for Reconstruction and Development/ EBRD and the Council of Europe Development Bank/ CEB) to finance credit delivery of the bank and its subsidiaries. In 2019, Santander Factoring Sp. z o.o. was disbursed a loan under an agreement with the EBRD, with Santander Bank Polska S.A. acting as the guarantor. The loan totals PLN 200m and matures on 8 April 2022. Furthermore, the second tranche of EUR 60m was disbursed under an agreement made by Santander Leasing S.A. and the CEB on 25 October 2018 for EUR 120m worth of financing. Finally, the EIB disbursed a credit line of PLN 214.4m for Santander Consumer Bank S.A. under an agreement signed in 2018. The impact of the above loan disbursements on the Group's liabilities in respect of loans and advances was partially offset by loan repayments made during 2019.

TERM DEPOSITS AND CURRENT ACCOUNTS * AT QUARTER-ENDS OF 2018 AND 2019

PLNm



* including savings accounts

Diversification of funding sources

In 2019, actions were continued to diversify the funding sources of Santander Bank Polska Group. The key measures are presented below.

Major loan agreements with financial institutions/guarantees/securitisations

Entity	Date of the	Subject of the agreement
Santander Bank Polska S.A.	22 August 2019	<ul style="list-style-type: none"> A guarantee agreement made between the bank and the EIB to secure up to 50% of the corporate and investment banking portfolio in the total amount of PLN 423.6m. The guarantee has been effective since 26 August 2019.
	26 August 2019	<ul style="list-style-type: none"> Activation of a securitisation agreement made between the bank and the European Investment Fund (EIF) on 7 December 2018 in respect of PLN 2.2bn worth of cash loan portfolio. As part of the transaction, the securitised portfolio is divided into three tranches, including senior (81.5%) and mezzanine (17.0%) tranches, which were fully guaranteed by the EIF. In addition, the mezzanine tranche is secured by a counter-guarantee from the EIB. The first loss tranche of 1.5% of the portfolio was retained by the bank.
Santander Factoring Sp. z o.o.	8 April 2019	<ul style="list-style-type: none"> A PLN 200m credit facility agreement made with the EBRD, with Santander Bank Polska S.A. acting as a guarantor. The facility was disbursed on 7 June 2019 and matures on 8 April 2022. Interest on the facility is referenced to 3M WIBOR.
Santander Leasing S.A.	24 May 2019	<ul style="list-style-type: none"> Disbursement of the second tranche under a securitisation agreement with a commercial bank of December 2018. Santander Leasing Securitization 01 DAC (SPV) used the securitised assets to issue bonds of PLN 1,202.5m and was granted a loan of PLN 445.5m. The bonds were secured by a registered pledge on cash flows from the securitised assets. The reference rate was 3M WIBOR.
	4 September 2019	<ul style="list-style-type: none"> New PLN 500m credit facility agreement with a commercial bank including two tranches of PLN 300m and PLN 200m maturing on 30 June 2021 and 11 September 2021, respectively. The tranches bear interest rate referenced to 1M WIBOR.
	11 December 2019	<ul style="list-style-type: none"> An EUR 80m credit facility agreement made between Santander Leasing S.A. and the EBRD, including two tranches of EUR 50m and EUR 30m. The first tranche is planned to be disbursed in January 2020. The tranches are referenced to 6M WIBOR. The purpose of the facility is to finance investments in sustainable energy and CO2 reduction projects in the Polish SME segment (as part of PolGEFF Leasing Framework).

Major issues

Entity	Date of the issue	Subject of the issue
Santander Bank Polska S.A.	26 April 2019	• Issue of series J certificates of deposit with a nominal value of PLN 550m, a fixed interest rate of 2.02% p.a. and a maturity date of 27 April 2020.
	25 June 2019	• Issue of series K certificates of deposit with a nominal value of PLN 82m, a fixed interest rate of 2.00% p.a. and a maturity date of 23 December 2019.
Santander Factoring Sp. z o.o.	18 April 2019	• Issue of series D unsecured bonds of PLN 650m referenced to 1M WIBOR and maturing on 18 October 2019.
	26 June 2019	• Issue of series E secured bonds of PLN 250m referenced to 1M WIBOR and maturing on 27 December 2019.
	21 October 2019	• Issue of series F bonds of PLN 710m, with a variable rate based on 1M WIBOR and a maturity date of 22 April 2020.
Santander Leasing S.A.	9 August 2019	• Issue of series A bonds of PLN 350m, with a variable rate based on 1M WIBOR and a maturity date of 10 February 2020.
	10 September 2019	• Issue of series B bonds of PLN 350m, with a variable rate based on 1M WIBOR and a maturity date of 10 March 2020.
	20 September 2019	• Issue of series C bonds of PLN 430m, with a variable rate based on 3M WIBOR and a maturity date of 21 September 2020.

Selected Ratios of Santander Bank Polska Group

Selected financial ratios of Santander Bank Polska Group	2019	2018 ¹¹⁾
Total costs/Total income	47,3%	43,2%
Net interest income/Total income	69,4%	65,9%
Net interest margin ¹⁾	3,46%	3,66%
Net commission income/Total income	22,4%	23,6%
Customer net loans/Customer deposits	91,6%	91,9%
NPL ratio ²⁾	5,2%	4,6%
NPL coverage ratio ³⁾	53,8%	50,9%
Credit risk ratio ⁴⁾	0,85%	0,86%
ROE ⁵⁾	9,7%	11,9%
ROTE ⁶⁾	11,7%	14,2%
ROA ⁷⁾	1,0%	1,3%
Capital ratio ⁸⁾	17,07%	15,98%
Tier I ratio ⁹⁾	15,21%	14,11%
Book value per share (in PLN)	264,28	260,51
Earnings per share (in PLN) ¹⁰⁾	20,95	23,70

- 1) Net interest income for an accounting year (excluding interest income from the portfolio of debt securities held for trading and other exposures related to trading) to average net earning assets as at the end of subsequent quarters after the end of the year preceding the accounting year (excluding financial assets held for trading, hedging derivatives, other exposures related to trading and other loans and advances to customers).
Excluding a charge of PLN 100.4m against net interest income for Q4 2019 in respect of partial reimbursement of fees related to early repaid consumer loans, the cumulative net interest margin for 2019 was 3.52%.
- 2) Gross loans and advances to customers classified to stage 3 and POCI exposures to the portfolio of gross loans and advances to customers measured at amortised cost at the end of the reporting period.
Following the implementation of an IT solution in relation to accounting for loans from the POCI stage, the NPL ratio was recalculated including POCI exposures.
Excluding the POCI portfolio, the NPL ratio was 4.7% in 2019 vs. 4.1% in 2018.
- 3) Impairment allowances for loans and advances to customers classified to stage 3 and measured at amortised cost and POCI exposures to gross value of such loans and advances at the end of the reporting period. Excluding POCI exposures, the NPL coverage ratio was 56.9% in 2019 vs. 56.7% in 2018.
- 4) Impairment allowances (for the accounting year) to average gross loans and advances to customers (as at the end of the accounting year and the end of the preceding year).
- 5) Profit attributable to the parent's shareholders (for the accounting year) to average equity (as at the end of the accounting year and the end of the preceding year), net of non-controlling interests, current year profit and undistributed profit. The underlying ROE for 2019 was 11.2% in 2019 vs. 10.3% in 2018.
- 6) Profit attributable to the parent's shareholders (for the accounting year) to average tangible equity (as at the end of the accounting year and the end of the preceding year) defined as common equity attributable to the parent's shareholders less revaluation reserve, current year profit, dividend, undistributed profit, intangible assets and goodwill.
- 7) Profit attributable to the shareholders of the parent entity (for the accounting year) to average total assets (as at the end of the accounting year and the end of the preceding year). The underlying ROA was 1.2% in 2019 vs. 1.1% in 2018.
- 8) The capital adequacy ratio was calculated on the basis of own funds and total capital requirements established for the individual risk types by means of the standardised approach, in line with the CRD IV/CRR package.
- 9) Tier 1 capital ratio calculated as a quotient of Tier 1 capital and risk-weighted assets for credit, market and operational risk.
- 10) Net profit for the period attributable to shareholders of the parent entity divided by the average weighted number of ordinary shares.
- 11) The ratios for 2018 were recalculated taking into account the result of the final settlement of acquisition of an organised part of Deutsche Bank Polska S.A. and the impact of a retrospective adjustment to the accounting treatment of the selected transactions in government securities.

3. Income Statement of Santander Bank Polska S.A.

Profit of Santander Bank Polska S.A.

Condensed Unconsolidated Income Statement of Santander Bank Polska S.A. in PLN m (for analytical purposes)	2019	2018	YoY Change
Total income	7 708,2	6 926,0	11,3%
- Net interest income	4 817,4	4 063,1	18,6%
- Net fee & commission income	1 698,4	1 616,9	5,0%
- Gain on sale/purchase of enterprise ¹⁾	59,1	405,1	-85,4%
- Other income ²⁾	1 133,3	840,9	34,8%
Total costs	(3 550,2)	(3 023,0)	17,4%
- Staff, general and administrative expenses	(2 762,2)	(2 590,3)	6,6%
- Depreciation/amortisation ³⁾	(533,8)	(280,3)	90,4%
- Other operating expenses	(254,2)	(152,4)	66,8%
Impairment losses on loans and advances	(868,5)	(777,5)	11,7%
Tax on financial institutions	(554,4)	(460,5)	20,4%
Profit before tax	2 735,1	2 665,0	2,6%
Tax charges	(621,6)	(490,9)	26,6%
Net profit for the period	2 113,5	2 174,1	-2,8%

1) Gain of PLN 59.1m recognised in 2019 is the result of settling the sale of the Investment Services Centre which is disclosed under other operating income in the full income statement of Santander Bank Polska S.A.

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

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

In 2019, profit before tax of Santander Bank Polska S.A. increased by 2.6% YoY to PLN 2,735.1m, whereas the net profit for the period fell by 2.8% YoY to PLN 2,113.5m.

- The bank posted solid income from the core business, including an increase in:
 - ✓ net interest income (up 18.6% YoY to PLN 4,817.4m) on account of dynamic annual growth of the credit portfolio;
 - ✓ net fee and commission income (up 5.0% YoY to PLN 1,698.4m), largely due to credit, FX and insurance fees.
- Important changes were also reported for the following items:
 - ✓ Increase in gains on shares in subordinate entities and other financial instruments (up 356.9% YoY to PLN 184.6m) driven by higher profit on the sale of government bonds and a positive change in the valuation of shares of Visa Inc.
 - ✓ Growth of dividend income (up 23.6% YoY to PLN 608.8m) owing to higher dividends from subsidiaries disclosed in 2019, in particular from Santander Consumer Bank S.A. (up PLN 75.3m YoY) and Santander TFI S.A. (up PLN 61.7m YoY).
 - ✓ Lower gain on investment and divestment activities resulting from recognition of PLN 59.1m gain on final settlement of the sale of an organised part of enterprise of Santander Bank Polska S.A. (Investment Services Centre) (disclosed under other operating income in the full income statement) and PLN 405.1m gain on acquisition of an organised part of Deutsche Bank Polska S.A. in 2018.
 - ✓ Lower other operating income (down 12.4% to PLN 135.2m, excluding gain on sale of an organised part of the enterprise) caused by a YoY decrease in the release of provisions for legal disputes and other assets (down PLN 28.1m YoY) and gain on sale and liquidation of fixed assets and assets held for sale (down PLN 11.8m YoY).
- In the same period, an increase was recorded in charges made to the income statement in respect of:
 - ✓ credit impairment allowances (up 11.7% YoY to PLN 868.5m), due to dynamic annual growth of the credit portfolio and loss on the sale of credit receivables (-PLN 20.2m);

- ✓ total amortisation/ depreciation (up 90.4% YoY to PLN 533.8m), including depreciation of the right-of-use asset of PLN 165.5m as part of changes to the classification of lease expenses in accordance with IFRS 16 (previously disclosed under general and administrative expenses related to the maintenance of premises);
- ✓ staff and general expenses (up 6.6% YoY to PLN 2,762.2m), resulting from expansion of the business scale following the acquisition of an organised part of Deutsche Bank Polska S.A., salary review, severance payments in relation to collective redundancies and higher mandatory contributions to the Bank Guarantee Fund (up PLN 68.8m YoY in total);
- ✓ other operating expenses (up 66.8% YoY to PLN 254.2m), as a consequence of provisions of PLN 158.0m for legal risk connected with the portfolio of foreign currency mortgage loans and partial reimbursement of fees related to early repaid consumer loans;
- ✓ a charge of PLN 45.7m against net interest income in respect of partial reimbursement of fees in the event of an early repayment of consumer loans.

Excluding the following items:

- | | |
|------------------------------|---|
| from the reporting period: | <ul style="list-style-type: none">• a surplus of PLN 68.8m in fees payable to the Bank Guarantee Fund in 2019 compared with the previous year;• a one-off gain of PLN 59.1m on sale of the Investment Services Centre;• a charge of PLN 45.7m against net interest income in respect of partial reimbursement of fees in the event of an early repayment of consumer loans;• provisions of PLN 158.0m for legal risk connected with the portfolio of FX home loans and consumer loans; |
| from the comparative period: | <ul style="list-style-type: none">• a gain of PLN 405.1m on acquisition of an organised part of Deutsche Bank Polska S.A.;• an additional allowance of PLN 130.5m in respect of loans and advances acquired along with an organised part of Deutsche Bank Polska S.A.; |

the underlying profit before tax increased by 23.4% YoY and the net profit for the period went up by 22.2% YoY.

Structure of total income of Santander Bank Polska S.A.

Total income of Santander Bank Polska S.A. for 2019 increased by 11.3% YoY to PLN 7,708.2m. Excluding one-off proceeds from investing and divesting activities as well as an additional charge to the net interest income for partial reimbursement of prematurely repaid consumer loans, the underlying total income grew by 18.0% YoY.

Net interest income

In 2019, the bank's net interest income went up by 18.6% YoY to PLN 4,817.4m in a stable low interest rate environment, which was impacted by:

- ✓ an increase in net earning assets, notably loans and advances and debt securities (resulting from organic growth and acquisition of an organised part of Deutsche Bank Polska S.A. in November 2018);
- ✓ solid balance sheet structure with a growing share of high-margin retail loans and low-cost current account balances;
- ✓ flexible management of pricing and product parameters.

Excluding the amount of PLN 45.7m in respect of partial reimbursement of fees connected with early repaid consumer loans, the underlying net interest income was up 19.7% YoY.

In 2019, the bank's interest expense grew by 28.4% YoY, while interest income increased by 20.7% YoY.

Cumulative net interest margin (calculated on a year-to-date basis) declined from 2.99% in 2018 to 2.91% in 2019 due to growing costs of asset funding resulting from organic growth and takeover of retail portfolios of Deutsche Bank Polska S.A. in late 2018.

Interest Revenue of Santander Bank Polska S.A. (PLN m) due to:	2019	2018	YoY Change
Loans and advances to individuals	3 091,4	2 398,5	28,9%
Loans and advances to enterprises and the public sector	2 061,4	1 795,2	14,8%
Debt securities and reverse repo transactions	896,4	766,4	17,0%
Interest on hedging IRS	149,2	177,9	-16,1%
Other revenues	45,4	36,2	25,4%
Total	6 243,8	5 174,2	20,7%
Interest Expense of Santander Bank Polska S.A. (PLN m) due to:	2 019	2 018	YoY Change
Deposits from individuals	(714,0)	(503,0)	41,9%
Deposits from enterprises and the public sector	(457,3)	(411,1)	11,2%
Subordinated liabilities and issue of securities	(121,6)	(100,2)	21,4%
Repo transactions	(97,2)	(81,0)	20,0%
Other expenses ¹⁾	(36,3)	(15,8)	129,7%
Total	(1 426,4)	(1 111,1)	28,4%
Net Interest Income	4 817,4	4 063,1	18,6%

1) Other interest expense on deposits from banks and lease liabilities.

Net fee and commission income

Net fee and commission income went up by 5.0% YoY to PLN 1,698.4m, as a combined effect of the following:

- ✓ an increase in net fee and commission income on account of growing credit portfolios, dynamic sales of insurance, electronic access to foreign exchange transactions in remote channels, significant non-cash turnover generated by credit and debit cards, a growing number of current accounts and sales of investment funds;
- ✓ lower net fee and commission income from brokerage and issuance activities due to stock market downturn;
- ✓ higher costs associated with proprietary transactions.

Net Fee and Commission Income of Santander Bank Polska S.A. (PLN m)	2019	2018	YoY Change
FX fees	442,7	396,0	11,8%
E-Business and payments ¹⁾	388,9	387,8	0,3%
Account maintenance and cash transactions ²⁾	320,1	309,2	3,5%
Credit fees ³⁾	307,7	273,7	12,4%
Guarantees ⁴⁾	57,9	67,9	-14,7%
Credit cards	72,5	69,3	4,6%
Brokerage activities	46,0	57,4	-19,9%
Insurance fees	56,6	49,7	13,9%
Distribution fee	31,8	18,2	74,7%
Other ⁵⁾	(25,8)	(12,3)	109,8%
Total	1 698,4	1 616,9	5,0%

1) Fees for payments (foreign and mass payments, Western Union transfers), trade finance, debit cards, services for third party institutions as well as other electronic and telecommunications services.

2) Fee and commission income from account maintenance and cash transactions has been reduced by the corresponding expenses which are disclosed under "Other" in Note 6 to the Financial Statements of Santander Bank Polska S.A. for 2019 (PLN 2.4m in 2019 vs. PLN 5.8m in 2018).

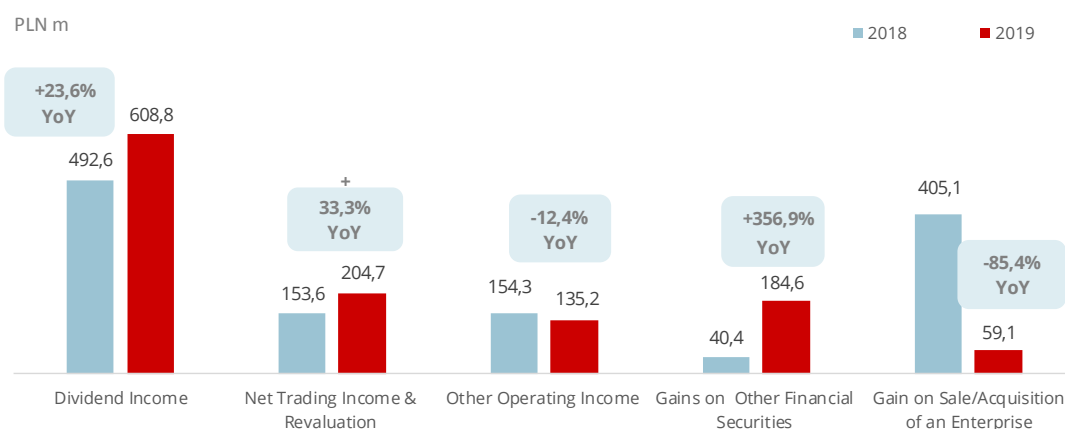
3) Net fee and commission income from lending, factoring and lease activities which is not amortised to net interest income. This line item includes, inter alia, the cost of credit agency.

4) Fee and commission income from guarantees has been reduced by the corresponding expenses which are disclosed under "Other" in Note 6 to the Financial Statements of Santander Bank Polska S.A. for 2019 (PLN 19.1m in 2019 vs. PLN 6.2m in 2018).

5) Fees and commissions from issue of securities and others..

Structure of non-interest and non-fee income of Santander Bank Polska S.A.

COMPONENTS OF OTHER INCOME OF SANTANDER BANK POLSKA S.A. IN 2018 vs. 2019



The bank's net non-interest and non-fee income presented above totalled PLN 1,192.4m and decreased by 4.3% YoY.

- In 2019, Santander Bank Polska S.A. recognised gain of PLN 59.1m on sale of the Investment Services Centre (an organised part of Santander Bank Polska S.A.) and in 2018 it disclosed gain of PLN 405.1m on acquisition of an organised part of Deutsche Bank Polska S.A.
- Other income increased by 34.8% YoY to PLN 1,133.3m, mainly on account of the following:
 - ✓ higher dividends from subsidiaries and associates (up PLN 116.2m), notably from Santander Consumer Bank S.A. and Santander Finanse Sp. z o.o.;
 - ✓ favourable change in fair value of shares of Visa Inc. (PLN 55m);
 - ✓ higher proceeds from sale of government and BGK bonds (increase from PLN 28.3m in 2018 to PLN 124.7m in 2019), supported by upturn in the debt securities market;
 - ✓ higher gain on derivatives and interbank FX trading (up PLN 58.4m YoY).

Excluding one-off gain on sale of the Investment Services Centre, the underlying other operating income was PLN 135.2m and declined by 12.4% YoY, due to lower releases of provisions for legal disputes (down PLN 28.1m) and a decrease in income from the sale and liquidation of property, plant and equipment resulting from the high base connected with the sale of the property located in Wrocław in 2018 at a profit of PLN 44.3m.

Impairment allowances

Impairment losses on loans and advances measured at amortised cost (in PLN m)	Stage 1		Stage 2		Stage 3		POCI		Total	Total
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Charge on loans and advances to banks	-	(0,1)	-	-	-	-	-	-	-	(0,1)
Charge on loans and advances to customers	(27,1)	(181,4)	(202,9)	(72,7)	(688,5)	(566,9)	44,8	51,3	(873,7)	(769,7)
Recoveries of loans previously written off	-	-	-	-	3,3	(7,7)	-	-	3,3	(7,7)
Off-balance sheet credit related facilities	2,4	(1,3)	2,3	5,5	(2,8)	(4,2)	-	-	1,9	-
Total	(24,7)	(182,8)	(200,6)	(67,2)	(688,0)	(578,8)	44,8	51,3	(868,5)	(777,5)

Net impairment allowances on loans and advances went up by 11.7% YoY to PLN 868.5m, reflecting in particular:

- dynamic growth in new credit exposures (with a high share of consumer and mortgage loans) on account of lending supported by an extended sales network (including branches and agents acquired along with Deutsche Bank Polska S.A.);
- acquisition of a retail loan portfolio of Deutsche Bank Polska S.A. in November 2018;
- sale of credit receivables (including cash and mortgage loans) by Santander Bank Polska S.A. in the total amount of PLN 1,146.4m (resulting in a decrease of PLN 20.2m in profit before tax).

Staff and general expenses of Santander Bank Polska S.A.

Total costs of Santander Bank Polska S.A. (PLN m)	2019	2018	YoY Change
Staff, general and administrative expenses, of which:	(2 762,2)	(2 590,3)	6,6%
- Staff expenses	(1 509,9)	(1 336,1)	13,0%
- General and administrative expenses	(1 252,3)	(1 254,2)	-0,2%
Depreciation/amortisation	(533,8)	(280,3)	90,4%
Other operating expenses	(254,2)	(152,4)	66,8%
Total costs	(3 550,2)	(3 023,0)	17,4%

Total operating expenses of Santander Bank Polska S.A. went up by 17.4% to PLN 3,550.2m, impacted by:

- provisions of PLN 158.0m for legal risk connected with the portfolio of FX home loans and partial reimbursement of fees related to early repaid consumer loans;
- higher fees payable to market regulators, including a YoY increase of PLN 68.8m in the total mandatory contributions to the Bank Guarantee Fund recognised in 2019.

Excluding the above legal risk provisions and assuming the fixed level of fees payable to the Bank Guarantee Fund in both analysed periods, the underlying total costs were up 9.9% YoY. This was largely due to higher staff expenses and an increase in amortisation and depreciation related to extension of the bank's IT infrastructure and operating assets following the acquisition of an organised part of Deutsche Bank Polska S.A.

Staff and general expenses were up 6.6% YoY, including:

- General and administrative expenses amounted to PLN 1,252.3m and were stable YoY, as a result of the following:
 - ✓ Change to the accounting treatment of lease contracts in accordance with IFRS 16 (reclassification of the majority of lease expenses to depreciation of a right-of-use asset).
 - ✓ Reduction in the bank's general and administrative expenses connected with consultancy and advisory services (down 19.5% YoY) and the procurement process including consumables (down 15.4% YoY) and office equipment (down 38.4% YoY).
 - ✓ Higher fees payable to market regulators (up 40.4% YoY), notably contributions to the Bank Guarantee Fund (including PLN 173.1m paid to the bank resolution fund compared with PLN 77.8m in 2018).
 - ✓ Higher cost of IT usage (up 23.3% YoY) and other third party services (up 8.9% YoY), due to a large number of projects delivered by the bank alone and in partnership with Santander Group to develop new solutions, improve IT infrastructure and support operational processes.
- Staff expenses increased by 13.0% YoY to PLN 1,509.9m as a result of salary review and severance payments under collective redundancies which were covered by a restructuring provision raised in the amount of PLN 92.4m.

Total amortisation/ depreciation of PLN 533.8m (up 90.4% YoY) includes depreciation of the bank's right-of-use asset of PLN 165.5m resulting from reclassification of lease expenses in accordance with IFRS 16 (previously disclosed under general and administrative expenses related to the maintenance of premises).

Other operating expenses grew by 66.8% YoY to PLN 254.2m due to legal risk provisions recognised in 2019 in respect of the portfolio of foreign currency mortgage loans and partial reimbursement of fees related to early repaid consumer loans.

The cost to income ratio was 46.1% (43.6% in 2018). Adjusting for the above-mentioned cost and income items, the underlying cost to income ratio for 2019 was 43.2%, compared with 46.4% the year before.

4. Statement of Financial Position of Santander Bank Polska S.A.

Assets of Santander Bank Polska S.A. (PLN m) (condensed presentation for analytical purposes)	31.12.2019	31.12.2018	YoY Change
Loans and advances to customers	118 356,4	117 492,5	0,7%
Investment securities	39 591,4	36 372,1	8,9%
Cash and operations with Central Banks	7 821,8	8 841,9	-11,5%
Financial assets held for trading and hedging derivatives	2 104,2	1 246,3	68,8%
Fixed assets, intangibles and goodwill	3 804,6	3 335,1	14,1%
Loans and advances to banks	3 851,6	2 859,5	34,7%
Buy-sell-back transactions and assets pledged as collateral	1 881,9	9 563,9	-80,3%
Other assets ¹⁾	4 059,6	4 139,5	-1,9%
Total	181 471,5	183 850,8	-1,3%
Liabilities & Equity of Santander Bank Polska S.A. (PLN m) (condensed presentation for analytical purposes)	31.12.2019	31.12.2018	YoY Change
Deposits from customers	144 760,0	139 469,8	3,8%
Subordinated liabilities and debt securities in issue	5 217,8	5 855,9	-10,9%
Financial liabilities held for trading and hedging derivatives	2 837,4	2 388,9	18,8%
Deposits from banks	1 506,1	1 040,0	44,8%
Sell-buy-back transactions	30,8	8 789,7	-99,6%
Other liabilities ²⁾	2 941,8	2 510,9	17,2%
Total equity	24 177,6	23 795,6	1,6%
Total	181 471,5	183 850,8	-1,3%

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

2) Other liabilities include lease liabilities, current income tax, provisions for off-balance sheet liabilities bearing credit risk, other provisions and other liabilities

As at 31 December 2019, total assets of Santander Bank Polska S.A. were PLN 181,471.5m and decreased 1.3% YoY.

Changes in assets, equity and liabilities presented in the statement of financial position of Santander Bank Polska S.A. as at 31 December 2019 reflect changes in the consolidated statement described in the section on the financial position of Santander Bank Polska Group.

Net loans and advances to customers were the key asset item. They totalled PLN 118,356.4m. and were up 0.7% YoY, mainly on account of growth in lending to retail customers.

Gross Loans and Advances to Customers of Santander Bank Polska S.A.	31.12.2019	31.12.2018	YoY Change
Loans and advances to individuals	65 663,4	60 581,9	8,4%
Loans and advances to enterprises and public sector customers	55 914,3	59 622,1	-6,2%
Other	26,6	11,5	131,3%
Total	121 604,3	120 215,5	1,2%

Gross loans and advances to customers amounted to PLN 121,604.3m and increased by 1.2% YoY, supported by growth of 4.9% YoY and 23.3% YoY in the portfolio of mortgage loans and cash loans to PLN 48,159.8m and PLN 14,241.4m, respectively. Loans and advances to enterprises and the public sector went down by 6.2% to PLN 55,914.3m. In 2019, the NPL ratio of the portfolio measured at amortised cost was 4.7% including POCI exposures (4.1% as at 31 December 2018), and 4.2% excluding POCI exposures (3.5% as at 31 December 2018).

Deposits from Customers of Santander Bank Polska S.A.	31.12.2019	31.12.2018	YoY Change
Deposits from individuals	84 774,7	81 591,7	3,9%
Deposits from enterprises and public sector customers	59 985,3	57 878,1	3,6%
Total	144 760,0	139 469,8	3,8%

Deposits from customers totalled PLN 144,760.0m and increased by 3.8% YoY, driven by growth in current account balances of retail, business and public sector customers. Total deposits from retail customers climbed by 3.9% YoY to PLN 84,774.7m due to 11.5% growth in current accounts (including an increase in savings account balances of 8.8% YoY to PLN 29,068.6m), with a concurrent reduction in term deposits (down 12.0% YoY to PLN 23,151.7m). Deposits from enterprises and the public sector went up by 3.6% YoY to PLN 59,985.3m, driven by growth in current account balances (up 19.8% YoY) which outpaced the decline in term deposits (down 11.0% YoY to PLN 21,352.7m) and other liabilities (down 30.3% YoY).

Selected Financial Ratio of Santander Bank Polska S.A.

Selected Financial Ratios of Santander Bank Polska S.A.	2019	2018 ¹¹⁾
Total costs/Total income	46,1%	43,6%
Net interest income/Total income	62,5%	58,7%
Net interest margin ¹⁾	2,91%	2,99%
Net commission income/Total income	22,0%	23,3%
Customer net loans/Customer deposits	81,8%	84,2%
NPL ratio ²⁾	4,7%	4,1%
NPL coverage ratio ³⁾	46,2%	42,9%
Credit risk ratio ⁴⁾	0,73%	0,73%
ROE ⁵⁾	10,1%	11,4%
ROTE ⁶⁾	12,3%	13,7%
ROA ⁷⁾	1,2%	1,4%
Capital ratio ⁸⁾	19,58%	18,04%
Tier I ratio ⁹⁾	17,38%	15,85%
Book value per share (in PLN)	236,83	233,09
Earnings per share (in PLN) ¹⁰⁾	20,70	21,80

The approach to calculation of the financial ratios of Santander Bank Polska S.A. presented and numbered in the table above is provided under the corresponding table with ratios of Santander Bank Polska Group.

5. Additional Financial Information about Santander Bank Polska S.A. and Santander Bank Polska Group

Selected transactions with related entities

Key intercompany transactions with subsidiaries

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

As at 31 December 2019, the bank's total exposure on loans to subsidiaries (e.g. Santander Factoring sp. z o.o., Santander Leasing S.A.) amounted to PLN 7,961.0m compared with PLN 9,453.0m as at 31 December 2018.

The deposits held with the bank by its subsidiaries (e.g. Santander Finanse Sp. z o.o., Santander Towarzystwo Funduszy Inwestycyjnych S.A., Santander Leasing Poland Securitization 01) totalled PLN 353,5m vs. PLN 506.8m as at 31 December 2018.

Contingent financial liabilities totalled PLN 6,533.8m compared with PLN 5,495.3m as at 31 December 2018. Guarantees to subsidiaries amounted to PLN 3,988.4m vs. PLN 1,995.9m as at 31 December 2018.

These intercompany items are excluded from the consolidated accounts.

Intercompany transactions with parent company

The bank's receivables from the parent entity (Banco Santander S.A.) were PLN 740.3m compared with PLN 955.5m as at 31 December 2018, while obligations were PLN 1,474.5m compared with PLN 294.9m as at 31 December 2018. A full disclosure on related party transactions is available in Note 50 of the Consolidated Financial Statements of Santander Bank Polska Group for 2019 and in Note 48 of the Financial Statements of Santander Bank Polska S.A. for 2019

Selected off-balance items

Guarantees and derivatives

The tables below present contingent liabilities and nominal amounts of derivative transactions of Santander Bank Polska Group.

Conditional liabilities (granted)	31.12.2019	31.12.2018
Financial:	33 506,6	28 477,2
- credit lines	28 753,4	23 563,8
- credit cards	4 139,0	4 105,2
- import letters of credit	614,2	800,6
- term deposits with future	-	7,6
Guarantees	6 711,6	5 606,8
Provision for off-balance sheet liabilities	(66,1)	(81,1)
Total	40 152,1	34 002,9

Derivatives' nominal values	31.12.2019	31.12.2018
Term derivatives (hedging)	23 288,6	23 562,6
Term derivatives (trading)	494 987,9	405 539,6
Currency transactions- spot	2 431,7	1 600,2
Transactions on equity financial instruments	199,2	555,8
Total	520 907,4	431 258,2

Description of issued guarantees

Santander Bank Polska S.A. guarantees obligations arising from customers' operating activities. These are: payment guarantees, performance bonds, warranty bonds, bid bonds, loan repayment guarantees and customs guarantees. In justified cases, the bank issues counter-guarantees and standby letters of credit.

All guarantees are granted in accordance with the Polish Banking Law and the Polish Civil Code. Guarantees issued by the bank to secure cross-border transactions may be subject to applicable rules as agreed by the parties (e.g. Uniform Rules for Demand Guarantees) or to foreign law if a guarantee is governed by such law.

The process and information required in the case of guarantees are similar to the lending process. The bank adopts the same approach to credit risk here as in the case of balance sheet exposures.

Collateral

As at 31 December 2019, the value of borrowers' accounts, assets or leased assets pledged as collateral to Santander Bank Polska Group amounted to PLN 119,253.7m (PLN 113,222.2m as at 31 December 2018), including PLN 94,095.3m (PLN 90,024.1m as at 31 December 2018) related to Santander Bank Polska S.A.

6. Factors Affecting the Profit in the Next Year

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

- Possible further economic slowdown in Poland coupled with an increased inflation rate.
- Spread of SARS-CoV-2 coronavirus and its potential impact on global economic growth.
- Slower rise in real income of households: stagnating employment and slower wage growth amid rising inflation.
- Increase in social transfers to households.
- Continuing uncertainty and tensions in global trade relations.
- Low financing costs for households and companies, which should stimulate demand for bank loans. At the same time, low interest on deposits should encourage bank customers to look for alternative savings/ investment options.
- Further developments in the global stock markets and their impact on demand for investment fund units or, alternatively, safe bank deposits.
- A possible increase in volatility in financial markets in the event of a more negative outlook for global economic growth amid intensification of trade wars or unexpected geopolitical events.
- Possible changes in the monetary policy of the ECB and the Federal Reserve.
- Effects of the negotiations regarding the Britain's exit from the European Union.
- Fluctuations in commodity prices.
- Regulatory changes, including development of Employee Capital Plans (PPK) and liquidation of Open Pension Funds (OFE).
- Impact of the rulings of the Court of Justice of the European Union regarding mortgage loans in foreign currency and pro rata reimbursement of fees on consumer loans repaid ahead of schedule.

XII. Risk and Capital Management

1. Risk Management Principles and Structure in the Bank and in Santander Bank Polska Group

Key risk management principles

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

The main objective of risk management in the bank and Santander Bank Polska Group is to ensure effective and safe operations that enable development within approved risk parameters and achievement of high business profitability. Risk management practice of the bank and its subsidiaries is defined in keeping with the industry benchmark, regulatory guidance and recommendations from supervisory authorities. In terms of risk management, the bank also relies on best practice and standards developed by Banco Santander Group.

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

The integrated risk management structure includes relevant committees which have been set up to decide on identification of individual risks and internal risk management standards and policies and to monitor the risk level.

The bank also established a relevant organisational structure which includes separate units responsible for identification, measurement, monitoring and mitigation of risks in a way that ensures independence of risk control functions from risk-taking units in accordance with the model of three lines of defence. The responsibilities of the above units are defined by the risk management policies that govern the process of identifying, measuring and reporting the risks taken. Furthermore, limits are set on a regular basis to mitigate exposure to individual risks.

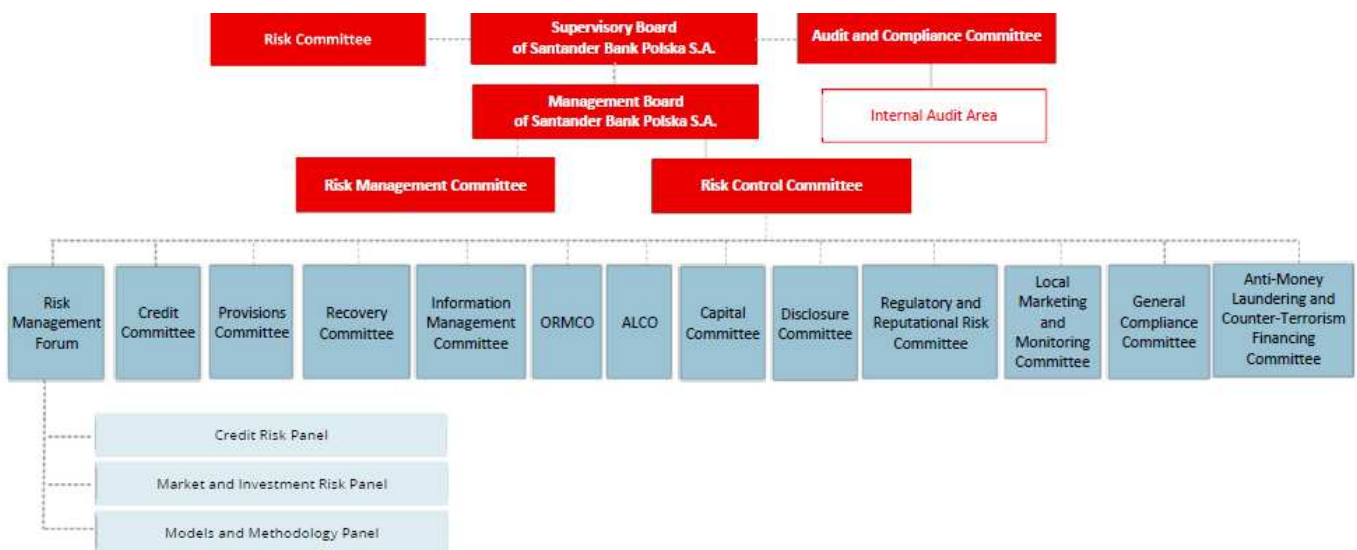
Risk management structure

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

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

The Management Board fulfils its risk management role through its committees:

- The Risk Management Committee, which approves the key decisions taken by the main lower-level risk committees (mainly credit decisions), annual limits for securities trading and ALM transactions and an annual plan of risk assessment models.
- The Risk Control Committee, which monitors the risk level across different areas of the bank's operations and reviews the key issues that affect the bank's risk exposure, issuing relevant recommendations to the Management Board. The Committee also supervises the activities of lower-level risk management committees set up by the bank's Management Board.



At present, the Risk Control Committee supervises the following committees responsible for risk management in the Group:

- Risk Management Forum composed of panels dedicated to credit risk, market risk, equity investments and underwriting, and models and methodology
- Credit Committee
- Provisions Committee
- Restructuring Committee
- Operational Risk Management Committee/ ORMCO

- Information Management Committee
- Assets and Liabilities Committee/ ALCO
- Capital Committee
- Disclosure Committee
- Local Marketing and Monitoring Committee
- General Compliance Committee
- Regulatory and Reputational Risk Committee
- Anti-Money Laundering and Counter-Terrorism Financing Committee.

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

The subsidiaries implement risk management policies and procedures that reflect the approach adopted by Santander Bank Polska S.A., which ensures the consistency of risk management processes across the Group.

Acting under the applicable law, the bank exercises oversight of risk management in Santander Consumer Bank S.A. (SCB S.A.) in line with the same oversight rules as applied to other Santander Bank Polska Group companies. Representatives of Santander Bank Polska S.A. on the Supervisory Board of SCB S.A. are two Vice Presidents of the bank's Management Board in charge of the Risk Management Division and the Retail Banking Division, respectively. Together with SCB S.A. Supervisory Board, they are responsible for supervision over SCB S.A. and make sure that the company operates in line with the adopted plans and operational security procedures. The bank monitors the profile and level of SCB S.A. risk via risk management committees of Santander Bank Polska S.A.

2. Risk Management Priorities in 2019

Similarly to the previous years, the Group's priority in terms of risk management was to continuously optimise its processes and products and develop innovative solutions. Such measures were aimed at achieving stable growth of business volumes and high profitability of business, while ensuring strict compliance with the regulatory requirements and an appropriate risk level.

In 2019, the Group thoroughly analysed developments in the macroeconomic environment and monitored credit exposures in individual customer segments and sectors in order to promptly and duly align the credit policy parameters where required. The year 2019 was relatively stable, though. The credit policy was mainly modified to optimise and harmonise existing credit process components and to implement new regulations. No major changes were introduced to the classification and measurement of financial instruments (except for calibration of parameters and measures taken as part of ongoing monitoring).

In connection with the acquisition of the portfolio of Deutsche Bank Polska S.A., in H1 2019 the Group aligned its credit policy for retail and SME segments. Credit processes for individual segments were further redeveloped to increase their effectiveness using new technologies.

The Group 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 Group modified its monitoring strategies, focusing on early measures designed to limit the effects of potential risk materialisation. 2019 was the first year when the new integrated early warning system was used in the business and corporate segment to identify an increase in risk at an early stage.

Close monitoring of FX home loans continued to be one of the priorities in 2019. In response to numerous legislative initiatives, the Group conducted analyses and actively participated in consultations. The monitoring process covered in particular credit risk attached to the above portfolios, including in the context of the rulings issued by the Court of Justice of the European Union, as described in Section 3 "Material Risk Factors Projected for 2020" and Note 47 to the Financial Statements of Santander Bank Polska Group for 2019.

In 2019, the Group worked on the implementation of the Guidelines on management of non-performing and forborne exposures issued by the European Banking Authority (EBA). The internal policies and reports were reviewed to make sure they comply with the above regulation.

Work was well under way to implement a centralised system for identifying, measuring, modelling and reporting interest rate risk and liquidity risk to facilitate balance sheet management and ensure best-in-class standards in data quality assurance. In 2019, the bank implemented reporting from the static module in the ALM system and continued the deployment of the dynamic module to supplement risk measurement with additional dynamic measures of interest rate risk.

3. Material Risk Factors Projected for 2020

Market observations give rise to further concerns about possible deterioration of the economic situation in 2020. The threats include the increasing number of bankruptcies and insolvencies among companies as well as growing risk of slowdown in the industrial sector in 2020. Faced with the observed threats, the Group is undertaking preventive actions. First of all, it will continue the strategy based on the best understanding of the business customers through the use of a sectoral approach, development of risk assessment models and focus on financing companies with good and very good financial position.

Loans denominated in or indexed to CHF remain a big challenge. The Group expects that the number of lawsuits in the entire sector will grow in 2020 due to the ruling issued on 3 October 2019 by the Court of Justice of the European Union (CJEU) in case C-260/18. At present, it is difficult to determine how the CJEU ruling will affect the ruling practice of local courts in cases relating to loans based on a foreign currency or to accurately estimate the ensuing legal risk. The judgment does not resolve the doubts as to the consequences of potentially unfair terms in foreign currency loan agreements. The ruling practice of the Supreme Court will be of importance here. The Group raises provisions for legal risk associated with pending court cases taking into account different possible judgments. The bank will closely monitor decisions issued on such cases by Polish courts to properly estimate the level of provisions.

On 11 September 2019, the CJEU issued a ruling in case C 383/18, in which it held that in the event of early repayment of a consumer loan the borrower is entitled to an equitable reduction in the total cost of the credit, irrespective of whether such costs are linked to the lending period. The Directive is not directly binding and must be transposed by individual EU member states. On 12 December 2019, the Supreme Court issued a ruling in case III CZP 21/19, pointing out that the interpretation of Article 49 of the Consumer Credit Act suggests that the arrangement fee should be reimbursed in the event of early loan repayment, but without specifying what portion of the fee is subject to reimbursement. In view of the above, on 7 February 2020, the bank started the process of automatic fee reimbursement for the loans repaid after the CJEU's judgement. The Management Boards of the two banks of Santander Bank Polska Group are monitoring and analysing the rulings of Polish courts made in cases instigated under Article 49, and are awaiting full establishment of the local law interpretation practice

What remains a material risk factor is the scope and pace of changes in the regulatory environment, requiring the involvement of appropriate resources, starting from the stage of monitoring regulatory initiatives to analysis and design of changes, to their implementation. In 2020, the bank expects that the EBA will issue guidelines on loan origination and monitoring. The draft paper allows the bank to conclude that it complies with the majority of EBA guidelines; however, a detailed review and specific measures may be required to ensure compliance with some of the provisions.

Another challenge for the bank is the increasing digitisation of banking services and the need to identify and respond to technological and process vulnerabilities to ensure a high level of cybersecurity for customers and their funds held on bank accounts. The bank has developed a dedicated "Cyber Security Strategy", which maps out the directions of development in this area. The focus on pro-active data protection against leakage and unauthorised access will be continued.

4. Credit Risk Management

Credit risk

Credit risk is defined as the possibility of suffering a loss if the borrower fails to meet their credit obligation, including payment of interest and fees. It results in the impairment of credit assets and contingent liabilities as a consequence of the borrower's worsening 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.

Credit risk in the bank and the Group arises mainly from lending activities on the retail, corporate and interbank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit procedures and discretionary limits. The internal system of credit grading and monitoring used by the bank and the Group enables early identification of potential defaults that might impair the loan book. Additionally the bank and the Group use a large set of credit risk mitigation tools, both collateral (financial and non-financial) and specific credit provisions and clauses (covenants).

Credit risk management in the bank and the Group involves actions taken as a result of the ongoing analysis of the macroeconomic environment and internal reviews of particular credit portfolios. These advanced credit risk assessment tools allow quick remedial actions to be effected in response to the first signs of any change in the portfolio's quality or structure.

Credit policy

The credit policy adopted by the bank and the Group is a set of principles and guidelines included in credit policies and procedures which are reviewed on a regular basis. Internal limits are crucial components of the credit policy because they facilitate the monitoring of exposure concentration within individual sectors, geographical regions and foreign currencies. Pursuant to the policy in place, the bank and Santander Bank Polska Group ensure adequate diversification of the credit portfolio in terms of exposure towards individual customers and sectors.

In 2019, the bank and the Group continued to pursue the existing credit risk management policy, keeping credit risk at a safe level while ensuring high profitability of loan portfolios, growth of business volumes and an increase in market share. Credit policies were optimised in response to macroeconomic developments.

The lending activity of subsidiaries is modelled on the bank's credit policies. In the decision making process, the bank and Santander Bank Polska Group follow a consistent approach to credit risk and use the same IT platform to assign rating/ scoring (this does not apply to SCB S.A.). Subsidiaries have credit risk management procedures in place which are consistent with the regulations applied by the bank.

Credit risk management process

Key elements of the credit risk management process in the bank and in Santander Bank Polska Group

Credit decision making process	<ul style="list-style-type: none"> The credit decision making process is based upon individual credit discretions vested in credit officers, commensurate with their knowledge and experience relating to particular activities and specific needs of respective segments (branch banking, SME banking, business banking and corporate banking). Large credit exposures in excess of PLN 25m are referred to the Credit Committee composed of senior managers. Transactions above PLN 195m are additionally signed off by the Management Board's Risk Management Committee.
Credit grading	<ul style="list-style-type: none"> The credit risk assessment tools conform to KNF guidelines, International Accounting Standards/ International Financial Reporting Standards (IAS/IFRS) and best market practice. The Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, home loans, property loans, cash loans, credit cards and personal overdrafts. Credit grading is subject to regular monitoring which is carried out in accordance with the rules described in the lending manuals. Additionally, for selected models, credit grade is automatically verified based on the number of days past due or an analysis of behavioural factors.
Credit reviews	<ul style="list-style-type: none"> The Group performs regular reviews to determine the actual quality of the credit portfolio, confirm that appropriate credit grading and provisioning processes are in place and verify compliance with the procedures and credit decisions. The reviews are conducted by units that are independent of credit risk-taking units.
Collateral	<ul style="list-style-type: none"> The Collateral and Credit Agreements Department is a central unit responsible for ensuring that any security items at Santander Bank Polska Group are duly established and held effective in line with the lending policy for respective business segments, and that they are properly monitored and released. The Department also provides assistance to credit units in credit decision making and development of credit policies, collects data on security covers and ensures appropriate management information.
Credit risk stress testing	<ul style="list-style-type: none"> Stress tests are used to evaluate potential effects of specific events, movements in financial and macroeconomic ratios or changes in the risk profile on the condition of the Group. As part of these tests, potential changes in credit portfolio quality under adverse conditions are assessed. The process also provides management information about the adequacy of the agreed limits and internal capital allocation.
Calculation of impairment	<ul style="list-style-type: none"> Impairment allowances for expected credit losses are made in accordance with IFRS 9, i.e. an expected credit loss (ECL) model. ECL allowances are determined considering macroeconomic scenarios of different probability, the time value of money and reasonable and supportable information that is available at the reporting date and concerns past events as well as current and projected economic conditions. The recognition of expected credit losses depends on changes in risk after the recognition of the exposure: ECL allowances are measured as 12-month ECL if there has been no significant increase in credit risk since initial recognition. Otherwise, they are measured as lifetime ECL. The standard introduces three main stages for recognising expected credit losses and POCI. Twice a year, the Group recalibrates its models and updates forecasts used for estimating ECL, taking into account the impact of changes in economic conditions and modifications of the Group's credit policies and recovery strategies.
Forbearance	<ul style="list-style-type: none"> As part of proactive management of credit risk and credit portfolio quality, Santander Bank Polska Group takes measures aimed at early implementation of debt restructuring (forbearance solutions) with respect to customers in financial difficulty. The purpose of debt restructuring is to better match repayment terms with the current and projected financial circumstances of the customer, minimise default risk and/or maximise recovery.

Credit portfolio quality

SANTANDER BANK POLSKA GROUP LOANS AND ADVANCES BY STAGES

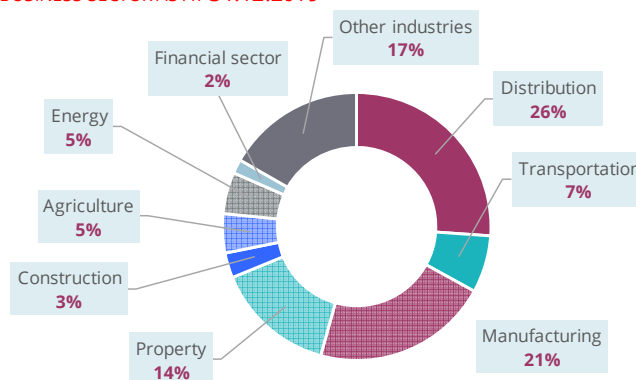
Loans and advances to customers measured at amortised costs	31.12.2019	31.12.2018
Stage 1		
Gross receivables	132 377,0	127 863,3
Allowance for expected credit losses	(571,4)	(564,6)
Stage 2		
Gross receivables	6 546,1	5 696,1
Allowance for expected credit losses	(582,5)	(530,3)
Stage 3		
Gross receivables	6 834,4	5 703,7
Allowance for credit-impaired receivables	(3 886,2)	(3 236,3)
POCI		
Gross receivables	769,2	764,5
Impairment allowance	(204,2)	(53,1)
Total gross receivables	146 526,7	140 027,6
Total impairment allowance for expected credit losses	(5 244,3)	(4 384,3)
Net loans and advances to customers measured at amortised costs	141 282,4	135 643,3
Non-performing (credit-impaired) loan ratio	5,2%	4,6%
Non-performing loan coverage ratio	53,8%	50,9%

SANTANDER BANK POLSKA S.A. LOANS AND ADVANCES BY STAGES

Loans and advances to customers measured at amortised costs	31.12.2019	31.12.2018
Stage 1		
Gross receivables	110 014,7	110 468,3
Impairment allowance for expected credit losses	(319,6)	(362,5)
Stage 2		
Gross receivables	4 168,9	3 430,1
Impairment allowance for expected credit losses	(326,7)	(264,1)
Stage 3		
Gross receivables	4 987,7	4 152,8
Impairment allowance for expected credit losses	(2 508,7)	(2 063,5)
POCI		
Gross receivables	642,60	728,4
Impairment allowance for expected credit losses	(92,9)	(32,9)
Total gross receivables	119 813,9	118 779,6
Total impairment allowance for expected credit losses	(3 247,9)	(2 723,0)
Net loans and advances to customers measured at amortised costs	116 566,0	116 056,6
Non-performing (credit-impaired) loan ratio	4,7%	4,1%
Non-performing loan coverage ratio	46,2%	42,9%

DIVERSIFICATION OF THE LOAN PORTFOLIO OF SANTANDER BANK POLSKA GROUP AS AT 31.12.2019

DIVERSIFICATION OF LOANS AND ADVANCES TO CUSTOMERS
BY BUSINESS SECTOR AS AT 31.12.2019



5. Market Risk and Liquidity Risk Management

Market risk

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).

Market risk within the bank's and the Group's operations is associated mainly with customer service operations, transactions effected to maintain liquidity on the money market and the capital market as well as proprietary trading in debt, FX and equity instruments.

The key objective of the market risk policy adopted by the bank and Santander Bank Polska Group is to reduce the impact of interest and FX rates movements on the Group's profitability and market value as well as to increase income within strictly defined risk limits and to ensure the Group's liquidity.

Market risk management

The Risk Management Forum approves market risk management strategies and policies as well as limits that define the maximum acceptable exposure to individual risk types, in accordance with the Risk Appetite Statement.

The Management Board takes its strategic decisions on the basis of recommendations put forward by the Risk Management Forum, to which direct supervision of market risk management has been delegated.

ALCO – supported by the Financial Management Division – is responsible for managing market risk in the banking book, while the market risk in the trading book is managed by the Corporate and Investment Banking Division, which includes Santander Brokerage Poland.

Identification and assessment of market risk

Interest rate and FX risks associated with the banking book are managed by the Financial Management Division, which is also responsible for managing open positions in interest rate and FX risks of companies from Santander Bank Polska Group.

The Corporate and Investment Banking Division is responsible for managing the market risk of the trading book, while Santander Brokerage Poland is responsible for the risk attached to equity instruments.

The responsibility for measurement, monitoring and reporting of market risk and compliance with risk limits is vested in the Risk Management Division, which is responsible for regular reviews of market risk exposure and reporting results to the Risk Management Forum. This role is performed by the Financial Risk Department within the Risk Management Division, which is responsible for ongoing risk measurement, implementation of control procedures and risk monitoring and reporting. The Department is also responsible for formulating the market risk policy, proposing risk measurement methodologies and ensuring consistency of the risk management process across the Group.

With the division of roles, management of risk in the banking book is fully separate from the management of risk in the trading book, and the risk measurement and reporting functions are separate from the risk managing and taking units.

The market risk management policies adopted by the bank and the Group set out a number of measures in the form of obligatory and watch limits and ratios. The limits are reviewed and the risk appetite is updated on an annual basis. The process is coordinated by the Financial Risk Department in the Risk Management Division.

To control the banking book risk, the following maximum sensitivity limits have been set for the risk of interest rate changes:

- 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).

SENSITIVITY OF THE BANKING BOOK TO INTEREST RATE MOVEMENTS AS AT 31 DECEMBER 2019 AND 31 DECEMBER 2018

1 day holding period (PLN k)	NII Sensitivity		MVE Sensitivity	
	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 period	292	273	168	298
Limit	355	300	500	400

In 2019, the global NII and MVE limits for the banking book were not exceeded.

The bank and Santander Bank Polska Group use the following measures and limits to mitigate and control exposure to market risk in the trading book:

- daily VaR limit and Stressed VaR limit for interest rate risk, FX risk and the repricing risk of equity instruments held by Santander Brokerage Poland;
- PV01 limit set for individual currencies and transaction repricing dates;
- stop-loss mechanism used to manage the risk of loss on trading positions subject to fair value measurement through profit or loss;
- maximum limit of the total FX position and an open position for individual currencies.

As these measures relate to the calculation of a potential loss under normal market conditions, the bank and Santander Bank Polska Group also use stress tests which show the estimated potential losses in the event of the materialisation of adverse market conditions.

VAR AS AT 31 DECEMBER 2019 AND 31 DECEMBER 2018 FOR INTEREST RATE, CURRENCY AND EQUITY RISK IN THE TRADING BOOK OF SANTANDER BANK POLSKA GROUP

PLN k	Interest Rate Risk VAR		FX Risk		Equity Securities Risk VAR	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
1 day holding period						
Average	1 341	1 702	405	473	235	208
Maximum	2 887	5 966	1 804	1 939	370	584
Minimum	574	523	41	53	67	5
as at the end of the period	876	1 508	208	150	254	106
Limit	6 836	6 767	2 848	2 820	1 899	3 760

Financial instruments used for management of market and other risks

The bank and the Group use the following financial instruments in relation to repricing risk, credit risk, cash flow risk and liquidity risk:

- derivative instruments held for trading – proprietary transactions in connection with treasury services rendered to bank customers in order to mitigate market risk, maintain liquidity or as part of underwriting services;
- other financial instruments, including investment securities held for sale, hedging derivatives and equity instruments.

The market risk associated with open positions in financial instruments is mitigated through a set of limits (defined separately for the trading book and the banking book). The credit risk of such positions is reduced using concentration limits in respect of individual counterparties. In order to mitigate liquidity risk, the bank and the Group keep an adequate level of liquid financial assets bearing low credit risk (in particular government bonds and NBP money market bills) in line with the liquidity risk appetite defined by the bank and the Group.

No derivative instruments were used by the bank or the Group to hedge credit risk, while FX options and interest rate options were executed on a back-to-back basis and therefore did not expose the bank or the Group to market risk.

The market risk of the balance sheet is managed by the bank and the Group using, among other things, derivative instruments and hedge accounting with respect to:

- mortgage loans referenced to WIBOR – interest rate swaps are used to receive fixed interest and pay floating interest thus hedging the risk of movements in cash flows relating to floating interest loans;
- mortgage loans in CHF and EUR – basis swaps are used to hedge the risk of movements in interest rates (CHF LIBOR, EURIBOR) and exchange rates (CHF/PLN and EUR/PLN);
- fixed interest cash loans – interest rate swaps are used to receive floating interest and pay fixed interest thus hedging the fair value of positions;
- selected fixed coupon bonds – interest rate swaps are used to hedge the fair value of bonds whereby the bank and the Group receive floating interest and pay fixed interest.

Liquidity risk

Liquidity risk is the risk of failure to meet contingent and non-contingent obligations made to customers and counterparties.

The liquidity risk policy adopted by the bank and the Group is to ensure that all outflows expected in the short term are fully covered by anticipated inflows or liquid assets. In addition, the aim of the policy is to ensure an appropriate structure of funding for the bank's and the Group's operations by maintaining medium- and long-term liquidity ratios at a pre-defined level and monitoring stress testing results. This policy covers all assets and liabilities as well as off-balance sheet items impacting the liquidity level.

Liquidity risk management

ALCO and the Risk Management Forum have overall responsibility for the supervision of liquidity risk on behalf of the Management Board. As part of their roles, they make recommendations to the Management Board on appropriate strategies and policies for strategic liquidity management. Liquidity risk reports and stress test results are regularly reviewed by senior management.

ALCO also supervises the liquidity management process in subsidiaries.

Liquidity management is the role of the Financial Management Division, which develops and updates relevant strategies and reviews the Contingency Liquidity Plan (approved by the Management Board and the Supervisory Board). The Risk Management Division is responsible for the independent measurement and reporting of liquidity risk and defining liquidity risk management policies. The Financial Risk Department in the Risk Management Division is also tasked with regular performance of stress tests with respect to liquidity.

Identification and assessment of liquidity risk

Liquidity risk is identified and measured daily, mainly using modified liquidity gap reports, intraday liquidity reports and regulatory reports. These reports include a number of internal and regulatory limits. Cyclical liquidity measurement reports are supported by stress test results. The bank regularly calculates the measures laid down in CRD IV/CRR (LCR and NSFR) and in KNF Resolution No. 386/2008.

CONTRACTUAL LIQUIDITY GAP FOR SANTANDER BANK POLSKA S.A. AS AT 31 DECEMBER 2019 AND IN THE COMPARABLE PERIOD

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	over 5 years
PLN m									
Contractual liquidity mismatch/gap		(81 229,4)	(3 853,4)	(6 612,3)	(3 376,1)	1 759,6	11 595,6	47 572,9	49 679,5
Cumulative liquidity gap		(81 229,4)	(85 082,8)	(91 695,1)	(95 071,2)	(93 311,6)	(81 716,0)	(34 143,1)	15 536,4
Net derivatives		-	(0,3)	-	-	-	-	-	-
31.12.2018									
PLN m									
Contractual liquidity mismatch/gap		(63 228,9)	(9 754,0)	(10 842,2)	(3 790,8)	2 125,6	13 113,5	32 569,4	43 941,4
Cumulative liquidity gap		(63 228,9)	(72 982,9)	(83 825,1)	(87 615,9)	(85 490,3)	(72 376,8)	(39 807,4)	4 134,0
Net derivatives		-	40,3	(25,1)	(11,3)	(2,7)	(59,3)	(450,7)	(308,2)

According to the Group's policy, the bank should have sufficient funds to cover in full outflows expected over a one-month horizon, including that of the selected stress test scenarios. The liquidity position over a longer time horizon and the level of qualified liquid assets are also monitored.

In 2019, the bank's funds significantly exceeded the level required to cover the expected outflows. The bank also met the regulatory quantitative requirements for liquidity. Key regulatory indicators (i.e. LCR and ratio of coverage of non-liquid assets and assets of limited liquidity with own funds and core external funds) comfortably exceeded the required levels.

6. Operational risk management

Santander Bank Polska S.A. adopted the definition of operational risk provided by the Basel Committee on Banking Supervision, according to which operational risk is the risk of loss resulting from external factors or inadequacy or failure of internal processes, human resources and systems.

The objective of operational risk management is to minimise the likelihood and/or reduce the impact of unexpected adverse events.

Santander Bank Polska Group has an integrated risk management framework ensuring that all risks having material impact on the bank's operations are identified, measured, monitored and controlled. Employees across the bank and Santander Bank Polska Group are involved in operational risk management – this process covers a number of interrelated concepts. Operational risk is inherent in all the bank's and Group's business processes, including outsourced functions or services delivered jointly with third parties.

The bank and other Group members have developed and apply the Operational Risk Management Strategy.

The Operational Risk Management Committee (ORMCO) established by the Management Board is responsible for setting operational risk management standards for Santander Bank Polska Group. ORMCO is the main forum for discussions on operational risk. It sets the strategic direction for operational risk management, determines and monitors objectives for managing operational risk, including business continuity, information security, outsourcing/ insourcing and money laundering risk. As part of ORMCO, there are dedicated forums which deal with specific operational risk aspects: the Fraud Prevention Forum and the Insurance Forum. The results of ORMCO's work are reported to the Risk Control Committee.

In view of a growing global cyber threat, the bank has established the CyberTechRisk Forum, which is responsible for analysing, monitoring and – in some cases – approving key issues related to IT, cybersecurity and operations. The main role of the Forum is to review the strategy and development directions of IT and cybersecurity as well as to monitor technological and operational risks, including cyber risk.

Operational risk management tools

Tools used by the bank and the Group to manage operational risk

Identification and assessment of operational risk	<ul style="list-style-type: none"> In the self-assessment process, the bank and Santander Bank Polska Group identify the risks they may be exposed to when delivering their functions, assess inherent and residual risks in terms of their likelihood and impact, and evaluate the design and effectiveness of existing controls. The process of identification and assessment of operational risk is additionally supported by such tools as: scenario analysis, business impact analysis and an analysis of risk in new initiatives.
Reporting	<ul style="list-style-type: none"> Each organisational unit is required to report operational risk events identified in its area of responsibility. Relevant operational risk events are escalated to senior management using a fast-track procedure. The Group runs a database of operational events identified across the organisation. The data are used to analyse the causes and consequences of operational risk events, facilitate the lessons learned process and implement remedial and preventive actions. The Group also makes inputs to the external database of operational risk events run by the Polish Banks Association (ZBP) and uses information about external events from a number of sources. The analysis of external events enables benchmarking and lesson learning from events identified outside the Group.
Analysis of risk indicators	<ul style="list-style-type: none"> Santander Bank Polska Group monitors financial, operational and technological risk indicators. They provide an early warning of emerging threats and operational losses and support monitoring of risk in the bank's and Group's operations.
Defining risk mitigants	<ul style="list-style-type: none"> The process of managing operational risk mitigants is designed to eliminate or reduce operational risk. Risk mitigation measures are determined based on the results of analyses carried out using various operational risk tools (including operational risk events database, risk indicators, and risk self-assessment).
Business continuity management (BCM) plans	<ul style="list-style-type: none"> Each organisational unit is required to develop and update its business continuity management plan to ensure that critical business processes remain uninterrupted following an unplanned disruption. BCM plans are tested on a regular basis to provide assurance to Santander Bank Polska Group that critical business processes may be restored at the required service level and within the agreed time frame. The bank and the Group have backup locations in place where critical processes can be restored and continued should an incident occur.
Information security	<ul style="list-style-type: none"> Santander Bank Polska S.A. has the Information Security Management System in place which is certified for compliance with the ISO/IEC 27001:2013 standard. The purpose of this system is to supervise information security in Santander Bank Polska Group's business environment, and assess specific information and system security requirements.
Insurance	<ul style="list-style-type: none"> For the purpose of operational risk mitigation, Santander Bank Polska Group has an insurance scheme in place which covers various financial risks, plus motor, property and professional indemnity insurance.
Reporting to the Risk Control Committee and the Supervisory Board	<ul style="list-style-type: none"> The aim of operational risk reporting is to provide up-to-date and appropriate information to the management team. Operational risk reports record details on operational risk events and losses, information security incidents, risk indicators and defined mitigants.

7. Legal and Regulatory (Compliance) Risk Management

Operating in the complex legal and regulatory environment, the bank and Santander Bank Polska Group are exposed to the risk of misapplication or misinterpretation of legal provisions, regulatory requirements, industry codes and ethical codes adopted by the bank, and internal policies and procedures (including codes of best practice). Non-compliance might expose the bank to loss of reputation or administrative or criminal sanctions.

The management and control of compliance risk includes application of controls, independent monitoring of their execution and reporting. The control function is performed under three lines of defence:

- the first line of defence: management of operational risk arising from the bank's operations;
- the second line of defence: on-going vertical verification and vertical testing;
- the third line of defence: the internal audit function.

According to the Compliance Policy, the Legal and Compliance Division of Santander Bank Polska S.A. includes a compliance function, which is independent of business units, and which comprises the Compliance Area and the Anti-Money Laundering Department. This function acts as the second line of defence by setting and enforcing standards, providing advice and reporting in the interest of employees, customers, shareholders and the public.

The compliance function supports the bank's strategy with respect to managing regulatory risk, conduct risk, money laundering and terrorist financing risk and reputational risk. Its activity is also determined by the bank's business profile: it carries out tasks related to the protection of consumer rights or the constant digitalisation and standardisation of financial services.

In particular, the compliance function is responsible for:

- independent identification, monitoring and assessment of compliance risk that the Group is exposed to (with particular focus on new products and services, prevention of using the financial system for money laundering and terrorism financing purposes, protection of confidential information, conflicts of interest or private account share dealing by employees);
- preventing the use of the financial system for money laundering and terrorism financing;
- providing advice and reporting to the Risk Management Committee, the bank's Management Board and the Audit and Compliance Committee on the effectiveness of processes established to ensure compliance with legal and regulatory requirements;
- communication of policies and procedures, providing the management and staff with guidance on compliance risk management;
- coordination of contacts with market regulators (KNF, UOKiK, GIIF, GIODO);
- coordination of the approval of new products;
- coordination and support for compliance processes regarding a model for the sale of investment products and the MiFID Directive;
- strengthening the principles of ethical business conduct;
- cooperation with the Corporate Communication and Marketing Area and the Risk Management Division in the area of reputational risk management.

The compliance function also coordinates the activities of committees supporting compliance risk management processes in respective areas of the Group.

- General Compliance Committee
- Regulatory and Reputational Risk Committee
- Local Marketing and Monitoring Committee
- Anti-Money Laundering and Counter-Terrorism Financing Committee.

Sitting on these committees are representatives of key organisational units that have the necessary expertise and authority to ensure that relevant decisions are taken and high quality advice is provided in the course of the proceedings.

Employees of the compliance function support the senior management of the bank in effective compliance risk management and report on key compliance issues to the bank's Management Board, the Risk Management Committee and the Audit and Compliance Committee of the Supervisory Board.

The Management Board and the Supervisory Board (through the Audit and Compliance Committee) regularly review key compliance issues identified by the Compliance Area and the Anti-Money Laundering Department. The review particularly includes:

- product monitoring;
- test compliance monitoring;
- monitoring of employees' own trades;
- information on the activity of market regulators;
- review of upcoming legislative initiatives;
- review of anti-money laundering issues;
- ethical review;
- review of customer complaints.

In February 2019, the bank's Supervisory Board positively assessed the effectiveness of compliance risk management at Santander Bank Polska S.A., based on a positive recommendation of the Audit and Compliance Committee.

In addition to the compliance function, the second line of defence also includes other organisational units operating under internal regulations, in particular:

- for labour law responsibilities – personnel unit
- for companies and partnerships law responsibilities – corporate governance unit
- for health and safety responsibilities – health and safety unit
- for accounting, reporting and tax responsibilities – financial, accounting and tax units
- for prudential requirements – risk units.

8. Reputational Risk Management

Reputational risk is defined as the risk arising from any negative perception of the bank and other members of Santander Bank Polska Group by customers, counterparties, shareholders, investors, regulators or communities.

Potential sources of this risk are internal operational incidents and external events, such as adverse publicity, dissemination of negative feedback from customers, e.g. via the Internet, in social media and other mass media. They may refer directly to Santander Bank Polska Group and its products as well as the bank's shareholders and the entire banking or financial sector (both domestic and international).

The elements of reputational risk also include customer complaints and claims related to the process of offering banking products, including complaints about the lack of sufficient (i.e. complete, true, reliable and non-misleading) information about products and related risks, the complexity of products, improper sales practices or loss of capital.

The owners of reputational risk are the Corporate Communication and Marketing Area and the Compliance Area.

The objective of the reputational risk management process is to protect the image of Santander Bank Polska Group and to limit and eliminate negative events which affect the image and financial results of the Group.

The key risk mitigation measures include:

- Disclosure Policy of Santander Bank Polska S.A.;
- Reputational Risk Management Policy of Santander Bank Polska S.A.;
- Daily monitoring of local, nationwide and certain international mass media sources (Corporate Communication and Marketing Area);
- Daily monitoring of social media sources (in particular: Facebook, Twitter) in the context of references to the bank (Corporate Communication and Marketing Area);
- Analysis of image-sensitive information by the Press Office (Corporate Communication and Marketing Area);
- Response to information which poses a threat to public perception of the bank (Corporate Communication and Marketing Area);
- Keeping the representatives of national and local media up to date about new products and changes to regulations regarding existing products;
- Customer satisfaction survey (Chief Customer Officer);
- Recommendations and preventive actions arising from the analysis of complaints (Chief Customer Officer);
- Preparation and control by relevant units of Santander Bank Polska S.A. of all important communications and reports for shareholders, the Polish Financial Supervision Authority (KNF) and the Warsaw Stock Exchange and the timely publication of such communications and reports;
- Evaluation of new products or their modifications, and the related procedures, communications, commercial materials, initiatives addressed to customers (promotions, contests) and training materials for sales staff in respect of their compliance with laws and regulatory guidelines (Compliance Area);
- Participation in the process of handling customer complaints, especially those addressed to the regulators (Compliance Area);
- Supervision of after-sales control of investment products (Compliance Area);
- Mystery shopping;
- Regular monitoring of reputational risk associated with products offered by Santander Bank Polska Group through the analysis of customer complaints, sales volumes, number of customers and rate of return, if applicable (Compliance Area);
- Participation in the analysis of customers/ transactions from sensitive sectors (including energy, arms and soft commodities industries) (Compliance Area).

9. Capital Management

Introduction

Santander Bank Polska Group maintains a level of capital adequate to the type and scale of operations and the level of risk.

The level of own funds required to ensure safe operations of the bank and Santander Bank Polska Group and capital requirements estimated for unexpected losses is determined in accordance with: the provisions of the CRD IV/CRR package and the Macroprudential Supervision Act, taking into account KNF's recommendations (see Note 5 "Capital Management" to Consolidated Financial Statements of Santander Bank Polska Group for 2019).

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 stressed 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 internal capital adequacy assessment. However, ultimate decisions regarding any increase or decrease in capital are taken by relevant authorities within the bank in accordance with the applicable law and the bank's Statutes.

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

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

Capital requirements

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

Minimum capital ratio levels as at 31 December 2019	Tier 1	Total capital ratio
Santander Bank Polska S.A.	12.25%	14.25%
Santander Bank Polska Group	12.28%	14.29%

The above capital ratios take into account:

Components of the minimum capital requirement

Regulatory basis	31 December 2019	31 December 2018
Capital Requirement Regulation (CRR) setting out the minimum capital ratios	<ul style="list-style-type: none"> Minimum capital ratios: <ul style="list-style-type: none"> ✓ Common Equity Tier 1 capital ratio of 4.5% ✓ Tier 1 capital ratio of 6% ✓ total capital ratio of 8.0% 	<ul style="list-style-type: none"> Minimum capital ratios: <ul style="list-style-type: none"> ✓ Common Equity Tier 1 capital ratio of 4.5% ✓ Tier 1 capital ratio of 6% ✓ total capital ratio of 8.0%
KNF's recommendation regarding an additional capital requirement relating to the portfolio of FX mortgage loans for households (decisions of 15 October 2018 and 28 November 2018)	<ul style="list-style-type: none"> Santander Bank Polska S.A.: no requirement Santander Bank Polska Group: <ul style="list-style-type: none"> ✓ 0.04 p.p. for the total capital ratio ✓ 0.03 p.p. for Tier 1 capital ratio ✓ 0.02 p.p. for Common Equity Tier 1 capital ratio 	<ul style="list-style-type: none"> Santander Bank Polska S.A.: <ul style="list-style-type: none"> ✓ 0.51 p.p. for the total capital ratio ✓ 0.38 p.p. for Tier 1 capital ratio and 0.29 p.p. for Common Equity Tier 1 capital ratio Santander Bank Polska Group: <ul style="list-style-type: none"> ✓ 0.47 p.p. for the total capital ratio ✓ 0.35 p.p. for the Tier 1 capital ratio ✓ 0.26 p.p. for Common Equity Tier 1 capital ratio
Capital buffer for Santander Bank Polska S.A. as other systemically important institution (KNF meeting of 4 October 2017)	<ul style="list-style-type: none"> 0.75 p.p. 	<ul style="list-style-type: none"> 0.50 p.p.
Capital conservation buffer maintained in accordance with the Macroprudential Supervision Act	<ul style="list-style-type: none"> 2.5 p.p. 	<ul style="list-style-type: none"> 1.875 p.p.
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	<ul style="list-style-type: none"> 3 p.p. 	<ul style="list-style-type: none"> 3 p.p.

Regulatory capital

The capital requirement for Santander Bank Polska Group 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 Group 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 balance sheet total, 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.

CALCULATION OF THE CAPITAL RATIO FOR SANTANDER BANK POLSKA GROUP AS AT 31 DECEMBER 2019 AND 31 DECEMBER 2018

Santander Bank Polska Group (in PLN m)		31.12.2019	31.12.2018
I	Total capital requirement (Ia+Ib+Ic+Id), of which:	11 454,5	11 434,2
Ia	- due to credit risk & counterparty credit risk	10 103,9	10 202,5
Ib	- due to market risk	128,8	83,1
Ic	- due to credit valuation adjustment risk	23,3	24,9
Id	- due to operational risk	1 198,5	1 123,7
II	Total own funds ¹⁾	26 775,0	25 266,0
III	Reductions	2 334,8	2 426,3
IV	Own funds after reductions (II-III)	24 440,2	22 839,8
V	Capital Ratio [IV/(I*12.5)]	17,07%	15,98%
VI	Tier 1 Ratio	15,21%	14,11%

1. On 31 October 2018, a part of the profit of Santander Bank Polska S.A. (PLN 581,844,321) for the period between 1 January 2018 and 30 June 2018 was allocated to own funds, in accordance with the KNF's consent of 28 September 2018.

Pursuant to the KNF's decision of 11 October 2019, the bank received consent to allocate a part of the net profit of Santander Bank Polska Group for H1 2019 in the amount of PLN 478,950,253 to the consolidated Common Equity Tier 1 capital.

CALCULATION OF THE CAPITAL RATIO FOR SANTANDER BANK POLSKA S.A. AS AT 31 DECEMBER 2019 AND 31 DECEMBER 2018

Santander Bank Polska S.A. (in PLN m)		31.12.2019	31.12.2018
I	Total Capital requirement (Ia+Ib+Ic+Id), of which:	9 153,7	9 206,5
Ia	- due to credit risk & counterparty credit risk	8 087,5	8 224,0
Ib	- due to market risk	119,0	88,0
Ic	- due to credit valuation adjustment risk	22,1	22,6
Id	- due to operational risk	925,1	871,9
II	Total own funds ¹⁾	25 174,6	23 778,7
III	Reductions	2 768,9	3 023,5
IV	Own funds after reductions (II-III)	22 405,7	20 755,2
V	CAD [IV/(I*12.5)]	19,58%	18,04%
VI	Tier I ratio	17,38%	15,85%

1. On 31 October 2018, a part of the bank's profit (PLN 581,844,321) for the period between 1 January 2018 and 30 June 2018 was allocated to own funds, in accordance with the KNF's consent of 28 September 2018.

Pursuant to the KNF's decision of 11 October 2019, the bank received consent to allocate a part of the net profit of Santander Bank Polska S.A. for H1 2019 in the amount of PLN 589,819,448 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 Group 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

Information on bond issues	KNF consent to allocate the bonds to the Tier 2 capital	Amount qualified as subordinated bonds
Amendments (made in 2016) to the agreement under which subordinated bonds were issued on 5 August 2010 and taken up by the European Bank for Reconstruction and Development (including extension of the maturity date to 5 August 2025)	18.05.2017	EUR 100m
Issue of bonds of Santander Bank Polska S.A. on 2 December 2016	24.02.2017	EUR 120m
Issue of subordinated bonds of Santander Bank Polska S.A. on 22 May 2017	19.10.2017	EUR 137.1m
Issue of series F subordinated bonds of Santander Bank Polska S.A. on 5 April 2018	12.06.2018	PLN 1bn

For more information on subordinated liabilities, see Note 34 of the Consolidated Financial Statement of Santander Bank Polska Group for 2019.

XIII. Statement on Corporate Governance in 2019

1. Legal and Regulatory Basis of Corporate Governance

The corporate governance framework applicable at Santander Bank Polska S.A. is based on existing laws (in particular the Commercial Companies Code, Banking Law and capital market regulations) as well as recommendations included in the following documents: the “Code of Best Practice for WSE Listed Companies” and “Principles of Corporate Governance for Supervised Institutions”.

This Statement on Corporate Governance in 2019 has been prepared in accordance with § 70(6)(5) of the Finance Minister’s Regulation of 29 March 2018 on current and financial reports published by the issuers of securities and the rules of equal treatment of the information required by the laws of a non-member state.

2. Principles of Corporate Governance

Code of Best Practice for WSE Listed Companies

In 2019, Santander Bank Polska S.A. was subject to the rules of corporate governance and conduct set out in the Code of Best Practice for WSE Listed Companies, and appended to WSE Supervisory Board Resolution no. 26/1413/2015 of 13 October 2015.

This version of the Code became effective on 1 January 2016, once adopted for use by the bank’s Management Board (Resolution no. 160/2015 of 2 December 2015) and approved by the Supervisory Board (Resolution no. 61/2015 of 16 December 2015). The full text is available on WSE website (<http://www.gpw.pl>), section on corporate governance of listed companies, and on the bank’s website (<http://www.santander.pl>), “Investor Relations” tab.

Santander Bank Polska S.A. has complied with the official corporate governance rules since 2002 when the first issue of the code of best practice was published (Best Practice for Public Companies in 2002).

Principles of Corporate Governance for Supervised Institutions

Santander Bank Polska S.A. abides by Principles of Corporate Governance for Supervised Institutions as published by the KNF on 22 July 2014. The document describes internal and external relations of supervised institutions, including relationships with shareholders and customers, their organisation, corporate governance framework and key internal systems and functions, as well as statutory bodies and the rules of their cooperation. The aforementioned Principles are available on the KNF website (<http://www.knf.gov.pl>) via “Market” tab, and on the bank’s website (<http://www.santander.pl>) via the “Investor Relations” tab.

Principles of Corporate Governance for Supervised Institutions were adopted by Santander Bank Polska S.A. as of 1 January 2015 by virtue of Management Board Resolution no. 116/2014 of 9 October 2014 and Supervisory Board Resolution no. 58/2014 of 17 December 2014. As some of the above guidelines are also applicable to the bank’s shareholders, they were submitted to and approved by the General Meeting (GM) of Santander Bank Polska S.A. on 23 April 2015.

3. Management Board’s Statement on Corporate Governance

In 2019, Santander Bank Polska S.A. duly complied with all corporate governance rules set out in the existing version of the Code of Best Practice for WSE Listed Companies. In this period, no breaches of the above-mentioned regulations were reported.

4. Issuer's Securities

Structure of share capital

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

Shareholders with a stake of 5% and higher	Number of Shares and Voting Rights Held		% in the Share Capital & Voting Power at AGM	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Banco Santander S.A.	68 880 774	68 880 774	67,47%	67,47%
Nationale-Nederlanden OFE i Nationale-Nederlanden DFE ¹⁾	5 123 581	n/a	5,02%	n/a
Others	28 083 950	33 207 531	27,51%	32,53%
Total	102 088 305	102 088 305	100,00%	100,00%

Compared with 31 December 2018, the shareholding of Banco Santander S.A. did not change. From non-controlling shareholders only investment funds managed by Nationale-Nederlanden PTE S.A. exceeded the threshold of 5% as a result of purchase transactions settled on 12 December and 17 December 2019 (for more details see Chapter VII "Relations with Investors").

Rights and restrictions attached to the issuer's securities

The shares of Santander Bank Polska S.A. are ordinary bearer shares. Each share carries one vote at a General Meeting of Shareholders. The nominal value is PLN 10 per share. All the shares issued have been fully paid up.

The bank did not issue any series of shares that would give their holders any special control rights towards the issuer or would limit their voting power or other rights. Neither are there any restrictions on the transfer of title to the issuer's shares.

5. Governing Bodies

General Meeting

General Meetings in 2019

Annual General Meeting

The Annual General Meeting of Santander Bank Polska S.A. (AGM) held on 16 May 2019 approved the reports for 2018 submitted by the Management Board and the Supervisory Board, granted discharge to the members of these governing bodies for the performance of their duties in the previous year and agreed on the distribution of the net profit for 2018 and the retained net profit for 2016 and 2017, including dividend payment of PLN 19.72 per one share of series A, B, C, D, E, F, G, H, I, J, K, L and N and PLN 14.68 per one share of series M (for more information see Chapter VII "Relations with Investors", Subsection "Dividend per Share"). The AGM changed the remuneration of the Supervisory Board members and approved the Policy on the Suitability Assessment of Supervisory Board Members of Santander Bank Polska S.A. and Nomination and Succession Planning Policy for Supervisory Board Members of Santander Bank Polska S.A. It also updated the bank's Statutes (for more information see "Method of changing the Statutes" below).

Extraordinary General Meeting

The Extraordinary General Meeting of Santander Bank Polska S.A. (EGM) held on 23 September 2019 approved the division of Santander Securities S.A. in accordance with the Division Plan of 12 June 2019 and the sale of an organised part of the bank's enterprise, namely the Investment Services Centre operating as a separate organisational unit (for more information see Chapter X "Organisational and Infrastructure Development", Section "Sale of an organised part of enterprise"). The EGM also appointed a new Supervisory Board member (Isabel Guerreiro) and amended Resolution no. 41 of the Annual General Meeting of Shareholders of 17 May 2017 on remuneration of the Supervisory Board members. Furthermore, the EGM approved the amendments to the Policy on the Suitability Assessment of the Supervisory Board Members in Santander Bank Polska S.A., which had been introduced by the Supervisory Board, and introduced changes

to the bank's Statutes (see "Method of changing the Statutes" below for more information about the changes to the Statutes of Santander Bank Polska S.A.).

Organisation and powers of the General Meeting of Shareholders

The General Meeting of Santander Bank Polska S.A. (GM) is held as provided for in the Commercial Companies Code of 15 September 2000, Statutes of Santander Bank Polska S.A. and Terms of Reference of the General Meetings. The statutes as well as the terms of reference are available on the bank's website.

The GM agrees on the issues within its remit, as defined by the above laws and internal regulations.

The resolutions are voted on using an electronic voting system which returns the number of votes ensuring that they correspond to the number of shares held, and in the case of a secret ballot – allows shareholders to remain anonymous. Each share carries one vote.

Candidates for the Supervisory Board attain votes on an individual basis, in alphabetical order.

The GM is broadcast live online to all interested parties and a recording is available on the bank's website for later review.

Shareholders' rights

The rights of shareholders of Santander Bank Polska S.A. are set out in the Terms of Reference of the bank's GM in line with the Commercial Companies Code.

In particular, shareholders have the following rights with respect to the GM:

- Each shareholder may request that a list of shareholders be emailed free-of-charge to a valid address. Each shareholder may have access to the list of shareholders in the bank's Management Board office and request a copy of the list at their own expense.
- Shareholders may:
 - ✓ demand copies of requests included in the GM agenda one week before the GM;
 - ✓ have access to the GM's minutes and request copies of resolutions confirmed by the bank's Management Board as true copies;
 - ✓ request voting by secret ballot;
 - ✓ appeal against resolutions made by the GM in cases prescribed in the Commercial Companies Code;
 - ✓ seek information from the Management Board regarding issues on the GM agenda, as provided for by the Commercial Companies Code;
 - ✓ exercise their voting rights (each share carries one vote at the GM).
- Shareholders may attend the GM and vote personally or through proxies. In line with the GM Terms of Reference, shareholders may also participate in the GM via electronic communication channels.

Method of changing the Statutes

Pursuant to the general law, any amendments to the Statutes of Santander Bank Polska S.A. may be made by way of resolution of the GM and must be entered to the register of entrepreneurs in order to be valid. According to the Banking Law, such amendments also require consent from the KNF.

Pursuant to the resolutions of the General Meetings of Santander Bank Polska S.A. of 16 May 2019 and 23 September 2019, the bank's Statutes were amended as follows:

- Points 18, 19 and 20 were added to § 7(1), expanding the scope of the bank's business to include payment initiation services, account information services and agency services in relation to execution of acquiring agreements in accordance with the Act of 10 May 2018 amending the Payment Services Act.
- § 7(2)(7)(a) was refined to explicitly indicate the bank's right to act as an investment firm's agent.
- § 37(3)(3) was modified in relation to supervision over the compliance function, which may be exercised by the Management Board member or, directly, by the President.
- Point 9 was added to § 37a, authorising the bank's director to issue ordinances, following the change of the bank's structure in May 2018 and appointment of the bank's director.

The above amendments became effective after they had been approved by the KNF and registered by the relevant registry court, i.e. on 12 August 2019 and 30 October 2019.

Supervisory Board

Composition of the Supervisory Board

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

Role in the Supervisory Board	Ref.	Composition as at 31.12.2019	Ref.	Composition as at 31.12.2018
Chairman of the Supervisory Board:	1.	Gery Byrne	1.	Gery Byrne
Vice Chairman of the Supervisory Board:	2.	José Luis de Mora	2.	José Luis de Mora
	-	-	3.	José Manuel Campa
	3.	José Garcia Cantera	4.	José Garcia Cantera
	4.	Danuta Dąbrowska	5.	Danuta Dąbrowska
	5.	Isabel Guerreiro	-	-
Members of the Supervisory Board:	6.	David Hexter	6.	David Hexter
	-	-	7.	Witold Jurcewicz
	7.	John Power	8.	John Power
	8.	Jerzy Surma	9.	Jerzy Surma
	9.	Marynika Woroszyńska-Sapieha	10.	Marynika Woroszyńska-Sapieha

Except for Isabel Guerreiro, the bank's Supervisory Board, in its composition as at 31 December 2019, was appointed by the Annual General Meeting held on 17 May 2017. Isabel Guerreiro was appointed as the Supervisory Board member under the resolution of the Extraordinary General Meeting of 23 September 2019. All the members of the Supervisory Board were elected for a joint three-year term of office.

Other changes the membership of the Supervisory Board in 2019 result from the following:

- resignation of José Manuel Campa on 4 March 2019 due to his involvement in the process of selecting the Executive Director of the European Banking Authority;
- death of Witold Jurcewicz on 18 September 2019.

The following members of the Supervisory Board held independent status: Danuta Dąbrowska, David Hexter, Jerzy Surma and Marynika Woroszyńska-Sapieha.

In 2019, 15 Supervisory Board meetings were held at which 99 resolutions were passed. Average attendance of the Supervisory Board members was 98,5%.

Members of the Supervisory Board of Santander Bank Polska S.A. have extensive expertise and considerable professional experience. The combined competencies and track record enable the members to effectively fulfil their supervisory duties.

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

Role of the Supervisory Board

The Supervisory Board of Santander Bank Polska S.A. operates strictly under the Banking Law of 29 August 1997, the Commercial Companies Code of 15 September 2000, the bank's Statutes and the Terms of Reference of the Supervisory Board, available on the bank's website.

The Supervisory Board consists of at least five members appointed for a joint, three-year term of office. The Supervisory Board members, including the Chairman of the Supervisory Board, are appointed and removed by a General Meeting of Shareholders. The Management Board notifies the KNF about Supervisory Board membership.

Pursuant to the bank's Statutes, at least half the members of the Supervisory Board should be of independent status.

The Supervisory Board exercises ongoing supervision over all aspects of the bank's activities. It takes decisions in the form of resolutions which are adopted by an absolute majority of votes in open voting. Resolutions are voted upon in a secret ballot in cases stipulated by law,

in personal matters or at the request of any Supervisory Board member accepted by the Supervisory Board in a secret vote. The Supervisory Board's meetings are held as and when required and at least three times in any financial year. The Supervisory Board's members convene in a single location, or in different locations communicating via telephone or video links.

Supervisory Board Committees

The Supervisory Board may establish committees and designate individuals responsible for managing the work of such committees. These committees are designed to facilitate the current activities of the Supervisory Board by preparing draft Supervisory Board recommendations and decisions with regard to their own motions or the motions presented by the Management Board.

The following Supervisory Board committees operate in Santander Bank Polska S.A.: Audit and Compliance Committee, Risk Committee, Nominations Committee and Remuneration Committee. The responsibilities of the Committees are set out in their respective terms of reference introduced by virtue of the Supervisory Board resolutions.

The membership of the Supervisory Board committees is presented below.

		Supervisory Board Committees as at 31.12.2019 and 31.12.2018								
Role in the Supervisory Board	Ref. ¹⁾	Composition as at 31.12.2019 and 31.12. 2018	Audit and Compliance Committee		Risk Committee		Nominations Committee		Remuneration Committee	
			31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Chairman of the Supervisory Board:	1.	Gery Byrne					●	●	●	●
Vice Chairman of the Supervisory Board:	2.	José Luis de Mora					●	●	●	●
		José Manuel Campa ²⁾								●
	3.	José Garcia Cantera								
Members of the Supervisory Board:	4.	Danuta Dąbrowska	●	●			●	●	●	●
	5.	Isabel Guerreiro								
	6.	David Hexter	●	●	●	●				
		Witold Jurcewicz ²⁾		●				●		●
	7.	John Power			●	●				
	8.	Jerzy Surma	●	●	●	●	●	●	●	●
	9.	Marynika Woroszyńska-Sapieha	●	●			●	●	●	●

● Chairman
● Members

1) The ordinal numbers are only assigned to the members of the Supervisory Board as at 31 December 2019.

2) José Manuel Campa and Witold Jurcewicz were the members of the Supervisory Board as at 31 December 2018. Changes to the composition of the Supervisory Board in 2019 are presented above in "Supervisory Board".

The annual reports on the activities of the Supervisory Board and its committees are approved by the Annual General Meeting of Santander Bank Polska S.A. and published on the bank's website.

Audit and Compliance Committee

Responsibilities and competencies of the Committee

The **Audit and Compliance Committee** supports the Supervisory Board in fulfilment of its oversight obligations towards shareholders and other stakeholders in terms of:

- ✓ the quality and integrity of the accounting policies, financial statements and disclosure practices;
- ✓ compliance of the bank's business with laws and internal regulations;
- ✓ independence and effectiveness of activities undertaken by internal and external auditors;
- ✓ the system of internal control and management of financial and non-financial risks.

Pursuant to its terms of reference, the Audit and Compliance Committee should convene at least four times per year at dates corresponding to the reporting and audit cycle. Additional meetings are held when necessary. In 2019, six Committee meetings were held.

As at 31 December 2019, all members of the Audit and Compliance Committee met the independence criteria in accordance with the bank's statutes and the Act of 11 May 2017 on statutory auditors, audit firms and public oversight.

The following members had the most relevant expertise and experience from the perspective of the Committee's roles and responsibilities:

- Danuta Dąbrowska: competencies in the area of accounting and review of financial statements confirmed by the ACCA certificate and membership.
- David Hexter: competencies in the banking area gained while holding executive positions in the banking and financial services sectors, including in Citibank and the EBRD..

Audit and Compliance Committee's oversight of auditor selection

Pursuant to the Policy of Auditor Selection at Santander Bank Polska S.A., the bank selects an entity authorised to audit financial statements pursuant to the following rules:

- The bank and the Committee may invite any audit firm to place bids for carrying out statutory audits on condition of a four-year cooling-off period after the end of the relationship following the expiry of the maximum duration of the engagement.
- An audit firm is selected taking into account findings and conclusions made in the final report of the Audit Supervision Authority (KNA) published on its website.
- The Audit and Compliance Committee's recommendation regarding the selection of an auditor takes into consideration the following aspects where applicable:

In the case of the initial engagement of an auditor:



- ✓ at least two audit firms to choose from, along with the rationale and the Committee's justified preference for one of them;
- ✓ competencies of the audit firms and their ability to perform the required services;
- ✓ independence of the auditor;
- ✓ legal requirements;
- ✓ consistency and effectiveness of the audit from the Group's perspective as well as from the higher-level consolidation perspective;
- ✓ comparison of individual proposals in accordance with the agreed criteria, having regard to the weights allocated on the basis of a relevant questionnaire.

In the case of reappointment of an auditor:



- ✓ assessment of the quality of services provided to date;
- ✓ independence of the auditor;
- ✓ legal requirements;
- ✓ consistency and efficiency of the audit from local Group perspective as well as from the higher level consolidation perspective.

- The same auditor is appointed for the audit of financial statements of the bank and consolidated financial statements of the Group. The same auditor may be appointed to perform all other audit-related services for the bank and the Group.
- The bank/ Group complies with the applicable laws with respect to the minimum and maximum duration of an audit engagement and the minimum cooling-off period after the expiry of the maximum duration.

The recommendation issued by the Audit and Compliance Committee before the appointment of PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. (formerly: PricewaterhouseCoopers Sp. z o.o.) to review and audit the financial statements of Santander Bank Polska S.A. and Santander Bank Polska Group for 2018 and 2019 met all the required criteria and was presented to the Supervisory Board as part of the selection procedure carried out in accordance with the applicable principles. The process included, among other things, the assessment of the PwC's independence and the quality of services provided to date.

Permitted non-audit services

In 2019, PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k., an audit firm appointed to audit the financial statements of Santander Bank Polska S.A. and its Group for 2018 and 2019, along with other entities from the PWC network, provided the following permitted non-audit services:

- ✓ review of interim financial statements of the bank/ Group;
- ✓ verification of consolidation packages;
- ✓ assurance services related to safekeeping of customers' assets and disclosures regarding capital adequacy and variable remuneration.

The Audit and Compliance Committee approved the appointment of an audit firm (i.e. PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. and other entities from its network) to provide the foregoing permitted non-audit services. Before the relevant recommendations were presented to the Audit and Compliance Committee, the independence of the auditor had been verified with a positive outcome.

Once a year, before the conclusion of the audit of the Group's annual financial statements, aggregated information on non-audit services is sent to the Committee for verification of their potential impact on the auditor's independence and objectivity..

Risk Committee

The **Risk Committee** is specifically responsible for:

- ✓ issuing opinions on the bank's current and future risk appetite;
- ✓ issuing opinions on the risk management strategy developed by the bank's Management Board and on its execution;
- ✓ supporting the Supervisory Board in overseeing the implementation of the risk management strategy by the senior management;
- ✓ checking if the bank's business model and risk strategy are duly reflected in the prices of liabilities and assets offered to customers. If the result is negative, it makes a proposal to the Management Board to ensure adequacy of asset and liability prices in relation to different risk types.

The Risk Committee convenes at least four times per year at dates corresponding to the reporting and audit cycle. Additional meetings are held when necessary. In 2019, five Committee meetings were held.

Nominations Committee

Pursuant to its mission, the **Nominations Committee**:

- ✓ presents the Supervisory Board with recommendations with regard to appointing and removing members of the Supervisory Board and the Management Board as well as other senior-level positions at the bank;
- ✓ defines the policy on the selection and suitability assessment of Supervisory Board and Management Board members;
- ✓ participates in the competency assessment of candidates for members of these governing bodies;
- ✓ analyses succession plans for the Management Board and recommends them to the Supervisory Board.

The Committee holds regular meetings four times a year, as per the schedule agreed upon at the beginning of the year. Additional meetings are held when necessary. In 2019, four Committee meetings were held.

Remuneration Committee

The **Remuneration Committee** reviews and monitors the remuneration policy adopted by the bank and supports the General Meeting, the Supervisory Board and the Management Board in developing and implementing that policy. In particular, the Committee:

- ✓ defines the remuneration policy for the Management Board members, linking the performance remuneration scheme with long-term interests of the shareholders and the bank's objectives;
- ✓ recommends remuneration for all members of the Management Board in accordance with the agreed principles, taking into account the assessment of their performance. It includes variable remuneration components and eligibility criteria;
- ✓ provides the Supervisory Board with general recommendations for the level and structure of remuneration for senior executives and monitors the level and structure based on relevant information provided by the Management Board;
- ✓ verifies compliance with the criteria and conditions justifying the award of variable remuneration to the Management Board members.

The Committee holds regular meetings four times a year, as per the schedule agreed upon at the beginning of the year. Additional meetings are held when necessary. In 2019, five Committee meetings were held.

Management Board

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

Role in the Management Board	Ref.	Composition as at 31.12.2019	Reporting Areas as at 31.12.2019	Ref.	Composition as at 31.12.2018	Reporting Areas as at 31.12.2018
President:	1.	Michał Gajewski	Units reporting directly to the President: 1) Legal & Compliance Division, 2) units outside of the divisional structure: Internal Audit Area, Corporate Communications and Marketing Area, Business Model Transformation Area, Customer Excellence Centre, Classified Data Protection Unit, Corporate Governance Office	1.	Michał Gajewski	Units reporting directly to the President: 1) Legal & Compliance Division, 2) units outside of the divisional structure: Internal Audit Area, Corporate Communications and Marketing Area, Business Model Transformation Area, Customer Excellence Centre, Classified Data Protection Unit, Board Office
	2.	Andrzej Burliga	1) Risk Management Division, 2) Business Intelligence Area (unit outside of the divisional structure)	2.	Andrzej Burliga	1) Risk Management Division, 2) Business Intelligence Area
Vice Presidents:	3.	Michael McCarthy	Business & Corporate Banking Division	3.	Michael McCarthy	Business & Corporate Banking Division
	4.	Juan de Porras Aguirre	Santander Corporate & Investment Banking	4.	Juan de Porras Aguirre	Santander Corporate & Investment Banking
	5.	Arkadiusz Przybył	Retail Banking Division, Wealth Management Programme	5.	Arkadiusz Przybył	Retail Banking Division, Wealth Management Programme
Board Members:	-	-	-	6.	Feliks Szyszkowiak ¹⁾	Digital Transformation Division
	6.	Patryk Nowakowski ¹⁾	Digital Transformation Division	7.	Maciej Reluga	Financial Management Division
	7.	Maciej Reluga	Financial Management Division	8.	Carlos Polaino Izquierdo	Financial Accounting & Control Division
	8.	Carlos Polaino Izquierdo	Financial Accounting & Control Division	9.	Dorota Strojowska	Business Partnership Division
	9.	Dorota Strojowska	Business Partnership Division			

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

Except for Patryk Nowakowski, all members sitting on the bank's Management Board as at 31 June 2019 were appointed by the Supervisory Board on 16 May 2018. Patryk Nowakowski took up the position of the Management Board member in charge of the Digital Transformation Division as of 5 June 2019 after Feliks Szyszkowiak stepped down as the Vice President of the Management Board due to his appointment for a global executive position in Banco Santander Group. All the members of the management Board Board were elected for a joint three-year term of office.

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

Appointment and removal of executives

Members of the Management Board of Santander Bank Polska S.A. are appointed and removed in accordance with the Commercial Companies Code, Banking Law and the bank's Statutes.

The bank's Management Board consists of at least three persons (including the Management Board President) appointed by the Supervisory Board for a joint three-year term of office. At least half of the Management Board members (including the Management Board President) are required to speak Polish, have a university degree, be permanent residents of Poland, have good knowledge of the Polish banking sector and experience of the Polish market to manage a Polish banking institution. Two Management Board members, including the Management Board President, are appointed with the approval of the KNF. Management Board members may be removed by the Supervisory Board or the General Meeting at any time.

Powers of executives

The Management Board of Santander Bank Polska S.A. manages and represents the bank. The Management Board holds powers not reserved by law or the bank's statutes for other governing bodies of the bank.

The Management Board takes decisions to raise obligations or transfer assets where the total value for one entity exceeds 5% of the bank's own funds. It may also, by way of resolution, delegate its powers to refer such decisions to other committees or persons at the bank. The Management Board members run the bank's affairs jointly, and in particular: define the bank's mission, set long-term action plans and strategic objectives, prepare assumptions for the bank's business and financial plans, approve proposed plans and monitor their performance, regularly report to the Supervisory Board on the bank's position in the scope and at the dates agreed with the Supervisory Board, appoint permanent or ad hoc committees and designate individuals responsible for managing the work of such committees. The committees are composed of both Management Board members and persons from outside the Management Board.

Management Board members acting severally do not have any specific powers and cannot take decisions on issuing or redeeming shares.

Permanent committees operating at the bank include:

- Assets and Liabilities Committee (ALCO)
- Credit Policy Forum for Retail Portfolios
- Credit Policy Forum for SME Portfolios
- Credit Policy Forum for Business and Corporate Portfolios
- Provisions Committee
- Operational Risk Management Committee (ORMCO)
- Disclosure Committee
- Information Management Committee
- Risk Management Committee
- Marketing Forum
- Risk Management Forum
- Anti-Money Laundering and Counter-Terrorism Financing Committee
- Urban Regeneration Fund Investment Committee
- Procurement Investment Committee
- Regulatory and Reputational Risk Committee
- Credit Committee
- Local Marketing and Monitoring Committee
- Public Policy Committee
- Restructuring Committee
- Responsible Banking and Corporate Culture Committee
- Capital Committee
- Suppliers Panel
- Capital Stress Test Forum
- Investment Advisory Committee
- Risk Control Committee
- Special Situations Management Committee
- Operations Committee of the Business Model Transformation Area
- Customer Value Committee
- General Compliance Committee

Role of the Management Board

The Management Board's operations are primarily governed by the Banking Law, the Commercial Companies Code, the bank's Statutes and the Terms of Reference of the Management Board, available on the bank's website.

According to the bank's Statutes, the following individuals are authorised to represent and bind the bank: a) the Management Board President acting individually, and b) two members of the Management Board acting jointly, or a member of the Management Board acting jointly with a commercial representative, or two commercial representatives acting jointly. Attorneys may be appointed and authorised to act individually or jointly with any of the persons indicated in b) or with another appointed and authorised attorney.

The Management Board deals with all issues which have not been restricted to the remit of the General Meeting or the Supervisory Board. The Management Board takes decisions in the form of resolutions which are adopted by an absolute majority of votes in open voting. Secret ballots may be held in cases stipulated by law, in personal matters or at the request of any Management Board member accepted by the Management Board in a secret vote. Management Board meetings are held as required. Management Board members convene at the same time in a single location or in different locations communicating via telephone or video links.

Remuneration of Management and Supervisory Board members

Remuneration of Supervisory Board members

As at 31 December 2019, the rules for remunerating the Supervisory Board members of Santander Bank Polska S.A. were set by virtue of Resolution no. 41 of the Annual General Meeting dated 17 May 2017 and Resolution no. 34 of the Annual General Meeting dated 16 May 2018, which were amended by Resolution no. 31 of the Annual General Meeting dated 16 May 2019 and Resolution no. 7 of the Extraordinary General Meeting dated 23 September 2019. The above rules were determined in accordance with EU guidelines, latest domestic laws, corporate governance rules for supervised entities and the Remuneration Policy for Supervisory Board Members of Santander Bank Polska S.A.

Gerry Byrne, José García Cantera, Isabel Guerreiro and José Luis de Mora did not receive remuneration for their membership of the Supervisory Board. Other members of the Supervisory Board are paid monthly remuneration and remuneration for participation in each of the meetings of the Supervisory Board Committees on which they sit.

The table below presents the remuneration paid to members of the Supervisory Board of Santander Bank Polska S.A. in 2018 and 2019.

First and last name	Position	2019 ²⁾		2018	
		Period	PLN k	Period	PLN k
Gerry Byrne ¹⁾	Chairman of the Supervisory Board	01.01.2019-31.12.2019	-	01.01.2018-31.12.2018	-
José Luis de Mora ¹⁾	Vice Chairman of the Supervisory Board	01.01.2019-31.12.2019	-	01.01.2018-31.12.2018	-
José Manuel Campa ¹⁾	Member of the Supervisory Board	01.01.2019-04.03.2019	-	01.01.2018-31.12.2018	-
José García Cantera ¹⁾	Member of the Supervisory Board	01.01.2019-31.12.2019	-	01.01.2018-31.12.2018	-
Danuta Dąbrowska	Member of the Supervisory Board	01.01.2019-31.12.2019	261	01.01.2018-31.12.2018	232
Isabel Guerreiro ¹⁾	Member of the Supervisory Board	23.09.2019-31.12.2019	-		n/a
David Hexter	Member of the Supervisory Board	01.01.2019-31.12.2019	299	01.01.2018-31.12.2018	274
Witold Jurcewicz	Member of the Supervisory Board	01.01.2019-18.09.2019	211	01.01.2018-31.12.2018	231
John Power	Member of the Supervisory Board	01.01.2019-31.12.2019	317	01.01.2018-31.12.2018	198
Jerzy Surma	Member of the Supervisory Board	01.01.2019-31.12.2019	304	01.01.2018-31.12.2018	269
Marynika Woroszyńska-Sapieha	Member of the Supervisory Board	01.01.2019-31.12.2019	256	01.01.2018-31.12.2018	228

¹⁾ Gerry Byrne, José Manuel Campa, José García Cantera and José Luis de Mora did not receive remuneration for their membership of the Supervisory Board.

²⁾ Changes to the composition of the Supervisory Board in 2019 are presented above in "Supervisory Board".

John Power additionally received PLN 44.3k in 2019 (PLN 37.3k in 2018) from his membership of the Supervisory Board of the bank's subsidiary. No other Supervisory Board member sat on the boards of subsidiaries or associates of Santander Bank Polska S.A.

In 2019, John Power was also paid the remuneration of PLN 1,720.6k as he single-handedly supervised the integration of the demerged part of Deutsche Bank Polska S.A. into the structures of Santander Bank Polska S.A. (PLN 853.5k in 2018).

Remuneration of Management Board members

Agreements between Santander Bank Polska S.A. and its executives

The Management Board members signed employment contracts with Santander Bank Polska S.A. for the current term of office. The contractual terms and conditions comply with general laws and internal regulations. The Management Board members also signed agreements prohibiting competitive activity after termination of their employment with Santander Bank Polska S.A.

A Management Board member who is not appointed for a new term of office or is removed from the Board is entitled to one-off severance pay. It does not apply to Management Board members who accept a new role in the bank, are removed due to gross negligence, resign or are not granted discharge.

Santander Bank Polska S.A. does not have an obligation to pay pension or other similar benefits to former members of the Management Board and Supervisory Boards.

Internal regulations concerning remuneration for executives

The rules regarding fixed and variable components of remuneration for the Management Board members are set out in the Remuneration Policy for Members of the Management Board of Santander Bank Polska S.A. introduced by virtue of Resolution of the Supervisory Board no. 79 of 11 December 2019 and in the Remuneration Policy of Santander Bank Polska Group updated in 2019 and effective since 15 June 2019.

Fixed remuneration

Pursuant to the Statutes of Santander Bank Polska S.A. and the above-mentioned policies, the remuneration of the President and members of the Management Board is set by the Supervisory Board, taking into account recommendations of the Remuneration Committee. The Committee defines the remuneration policy for Management Board members and individual terms and conditions as part of remuneration packages for each Management Board member.

The table below presents the total remuneration and additional benefits received by members of the Management Board of Santander Bank Polska S.A. in 2018 and 2019 for their membership of the Management Board.

First and last name	Position	2019			2018		
		Period	Remuneration (PLN k)	Additional benefits ²⁾ (PLN k)	Period	Remuneration (PLN k)	Additional benefits ²⁾
Michał Gajewski	President of the Management Board	01.01.2019-31.12.2019	2 171	90	01.01.2018-31.12.2018	2 082	93
Andrzej Burliga	Vice President of the Management Board	01.01.2019-31.12.2019	1 308	92	01.01.2018-31.12.2018	1 198	93
Michael McCarthy	Vice President of the Management Board	01.01.2019-31.12.2019	1 383	25	01.01.2018-31.12.2018	1 301	24
Juan de Porras Aguirre	Vice President of the Management Board	01.01.2019-31.12.2019	1 356	52	01.01.2018-31.12.2018	1 273	50
Arkadiusz Przybył	Vice President of the Management Board	01.01.2019-31.12.2019	1 332	90	01.01.2018-31.12.2018	1 288	92
Mirosław Skiba	Vice President of the Management Board		n/a	n/a	01.01.2018-16.05.2018	389	46
Feliks Szyzkowskiak	Vice President of the Management Board	01.01.2019-30.04.2019	366	67	01.01.2018-31.12.2018	1 066	93
Artur Chodacki	Member of the Management Board		n/a	n/a	01.01.2018-16.05.2018	272	34
Patryk Nowakowski	Member of the Management Board	05.06.2019-31.12.2019	557	44		n/a	n/a
Carlos Polaino Izquierdo	Member of the Management Board	01.01.2019-31.12.2019	1 577	308	01.01.2018-31.12.2018	1 491	320
Marcin Prell	Member of the Management Board		n/a	n/a	01.01.2018-16.05.2018	338	35
Maciej Reluga	Member of the Management Board	01.01.2019-31.12.2019	972	91	01.01.2018-31.12.2018	883	92
Dorota Strojowska	Member of the Management Board	01.01.2019-31.12.2019	1 074	91	01.01.2018-31.12.2018	992	93

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

2) Additional benefits received by the Management Board members include, among other things, life insurance cover without pension option and, in case of Juan de Porras Aguirre and Carlos Polaino Izquierdo, also medical cover, accommodation, travel expenses and school fees.

In 2019, Management Board members were paid an allowance of PLN 309.8k in lieu of annual leave (PLN 146.3k in 2018).

In both periods, no Management Board member received remuneration for their membership in the governing bodies of the subsidiaries or associates.

In 2018, Mirosław Skiba received additional remuneration of PLN 1,105k in relation to the termination of his employment contract and the non-competition clause.

Awards paid

The rules for determining variable remuneration for Management Board members and material risk takers are laid down in the Remuneration Policy of Santander Bank Polska Group. These rules are regularly (or at least annually) reviewed by the Remuneration Committee of the Supervisory Board.

Management Board members 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 the applicable bonus regulations for Management Board members (adopted by virtue of the Supervisory Board's resolution), which set out the principles for determination of a bonus and a bonus pool depending on the achievement of personal objectives as well as business and financial objectives of an organisational unit and the bank. The performance is assessed against the financial and non-financial criteria for the period of minimum three years to take into account the bank's economic cycle and business risk.

The total variable remuneration paid to Management Board members and material risk takers for a given calendar year cannot exceed 100% of the total fixed remuneration paid. However, in exceptional cases, this limit may be increased up to 200% of fixed remuneration subject to the approval of the bank's General Meeting.

Variable remuneration is awarded in accordance with 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 is conditional and deferred for the period of three years. It is paid in arrears in equal annual instalments depending on the individual performance in the analysed period and the value of the phantom stock.

The table below presents awards paid to the Management Board members in 2018 and 2019.

First and last name	Position	2019 ¹⁾		2018	
		Period	Benefits ²⁾ (in PLN k)	Period	Benefits ³⁾ (in PLN k)
Michał Gajewski	President of the Management Board	01.01.2019-31.12.2019	1 650	01.01.2018-31.12.2018	690
Andrzej Burliga	Vice President of the Management Board	01.01.2019-31.12.2019	1 060	01.01.2018-31.12.2018	1 142
Michael McCarthy	Vice President of the Management Board	01.01.2019-31.12.2019	1 252	01.01.2018-31.12.2018	1 224
Juan de Porras Aguirre	Vice President of the Management Board	01.01.2019-31.12.2019	1 452	01.01.2018-31.12.2018	1 415
Arkadiusz Przybył	Vice President of the Management Board	01.01.2019-31.12.2019	806	01.01.2018-31.12.2018	345
Mirosław Skiba	Vice President of the Management Board		n/a	01.01.2018-16.05.2018	1 155
Feliks Szyszkowskiak	Member of the Management Board	01.01.2019-30.04.2019	1 185	01.01.2018-31.12.2018	1 170
Artur Chodacki	Member of the Management Board		n/a	01.01.2018-16.05.2018	514
Patryk Nowakowski	Member of the Management Board	05.06.2019-31.12.2019	n/a		
Carlos Polaino Izquierdo	Member of the Management Board	01.01.2019-31.12.2019	906	01.01.2018-31.12.2018	838
Marcin Prell	Member of the Management Board		n/a	01.01.2018-16.05.2018	926
Maciej Reluga	Member of the Management Board	01.01.2019-31.12.2019	577	01.01.2018-31.12.2018	255
Dorota Strojowska	Member of the Management Board	01.01.2019-31.12.2019	558	01.01.2018-31.12.2018	267

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

2) The awards paid in 2019 include part of the award for 2014-2017 which was conditional and deferred in time, and non-deferred part of the award paid in 2018.

3) The awards paid in 2018 include part of the award for 2017, 2016, 2015 and 2014 which was conditional and deferred in time.

Pursuant to the remuneration system applicable at the bank, Management Board members may be conditionally entitled to a bonus for 2019 which would be paid in part in 2020 and thereafter, if specific criteria are met. As at the date of these financial statements, the Supervisory Board did not take a decision in this respect.

Performance Share Programme

In 2019, the bank continued the sixth edition of the three-year incentive programme (6th Incentive Programme) launched by the bank's Annual General Meeting on 17 May 2017. The programme is dedicated to the employees of the bank and the subsidiaries that have a key contribution to the value of the organisation and its main objective is to retain and motivate top-performing executives.

The incentive programme covers no more than 250 key employees of Santander Bank Polska Group indicated by the Management Board and approved by the Supervisory Board, inclusive of all Management Board members. The participants include a specific group of material risk takers (identified participants) to whom separate award criteria apply. For the purpose of the programme, the bank will issue up to 250,000 performance shares.

Having executed an agreement with the bank and satisfied the vesting criteria set out in the agreement, the participants will be eligible to subscribe for and acquire a stated number of the bank's shares at a nominal value of PLN 10 each. The award and its amount depends on the satisfaction of the economic criteria, i.e. the level of the compound annual growth rate of PAT and the annual average RoRWA in 2017-2019. The award for material risk takers is granted at the time of execution of an agreement and is either retained or reduced on the basis of the analysis of economic (PAT growth rate, RoRWA) and qualitative criteria (customer satisfaction, employee engagement) in the consecutive years of the programme.

The three-year long 6th Incentive Programme is monitored on a quarterly basis to verify if any employees have lost their participant status. The usual reason for the loss of such status is termination of employment, either with the bank or another entity of Santander Bank Polska Group. Furthermore, the Business Partnership Division monitors the underlying financial ratios in cooperation with the Financial Accounting and Control Division.

Shares and conditional rights held by Supervisory and Management Board members

As at the release dates of the Annual Reports of Santander Bank Polska Group for 2019 and 2018, respectively, none of the members of the Supervisory Board held any shares or attached conditional rights to shares of Santander Bank Polska S.A.

The table below shows shares and attached conditional rights to shares of Santander Bank Polska S.A. held by Management Board members as at the release dates of the reports for the annual periods ended 31 December 2019 and 31 December 2018.

Management Board Members	20.02.2020		22.02.2019	
	No. of Santander Bank Polska shares	Rights (6th Incentive Scheme)	No. of Santander Bank Polska shares	Rights (6th Incentive Scheme)
Michał Gajewski	-	5 420	-	5 420
Andrzej Burliga	1 389	2 820	4 389	2 820
Michael McCarthy	1 528	3 250	1 528	3 250
Patryk Nowakowski	329	820	n/a	n/a
Carlos Polaino Izquierdo	631	2 820	631	2 820
Juan de Porras Aguirre	1 397	2 240	1 397	2 240
Arkadiusz Przybył	-	3 390	-	3 390
Maciej Reluga	505	2 030	505	2 030
Dorota Strojowska	635	2 370	635	2 370
Feliks Szyzkowski	n/a	n/a	1 621	2 880
Razem	6 414	25 160	10 706	27 220

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

Relationship between the remuneration paid to Management Board members and key managers and long-term business and financial objectives of the company

The remuneration policy of Santander Bank Polska S.A., which provides for, among other things, variable components of remuneration paid to material risk takers (identified employees), has an overall objective to incentivise employees, and is strictly connected with the achievement of strategic goals, short- and long-term operational objectives and the financial and non-financial results of the company.

Variable remuneration is awarded to material risk takers of Santander Bank Polska S.A. on the basis of an assessment of individual performance, results of the reporting organisational unit or the area of responsibility, and business performance of the bank, taking into account the bank's business cycle and risk arising from its operations. The assessment is made as part of the performance review system applicable at the bank.

In addition to financial ratios, the annual objectives of the bank's Management Board include qualitative (customer satisfaction, employee engagement) and risk metrics which reflect the sustainable management strategy. The objectives are described in detail in the balanced scorecard. They are communicated at the beginning of the year and monitored accordingly.

Pursuant to the policy on variable components of remuneration, min. 40% of variable remuneration for executives is deferred for the period of three years and paid in three equal annual instalments, unless there are reasons for reduction or non-payment. Furthermore, min. 50% of remuneration is paid in the form of financial instruments, mainly phantom stock based on the bank's shares.

In addition, Management Board members and key employees may receive awards under long-term incentive programmes (and take up the bank's shares at their nominal value). The purpose of these programmes is to retain the above-mentioned staff and improve the efficiency and value of the organisation. The programmes set out in detail the criteria that must be met by Management Board members and other participants for an award to be granted, and the right of the bank's Supervisory Board to change the terms and conditions of the incentive programme, e.g. in the event of any substantial deterioration of the financial standing or the risk profile. For more information on the 6th Incentive Programme, see the "Performance Share Programme" section.

Other transactions with the bank's executives

Loans and advances

Loans and advances granted by Santander Bank Polska S.A. to the bank's managers and their relatives totalled PLN 9,316k as at 31 December 2019 vs. PLN 10,103k as at 31 December 2018. These facilities were sanctioned on regular terms.

Deposits placed with Santander Bank Polska S.A. by the bank's executives and their relatives totalled PLN 15,516k as at 31 December 2019 vs. PLN 13,714k as at 31 December 2018.

Provisions for employee benefits

Provisions for employee benefits of PLN 52,702k (PLN 59,853k in 2018) disclosed in Note 53 to the Consolidated Financial Statements of Santander Bank Polska Group for 2019 include the provisions for unused holidays related to members of the bank's Management Board.

6. Diversity Policy

Management of diversity within the bank's activities

For many years now, Santander Bank Polska S.A. has been committed to promoting diversity in accordance with best practice and ensuring equal treatment of employees and other stakeholders regardless of their gender, age, education, health conditions, race, religion, national or ethnic origin, political beliefs, trade union membership, family status or sexual orientation.

Aspects such as respect for individuality, promotion of equal treatment and the prevention of discrimination have been addressed by a number of policies and procedures applicable at the bank:

- The Sustainability Policy of Santander Bank Polska S.A., which sets out the following principles with respect to employee relationships:
 - ✓ to respect diversity and prevent discrimination because of gender, race, age or on any other grounds;
 - ✓ to encourage equal treatment of employees and aspire to have a balanced representation between men and women in all functions and responsibilities.
- The Human Rights Policy of Santander Bank Polska S.A., which establishes a set of principles regarding the relationships with various stakeholders, including commitment to:
 - ✓ ensure equal access to employment and promotion, and protection against discrimination based on age, gender, race, religion, origin, marital status or financial situation;
 - ✓ prevent and eliminate disrespect and abuse at work.
- The Respect and Dignity Policy of Santander Bank Polska S.A.:
 - ✓ set out prevention and intervention measures with respect to discrimination, bullying and harassment;
 - ✓ establish channels and procedures for reporting/ analysing suspected violation of law, procedures, standards and employee relationships.

As a signatory to the Diversity Charter (i.e. an active participant of the international initiative supported by the European Commission), Santander Bank Polska S.A. has committed to:

- creating a corporate culture that encourages respect for diversity;
- developing policies and mechanisms that effectively support equal treatment and diversity management at work;
- promoting benefits of diversity among stakeholders (employees, communities, shareholders and customers);
- reporting on measures taken and their outcome.

The principles promoting diversity and equal treatment are applied at each stage of the employee lifecycle, starting from recruitment and throughout the employee's time with the organisation (terms of employment, access to training and development initiatives, promotion opportunities) to the termination of employment with the bank.

As part of its diversity agenda, the bank takes measures to provide barrier-free banking for disabled customers and raise their awareness of existing facilities and enhancements (in cooperation with the Polska bez Barrier Foundation).



The Differently Aabled (Różnosprawni) project run by the bank supports the creation of an inclusive and diverse work environment by employing people with disabilities. To that end, measures were continued in 2019 to increase the awareness of rights and needs of the disabled among employees and managers.

Diversity policy with respect to supervisory and management bodies

The bank pursues its diversity strategy with respect to selection, assessment of competencies and succession of members of supervisory and management bodies. Not only does it strive to ensure that members of the Management and Supervisory Boards have a wide range of capabilities, professional skills, adequate experience and good reputation, but it is also committed to having a balanced representation between men and women on these boards, while ensuring diversity in terms of age, academic and professional background and geographical origin.

The Management Board Diversity Policy of Santander Bank Polska S.A. promotes diversity among the Management Board members in terms of their qualities and skills to ensure different perspectives and experience needed to support independent judgment and informed decision making based on a selection of suitable criteria. The Supervisory Board strives to achieve the objective of at least 30% female representation on the Management Board by 2025, while ensuring geographical diversity in the membership. The Nominations Committee of the Supervisory Board will take into account all personnel of Santander Group and business objectives related to cross-border activities.

The Appointment and Succession Policy for Management Board Members and Key Function Holders of Santander Bank Polska S.A. is to ensure the continuity of business processes delivered by senior managers, while achieving the best possible balance of gender, knowledge, skills and experience. Diversity is also reflected in the policies of Santander Bank Polska S.A. on the selection and suitability assessment of members of the Management and Supervisory Boards and key function holders. Aside from relevant academic background, professional experience and good repute, these policies require that candidates for members of Supervisory and Management Boards have a wide range of qualities and skills as well as independence of mind.

As at 31 December 2019, there were three women on the bank's Supervisory Board: Danuta Dąbrowska, Marynika Woroszyńska-Sapieha and Isabel Guerreiro and one woman on the Management Board: Dorota Strojowska, Head of the Business Partnership Division. Women accounted for 22% of supervisory and executive staff and 45,3% of senior management.

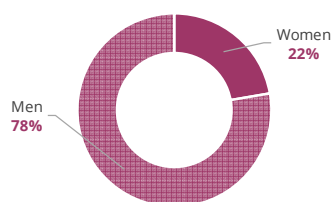
The current composition of the Supervisory and Management Boards as well as the population of other major risk takers ensure diversity in terms of gender, age, experience and academic background. The tables and graphs below show diversity levels at the bank:

Sex	Women	Men			
Supervisory Board	3	6			
Management Board	1	8			

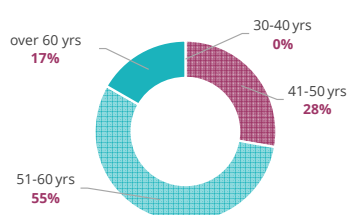
Age	41-50	51-60	over 60		
Supervisory Board	1	5	3		
Management Board	4	5	-		

Years of employment with Santander Bank Polska S.A.	up to 5	6-10	11-15	16-20	21-25
Supervisory Board	1	7	-	1	-
Management Board	3	2	2	1	1

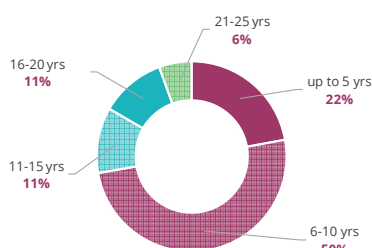
SEX OF SUPERVISING AND EXECUTIVE STAFF OF SANTANDER BANK POLSKA S.A.



AGE OF SUPERVISING AND EXECUTIVE STAFF OF SANTANDER BANK POLSKA S.A.



WORK EXPERIENCE OF SUPERVISING AND EXECUTIVE STAFF WITH SANTANDER BANK POLSKA S.A.



7. Control System of Financial Statements

Internal control and risk management system

Internal control system

Santander Bank Polska Group has an internal control system in place which comprises the control function, the compliance unit and the independent internal audit unit. The internal control system supports decision-making processes, contributes to an increase in operational efficiency, and ensures the reliability of financial reporting and its compliance with laws, international standards, internal regulations, regulatory requirements (KNF's Recommendation H) and best banking practice. The internal control system is tailored to the organisational structure, risk management system and market environment. It covers the Business Support Centre, branches, partner outlets and subsidiaries. The Management Board of the bank is charged with developing and implementing an effective internal control system across all organisational units and positions. It is also responsible for updating internal regulations and establishing adequacy and effectiveness criteria for evaluating the internal control system. The role of the Management Board is to define and take relevant measures to remove any deficiencies promptly after they are identified. Oversight of the implementation and the annual assessment of the internal control system is exercised by the Audit and Compliance Committee of the Supervisory Board of Santander Bank Polska S.A.

The Internal Control System Policy of Santander Bank Polska S.A. defines, among other things, the objective, structure and scope of the internal control system. Detailed regulations describe responsibilities as part of the internal control system, rules for identifying processes and risks that are material from the point of view of the control environment, along with their controls, risk control mechanisms and inspections carried out as part of independent monitoring of controls. The purpose of monitoring, testing and reporting is to ensure that the control environment is effective in terms of design and operation of the controls, and to strengthen the control culture at all levels within the organisation.

The internal control and risk management systems are based on three lines of defence.

THREE LINES OF DEFENCE IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS



Each organisational unit operates in line with their terms of reference approved by the head of the division. The document defines the roles and responsibilities within each business area, including the quality and processing of financial data. The Group's internal control system enables regular verification of controls in terms of their effectiveness. The results are escalated to and reviewed by the bank's Management Board and the Audit and Compliance Committee of the Supervisory Board of Santander Bank Polska S.A.

Controls in financial reporting processes

One of the key objectives of the internal control system is to ensure full accuracy and credibility of financial reporting.

The process of preparing financial data for the purpose of reporting is automated and based on the consolidated General Ledger and Data Warehouse. The underpinning IT systems are regularly reviewed and tested in terms of conformity to IT architecture and cybersecurity requirements and strictly controlled in terms of integrity and security of information.

Data inputs in the source systems are subject to formal operational and approval procedures which state the responsibilities of individual staff members. Data processing for the purpose of financial reporting is subject to a suite of specialist internal controls whose objective is to monitor and test the correctness and accuracy of data. Any manual corrections or management overrides are also under strict control. Santander Bank Polska Group has a business continuity plan in place, which covers all IT systems used to prepare financial reports. The plan is updated on an ongoing basis.

To manage risk associated with the preparation of financial statements, the bank monitors legal and regulatory changes related to reporting obligations and updates its accounting principles and disclosures accordingly. The bank, through its representatives sitting on the supervisory boards of individual subsidiaries, exercises oversight of its consolidated entities.

Financial statements are approved by the Disclosure Committee, which is responsible for ensuring that the financial disclosures of Santander Bank Polska Group comply with all legal and regulatory requirements before they are released.

The bank's management confirms that the controls in place effectively mitigate the risk of any failure to identify any material error in the financial statements.

The effectiveness of controls in financial reporting is additionally assessed by an independent external auditor as part of the annual certification process for compliance with the Sarbanes-Oxley Act

Internal control under the Sarbanes-Oxley Act and other regulations

In the light of the Sarbanes-Oxley Act, Santander Bank Polska Group operates as a material and independent organisation within the structure of Santander Group and as such is required to implement, maintain and assess the effectiveness of the internal control environment pursuant to the above-mentioned act.

The certification process for compliance with the Sarbanes-Oxley Act in 2019 covered all key business areas of Santander Bank Polska S.A. and was carried out using solutions and methodology based on Santander Group's approach. The scope of testing included risk factors which were particularly significant for the reliability and accuracy of financial statements, taking into account the local control environment.

In view of the requirements arising from external regulations, Santander Bank Polska S.A. took measures to ensure that its internal control system complies with the Volcker Rule (section 619 of Dodd-Frank Wall Street Reform and Consumer Protection Act), RDA/RRF (Basel Committee on Banking Supervision 239: Principles for effective risk data aggregation and risk reporting), the Regulation of the Minister of Finance on the risk management system, internal control system, remuneration policy and detailed method of internal capital estimation in banks, and KNF's Recommendation H on the internal control system in banks.

The assessment of the design and effectiveness of the internal control system covers all available information and related recommendations, including audit and post-inspection recommendations. Results of assessments and tests form the basis for the bank's management to make representations on the effectiveness of the control environment.

As part of the SOX certification process for 2019, the bank's management confirmed that no incidents were identified in Santander Bank Polska Group which could significantly affect the relevant processes and threaten the effectiveness of the internal control over financial reporting.

Auditor

In accordance with the bank's Statutes and applicable regulations, on 12 December 2018 the bank's Supervisory Board adopted Resolution no. 82/2018 re-appointing PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. (formerly: PricewaterhouseCoopers Sp. z o.o.) as an entity to:

- review the bank's financial statements and the Group's consolidated financial statements for H1 2019;
- audit the bank's financial statements and the Group's consolidated financial statements for 2019.

On 10 July 2019, the bank signed an agreement with PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. (PwC) on the audit and review of financial statements for the above-mentioned periods. The foregoing audit firm has been providing services to the bank since 2016.

The bank has used advice services provided by this firm and other entities from the PwC network. In the bank's view, the above services do not affect the impartiality or independence of the auditor.

Santander Bank Polska S.A. and Banco Santander S.A. retain auditors from the same network, which ensures a consistent approach to the audit process across Santander Group.

Santander Bank Polska S.A. selects the entity authorised to audit financial statements pursuant to the Policy of Auditor Selection adopted on 4 October 2017, taking into account the EU law (Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities) and the Polish law (Act of 11 May 2017 on statutory auditors, audit firms and public supervision), in particular with regard to the principle of rotation of auditors.

Remuneration of external auditor

The table below shows the remuneration paid to PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp.k. (formerly: PricewaterhouseCoopers Sp. z o.o.) in 2019 and 2018 for audit/ review of the financial statements of Santander Bank Polska S.A. and its subsidiaries, and for other permitted assurance services rendered under the agreements in place.

Remuneration of External Auditors (in PLN k)	Reporting Year ended on 31.12.2019	Reporting Year ended on 31.12.2018
Audit fees in respect of the parent bank ¹⁾	2 738	3 109
Audit fees in respect of the subsidiaries	2 190	2 114
Audit fees related to assurance services, including the review of the parent bank and subsidiaries ²⁾	980	908
Fees for non-assurance services ³⁾	31	493

1) Remuneration for audits performed by PricewaterhouseCoopers sp. z o.o. Audyt sp. k. in 2019 and 2018 under the Agreement with Santander Bank Polska S.A. on audit and review of financial statements of 10 July 2019 and 9 May 2018. In 2018, the scope of services included the activities connected with the acquisition of a demerged part of Deutsche Bank S.A. by Santander Bank Polska S.A.

2) Remuneration for the review of financial statements under the agreements referred to in point 1 and for services related to verification of capital adequacy disclosures and assessment of compliance with requirements regarding the custody of customers' assets.

3) Remuneration paid in 2019 in respect of non-assurance services refers to the agreed procedures related to the Jessica projects.

8. Pending Court Proceedings

As at 31 December 2019, no case was pending before any court or state administration agencies with regard to any claims made by or against the bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

Court Proceedings with Santander Bank Polska as a Party (in PLN m)	31.12.2019	31.12.2018
Amounts claimed by the Group	925,7	730,1
Claims against the Group ¹⁾	604,3	550,8
Receivables due to bankruptcy or arrangement cases	49,4	47,2
Value of all litigation	1 579,4	1 328,1
Share [%] of all litigation in equity	5,85%	4,98%
Completed significant court proceedings	635,2	565,3

As at 31 December 2019, the following cases were brought against Santander Bank Polska Group:

- 1,482 lawsuits over loans indexed to, or denominated in, a foreign currency (mainly CHF), with the disputed amount totalling PLN 295.4m. This included two class actions filed under the Act on pursuing claims through group proceedings (a class action regarding 527 loans indexed to CHF, with PLN 47.0m claimed, and a class action regarding 31 loans indexed to CHF, with PLN 38k claimed);
- 130 lawsuits relating to a partial reimbursement of arrangement fees on consumer loans.

More information on legal disputes is presented in Note 47 "Contingent liabilities" to the Consolidated Financial Statements of Santander Bank Polska Group for 2019. Furthermore, Chapter XII, Section 3 "Material Risk Factors Projected for 2020" discusses risks connected with the rulings of the Court of Justice of the European Union (CJEU) on the consequences of holding terms of the CHF-indexed loan agreement unfair (C-260/18) and on partial reimbursement of credit fees in the event of early repayment of a consumer loan (C 383/18).

XIV. Statement on Non-Financial Information for 2019

This Statement on Non-Financial Information for 2019 has been prepared in accordance with Article 49b and Article 55 of the Polish Accounting Act, which defines the scope of disclosures. As regards the presented ratios, the Statement is based on the Global Reporting Initiative Standards (Core option).

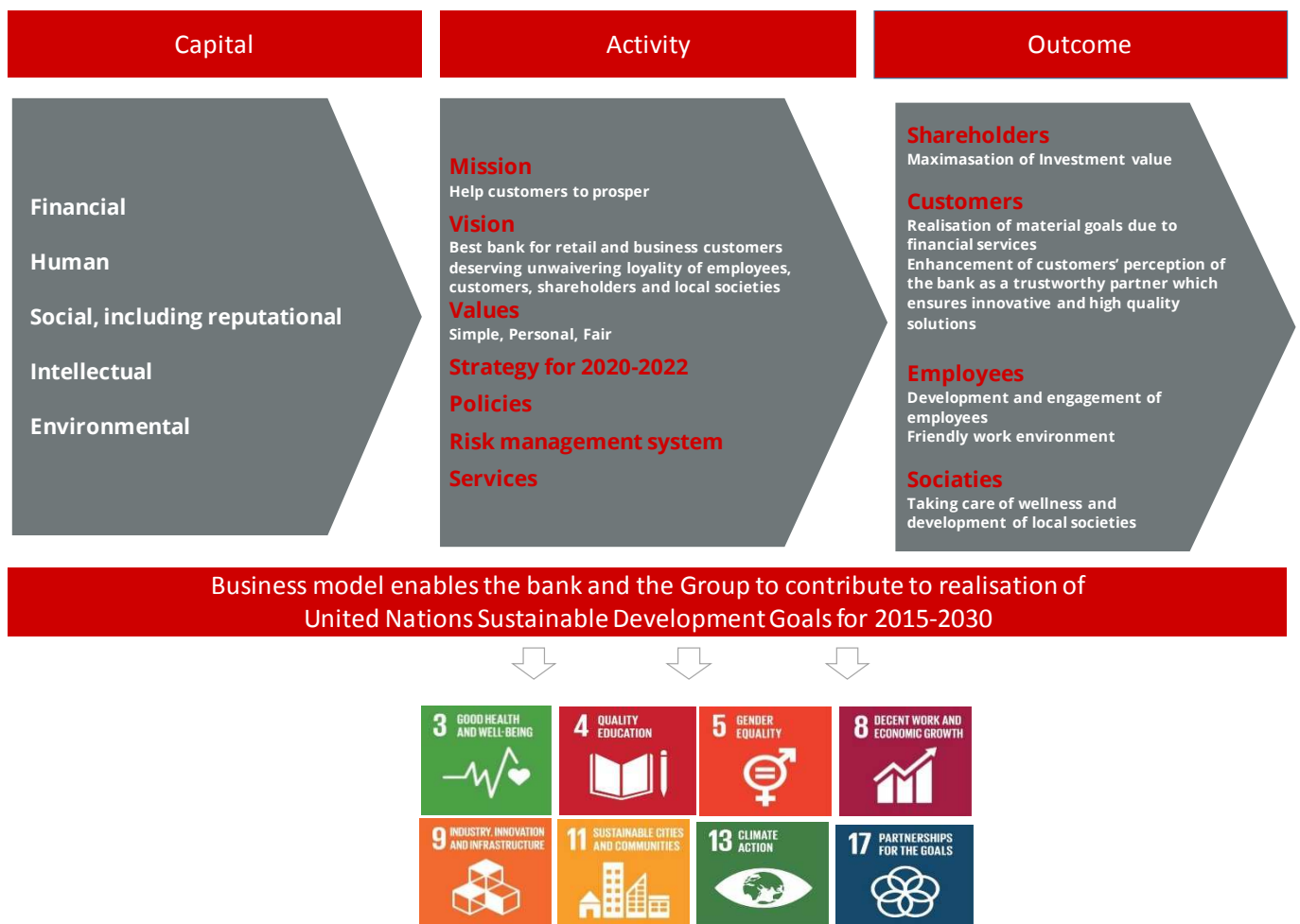
In addition to this non-financial information, which is a separate part of the Management Board Report on Santander Bank Polska Group Performance (including the report on the bank's performance), the Group also publishes its CSR reports, which give a full picture of the bank's social and environmental impact. These documents are available on the bank's website (www.santander.pl), in the "Responsible Business" tab.

The information presented in this Statement refers to Santander Bank Polska S.A. and Santander Bank Polska Group, unless otherwise indicated.

1. Business Model and Key Non-Financial Ratios

Santander Bank Polska S.A. is a universal bank which provides services to personal customers, businesses and institutions. The services provided by members of Santander Bank Polska Group are complementary to banking services as they offer customers access to investment fund units/certificates, insurance, lease and factoring products, and a wide range of consumer loans.

VALUE CREATION BY THE BANK AND SANTANDER BANK POLSKA GROUP



The bank's and the Group's strategy and business model are founded upon the concept of "customer-centricity" or looking at each banking activity and process with the customer's eyes. In this model, the bank and the Group leverage their different categories of capital to achieve results and to affect the quality of people's lives and the social and economic growth, in accordance with the lines of action mapped out by the UN Sustainable Development Goals 2015–2030. The bank uses, among other things, financial capital (e.g. deposits), human capital (e.g. employees), intellectual capital (licenses, processes), and social capital (e.g. reputation capital). In addition, like any other company, it draws on environmental capital (e.g. uses energy resources). By processing these capitals through its strategy, activities and products, it creates value not only for shareholders, but also for a wider group of stakeholders.

Key Performance Indicators	2019	2018
Total number of customers, in thousands (Group)	7 246,7	6 957,8
Total number of bank customers, in thousands (Bank)	5 049,5	4 884,2
Number of electronic banking users, in thousands (Bank)	4 423,6	4 019,1
Profit attributable to shareholders (in PLN million)	2 138,3	2 363,4
Net profit for the period (in PLN million)	2 113,5	2 174,1
ROE (Group)	9,7%	11,9%
ROE (Bank)	10,1%	11,4%
Loans/Deposits (Group)	91,6%	91,9%
Loans/Deposits (Bank)	81,8%	84,2%
Capital ratio (Group)	17,07%	15,98%
Capital ratio (Bank)	19,58%	18,04%

2. Risk Management System

The bank and Santander Bank Polska Group have a risk management system in place, which complies with the banking industry benchmark and legal and regulatory guidelines and recommendations. Selected units are responsible for identification, measurement, monitoring and mitigation of risks. Based on the overall risk level, a risk profile is defined. Risk appetite, together with a number of risk limits, is reflected in the **Risk Appetite Statement** approved by the Management Board and the Supervisory Board.

The risk management system includes the following significant risks: credit risk (including concentration risk), market risk, liquidity risk, operational risk, model risk, business risk, capital risk, risk of excessive leverage, reputational risk and compliance risk (which encompasses regulatory risk and conduct risk). From the point of view of negative impact of those risks on society, environment, employees, human rights and anti-corruption measures, particular importance is attached to operational risk, compliance risk and reputational risk. In addition, the bank has identified social and environmental risks.

Management of social and environmental risks

The key document on social and environmental risks is the **Sustainability Policy**, which is complemented by the **Climate Change and Environmental Management Policy**. In these documents, the bank has undertaken to make decisions with due regard to ethical, social and environmental considerations, as well as financial criteria and risk factors arising from the sustainable development policy and other sectoral policies.

In 2019, the **environmental and social aspects of risk management** were incorporated into the assessment criteria for projects delivered by the Corporate and Investment Banking segment. A procedure has been put in place to describe how the bank should analyse environmental and social risks which might result from commercial activities of the bank's customers. The bank verifies if customers' operations are subject to exceptions or restrictions defined in the bank's sectoral policies such as:

- Energy Sector Policy
- Metals and Mining Sector Policy
- Arms Industry Policy
- Soft Commodities Sector Policy.

The sectoral policies of Santander Bank Polska S.A. set out the criteria used by the bank when granting financial products and/or services (including all forms of financing, insurance, asset management, capital investments and advisory services) with respect to customers and projects related to the activities described in the sectoral policies.

The foregoing regulations, together with the **Environmental and Social Risk Analysis** procedure implemented in 2019, are the key documents used by the bank to analyse environmental and social risks with a view to providing a reasonable assessment to support or reject a request for financial products or services on the grounds of social and environmental risks.

The following procedure is applied to sectoral policies and sensitive sectors:

- Before a particular transaction or customer is recommended to risk units (in accordance with the internal regulations), business units assess the transaction/ customer's activity in terms of impact on the environment and compliance with the requirements laid down in the above-mentioned policies.
- If there are significant doubts as to whether the transaction complies with the Energy Sector Policy or the Soft Commodities Sector Policy, the transaction should be advised to the social/ reputational and environmental working group.
- If there are doubts as to the application of the Arms Industry Policy, the case should be consulted with the compliance unit.

The following tools and documents are used in relation to environmental and social (E&S) risks:

- E&S prohibited activities questionnaire
- declaration of conformity
- E&S risk review questionnaire
- customer/ policy/ subsector classification
- Business recommendation
- NGOs, fines, media, RepRisk report, other (checklist)
- activities/ degree of commitment and practices in E&S/ economic sectors / sustainability indices (data concerning the customer)
- submission of a file to E&S risk analyst
- E&S risk recommendation (providing an opinion to the relevant parties)
- Credit decision – issuing an opinion.

In the Wholesale Risk Department, an environmental and social risk expert has been appointed to analyse E&S risk and issue recommendations on the customer or transaction. Credit partners are required to verify whether the E&S risk analysis has been conducted and whether the recommendation of the E&S risk expert has been included in the credit application.

Additionally, all issues which may trigger reputational risk (including activities subject to restrictions) must be consulted with the compliance unit.

The above procedures must be applied by the bank and its subsidiaries, excluding Santander Consumer Bank S.A. The bank's objective in terms of consolidated risk management in the Group is to maintain consistency in terms of standards and best risk management practices in all the Group's entities. To standardise the approach within the Group, the bank follows the principle of proportionality and takes into account potential adjustments to the Group's standards in accordance with the profile of individual entities. Accordingly, the solutions presented in these procedures will be generally reflected in the internal regulations of Santander Consumer Bank S.A.; however, more specific solutions may differ from the ones applied by the bank.

Risk	Risk description	Risk management	Possible significant negative impact on:				
			Society	Employees	Environment	Human rights	Anti-corruption
Operational risk	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	The bank and the Group have developed the Operational Risk Management Strategy. In addition, detailed policies, procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated. The responsibility for setting operational risk management standards rests with the Operational Risk Management Committee (ORMCO).	✓	✓	✓	✓	✓
Compliance risk <i>(regulatory risk; conduct risk; money laundering and terrorism financing risk and reputational risk).</i>	Compliance risk is defined as the risk of legal or regulatory sanctions, significant financial loss (influencing the results) or negative impact on reputation that may arise due to failure to comply with the law, internal regulations and market standards.	<p>Compliance risk is managed at the bank and in the Group as part of several processes, namely:</p> <ul style="list-style-type: none"> • identification of compliance risk • assessment of identified risk • use of controls • monitoring the risk size and profile • results reporting. <p>Compliance assurance, as part of the control function, encompasses implementation of controls, independent monitoring of their observance and reporting.</p> <p>The control function is performed under the so-called three lines of defence:</p> <ol style="list-style-type: none"> 1. At the first line of defence, compliance risk is managed as part of business areas (conduct of business), and in other areas of the bank's operations (non-conduct of business). 2. The second line of defence includes on-going vertical verification and vertical testing, the scope of which is adapted to the process characteristics and the risk level. The tasks of the second line of defence are carried out by the compliance function or another organisational unit operating in accordance with internal regulations. 3. The third line of defence is the internal audit function. <p>In addition, risk management is supported by specialist committees.</p> <p>The key policies are the General Code of Conduct and the Corporate Defence Rules.</p>	✓	✓	✓	✓	✓

Risk (continued)	Risk description (continued)	Risk management (continued)	Possible significant negative impact on:				
			Society	Employees	Environment	Human rights	Anti-corruption
Reputational risk (an element of compliance risk)	The risk of deterioration of the bank's and Santander Group's image from the point of view of the bank's and Group's customers, employees, shareholders and communities at large, as a result of other types of risk, including individual categories of compliance risk.	Reputational risk is owned by the Corporate Communication and Marketing Area and by the Compliance Area, which use a number of mechanisms, including the bank's Disclosure Policy, the Reputational Risk Management Policy, the risk appetite for reputational risk, the Compliance Policy of Santander Bank Polska S.A., the Procurement Policy, the Supplier Selection Procedure, media monitoring, the Code of Conduct in the Securities Markets, customer satisfaction surveys and mystery shopping.	✓	✓			
Social and environmental risks related to financing	Social and environmental risks resulting from customers' activities in sensitive sectors, constituting elements of reputational risk.	The key document on social and environmental risks is the Sustainability (CSR) Policy of Santander Bank Polska S.A., which covers the whole Santander Bank Polska Group. The Policy is supplemented by policies on management of risk involved in financing defence, energy, soft commodities, mining and metal producing industry. Each sectoral policy defines the scope of its application, prohibited or restricted activities in relation to individual sectors, approval limits for transactions and the responsibility for each policy and its maintenance. Furthermore, in this area the bank respects international best practices concerning social aid and environmental protection, particularly the Equator Principles.	✓	✓	✓	✓	

For more information about risk see Chapter XII "Risk and Capital Management".

3. Anti-Corruption Policies and their Outcomes

Ethics

Due to the nature of their operations, the bank and Santander Bank Polska Group have the status of public trust institutions. Their activities are regulated by a number of domestic and EU guidelines, which ensure safety of customer funds and stability of the banking system.

The objective of all Group companies is to reinforce ethical standards among employees and promote the culture of responsible and ethical conduct.

The bank and the Group have an efficient ethical infrastructure founded upon the **General Code of Conduct** (the “Code”), which sets out ethical standards applicable to all employees and rules to be followed in specific circumstances.

The General Code of Conduct also defines the organisation and responsibilities of units. Implementation of the Code is the responsibility of the compliance function’s management, Committee for Compliance with Santander Group’s Regulatory Requirements, Internal Audit, Audit and Compliance Committee, Supervisory Board, the HR function and the Business Ethics Council. The Code also lays down the roles of heads of units, areas and divisions, and clearly defines the consequences for breaching its provisions.

One of the sections of the document describes the whistleblowing procedure that may be used by employees to report breaches. Each case is carefully analysed and confidentiality is guaranteed.

Pursuant to the Code and its supporting documents, the bank’s and the Group’s employees participate in training on the anti-corruption policy and procedures.

The procedure for reporting breaches of the Code and other misconduct is also described in the **Respect and Dignity Policy**. The document sets out the rules for dealing with alarming incidents relating to breaches of law, banking procedures, standards and employee relations reported by employees. It is one of the elements promoting the culture of openness, which encourages employees to speak up using dedicated channels. In 2019, the Policy was updated and tools for registering and managing the reported cases were implemented. Regular reports are generated including the analysis of the incidents and recommendations.

Prevention of corruption

An extensive section of the Code is dedicated to the anti-corruption arrangements. The Code provides guidance in relation to respective operational areas in the following sections:

- Conflicts of interest – covering relations with the Group, banking transactions, investing into companies, relations with suppliers and customers, gifts, commissions and other financial benefits
- Cooperation with third parties and regulatory relations
- Prevention of money laundering and terrorism financing
- Corrupt practices.

The Code is supplemented by additional regulations whose objective is to set up effective anti-corruption systems and promote ethical standards across the Group:

- Code of Conduct in the Securities Markets
- General Conflict of Interest Policy
- Anti-Money Laundering and Counter-Terrorist Financing Policy
- Personal Data Protection Policy
- Anti-Corruption Programme
- Corporate Defence Model
- Compliance Policy
- Reputational Risk Management Model, which sets out the rules for risk management and control, key elements, principles and processes, roles and responsibilities as well as internal oversight.

The bank’s and the Group’s approach is fleshed out in the **Anti-Corruption Programme**. The document promotes the policy of “zero tolerance for corruption”, and sets out detailed anti-corruptions rules. The Anti-Corruption Programme includes a range of control mechanisms, such as the register of gifts and invitations to public officials, rules for offering gifts or entertainment to the bank’s employees and managers, a whistleblowing channel, training, and responsibility of the corporate compliance area.

Corruption prevention is also covered by the **Sustainability Policy**, which defines the bank's and the Group's approach to running the business responsibly and in keeping with the sustainable development principles.

Below are the key initiatives and projects delivered in 2019 to promote ethical behaviours at the bank:

- **Mandatory e-learning** for employees on how to respond to and prevent bullying, discrimination and harassment, and where to find support in case of breach of ethical standards, as stipulated in the Respect and Dignity Policy.
- **Communication campaign** addressed to employees and, separately, Management Board members, which promoted ethical behaviours and explained how to report breaches.
- **Educational initiatives for managers** organised in partnership with the Personal Development Department on the basis of lessons learned from the reported cases.

The bank is committed to promoting ethical behaviours not only within the Group but also outside it. It participates in the **Standard of the Ethics Programme**, initiated and run by UN Global Compact Network Poland as part of business self-regulation. The Ethics Ambassadors Coalition created under the Programme includes over 100 Polish companies and institutions that actively implement and foster ethical values. Members of the Programme and the Ethics Ambassadors Coalition developed the Ethics Programme Minimum Standard to provide a set of values and tools that can be used by any organisation to create an ethics programme. Santander Bank Polska S.A. actively contributed to its development.

Anti-corruption policy indicators in Santander Bank Polska	2019	2018
Percentage share of employees who are familiar with the anti-corruption policy and procedures:		
Group	100%	100%
Bank	100%	100%
Percentage share of employees who completed anti-corruption training:		
Group	93,0%	93,4%
Bank	93,3%	92,0%
Number of confirmed corruption cases:		
Group	0	n/a
Bank	0	n/a
Number of cases reported through whistleblowing channels:		
Group	4	n/a
Bank	4	n/a

4. Employee Policies and their Outcomes

As at 31 December 2019, the number of FTEs in Santander Bank Polska Group was 13,642. This included 10,726 FTEs of Santander Bank Polska S.A.

Employee issues

The most important regulations concerning employee issues are the following:

- **General Code of Conduct**, which is the key document governing each aspect of the bank's and the Group's operations, setting out ethical standards and rules of conduct for all the bank's and the Group's employees, including in relation to employee matters. Each employee must be familiar with and follow the General Code of Conduct.
- The bank's **Labour Regulations**, defining the internal organisation of work and rights and obligations of the employees and the employer. All members of the Group employing more than 50 people have their own Labour Regulations.
- **HR Policies**, addressing the workplace matters and approach to employee issues.
- **Training Policy**, which sets the bank's and the Group's objectives in the area of training, based on a systemic approach to the training process and commitment to comprehensive development of staff competencies. A wide range of training and development initiatives were delivered in 2019, using different forms, methods and tools. They supported development of senior and middle management, female leaders, talents, Agile employees, all staff as part of centralised activities and employees with specialised development needs.
- **Remuneration Policy of Santander Bank Polska Group**, a document which was updated in 2019 to include references to the responsible banking principle, strengthen the regulations ensuring maintenance of a solid capital base of the institution, refine provisions regarding guaranteed variable pay, compensation for variable pay, retention plans, severance pays and indemnities, and determine decision-making levels for the remuneration of Management Board members and Material Risk Takers.

- **Sustainability Policy**, which emphasises the employees' contribution to the bank's success and the need to develop employee relationships that are based on mutual trust and loyalty and to take measures to ensure that employees feel motivated, engaged and rewarded. In the above Policy, the bank undertakes to:
 - ✓ promote employment stability, flexible working hours and work-life balance, ensuring health and safety in the workplace
 - ✓ ensure that employees follow the rules of ethics and responsible behaviour based on the General Code of Conduct
 - ✓ encourage employees to engage in corporate volunteering to support the well-being of local communities and strengthen employees' pride about being part of the organisation.

Protection and promotion of diversity

Presented below are the regulations which protect and promote diversity:

- **Respect and Dignity Policy**, which describes how to build a diversified working environment with respect for ethical standards and dignity of each employee. The document helps prevent such negative behaviours as discrimination, bullying and harassment. Attached to the Policy is a document "Support for new parents", which describes the bank's and the Group's actions addressed to the employees who have been absent for a long time due to pregnancy, or who are on maternity or parental leaves.
- **Management Board Diversity Policy**, in which the bank has undertaken to ensure that the candidates for the roles of Management Board members and key function holders possess a wide range of qualities and skills as well as ability to show independence of mind and opinions, to ensure gender balance in the composition of the Management Board and to fight any discrimination against the candidates for Management Board members. It should be noted that in 2019 the percentage of women holding key positions (material risk takers) increased to 25%, and is expected to grow to 40%.
- **Human Rights Policy**, which establishes a set of principles regarding the relationships with various stakeholders, including equal access to employment and promotion, and protection against discrimination based on age, gender, race, religion, origin, marital status or financial situation.
- **Commitments** made in 2017 by Santander Bank Polska S.A. as a signatory of the **Diversity Charter**, such as building corporate culture founded on the respect for diversity, developing policies and mechanisms that effectively support equal treatment and diversity in the workplace, promoting benefits of diversity among stakeholders (employees, local communities, shareholders and customers), and reporting on the actions taken and their outcome.
- **Sustainability Policy**, which promotes respect for diversity in employee relationships, prevents discrimination because of gender, race, age or on any other grounds and encourages equal treatment of employees and a balanced representation between men and women in all functions and responsibilities.

One of the initiatives delivered by Santander Group to promote diversity is **Santander W50**, a mentoring project addressed to experienced female managers and specialists. The purpose of the programme is to prepare the participants to perform key roles in companies and organisations by defining their areas for development, building self-awareness, setting up an individual mentoring plan and providing expert knowledge about project and team management.

The bank supports women in developing and building their personal brand both inside and outside the organisation:

- actively cooperates with the Vital Voices organisation and the Leslaw Paga Foundation as a partner of programmes dedicated to women;
- promotes female leaders in their roles as mentors and experts;
- holds inspirational meetings as part of development initiatives dedicated to women and developing their managerial skills;
- supports the creation of women's communities and women's networks.

Diversity promotion policy indicators	2019	2018
Female participation in the bank's senior management	45,3%	44,6%
Female participation in the bank's middle management *	59,3%	62,0%

* A slight decrease in the index results from major headcount changes, notably in connection with integration of an organised part of Deutsche Bank Polska S.A., and the employment optimisation process completed in 2019, which largely covered the sales structures in the branch banking.

Corporate volunteering

The purpose of corporate volunteering is to encourage staff involvement in the community. These activities are governed by the **Sustainability Policy** and the **Corporate Volunteering Policy of Santander Bank Polska S.A.** Corporate volunteering at the bank is based on three pillars:

- **time volunteering** – voluntary and free help for the people in need, or voluntary and free involvement in activities or promotion of important social issues.
- **competency volunteering** – volunteers sharing their experience, skills and expertise with social partners.
- **educational volunteering** – promoting knowledge of finance and entrepreneurship using materials prepared by the bank (e.g. lesson plans with presentations, “Leaders of Europe” game, etc.). This pillar also includes other initiatives designed to broaden knowledge of economy among local communities, notably children and students.

For more information about corporate volunteering see the social issues section, Section 6 of this Statement “Social Policies and their Outcomes”.

HR policies indicators	2019		2018	
	Female	Male	Female	Male
Number of employees:				
Capital Group	9 513	4 233	11 194	4 690
Bank	7 534	3 333	8 931	3 710
Employee turnover:				
Group (without SCB Group)	25,5%		17,5%	
Bank	23,7%		20,1%	
Average number of training hours per employee:				
Group	68,1		55,1	
Bank	77,5		56,9	

Programme of support for employees selected for collective redundancies

As part of the activities aimed at reorganising the business model and increasing the operational efficiency of Santander Bank Polska S.A., on 10 January 2019, the bank's Management Board decided to start a process of collective redundancies covering around 1,324 employees until 2019.

The bank implemented a comprehensive programme of support for redundant employees to assist them with their reintegration into the labour market and equip them with useful knowledge and skills. For more information see Chapter V “Relations with employees”, Section 1 “Human Resources Management”.

5. Human Rights Policies and their Outcomes

The **Human Rights Policy** is a formal commitment of the bank and Santander Bank Polska Group to respect human rights in accordance with the highest international standards. The key objective in this regard is to observe and promote human rights as part of the business activity and to prevent and minimise any infringement arising therefrom.

The Human Right Policy lays down the principles and commitments arising from the international declarations that apply to the bank's and the Group's relationships with all their stakeholders. Each commitment comes with a list of specific actions.

Presented below are the key commitments of the bank and the Group towards individual groups of stakeholders:

Stakeholders	Commitments arising from the Human Rights Policy
Employees	<ul style="list-style-type: none"> Preventing discrimination and practices against personal dignity Preventing forced labour and child labour Respecting the freedom of association and collective bargaining Protecting employees' health Offering stable working conditions (fair pay, right to rest, protection of personal data and privacy, flexible work practices that help ensure work-life balance)
Customers	<ul style="list-style-type: none"> Offering customers only the products and/or services that match their situation and needs, making it easy for them to understand the terms and conditions, benefits, risks and costs. Avoiding any unjustified discrimination when offering products, in accordance with the General Code of Conduct.
Suppliers	<ul style="list-style-type: none"> Fostering respect for human rights throughout the supply chain, requiring suppliers and their employees to adhere to the commitments described in the Policy, with due regard to their management autonomy. Applying the Supplier Selection Policy, which includes environmental, social and ethical criteria expected from suppliers. Promoting relationships with suppliers that demonstrate their commitment to human rights and have their own human rights policies.
Other business partners	<ul style="list-style-type: none"> Promoting the Human Rights Policy among business partners, especially where it is required due to their origin, activity or importance to the bank.
Communities in which the bank operates	<ul style="list-style-type: none"> Promoting respect for human rights, particularly in those places where the legal and institutional framework is less developed Respecting, supporting and promoting human rights in the communities the bank serves Supervising and controlling the impact of the bank's operations on the communities Guaranteeing security to protect human rights Helping to combat corruption

In its **Human Rights Policy**, the bank has also undertaken to analyse and assess human rights policies and practices of its counterparties before entering into any loan agreements or other agreements. The bank will respond to any breach of human rights in the workplace and use relevant disciplinary measures where justified.

Furthermore, the bank's employees are required to report any breach of the commitments laid down in this Policy. To do this, they may use the whistleblowing channel created under the General Code of Conduct (a dedicated mailbox: etyka@santander.pl) without fear of reprisal.

Due to their importance, the matters covered by the Human Rights Policy are also reflected in the **Sustainability Policy**, which stresses the bank's commitment to respect and promote human rights in relation to all its stakeholders.

The **Respect and Dignity Policy**, which expands on the issues addressed by the two foregoing regulations, describes how to build a diversified working environment with respect for ethical standards and dignity of each employee. The Policy establishes methods of reporting breaches of ethical standards and other irregularities, including discrimination, bullying and harassment. It determines the responsibility of management and each employee for its implementation. Appendix 1 to the **Respect and Dignity Policy** lays down the "Rules for dealing with alarming incidents relating to breaches of law, banking procedures, standards and employee relations reported by employees".

Human rights issues are also reflected in the **Arms Industry Policy**, which introduces exclusions and limitations to the bank's relationship with customers dealing with arms and dual-use technologies. The bank also notes risks related to projects carried out in the countries which have not ratified the key UN legal documents on human rights and those which are subject to UN/EU sanctions for violating human rights or using internal repressions, as defined in the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights and the Optional Protocol to the Convention on the Rights of the Child on the involvement of children in armed conflict.

Indicators of human rights policy	2019	2018
Percentage share of employees who agree that the organisation respects and promotes diversity		
Group	84%	81%
Bank	84%	81%

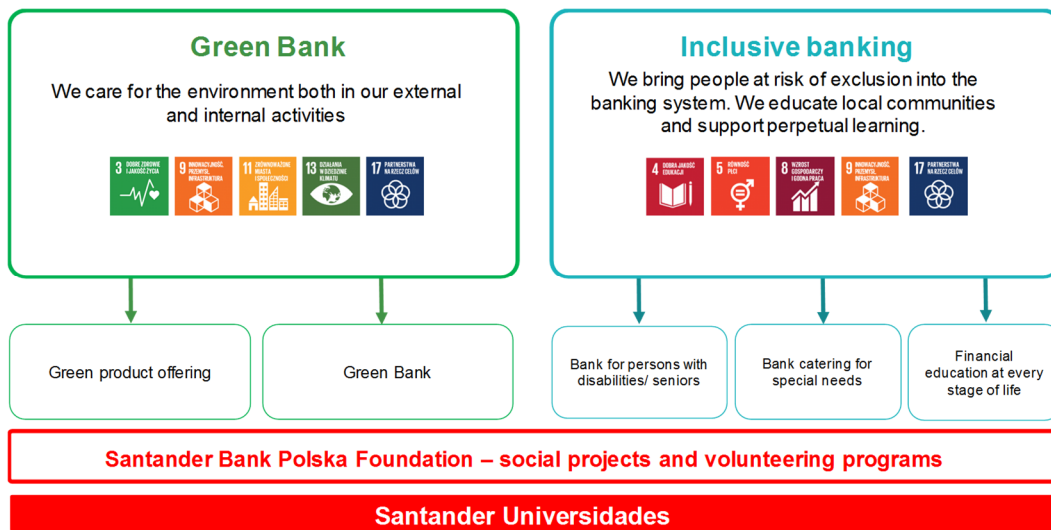
6. Social Policies and their Outcomes

The key focus of the social initiatives undertaken by the bank and Santander Bank Polska Group is:

- the bank's and Group's impact on customers (including security and quality of services) and business partners
- corporate social responsibility and impact on local communities.

In its activity, the bank is focused on e.g. delivery of the UN Sustainable Development Goals which are most consistent with its business operations and on which the bank, being a financial institution, can have the biggest impact.

In addition, Santander Bank Polska S.A. participates in responsible banking activities. In 2019, the bank was one of the initiators of the "Declaration on Responsible Sales" project. Responsible banking is embedded in the business strategy of the organisation and is based on three pillars: **Green Bank, inclusive banking, Santander Bank Polska Foundation**



For more information on corporate social responsibility at Santander Bank Polska S.A. see Chapter VIII "Relations with External Environment", Section 1 "Corporate Social Responsibility at Santander Bank Polska S.A."

Volunteering projects

The employees of the bank and Santander Bank Polska Group participate in social activities in accordance with the **Corporate Volunteering Policy of Santander Bank Polska S.A.** The Policy defines traceable volunteering indicators with their related procedures and responsible units (i.e. the Santander Bank Polska Foundation and the Public Relations Department, acting in coordination with the HR function).

The employees of the bank and its subsidiaries may engage in two types of volunteering projects: bottom-up initiatives undertaken to help local communities (e.g. events for orphanages and schools) and central initiatives (e.g. book donations held in cooperation with Zaczytani.org).

For more information on corporate volunteering see Chapter VIII "Relations with External Environment", Section 3 "Social Engagement".

Social projects

The bank delivers long-term social projects which are not only aimed at responding to the needs of local communities but also at making a positive contribution to society.

One of the priorities of the bank as a corporate citizen is **financial education**. The bank delivers the following initiatives to promote the knowledge of finance:

- **Finansiaki** – the project includes a portal with ready-to-use, free lesson plans (prepared by financial education experts, together with supporting materials for school and preschool teachers) and classes run by employees as volunteers. As part of the project, in 2019, the bank published a financial guide for parents under the auspices of the Faculty of Psychology of the University of Warsaw.
- **Supporting Money Savers (#PomagamyOszczędzać)** – a campaign targeted at parents, providing guidance on how to best save for children's future and how to teach children good financial habits.

In 2019, the bank organised the fourth edition of the Innovation Day, an event which gives an opportunity for the bank and start-ups to establish business relationships. The objective of this cooperation is to **promote social innovators** whose solutions create value and fit well with the bank's social activities, particularly those aimed at preventing social exclusion of older people.

Another project was specialist **training on digital transformation organised by Santander Group**. As part of the global Santander Universidades programme, Santander Bank Polska S.A. partnered with Fundación IE of the Spanish IE University to offer 180 students from 15 countries an opportunity to participate in classes on technology and innovation to increase their future employment opportunities.

Other major educational projects of the bank such as **"How's Your Driving"** ("Jak Jeźdźsz") (a project promoting safe driving), **Santander Station** (an educational space for local communities) and **Santander Orchestra** (a project for talented young musicians to help them advance their careers) are presented in Chapter VIII "Relations with External Environment", Section 2 "Key Sponsorship Projects in 2019".

The activities of **Santander Bank Polska Foundation of I.J. Paderewski**, which delivers the majority of the bank's social programmes and provides organisational and financial support to corporate volunteering initiatives, are presented in Chapter VIII "Relations with External Environment", Section 3 "Social Engagement".

The social commitment of Santander Bank Polska S.A. is measured by the number of external beneficiaries (local communities, customers and groups at risk of social exclusion) helped through the bank's and the Group's initiatives.

Indicators of social engagement	2019	2018
Number of beneficiaries *	250 000	131 080

* Estimated value for 2019

For more information on social and corporate giving initiatives, see www.santander.pl, "Responsible business" tab.

Relations with suppliers

The bank also makes social contribution based on its network of suppliers.

The key regulations in this respect include:

- **Procurement Policy**
- **Supplier Selection Procedure**

After the end of the selection process, the relationships with suppliers (including monitoring and contracting) are governed by:

- **Policy on Cooperation with Suppliers**
- **Suppliers Management Procedure**

Supplier relationship management is the responsibility of the Contracts and Procurement Management Department. All suppliers are subject to uniform selection criteria, which take into account **social aspects, employment practices, respect for human rights and environmental commitments**. Bidders are required to fill in a CSR questionnaire with questions relating to the above criteria.

The cooperation with suppliers is addressed in the **Sustainability Policy**, in which the Group undertakes to establish and maintain ethical and transparent relationships with suppliers by requiring them to adhere to ten principles of the United Nations Global Compact, among other things. The bank and the Group promote mechanisms that help identify possible environmental and social risks in the supply chain.

Relations with customers

The strategy of Santander Bank Polska Group is underpinned by a customer-centric approach to business management, continuous improvement of service quality and product range through digitalisation, increase in operational efficiency, innovative and simple solutions, and transparency.

The bank and the Group have a number of documents which establish customer relationship standards in relation to communication, service, complaint-handling and data security. These areas are the responsibility of relevant units dealing with retail and business customers.

Business relationships with prospective customers are governed by a comprehensive set of corporate social responsibility and sustainability policies which establish rules pertaining to business decisions and requirements towards customers from sensitive sectors. In its **Sustainability Policy** the bank commits itself to building lasting relationships with customers based on trust and loyalty, responding to their needs and increasing their satisfaction. The Policy defines measures and behaviours intended to help the bank fulfil this commitment.

Presented below are the main projects delivered by the bank in 2019 with a focus on customers and sustainable development:

- **Agile way of working** – optimisation of operations by moving away from complex hierarchical structures towards small interdisciplinary teams that are capable of quick and effective implementation of new, high quality solutions in accordance with customer needs.

- **Sustainable banking** as a fundamental part of the strategy pursued by the Corporate and Investment Banking segment – Santander Bank Polska S.A. arranged an ESG-linked agreement signed by four other banks, based on assessment of the borrower's performance in the area of sustainable development and responsible business (first such loan granted in Poland and in the CEE).
- **Declaration on Responsible Sales** – a project launched by Santander Bank Polska S.A. and other financial institutions and run by Federacja Konsumentów, a consumer organisation, with an objective to raise and promote ethical standards in relationships with customers, educate businesses and consumers, increase trust in the financial sector and combat unfair practices. It is the first project that brings together companies which are committed to improving banking services.
- **CyberRescue** – a service offered to private banking customers in accordance with the bank's commitment to financial security and education, providing customers with ongoing expert support to help them stay safe online.

Inclusive banking

The bank continually increases access to products and services for all customers, using advanced methods and providing appropriate conditions to people choosing traditional forms of contact with the bank (e.g. at branches).

- For nine years now, the bank has been running the **Barrier-Free Banking** programme designed to ensure comfortable access to the bank's services and products for customers with special needs, no matter how they choose to engage with the bank. The bank conducts regular audits at branches to make sure they are accessible to customers with disabilities.
 - ✓ 155 branches of Santander Bank Polska S.A. have been independently certified as providing barrier-free access to banking products and services. Customers are served by well-trained advisors and may use priority-service points. Branches are equipped with signature frames and mini magnifying glasses for visually-impaired customers. At each branch, hearing-impaired customers may talk online with the bank's advisor who uses Polish sign language. This option is also available via Santander mobile, Santander internet and the bank's website.
 - ✓ 21 branches are equipped with **portable induction loops**, i.e. small devices which facilitate interactions with customers who use hearing aids. Santander Bank Polska S.A. also has a network of 195 "talking" ATMs. There are special procedures in place regarding statements of will made by customers who cannot read and/or write.
- Based on a video entitled: **"We are not that different, are we?" ("Wcale tak bardzo się nie różnimy, prawda?")**, the bank runs an information campaign to promote independence in people with disabilities. The video has been published on social media, including the bank's YouTube channel and the Barrier-Free Banking programme website (<http://www.santander.pl/obb>), and includes subtitles and translation in Polish sign language for the hearing-impaired and audio description for the visually-impaired.
- The bank sponsored a unique series of symphonic concerts in darkness: **"Reaching the places out of sight"** ("Tam sięgaj, gdzie wzrok nie sięga"), an initiative aimed at raising awareness of the needs of visually-impaired people, letting the audience experience the world from their perspective. One of the concerts was streamed for free on the YouTube channel of the Silesian Philharmonic.
- The bank offered **internet services and mobile applications in Ukrainian and Russian**. It serves 179 thousand foreigners and is one of the leading banks in Poland which provide services to this customer group.
- Other projects, initiatives and products delivered by the bank in 2019 to meet specific needs of its customers, including people with disabilities and the elderly, were the following:
 - ✓ eAccounting – support for SMEs
 - ✓ local meetings for female entrepreneurs
 - ✓ value-based customer service standards
 - ✓ simplification of communication with customers
 - ✓ certification of the next 20 branches and recertification of 57 barrier-free branches
 - ✓ implementation of the "senior serving seniors" principle.

Indicators of social policy effectiveness	2019	2018
Number of staff volunteers		
Group	2 800	1 519
Bank	2 000	1 200
Donations made by the Santander Bank Polska Foundation towards corporate volunteering projects (PLN thousand)	300	145

7. Environmental Policies and their Outcomes

The **Climate Change and Environmental Management Policy**, which applies across the Group, lays down the actions and initiatives which support environmental protection and mitigate the impact of climate changes.

Presented below are the bank's activities reflecting the commitments made in the Policy:

- **financing and supporting green projects**, including projects related to renewable energy, energy efficiency projects, water and waste management infrastructure, electric, hybrid and low-emission cars, products and services for sustainable construction, activity in the market of trading in emission allowances, products for the agricultural and livestock breeding sector (including weather risks and other natural disaster risks) and other socially responsible investments;
- **control of resource consumption and emission levels** in all the bank's facilities, including impact analysis, measurement and mitigation of negative effects;
- other **environmental protection activities**, including raising awareness among employees, initiatives aimed at suppliers in the supply chain, product and service selection rules and participation in international and local initiatives that support sustainable development and protection of environment.

To analyse opportunities, risks and challenges related to environmental protection and climate change, the bank set up the Responsible Banking Committee, which supports the Management Board in supervising execution of the corporate social responsibility and sustainability strategy in the bank and the entire Group. Environmental issues are one of three pillars of the strategy.

The Climate Change and the Environmental Management Policy is supplemented by the following sectoral policies on financing projects and customers from sensitive sectors:

- **Energy Sector Policy**
- **Soft Commodities Sector Policy**
- **Arms Industry Policy**
- **Mining and Metals Sector Policy** (effective from 2019)

The sectoral policies implemented in 2015 were updated and refined in June 2019. This included modification of the climate policy, which was supplemented by two new sectoral policies: energy sector policy and mining and metals sector policy. The latter policy establishes lending rules in relation to coal mining companies: no new financing for coal mining, complete reduction of exposure to coal mining by 2030, limited financing for existing coal power plants and no financing for new ones.

In accordance with the **Sustainability Policy**, the bank and the Group attach great importance to environmental protection, particularly in the context of climate changes. They undertake to minimise the environmental impact of their branches and business, promote environmentally-friendly products and services and take into account and assess the impact that their financed projects have on climate changes.

The bank has an environmental management system in place. The bank and the Group also respect international best practices and guidelines concerning social and environmental issues, particularly the Equator Principles, which provide guidance on assessment of environmental and social risks in projects. The bank is also a signatory of the Soft Commodities Compact promoted by the Banking Environment Initiative.

Environmentally-friendly projects

One of the key pillars of the responsible banking strategy pursued by the bank is green finance. Since the beginning of 2019, the bank has actively contributed to implementing green solutions, both in the external environment and in the organisation. Presented below are projects and products delivered by the bank and the Group companies as part of their commitment to environmental protection:

- Santander Bank Polska S.A. was Poland's first commercial bank to issue green bonds.
- Credit and lease facilities were provided to support energy efficiency projects.
 - ✓ In 2019, Santander Leasing S.A. developed its green lease proposition. As at 2 December 2019, the value of assets financed by the company in this respect totalled PLN 150m net. The offer included: electric and hybrid cars, photovoltaics, heat pumps, biomass and electric forklifts.
 - ✓ In September 2019, Santander Bank Polska S.A. provided Poland's first loan linked to ESG (Environmental, Social and Governance) criteria, based on assessment of the borrower's performance in the area of sustainable development and responsible business. The bank acts as a coordinator, agent and ESG agent in this transaction.
- The bank provided financing for green buildings.
- The bank undertook to gradually increase the share of renewable energy sources to 90% in 2020. In accordance with the energy policy of the majority shareholder, the bank will no longer provide financing for new coal power plants.

- All publicity materials are printed on ECO/FS paper (100% recycled).
- In partnership with Santander Leasing S.A., 90% of the bank's car fleet is going to be replaced by hybrid cars in a little more than one year. This will allow the bank to reduce its carbon footprint by nearly 1,800 tonnes, i.e. 31%.
- The "no plastic" strategy has been put in place to gradually eliminate plastic products, first in head offices and then in branches. The objective is to completely reduce single-use plastics in the organisation by 2021.

The bank undertook the following initiatives to raise awareness of environmental protection among employees:

- DIY Zero Waste Workshops
- Educational sessions/ webinars
- EcoAmbassadors (Young Leaders Programme)
- EcoGame
- EcoSafe (EkoBezpieczni) project.

The bank and the Group companies engage in environmental projects and support sector, cross-industry and international initiatives undertaken to protect the environment and its resources. Below are the examples of such initiatives:

- Joining the **Pact on Sustainable Use of Plastics**. The bank – together with the biggest industry organisations, manufacturers of consumer goods and retail chains – has undertaken to create a roadmap of transition to sustainable use of plastics in Poland by the end of 2019.
- **#WeHaveCommonGoals 2019 (#MamyWspólneCele 2019)** – a competition organised in partnership with Outriders to find effective solutions to environmental problems and their impact on our everyday lives. The entries will be used to create a series of articles, with a focus on looking for ways to make a real and positive contribution to the environment.
- Joining the partnership for common implementation of environment-related Sustainable Development Goals **"Together for the Environment" ("Razem dla środowiska")**, established by UNEP/GRID Warsaw Centre. The objective is to create the best possible conditions to implement UN Sustainable Development Goals 2015–2030 in Poland, especially those which are related to the natural environment. The project involves cross-sector and cross-industry cooperation between various entities as part of their commitment to the environment.
- Strategic partnership in the **"Green Ribbon #ForThePlanet" ("Zielona Wstążka #DlaPlanety")** campaign run by UNEP/GRID Warsaw Centre under the theme: #BeatAirPollution.

Environmental policy indicators	2019	2018
Total energy consumption in the Bank (MWh) *	33 144	36 144
Paper consumption in the Bank (kg)	313 356	368 312

* energy usage in the bank's premises, including leased space

XV. Statements of the Management Board

True and Fair Presentation of the Financial Statements

To the best of the Management Board's knowledge, the financial figures and the comparable data presented in the financial statements incorporated in the "Annual Report of Santander Bank Polska S.A. for 2019" and "Annual Report of Santander Bank Polska Group for 2019" were prepared in keeping with the applicable accounting policies and give a true and fair view of the state of affairs and earnings of Santander Bank Polska S.A. and Santander Bank Polska Group. The Management Board's Report contained in this document shows a true picture of the development, achievements and position of Santander Bank Polska S.A. and its Group (including the underlying risks) in 2019.

Auditor selection

The audit firm responsible for auditing the unconsolidated and consolidated financial statements of Santander Bank Polska S.A. for 2019 was selected in compliance with the applicable legislation. The bank has the "Auditor Appointment Policy at Santander Bank Polska S.A.", the "Auditor Services Policy at Santander Bank Polska S.A." and the "Policy for Non-Audit Services Rendered by the Auditor", which relate to the policy of selection of an audit firm and the policy of provision of non-audit services by an audit firm, an affiliate of an audit firm or a member of its network. The bank complies with the applicable legal provisions relating to the rotation of audit firms and the key statutory auditor, and the appropriate cooling-off periods.

Signatures of the persons representing the company

Date	Name and Surname	Function	Signature
19.02.2020	Michał Gajewski	President of the Board	
19.02.2020	Andrzej Burliga	Vice President of the Board	
19.02.2020	Michael McCarthy	Vice President of the Board	
19.02.2020	Juan de Porras Aguirre	Vice President of the Board	
19.02.2020	Arkadiusz Przybył	Vice President of the Board	
19.02.2020	Patryk Nowakowski	Member of the Board	
19.02.2020	Carlos Polaino Izquierdo	Member of the Board	
19.02.2020	Maciej Reluga	Member of the Board	
19.02.2020	Dorota Strojowska	Member of the Board	