

Interim report of Santander Bank Polska Group for the first half of 2020



FINANCIAL HIGHLIGHTS

	PLN k		EUR k	
	1.01.2020-30.06.2020	1.01.2019-30.06.2019* restated	1.01.2020-30.06.2020	1.01.2019-30.06.2019* restated
Consolidated financial statements of Santander Bank Polska Group				
I Net interest income	3 094 748	3 232 132	696 811	753 762
II Net fee and commission income	1 030 075	1 042 419	231 931	243 101
III Profit before tax	889 874	1 481 104	200 363	345 407
IV Net profit attributable to owners of Santander Bank Polska SA	475 787	935 472	107 128	218 160
V Total net cash flows	(4 689 861)	(8 602 253)	(1 055 966)	(2 006 122)
VI Profit of the period attributable to non-controlling interests	104 231	155 009	23 469	36 149
VII Profit per share in PLN/EUR	4,66	9,16	1,05	2,14
VIII Diluted earnings per share in PLN/EUR	4,66	9,16	1,05	2,14
Stand alone financial statements of Santander Bank Polska S.A.				
I Net interest income	2 290 146	2 346 783	515 648	547 291
II Net fee and commission income	835 674	840 361	188 160	195 980
III Profit before tax	621 321	1 436 959	139 896	335 112
IV Profit for the period	384 861	1 157 210	86 655	269 872
V Total net cash flows	(4 773 977)	(8 565 723)	(1 074 905)	(1 997 603)
VI Profit per share in PLN/EUR	3,77	11,34	0,85	2,64
VII Diluted earnings per share in PLN/EUR	3,77	11,33	0,85	2,64

FINANCIAL HIGHLIGHTS

	PLN k		EUR k	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019
Consolidated financial statements of Santander Bank Polska Group				
I Total assets	221 609 230	209 476 166	49 621 413	49 190 129
II Deposits from banks	5 370 650	5 031 744	1 202 564	1 181 577
III Deposits from customers	165 889 547	156 480 343	37 144 995	36 745 413
IV Total liabilities	193 721 721	182 496 656	43 377 009	42 854 680
V Total equity	27 887 509	26 979 510	6 244 404	6 335 449
VI Non-controlling interests in equity	1 569 667	1 547 523	351 470	363 396
VII Number of shares	102 088 305	102 088 305		
VIII Net book value per share in PLN/EUR	273,17	264,28	61,17	62,06
IX Capital ratio	18,76%	17,07%		
X Declared or Paid dividend per share in PLN/EUR*	-**	19,72	-**	4,58
Stand alone financial statements of Santander Bank Polska S.A.				
I Total assets	194 302 696	181 471 487	43 507 097	42 613 946
II Deposits from banks	2 100 031	1 506 141	470 226	353 679
III Deposits from customers	154 407 464	144 760 017	34 573 996	33 993 194
IV Total liabilities	169 343 339	157 293 901	37 918 347	36 936 457
V Total equity	24 959 357	24 177 586	5 588 750	5 677 489
VI Number of shares	102 088 305	102 088 305		
VII Net book value per share in PLN/EUR	244,49	236,83	54,74	55,61
VIII Capital ratio	21,52%	19,58%		
IX Declared or Paid dividend per share in PLN/EUR*	-**	19,72	-**	4,58

* Detailed information are described in Note 2.4.

**Detailed information are described in Note 42.

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

- for balance sheet items – average NBP exchange rate as at 30.06.2020: EUR 1 = PLN 4.4660 and as at 31.12.2019: EUR 1 = PLN 4.2585
- for profit and loss items – as at 30.06.2020 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in H1 2020: EUR 1 = PLN 4.4413; as at 30.06.2019 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in H1 2019: EUR 1 = PLN 4.2880

As at 30.06.2020, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 125/A/NBP/2020 dd. 30.06.2020.

Condensed Interim Consolidated
Financial Statements of
Santander Bank Polska Group
for the 6-month period ended 30 June 2020

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I. Condensed consolidated income statement

	1.04.2020- 30.06.2020	1.01.2020- 30.06.2020	1.04.2019- 30.06.2019* restated	1.01.2019- 30.06.2019* restated
for reporting period:				
Interest income and similar to income	1 758 240	3 808 330	2 116 449	4 198 148
Interest income on financial assets measured at amortised cost	1 535 340	3 351 501	1 869 671	3 690 953
Interest income on financial assets measured at fair value through other comprehensive income	209 592	416 185	199 210	408 884
Income similar to interest on financial assets measured at fair value through profit or loss	13 308	40 644	47 568	98 311
Interest expense	(299 805)	(713 582)	(492 917)	(966 016)
Net interest income	1 458 435	3 094 748	1 623 532	3 232 132
Fee and commission income	603 635	1 265 471	661 065	1 290 868
Fee and commission expense	(111 804)	(235 396)	(138 708)	(248 449)
Net fee and commission income	491 831	1 030 075	522 357	1 042 419
Dividend income	20 322	20 671	96 993	97 240
Net trading income and revaluation	58 612	64 915	30 201	78 633
Gains (losses) from other financial securities	27 056	53 542	61 896	94 751
Other operating income	25 724	66 540	50 603	82 872
Impairment allowances for expected credit losses	(480 919)	(947 219)	(356 558)	(619 246)
Operating expenses incl.:	(963 782)	(2 229 109)	(1 016 452)	(2 252 684)
-Staff, operating expenses and management costs	(667 015)	(1 688 699)	(813 201)	(1 870 060)
-Depreciation/amortisation	(95 630)	(194 772)	(102 806)	(202 389)
-Amortisation of right of use asset	(51 080)	(104 240)	(54 412)	(107 410)
-Other operating expenses	(150 057)	(241 398)	(46 033)	(72 825)
Share in net profits (loss) of entities accounted for by the equity	20 140	36 839	15 945	30 283
Tax on financial institutions	(152 499)	(301 128)	(151 603)	(305 296)
Profit before tax	504 920	889 874	876 914	1 481 104
Corporate income tax	(157 779)	(309 856)	(198 989)	(390 623)
Consolidated profit for the period	347 141	580 018	677 925	1 090 481
of which:				
-attributable to owners of Santander Bank Polska SA	304 853	475 787	596 465	935 472
-attributable to non-controlling interests	42 288	104 231	81 460	155 009
Net earnings per share				
Basic earnings per share (PLN/share)	2,99	4,66	5,84	9,16
Diluted earnings per share (PLN/share)	2,99	4,66	5,84	9,16

* details in Note 2.4.

II. Condensed consolidated statement of comprehensive income

	1.04.2020- 30.06.2020	1.01.2020- 30.06.2020	1.04.2019- 30.06.2019* restated	1.01.2019- 30.06.2019* restated
for the period:				
Consolidated profit for the period	347 141	580 018	677 925	1 090 481
Other comprehensive income which can be transferred to the profit and loss net account:	446 783	476 520	175 943	180 852
Valuation and sales of debt securities measured at fair value through other comprehensive income gross	575 027	550 839	210 650	147 207
Deferred tax	(109 255)	(104 659)	(40 023)	(27 969)
Valuation of cash flow hedging instruments gross	(23 443)	37 457	6 563	76 067
Deferred tax	4 454	(7 117)	(1 247)	(14 453)
Other comprehensive income which can't be transferred to the profit and loss net account:	(67 067)	(70 045)	(9 663)	(12 748)
Valuation and sales of equity securities measured at fair value through other comprehensive income gross	(79 796)	(83 472)	(5 882)	(9 691)
Deferred and current tax	15 162	15 860	(3 781)	(3 057)
Provision for retirement allowances – actuarial gains/losses gross	(3 003)	(3 003)	-	-
Deferred tax	570	570	-	-
Total other comprehensive income for the period net	379 716	406 475	166 280	168 104
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	726 857	986 493	844 205	1 258 585
Total comprehensive income attributable to:				
Owners of Santander Bank Polska SA	677 072	877 794	762 388	1 107 072
Non-controlling interests	49 785	108 699	81 817	151 513

* details in Note 2.4.

III. Condensed consolidated statement of financial position

	as at:	30.06.2020	31.12.2019
ASSETS			
Cash and balances with central banks	Note 16	4 211 854	7 973 014
Loans and advances to banks	Note 17	3 987 575	3 716 582
Financial assets held for trading	Note 18	2 720 384	2 058 508
Hedging derivatives	Note 19	30 546	43 973
Loans and advances to customers incl.:	Note 20	142 622 135	143 402 629
- measured at amortised cost		140 436 976	141 282 371
- measured at fair value through other comprehensive income		1 135 482	923 811
- measured at fair value through profit or loss		1 049 677	1 196 447
Buy-sell-back transactions		2 169 867	1 851 171
Investment securities incl.:	Note 21	56 806 942	41 328 134
- debt securities measured at fair value through other comprehensive income		55 799 648	40 248 937
- debt securities measured at fair value through profit and loss		205 854	194 285
- equity securities measured at fair value through other comprehensive income		801 440	884 912
Assets pledged as collateral		1 129 955	1 089 558
Investments in associates	Note 22	947 922	903 113
Intangible assets		696 945	772 117
Goodwill		1 712 056	1 712 056
Property, plant and equipment		796 281	874 078
Right of use assets		751 195	838 792
Net deferred tax assets		1 910 219	1 847 916
Assets classified as held for sale	Note 23	10 861	2 679
Other assets		1 104 493	1 061 846
Total assets		221 609 230	209 476 166
LIABILITIES AND EQUITY			
Deposits from banks	Note 24	5 370 650	5 031 744
Hedging derivatives	Note 19	1 642 807	995 627
Financial liabilities held for trading	Note 18	2 867 165	1 856 813
Deposits from customers	Note 25	165 889 547	156 480 343
Sell-buy-back transactions		1 084 214	990 863
Subordinated liabilities	Note 26	2 703 243	2 630 271
Debt securities in issue	Note 27	9 967 063	10 629 516
Lease liabilities		664 663	746 632
Current income tax liabilities		60 750	343 763
Provisions for off balance sheet credit facilities	Note 28	60 684	66 109
Other provisions	Note 29	500 450	445 615
Other liabilities	Note 30	2 910 485	2 279 360
Total liabilities		193 721 721	182 496 656
Equity			
Equity attributable to owners of Santander Bank Polska S.A.		26 317 842	25 431 987
Share capital		1 020 883	1 020 883
Other reserve capital		21 296 994	20 141 925
Revaluation reserve		1 724 523	1 316 061
Retained earnings		1 799 655	814 771
Profit for the period		475 787	2 138 347
Non-controlling interests in equity		1 569 667	1 547 523
Total equity		27 887 509	26 979 510
Total liabilities and equity		221 609 230	209 476 166

Notes presented on pages 9 – 60 constitute an integral part of these Financial Statements.

IV. Condensed consolidated statement of changes in equity

Consolidated statement of changes in equity 1.01.2020 - 30.06.2020	Equity attributable to equity holders of parent entity				Total	Non-controlling interests	Total equity
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period			
As at the beginning of the period	1 020 883	20 141 925	1 316 061	2 953 118	25 431 987	1 547 523	26 979 510
Total comprehensive income	-	-	402 007	475 787	877 794	108 699	986 493
<i>Consolidated profit for the period</i>	-	-	-	475 787	475 787	104 231	580 018
<i>Other comprehensive income</i>	-	-	402 007	-	402 007	4 468	406 475
Profit allocation to other reserve capital	-	1 153 463	-	(1 153 463)	-	-	-
Profit allocation to dividends	-	-	-	-	-	(86 555)	(86 555)
Share scheme charge	-	1 606	-	-	1 606	-	1 606
Other changes	-	-	6 455	-	6 455	-	6 455
As at the end of the period	1 020 883	21 296 994	1 724 523	2 275 442	26 317 842	1 569 667	27 887 509

As at the end of the period revaluation reserve in the amount of PLN 1,724,523 k comprises: valuation of debt securities in the amount of PLN 1,173,916 k, valuation of equity securities in the amount of PLN 537,557 k, valuation of cash flow hedge activities in the amount of PLN 5,573 k and accumulated actuarial gains - provision for retirement allowances of PLN 7,477 k.

Consolidated statement of changes in equity 1.01.2019 - 30.06.2019	Equity attributable to equity holders of parent entity				Total	Non-controlling interests	Total equity
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period			
Equity as at 31.12.2018	1 020 883	18 969 482	1 019 373	4 094 289	25 104 027	1 564 184	26 668 211
Effect of a change in the tax on financial institutions as a result of an adjustment to repo transactions	-	-	-	(47 331)	(47 331)	-	(47 331)
Settlement of acquisition of demerged part of Deutsche Bank Polska SA and DB Securities SA	-	(57 741)	-	31 562	(26 179)	-	(26 179)
Equity as at 1.01.2019 (restated)	1 020 883	18 911 741	1 019 373	4 078 520	25 030 517	1 564 184	26 594 701
Total comprehensive income	-	-	171 600	935 472	1 107 072	151 513	1 258 585
<i>Consolidated profit for the period</i>	-	-	-	935 472	935 472	155 009	1 090 481
<i>Other comprehensive income</i>	-	-	171 600	-	171 600	(3 496)	168 104
Profit allocation to other reserve capital	-	1 206 218	-	(1 206 218)	-	-	-
Profit allocation to dividends	-	-	-	(2 012 683)	(2 012 683)	(318 388)	(2 331 071)
Share scheme charge	-	5 520	-	-	5 520	-	5 520
Profit on sale of equity securities measured at fair value through other comprehensive income	-	-	22 103	(22 103)	-	-	-
Other changes	-	-	-	1 948	1 948	-	1 948
As at the end of the period	1 020 883	20 123 479	1 213 076	1 774 936	24 132 374	1 397 309	25 529 683

As at the end of the period revaluation reserve in the amount of PLN 1,213,076 k comprises: valuation of debt securities in the amount of PLN 676,225 k, valuation of equity securities in the amount of PLN 529,391k, valuation of cash flow hedge activities in the amount of PLN (3,377) k and accumulated actuarial gains - provision for retirement allowances of PLN 10,837 k.

V. Condensed consolidated statement of cash flows

	for the period	1.01.2020- 30.06.2020	1.01.2019- 30.06.2019* restated
Profit before tax		889 874	1 481 104
Total adjustments:			
Share in net profits of entities accounted for by the equity method		(36 839)	(30 283)
Depreciation/amortisation		299 012	309 799
Profit from investing activities		(62 318)	(64 054)
Interest accrued excluded from operating activities		(175 522)	(214 824)
Dividends		(20 641)	(96 970)
Impairment losses (reversal)		41 197	17 361
Changes:			
Provisions		49 410	20 043
Financial assets / liabilities held for trading		187 123	(59 468)
Assets pledged as collateral		(40 397)	492 130
Hedging derivatives		648 063	(121 170)
Loans and advances to banks		(11 033)	(23 729)
Loans and advances to customers		(2 565 598)	(6 861 643)
Deposits from banks		(27 058)	368 249
Deposits from customers		10 027 080	744 206
Buy-sell/ Sell-buy-back transactions		124 443	(1 975 629)
Other assets and liabilities		473 303	346 043
Interest received on operating activities		3 434 038	3 785 449
Interests paid on operating activities		(497 702)	(785 601)
Paid income tax		(752 032)	(576 290)
Net cash flows from operating activities		11 984 403	(3 245 277)
Inflows		3 159 927	3 003 301
Sale/maturity of investment securities		2 763 977	2 507 614
Sale of intangible assets and property, plant and equipment		33 029	59 767
Dividends received		11 658	96 850
Interest received		351 263	339 070
Outflows		(18 858 097)	(6 598 930)
Purchase of investment securities		(18 734 467)	(6 463 553)
Purchase of intangible assets and property, plant and equipment		(123 630)	(135 377)
Net cash flows from investing activities		(15 698 170)	(3 595 629)
Inflows		4 944 015	3 757 214
Debt securities in issue		2 067 790	2 734 500
Drawing of loans		2 876 225	1 022 714
Outflows		(5 920 109)	(5 518 561)
Debt securities buy out		(2 867 564)	(2 187 873)
Repayment of loans		(2 668 408)	(741 496)
Repayment of lease liability		(99 910)	(90 720)
Dividends to shareholders		(86 555)	(2 331 071)
Interest paid		(197 672)	(167 401)
Net cash flows from financing activities		(976 094)	(1 761 347)
Total net cash flows		(4 689 861)	(8 602 253)
Cash and cash equivalents at the beginning of the accounting period		17 265 855	19 422 527
Cash and cash equivalents at the end of the accounting period		12 575 994	10 820 274

* details in Note 2.4.

Notes presented on pages 9 – 60 constitute an integral part of these Financial Statements.

VI. Additional notes to condensed interim consolidated financial statements

1. General information about issuer

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

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

Condensed interim consolidated financial statement of Santander Bank Polska Group for the 6-month period ended 30 June 2020 includes Bank's financial information as well as information from its subsidiaries and shares in associated entities (all together called Group).

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

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

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

Santander Bank Polska Group consists of the following entities:

Subsidiaries:

Subsidiaries	Registered office	[%] of votes on AGM at 30.06.2020	[%] of votes on AGM at 30.06.2019
1. Santander Finanse sp. z o.o. (formerly BZ WBK Finanse sp. z o.o.)	Poznań	100%	100%
2. Santander Factoring sp. z o.o. (formerly BZ WBK Faktor sp. z o.o.)	Warszawa	100% of AGM votes are held by Santander Finanse sp. z o.o.	100% of AGM votes are held by Santander Finanse sp. z o.o.
3. Santander Leasing S.A. (formerly BZ WBK Leasing S.A.)	Poznań	100% of AGM votes are held by Santander Finanse sp. z o.o.	100% of AGM votes are held by Santander Finanse sp. z o.o.
4. Santander Leasing Poland Securitization 01	Dublin	subsidiary of Santander Leasing S.A.	subsidiary of Santander Leasing S.A.
5. Santander Inwestycje sp. z o.o. (formerly BZ WBK Inwestycje sp. z o.o.)	Warszawa	100%	100%
6. Santander F24 S.A. (formerly BZ WBK F24 S.A.)/ BZ WBK Nieruchomości S.A.	Poznań	100% of AGM votes are held by Santander Finanse sp. z o.o.	100% of AGM votes are held by Santander Finanse sp. z o.o.
7. Santander Securities S.A.	Warszawa	- ¹⁾	100%
8. Santander Towarzystwo Funduszy Inwestycyjnych S.A. (formerly BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.) ²⁾	Poznań	50%	50%
9. Santander Consumer Bank S.A.	Wrocław	60%	60%
10. Santander Consumer Finanse sp. z o.o.	Warszawa	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
11. PSA Finance Polska sp. z o.o. ³⁾	Warszawa	50% of AGM votes are held by Santander Consumer Bank S.A. and 50% of AGM votes are held by Banque PSA Finance S.A.	50% of AGM votes are held by Santander Consumer Bank S.A. and 50% of AGM votes are held by Banque PSA Finance S.A.
12. PSA Consumer Finance Polska sp. z o.o. ³⁾	Warszawa	100% of AGM votes are held by PSA Finance Polska sp. z o.o.	100% of AGM votes are held by PSA Finance Polska sp. z o.o.
13. Santander Consumer Multirent sp. z o.o.	Warszawa	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
14. S.C. Poland Consumer 15-1 sp.z o.o. ⁴⁾	Warszawa	subsidiary of Santander Consumer Bank S.A.	subsidiary of Santander Consumer Bank S.A.
15. S.C. Poland Consumer 16-1 sp.z o.o. ⁴⁾	Warszawa	subsidiary of Santander Consumer Bank S.A.	subsidiary of Santander Consumer Bank S.A.

¹⁾ On 8 November 2019, Santander Securities S.A. was struck off the National Court Register

²⁾ As at 30.06.2020, Santander Bank Polska was a co-owner of Santander Towarzystwo Funduszy Inwestycyjnych SA, together with Banco Santander SA Both owners are members of Santander Group and each holds an equal stake of 50% in the company's share capital. In practice, Santander Bank Polska exercises control over the subsidiary Santander Towarzystwo Funduszy Inwestycyjnych SA because though it, Banco Santander implements its policy in Poland. Consequently, the company is treated as a subsidiary.

³⁾ According to Santander Bank Polska Group Management Board, investing in PSA Finance Polska Sp. z o.o., a subsidiary company, resulted from the need to prepare consolidated financial statements due to the fact that Santander Consumer Bank S.A has a direct control and Santander Bank Polska SA has indirect control over the investment.

⁴⁾ SC Poland Consumer 15-1 sp. z o.o. SC Poland Consumer 16-1 sp. z o.o. set up for the purpose of securitisation of a part of the loan portfolio; its shareholder is polish legal entity who has no ties with the Group; the company is controlled by Santander Consumer Bank, in accordance with the control criteria set out in IFRS 10.7.

Associates:

Associates	Registered office	[%] of votes on AGM at 30.06.2020	[%] of votes on AGM at 30.06.2019
1. POLFUND - Fundusz Poręczeń Kredytowych S.A.	Szczecin	50%	50%
2. Santander - Aviva Towarzystwo Ubezpieczeń S.A.	Poznań	49%	49%
3. Santander - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poznań	49%	49%

2. Basis of preparation of condensed interim consolidated financial statements

2.1 Statement of compliance

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

The accounting policies have been applied consistently by Santander Bank Polska S.A. Group entities. The same accounting principles were applied as in the case of the consolidated financial statements for the period ending 31 December 2019, except for income tax, which is charged under IAS 34.30c.

2.2 New standards and interpretations or changes to existing standards or interpretations which can be applicable to Santander Bank Polska S.A. Group and are not yet effective or have neither been implemented earlier

IFRS	Nature of changes	Effective from	Influence on Santander Bank Polska S.A. Group
IFRS 17 Insurance Contracts*	IFRS 17 defines a new approach to the recognition, valuation, presentation and disclosure of insurance contracts. The main purpose of IFRS 17 is to guarantee the transparency and comparability of insurers' financial statements. In order to meet this requirement the entity will disclose a lot of quantitative and qualitative information enabling the users of financial statements to assess the effect that insurance contracts have on the financial position, financial performance and cash flows of the entity. IFRS 17 introduces a number of significant changes in relation to the existing requirements of IFRS 4. They concern, among others: aggregation levels at which the calculations are made, methods for the valuation of insurance liabilities, recognition a profit or loss over the period, reinsurance recognition, separation of the investment component and presentation of particular items of the balance sheet and profit and loss account of reporting units including the separate presentation of insurance revenues, insurance service expenses and insurance finance income or expenses.	1 January 2023**	The standard will not have a significant impact on financial statements**
Improvements to IFRS 10 and IAS 28*	Amendments to IFRS 10 and IAS 28 cover sales or contributions of assets between an investor and its associate/joint venture. The amendments eliminate the inconsistencies between IFRS 10 and IAS 28. The accounting treatment hinges on whether the non-monetary assets sold or contributed to an associate/joint venture constitute a business. Should the non-monetary assets constitute a business, the investor shall recognize the profit or loss in full on transaction. Should the assets not constitute a business, the profit or loss shall be recognised only to the extent of unrelated investors' interests in the associate or joint venture. The amendments were published on 11 September 2014.	The International Accounting Standards Board has not established the validity date of the amended regulations.	The amendment will not have a significant impact on financial statements.
Amendments to IAS 1*	The amendments affect requirements in IAS 1 for the presentation of liabilities. Specifically, they clarify one of the criteria for classifying a liability as non-current.	1 January 2023**	The amendment will not have a significant impact on financial statements.

*New standards and amendments to the existing standards issued by the IASB, but not yet authorized for use in the EU.

** New effective date.

2.3 Standards and interpretations or changes to existing standards or interpretations which were applied for the first time in the accounting year 2020

IFRS	Nature of changes	Effective from	Influence on Santander Bank Polska S.A. Group
Conceptual Framework for Financial Reporting	<p>The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.</p> <p>The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters:</p> <ul style="list-style-type: none"> • Chapter 1 – The objective of financial reporting • Chapter 2 – Qualitative characteristics of useful financial information • Chapter 3 – Financial statements and the reporting entity • Chapter 4 – The elements of financial statements • Chapter 5 – Recognition and derecognition • Chapter 6 – Measurement • Chapter 7 – Presentation and disclosure • Chapter 8 – Concepts of capital and capital maintenance <p>The Conceptual Framework were published together with the justification for the changes. The Board has also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the Conceptual Framework. In most cases, the standard references are updated to refer to the Conceptual Framework. There are exemptions in developing accounting policies for regulatory account balances for two standards, namely, IFRS 3 Business Combinations and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.</p>	Effective immediately for the IASB and the IFRS IC. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.	The amendment has no significant impact on financial statement.
IAS 1 Presentation of financial statements and IAS 8 Accounting principles (policy), changes in estimates and correction of errors	The IASB has published a new definition of 'material'. Amendments to IAS 1 and IAS 8 clarify the definition and increase consistency across standards	1 January 2020	The amendment has no significant impact on financial statement.
Amendment to IFRS 9, IAS 39 and IFRS 7 resulting from IBOR reform (interest rate benchmark reform)-Phase 1	Amendments to IFRS 9, IAS 39 and IFRS 7 modify certain requirements in the area of hedge accounting so that the expected IBOR reform generally does not result in termination of hedge accounting. Amendments to the standards require the entity to assume that the interest rate on which the hedged cash flow is based will not change as a result of the reform. As a result, the requirement of highly probable flows is met even where secured cash flows may change as a result of the IBOR reform.	1 January 2020	The SBP Group exercised its right to apply earlier changes to the standards and therefore did not verify the effectiveness of hedging relationships. A working group of representatives of Santander Bank Polska S.A. and subsidiaries is working on the implementation of changes resulting from the IBOR reform.
Amendments to IFRS 3 Business combinations *	As a result of the amendments to IFRS 3, the definition of a "business" has been modified. The currently entered definition has been narrowed down and is likely to result in more acquisitions being classified as a purchase of assets.	1 January 2020	The amendment has no significant impact on financial statement.

*New standards and amendments to the existing standards issued by the IASB, but not yet authorized for use in the EU.

2.4 Comparability with the results presented in prior period

In view of the error correction made in the previous periods as well as other changes described in Note 2.4 "Comparability with the results from the previous periods" to the Consolidated Financial Statements of Santander Bank Polska Group for 2019, the comparative period data presented in these Condensed Interim Consolidated Financial Statements of Santander Bank Polska Group for the 6-month period ended 30 June 2020 were appropriately restated.

In the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows for the period from 1 January 2019 to 30 June 2019, the consolidated profit was reduced by PLN (22,429)k and for the period from 1 January 2019 to 30 June 2019 and by PLN (10,749)k from 1 April 2019 to 30 June 2019, respectively. This was attributed to the change in the amount of tax on financial institutions resulting from the adjustment of repurchase transactions.

As a result of the above adjustment, the comprehensive income for the reporting period from 1 January 2019 to 30 June 2019 decreased to PLN 1,258,585k, and from 1 April 2019 to 30 June 2019 decreased to PLN 844 205 k

The following changes were made to the consolidated statement of cash flows for the period from 1 January 2019 to 30 June 2019:

- 1) changes resulting from reclassification of selected transactions in government debt securities from separate purchase and sale transactions to buy-sell-back and sell-buy-back transactions, including in relation to tax on financial institutions;
- 2) changes resulting from separate presentation of assets held as collateral in the statement of financial position;
- 3) changes resulting from separate presentation of interest received in relation to operating activities and interest paid in relation to operating activities in the statement of cash flows.

Furthermore, following the analysis made in 2020, the Group changed the presentation of the result of modification of lease assets/liabilities in the consolidated income statement starting from 1 January 2020 in order to better reflect the nature of the underlying transactions.

The relevant data for 2019 were restated accordingly.

These items were previously disclosed as other operating income under profit on lease modifications and as other operating expenses under costs of lease modifications.

Since 1 January 2020, they have been netted and presented as other operating income under profit on lease modifications.

The table below shows the impact of the above presentation changes on comparative data in the consolidated income statement.

	for the period:		1.01.2019-30.06.2019	
	Before	Adjustment	After	
Interest income and similar to income	4 198 148	-	4 198 148	
Interest income on financial assets measured at amortised cost	3 690 953	-	3 690 953	
Interest income on financial assets measured at fair value through other comprehensive income	408 884	-	408 884	
Income similar to interest on financial assets measured at fair value through profit or loss	98 311	-	98 311	
Interest expense	(966 016)	-	(966 016)	
Net interest income	3 232 132	-	3 232 132	
Fee and commission income	1 290 868	-	1 290 868	
Fee and commission expense	(248 449)	-	(248 449)	
Net fee and commission income	1 042 419	-	1 042 419	
Dividend income	97 240	-	97 240	
Net trading income and revaluation	78 633	-	78 633	
Gains (losses) from other financial securities	94 751	-	94 751	
Other operating income	95 701	(12 829)	82 872	
Impairment allowances for expected credit losses	(619 246)	-	(619 246)	
Operating expenses incl.:	(2 265 513)	12 829	(2 252 684)	
-Staff, operating expenses and management costs	(1 870 060)	-	(1 870 060)	
-Amortisation of property, plant and equipment and Intangible assets	(202 389)	-	(202 389)	
-Amortisation of right of use asset	(107 410)	-	(107 410)	
-Other operating expenses	(85 654)	12 829	(72 825)	
Share in net profits (loss) of entities accounted for by the equity method	30 283	-	30 283	
Tax on financial institutions	(282 867)	(22 429)	(305 296)	
Profit before tax	1 503 533	(22 429)	1 481 104	
Corporate income tax	(390 623)	-	(390 623)	
Consolidated profit for the period	1 112 910	(22 429)	1 090 481	
of which:				
-attributable to owners of Santander Bank Polska SA	957 901	(22 429)	935 472	
-attributable to non-controlling interests	155 009	-	155 009	

	for the period: 1.04.2019-30.06.2019		
	Before	Adjustment	After
Interest income and similar to income	2 116 449	-	2 116 449
Interest income on financial assets measured at amortised cost	1 869 671	-	1 869 671
Interest income on financial assets measured at fair value through other comprehensive income	199 210	-	199 210
Income similar to interest on financial assets measured at fair value through profit or loss	47 568	-	47 568
Interest expense	(492 917)	-	(492 917)
Net interest income	1 623 532	-	1 623 532
Fee and commission income	661 065	-	661 065
Fee and commission expense	(138 708)	-	(138 708)
Net fee and commission income	522 357	-	522 357
Dividend income	96 993	-	96 993
Net trading income and revaluation	30 201	-	30 201
Gains (losses) from other financial securities	61 896	-	61 896
Other operating income	60 831	(10 228)	50 603
Impairment allowances for expected credit losses	(356 558)	-	(356 558)
Operating expenses incl.:	(1 026 680)	10 228	(1 016 452)
-Staff, operating expenses and management costs	(813 201)	-	(813 201)
-Amortisation of property, plant and equipment and Intangible assets	(102 806)	-	(102 806)
-Amortisation of right of use asset	(54 412)	-	(54 412)
-Other operating expenses	(56 261)	10 228	(46 033)
Share in net profits (loss) of entities accounted for by the equity method	15 945	-	15 945
Tax on financial institutions	(140 854)	(10 749)	(151 603)
Profit before tax	887 663	(10 749)	876 914
Corporate income tax	(198 989)	-	(198 989)
Consolidated profit for the period	688 674	(10 749)	677 925
of which:			
-attributable to owners of Santander Bank Polska SA	607 214	(10 749)	596 465
-attributable to non-controlling interests	81 460	-	81 460

Presented below are changes made to the consolidated statement of cash flows for the period from 1 January 2019 to 30 June 2019.

	for the period		1.01.2019 - 30.06.2019		
	Before	Adjustment	Adjustment	Adjustment	After
Profit before tax	1 503 533	(22 429) ¹⁾	-	-	1 481 104
Total adjustments:					
Share in net profits of entities accounted for by the equity method	(30 283)	-	-	-	(30 283)
Depreciation/amortisation	309 799	-	-	-	309 799
Profit from investing activities	(64 054)	-	-	-	(64 054)
Interest accrued excluded from operating activities	(214 824)	-	-	-	(214 824)
Dividends	(96 970)	-	-	-	(96 970)
Impairment losses (reversal)	17 361	-	-	-	17 361
Changes in:					
Provisions	20 043	-	-	-	20 043
Financial assets / liabilities held for trading	1 168 793	(946 962) ¹⁾	(240 298) ²⁾	(41 001) ³⁾	(59 468)
Assets pledged as collateral	-	-	492 130 ²⁾	-	492 130
Hedging derivatives	(51 873)	-	-	(69 297) ³⁾	(121 170)
Loans and advances to banks	(447)	-	-	(23 282) ³⁾	(23 729)
Loans and advances to customers	(3 265 325)	-	-	(3 596 318) ³⁾	(6 861 643)
Deposits from banks	353 503	-	-	14 746 ³⁾	368 249
Deposits from customers	45 098	-	-	699 108 ³⁾	744 206
Buy-sell/ Sell-buy-back transactions	(1 524 448)	(463 204) ¹⁾	-	12 023 ³⁾	(1 975 629)
Other assets and liabilities	327 563	22 429 ¹⁾	(8 122) ²⁾	4 173 ³⁾	346 043
Interest received on operating activities	-	-	-	3 785 449 ³⁾	3 785 449
Interests paid on operating activities	-	-	-	(785 601) ³⁾	(785 601)
Paid income tax	(576 290)	-	-	-	(576 290)
Net cash flows from operating activities	(2 078 821)	(1 410 166)	243 710	-	(3 245 277)
Inflows	2 999 511	-	3 790	-	3 003 301
Sale/maturity of investment securities	2 507 614	-	-	-	2 507 614
Sale of intangible assets and property, plant and equipment	59 767	-	-	-	59 767
Dividends received	96 850	-	-	-	96 850
Interest received	335 280	-	3 790 ²⁾	-	339 070
Outflows	(6 351 430)	-	(247 500)	-	(6 598 930)
Purchase of investment securities	(6 216 053)	-	(247 500) ²⁾	-	(6 463 553)
Purchase of intangible assets and property, plant and equipment	(135 377)	-	-	-	(135 377)
Net cash flows from investing activities	(3 351 919)	-	(243 710)	-	(3 595 629)
Inflows	3 757 214	-	-	-	3 757 214
Debt securities in issue	2 734 500	-	-	-	2 734 500
Drawing of loans	1 022 714	-	-	-	1 022 714
Outflows	(5 518 561)	-	-	-	(5 518 561)
Debt securities buy out	(2 187 873)	-	-	-	(2 187 873)
Repayment of loans	(741 496)	-	-	-	(741 496)
Repayment of lease liability	(90 720)	-	-	-	(90 720)
Dividends to shareholders	(2 331 071)	-	-	-	(2 331 071)
Interest paid	(167 401)	-	-	-	(167 401)
Net cash flows from financing activities	(1 761 347)	-	-	-	(1 761 347)
Total net cash flows	(7 192 087)	(1 410 166)	-	-	(8 602 253)
Cash and cash equivalents at the beginning of the accounting period	18 012 307	1 410 220 ¹⁾	-	-	19 422 527
Cash and cash equivalents at the end of the accounting period	10 820 220	54 ¹⁾	-	-	10 820 274

2.5 Basis of preparation of consolidated financial statements

Presented consolidated condensed interim financial statement, prepared in accordance with IAS 34 "Interim financial reporting" does not contain information and disclosures required in annual financial statement and should be read together with consolidated financial statements as at 31 December 2019.

Companies within Santander Bank Polska S.A. Group are able to continue as a going concern in unchanged form in a foreseeable future i.e. 12 months from the date of this financial statement.

Management has taken into consideration COVID-19 impact when assessing going concern and undertaken actions aiming at limitation of pandemic negative impact on Group activities and results, are sufficient.

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

Group has produced condensed interim financial statements in accordance with the historical cost principle, except for the items below:

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

2.6 Changes in estimated values

Preparation of financial statements in accordance with the IFRS requires the management to make subjective judgements, estimations and assumptions which affect the applied accounting principles and the presented assets and liabilities, and revenues and expenses.

The estimates and assumptions are made based on historical experience and various other factors that are believed to be reasonable under the circumstances.

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

Main estimates made by Santander Bank Polska S.A. Group

Impairment allowances for expected credit losses in respect of financial assets including COVID-19 impact

The concept of modification

Debt moratorium causes changes both in timing and value of future cash flows in relation to the original financial instrument, thus satisfies definition of modification according to IFRS 9. Santander Bank Polska S.A. Group assesses COVID-19 debt moratoria in the same manner as current changes in cash flows resulting from annex. If a modification does not result in derecognition of that asset (the so called minor modification), the gross carrying amount of the financial asset is recalculated and modification gain or loss is recognized in profit or loss. Change in gross carrying amount is amortised into interest income/cost using effective interest rate method.

If a modification leads to derecognition of existing financial asset, a new modified asset is recognised and modification is identified as substantial.

COVID-19 debt moratorium itself is not a trigger for significant modification and financial instrument derecognition. Deferral or suspension of installments repayments under assistance programs were evaluated according to existing in Group qualitative and quantitative criteria.

Due to temporary character of granted debt moratoria, only a small part of those modification are substantial and resulting in derecognition. Most of them are insignificant modifications.

Santander Bank Polska S.A. Group has recognised as a decrease in interest income, modifications not resulting in derecognition, leading to decrease in gross carrying amount due to modification amounting to PLN 31 840 k for the six month period ending as at 30 June 2020.

Below table presents percentage of client portfolio making use of COVID-19 assistance programs:

Data for Santander Bank Polska S.A. and Santander Leasing S.A.

cash loans	14,5%
mortgage loans	11,7%
SME loans	31,1%
corporate loans	21,0%
SME leasing	18,8%

Data for Santander Consumer Bank S.A. Group

cash loans	12,8%
mortgage loans	11,0%
installment loans	1,2%
car loans	2,5%

Details of the quantitative and qualitative criteria used to evaluate modification are described in consolidated annual financial statements as at 31 December 2019, and was not subject to any changes within the first six months of 2020.

Expected credit loss calculation (ECL)

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

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

As a result, ECL allowances are estimated using the adopted model developed using many inputs and statistical techniques.

A credit-impaired assets

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

- significant financial difficulty of the issuer or debtor;
- a breach of contract, e.g. delay in repayment of interest or principal over 90 days in an amount exceeding the materiality threshold (PLN 500 for individual and small and medium-sized enterprises and PLN 3,000 for business and corporate clients);
- the Santander Bank Polska S.A. Group, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the Santander Bank Polska S.A. Group would not otherwise consider;
- partial or full write-off
- it becoming probable that the debtor will enter bankruptcy, recovery proceedings, arrangement or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;

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

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

- In the case of individual customers, the probation period is 6 months.
- In the case of SME customers, the probation period is 6 months, and assessment of the customer's financial standing and repayment capacity is required in some cases. However, the exposure cannot be reclassified to stage 1 or 2 in the case of fraud, discontinuation of business, or pending restructuring/ liquidation proceedings.
- In the case of business and corporate customers, the probation period is 3 months, and positive assessment of the financial standing is required (the bank assesses all remaining payments as likely to be repaid as scheduled in the agreement). The exposure cannot be reclassified to stage 1 or 2 in the case of fraud, discontinuation of business, or pending restructuring/ insolvency/ liquidation proceedings.
- Additionally, if the customer is in stage 3 and subject to the forbearance process, they may be reclassified to stage 2 not earlier than after 12 months (from the start of forbearance or from the downgrade to the NPL portfolio, whichever is later) provided that the debt is likely to be repaid in full in accordance with terms and conditions of forbearance.

A significant increases in credit risk (SICR)

Santander Bank Polska S.A. Group has developed detailed criteria for identifying a significant increase in risk based on the following main assumptions:

- Qualitative assumptions:
 - Implementing dedicated monitoring strategies for the customer following the identification of early warning signals that indicate a significant increase in credit risk
 - Restructuring actions connected with making concessions to the customers as a result of their difficult financial standing
 - Delay in payment as defined by the applicable standard, i.e. 30 days past due combined with the materiality threshold
- Quantitative assumptions:
 - A risk buffer method based on the comparison of curves illustrating the probability of default over the currently remaining lifetime of the exposure based on the risk level assessment at exposure recognition and at reporting date. Risk buffer is set in relative terms for every single exposure based on its risk assessment resulting from internal models and other parameters of exposure impacting assessment of the Group whether the increase might have significantly increased since initial recognition of the exposure (such parameters considered types of the products, term structure as well as profitability). Risk buffer methodology was prepared internally and is based on the information gathered in course of the decisioning process as well as in process of transactions structuring.

Significant increase in credit risk indicators have not changed within first six months of 2020. In particular, the fact of being covered by aid measures related to COVID-19 does not automatically result in reclassification into Stage 2. Additional client's risk is monitored on a current basis. Management reports and early warning systems were developed to help.

In case of long-lasting financial difficulties, being an indicator for significant increase in credit risk, an exposure is recognized in Stage 2 according to qualitative and quantitative measures (eg. decrease in risk evaluation or dedicated monitoring strategies introduced).

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

Management provision covering risk resulting from COVID-19 pandemic

Same as in the first quarter of 2020 Santander Bank Polska S.A. Group continues close monitoring of current economic situation and credit portfolio behavior in relation to COVID-19 pandemic. Due to high uncertainty, mainly in the context of timing and range of potential economic deterioration, Group decided to create additional provision for expected credit loss in the second quarter of 2020, in form of post-model adjustment amounting to PLN 31 285k. This means that the overall additional provision as at 30 June 2020 amounts to PLN 150 285k.

In line with the adopted process, Bank has carried out a six-month review of the risk parameters. Updated parameters including current financial client situation are used for expected credit loss calculation. Unchanged remains reflecting forward-looking events both in the process of estimating ECL and when determining a significant increase in credit risk, by developing appropriate macroeconomic scenarios and then reflecting them in the estimation of parameters for each scenario. The final parameter value and the ECL is the weighted average by the likelihood of each scenario. The Group uses three scenario types: the baseline scenario and two alternative scenarios, which reflect the probable alternative options of the baseline scenario: best case and worst case.

Based on supervisors guidelines, temporary client financial difficulties and broad range of support measures, materialized through payment moratorium or guaranteed lines, scenarios used for risk parameters estimation were based on forecasts not including COVID-19 impact (current scenario weights: baseline 60%, positive 20%, negative 20%). Provision level update resulting from uncertain macroeconomic perspectives, was recognized in post-model adjustment and was based on a modified scenario including long-term negative impact of COVID-19 pandemic economy.

In subsequent reporting periods along with obtaining reliable information about forecasts and on the basis of observations from the behavior of individual loan portfolios, the Group will take them into account respectively, as part of changes in the provision model or by changing the value of the estimated additional provision.

Potential ECL variability

Significant volatility for the income statement may be reclassifications to stage 2 from stage 1.

The theoretical reclassification of given percentage of exposures from stage 1 with the highest risk level to stage 2 for each type of exposure would result in an increase in write-offs according to below table (portfolio as at 30 June 2020).

Reclassification from stage 1 to stage 2	1%	5%	10%
Additional write-off (PLN m)	20,2	91.2	160.1

Presented data refer to Santander Bank Polska S.A.

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

Estimates for insurance refund calculation

A subsidiary of Santander Bank Polska S.A. Group, Santander Consumer Bank S.A. has performed a review of a model calculating provision for credit linked insurance refund. The review was done in order to harmonise models used for calculation of insurance refund and partial reimbursement of fees in case of early termination. A change in amortization timing between linear and effective part was identified. Additionally based on historic refund levels, an update of parameters in reviewed model for future period calculations was made. Santander Bank Polska S.A. Group recognized in first half-year of 2020 a one-off income amounting to PLN 103 000k (PLN 90 000k as interest income, and PLN 13 000k as fee income).

Estimates for legal claims

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

The provisions have been estimated considering the likelihood of payment.

The Group increased provision for legal claims as at 30 June 2020 due to increase in number of cases where bank is a party to proceedings.

Current amount of provision is presented in Note 32.

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

Santander Bank Polska S.A. Group constantly monitors level of credit risk referring to mortgage loans in foreign currencies, which would justify the change in collective provision. Calculation approach was presented in consolidated financial statement as at 31 December 2019.

The Group has increased portfolio provision for mortgage loans in foreign currencies as at 30 June 2020 due model update and changes in estimates, and will carry on with monitoring of the risk in subsequent reporting periods. Change in estimates reflects current sentencing guidelines.

Details regarding the value of the provisions for the above-mentioned items are provided in Note 32.

Estimates regarding reimbursement of fees related to early repaid consumer loans

Santander Bank Polska S.A. Group analyses level of partial reimbursement of fees on consumer loans repaid ahead of their contractual maturity on the ongoing basis. In the second quarter of 2020 Group updated provision amount for potential reimbursements of fees related to early repaid consumer loans based on most recent data. Estimates update decreased interest income and was a result of portfolio characteristics update.

Changes in value of the provisions related to early repaid consumer loans are described in Note 32.

2.7 Judgements that affect the amounts recognised in financial statements

In the process of applying the accounting policies, the management of Santander Bank Polska S.A. Group makes various subjective judgements, apart from those involving estimates, that can significantly affect the amounts it recognises in the financial statements. Santander Bank Polska S.A. Group did not make any new judgements, except of those described in point 2.6.

2.8 Changes to accounting principles

Santander Bank Polska S.A. Group applied the accounting policies consistently both to the reporting period and to the comparable period.

Consolidation adjustments within consolidation process are used in order to eliminate differences in applied accounting rules between Santander Bank Polska S.A. and other companies within the Group.

3. Operating segments reporting

Presentation of information about business segments in Santander Bank Polska Group bases on management information model which is used for preparing of reports for the Management Board, which are used to assess performance of results and allocate resources. Operational activity of Santander Bank Polska Group has been divided into five segments: Retail Banking, Business & Corporate Banking, Corporate & Investment Banking, ALM (Assets and Liabilities Management) and Centre, and Santander Consumer. They were identified based on customers and product types.

Profit before tax is a key measure which Management Board of the Bank uses to assess performance of business segments activity.

Income and costs assigned to a given segment are generated on sale and service of products or services in the segment, according to description presented below. Such income and costs are recognized in the profit and loss account for Santander Bank Polska Group and may be assigned to a given segment either directly or based on reasonable assumptions.

Interest and similar income split by business segments is assessed by Management Board of the Bank on the net basis including costs of internal transfer funds and without split by interests income and costs.

Settlements among business segments relate to rewarding for delivered services and include:

- sale and/or service of customers assigned to a given segment, via sale/service channels operated by another segment;
- sharing of income and costs on transactions in cases where a transaction is processed for a customer assigned to a different segment;
- sharing of income and cost of delivery of common projects.

Income and cost allocations are regulated by agreements between segments, which are based on single rates for specific services or breakdown of total income and/or cost.

Assets and liabilities of a given segment are used for the operational activity and may be assigned to the segment directly or on a reasonable basis.

Santander Bank Polska Group focuses its operating activity on the domestic market.

In 2020 introduced the following changes:

- customer resegmentation between business segments; Once a year, Santander Bank Polska Group carries out the resegmentation / migration of customers between operating segments which results from the fact that customer meets the criteria of assignment for different operating segment than before. This change is intended to provide services at the highest level of quality and tailored to individual needs or the scale of customer operations.

Comparable data are adjusted accordingly.

Additionally, adjustments to the following comparable data were made in relation to the errors of previous periods corrected in these Financial Statements:

- the adjustment concerning the additional tax payment from financial institutions was presented in the Consolidated Income Statement in ALM and Centre segment in line 'Tax on financial institutions'.
- Reclassification concerning the adjustment of the purchase price cost of shares of PSA Finance Polska Sp. z o.o. acquired by Santander Consumer Bank was reflected in the Santander Consumer segment in lines: "Other income" and "Operating Costs"

In the part regarding Santander Bank Polska, the provisions for legal risk connected with the portfolio of FX mortgage loans were presented in ALM and Centre segment, whereas the provisions for legal risk connected with reimbursement of portion of fees related to early repayment of consumer loans were presented in Retail Banking segment. Simultaneously, in the part regarding Santander Consumer Bank, the provisions for legal risk connected with the portfolio of FX mortgage loans and the provisions for legal risk connected with reimbursement of portion of fees related to early repayment of consumer loans were presented in the Santander Consumer segment. More details regarding the above provisions are described in Note 32.

Additional write-off for expected credit losses in the form of so-called adjustments to values resulting from post model adjustments in the amount of PLN 150 285 k was estimated and presented in the results of particular business segments. The adjustment was also described in detail in notes 2.6 and 11 of these Financial Statements.

The principles of income and cost identification, as well as assets and liabilities for segmental reporting purposes are consistent with the accounting policy applied in Santander Bank Polska Group.

Retail Banking

Retail Banking generates income from the sale of products and services to personal customers and small companies. In the offer for customers of this segment there are a wide range of savings products, consumer and mortgage loans, credit and debit cards, insurance and investment products, clearing services, brokerage house services, GSM phones top-ups, foreign payments and Western Union and private-banking services. For small companies, the segment provides, among others, lending and deposit taking services, cash management services, leasing, factoring, letters of credit and guarantees. Furthermore, the Retail Banking segment generates income through offering asset management services within investment funds and private portfolios.

Business & Corporate Banking

Business & Corporate Banking segment covers products and activities targeted at business entities, local governments and the public sector, including medium companies. In addition to banking services covering lending and deposit activities, the segment provides services in the areas of cash management, leasing, factoring, trade financing and guarantees. It also covers insourcing services provided to retail customers based on mutual agreements with other banks and financial institutions.

Corporate & Investment Banking

In the Corporate & Investment Banking segment, Santander Bank Polska Group derives income from the sale of products and services to the largest international and local corporations, including:

- transactional banking with such products as cash management, deposits, leasing, factoring, letters of credit, guarantees, bilateral lending and trade finance;

- lending, including project finance, syndicated facilities and bond issues;
- FX and interest rate risk management products provided to all the Bank's customers (segment allocates revenues from this activity to other segments, the allocation level may be subject to changes in consecutive years);
- underwriting and financing of securities issues, financial advice and brokerage services for financial institutions.

Through its presence in the interbank market, segment also generates revenues from interest rate and FX risk positioning activity.

ALM and Centre

The segment covers central operations such as financing of other Group's segments, including liquidity, interest rate risk and FX risk management. It also includes managing the Bank's strategic investments and transactions generating income and/or costs that cannot be directly or reasonably assigned to a given segment.

Santander Consumer

This segment includes activities of the Santander Consumer Group. Activities of this segment focus on selling products and services addressed to both individual and business customers. This segment focuses mainly on loans products, i.e. car loans, credit cards, cash loans, installment loans and lease products. In addition, Santander Consumer segment includes term deposits and insurance products (mainly related to loans products).

Consolidated income statement by business segments

	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate & Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
1.01.2020-30.06.2020						
Net interest income	1 572 905	419 493	150 971	243 482	707 897	3 094 748
incl. internal transactions	(865)	(1 431)	2 445	4 313	(4 462)	-
Net fee and commission income	624 567	210 672	140 632	(13 755)	67 959	1 030 075
incl. internal transactions	80 375	42 254	(121 447)	375	(1 557)	-
Other income	16 419	18 250	67 754	64 825	17 749	184 997
incl. internal transactions	1 866	23 764	(24 990)	(949)	309	-
Dividend income	-	-	30	20 627	14	20 671
Operating costs	(985 157)	(207 903)	(114 795)	(259 488)	(362 754)	(1 930 097)
incl. internal transactions	-	-	-	512	(512)	-
Depreciation/amortisation	(170 091)	(27 117)	(11 077)	(57 110)	(33 617)	(299 012)
Impairment losses on loans and advances	(596 901)	(111 177)	(60 566)	(11 909)	(166 666)	(947 219)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	36 839	-	36 839
Tax on financial institutions	-	-	-	(277 661)	(23 467)	(301 128)
Profit before tax	461 742	302 218	172 949	(254 150)	207 115	889 874
Corporate income tax						(309 856)
Consolidated profit for the period						580 018
of which:						
attributable to owners of Santander Bank Polska SA						475 787
attributable to non-controlling interests						104 231

* Includes individual customers, small companies and Wealth Management (private banking and Santander TFI SA)

	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate & Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
1.04.2020-30.06.2020						
Net interest income	739 089	214 364	77 642	77 311	350 029	1 458 435
incl. internal transactions	(469)	(675)	1 280	3 060	(3 196)	-
Net fee and commission income	298 343	105 531	64 340	(7 076)	30 693	491 831
incl. internal transactions	36 421	22 511	(58 749)	675	(858)	-
Other income	3 789	3 428	47 733	52 820	3 622	111 392
incl. internal transactions	436	9 940	(10 027)	572	(921)	-
Dividend income	-	-	30	20 285	7	20 322
Operating costs	(470 192)	(91 007)	(47 199)	(48 933)	(159 741)	(817 072)
incl. internal transactions	-	-	-	178	(178)	-
Depreciation/amortisation	(84 512)	(13 444)	(5 639)	(27 107)	(16 008)	(146 710)
Impairment losses on loans and advances	(306 657)	(50 440)	(5 173)	(6 928)	(111 721)	(480 919)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	20 140	-	20 140
Tax on financial institutions	-	-	-	(141 184)	(11 315)	(152 499)
Profit before tax	179 860	168 432	131 734	(60 672)	85 566	504 920
Corporate income tax						(157 779)
Consolidated profit for the period						347 141
of which:						
attributable to owners of Santander Bank Polska SA						304 853
attributable to non-controlling interests						42 288

* Includes individual customers, small companies and Wealth Management (private banking and Santander TFI SA)

Consolidated statement of financial position by business segment

	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate & Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
30.06.2020						
Loans and advances to customers	79 456 777	33 719 329	13 116 663	-	16 329 366	142 622 135
Investments in associates	-	-	-	947 922	-	947 922
Other assets	6 103 075	1 261 872	3 449 003	62 377 772	4 847 451	78 039 173
Total assets	85 559 852	34 981 201	16 565 666	63 325 694	21 176 817	221 609 230
Deposits from customers	110 702 527	31 717 054	9 266 229	4 105 759	10 097 978	165 889 547
Other liabilities and equity	5 884 737	4 065 556	5 288 308	29 402 243	11 078 839	55 719 683
Total equity and liabilities	116 587 264	35 782 610	14 554 537	33 508 002	21 176 817	221 609 230

* includes individual customers, small companies and Wealth Management (private banking and Santander TFI SA)

Consolidated income statement by business segments

1.01.2019-30.06.2019	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate & Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	1 538 106	412 861	144 657	340 404	796 104	3 232 132
incl. internal transactions	(1 164)	(1 241)	2 415	1 853	(1 863)	-
Net fee and commission income	666 854	210 448	112 969	(6 100)	58 248	1 042 419
incl. internal transactions	71 006	49 813	(121 027)	1 656	(1 448)	-
Other income	24 100	27 260	25 263	151 269	28 364	256 256
incl. internal transactions	4 020	12 407	(14 562)	(1 270)	(595)	-
Dividend income	-	-	270	96 959	11	97 240
Operating costs	(979 492)	(221 981)	(125 137)	(315 650)	(300 625)	(1 942 885)
incl. internal transactions	-	-	-	940	(940)	-
Depreciation/amortisation	(174 301)	(27 951)	(12 165)	(59 063)	(36 319)	(309 799)
Impairment losses on loans and advances	(414 292)	(41 319)	4 429	(7 025)	(161 039)	(619 246)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	30 283	-	30 283
Tax on financial institutions	-	-	-	(284 282)	(21 014)	(305 296)
Profit before tax	660 975	359 318	150 286	(53 205)	363 730	1 481 104
Corporate income tax						(390 623)
Consolidated profit for the period						1 090 481
of which:						
attributable to owners of Santander Bank Polska SA						935 472
attributable to non-controlling interests						155 009

* includes individual customers, small companies and Wealth Management (private banking and Santander TFI SA)

	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate & Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
01.04.2019-30.06.2019						
Net interest income	782 689	203 332	68 772	166 189	402 550	1 623 532
incl. internal transactions	(364)	(629)	994	1 094	(1 095)	-
Net fee and commission income	337 468	104 819	58 693	(3 322)	24 699	522 357
incl. internal transactions	35 306	27 594	(63 009)	847	(738)	-
Other income	11 783	5 874	12 914	95 048	17 081	142 700
incl. internal transactions	2 048	4 503	(5 791)	(1 466)	706	-
Dividend income	-	-	269	96 718	6	96 993
Operating costs	(501 166)	(110 475)	(60 195)	(44 527)	(142 871)	(859 234)
incl. internal transactions	-	-	-	625	(625)	-
Depreciation/amortisation	(87 842)	(14 073)	(6 375)	(31 362)	(17 566)	(157 218)
Impairment losses on loans and advances	(242 426)	(24 742)	(2 527)	(2 599)	(84 264)	(356 558)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	15 945	-	15 945
Tax on financial institutions	-	-	-	(140 959)	(10 644)	(151 603)
Profit before tax	300 506	164 735	71 551	151 131	188 991	876 914
Corporate income tax						(198 989)
Consolidated profit for the period						677 925
of which:						
attributable to owners of Santander Bank Polska SA						596 465
attributable to non-controlling interests						81 460

* includes individual customers, small companies and Wealth Management (private banking and Santander TFI SA)

Consolidated statement of financial position (by business segment)

31.12.2019	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate & Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Loans and advances to customers	78 208 112	34 254 589	13 344 900	-	17 595 028	143 402 629
Investments in associates	-	-	-	903 113	-	903 113
Other assets	9 043 731	2 129 037	3 090 601	46 644 869	4 262 186	65 170 424
Total assets	87 251 843	36 383 626	16 435 501	47 547 982	21 857 214	209 476 166
Deposits from customers	101 216 177	28 431 955	12 169 521	4 263 340	10 399 350	156 480 343
Other liabilities and equity	6 145 409	4 385 856	5 424 516	25 582 178	11 457 864	52 995 823
Total equity and liabilities	107 361 586	32 817 811	17 594 037	29 845 518	21 857 214	209 476 166

* includes individual customers, small companies and Wealth Management (private banking and Santander TFI SA)

4. Risk management

In the first half of 2020, Santander Bank Polska Group managed its risks in accordance with the principles laid down in the consolidated financial statements for 2019.

In H1 2020, the Group focused on tackling the threats posed by the COVID-19 pandemic.

In the state of epidemic emergency, the key operational risk to the Group is associated with unavailability of human resources (Group and third party service providers) and buildings (both branch and Business Support Centre buildings). Should the above generic risks materialise, the continuity of the Group's key processes could be disrupted, which might cause an increase in other bank risks, including credit risk, liquidity risk, market risk, reputational risk and regulatory risk.

The crisis management bodies set up by the Group (dedicated committees activated in contingency situations) have developed the Pandemic Response Plan containing preventive and reactive measures for the pandemic scenario. As part of the pandemic scenario, the Group's organisational units were verifying their continuity plans, including the effectiveness of the adopted recovery strategies in the event of unavailability of key employees. Priorities were defined for critical business processes.

The Group undertook measures to ensure safety for its customers, providing branches with appropriate equipment (face masks for employees, counter screens, safety notices, etc.) and expanding the functionality of its electronic banking solutions to reduce customer visits to branches. The pandemic accelerated the progressing digitalisation of banking processes.

During the pandemic, the importance of cyber security has increased significantly due to mass telecommuting (covering almost all processes) and the dynamically growing use of remote channels by customers in sales and after-sales processes. The Group kept track of risks, taking mitigating measures on an ongoing basis in relation to both customers and employees. Security warnings were being released in response to cybercriminals' attempts to exploit the outbreak. The areas exposed to the risk of fraud were covered with increased surveillance. Moreover, preventive measures were arranged, including campaigns addressed to customers and employees (e.g. educational campaigns in social media) to increase their awareness of cyber risks and build cybersecurity culture.

An increased focus was placed on risk trends in credit portfolios amid the COVID-19 outbreak and the lockdown of many economic activities. Numerous internal regulations were adapted as a matter of urgency, management reports and early warning systems were expanded, and early restructuring measures were strengthened to cushion the effects of economic slowdown. The analyses point to a deterioration of the financial position of business customers from the sectors most hit by the economic lockdown in the second quarter of the year. The Group implemented a range of support solutions introduced by the government, such as a possibility to apply for financial aid from the Polish Development Fund (PFR) or for BGK guarantees, which have already been widely used by the bank's borrowers and non-borrowers. At the same time, the Group contributed to and adopted a special moratorium developed by the banking sector under the auspices of the Polish Bank Association, which laid down uniform rules for offering tools to aid those customers.

The bank has conducted analyses to identify a potential increase in credit risk of individual customers in connection with the COVID-19 pandemic. As part of the analyses, current reports with detailed management information have been expanded, stress tests have been conducted to verify the potential liquidity gap following the lockdown, the early warning system has been extended to include variables related to the COVID-19 pandemic and intensive measures have been taken to obtain information about customers' financial standing. Furthermore, guidelines on rating models have been prepared for employees conducting customer risk assessment on how to take account of the impact of the pandemic

The early warning system including an additional COVID-19 flag is to help identify customers who may be most affected by the pandemic based on the analysis of behavioural and external data. The model results are used to identify the population which should be subject to close monitoring. The individual credit risk assessment is verified first.

In view of uncertainty as to the future developments of the COVID-19 pandemic, the bank implemented additional controls in the liquidity area, such as daily monitoring of drawdowns of off-balance sheet facilities granted to customers and enhanced daily monitoring of liquidity measures. No additional threats connected with the COVID-19 outbreak were identified in the liquidity area in the course of the inspections. The bank's liquidity position significantly improved in Q2 2020, including as a result of an increase in the deposit balances of customers benefitting from the government's support packages, and the ensuing decrease in the level of the minimum reserve requirement. Another factor which strengthened the liquidity position was the decision not to pay out dividend for 2019. As at 30 June 2020, the consolidated LCR was 209% vs. 171% as at 31 December 2019.

5. Capital management

Details on capital management have been presented in document „Information on Capital Adequacy of Santander Bank Polska Group as at 30th June 2020”.

6. Net interest income

	1.04.2020- 30.06.2020	1.01.2020- 30.06.2020	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019
Interest income and similar to interest				
Interest income on financial assets measured at amortised cost	1 535 340	3 351 501	1 869 671	3 690 953
Loans and advances to enterprises and leasing agreements	517 023	1 132 544	617 598	1 225 075
Loans and advances to individuals, of which:	992 642	2 131 648	1 168 705	2 298 045
<i>Home mortgage loans</i>	359 484	783 393	407 861	804 125
Loans and advances to banks	2 304	12 193	12 562	25 383
Loans and advances to public sector	2 330	5 133	2 496	5 258
Reverse repo transactions	3 725	15 334	25 573	50 188
Interest recorded on hedging IRS	17 316	54 649	42 737	87 004
Interest income on financial assets measured at fair value through other comprehensive income	209 592	416 185	199 210	408 884
Loans and advances to enterprises	9 826	20 424	4 707	9 245
Debt securities	199 766	395 761	194 503	399 639
Income similar to interest - financial assets measured at fair value through profit or loss	13 308	40 644	47 568	98 311
Loans and advances to enterprises	396	904	510	1 011
Loans and advances to individuals	7 954	30 831	26 279	53 621
Debt securities	4 958	8 909	20 779	43 679
Total income	1 758 240	3 808 330	2 116 449	4 198 148
Interest expenses				
Interest expenses on financial liabilities measured at amortised cost	(299 805)	(713 582)	(492 917)	(966 016)
Liabilities to individuals	(148 891)	(330 104)	(231 345)	(455 078)
Liabilities to enterprises	(73 075)	(190 042)	(122 607)	(243 598)
Repo transactions	(1 369)	(8 198)	(33 560)	(62 938)
Liabilities to public sector	(5 661)	(17 559)	(15 138)	(28 062)
Liabilities to banks	(15 662)	(39 236)	(17 696)	(31 762)
Lease liabilities	(5 023)	(10 291)	(6 272)	(10 752)
Subordinated liabilities and issue of securities	(50 124)	(118 152)	(66 299)	(133 826)
Total costs	(299 805)	(713 582)	(492 917)	(966 016)
Net interest income	1 458 435	3 094 748	1 623 532	3 232 132

7. Net fee and commission income

	1.04.2020- 30.06.2020	1.01.2020- 30.06.2020	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019
Fee and commission income				
eBusiness & payments	125 784	257 965	155 393	290 522
Current accounts and money transfer	73 557	153 265	81 656	162 745
Asset management fees	52 775	123 038	69 875	137 660
Foreign exchange commissions	104 174	225 713	113 794	220 645
Credit commissions incl. factoring commissions and other	97 888	190 976	99 012	199 718
Insurance commissions	48 450	108 760	57 827	106 538
Commissions from brokerage activities	34 127	62 401	13 005	31 721
Credit cards	39 290	74 030	45 249	89 650
Off-balance sheet guarantee commissions	18 452	42 262	16 853	34 244
Finance lease commissions	5 082	11 537	5 998	12 275
Issue arrangement fees	958	8 181	964	1 998
Distribution fees	3 098	7 343	1 439	3 152
Total	603 635	1 265 471	661 065	1 290 868
Fee and commission expenses				
eBusiness & payments	(40 369)	(83 649)	(57 297)	(97 953)
Distribution fees	(2 139)	(4 446)	(2 205)	(5 031)
Commissions from brokerage activities	(5 900)	(9 514)	(1 783)	(4 286)
Credit cards	(6 983)	(8 505)	(10 125)	(19 247)
Credit commissions paid	(16 229)	(44 913)	(34 245)	(56 664)
Insurance commissions	(4 589)	(8 929)	(5 187)	(10 325)
Finance lease commissions	(6 532)	(13 819)	(7 575)	(15 139)
Asset management fees and other costs	(5 084)	(11 085)	(1 480)	(3 619)
Other	(23 979)	(50 536)	(18 811)	(36 185)
Total	(111 804)	(235 396)	(138 708)	(248 449)
Net fee and commission income	491 831	1 030 075	522 357	1 042 419

8. Net trading income and revaluation

	1.04.2020- 30.06.2020	1.01.2020- 30.06.2020	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019
Net trading income and revaluation				
Derivative instruments	223 097	(434 123)	49 772	8 638
Interbank FX transactions and other FX related income	(174 682)	510 682	(10 964)	73 656
Profit on equity securities measured at fair value through profit or loss	3 422	(9 353)	(3 102)	(2 133)
Profit on debt securities measured at fair value through profit or loss	15 481	14 417	(3 039)	(20 560)
Change in fair value of loans and advances mandatorily	(8 706)	(16 708)	(2 466)	19 032
Total	58 612	64 915	30 201	78 633

The above amounts included CVA and DVA adjustments in the amount of PLN (9,753)k for H1 2020, PLN 5,538k for 2Q 2020 and PLN (1,978)k for H1 2019, PLN (636)k for 2Q 2019.

9. Gains (losses) from other financial securities

	1.04.2020- 30.06.2020	1.01.2020- 30.06.2020	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019
Gains (losses) from other financial securities				
Profit on sale of debt securities measured at fair value through other comprehensive income	8 500	60 476	40 500	48 986
Profit (loss) on sale of debt securities mandatorily measured at fair value through profit or loss	(80)	(85)	(8)	(8)
Change in fair value of debt securities mandatorily measured at fair value through profit or loss	33 205	3 275	17 618	42 291
Impairment losses on securities	(8 535)	(8 535)	-	-
Total profit (losses) on financial instruments	33 090	55 131	58 110	91 269
Change in fair value of hedging instruments	(49 322)	(228 926)	(7 809)	(11 917)
Change in fair value of underlying hedged positions	43 288	227 337	11 595	15 399
Total profit (losses) on hedging and hedged instruments	(6 034)	(1 589)	3 786	3 482
Total	27 056	53 542	61 896	94 751

10. Other operating income

	1.04.2020- 30.06.2020	1.01.2020- 30.06.2020	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019
Other operating income				
Income on sale of services	5 449	11 469	7 518	13 173
Release of provision for legal cases and other assets	3 143	18 354	8 543	12 872
Settlements of leasing agreements	727	1 915	474	1 432
Recovery of other receivables (expired, cancelled and uncollectable)	106	308	5 068	5 856
Profit on sales or liquidation of fixed assets, intangible assets and assets for disposal	1 093	2 209	14 134	21 170
Received compensations, penalties and fines	151	396	198	593
Profit on lease modifications	3 677	4 732	3	3
Other	11 378	27 157	14 665	27 773
Total	25 724	66 540	50 603	82 872

11. Impairment allowances for expected credit losses

Impairment allowances for expected credit losses on loans and advances measured at amortised cost	1.04.2020- 30.06.2020	1.01.2020- 30.06.2020	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019
Charge for loans and advances to banks	(3)	(7)	(2)	(2)
Stage 1	(3)	(7)	(2)	(2)
Stage 2	-	-	-	-
Stage 3	-	-	-	-
POCI	-	-	-	-
Charge for loans and advances to customers	(470 681)	(960 316)	(366 957)	(647 075)
Stage 1	(43 979)	(56 023)	(30 146)	(46 706)
Stage 2	(203 816)	(464 760)	(199 036)	(246 593)
Stage 3	(226 088)	(444 600)	(148 220)	(392 751)
POCI	3 202	5 067	10 445	38 975
Recoveries of loans previously written off	(11 486)	7 086	(5 847)	1 595
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	(11 486)	7 086	(5 847)	1 595
POCI	-	-	-	-
Off-balance sheet credit related facilities	1 251	6 018	16 248	26 236
Stage 1	(4 388)	3 629	13 299	15 794
Stage 2	(4 865)	(3 738)	388	3 330
Stage 3	10 504	6 127	2 561	7 112
POCI	-	-	-	-
Total	(480 919)	(947 219)	(356 558)	(619 246)

Management adjustment in the level of allowances reflecting the risk related to the COVID-19 situation amounted to PLN 150.285 k as at 30.06.2020 (stage 2) – details are described in Note 2.6

12. Employee costs

Employee costs	1.04.2020- 30.06.2020	1.01.2020- 30.06.2020	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019
Salaries and bonuses	(277 620)	(638 523)	(373 083)	(738 182)
Salary related costs	(50 989)	(118 563)	(64 931)	(133 024)
Cost of contributions to Employee Capital Plans	(2 366)	(4 755)	-	-
Staff benefits costs	(9 083)	(17 742)	(9 476)	(18 372)
Professional trainings	(94)	(2 482)	(4 323)	(6 850)
Retirement fund, holiday provisions and other employee	(412)	(549)	(4)	(9)
Restructuring provision	(5 500)	(11 112)	(6 320)	(86 320)
Total	(346 064)	(793 726)	(458 137)	(982 757)

13. General and administrative expenses

	1.04.2020- 30.06.2020	1.01.2020- 30.06.2020	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019
General and administrative expenses				
Maintenance of premises	(38 078)	(68 335)	(34 252)	(83 877)
Short-term lease costs	(2 528)	(4 730)	(6 093)	(7 613)
Low-value assets lease costs	(528)	(1 527)	(2 581)	(2 796)
Costs of variable lease payments not included in the measurement of the lease liability	27	(124)	(894)	(1 110)
Non-tax deductible VAT	(9 437)	(22 130)	(15 437)	(23 826)
Marketing and representation	(18 615)	(44 108)	(43 143)	(77 845)
IT systems costs	(84 587)	(166 951)	(78 060)	(155 567)
Cost of BFG, KNF and KDPW	(44 432)	(339 329)	(29 111)	(257 106)
Postal and telecommunication costs	(16 581)	(33 799)	(15 742)	(31 489)
Consulting and advisory fees	(20 785)	(36 498)	(21 059)	(35 581)
Cars, transport expenses, carriage of cash	(14 580)	(28 519)	(14 261)	(33 449)
Other external services	(34 056)	(73 096)	(45 574)	(86 145)
Stationery, cards, cheques etc.	(5 575)	(11 298)	(5 231)	(13 152)
Sundry taxes and charges	(11 399)	(20 570)	(10 536)	(20 171)
Data transmission	(2 752)	(5 629)	(3 128)	(6 448)
KIR, SWIFT settlements	(6 213)	(12 399)	(9 065)	(17 953)
Security costs	(6 815)	(12 508)	(7 650)	(15 030)
Costs of repairs	(1 153)	(4 267)	(4 770)	(5 728)
Other	(2 864)	(9 156)	(8 477)	(12 417)
Total	(320 951)	(894 973)	(355 064)	(887 303)

14. Other operating expenses

	1.04.2020- 30.06.2020	1.01.2020- 30.06.2020	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019
Other operating expenses				
Charge of provisions for legal cases and other assets	(46 747)	(68 011)	(15 704)	(29 391)
Charge of provisions for legal risk*	(63 228)	(110 333)	-	-
Impairment loss on property, plant, equipment, intangible assets covered by financial lease agreements and other fixed assets	(23 978)	(32 666)	(17 460)	(17 460)
Costs of purchased services	(707)	(1 670)	(718)	(1 216)
Other membership fees	(432)	(620)	(367)	(549)
Paid compensations, penalties and fines	(300)	(1 075)	(599)	(899)
Donations paid	(3 945)	(5 979)	(2 229)	(4 462)
Costs of lease modifications	-	(60)	(434)	(484)
Other	(10 720)	(20 984)	(8 522)	(18 364)
Total	(150 057)	(241 398)	(46 033)	(72 825)

*Details in Note 29

15. Corporate income tax

Corporate income tax	1.04.2020- 30.06.2020	1.01.2020- 30.06.2020	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019
Current tax charge in the income statement	(288 654)	(463 046)	(269 169)	(448 900)
Deffered tax	134 576	150 272	70 180	59 852
Adjustments from previous years	(3 701)	2 918	-	(1 575)
Total tax on gross profit	(157 779)	(309 856)	(198 989)	(390 623)

Corporate total tax charge information	1.04.2020- 30.06.2020	1.01.2020- 30.06.2020	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019
Profit before tax	504 920	889 874	876 914	1 481 104
Tax rate	19%	19%	19%	19%
Tax calculated at the tax rate	(95 935)	(169 076)	(166 614)	(281 410)
Non-tax-deductible expenses	(5 479)	(14 486)	(13 448)	(13 927)
The fee to the Bank Guarantee Fund	(7 673)	(62 322)	(4 486)	(46 401)
Tax on financial institutions	(28 974)	(57 214)	(28 806)	(58 007)
Non-taxable income	3 925	7 441	18 380	18 380
Non-tax deductible bad debt provisions	(16 800)	(21 282)	(5 340)	(10 523)
Adjustment of prior year tax	(3 701)	2 918	-	(1 575)
Tax effect of consolidation adjustments	-	-	11 830	11 830
Other	(3 142)	4 165	(10 505)	(8 990)
Total tax on gross profit	(157 779)	(309 856)	(198 989)	(390 623)

Deferred tax recognised in other comprehensive income	30.06.2020	31.12.2019
Relating to valuation of debt investments measured at fair value through other comprehensive income	(274 876)	(170 217)
Relating to valuation of equity investments measured at fair value through other comprehensive income	(125 952)	(141 812)
Relating to cash flow hedging activity	(1 615)	5 502
Relating to valuation of defined benefit plans	(1 710)	(2 280)
Total	(404 153)	(308 807)

16. Cash and balances with central banks

Cash and balances with central banks	30.06.2020	31.12.2019
Cash	2 095 310	2 381 455
Current accounts in central banks	2 116 544	5 591 557
Term deposits	-	2
Total	4 211 854	7 973 014

Santander Bank Polska SA and Santander Consumer Bank SA hold an obligatory reserve in a current account in the National Bank of Poland. The figure is calculated at a fixed percentage of minimal statutory reserve of the monthly average balance of the customers' deposits, which until 29 April 2020 was 3.5%.

Pursuant to Resolution no. 2/2020 of 17 March 2020 the minimum reserve requirement has been reduced to 0.5% and applies as of 30 April 2020. In accordance with the applicable regulations, the amount of the calculated provision is reduced by the equivalent of EUR 500 k.

17. Loans and advances to banks

Loans and advances to banks	30.06.2020	31.12.2019
Loans and advances	1 272 904	2 115 445
Current accounts	2 714 773	1 601 232
Gross receivables	3 987 677	3 716 677
Allowance for expected credit losses	(102)	(95)
Total	3 987 575	3 716 582

18. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading	30.06.2020		31.12.2019	
	Assets	Liabilities	Assets	Liabilities
Trading derivatives	2 634 383	2 656 612	1 474 161	1 524 250
Interest rate operations	1 754 874	1 736 358	719 181	766 820
Transactions on equity instruments	-	-	1 450	1 450
FX operations	879 509	920 254	753 530	755 980
Debt and equity securities	86 001	-	584 347	-
Debt securities	72 346	-	546 607	-
Government securities:	59 240	-	391 616	-
- bonds	59 240	-	391 616	-
Central Bank securities:	-	-	149 987	-
- bills	-	-	149 987	-
Other securities:	13 106	-	5 004	-
- bonds	13 106	-	5 004	-
Equity securities	13 655	-	37 740	-
Short sale	-	210 553	-	332 563
Total financial assets/liabilities	2 720 384	2 867 165	2 058 508	1 856 813

Financial assets and liabilities held for trading - trading derivatives include the change in the value of counterparty risk in the amount of PLN (13,687) k as at 30.06.2020 and PLN (3,933) k as at 31.12.2019.

19. Hedging derivatives

Hedging derivatives	30.06.2020		31.12.2019	
	Assets	Liabilities	Assets	Liabilities
Derivatives hedging fair value	-	409 101	2 880	156 700
Derivatives hedging cash flow	30 546	1 233 706	41 093	838 927
Total hedging derivatives	30 546	1 642 807	43 973	995 627

As at 30.06.2020 Hedging derivatives - derivatives hedging cash flow include value adjustments day first profit or loss for start forward CIRS transactions in the amount of PLN (6,986) k and PLN (7 510) k as at 31.12.2019.

20. Loans and advances to customers

Loans and advances to customers	30.06.2020			
	Measured at amortised cost	Measured at	Measured at	Total
		fair value	fair value	
		through other comprehensive income	through profit or loss	
Loans and advances to enterprises	56 189 341	1 135 482	55 096	57 379 919
Loans and advances to individuals, of which:	80 395 748	-	994 581	81 390 329
<i>Home mortgage loans</i>	52 340 029	-	-	52 340 029
Finance lease receivables	9 389 591	-	-	9 389 591
Loans and advances to public sector	319 908	-	-	319 908
Other receivables	36 407	-	-	36 407
Gross receivables	146 330 995	1 135 482	1 049 677	148 516 154
Allowance for expected credit losses	(5 894 019)	-	-	(5 894 019)
Total	140 436 976	1 135 482	1 049 677	142 622 135

Loans and advances to customers	31.12.2019			
	Measured at amortised cost	Measured at	Measured at	Total
		fair value	fair value	
		through other comprehensive income	through profit or loss	
Loans and advances to enterprises	57 165 101	923 811	53 649	58 142 561
Loans and advances to individuals, of which:	79 752 787	-	1 142 798	80 895 585
<i>Home mortgage loans</i>	51 209 256	-	-	51 209 256
Finance lease receivables	9 266 969	-	-	9 266 969
Loans and advances to public sector	312 469	-	-	312 469
Other receivables	29 409	-	-	29 409
Gross receivables	146 526 735	923 811	1 196 447	148 646 993
Allowance for expected credit losses	(5 244 364)	-	-	(5 244 364)
Total	141 282 371	923 811	1 196 447	143 402 629

Loans and advances to enterprises 30.06.2020	Allowance for		Net
	Gross carrying amount	expected credit losses	
Stage 1	48 119 624	(173 930)	47 945 694
Stage 2	3 847 867	(322 711)	3 525 156
Stage 3	3 938 020	(1 917 254)	2 020 766
POCI	283 830	(44 877)	238 953
Total	56 189 341	(2 458 772)	53 730 569

Loans and advances to individuals 30.06.2020	Allowance for		Net
	Gross carrying amount	expected credit losses	
Stage 1	73 352 368	(368 014)	72 984 354
Stage 2	3 258 305	(450 209)	2 808 096
Stage 3	3 349 320	(2 197 038)	1 152 282
POCI	435 755	(178 652)	257 103
Total	80 395 748	(3 193 913)	77 201 835

Finance lease receivables 30.06.2020	Allowance for		Net
	Gross carrying amount	expected credit losses	
Stage 1	8 598 902	(26 888)	8 572 014
Stage 2	567 895	(40 183)	527 712
Stage 3	219 304	(173 756)	45 548
POCI	3 490	(507)	2 983
Total	9 389 591	(241 334)	9 148 257

Loans and advances to enterprises 31.12.2019	Allowance for		Net
	Gross carrying amount	expected credit losses	
Stage 1	50 056 781	(179 783)	49 876 998
Stage 2	3 007 869	(208 414)	2 799 455
Stage 3	3 765 774	(1 817 216)	1 948 558
POCI	334 677	(41 054)	293 623
Total	57 165 101	(2 246 467)	54 918 634

Loans and advances to individuals 31.12.2019	Allowance for		Net
	Gross carrying amount	expected credit losses	
Stage 1	73 455 322	(372 066)	73 083 256
Stage 2	2 979 061	(350 533)	2 628 528
Stage 3	2 887 388	(1 971 794)	915 594
POCI	431 016	(162 653)	268 363
Total	79 752 787	(2 857 046)	76 895 741

Finance lease receivables 31.12.2019	Allowance for		Net
	Gross carrying amount	expected credit losses	
Stage 1	8 523 051	(19 564)	8 503 487
Stage 2	559 178	(23 560)	535 618
Stage 3	181 224	(97 237)	83 987
POCI	3 516	(491)	3 025
Total	9 266 969	(140 852)	9 126 117

Movements on allowances for expected credit losses on loans and advances to customers measured at amortised cost for reporting period	1.01.2020-30.06.2020	1.01.2019-30.06.2019
Balance at the beginning of the period	(5 244 364)	(4 384 322)
Charge/write back of current period	(979 510)	(721 660)
Stage 1	(56 356)	(46 472)
Stage 2	(460 313)	(246 593)
Stage 3	(444 600)	(392 753)
POCI	(18 241)	(35 842)
Write off/Sale of receivables	353 993	280 515
Stage 1	1 177	-
Stage 2	-	-
Stage 3	352 816	280 515
POCI	-	-
Transfer	(1 913)	2 772
Stage 1	59 478	58 542
Stage 2	233 405	161 225
Stage 3	(293 299)	(216 586)
POCI	(1 497)	(409)
FX differences	(22 225)	2 624
Stage 1	(1 585)	239
Stage 2	(3 804)	(26)
Stage 3	(16 736)	2 401
POCI	(100)	10
Balance at the end of the period	(5 894 019)	(4 820 071)

21. Investment securities

Investment securities	30.06.2020	31.12.2019
Debt investment securities measured at fair value through other comprehensive income	55 799 648	40 248 937
Government securities:	45 429 189	34 332 625
- bills	2 040 169	-
- bonds	43 389 020	34 332 625
Central Bank securities:	599 997	3 849 679
- bills	599 997	3 849 679
Other securities:	9 770 462	2 066 633
-bonds	9 770 462	2 066 633
Debt investment securities measured at fair value through profit and loss	205 854	194 285
Equity investment securities measured at fair value through other comprehensive income	801 440	884 912
- listed	19 996	19 996
- unlisted	781 444	864 916
Total	56 806 942	41 328 134

22. Investments in associates

Balance sheet value of associates	30.06.2020	31.12.2019
Polfund - Fundusz Poręczeń Kredytowych S.A.	45 652	45 273
Santander - Aviva Towarzystwo Ubezpieczeń S.A. and Santander - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	902 270	857 840
Total	947 922	903 113

Movements on investments in associates	1.01.2020- 30.06.2020	1.01.2019- 30.06.2019
As at the beginning of the period	903 113	891 952
Share of profits/(losses)	36 839	30 283
Dividends	-	(58 661)
Other	7 970	1 653
As at the end of the period	947 922	865 227

23. Assets classified as held for sale

Assets classified as held for sale	30.06.2020	31.12.2019
Land and buildings	1 513	2 016
Other fixed assets	9 348	663
Total	10 861	2 679

24. Deposits from banks

Deposits from banks	30.06.2020	31.12.2019
Term deposits	272 615	468 294
Loans received from banks	3 003 980	3 213 874
Current accounts	2 094 055	1 349 576
Total	5 370 650	5 031 744

25. Deposits from customers

Deposits from customers	30.06.2020	31.12.2019
Deposits from individuals	96 477 026	91 716 261
Term deposits	24 591 366	29 984 379
Current accounts	71 624 997	61 519 766
Other	260 663	212 116
Deposits from enterprises	64 697 579	60 281 335
Term deposits	14 986 243	23 656 190
Current accounts	45 388 053	32 054 525
Loans	3 439 191	3 536 953
Other	884 092	1 033 667
Deposits from public sector	4 714 942	4 482 747
Term deposits	1 053 224	750 095
Current accounts	3 661 692	3 732 587
Other	26	65
Total	165 889 547	156 480 343

26. Subordinated liabilities

Subordinated liabilities	Redemption date	Currency	Nominal value
Issue 1	05.08.2025	EUR	100 000
Issue 2	03.12.2026	EUR	120 000
Issue 3	22.05.2027	EUR	137 100
Issue 4	05.04.2028	PLN	1 000 000
SCF Madrid	18.05.2028	PLN	100 000

Movements in subordinated liabilities	1.01.2020- 30.06.2020	1.01.2019- 30.06.2019
As at the beginning of the period	2 630 271	2 644 341
Additions from:	115 851	41 763
- interest on subordinated loans	41 600	41 763
- FX differences	74 251	-
Disposals from:	(42 879)	(58 722)
- interest repayment	(42 879)	(42 141)
- FX differences	-	(16 581)
As at the end of the period	2 703 243	2 627 382
Short-term	15 307	16 466
Long-term (over 1 year)	2 687 936	2 610 916

27. Debt securities in issue

Issuance of debt securities in 1H 2020 (non-matured securities)	Nominal value	Currency	Redemption date
Series G bonds of Santander Factoring	620 000	PLN	30.07.2020
Series D bonds of Santander Leasing	76 673	PLN	10.03.2021
Series E bonds of Santander Leasing	550 000	PLN	04.12.2020
Senior bonds of Santander Leasing Poland Securitization 01 03/2020	330 000	EUR	03.2036

Issuance of debt securities in 2019 (non-matured securities)	Nominal value	Currency	Redemption date
Series J bank securities	550 000	PLN	27.04.2020
Series F bonds of Santander Factoring	710 000	PLN	22.04.2020
Senior bonds of Santander Leasing Poland Securitization 01 05/2019	1 202 500	PLN	20.02.2035
Bonds of Santander Leasing	350 000	PLN	10.02.2020
Bonds of Santander Leasing	350 000	PLN	10.03.2020
Bonds of Santander Leasing	430 000	PLN	21.09.2020
Securitized bonds Float sale	1 200 000	PLN	16.07.2030
Securitized bonds Float sale	800 000	PLN	16.07.2030

Movements in debt securities in issue	1.01.2020- 30.06.2020	1.01.2019- 30.06.2019
As at the beginning of the period	10 629 516	9 368 617
Increase (due to):	3 343 866	2 811 132
- debt securities in issue	3 120 707	2 734 500
- interest on debt securities in issue	82 370	76 483
- FX differences	140 516	-
- other changes	273	149
Decrease (due to):	(4 006 319)	(2 291 018)
- debt securities redemption	(2 867 564)	(2 187 873)
- debt securities repurchase	(1 052 917)	-
- interest repayment	(85 838)	(68 121)
- FX differences	-	(35 024)
As at the end of the period	9 967 063	9 888 731

28. Provisions for off balance sheet credit facilities

Provisions for off balance sheet credit facilities	30.06.2020	31.12.2019
Provisions for financial liabilities to grant loans and credit lines	41 476	48 865
Provisions for financial guarantees	18 791	16 856
Other provisions	417	388
Total	60 684	66 109

	1.01.2020- 30.06.2020
Change in provisions for off balance sheet credit facilities	
As at the beginning of the period	66 109
Provision charge	74 203
Write back	(80 221)
Other changes	593
As at the end of the period	60 684
Short-term	46 742
Long-term	13 942

	1.01.2019- 30.06.2019
Change in provisions for off balance sheet credit facilities	
As at the beginning of the period	81 048
Provision charge	65 767
Other changes	(96)
Write back	(92 003)
As at the end of the period	54 716
Short-term	42 470
Long-term	12 246

29. Other provisions

Other provisions	30.06.2020	31.12.2019
Provisions for legal claims	180 527	135 659
Provisions for legal risk*	305 406	295 216
Provisions for restructuring**	14 517	14 740
Total	500 450	445 615

* Details regarding the provisions for legal risk are presented in note 32.

** Details about the provisions for restructuring are presented in note 12.

Change in other provisions for the period 1.01.2020 - 30.06.2020	Provisions for legal claims *	Provisions for restructuring	Provisions for legal risk	Total
As at the beginning of the period	135 659	14 740	295 216	445 615
Provision charge	46 987	13 149	110 333	170 469
Utilization	(404)	(7 778)	(51 854)	(60 036)
Write back	(1 715)	(5 594)	-	(7 309)
Reclassification	-	-	(48 289)	(48 289)
As at the end of the period	180 527	14 517	305 406	500 450

*Provisions for cases disputed in court also include individual provisions and provisions for class actions.

Change in other provisions for the period 1.01.2019- 30.06.2019	Provisions for legal claims*	Provisions for restructuring	Total
As at the beginning of the period	132 382	499	132 881
Provision charge	16 255	86 448	102 703
Utilization	(232)	(55 266)	(55 498)
Write back	(40)	(790)	(830)
As at the end of the period	148 365	30 891	179 256

*Provisions for cases disputed in court also include individual provisions and provisions for class actions.

30. Other liabilities

Other liabilities	30.06.2020	31.12.2019
Settlements of stock exchange transactions	74 705	25 264
Interbank settlements	831 342	224 485
Employee provisions	196 124	368 514
Sundry creditors	769 850	647 576
Liabilities from contracts with customers	252 318	278 814
Public and law settlements	115 988	106 393
Accrued liabilities	589 303	519 263
Finance lease related settlements	70 217	101 418
Other	10 638	7 633
Total	2 910 485	2 279 360
of which financial liabilities *	2 531 541	1 886 520

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

Change in provisions 1.01.2020 - 30.06.2020	Employee provisions			Total
		of which: Provisions for retirement allowances	Other provisions	
As at the beginning of the period	368 514	44 636	-	368 514
Provision charge	113 657	4 125	-	113 657
Utilization	(211 576)	(7)	-	(211 576)
Write back	(74 471)	-	-	(74 471)
As at the end of the period	196 124	48 754	-	196 124
Short-term	147 370	-	-	147 370
Long-term	48 754	48 754	-	48 754

Change in provisions 1.01.2019 - 30.06.2019	Employee provisions			Total
		of which: Provisions for retirement allowances	Other provisions	
As at the beginning of the period	405 231	40 858	3 300	408 531
Provision charge	166 673	1 031	-	166 673
Utilization	(261 841)	-	-	(261 841)
Write back	(29 468)	(10)	-	(29 468)
Other changes	54	-	-	54
As at the end of the period	280 649	41 879	3 300	283 949
Short-term	238 770	-	3 300	242 070
Long-term	41 879	41 879	-	41 879

31. Fair value

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

Below is a summary of the book values and fair values of the individual groups of assets and liabilities.

ASSETS	30.06.2020		31.12.2019	
	Book Value	Fair value	Book Value	Fair value
Cash and balances with central banks	4 211 854	4 211 854	7 973 014	7 973 014
Loans and advances to banks	3 987 575	3 987 575	3 716 582	3 716 582
Loans and advances to customers measured at amortised cost	140 436 976	140 012 916	141 282 371	141 958 073
LIABILITIES				
Deposits from banks	5 370 650	5 370 650	5 031 744	5 031 744
Deposits from customers	165 889 547	165 988 703	156 480 343	156 520 781
Subordinated liabilities	2 703 243	2 688 618	2 630 271	2 619 205

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

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

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

Loans and advances to banks: The fair value of deposits is measured using discounted cash flows at the current money market interest rates for receivables of similar credit risk, maturity and currency. In the case of demand deposits without a fixed maturity date or with maturity up to 6 months, it is assumed that their fair value is not significantly different than their book value. The process of fair value estimation for these instruments is not affected by the long-term nature of the business with depositors. Loans and advances to banks were classified in their entirety as Level 3 of the fair value hierarchy due to application of a measurement model with significant unobservable inputs.

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

Deposits from banks and deposits from customers: Fair value of the deposits with maturity exceeding 6 months was estimated based on the cash flows discounted by the current market rates for the deposits with similar maturity dates. In the case of demand deposits without a fixed maturity date or with maturity up to 6 months, it is assumed that their fair value is not significantly different than their book value. The process of fair value estimation for these instruments is not affected by the long-term nature of the business with depositors. Deposits from banks and deposits from customers were classified in their entirety as Level 3 of the fair value hierarchy due to application of a measurement model with significant unobservable inputs.

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

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

As at 30.06.2020 and in the comparable periods the Group made the following classification of its financial instruments measured at fair value in the statement of financial position:

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

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

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

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

Valuation of major capital investments classified to Level III:

- a) AVIVA Towarzystwo Ubezpieczeń na Życie SA (AVIVA TUŻ),
- b) AVIVA Powszechne Towarzystwo Emerytalne SA (AVIVA PTE),
- c) AVIVA Towarzystwo Ubezpieczeń Ogólnych SA (AVIVA TUO),

are made semi-annually by specialized units of the Bank using income methods based on discounted cash flows, where the most important variables of the model are the level of forecasted dividends and the risk free rate.

Level 3: Other valuation techniques

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

LEVEL 3	VALUATION METHOD	UNOBSERVABLE INPUT
LOANS AND ADVANCES TO CUSTOMERS	Discounted cash flow method.	Effective margin on loans
C-SERIES PREFERENCE SHARES OF VISA INC.	Estimating the fair value based on the current market value of the listed ordinary shares of Visa Inc., including a discount which takes into account the limited liquidity of C-series shares and the terms and conditions of the conversion of C-series shares into ordinary shares.	Discount taking into account the limited liquidity of C-series shares and the terms of converting the C-series shares into ordinary shares.
SHARES IN BIURO INFORMACJI KREDYTOWEJ SA	Estimation of the fair value based on the present value of the forecast results of the company.	Forecast results of the company
SHARES IN POLSKI STANDARD PŁATNOŚCI SP. Z O.O.	Estimation of the fair value based on the present value of the forecast results of the company.	Forecast results of the company
SHARES IN SOCIETY FOR WORLDWIDE INTERBANK FINANCIAL TELECOMMUNICATION	Estimation of the fair value based on the net assets value of the company and average FX exchange rate.	Net asset value of the Company
SHARES IN KRAJOWA IZBA ROZLICZENIOWA SA	Estimation of the fair value based on the present value of the forecast results of the company.	Forecast results of the company
SHARES IN WAŁBRZYSKA SPECJALNA STREFA EKONOMICZNA „INVEST-PARK” SP Z O.O.		Net asset value of the Company
SHARES IN AVIVA POWSZECHNE TOWARZYSTWO EMERYTALNE AVIVA SANTANDER SA	Estimation of the fair value based on the present value of the forecast results of the company.	Forecast results of the company + discount
AVIVA TOWARZYSTWO UBEZPIECZEŃ NA ŻYCIE SA		Forecast results of the company
AVIVA TOWARZYSTWO UBEZPIECZEŃ OGÓLNYCH SA		Forecast results of the company
LEGNICKA SPECJALNA STREFA EKONOMICZNA SA		
POLSKI HOLDING OBRONNY SP. Z O.O. BUMAR	Periodic valuation based on net asstes value;	
WARSZAWSKI ROLNO-SPOŻYWCZY RYNEK HURTOWY SA	Estimation of the fair value based on the present value of the forecast results of the company.	Net asset value and future results of the Company
AGROREG AGENCJA ROZWOJU REGIONALNEGO SA W NOWEJ RUDZIE		

As at 30.06.2020 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

30.06.2020	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	86 001	2 632 748	1 635	2 720 384
Hedging derivatives	-	30 546	-	30 546
Loans and advances to customers measured at fair value through other comprehensive income	-	-	1 135 482	1 135 482
Loans and advances to customers measured at fair value through profit and loss	-	-	1 049 677	1 049 677
Debt securities measured at fair value through other comprehensive income	55 597 793	194 363	7 492	55 799 648
Debt securities measured at fair value through profit and loss	-	-	205 854	205 854
Equity securities measured at fair value through other comprehensive income	19 996	-	781 444	801 440
Total	55 703 790	2 857 657	3 181 584	61 743 031
Financial liabilities				
Financial liabilities held for trading	210 553	2 656 612	-	2 867 165
Hedging derivatives	-	1 642 807	-	1 642 807
Total	210 553	4 299 419	-	4 509 972

31.12.2019	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	584 347	1 474 161	-	2 058 508
Hedging derivatives	-	43 973	-	43 973
Loans and advances to customers measured at fair value through other comprehensive income	-	-	923 811	923 811
Loans and advances to customers measured at fair value through profit and loss	-	-	1 196 447	1 196 447
Debt securities measured at fair value through other comprehensive income	40 232 910	-	16 027	40 248 937
Debt securities measured at fair value through profit and loss	-	-	194 285	194 285
Equity securities measured at fair value through other comprehensive income	19 996	-	864 916	884 912
Total	40 837 253	1 518 134	3 195 486	45 550 873
Financial liabilities				
Financial liabilities held for trading	332 563	1 524 250	-	1 856 813
Hedging derivatives	-	995 627	-	995 627
Total	332 563	2 519 877	-	2 852 440

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

Level III	Financial assets					
	Financial assets held for trading	Loans and advances to customers measured at fair value through profit and loss	Loans and advances to customers measured at fair value through other comprehensive income	Debt securities measured at fair value through profit and loss	Debt securities measured at fair value through other comprehensive income	Equity securities measured at fair value through other comprehensive income
30.06.2020						
As at the beginning of the period	-	1 196 447	923 811	194 285	16 027	864 916
Profit or losses						
<i>recognised in income statement</i>	-	4 392	21 125	12 462	-	-
<i>recognised in equity (OCI)</i>	-	-	-	-	-	(83 472)
Purchase/granting	-	198 139	472 379	-	-	-
Sale	-	(2)	(113 370)	(1 000)	-	-
Matured	-	(344 238)	(176 311)	-	-	-
Transfer	1 635	-	-	-	-	-
Other	-	(5 061)	7 848	107	(8 535)	-
As at the end of the period	1 635	1 049 677	1 135 482	205 854	7 492	781 444

Level III	Financial assets					
	Financial assets held for trading	Loans and advances to customers measured at fair value through profit and loss	Loans and advances to customers measured at fair value through other comprehensive income	Debt securities measured at fair value through profit and loss	Debt securities measured at fair value through other comprehensive income	Equity securities measured at fair value through other comprehensive income
31.12.2019						
As at the beginning of the period	1 360 030	366 751	366 751	136 511	27 270	804 818
Profit or losses						
<i>recognised in income statement</i>	107 700	-	-	58 274	-	-
<i>recognised in equity (OCI)</i>	-	-	-	-	-	64 409
Purchase/granting	539 632	645 517	645 517	-	-	-
Sale	-	(45 000)	(45 000)	(500)	-	(4 311)
Matured	(803 187)	(42 875)	(42 875)	-	-	-
Other	(7 728)	(582)	(582)	-	(11 243)	-
As at the end of the period	1 196 447	923 811	923 811	194 285	16 027	864 916

32. Contingent liabilities

Significant court proceedings

As at 30.06.2020 no proceedings were instituted by court or by state administration agencies with relation to liabilities or receivables made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 1,947,191 k, which is 6.98% of the Group's equity. This amount includes PLN 967,706 k claimed by the Group, PLN 929,872 k in claims against the Group and PLN 49,613 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 30.06.2020 the amount of significant court proceedings which had been completed amounted to PLN 340,163 k.

As at 30.06.2020, the value of provisions for legal claims was PLN 180,527 k. In 136 cases against Santander Bank Polska SA, where the claim value was high (from PLN 500 k), a provisions of PLN 35,552 k was raised.

Court proceedings on CHF mortgage loans

As at 30.06.2020, the Group's CHF retail mortgage loan exposure totalled PLN 10,113,997k. The portfolio included both denominated and indexed loans.

To date, there have been 20 favourable court decisions on cases against Santander Bank Polska S.A. and 12 unfavourable decisions, while in 2 cases the courts decided that the FX clauses referring to the bank's FX rate tables should be replaced with an objective indexation measure. As regards Santander Consumer Bank S.A., the courts made decisions favourable to the Bank in 14 cases, while 13 cases ended up with unfavourable decisions.

Court decisions in CHF mortgage loan disputes have diverged significantly:

- court decisions favourable to banks were based on it being determined that the fx rate clauses were not abusive, which resulted in dismissal of the claims against the Bank.
- court decisions that are entirely unfavourable to banks could be divided into two main categories: (1) decisions resulting in the loan currency being "re-converted to PLN" – meaning that the abusiveness of the loan indexation clause and the FX rate clause (with a reference to the bank's fx rate table) results in invalidation of the indexation and treatment of the borrower's liability as a PLN loan with interest rate based on LIBOR CHF; (2) invalidation of the loan agreement as a result of abusiveness of the said clauses in the agreements.
- court decisions based on deeming the very loan indexation as permissible and compliant with the law, but at the same time invalidating the FX rate clause that is deemed abusive (i.e. clauses referring to the bank's fx table) and substituting that clause with an alternative, objective indexation measure, i.e. average NBP rate; this can result in the court's acceptance of certain claims of the borrower, however, only to the amount of FX differences (close to the FX spread).

On 3.10.2019, the Court of Justice of the European Union (CJEU) made a ruling on Raiffeisen Bank Polska loan regarding the effects of a potential abusiveness of CHF-indexed loan agreement. According to the CJEU, if the indexation clause is deemed abusive, the domestic court may invalidate the agreement – upon informing the borrower of the effects of the invalidation and subject to the borrower's consent, if the court finds that elimination of the entire indexation and fx risk mechanism changed the main purpose of the agreement. The CJEU also stated that the domestic court could also decide that the agreement could continue to exist without the indexation mechanism (which means that the loan would be treated as a PLN loan with LIBOR-based interest rate). However, the CJEU deemed this solution uncertain. The CJEU ruled out a possibility of supplementing the agreement with rules arising from generally applicable domestic laws after elimination of abusive clauses. However, the CJEU confirmed that such gaps could be filled in with an explicit dispositive (supplementary) provision or other clauses agreed on by the parties.

The CJEU's ruling does not dispel doubts as to the effects of the potential abusiveness of contractual clauses in loan agreements based on foreign currencies. The case law is still ambiguous. Some courts dealing with CHF cases requested preliminary rulings from the CJEU, and the CJEU's position may affect further decisions in such cases. Currently it is still difficult to assess the ultimate impact of the ruling on the case law with respect to loans based on foreign currencies. It seems that the well-established Supreme Court's position on that matter will be crucial.

In terms of abusiveness of FX rate clauses, the Supreme Court previously was of the opinion that indexed loan agreements are permissible and compliant with the law and that they continue to be indexed loan agreements. In 2019, the Supreme Court in some cases invalidated the indexation and decided that the loan should be considered as a PLN loan with LIBOR-based interest rate, which was an exception given the Court's previous decisions.

In April 2020, the Supreme Court published the justification of the decision of 11.12.2019 given in the case against Santander Bank Polska, according to which invalidation of indexation and continuation of the agreement as a PLN loan with LIBOR-based interest rate is not permissible because indexation clauses are the element of main contractual obligations of the parties, so their abusiveness and elimination from the agreement makes the loan agreement invalid. This triggers mutual settlements between the parties due to unjust enrichment; at the same time, the Supreme Court stated that the previous rulings of the CJEU do not rule out the possibility for the bank to demand compensation for unjustified (i.e. without an agreement) use of the loan principal as a result of invalidation of the agreement.

The Group monitors the case law on indexed and denominated loans to identify any potential changes in the justifications of court decisions.

The Group identified the risk that the cash flows from the denominated and indexed mortgage loan portfolio based on the schedules in place may not be fully recoverable and/ or that there may arise an obligation resulting in an outflow of funds in the future. The Group creates provisions for the disputes and legal risk in line with IAS37 *Provisions, contingent liabilities and contingent assets*. The value of the provisions was estimated on the basis of a range of assumptions that significantly affect the estimation disclosed in the Group's financial statements.

As at 30.06.2020, the Group has been a defendant in 2,782 cases regarding indexed or denominated loans (mainly CHF) with the disputable amount of PLN 519,305k. They include 2 class actions subject to the Class Action Law:

- the class action filed against Santander Bank Polska S.A. involving 527 CHF indexed loans, total disputable amount of PLN 47,022k;
- the class action filed against Santander Consumer Bank S.A. involving 31 CHF indexed loans, total disputable amount of PLN 38k.

As at 30.06.2020, the Group created provisions of PLN 108,486k for those disputes.

As at 30 June 2020, the Group raised collective provisions for legal risk of PLN 256,193k due to the higher number of cases related to contractual clauses in agreements on mortgage loans indexed to and denominated in foreign currencies. The bank and its subsidiary Santander Consumer Bank S.A. (SCB) raised provisions of PLN 190,000k and PLN 66,193k, respectively. The Group will continue to monitor and evaluate the adequacy of the above-mentioned provisions in subsequent reporting periods.

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

As at 30.06.2020, Santander Bank Group was sued in 489 cases concerning partial refund of an arrangement fee on consumer loans, including 279 cases against Santander Consumer Bank S.A. and 210 cases against Santander Bank Polska S.A. For these proceedings Santander Bank Group raised provisions in the total amount of PLN 1,163 k, including provisions raised by Santander Consumer Bank S.A. in the amount of PLN 1,000 k and provisions raised by Santander Bank Polska S.A. in the amount of PLN 163 k.

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

However, the CJEU's ruling concerns the interpretation of the provisions of the Directive which are not directly binding and must be transposed by respective member states. Accordingly, it is the national law and its interpretation that are key to resolving disputes over the refund of fees for consumer loans, therefore, it is important to settle the interpretation of national law, which will indicate the method on the basis of which the settlements should be made, and the time horizon covered by the obligation to refund the commission.

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

When assessing legal risk associated with Article 49 of the Consumer Credit Act, the Santander Bank Polska Group raises provisions for legal risks related to disputes regarding art. 49 of the Consumer Credit Act taking in to account interpretation differences. In relation to both banks, UOKiK conducted explanatory proceedings regarding the correct settlement of commissions based on art. 49 of the Consumer Credit Act, both proceedings were discontinued.

During the first six months of 2020, the provisions for expected partial reimbursements of fees on early repaid loans (calculated on a straight-line basis) and the associated liabilities recognised by the Group had the following impact on its P&L:

The total amount taken by the Group to its P&L was PLN 139,722k, including a charge of PLN 92,617k to net interest income and a charge of PLN 47,105k to other operating expenses.

The corresponding charges made by the bank were as follows: total charge of PLN 79,976k to P&L, including PLN 62,376k to net interest income and PLN 17,600k to other operating expenses. Others amounts charged to the Group's P&L include the amounts recognised in P&L of Santander Consumer Bank S.A.

As at 31.12.2019 no proceedings were instituted by court or by state administration agencies with relation to liabilities or receivables made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 1,579,363 k, which is 5.85% of the Group's equity. This amount includes PLN 925,730 k claimed by the Group, PLN 604,262 k in claims against the Group and PLN 49,371 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 31.12.2019 the amount of all court proceedings which had been completed amounted to PLN 630,285 k.

As at 31.12.2019, the value of provisions for legal claims was PLN 135,659 k. In 61 cases against Santander Bank Polska SA, where the claim value was high (above PLN 500 k), a provisions of PLN 36,672 k was raised.

Santander Bank Polska SA raises provisions for legal risk where an internal risk assessment for a particular case indicates a possible outflow of cash. Provisions for cases disputed in court are presented in Note 29.

Off-balance sheet liabilities

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

Contingent liabilities - sanctioned	30.06.2020			
	Stage 1	Stage 2	Stage 3	Total
Liabilities sanctioned				
- financial	30 916 991	747 433	60 556	31 724 980
- credit lines	25 854 186	630 794	43 710	26 528 690
- credit cards debits	4 090 428	114 002	13 911	4 218 341
- import letters of credit	972 377	2 637	2 935	977 949
- guarantees	6 961 176	137 674	35 838	7 134 688
Provision for off-balance sheet liabilities	(27 047)	(12 700)	(20 937)	(60 684)
Total	37 851 120	872 407	75 457	38 798 984

Contingent liabilities - sanctioned	31.12.2019			
	Stage 1	Stage 2	Stage 3	Total
Liabilities sanctioned				
- financial	33 003 043	436 630	66 938	33 506 611
- credit lines	28 394 392	302 847	56 138	28 753 377
- credit cards debits	4 001 749	126 485	10 800	4 139 034
- import letters of credit	606 902	7 298	-	614 200
- guarantees	6 529 154	149 680	32 781	6 711 615
Provision for off-balance sheet liabilities	(31 555)	(8 185)	(26 369)	(66 109)
Total	39 500 642	578 125	73 350	40 152 117

33. Shareholders with min. 5% voting power

Shareholder	Number of shares held		% in the share capital		Number of votes at AGM		Voting power at AGM	
	29.07.2020	28.04.2020	29.07.2020	28.04.2020	29.07.2020	28.04.2020	29.07.2020	28.04.2020
Banco Santander S.A.	68 880 774	68 880 774	67,47%	67,47%	68 880 774	68 880 774	67,47%	67,47%
Nationale-Nederlanden OFE *	5 123 581	5 123 581	5,02%	5,02%	5 123 581	5 123 581	5,02%	5,02%
Nationale-Nederlanden DFE *								
Others	28 083 950	28 083 950	27,51%	27,51%	28 083 950	28 083 950	27,51%	27,51%
Total	102 088 305	102 088 305	100%	100%	102 088 305	102 088 305	100%	100%

* Funds managed by Nationale-Nederlanden Powszechna Towarzystwo Emerytalne SA

According to the information held by the Bank's Management Board, the shareholders with a min. 5% of the total number of votes at the Santander Bank Polska General Meeting as at the publication date of the condensed interim consolidated report for 1H 2020 /29.07.2020/ are Banco Santander SA and Funds managed by Nationale-Nederlanden Powszechna Towarzystwo Emerytalne SA.: Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny.

34. Related parties

The tables below present intercompany transactions. They are effected between associates and related entities. Transactions between Santander Bank Polska Group companies and its related entities are banking operations carried out on an arm's length business as part of their ordinary business and mainly represent loans, bank accounts, deposits, guarantees and leases. Intercompany transactions effected within the Group by the Bank and its subsidiaries have been eliminated from the consolidated financial statements. In the case of internal Group transactions, a documentation is prepared in accordance with requirements of tax regulations for transfer pricing.

Transactions with associates	30.06.2020	31.12.2019
Assets	76	69
Other assets	76	69
Liabilities	113 677	96 286
Deposits from customers	113 573	96 157
Other liabilities	104	129

Transactions with associates	1.01.2020- 30.06.2020	1.01.2019- 30.06.2019
Income	20 041	20 324
Fee and commission income	20 041	20 324
Expenses	1 047	2 157
Interest expense	486	838
Fee and commission expense	561	743
Operating expenses incl.:	-	576
<i>General and administrative expenses</i>	-	576

Transactions with Santander Group	with the parent company		with other entities	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019
Assets	1 766 991	1 409 334	19 586	23 855
Loans and advances to banks, incl:	369 313	740 278	16 906	16 794
<i>Loans and advances</i>	39 806	545 774	-	-
<i>Current accounts</i>	329 507	194 504	16 906	16 794
Financial assets held for trading	1 397 648	668 115	-	2
Other assets	30	941	2 680	7 059
Liabilities	3 354 554	2 126 708	132 248	136 108
Deposits from banks incl.:	2 044 280	1 474 523	22 371	26 532
<i>Current accounts</i>	650 760	381 234	22 371	26 532
<i>Loans from other banks*</i>	1 393 520	1 093 289	-	-
Financial liabilities held for trading	1 292 003	628 143	-	-
Deposits from customers	-	-	78 719	69 511
Lease liabilities	-	-	25	1 027
Other liabilities	18 271	24 042	31 133	39 038
Contingent liabilities	-	-	31 963	3 063
Sanctioned:	-	-	31 963	3 063
<i>guarantees</i>	-	-	31 963	3 063

Transactions with Santander Group	with the parent company		with other entities	
	1.01.2020- 30.06.2020	1.01.2019- 30.06.2019	1.01.2020- 30.06.2020	1.01.2019- 30.06.2019
Income	141 256	224 828	472	1 000
Interest income	915	3 792	5	24
Fee and commission income	830	1 128	142	153
Other operating income	3	-	21	4
Net trading income and revaluation	139 508	219 908	304	819
Expenses	37 845	26 500	35 624	33 431
Interest expense	15 860	5 406	81	433
Fee and commission expense	3 609	1 453	59	68
Operating expenses incl.:	18 376	19 641	35 484	32 930
<i>Staff, Operating expenses and management costs</i>	18 376	19 641	35 484	32 930

* Details about the Funded Risk Participation are presented in Note 20

Transactions with Members of Management and Supervisory Boards

Remuneration of Santander Bank Polska Management Board Members, Supervisory Board Members and key management Santander Bank Polska Group's.

Loans and advances granted to the key management personnel

As at 30.06.2020, 31.12.2019 and 30.06.2019 members of the Management Board were bound by the non-compete agreements which remain in force after they step down from their function. If a Member of the Management Board is removed from their function or not appointed for another term, he/she is entitled to a once-off severance pay. The severance pay does not apply if the person accepts another function in the Bank.

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

Transactions with members of Management Board and Key Management Personnel	Management Board Members		Key Management Personnel	
	1.01.2020-30.06.2020	1.01.2019-30.06.2019	1.01.2020-30.06.2020	1.01.2019-30.06.2019
	Fixed remuneration	6 286	5 979	23 215
Additional benefits (e.g among others, life insurance cover without pension option, medical cover, travel expenses and school fees)	587	293	604	415
The awards paid in 2020 and 2019 *	8 826	10 887	22 031	19 344
Equivalent paid for unused annual leave	-	129	47	183
Provisions for retirement benefits and provision for unused holidays	1 728	1 904	7 135	6 310
The number of conditional rights to shares **	22 260	25 160	31 039	37 280

	Management Board Members		Key Management Personnel	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019
	Loans and advances made by the Bank to the Members of the Management Board/Key Management and to their relatives	7 288	9 316	27 064
Deposits from The Management Board/Key management and their relatives	18 449	16 516	23 032	29 500

* included part of the award for 2019, 2018, 2017, 2016 and 2015 which was conditional and deferred in time

**details about share base payments are presented in Note 43.

The category of key management personnel includes the persons covered by the principles outlined in the "Santander Bank Polska Group Remuneration Policy" and in the case of subsidiaries – by the principles outlined in their respective internal regulations.

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

Persons holding managerial positions are paid variable remuneration once a year following the end of the settlement period and release of the bank's results. Variable remuneration is awarded in accordance with applicable bonus regulations and paid in cash and phantom stock. The latter shall represent min. 50% of the total amount of variable remuneration. Payment of min. 40% of variable remuneration referred to above is conditional and deferred for the period of at least three years (13.3% per annum). Variable remuneration is paid in arrears in equal annual instalments depending on the business and quality results obtained and on individual performance in the period subject to assessment and the value of the phantom stock.

In H1 2020, the total remuneration paid to the Supervisory Board Members of Santander Bank Polska totalled PLN 734 k. Mr John Power received remuneration of PLN 25.6 k from subsidiaries for his membership in their Supervisory Boards.

In H1 2019, the total remuneration paid to the Supervisory Board Members of Santander Bank Polska totalled PLN 972.1 k. Mr John Power received remuneration for the supervision over the integration process with the acquired carve-out business of Deutsche Bank Poland by Santander Bank Polska in the amount of PLN 1,720.6 k. Mr John Power received remuneration of PLN 24.8 k from subsidiaries for his membership in their Supervisory Boards.

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

There were no changes in the business or economic circumstances that would affect the fair value of the entity's financial assets or financial liabilities, whether these assets or liabilities were recognised at fair value or amortised cost. Details in Note 31.

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

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

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

Management adjustment reflecting the risk related to the COVID -19 situation - details in Note 2.6.

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

As at 30.06.2020 and 31.12.2019 Santander Bank Polska and its subsidiaries had not issued any guarantees to one business unit or a subsidiary totalling a minimum of 10% of the issuer's equity.

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

Details in Note 14.

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

As at 30.06.2020 and 31.12.2019 or Santander Bank Polska S.A. or its subsidiaries have not made significant sales and purchases of property, plant and equipment. There were no significant liabilities arising from purchase of fixed assets either.

41. Acquisitions and disposals of investments in subsidiaries and associates

In 1H2020 there was no acquisitions and disposals of investments in subsidiaries and associates.

42. Dividend per share

Profit distribution for 2019

The Management Board of Santander Bank Polska S.A. informed that in compliance with the expectations issued by the Polish Financial Supervision Authority ("PFSA") in the letter dated 26th March 2020, has adopted today a resolution recommending the retention of the entire net profit achieved by the Bank in the accounting year commenced on 01.01.2019 and ended on 31.12.2019 in the amount of PLN 2,113,523,989.28 and the allocation of 50% of the Bank's net profit in amount of PLN 1,056,761,994.64 to the reserve capital and the amount of PLN 1,056,761,994.64 left undivided.

The Bank's Supervisory Board approved this recommendation.

The Management Board and the Supervisory Board was submit the above proposal along with the recommendation to the Annual General Meeting of the Bank. On 22th June 2020 General Meeting of the Bank approved recommendation of profit distribution for 2019.

The following are arguments to support the notified proposals regarding profit distribution for 2019.

As at 31st December 2019 the capital ratios amounted:

- Tier I ratio (T1) for the Bank 17,38% and for the Group 15,21%
- Total Capital Ratio for the Bank 19,58% and for the Group 17,07%

Considering above and the criteria regarding dividend payment presented in the PFSA's letter dated 24th December 2019 The Bank received from the PFSA recommendation dated 9th March 2020 regarding increasing the own funds of the Bank by retaining at least 50% of the net profit for the period from 1st January 2019 to 31st December 2019 ("Recommendation"). The PFSA's recommendation shows that as at 31st December 2019 the Bank met the criteria to pay to shareholders a dividend up to 50% of the Bank's net profit for the period from 1st January 2019 to 31st December 2019. However, in the letter dated 26th March 2020 the PFSA pointed that taking into account current situation related to the state of the epidemic announced in Poland and possible further negative economic consequences of this state, as well as their expected impact on banks, the PFSA expects that banking sector - regardless of any actions already undertaken in this respect - will retain entire profit earned in previous years.

The PFSA expects that no other actions are undertaken without agreement with the PFSA, in particular those actions outside of the scope of ongoing business and operating activities, which may result in weakening of capital position. Considering the PFSA's recommendation and expectation respectively of 9th March 2020 and 26th March 2020 and current changes in the macroeconomic environment, the Bank's Management Board proposed to retain the entire net profit for the period from 1 January to 31st December 2019 by allocating 50% of 2019 profit to the reserve capital and 50% of profit will be left undivided.

Regarding dividend from the Bank's net profit for 2018 and the Bank's undivided net profit for 2017 and 2016. Dividend pay – out date for 14.06.2019

The Management Board of Santander Bank Polska S.A. informed that, acting in full compliance with the individual recommendation issued by the Polish Financial Supervision Authority on 25th February 2019 to increase the Bank's own funds, it had adopted a resolution with recommendation to allocate 25% of net profit for 2018 to dividend.

The recommendation was approved by the Supervisory Board. At the same time, taking into account a good capital position of the Bank and Group, the Bank's Management Board decided to propose to allocate to the dividend for shareholders:

- PLN 514,026,364.32 from the Bank's undivided net profit for 2016,
- PLN 957,588,300.90 from the Bank's undivided net profit for 2017,
- PLN 541,068,016.50 from the Bank's net profit for 2018

which means that the proposed dividend:

- per one: A, B, C, D, E, F, G, H, I, J, K, L and N series share is PLN 19.72,
- per one: M series share is PLN 14.68.

The Management Board of the Bank proposed to set the dividend registration date for 30th May 2019 and the dividend payout date for 14th June 2019. The Annual General Meeting, held on 16th May 2019, made a decision on dividend payment.

43. Share based incentive scheme

On 17.05.2017, Annual General Meeting of the Shareholders of Santander Bank Polska S.A. approved three-year Incentive Scheme no. VI which participants are employees of the Santander Bank Polska Group (including Members of the Management Board), however not more than 250 individuals. On 26.06.2017 the Supervisory Board approved the list of entitled individuals ("grant date").

Vesting condition will be considered from two perspectives, separately for every year of operation of the scheme and on a cumulative basis after 3 years.

In every single year annual award not exceeding one third on total award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on profit after tax (PAT) growth and on RORWA ratio growth. The range of the scale requires PAT growth between "lower level" set to 80% of assumed level of realization in 2017 and "upper level" of nominal growth at 17,8% in first year and between "lower level" set to 80% of assumed level of realization in 2018 and 2019 and "upper level" of nominal growth at 13,4% in second and third year of duration of scheme. The range of the scale requires RORWA ratio growth between "lower level" set to 80% of assumed level of realization in 2017 and "upper level" of nominal growth at 2,24% in first year, between "lower level" set to 80% of assumed level of realization in 2018 and "upper level" of nominal growth at 2,37% in second year and between "lower level" set to 80% of assumed level of realization in 2019 and "upper level" of nominal growth at 2,5% in third year of duration of scheme.

Additionally the qualitative factors will be taken into account – participants are entitled to annual award depending on the level of an external customer satisfaction and engagement survey results (an internal customer). The level of customer satisfaction will be met when in the peer group Bank will be on second place in first and second year and on the first place in third year of duration of the scheme. The engagement survey results will not be lower than 50% in first year, 60% in second year and 70% in third year of duration of scheme.

Additionally, after 3 years cumulative award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on PAT compound annual growth rate in 3 years' time between 11,7% and 15% and on average value of RORWA ratio in 3 years' time between 1,9% and 2,38%. If number of shares resulting from cumulative assessment will be higher than sum of annual awards vested to date, additional shares will be allocated to individuals up to the amount resulting from cumulative assessment.

The Black Scholes model has been used to value awards granted at the grant date. The expected volatility of the values of shares is based on an analysis of historical volatility of share prices based on 160 sessions preceding the grant date. The following table details the assumptions used, and the resulting fair value.

The sixth edition of the incentive scheme vested as at 20/02/2020. The vesting level is 100% in relation to annual award for 2017 and 2018 and 65.34% of the annual award for 2019. Due to the achievement by Santander Bank Polska Group of the objectives defined in Resolution of the Bank's Annual General Meeting of 17.05.2017, on the 20.06.2020, the AGM of the Shareholders decided to increase the share capital by an amount not higher than PLN 1,050 k, i.e. to an amount not higher than PLN 1,021,933 k by issuing no more than 105,000 series O ordinary bearer shares with a nominal value of PLN 10.00 each. Its realization through issuance of new shares and their allocation to individual accounts of entitled individuals will be finalised in Q4 2020.

Share based payments granted in 2017:

	2017
Number of share based payments	131 262
Share price	350.00 PLN
Exercise price in PLN	10
Vesting period	3 years
Expected volatility of share prices	30.07%
Award life	3 years
Discounted risk free rate	2.12%
Fair value per award	323.36 PLN
Dividend yield	1.71%

The table below summaries movement in the plan:

	6 months of 2020	6 months of 2019
	share based payments	share based payments
Outstanding at 1 January	115 219	120 686
Granted	120	-
Exercised	-	-
Forfeited	(1 695)	(4 507)
Expired	(12 635)	-
Outstanding at 30 June	101 009	116 179
Exercisable at 30 June	-	-

For the share based payments outstanding as at 30 June 2020 and as at 30 June 2019 the average remaining contractual life is approximately 0 year and 1 year respectively.

The expenses of sixth edition of equity settled share-based payments scheme recognized in profit and loss account for 6 months of 2020 and 2019 amounts to PLN 1,606 k and PLN 5,519 k respectively.

The table below presents information about the number of conditional rights to shares vested in Santander Bank Polska SA Management Board members under the Long-term 6th Incentive Scheme.

No. of awards	30.06.2020	30.06.2019
Outstanding at 1 January	25 160	27 220
Granted	-	820
Expired	(2 900)	-
Exercised	-	-
Resignation from the function	-	(2 880)
Outstanding at 30 June	22 260	25 160
Exercisable at 30 June	-	-

The table below presents information about the number of conditional rights to shares vested in Santander Bank Polska Group Key Management.

No. of awards	30.06.2020	30.06.2019
Outstanding at 1 January	38 303	42 652
Granted	120	1 820
Expired	(4 701)	-
Exercised	-	-
Change due to inclusion in key management personnel	3 234	-
Change due to exclusion from key management personnel	(5 917)	(7 192)
Outstanding at 30 June	31 039	37 280
Exercisable at 30 June	-	-

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

There were no major events subsequent to the end of the interim period.

Signatures of the persons representing the entity

Date	Name	Function	Signature
28.07.2020	Michał Gajewski	President	
28.07.2020	Andrzej Burliga	Vice-President	
28.07.2020	Michael McCarthy	Vice-President	
28.07.2020	Juan de Porras Aguirre	Vice-President	
28.07.2020	Arkadiusz Przybył	Vice-President	
28.07.2020	Patryk Nowakowski	Member	
28.07.2020	Carlos Polaino Izquierdo	Member	
28.07.2020	Maciej Reluga	Member	
28.07.2020	Dorota Strojowska	Member	

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

Date	Name	Function	Signature
28.07.2020	Wojciech Skalski	Financial Accounting Area Director	