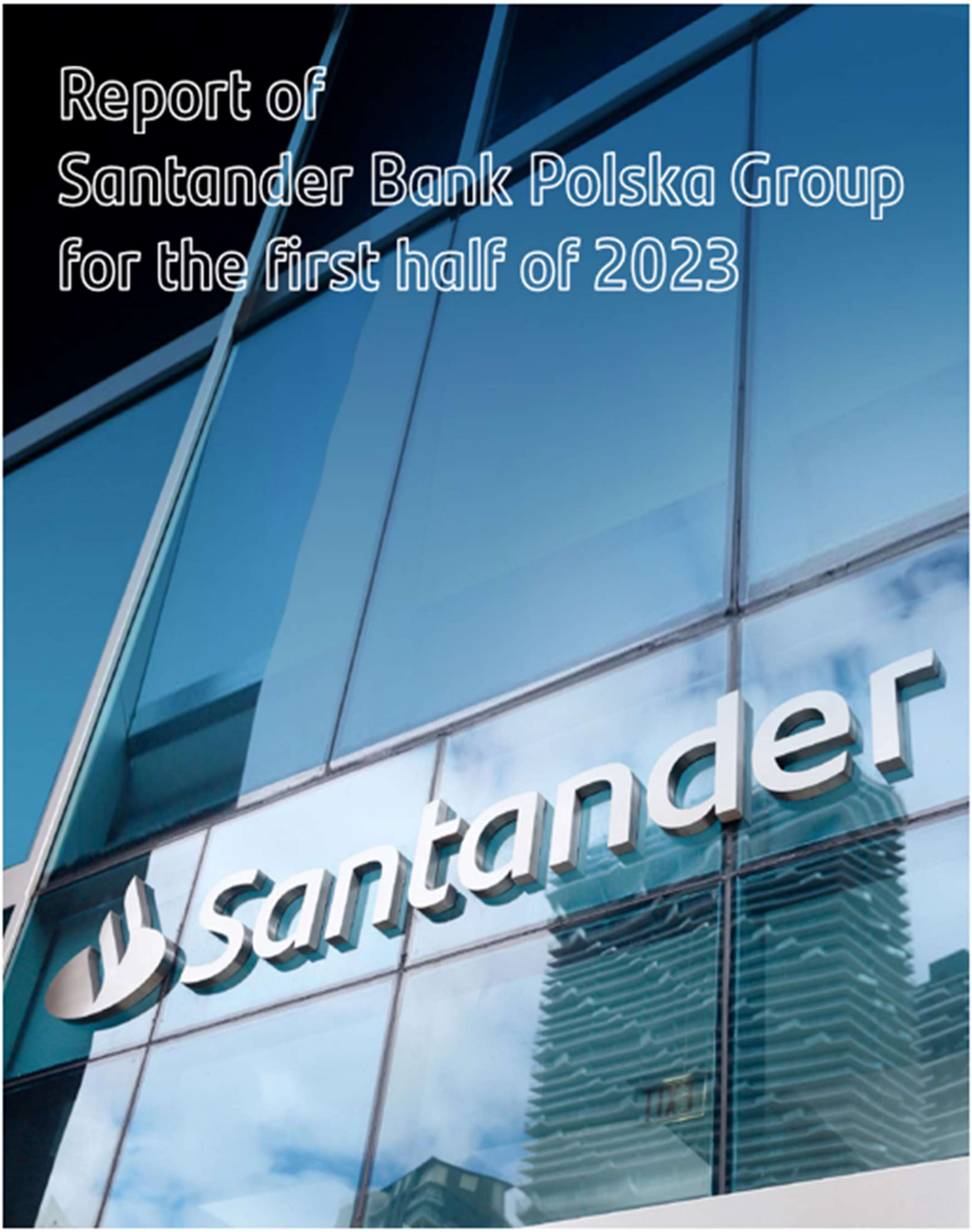
Report of Santander Bank Polska Group for the first half of 2023



FINANCIAL HIGHLIGHTS		PLN k		EUR k	
		1.01.2023-30.06.2023	1.01.2022-30.06.2022	1.01.2023-30.06.2023	1.01.2022-30.06.2022
	Condensed consolidated financial statements of Santander Bank Polska Group				
I	Net interest income	6 292 470	5 178 794	1 364 073	1 115 470
II	Net fee and commission income	1 339 964	1 281 428	290 476	276 009
III	Profit before tax	3 212 208	2 472 694	696 338	532 598
IV	Net profit attributable to owners of the parent entity	2 322 216	1 616 390	503 407	348 157
V	Total net cash flows	(323 704)	(6 544 346)	(70 172)	(1 409 599)
VI	Profit of the period attributable to non-controlling interests	41 245	123 875	8 941	26 682
VII	Profit per share in PLN/EUR	22,72	15,82	4,93	3,41
VIII	Diluted earnings per share in PLN/EUR	22,72	15,82	4,93	3,41
	Condensed interim separate financial statements of Santander Bank Polska S.A.				
I	Net interest income	5 495 770	4 379 583	1 191 366	943 327
II	Net fee and commission income	1 195 656	1 142 844	259 193	246 159
III	Profit before tax	3 185 914	2 120 105	690 638	456 653
IV	Net profit for the period	2 373 370	1 476 210	514 496	317 964
V	Total net cash flows	(141 837)	(6 281 575)	(30 747)	(1 353 000)
VI	Profit per share in PLN/EUR	23,23	14,45	5,04	3,11
VII	Diluted earnings per share in PLN/EUR	23,23	14,45	5,04	3,11

FINANCIAL HIGHLIGHTS		PLN k		EUR k	
		30.06.2023	31.12.2022	30.06.2023	31.12.2022
	Condensed consolidated financial statements of Santander Bank Polska Group				
I	Total assets	263 777 159	259 167 215	59 271 770	55 260 712
II	Deposits from banks	4 419 555	4 031 252	993 091	859 560
III	Deposits from customers	200 655 621	196 496 806	45 088 111	41 897 867
IV	Total liabilities	230 369 016	229 051 877	51 764 828	48 839 395
V	Total equity	33 408 143	30 115 338	7 506 942	6 421 318
VI	Non-controlling interests in equity	1 831 379	1 797 255	411 518	383 218
VII	Number of shares	102 189 314	102 189 314		
VIII	Net book value per share in PLN/EUR	326,92	294,70	73,46	62,84
IX	Capital ratio	20,77%	21,13%*		
X	Declared or Paid dividend per share in PLN/EUR	-**	2,68	-**	0,57
	Condensed interim separate financial statements of Santander Bank Polska S.A.				
I	Total assets	240 758 094	238 098 041	54 099 295	50 768 255
II	Deposits from banks	2 286 790	2 245 128	513 851	478 716
III	Deposits from customers	188 047 093	185 655 260	42 254 925	39 586 187
IV	Total liabilities	211 210 475	211 802 781	47 459 829	45 161 471
V	Total equity	29 547 619	26 295 260	6 639 467	5 606 785
VI	Number of shares	102 189 314	102 189 314		
VII	Net book value per share in PLN/EUR	289,15	257,32	64,97	54,87
VIII	Capital ratio	24,45%	24,32%*		
IX	Declared or Paid dividend per share in PLN/EUR	-**	2,68	-**	0,57

*The data includes profits included in own funds, taking into account the applicable EBA guidelines
**Detailed information are described in Note 44.

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

- for balance sheet items – average NBP exchange rate as at 30.06.2023: EUR 1 = PLN 4,4503 and as at 31.12.2022: EUR 1 = PLN 4,6899
- for profit and loss items – as at 30.06.2023 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in 2023: EUR 1 = PLN 4,6130; as at 30.06.2022 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in 2022: EUR 1 = PLN 4,6427

As at 30.06.2023, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 125/A/NBP/2023 dd. 30.06.2023.

Condensed Interim Consolidated Financial Statements

of Santander Bank Polska Group for the 6-month period ended 30 June 2023

Santander

I. Condensed consolidated income statement

for the period:		1.04.2023-30.06.2023	1.01.2023-30.06.2023	1.04.2022-30.06.2022	1.01.2022-30.06.2022
Interest income and similar to interest		**4 546 302**	**8 884 751**	**3 438 855**	**5 901 553**
Interest income on financial assets measured at amortised cost		3 728 773	7 273 344	2 732 292	4 671 251
Interest income on financial assets measured at fair value through other comprehensive income		567 067	1 111 160	533 234	927 925
Income similar to interest on financial assets measured at fair value through profit or loss		22 201	54 747	19 339	34 689
Income similar to interest on finance leases		228 261	445 500	153 990	267 688
Interest expense		**(1 346 123)**	**(2 592 281)**	**(504 010)**	**(722 759)**
Net interest income	Note 6	**3 200 179**	**6 292 470**	**2 934 845**	**5 178 794**
Fee and commission income		854 935	1 635 551	782 283	1 576 526
Fee and commission expense		(177 366)	(295 587)	(161 582)	(295 098)
Net fee and commission income	Note 7	**677 569**	**1 339 964**	**620 701**	**1 281 428**
Dividend income		9 777	9 942	8 684	8 919
Net trading income and revaluation	Note 8	16 931	143 884	(29 153)	30 231
Gains (losses) from other financial securities	Note 9	(542)	4 635	(34 671)	(33 196)
Gain/loss on derecognition of financial instruments measured at amortised cost	Note 33	(79 367)	(263 343)	(22 736)	(38 911)
Other operating income	Note 10	45 606	73 073	47 911	85 969
Impairment allowances for expected credit losses	Note 11	(357 601)	(590 232)	(110 252)	(229 533)
Cost of legal risk associated with foreign currency mortgage loans	Note 33	(728 877)	(1 149 479)	(850 918)	(947 379)
Operating expenses incl.:		(1 062 575)	(2 313 369)	(1 342 797)	(2 532 092)
-Staff, operating expenses and management costs	Note 12,13	(888 786)	(1 978 437)	(1 173 293)	(2 189 278)
-Amortisation of property, plant and equipment and Intangible assets		(102 406)	(199 407)	(92 872)	(187 128)
-Amortisation of right of use asset		(39 131)	(76 369)	(38 263)	(76 563)
-Other operating expenses	Note 14	(32 252)	(59 156)	(38 369)	(79 123)
Share in net profits (loss) of entities accounted for by the equity method		27 113	52 192	15 762	36 050
Tax on financial institutions		(192 013)	(387 529)	(190 746)	(367 586)
Profit before tax		**1 556 200**	**3 212 208**	**1 046 630**	**2 472 694**
Corporate income tax	Note 15	(409 548)	(848 747)	(335 631)	(732 429)
Consolidated net profit for the period		**1 146 652**	**2 363 461**	**710 999**	**1 740 265**
of which:					
-attributable to owners of the parent entity		1 130 226	2 322 216	656 858	1 616 390
-attributable to non-controlling interests		16 426	41 245	54 141	123 875
Net earnings per share					
Basic earnings per share (PLN/share)		11,06	22,72	6,43	15,82
Diluted earnings per share (PLN/share)		11,06	22,72	6,43	15,82

II. Condensed consolidated statement of comprehensive income

for the period:	1.04.2023-30.06.2023	1.01.2023-30.06.2023	1.04.2022-30.06.2022	1.01.2022-30.06.2022
Consolidated net profit for the period	**1 146 652**	**2 363 461**	**710 999**	**1 740 265**
Items that will be reclassified subsequently to profit or loss:	**302 036**	**832 030**	**1 124 457**	**(117 956)**
Revaluation and sales of debt financial assets measured at fair value through other comprehensive income gross	132 150	566 966	1 576 154	171 421
Deferred tax	(25 108)	(107 723)	(299 469)	(32 570)
Revaluation of cash flow hedging instruments gross	240 449	459 946	(187 936)	(317 046)
Deferred tax	(45 455)	(87 159)	35 708	60 239
Items that will not be reclassified subsequently to profit or loss:	**19 324**	**19 321**	**(13 657)**	**(4 739)**
Revaluation of equity financial assets measured at fair value through other comprehensive income gross	22 433	22 429	(16 860)	(5 850)
Deferred and current tax	(4 263)	(4 262)	3 203	1 111
Provision for retirement benefits – actuarial gains/losses gross	1 425	1 425	-	-
Deferred tax	(271)	(271)	-	-
Total other comprehensive income, net	**321 360**	**851 351**	**1 110 800**	**(122 695)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1 468 012**	**3 214 812**	**1 821 799**	**1 617 570**
Total comprehensive income attributable to:				
- owners of the parent entity	1 444 400	3 142 827	1 784 369	1 531 519
- non-controlling interests	23 612	71 985	37 430	86 051

III. Condensed consolidated statement of financial position

	as at:	30.06.2023	31.12.2022
ASSETS			
Cash and balances with central banks	Note 16	10 376 739	10 170 022
Loans and advances to banks	Note 17	9 729 626	9 577 499
Financial assets held for trading	Note 18	8 473 700	6 883 616
Hedging derivatives	Note 19	853 944	549 177
Loans and advances to customers incl.:	Note 20	156 867 276	152 508 692
- measured at amortised cost		141 812 759	137 888 696
- measured at fair value through other comprehensive income		2 650 562	2 628 660
- measured at fair value through profit and loss		104 455	239 694
- from finance leases		12 299 500	11 751 642
Reverse sale and repurchase agreements		9 373 287	13 824 606
Investment securities incl.:	Note 21	60 207 976	55 371 137
- debt securities measured at fair value through other comprehensive income		40 739 488	39 539 535
- debt securities measured at fair value through profit and loss		68 902	64 707
- debt investment securities measured at amortised cost		19 167 299	15 499 348
- equity securities measured at fair value through other comprehensive income		226 728	204 299
- equity securities measured at fair value through profit and loss		5 559	63 248
Assets pledged as collateral		-	2 318 219
Investments in associates	Note 22	910 184	921 495
Intangible assets		756 482	740 756
Goodwill		1 712 056	1 712 056
Property, plant and equipment		646 506	688 262
Right of use assets		508 489	497 352
Deferred tax assets		1 855 931	2 098 733
Fixed assets classified as held for sale	Note 23	4 839	5 973
Other assets		1 500 124	1 299 620
Total assets		**263 777 159**	**259 167 215**

Notes presented on pages 13-62 constitute an integral part of this Financial Statements

	as at:	30.06.2023	31.12.2022
LIABILITIES AND EQUITY			
Deposits from banks	Note 24	4 419 555	4 031 252
Hedging derivatives	Note 19	1 221 258	1 979 089
Financial liabilities held for trading	Note 18	7 640 664	7 108 826
Deposits from customers	Note 25	200 655 621	196 496 806
Sale and repurchase agreements		-	2 324 926
Subordinated liabilities	Note 26	2 723 525	2 807 013
Debt securities in issue	Note 27	8 483 230	9 330 648
Lease liabilities		399 578	419 965
Current income tax liabilities		523 848	80 751
Deferred tax liability		282	281
Provisions for financial liabilities and guarantees granted	Note 28	63 720	61 869
Other provisions	Note 29	766 569	627 311
Other liabilities	Note 30	3 471 166	3 783 140
Total liabilities		230 369 016	229 051 877
Equity			
Equity attributable to owners of the parent entity		31 576 764	28 318 083
Share capital		1 021 893	1 021 893
Other reserve capital		27 403 094	23 858 400
Revaluation reserve		(299 360)	(1 131 335)
Retained earnings		1 128 921	1 770 027
Profit for the period		2 322 216	2 799 098
Non-controlling interests in equity		1 831 379	1 797 255
Total equity		33 408 143	30 115 338
Total liabilities and equity		**263 777 159**	**259 167 215**

IV. Condensed consolidated statement of changes in equity

Consolidated statement of changes in equity 1.01.2023 - 30.06.2023	Share capital	Own shares	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total	Non-controlling interests	Total equity
	Equity attributable to owners of parent entity							
As at the beginning of the period	**1 021 893**	**-**	**23 858 400**	**(1 131 335)**	**4 569 125**	**28 318 083**	**1 797 255**	**30 115 338**
Total comprehensive income	-	-	-	820 611	2 322 216	3 142 827	71 985	3 214 812
Consolidated profit for the period	*-*	*-*	*-*	*-*	*2 322 216*	*2 322 216*	*41 245*	*2 363 461*
Other comprehensive income	*-*	*-*	*-*	*820 611*	*-*	*820 611*	*30 740*	*851 351*
Inclusion of share based incentive scheme	-	-	153 403	-	-	153 403	-	153 403
Purchase of own shares	-	(48 884)	-	-	-	(48 884)	-	(48 884)
Settlement of the purchase of own shares under share based incentive scheme	-	48 884	(48 249)	-	-	635	-	635
Profit allocation to other reserve capital	-	-	3 440 191	-	(3 440 191)	-	-	-
Profit allocation to dividends	-	-	-	-	-	-	(37 861)	(37 861)
Other changes	-	-	(651)	11 364	(13)	10 700	-	10 700
As at the end of the period	**1 021 893**	**-**	**27 403 094**	**(299 360)**	**3 451 137**	**31 576 764**	**1 831 379**	**33 408 143**

Details regarding the share based incentive scheme are described in note 43.

As at the end of the period revaluation reserve in the amount of PLN (299,360) k comprises: revaluation of debt securities in the amount of PLN (529,480) k, revaluation of equity securities in the amount of PLN 161,470 k, revaluation of cash flow hedge activities in the amount of PLN 54,766 k and accumulated actuarial gains - provision for retirement allowances of PLN 13,884 k.

Consolidated statement of changes in equity 1.01.2022 - 30.06.2022	Share capital	Own shares	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total	Non-controlling interests	Total equity
	Equity attributable to owners of parent entity							
As at the beginning of the period	**1 021 893**	**-**	**22 178 344**	**(1 354 715)**	**3 686 158**	**25 531 680**	**1 681 896**	**27 213 576**
Total comprehensive income	-	-	-	(84 871)	1 616 390	1 531 519	86 051	1 617 570
Consolidated profit for the period	*-*	*-*	*-*	*-*	*1 616 390*	*1 616 390*	*123 875*	*1 740 265*
Other comprehensive income	*-*	*-*	*-*	*(84 871)*	*-*	*(84 871)*	*(37 824)*	*(122 695)*
Profit allocation to other reserve capital	-	-	1 680 056	-	(1 680 056)	-	-	-
Profit allocation to dividends	-	-	-	-	(273 867)	(273 867)	(76 258)	(350 125)
Transfer of revaluation of equity financial assets measured at fair value through other comprehensive income	-	-	-	(37 792)	37 792	-	-	-
Other changes	-	-	-	(16 302)	-	(16 302)	-	(16 302)
As at the end of the period	**1 021 893**	**-**	**23 858 400**	**(1 493 680)**	**3 386 417**	**26 773 030**	**1 691 689**	**28 464 719**

As at the end of the period revaluation reserve in the amount of PLN (1,493,680) k comprises: revaluation of debt securities in the amount of PLN (1,343,652) k, revaluation of equity securities in the amount of PLN 121,527 k, revaluation of cash flow hedge activities in the amount of PLN (284,837) k and accumulated actuarial gains - provision for retirement allowances of PLN 13,282 k.

V. Condensed consolidated statement of cash flows

for the period:	1.01.2023-30.06.2023	1.01.2022-30.06.2022
Cash flows from operating activities		
Profit before tax	**3 212 208**	**2 472 694**
Adjustments for:		
Share in net profits of entities accounted for by the equity method	(52 192)	(36 050)
Depreciation/amortisation	275 776	263 691
Net gains on investing activities	(1 406)	1 536
Interest accrued excluded from operating activities	(873 918)	(730 952)
Dividends	(87 227)	(85 550)
Impairment losses (reversal)	3 823	4 800
Changes in:		
Provisions	141 109	110 675
Financial assets / liabilities held for trading	(1 116 436)	(352 246)
Assets pledged as collateral	(22 882)	(20 563)
Hedging derivatives	(824 672)	(259 159)
Loans and advances to banks	2 220 095	(324 554)
Loans and advances to customers	(11 265 563)	(10 736 153)
Deposits from banks	49 716	693 801
Deposits from customers	6 626 213	(1 228 675)
Buy-sell/ Sell-buy-back transactions	(2 929 366)	(112 989)
Other assets and liabilities	(206 862)	826 113
Interest received on operating activities	7 462 297	4 730 531
Interest paid on operating activities	(2 555 125)	(597 227)
Paid income tax	(364 958)	(387 296)
Net cash flows from operating activities	**(309 370)**	**(5 767 573)**
Cash flows from investing activities		
Inflows	**8 556 103**	**5 864 190**
Sale/maturity of investment securities	7 355 065	5 186 350
Sale of intangible assets and property, plant and equipment	17 474	27 138
Dividends received	82 497	4 297
Interest received	1 101 067	646 405
Outflows	**(7 600 812)**	**(3 089 302)**
Purchase of investment securities	(7 410 090)	(2 984 018)
Purchase of intangible assets and property, plant and equipment	(190 722)	(105 284)
Net cash flows from investing activities	**955 291**	**2 774 888**

Notes presented on pages 13-62 constitute an integral part of this Financial Statements

Cash flows from financing activities		
Inflows	**4 277 104**	**5 777 971**
Debt securities in issue	2 310 000	2 711 350
Drawing of loans	1 967 104	3 066 621
Outflows	**(5 246 729)**	**(9 329 632)**
Debt securities buy out	(2 976 050)	(5 309 569)
Repayment of loans and advances	(1 719 928)	(3 406 478)
Repayment of lease liabilities	(84 024)	(86 886)
Dividends to shareholders	(37 861)	(332 350)
Purchase of own shares	(48 884)	-
Interest paid	(379 982)	(194 349)
Net cash flows from financing activities	**(969 625)**	**(3 551 661)**
Total net cash flows	**(323 704)**	**(6 544 346)**
Cash and cash equivalents at the beginning of the accounting period	**34 493 039**	**18 346 368**
Cash and cash equivalents at the end of the accounting period	**34 169 335**	**11 802 022**

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.

Condensed interim consolidated financial statement of Santander Bank Polska Group for the 6-month period ended 30 June 2023 includes Bank's financial information as well as information of its subsidiaries (forming together the "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 30.06.2023	[%] of votes on AGM at 31.12.2022
1.	Santander Finanse sp. z o.o.	Poznań	100%	100%
2.	Santander Factoring 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.	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 Inwestycje sp. z o.o.	Warszawa	100%	100%
5.	Santander F24 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.
6.	Santander Towarzystwo Funduszy Inwestycyjnych S.A. [1)]	Poznań	50%	50%
7.	Santander Consumer Bank S.A.	Wrocław	60%	60%
8.	Santander Consumer Finanse sp. z o.o.[2)]	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.
9.	Stellantis Financial Services 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 Stellantis Financial Services S.A.	50% of AGM votes are held by Santander Consumer Bank S.A. and 50% of AGM votes are held by Stellantis Financial Services S.A.
10.	Stellantis Consumer Financial Services Polska Sp. z o.o. [3)]	Warszawa	100% of AGM votes are held by Stellantis Financial Services Polska Sp. z o.o	100% of AGM votes are held by Stellantis Financial Services Polska Sp. z o.o
11.	Santander Consumer Multirent sp. z o.o.	Wrocław	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
12.	SCM POLAND AUTO 2019-1 DAC [4)]	Dublin	subsidiary of Santander Consumer Multirent S.A.	subsidiary of Santander Consumer Multirent S.A.
13.	Santander Consumer Financial Solutions Sp. z o.o. [5)]	Wrocław	subsidiary of Santander Consumer Multirent S.A.	subsidiary of Santander Consumer Multirent S.A.
14.	S.C. Poland Consumer 23-1 DAC. [6)]	Dublin	subsidiary of Santander Consumer Bank S.A.	subsidiary of Santander Consumer Bank S.A.

1. The owners of Santander Towarzystwo Funduszy Inwestycyjnych S.A. (Santander TFI S.A.), i.e. Santander Bank Polska S.A. and Banco Santander S.A., are members of global Santander Group and hold an equal stake of 50% in the company's share capital. In practice, Santander Bank Polska S.A. exercises control over Santander TFI S.A. within the meaning of the International Financial Reporting Standards (IFRS) because it has a real impact on the company's operations and financial performance as its main business partner and distributor of investment products.

2. The General Meeting held on 23 December 2020 adopted a resolution to dissolve Santander Consumer Finanse Sp. z o.o. and start the liquidation process.

3. According to the Management Board of Santander Bank Polska Group, the investment in Stellantis Financial Services Polska Sp. z o.o. is an investment in a subsidiary for the purpose of consolidated financial statements due to the fact that it is controlled by Santander Consumer Bank S.A (directly) and Santander Bank Polska S.A. (indirectly).

On 3 April 2023, PSA Finance Polska Sp. z o.o. was renamed Stellantis Financial Services Polska Sp. z o.o., while PSA Consumer Finance Polska Sp. z o.o. operates under the name Stellantis Consumer Financial Services Polska Sp. z o.o.

4. On 18 November 2019, SCM Poland Auto 2019-1 Designated Activity Company with its registered office in Dublin was incorporated under Irish law. It is a special purpose vehicle established to securitise the lease portfolio. The company is controlled by Santander Consumer Multirent Sp. z o.o and its shareholder is a legal person that is not connected with the Group.

5. On 27 August 2020, Santander Consumer Financial Solutions Sp. z o.o. (SCFS Sp. z o.o.) with its registered office in Wrocław was incorporated under Polish law. The company offers lease of passenger cars, lease loans and finance lease for consumers. It is a wholly-owned subsidiary of Santander Consumer Multirent Sp. z o.o.

6. On 17 June 2022, SC Poland 23-1 Designated Activity Company with its registered office in Dublin was incorporated under Irish law. It is a special purpose vehicle established to securitise the retail loan portfolio. The company is controlled by Santander Consumer Bank S.A. and its shareholder is a legal person that is not connected with the Group

Associates:

	Associates	Registered office	[%] of votes on AGM at 30.06.2023	[%] of votes on AGM at 31.12.2022
1.	POLFUND - Fundusz Poręczeń Kredytowych S.A.	Szczecin	50%	50%
2.	Santander - Allianz Towarzystwo Ubezpieczeń S.A.	Warszawa	49%	49%
3.	Santander - Allianz Towarzystwo Ubezpieczeń na Życie S.A.	Warszawa	49%	49%

2. Basis of preparation of condensed interim consolidated financial statements

2.1. Statement of compliance

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

The accounting principles were applied uniformly by individual units of the Santander Bank Polska S.A. Group. Santander Bank Polska S.A. Group applied the same accounting principles and calculation methods as in the preparation of the consolidated financial statements for the year ended as at 31 December 2022, except for the income tax charge, which was calculated in accordance with the principles set out in IAS34.30c and changes in accounting standards p. 2.4.

2.2. Basis of preparation of financial statements

Presented consolidated condensed interim financial statement does not contain information and disclosures required in annual financial statement and should be read together with consolidated financial statements as at 31 December 2022.

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

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

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

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

Item	Balance sheet valuation rules
Held-for-trading financial instruments	Fair value through profit or loss
Loans and advances to customers which meet the contractual cash flows test	Amortized cost
Loans and advances to customers which do not meet the contractual cash flows test	Fair value through profit or loss
Financial instruments measured at fair value through other comprehensive income	Fair value through other comprehensive income
Share-based payment transactions	According to IFRS 2 "Share-based payment" requirements
Equity investment financial assets	Fair value through other comprehensive income – an option
Equity financial assets-trading	Fair value through profit or loss
Debt securities measured at fair value through profit or loss	Fair value through profit or loss
Non-current assets	The purchase price or production cost reduced by total depreciation charges and total impairment losses
Right of use assets (IFRS 16)	Initial measurement 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.

2.3. 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 and have not been early adopted

IFRS	Nature of changes	Effective from	Influence on Santander Bank Polska S.A. Group
Amendments to IAS 1	The amendments affect requirements for the presentation of liabilities. Specifically, they clarify one of the criteria for classifying a liability as non-current.	1 January 2024	The amendment will not have a significant impact on consolidated financial statements.*
Amendments to IFRS 16	Change in the calculation of the lease liability in sale and leaseback transactions.	1 January 2024	The amendment will not have a significant impact on consolidated financial statements.*

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

2.4 Standards and interpretations or changes to existing standards or interpretations which were applied for the first time in the accounting year 2023

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, reassurance recognition, separation of the investment component and presentation of particular items of the balance sheet and profit and loss account of reporting units including the separate presentation of insurance revenues, insurance service expenses and insurance finance income or expenses.	1 January 2023	The Group considered the impact of the standard on the valuation of investments in associates and performance guarantee. The Group assesses this impact on the consolidated financial statements as insignificant.
Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Amendments to IAS 8 include definition of accounting estimates, which should help to distinguish between accounting policies and accounting estimates.	1 January 2023	The amendment does not have a significant impact on consolidated financial statements.
Amendments to IAS 12	Amendments clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.	1 January 2023	The amendment does not have a significant impact on consolidated financial statements.
Amendments to IAS 1	The amendment concern accounting policy disclosures with regard to the scope of such disclosures.	1 January 2023	The amendment does not have a significant impact on consolidated financial statements.

2.5 Use of estimates

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

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

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

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

Key estimates include:

- Allowances for expected credit losses
- Estimates for legal claims
- Estimates for legal risk arising from mortgage loans in foreign currencies
- Estimates of the impact of payment deferrals under the Crowdfunding Act for business and support to borrowers

Allowances for expected credit losses in respect of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

A credit-impaired assets

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

- significant financial difficulty of the issuer or debtor;
- a breach of contract, e.g. delay in repayment of interest or principal over 90 days in an amount exceeding the materiality threshold (PLN 400 for individual and small and medium-sized enterprises and PLN 2,000 for business and corporate clients) and at the same time relative thresholds (above 1% of the amount past due in relation to the balance sheet amount);
- 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, which fulfil below criteria:
  (1) restructuring transactions classified in the Stage 3 category (before restructuring decision),
  (2) transactions restructured in the contingency period that meet the criteria for reclassification to the Stage 3 (quantitative and/or qualitative),
  (3) transactions restructured during the contingency period previously classified as non-performing due to observed customer financial difficulties, have been restructured again or are more than 30 days past due,
  (4) restructured transactions, where contractual clauses have been applied that defer payments through a grace period for repayment of the principal for a period longer than two years,
  (5) restructured transactions including debt write-off, interest grace periods or repaid in installments without contractual interest,
  (6) restructured transactions, where there was a decrease in the net present value of cash flows (NPV) of at least 1% compared to the NPV before the application of the forbearance measures,
  (7) transactions where there is a repeated failure to comply with the established payment plan of previous forbearances that has led to successive forbearances of the same exposure (transaction),
  (8) transactions where:
    - inadequate repayment schedules were applied, which are related to, inter alia, repeated situations of non-compliance with the schedule, changes in the repayment schedule in order to avoid situations of non-compliance with it, or
    - a repayment schedule that is based on expectations, unsupported by macroeconomic forecasts or credible assumptions about the borrower's ability or willingness to repay was applied,
  (9) transactions for which the Group has reasonable doubts as to the probability of payment by the customer.
- it becoming probable that the debtor will enter bankruptcy, recovery proceedings, arrangement or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- exposures subject to the statutory moratorium, the so-called Shield 4.0 (Act of 19 June 2020 on interest subsidies for bank loans granted to entrepreneurs affected by COVID-19) - application of a moratorium on the basis of a declaration of loss of source of income.

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

- In the case of individual customers, the probation period is 180 days.
- In the case of SME customers, the probation period is 180 days, and assessment of the customer's financial standing and repayment capacity is required in some cases. However, the exposure cannot be reclassified to Stage 1 or 2 in the case of fraud, client`s death, discontinuation of business, bankruptcy, or pending restructuring/ liquidation proceedings.
- In the case of business and corporate customers, the probation period is 92 days, and positive assessment of the financial standing is required (the Group assesses all remaining payments as likely to be repaid as scheduled in the agreement). The exposure cannot

be reclassified to Stage 1 or 2 in the case of fraud, discontinuation of business, or pending restructuring/ insolvency/ liquidation proceedings.

- Additionally, if the customer is in Stage 3 and subject to the forbearance process (incl. so-called Shield 4.0 moratoria), they may be reclassified to Stage 2 not earlier than after 365 days (from the start of forbearance or from the downgrade to the NPL portfolio, whichever is later) of regular payments, repayment by the client of the amount previously overdue / written off (if any) and after finding that there are no concerns as to the further repayment of the entire debt in accordance with the agreed terms of restructuring.

A significant increases in credit risk

One of the key elements of IFRS 9 is the identification of a significant increase in credit risk which determines the classification to Stage 2. The Group has developed detailed criteria for the definition of a significant increase in credit 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 the course of the decision process as well as in the process of transactions structuring.

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

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

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

ECL measurement

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

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

Determination of forward-looking information and their likelihood

Forward-looking events are reflected both in the process of estimating ECL and when determining a significant increase in credit risk, by developing appropriate macroeconomic scenarios and then reflecting them in the estimation of parameters for each scenario. The final parameter value and the ECL is the weighted average of the parameters weighted by the likelihood of each scenario. Group uses three scenario types: the baseline scenario and two alternative scenarios, which reflect the probable alternative options of the baseline scenario: upside and downside scenario. Scenario weights are determined using the expected GDP path and the confidence intervals for this forecast in such a way that the weights reflect the uncertainty about the future development of this factor.

The Group's models most often indicate the dependence of the quality of loan portfolios on the market situation in terms of the level of deposits, loans, as well as the levels of measures related to interest rates.

Baseline scenario

In 2022 the Polish economy expanded by 5.1% as the economy was slowing down due to shock related by Russian invasion on Ukraine and major tightening of monetary policy. Jump in demand after the pandemic, coupled with still depressed supply, additionally undermined by shock in energy goods, triggered very high inflation. The economy entered 2023 with low momentum, very high inflation and high interest rates. We are expecting the economy to gradually be shaking off the negative effect of shocks suffered in 2022, and reviving. Inflation is expected to be going down, but to remain elevated for an extended time.

In the baseline scenario, in 2023 the economy is expected to grow by 1.0%, starting from -0.2% in 1Q23 and then gradually improving. 2024 GDP growth is expected at 3.3%. CPI is to remain elevated, with 13.2% average growth in 2023 and 7.4% in 2024.

The government responded to rising inflation with more fiscal stimulus (cuts in taxes, new benefits) and this is one of factors increasing the inflation's persistence. 2023 is an election year in Poland and this is also likely to support accommodative fiscal policy. Decline in inflation will encourage the NBP to cut interest rates in 3Q23 and 4Q23 by 25bp and then continue and bring the NBP reference rate to 4.50% in 2Q25.

EURPLN was under influence of negative shocks and positive inflation spread between Poland and the euro zone in 2022. In 2023, however, the zloty was supported by declining risk of energy crisis, rapid improvement in balance of payments and by slower rate hikes in the USA. Still high inflation in Poland versus the euro zone is expected to undermine the zloty somewhat, sending EURPLN exchange rate above 4.60

High interest rates have undermined demand for loans in 2022, especially on the mortgage and consumer market. In general, however, loan growth is expected to gradually pick up strength with rebounding economy. Deposit growth recorded a high momentum, driven by an uptick in banking sectors' net foreign assets, but is expected to converge towards growth rate of loans.

Best case scenario

The upside scenario was built under an assumption that the impact of shock related to the Russian invasion on Ukraine dissipates faster, encouraging companies to investment more and consumers to spend more lavishly. This will also be positive for global economic climate, supporting Polish exports. In 2023 the economy is expected to grow by 2.3% and by 5.2% in 2024. %. CPI is to remain elevated, with 14.0% average growth in 2023 and 9.6% in 2024.

Stronger demand will fuel faster price growth, which will encourage the MPC to keep interest rate unchanged through 2023 and 2024. Improving economic performance and stable NBP interest rates will be supporting the zloty, averaging 4.66 per euro in 2023-24. Lower economic activity will positively affect the demand for loans in the banking system. Improving loan origination will be driving deposit growth higher, close to double digits.

Worst case scenario

The downside scenario was built under an assumption that the impact of shock related to the Russian invasion on Ukraine proves more long-lasting, affecting especially consumption and investment outlook. In 2023 the economy is expected to shrink by 0.9%. Slight improvement in economic activity will appear in 1Q24, with 2024 GDP growth expected at 1.6%. CPI is to remain elevated, with 12.7% average growth in 2023 and 5.6% in 2024. Slower growth will be driving unemployment rate higher, towards 4%.

The MPC will respond to weaker growth by cuts in interest rates, bringing the NBP reference rate to 5.75% at the end of 2023 and to 3.75% at the end of 2024. Weaker economic performance and low NBP interest rates will be undermining the zloty, averaging 4.75 per euro in 2023-24. Lower economic activity will negatively affect the demand for loans in the banking system. Deposits will also be slowing down, but will remain higher than loan growth thanks to stronger support from the fiscal policy.

The tables below present the key economic indicators arising from the respective scenarios.

Scenario as at 2023.06.30		baseline		best case		worst case	
likelihood		60%		20%		20%	
		2023	average, next 3 years	2023	average, next 3 years	2023	average, next 3 years
GDP	YoT	0.7%	3.4%	2.3%	5.2%	-0.9%	1.5%
WIBOR 3M	average	6.3%	4.7%	7.2%	6.4%	6.2%	2.9%
unemployment rate	% active	3.2%	3.4%	3.1%	3.1%	3.3%	4.0%
CPI	YoY	13.3%	4.9%	14.0%	6.8%	12.7%	3.4%
EURPLN	period-end	4.69	4.63	4.66	4.54	4.77	4.73

Management provisions

At the end of the second quarter of 2023, in addition to ECL resulting from the complex calculation model implemented in the system, Santander Bank Polska S.A. Group created management adjustments, updating the risk level with current and expected future events, which resulted in:

- withdrawn of the management provision in the amount of PLN 30 000 k on the portfolio of SME loans raised due to the increased share of external customers with a higher risk in sales. Expected increase of risk is already reflected in parameters used to ECL calculation since 30 June 2023,
- creation of the management provision in the amount of PLN 46 300 k on the corporate performing loan portfolio due to the observed LGD underestimation. Currently there is work under way to incorporate this observation in the model,
- withdrawn of the management provision in the amount of PLN 20 000 k on the corporate loan portfolio due to the increased impact of cost factors (inflation, energy prices) and in order to cover the increased risk in the sector of production and sale of durable goods,
- creation of the management provision in the amount of PLN 20 250 k on the corporate loan portfolio, including the Property portfolio, due to increased ECB interest rates,
- creation of the management provision in the amount of PLN 10 690 k on the portfolio of corporate loans due to risk of overestimation in the LGD model of expected recovery from collateral in the form of guarantees of Bank Gospodarstwa Krajowego,
- creation of the management provision in the amount of PLN 34,900 k for the write-offs planned in the second half of 2023, which require the creation of provision up to 100%.

Other management adjustments remained at the level of the fourth quarter of 2022 i.e.

- extension of the management provision in the amount of PLN 17 000 k due to the negative impact of macroeconomic factors and the deterioration of the financial situation of entities managed in the Global Relations Model operating in the sector of production/distribution and sale of household goods,
- management provision in the amount of PLN 19 600 k on the portfolio of mortgage-secured retail loans, the risk of which may increase after the cessation of assistance activities – payment holidays,
- management provision in the amount of PLN 20 000 k on the portfolio of SME leasing loans in order to cover the expected impact of the change in the rating model.

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 2023).

	additional expected credit loss (mPLN)				
reclassification from stage 1 to stage 2	individuals	mortgage loans	business	Total 30.06.2023	Total 31.12.2022
1%	21,0	8,3	7,3	36,7	36,3
5%	107,3	39,6	39,7	186,6	189,2
10%	213,6	63,2	78,2	355,0	356,2

The above estimates show expected variability of loss allowances as a result of transfers between Stage 1 and Stage 2, resulting in material changes in the degree to which exposures are covered with allowances in respect of different ECL horizons. Changes in forecasts of macroeconomic indicators may result in significant effects affecting the level of created provisions. Adoption of macroeconomic parameter estimates at only one scenario level (pessimistic or optimistic) will result in a one-off change in ECL at the level below.

Estimates for legal claims

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

Details on the value of the provisions and the assumptions made for their calculation are provided in Note 29.

Due to their specific nature, estimates related to legal claims of mortgage loans in foreign currencies are described below.

	in PLN m	change in ECL level			
scenario	**30.06.2023**				**31.12.2022**
	individuals	**mortgage loans**	**business**	**Total**	**Total**
best case	39,2	3,3	27,5	70,0	81,6
worst case	-39,1	-2,7	-30,0	-71,8	-77,2

Estimates for legal risk arising from mortgage loans in foreign currencies

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

Gross book value adjustment resulting from legal risk is estimated based on a number of assumptions, taking into account:a specific time horizon and a number of probabilities such as:

- the probability of possible settlements and
- the probability of submitting claims by borrowers,and
- the probability in terms of the number of disputes

which are described in more details in Note 33.

In 2022, the Group prepared a settlement scenario which reflects the level of losses for future settlements.

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

Santander Bank Polska Group accounts for the impact of legal risk as an adjustment to the gross book value of the mortgage loans portfolio. If there is no credit exposure or its value is insufficient, the impact of legal risk is presented as a provision according to IAS 37.

The result on legal risk is presented in a separate position in income statement "Cost of legal risk associated with foreign currency mortgage loans" and "Gain/loss on derecognition of financial instruments measured at amortised cost".

In the second quarter 2023, the Group recognized PLN 728,877 k as cost of legal risk related to mortgage loans in foreign currencies and PLN 79,367 k as a negative result of dercognition of financial instruments due to concluded settlements.

The Group will continue to monitor this risk in subsequent reporting periods.

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

Estimates of the impact of payment deferrals under the Crowdfunding Act for business and support to borrowers

Due to the increase in the assumed level of participation (in terms of volume) of installments possible to be deferred in 2023 from 63.8% at the end of 2022 to 64.7% at the end of the second quarter of 2023, the Group updated the estimates of the impact of credit payment holidays. The Group recognized PLN 44,000 thousand as a decrease in the carrying amount of the mortgage loan portfolio and a decrease in interest income.

The average full term level of participation assumed by the Group is 62.9% (62.5% at the end of 2022).

2.6 Change of accounting policy

Santander Bank Polska S.A. Group consistently applied the adopted accounting principles both for the reporting period for all reporting periods presented in these financial statements.

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 2023 the following changes were introduced:

- 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.
- allocation of tax on financial institutions on business segments
- change of allocation criteria of capital and net interest income from capital into business segments

Comparable data are adjusted accordingly.

In the part regarding Santander Bank Polska, the cost of legal risk connected with the portfolio of FX mortgage were presented in Retail Banking segment. Simultaneously, in the part regarding Santander Consumer Bank, the cost of legal risk connected with the portfolio of FX mortgage loans were presented in the Santander Consumer segment. More details regarding the above provisions are described in the note 33.

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

1.04.2023 - 30.06.2023	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate& Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**1 786 094**	**576 088**	**219 488**	**295 713**	**322 796**	**3 200 179**
incl. internal transactions	(65)	(1 329)	3 754	25 862	(28 222)	-
Fee and commission income	509 998	154 675	136 884	-	53 378	854 935
Fee and commission expense	(134 176)	(9 497)	(10 347)	-	(23 346)	(177 366)
Net fee and commission income	**375 822**	**145 178**	**126 537**	**-**	**30 032**	**677 569**
incl. internal transactions	82 428	46 405	(128 734)	-	(99)	-
Other income	**(62 311)**	**25 174**	**36 719**	**(33 708)**	**16 754**	**(17 372)**
incl. internal transactions	3 300	18 534	(21 100)	(735)	1	-
Dividend income	**9 522**	**-**	**246**	**-**	**9**	**9 777**
Operating costs	**(566 863)**	**(124 706)**	**(112 949)**	**(15 187)**	**(101 333)**	**(921 038)**
incl. internal transactions	-	-	-	437	(437)	-
Depreciation/amortisation	**(99 287)**	**(16 798)**	**(8 879)**	**-**	**(16 573)**	**(141 537)**
Impairment losses on loans and advances	**(187 768)**	**(73 340)**	**(15 895)**	**(810)**	**(79 788)**	**(357 601)**
Cost of legal risk associated with foreign currency mortgage loans	**(559 373)**	**-**	**-**	**-**	**(169 504)**	**(728 877)**
Share in net profits (loss) of entities accounted for by the equity method	**26 023**	**-**	**-**	**1 090**	**-**	**27 113**
Tax on financial institutions	**(103 863)**	**(44 149)**	**(36 546)**	**-**	**(7 455)**	**(192 013)**
Profit before tax	**617 998**	**487 445**	**208 721**	**247 098**	**(5 063)**	**1 556 200**
Corporate income tax						(409 548)
Consolidated profit for the period						**1 146 652**
of which:						
attributable to owners of the parent entity						1 130 226
attributable to non-controlling interests						16 426

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

1.04.2023-30.06.2023	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate& Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Fee and commission income	**509 998**	**154 675**	**136 884**	**-**	**53 378**	**854 935**
Electronic and payment services	46 131	17 824	6 746	-	-	70 701
Current accounts and money transfer	65 343	25 986	4 639	-	381	96 349
Asset management fees	55 671	100	-	-	-	55 771
Foreign exchange commissions	81 457	47 249	61 243	-	-	189 949
Credit commissions incl. factoring commissions and other	34 570	34 868	37 469	-	16 213	123 120
Insurance commissions	49 001	3 068	347	-	19 132	71 548
Commissions from brokerage activities	23 799	16	8 099	-	-	31 914
Credit cards	24 475	-	-	-	12 335	36 810
Card fees (debit cards)	123 073	5 202	608	-	-	128 883
Off-balance sheet guarantee commissions	670	19 774	15 680	-	95	36 219
Finance lease commissions	2 484	524	59	-	5 222	8 289
Issue arrangement fees	-	64	1 994	-	-	2 058
Distribution fees	3 324	-	-	-	-	3 324

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

1.01.2023 - 30.06.2023	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate& Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**3 591 992**	**1 139 861**	**425 300**	**502 610**	**632 707**	**6 292 470**
incl. internal transactions	(754)	(2 243)	5 337	53 542	(55 882)	-
Fee and commission income	962 681	306 220	266 566	-	100 084	1 635 551
Fee and commission expense	(211 395)	(19 119)	(18 184)	-	(46 889)	(295 587)
Net fee and commission income	**751 286**	**287 101**	**248 382**	**-**	**53 195**	**1 339 964**
incl. internal transactions	159 185	92 167	(251 139)	-	(213)	-
Other income	**(233 120)**	**49 215**	**106 446**	**7 314**	**28 394**	**(41 751)**
incl. internal transactions	6 230	35 404	(40 421)	(1 216)	3	-
Dividend income	**9 675**	**-**	**248**	**-**	**19**	**9 942**
Operating costs	**(1 239 074)**	**(288 187)**	**(240 077)**	**(24 706)**	**(245 549)**	**(2 037 593)**
incl. internal transactions	-	-	-	1 055	(1 055)	-
Depreciation/amortisation	**(193 899)**	**(31 868)**	**(17 408)**	**-**	**(32 601)**	**(275 776)**
Impairment losses on loans and advances	**(349 767)**	**(90 032)**	**(26 399)**	**(780)**	**(123 254)**	**(590 232)**
Cost of legal risk associated with foreign currency mortgage loans	**(907 622)**	**-**	**-**	**-**	**(241 857)**	**(1 149 479)**
Share in net profits (loss) of entities accounted for by the equity method	**51 199**	**-**	**-**	**993**	**-**	**52 192**
Tax on financial institutions	**(215 534)**	**(94 041)**	**(63 474)**	**-**	**(14 480)**	**(387 529)**
Profit before tax	**1 265 136**	**972 049**	**433 018**	**485 431**	**56 574**	**3 212 208**
Corporate income tax						(848 747)
Consolidated profit for the period						**2 363 461**
of which:						
attributable to owners of the parent entity						2 322 216
attributable to non-controlling interests						41 245

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

1.01.2023-30.06.2023	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate& Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Fee and commission income	**962 681**	**306 220**	**266 566**	**-**	**100 084**	**1 635 551**
Electronic and payment services	90 648	35 687	12 809	-	-	139 144
Current accounts and money transfer	129 338	51 234	8 567	-	773	189 912
Asset management fees	101 061	188	-	-	-	101 249
Foreign exchange commissions	157 453	93 164	120 858	-	-	371 475
Credit commissions incl. factoring commissions and other	68 060	69 508	71 595	-	32 486	241 649
Insurance commissions	92 633	5 727	753	-	32 813	131 926
Commissions from brokerage activities	49 657	24	18 475	-	-	68 156
Credit cards	46 746	-	-	-	24 702	71 448
Card fees (debit cards)	212 833	9 430	1 056	-	-	223 319
Off-balance sheet guarantee commissions	1 932	39 665	22 730	-	151	64 478
Finance lease commissions	5 159	1 076	142	-	9 159	15 536
Issue arrangement fees	-	517	9 581	-	-	10 098
Distribution fees	7 161	-	-	-	-	7 161

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

Consolidated income statement by business segments

1.04.2022 - 30.06.2022	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate& Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**1 424 925**	**356 980**	**142 808**	**686 804**	**323 328**	**2 934 845**
incl. internal transactions	(1 566)	98	1 468	12 704	(12 704)	-
Fee and commission income	451 740	157 321	122 335	-	50 887	**782 283**
Fee and commission expense	(117 029)	(10 784)	(6 790)	-	(26 979)	**(161 582)**
Net fee and commission income	**334 711**	**146 537**	**115 545**	**-**	**23 908**	**620 701**
incl. internal transactions	73 338	43 522	(116 014)	-	(846)	-
Other income	(7 693)	**45 331**	**89 872**	**(185 150)**	**18 991**	**(38 649)**
incl. internal transactions	919	32 082	(32 076)	(925)	-	-
Dividend income	**8 566**	**-**	**113**	**-**	**5**	**8 684**
Operating costs	**(757 769)**	**(207 517)**	**(131 120)**	**(17 142)**	**(98 114)**	**(1 211 662)**
incl. internal transactions	-	-	-	252	(252)	-
Depreciation/amortisation	**(93 675)**	**(15 209)**	**(8 520)**	**-**	**(13 731)**	**(131 135)**
Impairment losses on loans and advances	**(104 699)**	**(15 731)**	**(15 482)**	**1 559**	**24 101**	**(110 252)**
Cost of legal risk associated with foreign currency mortgage loans	**(720 729)**	**-**	**-**	**-**	**(130 189)**	**(850 918)**
Share in net profits (loss) of entities accounted for by the equity method	**15 552**	**-**	**-**	**210**	**-**	**15 762**
Tax on financial institutions	**(118 054)**	**(41 470)**	**(24 270)**		**(6 952)**	**(190 746)**
Profit before tax	**(18 864)**	**268 921**	**168 946**	**486 281**	**141 347**	**1 046 630**
Corporate income tax						**(335 631)**
Consolidated profit for the period						**710 999**
of which:						
attributable to owners of the parent entity						**656 858**
attributable to non-controlling interests						**54 141**

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

1.04.2022-30.06.2022	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate& Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Fee and commission income	**451 740**	**157 321**	**122 335**	**-**	**50 887**	**782 283**
Electronic and payment services	43 680	17 179	6 072	-	(81)	**66 850**
Current accounts and money transfer	67 601	32 289	6 807	-	419	**107 116**
Asset management fees	47 637	92	-	-	-	**47 729**
Foreign exchange commissions	72 489	44 915	60 267	-	-	**177 671**
Credit commissions incl. factoring commissions and other	34 305	37 059	32 538	-	13 688	**117 590**
Insurance commissions	40 861	3 001	253	-	19 317	**63 432**
Commissions from brokerage activities	20 796	12	7 059	-	-	**27 867**
Credit cards	22 096	-	-	-	13 446	**35 542**
Card fees (debit cards)	94 374	3 905	473	-	-	**98 752**
Off-balance sheet guarantee commissions	1 689	18 373	6 171	-	(694)	**25 539**
Finance lease commissions	2 047	496	44	-	4 792	**7 379**
Issue arrangement fees	-	-	2 651	-	-	**2 651**
Distribution fees	4 165	-	-	-	-	**4 165**

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

1.01.2022 - 30.06.2022	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate& Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**2 622 128**	**680 630**	**244 742**	**980 441**	**650 853**	**5 178 794**
incl. internal transactions	(2 045)	(352)	2 395	18 684	(18 682)	-
Fee and commission income	908 880	323 942	240 998	-	102 706	1 576 526
Fee and commission expense	(217 752)	(20 509)	(11 518)	-	(45 319)	(295 098)
Net fee and commission income	**691 128**	**303 433**	**229 480**	-	**57 387**	**1 281 428**
incl. internal transactions	157 600	91 648	(247 664)	-	(1 584)	-
Other income	**(31 612)**	**77 865**	**191 020**	**(221 861)**	**28 681**	**44 093**
incl. internal transactions	2 041	69 005	(69 587)	(1 459)	-	-
Dividend income	**8 779**	**-**	**129**	**-**	**11**	**8 919**
Operating costs	**(1 395 646)**	**(362 931)**	**(235 073)**	**(34 099)**	**(240 652)**	**(2 268 401)**
incl. internal transactions	-	-	-	852	(852)	-
Depreciation/amortisation	**(188 023)**	**(30 901)**	**(17 176)**	**-**	**(27 591)**	**(263 691)**
Impairment losses on loans and advances	**(221 586)**	**(28 537)**	**(12 266)**	**722**	**32 134**	**(229 533)**
Cost of legal risk associated with foreign currency mortgage loans	**(798 404)**	**-**	**-**	**-**	**(148 975)**	**(947 379)**
Share in net profits (loss) of entities accounted for by the equity method	**35 923**	**-**	**-**	**127**	**-**	**36 050**
Tax on financial institutions	**(230 117)**	**(80 943)**	**(41 985)**	**-**	**(14 541)**	**(367 586)**
Profit before tax	**492 570**	**558 616**	**358 871**	**725 330**	**337 307**	**2 472 694**
Corporate income tax						(732 429)
Consolidated profit for the period						**1 740 265**
of which:						
attributable to owners of the parent entity						1 616 390
attributable to non-controlling interests						123 875

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

1.01.2022-30.06.2022	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate& Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Fee and commission income	**908 880**	**323 942**	**240 998**	**-**	**102 706**	**1 576 526**
Electronic and payment services	83 478	34 110	12 552	-	(143)	129 997
Current accounts and money transfer	134 897	73 405	16 026	-	892	225 220
Asset management fees	105 884	296	-	-	-	106 180
Foreign exchange commissions	153 762	88 619	118 045	-	-	360 426
Credit commissions incl. factoring commissions and other	66 181	76 185	52 744	-	29 974	225 084
Insurance commissions	80 705	5 241	723	-	38 021	124 690
Commissions from brokerage activities	49 505	1 971	20 987	-	(2)	72 461
Credit cards	42 224	-	-	-	26 808	69 032
Card fees (debit cards)	175 303	7 171	840	-	-	183 314
Off-balance sheet guarantee commissions	3 800	36 135	13 730	-	(1 268)	52 397
Finance lease commissions	3 660	809	111	-	8 424	13 004
Issue arrangement fees	-	-	5 240	-	-	5 240
Distribution fees	9 481	-	-	-	-	9 481

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

Consolidated statement of financial position by business segments

30.06.2023	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	81 951 203	38 314 649	19 650 788	-	16 950 636	156 867 276
Investments in associates	862 459	-	-	47 725	-	910 184
Other assets	9 652 151	2 148 245	10 147 045	78 870 723	5 181 535	105 999 699
Total assets	**92 465 813**	**40 462 894**	**29 797 833**	**78 918 448**	**22 132 171**	**263 777 159**
Deposits from customers	128 351 408	40 789 149	16 903 697	2 463 830	12 147 537	200 655 621
Other liabilities	792 892	674 221	6 454 804	16 079 561	5 711 917	29 713 395
Equity	6 086 174	4 043 904	2 890 614	16 114 734	4 272 717	33 408 143
Total equity and liabilities	**135 230 474**	**45 507 274**	**26 249 115**	**34 658 125**	**22 132 171**	**263 777 159**

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

31.12.2022	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	82 212 188	38 524 736	16 137 424	-	15 634 344	152 508 692
Investments in associates	874 763	-	-	46 732	-	921 495
Other assets	10 210 612	2 255 636	8 080 111	80 507 545	4 683 124	105 737 028
Total assets	**93 297 563**	**40 780 372**	**24 217 535**	**80 554 277**	**20 317 468**	**259 167 215**
Deposits from customers	126 245 713	41 098 731	14 938 881	3 863 549	10 349 932	196 496 806
Other liabilities	1 027 334	810 140	6 321 369	18 569 343	5 826 885	32 555 071
Equity	5 294 919	4 028 975	2 606 734	14 044 059	4 140 651	30 115 338
Total equity and liabilities	**132 567 966**	**45 937 846**	**23 866 984**	**36 476 951**	**20 317 468**	**259 167 215**

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

4. Risk management

In the first half of 2023, Santander Bank Polska Group managed its risks in accordance with the principles laid down in the consolidated financial statements for 2022.

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

In the first half of 2023, the main priorities in the Group's risk management were: the deterioration of the macroeconomic situation, inflation and consequences of the war in Ukraine.

Similarly to 2022, in H1 2023 the Bank regularly monitored its credit portfolio in terms of the impact of geopolitical factors on the performance of borrowers from individual segments. The assessment covered both direct consequences (sanctions, restriction of operations of business customers in Russia and Belarus) and indirect consequences of the geopolitical situation for borrowers (increased prices of energy, commodities, materials and labour as well as the impact of inflation, increased interest rates and changes in consumer behaviour). The quality of loans held by Ukrainian citizens was closely monitored too.

Due to increasing interest rates, new laws were introduced in 2022 under which banks offered payment holidays and increased access to the Borrowers Support Fund. Both processes, implemented in remote channels last year, remain in the Group's offer in 2023. The use of these aid solutions by customers is still closely monitored.

The Group keeps developing its resources in terms of the management of ESG (Environmental, Social and Governance) risks. In the first half of 2023, the Head of ESG Risk was appointed in the Risk Management Division. The role is mainly responsible for ensuring that ESG risk is appropriately assessed by managing data collection and analysis using business intelligence solutions, and for initiating, supporting and coordinating ESG-related activities. The ESG policies and procedures were also reviewed and are to be supplemented. The admission process for sustainable finance was formalised across all segments, both at a transaction and credit product level. A series of meetings were held in the Risk Management Division to raise the awareness of ESG risks and present the impact of ESG requirements on the Bank's operations. In particular, a dedicated training was delivered to members of the Bank's Management and Supervisory Boards.

In the first half of 2023, the Group joined the project on the measurement of financed emissions in accordance with the PCAF methodology in order to more precisely analyse the structure of emissions in all sectors and business segments. The project involves six training sessions for all interested units of the Bank on the three scopes of emissions and their calculation.

Interest Rate Benchmark reform

Started in 2022 reform of Polish benchmarks aimes at implementing changes in the methodology for determining the interest rate benchmark that is planned to replace WIBOR. In September 2022, the Steering Committee of the National Working Group selected WIRON as a benchmark to replace WIBOR. This indicates that the benchmark reform in Poland will be delivered in line with Article 23c of the Benchmark Regulation. Pursuant to the procedure specified in the above Article regarding the replacement of a benchmark by national law, all contracts and financial instruments must be amended accordingly.

Work under the IBOR Programme is carried out mainly by a wide range of experts representing all business lines of the Bank, supported by experts from renowned consulting companies. A precise status reporting takes place within the framework of weekly Operational Committees and a monthly Steering Committee (with the participation of Members of the Bank's Management Board and top management).

In the first half of 2023, work related to the WIBOR reform at the Bank focused on the introduction of products based on the new WIRON index, which involves the coordination of activities in many areas.

As part of the work carried out to prepare the Bank for the reform of interest rate reference indices in Poland, a Program was established that implements a number of tasks in the following areas:

- IT preparations (e.g. necessary parameterization of new indicators and products, adjusting the precision of the interest rate of the main system to that which will be in force at WIRON Stopa Folda),

- schedules of business tasks (including committee approvals, preparation of product documentation, communication and training activities)

- identification of risks and indication of measures to mitigate these risks.

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 2023".

6. Net interest income

Interest income and similar to interest	1.04.2023-30.06.2023	1.01.2023-30.06.2023	1.04.2022-30.06.2022	1.01.2022-30.06.2022
Interest income on financial assets measured at amortised cost	**3 728 773**	**7 273 344**	**2 732 292**	**4 671 251**
Loans and advances to enterprises	1 280 620	2 428 233	829 035	1 402 858
Loans and advances to individuals, of which:	1 952 962	3 911 762	1 685 920	2 973 215
Home mortgage loans	*975 215*	*1 967 143*	*855 658*	*1 408 698*
Loans and advances to banks	204 241	389 690	90 037	117 734
Loans and advances to public sector	20 569	42 500	6 259	9 316
Reverse repo transactions	131 481	257 126	42 572	64 985
Debt securities	130 167	231 991	70 650	87 442
Interest recorded on hedging IRS	8 733	12 042	7 819	15 701
Interest income on financial assets measured at fair value through other comprehensive income	**567 067**	**1 111 160**	**533 234**	**927 925**
Loans and advances to enterprises	32 308	91 913	30 134	45 741
Loans and advances to public sector	6 614	13 096	-	-
Debt securities	528 145	1 006 151	503 100	882 184
Income similar to interest - financial assets measured at fair value through profit or loss	**22 201**	**54 747**	**19 339**	**34 689**
Loans and advances to enterprises	342	1 420	1 354	2 019
Loans and advances to individuals	7 143	16 503	13 709	25 179
Debt securities	14 716	36 824	4 276	7 491
Income similar to interest on finance leases	**228 261**	**445 500**	**153 990**	**267 688**
Total income	**4 546 302**	**8 884 751**	**3 438 855**	**5 901 553**

Interest expenses	1.04.2023-30.06.2023	1.01.2023-30.06.2023	1.04.2022-30.06.2022	1.01.2022-30.06.2022
Interest expenses on financial liabilities measured at amortised cost	**(1 346 123)**	**(2 592 281)**	**(504 010)**	**(722 759)**
Liabilities to individuals	(574 097)	(1 035 634)	(94 736)	(123 631)
Liabilities to enterprises	(421 029)	(860 652)	(166 598)	(228 665)
Repo transactions	(44 378)	(127 479)	(44 822)	(64 239)
Liabilities to public sector	(91 745)	(178 835)	(47 555)	(65 612)
Liabilities to banks	(56 609)	(101 748)	(40 197)	(59 538)
Lease liability	(4 543)	(8 954)	(3 745)	(7 078)
Subordinated liabilities and issue of securities	(153 722)	(278 979)	(106 357)	(173 996)
Total costs	**(1 346 123)**	**(2 592 281)**	**(504 010)**	**(722 759)**
Net interest income	**3 200 179**	**6 292 470**	**2 934 845**	**5 178 794**

7. Net fee and commission income

Fee and commission income	1.04.2023-30.06.2023	1.01.2023-30.06.2023	1.04.2022-30.06.2022	1.01.2022-30.06.2022
eBusiness & payments	70 701	139 144	66 850	129 997
Current accounts and money transfer	96 349	189 912	107 116	225 220
Asset management fees	55 771	101 249	47 729	106 180
Foreign exchange commissions	189 949	371 475	177 671	360 426
Credit commissions incl. factoring commissions and other	123 120	241 649	117 590	225 084
Insurance commissions	71 548	131 926	63 432	124 690
Commissions from brokerage activities	31 914	68 156	27 867	72 461
Credit cards	36 810	71 448	35 542	69 032
Card fees (debit cards)	128 883	223 319	98 752	183 314
Off-balance sheet guarantee commissions	36 219	64 478	25 539	52 397
Finance lease commissions	8 289	15 536	7 379	13 004
Issue arrangement fees	2 058	10 098	2 651	5 240
Distribution fees	3 324	7 161	4 165	9 481
Total	**854 935**	**1 635 551**	**782 283**	**1 576 526**

Fee and commission expenses	1.04.2023-30.06.2023	1.01.2023-30.06.2023	1.04.2022-30.06.2022	1.01.2022-30.06.2022
eBusiness & payments	(19 917)	(37 676)	(18 405)	(32 758)
Distribution fees	(2 243)	(4 265)	(1 990)	(4 258)
Commissions from brokerage activities	(3 014)	(6 743)	(3 174)	(8 157)
Credit cards	(6 120)	(9 124)	(6 655)	(9 333)
Card fees (debit cards)	(49 241)	(56 717)	(30 510)	(50 845)
Credit commissions paid	(21 839)	(39 077)	(23 402)	(47 117)
Insurance commissions	(3 595)	(7 209)	(4 460)	(8 890)
Finance lease commissions	(11 625)	(23 147)	(12 016)	(22 196)
Asset management fees and other costs	(1 497)	(2 778)	(2 868)	(8 488)
Off-balance sheet guarantee commissions	(20 186)	(40 456)	(24 353)	(40 991)
Other	(38 089)	(68 395)	(33 749)	(62 065)
Total	**(177 366)**	**(295 587)**	**(161 582)**	**(295 098)**
Net fee and commission income	**677 569**	**1 339 964**	**620 701**	**1 281 428**

8. Net trading income and revaluation

Net trading income and revaluation	1.04.2023-30.06.2023	1.01.2023-30.06.2023	1.04.2022-30.06.2022	1.01.2022-30.06.2022
Derivative instruments	(37 029)	91 578	(136 443)	(114 436)
Interbank FX transactions and other FX related income	31 386	17 609	91 638	118 582
Net gains on sale of equity securities measured at fair value through profit or loss	8 068	17 605	(13 133)	(6 665)
Net gains on sale of debt securities measured at fair value through profit or loss	7 161	6 767	20 505	29 589
Change in fair value of loans and advances mandatorily measured at fair value through profit or loss	7 345	10 325	8 280	3 161
Total	**16 931**	**143 884**	**(29 153)**	**30 231**

The above amounts included CVA and DVA adjustments in the amount of PLN (1,730k) for H1 2023, PLN (2,177k) for 2Q 2023 and PLN 11,198k for H1 2022, PLN 8,724 for 2Q 2022.

9. Gains (losses) from other financial securities

Gains (losses) from financial securities	1.04.2023-30.06.2023	1.01.2023-30.06.2023	1.04.2022-30.06.2022	1.01.2022-30.06.2022
Net gains on sale of debt securities measured at fair value through other comprehensive income	550	(3 703)	-	212
Net gains on sale of equity securities measured at fair value through profit and loss	-	2 887	-	-
Change in fair value of financial securities measured at fair value through profit or loss	3 686	15 781	(15 228)	(12 443)
Impairment losses on securities	(2 016)	(2 016)	(1 066)	(1 066)
Total profit (losses) on financial instruments	**2 220**	**12 949**	**(16 294)**	**(13 297)**
Change in fair value of hedging instruments	(100 303)	(253 218)	416 049	578 743
Change in fair value of underlying hedged positions	97 541	244 904	(434 426)	(598 642)
Total profit (losses) on hedging and hedged instruments	**(2 762)**	**(8 314)**	**(18 377)**	**(19 899)**
Total	**(542)**	**4 635**	**(34 671)**	**(33 196)**

10. Other operating income

Other operating income	1.04.2023-30.06.2023	1.01.2023-30.06.2023	1.04.2022-30.06.2022	1.01.2022-30.06.2022
Income from services rendered	4 474	8 218	8 234	18 022
Release of provision for legal cases and other assets	6 318	10 234	4 156	9 339
Gain on sales or liquidation of fixed assets, intangible assets and assets for disposal	2 222	2 222	-	-
Recovery of other receivables (expired, cancelled and uncollectable)	98	117	28	41
Received compensations, penalties and fines	590	1 338	438	844
Gains on lease modifications	6 024	6 938	1 881	1 881
Settlements of leasing agreements /Income from claims received from the insurer	2 703	5 711	11 812	21 777
Other	23 177	38 295	21 362	34 065
Total	**45 606**	**73 073**	**47 911**	**85 969**

11. Impairment allowances for expected credit losses

Impairment allowances for expected credit losses on loans and advances measured at amortised cost	1.04.2023-30.06.2023	1.01.2023-30.06.2023	1.04.2022-30.06.2022	1.01.2022-30.06.2022
Charge for loans and advances to banks	**(1 528)**	**(1 496)**	**5**	**(16)**
Stage 1	(1 528)	(1 496)	5	(16)
Stage 2	-	-	-	-
Stage 3	-	-	-	-
POCI	-	-	-	-
Charge for loans and advances to customers	**(354 807)**	**(620 592)**	**(97 843)**	**(275 750)**
Stage 1	(57 107)	(90 963)	22 130	(45 156)
Stage 2	(143 112)	(291 237)	(71 356)	(148 473)
Stage 3	(180 743)	(282 304)	(79 250)	(142 525)
POCI	26 155	43 912	30 633	60 404
Recoveries of loans previously written off	**(74)**	**34 557**	**(6 993)**	**42 051**
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	(74)	34 557	(6 993)	42 051
POCI	-	-	-	-
Off-balance sheet credit related facilities	**(1 192)**	**(2 701)**	**(5 421)**	**4 182**
Stage 1	(108)	(3 311)	(1 957)	4 165
Stage 2	(3 131)	(3 069)	(1 103)	1 361
Stage 3	2 047	3 679	(2 361)	(1 344)
POCI	-	-	-	-
Total	**(357 601)**	**(590 232)**	**(110 252)**	**(229 533)**

12. Employee costs

Employee costs	1.04.2023-30.06.2023	1.01.2023-30.06.2023	1.04.2022-30.06.2022	1.01.2022-30.06.2022
Salaries and bonuses	(444 200)	(889 078)	(369 938)	(721 785)
Salary related costs	(78 598)	(153 503)	(67 226)	(135 322)
Cost of contributions to Employee Capital Plans	(3 549)	(6 613)	(2 348)	(4 732)
Staff benefits costs	(10 218)	(20 418)	(9 701)	(18 925)
Professional trainings	(2 766)	(5 076)	(2 504)	(4 191)
Retirement fund, holiday provisions and other employee costs	(9)	(17)	(10)	(17)
Restructuring provision	(400)	(400)	-	-
Total	**(539 740)**	**(1 075 105)**	**(451 727)**	**(884 972)**

13. General and administrative expenses

General and administrative expenses	1.04.2023-30.06.2023	1.01.2023-30.06.2023	1.04.2022-30.06.2022	1.01.2022-30.06.2022
Maintenance of premises	(30 999)	(64 095)	(28 743)	(55 419)
Short-term lease costs	(2 258)	(4 461)	(1 998)	(3 974)
Low-value assets lease costs	(305)	(611)	(305)	(627)
Costs of variable lease payments not included in the measurement of the lease liability	30	(400)	(162)	(676)
Non-tax deductible VAT	(10 260)	(20 166)	(9 119)	(18 793)
Marketing and representation	(40 210)	(77 269)	(38 798)	(68 273)
IT systems costs	(123 496)	(253 667)	(110 610)	(218 090)
Cost of BFG, KNF and KDPW	4 162	(194 281)	2 953	(284 742)
Cost for payment to protection system (IPS)	(238)	(238)	(407 262)	(407 262)
Postal and telecommunication costs	(16 172)	(30 752)	(14 803)	(31 595)
Consulting and advisory fees	(15 933)	(31 974)	(17 317)	(34 491)
Cars, transport expenses, carriage of cash	(17 195)	(33 874)	(15 596)	(28 761)
Other external services	(52 266)	(104 745)	(40 786)	(75 776)
Stationery, cards, cheques etc.	(5 059)	(10 516)	(3 297)	(8 880)
Sundry taxes and charges	(11 004)	(21 892)	(11 594)	(21 652)
Data transmission	(7 098)	(12 361)	(5 647)	(9 448)
KIR, SWIFT settlements	(8 578)	(18 191)	(7 967)	(15 626)
Security costs	(4 490)	(9 149)	(5 252)	(10 655)
Costs of repairs	(1 143)	(2 020)	(913)	(1 746)
Other	(6 534)	(12 670)	(4 350)	(7 820)
Total	**(349 046)**	**(903 332)**	**(721 566)**	**(1 304 306)**

14. Other operating expenses

Other operating expenses	1.04.2023-30.06.2023	1.01.2023-30.06.2023	1.04.2022-30.06.2022	1.01.2022-30.06.2022
Charge of provisions for legal cases and other assets	(21 600)	(30 710)	(6 978)	(19 717)
Impairment loss on property, plant, equipment, intangible assets covered by financial lease agreements and other fixed assets	(2 143)	(3 228)	(4 186)	(6 656)
Costs of purchased services	(490)	(1 253)	(4 311)	(5 378)
Other membership fees	(541)	(832)	(324)	(686)
Paid compensations, penalties and fines	(101)	(261)	(249)	(603)
Donations paid	(3 797)	(3 811)	(2 226)	(2 881)
Other	(3 580)	(19 061)	(20 095)	(43 202)
Total	**(32 252)**	**(59 156)**	**(38 369)**	**(79 123)**

15. Corporate income tax

Corporate income tax	1.04.2023-30.06.202	1.01.2023-30.06.2023	1.04.2022-30.06.2022	1.01.2022-30.06.2022
Current tax charge in the income statement	(500 801)	(827 300)	(245 635)	(331 653)
Deferred tax	75 719	(40 692)	(83 458)	(394 661)
Adjustments from previous years for current and deferred tax	15 534	19 245	(6 538)	(6 115)
Total tax on gross profit	**(409 548)**	**(848 747)**	**(335 631)**	**(732 429)**

Corporate total tax charge information	1.04.2023-30.06.2023	1.01.2023-30.06.2023	1.04.2022-30.06.2022	1.01.2022-30.06.2022
Profit before tax	1 556 200	3 212 208	1 046 630	2 472 694
Tax rate	19%	19%	19%	19%
Tax calculated at the tax rate	(295 678)	(610 320)	(198 860)	(469 812)
Non-tax-deductible expenses	(8 542)	(13 878)	(7 755)	(13 622)
Cost of legal risk associated with foreign currency mortgage loans	(125 196)	(178 223)	(134 307)	(162 503)
The fee to the Bank Guarantee Fund	2 430	(33 170)	2 073	(50 672)
Tax on financial institutions	(36 470)	(73 614)	(36 240)	(69 840)
Non-taxable income	2 476	9 219	11 260	11 385
Adjustment of prior years tax	15 536	19 247	(6 537)	(6 114)
Tax effect of consolidation adjustments	14 731	14 731	14 584	14 584
Non-tax deductible bad debt provisions	(6 524)	(8 098)	(3 207)	(5 762)
Expected weighted average annual tax rate adjustment*	31 688	31 688	6 083	6 083
Other	(3 999)	(6 329)	17 275	13 844
Total tax on gross profit	**(409 548)**	**(848 747)**	**(335 631)**	**(732 429)**

*) in accordance with IAS 34.30(c), refers to Santander Consumer Bank S.A.

Deferred tax recognised in other comprehensive income	30.06.2023	31.12.2022
Relating to valuation of debt investments measured at fair value through other comprehensive income	127 156	234 879
Relating to valuation of equity investments measured at fair value through other comprehensive income	(37 735)	(33 473)
Relating to cash flow hedging activity	(12 247)	74 912
Relating to valuation of defined benefit plans	(3 580)	(3 309)
Total	**73 594**	**273 009**

16. Cash and balances with central banks

Cash and balances with central banks	30.06.2023	31.12.2022
Cash	2 608 724	3 198 679
Current accounts in central banks	7 768 015	6 852 602
Term deposits	-	118 741
Total	**10 376 739**	**10 170 022**

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 was 3.5% as at 30.06.2023 and 31.12.2022.

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	30.06.2023	31.12.2022
Loans and advances	6 789 533	6 290 099
Current accounts	2 941 731	3 287 543
Gross receivables	**9 731 264**	**9 577 642**
Allowance for impairment	(1 638)	(143)
Total	**9 729 626**	**9 577 499**

18. Financial assets and liabilities held for trading

	30.06.2023		31.12.2022	
Financial assets and liabilities held for trading	Assets	Liabilities	Assets	Liabilities
Trading derivatives	**7 010 257**	**7 205 131**	**6 639 069**	**6 913 266**
Interest rate operations	4 333 141	4 396 593	4 675 518	4 624 966
FX operations	2 677 116	2 808 538	1 963 551	2 288 300
Debt and equity securities	**1 463 443**	**-**	**244 547**	**-**
Debt securities	**1 434 941**	**-**	**229 290**	**-**
Government securities:	1 420 944	-	213 206	-
- bonds	1 420 944	-	213 206	-
Other securities:	13 997	-	16 084	-
- bonds	13 997	-	16 084	-
Equity securities	**28 502**	**-**	**15 257**	**-**
Short sale	**-**	**435 533**	**-**	**195 560**
Total	**8 473 700**	**7 640 664**	**6 883 616**	**7 108 826**

Financial assets and liabilities held for trading - trading derivatives include the change in the value of counterparty risk in the amount of PLN 2,564 k as at 30.06.2023 and PLN 1,242 k as at 31.12.2022.

19. Hedging derivatives

	30.06.2023		31.12.2022	
Hedging derivatives	Assets	Liabilities	Assets	Liabilities
Derivatives hedging fair value	396 931	87 485	487 292	25 508
Derivatives hedging cash flow	457 013	1 133 773	61 885	1 953 581
Total	**853 944**	**1 221 258**	**549 177**	**1 979 089**

As at 30.06.2023, the line item: hedging derivatives – derivatives hedging cash flows reflects a change in the first-day valuation of forward-starting CIRS transactions of PLN (2,666) k and PLN (4,353) k as at 31.12.2022.

20. Loans and advances to customers

	30.06.2023				
Loans and advances to customers	**measured at amortised cost**	**measured at fair value through other comprehensive income**	**measured at fair value through profit and loss**	**from finance leases**	**Total**
Loans and advances to enterprises	65 800 584	2 337 708	242	-	68 138 534
Loans and advances to individuals, of which:	80 770 438	-	104 213	-	80 874 651
*Home mortgage loans **	*51 546 561*	-	-	-	*51 546 561*
Finance lease receivables	-	-	-	12 575 837	12 575 837
Loans and advances to public sector	949 832	328 319	-	-	1 278 151
Other receivables	71 988	-	-	-	71 988
Gross receivables	**147 592 842**	**2 666 027**	**104 455**	**12 575 837**	**162 939 161**
Allowance for impairment	(5 780 083)	(15 465)	-	(276 337)	(6 071 885)
Total	**141 812 759**	**2 650 562**	**104 455**	**12 299 500**	**156 867 276**

* Includes changes in gross receivables recognized in note 33 Legal risk connected with CHF mortgage loans and impact of the payment deferrals – details in note 2.5.

	31.12.2022				
Loans and advances to customers	**measured at amortised cost**	**measured at fair value through other comprehensive income**	**measured at fair value through profit and loss**	**from finance leases**	**Total**
Loans and advances to enterprises	61 207 015	2 306 972	39 205	-	63 553 192
Loans and advances to individuals, of which:	81 282 830	-	200 489	-	81 483 319
*Home mortgage loans **	*53 175 569*	-	-	-	*53 175 569*
Finance lease receivables	-	-	-	11 998 301	11 998 301
Loans and advances to public sector	951 570	328 428	-	-	1 279 998
Other receivables	77 914	-	-	-	77 914
Gross receivables	**143 519 329**	**2 635 400**	**239 694**	**11 998 301**	**158 392 724**
Allowance for impairment	(5 630 633)	(6 740)	-	(246 659)	(5 884 032)
Total	**137 888 696**	**2 628 660**	**239 694**	**11 751 642**	**152 508 692**

* Includes changes in gross receivables recognized in note 33 Legal risk connected with CHF mortgage loans and impact of the payment deferrals – details in note 2.5.

Impact of the legal risk of mortgage loans in foreign currency	**Gross carrying amount of mortgage loans in foreign currency before adjustment due to legal risk costs**	**Impact of the legal risk of mortgage loans in foreign currency**	**Gross carrying amount of mortgage loans in foreign currency after adjustment due to legal risk costs**
30.06.2023			
Mortgage loans in foreign currency - adjustment to gross carrying amount	6 847 227	3 437 590	3 409 637
Provision in respect of legal risk connected with foreign currency mortgage loans		565 435	
Total		**4 003 025**	
31.12.2022			
Mortgage loans in foreign currency - adjustment to gross carrying amount	8 393 684	3 136 301	5 257 383
Provision in respect of legal risk connected with foreign currency mortgage loans		420 952	
Total		**3 557 253**	

Loans and advances to enterprises 30.06.2023	Gross carrying amount	Allowance for expected credit losses	Net
Stage 1	57 920 376	(241 906)	57 678 470
Stage 2	4 418 549	(403 163)	4 015 386
Stage 3	3 014 755	(1 908 246)	1 106 509
POCI	446 904	(92 830)	354 074
Total	**65 800 584**	**(2 646 145)**	**63 154 439**

Loans and advances to individuals 30.06.2023	Gross carrying amount	Allowance for expected credit losses	Net
Stage 1	73 658 145	(411 062)	73 247 083
Stage 2	3 186 117	(376 372)	2 809 745
Stage 3	3 530 550	(2 262 063)	1 268 487
POCI	395 626	(84 440)	311 186
Total	**80 770 438**	**(3 133 937)**	**77 636 501**

Finance lease receivables 30.06.2023	Gross carrying amount	Allowance for expected credit losses	Net
Stage 1	11 477 350	(32 659)	11 444 691
Stage 2	670 258	(55 360)	614 898
Stage 3	424 525	(187 629)	236 896
POCI	3 704	(689)	3 015
Total	**12 575 837**	**(276 337)**	**12 299 500**

Loans and advances to enterprises 31.12.2022	Gross carrying amount	Allowance for expected credit losses	Net
Stage 1	52 956 789	(212 756)	52 744 033
Stage 2	4 633 649	(368 933)	4 264 716
Stage 3	3 204 357	(1 894 699)	1 309 658
POCI	412 220	(60 733)	351 487
Total	**61 207 015**	**(2 537 121)**	**58 669 894**

Loans and advances to individuals 31.12.2022	Gross carrying amount	Allowance for expected credit losses	Net
Stage 1	74 633 333	(429 044)	74 204 289
Stage 2	2 943 988	(350 671)	2 593 317
Stage 3	3 341 589	(2 224 260)	1 117 329
POCI	363 920	(89 539)	274 381
Total	**81 282 830**	**(3 093 514)**	**78 189 316**

Finance lease receivables 31.12.2022	Gross carrying amount	Allowance for expected credit losses	Net
Stage 1	10 951 484	(35 656)	10 915 828
Stage 2	667 883	(55 721)	612 162
Stage 3	375 335	(155 282)	220 053
POCI	3 599	-	3 599
Total	**11 998 301**	**(246 659)**	**11 751 642**

Movements on impairment losses on loans and advances to customers measured at amortised cost for reporting period	1.01.2023-30.06.2023	1.01.2022-30.06.2022
Balance at the beginning of the period	**(5 630 633)**	**(5 648 321)**
Charge/write back of current period	**(632 629)**	**(291 537)**
Stage 1	(76 710)	(39 960)
Stage 2	(281 941)	(144 678)
Stage 3	(270 539)	(120 706)
POCI	(3 439)	13 807
Write off/Sale of receivables	**417 033**	**378 299**
Stage 1	-	-
Stage 2	-	-
Stage 3	415 139	372 482
POCI	1 894	5 817
Transfer	**44 666**	**69 603**
Stage 1	69 386	50 473
Stage 2	218 031	115 617
Stage 3	(216 110)	(99 928)
POCI	(26 641)	3 441
FX differences	**21 480**	**(18 568)**
Stage 1	3 083	(1 352)
Stage 2	5 175	(2 816)
Stage 3	12 726	(14 008)
POCI	496	(392)
Balance at the end of the period	**(5 780 083)**	**(5 510 524)**

21. Investment securities

Investment securities	30.06.2023	31.12.2022
Debt investment securities measured at fair value through other comprehensive income	**40 739 488**	**39 539 535**
Government securities:	32 638 924	34 127 213
- bonds	32 638 924	34 127 213
Central Bank securities:	5 493 818	3 898 145
- bills	5 493 818	3 898 145
Other securities:	2 606 746	1 514 177
-bonds	2 606 746	1 514 177
Debt investment securities measured at fair value through profit and loss	**68 902**	**64 707**
Debt investment securities measured at amortised cost	**19 167 299**	**15 499 348**
Government securities:	6 788 507	3 156 009
- bonds	6 788 507	3 156 009
Other securities:	12 378 792	12 343 339
- bonds	12 378 792	12 343 339
Equity investment securities measured at fair value through other comprehensive income	**226 728**	**204 299**
- unlisted	226 728	204 299
Equity investment securities measured at fair value through profit and loss	**5 559**	**63 248**
- unlisted	5 559	63 248
Total	**60 207 976**	**55 371 137**

Change of classification of specific bonds portfolio

In the first quarter of 2022 the Management of the Bank performed a review of its asset and liability management policy and the classification of specific bonds portfolio was changed.

On 1.04.2023 debt investment securities measured at fair value through other comprehensive income of PLN 10,521.72m have been reclassified and related fair value adjustment has been reversed, also related deferred tax asset of PLN 353.11m has been released. Debt investment securities measured at amortised cost of PLN 12,380.19m have been recognised. The changes resulted in the net other comprehensive income increase in the amount of PLN 1,505.36m.

The table below shows the value of gains/losses from changes in the fair value of investment securities in the period between 1 January and 30 June 2023 that would have been recognized in the revaluation reserve if the investment securities had not been reclassified.

Reclassification of investment securities from measured at fair value through other comprehensive income to measured at amortized cost	
Fair value of debt investment securities reclassified as at 30 June 2023	10 923 270
Gain/ loss on change in the fair value of debt investment securities which would have been recognised in other comprehensive income between 1 January and 30 June 2023 if the investment securities had not been reclassified (taking into account tax impact)	325 253

22. Investments in associates

Balance sheet value of associates	30.06.2023	31.12.2022
Polfund - Fundusz Poręczeń Kredytowych S.A.	47 725	46 732
Santander - Allianz Towarzystwo Ubezpieczeń S.A. and Santander - Allianz Towarzystwo Ubezpieczeń na Życie S.A.	862 459	874 763
Total	**910 184**	**921 495**

Movements on investments in associates	1.01.2023-30.06.2023	1.01.2022-30.06.2022
As at the beginning of the period	**921 495**	**932 740**
Share of profits/(losses)	52 192	36 050
Dividends	(77 533)	(76 760)
Other	14 030	(20 127)
As at the end of the period	**910 184**	**871 903**

23. Fixed assets classified as held for sale

Fixed assets classified as held for sale	30.06.2023	31.12.2022
Land and buildings	4 308	4 308
Other fixed assets	531	1 665
Total	**4 839**	**5 973**

24. Deposits from banks

Deposits from banks	30.06.2023	31.12.2022
Term deposits	46 668	162 325
Loans received from banks	2 080 751	1 747 378
Current accounts	2 292 136	2 121 549
Total	**4 419 555**	**4 031 252**

25. Deposits from customers

Deposits from customers	31.03.2023	31.12.2022
Deposits from individuals	**111 517 606**	**107 927 297**
Term deposits	37 520 313	34 841 903
Current accounts	73 716 214	72 816 188
Other	281 079	269 206
Deposits from enterprises	**80 308 585**	**79 548 735**
Term deposits	22 505 682	20 614 957
Current accounts	54 266 545	54 874 341
Loans received from financial institution	1 172 534	1 316 684
Other	2 363 824	2 742 753
Deposits from public sector	**8 829 430**	**9 020 774**
Term deposits	1 748 317	990 676
Current accounts	7 072 629	8 021 258
Other	8 484	8 840
Total	**200 655 621**	**196 496 806**

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	1.01.2023-30.06.2023	1.01.2022-30.06.2022
As at the beginning of the period	**2 807 013**	**2 750 440**
Additions from:	**93 788**	**77 390**
- interest on subordinated loans	93 788	47 940
- FX differences	-	29 450
Disposals from:	**(177 276)**	**(35 862)**
- interest repayment	(92 432)	(35 862)
- FX differences	(84 844)	-
As at the end of the period	**2 723 525**	**2 791 968**
Short-term	38 072	25 513
Long-term (over 1 year)	2 685 453	2 766 455

27. Debt securities in issue

Debt securities in issue on 30.06.2023

Name of the entity issuing the securities	Type of securities	Nominal value	Currency	Date of issue	Redemption date	Book Value (In thousands of PLN)
Santander Bank Polska S.A.	Bonds	750 000	EUR	29.11.2021	29.11.2024	3 342 206
Santander Bank Polska S.A.	Bonds	1 900 000	PLN	30.03.2023	30.03.2025	1 942 844
Santander Leasing S.A.	Bonds	200 000	PLN	23.06.2023	24.06.2024	199 828
Santander Leasing S.A.	Bonds	100 000	PLN	10.08.2022	10.08.2023	100 972
Santander Factoring Sp. z o.o.	Bonds	160 000	PLN	15.02.2023	15.08.2023	160 392
Santander Consumer Bank S.A.	Bonds	300 000	PLN	28.10.2022	06.12.2024	301 329
Santander Consumer Multirent sp. z o.o.	Bonds	50 000	PLN	26.05.2023	31.03.2025	50 156
Santander Consumer Multirent sp. z o.o.	Bonds	220 000	PLN	06.12.2021	06.12.2023	220 936
Santander Consumer Multirent sp. z o.o.	Bonds	265 000	PLN	26.10.2022	28.10.2024	268 258
S.C. Poland Consumer 23-1 DAC	Bonds	1 000 000	PLN	01.12.2022	16.11.2032	1 003 127
SCM POLAND AUTO 2019-1 DAC	Bonds	891 000	PLN	20.07.2020	31.07.2028	893 182
Total						**8 483 230**

Debt securities in issue on 31.12.2022

Name of the entity issuing the securities	Type of securities	Nominal value	Currency	Date of issue	Redemption date	Book Value (In thousands of PLN)
Santander Bank Polska S.A.	Bonds	750 000	EUR	29.11.2021	29.11.2024	3 518 153
Santander Bank Polska S.A.	Bonds	500 000	EUR	30.03.2022	30.03.2024	2 381 147
Santander Leasing S.A.	Bonds	235 000	PLN	23.06.2022	23.06.2023	235 019
Santander Leasing S.A.	Bonds	100 000	PLN	10.08.2022	10.08.2023	101 551
Santander Factoring Sp. z o.o.	Bonds	150 000	PLN	28.07.2022	27.01.2023	141 053
Santander Consumer Bank S.A.	Bonds	100 000	PLN	01.04.2021	03.04.2023	101 917
Santander Consumer Bank S.A.	Bonds	300 000	PLN	28.10.2022	06.12.2024	301 361
Santander Consumer Multirent sp. z o.o.	Bonds	160 000	PLN	27.05.2021	26.05.2023	161 142
Santander Consumer Multirent sp. z o.o.	Bonds	220 000	PLN	06.12.2021	06.12.2023	220 784
Santander Consumer Multirent sp. z o.o.	Bonds	265 000	PLN	26.10.2022	28.10.2024	268 491
S.C. Poland Consumer 23-1 DAC	Bonds	1 000 000	PLN	01.12.2022	16.11.2032	1 006 625
SCM POLAND AUTO 2019-1 DAC	Bonds	891 000	PLN	20.07.2020	31.07.2028	893 405
Total						**9 330 648**

Movements in debt securities in issue	1.01.2023-30.06.2023	1.01.2022-30.06.2022
As at the beginning of the period	**9 330 648**	**12 805 462**
Increase (due to:)	**2 495 131**	**2 959 731**
- debt securities in issue	2 310 000	2 711 350
- interest on debt securities in issue	185 131	123 525
- FX differences	-	124 461
- other changes	-	395
Decrease (due to):	**(3 342 549)**	**(5 409 424)**
- debt securities repurchase	(2 976 050)	(5 309 569)
- interest repayment	(181 033)	(99 855)
- FX differences	(184 600)	-
- other changes	(866)	-
As at the end of the period	**8 483 230**	**10 355 769**

28. Provisions for financial liabilities and guarantees granted

Provisions for financial liabilities and guarantees granted	30.06.2023	31.12.2022
Provisions for financial commitments to grant loans and credit lines	47 203	43 255
Provisions for financial guarantees	15 839	17 554
Other provisions	678	1 060
Total	**63 720**	**61 869**

Change in provisions for financial liabilities and guarantees granted	1.01.2023-30.06.2023
As at the beginning of the period	**61 869**
Provision charge	70 364
Write back	(67 662)
Other changes	(851)
As at the end of the period	**63 720**
Short-term	37 694
Long-term	26 026

Change in provisions for financial liabilities and guarantees granted	1.01.2022-30.06.2022
As at the beginning of the period	**60 811**
Provision charge	62 050
Write back	(66 230)
Other changes	317
As at the end of the period	**56 948**
Short-term	34 193
Long-term	22 755

29. Other provisions

Other provisions	30.06.2023	31.12.2022
Provision for legal risk connected with foreign currency mortgage loans	565 435	420 952
Provisions for reimbursement of costs related to early repayment of consumer and mortgage loans	46 404	52 233
Provisions for legal claims and other	139 765	132 337
Provisions for restructuring	14 965	21 789
Total	**766 569**	**627 311**

Change in other provisions 1.01.2023 - 30.06.2023	Provision for legal risk connected with foreign currency mortgage loans*	Provisions for reimbursement of costs related to early repayment of consumer loans	Provisions for legal claims and other	Provisions for restructuring	Total
As at the beginning of the period	**420 952**	**52 233**	**132 337**	**21 789**	**627 311**
Provision charge/relase	179 584	22	69 388	400	249 394
Utilization	(22 188)	(5 851)	(61 960)	(7 224)	(97 223)
Other	(12 913)	-	-	-	(12 913)
As at the end of the period	**565 435**	**46 404**	**139 765**	**14 965**	**766 569**

*details in Note 33

Change in other provisions 1.01.2022 - 30.06.2022	Provision for legal risk connected with foreign currency mortgage loans	Provisions for reimbursement of costs related to early repayment of consumer loans	Provisions for legal claims and other	Provisions for restructuring	Total
As at the beginning of the period	**176 059**	**80 945**	**148 601**	**94 308**	**499 913**
Provision charge/relase	126 306	(10 016)	35 444	1 016	152 750
Utilization	(6 050)	-	(30 619)	(18 538)	(55 207)
Other	16 995	-	-	-	16 995
As at the end of the period	**313 310**	**70 929**	**153 426**	**76 786**	**614 451**

30. Other liabilities

Other liabilities	30.06.2023	31.12.2022
Settlements of stock exchange transactions	41 621	43 417
Interbank and interbranch settlements	590 262	1 116 171
Employee provisions	291 876	446 011
Sundry creditors	1 276 232	1 236 882
Liabilities from contracts with customers	210 208	187 584
Public and law settlements	170 579	150 142
Accrued liabilities	547 860	405 982
Finance lease related settlements	147 436	184 200
Other	195 092	12 751
Total	**3 471 166**	**3 783 140**
of which financial liabilities *	2 895 287	3 432 663

*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 employee provisions 1.01.2023 - 30.06.2023		*of which: Provisions for retirement allowances*
As at the beginning of the period	**446 011**	***44 700***
Provision charge	160 297	*1 502*
Utilization	(240 323)	-
Release of provisions	(1 999)	*(1 425)*
Other changes	(72 110)	-
As at the end of the period	**291 876**	***44 777***
Short-term	247 099	-
Long-term	44 777	*44 777*

Change in employee provisions 1.01.2022 - 30.06.2022		*of which: Provisions for retirement allowances*
As at the beginning of the period	**383 915**	***42 728***
Provision charge	167 367	*313*
Utilization	(245 687)	-
Release of provisions	(367)	-
As at the end of the period	**305 228**	***43 041***
Short-term	262 187	-
Long-term	43 041	*43 041*

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 not carried at fair value in the financial statements.

	30.06.2023		31.12.2022	
ASSETS	**Book Value**	**Fair value**	**Book Value**	**Fair value**
Cash and balances with central banks	10 376 739	10 376 739	10 170 022	10 170 022
Loans and advances to banks	9 729 626	9 729 626	9 577 499	9 577 499
Loans and advances to customers measured at amortised cost, of which:	141 812 759	141 113 922	137 888 696	138 751 711
-individuals	26 705 053	26 808 662	25 749 057	26 194 283
-housing loans	50 931 448	49 440 085	52 529 798	52 729 193
-business	63 154 439	63 843 356	58 730 630	58 949 024
Buy-sell-back transactions	9 373 287	9 373 287	13 824 606	13 824 606
Debt investment securities measured at amortised cost	19 167 299	17 792 363	15 499 348	13 332 182
LIABILITIES				
Deposits from banks	4 419 555	4 419 555	4 031 252	4 031 252
Deposits from customers	200 655 621	200 634 417	196 496 806	196 431 894
Sell-buy-back transactions	-	-	2 324 926	2 324 926
Subordinated liabilities	2 723 525	2 694 634	2 807 013	2 782 760

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.
Debt investment financial assets measured at amortized cost: fair value estimated based on market quotes. Instruments classified as category I of the fair value hierarchy.

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.

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

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

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

As at 30.06.2023 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. The Group also classifies NBP bills into this category.

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

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

Sensitivity analysis of the fair value of underwriting loans

The analysis covered the population of underwriting loans as at the end of June 2023 and in the comparable period for interest rate changes.

			Fair value in respective scenarios			
in PLN m		baseline	1 p.p. decrease in interest rates	2 p.p. decrease in interest rates	1 p.p. increase in interest rates	2 p.p. increase in interest rates
30.06.2023	Loans to customers (underwriting)	2 650,6	2 643,8	2 637,1	2 657,3	2 664,0
31.12.2022	Loans to customers (underwriting)	2 628,7	2 620,9	2 613,1	2 636,4	2 644,2

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

Level 3: Other valuation techniques

Financial assets and liabilities whose fair value is determined using valuation models for which input data is not based on observable market data (unobservable input data). In this category, the 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 (A-series) of Visa Inc., including a discount which takes into account the limited liquidity of preferential shares.	Discount taking into account the limited liquidity of preferential shares.
SHARES IN BIURO INFORMACJI KREDYTOWEJ SA	Estimation of the fair value based on the present value of the forecast results of the company	Forecast results of the company
SHARES IN POLSKI STANDARD PŁATNOŚCI SP. Z O.O.	Estimation of the fair value based on the present value of the forecast results of the company	Forecast results of the company; selection of peer group
SHARES IN SOCIETY FOR WORLDWIDE INTERBANK FINANCIAL TELECOMMUNICATION	Estimation of the fair value based on the net assets value of the company and average FX exchange rate	Net asset value of the company
SHARES IN SYSTEM OCHRONY BANKÓW KOMERCYJNYCH S.A.	Estimation of the fair value based on the net assets value of the company	Net asset value of the company
SHARES IN KRAJOWA IZBA ROZLICZENIOWA SA		
SHARES IN WAŁBRZYSKA SPECJALNA STREFA EKONOMICZNA „INVEST-PARK" SP Z O.O.		

As at 30.06.2023 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

30.06.2023	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	1 463 443	7 001 221	9 036	8 473 700
Hedging derivatives	-	853 944	-	853 944
Loans and advances to customers measured at fair value through other comprehensive income	-	-	2 650 562	2 650 562
Loans and advances to customers measured at fair value through profit and loss	-	-	104 455	104 455
Debt securities measured at fair value through other comprehensive income	35 245 276	5 493 818	394	40 739 488
Debt securities measured at fair value through profit and loss	-	-	68 902	68 902
Equity securities measured at fair value through other comprehensive income	-	-	5 559	5 559
Equity securities measured at fair value through other comprehensive income	-	-	226 728	226 728
Total	**36 708 719**	**13 348 983**	**3 065 636**	**53 123 338**
Financial liabilities				
Financial liabilities held for trading	435 533	7 200 113	5 018	7 640 664
Hedging derivatives	-	1 221 258	-	1 221 258
Total	**435 533**	**8 421 371**	**5 018**	**8 861 922**

31.12.2022	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	244 547	6 627 061	12 008	6 883 616
Hedging derivatives	-	549 177	-	549 177
Loans and advances to customers measured at fair value through other comprehensive income	-	-	2 628 660	2 628 660
Loans and advances to customers measured at fair value through profit and loss	-	-	239 694	239 694
Debt securities measured at fair value through other comprehensive income	35 435 926	4 101 199	2 410	39 539 535
Debt securities measured at fair value through profit and loss	-	-	64 707	64 707
Equity securities measured at fair value through other comprehensive income	-	-	63 248	63 248
Equity securities measured at fair value through other comprehensive income	-	-	204 299	204 299
Total	**35 680 473**	**11 277 437**	**3 215 026**	**50 172 936**
Financial liabilities				
Financial liabilities held for trading	195 560	6 904 911	8 355	7 108 826
Hedging derivatives	-	1 979 089	-	1 979 089
Total	**195 560**	**8 884 000**	**8 355**	**9 087 915**

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

30.06.2023	Financial assets for trading	Loans and advances to customers measured at fair value through profit and loss	Loans and advances to customers measured at fair value through other comprehensive income	Debt securities measured at fair value through profit and loss	Debt securities measured at fair value through other comprehensive income	Equity securities measured at fair value through other comprehensive income	Equity securities measured at fair value through other comprehensive income	Financial liabilities held for trading
As at the beginning of the period	**12 008**	**239 694**	**2 628 660**	**64 707**	**2 410**	**204 299**	**63 248**	**8 355**
Profit or losses								
recognised in income statement	(2 670)	*20 316*	-	*8 264*	-	-	*5 460*	(2 968)
recognised in equity (OCI)	-	-	*105 009*	-	-	*22 429*	-	-
Purchase/granting	1 012	16 182	*1 172 631*	-	-	-	-	279
Sale	-		*(50 728)*	-	-	-	(64 122)	-
Matured	-	(170 952)	*(1 168 247)*	-	-	-	-	-
Transfer	(1 314)		-	-	-	-	-	(648)
Other	-	(785)	*(36 763)*	(4 069)	(2 016)	-	973	-
As at the end of the period	**9 036**	**104 455**	**2 650 562**	**68 902**	**394**	**226 728**	**5 559**	**5 018**

31.12.2022	Financial assets for trading	Loans and advances to customers measured at fair value through profit and loss	Loans and advances to customers measured at fair value through other comprehensive income	Debt securities measured at fair value through profit and loss	Debt securities measured at fair value through other comprehensive income	Equity securities measured at fair value through other comprehensive income	Equity securities measured at fair value through other comprehensive income	Financial liabilities held for trading
As at the beginning of the period	**3 885**	**553 830**	**1 729 848**	**116 977**	**3 475**	**195 468**	**3 427**	**2 616**
Profit or losses								
recognised in income statement	5 517	*52 477*	-	*(6 326)*	-	-	*3 264*	*6 131*
recognised in equity (OCI)	-	-	*150 167*	-	-	*8 702*	-	-
Purchase/granting	4 695	136 238	1 330 740	-	-	129	*59 179*	1 139
Sale	-	(24 145)	(430 000)	(59 179)	-	-	-	-
Matured	-	(476 789)	(154 869)	-	-	-	-	-
Transfer	(2 089)	-	-	-	-	-	-	(1 531)
Other	-	(1 917)	2 774	13 235	(1 065)	-	(2 622)	-
As at the end of the period	**12 008**	**239 694**	**2 628 660**	**64 707**	**2 410**	**204 299**	**63 248**	**8 355**

32. Contingent liabilities

Significant court proceedings

As at 30.06.2023 the value of all litigation amounts to PLN 8,462,456 k. This amount includes PLN 2,712,104k claimed by the Group, PLN 5,673,170k in claims against the Group and PLN 77,182k of the Group's receivables due to bankruptcy or arrangement cases.

As at 30.06.2023 the amount of all court proceedings which had been completed amounted to PLN 278,279 k.

As at 30.06.2023 the provisions for instigated lawsuits recognised in accordance with IAS 37 totalled PLN 456,373k and the adjustment to gross carrying amount under IFRS 9 related to instigated lawsuits totalled PLN 2,513,380 k. In 2,029 cases against Santander Bank Polska SA, where the claim value was high (equal or above PLN 500 k), the total value of provisions for legal claims recognised in accordance with IAS 37 and the adjustment to gross carrying amount under IFRS 9 related to legal claims was PLN 849,465 k

As at 31.12.2022 the value of all litigation amounts to PLN 5 634 583 k. This amount includes PLN 1 384 887k claimed by the Group, PLN 4 175 352 k in claims against the Group and PLN 74 344k of the Group's receivables due to bankruptcy or arrangement cases.

As at 31.12.2022 the amount of all court proceedings which had been completed amounted to PLN 254 496 k.

As at 31.12.2022 the provisions for instigated lawsuits recognised in accordance with IAS 37 totalled PLN 274 028k and the adjustment to gross carrying amount under IFRS 9 related to instigated lawsuits totalled PLN 2,149,834k. In 1,403 cases against Santander Bank Polska SA, where the claim value was high (equal or above PLN 500 k), the total value of provisions for legal claims recognised in accordance with IAS 37 and the adjustment to gross carrying amount under IFRS 9 related to legal claims was PLN 656 613 k.

Off-balance sheet liabilities

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

	30.06.2023			
Contingent liabilities	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Liabilities sanctioned	**51 112 664**	**902 133**	**38 113**	**52 052 910**
- financial	**36 598 760**	**645 526**	**33 646**	**37 277 932**
- credit lines	32 431 592	584 391	23 348	33 039 331
- credit cards debits	3 377 945	48 713	9 696	3 436 354
- import letters of credit	744 758	12 422	602	757 782
- term deposits with future commencement term	44 465	-	-	44 465
- guarantees	**14 547 859**	**270 582**	**20 257**	**14 838 698**
Provision for off-balance sheet liabilities	**(33 955)**	**(13 975)**	**(15 790)**	**(63 720)**
Liabilities received				**62 202 899**
- financial				**354 496**
- guarantees				**61 848 403**
Total	**51 112 664**	**902 133**	**38 113**	**114 255 809**

	31.12.2022			
Contingent liabilities	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Liabilities sanctioned	**42 131 632**	**1 046 623**	**36 712**	**43 214 967**
- financial	**33 468 058**	**843 410**	**29 658**	**34 341 126**
- credit lines	29 210 066	790 162	17 860	30 018 088
- credit cards debits	3 427 292	43 599	10 233	3 481 124
- import letters of credit	808 939	9 649	1 565	820 153
- term deposits with future commencement term	21 761	-	-	21 761
- guarantees	**8 694 921**	**213 929**	**26 860**	**8 935 710**
Provision for off-balance sheet liabilities	**(31 347)**	**(10 716)**	**(19 806)**	**(61 869)**
Liabilities received				**56 315 458**
- financial				**364 732**
- guarantees				**55 950 726**
Total	**42 131 632**	**1 046 623**	**36 712**	**99 530 425**

Proceedings of the Office of Competition and Consumer Protection on the reimbursement of costs in the case of early mortgage repayment

By the decision of 26 September 2022, UOKiK (the Office of Competition and Consumer Protection) initiated proceedings against the Bank regarding the use of practices that violate collective consumer interests. UOKiK accused the Bank that in the case of an early repayment of a mortgage loan granted under the Act on Mortgage Loans and the supervision over mortgage brokers and agents of 23.03.2017, the Bank did not proportionally reduce the one-off costs of the loan, i.e. the sanction fee and the immovable property valuation cost.

The Bank responded at length to the allegations made by the Office of Competition and Consumer Protection (UOKiK). During the proceedings, the Bank informed UOKiK about a change in practice, stating that in the case of early repayment of mortgage loans granted under the aforementioned Mortgage Credit Act, the bank applies a proportional reduction of the loan preparatory fee. The Bank's stance was based on the prevailing court practice, in particular the CJEU judgment of 9 February 2023 in case C-555/21, in which the Court stated that the right to reduction cannot cover costs which, irrespective of the duration of the contract, are payable by the consumer to either the creditor or third parties for services previously rendered in their entirety at the time of early repayment. The Bank is awaiting the grounds of judgment of the Supreme Court of 31 May 2023 in case III CZP 144/22, in which the Court held that an arrangement fee on a mortgage loan can be reduced under Article 39(1) of the Act of 23 March 2017 on mortgage loans and supervision over mortgage loan brokers and agents if its amount depends on the duration of the contract. The above judgments of both the CJEU and the Supreme Court are in line with the Bank's legal reasoning presented during the proceedings instigated by the UOKiK.

33. Legal risk connected with CHF mortgage loans

As at 30 June 2023, the Group had a portfolio of 34.0k CHF-denominated and CHF-indexed loans of PLN 6,847,227k gross before adjustment to the gross carrying amount at PLN 3,437,589k reducing contractual cash flows in respect of legal risk.

As at 31 December 2022, the Group had a portfolio of 39.9k CHF-denominated and CHF-indexed loans of PLN 8,393,684k gross before adjustment to the gross carrying amount at PLN 3,136,301k reducing contractual cash flows in respect of legal risk.

In the case of both common courts and the Supreme Court, the ruling practice regarding loans indexed to or denominated in foreign currencies is still not unanimous.

The prevailing practice is the annulment of a loan agreement due to unfair clauses concerning loan indexation and application of an exchange rate from the bank's FX table. Some courts issue judgments as a result of which the loan is converted to PLN: the unfair indexation mechanism is removed and the loan is treated as a PLN loan with an interest rate based on a rate relevant for CHF. Other courts adjudicate partly in favour of banks: only the application of an exchange rate based on the bank's FX table is deemed to be unfair and is replaced by an objective indexation rate, i.e. an average NBP exchange rate. Still others decide on the removal of loan indexation, as a consequence of which the loan is treated as a PLN loan with an interest rate based on WIBOR. Judgments are also passed which declare loan agreements void due to unlawful terms. Those judgments are incidental and as such, in the Group's view, have no significant impact on the assessment of legal risk of court cases regarding mortgage loans denominated in or indexed to CHF.

Lastly, there are still rulings which are entirely favourable to banks, where conversion clauses are not deemed to be unfair and the case against the bank is dismissed.

The foregoing differences in the case-law result from discrepancies in the ruling practice of the Supreme Court and the Court of Justice of the European Union (CJEU), which essentially provide guidance rather than detailed rules on how specific disputes should be adjudicated and claims settled.

The Supreme Court was supposed to present a comprehensive opinion on CHF loans in response to the questions asked by the First President of the Supreme Court in 2021 (file no. III CZP 11/21). However, the process has been suspended due to constitutional reasons and will be resumed after the CJEU issues a preliminary ruling in the same case.

As there is no uniform approach, judgments passed by the Supreme Court in cases examined as part of the cassation procedure vary as to the effects of potential unfairness of indexation clauses: from the annulment of a loan agreement to its continuation in existence after the removal of unfair terms.

In the resolution passed in 2021 (file no. III CZP 6/21), the Supreme Court expressed its opinion on several matters relevant to CHF loans concerning settlements between the parties in case of annulment of a loan agreement. It stated that the parties must each reimburse to the other any payments made under the agreement in accordance with the two separate claims theory. This way, the balance theory (ex officio mutual set-off of claims) was rejected. At the same time, the Supreme Court held that there are legal instruments in place, such as set-off and the right of retention, which make it possible to concurrently account for mutual settlements in relation to unjust enrichment following the annulment of a loan agreement. As there were conflicting opinions about whether the right of retention can be exercised with respect to claims arising from a loan agreement, questions were submitted to the Supreme Court about the legal nature of a loan agreement.

The Supreme Court also pointed out that the limitation of the bank's claims for return of unjust enrichment may not commence until the agreement is considered permanently ineffective, i.e. until the consumer takes an informed decision as to invalidity of the agreement, after they have been duly informed about the unfairness of contractual provisions and the related effects. This is in line with the opinion issued by the CJEU in respect of the limitation period for the consumer's claims for reimbursement of instalments paid following the annulment of the agreement, stating that it would be unreasonable to assume that this period should begin to run from the date of each payment made by the consumer as the consumer might not be aware of the existence or nature of unfair terms in the agreement.

The Supreme Court has not yet taken a clear position on banks' claims going beyond reimbursement of the nominal amount of the loan principal. However, it indicated such possibility in one of its judgments in which it stated that the CJEU case-law does not preclude such consequence of the annulment of a loan agreement (file. no. V CSK 382/18).

In its ruling practice, the CJEU generally gives priority to the protection of consumer's interests violated by unfair contractual terms. At the same time, it reiterates that the main objective of Directive 93/13/EEC on unfair terms in consumer contracts is to restore the balance between the parties, i.e. to restore the legal and factual situation which the consumer would have been in had it signed the agreement without the unfair term, while not undermining the deterrent effect sought by the Directive (deterring sellers or suppliers from including unfair terms in agreements). Therefore, the court should first endeavour to keep the agreement in existence without the unfair term, where possible (i.e. if the main subject of the agreement is not changed). At the same time, the CJEU holds that it is permissible for the unfair term to be replaced by a supplementary provision of national law (even the one that entered into force after the conclusion of the agreement) or a rule which the parties have opted for. Recently, the CJEU has put forward a relatively new idea: that the parties should restore the balance through negotiations within the framework set by the court, this way protecting the consumer from adverse effects of the annulment of an agreement (particularly the need to immediately reimburse the amounts due to the bank). The CJEU takes the view that an agreement should be invalidated only as a last resort and only after the court presents the borrower with consequences of this solution and the borrower agrees to it. In order to ensure that the agreement can continue in existence, the court should apply all available measures, including an analysis of the possibility of removing only some of the clauses considered unfair without changing the substance of the contractual obligation. Nevertheless, the prevailing ruling practice of national courts is the annulment of the agreement as a consequence of removal of unfair terms.

The CJEU pointed out on several occasions (e.g. C-6/22, C-349/18 to C-351/18) that settlements between the parties following the annulment of an agreement are governed by national law (provided that the objectives of Directive 93/13/EEC are met). Consequently, the national courts have the exclusive jurisdiction over claims for restitution. That said, losses arising from the annulled agreement should not be equally distributed, i.e. the consumer should not incur a half or more than a half of the related costs.

The District Court for Warsaw–Śródmieście requested a preliminary ruling from the CJEU on claims of the parties for settlement of amounts arising from the non-contractual use of the capital in the case of annulment of an agreement pursuant to Directive 93/13/EEC. One case concerned the borrower's claims against the bank for the return of profits made using the money paid by the borrower (C-520/21) and the other case concerned the bank's claims for consideration in respect of the provision of funds under a loan agreement (C-756/22).

The judgment in case C-520/21 was passed on 15 June 2023. In the grounds of the judgment the CJEU stated that "in the context of the annulment in its entirety of a mortgage loan agreement on the ground that it cannot continue in existence after the removal of the unfair terms, Article 6(1) and Article 7(1) of Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts must be interpreted as:

– not precluding a judicial interpretation of national law according to which the consumer has the right to seek compensation from the credit institution going beyond reimbursement of the monthly instalments paid and the expenses paid in respect of the performance of that agreement together with the payment of default interest at the statutory rate from the date on which notice is served, provided that the objectives of Directive 93/13 and the principle of proportionality are observed and,

– precluding a judicial interpretation of national law according to which the credit institution is entitled to seek compensation from the consumer going beyond reimbursement of the capital paid in respect of the performance of that agreement together with the payment of default interest at the statutory rate from the date on which notice is served".

In its judgment, the CJEU confirmed that the effects of the annulment of an agreement are governed by the national law subject to the provisions of Directive 93/13 EEC. Consequently, claims for restitution will be assessed by the national court after examining the facts of the case. The grounds of judgment indicate that the bank's claims going beyond the reimbursement of the loan principal are contrary to the objectives of Directive 93/13/EEC, if they would cause the bank to make a similar profit to the one intended to be earned in the performance of the agreement. The deterrent effect would thus be eliminated. Having preliminarily analysed the reasons for judgment, the Group has concluded that in the circumstances presented by the CJEU it could be possible for banks to claim reimbursement of the loan principal adjusted for changes in the time value of money over the period of more than ten years since sanction. Some courts have presented their stance that is in line with the above interpretation.

At the same time, the CJEU held that the EU law does not preclude the consumer from seeking compensation from the bank beyond reimbursement of the instalments paid. That said, the CJEU asserted in the grounds of judgment that such claims should be assessed in the light of all the facts of the case to ensure that potential benefits derived by the consumer after annulment of the agreement do not go beyond what is necessary to restore the legal and factual situation they would have been in if they had not concluded a defective agreement and that the benefits are not a disproportionate penalty on a seller or supplier (proportionality principle). Furthermore, as any such claims will be assessed in accordance with national laws on unjust enrichment, the decision to uphold them would be questionable as there is no actual enrichment on the part of the bank as a result of the use of funds paid by the borrower (the borrower only reimburses the money provided by the bank under an agreement declared invalid).

Case C-520/21, in which the CJEU judgment of 15 June 2023 was passed, formally concerned only additional claims of the consumer following the annulment of a loan agreement. Case C-756/22, in which questions referred for preliminary ruling concern directly the bank's claims, is pending CJEU judgment.

The final assessment of legal risk related to claims of the parties for consideration arising from the non-contractual use of the capital in the case of annulment of the agreement will largely depend on the ruling practice of national courts with regard to the enforcement of CJEU judgments and on the opinion of the Supreme Court.

As there is no unanimous ruling practice and – in the Management Board's opinion – it is not possible to predict the Supreme Court's decisions on individual cases and there are still questions pending preliminary ruling by the CJEU, at the date of these financial statements the Group estimated the legal risk associated with the portfolio of loans indexed to and denominated in a foreign currency using a model which considers different possible judgments (in the form of adjustment to the gross carrying amount for active exposures or provisions for inactive exposures), including those which are the subject of the request for the resolution of the entire Civil Chamber of the Supreme Court. The model can also be affected by subsequent CJEU rulings on questions referred by the Polish courts, the stance of the Supreme Court and the ruling practice of national courts. The Group is monitoring court decisions taken with regard to foreign currency loans in terms of the ruling practice and its possible changes. The model might also be affected by a potential intervention of legislators aimed to restore the balance between the parties following the removal of the unfair clause to protect legal relationships from mass annulment of mortgage loan agreements.

In view of the above, the Group identified the risk that in the case of lawsuits which have already been filed or are predicted to be filed based on applicable models the scheduled cash flows from the portfolio of mortgage loans denominated in and indexed to foreign currencies might not be fully recoverable and/or that a liability might arise, resulting in a future cash outflow. The Group recognises the impact of legal risk associated with foreign currency mortgage loans in line with the requirements arising from:

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

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

As at 30 June 2023, there were 14,948 pending lawsuits against the Group over loans indexed to or denominated in CHF, with the disputed amount totalling PLN 4,879,732k. This included two class actions filed under the Class Action Act:

- a class action against Santander Bank Polska S.A. in respect of 354 CHF-indexed loans, with the disputed amount of PLN 50,983k;
- a class action against Santander Consumer Bank S.A. in respect of 31 CHF-indexed loans, with the disputed amount of PLN 38k.

As at 31 December 2022, there were 12,225 pending lawsuits against the Group over loans indexed to or denominated in CHF, with the disputed amount totalling PLN 3,609,610k. This included two class actions filed under the Class Action Act:

- a class action against Santander Bank Polska S.A. in respect of 559 CHF-indexed loans, with the disputed amount of PLN 50,983k;
- a class action against Santander Consumer Bank S.A. in respect of 31 CHF-indexed loans, with the disputed amount of PLN 38k.

As at 30 June 2023, the total cumulative impact of legal risk associated with foreign currency mortgage loans in the Group was estimated at PLN 4,003,025k, including:

- IFRS 9 adjustment to the gross carrying amount at PLN 3,437,590k (including PLN 2,747,721k in the case of Santander Bank Polska S.A. and PLN 689,869k in the case of Santander Consumer Bank S.A.)
- IAS 37 provision at PLN 565,435k (including PLN 415,117k in the case of Santander Bank Polska S.A. and PLN 150,318k in the case of Santander Consumer Bank S.A.).

As at 31 December 2022, the total cumulative impact of legal risk associated with foreign currency mortgage loans in the Group was estimated at PLN 3,557,253k, including:

- IFRS 9 adjustment to the gross carrying amount at PLN 3,136,301k (including PLN 2,491,692k in the case of Santander Bank Polska S.A. and PLN 644,609k in the case of Santander Consumer Bank S.A.)
- IAS 37 provision at PLN 420,952k (including PLN 318,682k in the case of Santander Bank Polska S.A. and PLN 102,270k in the case of Santander Consumer Bank S.A.).

The tables below present the total cost of legal risk connected with mortgage loans recognised in the Group's income statement and statement of financial position, including the cost of settlements discussed in detail in the section below.

Cost of legal risk connected with foreign currency mortgage loans	1.04.2023–30.06.2023	1.01.2023–30.06.2023	1.04.2022–30.06.2022	1.01.2022–30.06.2022
Impact of legal risk associated with foreign currency mortgage loans recognised as adjustment to gross carrying amount	(485 322)	(755 557)	(677 741)	(738 354)
Impact of legal risk associated with foreign currency mortgage loans recognised as provision	(129 648)	(179 585)	(126 087)	(126 306)
Other costs*	(113 907)	(214 337)	(47 090)	(82 719)
Total cost of legal risk associated with foreign currency mortgage loans	**(728 877)**	**(1 149 479)**	**(850 918)**	**(947 379)**
Gain/loss on derecognition of financial instruments measured at amortised cost	(79 367)	(263 343)	(22 736)	(38 911)
including: settlements made	(81 787)	(267 541)	(20 738)	(40 825)
Total cost of legal risk associated with foreign currency mortgage loans and settlements made	**(810 664)**	**(1 417 020)**	**(871 656)**	**(988 204)**

* Other costs include but are not limited to the costs of court proceedings and costs of enforcement of court judgments.

	30.06.2023	31.12.2022
Adjustment to gross carrying amount in respect of legal risk associated with foreign currency mortgage loans	3 437 590	3 136 301
Provision for legal risk associated with foreign currency mortgage loans	565 435	420 952
Total cumulative impact of legal risk associated with foreign currency mortgage loans	**4 003 025**	**3 557 253**

As at 30 June 2023, the total adjustment to the gross carrying amount and provisions for legal risk and legal provisions (for legal claims and a collective portion) account for 58.5% of the gross value of the active CHF loan portfolio (before adjustment to the gross carrying amount in line with IFRS 9).

The increase in the cost of legal risk between January and June 2023 is due to an update of the number of expected settlements and expected lawsuits as well as change in total loss in respect of cases potentially lost by the Group resulting from changes in the expected rulings and the assumed level of the likelihood of claims being resolved in favour of customers. In 2022 and H1 2023, we also observed more court rulings.

The Group used a statistical model to estimate the likelihood of claims being made by borrowers in relation to both active and repaid loans based on the existing lawsuits against the Group and the estimated growth in their number. The model assesses the so-called lifetime risk and is based on a range of behavioural characteristics related to the loan and the customer. The Group assumes that lawsuits have been or will be filed against the Group in relation to approx. 25.4% of loans (active and repaid). These assumptions are highly sensitive to a number of external factors, including but not limited to the ruling practice of Polish courts, the level of publicity around individual rulings, measures taken by the mediating law firms and the cost of proceedings. Customers' interest in proposed settlements is another important aspect affecting the estimates, as is the practice of Polish courts with regard to the enforcement of CJEU rulings. The Group expects that most of the lawsuits will be filed by the end of 2024, and then the number of new claims will drop as the legal environment will become more structured.

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

For the purpose of calculating the costs of legal risk, the Group also estimated how likely it is that a specific number of lawsuits will be filed and what the possible end scenarios are in this respect. The likelihoods differ between indexed and denominated loans. The likelihood of unfavourable ruling for the Group is higher for the former and lower for the latter. The Group also considered the protracted proceedings in some courts. As at 30 June 2023, 1,734 final and non-appealable judgments were issued in cases against the Group (including those passed after the CJEU ruling of 3 October 2019), of which 1,655 were unfavourable to the Group, and 79 were entirely or partially favourable to the Group (compared to 927 judgments as at 31 December 2022, including 861 unfavourable ones and 66 entirely or partially favourable). When assessing these likelihoods, the Group used the support of law firms and conducted thorough analysis of the ruling practice in cases concerning indexed and denominated loans.

As the current ruling practice is not unanimous, the Group considers the following scenarios of possible court rulings that might lead to financial losses (including one new scenario added in Q2 2023):

- Annulment of the whole loan agreement due to unfair clauses, with only the nominal of the capital to be reimbursed by the borrower;
- Annulment of the loan agreement clauses identified as unfair, resulting in the conversion of the loan into PLN and maintenance of an interest rate based on a rate relevant for CHF;
- Conversion of the loan to PLN with an interest rate based on WIBOR;
- Rulings leading to the settlement by the borrower of the capital obtained, taking into account changes in the time value of money
- Annulment of the loan agreement clauses identified as unfair with respect to the FX differences determination mechanism, resulting in the average NBP rate to be applied.

These scenarios also vary in terms of likelihood depending on the type of agreement and in terms of the level of losses incurred in case of their materialisation. They were estimated with the support of external law firms independent from the Group. Each of these scenarios has an estimated expected loss level based on the available historical data.

The Group also considers an additional scenario in which it may incur financial loss on account of additional claims made by the borrower beyond the reimbursement of the nominal amount of the instalments paid.

Settlements

In December 2020, the Chairman of the Polish Financial Supervision Authority (KNF) presented a proposal for voluntary settlements between banks and borrowers under which CHF loans would be retrospectively settled as PLN loans bearing an interest rate based on WIBOR plus margin. The Group prepared settlement proposals which take into account both the key elements of conversion of home loans indexed to CHF, as proposed by the KNF Chairman, and the conditions defined internally by the Bank. The proposals are being presented to customers. This is reflected in the model which is currently used to calculate legal risk provisions, both in terms of the impact of proposed settlements on customers' willingness to bring the case to court and with respect to the potential outcomes of court proceedings.By 30 June 2023, the Group made 7,374 settlements (both pre-court and following the lawsuits), of which 4,337 ones were reached during H1 2023 and 1,378 ones in Q2 2023 alone.

In mid-2022, the Group developed a settlement scenario which reflects the level of losses for future settlements. The scenario is based on acceptance levels and losses on loans as part of settlement proposals described above. The acceptance level of future settlements is affected by factors such as the interest rate of PLN loans, the CHF/PLN conversion rate, the development of the ruling practice and the duration of proceedings.

Sensitivity analysis

Due to high uncertainty around both individual assumptions and their total impact, the Group carried out the following sensitivity analysis of the estimated impact of legal risk by assessing the influence of variability of individual parameters on the level of that risk.
The estimates were prepared in the form of a univariate analysis of provision value sensitivity.
Taking into account the variability of the parameters outlined below, as at 30 June 2023 the impact of legal risk estimated on a collective basis is affected as follows:

Scenario (PLN m)	Change in the collective provision as at 30.06.2023	Change in the collective provision as at 31.12.2022
Tripling the number of customers filing a lawsuit	2 111	2 058
Doubling the number of customers filing a lawsuit	1 055	1 029
50% reduction in the number of customers filing a lawsuit	(528)	(514)
Relative increase of 5% in the likelihood of losing the case	53	50
Relative decrease of 5% in the likelihood of losing the case	(53)	(49)

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

Taking into account the variability of the parameters outlined below, the provision for individual legal claims as at 30 June 2023 and in the comparative period is affected as follows:

Scenario (PLN m)	Change in the individual provision as at 30.06.2023	Change in the individual provision as at 31.12.2022
Relative increase of 5% in the likelihood of losing the case	144	115
Relative decrease of 5% in the likelihood of losing the case	(144)	(113)

34. Shareholders with min. 5% voting power

Shareholder	Number of shares held		% in the share capital		Number of votes at AGM		Voting power at AGM	
	26.07.2023	25.04.2023	26.07.2023	25.04.2023	26.07.2023	25.04.2023	26.07.2023	25.04.2023
Banco Santander S.A.	68 880 774	68 880 774	67,41%	67,41%	68 880 774	68 880 774	67,41%	67,41%
Nationale-Nederlanden OFE *	5 123 581	5 123 581	5,01%	5,01%	5 123 581	5 123 581	5,01%	5,01%
Others	28 184 959	28 184 959	27,58%	27,58%	28 184 959	28 184 959	27,58%	27,58%
Total	**102 189 314**	**102 189 314**	**100%**	**100%**	**102 189 314**	**102 189 314**	**100%**	**100%**

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

According to the information held by the Bank's Management Board, the shareholders with a min. 5% of the total numer of votes at the Santander Bank Polska General Meeting as at the publication date of the condensed interim consolidated report for 1H 2023 /26.07.2023/ are Banco Santander SA and Funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne SA.

35. 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	30.06.2023	31.12.2022
Assets	**333**	**214**
Loans and advances to customers	274	154
Other assets	59	60
Liabilities	**78 200**	**56 298**
Deposits from customers	78 141	56 243
Other liabilities	59	55

Transactions with associates	1.01.2023-30.06.2023	1.01.2022-30.06.2022
Income	**35 048**	**29 422**
Interest income	9	4
Fee and commission income	35 029	29 415
Other operating income	10	3
Expenses	**1 030**	**618**
Interest expense	1 030	618

	with the parent company		with other entities	
Transactions with Santander Group	**30.06.2023**	**31.12.2022**	**30.06.2023**	**31.12.2022**
Assets	**10 678 389**	**10 301 473**	**2 124**	**1 749**
Loans and advances to banks, incl:	5 985 875	6 202 306	2 124	1 749
Current accounts	*542 693*	*566 447*	*2 124*	*1 749*
Loans and advances	*5 443 182*	*5 635 859*	-	-
Financial assets held for trading	4 690 407	4 098 301	-	-
Other assets	2 107	866	-	-
Liabilities	**8 621 945**	**10 988 611**	**138 782**	**108 574**
Deposits from banks incl.:	1 654 666	1 288 557	8 447	17 142
Current accounts and advances	*1 190 172*	*595 307*	*8 447*	*17 142*
Loans from other banks	*464 494*	*693 250*	-	-
Financial liabilities held for trading	3 587 254	3 796 232	83	-
Deposits from customers	-	-	61 405	70 288
Lease liabilities	-	-	25	25
Debt securities in issue	3 342 206	5 899 300	-	-
Other liabilities	37 819	4 522	68 822	21 119
Contingent liabilities	**9 586 594**	**3 326 481**	**12 544**	**5 320**
Sanctioned:	1 326 514	-	2 316	3 827
guarantees	*1 326 514*	-	*2 316*	3 827
Received:	8 260 080	3 326 481	10 228	1 493
guarantees	*8 260 080*	*3 326 481*	*10 228*	*1 493*

	with the parent company		with other entities	
Transactions with Santander Group	**1.01.2023-30.06.2023**	**1.01.2022-30.06.2022**	**1.01.2023-30.06.2023**	**1.01.2022-30.06.2022**
Income	**917 221**	**540 258**	**1 277**	**5 198**
Interest income	116 984	(317)	5	3
Fee and commission income	10 516	5 934	51	458
Other operating income	-	84	723	4 377
Net trading income and revaluation	789 721	534 557	498	360
Expenses	**102 705**	**54 071**	**80 515**	**64 111**
Interest expense	61 403	28 080	548	1 899
Fee and commission expense	5 477	3 296	91	327
Operating expenses incl.:	35 825	22 695	79 876	61 885
Staff, Operating expenses and management costs	*35 771*	*22 693*	*79 820*	*61 885*
Other operating expenses	*54*	2	*56*	-

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 30.06.2023, 31.12.2022 and 30.06.2022 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	
	1.01.2023-30.06.2023	1.01.2022-30.06.2022	1.01.2023-30.06.2023	1.01.2022-30.06.2022
Short-term employee benefits	7 863	8 535	31 289	28 877
Post-employment benefits	-	-	200	-
Long-term employee benefits	17 650	13 575	28 582	23 232
Paid termination benefits	-	-	1 881	-
Share-based payments	-	-	3 092	208
Total	**25 513**	**22 110**	**65 044**	**52 317**

	Management Board Members		Key Management Personnel	
	30.06.2023	31.12.2022	30.06.2023	31.12.2022
Loans and advances made by the Bank to the Members of the Management Board/Key Management and to their relatives	4 235	4 799	16 057	19 760
Deposits from The Management Board/Key management and their relatives	13 765	10 197	15 686	16 706

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 justified cases – by the principles separately specified in the companies.

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 key executive positions are paid variable remuneration once a year following the end of the reference period and release of the Bank's results. Variable remuneration is awarded in accordance with bonus regulations and five-year Incentive Plan VII and is paid in cash and in the Bank's shares or related financial instruments (phantom stock). The remuneration paid in shares or financial instruments may not be lower than 50% of the total amount of variable remuneration. Payment of min. 40% of the variable remuneration specified above is conditional and deferred for the period of four or five years. During that period, it is paid in arrears in equal annual instalments depending on the employee's individual performance in the analysed period and the value of shares or related financial instruments.

The total cost of long-term Incentive Plan VII for the Management Board and key executives is PLN 81,293 k for H1 2023. Details are described in note 43.

In H1 2023, the total remuneration paid to the Supervisory Board Members of Santander Bank Polska totalled PLN 1,020.1 k. Mr John Power received remuneration of PLN 78.8 k from subsidiaries for his membership in their Supervisory Boards.

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

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

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.

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

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

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

No such events took place in the reporting period.

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

As at 30.06.2023 and 31.12.2022 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.

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

Details in Notes 8 and 12.

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

As at 30.06.2023 and 31.12.2022 or Santander Bank Polska S.A. or its subsidiaries have not made significant sales and purchases of property, plant and equipment. There were no significant liabilities arising from purchase of fixed assets either.

42. Acquisitions and disposals of investments in subsidiaries and associates

There were no acquisitions or sales of subsidiaries and associates in the reporting period.

43. Share based incentive scheme

In 2022, long-term Incentive Plan VII ("Plan") was established. One of the main objectives of the Plan is to ensure best employee experience and motivate the participants to increase the long-term value of Santander Bank Polska. The Plan is addressed to the employees who significantly contribute to growth in the value of the organisation. Its purpose is to motivate the participants to achieve business and qualitative goals in line with the Group's long-term strategy by providing an instrument that strengthens the employees' relationship with the organisation and encourages them to act in its long-term interest.

The Plan covers all persons with an identified employee status in Santander Bank Polska Group. The list of other key participants has been determined by the Management Board and approved by the Bank's Supervisory Board. Those employees can participate in the Plan on a voluntary basis.

The participants who satisfy the conditions stipulated in the Participation Agreement and the Resolution will be entitled to an award which is variable remuneration in the form of the Bank's shares classified as an equity-settled share-based payment under IFRS 2. To that end, Santander Bank Polska will buy back up to 2,331,000 shares from 1 January 2023 until 31 December 2033.

The Plan covers the period of five years (2022–2026). However, as the payment of variable remuneration is deferred, the share buyback and allocation will be completed by 2033.

Below are the vesting conditions that must be met jointly in a given year:

1) Delivery of at least 50% of the profit after tax (PAT) target of Santander Bank Polska SA ("SAN PL") for a given year.

2) Delivery of at least 80% of the team business targets for a given year at the level of SAN PL, Division or unit; the performance against the target is calculated as the weighted average of performance against at least three business targets defined as part of the financial plan approved by the Supervisory Board for a given year for SAN PL, Division or unit where the participant works, in particular:
   a) PAT (profit after tax) of SAN PL (excluding Santander Consumer Bank);
   b) ROTE (return on tangible equity expressed as a percentage) calculated in line with SAN PL reporting methodology;
   c) NPS (Net Promoter Score) calculated in line with SAN PL reporting methodology;
   d) RORWA (return on risk weighted assets) calculated in line with SAN PL reporting methodology;
   e) number of customers;
   f) number of digital customers.
3) The participant's performance rating for a given year at the level not lower than 1.5 on the 1–4 rating scale.

In addition, at the Management Board's request, the Supervisory Board decides to grant a retention award to a participant, if the following criteria are met:

1) The participant's average annual individual performance rating is at least 2.0 on the 1–4 rating scale during the period of their participation in Incentive Plan VII.
2) The average annual weighted performance against the Bank's targets in the years 2022–2026 is at least 80%, taking into account the following weights:
   a) 40% for the average annual performance against the PAT target;
   b) 40% for the average annual performance against the RORWA target;
   c) 20% for the average annual performance against the ESG target.

For the purpose of the Plan, in Q1 2023 Santander Bank Polska bought back 165,406 shares (of 207,000 shares eligible for buyback) with the value of PLN 48,884,192 (from PLN 55,300,000 worth of capital reserve allocated to the delivery of the plan for 2022).

All the above shares were transferred to individual brokerage accounts of the participants. As the number of shares bought back by the Bank was sufficient to pay an award to the participants of Incentive Plan VII for 2022, on 16 March 2023 the Bank's Management Board adopted a resolution to end the buyback in 2023.

As at 30 June 2023, the total amount recognised in line with IFRS 2 (Share-based Payment) in the Group's equity was PLN 153,403k, including PLN 81,293k taken to staff expenses in H1 2023. As at 30 June 2023, PLN 48,249k worth of shares were transferred to employees.

44. Dividend per share

Recommendation of the Bank's Management Board regarding 2022 profit distribution and allocation of the undistributed profit earned on selling shares in AVIVA insurance companies.

The Management Board of Santander Bank Polska S.A. hereby announces that on 22 March 2023 it issued a recommendation on distribution of 2022 profit and the profit earned on the sale of shares in AVIVA insurance companies. The recommendation was positively reviewed by the Bank's Supervisory Board.

In line with the above decision, the Bank's Management Board recommends that:

1. the profit of PLN 2,449,042,525.50 earned in 2022 be distributed as follows:
   - PLN 72,357,000.00 - to be allocated to the capital reserve;
   - PLN 2,376,685,525.50 - to be allocated to the dividend reserve created by force of resolution no. 6 of the Annual General Meeting of 22 March 2021 on profit distribution and creation of capital reserve (Dividend Reserve).
2. the amount of PLN 840,886,574.78 representing the profit earned on the sale of shares in AVIVA insurance companies and posted under other comprehensive income be allocated to the Dividend Reserve.

When taking its decision, the Management Board took into account the current macroeconomic environment as well as the recommendations and current position of the Polish Financial Supervision Authority (KNF), including that outlined in the KNF's letter of 16 March 2023, of which the Bank informed in its current report no. 13/2023 of 17 March 2023.

The profit distribution recommended to the Annual General Meeting will not preclude the Management Board's potential decision to distribute profit to the shareholders in the form of interim dividend and to use the Dividend Reserve for that purpose pursuant to the authorisation given to the Management Board in accordance with § 50(4) of the Bank's Statutes.

It will be contingent in particular on the positive opinion of the KNF once the CJEU takes a decision on case C-520/21 as well as economic situation and market conditions.

The Management Board's potential decision to pay an interim dividend will also require the approval of the Supervisory Board.

Re distribution of profit and decision on capital reserve created

On 19.04.2023 the Bank's Annual General Meeting adopted a resolution on re distribution of profit and decision on capital reserve created on the basis of Resolution no. 6/2021 of the Bank's Annual General Meeting of March 22,2021

1. The Bank's Annual General Meeting distributed the Bank's net profit earned in the accounting year from 1 January 2022 to 31 December 2022 in the amount of PLN 2,449,042,525.50 as follows:

- PLN 72,357,000.00 – to be allocated to the capital reserve;

- PLN 2,376,685,525.50 – to be allocated to the dividend reserve (Dividend Reserve) created by force of resolution no. 6 of the Annual General Meeting of 22 March 2021 on profit distribution and creation of capital reserve (Resolution no. 6/2021)

2. The Annual General Meeting allocates to the Dividend Reserve the amount of PLN 840,886,574.78, which represents the undistributed profit earned on the sale of shares in AVIVA insurance companies and posted under other comprehensive income

45. 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
25.07.2023	Michał Gajewski	President	The original Polish document is signed with a qualified electronic signature
25.07.2023	Andrzej Burliga	Vice-President	The original Polish document is signed with a qualified electronic signature
25.07.2023	Juan de Porras Aguirre	Vice-President	The original Polish document is signed with a qualified electronic signature
25.07.2023	Arkadiusz Przybył	Vice-President	The original Polish document is signed with a qualified electronic signature
25.07.2023	Lech Gałkowski	Member	The original Polish document is signed with a qualified electronic signature
25.07.2023	María Elena Lanciego Pérez	Member	The original Polish document is signed with a qualified electronic signature
25.07.2023	Patryk Nowakowski	Member	The original Polish document is signed with a qualified electronic signature
25.07.2023	Magdalena Proga-Stępień	Member	The original Polish document is signed with a qualified electronic signature
25.07.2023	Maciej Reluga	Member	The original Polish document is signed with a qualified electronic signature
25.07.2023	Dorota Strojkowska	Member	The original Polish document is signed with a qualified electronic signature

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

Date	Name	Function	Signature
25.07.2023	Wojciech Skalski	Financial Accounting Area Director	The original Polish document is signed with a qualified electronic signature