

Report of Santander Bank Polska Group for Quarter 3 2018



FINANCIAL HIGHLIGHTS

	PLN k		EUR k	
	01.01.2018-	01.01.2017-	01.01.2018-	01.01.2017-
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
Consolidated financial statements of Santander Bank Polska Group				
I Net interest income	4 208 252	3 897 449	989 362	915 625
II Net fee and commission income	1 560 524	1 497 740	366 880	351 863
III Profit before tax	2 381 514	2 495 302	559 895	586 220
IV Net profit attributable to owners of Santander Bank Polska SA	1 569 134	1 664 063	368 904	390 937
V Total net cash flows	3 235 713	(3 303 647)	760 718	(776 123)
VI Profit of the period attributable to non-controlling interests	260 350	230 080	61 208	54 053
VII Profit per share in PLN/EUR	15,80	16,64	3,71	3,91
VIII Diluted earnings per share in PLN/EUR	15,77	16,63	3,71	3,91
Stand alone financial statements of Santander Bank Polska S.A.				
I Net interest income	2 971 006	2 799 854	698 485	657 768
II Net fee and commission income	1 201 493	1 278 036	282 472	300 248
III Profit before tax	1 899 330	1 909 913	446 533	448 694
IV Profit for the period	1 516 033	1 466 993	356 420	344 640
V Total net cash flows	3 163 981	(3 121 091)	743 854	(733 236)
VI Profit per share in PLN/EUR	15,32	14,67	3,60	3,45
VII Diluted earnings per share in PLN/EUR	15,34	14,66	3,61	3,44

FINANCIAL HIGHLIGHTS

	PLN k		EUR k	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017
	Consolidated financial statements of Santander Bank Polska Group			
I Total assets	177 399 883	152 674 444	41 532 023	36 604 676
II Deposits from banks	3 646 033	2 783 083	853 592	667 262
III Deposits from customers	124 629 188	111 481 135	29 177 597	26 728 316
IV Total liabilities	152 853 003	129 330 815	35 785 223	31 007 892
V Total equity	24 546 880	23 343 629	5 746 800	5 596 785
VI Non-controlling interests in equity	1 489 854	1 436 409	348 798	344 388
VII Number of shares	99 333 481	99 333 481	-	-
VIII Net book value per share in PLN/EUR	247,12	235,00	57,85	56,34
IX Capital ratio	17,61%	16,69%	-	-
X Declared or paid dividend per share in PLN/EUR*	3,10	5,40	0,73	1,27
Stand alone financial statements of Santander Bank Polska S.A.				
I Total assets	156 214 713	132 863 268	36 572 251	31 854 820
II Deposits from banks	1 683 343	1 414 448	394 096	339 123
III Deposits from customers	114 933 480	102 155 522	26 907 684	24 492 441
IV Total liabilities	134 254 332	112 024 431	31 430 990	26 858 575
V Total equity	21 960 381	20 838 837	5 141 261	4 996 245
VI Number of shares	99 333 481	99 333 481	-	-
VII Net book value per share in PLN/EUR	221,08	209,79	51,76	50,30
VIII Capital ratio	20,30%	18,95%	-	-
IX Declared or paid dividend per share in PLN/EUR*	3,10	5,40	0,73	1,27

* Detailed information are described in Note 45.

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

- for balance sheet items – average NBP exchange rate as at 28.09.2018: EUR 1 = PLN 4.2714 and as at 29.12.2017: EUR 1 = PLN 4.1709
- for profit and loss items – as at 30.09.2018 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in 2018: EUR 1 = PLN 4.2535; as at 30.09.2017 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in 2017: EUR 1 = PLN 4.2566.

As at 30.09.2018, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 189/A/NBP/2018 dd. 28.09.2018.

Overview of
Santander Bank Polska Group
Performance in Quarter 3 2018

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I. Information Summary on Santander Bank Polska Group in Q3 2018

1. Introduction

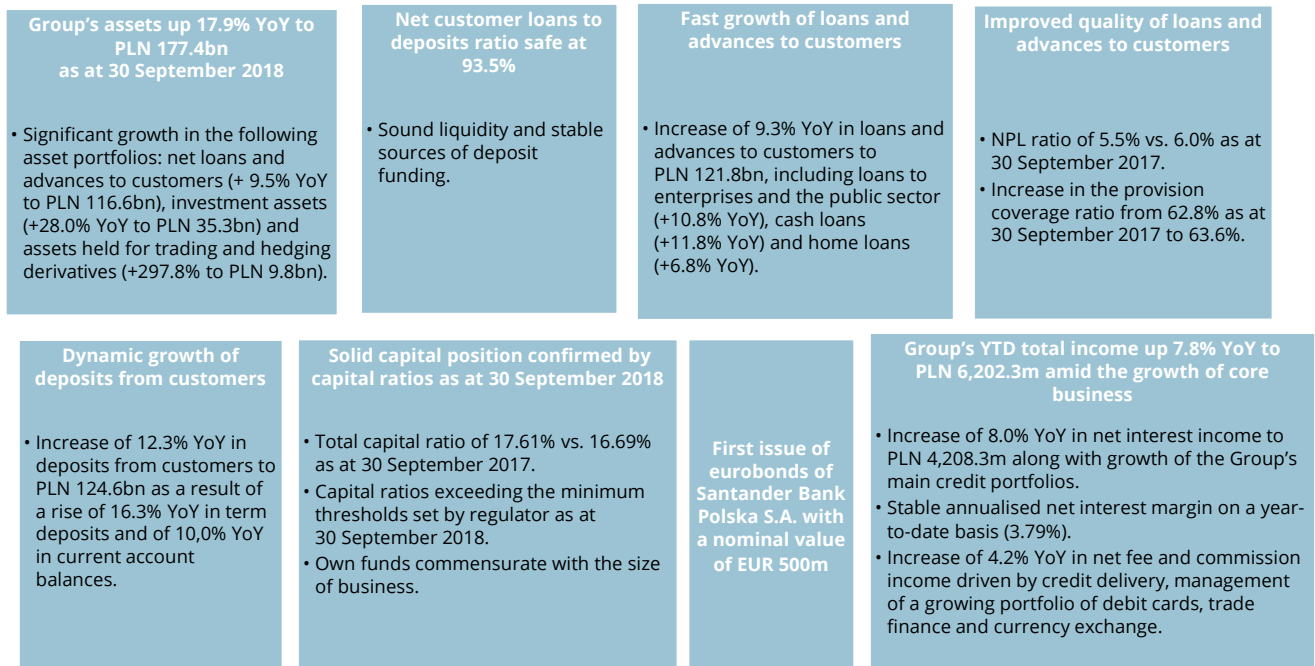
Rebranding

Pursuant to the resolution of the Annual General Meeting (AGM) of Bank Zachodni WBK S.A. adopted on 16 May 2018, on 7 September 2018 the bank's business name was changed from "Bank Zachodni WBK Spółka Akcyjna" to "Santander Bank Polska Spółka Akcyjna" and its registered office was relocated from Wrocław to Warsaw. The bank's subsidiaries and associates were renamed accordingly by replacing "BZ WBK" with "Santander" (where applicable).

Impact of IFRS 9 implementation on the classification, measurement and presentation of financial data

The consolidated financial statements of Santander Bank Polska Group for the 9-month period ended 30 September 2018 were prepared in accordance with the principles for classification and measurement of financial instruments set out in the International Financial Reporting Standard 9 (IFRS 9) Financial Instruments which became effective as of 1 January 2018. Data for prior periods have not been restated, which affects the comparability and presentation of the selected balance sheet items (mainly loans and advances to customers and investment instruments) and the related profit and loss items in the analysed periods. For the purpose of analysis, the tables presented in this document include current and comparable financial data which are similar but not the same from the perspective of classification and measurement.

2. Key Achievements



Advanced preparations for acquisition of a demerged business of Deutsche Bank Polska S.A.

- Integration works continued on schedule.
- Progressing preparations for the acquisition, including dress rehearsals.

Successful rebranding

- Rebranding covered the change of the brand, new signage, marketing campaigns addressed to customers and other external stakeholders as well as initiatives for employees.

Increase of 12.6% QoQ in the share price of Santander Bank Polska S.A. in Q3 2018

- WIG Banks, an industry index, gained 9.1% QoQ in the same period.

Growing use of remote channels in the sales and after-sales process and effective promotion of non-cash transactions

- Increase of 6.3% YoY and 20% YoY in the number of debit cards and the number of transactions with these instruments, respectively.
- 327.4k mobile HCE, Google Pay, Garmin Pay and Apple Pay cards (up +212.9% YoY).
- PLN 2.2m (+7.8% YoY) active digital customers, including 1.2m mobile ones (+22.5% YoY).
- 10.7m transactions made by mobile banking users in Q3 2018 (+75.4% YoY).

Progress in implementation of Agile methodology in the Retail Banking Division

- As at the end of September 2018, the following four Tribes were set up: Omnichannel, Individual Client, Risk Engineering and Consumer Finance.
- The second and third waves were underway to create the next Tribes.

3. Financial and Business Highlights of Santander Bank Polska Group for the Three Quarters of 2018

Key financial and business data on Santander Bank Polska Group for three quarters of 2018

Selected data		30.09.2018	YoY Change
Total income	PLN m	6 202,3	7,8%
Total costs	PLN m	(2 803,6)	12,0%
Net profit attributable to Santander Bank Polska S.A.	PLN m	1 569,1	-5,7%
Impairment losses on loans and advances	PLN m	(725,8)	52,0%
Total assets	PLN m	177 399,9	17,9%
Total equity	PLN m	24 546,9	8,3%
Gross loans and advances to customers	PLN m	121 785,4	9,3%
Deposits from customers	PLN m	124 629,2	12,3%
Net assets under management ¹⁾	PLN m	16,6	4,0%
Total costs/Total income ²⁾	%	45,2%	1,7 p.p.
Total capital ratio	%	17,61%	0,7 p.p.
ROE	%	11,0%	-0,7 p.p.
NPL ratio	%	5,5%	-0,5 p.p.
Credit risk ratio	%	0,81%	0,17 p.p.
Customer net loans/Customer deposits	%	93,5%	-3,2 p.p.
Electronic banking users ³⁾	m	3,6	8,7%
Active electronic banking users (digital customers) ⁴⁾	m	2,2	7,8%
Active mobile banking users	m	1,2	22,5%
Debit cards ⁵⁾	m	3,8	6,3%
Credit cards	m	1,3	1,8%
Customer base	m	6,5	2,9%
Branch and partner outlets	locations	962	-52
Employment	FTEs	14 030	-443

1) Assets in investment funds and individual portfolios managed by Santander Towarzystwo Funduszy Inwestycyjnych S.A.

2) Definitions of ratios included in the table above are provided in chap. V „Financial Performance of Santander Bank Polska Group in Q3 2018”, section 3 „Selected ratios”.

3) Registered customers of Santander24 electronic banking platform.

4) Active customers of Santander24 electronic banking who at least once used the service in the last reporting month.

5) Debit cards excluding prepaid cards.

4. Major Macroeconomic Developments

Key macroeconomic factors impacting financial and business performance of the Santander Bank Polska Group in Q3 2018

Economic growth	<ul style="list-style-type: none"> Economic growth was still high, but probably a bit slower than in the first half of the year. Abroad, data pointing to some weakening in the euro zone economic activity, especially as regards international trade. Supranational institutions started to lower their forecasts of global growth.
Labour market	<ul style="list-style-type: none"> Good situation in the labour market with record-low unemployment and moderately fast wage growth supporting private consumption. Private consumption growth still near 5% YoY and consumer confidence indices close to all-time highs. Workforce shortages limiting companies' capability to expand and increase the scope of activity, rising labour costs.
Inflation	<ul style="list-style-type: none"> Inflation quite stable near 2% YoY, massive rise of wholesale energy prices. Significant rise of real estate prices and some slowdown recorded in home sales.
Monetary policy	<ul style="list-style-type: none"> NBP official rates kept at the lowest level in history and market expectations for rate hikes in the nearest future declined even though the rate hiking cycle has already started in the USA and in the CEE region, in the Czech Republic and Romania.
Credit market	<ul style="list-style-type: none"> Solid demand for credit from both households and companies.
International trade	<ul style="list-style-type: none"> Introduction of new tariffs in international trade, signing of USMCA trade agreement.
Financial market	<ul style="list-style-type: none"> Changes of moods in international financial markets under influence of expectations for future policy of main central banks (Fed, ECB), incoming macroeconomic data, worries about geopolitical situation, including concerns about the Brexit negotiations, impact of trade wars on global growth and political situation in Italy. Limited volatility of the Polish zloty versus foreign currencies, stabilization of domestic bond yields.

5. Corporate Events

Significant corporate events in the reporting period

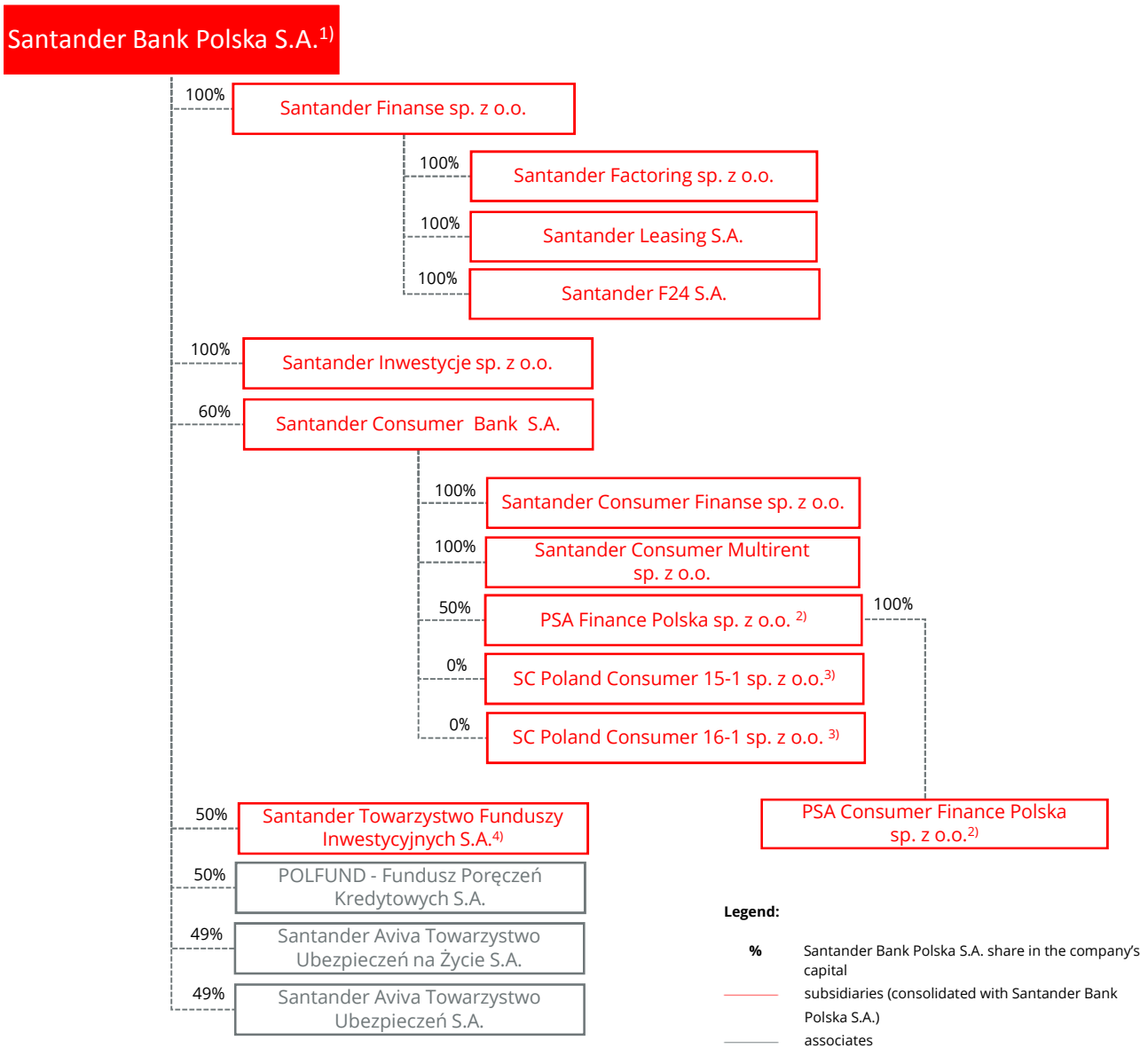
July 2018	<ul style="list-style-type: none"> Decisions issued by the Polish Financial Supervision Authority (KNF): <ul style="list-style-type: none"> ✓ consent to the demerger of Deutsche Bank Polska S.A. and transfer of the demerged assets of the entity to Santander Bank Polska S.A. in exchange for the bank's shares issued in favour of Deutsche Bank AG (17 July 2018). ✓ confirmation of the absence of grounds for objecting to the planned direct acquisition of 100% shares in DB Securities S.A. by Santander Bank Polska S.A. (31 July 2018).
August 2018	<ul style="list-style-type: none"> KNF's consent to the amendment of the bank's Statutes, i.e. to the share capital increase through the issue of series N shares (demerger shares) for Deutsche Bank AG in exchange for the demerged assets of Deutsche Bank Polska S.A. (7 August 2018). Satisfaction of conditions for the acquisition of the demerged part of Deutsche Bank Polska S.A. by Santander Bank Polska S.A. following the receipt of the above-mentioned KNF's decisions of July and August 2018. Letter from the KNF (8 August 2018) re review of the adequacy of the buffer for other systemically important institutions concluding there were no premises to repeal or change the KNF's decision of 4 October 2016 re identification of the bank as other systemically important institution (the buffer of other systemically important institution imposed on the bank is 0.50% of the total risk exposure). Ratings assigned to the debt issued by the bank: <ul style="list-style-type: none"> ✓ Fitch Ratings (30 August 2018): <ul style="list-style-type: none"> "BBB+" for the bank's programme of senior unsecured eurobonds (EMTN Programme); "F2" for short-term debt; "BBB+ (EXP)" for the planned senior unsecured notes. ✓ Moody's Investors Service (31 August 2018): <ul style="list-style-type: none"> "(P)Baa1" provisional local and foreign-currency rating for the bank's eurobond programme (EMTN Programme); "Baa1" long-term foreign-currency senior unsecured debt rating with positive outlook for the notes to be issued under the EMTN Programme. <p>(Ratings assigned provisionally to the debt programme and to the planned issue of senior unsecured eurobonds were confirmed in respect of the first tranche issued in September 2018.)</p>

Significant corporate events in the reporting period (continued)

September 2018	<ul style="list-style-type: none">• Sale of shares of Santander Bank Polska S.A. by Nationale-Nederlanden OFE resulting in the reduction of the shareholding below 5% of votes at the bank's General Meeting of Shareholders (6 September 2018).• Issue of EUR 500m senior unsecured bonds of Santander Bank Polska S.A. under the EMTN Programme (20 September 2018).
October 2018	<ul style="list-style-type: none">• Purchase of 274,444,939 ordinary registered shares with the nominal value of PLN 1 each (representing over 10% of the share capital of Deutsche Bank Polska S.A.) for the total amount of PLN 257,959,800 in connection with the satisfaction of all conditions set out in the transaction agreement regarding the acquisition of a demerged business of Deutsche Bank Polska S.A. (8 October 2018).• Receipt of the KNF recommendation (22 October 2018) that the Bank should maintain own funds to cover the additional capital requirement to secure the risk arising from FX mortgage loans for households at 0.51 p.p. over its total capital ratio. Previous level of additional capital requirement of the bank to cover the risk arising from FX mortgage loans was 0.54 p.p.

6. Group Structure

ORGANIZATIONAL CHART OF ENTITIES RELATED TO SANTANDER BANK POLSKA S.A. AS AT 30 SEPTEMBER 2018



- 1) Pursuant to the resolution of the General Meeting of 16 May 2018, on 7 September 2018 Bank Zachodni WBK S.A. was rebranded as Santander Bank Polska S.A. The names of the bank's subsidiaries and associates were changed accordingly.
- 2) On 1 October 2016, Santander Consumer Bank S.A. (SCB S.A.) acquired 50% shares of PSA Finance Polska sp. z o.o. and, indirectly, 50% stake in PSA Consumer Finance Polska sp. z o.o. Both companies are controlled by SCB S.A. as they meet the conditions set out in IFRS 10.7.
- 3) SC Poland Consumer 15-1 sp. z o.o. and SC Poland Consumer 16-1 sp. z o.o. are SPVs set up for the purpose of securitisation of a part of SCB S.A. credit portfolio. Their shareholder is a legal person that has no ties with the Group. The companies are controlled by SCB S.A. as they meet the conditions laid down in IFRS 10.7.
- 4) Both owners of Santander Towarzystwo Funduszy Inwestycyjnych S.A. (Santander TFI S.A.), i.e. Santander Bank Polska S.A. and Banco Santander S.A., are members of Santander Group, each holding an equal stake of 50% in the company's share capital. Santander TFI S.A. is controlled by Santander Bank Polska S.A.

Compared with 30 June 2018, the structure of entities related to Santander Bank Polska S.A. did not change.

7. Human Resources

- As at 30 September 2018, the number of FTEs in Santander Bank Polska Group was 14,030 vs. 14,383 as at 31 December 2017. These headcount figures include 10,975 FTEs of Santander Bank Polska S.A. (11,291 as at 31 December 2017) and 2,614 FTEs of SCB Group (2,664 as at 31 December 2017).
- Transformation of the business model of Santander Bank Polska S.A., which involves digitalisation and increase in the share of remote channels in sales and customer service, resulted in the reduction of headcount in the bank's branches, with a concurrent increase in the number of FTEs in business support areas. The above changes were based on employee attrition to the largest possible extent and took account of business needs and prevailing market conditions.

8. Ownership Structure

Share capital

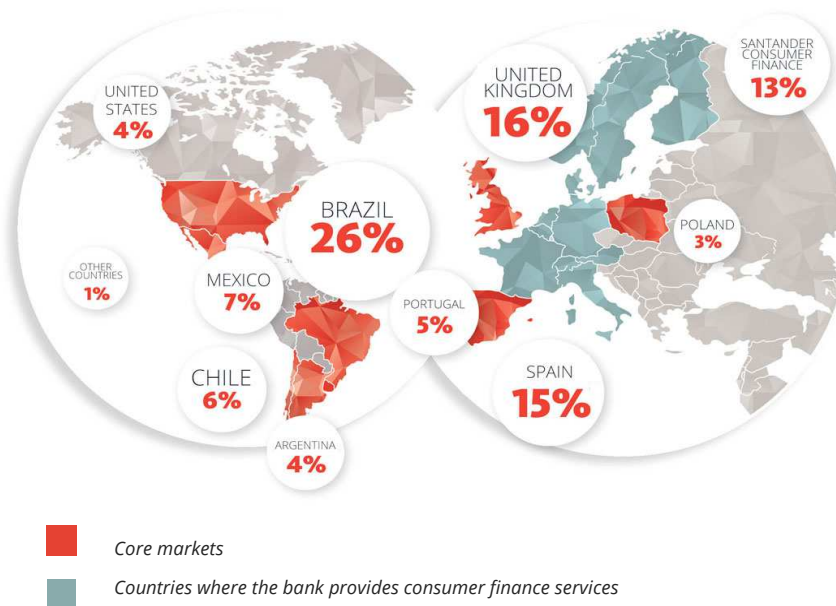
Shareholders with a stake of 5% and higher	Number of Shares Held			% in the Share Capital & Voting Power at AGM		
	30.09.2018	30.06.2018	31.12.2017	30.09.2018	30.06.2018	31.12.2017
Banco Santander S.A.	67 680 774	67 680 774	68 880 774	68,13%	68,13%	69,34%
Nationale Nederlanden OFE ¹⁾	n/a	4 993 431	n/a	n/a	5,03%	n/a
Nationale Nederlanden DFE ¹⁾	n/a		n/a	n/a		n/a
Others	31 652 707	26 659 276	30 452 707	31,87%	26,84%	30,66%
Total	99 333 481	99 333 481	99 333 481	100,00%	100,00%	100,00%

¹⁾ Both funds, i.e. Nationale-Nederlanden OFE (open-end pension fund) and Nationale-Nederlanden DFE (voluntary pension fund) are managed by Nationale-Nederlanden Powszechna Towarzystwo Emerytalne S.A. (PTE).

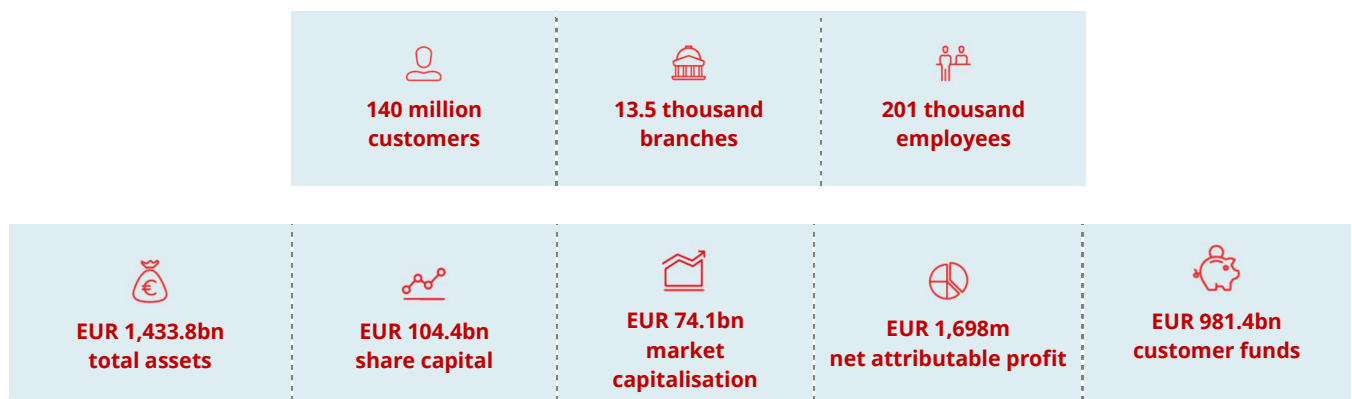
- As at 30 September 2018, Banco Santander S.A. was the only shareholder holding more than 5% of the share capital and the total number of votes at the General Meeting of Santander Bank Polska S.A., with a shareholding of 68.13%.
- The ownership structure did not change in the period from the end of Q3 2018 until the release of the Report of Santander Bank Polska Group for Q3 2018 (31 October 2018).
- Compared with 30 June 2018, the share of the funds managed by Nationale-Nederlanden PTE S.A. in the registered capital and voting power at the bank's General Meeting decreased below 5% on 31 August 2018 due to the settlement of the sales of shares in the bank by Nationale-Nederlanden OFE and the reduction in the shareholding from 5,026,106 shares to 4,959,256 shares, i.e. 4.99% of the bank's share capital.
- In Q4 2018, Santander Bank Polska S.A. intends to increase its share capital by PLN 27,548,240 to PLN 1,020,883,050 by issuing 2,754,824 series N shares (demerger shares) which will be allotted to Deutsche Bank AG in exchange for the demerged part of Deutsche Bank Polska S.A. to be acquired by the bank. The increase in the share capital will become effective as of its registration in the National Court Register on the date of demerger of Deutsche Bank Polska S.A. The KNF gave its consent to the relevant amendment of the bank's Statutes (decision of 7 August 2018).

Majority Shareholder

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



SANTANDER GROUP IN NUMBERS ¹⁾



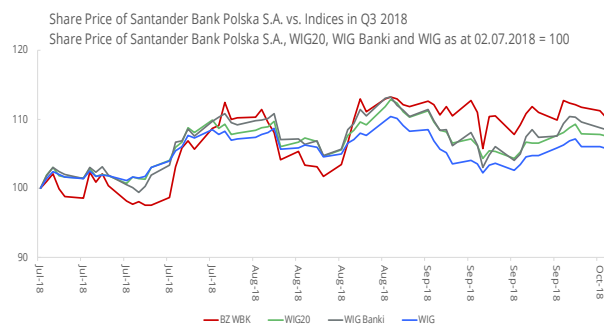
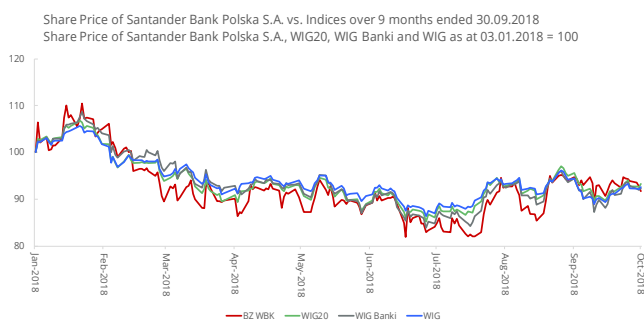
1) As at 30 June 2018

2nd largest bank in Europe and 16th largest bank in the world in terms of market capitalisation
 (source: www.banksdaily.com May 31, 2018)

9. Share Price vs. Indices

- Between July and September 2018, WIG, the broad-based index, climbed by 5.4%, which means that the Polish stock market outperformed the key European indexes. In Q3 2018, WIG20, the blue chip index, gained 7%, whereas mWIG40 lost 1.2%. The growth of the former index was driven by the performance of fuel companies as well as strong representation of banks in its composition.
- WIG Banks, the industry index, increased by 9.1% in that period, with a share price of Santander Bank Polska S.A. rising by 12.6%. WIG Banks recovered after the drop of 14.9% in H1 2018 caused by the announcements made by the Monetary Policy Council which implied no interest rate hikes even until the end of 2020.

- The banking sector was undergoing the consolidation processes as expected and the results reported for Q2 2018 were at the projected levels. No significant changes occurred in the sector environment: interest rates continued at low levels and the CHF/PLN rate followed a downward trend, with the issue of CHF loans pending resolution.



Share price and market capitalisation of Santander Bank Polska S.A.	Unit	Price /Value
Closing share price at the end of Q2 2018	PLN	333,60
Closing share price at the end of Q3 2018	PLN	375,60
QoQ change in the share price	%	12,6%
Maximum closing share price in Q3 2018	PLN	381,00
Minimum closing share price in Q3 2018	PLN	328,00
Market capitalisation at the end of September 2018	PLN m	37 309,66
Market capitalisation at the end of June 2018	PLN m	33 137,65

II. Macroeconomic environment in Q3 2018

Economic growth

After the strong 5-percent GDP growth in the first half of 2018, the economy switched in Q3 to the slowdown phase. This is reflected in declining business sentiment indicators and lower growth rate of output. After seasonal adjustment, average growth of industrial production was 6.1% YoY in Q3 vs. 6.6% in Q2. The euro zone economy's recovery from the weakness experienced in early 2018 proved unsustainable. The economic activity environment got worse due to the protectionist measures introduced by the USA, China and the EU and further threats by the USA to expand the range of new tariffs. This led to reduced turnover in global trade and to deterioration of new export orders. Poland has not escaped unscathed from these negative developments. Construction output rose on average by 18.6% YoY in Q3 compared to 21.5% in Q2 thanks to investments by local authorities ahead of local elections. Supply constraints (shortage of qualified workforce and very high capacity utilisation rate) may decrease the pace of construction production in the coming quarters. In the summer months, retail sales growth was high but decelerated significantly in September. We do not think this could be the start of a serious slowdown, though. It is rather a result of distortions in car sales in the EU due to the introduction of the new exhaust emissions standard, and of other temporary factors. Retail sales rose just below 6% YoY in real terms in Q3 vs. 7.1% on average in H1. Private consumption most likely remained the main economic growth factor in Q3 and kept growing by 5% YoY, supported by solid financial stance of households and their high optimism. In Q3, the GDP growth might have decelerated from around 5% to 4.5% YoY.

Labour market

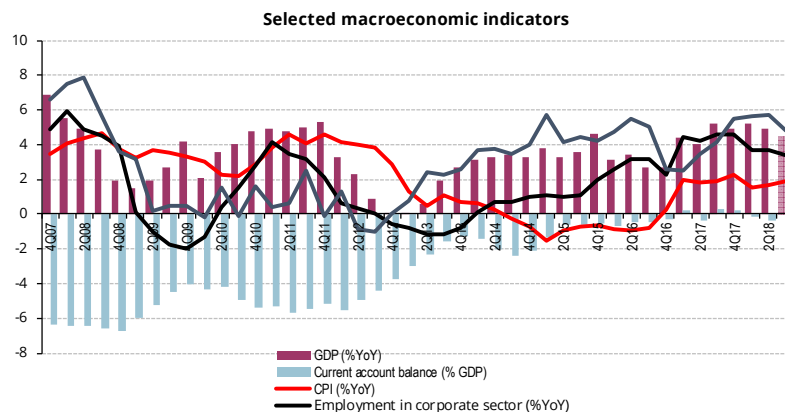
In H1 2018, employment growth in the corporate sector stabilised and since the beginning of H2 has started to lose pace. This was the result of problems with finding new employees and was partly due to the higher number of retirees after the retirement age reduction. At the same time, the wage growth stayed at 7% YoY (it has not risen above the Q4 2017 reading) despite the strong position of employees in the market. It is likely that wages will grow faster in the coming quarters. Deepening labour shortage is one of the key risk factors for Polish GDP growth outlook.

Inflation

In Q3 2018, inflation was fairly stable within the 1.9-2.0% YoY range. Trends in particular categories did not change noticeably compared to Q2 – food and fuel remained the main drivers of the upside trend in prices (the effects of drought have started to be seen) while the core CPI excluding food and energy prices remained muted (0.8% YoY on average versus 0.6% YoY in Q2). Until the end of the year, CPI should hold below 2% until the end of the year but in 2019 it might rise noticeably, *inter alia* due to much higher energy prices.

Monetary policy

The contained inflation, especially in core categories, has reassured the Polish Monetary Policy Council that its patient strategy of keeping interest rates unchanged at a record-low level and observing the economic reality was correct. The MPC's rhetoric has remained "dovish" and the NBP governor has suggested that the main reference rate might stay at 1.50% beyond 2019. Members of the "hawkish" camp are still in the minority. We expect that the next decision to change interest rates will be a hike but this will happen at the end of 2019 at the earliest.



Credit and deposit markets

In Q3 2018, loan growth remained close to 6% YoY (FX-adjusted), albeit slightly higher than in Q2 2018. Loans for individuals (FX-adjusted) were also rising at a stable pace (5.6% YoY), while PLN-denominated credit for individuals maintained a double-digit growth rate (in September consumer credit rose by 10% YoY while mortgages rose by 11.1% YoY). Corporate loans (FX-adjusted) accelerated from 6.2% YoY at the end of Q2 2018 to 7.1% in September. Working capital loans for businesses (FX-adjusted) accelerated from 8.0% YoY on average in Q2 2018 to 10.7% in Q2 2018, while investment loans have been recording negative YoY growth since June. In Q3 2018, deposits continued to grow. As a result, the average deposit growth rate was 6.9% YoY in Q3 2018 vs. 5.8% YoY in Q2 2018, mostly thanks to accelerated growth of household deposits (7.7% YoY in September). Business deposits continued to grow at 6% YoY. In Q3 2018, after 1.5 years of deceleration, current deposits grew from 10.8% YoY in June to 12.6% YoY in September. Term deposits dropped by 1.3% YoY in September after a few months of near-zero growth.

Financial market situation

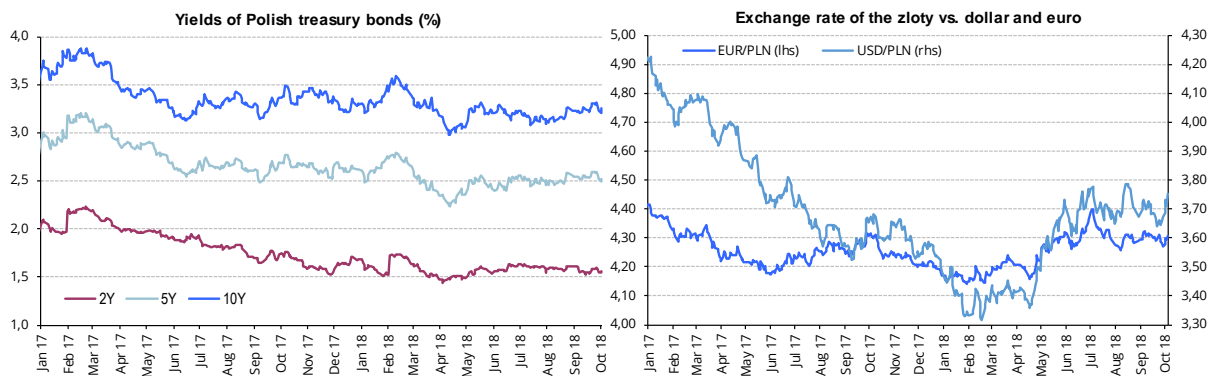
In Q3 2018, global financial markets were worried about the impact of the trade wars and the further improvement in the US macro data leading to concerns about Fed rate hikes. On the stock market, equity indexes in the US and in Europe diverged – DAX was falling, DJIA was on the rise, while Polish WIG20 was somewhere in between. Trends on the equity markets were driven by the change of growth forecasts according to which European economy was expected to underperform vs. the US in the coming years. European economic activity indexes continued to decline with US indexes holding at high levels or even moving further up.

As a consequence, the main central banks’ rhetoric also diverged. FOMC sounded more hawkish with the US policymakers saying the bank is on track to increase rates further (by 100bp in total by the end of 2019, according to the FOMC forecasts). At the same time, the ECB was emphasising risks to the economic growth. This did not prevent it from reducing the monthly scale of the asset purchases but resulted in more restrained language regarding the rate hikes.

The dollar gained temporarily versus the euro in mid-quarter. In the case of the CEE currencies, the zloty, Czech koruna and Hungarian forint were gaining thanks to lower geopolitical risk (after the rise in tensions between the USA and China in Q2). The Turkish lira and Russian ruble were under pressure given the risk of more severe sanctions being imposed by the USA. Core bond yields rose noticeably in the USA, moderately in Europe and only slightly in Poland.

In the domestic interest rate market, the first two months of the quarter saw yields falling amid lower bond supply at the auctions. In September, the 5-10Y bond yields started to rise following weakening recorded on the core markets and higher net amount of Polish bonds outstanding. In effect, at the end of the quarter, the 2Y bond yield was at 1.56%, 5Y at 2.55% and 10Y at 3.24% after the 2Y yield fell slightly and the 5-10Y yields rose marginally. Rising oil prices and sell-off in the EM bond markets (Turkey, Brazil) also played their role.

For the better part of Q3, EUR/PLN was holding within a 4.26-4.34 trading range after it had fallen from 4.40 to 4.25 in July. The trading range was narrowing gradually with the zloty becoming more resilient to both internal factors (conflict between Poland and the EU related to the Polish judiciary system reform, Poland’s rating upgrade by the S&P) and external events (EM currencies sell-off, falling stock indexes). USD/PLN stayed in the 3.62-3.85 range, CHF/PLN rose from 3.68 to 3.75 (reaching 3.86 temporarily) and GBP/PLN fell to 4.90 from 4.95 (reaching 4.70 for a short while).

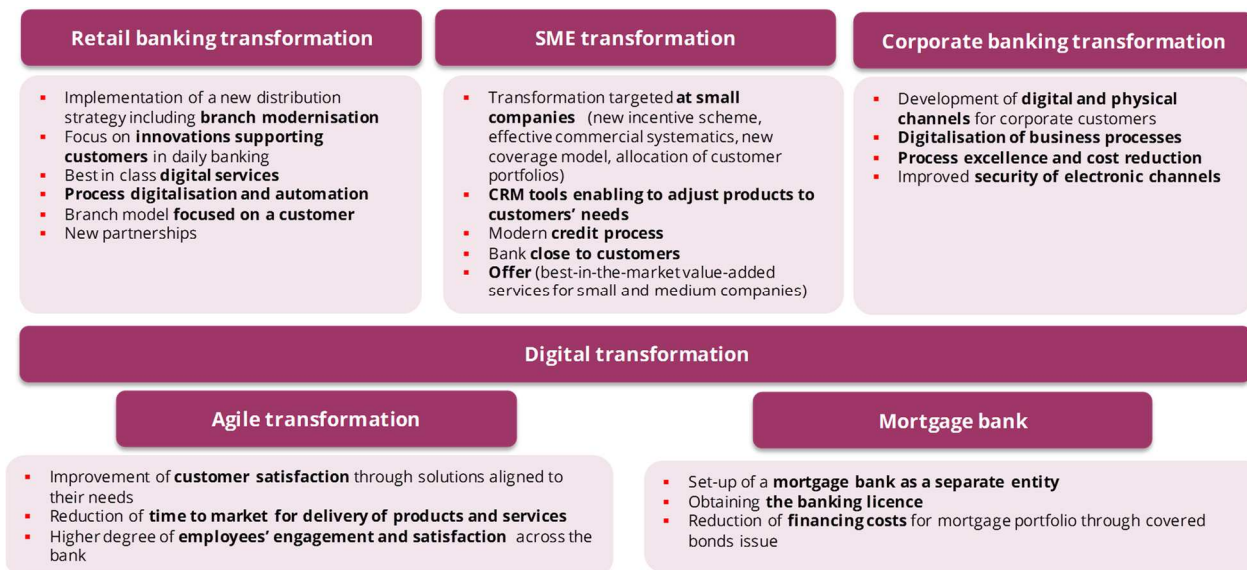


III. Business Development in Q3 2018

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

1.1. Delivery of Strategic Transformation Programmes

TRANSFORMATION PROGRAMMES IMPLEMENTED IN LINE WITH THE STRATEGY FOR 2018-2020



Selected projects delivered as part of transformation programmes

Strategic programme	Key implementations in Q3 2018	Scope of implementation
Commercial transformation and business model transformation	<ul style="list-style-type: none"> New branch signage 	<ul style="list-style-type: none"> In connection with the rebranding, on 8-9 September 2018 the signage and logotypes of the bank's branches, partner outlets, head office units, ATMs and CDMs were changed.
	<ul style="list-style-type: none"> e-Accounting: a platform for small and medium enterprises 	<ul style="list-style-type: none"> Users of Santander internet services were provided with access to an accounting platform that helps small business owners do their bookkeeping – on their own or with an assistance of a professional accountant.
	<ul style="list-style-type: none"> dzialalnosc.pl: a website for individuals planning to start a business 	<ul style="list-style-type: none"> In August 2018, the bank launched a website called dzialalnosc.pl to support individuals who intend to set up as sole traders. The website offers a range of articles with tips on how to start a business, as well as forms and applications and a tool to calculate potential costs involved.
	<ul style="list-style-type: none"> A new tool to support the work of bankers servicing large corporates 	<ul style="list-style-type: none"> The bank uses advanced analytics (both in relation to internal and external data) to better understand the needs of large corporates and identify new areas for cooperation. It helps the bank to develop relationships with existing customers and win new ones.

Selected projects delivered as part of transformation programmes (continued)

Strategic programme	Key implementations in Q3 2018	Scope of implementation
Digital transformation	<ul style="list-style-type: none"> • After-sales services related to credit cards and loans • mSignature in a mobile application for individuals 	<ul style="list-style-type: none"> • Customers were provided with a convenient option to repay loans in full or in part via Santander internet. • The range of mobile application features was expanded to include mSignature: a safe and convenient alternative to a text message codes used to authorise online purchases.
Communication and marketing	<ul style="list-style-type: none"> • Rebranding to Santander Bank Polska S.A. 	<ul style="list-style-type: none"> • Together with the change of the bank's name to Santander Bank Polska S.A., a Poland-wide information and image-building campaign was launched. A welcome letter was sent to customers and relevant information about the rebranding and the associated changes was published in electronic banking systems and on the internet.
Culture transformation	<ul style="list-style-type: none"> • Internal branding • Agile way of working 	<ul style="list-style-type: none"> • In relation to the rebranding process, a number of initiatives were delivered for the bank's employees to increase the pride of belonging to a global group. Further measures were taken to promote the corporate culture that is shared by all members of Santander Group and enshrined in the values: Simple, Personal and Fair. The employees had an opportunity to take part in various competitions or choose from a range of benefits prepared on that occasion. • The bank continued to implement the Agile methodology whose fundamental concept is self-organising customer-focused teams in which each expert has a real impact on the product developed. • The idea behind the new work agenda is to speed up delivery of innovative solutions and more effectively analyse business issues technology-wise.
Mortgage bank	<ul style="list-style-type: none"> • Set-up of a mortgage bank 	<ul style="list-style-type: none"> • Measures were continued to set up a mortgage bank: an independent entity operating under the name of Santander Bank Hipoteczny S.A.
Agile transformation	<ul style="list-style-type: none"> • Set-up of the first Tribes in Retail Banking • Preparations for wave 2 and 3 	<ul style="list-style-type: none"> • There are already four Tribes operating as part of Retail Banking: Omnichannel, Individual Client, Risk Engineering and Consumer Finance. • Works are underway to set up, among others, the following new Tribes: Daily Banking, Home Solutions, Insurance, Small and Medium Enterprises, Business Intelligence and Wealth Management.

1.2. Retail Banking Division

Key development directions

- In Q3 2018, the Retail Banking Division focused on:
 - ✓ further improvement of customer service quality;
 - ✓ development of consumer and mortgage loan portfolios;
 - ✓ increase in net fee and commission income, in particular from the sale of investment and insurance products;
 - ✓ growth of sales in remote channels;
 - ✓ transformation of the bank into an Agile organisation.

Development of business and products for retail customers

Personal accounts and bundled products

- As regards personal accounts and bundled products, particularly noteworthy are the following initiatives delivered by Santander Bank Polska S.A. in Q3 2018:
 - ✓ Introduction of a basic payment account with a debit card for customers who do not hold a payment account in any bank in Poland, and an option to switch accounts between banks. The above changes were implemented on 8 September 2018 in accordance with the requirements arising from the Payment Services Act.
 - ✓ Cancellation of a fee for instant transfers and standing orders to increase the competitiveness of the Account As I Want It (Konto Jakie Chce), a flagship personal account of Santander Bank Polska S.A., and to strengthen the leadership position of the bank in the payments market.
 - ✓ Launch (on 10 September 2018) of Santander One Pay FX as part of electronic banking services, a new facility which makes it possible for customers to complete international transfers in GBP to Santander UK plc in real time. In the coming months, the service will cover all banks in the UK and Banco Santander in Spain (in terms of EUR payments) and ultimately – all payment orders between Santander Group banks around the world.
- As part of preparations for the acquisition of a demerged part of Deutsche Bank Polska S.A., on 7 September 2018, the bank sent a letter to customers with the key information about the transaction as well as updated regulations (Terms and Conditions, Schedule of Fees and Charges) with the most significant changes highlighted.
- As at 30 September 2018, the volumes of key products offered by Santander Bank Polska S.A. as part of the above-mentioned product line were as follows:
 - ✓ The number of personal accounts grew by 5.4% YoY and reached 3.3m (0.9m As I Want It accounts). Including FX accounts, the personal accounts base totalled nearly 4.1m.
 - ✓ The personal debit card portfolio (excluding prepaid cards) comprised more than 3.5 million cards and increased by 6.0% YoY. Taking business cards into account, the total number of debit cards reached 3.8m, up 6.3% YoY.
 - ✓ Mobile payments were executed with the use of 327.4k HCE, Google Pay, Garmin Pay i Apple Pay cards (+212,9% YoY).
 - ✓ The credit card portfolio comprised 809k instruments, an increase of 0.7% YoY.

Consumer loans

- In Q3 2018, changes were introduced to increase the competitiveness of cash loans and amend the rules for assessment of repayment capacity:
 - ✓ On 21 September 2018, the maximum lending period was extended from 72 to 96 months (applicable to new applications submitted in any sales channel).
 - ✓ A special deal called “Cash loan with 0% fee” (“Kredyt gotówkowy z 0% prowizji”) was launched on 10 September 2018 in connection with the rebranding process for holders of the Account As I Want It (Konto Jakie Chce) with Customised debit card applying for a cash loan up to PLN 30k.
- 9-month cash loan sales reached PLN 3.6bn, i.e. 16.3% higher YoY. The cash loan book of Santander Bank Polska S.A. was up 9.0% YoY and totalled PLN 8.3bn.

Mortgage loans

- In Q3 2018, Santander Bank Polska S.A. implemented the following changes to improve its mortgage proposition:
 - ✓ On 8 August 2018, changes were introduced in relation to property valuation fees: they now depend on the type of property and are charged at the time of disbursement of the loan or the first tranche.
 - ✓ On 16 July 2018, customers were provided with an option to apply for a free-of-charge annex to existing loan agreements to make the following post-sales/restructuring changes: add overdue principal to the current one, apply for an interest-only period, extend maturity, reduce the principal instalment, change the account for loan repayment, change the instalment repayment dates, amend the reference rate or interest rate calculation method.

- The bank provided further support to CHF mortgage borrowers. In particular, it:
 - ✓ reduced the currency spread to 2%;
 - ✓ applied a negative CHF LIBOR interest rate;
 - ✓ provided an opportunity to extend maturity, use interest-only option or reduce loan instalments free of charge for 3, 6 or 12 months;
 - ✓ provided flexible loan restructuring options, waiving a fee for annexes;
 - ✓ offered loan conversion to PLN at the mean NBP rate with no additional fees charged, ensuring a preferential credit margin thereafter;
 - ✓ did not require additional collateral if the acceptable LTV was exceeded as a result of the FX rate increase.
- During the first 9 months of 2018, the value of new mortgage loans totalled nearly PLN 5.0bn, up 25.2% YoY. In Q3 2018, the sales growth accelerated compared to the previous quarter, reaching 18.1%.
- The gross mortgage portfolio grew by 7.8% YoY to PLN 37.5bn as at 30 September 2018. The value of PLN mortgage loans amounted to PLN 27.2bn, up 16.0% YoY.
- The bank is one of the key lenders in the market. Based on data for August 2018, it is ranked fourth with a share of 14.3% in terms of new mortgage loans and equity releases and third with a share of 8.8% in terms of the size of the portfolio.

Deposits

- Q3 2018 saw an increase in the balance of retail deposits and strength of relationship with deposit customers.
- PLN term deposits from individuals grew on account of acquisition measures taken by the bank while the balance of personal accounts increased due to the optimisation of interest rates on savings accounts, often in connection with activation campaigns.
- The most pronounced growth was reported for negotiated PLN term deposits, mainly from Select and Private Banking customers. The flexible pricing policy for negotiated deposits is designed to meet the bank's acquisition objectives as well as its retention and cross-selling objectives.
- In the period under review, the bank improved terms of the Bonus Deposit (Lokata Bonusowa) offered to credit card holders and of eInvestor Deposit (eInwestor) available only via the internet banking platform to holders of investment products.
- Savings accounts were promoted in all distribution channels as basic savings products available to individuals, with the use of interest rate optimisation tools:
 - ✓ The offer of the Regular Savings Account (Konto Systematyczne) coming with the Account As I Want It (Konto Jakiej Chce) and paying promotional interest rate on balances up to PLN 20k was extended to the end of June 2019 as part of the rebranding campaign, along with an increase in the limit of Regular Savings Accounts available to a single customer.
 - ✓ Another edition of a special deal was offered to Select customers who could benefit from higher interest rate on VIP Savings Account (without no upper limit) on condition of an active use of a personal account.
 - ✓ Starting from August 2018, the acquisition of new funds and customers was supported by another special offer of Max Savings Account (Konto Max Oszczędnościowe) paying promotional interest rate on balances up to PLN 200k. The offer is valid until the end of January 2019.
- At the end of September 2018, total retail deposits of Santander Bank Polska S.A. amounted to PLN 66.3bn, i.e. up 12.8% YoY. The total balance of savings accounts was PLN 27.0bn, an increase of 12.1% YoY. The balance of other current accounts went up by 3.2% YoY to PLN 17.9bn. Term deposits grew by 23.7% YoY, reaching PLN 21.3bn.

Structured deposits

- In Q3 2018, the bank continued to sell structured deposits including 12-, 18-month deposits with yields linked to exchange rates (EUR/PLN, USD/PLN) and 100% capital protection at maturity.
- The bank offered 16 products in the total of 6 subscriptions. In all, more than PLN 173m was collected as a result of the aforementioned subscriptions.

Insurance

- Q3 2018 saw an increase in the volume of insured cash loans across all distribution channels: branches, partner outlets, over the phone or on the internet.
- As part of the strategy of monitoring collateral for mortgage loans a new CRM campaign was launched for customers who are required to provide an insurance policy for the property securing a mortgage loan with Santander Bank Polska S.A. The purpose of the campaign was to encourage customers to replace policies with third party insurers, which are assigned to the bank, with insurance policies taken out with Santander Aviva TU S.A.

Investment funds

- In Q3 2018, the most popular investment funds were the following short-term debt sub-funds: Santander Dłużny Krótkoterminowy and Santander Prestiż Dłużny Krótkoterminowy. An increase was also reported in the redemption of corporate bond funds, equity funds, and funds with an equity component, which was in line with market trends.
- Since the beginning of 2018, the bank has focused on the growth of sales of investment funds via Santander internet. In July 2018, the bank ended a monthly online campaign called "Invest however and wherever you want" ("Inwestuj jak chcesz i skąd chcesz") which was launched to promote investments in Santander funds via this channel.
- As at 30 September 2018, the total net assets in investment funds managed by Santander Towarzystwo Funduszy Inwestycyjnych S.A. (Santander TFI S.A.) were nearly PLN 16.2bn, up 4.1% YoY and down 0.8% QoQ.

Santander Biuro Maklerskie (Brokerage Office)

- The Brokerage Office focused on:
 - ✓ supporting customers' investments, which is particularly important during the stock market slowdown; (Owing to the Brokerage House Support, amid the increased volatility of the stock exchange the customers' turnover dropped at a significantly lower rate than the market, which enhanced the bank's position in the retail, domestic financial institutions and foreign customers service.)
 - ✓ developing remote channels for distribution of brokerage services;
 - ✓ providing business customers with access to new European markets.
- Work was underway in relation to the integration of the brokerage activity of Deutsche Bank Polska S.A. with Santander Bank Polska S.A.
- From 17 September to 20 September 2018 and from 21 September to 17 October 2018, subscriptions were made for the shares of Polenergia S.A. (as part of tender offer on 27 August 2018).

Wealth Management Programme

- In Q3 2018, Santander Bank Polska S.A. took further measures to increase the share in the wealth management market:
 - ✓ The units involved in the Wealth Management Programme were rebranded to Santander Private Banking and Santander TFI S.A., which helped to highlight the global nature of services.
 - ✓ The new wealth management development strategy was further implemented with respect to the business and operating model.
 - ✓ Works were underway to integrate the demerged business of Deutsche Bank Polska S.A. with the bank's structures, together with a large base of private banking customers.

Development of business and products for SMEs

Delivery of transformation projects

- In Q3 2018, the bank completed a number of initiatives delivered as part of the SME transformation process focusing on three customer segments which are identified on the basis of turnover and preferred way of banking: SME 1 and SME Digital (handled by the Retail Banking Division) and SME 2 (serviced by the Business and Corporate Banking Division).
 - ✓ The pilot grouping of SME 1 advisors in branches was completed and the new work agenda along with a new incentive scheme were confirmed to be effective.
 - ✓ The bank continued to provide support to customers engaged in foreign trade.
 - ✓ The group of customers who prefer remote banking (SME Digital segment) was extended and sales processes were launched with the support of remote advisors.
 - ✓ Further increase was reported in the number of customers using voice biometrics as an authorisation tool during the contact with the bank over the phone.

Development of product range and business model

- As part of the SME Digital strategy, Santander Bank Polska S.A. continued the migration of eligible SME 1 customers to remote channels in which they are serviced by the Multichannel Communication Centre, and took further measures to increase the share of operations done remotely.
- The bank enables customers to order a point of sales terminal and debit card by phone (an option available to all SME customers) and increased the amount of a loan that may be applied for in remote channels (by phone and electronic banking) by customers with a prelimit.
- New employees joined the Trade Finance Service Centre, which handles guarantees, letters of credit and documentary collections, as well as the Customer Contact Team, which provides support to customers (advisory services, search for solutions for non-standard transactions, help with interpretation of transaction terms, review of customer's instructions and preparation/review of transactions).
- With the support of the above-mentioned units as well as local International Business Managers, the number of customers using trade finance services grew at a double-digit rate.
- SME customers were offered instant blockchain-based transfers on attractive terms: until 31 December, they may use a group discount including free express transfers up to GBP 20k to accounts with Santander UK plc.
- As part of measures taken to promote non-cash transactions in Poland, the bank:
 - ✓ continued the campaign for SME 1 customers called "I got A Six" ("Dostałem Szóstkę") launched in August 2018 under which:
 - customers who meet the criteria of the Cashless Poland programme may rent and use the payment terminal free of charge for the first 18 months;
 - customers who do not meet the foregoing criteria are not charged for the rent and use of the terminal for the first 6 months.
 - ✓ provided customers with a free-of-charge business account based on the Cashless Poland programme and the "I got a Six" campaign.
- On 31 August 2018, the bank launched a website called dzialalnosc.pl to support individuals in setting up their business. The website includes step-by-step information on how to start a business, along with the knowledge base, relevant forms and useful calculators.

1.3. Business and Corporate Banking Division

Key development directions

- In Q3 2018, as in the previous quarters, the Business and Corporate Banking Division focused on improving comprehensive customer service, particularly in the areas which build competitive advantage in the Division's value chain:
 - ✓ foreign trade
 - ✓ offer for selected sectors
 - ✓ digitalisation of processes and products for the corporate segment
 - ✓ effectiveness of risk management processes
 - ✓ development of electronic banking channels.

Development of business and products for business and corporate customers

- The Business and Corporate Banking Division launched the 8th edition of the long-term Exports Development Programme which has been an important element of the Division's strategy for years. It includes a series of conferences, meetings and seminars as well as trade missions for Polish companies which are already active on the foreign markets or plan to expand their business abroad. During the first meeting, the attendants were provided with useful information on how to do business in the UK.
- As part of the foreign trade development strategy, the bank:
 - ✓ created value for customers by providing expertise, facilitating B2B networking and offering tools and product solutions to support the delivery of business plans;
 - ✓ provided access to SantanderTrade.com portal with reports on 180 markets;
 - ✓ offered an option to make blockchain-based payments as part of Santander One Pay FX service or manage accounts with other banks via electronic banking.
- Strong performance for Q3 2018 reported by the Business and Corporate Banking Segment was achieved mainly on account of measures taken to strengthen the bank's position in the selected sectors. Owing to effective acquisition and increasing product penetration, the above areas reported double-digit growth in income.
- Digital evolution of services and continued product range development remain on top of the strategic agenda of the Business and Corporate Banking Division, with a special focus on:
 - ✓ remote banking services provided by the Business Service Centre or the SME Service Centre;
 - ✓ promotion of a wider use of electronic banking services through a range of online solutions and e-applications;
 - ✓ steady increase in the number of business customers who use voice biometrics;
 - ✓ pilot implementation of electronic signature in iBiznes24 launched in September 2018.
- In September 2018, the product range was expanded to include a new factoring product: a limit of up to PLN 3m sanctioned within 24 hours on the basis of a simplified online application, without the customer having to sign an agreement.

Lease business

- In September 2018, Santander Leasing S.A. provided vendor finance to suppliers of Bury and Weidemann agricultural machines on attractive terms.
- Customers could take advantage of a number of additional benefits:
 - ✓ a wider scope of distributors (including BP since August 2018) which accept a fuel card offered by Santander Leasing S.A., an instrument allowing customers to make payments at the largest petrol stations;
 - ✓ an opportunity to buy smartphones or tablets through a hire purchase scheme, with 0% interest and repayment period of up to 60 months (an option available since September 2018 to customers who use lease facilities).
- During three quarters of 2018, Santander Leasing S.A. financed fixed assets of nearly PLN 3.6bn, an increase of 18.6% YoY. In the segment of machines and equipment, where Santander Leasing S.A. has been the leader for years, the lease volumes came in at almost PLN 1.6bn, up 9.8% YoY. In the vehicles segment, the lease volumes totalled PLN 2.0bn, higher by 27.4% YoY.

1.4. Corporate and Investment Banking Division

Main directions

- In Q3 2018, the Corporate and Investment Banking Division (CIB) continued to provide an end-to-end support to the largest corporate customers of Santander Bank Polska S.A. As at 30 September 2018, the active CIB customer base included nearly 250 of the largest companies and groups (allocated to that segment based on the turnover) representing all economic sectors in Poland.
- The Division also rendered services to corporations within the international Santander Corporate and Investment Banking structures and cooperated with several Santander Group units with regard to the sale of Polish bonds to foreign investors and trade in Latin American bonds in Poland.
- In Q3 2018, the Division took further measures to enhance customer experience, in particular it:
 - ✓ improved the features of Kantor Santander currency exchange platform regarded as best practice model at the Santander Group level in terms of IT, marketing, CRM, product range and incentive scheme;
 - ✓ launched an extensive marketing campaign to promote Kantor Santander platform;
 - ✓ developed new products in the area of securities and derivatives, which will be gradually implemented over the next three years;
 - ✓ extended the range of options as regards underwriting services;
 - ✓ expanded the range of transactional banking solutions, particularly in the area of cash management and solutions for financial institutions.
- The Division optimised the structure of the income statement and the balance sheet by growing the fee-generating business and selling selected credit exposures.

Performance of selected areas

- In Q3 2018, individual units of the Corporate and Investment Banking Division focused on the following initiatives:

Unit	Focus areas in Q3 2018
Credit Markets Department	<ul style="list-style-type: none"> • Provided funding towards medium and long-term investment projects delivered by CIB customers through loans and corporate bonds issues, including funding extended in cooperation with other units. It closed several financing deals with companies from economically-important sectors such as the property, services or energy sectors. • Acted as the sole lead arranger and book runner with respect to the issue of eurobonds by Santander Bank Polska S.A. with the nominal value of EUR 500m. • Participated in syndicated lending to customers from the property, services and energy sectors. • Optimised its balance sheet position through the sale of selected credit exposures and offered rating advice.
Capital Markets Department	<ul style="list-style-type: none"> • Provided analytical and advisory services to customers and was engaged as a financial/transactional advisor in relation to acquisition of companies from the industry and automotive sectors.
Global Transactional Banking Department	<ul style="list-style-type: none"> • Closed a number of deals in relation to financing, guarantees and supply chain finance with companies from the services, household appliances, energy, oil and gas, agriculture, technology, railway and transport sectors. • Made arrangements for Santander Bank Polska S.A. to join Santander Group banks with access to the Santander Cash Nexus global communication platform, which makes it possible to send transfers and receive statements via one standardised communication channel. • As regards cash management, it focused on development of solutions for banks and financial institutions, primarily based on instant payments.
Treasury Services Department	<ul style="list-style-type: none"> • Continued a number of projects aimed at ensuring excellent customer service such as: <ul style="list-style-type: none"> ✓ development of an innovative education tool for corporate and SME customers; ✓ further development of distribution channels for treasury products (such as the Kantor Santander currency exchange platform) in order to ensure higher level of digitalisation and penetration of customer base and to achieve competitive advantage. • Launched cooperation with Continental Europe bankers as part of Santander Group structures to gain access to new markets by intermediary of international corporate customers.

Unit	Focus areas in Q3 2018 (continued)
Financial Market Transactions Department	<ul style="list-style-type: none"> Continued measures taken to expand the portfolio of global business customers, including cooperation with a London branch of Santander Corporate and Investment Banking. Focused on further development of products, mainly in relation to hedging instruments. Leveraged the new features of the global foreign exchange platform and became one of the leaders of the global electronic trading platforms for Polish treasury bonds. Grew its portfolio of corporate customers using the global know-how of Santander Group. Organised a number of road shows to encourage customers from Western European, American and Asian markets to invest in Poland. Acted as an intermediary in relation to the sale of products and services offered by the bank and Santander Group in Poland (including government bonds issued by Eurozone peripheral and South American countries).
Institutional Sales Department	<ul style="list-style-type: none"> Focused on further development of systems to automate processes connected with brokerage services offered to business customers.
Stock Market Analysis Department	<ul style="list-style-type: none"> Made more than 50 recommendations regarding listed companies (several of which were prepared for the first time) and reports related to investment and pension funds as well as performance of stock market indexes. Works are underway to hold the 2018 Annual Financial Sector CEO/CFO Conference and 2018 Annual Utilities/Oil & Gas/Metal & Mining Conference.

Key transactions made by the Corporate and Investment Banking Division

- The bank maintains a leadership position in the banking sector in such areas as: public offerings, bond issue, arrangement of finance and supply chain finance.
- The largest deals closed by the Corporate and Investment Banking Division in Q3 2018 were as follows:
 - ✓ Issue of eurobonds of EUR 500m for Santander Bank Polska S.A., with the Division acting as the sole arranger and book runner.
 - ✓ Issue of guarantees for companies from the technology, oil and gas and railway sectors, and a guarantee line for a customer from the transport sector.
 - ✓ Participation in syndicated finance for customers from the property, services and energy sectors.
 - ✓ Loan agreements with customers from the services and household appliances sectors.
 - ✓ Supply chain finance for companies from the agriculture and energy sectors.
 - ✓ Rating advice for a customer from the energy sector.

Factoring business

- During the three quarters of 2018, the receivables purchased by Santander Factoring sp. z o.o. came in at PLN 19.7bn, up 17.5% YoY. This gave the company a market share of 11.5% and second position in the ranking of members of the Polish Association of Factoring Companies.
- At the end of September 2018, the company's credit exposure was PLN 4.9bn, higher by 31.7% YoY.

1.5. Selected HR Initiatives

Culture transformation – rebranding and implementation of Agile methodology in the selected areas

- Information about the rebranding and implementation of the Agile way of working has been presented in this chapter in table “Selected projects delivered as part of transformation programmes”, section 1.1. “Delivery of Strategic Transformation Programmes”.

Preparations for the planned integration of the demerged business of Deutsche Bank Polska S.A.

- Information about the integration of the demerged business of Deutsche Bank Polska S.A. has been presented in Chapter IV “Organisational and Infrastructure Development”, part “Acquisition of a demerged business of Deutsche Bank Polska S.A. by Santander Bank Polska S.A.”, section “Integration process”.

Development initiatives

YOUiversity

- With an objective to become a self-learning organisation that unlocks and develops the potential of its employees, the bank launched an initiative called YOUiversity to encourage staff to create a community that shares knowledge and experience in various fields. The bank provides a range of digital education and development tools that facilitate employees to build self-learning communities (guilds).

Leadership

- The bank invests in the development of leadership skills through a series of programmes that meet the needs of an organisation at the time of change:
 - ✓ **Young Leaders Programme** – a global development/talent programme launched on 26 September 2018 to facilitate development of young future leaders of Santander Group.
 - ✓ **Leaders for Employees** – a development programme attended by around 1 thousand leaders who intend to improve their leadership styles and organisational climate on a long-term basis in line with the concept of the leader as a person who empowers their teams, promotes two-way communication, shares a long-term vision and cares about work environment.

Engagement Survey



- In September 2018, Santander Group launched the next edition of the anonymous Engagement Survey whose objective is to gather employees’ feedback on specific areas such as the culture, processes, communication or leadership. Based on the results of the survey, an action plan will be established to address the areas for improvement and promote the strengths of the organisation. Such measures are expected to enhance staff engagement and increase the percentage of effective employees at the bank and Santander Bank Polska Group.

1.6. Rebranding

Scope of rebranding changes

- On 7 September 2018, upon a relevant entry made to the National Court Register, Bank Zachodni WBK S.A. changed its name to Santander Bank Polska S.A. and moved its registered office from Wrocław to Warsaw (al. Jana Pawła II 17, 00-854 Warszawa). Together with the change of the name, the bank introduced a new logo, which is shared with all the markets where Santander Group operates.
- On 7 September 2018, the subsidiaries and associates of the bank, which had “BZ WBK” in their names, were renamed accordingly.

Below is the list of previous and new names of individual entities/organisational units and electronic banking services:

Before rebranding	After rebranding
	
Bank Zachodni WBK S.A.	Santander Bank Polska S.A.
www.bzwbk.pl	www.santander.pl
BZWBK24	Santander24
BZWBK24 internet	Santander internet
BZWBK24 mobile	Santander mobile
iBiznes24	iBiznes24
BZWBK24 Mini Firma	Mini Firma
BZWBK24 Moja Firma plus	Moja Firma plus
kontakt@bzwbk.pl	kontakt@santander.pl
BZ WBK Leasing S.A.	Santander Leasing S.A.
BZ WBK Finanse sp. z o.o.	Santander Finanse sp. z o.o.
BZ WBK Inwestycje sp. z o.o.	Santander Inwestycje sp. z o.o.
BZ WBK Faktor sp. z o.o.	Santander Factoring sp. z o.o.
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	Santander Towarzystwo Funduszy Inwestycyjnych S.A.
BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Santander Aviva Towarzystwo Ubezpieczeń S.A.
BZ WBK AVIVA Towarzystwo Ubezpieczeń na Życie S.A.	Santander AVIVA Towarzystwo Ubezpieczeń na Życie S.A.
Dom Maklerski BZ WBK	Santander Biuro Maklerskie
Inwestor mobile (mobile application)	Inwestor mobile (mobile application)

- A new corporate identity was designed in relation to the new name. On 8-9 September 2018, the signage of branches, partner outlets and ATMs was changed. The names of certain documents and products were modified, along with the forms, business cards, stamps and advertising and information materials for customers. The online and mobile banking also acquired new looks and names.
- Customers were not required to do anything in connection with the change of the bank's name, logo and registered office. Agreements signed before the registration of the change in the National Court Register remained in full force and effect. Likewise, bank account numbers, internet banking passwords and PIN codes remained unchanged, while cards with the BZ WBK logo are active until their expiry dates.

Rationale for rebranding

- The change of the bank's trade name to Santander Bank Polska S.A. is a natural consequence of the bank's being member of the global Santander Group since 2011. In addition, it dovetails with the global project launched in March 2018 to refresh the Santander brand in all geographies of the Group. The new brand image is more modern and better reflects digital transformation as one of the pillars of the Group's global strategy. It also stresses the organisation's stability and over 160 years of history while retaining most distinctive hallmarks of individual Group members. In line with the new brand image, Santander Bank Polska S.A. intends to capitalise even more on being part of Santander Group to offer more value to its customers in Poland.

Marketing activities connected with rebranding

- On 7 September 2018, along with the official launch of the rebranding process, the bank started a Poland-wide information and image-building based on traditional and online media as well as outdoor advertising formats in order to build and strengthen the awareness of the new Santander brand among existing and prospective customers.

- Customers were sent a welcome text message informing them about the change of the bank's business name, and a welcome letter describing the changes. A special message was displayed in the internet banking systems and information about the rebranding and the associated changes was published on a dedicated website <https://santander.pl/ms/bankjakichczesz>.
- According to the survey conducted by Kantar TNS among the bank's personal customers in the first week after the rebranding (10-14 September 2018), 92% of respondents were aware of the change of the bank's name already at that stage, while 87% of them knew that the name included the word "Santander".

2. Business Development of Santander Consumer Bank Group

Development directions

- In Q3 2018, Santander Consumer Bank Group (SCB Group) focused on:
 - ✓ stable growth in the volume of car loans and leases on account of higher number of active dealers, increased sales of loans to finance second-hand cars in remote channels, improved procedures and optimised sales processes;
 - ✓ maintenance of the leadership position in the hire purchase market on the basis of a stable share in traditional sales and a growing share in online sales, identification of new sales growth opportunities and maintenance of profitability of collaboration with trade partners;
 - ✓ customer acquisition based on installment loans and credit cards, maximising sales opportunities by cross-selling and up-selling.
- During the reporting period, SCB S.A. completed rebranding of all sales channels.

Core business portfolios

Loans and advances to customers

- As at 30 September 2018, gross loans and advances granted by SCB Group amounted to PLN 17.0bn and were 9.7% higher YoY due to the growth in cash loans, credit cards and leases of new cars.
- The YoY increase in cash loan sales was attributed to optimised lending terms (including higher maximum loan amount and longer tenor) and sales growth (including via remote channels) driven by an extensive marketing campaign.
- The marketing campaign also covered the bank's steadily growing credit card base which is in transition to contactless functionality.

Deposits from customers

- As at 30 September 2018, deposits from customers of SCB Group totalled PLN 8.6bn and increased by 7.1% YoY.
- The balance of deposits from retail customers was higher due to an attractive interest rate for tenors above 12 months. Given a large share of 24- and 36-month deposits maturing in Q3 and Q4 2018, the bank monitors their maturity and renewability on an ongoing basis. At the same time, it takes measures to maintain high sales of 24-month deposits which have the largest share in the structure of new deposits.

Other significant events

- In the reporting period, the SCB Group continued to diversify its funding sources:
 - ✓ In August 2018, the bank signed an annex to the agreement on securitisation of SC Poland Consumer 16-1 sp. z o.o., whereby the non-amortisation period was extended by 6 months to March 2019.
 - ✓ In September 2018, the bank signed an agreement with the European Investment Bank under which a loan of EUR 50m was granted to finance the activities of small and medium companies. The tranches will be disbursed in PLN.
 - ✓ Santander Consumer Multirent sp. z o.o., the bank's subsidiary, signed an annex to the agreement with Pekao S.A. to renew the loan of PLN 100m maturing in Q3 2018 for the next year (until August 2019).

- ✓ Furthermore, Santander Consumer Multirent sp. z o.o. drew down funding granted by Santander Consumer Finance S.A. for the average period of 15 months to finance working capital needs.

IV. Organisational and Infrastructure Development

Acquisition of a demerged business of Deutsche Bank Polska S.A. by Santander Bank Polska S.A.

Contractual provisions governing the transaction

Transaction agreement of 14 December 2017 signed by Santander Bank Polska S.A. and Banco Santander S.A. with Deutsche Bank AG

- Santander Bank Polska S.A. (acquiring bank) declared its intention to purchase a demerged part of Deutsche Bank Polska S.A. including retail banking, private banking, business banking (SME) and 100% shares in DB Securities S.A.
- The corporate and investment banking business and foreign-currency mortgage portfolio of Deutsche Bank Polska S.A. are excluded from the transaction and will remain in that entity (retained business).

Demerger agreement of 23 February 2018 between Santander Bank Polska S.A. and Deutsche Bank Polska S.A. setting out the terms and conditions of the demerger in accordance with Article 529(1)(4), Article 530(2) and Article 531(1) of the Code of Commercial Companies

- The demerged assets of Deutsche Bank Polska S.A. will be transferred to Santander Bank Polska S.A. upon the registration of the increase in the bank's share capital through the issuance of 2,754,824 demerger shares (with a nominal value of PLN 10 each) to be allotted to Deutsche Bank AG. The bank will subsequently assume all rights and obligations of Deutsche Bank Polska S.A. related to the demerged business.
- Before the demerger, the bank will buy approx. 10% of shares in Deutsche Bank Polska S.A. from Deutsche Bank AG, representing 10% of votes at the General Meeting of Shareholders of Deutsche Bank Polska S.A.
- As a result of the demerger, the share capital of Deutsche Bank Polska S.A. will be reduced by way of cancellation of all shares of that bank held by Santander Bank Polska S.A. Accordingly, the acquiring bank will cease to be the shareholder of Deutsche Bank Polska S.A.

Transaction execution process

- Santander Bank Polska S.A. received all the regulatory consents from the KNF and the Office of Competition and Consumer Protection (UOKiK) which are necessary to acquire the demerged part of Deutsche Bank Polska S.A. The decisions received in Q3 2018 are presented in the "Significant corporate events", Chap. 1 "Information Summary on Santander Bank Polska Group in Q3 2018".
- Upon the satisfaction of all conditions set out in the transaction agreement of 14 December 2017, on 8 October 2018 Santander Bank Polska S.A. purchased from Deutsche Bank AG 274,444,939 ordinary registered shares with the nominal value of PLN 1 each, representing more than 10% of the share capital of Deutsche Bank Polska S.A., for the total amount of PLN 257,959,800. Pursuant to the foregoing agreement, the shares will be cancelled on the date of registration of decrease in the share capital of Deutsche Bank Polska S.A.

Integration process

- In preparation for the operational merger, the bank uses own experience from the process of integration with Kredyt Bank S.A. and works closely with Deutsche Bank Polska S.A. and DB Securities S.A. in accordance with the agreement of 23 February 2018, which sets out a detailed action plan and responsibilities of individual parties.

- The legal merger, branch rebranding and operational merger (including data migration) will be completed during the migration weekend. Once the operational merger is completed, the bank will operate on the basis of a uniform business model, combining the elements of the demerged business model and strong competences of Deutsche Bank Polska S.A. in the area of private banking, services for high net worth customers, cooperation with external distribution channels and credit products dedicated to selected market segments.
- The integration process will be executed in such a way as to ensure that the bank is fully operational once the demerged business of Deutsche Bank Polska S.A. is incorporated into its structures and that customer service is not affected. After migration to the platform of Santander Bank Polska S.A., the customers of the demerged part of Deutsche Bank Polska S.A. will be serviced according to the processes of the acquiring bank, while keeping account numbers unchanged.
- In September 2018, Santander Bank Polska S.A., together with Deutsche Bank Polska S.A. and DB Securities S.A., confirmed they were ready for the operational merger to be completed in November 2018. The pre-agreed communication plan was launched to inform the customers of Deutsche Bank Polska S.A. and DB Securities S.A. accordingly. Also, the information campaign for employees of the acquired Bank was instigated as well as a training preparing them to work at Santander Bank Polska S.A.

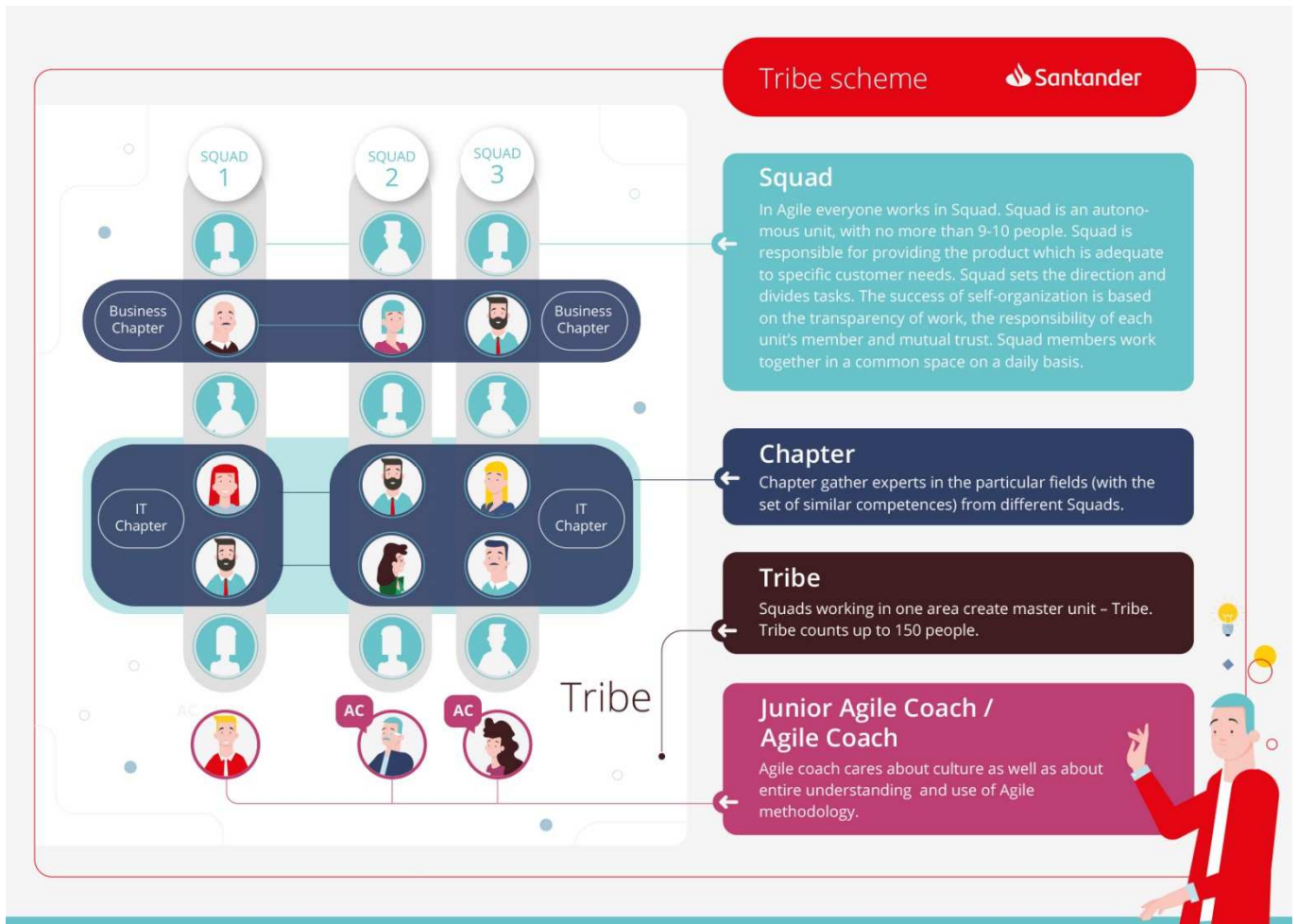
Business, operational and financial objectives of the transaction

- The acquisition of the demerged business will strengthen the bank's market position in terms of the value of assets and share in the credit and customer deposit markets. Furthermore, the bank is expected to achieve synergies and savings and leverage new competences and skills in terms of relationships with high net worth, private banking and business banking customers.
- The main business and operational objectives are as follows:
 - ✓ extension of the range of products and services, improvement of customer service quality and enhancement of customer experience;
 - ✓ growth of the customer base and business volumes;
 - ✓ extension of the sales network;
 - ✓ improvement of operational efficiency, capitalising on the potential of both banks, best practices of the acquiring bank and economies of scale;
 - ✓ significant increase in value with limited impact on capital ratios.

Implementation of the Agile work methodology

- In order to achieve a long-term success in a dynamically developing environment (notably in terms of technology) Santander Bank Polska S.A. has been implementing an Agile way of working.
- The fundamental concept of the new work model is:
 - ✓ close cooperation within multidisciplinary teams that make joint decisions;
 - ✓ flexibility and transparency;
 - ✓ more room for experiments on the way to achieve a common goal.
- The main reasons for transforming the bank into an Agile organisation are as follows:
 - ✓ to reduce turnaround time and time to market;
 - ✓ to increase customer satisfaction;
 - ✓ to facilitate cooperation between organisational units, mainly business and IT;
 - ✓ to enhance development opportunities for employees;
 - ✓ to extend the range of value-adding financial tools;
 - ✓ to strengthen financial performance.

ORGANISATIONAL MODEL IMPLEMENTED IN SANTANDER BANK POLSKA S.A.



- The transition to Agile is done in waves. The process started from the Retail Banking Division. As at the end of September 2018, the following four Tribes were set up: Omnichannel, Individual Client, Risk Engineering and Consumer Finance. The second and third waves were underway to create the next Tribes, among others, Daily Banking, Home Solutions, Insurance, Small and Medium Enterprises, Business Intelligence, Wealth Management.

Development of distribution channels of Santander Bank Polska S.A.

Branch network

- Pursuant to the strategy for retail business distribution, in Q3 2018 Santander Bank Polska S.A. launched the next four branches in an innovative format. At the same time, three more customer acquisition stands were set up in shopping centres, 11 branches were changed to partner outlets, and the process of branch rationalisation was continued.
- In Q3 of 2018, the number of branches (locations) decreased by 20 to 520, while the number of partner outlets went up by 7 to 120.

Remote channels

- Along with the modernisation of its physical network, the bank continued to develop the functionality of digital contact channels and implemented new or modified processes in the Multichannel Communication Centre.

ATM network

- As part of the programme aimed at developing self-service channels, in Q3 2018 the bank installed new cash recyclers (devices enabling withdrawal of cash that is previously deposited in a recycler by other customers), which helped to reduce costs associated with cash services and increase accessibility of cash deposits and withdrawals; replaced legacy machines with new models and continued branch network rationalisation. The number of cash recyclers increased by 41 QoQ to 285, whereas the number of ATMs, CDMs and dual machines went down by 55 to 1,440.
- The network of self-service devices of Santander Bank Polska S.A. is ranked third among Polish banks in terms of the number of ATMs and second in terms of the number of CDMs.

Mobile and internet banking

- In Q3 2018, the bank continued to extend the features and improve the user-friendliness of electronic banking channels to enhance customer experience. The users of Santander mobile were provided with a new authorisation tool: mSignature, which is an alternative to one-time smsCodes and enables customers to authorise the transactions on the internet (e.g. payments for online shopping) with a mobile PIN sent to a mobile phone. Furthermore, the bank launched the sale of accounts to sole traders via personal customer profile and completed the rebranding of internet and mobile banking, online advisor services and santander.pl.

Santander Bank Polska S.A.	30.09.2018	31.12.2017
Branches (location)	520	576
Partner Outlets	120	109
Corporate Banking Centres	12	12
Business Banking Centres	21	21
ATMs	887	948
CDMs	6	13
Dual Function Machines	832	771
Santander24 - registered customers (in thousands)	3 601	3 388
Santander24 - digital customers (in thousands) ¹⁾	2 175	2 056
Santander mobile - mobile customers (in thousands) ²⁾	1 242	1 094
iBiznes24 - registered companies ³⁾ (in thousands)	16	15

1) Number of active customers of Santander24 electronic banking services who at least once used the system in the last month.

2) Number of active users of Santander mobile.

3) Only the users of iBiznes24 – a strategic electronic platform for business customers (the users of Moja Firma Plus and Mini Firma platforms are not included).

CRM solutions

- In Q3 2018, the bank focused on:
 - ✓ optimisation of existing CRM tools, including front-end applications and analytical environments supporting the initiation of CRM campaigns;
 - ✓ development of solutions, including integration of CRM systems with an online SMS gateway and test launch of campaigns based on real-time signals from electronic banking systems (the roll-out of these solutions is planned for Q4 2018).
- The continuous development and optimisation processes helped the bank to:
 - ✓ improve such ratios as: hit rate, response rate and use of supporting channels (text message, email, etc.);
 - ✓ increase the share of sales generated on the basis of CRM campaigns, and significantly enhance customer satisfaction: NPS of customers subject to CRM campaigns is clearly higher than that of other customers.

Development of distribution channels of Santander Consumer Bank S.A.

- In Q3 2018, Santander Consumer Bank S.A. took further measures to increase the effectiveness of the distribution network, including the review of the structure of branches and partner outlets, taking into account customers' needs. The bank's customers had access to steadily developed electronic and mobile banking services.

Basic Distribution Channels

Santander Consumer Bank	30.09.2018	31.12.2017
Branches	153	159
Partner Outlets	169	153
Registered Electronic Banking Users (in thousands) ¹⁾	177	132

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

- Aside from branches, franchise outlets and electronic channels, the distribution network of Santander Consumer Bank S.A. as at 30 September 2018 included:
 - ✓ a mobile sales channel for car loans and corporate deposits;
 - ✓ a remote channel for car loans;
 - ✓ a network of external partners offering the bank's car loans (692) as well as instalment loans and credit cards (8,157).

V. Financial Performance of Santander Bank Polska Group in Q3 2018

1. Income Statement

Structure of Santander Bank Polska Group profit before tax

Condensed Consolidated Income Statement of Santander Bank Polska Group in PLN m (for analytical purposes)	Q1-3 2018	Q1-3 2017	YoY Change
Total income	6 202,3	5 753,3	7,8%
- Net interest income	4 208,3	3 897,4	8,0%
- Net fee & commission income	1 560,5	1 497,7	4,2%
- Other income ¹⁾	433,5	358,2	21,0%
Total costs	(2 803,6)	(2 502,2)	12,0%
- Staff, general and administrative expenses	(2 414,3)	(2 184,1)	10,5%
- Depreciation/amortisation	(244,5)	(234,3)	4,4%
- Other operating expenses	(144,8)	(83,8)	72,8%
Impairment losses on loans and advances	(725,8)	(477,5)	52,0%
Profit/loss attributable to the entities accounted for using the equity method	42,2	38,5	9,6%
Tax on financial institutions ²⁾	(333,6)	(316,8)	5,3%
Consolidated profit before tax	2 381,5	2 495,3	-4,6%
Tax charges	(552,0)	(601,2)	-8,2%
Net profit for the period	1 829,5	1 894,1	-3,4%
- Net profit attributable to Santander Bank Polska shareholders	1 569,1	1 664,1	-5,7%
- Net profit attributable to non-controlling shareholders	260,4	230,0	13,2%

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

2) The banking tax is calculated in accordance with the Act of 15 January 2016 on tax imposed on certain financial institutions.

- During the first nine months of 2018, Santander Bank Polska Group reported a robust growth in net income from the core business, including an increase of 8.0% YoY and 4.2% YoY in net interest income and net fee and commission income, respectively.
- However, the profit before tax posted by the Group went down by 4.6% YoY to PLN 2,381.5m on account of development initiatives and external pressure, including regulatory environment. It is illustrated by the following changes to the income statement:
 - ✓ Increase of 10.5% YoY in staff expenses and general and administrative expenses in connection with the project of the acquisition of a demerged business of Deutsche Bank Polska S.A. and other development and transformation projects.
 - ✓ Increase of 52.0% YoY in net impairment allowances due to a significantly lower positive impact of the sale of credit receivables and the expansion of the Group's total loan portfolio.
 - ✓ Increase of 5.3% YoY in tax on financial institutions amid organic growth of taxable assets.
 - ✓ Movements in provisions for legal claims contributed significantly to the growth in other income and other operating expenses (+21.0% YoY and +72.8% YoY, respectively). The total net value of such provisions released, raised or recognised as income was negative in both periods under review and totalled PLN 39.9m for Ytd 2018 and PLN 1.4m for Ytd 2017, representing higher charge to the current period profit before tax by PLN 38.5m on a YoY basis.
- Profit attributable to the bank's shareholders was PLN 1,569.1m and decreased by 5.7% YoY.

Comparability of periods

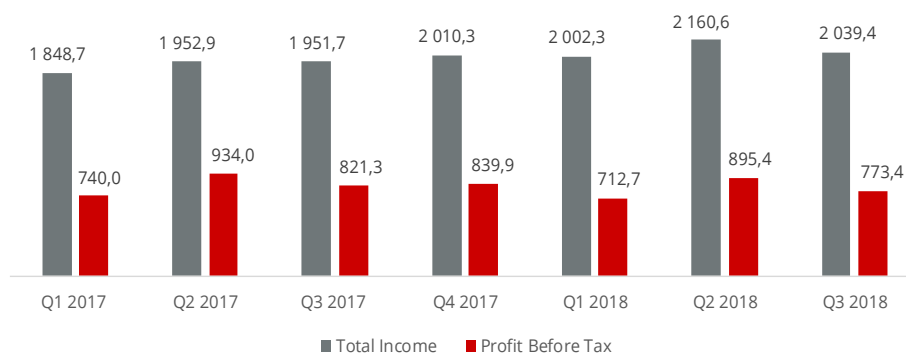
Application of new IFRS

IFRS 9	<ul style="list-style-type: none"> Pursuant to IFRS 9 Financial Instruments, on 1 January 2018, Santander Bank Polska Group changed the classification and measurement of financial instruments on the basis of a detailed analysis of its business models for managing financial assets and analysis of cash flows arising from existing agreements.
	<ul style="list-style-type: none"> The financial impact of the changed approach to classification and measurement of financial assets, allowances for expected credit losses and provisions for liabilities is presented in Note 2 "Basis of preparation of condensed interim consolidated financial statement" in the "Condensed Interim Consolidated Financial Statement of Santander Bank Polska Group for the 9-month period ended 30 September 2018". The value of other assets and liabilities has not changed significantly as a result of implementation of IFRS 9.
	<ul style="list-style-type: none"> The Group elected to use an option for exemption of the obligation to restate comparative information for prior periods in relation to the changes arising from classification, measurement and impairment. Differences in the carrying amounts of financial assets and liabilities resulting from the application of IFRS 9 are reported in retained earnings for the previous years and in revaluation reserve as at 1 January 2018 (-PLN 254.5m).
	<ul style="list-style-type: none"> On 30 June 2018, the Group completed the analysis of a credit card portfolio in terms of contractual cash flows (resulting from the application of IFRS 9). As a result, it changed the classification and measurement of credit cards sold till 1 August 2016, whose contractual structure of interest rate was based on four times the NBP Lombard rate and the contractual clauses did not include a direct reference to the Civil Code in terms of the maximum statutory interest. The above-mentioned credit card portfolio has been measured at fair value and classified in the statement of financial position as "loans and advances to customers measured at fair value through profit or loss". The interest income from such instruments is presented in "interest-like income from assets measured at fair value through profit or loss". Santander Bank Polska Group ceased to recognise impairment allowances on such portfolio and the assessment of credit risk for such products is now an integral part of measurement at fair value. The amount resulting from the change in classification and measurement is recognised in profit for the current period instead of retained earnings as at 1 January 2018.
IFRS 15	<ul style="list-style-type: none"> Pursuant to IFRS 15 Revenue from Contracts with Customers effective since 1 January 2018, a new 5-step model was applied to revenue-generating contracts with customers, excluding the contracts which are subject to separate standards. The application of IFRS 15 did not require any significant changes in presentation.

Items of the income statement Selected items affecting the comparability of periods in the income statement of Santander Bank Polska Group (excluding the impact of newly implemented IFRS)

	Q1-3 2018	Q1-3 2017
Dividend income	<ul style="list-style-type: none"> PLN 99.9m, including a dividend of PLN 91.4m paid by Aviva Group companies from the portfolio of equity investments of Santander Bank Polska S.A. 	<ul style="list-style-type: none"> PLN 76.6m, including a dividend of PLN 68.6m paid by Aviva Group companies from the portfolio of equity investments of Santander Bank Polska S.A.
Income on sale or liquidation of fixed assets and assets held for sale	<ul style="list-style-type: none"> PLN 44.1m, including PLN 44.3m on account of the sale of real estate of Santander Bank Polska S.A. located in Wrocław 	<ul style="list-style-type: none"> PLN 1.1m
Profit before tax on the sale of credit receivables	<ul style="list-style-type: none"> PLN 30.2m on account of the sale of credit receivables of Santander Bank Polska S.A. and Santander Consumer Bank S.A. 	<ul style="list-style-type: none"> PLN 202.3m on account of the sale of credit receivables of Santander Bank Polska S.A. and Santander Consumer Bank S.A.
Gains/Losses on the sale of equity instruments	<ul style="list-style-type: none"> - PLN 0.02m 	<ul style="list-style-type: none"> PLN 12.6m, including PLN 10.8m on account of the sale of shares of Polimex-Mostostal S.A. from the portfolio of equity investments of Santander Bank Polska S.A.

TOTAL INCOME AND PROFIT BEFORE TAX BY QUARTER
IN 2017 AND 2018 (PLN M)



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

Components of Santander Bank Polska Group Profit Before Tax in PLN m (by contributing entities)	Q1-3 2018	Q1-3 2017	YoY Change
Santander Bank Polska S.A.	1 899,3	1 909,9	-0,6%
Subsidiary undertakings:	833,8	742,6	12,3%
Santander Consumer Bank and its subsidiaries ¹⁾	588,4	620,4	-5,2%
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	180,8	59,4	204,4%
Santander Finanse sp. z o.o. and its subsidiaries (Santander Leasing S.A., Santander Factoring sp. z o.o., Santander F24 S.A.)	64,4	63,3	1,7%
Santander Inwestycje sp. z o.o.	0,2	(0,5)	-
Equity method valuation	42,2	38,5	9,6%
Elimination of dividends received by Santander Bank Polska and consolidation adjustments	(393,8)	(195,7)	101,2%
Profit before tax	2 381,5	2 495,3	-4,6%

1) As at 30 September 2018, SCB Group comprised Santander Consumer Bank S.A. and the following entities: Santander Consumer Multirent sp. z o.o., Santander Consumer Finanse sp. z o.o., SC Poland Consumer 15-1 sp. z o.o., SC Poland Consumer Finance 16-1 sp. z o.o., PSA Finance Polska sp. z o.o. and PSA Consumer Finance Polska sp. z o.o. AKB Marketing Services sp. z o.o. was liquidated and removed from the court register on 20 November 2017. The amounts provided above represent profit before tax of SCB Group (after intercompany and consolidation adjustments) for the periods indicated.

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

- The unconsolidated profit before tax of Santander Bank Polska S.A. for the three quarters of 2018 decreased slightly by 0.6% YoY to PLN 1,899.3m as a combined effect of changes in the following items:
 - ✓ A major improvement of 6.1% YoY in net interest income driven by growth in lending to retail and corporate customers and the optimisation of a deposit offer for individuals;
 - ✓ A decrease of 6.0% YoY in net fee and commission income on account of:
 - lower net income from distribution fee,
 - lower brokerage fees (slowdown in the stock market),
 - lower fee income from account maintenance and cash management services (special deals and modification of schedule of fees and charges to attract more customers),

was largely offset by increases in other business lines such as: electronic banking and payments, foreign exchange transactions, credit delivery, guarantees and sureties.

- ✓ An increase of 80.9% YoY in dividend income attributed to higher dividend paid by Santander Consumer Bank S.A. (PLN 259.9m in 2018 vs. PLN 108.3m in 2017), Aviva Group companies (PLN 152.1m in 2018 vs. PLN 113.4m in 2017) and Santander Finanse sp. z o.o. (PLN 38.8m in 2018 vs. PLN 4.9m in 2017).
- ✓ Growth of 116.4% YoY in other operating income on account of the sale of the property in Wrocław and release of provisions for legal claims.
- ✓ An increase of 26.4% YoY in impairment allowances due to a low base effect from higher last year's result on sales of credit receivables and a growth dynamics of the credit portfolio witnessed in the current year.
- ✓ A rise of 13.1% YoY in total operating expenses on account of costs incurred in relation to the project aimed at acquisition of a demerged business of Deutsche Bank Polska S.A. and provisions raised for legal claims.
- ✓ A decrease in gains on other financial instruments and (-27.3% YoY) along with a profit on sales of debt securities and lower net trading income (-7,6% YoY) attributable to derivative and FX transactions.

Subsidiaries

- The subsidiaries consolidated by Santander Bank Polska S.A. reported an increase of 12.3% YoY in their total profit before tax as a result of a significant rise in profitability of Santander TFI S.A.

SCB Group

- The contribution of SCB Group to the consolidated profit before tax of Santander Bank Polska Group for the first three quarters of 2018 was PLN 588.4m (after intercompany transactions and consolidation adjustments) and decreased by 5.2% YoY due to the following factors:
 - ✓ An increase of 12.8% YoY in net interest income to PLN 1,115.7m, driven by steady growth of the credit portfolio and favourable changes in its structure (e.g. a bigger share of high-margin products such as cash loans and credit cards);
 - ✓ A rise of 18.0% YoY in net fee and commission income to PLN 123.1m, as a low base effect connected with one-off credit agency fees paid by SCB S.A. in order to maintain and develop its sales network.
 - ✓ Higher net impairment allowances of PLN 214.9m (up PLN 146m YoY) connected with:
 - low base effect related to one-off items in the comparable period which had a positive impact on net allowances (extension of the recovery horizon to 36 months for cash loans and to 48 months for mortgage loans and higher income on the sale of overdue receivables), and
 - changing structure of the credit portfolio (lower share of mortgage loans and increasing share of cash loans)
 - ✓ An increase of 7.5% YoY in other operating income (i.e. non-interest and non-fee income) to PLN 45.5m.
 - ✓ A rise of 7.5% YoY in total operating expenses to PLN 451.7m driven by higher costs related to marketing and implementation of changes connected with GDPR, increase in amortisation/depreciation on account of IT investments and higher staff expenses due to business development and pressure in the labour market.

Other subsidiaries

- The 204.4% YoY rise in profit before tax reported by Santander TFI S.A. for 9 months of 2018 is attributable to changes implemented in the model of distribution and settlement with Santander Bank Polska S.A. early in 2018. In addition, a major increase was reported in net fee and commission income from asset management driven by higher average net assets on a YoY basis.
- Total profit before tax posted by companies controlled by Santander Finanse sp. z o.o. was relatively stable YoY.

Structure of Santander Bank Polska Group profit before tax

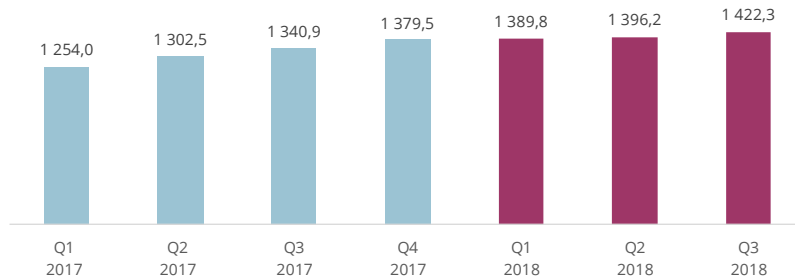
Total income

- Total income of Santander Bank Polska Group for the first three quarters of 2018 increased by 7.8% YoY to PLN 6,202.3m.

Net interest income

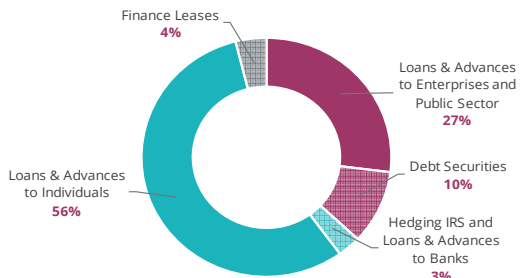
- Net interest income for the first nine months of 2018 amounted to PLN 4,208.3m and increased by 8.0% YoY.

Net Interest Income by Quarter in 2017 and 2018 (PLN m)

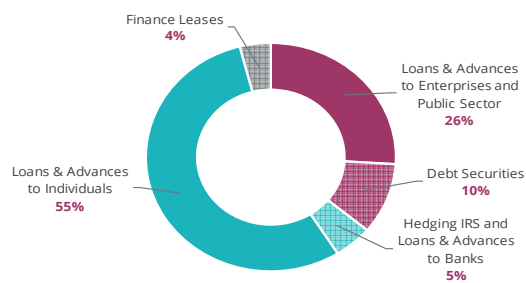


- In the current reporting period, interest expense increased by 8% YoY to PLN 1,022.7m, aligning its growth rate with interest income which came in at PLN 5,231m:
 - ✓ The growth of interest income was driven by loans to retail and corporate customers, lease receivables, repurchase transactions and debt securities but slowed down by loans to banks, CIRS/IRS transactions hedging cash flows and debt securities held for trading.
 - ✓ The highest growth was reported for interest expenses generated by liabilities arising from repurchase transactions, subordinated liabilities, securities issued and deposits from business customers. A slight decrease was only observed in deposits from individuals.

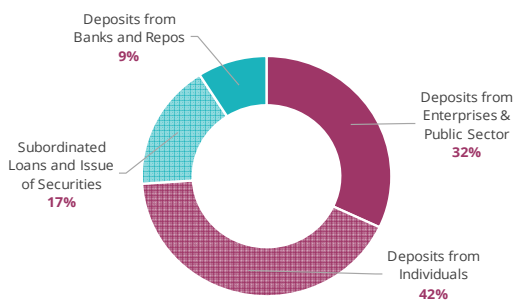
STRUCTURE OF INTEREST REVENUES FOR Q1-3 2018



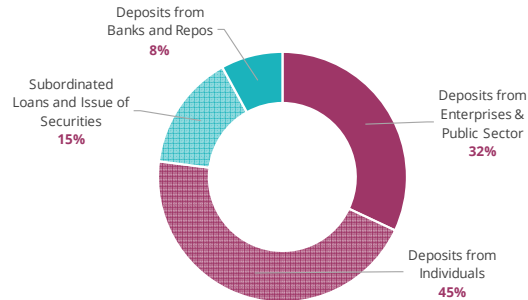
STRUCTURE OF INTEREST REVENUES FOR Q1-3 2017



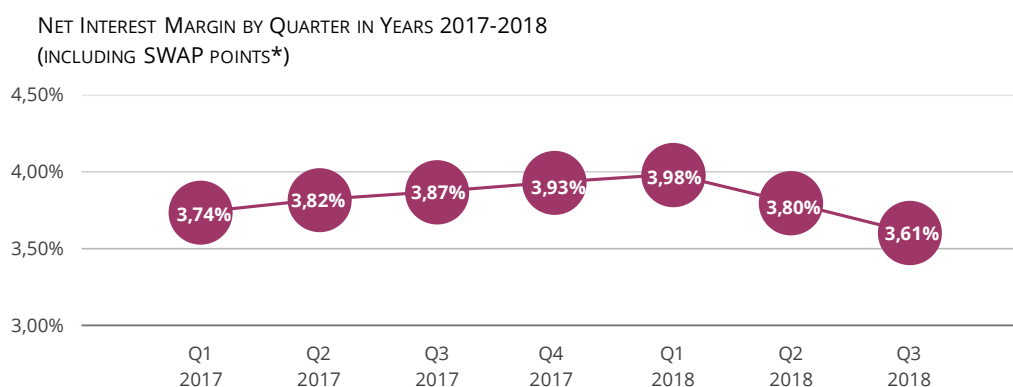
STRUCTURE OF INTEREST EXPENSE FOR Q1-3 2018



STRUCTURE OF INTEREST EXPENSE FOR Q1-3 2017



- After a steady increase observed since the beginning of 2017, a quarterly net interest margin (annualised on a quarterly basis) narrowed by 18 bps QoQ in Q2 2018 and 19 bps QoQ in Q3 2018 to reach 3.61%. This was triggered by increased dynamics of funding cost growth amid the precipitated acquisition of term deposits and savings funds, and enhanced activity of the Group in the area of own securities issue as part of preparations for the acquisition of a demerged business of Deutsche Bank Polska S.A. Concurrently, interest income continued to grow driven by expanding portfolio of loans (including cash loans, mortgage loans and business loans) and investment debt securities.



* The calculation of the net interest margin of Santander Bank Polska S.A. takes account of swap points allocation from derivative instruments used for the purpose of liquidity management but excludes interest income from the portfolio of debt securities held for trading.

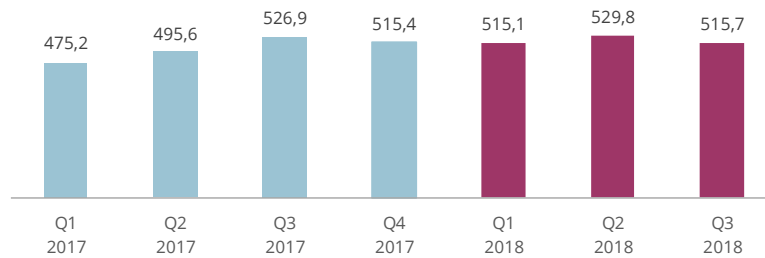
- The growth of interest expense fueled by increasing deposit base and own issues of securities translated into a slight reduction of a cumulative net interest margin (annualised on a YTD basis) from 3.81% after nine months of 2017 to 3.79% after nine months of 2018.
- Similarly to the corresponding period of 2017, during the three quarters of 2018 the margin was supported by effective management of parameters of deposit and credit products, measures and tools taken to improve their quality, accessibility and competitiveness, and favourable sales trends affecting the balance sheet structure. The Group reported positive changes (from the perspective of a margin) in core business volumes such as a YoY increase in loans and advances to retail customers.

Net fee and commission income

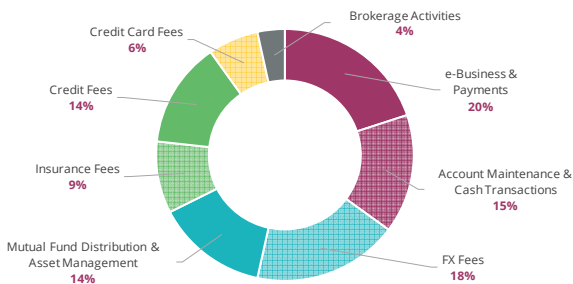
Net Fee and Commission Income (in PLN m)	Q1-3 2018	Q1-3 2017	YoY Change
E-Business and payments ¹⁾	310,4	295,3	5,1%
FX fees	286,1	254,9	12,2%
Account maintenance and cash transactions ²⁾	237,0	252,2	-6,0%
Asset management and distribution	220,1	210,1	4,8%
Credit fees ³⁾	210,7	154,5	36,4%
Insurance fees	143,6	149,7	-4,1%
Credit cards	99,3	100,9	-1,6%
Brokerage activities	44,6	62,5	-28,6%
Other ⁴⁾	8,7	17,6	-50,6%
Total	1 560,5	1 497,7	4,2%

- Fees for foreign and mass payments, Western Union transfers, trade finance, debit cards, services for third party institutions as well as other electronic and telecommunications services.
- Fee income from account maintenance and cash transactions has been reduced by the corresponding expenses which in Note 5 of the "Condensed Interim Consolidated Financial Statement of Santander Bank Polska Group for the 9-Month Period Ended 30 September 2018" are included in the line item "Other" (PLN 3.4m for the three quarters of 2018 vs. PLN 0.5m for the three quarters of 2017).
- Fee and commission income from lending, factoring and lease activities which is not amortised to net interest income. This line item includes, inter alia, the cost of credit agency.
- Fees on guarantees, issue arrangement and other.

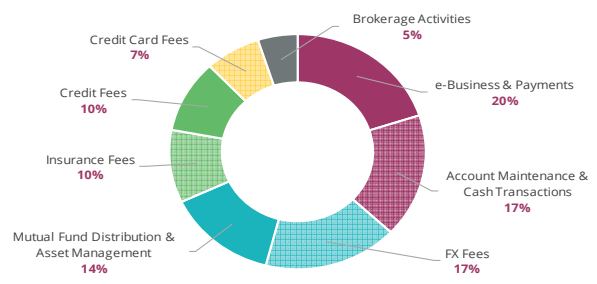
NET FEE & COMMISSION INCOME BY QUARTER IN YEARS 2017-2018
(PLN M)



NET COMMISSION INCOME STRUCTURE FOR Q3 2018

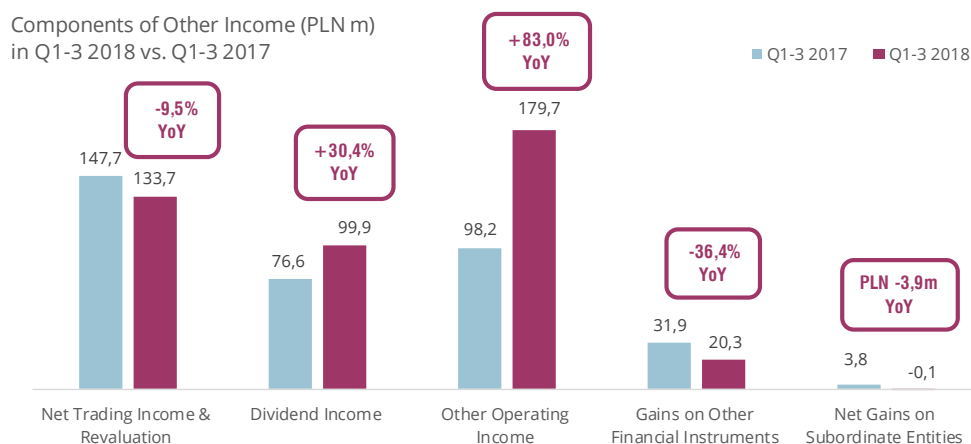


NET COMMISSION INCOME STRUCTURE FOR Q3 2017



- After the first nine months of 2018, net fee and commission income amounted to PLN 1,560.5m and increased by 4.2% YoY driven by the performance of business lines of the bank and its subsidiaries:
 - ✓ The Group's net fee and commission income from the lending business grew by 36.4% YoY on account of higher income from fees connected with corporate credit exposures and a significant decrease in credit agency fees on account of one-off expenses incurred by SCB S.A. in 2017 in order to maintain and develop its sales network.
 - ✓ An improvement in net FX fee income (+12.2% YoY) is attributed to a steady increase in turnover driven by the Group's comprehensive measures taken to support foreign trade and develop e-FX services in iBiznes24.
 - ✓ The higher net fee and commission income from fund distribution and asset management (+4.8% YoY) reflects an increase in the average net value of assets under management in Santander TFI S.A. arising from a quick inflow of funds in H2 2017 driven by the bullish stock market prevailing until February 2018 and a record low interest rate environment disinclining customers to hold traditional bank deposits.
 - ✓ Net fee and commission income aggregated under the "eBusiness and payments" line item rose by 5.1% YoY as a result of an increase in income from issuance and management of debit cards driven by the growth of this instrument base (+6.3 YoY) and non-cash transactions made with such cards.
 - ✓ Net fee and commission income from issuance and management of a combined portfolio of credit cards of Santander Bank Polska S.A. and SCB S.A. decreased by 1.6% YoY on account of higher costs related to special deals of Santander Bank Polska S.A. and a revised settlement process for specific co-branding cards of SCB. The income however was impacted by changes to the schedule of fees and charges (e.g. a conditional fee instead of a fixed fee for 1|2|3 card of Santander Bank Polska S.A.) and growing transactional awareness of customers (e.g. a decline in cash turnover and transfers from card accounts). The number of credit cards generating the above profit increased by 1.8% YoY.
 - ✓ Brokerage fees reduced by 28.6% YoY along with a decline in trading in the secondary market amid deteriorating investor sentiment observed since February 2018.
 - ✓ The decline of 4.1% YoY in net fee and commission income from insurance business was due to changes to the Group's insurance sales model in accordance with new EU regulatory requirements and a drop in the insurance coverage of the Group's cash loans.

Other income



- Other income of the Group presented above totalled PLN 433.5m, up 21.0% YoY.
 - Net trading income and revaluation reported by Santander Bank Polska Group for the first nine months of 2018 was PLN 133.7m, down 9.5% YoY.
 - In the market of derivatives and FX interbank transactions the Group generated profit of PLN 99.7m vs. PLN 113.5m for three quarters of 2017. The above component of net trading income excludes net interest income from the CIRS and IRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 155.0m for three quarters of 2018 vs. PLN 172.2m for three quarters of 2017), which are disclosed under "Interest income".
 - Other FX trade transactions generated a profit of PLN 9.4m vs. PLN 32.2m in the corresponding period last year.
 - Sales of debt and equity securities measured at fair value through profit or loss brought in a total profit of PLN 16.9m vs. PLN 2.0m for three quarters of 2017.
 - This category also includes a positive change of PLN 7.7m in the fair value of loans and advances mandatorily measured at fair value through profit or loss.
 - In the first nine months of 2018, the Group disclosed dividend income of PLN 99.9m, i.e. up PLN 30.4% on account of higher dividends from Aviva Group companies from the portfolio of equity investments of Santander Bank Polska S.A.
 - Gains on other financial instruments totalled PLN 20.3m vs. PLN 31.9m in the same period last year and included mainly profit from the sale of equity and debt securities totalling PLN 21.6m vs. PLN 31.3m in the corresponding period.
 - Other operating income totalled PLN 179.7m and increased by 83.0% YoY, mainly on account of the profit of PLN 44.3m from the sale of the bank's real estate and release of provisions for legal claims related to the Group's operations in a changing macroeconomic and regulatory environment.

Impairment allowances

Impairment losses on loans and advances (in PLN m)	Measured at amortised cost under IFRS 9 ¹⁾			Total IFRS 9 ¹⁾	Total IAS 39 ²⁾
	Stage 1	Stage 2	Stage 3	Q1-3 2018	Q1-3 2017
Impairment charge on loans and advances to banks	(0,1)	-	-	(0,1)	-
Impairment charge on loans and advances to customers	(42,4)	25,4	(717,7)	(734,7)	(519,5)
Recoveries of loans previously written off	-	-	8,7	8,7	41,1
Off-balance sheet credit related facilities	0,7	7,5	(7,9)	0,3	0,9
Total	(41,8)	32,9	(716,9)	(725,8)	(477,5)

1) Valuation of impairment allowances on loans and advances in accordance with IFRS 9, based on the expected loss model.

In Q2 2018, Santander Bank Polska Group reclassified a part of the portfolio of credit cards (with a defined structure of interest rate, sold till 1 August 2016) to loans and advances to customers measured at fair value through profit or loss and ceased to recognise impairment allowances on such instruments. Credit risk assessment of these products is now an integral part of measurement at fair value.

2) Valuation of impairment allowances on loans in accordance with IAS 39, based on the incurred loss model.

- During the three quarters of 2018, the loan impairment charge to the income statement of Santander Bank Polska Group was PLN 725.8m vs. PLN 477.5m in the corresponding period last year. SCB Group posted allowances of PLN 214.9m vs. PLN 68.9m a year before.
- The increase in impairment allowances on loans to the Group's customers (from PLN 519.5m for three quarters of 2017 to PLN 734.7m for three quarters of 2018) reflects lower profit on sale of credit receivables and significant growth of 9.3% YoY in the Group's credit portfolio (10.8% in terms of loans from enterprises and the public sector, 7.9% YoY in the case of retail loans and 15.9% YoY in terms of lease facilities).
- During the first nine months of 2018, Santander Bank Polska S.A. sold non-performing receivables of PLN 841.9m vs. PLN 780.3m in the corresponding period (including the principal amount of PLN 762.0m and PLN 711.5m, respectively). In the current reporting period, the above transactions caused an increase of PLN 8.4m in the profit before tax vs. PLN 153.4m a year before.
- SCB S.A. sold the written-off portfolios of cash loans, instalment loans, credit cards and car loans of PLN 691.4m, which brought in a profit before tax of PLN 21.8m. Last year, SCB S.A. sold written-off credit portfolios of PLN 371.7m, generating a profit before tax of PLN 48.9m.
- The NPL ratio of Santander Bank Polska Group was 5.5% vs. 6.0% at the end of September 2017. The cost of credit for the first three quarters of 2018 totalled 0.81% vs. 0.64% for three quarters of 2017.

Total costs

Total costs of (in PLN m)	Q1-3 2018	Q1-3 2017	YoY Change
Staff, general and administrative expenses, of which:	(2 414,3)	(2 184,1)	10,5%
- Staff expenses	(1 214,7)	(1 162,9)	4,5%
- General and administrative expenses	(1 199,6)	(1 021,2)	17,5%
Depreciation/amortisation	(244,5)	(234,3)	4,4%
Other operating expenses	(144,8)	(83,8)	72,8%
Total costs	(2 803,6)	(2 502,2)	12,0%

- The total costs of Santander Bank Polska Group for the first nine months of 2018 amounted to PLN 2,803.6m, and were 12.0% higher YoY, which is attributed to all key cost items. The cost base was mostly affected by strategic development and transformation projects (including the transfer of a demerged business of Deutsche Bank Polska S.A., rebranding and extension of IT infrastructure) as well as competitive and regulatory pressure and provisions for legal claims.
- Along with the total cost base, the Group's cost to income ratio grew from 43.5% for three quarters of 2017 to 45.2% for three quarters of 2018.
- Excluding two flagship projects of Santander Bank Polska S.A., i.e. rebranding (PLN 39.9 m) and transfer of Deutsche Bank Polska S.A. (PLN 71.7 m), the Group's total costs went up by 7.6% YoY.

Staff expenses

- Staff expenses of Santander Bank Polska Group for nine months of 2018 totalled PLN 1,214.7m and increased by 4.5% YoY. SCB Group's contribution to the above figure was PLN 195.8m and up 8.0% YoY.
- The key staff expense line items, i.e. "Salaries and bonuses" and "Statutory deductions from salaries", increased by 6.1% YoY to PLN 1,192.1m in total as a result of salary review and costs connected with the optimisation of headcount (decrease in the number of FTEs of Santander Bank Polska Group by 443 YoY).

General and administrative expenses

- During nine months of 2018, general and administrative expenses of Santander Bank Polska Group went up by 17.5% YoY to PLN 1,199.6m. Costs incurred by SCB Group totalled PLN 206.5m and were 5.2% higher YoY.
- The above increase in total costs was attributed to the following:
 - ✓ IT usage costs (+32.4% YoY) and consultancy and advisory fees (+61.5% YoY) connected with the project of acquisition of a demerged part of Deutsche Bank Polska S.A. and other strategic projects;
 - ✓ cost of other third party services (+64.3% YoY) resulting from document processing in accordance with the General Data Protection Regulation, modification of the system of settlements with the ultimate parent and relocation of the Business Support Centre in Wrocław to a new building;

- ✓ cost of machine repair (+143.6% YoY) arising from the purchase of equipment for the modified branches and the new building of the Business Support Centre;
- ✓ cost of marketing and entertainment (+44.9% YoY) as part of the rebranding project;
- ✓ settlement costs (+13.2% YoY) connected with BIK reports.
- At the same time, fees payable to market regulators went down by 4.1% YoY driven by lower annual contribution to the bank resolution fund set by BFG for Santander Bank Polska S.A. and SCB S.A..

Effective interest rate

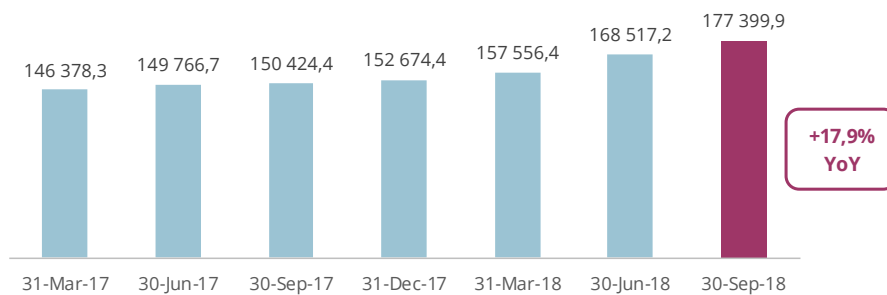
- The consolidated effective tax rate after three quarters of 2018 was 23.2% vs. 24.1% in the corresponding period, due to a lower non-tax deductible effect of the sale of credit receivables.

2. Statement of Financial Position

Consolidated assets

- As at 30 September 2018, total assets of Santander Bank Polska Group were PLN 177,399.9m, an increase of 16.2% on 31 December 2017 and of 17.9% on 30 September 2017. The value and structure of the Group's financial position is determined by the parent entity, which accounts for 88.1% of the consolidated total assets vs. 87.0% as at the end of December 2017.

TOTAL ASSETS AT THE END OF CONSECUTIVE QUARTER
IN YEARS 2017-2018 (PLN M)



Structure of consolidated assets

Assets in PLN m (condensed presentation for analytical purposes)	30.09.2018	Structure	31.12.2017	Structure	30.09.2017	Structure	Ytd Change	YoY Change
	(under IFRS 9)	30.09.2018	(under IAS 39)	31.12.2017	(under IAS 39)	30.09.2017		
	1	2	3	4	5	6	1/3	1/5
Loans and advances to customers ¹⁾	116 590,0	65,7%	107 839,9	70,6%	106 475,4	70,8%	8,1%	9,5%
Investment financial assets	35 314,8	19,9%	28 415,8	18,6%	27 586,9	18,3%	24,3%	28,0%
Financial assets held for trading and hedging derivatives	9 845,9	5,5%	3 634,1	2,4%	2 475,0	1,6%	170,9%	297,8%
Cash and operations with Central Banks	6 835,3	3,9%	4 146,2	2,7%	5 117,2	3,4%	64,9%	33,6%
Fixed assets, intangibles and goodwill	3 157,0	1,8%	3 133,1	2,1%	2 999,9	2,0%	0,8%	5,2%
Loans and advances to banks	1 744,0	1,0%	2 136,5	1,4%	2 179,0	1,5%	-18,4%	-20,0%
Other assets ²⁾	3 912,9	2,2%	3 368,8	2,2%	3 591,0	2,4%	16,2%	9,0%
Total	177 399,9	100,0%	152 674,4	100,0%	150 424,4	100,0%	16,2%	17,9%

- 1) Net loans and advances to customers, as presented according to IFRS 9, contain a portfolio measured at amortised cost and take into account a different treatment of interest income and a methodology for estimating allowances based on expected credit losses.
- 2) Investment assets in scope of IFRS 9 include debt and equity investments measured at fair value through other comprehensive income and other investments measured at fair value through profit or loss.
- 3) Other assets include the following items of the full version of financial statements: receivables from repurchase transactions, investments in associates, net deferred tax assets, assets classified as held for sale and other assets.

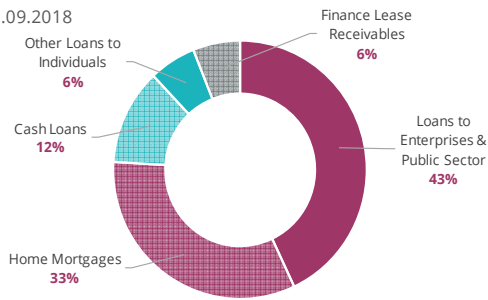
- In the above statement of financial position as at 30 September 2018, net loans and advances to customers were the key item of consolidated assets. They totalled PLN 116,590.0m, up 8.1% vs. 31 December 2017, mainly on account of strong credit delivery to retail and business customers. SCB Group contributed PLN 15,127.3m to this line (after intercompany and consolidation adjustments), up 5.6% compared with the end of 2017.
- During the first nine months of 2018, the aggregated line encompassing financial assets held for trading and hedging derivatives increased significantly (+170.9%), which is an effect of expansion of the bonds portfolio. The purchase of treasury bonds also increased the value of investment financial assets (+24.3%). SCB Group contributed PLN 2,822.9m to this item, which is an increase of 8.2% vs. 31 December 2017.
- As part of the Group's ongoing liquidity management, the balance of funds deposited with NBP increased, which caused the cash and operations with central banks to rise by 64.9%, while the loans and advances to banks decreased by 18.4% following the decline in the volume of deposits and loans.

Credit portfolio of Santander Bank Polska Group

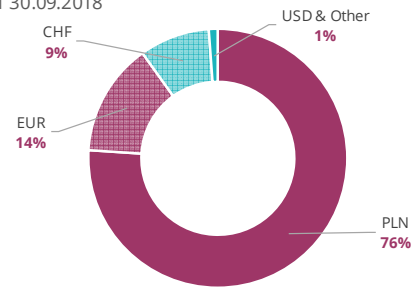
Gross Loans and Advances to Customers in PLN m	30.09.2018 ¹⁾	31.12.2017	30.09.2017	Ytd Change	YoY Change
	under IFRS 9	under IAS 39	under IAS 39		
	1	2	3	1/2	1/3
Loans and advances to individuals	62 054,3	57 822,4	57 516,9	7,3%	7,9%
Loans and advances to enterprises and public sector customers	52 037,5	48 005,2	46 968,0	8,4%	10,8%
Finance lease receivables	7 680,3	6 849,0	6 626,1	12,1%	15,9%
Other	13,3	9,4	265,5	41,5%	-95,0%
Total	121 785,4	112 686,0	111 376,5	8,1%	9,3%

- 1) Gross loans and advances to customers, as presented in accordance with IFRS 9, are not fully comparable with the previous periods as the balance now contains portfolios measured at fair value and reflects the effect of changes in the recognition of interest income.

PRODUCT STRUCTURE OF CONSOLIDATED LOANS & ADVANCES TO CUSTOMERS AS AT 30.09.2018

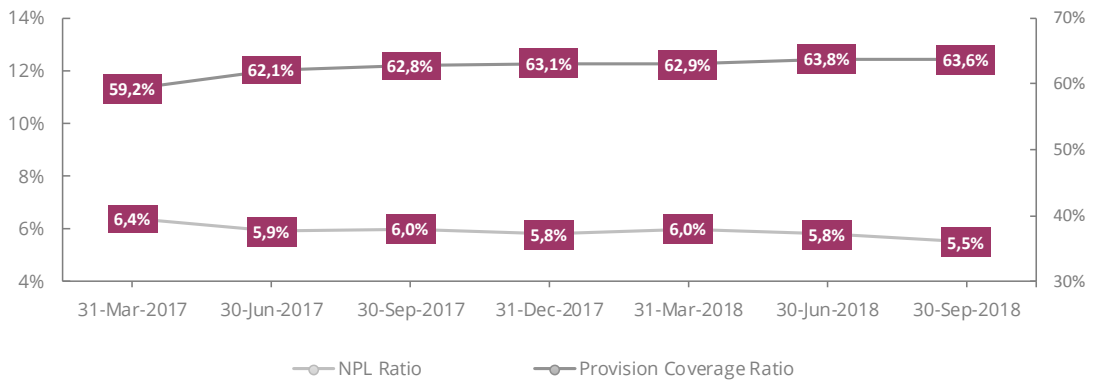


FX STRUCTURE OF CONSOLIDATED LOANS AND ADVANCES TO CUSTOMERS AS AT 30.09.2018



- As at 30 September 2018, consolidated gross loans and advances to customers were PLN 121,785.4m and increased by 8.1% on 31 December 2017. The portfolio includes loans and advances to customers measured at fair value through profit or loss, totalling PLN 1,475.4m, including the credit card portfolio reclassified as of 31 March 2018.
 - Loans and advances to individuals increased by 7.3% to PLN 62,054.3m. Home loans, which represent the major portion of loans and advances to individuals, increased by 7.3% Ytd to PLN 40,008.2m, with the portfolio of Santander Bank Polska S.A. growing by 8.4% and the portfolio of SCB S.A. decreasing by 3.2%. The second significant constituent item, i.e. cash loans, went up by 10.1% to PLN 14,367.7m.
 - Loans and advances to enterprises and public sector entities were PLN 52,037.5m, 8.4% higher vs. 31 December 2017, mainly driven by lending to SME and corporate customers. Finance leases, which include the portfolios of Santander Leasing S.A., Santander Consumer Multirent sp. z o.o. and PSA Finance Polska sp. z o.o., increased by 12.1% to PLN 7,680.3m on account of dynamic growth in the sales of machines and equipment and of vehicles. Loans granted by Santander Leasing S.A. to finance machines and vehicles for business customers, which totalled PLN 2,320.0m as at 30 September 2018 (vs. PLN 2,027.7m as at 31 December 2017), were disclosed outside the lease portfolio, as loans and advances to enterprises.

CREDIT QUALITY RATIOS BY QUARTER IN 2017 AND 2018



* As of 30 June 2018, the calculation of credit quality indicators does not include the portfolio measured at fair value.

As at 30 September 2018, non-performing (classified as stage 3) loans to customers accounted for 5.5% of the gross portfolio of Santander Bank Polska Group vs. 5.8% nine months before and 6.0% twelve months before. The provision coverage ratio for impaired loans was 63.6% as at 30 September 2018 compared with 63.1% as at 31 December 2017 and 62.8% as at 30 September 2017. As of 30 June 2018, the calculation of credit quality indicators does not include the portfolio measured at fair value.

Structure of consolidated equity and liabilities

Liabilities & Equity in PLN m (condensed presentation for analytical purposes)	30.09.2018	Structure	31.12.2017	Structure	30.09.2017	Structure	Ytd Change YoY Change	
	(under IFRS 9)	30.09.2018	(under IAS 39)	31.12.2017	(under IAS 39)	30.09.2017	1/3	1/5
	1	2	3	4	5	6		
Deposits from customers	124 629,2	70,3%	111 481,1	73,0%	111 022,8	73,8%	11,8%	12,3%
Subordinated liabilities and debt securities in issue	10 850,8	6,1%	7 384,4	4,9%	6 846,5	4,6%	46,9%	58,5%
Sell-buy-back transactions	8 850,2	5,0%	2 650,9	1,7%	1 861,6	1,2%	233,9%	375,4%
Deposits from banks	3 646,0	2,0%	2 783,1	1,8%	2 730,5	1,8%	31,0%	33,5%
Financial liabilities held for trading and hedging derivatives	1 968,8	1,1%	1 816,5	1,2%	2 479,7	1,6%	8,4%	-20,6%
Other liabilities ¹⁾	2 908,0	1,7%	3 214,8	2,1%	2 827,4	1,9%	-9,5%	2,9%
Total equity	24 546,9	13,8%	23 343,6	15,3%	22 655,9	15,1%	5,2%	8,3%
Total	177 399,9	100,0%	152 674,4	100,0%	150 424,4	100,0%	16,2%	17,9%

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

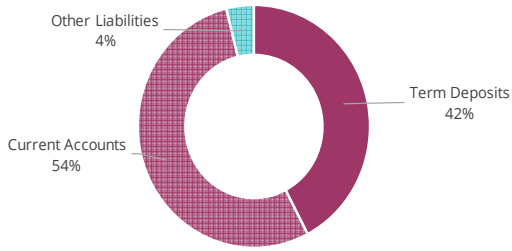
- Total liabilities of the consolidated statement of financial position of Santander Bank Polska Group as at 30 September 2018 show a major Ytd increase in liabilities arising from sell-buy-back transactions (+233.9%) made with banks and other financial institutions.
- Compared with the end of 2017, a strong upward trend was also observed for subordinated liabilities and debt securities in issue (+46.9%), deposits from banks (+31.0%) and hedging derivatives, which together with liabilities held for trading increased by 8.4%.
- The former item grew as a result of the Group's increased activity in relation to the issue of own securities. In the reporting period, Santander Bank Polska S.A. issued: two series of certificates of deposit with a total nominal value of PLN 1bn as part of its issue programme, subordinated series F bonds with a nominal value of PLN 1bn and eurobonds with a nominal value of PLN 2,145.6m (the equivalent of EUR 500m) as part of the EMTN programme. Santander Factoring sp. z o.o. and SCB S.A. issued bonds with a nominal value of PLN 850m and PLN 451m, respectively.
- During the nine months of 2018, Santander Bank Polska S.A., Santander Factoring S.A. and SCB S.A. redeemed matured own securities for a total amount of PLN 1,235m, PLN 700m and PLN 190m, respectively.
- In relation to the above aggregated line, pursuant to KNF decision, subordinated series F bonds with a nominal value of PLN 1bn, maturing on 5 April 2028, were taken from debt securities in issue to subordinated liabilities.
- The total equity of Santander Bank Polska Group increased by 5.2% as the bank's profit generated in the current period and the whole profit for 2017 were retained in accordance with guidelines issued by the regulator. The equity value was reduced by dividend payout of PLN 307.6m from the retained profit for 2016. The retained profit and the revaluation reserve reflect the differences in the carrying amounts of financial assets and liabilities as at 1 January 2018 arising from adoption of IFRS 9, in the total amount of PLN -254.5m.

Deposit base of Santander Bank Polska Group

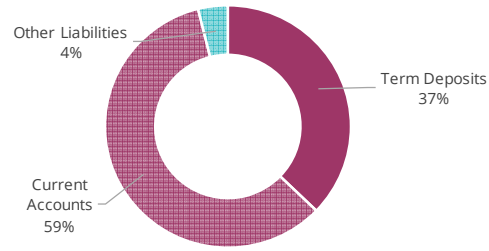
Deposits from Customers	30.09.2018	31.12.2017	30.09.2017	Ytd Change	YoY Change
	1	2	3	1/2	1/3
Deposits from individuals	72 689,8	64 987,7	64 467,7	11,9%	12,8%
Deposits from enterprises and public sector customers	51 939,4	46 493,4	46 555,1	11,7%	11,6%
Total	124 629,2	111 481,1	111 022,8	11,8%	12,3%

- During the first nine months of 2018, consolidated deposits from customers increased by 11.8% to PLN 124,629.2m as at 30 September 2018, including PLN 8,562.5m relating to SCB Group after intercompany eliminations, up 5.1% YoY vs. PLN 8,148.6m as at the end of December 2017.

STRUCTURE OF CONSOLIDATED CUSTOMER DEPOSITS AS AT 30.09.2018

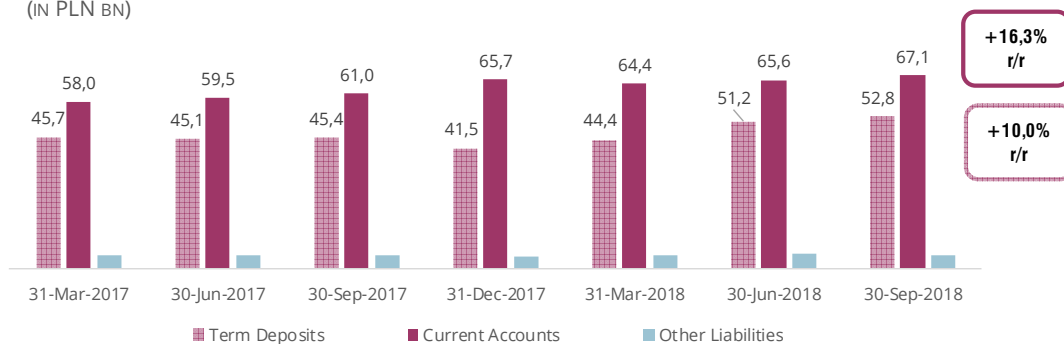


STRUCTURE OF CONSOLIDATED CUSTOMER DEPOSITS AS AT 31.12.2017



- The Group's total term deposits from customers were PLN 52,811.9m and higher by 27.3% on 31 December 2017. Current account balances increased by 2.2% Ytd to PLN 67,076.2m, and other liabilities were PLN 4,741.0m, up 9.4% Ytd.

TERM DEPOSITS AND CURRENT ACCOUNTS * AT QUARTER-ENDS OF 2017 AND 2018 (IN PLN BN)



* Including savings accounts

- The retail deposit base stood at PLN 72,689.8m, higher by 11.9% vs. 31 December 2017 as a result of a fast inflow of term deposits (+25.9%) and a significant increase in current account balances (+4.6%). The acquisition of new money accelerated on account of planned integration of a demerged business of Deutsche Bank Polska S.A. The process was supported by special deals on savings accounts, including the Max Savings Account (Konto Max Oszczędnościowe) and the Regular Savings Account (Konto Systematyczne) sold together with the Account As I Want It (Konto Jakie Chcę), as well as flexible pricing and mechanisms that rewarded customer activity with a higher interest rate.
- During the first three quarters of 2018, deposits from enterprises and the public sector increased by 11.7% to PLN 51,939.4m, driven by term deposits growing at a rate of 28.9% Ytd to PLN 25,226.0m. At the same time, current account balances went down by 2.6% to PLN 22,123.4m.
- The largest constituent of other liabilities were loans and advances (PLN 3,800.7m vs. PLN 3,552.4m as at 31 December 2017), reported under deposits from enterprises which included loans granted by international financial organisations (the European Investment Bank/EIB, the European Bank for Reconstruction and Development/EBOR and the Council of Europe Development Bank/CED) to finance the bank's credit delivery and the lease business of the bank's subsidiaries. The increase in loans and advances results from disbursements of: PLN 334.1m under the agreement signed in November 2017 with EIB for financing digitalisation programmes; the last credit tranche of PLN 174.3m under an agreement signed with the CED in June 2016; PLN 107.1m (equivalent of EUR 25m) under an annex to the loan agreement signed with the EBOR in September 2018; and a loan of EUR 50m granted by the EBRD to Santander Leasing S.A. under an agreement of December 2017. At the same time, on 28 September 2018, the loan of EUR 100m granted by the EIB on 23 September 2011 was repaid in full.

Diversification of funding sources

In Q3 2018, actions were continued to diversify the funding sources of Santander Bank Polska Group. The key measures are presented below.

Loan agreements with financial institutions

Entity	Date of the agreement	Subject of the agreement
Santander Bank Polska S.A.	16 July 2018	<ul style="list-style-type: none"> A loan agreement with the European Investment Bank for EUR 175m, with an option to apply for additional funding of EUR 50m. The funds will be earmarked for financing SME and corporate customers and public sector entities.
	5 September 2018	<ul style="list-style-type: none"> An annex to the loan agreement of 16 March 2016 with the European Bank for Reconstruction and Development, providing an option to draw the next tranches in PLN. Pursuant to the annex, PLN 107.1m (equivalent of EUR 25m) was paid on 28 September 2018.
Santander Consumer Bank S.A.	Agreements and Annexes to agreements signed by SCB S.A. in Q3 2018 are presented in part 2 "Business Development of Santander Consumer Group", chap. III "Business Development in Q3 2018".	

Issues

Entity	Date of the issue	Subject of the issue
Santander Bank Polska S.A.	20 September 2018	<ul style="list-style-type: none"> Issue of senior unsecured bonds of EUR 500m as part of the EMTN Programme of EUR 5bn launched on 30 May 2018. The bonds bear a fixed coupon of 0.75% p.a., with interest payable annually, and mature on 20 September 2021. The bonds will be admitted to trading on the Irish stock exchange (Euronext Dublin) and the Warsaw Stock Exchange. The above bond tranche was assigned "BBB+" and "Baa1" rating by Fitch Ratings and Moody's Investor Service, respectively.

3. Selected Ratios

Selected Financial Ratios of Santander Bank Polska Group	1-3Q 2018	1-3Q 2017
Total costs/Total income	45,2%	43,5%
Net interest income/Total income	67,9%	67,7%
Net interest margin ¹⁾	3,79%	3,81%
Net commission income/Total income	25,2%	26,0%
Customer net loans/Customer deposits	93,5%	96,7%
NPL ratio ²⁾	5,5%	6,0%
NPL coverage ratio ³⁾	63,6%	62,8%
Credit risk ratio ⁴⁾	0,81%	0,64%
ROE ⁵⁾	11,0%	11,7%
ROTE ⁶⁾	13,0%	13,7%
ROA ⁷⁾	1,3%	1,4%
Capital ratio ⁸⁾	17,61%	16,90%
Tier I ratio ⁹⁾	15,51%	15,92%
Book value per share (in PLN)	247,12	228,08
Earnings per share (in PLN) ¹⁰⁾	15,80	16,64

- 1) Net interest income, annualised on a year-to-date basis (excluding interest income from the portfolio of debt securities held for trading) to average net earning assets as at the end of subsequent quarters after the end of 2017 (excluding financial assets held for trading, hedging derivatives and other loans and advances to customers).
- 2) Gross loans and advances to customers classified to stage 3 to the portfolio of gross loans and advances to customers measured at amortised cost at the end of the current reporting period.
- 3) Impairment allowances for loans and advances to customers classified to stage 3 and measured at amortised cost to gross value of such loans and advances at the end of the current reporting period.
- 4) Impairment allowances (for four consecutive quarters) to average gross loans and advances to customers (as at the end of the previous year and the end of the current reporting period).
- 5) Profit attributable to the parent's shareholders (for four consecutive quarters) to average equity (as at the end of the previous year and the end of the current reporting period), net of non-controlling interests, current period profit and the undistributed portion of the profit.
- 6) Profit attributable to the parent's shareholders (for four consecutive quarters) to average tangible equity (as at the end of the previous year and the end of the current reporting period) defined as common equity attributable to the parent's shareholders less revaluation reserve, current year profit, undistributed portion of the profit, intangible assets and goodwill.
- 7) Profit attributable to the parent's shareholders (for four consecutive quarters) to average total assets (as at the end of the previous accounting year and the end of the current reporting period).
- 8) The capital adequacy ratio was calculated on the basis of own funds and the total capital requirements established for the individual risk types by means of the standardised approach, in line with the CRD IV/CRR package.
- 9) Tier 1 ratio is Tier 1 capital expressed as a percentage of risk weighted assets for credit, market and operational risk.
- 10) Net profit for the period attributable to shareholders of Santander Bank Polska S.A. divided by the average weighted number of ordinary shares.

Capital ratios

The table below presents calculation of the total capital ratio and Tier 1 ratio of Santander Bank Polska Group as at 30 September 2018 and 31 December 2017.

Capital Ratios of Santander Bank Polska Group	30.09.2018	31.12.2017
I Total capital requirement	10 141,6	9 520,2
II Own funds after reductions	22 323,3	19 860,5
Total Capital Ratio [II/(I*12.5)]	17,61%	16,69%
Tier I Ratio	15,51%	15,28%

The table below shows the total capital ratio and Tier 1 ratio of Santander Bank Polska S.A. and Santander Consumer Bank S.A. as at 30 September 2018 and 31 December 2017.

Santander Bank Polska Capital Ratios	30.09.2018	31.12.2017
Total Capital Ratio	20,30%	18,95%
Tier I Ratio	17,77%	17,37%

SCB Capital Ratios ¹⁾	30.09.2018	31.12.2017
Total Capital Ratio	19,43%	17,19%
Tier I Ratio	17,99%	17,19%

1) At the end of Q2 2018, SCB S.A. was granted a subordinated loan of PLN 200m by its shareholders: Santander Consumer Finance S.A. and Santander Bank Polska S.A. (each having an equal share in the loan) to improve its capital ratios. In July 2018, SCB S.A. received a consent from the KNF to allocate PLN 100m of the subordinated loan (and another PLN 100m in August 2018) to own funds, which significantly improved capital ratios in Q3 2018.

4. Key Factors Affecting the Profit in the Next Quarter

- The following external developments will have a significant impact on the financial performance and activity of Santander Bank Polska Group in the next quarter of 2018:
 - ✓ Gradual slowdown of economic growth in Poland amid rising inflation.
 - ✓ Rise of households' real disposable income due to rising employment rate and continued wage hikes.
 - ✓ Significant rise of energy commodities prices and corporate financing costs.
 - ✓ Rising protectionism in the global trade.
 - ✓ Further rise of labour market tensions due to shortage of qualified workforce.
 - ✓ Low financing costs for households and companies, which should stimulate a gradual rise in demand for bank loans. At the same time, low deposit interest rates should encourage banks' clients to look for alternative forms of saving/ investing.
 - ✓ Further developments on the global stock market and their impact on the willingness to purchase investment fund units or keeping savings on safe bank deposits as an alternative.
 - ✓ The changes of assets' financing cost depending on the pace and scale of changes of main interest rates, changes of the zloty exchange rate, development of liquidity situation of the banking sector and intensity of price competition between banks regarding collection of deposits.
 - ✓ Possible increase of volatility of the financial markets in the case of disappointment about the pace of global economic growth, rising worries about excessive monetary tightening by the US Fed or geopolitical factors and fears of trade wars.
 - ✓ Possible changes in the monetary policy of NBP, ECB and Fed.
 - ✓ Effect of UK-EU negotiations about the Brexit.
 - ✓ Fluctuations in commodity prices.
 - ✓ Changes in regulations.

VI. Other Information

Shares of Santander Bank Polska S.A. held by Supervisory and Management Board members

- As at the release dates of the Report of Santander Bank Polska Group for Q3 2018 and the Report of Santander Bank Polska Group for H1 2018 none of the members of the Supervisory Board held any shares of Santander Bank Polska S.A. or attached conditional rights.
- The table below shows the shares of Santander Bank Polska S.A. and attached conditional rights held by Management Board members as at the release dates of reports for the periods ended 30 September 2018 and 30 June 2018.

Management Board Members	31.10.2018		25.07.2018	
	No. of Santander Bank Polska shares	Rights (6th Incentive Scheme)	No. of Santander Bank Polska shares	Rights (6th Incentive Scheme)
Michał Gajewski	-	5 420	-	5 420
Andrzej Burliga	4 389	2 820	4 389	2 820
Michael McCarthy	1 528	3 250	1 528	3 250
Carlos Polaino Izquierdo	631	2 820	631	2 820
Juan de Porras Aguirre	1 397	2 240	1 397	2 240
Arkadiusz Przybył	-	3 390	-	3 390
Maciej Reluga	505	2 030	505	2 030
Dorota Strojewska	635	2 370	635	2 370
Feliks Szyszkowiak	1 621	2 880	1 621	2 880
Total	10 706	27 220	10 706	27 220

Condensed Interim Consolidated
Financial Statement of
Santander Bank Polska Group
for the 9-month period
ended 30 September 2018

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I. Condensed consolidated income statement

for reporting period:		01.07.2018- 30.09.2018	01.01.2018- 30.09.2018	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017
Interest income		1 805 709	5 230 953	1 663 808	4 844 578
Interest income on financial assets measured at amortised cost		1 584 506	4 610 243	-	-
Interest income on financial assets measured at fair value through other comprehensive income		189 226	527 297	-	-
Income similar to interest - financial assets measured at fair value through profit or loss		31 977	93 413	-	-
Interest expense		(383 490)	(1 022 701)	(322 842)	(947 129)
Net interest income	Note 4	1 422 219	4 208 252	1 340 966	3 897 449
Fee and commission income		623 931	1 906 316	667 457	1 870 857
Fee and commission expense		(108 281)	(345 792)	(140 552)	(373 117)
Net fee and commission income	Note 5	515 650	1 560 524	526 905	1 497 740
Dividend income		1 353	99 861	712	76 636
Net gains/(losses) on subordinated entities		-	(65)	-	3 757
Net trading income and revaluation	Note 6	59 880	133 702	55 567	147 653
Gains (losses) from other financial securities	Note 7	14 459	20 312	3 962	31 909
Other operating income	Note 8	25 814	179 683	23 671	98 215
Impairment losses on loans and advances	Note 9	(251 044)	(725 802)	(231 653)	(477 531)
Operating expenses incl.:		(916 628)	(2 803 606)	(807 694)	(2 502 248)
-Staff, Operating expenses and management costs	Note 10,11	(800 454)	(2 414 321)	(686 366)	(2 184 163)
-Depreciation/amortisation		(82 093)	(244 495)	(82 167)	(234 276)
-Other operating expenses	Note 12	(34 081)	(144 790)	(39 161)	(83 809)
Share in net profits (loss) of entities accounted for by the equity method		16 752	42 254	14 734	38 546
Tax on financial institutions		(115 052)	(333 601)	(105 892)	(316 824)
Profit before tax		773 403	2 381 514	821 278	2 495 302
Corporate income tax	Note 13	(198 861)	(552 030)	(188 610)	(601 159)
Consolidated profit for the period		574 542	1 829 484	632 668	1 894 143
of which:					
-attributable to owners of Santander Bank Polska SA		495 448	1 569 134	559 908	1 664 063
-attributable to non-controlling interests		79 094	260 350	72 760	230 080
Net earnings per share (PLN/share)					
Basic earnings per share		4,99	15,80	5,51	16,64
Diluted earnings per share		4,98	15,77	5,52	16,63

Notes presented on pages 17 – 101 constitute an integral part of this Financial Statement.

II. Condensed consolidated statement of comprehensive income

for reporting period:	01.07.2018- 30.09.2018	01.01.2018- 30.09.2018	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017
Consolidated profit for the period	574 542	1 829 484	632 668	1 894 143
Other comprehensive income which can be transferred to the profit and loss account:	(27 652)	69 616	117 619	376 399
Available-for sale financial assets valuation, gross	-	-	70 142	414 958
Deferred tax	-	-	(13 327)	(78 842)
Cash flow hedges valuation, gross	(9 227)	12 503	75 066	49 732
Deferred tax	1 753	(2 376)	(14 262)	(9 449)
Debt securities measured at fair value through other comprehensive income	(24 911)	73 443	-	-
Deferred tax	4 733	(13 954)	-	-
Other comprehensive income which can't be transferred to the profit and loss account	8 822	62 592	-	(4)
Equity securities measured at fair value through other comprehensive income	11 120	64 026	-	-
Deferred tax	(2 113)	(12 165)	-	-
Profit on sale of equity securities measured at fair value through other comprehensive income	(228)	(142)	-	-
Current tax	43	12	-	-
Provision for retirement allowances – actuarial gains/losses, gross	-	13 409	-	(5)
Deferred tax	-	(2 548)	-	1
Other comprehensive income for the period, net of income tax	(18 830)	132 208	117 619	376 395
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	555 712	1 961 692	750 287	2 270 538
Total comprehensive income attributable to:				
Owners of Santander Bank Polska S.A.	476 858	1 701 744	673 546	2 033 079
Non-controlling interests	78 854	259 948	76 741	237 459

Notes presented on pages 17 – 101 constitute an integral part of this Financial Statement.

III. Condensed consolidated statement of financial position

	as at:	30.09.2018	31.12.2017
ASSETS			
Cash and balances with central banks	Note 14	6 835 281	4 146 222
Loans and advances to banks	Note 15	1 743 975	2 136 474
Financial assets held for trading	Note 16	9 734 852	3 416 108
Hedging derivatives		111 100	218 061
Loans and advances to customers incl.:	Note 17	116 590 007	107 839 897
- measured at amortised cost		115 114 627	-
- measured at fair value through profit or loss		1 475 380	-
Buy-sell-back transactions		259 599	-
Financial assets available for sale		-	28 415 812
Investment securities incl.:	Note 18	35 314 771	-
- debt securities measured at fair value through other comprehensive income		34 342 101	-
- equity securities measured at fair value through other comprehensive income		970 815	-
- other investment securities measured at fair value through profit or loss		1 855	-
Investments in associates	Note 19	871 776	889 372
Intangible assets		526 149	490 327
Goodwill		1 712 056	1 712 056
Property, plant and equipment		918 828	930 717
Net deferred tax assets		1 577 736	1 414 227
Assets classified as held for sale		13 985	103
Other assets		1 189 768	1 065 068
Total assets		177 399 883	152 674 444
LIABILITIES AND EQUITY			
Deposits from banks	Note 20	3 646 033	2 783 083
Hedging derivatives		848 089	578 798
Financial liabilities held for trading	Note 16	1 120 687	1 237 704
Deposits from customers	Note 21	124 629 188	111 481 135
Sell-buy-back transactions		8 850 189	2 650 846
Subordinated liabilities	Note 22	2 641 923	1 488 602
Debt securities in issue	Note 23	8 208 916	5 895 814
Current income tax liabilities		140 937	192 925
Provisions for off balance sheet credit facilities	Note 24	65 656	50 652
Other provisions	Note 25	118 947	102 482
Other liabilities	Note 26	2 582 438	2 868 774
Total liabilities		152 853 003	129 330 815
Equity			
Equity attributable to owners of Santander Bank Polska S.A.		23 057 026	21 907 220
Share capital		993 335	993 335
Other reserve capital		17 962 140	16 920 129
Revaluation reserve		821 876	714 466
Retained earnings		1 710 541	1 066 236
Profit for the current period		1 569 134	2 213 054
Non-controlling interests in equity		1 489 854	1 436 409
Total equity		24 546 880	23 343 629
Total liabilities and equity		177 399 883	152 674 444

Notes presented on pages 17 – 101 constitute an integral part of this Financial Statement.

IV. Condensed consolidated statement of changes in equity

Consolidated statement of changes in equity	Equity attributable to equity holders of parent entity				Non-controlling interests	Total equity
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period		
Equity as at 31.12.2017	993 335	16 920 129	714 466	3 279 290	21 907 220	23 343 629
Impact of the implementation of IFRS 9	-	-	(25 329)	(229 125)	(254 454)	(254 454)
Equity as at 1.01.2018 (restated)	993 335	16 920 129	689 137	3 050 165	21 652 766	23 089 175
Coverage of negative impact of IFRS 9 implementation *	-	-	-	222 905	222 905	222 905
Total comprehensive income	-	-	132 609	1 569 134	1 701 743	1 961 691
<i>Consolidated profit for the period</i>	-	-	-	1 569 134	1 569 134	1 829 484
<i>Other comprehensive income</i>	-	-	132 609	-	132 609	132 207
Profit on sale of equity securities measured at fair value through other comprehensive income	-	-	130	(130)	-	-
Profit allocation to other reserve capital	-	1 032 851	-	(1 032 851)	-	-
Profit allocation to dividends	-	-	-	(307 627)	(307 627)	(514 130)
Profit allocation to cover negative impact of IFRS 9 implementation*	-	-	-	(222 905)	(222 905)	(222 905)
Share scheme charge	-	9 394	-	-	9 394	9 394
Equity adjustment due to merger and liquidation of subsidiaries and controlling stake at the subsidiaries	-	(234)	-	984	750	750
As at 30.09.2018	993 335	17 962 140	821 876	3 279 675	23 057 026	24 546 880

*General Meeting of Santander Bank Polska SA and Santander Factoring Sp. z o.o. decided to allocate part of the retained earnings to cover the negative impact of the implementation of IFRS 9 respectively in the amount PLN 218,466 k and PLN 4,439 k.

As at the end of the period revaluation reserve in the amount of PLN 821,876 k comprises of debt securities and equity shares classified as available for sale of PLN 305,126 k and PLN 583,689 k respectively and additionally cash flow hedge activities of PLN (78,296) k and accumulated actuarial gains - provision for retirement allowances of PLN 11,357 k.

Consolidated statement of changes in equity	Equity attributable to equity holders of parent entity				Total	Non-controlling interests	Total equity
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period			
Equity as at 31.12.2016	992 345	15 791 555	276 093	2 720 834	19 780 827	1 237 649	21 018 476
Total comprehensive income	-	-	369 016	1 664 063	2 033 079	237 459	2 270 538
<i>Consolidated profit for the period</i>	-	-	-	1 664 063	1 664 063	230 080	1 894 143
<i>Other comprehensive income</i>	-	-	369 016	-	369 016	7 379	376 395
Issue of shares *	990	-	-	-	990	-	990
Profit allocation to other reserve capital	-	1 117 265	-	(1 117 265)	-	-	-
Profit allocation to dividends	-	-	-	(535 866)	(535 866)	(110 962)	(646 828)
Share scheme charge	-	3 684	-	-	3 684	-	3 684
Equity adjustment due to merger and liquidation of subsidiaries and controlling stake at the subsidiaries	-	7 589	-	3 814	11 403	(2 321)	9 082
As at 30.09.2017	993 335	16 920 093	645 109	2 735 580	21 294 117	1 361 825	22 655 942

*On 3.08.2017, Santander Bank Polska SA was informed that on 3.08.2017, the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register, entered into the National Court Register the changes to the Bank's statute adopted by the Annual General Meeting of the shareholders of the Bank held on 17.05.2017. Given the above, the Bank's share capital was increased from PLN 992,345,340 to PLN 993,334,810, i.e. by PLN 989,470. The shares acquired in the increased share capital were paid up in full.

This increase of the share capital took place within the private placement with the exclusion of the pre-emptive rights of the present shareholders in respect of the shares of the M series ordinary bearer shares covered by Incentive Scheme V participants.

As at the end of the period revaluation reserve in the amount of PLN 645,109 k comprises of debt securities and equity shares classified as available for sale of PLN 153,314 k and PLN 553,356 k respectively and additionally cash flow hedge activities of PLN (69,579) k and accumulated actuarial gains - provision for retirement allowances of PLN 8,018 k.

V. Condensed consolidated statement of cash flows

	for the period	01.01.2018- 30.09.2018	01.01.2017- 30.09.2017
Profit before tax		2 381 514	2 495 302
Total adjustments:			
Share in net profits of entities accounted for by the equity method		(42 254)	(38 546)
Depreciation/amortisation		244 495	234 276
Impairment losses		(85)	432
Profit from investing activities		(65 729)	(35 922)
		2 517 941	2 655 542
Changes:			
Provisions		31 469	30 627
Trading portfolio financial instruments		(6 435 761)	(200 355)
Hedging derivatives		376 252	(1 078 536)
Loans and advances to banks		(100)	(123)
Loans and advances to customers		(8 750 110)	(3 406 891)
Deposits from banks		556 418	83 919
Deposits from customers		12 994 328	(1 255 114)
Buy-sell/ Sell-buy-back transactions		5 959 220	228 944
Other assets and liabilities		(717 856)	(240 735)
		4 013 860	(5 838 264)
Interest accrued excluded from operating activities		(264 568)	(327 451)
Dividends		(98 743)	(76 091)
Paid income tax		(739 697)	(527 023)
Net cash flows from operating activities		5 428 793	(4 113 287)
Inflows		3 958 541	3 533 635
Sale/maturity of financial assets available for sale		-	2 969 491
Sale/maturity of investment securities		3 287 816	-
Sale of intangible assets and property, plant and equipment		84 777	21 390
Dividends received		98 499	76 041
Interest received		487 449	466 713
Outflows		(9 319 721)	(2 624 500)
Purchase of financial assets available for sale		-	(2 449 994)
Purchase of investment securities		(9 000 251)	-
Purchase of intangible assets and property, plant and equipment		(319 470)	(174 506)
Net cash flows from investing activities		(5 361 180)	909 135
Inflows		7 185 850	3 204 439
Debt securities in issue		5 441 794	2 288 789
Proceeds from issuing/shares		-	990
Drawing of loans		1 744 056	914 660
Outflows		(4 017 750)	(3 303 934)
Debt securities buy out		(2 125 000)	(1 410 000)
Repayment of loans		(1 183 981)	(1 070 899)
Dividends and other payments to shareholders		(514 130)	(646 828)
Interest paid		(194 639)	(176 207)
Net cash flows from financing activities		3 168 100	(99 495)
Total net cash flows		3 235 713	(3 303 647)
Cash and cash equivalents at the beginning of the accounting period		7 662 368	11 838 799
Cash and cash equivalents at the end of the accounting period		10 898 081	8 535 152

Notes presented on pages 17 - 101 constitute an integral part of this Financial Statement.

VI. Condensed income statement of Santander Bank Polska SA

	01.07.2018- 30.09.2018	01.01.2018- 30.09.2018	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017
Interest income	1 292 060	3 728 622	1 199 733	3 498 231
Interest income on financial assets measured at amortised cost	1 095 053	3 178 359	-	-
Interest income on financial assets measured at fair value through other comprehensive income	176 257	491 007	-	-
Income similar to interest - financial assets measured at fair value through profit or loss	20 750	59 256	-	-
Interest expenses	(289 223)	(757 616)	(238 798)	(698 377)
Net interest income	1 002 837	2 971 006	960 935	2 799 854
Fee and commission income	471 192	1 434 411	547 246	1 515 632
Fee and commission expenses	(72 060)	(232 918)	(100 558)	(237 596)
Net fee and commission income	399 132	1 201 493	446 688	1 278 036
Dividend income	1 291	492 361	636	272 242
Net gains/(losses) on subordinated entities	-	(65)	-	-
Net trading income and revaluation	57 524	129 013	51 083	139 565
Gains (losses) from other financial securities	13 583	21 660	5 886	29 801
Other operating income	15 057	131 784	12 027	60 911
Impairment losses on loans and advances	(163 552)	(484 036)	(173 038)	(383 081)
Operating expenses incl.:	(736 950)	(2 259 599)	(646 065)	(1 997 074)
-Staff, Operating expenses and management	(640 512)	(1 932 628)	(541 091)	(1 732 435)
-Depreciation/amortisation	(68 856)	(206 419)	(71 014)	(203 698)
-Other operating expenses	(27 582)	(120 552)	(33 960)	(60 941)
Tax on financial institutions	(105 323)	(304 287)	(96 955)	(290 341)
Profit before tax	483 599	1 899 330	561 197	1 909 913
Corporate income tax	(131 255)	(383 297)	(133 933)	(442 920)
Profit for the period	352 344	1 516 033	427 264	1 466 993
Net earnings per share (PLN/share)				
Basic earnings per share	3,61	15,32	4,19	14,67
Diluted earnings per share	3,64	15,34	4,19	14,66

Notes presented on pages 17 - 101 constitute an integral part of this Financial Statement.

VII. Condensed statement of comprehensive income of Santander Bank Polska SA

	01.07.2018- 30.09.2018	01.01.2018- 30.09.2018	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017
for reporting period:				
Profit for the period	352 344	1 516 033	427 264	1 466 993
Other comprehensive income which can be transferred to the profit and loss account:	(26 685)	71 326	106 181	357 950
Available-for sale financial assets valuation, gross	-	-	61 267	395 561
Deferred tax	-	-	(11 641)	(75 157)
Cash flow hedges valuation, gross	(9 341)	12 968	69 821	46 353
Deferred tax	1 775	(2 464)	(13 266)	(8 807)
Debt securities measured at fair value through other comprehensive income	(23 603)	75 089	-	-
Deferred tax	4 484	(14 267)	-	-
Other comprehensive income which can't be transferred to the profit and loss account	10 247	65 223	-	-
Equity securities measured at fair value through other comprehensive income	12 879	67 095	-	-
Deferred tax	(2 447)	(12 748)	-	-
Profit on sale of equity securities measured at fair value through other comprehensive income	(228)	(142)	-	-
Current tax	43	12	-	-
Provision for retirement allowances – actuarial gains/losses, gross	-	13 588	-	-
Deferred tax	-	(2 582)	-	-
Other comprehensive income for the period, net of income tax	(16 438)	136 549	106 181	357 950
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	335 906	1 652 582	533 445	1 824 943

Notes presented on pages 17 – 101 constitute an integral part of this Financial Statement.

VIII. Condensed statement of financial position of Santander Bank Polska SA

	as at:	30.09.2018	31.12.2017
ASSETS			
Cash and balances with central banks		6 785 568	4 114 801
Loans and advances to banks		1 666 604	2 012 118
Financial assets held for trading		9 739 679	3 421 547
Hedging derivatives		81 132	146 724
Loans and advances to customers incl.:		98 110 623	90 537 003
- measured at amortised cost		97 042 703	-
- measured at fair value through profit or loss		1 067 920	-
Buy-sell-back transactions		259 599	-
Financial assets available for sale		-	25 784 029
Investment securities incl.:		32 470 131	-
- debt securities measured at fair value through other comprehensive income		31 523 313	-
- equity securities measured at fair value through other comprehensive income		946 818	-
Investments in subsidiaries and associates		2 376 937	2 377 037
Intangible assets		488 130	459 976
Goodwill		1 688 516	1 688 516
Property, plant and equipment		814 404	821 532
Net deferred tax assets		802 144	709 867
Assets classified as held for sale		12 702	8
Other assets		918 544	790 110
Total assets		156 214 713	132 863 268
LIABILITIES AND EQUITY			
Deposits from banks		1 683 343	1 414 448
Hedging derivatives		840 523	578 798
Financial liabilities held for trading		1 128 754	1 263 859
Deposits from customers		114 933 480	102 155 522
Sell-buy-back transactions		7 757 304	1 479 667
Subordinated liabilities		2 540 610	1 488 602
Debt securities in issue		3 138 730	1 240 244
Current income tax liabilities		75 460	61 143
Provisions for off balance sheet credit facilities		44 478	25 384
Other provisions		72 183	57 216
Other liabilities		2 039 467	2 259 548
Total liabilities		134 254 332	112 024 431
Equity			
Share capital		993 335	993 335
Other reserve capital		17 143 655	16 176 183
Revaluation reserve		834 643	712 303
Retained earnings		1 472 715	1 040 860
Profit for the current period		1 516 033	1 916 156
Total equity		21 960 381	20 838 837
Total liabilities and equity		156 214 713	132 863 268

Notes presented on pages 17 - 101 constitute an integral part of this Financial Statement.

IX. Condensed statement of changes in equity of Santander Bank Polska SA

Statement of changes in equity	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total
Equity as at 31.12.2017	993 335	16 176 183	712 303	2 957 016	20 838 837
Impact of the implementation of IFRS 9	-	-	(14 339)	(218 466)	(232 805)
Equity as at 1.01.2018 (restated)	993 335	16 176 183	697 964	2 738 550	20 606 032
Coverage of negative impact of IFRS 9 implementation*	-	-	-	218 466	218 466
Total comprehensive income	-	-	136 549	1 516 033	1 652 582
<i>Profit for the period</i>	-	-	-	1 516 033	1 516 033
<i>Other comprehensive income</i>	-	-	136 549	-	136 549
Profit on sale of equity securities measured at fair value through other comprehensive income	-	-	130	(130)	-
Profit allocation to other reserve capital	-	958 078	-	(958 078)	-
Profit allocation to dividends	-	-	-	(307 627)	(307 627)
Profit allocation to cover negative impact of IFRS 9 implementation*	-	-	-	(218 466)	(218 466)
Share scheme charge	-	9 394	-	-	9 394
As at 30.09.2018	993 335	17 143 655	834 643	2 988 748	21 960 381

*On 16.05.2018 General Meeting of Santander Bank Polska SA decided to allocate part of the retained earnings to cover the negative impact of the implementation of IFRS 9.

As at the end of the period revaluation reserve in the amount of PLN 834,643 k comprises of debt securities and equity shares classified as available for sale of PLN 298,097 k and PLN 606,142 k respectively and additionally cash flow hedge activities of PLN (80,925) k and accumulated actuarial gains - provision for retirement allowances of PLN 11,329 k.

Statement of changes in equity	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total
Equity as at 31.12.2016	992 345	15 132 993	281 754	2 622 428	19 029 520
Total comprehensive income	-	-	357 950	1 466 993	1 824 943
<i>Profit for the period</i>	-	-	-	1 466 993	1 466 993
<i>Other comprehensive income</i>	-	-	357 950	-	357 950
Issue of shares *	990	-	-	-	990
Profit allocation to other reserve capital	-	1 045 702	-	(1 045 702)	-
Profit allocation to dividends	-	-	-	(535 866)	(535 866)
Share scheme charge	-	3 682	-	-	3 682
As at 30.09.2017	993 335	16 182 377	639 704	2 507 853	20 323 269

*On 3.08.2017, Santander Bank Polska SA was informed that on 3.08.2017, the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register, entered into the National Court Register the changes to the Bank's statute adopted by the Annual General Meeting of the shareholders of the Bank held on 17.05.2017. Given the above, the Bank's share capital was increased from PLN 992,345,340 to PLN 993,334,810, i.e. by PLN 989,470. The shares acquired in the increased share capital were paid up in full.

This increase of the share capital took place within the private placement with the exclusion of the pre-emptive rights of the present shareholders in respect of the shares of the M series ordinary bearer shares covered by Incentive Scheme V participants.

As at the end of the period revaluation reserve in the amount of PLN 639,704 k comprises of debt securities and equity shares classified as available for sale of PLN 145,853 k and PLN 560,061 k respectively and additionally cash flow hedge activities of PLN (74,036) k and accumulated actuarial gains - provision for retirement allowances of PLN 7,826 k.

Notes presented on pages 17 - 101 constitute an integral part of this Financial Statement.

X. Condensed statement of cash flows of Santander Bank Polska SA

	for reporting period:	01.01.2018- 30.09.2018	01.01.2017- 30.09.2017
Profit before tax		1 899 330	1 909 913
Total adjustments:			
Depreciation/amortisation		206 419	203 698
Profit from investing activities		(65 666)	(32 867)
		2 040 083	2 080 744
Changes in:			
Provisions		34 061	17 257
Trading portfolio financial instruments		(6 453 237)	(178 303)
Hedging derivatives		327 317	(983 640)
Loans and advances to banks		(100 525)	129 531
Loans and advances to customers		(7 573 620)	(3 152 586)
Deposits from banks		478 990	111 011
Deposits from customers		12 656 531	(1 016 533)
Buy-sell/ Sell-buy-back transactions		6 037 514	531 773
Other assets and liabilities		(643 665)	(238 853)
		4 763 366	(4 780 343)
Interest accrued excluded from operating activities		(373 453)	(405 365)
Dividends		(491 243)	(271 697)
Paid income tax		(438 698)	(303 084)
Net cash flows from operating activities		5 500 055	(3 679 745)
Inflows		3 510 957	3 239 485
Sale of investments in subsidiaries		35	-
Sale/maturity of financial assets available for sale		-	2 559 489
Sale/maturity of investment securities		2 563 498	-
Sale of intangible assets and property, plant and equipment		58 687	5 167
Dividends received		452 249	271 647
Interest received		436 488	403 182
Outflows		(8 296 322)	(2 270 167)
Purchase of financial assets available for sale		-	(2 149 993)
Purchase of investment securities		(8 045 052)	-
Purchase of intangible assets and property, plant and equipment		(251 270)	(120 174)
Net cash flows from investing activities		(4 785 365)	969 318
Inflows		4 756 332	1 989 778
Debt securities in issue		4 140 794	1 988 788
Proceeds from issuing/shares		-	990
Drawing of loans		615 538	-
Outflows		(2 307 041)	(2 400 442)
Debt securities buy out		(1 235 000)	(1 180 000)
Repayment of loans		(705 308)	(627 844)
Dividends and other payments to shareholders		(307 627)	(535 866)
Interest paid		(59 106)	(56 732)
Net cash flows from financing activities		2 449 291	(410 664)
Total net cash flows		3 163 981	(3 121 091)
Cash and cash equivalents at the beginning of the accounting period		7 506 027	11 554 555
Cash and cash equivalents at the end of the accounting period		10 670 008	8 433 464

Notes presented on pages 17 - 101 constitute an integral part of this Financial Statement.

XI. Additional notes to condensed interim consolidated financial statement

1. General information about issuer

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

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

Condensed interim consolidated financial statement of Santander Bank Polska Group for the 9-month period ended 30.09.2018 includes Bank's financial information as well as information from its subsidiaries and shares in associated entities (all together called Group).

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

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

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

Santander Bank Polska Group consists of the following entities:

Subsidiaries:

Subsidiaries	Registered office	[%] of votes on AGM at 30.09.2018	[%] of votes on AGM at 31.12.2017
1. Santander Finanse sp. z o.o. (formerly BZ WBK Finanse sp. z o.o.)	Poznań	100%	100%
2. Santander Factoring sp. z o.o. (formerly BZ WBK Faktor sp. z o.o.)	Warszawa	100% of AGM votes are held by Santander Finanse sp. z o.o.	100% of AGM votes are held by Santander Finanse sp. z o.o.
3. Santander Leasing S.A. (formerly BZ WBK Leasing S.A.)	Poznań	100% of AGM votes are held by Santander Finanse sp. z o.o.	100% of AGM votes are held by Santander Finanse sp. z o.o.
4. Santander Inwestycje sp. z o.o. (formerly BZ WBK Inwestycje sp. z o.o.)	Poznań	100%	100%
5. Giełdokracja sp. z o.o. ¹⁾	Poznań	-	100%
6. Santander F24 S.A. (formerly BZ WBK F24 S.A./ BZ WBK Nieruchomości S.A. ²⁾	Poznań	100% of AGM votes are held by Santander Finanse sp. z o.o.	100% of AGM votes are held by Santander Finanse sp. z o.o.
7. Santander Towarzystwo Funduszy Inwestycyjnych S.A. (formerly BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.) ³⁾	Poznań	50%	50%
8. Santander Consumer Bank S.A.	Wrocław	60%	60%
9. Santander Consumer Finanse sp. z o.o.	Warszawa	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
10. PSA Finance Polska sp. z o.o. ⁴⁾	Warszawa	50% of AGM votes are held by Santander Consumer Bank S.A. and 50% of AGM votes are held by Banque PSA Finance S.A.	50% of AGM votes are held by Santander Consumer Bank S.A. and 50% of AGM votes are held by Banque PSA Finance S.A.
11. PSA Consumer Finance Polska sp. z o.o. ⁴⁾	Warszawa	100% of AGM votes are held by PSA Finance Polska sp. z o.o.	100% of AGM votes are held by PSA Finance Polska sp. z o.o.
12. Santander Consumer Multirent sp. z o.o.	Warszawa	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
13. S.C. Poland Consumer 15-1 sp.z o.o. ⁵⁾	Warszawa	subsidiary of Santander Consumer Bank S.A.	subsidiary of Santander Consumer Bank S.A.
14. S.C. Poland Consumer 16-1 sp.z o.o. ⁵⁾	Warszawa	subsidiary of Santander Consumer Bank S.A.	subsidiary of Santander Consumer Bank S.A.

1) Giełdokracja sp. z o.o. was liquidated. Details in note 31

2) On 18.10.2017, BZ WBK Nieruchomości SA with its registered office in Zakrzewo changed name to Santander F24 SA (formerly BZ WBK F24 SA) with its registered office in Poznań. On 24.11.2017, Santander Bank Polska SA made contribution in kind of Santander F24 SA (formerly BZ WBK Nieruchomości SA) shares to Santander Finanse sp. z o.o. to cover the acquisition of Santander Finanse sp. z o.o. shares by Santander Bank Polska SA On 12.01.2018 in the Nation Court Register was registered increase of share capital Santander Finanse sp. z o.o. to PLN 1,630 k. Share capital was fully paid.

3) As at 30.09.2018, Santander Bank Polska was a co-owner of Santander Towarzystwo Funduszy Inwestycyjnych SA, together with Banco Santander SA Both owners are members of Santander Group and each holds an equal stake of 50% in the company's share capital. Santander Bank Polska exercises control over Santander Towarzystwo Funduszy Inwestycyjnych SA Consequently, the company is treated as a subsidiary.

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

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

Associates:

Associates	Registered office	[%] of votes on AGM at 30.09.2018	[%] of votes on AGM at 31.12.2017
1. POLFUND - Fundusz Poręczeń Kredytowych S.A.	Szczecin	50%	50%
2. Santander - Aviva Towarzystwo Ubezpieczeń S.A.	Poznań	49%	49%
3. Santander - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poznań	49%	49%

2. Basis of preparation of condensed interim consolidated financial statement

In comparison with annual financial statements, the content of an interim financial report is condensed, therefore it should be read in conjunction with the consolidated financial statement of Santander Bank Polska Group for the year 2017.

The consolidated financial statement of the Santander Bank Polska Group for the year 2017 is available at official website: www.santander.pl.

2.1. Statement of compliance

The condensed interim consolidated financial statement of Santander Bank Polska Group for the period of nine months ended 30.09.2018 were prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union and other applicable regulations. In accordance with Decree of the Ministry of Finance dated 19.02.2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014 of 28.01.2014, No 133 as amended), the Bank is required to publish the financial results for the nine months ended 30.09.2018 which is deemed to be the current interim financial reporting period.

These consolidated financial statements have been approved for publication on 30.10.2018.

2.2. New standards and related interpretations as well as changes to standards and related interpretations that can be applicable to Santander Bank Polska Group which are not yet binding and which were not previously introduced

IFRS	Nature of changes	Effective from	Influence on Santander Bank Polska Group
Conceptual Framework for Financial Reporting	<p>The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:</p> <ul style="list-style-type: none"> • Chapter 1 – The objective of financial reporting • Chapter 2 – Qualitative characteristics of useful financial information • Chapter 3 – Financial statements and the reporting entity • Chapter 4 – The elements of financial statements • Chapter 5 – Recognition and derecognition • Chapter 6 – Measurement • Chapter 7 – Presentation and disclosure • Chapter 8 – Concepts of capital and capital maintenance <p>The Conceptual Framework is accompanied by a Basis for Conclusions. The Board has also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the Conceptual Framework. In most cases, the standard references are updated to refer to the Conceptual Framework. There are exemptions in developing accounting policies for regulatory account balances for two standards, namely, IFRS 3 Business Combinations and for those applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.</p>	Effective immediately for the IASB and the IFRS IC. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.	The amendment will not have a significant impact on financial statements.
Amendment to IFRS 9 Financial Instruments Prepayment right with negative compensation	<p>Amendments to IFRS 9 introduce the statements with reference to contractual prepayment feature, when the lender could be forced to accept the prepayment amount that is substantially less than unpaid amounts of principal and interest. Such a prepayment amount would be a payment to the borrower from the lender, instead of compensation from the borrower to the lender. Such a financial asset would be eligible to be measured at amortized cost or fair value through other comprehensive income (subject to an assessment of the business model in which they are held), however, the negative compensation must be reasonable compensation for early termination of the contract.</p>	1 January 2019	Santander Bank Polska Group is currently in the process of analysing the amendment of the Standard and the assessment of impact of the amendment

IFRS 16 Leases	<p>The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. All lease transactions results in the lessee's right to use the assets and the obligation to make a payment. Accordingly, the classification of leases into operating lease and finance lease as per IAS 17 no longer applies under IFRS 16, as the new standard introduces a single model for accounting for leases by the lessee. The lessee will be required to present the following: (a) assets and liabilities in respect of all leases executed for more than 12 months, except where an asset is of low quality; and (b) depreciation charge for the leased asset separately from the interest expense on the lease liability in the statement of profit or loss and other comprehensive income.</p> <p>The principles of accounting for leases by the lessee established in IFRS 16 are largely the same as in IAS 17. As a consequence, the lessee continues to use the classification into operating lease and finance lease and accounts for them accordingly.</p>	1 January 2019	IFRS 16 implementation progress is described below.
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures *	<p>The amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.</p> <p>The Board also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.</p> <p>To illustrate how entities apply the requirements in IAS 28 and IFRS 9 with respect to long-term interests, the Board also published an illustrative example when it issued the amendments.</p>	1 January 2019	Santander Bank Polska Group is currently in the process of analysing the amendment of the Standard and the assessment of impact of the amendment
Improvements to IFRS 10 and IAS 28 *	<p>Improvements to IFRS 10 and IAS 28 cover sales or contributions of assets between an investor and its associate/joint venture. The improvements eliminate the inconsistencies between IFRS 10 and IAS 28. The accounting treatment hinges on whether the non-monetary assets sold or contributed to an associate/joint venture constitute a business.</p> <p>Should the assets constitute a business, the investor shall recognize the profit or loss in full. Should the assets not constitute a business, the profit or loss shall be recognised only to the extent of unrelated investors' interests in the associate or joint venture.</p> <p>The improvements were published on 11 September 2014.</p>	The International Accounting Standards Board has not established the validity date of the amended regulations.	The amendment will not have a significant impact on financial statements.
IFRS 17 Insurance Contracts*	<p>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 within the scope of IFRS 17 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 the entity provides insurance coverage, reinsurance recognition, separation of the investment component and presentation of particular items of the balance sheet and profit and loss account of reporting units including the separate presentation of insurance revenues, insurance service expenses and insurance finance income or expenses.</p>	1 January 2021	The standard will not have a significant impact on financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments*	<p>Interpretation clarifies how the recognition and measurement requirements of IAS 12 "Income taxes" are applied where there is uncertainty over income tax treatments. An uncertain tax treatment is any tax treatment applied where there is uncertainty over whether that treatment will be accepted by the tax authority.</p> <p>IFRIC Interpretation 23 addresses, in particular, when there is uncertainty over income tax treatments, whether an entity considers uncertain tax treatments separately, what assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, tax rates and how an entity considers changes in facts and circumstances.</p> <p>The impact of the uncertainty should be measured using the method that best predicts the resolution of the uncertainty - either the most likely amount method or the expected value method when measuring an uncertainty.</p>	1 January 2019	The amendment will not have a significant impact on financial statements.
IAS 19, Plan Amendment, Curtailment or Settlement*	<p>Amendments to IAS 19 specifies how an entity determines pension expenses when changes to a defined benefit pension plan occur. IAS 19 'Employee Benefits' specifies how an entity accounts for a defined benefit plan. When a change to a plan – an amendment, curtailment or settlement- takes place, IAS 19 requires an entity to remeasure its net defined benefit liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.</p>	1 January 2019	The amendment will not have a significant impact on financial statements.
2015-2017 Cycle	<p>Following is a summary of the amendments from the 2015-2017 annual improvements cycle:</p> <p>IFRS 3 Business Combinations - Previously held Interests in a joint operation</p> <ul style="list-style-type: none"> • The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. • In doing so, the acquirer remeasures its entire previously held interest in the joint operation. • An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. <p>IFRS 11 Joint Arrangements - Previously held Interests in a joint operation</p> <ul style="list-style-type: none"> • A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. • An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. 	1 January 2019	The amendment will not have a significant impact on financial statements.

2015-2017 Cycle	<p>Following is a summary of the amendments from the 2015-2017 annual improvements cycle:</p> <p>IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity</p> <ul style="list-style-type: none">• The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.• An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. <p>IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation</p> <ul style="list-style-type: none">• The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.• An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.• An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.	1 January 2019	The amendment will not have a significant impact on financial statements.
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*New standards and changes to the existing standards issued by the IASB, but not yet approved for application in the EU.

IFRS 16 Leases

Description of changes

The new standard presents the overall model for identification and accounting for leases in financial statements of lessors and lessees. It supersedes IAS 17 Leases and the related interpretations.

IFRS 16 adapts the control model for the identification of leases by differentiating between leases and service agreements depending on the existence of an asset controlled by the lessee.

Significant changes have been introduced to lessee accounting, e.g. the distinction between operating and finance lease is no longer applied. Assets and liabilities are recognised for all leases, except for short-term leases and leases of low-value assets.

IFRS 16 approach to lessor accounting is not substantially changed. Lessors continue to classify leases as operating or finance and recognise them as two different types of lease.

Status

The project assuming implementation of IFRS 16 in Santander Bank Polska Group was launched in the second half of 2017 and was divided into two stages:

- gap analysis and
- operational implementation of necessary changes identified in the first stage in internal documents, policies, internal procedures, accounting schemes and IT systems that allow to address the new standard requirements.

Santander Bank Polska Group is currently at the stage of finalizing the first stage of the implementation of IFRS 16 and is gradually introducing changes which address gaps identified.

The project involves representatives of departments responsible for accounting policy, property management, administration of contracts with suppliers, reporting, taxes and cost management. Supervision over the timely delivery of

the project and its high quality is exercised by the member of the Management Board responsible for the Accounting and Financial Control Division.

Below is a description of the progress towards implementation of IFRS 16 in Santander Bank Polska Group vs. the end of 2017. In January – September 2018, Santander Bank Polska Group focused on:

- conducting procedures to ensure completeness of the list of assets held under a lease;
- analysing the lease term to be adopted for the measurement of the right-of-use asset and its corresponding financial liability, taking into account extension and termination options and the likelihood that the parties to the lease use those options;
- developing an approach to the calculation of the incremental borrowing rate;
- identifying the necessary changes in the existing processes, procedures, chart of accounts and contract registers maintained by Santander Bank Polska Group;
- developing and implementing an effective internal control environment to ensure appropriate differentiation between service contracts and lease contracts, including contracts that contain a lease component;
- analysing reporting requirements and provisions regulating capital adequacy assessment.

As part of the ongoing work, Santander Bank Polska Group carefully analysed the following contracts:

- technological, IT, telecommunication contracts whereby a contractor provides Santander Bank Polska Group with specialist external services and, to ensure correct performance and high quality of the service, leaves its own property, plant and equipment with the Group. Santander Bank Polska Group is now analysing whether or not, in the context of the contract and market practice, the rights to use the underlying assets have been conveyed to Santander Bank Polska Group, and above all if Santander Bank Polska Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use (e.g. by having an exclusive right to use that asset throughout that period) and the right to control the use of the identified asset.
- contracts containing a lease component and non-lease components, which predominantly applies to property lease contracts under which the rent and service charges have been, in some cases, expressed as lump sums, without distinguishing between lease and non-lease components.

Santander Bank Polska Group still expects to use the expedients available for first-time adopters, described in detail in the 2017 financial statements.

Impact of IFRS 16 on the assets and financial position of Santander Bank Polska Group

Santander Bank Polska Group expects that the application of the new standard will affect the recognition, presentation, measurement and disclosure of assets under operating lease and their corresponding liabilities in financial statements of Santander Bank Polska Group as a lessee.

The implementation of the new standard is not expected to have a significant impact on recognition of finance lease in the financial statements of Santander Bank Polska Group.

In the light of the ongoing analyses, including analyses of completeness of the assets held under a lease, Santander Bank Polska Group does not present any expected impact of implementation of IFRS 16 on the assets and financial position of Santander Bank Polska Group. However, Santander Bank Polska Group believes that the value of the operating lease payments disclosed in the 2017 financial statements has not changed materially over the three quarters of 2018 and is a reliable approximation of the expected impact of implementation of the standard.

2.3. Standards and interpretations or changes to existing standards or interpretations which were applied for the first time in the financial year 2018

IFRS	Nature of changes	Effective from	Santander Bank Polska Group
IFRIC 22 Foreign Currency Transactions and Advance Consideration *	IFRIC Interpretation 22 clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency. The Interpretation relates to the situation when the transaction is in foreign currency and the entity pays or receives consideration in advance in a foreign currency before the recognition of the related asset, expense or income.	1 January 2018	The amendment does not have a significant impact on financial statements.
IFRS 9 Financial Instruments	<p>The changes refer to the following areas:</p> <ul style="list-style-type: none"> • Classification and measurement – introduction of three classification categories for debt instruments, i.e. measured at: amortised cost, fair value through other comprehensive income and fair value through profit or loss. Changes were made in the measurement of equity instruments by limiting the possibility of measurement at historical cost; • Expected credit losses – introduction of a new model for recognition of impairment (ECL): impairment charge is required to be measured as lifetime expected credit losses rather than 12-month expected credit losses; • Hedge effectiveness testing and eligibility for hedge accounting – replacement of the precise effectiveness range (80-125%) with a requirement that there is an economic relationship between the hedged item and the hedging instrument and that the hedge ratio is the same as the one used for risk management purposes. Ineffective hedges continue to be taken to a profit and loss account; • Hedged items – new requirements allow appointment of new hedged items in relation to certain economically viable hedging strategies, which, to date, were not eligible under IAS 39; • Hedging instruments – relaxation of requirements pertaining to certain hedging instruments listed in IAS 39. The standard allow recognition of the time value of options purchased and implementing non-derivative financial instruments as hedging instruments; • Recognition of change in the fair value of financial liability arising from changes in the liability's credit risk in other comprehensive income (in principle). 	1 January 2018	Impact is described in "Changes in accounting policy"

IFRS 15 - Revenue from Contracts with Customers	<p>Changes relate to the following areas:</p> <ul style="list-style-type: none"> • Transfer of control – recognition of revenue only when the customer gains control over a good or service. The amendment makes the definition of the transfer of control more precise. Introducing regulations allowing to define the legitimacy of recognising the revenue over time or at a point in time; • Variable consideration - the amendment takes into account variable consideration in prices of goods or services arising, for example, as a result of penalties or performance bonus; • Allocation of the transaction price on the basis of an adequate sales price per unit - introduction of the requirement to allocate the payment for goods or services in the case of sale under a single contract; • Licences - introduction of the requirement for entities to define the time for which a licence is transferred and specifying more precisely the revenue calculation in the case of transferring a licence at a point in time or over time; • Time value of money – the transaction price is adjusted for the time value of money. The entity may choose not to account for the time value of money when the interval between transfer of the promised goods or services and payment by the customer is expected to be less than 12 months; • Costs of obtaining a contract - introducing the conditions which determine if the given costs of obtaining a contract are subject to capitalization and can be amortised parallel to revenue recognition; • Disclosures - introduction of a requirement to disclose qualitative and quantitative information relating to judgements and changes in the judgements related with revenue recognition. 	1 January 2018	Impact is described in "Changes in accounting policy"
Commentary on IFRS 15 Revenue from Contracts with Customers	<p>The commentary is a source of additional information and guidance re: the key assumptions of IFRS 15, including the identification of unit-specific commitments, the establishment of the unit's role (agent vs. principal) and the mode of recording revenue generated under the licence.</p> <p>Apart from additional guidance, there are exemptions and simplified rules for first time adopters.</p>	1 January 2018	Impact is described in "Changes in accounting policy"
Annual Improvements to IFRS 2014-2016	<p>In December 2016, the International Accounting Standards Board published 'Annual Improvements to IFRS Standards 2014-2016 Cycle' which amended 3 standards, i.e. IFRS 12 'Disclosure of Interests in Other Entities', IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 28 'Investments in Associates'.</p> <p>The improvements feature guidelines and amendments re: the scope of applicability, recognition and valuation as well as terminology and editing changes.</p>	1 January 2018 for improvements to IFRS 1 and IAS 28	The amendment does not have a significant impact on financial statements.

Improvements to IAS 40 'Investment Property' *	Improvements to IAS 40 specify the requirements for transfers to or from investment property classification. According to the amended standard, a change in management intention to use the property is not evidence of change in the use of the property. The amendment applies to all changes in use that are introduced after the effective date of the amendment and to all investment properties held at that date.	1 January 2018	The amendment does not have a significant impact on financial statements.
Amendments to IFRS 2: Classification and measurement share-based payment transactions *	Changes relate to the following areas: • Guideliness on fair value measurement of liability due to cash-settled share-based payment transaction; • Guideliness on classification modification from cash-based to equity-settled payment transactions and also • Guideliness on employees tax liabilities recognition relating to share-based payment transactions.	1 January 2018	The amendment does not have a significant impact on financial statements.
Improvements to IFRS 4: Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'	Improvements to IFRS 4 'Insurance Contracts' address the issue of adopting a new standard, i.e. IFRS 9 'Financial Instruments'. Improvements to IFRS 4 supplement the existing options and are aimed to prevent temporary fluctuations in the insurance industry results arising from the implementation of IFRS 9.	1 January 2018	The amendment does not have a significant impact on financial statements.

*New standards and changes to the existing standards issued by the IASB, but not yet approved for application in the EU.

2.4. Basis of preparation of interim financial statements

Condensed interim consolidated financial statement is presented in PLN, rounded to the nearest thousand.

The condensed interim consolidated financial statements of Santander Bank Polska Group have been prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union. Santander Bank Polska Group prepared the condensed interim consolidated financial statements in accordance with the historical cost principle, except for the items specified below:

Item	Balance sheet valuation rules
Held-for-trading financial instruments	Fair value through profit or loss
Loans and advances to customers which do not meet the contractual cash flows test (since 01.01.2018)	Fair value through profit or loss
Financial instruments measured at fair value through other comprehensive income (since 01.01.2018)	Fair value through other comprehensive income
Financial assets available for sale (until 31.12.2017)	Fair value through other comprehensive income
Share-based payment transactions	According to IFRS 2 "Share-based payment" requirements
Equity investment securities (since 01.01.2018)	Fair value through other comprehensive income – an option
Other investment securities (units) (since 01.01.2018)	Fair value through profit or loss
Fixed assets available for sale and groups of fixed assets designated as available for sale	Are recognised at the lower of their carrying amount and their fair value less costs of disposal.

The accounting principles have been applied uniformly by individual units of Santander Bank Polska Group.

Santander Bank Polska Group applied the same accounting principles as in the preparation of the consolidated financial statements for the year ended 31.12.2017, excluding the changes resulting from the implementation of IFRS 9 "Financial Instruments" starting from 1.01.2018 and IFRS 15 "Revenue from contracts with customers" described later in the statement and income tax liability, which was calculated in accordance with the principles set out in IAS 34.30c. In accordance with the provision of paragraph 30c of IAS 34, the income tax charge is recognized in each interim period based on the best estimation of the annual income tax rate that Santander Bank Polska Group expects in the whole financial year. If the estimated annual income tax rate changes, there is a need for the amounts included in the income tax charge in one interim period to be adjusted in the next interim period of the same financial year.

2.5. Use of estimates

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

The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the 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.

Main estimates made by Santander Bank Polska Group

Impairment allowances for expected credit losses in respect of financial assets

The estimation of potential loan losses is inherently uncertain and depends upon many factors, including historical loan loss trends, portfolio grade profiles, economic climates, conditions in various industries to which Santander Bank Polska Group is exposed and other external factors such as legal and regulatory requirements. An allowance is made for loans when, in the judgement of management, the estimated repayment that can be recovered from the obligor, including the value of any security held, is likely to fall short of the amount of the outstanding exposure. The amount of allowance for the Santander Bank Polska Group is intended to cover the difference between the assets' carrying value and the present value of estimated future cash flows discounted at the assets' original effective interest rates.

The process of identification of financial assets which need to be covered by loan loss allowances is based on several independent verification levels. Credit quality and loan loss allowances are independently monitored by head office personnel on a regular basis. Santander Bank Polska Group uses a consistent system for grading loans according to agreed credit criteria with an important objective being the timely identification of vulnerable loans so that remedial action can be taken at the earliest opportunity. Credit rating is fundamental to the determination of loan loss allowances at Santander Bank Polska Group. It triggers the process which results in the creation of loan loss allowances in respect of individual financial assets which are at the risk on non-repayment.

An impairment analysis is carried out:

- with reference to individual financial assets representing significant reporting items, for which indications of impairment have been identified and classified to the segment of Corporate and Investment Banking, customers with a commercial grading, property customers and local authorities, and for significant retail exposures (individual analysis);
- with reference to the portfolio of individually insignificant financial assets (collective analysis) or individually significant financial assets, but such which have no identified indications of impairment.

Santander Bank Polska Group regularly reviews the methodologies and assumptions which are the basis for determining estimated cash flows and cash flow periods. In particular, a comparison is made between expected cash flows for the purpose of making the best possible estimate of recoverable amount.

Santander Bank Polska Group makes the method of recognizing expected losses dependent on the change in the level of risk that occurred since the exposure was recognized. Santander Bank Polska Group, in reference to the standard, introduced three main stages for recognising expected credit losses:

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

In addition, for exposures classified as POCI (purchased or originated credit impaired), expected losses are recognized over the remaining life time horizon. Net impairment allowances on loans and advances are presented in Note 9.

Revenue from Contracts with Customers

IFRS 15 introduces the five-step revenue recognition model and its assumptions as well as the impact on revenue recognition method are described in part 2.7. "Accounting principles".

The five-step revenue recognition model involves a subjective assessment and identification of:

- the timing of satisfaction of performance obligations
- transaction price, and
- amounts allocated to the performance obligation.

According to Santander Bank Polska Group, the performance obligation is satisfied at a specific point in time for most of significant categories of revenues as there are indicators of the transfer of control, such as Santander Bank Polska Group's present right to payment for the asset (if a customer is presently obliged to pay for an asset, it means that he has gained the ability to direct the use of and obtain substantially all of the remaining benefits from that asset). However, the identification of timing of performance obligation (whether satisfied at a point in time or over time) is not a crucial estimate, because contractual provisions provide for monthly settlement periods that ensure a correct recognition of revenues in proper reporting periods.

The transaction price usually refers to the consideration payable to a customer, due to the absence of:

- variable consideration,
- significant financing component in the contract,
- non-cash consideration.

As regards revenue from contracts with customers based on the success fee (i.e. contracts which do not guarantee the remuneration for Santander Bank Polska Group or provide for the minimum level of remuneration during the term of the contract until a certain condition is met, thus entitling Santander Bank Polska Group to receive significant remuneration to compensate for long-term efforts to perform the contract), then the variable consideration is the prevailing – if not the only one – component of the transaction price. However, variable consideration is usually subject to contractual limits (expressed as a percentage or a value threshold).

Promised assets usually are not distinct, therefore Santander Bank Polska Group combines these items with other promised goods or services until it identifies a bundle of goods or services that is distinct. Consequently, Santander Bank Polska Group accounts for all the goods or services promised in a contract as a single performance obligation, so that the allocation of transaction price to that performance obligation (which involves assessment of sale prices for promised goods or services and allocation of discounts and variable consideration to individual elements of the contract) is not of key importance.

As regards the different types of revenues governed by IFRS 15, Santander Bank Polska Group estimates provisions for refunds only in relation to income from insurance intermediation activities, which is substantiated by the nature of the income, respective contractual and legal clauses, constructive obligations and availability of historical information about refunds.

Refunds from insurance agreements are calculated by means of the vintage method whereby expected refunds are estimated on the basis of average cumulative amount of refunds obtained in the previous period.

The percentage share of refunds vs. the remuneration for Santander Bank Polska Group is calculated in monthly periods (determined by the effective date of the insurance agreement), indicating the month when the refund was made. The percentage share of refunds for a given month is the sum of refunds obtained in specific years of the insurance agreement (and considering the expected level of refunds).

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

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

Santander Bank Polska Group has developed a methodology for measuring the fair value of credit exposures and debt instruments which, as a result of non-fulfilment of the contractual cash flows test, on 1.01.2018 have been reclassified from the group of assets measured at amortised cost to the group of assets measured at fair value through profit or loss.

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

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

Santander Bank Polska Group measures fair value with the use of valuation techniques appropriate in the circumstances and for which sufficient data are available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Three widely used valuation techniques are:

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

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

The following arguments support the use of the income approach:

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

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

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

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

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

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

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

The fair value measurement models are reviewed periodically.

Changes in judgements and estimates

In 2018, the scope of data covered by estimates changed in comparison with Santander Bank Polska Group's consolidated financial statements for 2017, due to:

- obligatory assessment of business model, introduced under IFRS 9 Financial Instruments (previously not required under IAS 39 Financial Instruments: Recognition and Measurement), and a change in approach to estimating losses on the credit exposures measured at amortised cost or at fair value through other comprehensive income and introduction of the mandatory rule that financial assets which do not meet the contractual cash flow test are measured at fair value through profit or loss, and
- disclosure of judgements (and changes in the judgements) made in applying this Standard that significantly affect the determination of the timing of satisfaction of performance obligations, the transaction price and the amounts allocated to performance obligations – this requirement having been introduced under IFRS 15 Revenue from Contracts with Customers.

2.6. Evaluations that may significantly affect the amounts recognized in the financial statement

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

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

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

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

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

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

- features that modify consideration for the time value of money.

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

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

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

- business model and
- characteristics of contractual cash flows.

The portfolio of financial assets, whose interest rate construction contained a multiplier greater than 1, includes:

- credit cards granted until 01.08.2016, whose interest rate formula was based on 4x lombard rate and did not contain direct reference to the provisions of the Civil Code in the regard of interest cap,
- loans subsidized from Agencja Restrukturyzacji i Modernizacji Rolnictwa (ARMiR) granted on the basis of an agreement valid until the end of 2014
- subsidized students' loans from Bank Gospodarstwa Krajowego (BGK).

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

In addition, it was not found that:

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

Whereas contractual terms related to a financial asset indicate that there are specific cash flow terms that are not solely payments of principal and interest on the principal outstanding due to the existence in the construction of interest rate increasing the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest. Therefore, the portfolios of financial assets containing the leverage in interest rate construction not resulting from law provisions were reclassified from portfolio measured at amortized cost to portfolio measured at fair value through profit or loss.

Business Model Assessment

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

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

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

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

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

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

2.7. Accounting principles

The accounting principles applied by Santander Bank Polska Group until the end of 2017 remain relevant and are available in the annual report for 2017.

Except for the changes presented below, Santander Bank Polska Group applied the accounting policies consistently both to the period presented in the financial statement and to the comparable period.

The accounting policies have been applied consistently by Santander Bank Polska Group entities.

The implementation's impact and changes in accounting principles introduced since 01.01.2018 resulting from the entry into force of IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers are presented below.

New International Financial Reporting Standards implementation's impact

IFRS 9 Financial instruments

Santander Bank Polska Group applied new accounting principles regarding the classification and measurement of financial instruments in the preparation of the condensed consolidated financial statements of Santander Bank Polska Group for the period ended 31.03.2018 as well as 30.06.2018.

IFRS 9 Financial Instruments was published by the International Accounting Standards Board on 24.07.2014 and approved by virtue of the Commission Regulation (EU) 2016/2067/EU of 22 November 2016 for application in the EU member states. The standard applies to financial statements for annual reporting periods beginning on or after 1.01.2018, except for insurers which may apply the standard starting from 1.01.2021. IFRS 9 supersedes IAS 39 Financial Instruments: Recognition and Measurement. However, it allows reporting entities an option to continue to use the hedge accounting provisions stipulated in IAS 39.

IFRS 9 introduces changes that affect the following areas of financial instruments accounting:

- classification and measurement of financial instruments
- recognition and calculation of impairment and
- hedge accounting.

The impact of changes in the classification and measurement of financial assets and impairment for expected credit losses resulting from the implementation of IFRS 9 is described below.

Classification and measurement of financial instruments

The Santander Bank Polska Group carried out a detailed analysis of its business models in the area of financial asset management as well as an analysis of cash flow characteristics resulting from the agreements in force. As a result of the analysis, changes in the classification and measurement of financial assets were made and the comparison of the category of valuation and balance sheet value of financial assets as at 01.01.2018 in accordance with IAS 39 and IFRS 9 is as follows:

Consolidated financial statement's line for 2017	Measurement category - IAS 39	Carrying amount	Measurement category - IFRS 9	Carrying amount
Financial assets				
Cash and balances with central banks	Amortized cost (loans and advances)	4 146 222	Amortized cost	4 146 222
Loans and advances to banks	Amortized cost (loans and advances)	2 136 474	Amortized cost	2 136 474
Financial assets held for trading	Fair value through profit and loss	3 416 108	Fair value through profit and loss	3 416 108
Hedging derivatives	Hedge accounting	218 061	Hedge accounting	218 061
Loans and advances to customers	Amortized cost (loans and advances)	107 715 574	Amortized cost	107 451 150
Loans and advances to customers	Amortized cost (loans and advances)	124 323	Fair value through profit and loss	105 401
Financial assets available for sale - Debt instruments	Fair value through other comprehensive income	27 494 933	Fair value through other comprehensive income	27 494 933
Financial assets available for sale - Equity instruments	Fair value through other comprehensive income	868 722	Fair value through other comprehensive income -	868 722
Financial assets available for sale - Equity instruments	Historical cost	52 157	Fair value through other comprehensive income -	37 063
Other assets	Amortized cost (loans and advances)	1 065 068	Amortized cost	1 065 068
TOTAL		147 237 642		146 939 202

The table above presents changes in the classification and measurement of financial assets as at the effective date of IFRS 9 without considering the reclassification of the credit card portfolio made in the second quarter of 2018 described in the section "Comparability with the results of previous periods".

The comparison of the category of valuation and the carrying amount of liabilities as at 1.01.2018 is as follows:

Consolidated financial statement's line for 2017	Measurement category	Carrying amount	Measurement category	Carrying amount
Liabilities				
Deposits from banks	Amortized cost	2 783 083	Amortized cost	2 783 083
Hedging derivatives	Hedge accounting	578 798	Hedge accounting	578 798
Financial liabilities held for trading	Fair value through profit and loss	1 237 704	Fair value through profit and loss	1 237 704
Deposits from customers	Amortized cost	111 481 135	Amortized cost	111 481 135
Sell-buy-back transactions	Amortized cost	2 650 846	Amortized cost	2 650 846
Subordinated liabilities	Amortized cost	1 488 602	Amortized cost	1 488 602
Debt securities in issue	Amortized cost	5 895 814	Amortized cost	5 895 814
Provisions for off-balance sheet credit facilities	IAS 37	50 652	IFRS 9	65 686
Other liabilities	Amortized cost	2 868 774	Amortized cost	2 868 774
TOTAL		129 035 408		129 050 442

The reconciliation of the items of the statement of financial position, whose value has changed due to the change in the valuation category after the transition from IAS 39 to IFRS 9, which took place on 1.01. 2018, is presented below.

The table below presents the impact of IFRS 9 implementation on assets as at 1.01.2018:

No.	Reference to change description	Item	Carrying amount 01.01.2018 before amendments	Change of presentation method	Valuation update		Carrying amount 01.01.2018 after amendments
					Classification and measurement	Impairment	
Financial assets measured at amortised cost							
1	Loans and advances to customers						
		Closing balance	107 839 897				
	Adjustment 1	ECL allowance				(240 637)	
	Adjustment 2	Change of recognition of interest income				(23 787)	
	Adjustment 3	Presentation adjustment - adjustment to impairment interest			210 585	(210 585)	
	Adjustment 4	Reclassification to the category of financial assets measured at fair value through profit or loss		(124 323)			
		Closing balance after adjustments					107 451 150
		Financial assets measured at amortised cost - TOTAL					107 451 150
Financial assets measured at fair value through other comprehensive income							
2	Financial assets available for sale						
		Closing balance	28 415 812	-	-	-	-
	Adjustment 6	Reclassification to the category of debt investment financial assets measured at fair value through other comprehensive income	-	(27 494 933)	-	-	-
	Adjustment 6	Reclassification to the category of equity investment financial assets measured at fair value through other comprehensive income	-	(920 879)	-	-	-
		Reclassification to the category of equity investment financial assets measured at fair value through profit	-	-	-	-	-
		Closing balance after adjustments					-
3	Investment securities, including:						
		Closing balance					
		- debt investment financial assets measured at fair value through other comprehensive income	-	27 494 933	-	-	-
		- equity investment financial assets measured at fair value through other comprehensive income - option	-	868 722	-	-	-
	Adjustment 5	- equity investment financial assets measured at fair value through other comprehensive income - option	-	52 157	(31 271)	16 177	
		Closing balance after adjustments					28 400 718
		Financial assets measured at fair value through other comprehensive income - TOTAL					28 400 718
Financial assets measured at fair value through profit or loss							
4	Loans and advances to customers						
		Closing balance	-	-	-	-	-
	Adjustment 1 and 4	Reclassification from the category of financial assets measured at amortised cost	-	124 323	(80 729)	61 807	-
		Closing balance after adjustments	-	-	-	-	105 401
		Financial assets measured at fair value through profit or loss - TOTAL					105 401
Deferred tax assets, net							
		Closing balance	1 414 227	-	-	-	-
		Valuation update	-	-	21 280	37 740	-
		Closing balance after adjustments	-	-	-	-	-
		Deferred tax assets, net - TOTAL					1 473 247
		TOTAL ASSETS	137 669 936	-	119 865	(359 285)	137 430 516

The value of other assets presented in the consolidated statement of financial position did not change significantly as a result of implementation of IFRS 9.

The table below presents the impact of IFRS 9 implementation on liabilities as at 1.01.2018:

No.	Reference to change description	Item	Carrying amount 01.01.2018 before amendments	Change of presentation method	Valuation update Classification and measurement	Impairment	Carrying amount 01.01.2018 after amendments
Equity							
1		Revaluation reserve					
	Adjustment 7	Closing balance	714 466	-	-	-	-
		Impact of implementing IFRS 9 – gross	-	-	(31 271)	-	-
		Impact of implementing IFRS 9 – deferred tax	-	-	5 942	-	-
		Closing balance after adjustments	-	-	-	-	689 137
2		Retained earnings					
	Adjustment 7	Closing balance	1 066 236	-	-	-	-
		Impact of implementing IFRS 9 – gross	-	-	(80 729)	(201 474)	-
		Impact of implementing IFRS 9 – deferred tax	-	-	15 339	37 739	-
		Closing balance after adjustments	-	-	-	-	837 111
Equity – TOTAL							1 526 248
Provisions							
3		Provisions					
		Closing balance	50 652	-	-	-	-
	Adjustment 1	Reclassification to "Provisions for off-balance sheet liabilities subject to credit	-	(50 652)	-	-	-
		Closing balance after adjustments	-	-	-	-	-
Provisions – TOTAL							-
Provisions for off-balance sheet liabilities subject to credit risk							
4		Provisions for off-balance sheet liabilities subject to credit risk					
		Closing balance	-	-	-	-	-
		Reclassification from "Provisions"	-	50 652	-	-	-
	Adjustment 1	Valuation update	-	-	-	15 034	65 686
		Closing balance after adjustments	-	-	-	-	-
Provisions for off-balance sheet liabilities subject to credit risk – TOTAL							65 686
TOTAL LIABILITIES AND EQUITY			1 831 354	-	(90 719)	(148 701)	1 591 934

The value of other liabilities and equity components presented in the consolidated statement of financial position did not change significantly as a result of implementation of IFRS 9.

Compared to the disclosure of the impact of IFRS 9 implementation in the annual consolidated financial statements for 2017, the Santander Bank Polska Group has made the following changes:

- impact of the change in the method of recognition of interest income for financial assets classified to stage 1 and 2 in the amount of PLN (23,787) k PLN was presented as part of changes resulting from the implementation of impairment instead of classification and valuation,
- changes in the presentation of the impairment interest adjustment for stage 3: Santander Bank Polska Group following the guidelines contained in the ITG document of 11.12.2015 (IFRS Transition Resource Group for the Impairment of Financial Instruments: "Measurement of the loss allowance for credit-impaired financial assets") presents the correction of interest income, which reduces interest income for exposures classified to stage 3 to the level of recoverable value in the amount of PLN 210 585 k PLN as part of impairment for expected credit losses,
- the value of the revaluation write-down for the value of equity instruments measured at cost and the fair value measurement of equity instruments related to shares held by one of the consolidated entities have been presented separately in the columns "Classification and measurement" and "Impairment" respectively in the amount of PLN (13,570)k and PLN 14,193 k, while in the disclosure for 2017 both figures were presented on the balance in the column "Classification and measurement" net in the amount of PLN 623 k within the aggregate amount of PLN (17,078) k. As a result of the change in the presentation of the amount of the revaluation write-down, the value of the impact of the implementation of IFRS 9 from the "Classification and valuation" stream increased and the value of the impact of IFRS 9 under the "Impairment" stream decreased by PLN 14,193 k. The change was of a purely presentational nature and did not affect the total value of the impact of the implementation of IFRS 9 on the Santander Bank Polska Group equity.

The adjustments did not affect, in comparison to previous disclosure, the net value of the items "Loans and advances to customers" and "Investment securities".

Changes in the classification and measurement of financial assets presented in the tables above result from following reasons.

- Adjustment 1: Allowances for expected credit losses (ECL). The total value of additional impairment charges recognised in retained earnings for previous years is PLN 193,864 k, without the deferred tax effect, of which PLN 240,637 k relates to balance sheet items, PLN 15,034 k the increase in provisions for off-balance sheet liabilities presented in the line „Provisions for off balance sheet credit facilities” and the reclassifications of financial instruments from the category of assets measured at amortized cost to measure at fair value through profit or loss triggered impairment charge reversal in the amount of PLN 61,807 k.
- Adjustment 2: Change in interest revenue recognition method for interest income from assets held, depending on the level of credit risk. Until the end of 2017, the interest income from exposures measured at amortised cost, for which IBNR impairment charge was calculated, was recognised at the net carrying amount, whereas from 1.01. 2018 at the gross carrying amount of the exposure. IFRS 9 provides for two exceptions from this rule:
 - (1) POCI (Purchased or Originated Credit Impaired) assets. The interest income from these exposures is calculated on the net carrying amount based on the credit risk-adjusted effective interest rate.
 - (2) financial assets impaired after the initial recognition (stage 3) The interest income from these exposures is calculated based on the effective interest rate and the net carrying amount.

Considering the differences in the recognition of interest income from financial assets classified into stages 1 and 2, for which until end of 2017 the IBNR provision charge was calculated, on the effective date of IFRS 9, Santander Bank Polska Group recognised an interest income adjustment of PLN (23,787) k without deferred tax effect.

- Adjustment 3: changes in the presentation of the impairment interest adjustment for stage 3. Until the end of 2017 Santander Bank Polska Group treated the impairment interest adjustment as the element of exposure's gross carrying amount. Santander Bank Polska Group following the guidelines contained in the ITG document of 11.12.2015 (IFRS Transition Resource Group for the Impairment of Financial Instruments: "Measurement of the loss allowance for credit-impaired financial assets") presents the correction of interest income, which reduces interest income for exposures classified to stage 3 to the level of recoverable value in the amount of PLN 210 585 k PLN as part of impairment for expected credit losses.

- Adjustment 4: reclassification of financial instruments that do not meet the contractual cash flow test to the category of financial assets at fair value through profit or loss. Santander Bank Polska Group identified in assets' portfolio financial instruments:
 - (1) containing profit sharing clauses which are not compliant with contractual cash flow test criteria. The indicated clauses were identified in some tranches of debt financial instruments entitling the Santander Bank Polska Group to obtain additional cash flows, other than solely payments of principal and interest, in the form of a contractually agreed share in the client's financial result. The existence of such contractual clauses has resulted in mandatory valuation of tranches at fair value through profit or loss. The adjustment to the fair-value measurement has been set at PLN (64 726) k, without the deferred tax effect.
 - (2) whose contractual cash flows are not payments of principal and interest due to the interest rate construction. This applies to debt instrument classified as "Loans and advances" whose interest is accrued on the subscription price and capitalised over the life of the product (until maturity) whereas interest payments to Santander Bank Polska Group will be calculated on the nominal price so these cash flows do not represent interest payments as defined in IFRS 9. Due to the failure to meet the contractual cash flow test criteria, the instruments described were mandatory measured at fair value. The adjustment to the fair-value measurement has been set at PLN (15,897) k and unsettled provision amounted PLN (106) k without the deferred tax effect.
- Adjustment 5: equity instruments' valuation at fair value. IFRS 9 significantly limited the ability to measure non-listed equity instruments classified as available for sale at historical cost less impairment charges, if any. By default, equity instruments are measured at fair value through profit or loss unless an irrevocable election is made at initial recognition to measure subsequent fair value changes at fair value through other comprehensive income. Using the option permitted by IFRS 9, Santander Bank Polska Group took an irrevocable decision to designate strategic equity investments from the portfolio of financial assets other than those held for trading as instruments measured at fair value through other comprehensive income. The equity investments for which Santander Bank Polska Group chose the option of fair value measurement through other comprehensive income were acquired to be maintained in the investment portfolio for a long term and strategically, without the intention to make a profit on selling them in the short or medium term. If the equity instrument designated to be measured at fair value through other comprehensive income is sold, the gain (loss) on the transaction is not recycled to profit or loss at the time of the sale. The adjustment to the fair-value measurement of equity instruments has been set at PLN (31,271) k and amount of reversed impairment charges at PLN 16,177 k, without the deferred tax effect.
- Adjustment 6: as the category of financial assets available for sale has been removed and replaced with the category of investment financial assets, Santander Bank Polska Group reclassified debt instruments and equity instruments available for sale to the category of investment financial assets. This was merely a presentation change with not impact on the balance sheet total.
- Adjustment 7: impact of IFRS 9 adoption on the equity of Santander Bank Polska Group. As at 1.01. 2018, the total value of the impact of IFRS 9 implementation PLN (313,474) k, and the deferred tax effect in the form of deferred net tax asset increase PLN 59,020 k decreased the balance of retained earnings and revaluation reserve by the amount of PLN (254,454) k.

Additionally, the specification of the impact of individual titles on equity items is presented below:

No.	Equity item	Value as at 01/01/2018 before IFRS 9 implementation	Gross impact	Deferred tax impact	Value taking into account the impact of implementing IFRS 9
Revaluation reserve					
Revaluation reserve as at 1 January 2018 before IFRS 9 implementation		714 466			
1	Reclassification of available-for-sale equity instruments measured at fair value through other comprehensive income – the effect of remeasuring to fair value		(31 271)	5 942	689 137
Value as at 1 January 2018 taking into account the impact of implementing IFRS 9 – TOTAL					689 137
Retained earnings					
Retained earning as at 1 January 2018 before IFRS 9 implementation		1 066 236			
1	Recognition of ECL allowances on financial assets and off-balance sheet liabilities subject to credit risk		(240 637)	45 180	
2	Making a fair value adjustment for financial assets reclassified from the category of financial assets measured at amortised cost to the category of assets obligatorily measured at fair value through profit or loss		(80 729)	15 339	
3	Reversal of allowances for financial assets reclassified from the category of financial assets measured at amortised cost to the category of assets obligatorily measured at fair value through profit or loss		61 807	(11 743)	
4	Reclassification of available-for-sale equity instruments measured at fair value through other comprehensive income – reversal of impairment allowances for shares in other entities		16 177	(3 074)	
5	Change in the presentation of interest income for the stage 1 and stage 2 exposures which had IBNR allowance calculated until the end of 2017		(23 787)	4 520	
6	Recognition of ECL allowances on off-balance sheet liabilities subject to credit risk		(15 034)	2 856	
Retained earnings taking into account the impact of implementing IFRS 9 – TOTAL					837 111
Impact of implementing IFRS 9 on the Santander Bank Polska Group's equity – TOTAL			(313 474)	59 020	(254 454)

In the second quarter of 2018, Santander Bank Polska Group reclassified the portfolio of credit cards agreements that were signed with customers prior to 1.08.2016 and whose contractual structure of interest rate was based on four times the NBP Lombard rate and the contractual clauses did not include a direct reference to the Civil Code in terms of the maximum statutory interest through which the interest income was recognised. The description of the reclassification is included in the part "Comparability with the results from the previous periods".

As at 1.01.2018 Santander Bank Polska Group has not identified any financial assets which it would intend to designate to be measured at fair value through profit or loss to reduce the accounting mismatch, which would otherwise emerge as a result of measuring financial assets at amortised cost or at fair value through other comprehensive income.

Financial liabilities will continue to be measured in accordance with the existing rules laid down in IAS 39, i.e. at amortised cost or at fair value through profit or loss. Santander Bank Polska Group has not chosen the option of measuring financial liabilities at fair value. Should this option be chosen, changes in the fair value arising from changes in Santander Bank Polska Group credit risk will be taken to other comprehensive income, and once a financial liability is derecognised, the value previously recognised in other comprehensive income will not be recycled to profit or loss.

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance, both for performing and non-performing exposures, measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1.01.2018 taking into account the reclassification of the credit card portfolio described in the part "Comparability with the results from the previous periods".

Measurement category	Loss allowance under IAS 39/Provisions IAS 37	Reclassification	Remeasurement	Change in interest impaired adjustment's presentation	ECL impairment charge reversal due to credit cards reclassification	Loss allowance under IFRS 9
Loans and receivables (IAS 39)/Financial assets at amortized cost (IFRS 9)						
Loans and advances from customers	4 846 130	(61 807)	240 637	210 585	(172 271)	5 063 274
39)/Financial assets at amortized cost (IFRS 9) - TOTAL	4 846 130	(61 807)	240 637	210 585	(172 271)	5 063 274
Provisions for off-balance sheet credit facilities (IAS 37)/Loss allowance for expected credit losses (IFRS 9)						
Provisions for off-balance sheet credit facilities (IAS 37)/Loss allowance for expected credit losses (IFRS 9)	50 652	-	15 034	-	-	65 686
Provisions for off-balance sheet credit facilities (IAS 37)/Loss allowance for expected credit losses (IFRS 9) - TOTAL	50 652	-	15 034	-	-	65 686
TOTAL	4 896 782	(61 807)	255 671	210 585	(172 271)	5 128 960

The application of the new guidelines in accordance with IFRS 9 contributed to the increase in impairment losses in the Santander Bank Polska Group. The total value of additional impairment charges recognised in retained earnings for previous years is PLN 193,864 k, without the deferred tax effect, of which PLN 240,637 k relates to balance sheet items, PLN 15,034 k the increase in provisions for off-balance sheet liabilities presented in the line „Provisions for off balance sheet credit facilities” and the reclassifications of financial instruments from the category of assets measured at amortized cost to measure at fair value through profit or loss triggered impairment charge reversal in the amount of PLN 61,807 k.

The balance sheet value of allowances for expected credit losses has changed, in comparison to previous periods, due to the reclassification of credit cards and reversal of allowances for expected credit losses.

Impact of IFRS 9 on capital adequacy

On 12.12.2017, the European Parliament and the Council adopted Regulation No 2017/2395 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State. This Regulation entered into force on the next day following its publication in the Official Journal of the European Union and has been applicable since 1.01.2018. The European Parliament and the Council concluded that the application of IFRS 9 may lead to a sudden significant increase in expected credit loss provisions and consequently to a sudden decrease in institutions' Common Equity Tier 1 capital.

The regulation regarding the mitigation of impact of IFRS 9 on Tier 1 capital provides for the following:

- Where an institution's opening balance sheet on the day that it first applies IFRS 9 reflects a decrease in Common Equity Tier 1 capital as a result of increased expected credit loss provisions, including the loss allowance for lifetime expected credit losses for financial assets that are credit-impaired, compared to the closing balance sheet on the previous day, reporting entity should be allowed to include in its Common Equity Tier 1 capital a portion of the increased expected credit loss provisions for a transitional period. That transitional period should have a maximum duration of 5 years and should start in 2018. The portion of expected credit loss provisions that can be included in Common Equity Tier 1 capital should decrease over time down to zero to ensure the full implementation of IFRS 9 on the day immediately after the end of the transitional period.
- The multipliers that can be applied in consecutive years of the transitional period are as follows: 95%, 85%, 70%, 50%, 25%.

- If reporting entity decides to apply the IFRS 9 transitional arrangements, it should publicly disclose its own funds, capital ratios and leverage ratio both with and without the application of those arrangements in order to enable the recipients of financial statements to determine the impact of those arrangements.
- Reporting entity should decide whether to apply those transitional arrangements and inform the KNF accordingly.
- During the transitional period, reporting entity may reverse once its initial decision, subject to the prior permission of the KNF, which should ensure that such decision is not motivated by considerations of regulatory arbitrage.
- Reporting entities that decide to apply transitional arrangements should be required to adjust the calculation of regulatory items which are directly affected by expected credit loss provisions to ensure that they do not receive inappropriate capital relief. For example, the specific credit risk adjustments by which the exposure value is reduced under the standardised approach for credit risk should be reduced by a factor which has the effect of increasing the exposure value. This would ensure that an institution would not benefit from both an increase in its Common Equity Tier 1 capital due to transitional arrangements as well as a reduced exposure value.

Having analysed Regulation No. 2017/2395, Santander Bank Polska Group has decided to apply the transitional arrangements provided for therein, which means that the full impact of the introduction of IFRS 9 will not be taken into account for the purpose of capital adequacy assessment of Santander Bank Polska Group.

Below, Santander Bank Polska Group has disclosed own funds, capital ratios, as well as the leverage ratio, both including and excluding application of transitional solutions stemming from Article 473a of Regulation (EU) No 575/2013:

Available capital (amounts)		30.09.2018	30.06.2018
1	Common Equity Tier 1 (CET1) capital	19 657 685	19 660 476
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19 476 357	19 518 903
3	Tier 1 capital	19 657 685	19 660 476
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19 476 357	19 518 903
5	Total capital	22 323 263	22 357 159
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	22 141 723	22 215 395
Risk-weighted assets (amounts)			
7	Total risk-weighted assets	126 770 298	125 769 908
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	126 704 428	125 718 206
Capital ratios			
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	15,51%	15,63%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15,37%	15,53%
11	Tier 1 (as a percentage of risk exposure amount)	15,51%	15,63%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15,37%	15,53%
13	Total capital (as a percentage of risk exposure amount)	17,61%	17,78%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17,48%	17,67%
Leverage ratio			
15	Leverage ratio total exposure measure	186 417 103	177 260 235
16	Leverage ratio	10,55%	11,09%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	10,46%	11,02%

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers was published on 28.05.2014 by the International Accounting Standards Board and applies to annual reporting periods beginning on or after 1.01.2018.

IFRS 15 introduces a new, 5-step model to be applied to revenue-generating contracts with customers, excluding the contracts which are covered by a separate standard. The standard has been introduced to harmonise the rules used by enterprises and to eliminate inconsistencies with previous standards.

As of 1.01.2018, IFRS 15 replaces the following standards and interpretations:

- IAS 18 Revenue
- IAS 11 Construction Contracts
- SIC-31 Revenue - Barter Transactions Involving Advertising Services
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 18 Transfers of Assets from Customers

The new standard is applied to almost all contracts with customers. The main exceptions include leases (IAS 17), financial instruments and other contractual rights or obligations (IFRS 9, IFRS 10, IFRS 11, IAS 27 and IAS 28), insurance contracts (IFRS 4) and guarantees covered by other standards.

The previous standards (IAS 11/IAS 18) distinguished three separate models for revenue recognition, depending on the type of the sale transaction:

- construction contract
- sale of goods
- sale of services.

IFRS 15 has introduced a single, five-step revenue recognition model, replacing the previous three separate models of revenue recognition. The new model will apply to all transactions, enterprises and industries. This model is used in two versions, depending on how the entity satisfies a performance obligation:

- over time, or
- at a point in time.

The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised assets to customers in an amount that reflects the consideration to which Santander Bank Polska Group expects to be entitled in exchange for those assets.

The key criterion for the recognition of revenue is no longer the moment of transferring the "risks and rewards", which was considered as key under IAS 18, but the moment of satisfaction of a performance obligation, which takes place as control is passed. This determines the recognition of a revenue under IFRS 15. However, the expectation is that the moment will more often than not coincide with the moment of transfer of risks and rewards within the meaning of IAS 18.

Furthermore, in line with IFRS 15, costs incurred to obtain and secure a contract with a customer should be capitalised and amortised over time for as long as the benefits from the contract are consumed.

As part of the analysis of the impact of IFRS 15 on the Santander Bank Polska Group, the following types of revenues have been identified, which in principle should be recognized in accordance with IFRS 15:

- commission income excluding revenues for issuing guarantees and sureties,
- income due to advisory services,
- income from the sale of fixed operating assets taken over for debts, which are presented together with the cost of fixed assets as a profit on sales in the line "Other operating income",
- loyalty programs,
- so called "success fee" - where success fee agreements are understood by Santander Bank Polska Group as agreements where Santander Bank Polska Group has no guaranteed remuneration or when it is insignificant during the lifetime of the agreement until a condition is fulfilled (for example in the form of finalization of a contractually agreed transactions), when Santander Bank Polska Group receives a remuneration of a significant value covering the effort put into the performance of the agreements in a longer, preceding time,

- income from asset management and
- income from the sale of insurance products showing a connection with financial instruments to an extent not covered by separate standards.

For the purpose of analyzing the impact of the implementation of IFRS 15, Santander Bank Polska Group took the advantage of the practical application of the portfolio approach to the analysis of contracts with clients under paragraph 4 of IFRS 15. This was due to the reasonable expectations of Santander Bank Polska Group that the impact on the financial statements, in connection with the standard application in the portfolio will not significantly differ from the standard applied in relation to individual contracts (or performance obligations) within this portfolio. Santander Bank Polska Group applied the portfolio approach in the majority of the identified revenue categories indicated above.

Santander Bank Polska Group applied the modified retrospective method referred to in paragraph C3 point b) of IFRS 15, reflecting the potential effect of the first application of IFRS 15 as an adjustment to retained earnings in the annual reporting period starting from 01.01.2018. As part of this interim method, Santander Bank Polska Group applied IFRS 15 retrospectively only to contracts that are not terminated as at the day of first application.

The implementation of IFRS 15 does not have significant impact on the financial standing and equity of Santander Bank Polska Group because revenue derived from financial instruments offered by Santander Bank Polska Group such as loans or leases is recognised using an effective interest rate and the recognition method for revenue and corresponding cost will not change in the context of contractual provisions.

Comparability with the results from the previous periods

The use of IFRS 9 required a change in presentation and the scope of disclosure, including in the first year after adoption, when a wide range of information is needed to allow financial statement users to understand the impact that the IFRS 9 might have in terms of classification, measurement and impairment of financial instruments on the financial position and the financial results of Santander Bank Polska Group.

Santander Bank Polska Group elected to use the IFRS 9 provisions which provide for exemption of the obligation to restate comparative information for prior periods in relation to the changes arising from classification, measurement and impairment. Differences in the carrying amount of financial assets and liabilities resulting from the application of IFRS 9 are reported in retained earnings in equity and in revaluation reserve as at 1.01.2018.

As at 30.06.2018, Santander Bank Polska Group completed the analysis of the credit cards portfolio in terms of passing the contractual cash flow test. The analysis resulted in a change in the classification and measurement of selected credit card portfolios due to implementation of IFRS 9. The change concerned credit cards sold by 1.08.2016 whose contractual structure of interest rate was based on four times the NBP Lombard rate and the contractual clauses did not include direct reference to the Civil Code in terms of the maximum statutory interest through which the interest income was recognised. The above mentioned credit card portfolio was measured at fair value and classified in the statement of financial position as "loans and advances to customers measured at fair value through profit or loss". The interest income from such instruments is presented in "interest-like income from assets measured at fair value through profit or loss". Santander Bank Polska Group ceased to recognise impairment allowances on such portfolio and the assessment of credit risk for such products is now an integral part of the measurement at fair value.

Value of the credit card portfolio as at 01.01.2018:

Carrying amount - gross as at 01.01.2018	Losses for expected credit losses	Carrying amount - net	Fair value	Difference between carrying amount net and fair value
1 662 067	172 271	1 489 796	1 489 971	175

Given the analysis underway, as at 31.03.2018, Santander Bank Polska Group continued to measure the discussed financial assets portfolio at amortised cost. Below is the restated financial information presented in the condensed consolidated financial statements for the period ended 31.03.2018, regarding the positions affected by the change, as if the change of classification and measurement of credit cards had been applied in the preceding reporting period.

The table below presents selected restated positions of the consolidated income statement:

Line subject to amendment	Value as at 31.03.2018 before amendment	Reclassification	Fair value measurement as at 1.01.2018	Expected credit losses reversal as at 31.03.2018	Fair value measurement as at 31.03.2018	Value as at 31.03.2018 after amendment
Net trading income and revaluation	20 073	-	175	-	(1 639)	18 609
Impairment losses on loans and advances	(222 966)	-	-	3 249	-	(219 717)

Below are selected restated positions of consolidated statement of financial position:

Line subject to amendment	Value as at 31.03.2018 before amendment	Reclassification	Fair value measurement as at 1.01.2018	Expected credit losses reversal as at 31.03.2018	Fair value measurement as at 31.03.2018	Value as at 31.03.2018 after amendment
Loans and advances to customers measured at amortised cost	108 971 391	(1 407 630)	-	-	-	107 563 761
Loans and advances to customers measured at fair value through profit or loss	106 400	1 407 630	175	3 249	(1 639)	1 515 815
Retained earnings	3 051 743	-	-	-	-	3 051 743
Profit for the current period	438 734	-	175	3 249	(1 639)	440 519

In view of the decision to change the classification and measurement of selected credit card portfolios after the implementation of IFRS 9, as at 1.01.2018, the Management Board of Santander Bank Polska Group, following the materiality principle, recognised the amount resulting from the change in the classification and measurement of the above financial assets portfolio in profit for the current period rather than retained earnings. In the opinion of the Management Board, the above simplification does not significantly affect fair presentation of the financial position of Santander Bank Polska Group.

The application of IFRS 15 did not require any significant changes in the presentation method.

2.8. Changes to accounting principles

Financial assets and liabilities

Recognition and derecognition

Initial recognition

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

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

Derecognition of financial assets

Santander Bank Polska Group derecognises a financial asset when and only when, if:

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

Santander Bank Polska Group transfers a financial asset when and only when, if:

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

When Santander Bank Polska Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), then

Santander Bank Polska Group treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met:

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

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

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

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

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

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

In all other cases, Santander Bank Polska Group derecognises a part of financial asset (or a group of similar financial assets).

Derecognition of financial liabilities

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

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

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

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

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

Classification of financial assets and financial liabilities

Classification of financial assets

Classification of financial assets which are not equity instruments

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

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

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

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

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

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

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

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

Classification of financial assets which are equity instruments

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

Business models

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

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

- collecting contractual cash flows

- selling financial assets
- or both.

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

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

Qualitative criteria for the assessment of a business model

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

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel of Santander Bank Polska Group for the management accounting purposes. If the fair value of the asset portfolio is a key indicator for reasons other than:
 - (1) managing liquidity risk,
 - (2) maintaining a pre-determined profitability level, or
 - (3) maintaining an appropriate balance between the maturity dates of financial assets and financial liabilities,
- then the objective of the business model is achieved by selling the assets.
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed. If the performance of an asset portfolio is assessed solely on the basis of its fair value and cash flows are generated through the sale of assets, then the objective of the business model is achieved by selling the assets from the portfolio managed.
- the method of remunerating the persons who manage the financial instruments portfolio. If the managers' compensation is linked to the fair value of assets in the portfolio managed (excluding the credit risk factor), then the objective of the business model is achieved by selling the assets.
- if the analysed asset portfolio has been designated as a portfolio held for trading.
- If any of the above qualitative criteria is fulfilled, then the asset portfolio must be linked with another (residual) business model. If none of the four criteria is fulfilled, this implies a business model whose objective is to hold assets to collect contractual cash flows or a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Further business model assessment involves an analysis of quantitative criteria.

Quantitative criteria for the assessment of a business model

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

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

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

- if the sale is due to the increase in credit risk related to the assets,
- if the sale is infrequent (even if its value is significant),
- if the value of the sale is insignificant (even if the sale is frequent),
- if the assets are sold to improve liquidity in a stress case scenario,
- if the sale is required by third parties (it applies to the assets which have to be sold owing to e.g. the requirements of supervisory authorities, but were originally held to collect contractual cash flows),

- if the sale results from exceeding the concentration limits specified in internal procedures and is a part of the credit risk management policy,
- if the sale is made close to the maturity date of the financial assets and the proceeds from the sale are approximations of the contractual cash flows that Santander Bank Polska Group would have collected if it had held the assets until their maturity date.

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

Business model types

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

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

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

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

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

A business model whose objective is to hold assets in order to collect contractual cash flows spans the entire spectrum of credit activity, including but not limited to mortgage and consumer loans, credit cards, loans granted and debt instruments (e.g. treasury bonds, corporate bonds), which are not held for liquidity management purposes. Financial assets on account of trading settlements are substantially also recognised under this model. Such assets are recognised in the books of Santander Bank Polska Group on the basis of an invoice issued payable within maximum 12 months.

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

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

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

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

- financial assets acquired for the purpose of liquidity management, such as State Treasury bonds or NBP bonds;
- loans covered by the underwriting process, i.e. transactions whereby Santander Bank Polska Group undertakes to ensure financing with a planned promise to reduce the exposure of Santander Bank Polska Group within an agreed period, and;
- cash and cash equivalents.

Other/ residual business model

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

A portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. Santander Bank Polska Group is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. In addition, a portfolio of financial assets that meets the definition of held for trading is not held to collect contractual cash flows or held both to collect contractual cash flows and to sell financial assets. For such portfolios, the collection of contractual cash flows is only incidental to achieving the business model's objective. Consequently, such portfolios of financial assets must be measured at fair value through profit or loss.

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

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

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

Changing the business model

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

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

The following are not changes in business model:

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

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

If Santander Bank Polska Group reclassifies a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is established at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss.

Characteristics of contractual cash flows

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

- whose objective is to hold assets to collect contractual cash flows or
- whose objective is achieved by both collecting contractual cash flows and selling financial assets

unless Santander Bank Polska Group has designated that financial asset to be measured at fair value through profit or loss.

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

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

Interest should include the consideration for:

- the time value of money,
- credit risk,
- other basic lending risks and costs,
- and a profit margin.

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

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

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

Classification of financial liabilities

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

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

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

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

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

Embedded derivatives

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

Measurement of financial assets and financial liabilities

Initial measurement

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

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

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

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

Subsequent measurement of financial assets

After initial recognition, Santander Bank Polska Group recognises a financial asset:

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

Impairment charges are not calculated for financial assets measured at fair value through profit or loss.

Subsequent measurement of financial liabilities

After initial recognition, Santander Bank Polska Group recognises a financial liability:

- at amortised cost, or

- at fair value through profit or loss.

“Other financial liabilities” cover items other than financial liabilities measured at fair value through profit or loss. These are liabilities measured at amortised costs, and they include: deposits from banks, deposits from customers, liabilities due to repo transactions, loans and advances obtained, issued debt instruments and subordinated liabilities.

Subordinated liabilities are recognised as liabilities which in the event of resolution of Santander Bank Polska Group are repaid after satisfaction of claims of all other Santander Bank Polska creditors. Financial liabilities are classified as subordinated liabilities by the decision of the Polish Financial Supervision Authority issued at the request of Santander Bank Polska Group.

Amortised cost measurement

Financial assets

Effective interest method

Interest revenue is calculated by using the effective interest method. This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- purchased or originated credit-impaired financial assets For those financial assets, Santander Bank Polska Group applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition,
- financial assets other than purchased or originated credit-impaired financial assets that thereafter were recognised as such items. For those financial assets, Santander Bank Polska Group applies the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

In subsequent reporting periods, Santander Bank Polska Group calculates the interest revenue by applying the effective interest rate to the gross carrying amount if the credit risk on the financial instrument improves so that the financial asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the requirements specified in this paragraph were applied.

Gross carrying amount of a financial asset is the amortised cost of a financial asset, before adjusting for any loss allowance and without taking into account the value of penalty interest calculated on the overdue principal.

Modification of contractual cash flows

The concept of modification

Renegotiation or modification of the cash flows arising from the contract related to the financial assets component is recognized as the modification by Santander Bank Polska Group.

If the terms of the financial asset agreement change, the Santander Bank Polska Group assesses whether the cash flows generated by the modified asset differ significantly from cash flows generated by financial asset before modification of the terms of the asset agreement. The result on modification is the difference between present value of the modified cash flows discounted using the old effective interest rate and instrument's gross balance sheet value before modification.

Modification criteria

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

Quantitative criteria

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

The "10% test" is not the only criterion in assessing whether a modification leads to the removal of a financial asset from the accounting books or not, because the modified asset is subject to further qualitative analysis.

Qualitative criteria

During the qualitative analysis, Santander Bank Polska Group takes into account the following aspects:

- adding / removing a feature that violates the contractual cash flow test result,
- currency conversion - except for currency conversions resulting from the transfer of the contract for collection,
- change of the main debtor - change of the contractor results in a significant modification of contractual terms (in accordance with IFRS 9: 3.2.3 (a) - termination of contractual rights to cash flows) and
- consolidation of several exposures into one under an annex.

Substantial modification

A substantial modification resulting in the exclusion of a financial instrument from the statement of financial position occurs when:

- (1) cash flows of the modified financial instrument are "materially different" from the original financial instrument, i.e. when the difference between discounted cash flows of the modified financial instrument (using the original effective interest rate) and the discounted (also with the original effective interest rate), cash flows of the financial instrument before the modification, is higher than 10%,
- (2) at least one of the quality criteria described above has been breached.

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

Minor modification

If the value of the difference between the value of future cash flows resulting from the changed financial assets, discounted with the original effective interest rate and the value of future cash flows resulting from the primary financial asset discounted with the same interest rate is at most 10% Santander Bank Polska Group considers the modification as minor.

The quantitative criterion does not apply to loans subject to the restructuring process (i.e. minor modification is recognized for assets covered by the restructuring process).

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

Write-off

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

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

- The irrecoverability of the debt has been documented;
- there are no reasonable expectations of recovering the financial asset in full or in part;
- the debt is due and payable in its entirety and the value of the credit loss allowance corresponds to the gross value of the exposure, while the expected debt recovery proceeds are nil;
- the asset originated as a result of a crime and the perpetrators have not been identified or
- Santander Bank Polska Group has received:
 - (1) a decision on discontinuation of debt enforcement proceedings due to irrecoverability of the debt (in relation to all obligors), issued by a relevant enforcement authority pursuant to Article 824 § 1 (3) of the Polish Code of Civil Procedure, which is recognised by the creditor (Santander Bank Polska Group) as corresponding to the facts; or
 - (2) a court decision:

- (a) dismissing a bankruptcy petition, if the insolvent debtor's assets are insufficient to cover the cost of the proceedings or suffice to cover this cost only; or
- (b) discontinuing the bankruptcy proceedings or
- (c) closing the bankruptcy proceedings.

Financial assets written off are then recorded off balance sheet.

Impairment

General approach

Santander Bank Polska Group recognises an allowance for expected credit losses on a financial asset, in respect of:

- financial assets measured at amortised cost or at fair value through other comprehensive income, or;
- lease receivables paid in a timely manner,
- contract assets or loan commitments, and
- contingent liabilities to which the impairment requirements apply.

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

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

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

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

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

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

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

Santander Bank Polska Group following the guidelines contained in the ITG document of 11.12.2015 (IFRS Transition Resource Group for the Impairment of Financial Instruments: "Measurement of the loss allowance for credit-impaired financial assets") presents the correction of interest income, which reduces interest income for exposures classified to stage 3 to the level of recoverable value as part of impairment for expected credit losses.

Financial assets measured at amortised cost

At the end of each reporting period, Santander Bank Polska Group determines whether there is an objective evidence for impairment of a financial asset or a group of financial assets. Financial asset or a group of financial assets is impaired and the allowance for expected credit losses is justified if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an 'impairment event') and that impairment event (or events) has (have) an impact on the estimated future cash flows from that financial asset (or a group of assets) that can be reliably estimated. It may not be possible to identify

a single, discrete event that caused the impairment. Rather, the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that the financial asset

(or a group of financial assets) is impaired includes observable data that comes to the attention of the entity about the following events:

- serious financial difficulties of the issuer or debtor;
- failure to fulfil contractual terms and conditions, e.g. to clear the interest or principal debt or to repay these obligations on schedule;
- amended lending terms granted to the debtor (for financial or legal reasons resulting from the debtor's financial problems) that otherwise would not have been provided;
- very likely bankruptcy of the debtor, sanation proceedings, out-of-court arrangement proceedings or other form of financial restructuring initiated by the debtor;
- disappearance of an active market for the financial asset in question, due to financial difficulties; or
- the information available indicates a measurable drop of estimated future cash flows generated by a group of financial assets since their initial recognition, even though such a reduction for a single financial asset cannot be determined, including:
 - (1) deterioration of the status of debtor's repayments to Santander Bank Polska Group, or
 - (2) economic developments on the domestic or local market which translate into non-repayments to Santander Bank Polska Group.

If there is objective evidence of loans and receivables impairment, the allowance for expected credit losses is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If a loan or receivable bears a floating interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. If a floating rate financial asset or floating rate financial liability is recognised initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability. The carrying amount of the asset shall be reduced through the recognition of an expected credit loss allowance. The amount of expected credit loss allowance is recognised in the profit and loss account.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from debt enforcement less costs for obtaining and selling the collateral.

Santander Bank Polska Group periodically reviews its loan portfolio to check whether there is any objective evidence that a financial asset or group of financial assets are impaired.

With regard to impairment, the review of individual loan exposures is carried out once a quarter or more often, if needed. Impairment for the portfolio which is assessed under the collective approach is verified monthly. Santander Bank Polska Group validates parameters which are used to calculate provisions under collective approach. Such validations ("back tests") are carried out on the basis of historical observations, at least twice a year.

Impairment of individual loan exposures is based on the amount of prospective receivables (defined as the current value of expected future cash flows discounted by the effective interest rate) using the scenario-based approach to the individually significant exposures. As part of the scenario analysis, the relationship manager selects the strategy that reflects the current recovery method. Within each strategy, consideration is given to other potential scenarios. The selected strategy affects the parameters that can be used in the model. In the individual approach, allowances for expected credit losses are based on the calculation of the total probability-weighted impairment allowances estimated for all the possible recovery scenarios, depending on the recovery strategy currently employed vis-à-vis the customer.

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

- recovery from the operating cash flows / refinancing / capital support;
- recovery through the voluntary sale of collateral;
- recovery through debt enforcement;
- recovery through an arrangement / turnaround / bankruptcy;
- recovery by take-over of the debt / assets / sale of receivables.

If Santander Bank Polska Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The collective assessment of impairment does not include

assets that are individually assessed for impairment and for which an impairment allowance for expected credit losses is or continues to be recognised by Santander Bank Polska Group.

If, in a subsequent period, the amount of the expected credit loss allowance decreases and the decrease is related objectively to an event occurring after the impairment was recognised, the previously recognised credit loss allowance is reversed either directly or by adjusting the expected credit loss allowance. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

The amount of the reversal is recognised in the profit or loss account.

When a loan has been subject to a specific provision and the prospects of recovery do not improve, eventually it may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be non-recoverable is written off against the previous allowance for expected credit losses. Subsequent recoveries of amounts previously written off decrease the amount of allowance for expected credit losses.

Impairment calculation methods are standardised across Santander Bank Polska Group.

Simplified approach for trade receivables and contract assets

In the case of trade receivables and contract assets, Santander Bank Polska Group always measures the loss allowance at an amount equal to lifetime expected credit losses for trade receivables or contract assets that result from transactions that are within the scope of IFRS 15, and that:

- do not contain a significant financing component (or when Santander Bank Polska Group applies the practical expedient for contracts that are one year or less) in accordance with IFRS 15; or
- contain a significant financing component in accordance with IFRS 15, if Santander Bank Polska Group chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses.

Identifying a significant increase in credit risk

At each reporting date, Santander Bank Polska Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, Santander Bank Polska Group uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, Santander Bank Polska Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort and that is indicative of significant increases in credit risk since initial recognition.

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

- qualitative assumptions:
 - (1) implementing dedicated monitoring strategies for the customer following the identification of early warning signals that indicate a significant increase in credit risk,
 - (2) restructuring actions connected with making concessions to the customers as a result of their difficult financial standing,
- quantitative:
 - (1) 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,
 - (2) delay in payment combined with the materiality threshold consistent with classification into stage 3.

Purchased or originated credit-impaired financial assets

Purchased or originated credit-impaired financial asset is a purchased or originated financial asset that is credit-impaired on initial recognition.

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

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

Simplified approach for trade receivables and contract assets

Santander Bank Polska Group always measures the loss allowance at an amount equal to lifetime expected credit losses for trade receivables or contract assets that result from transactions that are within the scope of IFRS 15, and that:

- (i) do not contain a significant financing component (or when Santander Bank Polska Group applies the practical expedient for contracts that are one year or less) in accordance with IFRS 15; or
- (ii) contain a significant financing component in accordance with IFRS 15, if Santander Bank Polska Group chooses as its accounting policy to measure the loss allowance at an amount equal to lifetime expected credit losses. This accounting policy applies to all such trade receivables and contract assets.

Contingent liabilities

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

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

For the purpose of estimating allowances for expected losses, Santander Bank Polska Group continues using own estimates of risk parameters that are based on internal models, however with the necessary modifications in the context of IFRS 9 requirements (such as estimating the parameters over the lifetime of the exposure or taking into account future macroeconomic conditions). Santander Bank Polska Group has developed a methodology for models' parameters and built models compliant with IFRS 9. Expected credit losses are equal to the estimated PD parameter multiplied by the estimated LGD and EAD parameters. The final value of expected credit losses is the sum of expected losses from all periods (depending on the stage, either in 12 months or in the entire lifetime) discounted using the effective interest rate. The estimated parameters are adjusted for macroeconomic scenarios in accordance with the assumptions of IFRS 9. The scenarios used by Santander Bank Polska Group are developed internally.

The models and parameters generated for the needs of IFRS 9 are subject to model management process and periodic calibration and validation.

Gains and losses

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

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

Dividends are recognised in profit or loss only if:

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

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

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

Investments in equity instruments

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

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

As at the reporting date, Santander Bank Polska Group elected to measure all equity instruments other than shares in subsidiaries, associates and joint ventures at fair value through other comprehensive income.

Liabilities designated as measured at fair value through profit or loss

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

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

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

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

Assets measured at fair value through other comprehensive income

A gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. If the financial asset is reclassified out of the fair value through other comprehensive income measurement category, Santander Bank Polska Group recognises in profit or loss the cumulative gain or loss that was previously recognised in other comprehensive income. Interest calculated using the effective interest method is recognised in profit or loss.

If a financial asset is measured at fair value through other comprehensive income, the amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if the financial asset had been measured at amortised cost.

Financial instruments held for trading

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

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

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

Santander Bank Polska Group separates derivatives embedded in other financial instruments from the host contract and recognises them as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and the host contract is not carried at fair value through profit or loss. Embedded derivatives are measured at fair value with changes recognised in the profit and loss account.

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

Hedge accounting

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

Intangible assets

Development costs

Santander Bank Polska Group from 1.01.2018 capitalises direct costs and a justified part of indirect costs related to the design, construction and testing of a chosen alternative for new or improved processes, systems or services.

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

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

The economic life of development costs is definite. The amortisation rates are adjusted to the length of the economic life. Santander Bank Polska Group indicates separately the costs from internal development and the costs acquired through business combinations.

Development expenditure comprises all expenditure that is directly attributable to development activities.

Net interest income

Santander Bank Polska Group presents the interest income recognised at the effective interest rate in separate lines of the income statement – "Interest income from financial assets measured at amortised cost" and "Interest income from assets measured at fair value through other comprehensive income".

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

Net fee and commission income

The commission income consists mainly of revenues recognized in accordance with the 5-element revenue recognition model resulting from IFRS 15 "Revenues from contracts with customers", whose elements are described below, as well as commission income recognized in accordance with other standards (IAS 17 Leases and IFRS 9 Financial instruments).

Step 1: Identifying the contract with the customer. The first step is to identify the contract with the customer. IFRS 15 defines a contract as an agreement between two or more parties that creates enforceable rights and obligations. However, not all contracts are covered by IFRS 15. Santander Bank Polska Group recognises a contract with a customer within the scope of IFRS 15 if all the following conditions are met:

- The contract has been approved in writing, orally, or in accordance with other customary business practices and the parties are committed to perform their obligations in the contract.
- Santander Bank Polska Group can identify each party's rights regarding the assets.
- Santander Bank Polska Group can identify payment terms for the assets.
- The contract has commercial substance (i.e. the risk, timing or amount of the vendor's future cash flows to Santander Bank Polska Group are expected to change as a result of the contract).

- It is probable that Santander Bank Polska Group will collect the consideration to which it will be entitled in exchange for the assets that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, Santander Bank Polska Group considers only the customer's ability and intention to pay that amount of consideration when it is due.

In the process of identifying a contract with the customer, Santander Bank Polska Group takes into account both combination and modification of contracts as this may affect the method of recognising revenue from contracts with customers.

Santander Bank Polska Group combines two or more contracts entered into at or near the same time with the same customer (or related parties of the customer), and accounts for the contracts as a single contract if one or more of the following criteria are met:

- the contracts are negotiated as a package with a single commercial objective;
- the amount of consideration to be paid in one contract depends on the price or performance of the other contract;
- the assets promised in contracts are a single performance obligation.

A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract.

A contract modification exists when the parties to a contract approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the contract. A contract modification could be approved in writing, by oral agreement or implied by customary business practices. If the parties to the contract have not approved a contract modification, Santander Bank Polska Group continues to apply IFRS 15 to the existing contract until the contract modification is approved.

A contract modification may exist even though the parties to the contract have a dispute about the scope or price (or both) of the modification or the parties have approved a change in the scope of the contract but have not yet determined the corresponding change in price. In determining whether the rights and obligations that are created or changed by a modification are enforceable,

Santander Bank Polska Group considers all relevant facts and circumstances including the terms of the contract and other evidence. If the parties to a contract have approved a change in the scope of the contract but have not yet determined the corresponding change in price, Santander Bank Polska Group estimates the change to the transaction price arising from the modification in relation to the estimation of variable consideration and constraining estimates of variable consideration.

Step 2: Identifying the performance obligations in the contract The next step in the process of recognising revenue is to identify performance obligations (assets) under the contract which are distinct. An asset is distinct if the customer can benefit from the asset either on its own or together with other resources that are readily available to the customer, and at the same time the asset is separately identifiable from other assets in the contract. In such a case, Santander Bank Polska Group is dealing with separate performance obligations.

Factors that indicate that Santander Bank Polska Group's promise to transfer an asset to a customer is separately identifiable include, but are not limited to, the following:

- Santander Bank Polska Group does not provide a significant service of integrating the asset with other assets promised in the contract into a bundle of assets that represent the combined output for which the customer has contracted.
- The asset does not significantly modify or customise another asset promised in the contract.
- The asset is not highly dependent on, or highly interrelated with, other assets promised in the contract.

If a promised asset is not distinct, Santander Bank Polska Group combines that asset with other promised assets until it identifies a bundle of assets that is distinct. In some cases, that would result in Santander Bank Polska Group accounting for all the assets promised in a contract as a single performance obligation.

Step 3: Determining the transaction price. In accordance with IFRS 15, the transaction price is the amount of consideration that Santander Bank Polska Group expects to be entitled to in exchange for assets promised. It represents the amount of the revenue that will be recognised as a result of performance of the contract. In addition to the amount of consideration, the transaction price should also reflect any highly probable variable consideration (including bonuses or penalties), a discounting factor, amounts paid to customers or non-cash consideration. As the transaction price may be based to a large degree on estimates, Santander Bank Polska reviews it as at each balance sheet date.

If the consideration promised in a contract includes a variable amount, Santander Bank Polska Group estimates the amount of consideration to which it will be entitled in exchange for transferring the promised assets to a customer. An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items.

Step 4: Allocating the transaction price to the performance obligations. As individual performance obligations may be recognised at different times and in different ways (at a point in time or over time), in the case of multiple performance obligations in a contract, the transaction price needs to be allocated to identified performance obligations.

The allocation should be based on the stand-alone selling price, which is the price at which a vendor would sell an asset separately in similar circumstances and to similar customers. If the transaction price changes during the contract, the re-allocation is based on the original unit selling prices.

Step 5: Recognising revenue at the moment of satisfying each performance obligation. Revenue is recognised when assets are transferred to a customer and the customer acquires control over the subject matter of the contract. IFRS 15 specifies the conditions under which a control is said to be transferred to the customer. Control may be transferred at a point in time or over time, which is determined on the basis of the criteria set out in the standard. Control is the ability to direct the use of, and obtain substantially all of the remaining benefits from, an asset. This is a wider concept than the previously used moment of transfer of significant risks and rewards. Indicators that control has been transferred include that the customer has, for example: physical possession of the asset, legal title of the asset, or has accepted the effect of the performance obligation.

According to Santander Bank Polska Group, the indicators of the transfer of control include the following:

- Santander Bank Polska Group has a present right to payment for the asset: if a customer is presently obliged to pay for an asset, then that may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset in exchange.
- The customer has legal title to the asset: legal title may indicate which party to a contract has the ability to direct the use of, and obtain substantially all of the remaining benefits from, an asset or to restrict the access of other entities to those benefits. Therefore, the transfer of legal title of an asset may indicate that the customer has obtained control of the asset. If Santander Bank Polska Group retains legal title solely as protection against the customer's failure to pay, those rights of Santander Bank Polska Group do not preclude the customer from obtaining control of an asset.
- Santander Bank Polska Group has transferred physical possession of the asset: the customer's physical possession of an asset may indicate that the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from the asset or to restrict the access of other entities to those benefits. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and a customer or may have physical possession of an asset that Santander Bank Polska Group controls.
- The customer has the significant risks and rewards of ownership of the asset: the transfer of the significant risks and rewards of ownership of an asset to the customer may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from the asset. However, when evaluating the risks and rewards of ownership of a promised asset, Santander Bank Polska Group excludes any risks that give rise to a separate performance obligation in addition to the performance obligation to transfer the asset.
- The customer has accepted the asset: the customer's acceptance of an asset may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

Control may be transferred at a point in time or over time. The following criteria are used to determine when control is transferred and how income should be recognised:

- The customer receives the benefits as the contract is performed; if the service was discontinued, another service provider would not need to re-perform the work that the entity has completed to date.
- Santander Bank Polska Group creates or enhances an asset that the customer controls as it is created or enhanced.
- Santander Bank Polska Group does not create an asset with an alternative use and has a right to payment for performance completed to date.

If any of the above criteria is satisfied, income is recognised over time. In other cases, income is recognised at a point in time when control is transferred.

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 (In 2nd quarter of 2018 the name of Global Corporate Banking was changed to Corporate & Investment Banking, the criteria of customers assignment to this business segment was maintained unchanged), 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 Santander Bank Polska Group 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 Santander Bank Polska Group 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 2018 introduced the following changes:

- customer resegmentation between business segments; Once a year, Santander Bank Polska Group carry out the resegmentation / migration of customers between operating segments which results from the fact that customer meet 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;
- in the further product offer customization and improvement of services efficiency, process of portfolio management and providing services for medium companies, which have been presented in Retail Banking Segment yet, were transferred to Business & Corporate Banking on the 30.05.2018. Results from those clients for 01.01.2018-30.09.2018, balance sheet at the date 30.09.2018, as well as comparative figures involve the change described above.

Comparable data are adjusted accordingly.

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. It also covers insourcing services provided to retail customers based on mutual agreements with other banks and financial institutions.

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.

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 wholesale market, Corporate & Investment Banking 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

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

Consolidated income statement by business segments

	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate& Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
01.01.2018-30.09.2018						
Net interest income	1 935 240	494 346	149 911	507 642	1 121 113	4 208 252
incl. internal transactions	(96 869)	(43 938)	2 910	138 523	(626)	-
Net fee and commission income	981 225	264 755	179 906	11 148	123 490	1 560 524
incl. internal transactions	67 833	47 699	(124 154)	10 683	(2 061)	-
Other income	30 659	41 020	98 548	119 342	44 063	333 632
incl. internal transactions	1 116	36 328	(33 459)	9 011	(12 996)	-
Dividend income	-	-	1 118	98 724	19	99 861
Operating costs	(1 437 951)	(303 933)	(170 990)	(222 381)	(423 856)	(2 559 111)
incl. internal transactions	(7 900)	(1 219)	-	11 375	(2 256)	-
Depreciation/amortisation	(157 409)	(27 955)	(11 275)	(17 694)	(30 162)	(244 495)
Impairment losses on loans and advances	(396 690)	(79 456)	(11 339)	(21 819)	(216 498)	(725 802)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	42 254	-	42 254
Tax on financial institutions	-	-	-	(304 286)	(29 315)	(333 601)
Profit before tax	955 074	388 777	235 879	212 930	588 854	2 381 514
Corporate income tax						(552 030)
Consolidated profit for the period						1 829 484
of which:						
attributable to owners of Santander Bank Polska SA						1 569 134
attributable to non-controlling interests						260 350

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

	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate& Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
01.07.2018-30.09.2018						
Net interest income	662 206	173 582	57 055	149 003	380 373	1 422 219
incl. internal transactions	(33 563)	(16 048)	833	49 475	(697)	-
Net fee and commission income	326 480	87 492	57 194	5 184	39 300	515 650
incl. internal transactions	23 561	13 964	(41 316)	4 475	(684)	-
Other income	3 055	12 516	27 823	46 732	10 027	100 153
incl. internal transactions	878	11 414	(11 038)	(1 761)	507	-
Dividend income	-	-	1 092	253	8	1 353
Operating costs	(465 576)	(100 694)	(54 754)	(74 087)	(139 424)	(834 535)
incl. internal transactions	(2 473)	(444)	-	4 195	(1 278)	-
Depreciation/amortisation	(52 511)	(9 512)	(3 610)	(5 928)	(10 532)	(82 093)
Impairment losses on loans and advances	(105 215)	(25 165)	(7 779)	(21 053)	(91 832)	(251 044)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	16 752	-	16 752
Tax on financial institutions	-	-	-	(105 321)	(9 731)	(115 052)
Profit before tax	368 439	138 219	77 021	11 535	178 189	773 403
Corporate income tax						(198 861)
Consolidated profit for the period						574 542
of which:						
attributable to owners of Santander Bank Polska SA						495 448
attributable to non-controlling interests						79 094

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

Consolidated statement of financial position by business segment

	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate & Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
30.09.2018						
Loans and advances to customers	58 131 014	30 071 000	13 041 693	-	15 346 300	116 590 007
Investments in associates	-	-	-	871 776	-	871 776
Other assets	7 138 153	1 903 679	10 498 561	36 347 785	4 049 922	59 938 100
Total assets	65 269 167	31 974 679	23 540 254	37 219 561	19 396 222	177 399 883
Deposits from customers	77 287 225	23 652 323	9 983 419	5 129 225	8 576 996	124 629 188
Other liabilities and equity	4 866 272	3 860 215	11 835 297	21 389 685	10 819 226	52 770 695
Total equity and liabilities	82 153 497	27 512 538	21 818 716	26 518 910	19 396 222	177 399 883

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

Consolidated income statement by business segments

	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate & Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
01.01.2017-30.09.2017						
Net interest income	1 753 887	473 788	150 004	522 870	996 900	3 897 449
incl. internal transactions	(80 068)	(39 961)	731	118 820	478	-
Net fee and commission income	972 751	250 494	174 107	(2 212)	102 600	1 497 740
incl. internal transactions	58 164	47 329	(113 462)	9 296	(1 327)	-
Other income	55 645	46 594	58 175	84 830	36 290	281 534
incl. internal transactions	2 118	31 105	(29 999)	(28 884)	25 660	-
Dividend income	-	-	545	76 075	16	76 636
Operating costs	(1 358 709)	(288 774)	(146 480)	(74 808)	(399 201)	(2 267 972)
incl. internal transactions	(6 052)	(1 069)	-	9 712	(2 591)	-
Depreciation/amortisation	(153 161)	(23 369)	(13 987)	(19 622)	(24 137)	(234 276)
Impairment losses on loans and advances	(311 061)	(90 819)	(2 587)	(4 198)	(68 866)	(477 531)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	38 546	-	38 546
Tax on financial institutions	-	-	-	(290 341)	(26 483)	(316 824)
Profit before tax	959 352	367 914	219 777	331 140	617 119	2 495 302
Corporate income tax						(601 159)
Consolidated profit for the period						1 894 143
of which:						
attributable to owners of Santander Bank Polska SA						1 664 063
attributable to non-controlling interests						230 080

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

	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate & Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
01.07.2017-30.09.2017						
Net interest income	604 974	157 641	56 195	178 241	343 915	1 340 966
incl. internal transactions	(29 339)	(15 143)	179	44 210	93	-
Net fee and commission income	330 544	94 960	61 652	(222)	39 971	526 905
incl. internal transactions	21 949	18 222	(43 480)	3 756	(447)	-
Other income	21 198	12 220	27 632	11 287	10 863	83 200
incl. internal transactions	1 853	10 950	(11 140)	(10 604)	8 941	-
Dividend income	-	-	384	321	7	712
Operating costs	(467 465)	(93 865)	(47 538)	8 647	(125 306)	(725 527)
incl. internal transactions	(2 033)	(336)	-	3 262	(893)	-
Depreciation/amortisation	(54 300)	(8 438)	(3 851)	(6 632)	(8 946)	(82 167)
Impairment losses on loans and advances	(136 933)	(36 718)	(2 175)	(2 835)	(52 992)	(231 653)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	14 734	-	14 734
Tax on financial institutions	-	-	-	(96 955)	(8 937)	(105 892)
Profit before tax	298 018	125 800	92 299	106 586	198 575	821 278
Corporate income tax						(188 610)
Consolidated profit for the period						632 668
of which:						
attributable to owners of Santander Bank Polska SA						559 908
attributable to non-controlling interests						72 760

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

Consolidated statement of financial position (by business segment)

	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate & Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
31.12.2017						
Loans and advances to customers	53 569 956	27 889 630	11 830 105	-	14 550 206	107 839 897
Investments in associates	-	-	-	889 372	-	889 372
Other assets	5 397 281	1 359 885	3 845 759	29 444 552	3 897 698	43 945 175
Total assets	58 967 237	29 249 515	15 675 864	30 333 924	18 447 904	152 674 444
Deposits from customers	69 496 656	21 246 416	8 128 154	4 454 999	8 154 910	111 481 135
Other liabilities and equity	4 591 627	3 362 391	5 357 993	17 588 304	10 292 994	41 193 309
Total equity and liabilities	74 088 283	24 608 807	13 486 147	22 043 303	18 447 904	152 674 444

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

4. Net interest income

01.01.2018-30.09.2018				
Interest income	Interest income on financial assets measured at amortised cost	Interest income on financial assets measured at fair value through other comprehensive income	Income similar to interest - financial assets measured at fair value through profit or loss	Total
Loans and advances to enterprises	1 338 433	-	1 520	1 339 953
Loans and advances to individuals, of which:	2 840 325	-	88 023	2 928 348
Home mortgage loans	876 903	-	-	876 903
Debt securities incl.:	-	527 297	3 870	531 167
Investment securities	-	527 297	-	527 297
Trading portfolio	-	-	3 870	3 870
Leasing agreements	202 595	-	-	202 595
Loans and advances to banks	23 885	-	-	23 885
Public sector	6 711	-	-	6 711
Reverse repo transactions	46 251	-	-	46 251
Interest recorded on hedging IRS	152 043	-	-	152 043
Total	4 610 243	527 297	93 413	5 230 953
01.01.2018-30.09.2018				
Interest expenses	Interest expenses on financial liabilities measured at amortised cost	Interest expenses on financial liabilities measured at fair value through other comprehensive income	Expenses similar to interest - financial liabilities measured at fair value through profit or loss	Total
Deposits from individuals	(423 496)	-	-	(423 496)
Deposits from enterprises	(287 397)	-	-	(287 397)
Repo transactions	(54 365)	-	-	(54 365)
Deposits from public sector	(42 893)	-	-	(42 893)
Deposits from banks	(37 169)	-	-	(37 169)
Subordinated liabilities and issue of securities	(177 381)	-	-	(177 381)
Total	(1 022 701)	-	-	(1 022 701)
Net interest income	3 587 542	527 297	93 413	4 208 252

01.07.2018-30.09.2018

Interest income	Interest income on			Total
	Interest income on financial assets measured at amortised cost	financial assets measured at fair value through other comprehensive income	Income similar to interest - financial assets measured at fair value through profit or loss	
Loans and advances to enterprises	464 122	-	509	464 631
Loans and advances to individuals, of which:	974 532	-	27 811	1 002 343
Home mortgage loans	303 386	-	-	303 386
Debt securities incl.:	-	189 226	3 657	192 883
Investment securities	-	189 226	-	189 226
Trading portfolio	-	-	3 657	3 657
Leasing agreements	70 106	-	-	70 106
Loans and advances to banks	7 816	-	-	7 816
Public sector	2 796	-	-	2 796
Reverse repo transactions	16 818	-	-	16 818
Interest recorded on hedging IRS	48 316	-	-	48 316
Total	1 584 506	189 226	31 977	1 805 709

01.07.2018-30.09.2018

Interest expenses	Interest expenses on			Total
	Interest expenses on financial liabilities measured at amortised cost	financial liabilities measured at fair value through other comprehensive income	Expenses similar to interest - financial liabilities measured at fair value through profit or loss	
Deposits from individuals	(163 782)	-	-	(163 782)
Deposits from enterprises	(108 436)	-	-	(108 436)
Repo transactions	(18 853)	-	-	(18 853)
Deposits from public sector	(13 544)	-	-	(13 544)
Deposits from banks	(14 232)	-	-	(14 232)
Subordinated liabilities and issue of securities	(64 643)	-	-	(64 643)
Total	(383 490)	-	-	(383 490)
Net interest income	1 201 016	189 226	31 977	1 422 219

	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017
Interest income		
Loans and advances to enterprises	426 511	1 248 741
Loans and advances to individuals, of which:	920 251	2 661 512
Home mortgage loans	273 039	786 116
Debt securities incl.:	169 278	493 016
Investment portfolio available for sale	155 538	466 984
Trading portfolio	13 740	26 032
Leasing agreements	65 850	190 891
Loans and advances to banks	16 367	47 741
Public sector	1 445	4 673
Reverse repo transactions	9 178	18 353
Interest recorded on hedging IRS	54 928	179 651
Total	1 663 808	4 844 578
	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017
Interest expenses		
Deposits from individuals	(142 184)	(428 593)
Deposits from enterprises	(85 502)	(258 154)
Repo transactions	(19 250)	(40 757)
Deposits from public sector	(14 428)	(39 967)
Deposits from banks	(10 384)	(34 896)
Subordinated liabilities and issue of securities	(51 094)	(144 762)
Total	(322 842)	(947 129)
Net interest income	1 340 966	3 897 449

5. Net fee and commission income

	01.07.2018- 30.09.2018	01.01.2018- 30.09.2018	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017
Fee and commission income				
eBusiness & payments	151 547	468 886	175 388	459 391
Current accounts and money transfer	78 480	240 378	83 848	252 727
Asset management fees	77 014	238 201	79 928	223 893
Foreign exchange commissions	96 500	286 140	91 823	254 861
Credit commissions	90 513	262 320	82 910	232 948
Insurance commissions	47 318	151 651	54 544	162 681
Brokerage activities	14 722	51 926	26 344	71 083
Credit cards	42 153	127 413	42 806	124 995
Off-balance sheet guarantee commissions	14 740	44 497	16 345	40 964
Finance lease commissions	5 021	14 040	3 720	11 811
Issue arrangement fees	1 438	7 323	3 951	12 755
Distribution fees	272	1 818	1 626	8 524
Other commissions	4 213	11 723	4 224	14 224
Total	623 931	1 906 316	667 457	1 870 857
Fee and commission expenses				
eBusiness & payments	(46 628)	(158 504)	(74 777)	(164 133)
Distribution fees	(4 486)	(14 749)	(5 811)	(17 448)
Brokerage activities	(2 192)	(7 311)	(2 616)	(8 527)
Credit cards	(9 229)	(28 124)	(5 523)	(24 069)
Credit commissions paid	(12 654)	(45 310)	(20 120)	(70 524)
Insurance commissions	(2 609)	(8 005)	(7 111)	(12 949)
Finance lease commissions	(6 894)	(20 389)	(6 769)	(19 744)
Asset management fees and other costs	(1 512)	(5 140)	(1 618)	(4 868)
Other	(22 077)	(58 260)	(16 207)	(50 855)
Total	(108 281)	(345 792)	(140 552)	(373 117)
Net fee and commission income	515 650	1 560 524	526 905	1 497 740

6. Net trading income and revaluation

	01.07.2018- 30.09.2018	01.01.2018- 30.09.2018	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017
Net trading income and revaluation				
Derivative instruments and interbank fx transactions	36 019	99 668	44 648	113 459
Other FX related income	9 514	9 412	9 243	32 238
Profit on equity instruments	-	-	2 583	6 636
Profit on debt instruments	-	-	(907)	(4 680)
Profit on equity securities mandatorily measured at fair value through profit or loss	(2 041)	(5 061)	-	-
Profit on debt securities mandatorily measured at fair value through profit or loss	10 443	21 951	-	-
Change in fair value of loans and advances mandatorily measured at fair value through profit or loss	5 945	7 732	-	-
Total	59 880	133 702	55 567	147 653

Net trading income and revaluation includes the change of the value of derivative instruments in the amount of PLN 445 k for 1-3Q 2018, PLN (1,843) k for 3Q 2018 and PLN (8,168) k for 1-3Q 2017, PLN 2,764 k for 3Q 2017.

The above amounts included CVA and DVA adjustments in the amount of PLN 1,302 k for 1-3Q 2018, PLN (1,555) k for 3Q 2018 and PLN (10,144) k for 1-3Q 2017, PLN 600 k for 3Q 2017.

7. Gains (losses) from other financial securities

	01.07.2018- 30.09.2018	01.01.2018- 30.09.2018	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017
Gains (losses) from other financial securities				
Profit on sale of equity securities available for sale	-	-	1 866	12 641
Profit on sale of debt securities available for sale	-	-	3 503	18 708
Charge due to impairment losses	-	-	(461)	(461)
Profit on sale of debt securities measured at fair value through other comprehensive income	13 897	21 605	-	-
Profit on sale of other investment securities mandatorily measured at fair value through profit or loss	(23)	(24)	-	-
Change in fair value of investment securities mandatorily measured at fair value through profit or loss	(2)	(145)	-	-
Total profit (losses) on financial instruments	13 872	21 436	4 908	30 888
Change in fair value of hedging instruments	8 220	5 827	10 806	16 493
Change in fair value of underlying hedged positions	(7 633)	(6 951)	(11 752)	(15 472)
Total profit (losses) on hedging and hedged instruments	587	(1 124)	(946)	1 021
Total	14 459	20 312	3 962	31 909

8. Other operating income

	01.07.2018- 30.09.2018	01.01.2018- 30.09.2018	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017
Other operating income				
Income on sale of services	8 655	24 442	5 170	15 484
Reimbursements of BGF charges	-	-	-	433
Release of provision for legal cases and other assets	3 706	58 833	5 764	19 548
Settlements of leasing agreements	125	1 678	447	1 990
Recovery of other receivables	1 138	5 371	1 915	4 530
Profit on sales or liquidation of fixed assets, intangible assets and assets for disposal	2 648	44 128	1 299	1 062
Received compensations, penalties and fines	398	2 079	204	741
Other income from legal cases	-	-	73	24 235
Other	9 144	43 152	8 799	30 192
Total	25 814	179 683	23 671	98 215

9. Impairment losses on loans and advances

Impairment losses on loans and advances measured at amortised cost for reporting period:

01.07.2018-30.09.2018	Stage 1	Stage 2	Stage 3	Total
Charge for loans and advances to banks	(4)	-	-	(4)
Charge for loans and advances to customers	(20 211)	(5 011)	(216 555)	(241 777)
Recoveries of loans previously written off	-	-	(7 722)	(7 722)
Off-balance sheet credit related facilities	1 293	1 988	(4 822)	(1 541)
Total	(18 922)	(3 023)	(229 099)	(251 044)

Impairment losses on loans and advances measured at amortised cost for reporting period:

01.01.2018-30.09.2018	Stage 1	Stage 2	Stage 3	Total
Charge for loans and advances to banks	(71)	-	-	(71)
Charge for loans and advances to customers	(42 420)	25 410	(717 663)	(734 673)
Recoveries of loans previously written off	-	-	8 686	8 686
Off-balance sheet credit related facilities	729	7 443	(7 916)	256
Total	(41 762)	32 853	(716 893)	(725 802)

Impairment losses on loans and advances	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017
Collective and individual impairment charge	(227 207)	(475 794)
Incurred but not reported losses charge	1 697	(43 690)
Recoveries of loans previously written off	(5 906)	41 050
Off-balance sheet credit related facilities	(237)	903
Total	(231 653)	(477 531)

10. Employee costs

	01.07.2018- 30.09.2018	01.01.2018- 30.09.2018	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017
Employee costs				
Salaries and bonuses	(355 258)	(1 016 913)	(325 457)	(956 499)
Salary related costs	(57 479)	(175 210)	(53 343)	(167 166)
Staff benefits costs	(9 548)	(27 441)	(8 782)	(27 077)
Professional trainings	(3 271)	(10 888)	(2 827)	(10 329)
Retirement fund, holiday provisions and other employee costs	(205)	15 703	(625)	(1 869)
Total	(425 761)	(1 214 749)	(391 034)	(1 162 940)

11. General and administrative expenses

	01.07.2018- 30.09.2018	01.01.2018- 30.09.2018	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017
General and administrative expenses				
Maintenance and rentals of premises	(84 653)	(253 024)	(81 112)	(255 075)
Marketing and representation	(59 360)	(127 874)	(25 584)	(88 238)
IT systems costs	(75 179)	(216 030)	(54 775)	(163 158)
Cost of BFG, KNF and KDPW	(24 742)	(191 723)	(24 541)	(199 846)
Postal and telecommunication costs	(15 324)	(48 222)	(14 672)	(39 296)
Consulting fees	(20 063)	(62 358)	(13 908)	(38 600)
Cars, transport expenses, carriage of cash	(17 067)	(49 263)	(16 052)	(49 184)
Other external services	(31 530)	(105 631)	(23 224)	(64 276)
Stationery, cards, cheques etc.	(8 149)	(19 786)	(6 904)	(18 841)
Sundry taxes	(7 254)	(24 781)	(7 509)	(23 766)
Data transmission	(3 492)	(10 536)	(3 764)	(11 094)
KIR, SWIFT settlements	(7 630)	(23 149)	(6 667)	(20 454)
Security costs	(6 726)	(21 507)	(7 602)	(21 465)
Costs of repairs	(7 325)	(25 762)	(3 900)	(10 574)
Other	(6 199)	(19 926)	(5 118)	(17 356)
Total	(374 693)	(1 199 572)	(295 332)	(1 021 223)

12. Other operating expenses

	01.07.2018- 30.09.2018	01.01.2018- 30.09.2018	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017
Other operating expenses				
Charge of provisions for legal cases and other assets	(19 003)	(98 761)	(29 211)	(45 227)
Costs of purchased services	(2 819)	(10 766)	(1 691)	(6 521)
Other membership fees	(221)	(755)	(407)	(794)
Paid compensations, penalties and fines	(3 962)	(10 869)	(2 465)	(10 619)
Donations paid	(399)	(3 167)	(30)	(2 452)
Other	(7 677)	(20 472)	(5 357)	(18 196)
Total	(34 081)	(144 790)	(39 161)	(83 809)

13. Corporate income tax

	01.07.2018- 30.09.2018	01.01.2018- 30.09.2018	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017
Corporate income tax				
Current tax charge in the income statement	(237 521)	(690 004)	(221 854)	(586 769)
Deffered tax	38 660	135 691	33 244	(14 559)
Adjustments from previous years	-	2 283	-	169
Total tax on gross profit	(198 861)	(552 030)	(188 610)	(601 159)
Current tax charge in the retained earnings (capital)	43	12	-	-
Total income tax expense	(198 818)	(552 018)	(188 610)	(601 159)

	01.07.2018- 30.09.2018	01.01.2018- 30.09.2018	01.07.2017- 30.09.2017	01.01.2017- 30.09.2017
Corporate total tax charge information				
Profit before tax	773 403	2 381 514	821 278	2 495 303
Tax rate	19%	19%	19%	19%
Tax calculated at the tax rate	(146 947)	(452 488)	(156 043)	(474 108)
Non-tax-deductible expenses	(14 022)	(20 281)	(3 715)	(8 783)
The fee to the Bank Guarantee Fund	(4 006)	(34 448)	(4 001)	(36 104)
Tax on financial institutions	(21 860)	(63 384)	(20 120)	(60 197)
Sale of receivables	(4 741)	(4 786)	(2 001)	(37 238)
Non-taxable income (dividends)	208	18 850	93	14 423
Non-tax deductible bad debt provisions	(2 964)	(9 006)	(2 776)	(5 912)
Adjustment of prior year tax	-	2 283	-	169
Tax effect of consolidation adjustments	1	18 078	(1 722)	6 737
Other	(4 530)	(6 848)	1 675	(146)
Total tax on gross profit	(198 861)	(552 030)	(188 610)	(601 159)
Sale of equity investments measured at fair value through other comprehensive income	43	12	-	-
Total income tax expense	(198 818)	(552 018)	(188 610)	(601 159)

Deferred tax recognised in other comprehensive income	30.09.2018	31.12.2017
Relating to equity securities available-for-sale	-	(130 950)
Relating to debt securities available-for-sale	-	(57 957)
Relating to valuation of debt investments measured at fair value through other comprehensive income	(71 911)	-
Relating to valuation of equity investments measured at fair value through other comprehensive income	(137 174)	-
Relating to cash flow hedging activity	18 132	20 508
Relating to valuation of defined benefit plans	(2 673)	(125)
Total	(193 626)	(168 524)

14. Cash and balances with central banks

Cash and balances with central banks	30.09.2018	31.12.2017
Cash	2 007 976	2 270 698
Current accounts in central banks	4 527 135	1 857 824
Term deposits	300 170	17 700
Total	6 835 281	4 146 222

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 the monthly average balance of the customers' deposits, which in all the covered periods was 3.5%. In accordance with the applicable regulations, the amount of the calculated provision is reduced by the equivalent of EUR 500 k.

15. Loans and advances to banks

Loans and advances to banks	30.09.2018	31.12.2017
Loans and advances	138 554	850 541
Current accounts	1 605 492	1 285 933
Gross receivables	1 744 046	2 136 474
Allowance for impairment	(71)	-
Total	1 743 975	2 136 474

16. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading	30.09.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
Trading derivatives	941 677	891 658	1 226 551	1 237 704
Interest rate operations	339 111	281 004	307 344	275 046
Transactions on equity instruments	6 282	6 282	6 053	6 053
FX operations	596 284	604 372	913 154	956 605
Debt and equity securities	8 793 175	-	2 189 557	-
Debt securities	8 775 769	-	2 174 096	-
Government securities:	8 771 200	-	2 170 048	-
- bonds	8 771 200	-	2 170 048	-
Other securities:	4 569	-	4 048	-
- bonds	4 569	-	4 048	-
Equity securities	17 406	-	15 461	-
Short sale	-	229 029	-	-
Total financial assets/liabilities	9 734 852	1 120 687	3 416 108	1 237 704

Financial assets and liabilities held for trading - trading derivatives include the change in the value of counterparty risk in the amount of PLN 797 k as at 30.09.2018 and PLN 190 k as at 31.12.2017.

17. Loans and advances to customers

Loans and advances to customers	30.09.2018		31.12.2017
	Measured at amortised cost	Measured at fair value trought profit or loss	
Loans and advances to enterprises	51 663 073	117 718	47 776 973
Loans and advances to individuals, of which:	60 696 630	1 357 662	57 822 414
<i>Home mortgage loans</i>	40 008 162	-	37 293 296
Finance lease receivables	7 680 256	-	6 848 960
Loans and advances to public sector	256 741	-	228 201
Other	13 266	-	9 479
Gross receivables	120 309 966	1 475 380	112 686 027
Allowance for impairment	(5 195 339)	-	(4 846 130)
Total	115 114 627	1 475 380	107 839 897

Movements on impairment losses on loans and advances to customers measured at amortised cost for reporting period 01.01.2018 - 30.09.2018

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31.12.2017	-	-	-	(4 846 130)
Impact of the implementation of IFRS 9	-	-	-	(389 415)
Balance as at 01.01.2018 (restated)	(454 569)	(552 259)	(4 228 717)	(5 235 545)
Charge/write back of current period	(42 420)	25 410	(717 663)	(734 673)
Write off/Sale of receivables	106	-	628 169	628 275
Transfer (incl. impairment charge reversal due to credit cards reclassification)	8 447	10 439	143 586	162 472
F/X differences	(1 233)	(4 100)	(10 535)	(15 868)
Balance at the end of the period	(489 669)	(520 510)	(4 185 160)	(5 195 339)

Movements on impairment losses on loans and advances to customers 30.09.2017

Individual and collective impairment	
As at the beginning of the period	(4 187 798)
Charge/write back of current period	(475 795)
Write off/Sale of receivables	482 248
Transfer	(12 978)
F/X differences	15 626
Balance at the end of the period	(4 178 697)
IBNR	
As at the beginning of the period	(691 083)
Charge/write back of current period	(43 691)
Sale of receivables	3 246
Transfer	920
F/X differences	8 239
Balance at the end of the period	(722 369)
Allowance for impairment	(4 901 066)

Purchased or originated credit-impaired financial assets

The portfolio of loans and advances to customers of Santander Bank Polska Group includes purchased or originated credit-impaired assets (POCI) which are recognised in stage 2 or 3, depending on the assessment of the credit risk level.

Santander Bank Polska Group recognises as POCI the assets obtained through business combinations as a result of which the entity taken over loses its organisational and legal independence, and the assets with impairment identified as at the moment of taking control over another business entity which does not lose its organisational and legal independence.

The POCI assets concern exclusively financial assets such as loans, borrowings and leasing receivables measured at amortised cost. On no reporting day were there POCI assets recognised as financial assets measured at fair value through other comprehensive income.

Financial assets recognised as POCI at initial recognition are treated as POCI in all subsequent periods until their derecognition from the statement of financial position.

As at the implementation of IFRS 9, Santander Bank Polska Group measured POCI assets at fair value, whereas in each subsequent reporting period, it recognises in profit or loss the amount of the change in lifetime expected credit losses as an impairment gain or loss. Santander Bank Polska Group recognises favourable changes in lifetime expected credit losses as an impairment gain, even if the lifetime expected credit losses are less than the amount of expected credit losses that were included in the estimated cash flows at initial recognition.

The table below presents the value of the POCI assets by reporting periods:

No.	Reporting period	Gross value of POCI assets	Expected credit losses	Fair value of POCI assets	Net value of POCI assets at amortised cost
1	1 January 2018	1 329 796	992 132	337 664	-
2	31 March 2018	1 275 975	973 840	-	302 135
3	30 June 2018	1 230 971	933 079	-	297 892
4	30 September 2018	1 142 202	863 854	-	278 675

18. Investment securities

Investment securities	30.09.2018
Debt securities measured at fair value through other comprehensive income	34 342 101
Government securities:	29 953 366
- bonds	29 953 366
Central Bank securities:	2 299 616
- bills	2 299 616
Other securities:	2 089 119
-bonds	2 089 119
Equity securities measured at fair value through other comprehensive income	970 815
- listed	16 297
- unlisted	954 518
Other investment securities mandatorily measured at fair value through other profit or loss	1 855
Total	35 314 771

Financial assets available for sale	31.12.2017
Debt securities	27 494 933
Government securities:	24 025 353
- bonds	24 025 353
Central Bank securities:	1 379 839
- bills	1 379 839
Other securities:	2 089 741
-bonds	2 089 741
Equity securities	920 879
- listed	19 329
- unlisted	901 550
Total	28 415 812

19. Investments in associates

Balance sheet value of associates	30.09.2018	31.12.2017
Polfund - Fundusz Poręczeń Kredytowych S.A.	44 318	43 570
Santander - Aviva Towarzystwo Ubezpieczeń S.A. and Santander - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	827 458	845 802
Total	871 776	889 372

Movements on investments in associates	01.01.2018- 30.09.2018	01.01.2017- 30.09.2017
Balance as at 01.01.	889 372	871 491
Share of profits/(losses)	42 254	38 546
Dividends	(60 695)	(44 861)
Other	845	3 306
As at the end of the period	871 776	868 482

20. Deposits from banks

Deposits from banks	30.09.2018	31.12.2017
Term deposits	162 144	64 023
Loans from other banks	2 322 750	1 994 759
Current accounts	1 161 139	724 301
Total	3 646 033	2 783 083

Movements in loans received from banks	30.09.2018	30.09.2017
As at the beginning of the period	1 994 759	1 945 101
Increase (due to):	867 289	513 430
- loans received	820 000	490 000
- interest on loans received	25 830	23 430
- FX differences and other changes	21 459	-
Decrease (due to):	(539 298)	(455 480)
- repayment of loans	(513 480)	(403 514)
- interest repayment	(25 818)	(24 635)
- FX differences and other changes	-	(27 331)
As at the end of the period	2 322 750	2 003 051

21. Deposits from customers

Deposits from customers	30.09.2018	31.12.2017
Deposits from individuals	72 689 830	64 987 719
Term deposits	27 585 917	21 911 544
Current accounts	44 943 839	42 948 226
Other	160 074	127 949
Deposits from enterprises	47 487 051	42 170 092
Term deposits	23 023 715	17 486 056
Current accounts	19 886 405	20 481 778
Loans	3 800 738	3 552 388
Other	776 193	649 870
Deposits from public sector	4 452 307	4 323 324
Term deposits	2 202 288	2 085 917
Current accounts	2 246 004	2 233 410
Other	4 015	3 997
Total	124 629 188	111 481 135

Movements in loans received from other financial institutions	30.09.2018	30.09.2017
As at the beginning of the period	3 552 388	4 075 897
Increase (due to):	935 267	437 278
- loans received	824 056	424 660
- interest on loans received	16 586	12 618
- FX differences and other changes	94 625	-
Decrease (due to):	(686 917)	(789 492)
- repayment of loans	(670 501)	(667 385)
- interest repayment	(16 416)	(14 457)
- FX differences and other changes	-	(107 650)
As at the end of the period	3 800 738	3 723 683

22. Subordinated liabilities

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

Movements in subordinated liabilities	30.09.2018	30.09.2017
As at the beginning of the period	1 488 602	440 457
Increase (due to):	1 189 418	538 077
- drawing of subordinated loan	100 000	-
- interest on subordinated loans	47 778	20 853
- FX differences	36 362	-
- reclassification *	1 005 278	517 224
Decrease (due to):	(36 097)	(27 480)
- interest repayment	(36 097)	(17 166)
- FX differences	-	(10 314)
As at the end of the period	2 641 923	951 054
Short-term	24 782	6 403
Long-term (over 1 year)	2 617 141	944 651

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

23. Debt securities in issue

Issuance of debt securities on 30.09.2018 (non-matured securities)	Nominal value	Currency	Redemption date
Series G bank securities	500 000	PLN	26.04.2019
Series H bank securities	500 000	PLN	27.09.2019
Santander Bank Polska bonds 09/2018	500 000	EUR	20.09.2021
SCB00042	100 000	PLN	05.03.2021
SCB00043	60 000	PLN	29.03.2022
SCB00044	156 000	PLN	14.05.2021
SCB00045	90 000	PLN	18.05.2021
SCB00046	45 000	PLN	18.05.2021

Issuance of debt securities in 2017 (non-matured securities)	Nominal value	Currency	Redemption date
Series F bank securities	750 000	PLN	19.02.2018
Series A bonds	700 000	PLN	18.04.2018
SCB00038	300 000	PLN	09.08.2021
SCB00039	252 100	PLN	09.10.2020
SCB00040	261 400	PLN	07.10.2022
SCB00041	60 000	PLN	07.10.2022

Movements in debt securities in issue	30.09.2018	30.09.2017
As at the beginning of the period	5 895 814	5 529 187
Increase (due to):	5 569 566	2 427 117
- debt securities in issue	5 441 794	2 288 788
- interest on debt securities in issue	127 772	122 099
- FX differences	-	16 230
Decrease (due to):	(3 256 464)	(2 060 829)
- debt securities redemption	(2 125 000)	(1 410 000)
- reclassification*	(1 005 278)	(517 224)
- FX differences	(9 878)	(13 656)
- interest repayment	(116 308)	(119 949)
As at the end of the period	8 208 916	5 895 475

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

24. Provisions for off balance sheet credit facilities

Provisions for off balance sheet credit facilities	30.09.2018	31.12.2017
Provisions for financial liabilities to grant loans	50 364	40 574
Provisions for financial guarantees	14 753	9 518
Other provisions	539	560
Total	65 656	50 652

Change in provisions for off balance sheet credit facilities	30.09.2018
As at 31.12.2017	50 652
Impact of the implementation of IFRS 9	15 034
As at 1.01.2018 (restated)	65 686
Provision charge	126 563
Utilization	230
Write back	(126 877)
Other changes	54
As at the end of the period	65 656
Short-term	53 172
Long-term	12 484

Change in provisions for off balance sheet credit facilities	30.09.2017
As at the beginning of the period	50 746
Provision charge	56 439
Utilization	(247)
Write back	(57 343)
As at the end of the period	49 595
Short-term	41 818
Long-term	7 777

25. Other provisions

Other provisions	30.09.2018	31.12.2017
Provisions for legal claims	118 230	99 463
Provisions for restructuring	717	3 019
Total	118 947	102 482

Change in other provisions on 30.09.2018	Provisions for legal claims	Provisions for restructuring	Total
As at the beginning of the period	99 463	3 019	102 482
Provision charge	91 871	-	91 871
Utilization	(42 201)	-	(42 201)
Write back	(30 903)	(2 302)	(33 205)
As at the end of the period	118 230	717	118 947

Change in other provisions on 30.09.2017	Provisions for legal claims	Provisions for restructuring	Total
As at the beginning of the period	74 396	4 986	79 382
Provision charge	44 817	5 199	50 016
Utilization	(11 773)	-	(11 773)
Write back	(3 668)	(2 797)	(6 465)
As at the end of the period	103 772	7 388	111 160

26. Other liabilities

Other liabilities	30.09.2018	31.12.2017
Settlements of stock exchange transactions	22 169	25 851
Interbank settlements	647 173	952 192
Employee provisions	327 428	407 722
Other provisions	3 300	3 300
Sundry creditors	517 140	511 537
Other deferred and suspended income	243 567	249 880
Public and law settlements	93 178	84 971
Accrued liabilities	650 685	532 117
Finance lease related settlements	73 152	99 306
Other	4 646	1 898
Total	2 582 438	2 868 774
of which financial liabilities *	2 241 047	2 532 025

*Financial liabilities include all items of 'Other liabilities' with the exception of Public and law settlements, Other deferred and suspended income and Other.

	Employee provisions			Total
		of which: Provisions for retirement allowances	Other provisions	
Change in provisions on 30.09.2018				
As at the beginning of the period	407 722	72 726	3 300	411 022
Provision charge	219 591	2 803	-	219 591
Utilization	(230 363)	-	-	(230 363)
Write back	(69 522)	(31 456)	-	(69 522)
Balance at the end of the period	327 428	44 073	3 300	330 728
Short-term	283 355	-	3 300	286 655
Long-term	44 073	44 073	-	44 073

	Employee provisions			Total
		of which: Provisions for retirement allowances	Other provisions	
Change in provisions on 30.09.2017				
As at the beginning of the period	375 959	60 397	3 300	379 259
Provision charge	210 550	3 814	-	210 550
Utilization	(210 344)	-	-	(210 344)
Write back	(38 918)	-	-	(38 918)
Other changes	(77)	-	-	(77)
Balance at the end of the period	337 170	64 211	3 300	340 470
Short-term	272 959	-	3 300	276 259
Long-term	64 211	64 211	-	64 211

27. Fair value

A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

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

ASSETS	30.09.2018		31.12.2017	
	Book Value	Fair value	Book Value	Fair value
Cash and balances with central banks	6 835 281	6 835 281	4 146 222	4 146 222
Loans and advances to banks	1 743 975	1 743 975	2 136 474	2 136 474
Financial assets held for trading	9 734 852	9 734 852	3 416 108	3 416 108
Hedging derivatives	111 100	111 100	218 061	218 061
Loans and advances to customers	116 590 007	117 642 856	107 839 897	108 488 102
- measured at amortised cost	115 114 627	116 167 476	-	-
- measured at fair value	1 475 380	1 475 380	-	-
Financial assets available for sale	-	-	28 415 812	28 415 812
Investment securities incl.:	35 314 771	35 314 771	-	-
- debt securities measured at fair value through other comprehensive income	34 342 101	34 342 101	-	-
- equity securities measured at fair value through other comprehensive income	970 815	970 815	-	-
- other investment securities measured at fair value through profit or loss	1 855	1 855	-	-
LIABILITIES				
Deposits from banks	3 646 033	3 646 033	2 783 083	2 783 083
Hedging derivatives	848 089	848 089	578 798	578 798
Financial liabilities held for trading	1 120 687	1 120 687	1 237 704	1 237 704
Deposits from customers	124 629 188	124 622 355	111 481 135	111 496 805
Subordinated liabilities	2 641 923	2 581 486	1 488 602	1 500 989

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 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. In the case of foreign currency loans, the current margin for loans in EUR was applied. The valuation does not take into account the potential risks of legal solutions for the CHF mortgage loan portfolio.

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

Debt securities in issue and subordinated liabilities: The securities and subordinated liabilities are valued at fair value based on discounted cash flow methodology incorporating adequate interest rates.

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

As at 30.09.2018 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 State Treasury bonds, treasury bills, shares of listed companies and WIG 20 futures.

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

Level III (measurement methods using material non-market parameters): This level includes equity securities that are not quoted in the active market, measured using the expert valuation model; investment certificates measured at the balance sheet date at the price announced by the mutual fund, debt securities and part of credit cards customers loans.

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

Valuation of major capital investments classified to Level III:

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

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

As at 30.09.2018 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

30.09.2018	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	8 793 175	941 677	-	9 734 852
Hedging derivatives	-	111 100	-	111 100
Loans and advances to customers measured at fair value	-	-	1 475 380	1 475 380
Debt securities measured at fair value through other comprehensive income	34 313 626	-	28 475	34 342 101
Equity securities measured at fair value through other comprehensive income	16 297	-	954 518	970 815
Other investment securities measured at fair value through profit or loss	1 855	-	-	1 855
Total	43 124 953	1 052 777	2 458 373	46 636 103
Financial liabilities				
Financial liabilities held for trading	229 029	891 658	-	1 120 687
Hedging derivatives	-	848 089	-	848 089
Total	229 029	1 739 747	-	1 968 776

31.12.2017	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	2 189 110	1 226 551	447	3 416 108
Hedging derivatives	-	218 061	-	218 061
Financial investment assets - debt securities	27 462 401	-	32 532	27 494 933
Financial investment assets - equity securities	19 328	-	901 551	920 879
Total	29 670 839	1 444 612	934 530	32 049 981
Financial liabilities				
Financial liabilities held for trading	-	1 237 704	-	1 237 704
Hedging derivatives	-	578 798	-	578 798
Total	-	1 816 502	-	1 816 502

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

Level III	Financial assets			
	Financial assets held for trading	Financial investment assets - debt securities OCI	Financial investment assets - equity securities OCI	Loans and advances to customers measured at fair value
30.09.2018				
As at the beginning of the period	447	32 532	901 551	-
Impact of the implementation of IFRS 9	-	-	(15 094)	1 475 380
Profit or losses				
<i>recognised in income statement</i>	(26)	-	-	-
<i>recognised in equity (OCI)</i>	-	-	66 854	-
Purchase	-	-	1 207	-
Sale	(421)	-	-	-
Matured	-	(4 057)	-	-
Transfer	-	-	-	-
Other	-	-	-	-
As at the end of the period	-	28 475	954 518	1 475 380

Level III	Financial assets			Financial liabilities
	Financial assets held for trading	Financial investment assets - debt securities	Financial investment assets - equity securities	Financial liabilities held for trading
31.12.2017				
As at the beginning of the period	251	38 240	849 578	-
Profit or losses				
<i>recognised in income statement</i>	(29)	-	-	-
<i>recognised in equity</i>	-	-	68 337	-
Purchase	1 057	-	2 036	-
Sale	(832)	-	(18 400)	-
Matured	-	-	-	-
Transfer	-	-	-	-
Other - bonds redemption	-	(5 708)	-	-
As at the end of the period	447	32 532	901 551	-

28. Contingent liabilities

Significant court proceedings

As at 30.09.2018 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 1,252,432 k, which is 5.43% of the Group's equity. This amount includes PLN 747,949 k claimed by the Group, PLN 457,937 k in claims against the Group and PLN 46,546 k of the Group's receivables due to bankruptcy or arrangement cases.

On 20.10.2017, Santander Bank Polska SA received a notice of a class action instituted by the borrowers who had loans indexed to the CHF, originated by the former Kredyt Bank. The total value of the claim, estimated as at 31.12.2017, was PLN 32.3 m. On 27.02.2018, Bank received a notice of broaden a class action by next groups of borrowers and the total value of the claim increased to PLN 47.0 m. The Bank responded to the claim. At the date of preparing the Financial Statements, we were waiting for the court to decide if the case can be heard as a class action.

As at 30.09.2018 the amount of significant court proceedings which had been completed amounted to PLN 441,503 k.

As at 30.09.2018, the value of provisions for legal claims was PLN 118,230 k. In 35 cases against the Bank, where the claim value was high, a provision of PLN 30,874 k was raised and in 1 case claimed by the Bank, a provision of PLN 26,245 k was raised.

As at 31.12.2017 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 1,080,768 k, which is 4.63% of the Group's equity. This amount includes PLN 717,617 k claimed by the Group, PLN 359,362 k in claims against the Group and PLN 3,789 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 31.12.2017 the amount of significant court proceedings which had been completed amounted to PLN 532,519 k.

As at 31.12.2017, the value of provisions for legal claims was PLN 99,463 k. In 10 cases against the Bank, where the claim value was high, a provision of PLN 40,983 k was raised.

The Bank raises provisions for legal risk where an internal risk assessment for a particular case indicates a possible outflow of cash. Provisions for cases disputed in court are presented in Note 25.

Off-balance sheet liabilities

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

Contingent liabilities - sanctioned	Stage 1	Stage 2	Stage 3	30.09.2018	31.12.2017
Liabilities sanctioned					
- financial	23 663 854	366 620	36 438	24 066 912	24 642 271
- credit lines	19 255 966	300 371	25 891	19 582 228	20 279 546
- credit cards debits	3 719 368	49 038	10 547	3 778 953	3 730 667
- import letters of credit	688 520	17 211	-	705 731	624 207
- term deposits with future commencement term	-	-	-	-	7 851
- guarantees	5 009 828	112 670	22 350	5 144 848	4 885 661
Provision for off-balance sheet liabilities	(28 060)	(9 216)	(28 380)	(65 656)	(50 652)
Total	28 645 622	470 074	30 408	29 146 104	29 477 280

29. Shareholders with min. 5% voting power

According to the information held by the Bank's Management Board, the shareholder with a min. 5% of the total number of votes at the Santander Bank Polska General Meeting as at the publication date of the condensed interim consolidated report for 3Q 2018 /31.10.2018/ is Banco Santander SA

Shareholder	Number of shares held		% in the share capital		Number of votes at AGM		Voting power at AGM	
	31.10.2018	25.07.2018	31.10.2018	25.07.2018	31.10.2018	25.07.2018	31.10.2018	25.07.2018
Banco Santander S.A.	67 680 774	67 680 774	68,13%	68,13%	67 680 774	67 680 774	68,13%	68,13%
Nationale-Nederlanden OFE *	-	4 993 431	-	5,03%	-	4 993 431	-	5,03%
Nationale-Nederlanden DFE *	-	-	-	-	-	-	-	-
Others	31 652 707	26 659 276	31,87%	26,84%	31 652 707	26 659 276	31,87%	26,84%
Total	99 333 481	99 333 481	100%	100%	99 333 481	99 333 481	100%	100%

* As at 31.10.2018 Funds managed by Nationale-Nederlanden Powszechna Towarzystwo Emerytalne SA.: Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny have below 5% voting power and are included in position "Other".

30. Related parties

The tables below present intercompany transactions. They are effected between associates and related entities. Most of the transactions are banking transactions made as part of ordinary business activities and mainly include loans, deposits, guarantees and leases. Intercompany transactions effected by the bank and its subsidiaries have been eliminated during the consolidation process. In the case of internal Group transactions, a documentation is prepared in accordance with requirements of tax regulations for transfer pricing.

Transactions with associates	30.09.2018	31.12.2017
Assets	88	93
Other assets	88	93
Liabilities	99 167	120 382
Deposits from customers	98 983	90 102
Sell-buy-back transactions	-	30 044
Other liabilities	184	236

Transactions with associates	01.01.2018- 30.09.2018	01.01.2017- 30.09.2017
Income	22 558	9 481
Fee and commission income	22 558	9 481
Expenses	3 585	4 006
Interest expense	1 080	1 236
Fee and commission expense	1 696	2 049
Operating expenses incl.:	809	721
<i>General and administrative expenses</i>	809	721

Transactions with Santander Group	with the parent company		with other entities	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017
Assets	592 639	598 411	4 963	9 854
Loans and advances to banks, incl:	317 638	308 691	4 963	9 831
<i>Loans and advances</i>	-	95 993	-	-
<i>current accounts</i>	317 638	212 698	4 963	9 831
Financial assets held for trading	273 337	282 036	-	-
Hedging derivatives	1 657	7 469	-	-
Other assets	7	215	-	23
Liabilities	979 466	403 807	117 214	86 720
Deposits from banks incl.:	642 161	62 996	11 799	23 539
<i>current accounts</i>	642 161	62 996	11 799	23 539
Hedging derivatives	6 117	-	-	-
Financial liabilities held for trading	319 081	322 933	-	-
Deposits from customers	-	-	62 921	52 577
Other liabilities	12 107	17 878	42 494	10 604
Contingent liabilities	-	-	16 265	-
Sanctioned:	-	-	16 265	-
<i>financial</i>	-	-	14 096	-
<i>guarantees</i>	-	-	2 169	-

Transactions with Santander Group	with the parent company		with other entities	
	01.01.2018- 30.09.2018	01.01.2017- 30.09.2017	01.01.2018- 30.09.2018	01.01.2017- 30.09.2017
Income	58 138	11 515	10 697	303
Interest income	7 470	8 790	23	87
Fee and commission income	1 754	2 725	322	199
Other operating income	-	-	89	17
Net trading income and revaluation	48 914	-	10 263	-
Expenses	13 753	94 441	52 900	61 816
Interest expense	1 216	671	365	2 222
Fee and commission expense	937	795	107	171
Net trading income and revaluation	-	92 975	-	41 815
Operating expenses incl.:	11 600	-	52 428	17 608
<i>Staff, Operating expenses and management costs</i>	11 599	-	52 426	17 600
<i>Other operating expenses</i>	1	-	2	8

31. Acquisitions and disposals of investments in subsidiaries and associates

Liquidation of Giełdokracja sp. z o.o.

On 5.03.2018 Giełdokracja sp. z o.o. was liquidated. Final settlement of the company's assets and liabilities was made, the loss on the liquidation of the company is PLN 65 k.

Contribution in kind of Santander F24 SA (formerly BZ WBK Nieruchomości SA) shares to Santander Finanse sp. z o.o.

On 24.11.2017, Santander Bank Polska SA made contribution in kind of Santander F24 SA (formerly BZ WBK Nieruchomości SA) shares to Santander Finanse sp. z o.o. to cover the acquisition of Santander Finanse sp. z o.o. shares by Santander Bank Polska SA.

In the second half of 2017, Santander F24 SA changed its business model. The main profile of the business activity focused around financing of consumer car purchase – the company was registered by the Polish Financial Supervision Authority (KNF) as a lending institution.

The changed ownership structure will allow to limit the cost of business management and it is consistent with the strategy of extending the business activity of Santander Bank Polska Group whereby Santander F24 SA will offer financial products addressed to personal customers (consumers) on the market of so-called "light vehicles".

On 12.01.2018, in the Nation Court Register (KRS) was registered increase of share capital Santander Finanse sp. z o.o. to PLN 1,630 k. Share capital was fully paid.

Liquidation of AKB Marketing Services sp. z o.o.

On 28.03.2017, AKB Marketing Services sp. z o.o., a subsidiary of Santander Consumer Bank SA, was liquidated.

The subsidiary's assets and liabilities were finally accounted for. Profit on liquidation of PLN 3,757 k was presented in the consolidated income statement under 'Net gains/(losses) on subordinated entities'.

AKB Marketing Services Sp. z o.o. carried out ancillary business operations in respect of banking services.

On 20.11.2017, the company AKB Marketing Services sp. z o.o. was deleted from the National Court Register.

Merger of Santander Leasing SA and BZWBK Lease SA.

On 28.02.2017, Santander Leasing SA and BZ WBK Lease SA merged.

The companies merged by way of absorption of BZ WBK Lease SA (the absorbed entity) by Santander Leasing SA (the absorbing entity). All the assets of BZ WBK Lease SA were transferred to Santander Leasing SA. In connection with the merger, BZ WBK Lease SA ceased to exist legally, while Santander Leasing SA, being the absorbing entity, assumed, under the law, all the rights and obligations of the absorbed entity. As a result, Santander Leasing SA continues business operations which previously were carried out by BZ WBK Lease SA and assumed, under the law, all the rights and obligations of absorbed BZ WBK Lease SA.

32. Agreement on the acquisition of a carve-out of Deutsche Bank Polska by Santander Bank Polska SA.

On 14.12.2017, Santander Bank Polska SA and Banco Santander signed a transaction agreement with Deutsche Bank AG (DB AG) to purchase a part of Deutsche Bank Polska (DBPL) business, consisting of retail banking, private banking, SME banking and DB Securities. DBPL's corporate and investment banking business and foreign-currency mortgage portfolio are excluded from the transaction and will remain in DBPL (retained business).

On the same day, the bank signed a pre-demerger agreement with DBPL and DB AG setting out the terms of cooperation between the bank and DBPL to finalise the transaction.

Pursuant to the transaction agreement, DBPL's branch network and external sales channels (agents and intermediaries) are to be integrated with the bank's structures. Asset management contracts will also be transferred along with the carve-out, which will enable the transfer of open-ended investment funds.

Before the demerger, Santander Bank Polska SA will buy DBPL's shares from DB AG, representing 10% of votes at the DBPL's General Meeting of Shareholders. Next, the bank and DBPL will file requests for the registration of the demerger with relevant registry courts.

The demerger will be effected on the following terms:

- DBPL will be a demerged company and Bank will be an acquiring company;
- The share capital of DBPL will be decreased by at least an equivalent of the total nominal value of the shares purchased by Santander Bank Polska SA. On the date of the registration of such capital decrease, all the shares purchased by the bank will cease to exist and DB AG will become the sole shareholder of DBPL;
- In exchange for the transfer of the carved-out business to Santander Bank Polska SA, DB AG will receive a stated number of Santander Bank Polska SA shares (demerger shares) on the demerger date, calculated based on the agreed formula which will be used to determine a share exchange ratio in the demerger plan. The demerger will be effective as of the date of registration of the bank's capital increase by way of the issuance of demerger shares;
- On the demerger date, the carved-out business will be transferred to the bank and the business which is not subject to the transaction will remain in DBPL. DBPL's assets and liabilities will be allocated between the carved-out business and the retained business based on the terms specified in the transaction agreement and the demerger plan.

The preliminary purchase price is PLN 1,289,799,000 and has been calculated on the basis of a capital requirement for carved-out risk weighted assets (excluding DB Securities' shares), determined using financial projections as at the date close to the execution of the transaction agreement. The portion of the preliminary purchase price related to the value of DB Securities' shares has been calculated on the basis of the company's net assets value.

The consideration for the transaction will be paid in:

- cash, through the payment of a price for the purchased shares (20% of the preliminary purchase price);
- newly issued shares of the bank representing approx. 2.7% of the bank's share capital (80% of the preliminary purchase price).

Once the transaction agreement is executed, the preliminary purchase price will be adjusted to reflect changes in relevant assets and liabilities that have taken place between the transaction agreement date and the demerger date.

The transaction is subject to regulatory approvals, including consents from the Polish Financial Supervision Authority (KNF) and the President of the Office of Competition and Consumer Protection (UOKiK), as well as resolutions of the General Meetings of Shareholders of Santander Bank Polska and DBPL, signing of the demerger plan and fulfilment of certain operational conditions. The migration of IT systems is planned to be completed immediately after closing.

On 29.05.2018, Santander Bank Polska SA received information that Polish Financial Supervision Authority ("PFSA") issued a decision confirming that there are no grounds to object to the planned direct acquisition of the shares of Deutsche Bank Polska SA ("DBPL") by the Bank in the number ensuring the exceeding of 10% of the total number of votes at the general meeting and the share in the share capital of DBPL.

On 17.07.2018, the Bank received information that Polish Financial Supervision Authority issued a decision consenting for the demerger of Deutsche Bank Polska SA through a demerger of a part of the assets and liabilities of DBPL to Bank in exchange for shares in Bank issued for Deutsche Bank AG.

On 31.07.2018, the Bank received information that Polish Financial Supervision Authority issued its decision which confirms that there are no grounds to object to the planned acquisition 100% shares of DB Securities SA by the Bank.

PFSA has decided that acquisition of the shares of DB Securities SA should take place until 9.11.2018.

On 8th October 2018 Management Board of Santander Bank Polska SA hereby informs (due to the satisfaction of all conditions provided in the transaction agreement dated 14th December 2017 regarding the acquisition of certain businesses through a carve out of Deutsche Bank Polska SA necessary for the transaction) about purchased from Deutsche Bank AG 274,444,939 ordinary registered shares with a par value of PLN 1 each, representing more than 10% of the share capital of DBPL for 257,959,800 PLN.

At the same time, the Bank informs that the above mentioned decision of PFSA is one of the conditions necessary for the completion of the transaction of acquiring the demerged part of Deutsche Bank Polska SA.

PFSA has decided that acquisition of the shares should take place until 31.12.2018.

Conclusion of the agreement will not lead to a take-over of control or significant influence over Deutsche Bank Polska SA, nor will it give rise to any obligations that would need to be disclosed.

33. Capital Adequacy

The capital requirements of Santander Bank Polska Group are set in accordance with part III of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26.06.2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR"), which was the official legal basis as at 30.09.2018.

The above-mentioned capital ratios include a conservation buffer, buffer for an additional capital requirement due to risk attaching to foreign currency home mortgages and buffer for other systemically important institution (OSII). The capital ratios of Santander Bank Polska Group calculated in accordance with the CRR requirements and an individual capital decision of the supervisory body are above the minimum requirements.

The tables below presents a details of own funds, adjustments and capital adequacy ratios as at 30.09.2018.

	30.09.2018
Common Equity Tier 1 (CET1) capital before regulatory adjustments	21 790 233
Common Equity Tier 1 (CET1) capital	19 657 685
Additional Tier 1 (AT1) capital before regulatory adjustments	-
Additional Tier 1 (AT1) capital	-
Tier 1 capital	19 657 685
Tier 2 (T2) capital before regulatory adjustment	2 665 366
Tier 2 (T2) capital	2 665 578
Total capital	22 323 263
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(2 132 548)
Total regulatory adjustments to Additional Tier 1 (AT1) capital	-
Total regulatory adjustments to Tier 2 (T2) capital	212
Common Equity Tier 1 (as a percentage of total risk exposure amount)	15,51%
Tier 1 (as a percentage of total risk exposure amount)	15,51%
Total capital (as a percentage of total risk exposure amount)	17,61%

The table below presents a specification of capital requirements and risk weighted assets for different risks.

		RWAs		Minimum capital requirements
		30.09.2018	30.06.2018	30.09.2018
	1. Credit risk (excluding CCR)	103 644 289	102 593 344	8 291 543
Article 438(c)(d)	2. <i>of which the standardised approach</i>	103 644 289	102 593 344	8 291 543
Article 107 Article 438(c)(d)	6. CCR	2 093 836	2 141 659	167 507
Article 438(c)(d)	7. <i>of which mark to market</i>	1 699 091	1 679 482	135 927
Article 438(c)(d)	11. <i>of which risk exposure amount for contributions to the default fund of a CCP</i>	709	820	57
Article 438(c)(d)	12. <i>of which CVA</i>	394 036	461 357	31 523
Article 438 (e)	19. Market risk	1 608 535	1 736 606	128 683
	20. <i>of which the standardised approach</i>	1 608 535	1 736 606	128 683
Article 438(f)	23. Operational risk	13 003 468	13 003 468	1 040 277
	25. <i>of which standardised approach</i>	13 003 468	13 003 468	1 040 277
Article 437(2), Article 48 and Article 60	27. Amounts below the thresholds for deduction (subject to 250% risk weight)	6 420 170	6 294 831	513 614
	29. Total	126 770 298	125 769 908	10 141 624

34. Leverage ratio

In December 2010, the BCBS published guidelines (Basel III: A global regulatory framework for more resilient banks and banking system) defining the methodology for calculating the leverage ratio. The BCBS guidelines also provide for disclosure of the leverage ratio and its components starting from 1.01.2015.

The leverage ratio of Santander Bank Polska Group is set in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26.06.2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR") and Commission delegated Regulation (EU) 2016/62 of 10.10.2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio.

The leverage ratio (LR) shall be calculated as an institution's capital measure divided by that institution's total exposure measure and shall be expressed as a percentage.

Leverage ratio	
Tier I capital	19 657 685
Leverage ratio total exposure measure	186 417 103
Leverage ratio	10,55%
Choice on transitional arrangements for the definition of the capital measure	phase in

35. Liquidity coverage ratio

Table presents the disclosure of the amount and components of the liquidity coverage ratio according to the template being part of the EBA /GL/2017/01 guidelines on disclosing the liquidity coverage ratio.

In table below are presented data in PLN million.

Scope of consolidation (solo) Currency and units (PLN million)	Total unweighted value (average)				Total weighted value (average)			
	30.09.2018	30.06.2018	31.03.2018	31.12.2017	30.09.2018	30.06.2018	31.03.2018	31.12.2017
Quarter ending								
Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS								
1 Total high-quality liquid assets (HQLA)					27 685	26 462	24 733	23 962
CASH-OUTFLOWS								
2 Retail deposits and deposits from small business customers, of which:	59 550	58 772	57 570	56 070	4 438	4 364	4 244	4 131
3 <i>Stable deposits</i>	43 066	42 619	42 151	41 084	2 153	2 131	2 108	2 054
4 <i>Less stable deposits</i>	16 484	16 153	15 419	14 986	2 285	2 233	2 136	2 077
5 Unsecured wholesale funding	189 337	22 385	21 390	20 740	11 031	10 465	10 047	9 622
<i>Operational deposits (all counterparties) and deposits in networks of</i>								
6 <i>cooperative banks</i>	5 379	5 341	5 223	4 964	1 343	1 333	1 304	1 239
7 <i>Non-operational deposits (all counterparties)</i>	183 834	16 877	15 958	15 606	9 564	8 965	8 534	8 213
8 <i>Unsecured debt</i>	124	167	209	170	124	167	209	170
9 Secured wholesale funding					0	0	0	0
10 Additional requirements	20 761	21 525	22 459	24 214	3 988	4 086	4 229	4 619
11 <i>Outflows related to derivative exposures and other collateral requirements</i>	1 366	1 398	1 462	1 582	1 365	1 398	1 463	1 582
12 <i>Outflows related to loss of funding on debt products</i>	0	0	0	0	0	0	0	0
13 <i>Credit and liquidity facilities</i>	19 395	20 127	20 997	22 632	2 623	2 688	2 766	3 037
14 Other contractual funding obligations	1 751	1 857	1 834	1 707	1 540	1 666	1 652	1 530
15 Other contingent funding obligations	6 157	5 234	3 906	2 416	304	246	162	81
16 TOTAL CASH OUTFLOWS					21 301	20 827	20 334	19 983
CASH-INFLOWS								
17 <i>Secured lending (eg reverse repos)</i>	83	24	78	143	0	0	0	0
18 <i>Inflows from fully performing exposures</i>	2 221	2 093	2 007	1 967	1 675	1 543	1 458	1 467
19 <i>Other cash inflows</i>	534	520	557	473	534	520	557	473
<i>(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible</i>								
EU-19a <i>currencies)</i>					0	0	0	0
EU-19b <i>(Excess inflows from a related specialised credit institution)</i>					0	0	0	0
20 TOTAL CASH INFLOWS	2 838	2 637	2 642	2 583	2 209	2 063	2 015	1 940
EU-20a <i>Fully exempt inflows</i>	0	0	0	0	0	0	0	0
EU-20b <i>Inflows Subject to 90% Cap</i>	0	0	0	0	0	0	0	0
EU-20c <i>Inflows Subject to 75% Cap</i>	2 838	2 637	2 642	2 583	2 209	2 063	2 015	1 940
TOTAL ADJUSTED VALUE								
21 LIQUIDITY BUFFER					27 685	26 462	24 733	23 962
22 TOTAL NET CASH OUTFLOWS					19 092	18 764	18 318	18 043
23 LIQUIDITY COVERAGE RATIO (%)					145%	141%	136%	133%

The extent to which the Group finances its operations using collateralized instruments is limited, however, based on the existing contractual provisions, the potential maximum amount of additional collateral for the above instruments in the case of rating downgrade by one notch (to BBB) would amount to PLN 470 million. At the same time, it should be emphasized that the above-mentioned potential liability is not unconditional and its final amount would depend on the outcome of the negotiations between the Bank and its counterparties in the aforementioned transactions.

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.

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. Transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments

Details about the fair value hierarchy are presented in Note 27.

39. Changes in the classification of financial assets as a result of a change in the purpose or use of those assets

As at 30.06.2018, Santander Bank Polska Group completed the analysis of the credit card portfolio, widely discussed in the banking sector, in terms of the portfolio passing the contractual cash flow test. The analysis resulted in a change in the classification and measurement of selected credit card portfolios due to implementation of IFRS 9.

Details in note 2.

40. Comments concerning the seasonal or cyclical character of the interim activity

The business activity of Santander Bank Polska SA and its subsidiary undertakings has no material seasonal character.

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

- Liquidation of Giełdokracja sp. z o.o. (details in Note 31).
- Acquisition of a carve-out of Deutsche Bank Polska SA (details in Note 32).

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

As at 30.09.2018 and 31.12.2017 Santander Bank Polska SA and its subsidiaries had not issued any guarantees to one business unit or a subsidiary totalling a minimum of 10% of the issuer's equity.

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

As at 30.09.2018 and 31.12.2017 either Santander Bank Polska SA or its subsidiaries did not create or reverse any material impairment charges for financial assets, tangible fixed assets, intangible fixed assets or other assets.

Details in Notes 8 and 12.

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

In February 2018, real estate located in Wrocław was sold. Profit on disposal amount of PLN 44,300 k.

45. Dividend per share

The proposal regarding dividend 2016. Dividend pay – out date for 14 .06.2018.

On 17.04.2018 The Management Board of Santander Bank Polska SA informs that in full compliance with the individual recommendation issued by the Polish Financial Supervision Authority on 16.03.2018, has adopted a resolution which recommend not to allocate to dividend any part of the net profit for 2017. The Supervisory Board also approved that recommendation. At the same time, taking into account a good capital position of the Bank and Group, the Bank's Management Board tabled the following proposal, that has been approved by the Supervisory Board, to allocate PLN 307,627k from the Bank's undivided net profit for 2016 to dividend for shareholders, for which means that dividend per share was PLN 3.10.

Regarding dividend 2014 and 2015. Dividend pay – out date for 14 .06.2017

On 17.05.2017 Annual General Meeting of Santander Bank Polska SA adopted a resolution on dividend payment.

It was decided to allocate PLN 535,866 k from the Bank's undivided net profit for 2014 and 2015 to dividend for shareholders. Dividend per share was PLN 5.40.

46. Events which occurred subsequently to the end of the interim period

Acquisition of shares of Deutsche Bank Polska SA by Santander Bank Polska SA in connection with satisfying all the conditions provided in the transaction agreement for the acquisition of certain businesses through a carve out of Deutsche Bank Polska SA. Details are presented in Note 32.

Signatures of the persons representing the entity

Date	Name	Function	Signature
30.10.2018	Carlos Polaino Izquierdo	Member of the Management Board	
30.10.2018	Wojciech Skalski	Financial Accounting Area Director	