Annual report of Santander Bank Polska Group for 2019

FINANCIAL HIGHLIGHTS

		PLN k		EUR k	
		31.12.2019	31.12.2018* restated	31.12.2019	31.12.2018* restated
	Consolidated financial statements of Santander Bank Polska Group				
I	Net interest income	6 580 169	5 742 405	1 529 632	1 345 803
II	Net fee and commission income	2 128 172	2 057 802	494 717	482 271
III	Profit before tax	3 244 596	3 424 284	754 241	802 523
IV	Net profit attributable to owners of Santander Bank Polska SA	2 138 347	2 363 354	497 082	553 881
V	Total net cash flows	(2 156 672)	11 374 310	(501 342)	2 665 708
VI	Total assets	209 476 166	206 656 303	49 190 129	48 059 605
VII	Deposits from banks	5 031 744	2 832 928	1 181 577	658 820
VIII	Deposits from customers	156 480 343	149 616 658	36 745 413	34 794 572
IX	Total liabilities	182 496 656	180 061 602	42 854 680	41 874 791
X	Total equity	26 979 510	26 594 701	6 335 449	6 184 814
XI	Non-controlling interests in equity	1 547 523	1 564 184	363 396	363 764
XII	Profit of the period attributable to non-controlling	305 761	333 791	71 077	78 228
XIII	Number of shares	102 088 305	102 088 305		
XIV	Net book value per share in PLN/EUR	264,28	260,51	62,06	60,58
XV	Capital ratio	17,07%	15,98%		
XVI	Profit per share in PLN/EUR	20,95	23,70	4,87	5,55
XVII	Diluted earnings per share in PLN/EUR	20,92	23,66	4,86	5,55
XVIII	Declared or paid dividend per share in PLN/EUR*	19,72	3,10	4,58	0,73

* Detailed information are described in Note 55.

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

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

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

Consolidated Financial Statements of Santander Bank Polska Group for 2019

In thousands of PLN

I. Consolidated income statement

for the period:		1.01.2019-31.12.2019	1.01.2018-31.12.2018* restated
Interest income and similar to income		**8 461 836**	**7 213 796**
Interest income on financial assets measured at amortised cost		7 467 538	6 345 132
Interest income on financial assets measured at fair value through other comprehensive income		833 824	733 378
Income similar to interest on financial assets measured at fair value through profit or loss		160 474	135 286
Interest expense		**(1 881 667)**	**(1 471 391)**
Net interest income	Note 6	**6 580 169**	**5 742 405**
Fee and commission income		2 648 049	2 526 572
Fee and commission expense		(519 877)	(468 770)
Net fee and commission income	Note 7	**2 128 172**	**2 057 802**
Dividend income	Note 8	99 221	100 116
Net gains/(losses) on subordinated entities		-	(65)
Net trading income and revaluation	Note 9	215 549	144 539
Gains (losses) from other financial securities	Note 10	185 475	37 480
Other operating income	Note 11	275 916	213 842
Gain on acquisition of enterprise	Note 52	-	419 295
Impairment losses on loans and advances	Note 12	(1 219 353)	(1 085 068)
Operating expenses incl.:		(4 488 711)	(3 768 969)
-Staff, operating expenses and management costs	Note 13,14	(3 426 232)	(3 242 758)
-Amortisation of property, plant and equipment and Intangible assets		(425 224)	(333 470)
-Amortisation of right of use asset		(202 951)	-
-Other operating expenses	Note 15	(434 304)	(192 741)
Share in net profits (loss) of entities accounted for by the equity method		67 192	62 667
Tax on financial institutions		(599 034)	(499 760)
Profit before tax		**3 244 596**	**3 424 284**
Corporate income tax	Note 16	(800 488)	(727 139)
Consolidated profit for the period		**2 444 108**	**2 697 145**
of which:			
-attributable to owners of Santander Bank Polska SA		2 138 347	2 363 354
-attributable to non-controlling interests		305 761	333 791
Net earnings per share	Note 17		
Basic earnings per share (PLN/share)		20,95	23,70
Diluted earnings per share (PLN/share)		20,92	23,66

* details in Note 2.4.

Notes presented on pages 13 – 174 constitute an integral part of this Financial Statements.

Santander

In thousands of PLN

II. Consolidated statement of comprehensive income

for the period:	1.01.2019-31.12.2019	1.01.2018-31.12.2018* restated
Consolidated profit for the period	**2 444 108**	**2 697 145**
Other comprehensive income which can be transferred to the profit and loss net account:	**208 609**	**333 945**
Valuation and sales of debt securities measured at fair value through other comprehensive income gross	208 554	382 287
Deferred tax	(39 625)	(72 635)
Valuation of cash flow hedging instruments gross	48 988	29 991
Deferred tax	(9 308)	(5 698)
Other comprehensive income which can't be transferred to the profit and loss net account:	**48 950**	**15 576**
Valuation and sales of equity securities measured at fair value through other comprehensive income gross	67 861	6 560
Deferred and current tax	(17 822)	(1 261)
Provision for retirement allowances – actuarial gains/losses gross	(1 345)	12 688
Deferred tax	256	(2 411)
Total other comprehensive income for the period net	**257 559**	**349 521**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**2 701 667**	**3 046 666**
Total comprehensive income attributable to:		
Owners of Santander Bank Polska SA	2 399 940	2 712 388
Non-controlling interests	301 727	334 278

* details in Note 2.4.

In thousands of PLN

III. Consolidated statement of financial position

as at:		31.12.2019	31.12.2018 * restated	1.01.2018 * restated
ASSETS				
Cash and balances with central banks	Note 18	7 973 014	8 907 552	4 146 222
Loans and advances to banks	Note 19	3 716 582	2 936 214	2 136 474
Financial assets held for trading	Note 20	2 058 508	1 186 863	1 429 762
Hedging derivatives	Note 21	43 973	73 221	218 061
Loans and advances to customers incl.:	Note 22	143 402 629	137 460 378	107 556 726
- measured at amortised cost		141 282 371	135 643 297	105 961 354
- measured at fair value through other comprehensive income		923 811	366 751	-
- measured at fair value through profit or loss		1 196 447	1 450 330	1 595 372
Buy-sell-back transactions		1 851 171	9 189 763	5 631 488
Investment securities incl.:	Note 23	41 328 134	37 844 506	26 889 994
- debt securities measured at fair value through other comprehensive income		40 248 937	36 886 457	25 984 209
- debt securities measured at fair value through profit and loss		194 285	136 511	93 165
- equity securities measured at fair value through other comprehensive income		884 912	821 538	812 620
Assets pledged as collateral	Note 47	1 089 558	1 708 744	2 385 727
Investments in associates	Note 24	903 113	891 952	889 372
Intangible assets	Note 25	772 117	819 409	490 327
Goodwill	Note 26	1 712 056	1 712 056	1 712 056
Property, plant and equipment	Note 27	874 078	986 384	930 717
Right of use asset	Note 28	838 792	-	-
Net deferred tax assets	Note 29	1 847 916	1 760 121	1 473 247
Assets classified as held for sale	Note 30	2 679	12 145	103
Other assets	Note 31	1 061 846	1 166 995	1 065 068
Total assets		**209 476 166**	**206 656 303**	**156 955 344**
LIABILITIES AND EQUITY				
Deposits from banks	Note 32	5 031 744	2 832 928	2 783 083
Hedging derivatives	Note 21	995 627	912 482	578 798
Financial liabilities held for trading	Note 20	1 856 813	1 481 401	1 468 599
Deposits from customers	Note 33	156 480 343	149 616 658	111 481 135
Sell-buy-back transactions	Note 44	990 863	9 896 543	6 940 096
Subordinated liabilities	Note 34	2 630 271	2 644 341	1 488 602
Debt securities in issue	Note 35	10 629 516	9 368 617	5 895 814
Lease liabilities	Note 48	746 632	-	-
Current income tax liabilities		343 763	288 300	192 925
Provisions for off balance sheet credit facilities	Note 36	66 109	81 048	65 686
Other provisions	Note 37	445 615	132 881	102 482
Other liabilities	Note 38	2 279 360	2 806 403	2 882 850
Total liabilities		182 496 656	180 061 602	133 880 070
Equity				
Equity attributable to owners of Santander Bank Polska S.A.		25 431 987	25 030 517	21 638 865
Share capital	Note 39	1 020 883	1 020 883	993 335
Other reserve capital	Note 40	20 141 925	18 911 741	16 920 129
Revaluation reserve	Note 41	1 316 061	1 019 373	670 419
Retained earnings		814 771	1 715 166	855 668
Profit for the period		2 138 347	2 363 354	2 199 314
Non-controlling interests in equity	Note 42	1 547 523	1 564 184	1 436 409
Total equity		26 979 510	26 594 701	23 075 274
Total liabilities and equity		**209 476 166**	**206 656 303**	**156 955 344**

* details in Note 2.4.

Notes presented on pages 13 – 174 constitute an integral part of this Financial Statements.

In thousands of PLN

IV. Consolidated statement of changes in equity

	Equity attributable to equity holders of parent entity						
Consolidated statement of changes in equity	**Share capital**	**Other reserve capital**	**Revaluation reserve**	**Retained earnings and profit for the period**	**Total**	**Non-controlling interests**	**Total equity**
Note	39	40	41			42	
Equity as at 31.12.2018	**1 020 883**	**18 969 482**	**1 019 373**	**4 094 289**	**25 104 027**	**1 564 184**	**26 668 211**
Effect of a change in the tax on financial institutions as a result of an adjustment to repo transactions [1)]	-	-	-	(47 331)	(47 331)	-	(47 331)
Settlement of acquisition of demerged part of Deutsche Bank Polska SA and DB Securities SA[2)]	-	(57 741)	-	31 562	(26 179)	-	(26 179)
Equity as at 1.01.2019 (restated)	**1 020 883**	**18 911 741**	**1 019 373**	**4 078 520**	**25 030 517**	**1 564 184**	**26 594 701**
Total comprehensive income	-	-	261 593	2 138 347	2 399 940	301 727	2 701 667
Consolidated profit for the period	-	-	-	*2 138 347*	*2 138 347*	*305 761*	*2 444 108*
Other comprehensive income	-	-	*261 593*	-	*261 593*	*(4 034)*	*257 559*
Profit allocation to other reserve capital	-	1 206 218	-	(1 206 218)	-	-	-
Profit allocation to dividends	-	-	-	(2 012 683)	(2 012 683)	(318 388)	(2 331 071)
Share scheme charge	-	11 474	-	-	11 474	-	11 474
Profit on sale of equity securities measured at fair value through other comprehensive income	-	-	34 885	(34 885)	-	-	-
Equity adjustment due to liquidation of Santander Securities SA	-	12 492	210	(12 702)	-	-	-
Other	-	-	-	2 739	2 739	-	2 739
Equity as at 31.12.2019	**1 020 883**	**20 141 925**	**1 316 061**	**2 953 118**	**25 431 987**	**1 547 523**	**26 979 510**

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

In thousands of PLN

Consolidated statement of changes in equity	Equity attributable to equity holders of parent entity Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period	Total	Non-controlling interests	Total equity
Note	39	40	41			42	
Equity as at 31.12.2017	**993 335**	**16 920 129**	**714 466**	**3 279 290**	**21 907 220**	**1 436 409**	**23 343 629**
Impact of the implementation of IFRS 9	-	-	(44 047)	(210 407)	(254 454)	-	(254 454)
Equity as at 1.01.2018 (considering the impact of the implementation of IFRS 9)	**993 335**	**16 920 129**	**670 419**	**3 068 883**	**21 652 766**	**1 436 409**	**23 089 175**
Effect of a change in the tax on financial institutions as a result of an adjustment to repo transactions [1)]	-	-	-	(13 901)	(13 901)	-	(13 901)
Equity as at 1.01.2018 (restated)	**993 335**	**16 920 129**	**670 419**	**3 054 982**	**21 638 865**	**1 436 409**	**23 075 274**
Coverage of negative impact of IFRS 9 implementation	-	-	-	222 905	222 905	-	222 905
Total comprehensive income	-	-	349 034	2 363 354	2 712 388	334 278	3 046 666
Consolidated profit for the period [1)]	-	-	-	*2 363 354*	*2 363 354*	*333 791*	*2 697 145*
Other comprehensive income	-	-	*349 034*	-	*349 034*	*487*	*349 521*
Issue of shares [3)]	27 548	-	-	-	27 548	-	27 548
Agio [2)]	-	946 550	-	-	946 550	-	946 550
Profit allocation to other reserve capital	-	1 032 851	-	(1 032 851)	-	-	-
Profit allocation to dividends	-	-	-	(307 627)	(307 627)	(206 503)	(514 130)
Profit allocation to cover negative impact of IFRS 9 implementation	-	-	-	(222 905)	(222 905)	-	(222 905)
Share scheme charge	-	*12 445*	-	-	12 445	-	12 445
Profit on sale of equity securities measured at fair value through other comprehensive income	-	-	130	(130)	-	-	-
Equity adjustment due to merger and liquidation of subsidiaries and controlling stake at the subsidiaries	-	(234)	(210)	792	348	-	348
Equity as at 31.12.2018 (restated)	**1 020 883**	**18 911 741**	**1 019 373**	**4 078 520**	**25 030 517**	**1 564 184**	**26 594 701**

[1)] details in Note 2.4.
[2)] details in Note 2.4.
[3)] details in Note 39.

In thousands of PLN

V. Consolidated statement of cash flows

for the period	1.01.2019-31.12.2019	1.01.2018-31.12.2018* restated
Profit before tax	**3 244 596**	**3 424 284**
Total adjustments:		
Share in net profits of entities accounted for by the equity method	(67 192)	(62 667)
Depreciation/amortisation	628 175	333 470
Gain on acquisition of enterprise	-	(419 295)
Profit from investing activities	(219 385)	(79 107)
Impairment losses (reversal)	34 037	12 959
	3 620 231	**3 209 644**
Changes:		
Provisions	297 795	32 586
Financial assets / liabilities held for trading	(404 927)	254 455
Assets pledged as collateral	619 186	676 983
Hedging derivatives	(69 253)	275 688
Loans and advances to banks	(49 286)	111 392
Loans and advances to customers	(13 165 931)	(17 039 488)
Deposits from banks	736 791	(4 080 938)
Deposits from customers	9 411 957	25 064 433
Buy-sell/ Sell-buy-back transactions	(1 568 069)	609 062
Other assets and liabilities	(557 983)	(368 395)
	(4 749 720)	**5 535 778**
Interest received on operating activities	7 598 103	6 307 596
Interests paid on operating activities	(1 474 463)	(1 271 805)
Interest accrued excluded from operating activities	(354 187)	(342 902)
Dividends	(97 784)	(98 989)
Paid income tax	(899 277)	(947 002)
Net cash flows from operating activities	**3 642 903**	**12 392 320**
Inflows	**8 166 218**	**5 868 029**
Sale/maturity of investment securities	6 996 521	4 948 065
Sale of intangible assets and property, plant and equipment	213 979	105 615
Dividends received	97 668	98 989
Interest received	858 050	715 360
Outflows	**(12 636 011)**	**(11 436 552)**
Acquisition of demerged part of Deutsche Bank Polska SA net of cash acquired	-	(189 470)
Acquisition of subordinated entities net of cash acquired	-	(19 990)
Purchase of investment securities	(12 185 175)	(10 645 906)
Purchase of intangible assets and property, plant and equipment	(450 836)	(581 186)
Net cash flows from investing activities	**(4 469 793)**	**(5 568 523)**
Inflows	**8 910 256**	**11 102 519**
Debt securities in issue	6 574 500	7 430 794
Drawing of loans	2 335 756	3 671 725
Outflows	**(10 240 038)**	**(6 552 006)**
Debt securities buy out	(5 278 326)	(2 975 000)
Repayment of loans	(2 044 255)	(2 781 861)
Repayment of lease liability	(189 283)	-
Dividends and other payments to shareholders	(2 331 071)	(514 130)
Interest paid	(397 103)	(281 015)
Net cash flows from financing activities	**(1 329 782)**	4 550 513
Total net cash flows	**(2 156 672)**	**11 374 310**
Cash and cash equivalents at the beginning of the accounting period	**19 422 527**	**8 048 217**
Cash and cash equivalents at the end of the accounting period	**17 265 855**	**19 422 527**

* details in Note 2.4.

Information regarding liabilities arising from financial activities in loans received, subordinated liabilities and the issue of debt securities were presented respectively in Notes 32-35.

Notes presented on pages 13 – 174 constitute an integral part of this Financial Statements.

VI. Additional notes to consolidated financial statements

1. General information about issuer

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

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

Consolidated financial statement of Santander Bank Polska Group includes the Bank's financial information as well as information of its subsidiaries and and associated entities (forming together the "Group").

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

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

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

In thousands of PLN

Santander Bank Polska Group consists of the following entities:

Subsidiaries:

	Subsidiaries	Registered office	[%] of votes on AGM at 31.12.2019	[%] of votes on AGM at 31.12.2018
1.	Santander Finanse sp. z o.o. (formerly BZ WBK Finanse sp. z o.o.)	Poznań	100%	100%
2.	Santander Factoring sp. z o.o. (formerly BZ WBK Faktor sp. z o.o.)	Warszawa	100% of AGM votes are held by Santander Finanse sp. z o.o.	100% of AGM votes are held by Santander Finanse sp. z o.o.
3.	Santander Leasing S.A. (formerly BZ WBK Leasing S.A.)	Poznań	100% of AGM votes are held by Santander Finanse sp. z o.o.	100% of AGM votes are held by Santander Finanse sp. z o.o.
4.	Santander Leasing Poland Securitization 01	Dublin	subsidiary of Santander Leasing S.A.	subsidiary of Santander Leasing S.A.
5.	Santander Inwestycje sp. z o.o. (formerly BZ WBK Inwestycje sp. z o.o.)	Warszawa	100%	100%
6.	Santander F24 S.A. (formerly BZ WBK F24 S.A.)/ BZ WBK Nieruchomości S.A.	Poznań	100% of AGM votes are held by Santander Finanse sp. z o.o.	100% of AGM votes are held by Santander Finanse sp. z o.o.
7.	Santander Securities S.A.	Warszawa	- [1)]	100% [2)]
8.	Santander Towarzystwo Funduszy Inwestycyjnych S.A. (formerly BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.) [3)]	Poznań	50%	50%
9.	Santander Consumer Bank S.A.	Wrocław	60%	60%
10.	Santander Consumer Finanse sp. z o.o.	Warszawa	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
11.	PSA Finance Polska sp. z o.o. [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.
12.	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.
13.	Santander Consumer Multirent sp. z o.o.	Warszawa	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
14.	S.C. Poland Consumer 15-1 sp.z o.o. [5)]	Warszawa	subsidiary of Santander Consumer Bank S.A.	subsidiary of Santander Consumer Bank S.A.
15.	S.C. Poland Consumer 16-1 sp.z o.o. [5)]	Warszawa	subsidiary of Santander Consumer Bank S.A.	subsidiary of Santander Consumer Bank S.A.

[1)] Division of Santander Securities S.A. Details in note 51.
[2)] Acquisition of Santander Securities S.A. (formerly DB Securities SA) Details in note 52.
[3)] As at 31.12.2019, Santander Bank Polska was a co-owner of Santander Towarzystwo Funduszy Inwestycyjnych SA, together with Banco Santander SA. Both owners are members of Santander Group and each holds an equal stake of 50% in the company's share capital. In practice, Santander Bank Polska exercises control over the subsidiary Santander Towarzystwo Funduszy Inwestycyjnych SA because though it, Banco Santander implements its policy in Poland. Consequently, the company is treated as a subsidiary.
[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 prepare consolidated financial statements due to the fact that Santander Consumer Bank S.A has a direct control and Santander Bank Polska SA has indirect control over the investment.
[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; their shareholder is polish legal entity who has no ties with the Group; the companies controlled by Santander Consumer Bank, in accordance with the control criteria set out in IFRS 10.7.

In thousands of PLN

Associates:

	Associates	Registered office	[%] of votes on AGM at 31.12.2019	[%] of votes on AGM at 31.12.2018
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 consolidated financial statements

2.1. Statement of compliance

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

This consolidated financial statements has been approved for publication by the Management Board of Santander Bank Polska S.A. on 19 January 2020.

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

IFRS	Nature of changes	Effective from	Influence on Santander Bank Polska S.A. Group
Conceptual Framework for Financial Reporting	The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters: • Chapter 1 – The objective of financial reporting • Chapter 2 – Qualitative characteristics of useful financial information • Chapter 3 – Financial statements and the reporting entity • Chapter 4 – The elements of financial statements • Chapter 5 – Recognition and derecognition • Chapter 6 – Measurement • Chapter 7 – Presentation and disclosure • Chapter 8 – Concepts of capital and capital maintenance The Conceptual Framework were published together with the justification for the changes. The Board has also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the Conceptual Framework. In most cases, the standard references are updated to refer to the Conceptual Framework. There are exemptions in developing accounting policies for regulatory account balances for two standards, namely, IFRS 3 Business Combinations and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.	Effective immediately for the IASB and the IFRS IC. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.	The amendment will not have a significant impact on financial statement.
IAS 1 Presentation of financial statements and IAS 8 Accounting principles (policy), changes in estimates and correction of errors*	The IASB has published a new definition of 'material'. Amendments to IAS 1 and IAS 8 clarify the definition and increase consistency across standards	1 January 2020	The amendment will not have a significant impact on financial statement.
IFRS 17 Insurance Contracts*	IFRS 17 defines a new approach to the recognition, valuation, presentation and disclosure of insurance contracts. The main purpose of IFRS 17 is to guarantee the transparency and comparability of insurers' financial statements. In order to meet this requirement the entity will disclose a lot of quantitative and qualitative information enabling the users of financial statements to assess the effect that insurance contracts have on the financial position, financial performance and cash flows of the entity. IFRS 17 introduces a number of significant changes in relation to the existing requirements of IFRS 4. They concern, among others: aggregation levels at which the calculations are made, methods for the valuation of insurance liabilities, recognition a profit or loss over the period , reassurance recognition, separation of the investment component and presentation of particular items of the balance sheet and profit and loss account of reporting units including the separate presentation of insurance revenues, insurance service expenses and insurance finance income or expenses.	1 January 2021	The standard will not have a significant impact on financial statement.

In thousands of PLN

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

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

Santander

In thousands of PLN

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

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

In thousands of PLN

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

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

In thousands of PLN

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

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

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

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

Class of right-of-use assets	Real estate	Other	TOTAL
TOTAL	784 574	4 822	**789 396**

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

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

Description	Value
Total liabilities arising from irrevocable operating leases of Santander Bank Polska S.A. Group as at 31 December 2018	922 443
Discount based on the incremental borrowing rate of Santander Bank Polska S.A. Group as the lessee	(100 207)
Value of contractual liabilities considering extension and termination options	11 963
Exclusion – short-term leases	(18 850)
Exclusion – leases of low-value assets	(3 930)
Lease liabilities as per IFRS 16 as at 1 January 2019 – TOTAL	**811 420**

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

- Santander Bank Polska S.A. Group determined the provisions for onerous leases as an alternative to performing an impairment review. The use of this expedient entailed an adjustment of the right-of-use asset at the date of initial application by the amount of any provision for onerous leases recognised in the statement of financial position immediately before the date of initial application and totalling PLN 8,397 k.
- adjustment of the carrying amount of the right-of-use asset by assets and liabilities recognized in accordance with IFRS 3 “Business combinations” relating to favourable and unfavourable terms of operating leases acquired as part of a business combination in amount PLN 21,578 k,
- decommisioning provision. As regards the lease contracts containing a record of an obligation of Santander Bank Polska S.A. Group to reinstate the leased asset to its original condition after termination of the lease, Santander Bank Polska S.A. Group recognised decommissioning assets and corresponding provisions mainly in connection with the lease of buildings and structures. Decommissioning costs for non-current assets are incurred in relation to the right-of-use asset and amortised over the estimated economic life. The fair value of decommissioning costs for non-current assets is estimated by Santander Bank Polska S.A. Group on the basis of average historical costs of asset reinstatement for the last 12 months. As at 1 January 2019, the present value of provisions for reinstatement of assets to their original condition is PLN 7,231 k and will be presented in the statement of financial position under “Other liabilities”.
- other adjustments, including unsettled until the first aplication date cash incentives.

In thousands of PLN

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

Description	Value
Right-of-use assets as per IFRS 16 as at 1 January 2019 , including:	789 396
- lease liabilities as per IFRS 16 as at 1 January 2019	811 420
- provisions for onerous contracts	(8 397)
- adjusment for the value of assets and liabilities recognized in applying IFRS 3	(21 578)
- decommissioning provision	7 231
- other	721

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

Lease liabilities do not include:

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

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

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

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

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

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

For the purpose of the initial application of the standard, Santander Bank Polska S.A. Group used a modified retrospective approach and measured right-of-use assets at the amount of lease liabilities adjusted for any prepayments or accrued lease payments relating to leases only, recognised in the statement of financial position directly before the date of initial application, and avoided to restate comparative data.

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

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

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

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

In thousands of PLN

2.4. Comparability with the results presented in prior periods

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

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

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

Detailed information on the final settlement of acquisition of an organised part of the enterprise of Deutsche Bank Polska S.A. and DB Securities S.A. is provided in point 52.

Changes	**Gain on acquisition 2018**	**Net profit for the period 1.01.2018-31.12.2018**	**Other capital as at 31.12.2018**
Provisional values	**387 733**	**2 365 222**	**18 969 482**
Fair value adjustment of consideration in the form of demerger shares	57 741	57 741	(57 741)
Adjustement to cash consideration	(2 988)	(2 988)	-
Update of the fair value of the identified net assets	(23 192)	(23 192)	-
Restated value	**419 294**	**2 396 783**	**18 911 741**

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

Correction of errors

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

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

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

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

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

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

In thousands of PLN

Consolidated statement of financial position

as at:	31.12.2018				
	Before	Adjustment	Adjustment	Adjustment	After
ASSETS					
Cash and balances with central banks	8 907 552	-	-	-	8 907 552
Loans and advances to banks	2 936 214	-	-	-	2 936 214
Financial assets held for trading	9 769 851	-	(8 208 838) [2]	(374 150) [3]	1 186 863
Hedging derivatives	73 221	-	-	-	73 221
Loans and advances to customers incl.:	137 460 378	-	-	-	137 460 378
- measured at amortised cost	135 643 297	-	-	-	135 643 297
- measured at fair value through other comprehensive income	366 751	-	-	-	366 751
- measured at fair value through profit or loss	1 450 330	-	-	-	1 450 330
Buy-sell-back transactions	177 482	-	9 012 281 [2]	- -	9 189 763
Investment securities incl.:	39 179 100	-	-	(1 334 594) [3]	37 844 506
- debt securities measured at fair value through other comprehensive income	38 221 051	-	-	(1 334 594) [3]	36 886 457
- debt securities measured at fair value through profit and loss	136 511	-	-	-	136 511
- equity securities measured at fair value through other comprehensive income	821 538	-	-	-	821 538
Assets pledged as collateral	-	-	-	1 708 744 [3]	1 708 744
Investments in associates	891 952	-	-	-	891 952
Intangible assets	819 409	-	-	-	819 409
Goodwill	1 712 056	-	-	-	1 712 056
Property, plant and equipment	986 384	-	-	-	986 384
Net deferred tax assets	1 760 121	-	-	-	1 760 121
Assets classified as held for sale	12 145	-	-	-	12 145
Other assets	1 166 995	-	-	-	1 166 995
Total assets	**205 852 860**	**-**	**803 443**	**-**	**206 656 303**
LIABILITIES AND EQUITY					
Deposits from banks	2 832 928	-	-	-	2 832 928
Hedging derivatives	912 482	-	-	-	912 482
Financial liabilities held for trading	1 233 713	-	247 688 [2]	-	1 481 401
Deposits from customers	149 616 658	-	-	-	149 616 658
Sell-buy-back transactions	9 340 788	-	555 755 [2]	-	9 896 543
Subordinated liabilities	2 644 341	-	-	-	2 644 341
Debt securities in issue	9 368 617	-	-	-	9 368 617
Current income tax liabilities	288 300	-	-	-	288 300
Provisions for off balance sheet credit facilities	81 048	-	-	-	81 048
Other provisions	132 881	-	-	-	132 881
Other liabilities	2 732 893	26 179 [1]	47 331 [2]	-	2 806 403
Total liabilities	179 184 649	26 179	850 774	-	180 061 602
Equity					
Equity attributable to owners of Santander Bank Polska S.A.	25 104 027	(26 179)	(47 331)	-	25 030 517
Share capital	1 020 883	-	-	-	1 020 883
Other reserve capital	18 969 482	(57 741) [1]	-	-	18 911 741
Revaluation reserve	1 019 373	-	-	-	1 019 373
Retained earnings	1 729 067	-	(13 901) [2]	-	1 715 166
Profit for the period	2 365 222	31 562 [1]	(33 430) [2]	-	2 363 354
Non-controlling interests in equity	1 564 184	-	-	-	1 564 184
Total equity	26 668 211	(26 179)	(47 331)	-	26 594 701
Total liabilities and equity	**205 852 860**	**-**	**803 443**	**-**	**206 656 303**

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

In thousands of PLN

Consolidated statement of financial position

as at:	1.01.2018*			
	Before	Adjustment	Adjustment	After
ASSETS				
Cash and balances with central banks	4 146 222	-	-	4 146 222
Loans and advances to banks	2 136 474	-	-	2 136 474
Financial assets held for trading	3 416 108	(1 111 343) [2)]	(875 003) [3)]	1 429 762
Hedging derivatives	218 061	-	-	218 061
Loans and advances to customers incl.:	107 556 726	-	-	107 556 726
- measured at amortised cost	105 961 354	-	-	105 961 354
- measured at fair value through profit or loss	1 595 372	-	-	1 595 372
Buy-sell-back transactions	-	5 631 488 [2)]	-	5 631 488
Investment securities incl.:	28 400 718	-	(1 510 724) [3)]	26 889 994
- debt securities measured at fair value through other comprehensive income	27 494 933	-	(1 510 724) [3)]	25 984 209
- debt securities measured at fair value through profit and loss	93 165	-	-	93 165
- equity securities measured at fair value through other comprehensive income	812 620	-	-	812 620
Assets pledged as collateral	-	-	2 385 727 [3)]	2 385 727
Investments in associates	889 372	-	-	889 372
Intangible assets	490 327	-	-	490 327
Goodwill	1 712 056	-	-	1 712 056
Property, plant and equipment	930 717	-	-	930 717
Net deferred tax assets	1 473 247	-	-	1 473 247
Assets classified as held for sale	103	-	-	103
Other assets	1 065 068	-	-	1 065 068
Total assets	**152 435 199**	**4 520 145**	**-**	**156 955 344**
LIABILITIES AND EQUITY				
Deposits from banks	2 783 083	-	-	2 783 083
Hedging derivatives	578 798	-	-	578 798
Financial liabilities held for trading	1 237 704	230 895 [2)]	-	1 468 599
Deposits from customers	111 481 135	-	-	111 481 135
Sell-buy-back transactions	2 650 846	4 289 250 [2)]	-	6 940 096
Subordinated liabilities	1 488 602	-	-	1 488 602
Debt securities in issue	5 895 814	-	-	5 895 814
Current income tax liabilities	192 925	-	-	192 925
Provisions for off balance sheet credit facilities	65 686	-	-	65 686
Other provisions	102 482	-	-	102 482
Other liabilities	2 868 949	13 901 [2)]	-	2 882 850
Total liabilities	129 346 024	4 534 046	-	133 880 070
Equity				
Equity attributable to owners of Santander Bank Polska S.A.	21 652 766	(13 901)	-	21 638 865
Share capital	993 335	-	-	993 335
Other reserve capital	16 920 129	-	-	16 920 129
Revaluation reserve	670 419	-	-	670 419
Retained earnings	855 829	(161) [2)]	-	855 668
Profit for the period	2 213 054	(13 740) [2)]	-	2 199 314
Non-controlling interests in equity	1 436 409	-	-	1 436 409
Total equity	23 089 175	(13 901)	-	23 075 274
Total liabilities and equity	**152 435 199**	**4 520 145**	**-**	**156 955 344**

* data as at 1.01.2018 with implementation of IFRS 9

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

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

In thousands of PLN

Consolidated statement of cash flows

for the period	1.01.2018 - 31.12.2018					
	Before	Adjustment	Adjustment	Adjustment	Adjustment	After
Profit before tax	**3 426 152**	**31 562** [1]	**(33 430)** [2]	**-**	**-**	**3 424 284**
Total adjustments:						
Share in net profits of entities accounted for by the equity method	(62 667)	-	-	-	-	(62 667)
Depreciation/amortisation	333 470	-	-	-	-	333 470
Gain on acquisition of enterprise	(387 733)	(31 562) [1]	-	-	-	(419 295)
Profit from investing activities	(79 107)	-	-	-	-	(79 107)
Impairment losses (reversal)	12 959	-	-	-	-	12 959
	3 243 074	**-**	**(33 430)**	**-**	**-**	**3 209 644**
Changes:						
Provisions	32 586	-	-	-	-	32 586
Financial assets / liabilities held for trading	(6 345 807)	-	7 114 288 [2]	(500 853) [3]	(13 173) [4]	254 455
Assets pledged as collateral	-	-	-	676 983 [3]	-	676 983
Hedging derivatives	478 524	-	-	-	(202 836) [4]	275 688
Loans and advances to banks	151 667	-	-	-	(40 275) [4]	111 392
Loans and advances to customers	(11 063 294)	-	-	-	(5 976 194) [4]	(17 039 488)
Deposits from banks	(4 094 278)	-	-	-	13 340 [4]	(4 080 938)
Deposits from customers	23 883 844	-	-	-	1 180 589 [4]	25 064 433
Buy-sell/ Sell-buy-back transactions	6 689 942	-	(6 089 917) [2]	-	9 037 [4]	609 062
Other assets and liabilities	(400 553)	2 988 [1]	33 430 [2]	2 019 [3]	(6 279) [4]	(368 395)
	9 332 631	**2 988**	**1 057 801**	**178 149**	**(5 035 791)**	**5 535 778**
Interest received on operating activities	-	-	-	-	6 307 596 [4]	6 307 596
Interests paid on operating activities	-	-	-	-	(1 271 805) [4]	(1 271 805)
Interest accrued excluded from operating activities	(369 152)	-	-	26 250 [3]	-	(342 902)
Dividends	(98 989)	-	-	-	-	(98 989)
Paid income tax	(947 002)	-	-	-	-	(947 002)
Net cash flows from operating activities	**11 160 562**	**2 988**	**1 024 371**	**204 399**	**-**	**12 392 320**
Inflows	**6 309 947**	**-**	**-**	**(441 918)**	**-**	**5 868 029**
Sale/maturity of investment securities	5 358 065	-	-	(410 000) [3]	-	4 948 065
Sale of intangible assets and property, plant and equipment	105 615	-	-	-	-	105 615
Dividends received	98 989	-	-	-	-	98 989
Interest received	747 278	-	-	(31 918) [3]	-	715 360
Outflows	**(11 671 083)**	**(2 988)**	**-**	**237 519**	**-**	**(11 436 552)**
Acquisition of demerged part of Deutsche Bank Polska SA net of cash acquired	(186 482)	(2 988) [1]	-	-	-	(189 470)
Acquisition of subordinated entities net of cash acquired	(19 990)	-	-	-	-	(19 990)
Purchase of investment securities	(10 883 425)	-	-	237 519 [3]	-	(10 645 906)
Purchase of intangible assets and property, plant and equipment	(581 186)	-	-	-	-	(581 186)
Net cash flows from investing activities	**(5 361 136)**	**(2 988)**	**-**	**(204 399)**	**-**	**(5 568 523)**
Inflows	**11 102 519**	**-**	**-**	**-**	**-**	**11 102 519**
Debt securities in issue	7 430 794	-	-	-	-	7 430 794
Drawing of loans	3 671 725	-	-	-	-	3 671 725
Outflows	**(6 552 006)**	**-**	**-**	**-**	**-**	**(6 552 006)**
Debt securities buy out	(2 975 000)	-	-	-	-	(2 975 000)
Repayment of loans	(2 781 861)	-	-	-	-	(2 781 861)
Dividends and other payments to shareholders	(514 130)	-	-	-	-	(514 130)
Interest paid	(281 015)	-	-	-	-	(281 015)
Net cash flows from financing activities	**4 550 513**	**-**	**-**	**-**	**-**	**4 550 513**
Total net cash flows	**10 349 939**	**-**	**1 024 371**	**-**	**-**	**11 374 310**
Cash and cash equivalents at the beginning of the accounting period	**7 662 368**	**-**	**385 849** [2]	**-**	**-**	**8 048 217**
Cash and cash equivalents at the end of the accounting period	**18 012 307**	**-**	**1 410 220** [2]	**-**	**-**	**19 422 527**

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

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

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

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

In thousands of PLN

Consolidated income statement

for the period:	1.01.2018 - 31.12.2018		
	Before	Adjustment	After
Interest income and similar to income	**7 213 796**	**-**	**7 213 796**
Interest income on financial assets measured at amortised cost	6 345 132	-	6 345 132
Interest income on financial assets measured at fair value through other comprehensive income	733 378	-	733 378
Income similar to interest on financial assets measured at fair value through profit or loss	135 286	-	135 286
Interest expense	(1 471 391)	-	(1 471 391)
Net interest income	**5 742 405**	**-**	**5 742 405**
Fee and commission income	2 526 572	-	2 526 572
Fee and commission expense	(468 770)	-	(468 770)
Net fee and commission income	**2 057 802**	**-**	**2 057 802**
Dividend income	100 116	-	100 116
Net gains/(losses) on subordinated entities	(65)	-	(65)
Net trading income and revaluation	144 539	-	144 539
Gains (losses) from other financial securities	37 480	-	37 480
Other operating income	213 842	-	213 842
Gain on acquisition of enterprise	387 733	31 562 [1)]	419 295
Impairment losses on loans and advances	(1 085 068)	-	(1 085 068)
Operating expenses incl.:	(3 768 969)	-	(3 768 969)
-Staff, operating expenses and management costs	(3 242 758)	-	(3 242 758)
-Depreciation/amortisation	(333 470)	-	(333 470)
-Other operating expenses	(192 741)	-	(192 741)
Share in net profits (loss) of entities accounted for by the equity method	62 667	-	62 667
Tax on financial institutions	(466 330)	(33 430) [2)]	(499 760)
Profit before tax	**3 426 152**	**(1 868)**	**3 424 284**
Corporate income tax	(727 139)	-	(727 139)
Consolidated profit for the period	**2 699 013**	**(1 868)**	**2 697 145**
of which:			
-attributable to owners of Santander Bank Polska SA	2 365 222	(1 868)	2 363 354
-attributable to non-controlling interests	333 791	-	333 791

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

In thousands of PLN

Consolidated statement of comprehensive income

for the period	1.01.2018 - 31.12.2018		
	Before	Adjustment	After
Consolidated profit for the period	**2 699 013**	**(1 868) [1),2)]**	**2 697 145**
Other comprehensive income which can be transferred to the profit and loss net account:	**333 945**	**-**	**333 945**
Valuation and sales of debt securities measured at fair value through other comprehensive income gross	382 287	-	382 287
Deferred tax	(72 635)	-	(72 635)
Valuation of cash flow hedging instruments gross	29 991	-	29 991
Deferred tax	(5 698)	-	(5 698)
Other comprehensive income which can't be transferred to the profit and loss net account:	**15 576**	**-**	**15 576**
Valuation and sales of equity securities measured at fair value through other comprehensive income gross	6 560	-	6 560
Deferred and current tax	(1 261)	-	(1 261)
Provision for retirement allowances – actuarial gains/losses gross	12 688	-	12 688
Deferred tax	(2 411)	-	(2 411)
Total other comprehensive income for the period net	**349 521**	**-**	**349 521**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**3 048 534**	**(1 868) [1),2)]**	**3 046 666**
Total comprehensive income attributable to:			
Owners of Santander Bank Polska SA	2 714 256	(1 868) [1),2)]	2 712 388
Non-controlling interests	334 278	-	334 278

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

2.5. Basis of preparation of financial statements

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

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

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

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

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

2.6. Use of estimates

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

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

Impairment allowances for expected credit losses in respect of financial assets

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

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

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

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

Changes in these estimates and the structure of the models may have a significant impact on ECL allowances, which might be higher than losses arising from materialisation of credit risk as part of the existing portfolio of financial instruments.

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

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

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

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

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

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

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

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

A credit-impaired assets

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

- significant financial difficulty of the issuer or debtor;
- a breach of contract, e.g. delay in repayment of interest or principal over 90 days in an amount exceeding the materiality threshold (PLN 500 for individual and small and medium-sized enterprises and PLN 3,000 for business and corporate clients);
- the Santander Bank Polska S.A. Group, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the Santander Bank Polska S.A. Group would not otherwise consider;
- it becoming probable that the debtor will enter bankruptcy, recovery proceedings, arrangement or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there was a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease could not yet be identified with the individual financial assets, including:
    - (i) adverse changes in the payment status of debtors in the Santander Bank Polska S.A. Group,
    - (ii) national or local economic conditions that correlated with defaults on the assets in the Santander Bank Polska S.A. Group.

A significant increases in credit risk

One of the key aspects of implementation of IFRS 9 is to work out a definition of a significant increase in credit risk that determines the classification of an exposure into Stage 2. Santander Bank Polska Group has developed detailed criteria for identifying a significant increase in risk based on the following main assumptions:

- Qualitative assumptions:

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

ECL measurement

Another key feature introduced by IFRS 9 is the approach to the estimation of risk parameters. For the purpose of estimating allowances for expected losses, Santander Bank Polska Group uses its own estimates of risk parameters that are based on internal models. However, necessary modifications were made in the context of IFRS 9 requirements (such as estimating the parameters over the lifetime of the exposure or taking into account future macroeconomic conditions). The 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. To this end, the bank determines the factors which affect individual asset classes to estimate an appropriate evolution of risk parameters. The bank uses internally developed scenarios, which are updated at least every six months. The models and parameters generated for the needs of IFRS 9 are subject to model management process and periodic calibration and validation.

Determination of forward-looking events and their likelihood

Forward-looking events are reflected both in the process of estimating ECL and when determining a significant increase in credit risk, by developing appropriate macroeconomic scenarios and then reflecting them in the estimation of parameters for each scenario. The final parameter value and the ECL is the weighted average of the parameters weighted by the likelihood of each scenario. The bank uses three scenario types: the baseline scenario and two alternative scenarios, which reflect the probable alternative options of the baseline scenario: best case and worst case.

In thousands of PLN

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

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

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

Potential variability – Santander Bank Polska Group

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

in PLN m	change in write-offs level	
scenario	31.12.2019	31.12.2018
worst case	10,35	19,3
best case	-11,9	-13,2

The above estimates are a theoretical estimate of the change in the level of parameters, without taking into account potential migration of classifications between baskets when changing scenarios.Significant volatility for the income statement may be reclassifications to stage 2 from stage 1. The theoretical reclassification of 1% of exposures from stage 1 with the highest risk level to stage 2 for each type of exposure would result in an increase in write-offs by PLN 43,53 million according to the portfolio as of 2019.12.31 for the Group Santander Bank Polska (in relation to 47,1 PLN million as at December 12, 2018).

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

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

Measurement of right-of-use assets and lease liabilities

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

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

Lease term

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

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

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

For fixed-term contracts, Santander Bank Polska S.A. Group assumed the lease term equal to the term of the lease contract, unless Santander Bank Polska S.A. Group was aware of circumstances indicating that an extension or termination option would be exercised. For contracts made for an indefinite period, the lease term typically equals three years, unless a given property is subject to redevelopment. In such a case, the lease term does not exceed five years. In the case of right-of-use assets which are accessory to the underlying asset, the lease term is determined as the term of lease of the underlying asset, e.g. commercial premises where the branch is located.

Where an underlying asset is subleased by Santander Bank Polska S.A. Group, the head lessee ("intermediate lessor"), to a third party, and the lease ("head lease") between the head lessor and lessee remains in effect, the term of the sublease contract does not exceed the term of the head lease contract.

Incremental borrowing rate

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

1. risk-free rate
2. credit spread.

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

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

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

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

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

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

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

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

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

Santander Bank Polska S.A. 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 S.A. 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 S.A. 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 asset which was subject to measurement;
- discount rates reflect the assumptions which are in line with the cash flow assumptions;
- discount rates are consistent with the key economic factors relating to the currency in which the cash flows are denominated.

The fair value determination methodology developed by Santander Bank Polska S.A. 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 S.A. Group takes into account the following factors:

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

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

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

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

The fair value measurement models are reviewed periodically.

A summary of the carrying amounts and fair values of the individual groups of assets and liabilities is presented in Note 45.

Estimates for legal claims

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

The provisions have been estimated considering the likelihood of payment.

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

In connection with the CJEU's ruling described in Note 46, there is an increased risk that clauses in agreements from the portfolio of mortgage loans denominated in or indexed to foreign currencies may be effectively challenged by customers. As at 31 December 2019, the balance of such loans was PLN 9,891,184 k. The Management Board considered the risk that the scheduled cash flows may not be fully recoverable and/or a liability may arise resulting in a future cash outflow. Following an analysis of the applicability of respective accounting principles, the Group applied IAS 37 and, in addition to the already recognised provisions for individual court cases in that portfolio, recognised an additional collective provision for legal risk at PLN 173,077 k.

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

The Management Board stresses that the estimates come with significant uncertainty and may be subject to major changes in the future. A detailed description of the assumptions underpinning the calculation of specific collective provisions is presented in Note 37.

Estimates regarding reimbursement of fees related to early repaid consumer loans

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

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

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

In addition, the Group restated the amortised external credit intermediation costs as part of measurement of the credit receivables at amortised cost using the effective interest rate in respect of expected prepayments in the loan portfolio (held as at 31 December 2019) subject to the reimbursement (see Note 37 for more details).

Other accounting estimates and judgements

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

See Note 53 for details about provisions for staff benefits.

The fair value of awards granted under an incentive scheme is determined using the share based payments pricing models, which take into account the exercise price of the award, the share price at date of grant, discount rate - the risk free rate, the expected volatility of the share price over the life of the award and other relevant factors influencing fair value. The Santander Bank Polska S.A. Group assesses probability of the programme vesting which affects the programme value in the costs of the reporting period. Description of the share-based incentive scheme is contained in Note 54.

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

When applying the accounting principles, the management of Santander Bank Polska S.A. Group makes various subjective assessments that may significantly affect the amounts recognized in financial statements despite the assessment that requires estimated.

Consolidation scope

The preparation of consolidated financial statements by Santander Bank Polska S.A. as a parent entity of Santander Bank Polska S.A. Group requires an extensive use of judgement and multiple assumptions as to the nature of entities in which the investment is made including, determination of whether Santander Bank Polska S.A. as a parent entity exercises control over the investee. Presented below are the key judgements and assumptions regarding the bank's equity investments where the bank has 50% voting rights in the investee.

According to the Management Board of Santander Bank Polska S.A. Group, investment in Santander Towarzystwo Funduszy Inwestycyjnych S.A. is an investment in a subsidiary for the purpose of preparation of the consolidated financial statement in the light of the strategy adopted by the ultimate parent entity. As at 31 December 2019, Santander Bank Polska S.A. co-owns Santander Towarzystwo Funduszy Inwestycyjnych S.A. with Banco Santander S.A. Both owners are members of Santander Bank Polska S.A. Group and each holds 50% of the shares in the company. In practice, Santander Bank Polska S.A. exercises control over the subsidiary company, Santander Towarzystwo Funduszy Inwestycyjnych S.A. due to the fact that:

- Santander Bank Polska S.A. has rights to manage significant current operations,
- Santander Bank Polska S.A. has rights to variable returns due to its exposure and
- Santander Bank Polska S.A. may use its powers to affect the amount of its financial results.

The investment in POLFUND - Fundusz Poręczeń Kredytowych S.A., where 50% of the voting rights are held by the Santander Bank Polska S.A. on Annual General Meeting, in accordance with the best knowledge and estimates was classified, as an investment in an associate as the ownership structure does not allow Santander Bank Polska S.A. to control and to joint-control the company.

According to Santander Bank Polska S.A. 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 SA has a direct control and Santander Bank Polska S.A. has indirect control over the investment. The need of controlling the company results from the fact that:

- Santander Consumer Bank S.A. has control over PSA Finance Polska Sp. z o.o. as it has existing rights that give it the current ability to direct the relevant activities, namely the activities which materially influence the returns made by PSA Finance Polska Sp. z o.o. Taking into account the core business of PSA Finance Polska Sp. z o.o., which is leasing, activities supporting financial services, car lease and rental of cars and activities of insurance agents and brokers, and the sector in which PSA Finance Polska Sp. z o.o. is active, Santander Bank Polska S.A. has decided that PSA Finance Polska Sp. z o.o. relevant activities are:
  - funding and ALM activity;
  - risk management activity and
  - commercial activity.

  On the basis of an analysis of written agreements between the shareholders of PSA Finance Polska Sp. z o.o., Santander Consumer Bank S.A. manages the first two types of activities indicated above, namely the activity connected with the provision of funding and risk management. The right to manage those activities results from the fact that committee members appointed by Santander Consumer Bank S.A. have casting votes in the event of a tied vote, and the fact that Santander Consumer Bank S.A. has the right to shape the company's external funding policy in a manner consistent with the internal rules of Santander Consumer Bank S.A.

- As Santander Consumer Bank S.A. plays a key role in funding the activities of PSA Finance Polska Sp. z o.o., the former is exposed to variable returns from its investment into the investee and
- Santander Consumer Bank S.A. may use its power to affect returns from its investment into PSA Finance Polska Sp. z o.o. as the former does not act for or on behalf of another entity (acts as a principal rather than as an agent).

The list of fully consolidated subsidiaries is presented in note 1 "Information about the issuer".

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

The key issue for Santander Bank Polska S.A. 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 S.A. 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 S.A. 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 S.A. 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 S.A. 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 Amortised cost, that is:

- business model and
- characteristics of contractual cash flows.

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

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

In addition, it was not found that:

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

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

Business Model Assessment

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

Leasing of low value assets

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

2.8. Basis of consolidation

Subsidiaries

Santander Bank Polska S.A. defines the consolidation scope by assessing whether it controls an investee. Santander Bank Polska S.A. controls an entity if, due to its involvement, Santander Bank Polska S.A. is exposed or has rights to variable returns and can affect those returns through its power over the investee.
Santander Bank Polska S.A., being the parent entity, controls directly or indirectly an investee when:

- if has power over the investee;
- if has exposure or rights to variable returns from its involvement with the investee;
- if has the ability to use its power over the investee to affect the amount of it's own financial results.

When assessing whether it controls an investee, Santander Bank Polska S.A. considers all facts and circumstances, among other things following factors:

- the purpose and design of the investee;
- what the relevant activities are and how decisions about those activities are made;
- whether the rights of Santander Bank Polska S.A. give it the current ability to direct the relevant activities;
- whether Santander Bank Polska S.A. is exposed or has rights to variable returns from its involvement with the investee;
- whether Santander Bank Polska S.A. has the ability to use its power over the investee to affect the amount of the investor's returns.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Acquisition method

Santander Bank Polska S.A. Group applies the purchase method to account for acquisition of subsidiaries. Under this method, the acquirer has to:

- recognise and measure all identifiable acquired assets and liabilities and any non-controlling interest in the acquiree as at the acquisition date (the date on which the acquirer obtains control of the acquiree);
- recognise and measure goodwill or gain from a bargain purchase.

The acquirer measures:

- identifiable assets acquired and liabilities assumed - at fair value as at the acquisition date;
- any non-controlling interest – at fair value or pro-rata to their share in the identifiable net assets of the acquiree.

Associates

Associates are those entities in which Santander Bank Polska S.A. Group has significant influence, but are not subsidiaries, neither joint ventures.
They are accounted for in accordance with the equity method in consolidated financial statements.
The consolidated financial statements include Santander Bank Polska S.A. Group's share of the profits and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When Santander Bank Polska S.A. Group's share of losses exceeds its interest in an associate, Santander Bank Polska S.A. Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that Santander Bank Polska S.A. Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or incomes (including dividends) and expenses arising from intragroup transactions, are eliminated in the preparation of consolidated financial statement.

2.9. Accounting policies

With the exception of the changes described in point 2.3, the Santander Bank Polska S.A. Group consistently applied the adopted accounting principles both for the reporting period for which the statement is prepared and for the comparative period.

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

Foreign currency

Foreign currency transactions

The Polish zloty (PLN) is the functional currency of the units which are members of Santander Bank Polska S.A. Group with the exception of Santander Leasing Securitization 01 for which the functional currency is the EUR.

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

Financial assets and liabilities

Recognition and derecognition

Initial recognition

Santander Bank Polska S.A. 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 settlement date.

Derecognition of financial assets

Santander Bank Polska S.A. 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 S.A. Group transfers a financial asset, and such operation meets the derecognition criteria specified further in this policy.

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

- Santander Bank Polska S.A. Group transfers contractual rights to the cash flows from that financial asset, or
- Santander Bank Polska S.A. 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 S.A. 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 S.A. 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 S.A. Group has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset,
- Santander Bank Polska S.A. 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 S.A. 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 S.A. 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 S.A. 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 S.A. 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;
- if Santander Bank Polska S.A. Group retains substantially all the risks and rewards of ownership, then it shall continue to recognise the financial asset;
- if Santander Bank Polska S.A. 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 S.A. 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 S.A. 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 S.A. 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 S.A. 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 S.A. 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 S.A. Group derecognises a part of financial asset (or a part of a group of similar financial assets) when and only when, if the part of 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 fully proportionate (pro rata) share of cash flows from that financial asset (or a group of similar financial assets),
- that part comprises only a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).

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

Derecognition of financial liabilities

Santander Bank Polska S.A. 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 S.A. 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 S.A. Group repurchases a part of a financial liability, Santander Bank Polska S.A. Group 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 S.A. Group has made a prior decision to measure a financial asset at fair value through profit or loss, the Santander Bank Polska S.A. 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 S.A. 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 S.A. 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

Santander Bank Polska S.A. Group measures the financial asset that is an equity instrument at fair value through profit or loss, unless Santander Bank Polska S.A. 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 S.A. 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 S.A. Group key management regarding a particular instrument.

The business model refers to how Santander Bank Polska S.A. 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 S.A. Group does not reasonably expect to occur, such as so-called "worst case" or "stress case" scenarios.

Santander Bank Polska S.A. 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 S.A. 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 S.A. Group considers all relevant qualitative and quantitative criteria available at the date of business model assessment. Such relevant evidence includes the following issues:

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

Quantitative criteria for the assessment of a business model

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

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

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

In the analysis of the quantitative criteria of the business model assessment, Santander Bank Polska S.A. 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 S.A. 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 S.A. 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 whole life of the instrument. That is, Santander Bank Polska S.A. 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 S.A. Group's stated objective for managing the financial assets is achieved and, specifically, how cash flows are realised. Santander Bank Polska S.A. 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 S.A. Group needs not hold all of those instruments until maturity. Thus, Santander Bank Polska S.A. 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 corporate loans, mortgage and consumer loans, credit cards, loans granted and debt instruments (e.g. treasury bonds, corporate bonds), which are not held for liquidity management purposes. Financial assets on account of trading settlements are substantially also recognised under this model. Such assets are recognised in the books of Santander Bank Polska S.A. Group on the basis of an invoice issued payable within maximum one year.

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

Santander Bank Polska S.A. 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 S.A. 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 S.A. 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 bond and
- loans and advances subject to underwriting, i.e. portion of credit exposures that are planned to be sold before maturity for reasons other than increase in credit risk.

Other/ residual business model

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

Other, residual, model is used for classifying assets held by Santander Bank Polska S.A. 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 S.A. 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 debt instruments and derivative instruments which are not subject to hedge accounting; those instruments are covered by the other/ residual business model.

Changing the business model

Santander Bank Polska S.A. 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 S.A. Group as a result of external or internal changes and must be significant to the Santander Bank S.A. Polska Group's operations and demonstrable to external parties. Accordingly, a change in the business model of Santander Bank Polska S.A. Group will occur only when Santander Bank Polska S.A. 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 S.A. Group is changed before the reclassification date.

The following are not changes in business model:

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

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

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

For this purpose, Santander Bank Polska S.A. 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 associated with the outstanding principal amount,
- other basic lending risks and costs,
- and a profit margin.

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

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for Santander Bank Polska S.A. 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.

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

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

Classification of financial liabilities

Santander Bank Polska S.A. 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 , the issuer shall measure contract at the higher of:
  (1) amount of the expected credit loss allowance,
  (2) initial recognised amount, less respective cumulated income recognised as per IFRS 15;
- commitments to provide a loan at a below-market interest rate. If the liability is not measured at fair value through profit or loss, the issuer shall subsequently measure it at the higher of:
  (1) amount of the expected credit loss allowance,
  (2) Initial recognised amount, less respective cumulated income recognised as per IFRS 15;
- contingent consideration recognised by the acquire under the business combination arrangement governed by IFRS 3. Such contingent consideration shall subsequently be measured at fair value with changes recognised in profit or loss.

Upon initial recognition of the liability, Santander Bank Polska S.A. 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 liabilities or financial assets and liabilities is managed and measured at fair value as per the documented strategy for risk management and investments, and information about these items are provided to key management personnel within the Santander Bank Polska S.A. 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.

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

Measurement of financial assets and financial liabilities

Initial measurement

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

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

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

Subsequent measurement of financial liabilities

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

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

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

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

Amortised cost measurement

Financial assets

Effective interest method

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

This does not apply to POCI assets, in the case of which the interest revenue is calculated on the basis of the net carrying amount, applying the effective interest rate adjusted for credit risk over the lifetime of the asset. The credit-adjusted effective interest rate is calculated by taking into account the future cash flows adjusted for the effect of credit risk over the lifetime of the asset.

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

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

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

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

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

Purchased or originated credit-impaired assets (POCI)

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

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

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

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

Modification of contractual cash flows

The concept of modification

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

If the terms of the financial asset agreement change, the Santander Bank Polska S.A. 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.

Modification criteria

When assessing whether a modification is substantial or minor, Santander Bank Polska S.A. 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 undue capital, increased by the value of undue interest and adjusted for the amount of unsettled commission.

Qualitative criteria

During the qualitative analysis, Santander Bank Polska S.A. 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 and
- consolidation of several exposures into one under an annex.

Substantial modification

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

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

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

Minor modification

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

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with this policy, Santander Bank Polska S.A. 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 S.A. 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. Financial asset can be written off partially or in its entirety.

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

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

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

Impairment

General approach

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

- financial assets measured at amortised cost or at fair value through other comprehensive income;

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

Santander Bank Polska S.A. 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 the profit or loss account and does not reduce the carrying amount of the financial asset in the statement of financial position.

At each reporting date, Santander Bank Polska S.A. 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 S.A. 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 S.A. 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 S.A. 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 S.A. Group measures the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date.

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

Simplified approach for trade receivables and contract assets

In the case of trade receivables and contract assets, Santander Bank Polska S.A.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.

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

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

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

At each reporting date, Santander Bank Polska S.A. 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 S.A. 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.

Contingent liabilities

Santander Bank Polska S.A. 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.

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

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

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

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

Gains and losses

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

- a part of a hedging relationship,
- an investment into an equity instrument and Santander Bank Polska S.A. 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 S.A. 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 S.A. 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 S.A. 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 S.A. 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 S.A. 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 S.A. 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 S.A. Group has elected to measure equity instruments at fair value through other comprehensive income , dividends from that investment are recognised in profit or loss.

Liabilities designated as measured at fair value through profit or loss

Santander Bank Polska S.A. 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 S.A. Group.

If the requirements specified above would create or enlarge an accounting mismatch in the profit or loss of Santander Bank Polska S.A. Group, Santander Bank Polska S.A. 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 S.A. 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 derecognized. If the financial asset is derecognised , Santander Bank Polska S.A. Group accounts for the cumulative gain or loss that was previously recognised in other comprehensive income in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Financial instruments held for trading

A financial asset or financial liability is classified by Santander Bank Polska S.A. 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.

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

Santander Bank Polska S.A. Group uses derivative financial instruments to hedge its exposure to FX risk and interest rate risk arising from Santander Bank Polska S.A. 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 S.A. Group chose to continue to apply the hedge accounting requirements and hedging relationships arising from IAS 39.

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

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

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

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

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

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

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

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

Repurchase and reverse repurchase transactions

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

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

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

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

Property, plant and equipment

Owned fixed assets

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

Leased assets

Cost model

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

a) less any accumulated depreciation and any accumulated impairment losses; and

b) adjusted for any remeasurement of the lease liability

Subsequent expenditure

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

Depreciation

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

The estimated economic useful lives are as follows:

- buildings: 22-40 years
- IT equipment: 3-5 years
- transportation means: 3-4 years
- other fixed assets: 3-14 years.

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

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

Goodwill and Intangible assets

Goodwill

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

Licences, patents, concessions and similar assets

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

Development costs

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

Santander Bank Polska S.A. 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 S.A. 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 S.A. Group indicates separately the costs from internal development .

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

Other intangible assets

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

Expenditure on intangible assets

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

Amortisation

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

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

Leasing

The new International Financial Reporting Standard 16 "Leasing" effective from January 1, 2019 has replaced IAS 17. IFRS 16 abolishes the classification of operating and financial leasing in accordance with IAS 17 and introduces one model for the leasing approach by the lessee. Leasing is a contract or part of a contract in which the right to use the underlying asset is transferred over a period of time in exchange for a salary.

Extracting elements of the leasing contract

Lessee

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

Lessor

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

Lease term

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

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

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

Santander Bank Polska Group as the lessee

Recognition

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

Measurement

Initial measurement

As at the day of the initial application, the Santander Bank Polska S.A Group chose a modified retrospective approach to implement IFRS 16 and decided to include the right to use the asset in an amount equal to the lease liability at initial recognition and chose not to restate comparative data.

Initial measurement of the right-of-use asset

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

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

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

Initial measurement of the lease liability

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

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

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

Lease modifications

Santander Bank Polska Group (the lessee) accounts for a lease modification as a separate lease if :

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

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

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

Recognition exemptions

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

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

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

Santander Bank Polska Group as the lessor

Classification of leases

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

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

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

Finance lease

Recognition and measurement

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

Initial measurement

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

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

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

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

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

Subsequent measurement

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

Santander Bank Polska Group (the lessor) allocates finance income over the lease term on a systematic and rational basis. The lease payments relating to the period are allocated against the net investment in the lease.

Santander Bank Polska Group (the lessor) applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease.

Operating lease

Recognition and measurement

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

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

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

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

Classification of leases

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

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

Operating lease

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

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

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

Finance lease

Santander Bank Polska S.A. Group as the lessor

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

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

Santander Bank Polska S.A. Group as the lessee

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

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

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

Other items of the statement of financial position

Fixed assets held for sale

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

Possible reduction of the carrying amount of assets held for sale as at the date of their initial classification as well as subsequent write-downs to the fair value less costs to sell is recognized in the income statement.

Other trade and other receivables

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

Trade payables and other liabilities

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

Equity

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

Share capital is stated at its nominal value in accordance with the Articles of Association and the entry in the court register.

Supplementary capital is created from profit allocations and share issue premiums.

Reserve capital is created from profit allocations and is earmarked for covering balance sheet losses.

The result of valuation of management share-based incentive program is included in reserve capital (IFRS 2.53).

The supplementary, reserve, general banking risk fund and share premium are presented jointly under category “Other reserve funds”.

Revaluation reserve is comprised of adjustments relating to the valuation of financial assets measured at fair value through other comprehensive income and adjustments relating to the valuation of effective cash flow hedges taking into account deferred tax and actuarial gains from estimating provision for retirement. The revaluation reserve is not distributable.

Except for own equity, non-controlling interests are also recognised in Santander Bank Polska S.A. Group capital.

On derecognition of all or part of financial assets measured at fair value through other comprehensive income the total effects of periodical change in the fair value reflected in the revaluation reserve are reversed. The value of a given financial asset measured at fair value through other comprehensive income is increased or decreased by the whole amount or an adequate portion of the impairment allowance made previously. The effects of the fair value changes are removed from the revaluation reserve with a corresponding change in the income statement.

The net financial result for the accounting year is the profit disclosed in the income statement of the current year adjusted by the corporate income tax charge.

Custody services

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

Capital payments (Dividends)

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

Provisions

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

Santander Bank Polska S.A Group raised provisions for legal risk related to contractual clauses in agreements on loans indexed and not indexed to and denominated in foreign currencies and for reimbursements of portion of fees related to early repayment of consumer loans.

Income statement

Net interest income

Santander Bank Polska S.A. Group presents the interest income recognised at the effective interest rate and credit-adjusted 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

Santander Bank Polska S.A. Group recognizes the fee and commission income that is not accounted for using the effective interest rate in such a manner so as to reflect the transfer of the goods or services promised to a customer in an amount reflecting the consideration to which it will be entitled in return for the goods or services in accordance with the 5 -stage model for recognizing income .

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

The significant commission income of the Santander Bank Polska S.A. Group includes:

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

Net income on bancassurance

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

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

Employee benefits

Short-term employee benefits

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

Long-term employee benefits

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

Equity-settled share-based payment transactions

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

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

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

Cash-settled share-based payment transactions

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

Net trading income and revaluation

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

Dividend income

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

Profit on disposal of subsidiaries, associates and joint ventures

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

Profit on the sale of interests in associates and joint ventures is the difference between the carrying amount and their sale price.

Gains on other financial instruments

Gains on other financial instruments include:

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

Santander Bank Polska S.A. Group uses fair value hedge accounting and cash flow hedge accounting. Details are presented in Note 43 "Hedge accounting".

Other operating income and other operating costs

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

Impairment losses on loans and advances

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

The result on loan receivables' sale is computed at the assets' derecognition date in the difference between balance sheet amount and remuneration received.

Staff and general and administrative expenses

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

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

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

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

Tax on financial institutions

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

Santander Bank Polska S.A. Group reports the tax charge under "Tax on financial institutions", separately from the income tax charge.

Corporate income tax

Corporate income tax comprises current and deferred tax. Income tax is recognised in income statement except to the extent that it relates to items recognised in equity.

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

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

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

3. 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 and 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 the Bank uses to assess performance of business segments activity.

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

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

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

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

- sharing of income and cost of delivery of common projects.

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

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

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

In 2019 introduced the following changes:

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

Comparable data are adjusted accordingly.

On 9.11.2018 acquisition of organized part of Deutsche Bank Polska took place. Results, assets and liabilities of customers of acquired organized part of Deutsche Bank Polska were presented in Retail Banking segment and Business and Corporate Banking segment, according to the principles of segmentation and income and cost identification in Santander Bank Polska Group. Gain on acquisition of organized part of Deutsche Bank Polska and acquisition related costs were presented in ALM and Centre segment. In the first half of 2019, the final settlement of the transaction was corrected, therefore the initial settlement of 31.12.2018 was adjusted and restated in Note 52.

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

- the change in recognition of selected purchase and sale transactions into repurchase transactions was presented in Corporate & Investment Banking segment in lines: "Other assets" and "Other liabilities and equity".
- the adjustment of retained earnings concerning the additional tax payment from financial institutions for the years 2016-2018 and the liability in this respect were presented in ALM and Centre segment in line 'Other liabilities and equity'.
- the amount of the adjustment for 2018 was also presented in the Consolidated Income Statement in ALM and Centre segment in line 'Tax on financial institutions'.

All the above changes are described in detail in Note 2.4 of these Financial Statements.

The profit on preliminary settlement of the sale of an organized part of the enterprise in Bank (operating under the name Investment Services Centre) has been recognized in ALM and Centre Segment (details of the transaction are presented in Note 51 of these Financial Statements).

In the part regarding Santander Bank Polska, the provisions for legal risk connected with the portfolio of FX mortgage loans were presented in ALM and Centre segment, whereas the provisions for legal risk connected with reimbursement of portion of fees related to early repayment of consumer loans were presented in Retail Banking segment. Simultaneously, in the part regarding Santander Consumer Bank, the provisions for legal risk connected with the portfolio of FX mortgage loans and the provisions for legal risk connected with reimbursement of portion of fees related to early repayment of consumer loans were presented in the Santander Consumer segment. More details regarding the above provisions are described in Note 46.

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

Retail Banking

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

Business & Corporate Banking

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

Corporate & Investment Banking

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

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

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

ALM and Centre

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

Santander Consumer

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

In thousands of PLN

Consolidated income statement by business segments

01.01.2019-31.12.2019	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate& Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**3 241 162**	**828 099**	**294 915**	**638 504**	**1 577 489**	**6 580 169**
incl. internal transactions	(1 839)	(2 652)	4 500	3 842	(3 851)	-
Net fee and commission income	**1 322 015**	**435 923**	**226 096**	**10 733**	**133 405**	**2 128 172**
incl. internal transactions	139 764	93 843	(234 115)	3 473	(2 965)	-
Other income	**72 370**	**68 514**	**105 961**	**354 538**	**75 557**	**676 940**
incl. internal transactions	11 966	52 272	(57 799)	792	(7 231)	-
Dividend income	**-**	**-**	**1 437**	**97 760**	**24**	**99 221**
Operating costs	**(1 962 295)**	**(448 708)**	**(247 921)**	**(492 407)**	**(709 205)**	**(3 860 536)**
incl. internal transactions	-	-	-	3 380	(3 380)	-
Depreciation/amortisation	**(346 625)**	**(56 830)**	**(24 662)**	**(122 759)**	**(77 299)**	**(628 175)**
Impairment losses on loans and advances	**(819 616)**	**(93 090)**	**24 012**	**(30 584)**	**(300 075)**	**(1 219 353)**
Share in net profits (loss) of entities accounted for by the equity method	**-**	**-**	**-**	**67 192**	**-**	**67 192**
Tax on financial institutions	**-**	**-**	**-**	**(554 368)**	**(44 666)**	**(599 034)**
Profit before tax	**1 507 011**	**733 908**	**379 838**	**(31 391)**	**655 230**	**3 244 596**
Corporate income tax						**(800 488)**
Consolidated profit for the period						**2 444 108**
of which:						
attributable to owners of Santander Bank Polska SA						**2 138 347**
attributable to non-controlling interests						**305 761**

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

In thousands of PLN

Consolidated statement of financial position by business segment

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

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

In thousands of PLN

Consolidated income statement by business segments

01.01.2018-31.12.2018	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate& Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**2 647 236**	**677 958**	**227 795**	**669 010**	**1 520 406**	**5 742 405**
incl. internal transactions	(1 026)	(4 335)	5 505	1 342	(1 486)	-
Net fee and commission income	**1 315 924**	**401 532**	**210 168**	**788**	**129 390**	**2 057 802**
incl. internal transactions	123 276	86 393	(206 775)	422	(3 316)	-
Other income	**50 484**	**43 221**	**112 684**	**568 878**	**39 824**	**815 091**
incl. internal transactions	13 459	36 291	(46 115)	12 937	(16 572)	-
Dividend income	**-**	**-**	**1 127**	**98 963**	**26**	**100 116**
Operating costs	**(1 951 740)**	**(409 920)**	**(228 872)**	**(273 355)**	**(571 612)**	**(3 435 499)**
incl. internal transactions	-	-	-	3 617	(3 617)	-
Depreciation/amortisation	**(213 392)**	**(38 036)**	**(15 239)**	**(23 958)**	**(42 845)**	**(333 470)**
Impairment losses on loans and advances	**(612 531)**	**(158 529)**	**(21 546)**	**(20 938)**	**(271 524)**	**(1 085 068)**
Share in net profits (loss) of entities accounted for by the equity method	**-**	**-**	**-**	**62 667**	**-**	**62 667**
Tax on financial institutions	**-**	**-**	**-**	**(460 499)**	**(39 261)**	**(499 760)**
Profit before tax	**1 235 981**	**516 226**	**286 117**	**621 556**	**764 404**	**3 424 284**
Corporate income tax						**(727 139)**
Consolidated profit for the period						**2 697 145**
of which:						
attributable to owners of Santander Bank Polska SA						**2 363 354**
attributable to non-controlling interests						**333 791**

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

In thousands of PLN

Consolidated statement of financial position (by business segment)

31.12.2018	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate&Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Loans and advances to customers	71 976 209	35 749 032	13 954 107	-	15 781 030	**137 460 378**
Investments in associates	-	-	-	891 952	-	**891 952**
Other assets	9 085 642	2 424 584	11 161 895	41 567 165	4 064 687	**68 303 973**
Total assets	**81 061 851**	**38 173 616**	**25 116 002**	**42 459 117**	**19 845 717**	**206 656 303**
Deposits from customers	95 030 447	28 054 285	11 962 221	5 694 541	8 875 164	**149 616 658**
Other liabilities and equity	5 937 846	4 583 633	13 819 470	21 728 143	10 970 553	**57 039 645**
Total equity and liabilities	**100 968 293**	**32 637 918**	**25 781 691**	**27 422 684**	**19 845 717**	**206 656 303**

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

4. Risk management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

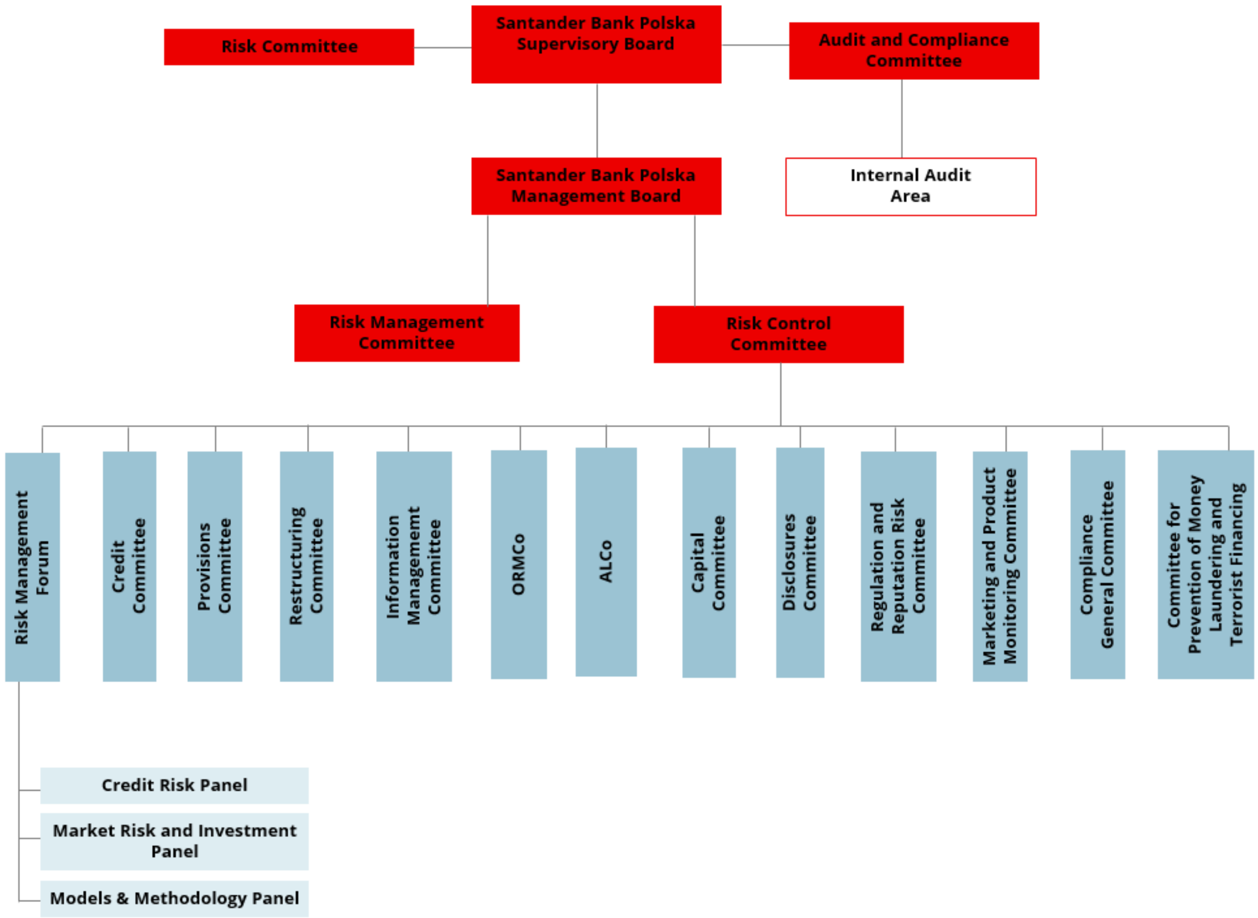
The **General Compliance Committee** is responsible for setting standards with respect to the management of compliance risk and the codes of conduct adopted by the Group.

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

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

The **Recovery Committee** takes decisions as to the dealing with borrowers in distress, including with respect to the relationship management strategy, approval of the causes of loss analysis and monitoring of the portfolio and effectiveness of recovery processes.

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



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

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

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

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

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

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

Credit risk

Santander Bank Polska Group's credit activities focus on growing a high quality loan book with a good quality, a good yield and customer satisfaction.

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

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

Credit risk in Santander Bank Polska Group arises mainly from lending activities on the retail, SME, business, corporate and interbank markets. This risk is manager as part of the policy approved by the Management Board on the basis of the adopted credit procedures as well as on the basis of discretionary limits allocated to individual credit officers based on their knowledge and experience. The Group's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan book. Additionally the Group uses large set of credit risk mitigation tools, both collaterals (financial and non-financial) and specific credit provisions and clauses (covenants).

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

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

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

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

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

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

One of the Group's priorities in 2019 was close monitoring of foreign currency housing loan portfolio. In response to the legislative proposals the Group conducted analyzes and actively participated in the consultation processes. The Group pays particular attention to credit risk on these portfolios also from the perspective of the judgments of the European Union Court of Justice (Note 46).

Risk Management Forum

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

Risk Management Division

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

Credit Policies

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

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

Credit Decision Making Process

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

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

Credit Grading

Intensive work has been undertaken to further develop credit risk assessment tools to conform to the recommendations of the Polish Financial Supervision Authority, the International Accounting Standards/International Financial Reporting Standards and the best practice in the market.

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

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

Credit Reviews

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

Collateral

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

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

Furthermore, the Collateral and Credit Agreements Department provides assistance to credit units in credit decision making and development of credit policies with respect to collateral. The unit gathers data on collateral and ensures appropriate management information. The tables below show types of collateral that can be used to secure loans and advances to customers from non-banking sector.

Retail customers

Type of loan/receivables	Type of collateral
Cash loan	bills, guarantees, credit insurance
Credit on liquid assets	guaranty deposit, amounts frozen on account, investment funds
Student loan	sureties
Housing loan	mortgage, credit insurance, transfer of claim
Leasing	bills, guarantees, transfer of rights to bank's account; court registered pledge on movables; transfer of ownership, open mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee)

In thousands of PLN

Business customers

Type of loan/receivables	Type of collateral
Commercial credit	guaranty deposit, registered pledge, bills
Revolving credit	assignment of credit, bills, guarantees, registered pledge
Building credit	mortgage
Investment credit	mortgage, sureties, warranty
Granted and with supplements	guarantees, warranty
Leasing	bills, guarantees, transfer of rights to bank's account; court registered pledge on movables; transfer of ownership, open mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee)

Collateral management process

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

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

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

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

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

Financial effect of the collateral

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

The table below present financial effect of collateral of Santander Bank Polska Group as at 31.12.2019:

Financial effect of collateral		Gross Amount	Financial effect of collateral
Loans and advances to customers			
	housing loans	51 209 256	(340 872)
	business	57 165 101	(920 608)
Total balance sheet		**108 374 357**	**(1 261 480)**
Total off-balance sheet		**32 097 498**	**(6 740)**

In thousands of PLN

The table below present financial effect of collateral of Santander Bank Polska Group as at 31.12.2018:

Financial effect of collateral		Gross Amount	Financial effect of collateral
Loans and advances to customers			
	housing loans	49 210 998	(287 283)
	business	58 129 890	(950 337)
Total balance sheet		**107 340 888**	**(1 237 621)**
Total off-balance sheet		**26 921 869**	**(15 090)**

Credit risk stress testing

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

Impairment calculation

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

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

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

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

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

In the case of classification into stage 3, the Group applies objective indications of impairment, as defined in accordance with the Basel Committee's recommendations and Recommendation R.

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

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

The tables below present Santander Bank Polska Group's exposure to credit risk.

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

In thousands of PLN

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

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

Stage 1 31.12.2019	Risk level according to rating groups	Loans and advances to customers measured at amortised cost individuals	housing loans	business	Total	Contingent liabilities - sanctioned
	very good	9 263 886	22 793 613	6 482 287	38 539 786	13 398 778
	good	7 980 651	20 441 601	20 862 918	49 285 170	11 110 861
	average	7 514 119	3 449 937	20 351 998	31 316 054	13 284 671
	acceptable	939 610	2 107 574	7 268 312	10 315 496	1 442 703
	weak	343 796	939 179	1 637 555	2 920 530	295 184
Gross amount		**26 042 062**	**49 731 904**	**56 603 070**	**132 377 036**	**39 532 197**
Impairment					(571 410)	(18 653)
Net amount					**131 805 626**	**39 513 544**

Stage 2 31.12.2019	Risk level according to rating groups	Loans and advances to customers measured at amortised cost individuals	housing loans	business	Total	Contingent liabilities - sanctioned
	very good	25 011	28 540	4 959	58 510	3 112
	good	34 910	98 067	130 471	263 448	66 355
	average	146 120	73 638	320 004	539 762	189 965
	acceptable	278 065	279 663	1 718 706	2 276 434	258 207
	weak	958 567	997 444	1 451 940	3 407 951	68 671
Gross amount		**1 442 673**	**1 477 352**	**3 626 080**	**6 546 105**	**586 310**
Other						
Impairment					(582 508)	(8 290)
Net amount					**5 963 597**	**578 020**

In thousands of PLN

Stage 3 and POCI 31.12.2019	Risk level according to rating groups	Loans and advances to customers measured at amortised cost individuals	housing loans	business	Total	Contingent liabilities - sanctioned
	very good	-	-	-	-	-
	good	-	-	-	-	-
	average	-	-	-	-	-
	acceptable	-	-	-	-	-
	weak	2 160 190	727 197	3 946 999	6 834 386	99 719
Stage 3 - Gross amount		**2 160 190**	**727 197**	**3 946 999**	**6 834 386**	**99 719**
Stage 3 - Impairment					(3 886 248)	(39 166)
POCI		**423 504**	**-**	**345 706**	**769 210**	
Impairment-POCI					(204 198)	-
Net amount					**3 513 150**	**60 553**

Stage 1 31.12.2018	Risk level according to rating groups	Loans and advances to customers measured at amortised cost individuals	housing loans	business	Total	Contingent liabilities - sanctioned
	very good	7 958 776	18 907 931	6 726 115	33 592 822	12 053 906
	good	6 975 005	20 971 751	20 210 375	48 157 131	10 331 788
	average	6 342 098	4 773 514	19 738 565	30 854 177	7 640 441
	acceptable	744 461	2 224 693	8 623 377	11 592 532	2 524 097
	weak	459 463	1 079 900	2 127 280	3 666 643	820 037
Gross amount		**22 479 803**	**47 957 788**	**57 425 712**	**127 863 304**	**33 370 269**
Other						
Impairment					(564 639)	(33 235)
Net amount					**127 298 665**	**33 337 034**

In thousands of PLN

Stage 2 31.12.2018	Risk level according to rating groups	Loans and advances to customers measured at amortised cost individuals	housing loans	business	Total	Contingent liabilities - sanctioned
	very good	25 372	32 300	10 493	68 165	6 617
	good	35 925	102 300	56 061	194 286	28 446
	average	101 151	67 149	322 670	490 970	138 240
	acceptable	452 252	129 041	936 226	1 517 519	165 572
	weak	933 122	922 419	1 569 611	3 425 152	263 858
Gross amount		**1 547 822**	**1 253 210**	**2 895 061**	**5 696 092**	**602 733**
					-	
Other					**-**	
Impairment					(530 275)	(12 343)
Net amount					**5 165 817**	**590 390**

Stage 3 and POCI 31.12.2018	Risk level according to rating groups	Loans and advances to customers measured at amortised cost individuals	housing loans	business	Total	Contingent liabilities - sanctioned
	very good	-	-	-	-	-
	good	-	-	-	-	-
	average	-	-	-	-	-
	acceptable				-	-
	weak	1 748 571	580 086	3 375 004	5 703 661	110 944
Stage 3 - Gross amount		**1 748 571**	**580 086**	**3 375 004**	**5 703 661**	**110 944**
Stage 3 - Impairment					(3 236 294)	(35 470)
POCI		121 116	228 107	415 340	**764 563**	
Impairment-POCI					(53 114)	-
Net amount					**3 178 816**	**75 474**

In thousands of PLN

The tables below present the quality of financial assets of Santander Bank Polska Group broken down into stages and by ratings as at 31.12.2019 and in the comparative period:

Stage 1

31.12.2019	Loans and advances to banks	Loans and advances to customers - Debt securities measured at amortised cost	Loans and advances to customers - Debt securities measured at fair value through profit or loss	Debt and equity securities measured at fair value through other comprehensive income	Debt securities not held for trading mandatorily measured at fair value through profit or loss	Financial assets held for trading
Credit quality step *						
1 (AAA to AA-)	145 229	-	-	519 108	-	-
2 (A+ to A-)	2 927 559	-	-	39 713 802	194 285	544 473
3 (BBB+ to BBB-)	619 109	-	-	-	-	960
4 (BB+ to BB-)	-	-	-	-	-	-
5 (B+ to B-)	253	-	-	-	-	-
6 (<B-)	-	-	-	-	-	-
none	24 432	52 474	923 811	884 912	-	1 513 075
Total Stage 1	**3 716 582**	**52 474**	**923 811**	**41 117 822**	**194 285**	**2 058 508**

* according to Fitch

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

Stage 3

31.12.2019	Loans and advances to banks	Loans and advances to customers - Debt securities measured at amortised cost	Loans and advances to customers - Debt securities measured at fair value through profit or loss	Debt and equity securities measured at fair value through other comprehensive income	Debt securities not held for trading mandatorily measured at fair value through profit or loss	Financial assets held for trading
Credit quality step *						
1 (AAA to AA-)	-	-	-	-	-	-
2 (A+ to A-)	-	-	-	-	-	-
3 (BBB+ to BBB-)	-	-	-	-	-	-
4 (BB+ to BB-)	-	-	-	-	-	-
5 (B+ to B-)	-	-	-	-	-	-
6 (<B-)	-	-	-	-	-	-
none	-	301 406	-	16 027	-	-
Total Stage 3	**-**	**301 406**	**-**	**16 027**	**-**	**-**

* according to Fitch

In thousands of PLN

Stage 1

31.12.2018	Loans and advances to banks	Loans and advances to customers - Debt securities measured at amortised cost	Loans and advances to customers - Debt securities measured at fair value through profit or loss	Debt and equity securities measured at fair value through other comprehensive income	Debt securities not held for trading mandatorily measured at fair value through profit or loss	Financial assets held for trading
Credit quality step *						
1 (AAA to AA-)	528 888	-	-	235 685	-	-
2 (A+ to A-)	1 873 359	-	-	36 623 502	134 741	84 552
3 (BBB+ to BBB-)	335 608	923 855	-	-	-	3 232
4 (BB+ to BB-)	1 582	-	-	-	-	-
5 (B+ to B-)	1 406	-	-	-	-	-
6 (<B-)	-	-	-	-	-	-
none	195 372	63 968	106 374	848 808	-	1 099 079
Total Stage 1	**2 936 214**	**987 823**	**106 374**	**37 707 995**	**134 741**	**1 186 863**

* according to Fitch

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

Stage 3

31.12.2018	Loans and advances to banks	Loans and advances to customers - Debt securities measured at amortised cost	Loans and advances to customers - Debt securities measured at fair value through profit or loss	Debt and equity securities measured at fair value through other comprehensive income	Debt securities not held for trading mandatorily measured at fair value through profit or loss	Financial assets held for trading
Credit quality step *						
1 (AAA to AA-)	-	-	-	-	-	-
2 (A+ to A-)	-	-	-	-	-	-
3 (BBB+ to BBB-)	-	-	-	-	-	-
4 (BB+ to BB-)	-	-	-	-	-	-
5 (B+ to B-)	-	-	-	-	-	-
6 (<B-)	-	-	-	-	-	-
none	-	260 927	-	-	-	-
Total Stage 3	**-**	**260 927**	**-**	**-**	**-**	**-**

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

Financial instruments are assessed in accordance with the sovereign rating (treasury bonds, securities issued by the National Bank of Poland [NBP], Bank Gospodarstwa Krajowego [BGK] debt instruments). The sovereign rating is the same as the NBP/BGK rating. All have the same rating as Poland, according to Fitch it is A-.

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

In thousands of PLN

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

Credit risk concentration

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

- PLN 6,110,046 k (25% of Group's own funds).

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

- PLN 5,709,939 k (25% of Group's own funds).

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

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

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

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
74	OTHER PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	5 298 860	-	5 298 860
35	POWER INDUSTRY	1 875 000	87 800	1 787 200
61	TELECOMMUNICATION	1 439 720	1 302 070	137 650
06	MINING	1 304 520	375 020	929 500
65	REINSURANCE	1 036 670	655 490	381 180
68	REAL ESTATE SERVICES	1 008 460	950 090	58 370
47	RETAIL	752 110	608 740	143 370
68	REAL ESTATE SERVICES	724 360	418 380	305 980
19	RAFINERY	668 180	149 050	519 130
41	CONSTRUCTION	666 260	7 260	659 000
64	OTHER FINANCIAL SERVICES	660 630	-	660 630
35	POWER INDUSTRY	659 990	522 750	137 240
61	TELECOMMUNICATION	634 020	458 460	175 560
41	CONSTRUCTION	562 160	505 220	56 940
20	CHEMICAL INDUSTRY	543 940	486 280	57 660
07	MINING	542 610	520	542 090
70	CONSULTING	456 100	387 990	68 110
68	REAL ESTATE SERVICES	431 400	232 200	199 200
35	POWER INDUSTRY	400 000	-	400 000
19	RAFINERY	391 770	391 770	-
Total gross exposure		**20 056 760**	**7 539 090**	**12 517 670**

In thousands of PLN

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

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
61	TELECOMMUNICATION	1 716 665	1 553 263	163 402
35	POWER INDUSTRY	1 490 000	106 364	1 383 636
68	REAL ESTATE SERVICES	1 090 108	986 830	103 278
47	RETAIL	1 065 552	729 806	335 746
07	MINING	1 010 461	191 571	818 890
70	CONSULTING	984 490	760 018	224 472
06	MINING	828 520	253 495	575 025
35	POWER INDUSTRY	810 000	210 500	599 500
68	REAL ESTATE SERVICES	683 281	551 281	132 000
19	RAFINERY	671 031	150 500	520 531
64	OTHER FINANCIAL SERVICES	665 155	-	665 155
20	CHEMICAL INDUSTRY	619 795	581 781	38 014
41	CONSTRUCTION	602 177	531 872	70 305
41	CONSTRUCTION	547 789	8 789	539 000
35	POWER INDUSTRY	529 371	458 971	70 400
19	RAFINERY	397 095	397 095	-
64	OTHER FINANCIAL SERVICES	369 972	299 972	70 000
70	CONSULTING	369 147	280 215	88 932
68	REAL ESTATE SERVICES	367 194	354 509	12 685
68	REAL ESTATE SERVICES	360 005	343 733	16 272
Total gross exposure		**15 177 808**	**8 750 564**	**6 427 243**

Industry concentration

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

As at 31.12.2019, the highest concentration level was recorded in the “distribution” sector (12% of the Santander Bank Polska Group exposure), “manufacturing” (11%) and “property” (7%).

Groups of PKD by industries:

	Industry	Gross exposure 31.12.2019	Gross exposure 31.12.2018
	Distribution	17 028 185	17 200 457
	Manufacturing	13 900 025	15 396 691
	Property	9 462 135	9 787 588
	Transportation	4 510 509	4 283 517
	Energy	3 266 839	3 436 625
	Agriculture	3 089 018	2 768 917
	Construction	1 972 710	1 843 443
	Financial sector	1 104 607	1 160 715
	Other industries	10 926 640	10 220 993
A	**Total Business Loans**	**65 260 668**	**66 098 945**
B	**Retail (including mortgage loans)**	**81 239 402**	**73 913 444**
A+B	**Santander Bank Polska Group portfolio**	**146 500 070**	**140 012 390**
C	**Other receivables (commercial bonds)**	**26 665**	**15 229**
A+B+C	**Total Santander Bank Polska Group**	**146 526 735**	**140 027 619**

Market risk

Introduction

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

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

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

Risk management structure and organisation

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

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

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

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

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

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

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

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

Risk identification and measurement

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

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

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

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

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

Risk reporting

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

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

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

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

Risk prevention and mitigation

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

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

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

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

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

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

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

The bank's subsidiaries also mitigate their exposure to interest rate risk. If there is a mismatch between the repricing of assets and liabilities, the company enters into appropriate transactions via the standard bank accounts held with the bank or makes derivative transactions with the bank, which from the transaction date manages the risk as part of the global limit of Santander Bank Polska Group.

In thousands of PLN

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In thousands of PLN

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

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

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

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

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

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

31.12.2019	PLN	EUR	CHF	USD	Other	Total
ASSETS						
Cash and balances with central banks	7 525 839	274 229	23 303	68 462	81 181	7 973 014
Loans and advances to banks	328 415	2 914 588	15 901	228 934	228 744	3 716 582
Loans and advances to customers	114 316 858	18 023 711	9 825 257	1 196 580	40 223	143 402 629
Investment securities	38 978 349	1 397 449	-	952 336	-	41 328 134
Selected assets	**161 149 461**	**22 609 977**	**9 864 461**	**2 446 312**	**350 148**	**196 420 359**
LIABILITIES						
Deposits from banks	4 308 531	703 090	457	10 670	8 996	5 031 744
Deposits from customers	132 762 983	16 691 582	432 676	5 229 680	1 363 422	156 480 343
Subordinated liabilities	1 108 589	1 521 682	-	-	-	2 630 271
Selected liabilities	**138 180 103**	**18 916 354**	**433 133**	**5 240 350**	**1 372 418**	**164 142 358**

31.12.2018	PLN	EUR	CHF	USD	Other	Total
ASSETS						
Cash and balances with central banks	8 357 459	356 755	25 593	77 185	90 560	8 907 552
Loans and advances to banks	477 266	1 514 273	6 225	682 633	255 817	2 936 214
Loans and advances to customers	106 938 091	18 778 050	10 514 721	1 212 066	17 450	137 460 378
Financial assets available for sale	36 950 810	1 468 753	-	759 538	-	39 179 101
Selected assets	**152 723 626**	**22 117 831**	**10 546 539**	**2 731 422**	**363 827**	**188 483 245**
LIABILITIES						
Deposits from banks	2 573 121	231 376	6 799	17 487	4 145	2 832 928
Deposits from customers	126 219 287	16 906 252	417 798	4 614 750	1 458 572	149 616 659
Subordinated liabilities	1 108 574	1 535 767	-	-	-	2 644 341
Selected liabilities	**129 900 982**	**18 673 395**	**424 597**	**4 632 237**	**1 462 717**	**155 093 928**

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

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

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

In thousands of PLN

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

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

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

Liquidity risk

Introduction

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

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

Risk management structure and organisation

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

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

The general principle adopted by Santander Bank Polska Group in its liquidity management process is that all expected outflows occurring within one month in respect of deposits, current account balances, loan drawdowns, guarantee payments and transaction settlements should be at least fully covered by the anticipated inflows or available High Quality Liquid Assets (HQLA) assuming normal or predictable conditions for the Group's operations. The HQLA category substantially includes: cash on hand, funds held in the nostro account with the NBP (National Bank of Poland) in excess of the minimum reserve requirement and securities which may be sold or pledged under repo transactions or NBP lombard loans. As at 31 December 2019, the value of the HQLA buffer was PLN 41.35 bn.

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

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

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

- the buffer of assets which might be liquidated over an intraday horizon.

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

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

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

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

Risk identification and measurement

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

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

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

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

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

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

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

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

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

Risk reporting

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

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

In thousands of PLN

Risk prevention and mitigation

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

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

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

In 2019, Santander Bank Polska Group focused on keeping its loan-to-deposit ratio at a comfortable level (92% as at 31 December 2019) and controlling key short and long-term liquidity measures. As at 31 December 2019, the consolidated Liquidity Coverage Ratio was 171%, and 190% as at 31 December 2018. In 2019 and in the comparable period, all key regulatory ratios applicable to the bank and Group were maintained at the required levels.

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

31.12.2019	A'vista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	above 5 years
Assets	15 725 719	16 687 777	8 197 072	9 327 794	12 786 230	27 934 038	62 372 859	66 306 766
Liabilities and equity	96 955 108	20 541 171	14 809 349	12 703 934	11 026 585	16 338 398	14 799 986	16 627 271
including:	-	-	-	-	-	-	-	-
- Sell-buy-back transactions	-	30 773	-	-	-	-	-	-
- Deposits from banks	150 425	562 580	1 519 163	892 605	1 038 952	1 827 301	1 517 602	2 295 204
- Deposits from customers	96 804 683	19 266 892	12 301 469	9 315 425	7 380 959	4 259 097	928 493	35 941
- Debt securities in issue	-	42 413	988 717	1 711 550	1 334 593	4 432 043	2 757 994	3 971 761
- Subordinated liabilities	-	-	-	-	-	-	-	2 620 710
- Lease liabilities	-	18 533	36 827	52 607	101 179	184 434	305 885	101 930
Contractual liquidity mismatch/ gap	(81 229 389)	(3 853 395)	(6 612 276)	(3 376 140)	1 759 645	11 595 640	47 572 873	49 679 496
Cumulative liquidity gap	(81 229 389)	(85 082 784)	(91 695 060)	(95 071 200)	(93 311 555)	(81 715 916)	(34 143 042)	15 536 453
Net derivatives	-	(325)	-	-	-	-	-	-
Gross asset derivatives	-	29 373 023	17 516 441	7 518 944	7 190 904	5 808 308	9 404 847	8 105 640
Gross liabilities derivatives	-	29 388 673	17 137 735	7 550 744	7 035 089	5 627 740	9 778 306	8 447 265
Off balance positions Total	32 683 259	2 992 985	509 018	499 237	480 531	236 922	216 119	2 500
-guarantees & letters of credits	6 935 865	-	-	-	-	-	-	-
-credit lines	8 661 867	2 937 527	208 708	80 289	-	-	-	-

In thousands of PLN

31.12.2018	A'vista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	above 5 years
Assets	16 463 144	13 130 791	7 727 687	8 155 178	13 411 339	21 018 432	51 486 845	74 403 300
Liabilities and equity	84 166 128	25 630 547	16 466 901	15 733 197	13 466 516	7 052 558	18 877 394	14 014 474
including:								
- Sell-buy-back transactions	-	8 230 908	-	-	-	-	-	-
- Deposits from banks	147 029	87 909	326 627	648 090	1 601 912	1 402 491	2 638 642	(41 757)
- Deposits from customers	84 019 099	18 272 748	16 140 274	12 044 492	8 643 560	2 493 579	950 211	3 358
- Debt securities in issue	-	-	-	1 615 901	1 789 157	1 998 615	4 185 202	-
- Subordinated liabilities	-	-	-	-	-	-	-	2 735 530
Contractual liquidity mismatch/ gap	(67 702 984)	(12 499 756)	(8 739 213)	(7 578 019)	(55 177)	13 965 874	32 609 451	60 388 826
Cumulative liquidity gap	(67 702 984)	(80 202 740)	(88 941 953)	(96 519 972)	(96 575 149)	(82 609 275)	(49 999 824)	10 389 002
Net derivatives	-	(601)	-	-	-	-	-	-
Gross asset derivatives	-	25 065 064	9 740 382	4 839 635	4 670 307	7 672 682	6 768 494	9 583 113
Gross liabilities derivatives	-	25 055 643	9 749 534	4 851 060	4 689 236	7 683 488	7 055 735	9 876 404
Off balance positions Total	31 595 754	2 919 319	629 769	581 608	480 531	236 922	216 119	2 500
-guarantees & letters of credits	6 935 865	-	-	-	-	-	-	-
-credit lines	8 661 867	2 863 860	329 458	162 660	-	-	-	-

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

31.12.2019	A'vista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	above 5 years
Assets	15 727 742	17 136 148	8 909 585	10 616 438	15 467 196	32 249 661	71 440 099	81 948 265
Liabilities	96 955 936	20 667 925	14 915 417	13 006 399	11 519 169	17 011 467	16 027 420	17 409 252
including:								
- Repurchase agreement transactions	-	30 775	-	-	-	-	-	-
- Liabilities to banks	150 426	566 817	1 524 598	901 413	1 052 269	1 845 491	1 533 303	2 295 736
- Liabilities to customers	96 805 510	19 323 639	12 389 668	9 405 118	7 461 048	4 319 564	943 293	40 385
- Own emissions	-	42 413	988 717	1 722 630	1 334 593	4 432 043	2 757 994	3 971 761
- Subordinated liabilities	-	-	12 435	26 710	54 098	91 977	241 893	2 841 116
- Lease liabilities	-	18 533	36 827	52 607	101 179	184 434	305 885	101 930
Contractual liquidity gap	(81 228 193)	(3 531 777)	(6 005 833)	(2 389 961)	3 948 027	15 238 194	55 412 679	64 539 013
Cummulated contractual liquidity gap	(81 228 193)	(84 759 971)	(90 765 803)	(93 155 765)	(89 207 737)	(73 969 543)	(18 556 864)	45 982 149
Net derivatives	-	25 816	(36 848)	(44 132)	63 533	(32 115)	(53 309)	7 622
Gross asset derivatives	-	29 428 685	17 546 643	7 617 050	7 362 977	6 120 658	10 156 490	8 429 176
Gross liabilities derivatives	-	29 423 075	17 149 064	7 611 846	7 132 178	5 805 581	10 255 952	8 673 568
Off Balance positions Total	36 492 617	2 967 998	5 722 371	315 592	248 833	383 355	104 953	2 200
-guarantees & letters of credits	9 829 133	-	-	-	-	-	-	-
-credit lines	7 824 772	2 937 527	208 708	80 289	-	-	-	-

In thousands of PLN

31.12.2018	A'vista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	above 5 years
Assets	17 707 348	13 559 137	8 372 556	9 304 108	15 868 058	25 084 127	61 372 942	94 043 012
Liabilities	84 772 701	25 775 798	16 611 318	16 072 673	13 996 047	7 739 093	20 500 990	15 188 247
including:								
- Repurchase agreement transactions	-	8 234 700	-	-	-	-	-	-
- Liabilities to banks	147 033	90 957	330 932	657 605	1 618 775	1 430 944	2 676 472	(39 726)
- Liabilities to customers	84 625 668	18 332 820	16 267 820	12 185 021	8 761 992	2 523 035	963 447	3 740
- Own emissions	-	-	-	1 628 164	1 800 407	1 998 615	4 185 202	-
- Subordinated liabilities	-	-	12 565	27 131	55 477	95 999	294 990	3 128 592
Contractual liquidity gap	(67 065 352)	(12 216 661)	(8 238 761)	(6 768 565)	1 872 011	17 345 035	40 871 952	78 854 765
Cummulated contractual liquidity gap	(67 065 352)	(79 282 014)	(87 520 775)	(94 289 340)	(92 417 330)	(75 072 295)	(34 200 343)	44 654 422
Net derivatives	-	16 702	(27 056)	(28 555)	36 379	19 517	(59 581)	(3 502)
Gross asset derivatives	-	25 120 815	9 771 820	4 928 506	4 842 159	7 993 507	7 624 462	10 068 226
Gross liabilities derivatives	-	25 085 876	9 756 744	4 897 193	4 768 285	7 848 719	7 542 833	10 175 443
Off Balance positions Total	31 595 754	2 919 319	629 769	581 608	480 531	236 922	216 119	2 500
-guarantees & letters of credits	6 935 865	-	-	-	-	-	-	-
-credit lines	8 661 867	2 863 860	329 458	162 660	-	-	-	-

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

5. Capital management

Introduction

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

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

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

- Recommendations of the KNF regarding an additional capital requirement relating to the portfolio of FX mortgage loans for households.

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

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

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

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

For the purpose of capital adequacy, the bank applies transitional arrangements related to the introduction of IFRS 9 as provided for in Regulation (EU) No 2017/2395 of the European Parliament and of the Council of 12 December 2017 and amending Regulation (EU) No 575/2013.

As at 31 December 2019, the total own funds of Santander Bank Polska Group were PLN 254,079k higher than the Group's total own funds which would have otherwise been calculated if the transitional arrangements for mitigating the introduction of IFRS 9 had not been applied.

The Group's total capital ratio is 16 bps higher than the total capital ratio if no transitional arrangements were applied for mitigating the impact of the introduction of IFRS 9.

The Group's Tier I ratio is 17 bps higher than the Tier I ratio if no transitional arrangements were applied for mitigating the impact of the introduction of IFRS 9.

Santander Bank Polska Group has disclosed own funds, risk-weighted assets, 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.

For details see the Information on capital adequacy of Santander Bank Polska Group as at 31 December 2019 (Chapter III, Section 3 "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds").

Capital Policy

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

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

for Santander Bank Polska Group, those ratios were as follows:

- Tier 1 capital ratio of 12.28%;
- total capital ratio of 14.29%.

The aforementioned capital ratios take into account:

- The minimum capital ratios as required by the CRR: Common Equity Tier 1 ratio at 4.5%, Tier 1 capital ratio at 6.0% and total capital ratio at 8.0%.
- The KNF's decision of 5 November 2019, under which the previous recommendations issued on 15 October 2018 and 28 November 2018 regarding an additional capital requirement for Santander Bank Polska S.A. relating to the portfolio of FX mortgage loans for households have expired: the decision followed the process of annual identification of banks with material exposure in respect of FX mortgage-backed loans which concluded that Santander Bank Polska S.A. had not reached the materiality threshold in relation to such loans. Accordingly, the KNF did not impose an additional buffer at the bank level to mitigate the risk arising from mortgage loans for individuals.

In thousands of PLN

- The additional capital requirement was set at the level of Santander Bank Polska Group in accordance with the KNF's decision of 19 November 2019. As at 31 December 2019, the buffer related to the portfolio of FX mortgage loans for households was 0.04 p.p for the total capital ratio, 0.03 p.p. for the Tier 1 capital ratio and 0.02 p.p. for the Common Equity Tier 1 ratio.
- The capital buffer for Santander Bank Polska S.A. as other systemically important institution: according to the letter of 19 December 2017, the KNF identified Santander Bank Polska S.A. as other systemically important institution and imposed on it an additional capital buffer. Pursuant to the KNF's decision of 14 October 2019, Santander Bank Polska S.A. maintains additional own funds of 0.75 p.p. Santander Bank Polska Group keeps the capital buffer at the same level.
- The capital conservation buffer maintained in accordance with the Macroprudential Supervision Act: following adaptation to the CRR requirements, in 2019 the buffer reached the maximum level of 2.50 p.p.
- The systemic risk buffer introduced by Regulation of the Minister of Economic Development and Finance of 1 September 2017, which applies to all the exposures in Poland: since 1 January 2018, the applicable systemic risk buffer has been set at 3.00 p.p.
- The countercyclical buffer implemented by the Macroprudential Supervision Act and amended by the Minister of Finance by a way of regulation: since 1 January 2016, the countercyclical buffer has been set at 0 p.p. for credit exposures in Poland.

Regulatory Capital

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

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

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

		31.12.2019	31.12.2018
I	**Total Capital requirement (Ia+Ib+Ic+Id)**, of which:	**11 454 472**	**11 434 229**
Ia	- due to credit risk & counterparty credit risk	10 103 909	10 202 471
Ib	- due to market risk	128 798	83 135
Ic	- due to credit valuation ajdustment risk	23 307	24 918
Id	- due to operational risk	1 198 458	1 123 705
II	Total own funds*	26 775 032	25 266 004
III	Reductions	2 334 849	2 426 250
IV	**Own funds after reductions (II-III)**	**24 440 183**	**22 839 754**
V	**CAD [IV/(I*12.5)]**	**17,07%**	**15,98%**
VI	**Tier I ratio**	**15,21%**	**14,11%**

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

Internal Capital

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

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

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

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

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

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

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

Subordinated Liabilities

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

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

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

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

For more information on subordinated liabilities, see Note 34.

In thousands of PLN

6. Net interest income

Interest income and similar to interest	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Interest income on financial assets measured at amortised cost	**7 467 538**	**6 345 132**
Loans and advances to enterprises and leasing agreements	2 486 258	2 116 341
Loans and advances to individuals, of which:	4 659 140	3 909 097
Home mortgage loans	*1 646 508*	*1 232 081*
Loans and advances to banks	47 610	35 830
Loans and advances to public sector	10 153	9 794
Reverse repo transactions	94 368	72 952
Interest recorded on hedging IRS	170 009	201 118
Interest income on financial assets measured at fair value through other comprehensive income	**833 824**	**733 378**
Loans and advances to enterprises	32 021	4 179
Debt securities	*801 803*	*729 199*
Income similar to interest - financial assets measured at fair value through profit or loss	**160 474**	**135 286**
Loans and advances to enterprises	1 870	2 037
Loans and advances to individuals	105 741	119 554
Debt securities	52 863	13 695
Total income	**8 461 836**	**7 213 796**

Interest expenses	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Interest expenses on financial liabilities measured at amortised cost	**(1 881 667)**	**(1 471 391)**
Liabilities to individuals	(848 502)	(628 625)
Liabilities to enterprises	(515 533)	(406 149)
Repo transactions	(96 605)	(81 680)
Liabilities to public sector	(58 049)	(55 101)
Liabilities to banks	(70 421)	(53 356)
Lease liability	(21 598)	-
Subordinated liabilities and issue of securities	(270 959)	(246 480)
Total costs	**(1 881 667)**	**(1 471 391)**
Net interest income	**6 580 169**	**5 742 405**

In thousands of PLN

7. Net fee and commission income

Fee and commission income	1.01.2019-31.12.2019	1.01.2018-31.12.2018
eBusiness & payments	575 779	574 695
Current accounts and money transfer	326 971	323 257
Asset management fees	285 049	310 378
Foreign exchange commissions	442 717	395 983
Credit commissions incl. factoring commissions and other	425 135	384 880
Insurance commissions	222 527	190 912
Commissions from brokerage activities	59 630	68 451
Credit cards	185 679	174 262
Off-balance sheet guarantee commissions	72 418	70 522
Finance lease commissions	24 631	19 917
Issue arrangement fees	6 564	8 524
Distribution fees	20 949	4 791
Total	**2 648 049**	**2 526 572**
Fee and commission expenses	**1.01.2019-31.12.2019**	**1.01.2018-31.12.2018**
eBusiness & payments	(187 863)	(188 264)
Distribution fees	(10 674)	(17 808)
Commissions from brokerage activities	(8 298)	(9 594)
Credit cards	(39 895)	(38 575)
Credit commissions paid	(116 729)	(113 486)
Insurance commissions	(19 733)	(8 469)
Finance lease commissions	(30 427)	(27 322)
Asset management fees and other costs	(11 398)	(6 968)
Other	(94 860)	(58 284)
Total	**(519 877)**	**(468 770)**
Net fee and commission income	**2 128 172**	**2 057 802**

Included above is fee and commission income on credits, credit cards, off-balance sheet guarantees and leases of PLN 707,863 k (31.12.2018: PLN 631,879 k) and fee and commission expenses on credit cards, leases and paid to credit agents of PLN (187,051) k (31.12.2018: PLN (152,061) k) other than fees included in determining the effective interest rate, relating to financial assets and liabilities not carried at fair value through profit and loss.

8. Dividend income

Dividend income	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Dividends income from investment securities measured at fair value through other comprehensive income	96 533	98 152
Dividends income from investment securities measured at fair value through profit or loss	1 251	837
Dividends income from equity financial assets measured at fair value through profit or loss	1 437	1 127
Total	**99 221**	**100 116**

In thousands of PLN

9. Net trading income and revaluation

Net trading income and revaluation	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Derivative instruments and interbank fx transactions	211 507	150 153
Profit on equity securities measured at fair value through profit or loss	(6 951)	(3 674)
Profit on debt securities measured at fair value through profit or loss	(19 161)	22 431
Change in fair value of loans and advances mandatorily measured at fair value through profit or loss	30 154	(24 371)
Total	**215 549**	**144 539**

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

10. Gains (losses) from other financial securities

Gains (losses) from other financial securities	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Profit on sale of debt securities measured at fair value through other comprehensive income	124 673	28 327
Profit (loss) on sale of debt securities mandatorily measured at fair value through profit or loss	18	(24)
Change in fair value of debt securities mandatorily measured at fair value through profit or loss	56 958	12 343
Impairment losses on securities	(11 244)	-
Total profit (losses) on financial instruments	**170 405**	**40 646**
Change in fair value of hedging instruments	(7 675)	(16 562)
Change in fair value of underlying hedged positions	22 745	13 396
Total profit (losses) on hedging and hedged instruments	**15 070**	**(3 166)**
Total	**185 475**	**37 480**

11. Other operating income

Other operating income	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Income on sale of services	35 217	34 735
Release of provision for legal cases and other assets	35 595	63 471
Profit on the settlement of the sale of an organized part of enterprise*	59 079	-
Settlements of leasing agreements	3 033	2 920
Recovery of other receivables (expired, cancelled and uncollectable)	7 585	6 477
Profit on sales or liquidation of fixed assets, intangible assets and assets for disposal	41 725	51 374
Received compensations, penalties and fines	1 146	2 409
Profit on lease modifications	35 458	-
Other	57 078	52 456
Total	**275 916**	**213 842**

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

In thousands of PLN

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

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

Details in note 51.

12. Impairment losses on loans and advances

Impairment losses on loans and advances measured at amortised cost	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Charge for loans and advances to banks	**(28)**	**(66)**
Stage 1	(28)	(66)
Stage 2	-	-
Stage 3	-	-
POCI	-	-
Charge for loans and advances to customers	**(1 229 001)**	**(1 089 772)**
Stage 1	(93 366)	(217 701)
Stage 2	(436 001)	(307 647)
Stage 3	(772 831)	(625 094)
POCI	73 197	60 670
Recoveries of loans previously written off	**(5 173)**	**11 889**
Stage 1	-	-
Stage 2	-	-
Stage 3	(5 173)	11 889
POCI	-	-
Off-balance sheet credit related facilities	**14 849**	**(7 119)**
Stage 1	14 646	(5 024)
Stage 2	2 824	4 485
Stage 3	(2 621)	(6 580)
POCI	-	-
Total	**(1 219 353)**	**(1 085 068)**

13. Employee costs

Employee costs	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Salaries and bonuses	(1 476 107)	(1 404 842)
Salary related costs	(240 374)	(233 376)
Cost of contributions to Employee Capital Plans	(1 661)	-
Staff benefits costs	(39 659)	(40 485)
Professional trainings	(19 710)	(20 870)
Retirement fund, holiday provisions and other employee costs	7 563	29 131
Restructuring provision*	(99 810)	-
Total	**(1 869 758)**	**(1 670 442)**

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

In thousands of PLN

A provision of PLN (92,400 k) was raised in Bank's books in relation to employment restructuring. By the end of December 2019, 1,324 employees left the organisation as part of the collective redundancies process. The provision was fully utilized until 31.01.2020. Details on charge and utilization of restructuring provision are disclosed in Note 37.

14. General and administrative expenses

General and administrative expenses	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Maintenance of premises*	(128 843)	(346 205)
Short-term lease costs*	(13 570)	-
Low-value assets lease costs*	(5 984)	-
Costs of variable lease payments not included in the measurement of the lease liability*	(1 121)	-
Non-tax deductible VAT*	(49 659)	-
Marketing and representation	(184 326)	(189 318)
IT systems costs	(308 340)	(244 436)
Cost of BFG, KNF and KDPW	(311 200)	(219 816)
Postal and telecommunication costs	(66 545)	(64 696)
Consulting and advisory fees	(72 425)	(89 673)
Cars, transport expenses, carriage of cash	(66 988)	(71 463)
Other external services	(164 334)	(153 005)
Stationery, cards, cheques etc.	(27 280)	(32 709)
Sundry taxes and charges	(39 146)	(37 277)
Data transmission	(9 171)	(10 449)
KIR, SWIFT settlements	(35 691)	(31 037)
Security costs	(25 728)	(27 356)
Costs of repairs	(14 596)	(24 175)
Other	(31 527)	(30 701)
Total	**(1 556 474)**	**(1 572 316)**

*Details in Note 2.3.

15. Other operating expenses

Other operating expenses	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Charge of provisions for legal cases and other assets	(59 472)	(125 313)
Charge of provisions for legal risk*	(266 628)	-
Impairment loss on property, plant, equipment, intangible assets covered by financial lease agreements and other fixed assets	(34 135)	(13 054)
Costs of purchased services	(3 622)	(14 797)
Other membership fees	(1 066)	(983)
Paid compensations, penalties and fines	(2 237)	(1 864)
Donations paid	(5 015)	(4 735)
Costs of lease modifications	(23 168)	-
Other	(38 961)	(31 995)
Total	**(434 304)**	**(192 741)**

* details in note 46

In thousands of PLN

16. Corporate income tax

Corporate income tax	**1.01.2019-31.12.2019**	**1.01.2018-31.12.2018**
Current tax charge in the income statement	(952 267)	(1 004 156)
Deffered tax	153 391	274 734
Adjustments from previous years	(1 612)	2 283
Total tax on gross profit	**(800 488)**	**(727 139)**

Corporate total tax charge information	**1.01.2019-31.12.2019**	**1.01.2018-31.12.2018**
Profit before tax	3 244 596	3 424 284
Tax rate	19%	19%
Tax calculated at the tax rate	(616 473)	(650 614)
Non-tax-deductible expenses	(33 510)	(37 522)
The fee to the Bank Guarantee Fund	(53 722)	(38 534)
Tax on financial institutions	(113 815)	(88 603)
The gain on acquisition of demerged part of enterprise	-	69 305
Sale of receivables	(1 257)	(6 108)
Non-taxable income	52 153	18 851
Non-tax deductible bad debt provisions	(42 651)	(17 847)
Adjustment of prior year tax	(1 612)	2 283
Tax effect of consolidation adjustments	11 829	22 440
Other	(1 430)	(790)
Total tax on gross profit	**(800 488)**	**(727 139)**

Deferred tax recognised in other comprehensive income	**31.12.2019**	**31.12.2018**
Relating to valuation of debt investments measured at fair value through other comprehensive income	(170 217)	(130 592)
Relating to valuation of equity investments measured at fair value through other comprehensive income	(141 812)	(121 892)
Relating to cash flow hedging activity	5 502	14 810
Relating to valuation of defined benefit plans	(2 280)	(2 536)
Total	**(308 807)**	**(240 210)**

17. Earnings per share

Earnings per share	**1.01.2019-31.12.2019**	**1.01.2018-31.12.2018***
Profit for the period attributable to ordinary shares	2 138 347	2 363 354
Weighted average number of ordinary shares	102 088 305	99 725 949
Earnings per share (PLN)	**20,95**	**23,70**
Profit for the period attributable to ordinary shares	2 138 347	2 363 354
Weighted average number of ordinary shares	102 088 305	99 725 949
Weighted average number of potential ordinary shares	112 862	171 095
Total weighted average number of ordinary and potential shares	102 201 167	99 897 044
Diluted earnings per share (PLN)	**20,92**	**23,66**

* restated, details in Note 2.4.

In thousands of PLN

The weighted average number of ordinary shares contains dilutive instruments in the form of share capital presented in note 39 and the share based incentive scheme included in note 54.

18. Cash and balances with central banks

Cash and balances with central banks	31.12.2019	31.12.2018
Cash	2 381 455	2 452 636
Current accounts in central banks	5 591 557	6 454 916
Term deposits	2	-
Total	**7 973 014**	**8 907 552**

Santander Bank Polska SA and Santander Consumer Bank SA hold an obligatory reserve in a current account in the National Bank of Poland. The figure is calculated at a fixed percentage of minimal statutory reserve of the monthly average balance of the customers' deposits, which in all the covered periods was 3.5%. In accordance with the applicable regulations, the amount of the calculated provision is reduced by the equivalent of EUR 500 k.

19. Loans and advances to banks

Loans and advances to banks	31.12.2019	31.12.2018
Loans and advances	2 115 445	1 159 923
Current accounts	1 601 232	1 776 358
Gross receivables	**3 716 677**	**2 936 281**
Allowance for impairment	(95)	(67)
Total	**3 716 582**	**2 936 214**

Fair value of loans and advances to banks is presented in Note 45.

Loans and advances to banks

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1.01.2019	**2 936 281**	**-**	**-**	**-**	**2 936 281**
Transfers					-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
New financial assets registered	10 010 709	-	-	-	10 010 709
Changes in existing financial assets	(72 618)	-	-	-	(72 618)
Financial assets derecognised that are not write-offs	(9 033 774)	-	-	-	(9 033 774)
Write-offs	-	-	-	-	-
Other movements incl. FX differences	(123 921)	-	-	-	(123 921)
Balance as at 31.12.2019	**3 716 677**	**-**	**-**	**-**	**3 716 677**

In thousands of PLN

Loans and advances to banks

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1.01.2018	**2 136 474**	**-**	**-**	**-**	**2 136 474**
Transfers					-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
New financial assets registered	4 353 272	-	-	-	4 353 272
Changes in existing financial assets	(57)	-	-	-	(57)
Financial assets derecognised that are not write-offs	(3 579 952)	-	-	-	(3 579 952)
Write-offs	-	-	-	-	-
Other movements incl. FX differences	26 544	-	-	-	26 544
Balance as at 31.12.2018	**2 936 281**	**-**	**-**	**-**	**2 936 281**

20. Financial assets and liabilities held for trading

	31.12.2019		31.12.2018 *	
Financial assets and liabilities held for trading	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Trading derivatives	**1 474 161**	**1 524 250**	**1 081 227**	**1 058 024**
Interest rate operations	**719 181**	**766 820**	**553 999**	**545 393**
Forward	2	-	65	6 640
Options	15 764	14 630	13 898	13 911
IRS	702 876	750 353	536 638	523 642
FRA	539	1 837	3 398	1 200
Transactions on equity instruments	**1 450**	**1 450**	**3 279**	**3 279**
Options	1 450	1 450	3 279	3 279
FX operations	**753 530**	**755 980**	**523 949**	**509 352**
CIRS	160 732	199 998	192 484	201 758
Forward	73 513	115 439	40 065	61 233
FX Swap	412 076	332 231	192 760	147 938
Spot	550	576	585	375
Options	106 659	107 736	98 055	98 048
Debt and equity securities	**584 347**	**-**	**105 636**	**-**
Debt securities	**546 607**	**-**	**88 735**	**-**
Government securities:	391 616	-	84 552	-
- bonds	391 616	-	84 552	-
Central Bank securities:	149 987	-	-	-
- bills	149 987	-	-	-
Commercial securities:	5 004	-	4 183	-
- bonds	5 004	-	4 183	-
Equity securities:	**37 740**	**-**	**16 901**	**-**
- listed	37 740	-	16 901	-
Short sale	**-**	**332 563**	**-**	**423 377**
Total financial assets/liabilities	**2 058 508**	**1 856 813**	**1 186 863**	**1 481 401**

* restated, details in Note 2.4.

Financial assets and liabilities held for trading - trading derivatives include the change in the value of counterparty risk in the amount of PLN (3,933) k as at 31.12.2019 and PLN (946) k as at 31.12.2018.

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

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

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

Offsetting financial assets and financial liabilities

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

In thousands of PLN

Offsetting Financial Assets and Financial Liabilities on 31.12.2019	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure	Amounts not subject to enforceable netting arrangements	Balance sheet total
				Financial instruments	Cash collateral received			
	(a)	(b)	(c) = (a) – (b)	(d)	(e)	(c) – (d) – (e)	(f)	(c) + (f)
Assets								
Due from other banks								
- Reverse sale and repurchase agreements with other banks	*1 585 840*	-	*1 585 840*	-	*1 540 148*	45 692	-	*1 585 840*
Loans and advances to customers								
- Reverse sale and repurchase agreements	*265 331*	-	*265 331*	-	*251 910*	*13 421*	-	*265 331*
Other financial assets:								
- Financial derivatives	*3 049 013*	*1 801 356*	*1 247 657*	*1 038 734*	*146 545*	*62 378*	*270 477*	*1 518 134*
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**4 900 184**	**1 801 356**	**3 098 828**	**1 038 734**	**1 938 603**	**121 491**	**270 477**	**3 369 305**
Liabilities							-	
Financial derivatives	4 179 079	1 801 356	2 377 723	1 038 734	1 520 723	(181 734)	142 155	2 519 878
Sale and repurchase agreements	990 863	-	990 863	-	989 294	1 569	-	990 863
TOTAL lIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**5 169 942**	**1 801 356**	**3 368 586**	**1 038 734**	**2 510 017**	**(180 165)**	**142 155**	**3 510 741**

In thousands of PLN

Offsetting Financial Assets and Financial Liabilities on 31.12.2018	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure	Amounts not subject to enforceable netting arrangements	Balance sheet total
				Financial instruments	Cash collateral received			
	(a)	(b)	(c) = (a) – (b)	(d)	(e)	(c) – (d) – (e)	(f)	(c) + (f)
Assets								
Due from other banks								
- Reverse sale and repurchase agreements with other banks	*1 587 702*	-	*1 587 702*	-	*1 501 377*	*86 325*	-	*1 587 702*
Loans and advances to customers								
- Reverse sale and repurchase agreements	*7 602 061*	-	*7 602 061*	-	*7 556 244*	*45 817*	-	*7 602 061*
Other financial assets:								
- Financial derivatives	*2 137 559*	*1 220 387*	*917 172*	*729 393*	*154 220*	*33 559*	*237 275*	*1 154 447*
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**11 327 322**	**1 220 387**	**10 106 935**	**729 393**	**9 211 841**	**165 701**	**237 275**	**10 344 210**
Liabilities							-	
Financial derivatives	3 083 184	1 220 387	1 862 797	729 393	1 245 242	(111 838)	107 709	1 970 506
Sale and repurchase agreements	9 896 543	-	9 896 543	-	9 820 836	75 707	-	9 896 543
TOTAL lIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**12 979 727**	**1 220 387**	**11 759 340**	**729 393**	**11 066 078**	**(36 131)**	**107 709**	**11 867 049**

In thousands of PLN

The table below presents derivatives' nominal values.

	Derivatives' nominal values	31.12.2019	31.12.2018
1.	**Term derivatives (hedging)**	**23 288 611**	**23 562 563**
a)	Single-currency interest rate swap	4 963 435	2 131 000
b)	Macro cash flow hedge -purchased (IRS)	1 375 000	1 575 000
c)	Macro cash flow hedge -purchased (CIRS)	8 106 012	9 593 153
d)	Macro cash flow hedge -sold (CIRS)	8 844 164	10 194 876
e)	FX Swap cash flow hedge -purchased (FX)	-	34 185
f)	FX Swap cash flow hedge-sold (FX)	-	34 349
2.	**Term derivatives (trading)**	**494 987 927**	**405 539 573**
a)	Interest rate operations	302 578 443	259 675 302
	Single-currency interest rate swap	272 163 745	228 126 591
	FRA - purchased amounts	21 800 000	21 444 400
	Options	8 601 808	7 097 193
	Forward- purchased amounts	12 035	84 100
	Forward- sold amounts	855	2 923 018
b)	FX operations	192 409 484	145 864 271
	FX swap – purchased amounts	52 680 414	37 836 903
	FX swap – sold amounts	52 586 620	37 779 343
	Forward- purchased amounts	11 298 628	10 183 310
	Forward- sold amounts	11 366 819	10 233 343
	Non-Deliverable Forward (NDF) - purchased amounts	347 358	-
	Non-Deliverable Forward (NDF) - sold amounts	350 319	-
	Cross-currency interest rate swap – purchased amounts	16 837 305	13 482 264
	Cross-currency interest rate swap – sold amounts	16 886 878	13 497 872
	FX options -purchased CALL	7 414 849	5 622 329
	FX options -purchased PUT	7 612 722	5 803 289
	FX options -sold CALL	7 411 888	5 622 329
	FX options -sold PUT	7 615 684	5 803 289
3.	**Currency transactions- spot**	**2 431 740**	**1 600 252**
	Spot-purchased	1 215 865	800 242
	Spot-sold	1 215 875	800 010
4.	**Transactions on equity financial instruments**	**199 165**	**555 792**
	Derivatives contract - purchased	81 196	270 165
	Derivatives contract - sold	117 969	285 627
	Total	**520 907 443**	**431 258 180**

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

21. Hedging derivatives

	31.12.2019		31.12.2018	
Hedging derivatives	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Derivatives hedging fair value	2 880	156 700	312	129 205
Derivatives hedging cash flow	41 093	838 927	72 909	783 277
Total hedging derivatives	**43 973**	**995 627**	**73 221**	**912 482**

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

In thousands of PLN

22. Loans and advances to customers

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

Loans and advances to customers	31.12.2018 Measured at amortised cost	Measured at fair value through other comprehensive income	Measured at fair value through profit or loss	Total
Loans and advances to enterprises	58 129 890	366 751	106 344	58 602 985
Loans and advances to individuals, of which:	73 352 431	-	1 343 986	74 696 417
Home mortgage loans	*49 210 998*	-	-	*49 210 998*
Finance lease receivables	8 204 296	-	-	8 204 296
Loans and advances to public sector	325 773	-	-	325 773
Other receivables	15 229	-	-	15 229
Gross receivables	**140 027 619**	**366 751**	**1 450 330**	**141 844 700**
Allowance for impairment	(4 384 322)	-	-	(4 384 322)
Total	**135 643 297**	**366 751**	**1 450 330**	**137 460 378**

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

At Santander Bank Polska Group (except for Santander Consumer Bank S.A.) the gross carrying amount of a financial asset is its amortised cost, before adjusting for any expected credit loss allowances and without accounting for penalty interest accrued on overdue principal whose estimated recoverability is low. If penalty interest on overdue principal was recognised in its full amount, the gross carrying amount of loans and advances to customers and expected credit loss allowances would increase by PLN 829,840 k.

Santander Consumer Bank S.A. calculates the gross carrying amount taking into consideration estimated recoverable penalty interest and applying a partial write-off of the gross carrying amount of financial assets in relation to the penalty interest based on the analysis of prospects of recovering any cash flows in this respect.

As at 31 December 2019, the total amount of penalty interest written off and partly recognised on SCB's off-balance sheet accounts was PLN 406,072 k.

Lease receivables are presented in Note 48. Fair value of loans and advances to customers is presented in Note 45.

In thousands of PLN

Loans and advances to customers

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1.01.2019	**127 863 303**	**5 696 092**	**5 703 662**	**764 562**	**140 027 619**
Transfers					
Transfer to Stage 1	8 580 760	(8 463 349)	(117 411)	-	-
Transfer to Stage 2	(12 636 888)	12 854 962	(218 074)	-	-
Transfer to Stage 3	(582 332)	(2 111 045)	2 693 377	-	-
New financial assets registered	33 540 421	-	-	-	33 540 421
Changes in existing financial assets	(3 837 182)	(523 965)	(318 596)	61 544	(4 618 199)
Financial assets derecognised that are not write-offs	(20 514 204)	(1 061 631)	(291 121)	(89 662)	(21 956 618)
Write-offs	-	-	(666 487)	-	(666 487)
FX and others movements	(36 842)	155 041	49 036	32 764	199 999
Balance as at 31.12.2019	**132 377 036**	**6 546 105**	**6 834 386**	**769 208**	**146 526 735**

Movements on impairment losses on loans and advances to customers measured at amortised cost for reporting period 1.01.2019 - 31.12.2019

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1.01.2019	**(564 639)**	**(530 275)**	**(3 236 294)**	**(4 331 208)**
Transfers				-
Transfer to Stage 1	(167 018)	693 875	41 334	568 191
Transfer to Stage 2	297 987	(1 033 667)	85 848	(649 832)
Transfer to Stage 3	91 352	298 695	(1 254 693)	(864 646)
New financial assets registered	(481 480)	(718)	(1 158)	(483 356)
Changes in credit risk of existing financial assets	119 808	(15 075)	(282 800)	(178 067)
Changes in models and risk parameters	17 621	(25 535)	(18 726)	(26 640)
Financial assets derecognised that are not write-offs	161 525	32 454	83 979	277 958
Write-offs	-	-	644 732	644 732
FX and others movements	(46 566)	(2 262)	51 530	2 702
Balance as at 31.12.2019	**(571 410)**	**(582 508)**	**(3 886 248)**	**(5 040 166)**

Loans and advances to customers

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1.01.2018	**99 860 952**	**6 408 128**	**6 079 284**	**337 664**	**112 686 028**
Transfers					
Transfer to Stage 1	2 637 083	(2 588 526)	(48 557)	-	-
Transfer to Stage 2	(4 231 245)	4 324 724	(93 479)	-	-
Transfer to Stage 3	(1 172 116)	(801 465)	1 973 581	-	-
New financial assets registered	51 578 940	-	-	422 909	52 001 849
Changes in existing financial assets	(6 585 939)	(764 242)	(85 764)	(23 101)	(7 459 046)
Financial assets derecognised that are not write-offs	(13 153 943)	(523 462)	(623 667)	(231 773)	(14 532 845)
Write-offs	-	-	(903 234)	-	(903 234)
FX and others movements	(1 070 429)	(359 065)	(594 502)	258 863	(1 765 133)
Balance as at 31.12.2018	**127 863 303**	**5 696 092**	**5 703 662**	**764 562**	**140 027 619**

In thousands of PLN

Movements on impairment losses on loans and advances to customers measured at amortised cost for reporting period 1.01.2018 - 31.12.2018	Stage 1	Stage 2	Stage 3	Total
Balance as at 1.01.2018	**(444 870)**	**(531 570)**	**(3 085 299)**	**(4 061 739)**
Transfers				-
Transfer to Stage 1	(10 623)	108 205	16 011	113 593
Transfer to Stage 2	171 698	(316 334)	55 022	(89 614)
Transfer to Stage 3	156 838	129 473	(961 171)	(674 860)
New financial assets registered	(786 921)	(11 850)	(4 999)	(803 770)
Changes in credit risk of existing financial assets	65 310	58 826	(424 092)	(299 956)
Changes in models and risk parameters	22 481	5 338	21 995	49 814
Financial assets derecognised that are not write-offs	126 598	30 190	380 207	536 995
Write-offs	-	-	898 166	898 166
FX and others movements	134 850	(2 553)	(132 134)	163
Balance as at 31.12.2018	**(564 639)**	**(530 275)**	**(3 236 294)**	**(4 331 208)**

Movements on impairment losses on purchased or originated credit-impaired loans (POCI)	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Balance at the beginning of the period	**(53 114)**	**-**
Charge/write back of current period	(102 482)	(53 364)
Write off/Sale of receivables	-	-
F/X differences	(278)	250
Other	(48 324)	-
Balance at the end of the period	**(204 198)**	**(53 114)**

Loans and advances to enterprises

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1.01.2019	**51 944 392**	**2 407 835**	**3 367 911**	**409 752**	**58 129 890**
Transfers					
Transfer to Stage 1	3 467 854	(3 423 844)	(44 010)	-	-
Transfer to Stage 2	(5 568 129)	5 628 942	(60 813)	-	-
Transfer to Stage 3	(162 023)	(898 545)	1 060 568	-	-
New financial assets registered	11 225 957	-	-	-	11 225 957
Changes in existing financial assets	2 550 174	(192 407)	(191 315)	(16 665)	2 149 787
Financial assets derecognised that are not write-offs	(12 920 802)	(696 532)	(163 747)	(68 865)	(13 849 946)
Write-offs	-	-	(240 101)	-	(240 101)
FX and others movements	(480 642)	182 420	37 281	10 455	(250 486)
Balance as at 31.12.2019	**50 056 781**	**3 007 869**	**3 765 774**	**334 677**	**57 165 101**

In thousands of PLN

Movements on impairment losses on loans and advances to enterprises measured at amortised cost for reporting period 1.01.2019 - 31.12.2019	Stage 1	Stage 2	Stage 3	Total
Balance as at 1.01.2019	**(246 810)**	**(178 369)**	**(1 601 322)**	**(2 026 501)**
Transfers				
Transfer to Stage 1	(86 394)	293 432	12 966	220 004
Transfer to Stage 2	123 395	(435 144)	16 325	(295 424)
Transfer to Stage 3	7 139	104 363	(432 407)	(320 905)
New financial assets registered	(72 820)	(718)	(1 158)	(74 696)
Changes in credit risk of existing financial assets	33 527	12 755	(66 140)	(19 858)
Changes in models and risk parameters	25 942	(1 182)	(8 050)	16 710
Financial assets derecognised that are not write-offs	54 565	24 043	22 339	100 947
Write-offs	-	-	279 266	279 266
FX and others movements	(18 327)	(27 594)	(39 035)	(84 956)
Balance as at 31.12.2019	**(179 783)**	**(208 414)**	**(1 817 216)**	**(2 205 413)**

Loans and advances to enterprises

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1.01.2018	**41 034 334**	**3 345 069**	**3 291 090**	**106 480**	**47 776 973**
Transfers					
Transfer to Stage 1	1 754 211	(1 750 652)	(3 559)	-	-
Transfer to Stage 2	(2 096 111)	2 116 025	(19 914)	-	-
Transfer to Stage 3	(509 742)	(343 360)	853 102	-	-
New financial assets registered	19 873 844	-	-	328 863	20 202 707
Changes in existing financial assets	(1 144 887)	(378 963)	(69 322)	(10 548)	(1 603 720)
Financial assets derecognised that are not write-offs	(7 098 510)	(430 474)	(67 032)	(151 666)	(7 747 682)
Write-offs	-	-	(358 866)	-	(358 866)
FX and others movements	131 253	(149 810)	(257 588)	136 623	(139 522)
Balance as at 31.12.2018	**51 944 392**	**2 407 835**	**3 367 911**	**409 752**	**58 129 890**

Movements on impairment losses on loans and advances to enterprises measured at amortised cost for reporting period 1.01.2018 - 31.12.2018	Stage 1	Stage 2	Stage 3	Total
Balance as at 1.01.2018	**(184 099)**	**(210 061)**	**(1 556 984)**	**(1 951 144)**
Transfers				
Transfer to Stage 1	(4 431)	46 920	2 008	44 497
Transfer to Stage 2	51 192	(95 085)	13 001	(30 892)
Transfer to Stage 3	41 077	38 913	(325 380)	(245 390)
New financial assets registered	(207 693)	(4 181)	(1 617)	(213 491)
Changes in credit risk of existing financial assets	20 941	29 573	(59 661)	(9 147)
Changes in models and risk parameters	20 168	(3 582)	1 552	18 138
Financial assets derecognised that are not write-offs	31 252	23 003	21 521	75 776
Write-offs	-	-	359 547	359 547
FX and others movements	(15 217)	(3 869)	(55 309)	(74 395)
Balance as at 31.12.2018	**(246 810)**	**(178 369)**	**(1 601 322)**	**(2 026 501)**

In thousands of PLN

Loans and advances to individuals

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1.01.2019	**68 036 395**	**2 783 788**	**2 182 315**	**349 933**	**73 352 431**
Transfers					
Transfer to Stage 1	4 289 461	(4 223 916)	(65 545)	-	-
Transfer to Stage 2	(5 953 195)	6 092 315	(139 120)	-	-
Transfer to Stage 3	(406 450)	(1 100 332)	1 506 782	-	-
New financial assets registered	19 343 190	-	-	-	19 343 190
Changes in existing financial assets	(4 987 300)	(213 342)	(88 635)	78 992	(5 210 285)
Financial assets derecognised that are not write-offs	(7 307 763)	(337 571)	(117 471)	(20 217)	(7 783 022)
Write-offs	-	-	(401 131)	-	(401 131)
FX and others movements	440 984	(21 881)	10 192	22 309	451 604
Balance as at 31.12.2019	**73 455 322**	**2 979 061**	**2 887 387**	**431 017**	**79 752 787**

Movements on impairment losses on loans and advances to individuals measured at amortised cost for reporting period 1.01.2019 - 31.12.2019

Movements on impairment losses on loans and advances to individuals measured at amortised cost for reporting period 1.01.2019 - 31.12.2019	Stage 1	Stage 2	Stage 3	Total
Balance as at 1.01.2019	**(301 183)**	**(332 781)**	**(1 542 312)**	**(2 176 276)**
Transfers				-
Transfer to Stage 1	(74 161)	372 973	26 641	325 453
Transfer to Stage 2	163 880	(557 702)	64 992	(328 830)
Transfer to Stage 3	83 803	184 954	(790 686)	(521 929)
New financial assets registered	(398 719)	-	-	(398 719)
Changes in credit risk of existing financial assets	84 061	(29 079)	(202 637)	(147 655)
Changes in models and risk parameters	(8 084)	(21 913)	(10 991)	(40 988)
Financial assets derecognised that are not write-offs	106 260	7 965	55 591	169 816
Write-offs	-	-	340 055	340 055
FX and others movements	(27 923)	25 050	87 553	84 680
Balance as at 31.12.2019	**(372 066)**	**(350 533)**	**(1 971 794)**	**(2 694 393)**

Loans and advances to individuals

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1.01.2018	**52 169 331**	**2 775 546**	**2 657 088**	**220 449**	**57 822 414**
Transfers					
Transfer to Stage 1	775 273	(732 403)	(42 870)	-	-
Transfer to Stage 2	(1 660 281)	1 732 152	(71 871)	-	-
Transfer to Stage 3	(628 181)	(428 588)	1 056 769	-	-
New financial assets registered	27 986 147	-	-	93 613	28 079 760
Changes in existing financial assets	(3 855 806)	(281 847)	6 398	(12 278)	(4 143 533)
Financial assets derecognised that are not write-offs	(5 562 685)	(76 313)	(543 754)	(78 808)	(6 261 560)
Write-offs	-	-	(537 883)	-	(537 883)
FX and others movements	(1 187 403)	(204 759)	(341 562)	126 957	(1 606 767)
Balance as at 31.12.2018	**68 036 395**	**2 783 788**	**2 182 315**	**349 933**	**73 352 431**

In thousands of PLN

Movements on impairment losses on loans and advances to individuals measured at amortised cost for reporting period 1.01.2018 - 31.12.2018	Stage 1	Stage 2	Stage 3	Total
Balance as at 1.01.2018	**(252 556)**	**(311 580)**	**(1 445 601)**	**(2 009 737)**
Transfers				-
Transfer to Stage 1	(6 745)	60 278	13 839	67 372
Transfer to Stage 2	119 647	(215 861)	41 067	(55 147)
Transfer to Stage 3	116 161	90 375	(620 544)	(414 008)
New financial assets registered	(570 781)	-	(170)	(570 951)
Changes in credit risk of existing financial assets	45 670	26 491	(353 705)	(281 544)
Changes in models and risk parameters	2 432	9 499	14 827	26 758
Financial assets derecognised that are not write-offs	94 758	6 931	352 703	454 392
Write-offs	-	-	532 135	532 135
FX and others movements	150 231	1 086	(76 863)	74 454
Balance as at 31.12.2018	**(301 183)**	**(332 781)**	**(1 542 312)**	**(2 176 276)**

Lease receivables

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1.01.2019	**7 541 511**	**504 471**	**153 437**	**4 877**	**8 204 296**
Transfers					
Transfer to Stage 1	823 445	(815 589)	(7 856)	-	-
Transfer to Stage 2	(1 115 564)	1 133 705	(18 141)	-	-
Transfer to Stage 3	(13 860)	(112 168)	126 028	-	-
New financial assets registered	2 971 274	-	-	-	2 971 274
Changes in existing financial assets	(1 400 056)	(118 216)	(38 647)	(782)	(1 557 701)
Financial assets derecognised that are not write-offs	(285 639)	(27 527)	(9 904)	(579)	(323 649)
Write-offs	-	-	(25 256)	-	(25 256)
FX and others movements	1 940	(5 498)	1 563	-	(1 995)
Balance as at 31.12.2019	**8 523 051**	**559 178**	**181 224**	**3 516**	**9 266 969**

Movements on impairment losses on lease receivables measured at amortised cost for reporting period 1.01.2019 - 31.12.2019	Stage 1	Stage 2	Stage 3	Total
Balance as at 1.01.2019	**(16 648)**	**(19 126)**	**(92 660)**	**(128 434)**
Transfers				-
Transfer to Stage 1	(6 463)	27 471	1 728	22 736
Transfer to Stage 2	10 712	(40 821)	4 531	(25 578)
Transfer to Stage 3	409	9 378	(31 600)	(21 813)
New financial assets registered	(9 942)	-	-	(9 942)
Changes in credit risk of existing financial assets	2 220	1 249	(14 023)	(10 554)
Changes in models and risk parameters	(237)	(2 440)	315	(2 362)
Financial assets derecognised that are not write-offs	701	446	6 049	7 196
Write-offs	-	-	25 411	25 411
FX and others movements	(316)	283	3 012	2 979
Balance as at 31.12.2019	**(19 564)**	**(23 560)**	**(97 237)**	**(140 361)**

In thousands of PLN

Finance lease receivables

Gross carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total
Balance as at 1.01.2018	**6 419 606**	**287 513**	**131 106**	**10 735**	**6 848 960**
Transfers					
Transfer to Stage 1	107 597	(105 470)	(2 127)	-	-
Transfer to Stage 2	(474 852)	476 547	(1 695)	-	-
Transfer to Stage 3	(34 194)	(29 516)	63 710	-	-
New financial assets registered	3 615 627	-	-	432	3 616 059
Changes in existing financial assets	(1 585 246)	(103 432)	(22 839)	(275)	(1 711 792)
Financial assets derecognised that are not write-offs	(492 749)	(16 675)	(12 881)	(1 298)	(523 603)
Write-offs	-	-	(6 485)	-	(6 485)
FX and others movements	(14 278)	(4 496)	4 648	(4 717)	(18 843)
Balance as at 31.12.2018	**7 541 511**	**504 471**	**153 437**	**4 877**	**8 204 296**

Movements on impairment losses on finance lease receivables measured at amortised cost for reporting period 1.01.2018 - 31.12.2018	Stage 1	Stage 2	Stage 3	Total
Balance as at 1.01.2018	**(8 215)**	**(9 929)**	**(82 713)**	**(100 857)**
Transfers				-
Transfer to Stage 1	554	1 007	165	1 726
Transfer to Stage 2	859	(5 388)	954	(3 575)
Transfer to Stage 3	(400)	186	(15 248)	(15 462)
New financial assets registered	(8 447)	(7 669)	(3 212)	(19 328)
Changes in credit risk of existing financial assets	(1 301)	2 762	(10 726)	(9 265)
Changes in models and risk parameters	(120)	(579)	5 615	4 916
Financial assets derecognised that are not write-offs	587	255	5 983	6 825
Write-offs	-	-	6 484	6 484
FX and others movements	(165)	229	38	102
Balance as at 31.12.2018	**(16 648)**	**(19 126)**	**(92 660)**	**(128 434)**

The Santander Bank Polska Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amount of such assets written off during the year ended 31 December 2019 was PLN 427,361k PLN and PLN 423,770k in 2018.

Santander Factoring – risk participation agreements

In H2 2019, Santander Factoring Sp. z o.o. and Banco Santander S.A. signed risk participation agreements whereby Santander Factoring Sp. z o.o. would be able to transfer credit risk onto Banco Santander S.A. headquartered in Madrid or Banco Santander S.A. Branch in Frankfurt. Banco Santander S.A. may participate in the risk through Unfunded Risk Participation (whereby it issues a guarantee) or Funded Risk Participation (whereby it provides financing and assumes the insolvency risk for the debtor of Santander Factoring Sp. z o.o.). Assumption of the debtor's insolvency risk reduces the RWA ratio for the Company's assets.

Santander Factoring Sp. z o.o. pays an agreed remuneration to Banco Santander S.A., both for the guarantee issued and for the financing provided. In the case of Funded Risk Participation, interest on financing is calculated at the base rate (WIBOR/ EURIBOR) increased by a margin set for the factoring agreement in question. In the case of Unfunded Risk Participation, the remuneration is calculated by multiplying the guaranteed amount (for a given month) and the margin.

Santander Factoring Sp. z o.o. loan debt owed to Banco Santander S.A. Branch in Frankfurt as at 31 December 2019 totaled PLN 1,093,289k (principal and interest). Specific instalments mature in the period from January to May 2020. As at 31 December 2019, the value of factoring receivables financed with the loans was PLN 986,320k. Assets covered by the Funded Risk Participation agreement continue to be recognised in the financial statement because criteria for the transfer of financial assets have not been fulfilled.

The difference between the amount of received loans and the value of factoring receivables financed from this source as at 31 December 2019 was PLN 105,155k It resulted both from the early repayment of factoring receivables and the lower-

Santander

In thousands of PLN

than-expected value of invoices submitted by customers in respect of specific instalments. These funds will be returned to Banco Santander S.A. Branch in Frankfurt on maturity dates set for individual instalments of the loan. Repayment of the tranches is conditioned upon the repayment of factoring receivables to Santander Factoring Sp. z o.o. At the same time, Santander Factoring Sp. z o.o. is unable to sell or pledge the factoring receivables financed by the Frankfurt Branch.

The table below compares the carrying amounts and fair values of loan debt payments owed to Banco Santander S.A. Branch in Frankfurt and factoring receivables financed from these loans, as at 31 December 2019. The fair value of financial assets should not differ much from their carrying amount, considering short time to maturity for financial assets and financial liabilities (respectively) as well as the credit risk recognised in the carrying amount of financial assets.

31.12.2019	Carrying amount	Fair value
Loans from Banco Santander S.A., Frankfurt Branch	1 093 289	1 093 289
Factoring receivables financed with the loans	986 320	986 320

As at 31 December 2019, Santander Factoring Sp. z o.o. held the following assets secured by guarantees:

- PLN 986,320k – assets secured under the Funded Risk Participation Agreement signed with Banco Santander S.A. Frankfurt Branch on 20 September 2019;
- PLN 1,181,643k – assets secured under the Unfunded Risk Participation Agreement signed with Banco Santander S.A. and Banco Santander S.A. Frankfurt Branch on 22 November 2019;
- PLN 5,110k – assets secured by funds granted by a third party bank;
- PLN 375,000k – assets secured by guarantees granted by a third party bank.

Risk takeover by Banco Santander S.A. and Banco Santander S.A. Branch in Frankfurt reduced the provision for impairment of factoring receivables by PLN 1,648k.

Securitisation – Santander Bank Polska S.A.

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

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

As part of the transaction, the securitised portfolio is divided into three tranches: senior (80.0%), mezzanine (18.5%) and junior, i.e. the first loss tranche (1.5%). As at the guarantee activation date, the senior tranche totalled PLN 1,720,025k, the mezzanine tranche was PLN 397,755k and the junior tranche amounted to PLN 32,250k.

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

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

As at 31 December 2019, the gross carrying amounts of the respective tranches were as follows: senior tranche – PLN 1,493,495k, mezzanine tranche – PLN 345,370k and junior tranche – PLN 28,003k. In the reporting period, credit losses allocated outside the securitisation structure using the synthetic excess spread mechanism totalled PLN 1,958k. Since the activation of the transaction, losses have not exceeded the junior tranche amount and the bank has not received any payments under the guarantee issued by the EIF.

In thousands of PLN

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

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

Securitisation – Santander Leasing S.A.

In May 2019 and December 2019, Santander Leasing S.A. signed annexes to the securitisation agreement executed in December 2018. The transaction in question had the form of a traditional securitisation and involved transfer of the ownership title to the securitised debt to a special purpose vehicle – SC Santander Leasing Securitization 01 DAC with its registered office in Ireland (SPV).

The revolving period expires in March 2020 (EUR tranche) and June 2020 (PLN tranche).

The securitised assets were used by the SPV to issue two series of bonds of EUR 230,000k and PLN 1,203,000k. They were secured by a registered pledge on cash flows from the securitised assets. The SPV was granted two loans of EUR 59.8m and PLN 445.5m.

As a result of the transaction, Santander Leasing S.A. raised funding in exchange for the transfer of rights to the future cash flows from the securitised credit portfolio of EUR 297.5m and PLN 1,636m. The bonds and the loans mature in December 2034 (EUR tranche) and February 2035 (PLN tranche).

The main benefit of the transaction is the positive impact on financial costs and diversification of the funding sources.

Pursuant to IFRS 9, the contractual terms of the securitisation do not satisfy the criteria for derecognition of the securitised assets from the bank's financial statements. Accordingly, as at 31 December 2019 Santander Leasing S.A. disclosed the securitised assets under loans and advances to customers in the total net amount of PLN 2,759,614k net.

	Transation value - gross		Risk value retained in the Group		Fair Value	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Balance sheet value - Assets	2 759 614	1 204 210	2 759 614	1 204 210	2 762 606	1 203 936
Balance sheet value - Liabilities	2 861 758	1 235 813	2 861 758	1 235 813	2 879 853	1 248 074
Net amount	(102 144)	(31 603)	(102 144)	(31 603)	(117 247)	(44 138)

Securitisation – Santander Consumer Bank S.A.

In September 2015, Santander Consumer Bank S.A. (SCB) securitised a portfolio of instalment loans. The transaction had the form of a traditional securitisation and involved transfer of the ownership title to the securitised debt to a special purpose vehicle – SC Poland Consumer 15-1 Sp. z.o.o with its registered office in Poland (SPV2).

The SPV2 used the securitised assets to issue bonds of PLN 1,051m and was granted a loan of PLN 289,029k as at 31 December 2019 (PLN 297,851k as at 31 December 2018). The bonds were secured by a registered pledge on cash flows from the securitised assets.

In March 2017, SCB signed an annex to the securitisation agreement dated 2015 to extend the revolving period of the securitised debt. Accordingly, the effective transaction period was extended by two years.

As a result of the securitisation, SCB raised funding in exchange for rights to future cash flows from the securitised credit portfolio. The bonds and the loan mature in 2025.

In July 2019, SCB restructured the securitisation of the cash loan portfolio executed in 2016. The transaction had the form of a traditional and revolving securitisation and involved transfer of the ownership title to the securitised debt to a special purpose vehicle – SC Poland Consumer 16-1 Sp. z.o.o with its registered office in Poland (SPV3).

In thousands of PLN

The SPV3 used the securitised assets to issue bonds of PLN 2,000m and was granted a loan of PLN 444,447k as at 31 December 2019. The bonds were secured by a registered pledge on cash flows from the securitised assets.

As a result of the securitisation, SCB raised funding in exchange for rights to future cash flows from the securitised credit portfolio. The bonds and the loan mature in 2030.

The main benefit of the transactions is the positive impact on capital adequacy ratios, improved liquidity and diversification of the funding sources.

Pursuant to IFRS 9, the contractual terms of both securitisations do not satisfy the criteria for derecognition of the securitised assets from the bank's financial statements. Accordingly, SCB disclosed the securitised assets under loans and advances to customers in the net amount of PLN 2,364,421k as at 31 December 2019 (PLN 2,176,405k as at 31 December 2018).

	Transation value		Risk value retained in the Group		Fair Value	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Balance sheet value - Assets	2 364 421	2 176 405	2 364 421	2 176 405	2 364 474	2 209 804
Balance sheet value - Liabilities	2 945 744	2 614 322	2 945 744	2 614 322	2 945 744	2 614 322
Net amount	(581 323)	(437 917)	(581 323)	(437 917)	(581 270)	(404 518)

In 2019, SCB securitised a portfolio of cash and instalment loans. The purpose of the transaction was to obtain a capital relief in relation to the portfolio of retail loans, ensuring an additional capacity to finance projects supporting the growth of SME customers. The transaction is a synthetic securitisation and consists of three tranches. On 5 July 2019, the bank signed an agreement with the European Investment Fund (EIF) under which the EIF issued a financial guarantee to secure 100% of senior and mezzanine tranches (A and B class). At the same time, the bank retained 100% C class first loss tranche, which was deducted from the Common Equity Tier 1 in accordance with Article 36(1)(k) of the CRR. Deduction from the Common Equity Tier 1 means the application of the "full deduction approach", as stipulated in Article 245(1)(b) of the CRR. In the case of mezzanine tranches, the EIF received a financial counter-guarantee from the European Investment Bank. The transaction meets the criteria stipulated in Article 245(4) and Article 245(1)(b) of the CRR. It provides for synthetic excess spread, which is equal to 1.40% of the performing portfolio and is used in accordance with the "use it or lose it" mechanism. As part of the transaction, the bank retains randomly selected exposures which account for not less than 5% of the notional amount of the securitised exposures in accordance with Article 405(1)(c) of the CRR. The guarantee was activated on 21 November 2019, while the impact on the bank's risk-weighted assets was recognised in December 2019. The guarantee covered the portfolio of cash and instalment loans of PLN 1,734m (principal amount). The securitised portfolio is risk weighted in accordance with the standardised approach. The transaction includes a two-year revolving period during which the bank may replenish the amortised amount of the securitised portfolio with new exposures that meet the criteria specified in the agreement. The transaction is set to expire on 30 June 2030. It does not involve financing and covers the selected portfolio of cash and instalment loans which remain on the bank's balance sheet. It is a part of the bank's strategy aimed at optimising Tier 1 capital.

	Transation value - gross		Transaction value by capital amount		Retained Risk Value	
	31.12.2019	21.11.2019	31.12.2019	21.11.2019	31.12.2019	21.11.2019
Balance sheet portfolio, incl:	**1 734 103**	**1 734 103**	**1 734 103**	**1 734 103**	**20 809**	**20 809**
tranche senior	1 413 294	1 413 294	1 413 294	1 413 294	-	-
tranche mezzanine	300 000	300 000	300 000	300 000	-	-
tranche junior	20 809	20 809	20 809	20 809	20 809	20 809
Value losses allocated to Synthetic Excess Spread	-	-	-	-	-	-
Value of available Synthetic Excess Spread allocated to be used	24 262	24 262	24 262	24 262	n/a	n/a

In thousands of PLN

23. Investment securities

Investment securities	31.12.2019	31.12.2018
Debt investment securities measured at fair value through other comprehensive income	**40 248 937**	**36 886 457**
Government securities:	34 332 625	29 068 536
- bonds	34 332 625	29 068 536
Central Bank securities:	3 849 679	5 999 249
- bills	3 849 679	5 999 249
Other securities:	2 066 633	1 818 672
-bonds	2 066 633	1 818 672
Debt investment securities measured at fair value through profit and loss	**194 285**	**136 511**
Equity investment securities measured at fair value through other comprehensive income	**884 912**	**821 538**
- listed	19 996	16 720
- unlisted	864 916	804 818
Total	**41 328 134**	**37 844 506**

Movements on investment securities on 31.12.2019	Debt investment securities measured at fair value through other comprehensive income	Debt investment securities measured at fair value through profit and loss	Equity investment securities measured at fair value through other comprehensive income	Total
As at 31.12.2018	**38 221 051**	**136 511**	**821 538**	**39 179 100**
Change of presentation - assets pledged as collateral	(1 334 594)	-	-	(1 334 594)
As at 1.01.2019 (restated)	**36 886 457**	**136 511**	**821 538**	**37 844 506**
Additions	165 286 285	-	-	165 286 285
Disposals (sale and maturity)	(162 117 523)	(500)	(41 471)	(162 159 494)
Fair value adjustment	239 996	56 958	104 845	401 799
Movements on interest accrued	(25 571)	-	-	(25 571)
Impairment losses on securities	(11 244)	-	-	(11 244)
FX differences	(9 463)	1 316	-	(8 147)
As at the end of the period	**40 248 937**	**194 285**	**884 912**	**41 328 134**

In thousands of PLN

Movements on investment securities on 31.12.2018	Debt investment securities measured at fair value through other comprehensive income	Debt investment securities measured at fair value through profit and loss	Equity investment securities measured at fair value through other comprehensive income	Total
As at 31.12.2017	**27 494 933**	**-**	**920 879**	**28 415 812**
Impact of the implementation of IFRS 9	-	93 165	(108 259)	(15 094)
Change of presentation - assets pledged as collateral	(1 510 724)	-	-	(1 510 724)
As at 1.01.2018 (restated)	**25 984 209**	**93 165**	**812 620**	**26 889 994**
Increases due to acquisition of demerged part of Deutsche Bank Polska SA	63 077	20 013	271	83 361
Additions	163 005 068	5 200	2 519	163 012 787
Disposals (sale and maturity)	(152 663 943)	(3 200)	(316)	(152 667 459)
Fair value adjustment	392 013	12 343	6 444	410 800
Movements on interest accrued	24 732	-	-	24 732
FX differences	81 301	8 990	-	90 291
As at the end of the period	**36 886 457**	**136 511**	**821 538**	**37 844 506**

24. Investments in associates

Balance sheet value of associates	31.12.2019	31.12.2018
Polfund - Fundusz Poręczeń Kredytowych S.A.	45 273	44 703
Santander - Aviva Towarzystwo Ubezpieczeń S.A. and Santander - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	857 840	847 249
Total	**903 113**	**891 952**

Movements on investments in associates	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Balance as at 01.01.	**891 952**	**889 372**
Share of profits/(losses)	67 192	62 667
Dividends	(58 661)	(60 695)
Other	2 630	608
As at the end of the period	**903 113**	**891 952**

Fair value of „Investment in associates" is presented in Note 45.

The table below presents information regarding the Group's share in capital of associate:

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

In thousands of PLN

The table below presents condensed financial information regarding associates which have a significant contribution to the Group:

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

* data are based on estimates of companies

Carrying value of the investments in the associates accounted for using the equity method is different from the share of the Group in their net assets by the amount of goodwill initially recognised in the carrying value of the investment.

2018 data are based on audited financial report of companies Santander - Aviva Towarzystwo Ubezpieczeń na Życie S.A. and Santander - Aviva Towarzystwo Ubezpieczeń S.A.

Data published in Annual Report for 2018 were based on estimates of companies. Difference between estimates and real data are irrelevant.

In thousands of PLN

25. Intangible assets

Intangible assets Year 2019	Licences, patents etc.	Other	Expenditure on intangible assets	Total
Value at purchase price - beginning of the period	**1 700 542**	**641 360**	**283 206**	**2 625 108**
Additions from:				
- purchases	-	-	226 375	**226 375**
- transfers from expenditures	213 593	10 081	-	**223 674**
- transfers	452	-	33	**485**
Disposals from:				
- liquidation	(45 039)	(9 327)	(5 730)	**(60 096)**
- transfers from expenditures	-	-	(223 675)	**(223 675)**
- transfers	(399)	-	(103)	**(502)**
Value at purchase price - end of the period	**1 869 149**	**642 114**	**280 106**	**2 791 369**
Accumulated depreciation - beginning of the period	**(1 407 707)**	**(397 992)**	**-**	**(1 805 699)**
Additions/disposals from:				
- current year amortization	(186 154)	(80 105)	-	**(266 259)**
- liquidation, sale	42 964	9 327	-	**52 291**
- transfers	415	-	-	**415**
Accumulated depreciation- end of the period	**(1 550 482)**	**(468 770)**	**-**	**(2 019 252)**
Balance sheet value				
Purchase value	1 869 149	642 114	280 106	**2 791 369**
Accumulated depreciation	(1 550 482)	(468 770)	-	**(2 019 252)**
As at 31 December 2019	**318 667**	**173 344**	**280 106**	**772 117**

In thousands of PLN

Intangible assets Year 2018	Licences, patents etc.	Other	Expenditure on intangible assets	Total
Value at purchase price - beginning of the period	**1 488 796**	**441 140**	**198 521**	**2 128 457**
Intangible assets recognised on acquisition of a demerged part of Deutsche Bank Polska S.A.	8 067	192 628	1 781	**202 476**
Additions from:				
- purchases	-	-	302 934	**302 934**
- transfers from expenditures	212 245	7 704	-	**219 949**
- transfers	22	-	-	**22**
Disposals from:				
- liquidation	(8 588)	(101)	(81)	**(8 770)**
- transfers from expenditures	-	-	(219 949)	**(219 949)**
- transfers	-	(11)	-	**(11)**
Value at purchase price - end of the period	1 700 542	641 360	283 206	**2 625 108**
Accumulated depreciation - beginning of the period	(1 267 430)	(370 700)	-	**(1 638 130)**
Accumulated depreclation recognised on acquisition of a demerged part of Deutsche Bank Polska S.A.	(5 459)	-	-	**(5 459)**
Additions/disposals from:				
- current year amortization	(143 373)	(27 393)	-	**(170 766)**
- liquidation, sale	8 555	101	-	**8 656**
Accumulated depreciation- end of the period	(1 407 707)	(397 992)	-	**(1 805 699)**
Balance sheet value				
Purchase value	1 700 542	641 360	283 206	**2 625 108**
Accumulated depreciation	(1 407 707)	(397 992)	-	**(1 805 699)**
As at 31 December 2018	**292 835**	**243 368**	**283 206**	**819 409**

In thousands of PLN

26. Goodwill

As at 31 December 2019 and in the coresponding period, the goodwill covered in the amount of PLN 1,712,056 k the following items:

- PLN 1,688,516 k - goodwill arising from the merger of Santander Bank Polska and Kredyt Bank on 4 January 2013,
- PLN 23,540 k – goodwill arising from the fact that Santander Bank Polska holds 60% shares of Santander Consumer Bank, which, in turn, has 50% stake in PSA Finance Polska. Santander Bank Polska discloses non-controlling interests representing 70% of share capital and voting power at the General Meetings of PSA Finance Polska and, indirectly, PSA Consumer Finance Polska.

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

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

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

Recoverable amount based on value in use

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

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

Key assumptions for measuring value in use

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

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

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

Financial projection

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

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

Discount rate

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

Growth rate in the period beyond the financial projections

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

Minimum solvency ratio imposed by the regulator

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

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

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

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

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

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

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

Test for impairment of goodwill arising from the purchase of shares of PSA Finance Polska

The bank conducted a test for impairment of goodwill arising from the final settlement of acquisition of shares of PSA Finance Polska sp. z o.o. and, indirectly, PSA Consumer Finance Polska sp. z o.o. by Santander Consumer Bank S.A. The test results showed an excess of the value of non-controlling interests (70%) and the payment made over the carrying amount of the identified net assets. As a result, no goodwill impairment was identified.

The test was prepared using the income approach.

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

In thousands of PLN

27. Property, plant and equipment

Property, plant & equipment not subject to operating lease Year 2019	Land and buildings	IT Equipment	Transportation means	Other fixed assets	Fixed assets under construction	Total
Value at purchase price - transferred from property, plant and equipment due to the implementation of IFRS 16	**792 236**	**891 809**	**100 190**	**238 645**	**146 132**	**2 169 012**
Property, plant & equipment recognised on acquisition of Santander Securities SA	**-**	**(6)**	**-**	**6**	**-**	**-**
Additions from:						
- purchases	-	-	74 117	-	157 673	**231 790**
- transfers from expenditures	34 098	108 193	4 164	42 101	-	**188 556**
- transfers	6 656	114	244	86	9	**7 109**
Disposals from:						
- sale, liquidation, donation	(149 836)	(127 185)	(21 157)	(31 900)	(3 404)	**(333 482)**
- transfers from expenditures	-	-	-	-	(188 557)	**(188 557)**
- transfers	(82)	(27)	(101)	-	(471)	**(681)**
Value at purchase price - end of the period	**683 072**	**872 898**	**157 457**	**248 938**	**111 382**	**2 073 747**
Accumulated depreciation - transferred from property, plant and equipment due to the implementation of IFRS 16	**(568 941)**	**(582 313)**	**(35 082)**	**(196 362)**	**-**	**(1 382 698)**
Accumulated depreciation recognised on acquisition of Santander Securities SA	-	6	-	(6)	-	**-**
Additions/disposals from:						
- current year amortization	(25 719)	(100 299)	(12 213)	(20 734)	-	**(158 965)**
- sale, liquidation, donation	106 125	122 966	8 723	30 857	-	**268 671**
- transfers	-	(962)	(57)	1 167	-	**148**
Write down/Reversal of impairment write down	89	-	-	-	-	**89**
Accumulated depreciation- end of the period	**(488 446)**	**(560 602)**	**(38 629)**	**(185 078)**	**-**	**(1 272 755)**
Balance sheet value						
Purchase value	**683 072**	**872 898**	**157 457**	**248 938**	**111 382**	**2 073 747**
Accumulated depreciation	**(488 446)**	**(560 602)**	**(38 629)**	**(185 078)**	**-**	**(1 272 755)**
As at 31 December 2019	**194 626**	**312 296**	**118 828**	**63 860**	**111 382**	**800 992**

In thousands of PLN

Property, plant & equipment subject to operating lease Year 2019	Transportation means	Other fixed assets	Fixed assets under construction	Total
Value at purchase price - transferred from property, plant and equipment due to the implementation of IFRS 16	**65 969**	**3**	**730**	**66 702**
Additions from:				
- purchases	-	-	66 787	**66 787**
- transfers from expenditures	63 565	-	-	**63 565**
- transfers	4 744	-	-	**4 744**
Disposals from:				
- sale, liquidation, donation	(50 766)	(3)	-	**(50 769)**
- transfers from expenditures	-	-	(63 565)	**(63 565)**
- transfers	(1 638)	-	(3 952)	**(5 590)**
Value at purchase price - end of the period	**81 874**	**-**	**-**	**81 874**
Accumulated depreciation - transferred from property, plant and equipment due to the implementation of IFRS 16	**(10 259)**	**(2)**	**-**	**(10 261)**
Additions/disposals from:				
- current year amortization	(10 223)	-	-	**(10 223)**
- sale, liquidation, donation	11 438	2	-	**11 440**
- transfers	260	-	-	**260**
Write down/Reversal of impairment write down	(4)	-	-	**(4)**
	-	**-**	**-**	**-**
Accumulated depreciation- end of the period	**(8 788)**	**-**	**-**	**(8 788)**
Balance sheet value				
Purchase value	**81 874**	**-**	**-**	**81 874**
Accumulated depreciation	**(8 788)**	**-**	**-**	**(8 788)**
As at 31 December 2019	**73 086**	**-**	**-**	**73 086**

In thousands of PLN

Property, plant & equipment Year 2018	Land and buildings	IT Equipment	Transportation means	Other fixed assets	Fixed assets under construction	Total
Value at purchase price - beginning of the period	**943 286**	**806 328**	**155 536**	**263 265**	**168 839**	**2 337 254**
Property, plant & equipment recognised on acquisition of a demerged part of Deutsche Bank Polska S.A.	**14 359**	**6 343**	**171**	**1 503**	**-**	**22 376**
Additions from:						
- purchases	-	-	-	-	278 252	**278 252**
- leasing	-	-	11 959	-	-	**11 959**
- transfers from expenditures	120 436	105 761	55 737	16 504	-	**298 438**
- transfers	1	494	11 493	184	234	**12 406**
Disposals from:						
- sale, liquidation, donation	(105 910)	(27 068)	(41 740)	(39 321)	(3)	**(214 042)**
- transfers from expenditures	-	-	-	-	(298 439)	**(298 439)**
- transfers	(35 803)	(50)	(26 997)	(221)	(494)	**(63 565)**
Value at purchase price - end of the period	**936 369**	**891 808**	**166 159**	**241 914**	**148 389**	**2 384 639**
Accumulated depreciation - beginning of the period	**(630 972)**	**(516 251)**	**(39 473)**	**(219 841)**	-	**(1 406 537)**
Accumulated depreclation recognised on acquisition of a demerged part of Deutsche Bank Polska S.A.	**(237)**	**(2 519)**	**(119)**	**(333)**	**-**	**(3 208)**
Additions/disposals from:						
- current year amortization	(34 953)	(90 135)	(22 766)	(14 850)	-	**(162 704)**
- sale, liquidation, donation	84 470	26 712	10 873	38 285	-	**160 340**
- transfers	20 646	(120)	6 091	196	-	**26 813**
Write down/Reversal of impairment write down	(13 014)	-	55	-	-	**(12 959)**
Accumulated depreciation- end of the period	**(574 060)**	**(582 313)**	**(45 339)**	**(196 543)**	-	**(1 398 255)**
Balance sheet value						
Purchase value	936 369	891 808	166 159	241 914	148 389	**2 384 639**
Accumulated depreciation	(574 060)	(582 313)	(45 339)	(196 543)	-	**(1 398 255)**
As at 31 December 2018	**362 309**	**309 495**	**120 820**	**45 371**	**148 389**	**986 384**

In thousands of PLN

28. Right of use assets

Right of use assets Year 2019	Land and buildings	IT Equipment	Other	Leasing - Santander Bank Polska expenditures	Total
Gross value transferred from property, plant and equipment due to the implementation of IFRS 16	**144 133**	**-**	**3 266**	**1 527**	**148 926**
Impact of the implementation of MSSF 16	784 574	-	4 822	-	**789 396**
Additions from:					
-new lease contracts	152 728	2 171	1 870	8 738	**165 507**
-lease modifications and lease period update	57 527	-	817	-	**58 344**
Disposals from:					
-lease modifications and lease period update	(97 966)	(5)	(1 415)	(7 178)	**(106 564)**
Gross value - end of the period	**1 040 996**	**2 166**	**9 360**	**3 087**	**1 055 609**
Accumulated depreciation transferred from property, plant and equipment due to the implementation of IFRS 16	**(5 120)**	**-**	**(177)**	**-**	**(5 297)**
Additions from:					
- current year amortization	**(190 149)**	**(939)**	**(1 640)**	**-**	**(192 728)**
-new lease contracts	-	-	-	-	**-**
-lease modifications and lease period update	-	-	-	-	**-**
Disposals from:					
-lease modifications (including settlement) and lease period update	10 876	-	198	-	**11 074**
Write down/Reversal of impairment write down *	(29 577)	-	(289)	-	**(29 866)**
Accumulated depreciation- end of the period	**(213 970)**	**(939)**	**(1 908)**	**-**	**(216 817)**
Balance sheet value					
Gross amount	1 040 996	2 166	9 360	3 087	**1 055 609**
Accumulated depreciation	(213 970)	(939)	(1 908)	-	**(216 817)**
As at 31 December 2019	**827 026**	**1 227**	**7 452**	**3 087**	**838 792**

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

In thousands of PLN

29. Net deferred tax assets

Deferred tax assets	31.12.2019	Changes recognised in other comprehensive income*	Changes to financial result	Changes in temporary differences	31.12.2018
Allowance for expected credit losses	917 806	-	47 043	47 043	870 763
Valuation of derivative financial instruments	498 443	-	107 617	107 617	390 826
Valuation of cash flow hedges instruments	5 502	(9 308)	-	(9 308)	14 810
Other provisions	180 578	-	4 504	4 504	176 074
Deferred income	510 836	-	(27 440)	(27 440)	538 276
Differences between carrying and tax value of lease	517 828	-	35 019	35 019	482 809
Unrealised interest expenses on loans, deposits and securities	267 681	-	68 124	68 124	199 557
Other negative temporary differences	37 435	-	25 579	25 579	11 856
Total assets of deferred tax	**2 936 109**	**(9 308)**	**260 446**	**251 138**	**2 684 971**

Deferred tax liabilities	31.12.2019	Changes recognised in other comprehensive income*	Changes to financial result	Changes in temporary differences	31.12.2018
Valuation of investment securities	(312 146)	(59 546)	6 963	(52 583)	(259 563)
Provisions for retirement allowances	(2 280)	256	-	256	(2 536)
Valuation of derivative financial instruments	(288 043)	-	(71 707)	(71 707)	(216 336)
Unrealised interest income on loans, securities and interbank deposits	(212 218)	-	(9 567)	(9 567)	(202 651)
Prepayments regarding amortization of applied investment relief	(1 313)	-	284	284	(1 597)
Difference between balance sheet and taxable value of non-financial assets	(26 414)	-	2 321	2 321	(28 735)
Unrealised FX translation differences from b/s valuation of receivables and liabilities	(11 658)	-	(2 462)	(2 462)	(9 196)
Valuation of shares / interests in subsidiaries	(140 172)	-	249	249	(140 421)
Other positive temporary differences	(93 949)	-	(30 134)	(30 134)	(63 815)
Total liabilities of deferred tax	**(1 088 193)**	**(59 290)**	**(104 053)**	**(163 343)**	**(924 850)**
Net deferred tax assets	**1 847 916**	**(68 598)**	**156 393**	**87 795**	**1 760 121**

*The changes recognized in other comprehensive income do not reflect the deferred tax effect in relation to the item recognised in non-controlling interests.

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

In thousands of PLN

Deferred tax assets	31.12.2018	Changes recognised in other comprehensive income*	Changes to financial result	Changes in temporary differences	31.12.2017
Allowance for expected credit losses	870 763	-	203 795	203 795	666 968
Valuation of derivative financial instruments	390 826	-	26 394	26 394	364 432
Valuation of cash flow hedges instruments	14 810	(5 698)	-	(5 698)	20 508
Other provisions	176 074	-	12 582	12 582	163 492
Deferred income	538 276	-	29 231	29 231	509 045
Differences between carrying and tax value of lease	482 809	-	109 147	109 147	373 662
Unrealised interest expenses on loans, deposits and securities	199 557	-	72 938	72 938	126 619
Other negative temporary differences	11 856	-	(13 386)	(13 386)	25 242
including impact of the implementation of IFRS 9	**49 843**				
Total assets of deferred tax	**2 684 971**	**(5 698)**	**440 701**	**435 003**	**2 249 968**

Deferred tax liabilities	31.12.2018	Changes recognised in other comprehensive income*	Changes to financial result	Changes in temporary differences	31.12.2017
Valuation of investment securities	(259 563)	(73 908)	3 253	(70 655)	(188 908)
Provisions for retirement allowances	(2 536)	(2 411)	-	(2 411)	(125)
Valuation of derivative financial instruments	(216 336)	-	45 281	45 281	(261 617)
Unrealised interest income on loans, securities and interbank deposits	(202 651)	-	(23 278)	(23 278)	(179 373)
Prepayments regarding amortization of applied investment relief	(1 597)	-	154	154	(1 751)
Difference between balance sheet and taxable value of non-financial assets	(28 735)	-	(37 201)	(37 201)	8 466
Unrealised FX translation differences from b/s valuation of receivables and liabilities	(9 196)	-	(423)	(423)	(8 773)
Valuation of shares / interests in subsidiaries	(140 421)	-	6 545	6 545	(146 966)
Other positive temporary differences	(63 815)	-	(7 121)	(7 121)	(56 694)
including impact of the implementation of IFRS 9	**9 177**				
Total liabilities of deferred tax	**(924 850)**	**(76 319)**	**(12 790)**	**(89 109)**	**(835 741)**
Net deferred tax assets	**1 760 121**	**(82 017)**	**427 911**	**345 894**	**1 414 227**

*The changes recognized in other comprehensive income do not reflect the deferred tax effect in relation to the item recognised in non-controlling interests.

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

In thousands of PLN

Movements on net deferred tax	31.12.2019	31.12.2018
As at the beginning of the period	1 760 121	1 414 227
Impact of the implementation of IFRS 9	-	59 020
Changes recognised in income statement	153 391	274 734
Changes recognised in other comprehensive income	(68 598)	(82 017)
Changes on deferred tax as a result of a business combination	-	94 428
Other	3 002	(271)
Balance at the end of the period	**1 847 916**	**1 760 121**

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

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

30. Assets classified as held for sale

Assets classified as held for sale	31.12.2019	31.12.2018
Land and buildings	2 016	11 123
Other fixed assets	663	1 022
Total	**2 679**	**12 145**

31. Other assets

Other assets	31.12.2019	31.12.2018
Interbank settlements	34 183	59 407
Sundry debtors	791 567	897 695
Prepayments	196 731	160 633
Repossessed assets	4 300	6 849
Settlements of stock exchange transactions	26 673	33 512
Other	8 392	8 899
Total	**1 061 846**	**1 166 995**
of which financial assets *	852 423	990 614

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

As at 31.12.2019, allowance for impairment of other assets are PLN 131,800 k (31.12.2018 PLN 122,435 k).

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

32. Deposits from banks

Deposits from banks	31.12.2019	31.12.2018
Term deposits	468 294	144 906
Loans received from banks	3 213 874	1 733 724
Current accounts	1 349 576	954 298
Total	**5 031 744**	**2 832 928**

In thousands of PLN

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

Fair value of "Deposits from banks" is presented in Note 45.

Movements in loans received from banks	31.12.2019	31.12.2018
As at the beginning of the period	**1 733 724**	**1 994 759**
Increase (due to:)	**1 711 207**	**1 802 458**
- loans received	1 660 886	1 739 540
- interest on loans received	50 321	37 776
- FX differences and other changes	-	25 142
Decrease (due to):	**(231 057)**	**(2 063 493)**
- repayment of loans	(174 433)	(2 024 290)
- interest repayment	(46 641)	(39 203)
- FX differences and other changes	(9 983)	-
As at the end of the period	**3 213 874**	**1 733 724**

33. Deposits from customers

Deposits from customers	31.12.2019	31.12.2018
Deposits from individuals	**91 716 261**	**88 211 366**
Term deposits	29 984 379	32 715 078
Current accounts	61 519 766	55 308 995
Other	212 116	187 293
Deposits from enterprises	**60 281 335**	**57 493 542**
Term deposits	23 656 190	24 690 631
Current accounts	32 054 525	27 274 603
Loans	3 536 953	4 751 949
Other	1 033 667	776 359
Deposits from public sector	**4 482 747**	**3 911 750**
Term deposits	750 095	1 290 086
Current accounts	3 732 587	2 617 635
Other	65	4 029
Total	**156 480 343**	**149 616 658**

As at 31.12.2019 deposits held as collateral totaled PLN 326,666 k (as at 31.12.2018 - PLN 436,634 k).

Fair value of "Deposits from customers" is presented in Note 45.

Movements in loans received from other financial institutions	31.12.2019	31.12.2018
As at the beginning of the period	**4 751 949**	**3 552 388**
Increase (due to:)	**730 919**	**1 978 326**
- loans received	674 870	1 832 185
- interest on loans received	56 049	26 810
- FX differences and other changes	-	119 331
Decrease (due to):	**(1 945 915)**	**(778 765)**
- repayment of loans	(1 869 822)	(757 571)
- interest repayment	(56 664)	(21 194)
- FX differences and other changes	(19 429)	-
As at the end of the period	**3 536 953**	**4 751 949**

In thousands of PLN

34. Subordinated liabilities

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

Movements in subordinated liabilities	31.12.2019	31.12.2018
As at the beginning of the period	**2 644 341**	**1 488 602**
Additions from:	**84 458**	**1 221 067**
- drawing of subordinated loan	-	100 000
- interest on subordinated loans	84 458	69 071
- FX differences	-	46 718
- reclassification *	-	1 005 278
Disposals from:	**(98 528)**	**(65 328)**
- interest repayment	(84 726)	(65 328)
- FX differences	(13 802)	-
As at the end of the period	**2 630 271**	**2 644 341**
Short-term	16 589	16 827
Long-term (over 1 year)	2 613 682	2 627 514

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

Other details on subordinated liabilities are disclosed in Note 5.

35. Debt securities in issue

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

In thousands of PLN

Issuance of debt securities in 2018 (non-matured securities)	Nominal value	Currency	Redemption date
Series G bank securities	500 000	PLN	26.04.2019
Series H bank securities	500 000	PLN	27.09.2019
Series I bank securities	150 000	PLN	21.06.2019
Santander Bank Polska bonds 09/2018	500 000	EUR	20.09.2021
Series C bonds of Santander Factoring	850 000	PLN	18.04.2019
Senior bonds of Santander Leasing Poland Securitization 01 12/18	230 000	EUR	20.12.2034
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

Movements in debt securities in issue	31.12.2019	31.12.2018
As at the beginning of the period	**9 368 617**	**5 895 814**
Increase (due to:)	**6 758 032**	**7 608 371**
- debt securities in issue	6 574 500	7 430 794
- interest on debt securities in issue	183 532	173 182
- FX differences	-	4 395
Decrease (due to):	**(5 497 133)**	**(4 135 568)**
- debt securities redemption	(5 278 326)	(2 975 000)
- interest repayment	(187 986)	(155 290)
- reclassification*	-	(1 005 278)
- FX differences	(30 281)	-
- other changes	(540)	-
As at the end of the period	**10 629 516**	**9 368 617**

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

36. Provisions for off balance sheet credit facilities

Provisions for off balance sheet credit facilities	31.12.2019	31.12.2018
Provisions for financial liabilities to grant loans and credit lines	48 865	67 044
Provisions for financial guarantees	16 856	13 514
Other provisions	388	490
Total	**66 109**	**81 048**

In thousands of PLN

Change in provisions for off balance sheet credit facilities	31.12.2019
As at 1.01.2019	**81 048**
Provision charge	138 601
Write back	(153 450)
Other changes	(90)
As at the end of the period	**66 109**
Short-term	47 696
Long-term	18 413

Change in provisions for off balance sheet credit facilities	31.12.2018
As at 31.12.2017	**50 652**
Impact of the implementation of IFRS 9	15 034
As at 1.01.2018 (restated)	**65 686**
Increases due to acquisition of demerged part of Deutsche Bank Polska SA	7 945
Provision charge	182 843
Utilization	301
Write back	(175 782)
Other changes	55
As at the end of the period	**81 048**
Short-term	60 407
Long-term	20 641

37. Other provisions

Other provisions	31.12.2019	31.12.2018
Provisions for legal claims	135 659	132 382
Provisions for legal risk*	295 216	-
Provisions for restructuring**	14 740	499
Total	**445 615**	**132 881**

*Details regarding the provisions for legal risk are presented in note 46

** Details about the provisions for restructuring are presented in note 13.

Change in other provisions on 31.12.2019	Provisions for legal claims *	Provisions for restructuring	Provisions for legal risk	Total
As at the beginning of the period	**132 382**	**499**	**-**	**132 881**
Provision charge	38 384	101 797	310 028	450 209
Utilization	(818)	(84 556)	(34 699)	(120 073)
Write back	(14 402)	(3 000)	-	(17 402)
Reclassification	(19 887)	-	19 887	-
As at the end of the period	**135 659**	**14 740**	**295 216**	**445 615**

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

In thousands of PLN

Change in other provisions on 31.12.2018	Provisions for legal claims*	Provisions for restructuring	Total
As at the beginning of the period	**99 463**	**3 019**	**102 482**
Increases due to acquisition of demerged part of Deutsche Bank Polska SA	5 230	-	5 230
Provision charge	100 990	-	100 990
Utilization	(42 214)	-	(42 214)
Write back	(31 087)	(2 520)	(33 607)
As at the end of the period	**132 382**	**499**	**132 881**

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

38. Other liabilities

Other liabilities	31.12.2019	31.12.2018
Settlements of stock exchange transactions	25 264	17 039
Interbank settlements	224 485	267 844
Employee provisions	368 514	405 231
Other provisions	-	3 300
Sundry creditors	647 576	1 003 405
Liabilities from contracts with customers	278 814	240 637
Public and law settlements	106 393	157 184
Accrued liabilities	519 263	567 220
Finance lease related settlements	101 418	139 232
Other	7 633	5 311
Total	**2 279 360**	**2 806 403**
of which financial liabilities *	1 886 520	2 403 271

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

Change in provisions on 31.12.2019	Employee provisions	of which: Provisions for retirement allowances	Other provisions	Total
As at the beginning of the period	**405 231**	***40 858***	**3 300**	**408 531**
Provision charge	350 883	*4 966*	-	350 883
Utilization	(319 853)	-	-	(319 853)
Write back	(67 747)	*(1 188)*	(3 300)	(71 047)
As at the end of the period	**368 514**	***44 636***	**-**	**368 514**
Short-term	323 878	-	-	323 878
Long-term	44 636	*44 636*	-	44 636

In thousands of PLN

Change in provisions on 31.12.2018	Employee provisions	of which: Provisions for retirement allowances	Other provisions	Total
As at the beginning of the period	**407 722**	***72 726***	**3 300**	**411 022**
Increases due to acquisition of demerged part of Deutsche Bank Polska SA	19 935	*1 532*	-	19 935
Provision charge	364 674	*10 549*	-	364 674
Utilization	(258 436)	*(3 875)*	-	(258 436)
Write back	(128 664)	*(40 074)*	-	(128 664)
As at the end of the period	**405 231**	***40 858***	**3 300**	**408 531**
Short-term	364 373	-	3 300	367 673
Long-term	40 858	*40 858*	-	40 858

Employee related provisions consists of items outlined in Note 53.

39. Share capital

31.12.2019

Series/issue	Issue	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue in PLN k
A	bearer	none	none	5 120 000	51 200
B	bearer	none	none	724 073	7 241
C	bearer	none	none	22 155 927	221 559
D	bearer	none	none	1 470 589	14 706
E	bearer	none	none	980 393	9 804
F	bearer	none	none	2 500 000	25 000
G	bearer	none	none	40 009 302	400 093
H	bearer	none	none	115 729	1 157
I	bearer	none	none	1 561 618	15 616
J	bearer	none	none	18 907 458	189 075
K	bearer	none	none	305 543	3 055
L	bearer	none	none	5 383 902	53 839
M	bearer	none	none	98 947	990
N	bearer	none	none	2 754 824	27 548
				102 088 305	**1 020 883**

Nominal value of one share is 10 PLN. All issued shares are fully paid.

The shareholders having minimum 5% of the total number of votes at the Santander Bank Polska General Meeting of Shareholders was Banco Santander with a controlling stake of 67.47% stake and 5.02% funds managed by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A.: Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale-Nederlanden Dobrowolny Fundusz Emerytalny.

In thousands of PLN

31.12.2018

Series/issue	Issue	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue in PLN k
A	bearer	none	none	5 120 000	51 200
B	bearer	none	none	724 073	7 241
C	bearer	none	none	22 155 927	221 559
D	bearer	none	none	1 470 589	14 706
E	bearer	none	none	980 393	9 804
F	bearer	none	none	2 500 000	25 000
G	bearer	none	none	40 009 302	400 093
H	bearer	none	none	115 729	1 157
I	bearer	none	none	1 561 618	15 616
J	bearer	none	none	18 907 458	189 075
K	bearer	none	none	305 543	3 055
L	bearer	none	none	5 383 902	53 839
M	bearer	none	none	98 947	990
N	bearer	none	none	2 754 824	27 548
				102 088 305	**1 020 883**

Nominal value of one share is 10 PLN. All issued shares are fully paid.

On 9.11.2018, Santander Bank Polska SA was informed that on 9.11.2018 the amendments to the Statute of Santander Bank Polska SA resulting in Bank's share capital increase related to acquisition of a demerged part of Deutsche Bank Polska SA was registered by the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register. The amendments to the Bank's Statute were adopted by the Extraordinary General Meeting on 29.05.2018. The registered amendment to the Statutes includes an increase in the capital of Santander Bank Polska SA and introduced 2 754 824 ordinary bearer shares of the Bank, series N. The share capital of Bank was increased from PLN 993,334,810 to PLN 1,020,883,050 i.e. by PLN 27,548,240 which resulting in 2,754,824 number of shares. Shares in the increased share capital have been allocated to Deutsche Bank AG in connection with the finalised acquisition of a demerged part of Deutsche Bank Polska SA by Santander Bank Polska SA.

The shareholders having minimum 5% of the total number of votes at the Santander Bank Polska General Meeting of Shareholders was Banco Santander with a controlling stake of 67.47% stake.

40. Other reserve capital

Other reserve capital	31.12.2019	31.12.2018
General banking risk fund	649 810	649 810
Share premium	7 981 974	7 981 974
Other reserves of which:	11 510 141	10 279 957
Reserve capital	*11 118 171*	*9 951 065*
Supplementary capital	*1 048 204*	*985 126*
Adjustment to equity from acquisition/loss of controlling interest in subsidiaries	*(656 234)*	*(656 234)*
Total	**20 141 925**	**18 911 741**

Share (issue) premium is created from surplus over the nominal value of shares sold less costs of share issuance and constitutes the Bank's supplementary capital.

Reserve capital as at 31.12.2019 includes share option scheme charge of PLN 142,343 k and reserve capital as at 31.12.2018 includes share option scheme charge of PLN 130,869 k.

Other movements of other reserve capital are presented in "movements on consolidated equity" for 2019 and 2018.

Statutory reserve (supplementary) capital is created from net profit appropriation in line with the prevailing banking legislation and the Bank's Statute. The capital is not subject to split and is earmarked for covering balance sheet losses. Allocations from profit for the current year to reserve capital should amount to at least 8% of profit after tax and are made until supplementary capital equals at least one third of the Bank's share capital. The amount of allocations is adopted by the General Meeting of Shareholders.

In thousands of PLN

Reserve capital is created from profit after tax allocations in the amount adopted by the General Meeting of Shareholders. The decision on reserve capital use is taken by the General Meeting of Shareholders.

41. Revaluation reserve

Revaluation reserve on 31.12.2019	Total gross	Deferred tax adjustment	Total net
Opening balance, of which:	**1 258 486**	**(239 113)**	**1 019 373**
Debt securities measured at fair value through other comprehensive income	683 633	(129 890)	553 743
Equity securities measured at fair value through other comprehensive income	640 721	(121 738)	518 983
Valuation of cash flow hedging instruments	(79 247)	15 057	(64 190)
Actuarial gains on retirement allowances	13 379	(2 542)	10 837
Change in valuation of debt securities measured at fair value through other comprehensive income	360 712	(68 535)	292 177
Transfer from revaluation reserve to profit and loss resulting from the sale of debt securities measured at fair value through other comprehensive income	(124 673)	23 688	(100 985)
Transfer from revaluation reserve to profit and loss due to fair value measurement of securities covered by hedge accounting	(23 939)	4 548	(19 391)
Change in valuation of equity securities measured at fair value through other comprehensive income	69 418	(18 117)	51 301
Transfer from revaluation reserve to retained earnings profit on sale of equity securities	36 984	(2 099)	34 885
Change in valuation of cash flow hedging instruments	32 367	(6 149)	26 218
Transfer from revaluation reserve to profit and loss resulting from cash flow hedges	16 724	(3 178)	13 546
Change in valuation of defined benefit plans	(1 312)	249	(1 063)
Closing balance, of which:	**1 624 767**	**(308 706)**	**1 316 061**
Debt securities measured at fair value through other comprehensive income	895 733	(170 189)	725 544
Equity securities measured at fair value through other comprehensive income	747 123	(141 954)	605 169
Valuation of cash flow hedging instruments	(30 156)	5 730	(24 426)
Actuarial gains on retirement allowances	12 067	(2 293)	9 774

In thousands of PLN

Revaluation reserve on 31.12.2018	Total gross	Deferred tax adjustment	Total net
Opening balance, of which:	**882 058**	**(167 592)**	**714 466**
Debt securities measured at fair value through other comprehensive income	302 597	(57 493)	245 104
Equity securities measured at fair value through other comprehensive income	688 273	(130 774)	557 499
Valuation of cash flow hedging instruments	(109 351)	20 777	(88 574)
Actuarial gains on retirement allowances	539	(102)	437
Impact of the implementation of IFRS 9, of which:	**(54 380)**	**10 333**	**(44 047)**
Equity securities measured at fair value through other comprehensive income	(54 380)	10 333	(44 047)
Change in valuation of debt securities measured at fair value through other comprehensive income	419 193	(79 647)	339 546
Transfer from revaluation reserve to profit and loss resulting from the sale of debt securities measured at fair value through other comprehensive income	(26 412)	5 018	(21 394)
Transfer from revaluation reserve to profit and loss due to fair value measurement of securities covered by hedge accounting	(11 745)	2 232	(9 513)
Change in valuation of equity securities measured at fair value through other comprehensive income	6 686	(1 285)	5 401
Transfer from revaluation reserve to retained earnings profit on sale of equity securities	142	(12)	130
Change in valuation of cash flow hedging instruments	(14 294)	2 716	(11 578)
Transfer from revaluation reserve to profit and loss resulting from cash flow hedges	44 398	(8 436)	35 962
Change in valuation of defined benefit plans	12 840	(2 440)	10 400
Closing balance, of which:	**1 258 486**	**(239 113)**	**1 019 373**
Debt securities measured at fair value through other comprehensive income	683 633	(129 890)	553 743
Equity securities measured at fair value through other comprehensive income	640 721	(121 738)	518 983
Valuation of cash flow hedging instruments	(79 247)	15 057	(64 190)
Actuarial gains on retirement allowances	13 379	(2 542)	10 837

In thousands of PLN

42. Non - controlling interests

Name of the subsidiary	Country of incorporation and place of business	Percentage share of non-controlling interests in share capital / voting rights		Net profit for the period attributable to non-controlling interests		Accumulated non-controlling interests	
		31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	Poland Poznań	50,00	50,00	86 556	94 960	95 812	104 216
Santander Consumer Bank S.A.	Poland Wrocław	40,00	40,00	219 205	238 831	1 451 711	1 459 968
Total				**305 761**	**333 791**	**1 547 523**	**1 564 184**

The table below presents condensed financial information regarding each subsidiaries which have a significant non-controlling interests to the Group:

	Santander Towarzystwo Funduszy Inwestycyjnych SA		Santander Consumer Bank Group	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Loans and advances to banks	201 243	225 383	254 211	288 521
Loans and advances to customers	-	-	23 767 394	20 229 720
Investments in subsidiaries	-	-	156 175	159 775
Investment securities	1 375	1 770	1 711 765	1 450 357
Assets pledged as collateral	-	-	1 058 821	1 334 594
Net deferred tax assets	3 303	2 457	681 200	652 373
Other items	42 703	31 308	709 032	551 250
Total assets	**248 624**	**260 918**	**28 338 598**	**24 666 590**
Deposits from banks	-	-	4 531 852	2 789 461
Deposits from customers	-	-	13 441 439	11 556 090
Sell-buy-back transactions	-	-	960 089	1 106 793
Debt securities in issue	-	-	3 919 366	4 217 575
Other items	57 001	52 485	1 896 152	1 376 693
Total liabilities	**57 001**	**52 485**	**24 748 898**	**21 046 612**
Income	288 666	314 123	2 489 297	2 324 609
Profit (loss) for the period	173 111	189 921	536 403	584 687
Dividends paid to Santander Bank Polska SA	94 960	33 251	223 427	173 251
Total comprehensive income for the period *	173 111	189 921	502 983	560 259
Total net cash flows: *	33 701	6 114	65 601	(32 048)
- from operating activities	168 260	217 797	916 990	150 794
- from investing activities	57 208	(144 855)	(30 293)	(210 713)
- from financing activities	(191 767)	(66 828)	(821 096)	27 871

*related to Santander Consumer Bank S.A.

In thousands of PLN

43. Hedge accounting

Santander Bank Polska Group uses hedging strategies within hedge accounting in line with the risk management principles set out in note 4 to the consolidated financial statements.

Fair value hedges

Santander Bank Polska Group uses fair value hedge accounting in relation to the following classes of financial instruments:

- Debt securities with a fixed interest rate in PLN and EUR;
- Loans with a fixed interest rate granted by the Bank in PLN;
- Loans with a fixed interest rate in EUR taken out by Santander Leasing SA.

To hedge the fair value, Santander Bank Polska SA uses Interest Rate Swaps (IRS), for which the Bank pays a fixed interest rate and receives a variable interest rate. The hedged risk is the change in the fair value of an instrument or a portfolio resulting from changes in market interest rates. The transactions do not hedge against fair value changes relating to credit risk.

Hedging items are measured at fair value. Hedged items are measured at amortised cost taking into account fair value adjustments on account of the risk being hedged.

Since January 2016, Santander Bank Polska SA has used portfolio-based hedge accounting for the fair value of interest rate risk with respect to the portfolio of fixed interest rate loans in PLN. The fair value hedges are IRS for which the bank pays a fixed rate and receives a variable rate. The purpose of the hedge is to eliminate the risk of changes in the fair value of the fixed interest rate loans portfolio resulting from movements in market interest rates. Credit margin is excluded from the hedging relationship.

Details of the hedging transactions of Santander Bank Polska SA as at 31.12.2019 and in the comparative period are presented in the tables below:

	Distribution of nominal values of cash flows					
Nominal value of hedging instruments	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
31.12.2019						
Assets representing derivative hedging instruments	25 000	249 775	2 406 495	5 316 035	5 754 728	13 752 033
IRS	25 000	-	1 300 000	2 588 000	1 957 000	5 870 000
CIRS	-	-	-	-	468 435	468 435
CCIRS	-	249 775	1 106 495	2 728 035	3 329 293	7 413 598
Liabilities arising from derivative hedging instruments	25 000	255 510	2 428 938	5 668 532	6 098 785	14 476 765
IRS	25 000	-	1 300 000	2 588 000	1 957 000	5 870 000
CIRS	-	-	-	-	468 435	468 435
CCIRS	-	255 510	1 128 938	3 080 532	3 673 350	8 138 330
31.12.2018						
Assets representing derivative hedging instruments	534 000	105 625	893 115	7 258 755	3 660 843	12 452 338
IRS	-	-	200 000	3 413 000	50 000	3 663 000
CIRS	-	-	-	-	43 000	43 000
CCIRS	534 000	105 625	693 115	3 845 755	3 567 843	8 746 338
Liabilities arising from derivative hedging instruments	537 500	107 500	916 245	7 546 114	3 953 865	13 061 224
IRS	-	-	200 000	3 413 000	50 000	3 663 000
CIRS	-	-	-	-	43 000	43 000
CCIRS	537 500	107 500	716 245	4 133 114	3 860 865	9 355 224

In thousands of PLN

Pricing parameters for hedging instruments	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years
31.12.2019					
Assets representing derivative hedging instruments					
Average fixed interest rate	4,8000	1,8100	2,0019	1,7896	1,6222
Average exchange rate (CHF/PLN)	3,9213	3,9213	3,9213	3,9213	3,9213
Average exchange rate (EUR/PLN)	4,2585	4,2585	4,2585	4,2585	4,2585
Liabilities arising from derivative hedging instruments					
Average fixed interest rate	1,7200	(0,4047)	1,2093	2,9376	0,9483
Average exchange rate (CHF/PLN)	3,9213	3,9213	3,9213	3,9213	3,9213
Average exchange rate (EUR/PLN)	4,2585	4,2585	4,2585	4,2585	4,2585
31.12.2018					
Assets representing derivative hedging instruments					
Average fixed interest rate	1,4650	1,3900	3,5107	1,8957	1,7278
Average exchange rate (CHF/PLN)	3,8166	3,8166	3,8166	3,8166	3,8166
Average exchange rate (EUR/PLN)	4,3000	4,3000	4,3000	4,3000	4,3000
Liabilities arising from derivative hedging instruments					
Average fixed interest rate	(0,3173)	(0,3180)	0,9013	2,4170	(0,4621)
Average exchange rate (CHF/PLN)	3,8166	3,8166	3,8166	3,8166	3,8166
Average exchange rate (EUR/PLN)	4,3000	4,3000	4,3000	4,3000	4,3000

Hedging instruments designated as fair value hedges	31.12.2019		31.12.2018	
	Hedged item: Fixed-coupon bonds	Hedged item: Fixed-rate loan portfolio	Hedged item: Fixed-coupon bonds	Hedged item: Fixed-rate loan portfolio
Nominal value of hedging instrument	4 688 435	275 000	1 856 000	275 000
Fair value measurement of a hedging instrument due to hedged risk including:	(123 737)	(1 171)	(115 874)	(1 359)
Receivables arising from hedging instruments	*2 789*	*70*	-	*296*
Liabilities arising from hedging instruments	*126 526*	*1 241*	*115 874*	*1 655*
Line item in the statement of financial position that includes the hedging instrument	Hedging derivatives (IRS)	Hedging derivatives (IRS)	Hedging derivatives (IRS and OIS)	Hedging derivatives (IRS and OIS)
Hedged risk	Interest rate risk	Interest rate risk	Interest rate risk	Interest rate risk
Period over which instruments have impact on the Bank's results	up to 2029	up to 2021	up to 2025	up to 2021

Items subject to fair value hedge accounting	31.12.2019 Fixed-coupon bonds	31.12.2019 Fixed-rate loan portfolio	31.12.2018 Fixed-coupon bonds	31.12.2018 Fixed-rate loan portfolio
Carrying amount of the hedged item, including:				
Assets	*4 688 435*	*275 000*	*1 856 000*	*275 000*
Liabilities	-	-	-	-
Accumulated amount of fair value hedge adjustments on the hedged item included in the statement of comprehensive income and in the carrying amount, including:				
Assets	*142 689*	*1 324*	*118 750*	*1 336*
Liabilities	-	-	-	-
Line item in the statement of financial position that includes the hedged instrument	Investment securities	Loans and advances to customers	Investment securities	Loans and advances to customers

As at 31.12.2019, Santander Leasing SA had three derivative instruments - IRS (Interest Rate Swap), designated to hedge accounting of fair value, which hedges the company against the interest rate.

Details of this transactions as at 31.12.2019 and at comparative period are presented in tables below:

Nominal value of hedging instruments	Distribution of nominal values of cash flows: up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
31.12.2019						
Assets representing derivative hedging instruments	-	94 501	147 669	261 620	-	503 790
IRS	-	94 501	147 669	261 620	-	503 790
Liabilities arising from derivative hedging instruments	-	94 501	147 669	261 620	-	503 790
IRS	-	94 501	147 669	261 620	-	503 790
31.12.2018						
Assets representing derivative hedging instruments	-	95 422	149 172	508 699	-	753 293
IRS	-	95 422	149 172	508 699	-	753 293
Liabilities arising from derivative hedging instruments	-	95 422	149 172	508 699	-	753 293
IRS	-	95 422	149 172	508 699	-	753 293

Pricing parameters for hedging instruments	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years
31.12.2019					
Assets representing derivative hedging instruments					
Average fixed interest rate	(0,2610)	(0,2710)	(0,2540)	(0,2410)	-
Average exchange rate (CHF/PLN)	4,2585	4,2585	4,2585	4,2585	-
Liabilities arising from derivative hedging instruments					
Average variable interest rate	(0,4589)	(0,4589)	(0,4589)	(0,4589)	-
Average exchange rate (CHF/PLN)	4,2585	4,2585	4,2585	4,2585	-
31.12.2018					
Assets representing derivative hedging instruments					
Average fixed interest rate	(0,2672)	(0,2674)	(0,2653)	(0,2521)	-
Average exchange rate (EUR/PLN)	4,3000	4,3000	4,3000	4,3000	-
Liabilities arising from derivative hedging instruments					
Average variable interest rate	(0,3684)	(0,3684)	(0,3684)	(0,3684)	-
Average exchange rate (EUR/PLN)	4,3000	4,3000	4,3000	4,3000	-

In thousands of PLN

Hedging instruments designated as fair value hedges	31.12.2019	31.12.2018
	Hedged item: Received fixed-rate loans	
Nominal value of hedging instrument	503 790	753 293
Fair value measurement of a hedging instrument due to hedged risk including:	-	(153)
Receivables arising from hedging instruments	-	*28*
Liabilities arising from hedging instruments	-	*181*
Line item in the statement of financial position that includes the hedging instrument	Hedging derivatives (IRS)	Hedging derivatives (IRS)
Hedged risk	Interest rate risk	Interest rate risk
Period over which instruments have impact on the Santander Leasing results	up to 2022	up to 2022

Items subject to fair value hedge accounting	31.12.2019	31.12.2018
	Received fixed-rate loans	
Carrying amount of the hedged item, including:		
Assets	-	-
Liabilities	*503 790*	*753 293*
Accumulated amount of fair value hedge adjustments on the hedged item included in the statement of comprehensive income and in the carrying amount, including:		
Assets	-	-
Liabilities	*1 181*	*3*
Line item in the statement of financial position that includes the hedged instrument	Deposits from banks	Deposits from banks

Cash flow hedging

Santander Bank Polska Group uses hedge accounting for its future cash flows with respect to commercial and mortgage credit portfolios based on a variable interest rate, in PLN and denominated in EUR and CHF with maximum maturity of 36 years.

The hedging strategies used by Santander Bank Polska Group are designed to protect the Group's exposures against the risk of changes in the value of future cash flows resulting from interest rate risk or – in the case of credit portfolios denominated in foreign currency – also from currency fluctuations.

Hedging relationships are created using Interest Rate Swaps (IRS) and dual Currency Interest Rate Swaps (CIRS). In order to measure hedge effectiveness the Bank uses the hypothetical derivative approach whereby the hedged credit portfolio is reflected by a derivative transaction with specific characteristics.

Hedged items are measured at amortised cost, while hedging items are measured at fair value. Subject to fulfilment of the criteria for effectiveness of hedging relationships, changes in the fair value of hedging instruments are recognised in equity.

In thousands of PLN

Details of this transactions of Santander Bank Polska SA as at 31.12.2019 and at comparative period are presented in tables below:

	31.12.2019		31.12.2018	
Hedging instruments designed as cash flow hedges / hedges of a net investment in a foreign operation	**Hedged item: Portfolio of floating interest rate loans in PLN**	**Hedged item: Portfolio of floating interest rate loans denominated in EUR and CHF**	**Hedged item: Portfolio of floating interest rate loans in PLN**	**Hedged item: Portfolio of floating interest rate loans denominated in EUR, USD and CHF**
Nominal value of hedging instrument	1 375 000	8 138 330	1 575 000	9 355 224
Fair value measurement of a hedging instrument, due to hedged risk including:	(6 347)	(39 531)	(8 364)	(91 566)
Receivables arising from hedging instruments	*25 844*	*(40 930)*	*38 202*	*(113 364)*
Liabilities arising from hedging instruments	*32 191*	*(1 399)*	*46 566*	*(21 798)*
Line item in the statement of financial position that includes the hedging instrument	Hedging derivatives (IRS, CIRS)	Hedging derivatives (IRS, CIRS)	Hedging derivatives (IRS, CIRS)	Hedging derivatives (IRS, CIRS)
Change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period	(6 347)	(27 737)	(8 364)	(71 527)
Balance of hedging gains or losses of the reporting period that were recognised in other comprehensive income	(6 347)	(39 530)	(8 364)	(91 566)
Value of hedge ineffectiveness recognised in profit or loss	-	11 793	-	20 039
Line item in the income statement that includes the recognised hedge ineffectiveness	Net trading income and revaluation	Net trading income and revaluation	Net trading income and revaluation	Net trading income and revaluation
Hedged risk	Interest rate risk	Interest rate risk and currency risk	Interest rate risk	Interest rate risk and currency risk
Period over which instruments have impact on the Bank's results	up to 2027	up to 2028	up to 2027	up to 2028

	31.12.2019		31.12.2018	
Items subject to cash flow hedge accounting	**Portfolio of floating interest rate loans in PLN**	**Portfolio of floating interest rate loans denominated in EUR and CHF**	**Portfolio of floating interest rate loans in PLN**	**Portfolio of floating interest rate loans denominated in EUR, USD and CHF**
Change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period	(6 347)	(39 530)	(8 364)	(91 566)

In thousands of PLN

Details of this transactions of Santander Consumer Bank SA as at 31.12.2019 and at comparative period are presented in tables below:

Nominal value of hedging instruments	Distribution of nominal values of cash flows					
	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
31.12.2019						
Assets representing derivative hedging instruments	-	-	237 300	726 015	-	963 315
CIRS	-	-	237 300	726 015	-	963 315
Liabilities arising from derivative hedging instruments	-	-	235 278	745 047	-	980 325
CIRS	-	-	235 278	745 047	-	980 325
31.12.2018						
Assets representing derivative hedging instruments	-	-	154 400	963 315	-	1 117 715
CIRS	-	-	154 400	963 315	-	1 117 715
Liabilities arising from derivative hedging instruments	-	-	152 664	954 150	-	1 106 814
CIRS	-	-	152 664	954 150	-	1 106 814

Pricing parameters for hedging instruments	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years
31.12.2019					
Assets representing derivative hedging instruments					
Average fixed interest rate	-	-	1,8100	1,9557	-
Average exchange rate (CHF/PLN)	3,9213	-	-	-	-
Liabilities arising from derivative hedging instruments					
Average fixed interest rate	-	-	(0,7092)	(0,7356)	-
Average exchange rate (CHF/PLN)	3,9213	-	-	-	-
31.12.2018					
Assets representing derivative hedging instruments					
Average fixed interest rate	-	-	1,9600	1,9293	-
Average exchange rate (CHF/PLN)	3,8166	-	-	-	-
Liabilities arising from derivative hedging instruments					
Average fixed interest rate	-	-	(0,7392)	(0,7421)	-
Average exchange rate (CHF/PLN)	3,8166	-	-	-	-

In thousands of PLN

Hedging instruments designed as cash flow hedges / hedges of a net investment in a foreign operation	31.12.2019	31.12.2018
	Hedged item: Portfolio of loans denominated in CHF	
Nominal value of hedging instrument	980 325	1 106 814
Fair value measurement of a hedging instrument, due to hedged risk including:	(17 010)	10 901
Receivables arising from hedging instruments	*963 315*	*1 117 715*
Liabilities arising from hedging instruments	*980 325*	*1 106 814*
Line item in the statement of financial position that includes the hedging instrument	Hedging derivatives (CIRS)	Hedging derivatives (CIRS)
Change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period	(17 010)	10 901
Balance of hedging gains or losses of the reporting period that were recognised in other comprehensive income	(17 010)	10 901
Value of hedge ineffectiveness recognised in profit or loss	-	-
Line item in the income statement that includes the recognised hedge ineffectiveness	Net trading income and revaluation	Net trading income and revaluation
Hedged risk	Currency risk	Currency risk
Period over which instruments have impact on the Bank's results	up to 2024	up to 2024

Items subject to cash flow hedge accounting	31.12.2019	31.12.2018
	Hedged item: Portfolio of loans denominated in CHF	
Change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period	(17 010)	10 901

Measurement to fair value of the hedging instrument, less deferred tax, is recognised in comprehensive income and accumulated in the Group's equity during the period and are presented in note 41.

Impact of the IBOR reform

With reference to the amendments to IAS 39 and IFRS 9 published on 16.01.2020 (described in Note 2.3 Accounting Policy), the Group used the option of early application of the IBOR reform in 2019 and did not verify effectiveness of hedging relationships.

Santander Bank Polska Group uses hedge accounting that may be affected by the IBOR reform. The hedged items include:

- fixed-rate debt securities in PLN and EUR;
- fixed-rate cash loans in PLN;
- variable-rate consumer and mortgage loans in PLN, EUR and CHF.

As at 31.12.2019, there were 200 hedging relationships at Santander Bank Polska S.A. The above-mentioned portfolios are hedged with IRS transactions (PLN and EUR exposures: 142 relationships connected with 142 IRS transactions) and CIRS transactions (EUR and CHF exposures: 58 relationships connected with 45 CIRS transactions). The interest rate of the foregoing derivatives is based on the following variable rates: 3M or 6M WIBOR (181 derivative transactions), 3M or 6M EURIBOR (24 derivative transactions) and 3M CHF LIBOR (27 derivative transactions). The relationships are set to expire by 2029: 38 relationships in 2020, 101 relationships over the next 5 years and 61 relationships by 2029 (3 relationships in the last year).

The subsidiaries of Santander Bank Polska S.A. also use hedge accounting that may be affected by the IBOR reform. In the case of Santander Leasing S.A., there were three such relationships as at the end of 2019. The hedged items are fixed-rate EUR loans. The hedging instruments include three IRS transactions which are based on variable 1M EURIBOR (interest paid by Santander Leasing S.A.) and a fixed rate (interest received by Santander Leasing S.A.). Two relationships will expire by the end of 2021 and one – by August 2022.

In thousands of PLN

In the case of Santander Consumer Bank S.A., there are five such relationships. The hedged items include CHF loans and PLN deposits. The hedging instruments are five CIRS transactions which are based on variable 3M CHF LIBOR (interest paid by the bank) and variable 3M WIBOR (interest received by the bank).

The hedging relationships will expire as follows: one in 2020 and 2021, respectively, two in 2022 and one in January 2024.

44. Sell-buy-back and buy-sell-back transaction

Santander Bank Polska Group raises funds by selling financial instruments under agreements to repurchase these instruments at future dates at a predetermined price.

Repo and sell-buy back transactions may cover securities from the Group's balance sheet portfolio.

	31.12.2019 Balance sheet value	31.12.2018 Balance sheet value before adjustment	adjustment	31.12.2018* Balance sheet value after adjustment
Liabilities valued at amortised cost (contains sell-buy-back)	990 863	9 340 788	555 755	9 896 543
Fair value of securities held as collateral for sell-buy-back/repo transactions	1 089 558	9 586 991	556 286	10 143 277
Buy-sell-back transactions	1 851 171	177 482	9 012 281	9 189 763
Fair value of securities held for buy-sell-back/reverse repo transactions	1 847 061	175 818	9 010 982	9 186 800

Buy-sell-back transactions	31.12.2019	31.12.2018 before adjustment	adjustment	31.12.2018* after adjustment
Buy-sell-back transactions from banks	1 585 840	177 482	1 410 220	1 587 702
Buy-sell-back transactions from customers	265 331	-	7 602 061	7 602 061
Total	**1 851 171**	**177 482**	**9 012 281**	**9 189 763**

Sell-buy-back transactions	31.12.2019	31.12.2018 before adjustment	adjustment	31.12.2018* after adjustment
Sell-buy-back transactions from banks	990 863	1 070 003	470 416	1 540 419
Sell-buy-back transactions from customers	-	8 270 785	85 339	8 356 124
Total	**990 863**	**9 340 788**	**555 755**	**9 896 543**

*restated, details in Note 2.4

Securities being the subject of repo and sell-buy-back transactions constituting the Group's portfolio are not removed from the balance sheet, because the Group retains all rewards (i.e. interest income on pledged securities) and risks (interest rate risk and the issuer's credit risk) attaching to these assets.

All of the above-mentioned risks and costs related to the holding of the underlying debt securities in the sell-buy-back transactions remain with the Group, as well as power to dispose them.

The Group also acquires reverse repo and buy-sell-back transactions financial instruments at the same price increased by the pre-determined amount of interest.

Financial instruments covered by reverse repo and buy-sell-back transactions are not recognised in the balance sheet, because the Group does not retain any rewards or risks attaching to these assets.

Financial assets which are subject to reverse repo and buy-sell-back transactions represent a security cover accepted by the Group which the Group may sell or pledge.

In thousands of PLN

Financial instruments held as security for (reverse repo) repurchase agreements may be sold or repledged under standard agreements, under the obligation to return these to the counterparty on maturity date of the transaction.

45. Fair value

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

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

	31.12.2019		31.12.2018	
ASSETS	**Book Value**	**Fair value**	**Book Value**	**Fair value**
Cash and balances with central banks	7 973 014	7 973 014	8 907 552	8 907 552
Loans and advances to banks	3 716 582	3 716 582	2 936 214	2 936 214
Loans and advances to customers measured at amortised cost	141 282 371	141 958 073	135 643 297	136 414 638
-individuals	26 504 723	26 872 080	22 580 219	22 889 153
-housing loans	50 553 671	50 637 891	48 595 936	48 938 880
-business	64 223 977	64 448 102	64 467 142	64 586 605
LIABILITIES				
Deposits from banks	5 031 744	5 031 744	2 832 928	2 832 928
Deposits from customers	156 480 343	156 520 781	149 616 658	149 607 250
Subordinated liabilities	2 630 271	2 619 205	2 644 341	2 653 397

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

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

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

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

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

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

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

In thousands of PLN

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

As at 31.12.2019 and in the comparable periods the Group made the following classification of its financial instruments measured at fair value in the statement of financial position:

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

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

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

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

Valuation of major capital investments classified to Level III:

a) AVIVA Towarzystwo Ubezpieczeń na Życie SA (AVIVA TUŻ),

b) AVIVA Powszechne Towarzystwo Emerytalne SA (AVIVA PTE),

c) AVIVA Towarzystwo Ubezpieczeń Ogólnych SA (AVIVA TUO).

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

Sensitivity analysis of the fair value of major capital investments

The analysis has been carried out for 5 major capital investments (3 Aviva companies, BIK and PSP) measured at fair value which book values as at the end of 2019 amounted to PLN 838 k. The table below shows the percentage movement in the total value of the package of five companies in our portfolio if:

- the dividend flow is changed by +/- 5% and +/- 10%
- the risk-free rate (1.1%) (discount) is changed by +/- 1, +/- 2 p.p.

	-10%	-5%	0%	5%	10%	***Dividend***
2 p.p.	-21%	-19%	-17%	-15%	-14%	
1 p.p.	-14%	-12%	-10%	-8%	-6%	
0	-5%	-2%	0%	2%	5%	
-1 p.p.	7%	10%	13%	16%	19%	
-2 p.p.	25%	29%	32%	36%	40%	
Risk free						

Sensitivity analysis of the fair value of the credit cards portfolio

The analysis covered the population of credit cards measured at fair value as at the end of 2019 and in the comparable period for interest rate changes.

	Fair value in respective scenarios				
in PLN m	**baseline**	**1 p.p. decrease in interest rates**	**2 p.p. decrease in interest rates**	**1 p.p. increase in interest rates**	**2 p.p. increase in interest rates**
31.12.2019	1 142,8	1 142,2	1 140,7	1 140,8	1 138,8
31.12.2018	1 344,0	1 344,5	1 344,3	1 341,9	1 339,8

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

Level 3: Other valuation techniques.

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

<table>
<tr><th>LEVEL 3</th><th>VALUATION METHOD</th><th>UNOBSERVABLE INPUT</th></tr>
<tr><td>LOANS AND ADVANCES TO CUSTOMERS</td><td>Discounted cash flow method</td><td>Effective margin on loans</td></tr>
<tr><td>C-SERIES PREFERENCE SHARES OF VISA INC.</td><td>Estimating the fair value based on the current market value of the listed ordinary shares of Visa Inc., including a discount which takes into account the limited liquidity of C-series shares and the terms and conditions of the conversion of C-series shares into ordinary shares.</td><td>Discount taking into account the limited liquidity of C-series shares and the terms of converting the C-series shares into ordinary shares.</td></tr>
<tr><td>SHARES IN BIURO INFORMACJI KREDYTOWEJ SA</td><td>Estimation of the fair value based on the present value of the forecast results of the company</td><td>Forecast results of the company</td></tr>
<tr><td>SHARES IN POLSKI STANDARD PŁATNOŚCI SP. Z O.O.</td><td>Estimation of the fair value based on the present value of the forecast results of the company</td><td>Forecast results of the company</td></tr>
<tr><td>SHARES IN SOCIETY FOR WORLDWIDE INTERBANK FINANCIAL TELECOMMUNICATION</td><td>Estimation of the fair value based on the net assets value of the company and average FX</td><td>Net asset value of the Company</td></tr>
<tr><td>SHARES IN KRAJOWA IZBA ROZLICZENIOWA SA</td><td>Estimation of the fair value based on the present value of the forecast results of the company</td><td>Forecast results of the company</td></tr>
<tr><td>SHARES IN WAŁBRZYSKA SPECJALNA STREFA EKONOMICZNA „INVEST-PARK” SP Z O.O.</td><td rowspan="4">Estimation of the fair value based on the present value of the forecast results of the company</td><td>Net asset value of the Company</td></tr>
<tr><td>SHARES IN AVIVA POWSZECHNE TOWARZYSTWO EMERYTALNE AVIVA SANTANDER SA</td><td>Forecast results of the company + discount</td></tr>
<tr><td>AVIVA TOWARZYSTWO UBEZPIECZEŃ NA ŻYCIE SA</td><td>Forecast results of the company</td></tr>
<tr><td>AVIVA TOWARZYSTWO UBEZPIECZEŃ OGÓLNYCH SA</td><td>Forecast results of the company</td></tr>
<tr><td>LEGNICKA SPECJALNA STREFA EKONOMICZNA SA</td><td rowspan="4">Periodic valuation based on net asstes value; Estimation of the fair value based on the present value of the forecast results of the company</td><td rowspan="4">Net asset value and future results of the Company</td></tr>
<tr><td>POLSKI HOLDING OBRONNY SP. Z O.O. BUMAR</td></tr>
<tr><td>WARSZAWSKI ROLNO-SPOŻYWCZY RYNEK HURTOWY SA</td></tr>
<tr><td>AGROREG AGENCJA ROZWOJU REGIONALNEGO SA W NOWEJ RUDZIE</td></tr>
</table>

In thousands of PLN

As at 31.12.2019 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

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

31.12.2018	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	8 688 624	1 081 227	-	9 769 851
Hedging derivatives	-	73 221	-	73 221
Loans and advances to customers measured at fair value through other comprehensive income	-	-	366 751	366 751
Loans and advances to customers measured at fair value through profit and loss	-	90 300	1 360 030	1 450 330
Debt securities measured at fair value through other comprehensive income	36 859 187	-	27 270	36 886 457
Debt securities measured at fair value through profit and loss	-	-	136 511	136 511
Equity securities measured at fair value through other comprehensive income	16 720	-	804 818	821 538
Total	**45 564 531**	**1 244 748**	**2 695 380**	**49 504 659**
Financial liabilities				
Financial liabilities held for trading	423 377	1 058 024	-	1 481 401
Hedging derivatives	-	912 482	-	912 482
Total	**423 377**	**1 970 506**	**-**	**2 393 883**

In thousands of PLN

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

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

Level III	Financial assets					
31.12.2018	Financial assets held for trading	Loans and advances to customers measured at fair value through profit and loss	Loans and advances to customers measured at fair value through other comprehensive income	Debt securities measured at fair value through profit and loss	Debt securities measured at fair value through other comprehensive income	Equity securities measured at fair value through other comprehensive income
As at the beginning of the period	**447**	**-**	**-**	**-**	**32 532**	**901 551**
Impact of the implementation of IFRS 9	**-**	**1 530 800**	**-**	**93 165**	**-**	**(15 094)**
Profit or losses						
recognised in income statement	*(26)*	*33 539*	-	*12 573*	-	-
recognised in equity (OCI)	-	-	-	-	-	*41 393*
Purchase/ Granting	-	17 294	366 751	20 013	-	2 604
Sale	(421)	-	-	-	-	(316)
Matured	-	(169 229)	-	-	(5 262)	-
Transfer	-	(90 300)	-	1 770	-	(125 320)
Other	-	37 926	-	8 990	-	-
As at the end of the period	**-**	**1 360 030**	**366 751**	**136 511**	**27 270**	**804 818**

46. Contingent liabilities

Significant court proceedings

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

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

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

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

Court proceedings on CHF mortgage loans

As at 31.12.2019, the Group had PLN 9,891,184k worth of retail exposures in respect of mortgage loans denominated in, or indexed to, CHF.

So far, in the vast majority of cases brought against Santander Bank Polska S.A. courts have decided in favour of the bank: 17 final and binding rulings were handed down dismissing borrowers' claims; 8 judgments were issued against the bank and in 2 cases the courts decided that the bank should replace the foreign exchange clauses referring to the bank's exchange rate tables with an average NBP rate. In the case of Santander Consumer Bank S.A., in 11 lawsuits courts decided in favour of the bank and in 11 lawsuits – against it.

So far, there have been significant differences in courts' rulings on CHF loan cases:

– Courts deciding in favour of banks hold that indexation clauses are not unfair and dismiss the cases.

– Courts deciding strongly against banks generally rule that: (1) loan indexation and application of an exchange rate from the bank's exchange rates table is unfair and therefore invalid, and the loan concerned is treated as a PLN loan with an interest rate based on CHF LIBOR; or (2) the indexation and exchange rate calculation terms are unfair and render the loan agreement null and void.

– Some courts argue that loan indexation itself is lawful but application of an exchange rate based on the bank's FX table is unfair and should be eliminated. Accordingly, an objective indexation rate should be used, i.e. an average NBP exchange rate. This may result in particular claims being admitted, but only in an amount equal to the FX differences close to the currency spread.

The Supreme Court used to present a uniform stance as to the consequences of rendering the exchange rate calculation clause unfair: indexed loan agreements were lawful and the loan agreement at issue retained the features of an indexed loan agreement. However, in some recent cases, the Supreme Court ruled that the indexation clause was invalid and the agreement should be treated as an agreement on a PLN loan with an interest rate based on LIBOR. These rulings were an exception to the previous decisions made by the Supreme Court.

On 3.10.2019, the Court of Justice of the European Union (CJEU) ruled on the case of a loan granted by Raiffeisen Bank Polska S.A. regarding the consequences of potentially unfair terms in a CHF-indexed loan agreement. The CJEU found that if the indexation clause was held to be unfair and if after the removal of the indexing mechanism the nature of the main subject matter of the agreement was likely to alter, the national court might annul the agreement, having presented to the borrower the consequences of such a solution and having obtained their consent. At the same time, according to the CJEU, the national court might decide that the agreement should continue in existence after the indexing mechanism is removed (whereby the loan at issue would be treated as a PLN loan with an interest rate based on LIBOR); however, such a solution was deemed uncertain. The CJEU precluded the possibility to substitute unfair terms of the agreement with general provisions of the Polish law, but confirmed the possibility of replacing the gaps in the agreement with explicit supplementary provisions or other rules agreed by the parties.

The CJUE ruling does not resolve the doubts as to the consequences of potentially unfair terms in foreign currency loan agreements. It is difficult to assess the potential impact of the ruling on court judgments in cases regarding foreign currency loans. The established opinion of the Supreme Court may be of importance here.

The Group regularly monitors courts' rulings on loans indexed to, or denominated in, a foreign currency in terms of possible changes in courts' ruling practice.

The Group identified the risk that the scheduled cash flows from the portfolio of mortgage loans denominated in and indexed to foreign currencies might not be fully recoverable and/or that a liability might arise resulting in a future cash outflow. The Group raises provisions for legal claims and legal risk in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The amount of provisions was estimated taking into account a number of assumptions, which significantly influence the estimate reflected in the Group's financial statements.

As at 31.12.2019, there were 1,482 pending lawsuits against the Group over loans indexed to, or denominated in, a foreign currency (mainly CHF), with the disputed amount totalling PLN 295,446k. This included two class actions filed under the Act on pursuing claims through group proceedings:

- a class action against Santander Bank Polska S.A. in respect of 527 CHF-indexed loans, with the disputed amount of PLN 47,022k;
- a class action against Santander Consumer Bank S.A. in respect of 31 CHF-indexed loans, with the disputed amount of PLN 38k.

As at 31.12.2019 the Group raised provisions for legal claims related to the above lawsuits in the amount of PLN 67,643k.

Moreover, in 2019, the Group raised collective provisions for legal risk of PLN 173,077k due to the higher number of cases related to contractual clauses in agreements on loans indexed to and denominated in foreign currencies. The Bank and its subsidiary Santander Consumer Bank S.A. (SCB) raised provisions of PLN 149,000k and PLN 24,077k, respectively.

As at 31.12.2019, the balance of collective provisions for legal risk connected with contractual clauses related to mortgage loans indexed to and denominated in foreign currencies was PLN 192,964k, reflecting the above provisions raised and existing provisions reclassified.

The Group made assumptions as to the likelihood of claims being made by borrowers, determined on the basis of the existing court actions against the Group and the estimated growth in their number over three years from the balance sheet date, and taking into account the number of requested credit history statements. Due to the relatively short history of observations with regard to the claims received, and given the varying ruling practice, if the time horizon is extended this might cause an excessive variability in the estimate value and will preclude reliable estimation of the expected value. These assumptions are highly sensitive to a number of external factors, including but not limited to the ruing practice of Polish courts, the level of publicity around individual rulings, measures taken by the mediating law firms and the cost of proceedings.

The Group also estimated the probability of negative rulings in relation to existing and potential claims. This assumption is primarily based on assessment whether certain contractual clauses can be deemed abusive. The estimated probabilities differ significantly between indexed loans and denominated loans. Furthermore, the probabilities also vary between portfolios of the two banks within the Group. When assessing these probabilities banks used the support of external law firms.

The Group considered four scenarios of possible court rulings:

- Invalidating the loan agreement clauses identified as unfair, which causes the loan to be converted into PLN, with the interest rate based on CHF LIBOR being maintained;
- Invalidating the whole loan agreement as it contains unfair clauses;
- Invalidating the loan agreement clauses identified as unfair with respect to the FX differences determination mechanism, which causes the average NBP rate to be applied;
- Dismissing the claim.

The probabilities of these scenarios also vary depending on whether the loan is indexed or denominated, and are based on a relatively small and thus statistically unrepresentative sample of rulings, and were estimated with the support of external law firms independent from the bank. Each of these scenarios has a statistically estimated expected loss level based on the available historical data and current information on court rulings.

In the Group's opinion, the value of estimated provisions is also affected by the duration of court cases (also estimated based on a relatively short time horizon of available statistics, which does not meet the conditions for application of quantitative methods) and the growing costs related to the instigation and continuation of court proceedings.

Due to the high uncertainty around both individual assumptions and their total impact, the Group carried out the following sensitivity analysis of the estimated provision by estimating the impact of variability of individual parameters on the provision value.

The estimates are prepared in the form of a univariate analysis of provision value sensitivity. The following scenarios were considered:

- Extension of the calculation horizon from three years to five years;
- Doubling the likelihood of customer claims;
- 50% reduction of the likelihood of customer claims;
- Full recognition of reimbursement of the cost of capital;
- Deeming the clauses abusive in each contested case.

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

Taking into account the different scenarios outlined above, the provision estimated as at 31.12.2019 ranges from PLN 107m to PLN 346m. Due to the highly volatile external conditions which significantly affect the estimates, the Group is unable to make a reliable assessment of how the estimated provisions will vary in the next reporting period. The value of recognised provisions will be updated in subsequent periods and is subject to change.

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

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

However, the CJEU's ruling concerns the interpretation of the provisions of the Directive which are not directly binding and must be transposed by respective member states. Accordingly, key to resolution of disputes relating to reimbursement of arrangement fees on consumer loans is an in-depth interpretation of the national law, pointing to the relevant settlement method and the time horizon for the reimbursement.

On 12.12.2019, the Supreme Court issued a ruling in case III CZP 45/19, pointing out that the interpretation of Article 49 of the Consumer Credit Act suggests that the arrangement fee, as a part of the total credit cost, should be reimbursed in the event of early loan repayment. At the same time, the Supreme Court did not specify the link between the fee and the contractual period reduction or what portion of the fee is attributable to the period by which the contractual term was reduced.

When assessing the legal risk attached to the court cases in the context of Article 49 of the Consumer Credit Act, the Group raises provisions for legal claims and legal risk in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, taking into account interpretation differences. The Group monitors and analyses the rulings of Polish courts made in cases instigated under Article 49, and is awaiting full establishment of the local law interpretation practice.

As at 31.12.2019, Santander Bank Polska Group was sued in 130 cases concerning partial refund of an arrangement fee on consumer loans, including 42 cases against Santander Bank Polska S.A. and 88 cases against Santander Consumer Bank S.A. For these proceedings Santander Bank Polska Group raised provisions for legal claims in the total amount of PLN 433k, including provisions for legal claims of PLN 64k raised by Santander Bank Polska S.A. and provisions for legal claims of PLN 369k raised by Santander Consumer Bank S.A.

Moreover, based on the history of claims to date, the Group estimated the amount of fees to be reimbursed from December 2011 onwards, using a likelihood matrix corresponding to product types, repayment methods and the reimbursement amount.

In 2019, the Group charged financial result with PLN 193,933k in respect of the reimbursement obligation, which caused a corresponding reduction in net income of both the Bank and SCB Group (by PLN 54,744k and PLN 139,190k, respectively). The above amount includes: (a) the cost of provisions; (b) recognised reimbursement obligations; and (c) revised value of the portfolio of loans measured at amortised cost.

(a) The provision amount was estimated taking into account changes in the legal status following the ruling issued by the CJEU on 11.09.2019 in case C 383/18. The Group recognised a provision for potential customer claims in respect of a partial reimbursement of fees on consumer loans repaid ahead of the contractual maturity, before the date of the above ruling. These amounts were estimated based on the observed history of customer claims in the period between the CJEU ruling and December 2019.

(b) Where a loan had been repaid after the above CJEU ruling, the Group recognised a liability in respect of the calculated reimbursement amount in relation to all the borrowers who prepaid their loans by 31.12.2019.

The provisions and liabilities recognised by the Group totalled PLN 157,990k. These amounts were calculated proportionally, depending on the product type existing in each bank included in the consolidated financial statements. In case of SBP the reimbursement amount was calculated as the proportion of the sum of interest payments in the periods following the overpayment to the sum of all the interest payments in the original credit period. In case of SCB the reimbursement amount was calculated as a proportion of the sum of the outstanding loan amounts in the period following the overpayment to the sum of all the outstanding loan amounts in the original credit period, as a result of existence in this bank zero interest products.

In thousands of PLN

(c) Furthermore, due to changes in the expected cash flows relating to the existing loans, the Group revised the amortised external credit intermediation costs as part of measurement of the credit receivables at amortised cost using the effective interest rate. As a result of the revision, the Bank adjusted the balance sheet exposure in respect of credit receivables by PLN 24,744k and reduced the interest income by a corresponding amount. An adjustment of PLN 11,200k on this account was also reflected by SCB in its accounting recods

As at 31.12.2018 no proceedings were instituted by court or by state administration agencies with relation to liabilities or receivables made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 1,328,055 k, which is 4.98% of the Group's equity. This amount includes PLN 730,097 k claimed by the Group, PLN 550,808 k in claims against the Group and PLN 47,150 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 31.12.2018 the amount of significant court proceedings which had been completed amounted to PLN 565,324 k.

As at 31.12.2018, the value of provisions for legal claims was PLN 132,382 k. In 37 cases against Santander Bank Polska SA, where the claim value was high, a provisions of PLN 37,340 k was raised.

Santander Bank Polska SA raises provisions for legal risk where an internal risk assessment for a particular case indicates a possible outflow of cash. Provisions for cases disputed in court are presented in Note 37.

Off-balance sheet liabilities

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

	31.12.2019			
Contingent liabilities - sanctioned	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Liabilities sanctioned				
- financial	**33 003 043**	**436 630**	**66 938**	**33 506 611**
- credit lines	28 394 392	302 847	56 138	28 753 377
- credit cards debits	4 001 749	126 485	10 800	4 139 034
- import letters of credit	606 902	7 298	-	614 200
- term deposits with future commencement term	-	-	-	-
- guarantees	**6 529 154**	**149 680**	**32 781**	**6 711 615**
Provision for off-balance sheet liabilities	**(18 653)**	**(8 290)**	**(39 166)**	**(66 109)**
Total	**39 513 544**	**578 020**	**60 553**	**40 152 117**

	31.12.2018			
Contingent liabilities - sanctioned	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Liabilities sanctioned				
- financial	**27 932 101**	**461 631**	**83 414**	**28 477 146**
- credit lines	23 100 430	392 403	70 976	23 563 809
- credit cards debits	4 035 243	57 473	12 438	4 105 154
- import letters of credit	788 817	11 755	-	800 572
- term deposits with future commencement term	7 611	-	-	7 611
- guarantees	**5 438 168**	**141 102**	**27 530**	**5 606 800**
Provision for off-balance sheet liabilities	**(33 235)**	**(12 343)**	**(35 470)**	**(81 048)**
Total	**33 337 034**	**590 390**	**75 474**	**34 002 898**

In thousands of PLN

47. Assets and liabilities pledged as collateral

Assets pledged as collateral	31.12.2019	31.12.2018
Treasury bonds blocked for REPO transactions	1 089 558	1 708 744
Total	**1 089 558**	**1 708 744**

The Group holds financial instruments such as:

- debt securities measured at fair value through other comprehensive income (valued as per IFRS 9 which by 2017 were valued as those available for sales as per IAS 39) worth PLN 1,058,821 k (in 2018 PLN 1,334,594 k)

- financial assets held for trading of PLN 30,737 k (in 2018 PLN 374,150 k),

which represent collateral for liabilities under buy-sell-back transactions. The liabilities were presented in Note 44 Sell-buy-back and buy-sell-back transaction.

The SBB transactions are backed by debt securities deposited in the bank's account with the KDPW (Central Securities Depository of Poland). They total PLN 8,808,152k and are recognised as off-balance sheet items. The securities have been accepted by the bank as security for a loan granted by the bank as part of the BSB transactions and they have been used as security for a deposit accepted by the bank as part of the SBB transactions.

The BSB and SBB transactions recognised as at 31 December 2018 were settled on their maturity dates.

Apart from assets that secure liabilities that are disclosed separately in the statement of financial position when the receiving party may sell or exchange the assets for other security, the Group additionally held the following collateral for liabilities that did not meet the criterion:

	31.12.2019	31.12.2018
Treasury bonds blocked with BFG	684 697	658 739
Treasury bonds blocked for loans from banks	1 343 702	1 487 201
Deposits in financial institutions as collateralised valuation of transactions	1 481 932	1 265 897
Total	**3 510 331**	**3 411 837**

Assets securing funds to cover the BGF are debt securities.

In order to calculate the contribution to the deposit protection fund, Santander Bank Polska and Santander Consumer Bank applied 0.45% (0.50% in 2018) of funds deposited in all accounts with the bank, being the basis for calculating the obligatory reserve. As at 31.12. 2019, assets allocated to that end totalled PLN 684,697 k compared with PLN 658,739 k a year before.

In respect of financing granted in the form of bank loans, collateral is set through debt securities measured at fair value through other comprehensive income blocked in KDPW (Central Securities Depository of Poland) worth PLN 1,343,702 k (as at 31.12.2018 – PLN 1,487,201k).

In 2019, deposits opened with financial institutions to secure the value of transactions totalled PLN 1,481,932 k (in 2018 – PLN 1,265,897 k).

In 2019, the Group accepted PLN 154,070 k worth of deposits securing of derivative transactions (vs. PLN 200,887 k in 2018).

Other liabilities accepted as collateral are disclosed in Note 33.

In thousands of PLN

48. Information about leases

Lease related amounts recognized in the income statement	1.01.2019-31.12.2019
Amortisation of right of use asset incl.:	(202 951)
- Land and buildings	*(190 149)*
- IT equipment	*(939)*
- Transportation means	*(10 223)*
- Other	*(1 640)*
Interest expenses due to lease liabilities	(21 598)
Short-term lease costs	(13 570)
Low-value assets lease costs	(5 984)
Costs of variable lease payments not included in the measurement of the lease liabilities	(1 121)
Non-tax deductible VAT	(49 659)
Total	**(294 883)**

Lease agreements where the Group acts as a lessee

Movements in lease liabilities	31.12.2019
As at the beginning of the period	-
Lease liabilities classified as finance lease before initial application of IFRS 16	-
Impact of the implementation of IFRS 16	811 420
Additions from:	**173 873**
- adding a new contract	152 275
- interest on lease liabilities	21 598
Disposals from:	**(238 661)**
- payment due to lease liabilities	(189 283)
- interest repayment	(21 086)
- FX differences	(3 709)
- other changes (including update of lease term)	(24 583)
As at the end of the period	**746 632**

Lease liabilities - maturity	31.12.2019
less than 1 month	18 533
1 - 3 months	36 827
3 - 6 months	52 607
6 - 12 months	101 179
1 - 2 years	184 434
2 - 5 years	305 885
over 5 years	101 930
Total (without discount)	**801 395**
discount	(54 763)
Total	**746 632**

In 2018 (before initial application of IFRS 16) the total obligations under irrevocable operating lease agreements (including the value of perpetual usufruct of land) was as follows:

Lease payments - maturity	31.12.2018
less than 1 year	212 026
between 1 and 5 years	557 778
over 5 years	152 639
Total	**922 443**

In thousands of PLN

Lease agreements where the Group acts as a lessor

Santander Bank Polska Group conduct leasing activity through leasing companies which specialise in funding vehicles, means of transport for companies and individuals, as well as in the leasing of machinery, equipment and properties.

The items "Loans and advances to customers" and "Loans and advances to banks" contain the following amounts relating to the lease obligations:

Leases gross receivables - maturity	31.12.2019	31.12.2018
less than 1 year	3 716 543	3 217 790
1-2 years	2 861 039	2 559 296
2-3 years	1 818 195	1 690 617
3-4 years	958 511	823 052
4-5 years	366 216	352 307
over 5 years	139 544	101 820
Total	**9 860 048**	**8 744 882**

Present value of minimum lease payments - maturity	31.12.2019	31.12.2018
less than 1 year	3 591 412	3 110 691
1-2 years	2 699 816	2 411 268
2-3 years	1 683 610	1 566 090
3-4 years	863 085	743 868
4-5 years	319 327	304 752
over 5 years	109 719	75 693
Total	**9 266 969**	**8 212 362**

Reconciliation between the lease receivables and the present value of minimum lease payments	31.12.2019	31.12.2018
Lease gross receivables	9 860 048	8 744 882
Unearned finance income	(593 079)	(532 520)
Impairment of lease receivables	(125 940)	(118 861)
Present value of minimum lease payments, net	**9 141 029**	**8 093 501**

Operating leases

Future minimum lease fees due to irrecoverable operating lease	31.12.2019	31.12.2018
less than 1 year	9 789	11 025
1-2 years	6 469	5 285
2-3 years	2 921	3 427
3-4 years	95	217
4-5 years	-	-
over 5 years	-	-
Total	**19 274**	**19 954**

In thousands of PLN

49. Consolidated statement of cash flows- additional information

The table below contains information on cash and cash equivalents in the cash flows statement of Santander Bank Polska Group.

Cash and cash equivalents	31.12.2019	31.12.2018 *
Cash and balances with central banks	7 973 014	8 856 479
Receivables from interbank deposits[1)]	5 293 175	4 515 311
Debt securities measured at fair value through other comprehensive income[1)]	3 849 679	5 999 249
Debt securities held for trading[1)]	149 987	-
Cash and cash equivalents acquired in acquisition of demerged part of Deutsche Bank Polska SA and subordinated entities	-	51 488
Total	**17 265 855**	**19 422 527**
The impact of changes in currency exchange rates during the financial year on cash and cash equivalents	(8 739)	39 420

* restated, details in Note 2.4.
[1)] financial assets with initial maturity below three months

Santander Bank Polska SA and Santander Consumer Bank SA have restricted cash in the form of a mandatory reserve held on account with the Central Bank.

The table below shows expenses arising from acquisition of demarged part of Deutsche Bank Polska SA and subordinated entities:

Acquisition of organized part of Deutsche Bank Polska SA and subordinated entities net of cash acquired	09.11.2018
Price paid by cash for the acquisition of demerged part of Deutsche Bank Polska SA and subordinated entities	260 948
- including the acquisition of DB Securities SA	20 000
Cash and balances with central banks	(51 073)
Receivables from interbank deposits[1)]	(415)
Total	**209 460**

[1)] financial assets with initial maturity below three months

In thousands of PLN

50. Related parties

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

Transactions with associates	31.12.2019	31.12.2018
Assets	**69**	**85**
Other assets	69	85
Liabilities	**96 286**	**105 680**
Deposits from customers	96 157	105 519
Other liabilities	129	161
Income	**44 103**	**38 779**
Fee and commission income	44 103	38 779
Expenses	**3 724**	**5 532**
Interest expense	1 584	1 512
Fee and commission expense	1 564	2 406
Operating expenses incl.:	576	1 614
General and administrative expenses	*576*	*1 614*

In thousands of PLN

Transactions with Santander Group	with the parent company 31.12.2019	with the parent company 31.12.2018	with other entities 31.12.2019	with other entities 31.12.2018
Assets	**1 409 334**	**1 364 172**	**23 855**	**6 416**
Loans and advances to banks, incl:	740 278	955 508	16 794	6 398
Loans and advances	*545 774*	*583 784*	-	-
Current accounts	*194 504*	*371 724*	*16 794*	*6 398*
Financial assets held for trading	668 115	407 364	2	-
Hedging derivatives	-	1 085	-	-
Other assets	941	215	7 059	18
Liabilities	**2 126 708**	**784 526**	**136 108**	**127 328**
Deposits from banks incl.:	1 474 523	294 866	26 532	10 721
Current accounts	*381 234*	*294 866*	*26 532*	*10 721*
*Loans from other banks**	*1 093 289*	-	-	-
Hedging derivatives	-	8 634	-	-
Financial liabilities held for trading	628 143	477 638	-	-
Deposits from customers	-	-	69 511	100 130
Lease liabilities	-	-	1 027	-
Other liabilities	24 042	3 388	39 038	16 477
Income	**339 351**	**120 921**	**8 487**	**16 324**
Interest income	6 608	11 036	67	235
Fee and commission income	2 304	2 595	423	414
Other operating income	990	5	7 091	94
Net trading income and revaluation	329 449	107 285	906	15 581
Expenses	**57 990**	**34 882**	**91 178**	**44 622**
Interest expense	12 579	10 592	690	459
Fee and commission expense	9 968	3 412	131	148
Operating expenses incl.:	35 443	20 878	90 357	44 015
Staff,Operating expenses and management costs	*35 443*	*20 877*	*90 357*	*44 013*
Other operating expenses	-	*1*	-	*2*
Contingent liabilities	**-**	**-**	**3 063**	**-**
Sanctioned:	-	-	3 063	-
guarantees	-	-	*3 063*	-
Derivatives' nominal values	**119 147 051**	**84 303 789**	**12 035**	**-**
Cross-currency interest rate swap (CIRS) – purchased	4 925 732	4 116 460	-	-
Cross-currency interest rate swap (CIRS) – sold	4 808 659	4 012 672	-	-
Single-currency interest rate swap (IRS)	49 842 362	38 879 678	-	-
Forward rate agreement (FRA)	7 750 000	4 494 400	-	-
Options interest rate	8 048 758	6 543 672	-	-
FX swap – purchased amounts	13 407 740	7 211 538	-	-
FX swap – sold amounts	13 372 060	7 198 628	-	-
FX options -purchased CALL	3 747 781	2 535 591	-	-
FX options -purchased PUT	3 711 690	2 540 293	-	-
FX options -sold CALL	4 014 426	3 086 738	-	-
FX options -sold PUT	4 251 352	3 262 996	-	-
Spot-purchased	359 458	79 412	-	-
Spot-sold	359 447	79 374	-	-
Forward- purchased	234 303	100	12 035	-
Forward- sold	235 000	100	-	-
Capital derivatives contract - purchased	78 283	262 137	-	-

* Details about the Funded Risk Participation are presented in Note 22

In thousands of PLN

Transactions with Members of Management and Supervisory Boards

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

Loans and advances granted to the key management personnel

As at 31.12.2019 and 31.12.2018 members of the Management Board were bound by the non-compete agreements which remain in force after they step down from their function. If a Member of the Management Board is removed from their function or not appointed for another term, he/she is entitled to a once-off severance pay. The severance pay does not apply if the person accepts another function in the Bank.

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

Transactions with members of Management Board and Key Management Personnel	Management Board Members		Key Management Personnel	
	2019	2018	2019	2018
Fixed renumeration	12 096	12 573	46 781	45 666
Additional benefits (e.g among others, life insurance cover without pension option, medical cover, travel expenses and school fees)	950	1 066	847	1 107
The awards paid in 2019 and 2018 *	9 446	9 940	22 954	21 236
Equivalent paid for unused annual leave	310	146	217	136
Additional compensation for termination of the contract and the non-competition clause	-	1 105	924	208
Loans and advances made by the Bank to the Members of the Management Board/Key Management and to their relatives	9 316	10 103	26 493	25 188
Deposits from the Management Board/Key management and their relatives	16 516	13 714	29 500	26 169
Provisions for retirement benefits and provision for unused holidays	841	1 184	4 965	4 873
The number of conditional rights to shares	25 160	27 220	38 303	42 652

* included part of the award for 2018, 2017, 2016, 2015 and 2014 which was conditional and deferred in time

The category of key management personnel includes the persons covered by the principles outlined in the "Santander Bank Polska Group Remuneration Policy" and in the justified cases – by the principles separately specified in the companies.

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

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

In 2019, the total remuneration paid to the Supervisory Board Members of Santander Bank Polska totalled PLN 1,648 k (PLN 1,432 k in 2018). Mr John Power received additional remuneration for the supervision over acquisition of a carve-out business of Deutsche Bank Poland by Santander Bank Polska in the amount of PLN 1,721 k (PLN 853 k in 2018). Mr John Power received remuneration of PLN 44 k from subsidiary for his membership in their Supervisory Boards (PLN 37 k in 2018).

51. Acquisitions and disposals of investments in subsidiaries and associates

The sale of an organised part of the bank's enterprise

On 17 September 2019, Santander Bank Polska S.A. signed, among other things, an agreement creating a commitment to sell an organised part of the enterprise, namely the Investment Services Centre (OPE–ISC). The agreement contained the following conditions precedent: 1) to obtain consent of the Extraordinary General Meeting of Santander Bank Polska S.A. for the sale of the organised part of the Bank's enterprise; 2) to obtain consent of the Supervisory Board of Santander TFI S.A. for executing the transaction; 3) to obtain consent of the Buyer's Supervisory Board for executing the transaction; 4) to sign agreements with suppliers of OPE–ISC; 5) a) the Buyer and the parties to the acquired agreements of OPE–ISC to sign agreements on the assignment of rights and obligations arising from the acquired agreements of OPE–ISC to the Buyer; or b) the Buyer to sign new agreements with OPE–ISC suppliers of the same scope as existing agreements; 6) the Buyer and the Bank to sign sub-licence agreements for OPE–ISC.

In addition, on 17 September 2019 Santander Bank Polska S.A. and Santander TFI S.A. signed a number of agreements with the Buyer of OPE–ISC to define the terms and conditions of the cooperation following the sale of OPE (including a new transfer agent agreement and a new service agreement).

Pursuant to Article 393(3) of the Commercial Companies Code and § 24(1) of the Bank's Statutes, the Extraordinary General Meeting of Shareholders of Santander Bank Polska held on 23 September 2019 approved the sale of an organised part of the bank's enterprise, namely the Investment Services Centre, which is a separate organisational unit representing an organisationally, financially and functionally independent set of tangible and intangible assets. The Centre provides professional transfer agent services for Santander Towarzystwo Funduszy Inwestycyjnych and investment funds managed by that company.

On 27 September 2019, after the conditions precedent had been met, Santander Bank Polska S.A. signed an agreement on the transfer of OPE–ISC. This way, the sale of OPE was finalised. On the closure date, the Buyer paid to the Bank the agreed OPE–ISC sale price increased by the estimated net debt of OPE–ISC.

The transaction value will be adjusted for the actual net debt of OPE–ISC, in accordance with the review procedure provided for in the sale commitment agreement.

The actual net debt and the transaction amount were finally reviewed in December 2019.

Profit on the preliminary settlement of the sale of an organized part of enterprise is PLN 59,079 k.

Division of Santander Securities S.A.

On 26 July 2019, the Management Board of Santander Bank Polska S.A. issued a second notification to the shareholders regarding the proposed division of Santander Securities S.A. through a transfer of a part of the assets and liabilities of the company being divided to the Bank and to Santander Finanse sp. z o.o. On 23 September 2019, the Extraordinary General Meeting of Santander Bank Polska S.A. adopted a resolution on the division of Santander Securities S.A.

On 8 November 2019, the Management Board of Santander Bank Polska S.A. completed the division of Santander Securities S.A. through:

1. a transfer to the Bank of a part of the assets and liabilities and the rights and obligations of Santander Securities S.A. in the form of an organised part of the enterprise of Santander Securities S.A connected with the provision of brokerage services; and
2. a transfer to Santander Finanse sp. z o.o., with its registered office in Poznań, of a part of the assets and liabilities and the rights and obligations of Santander Securities S.A. in the form of an organised part of the enterprise of Santander Securities S.A. connected with the provision of training services.

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

Acquisition of an organized part of Deutsche Bank Polska S.A.

On 09.11.2018, the transaction of acquisition of a carve-out of Deutsche Bank SA took place and taking control over a related entity Deutsche Bank Securities by Santander Bank Polska SA.

Details are described in Note 52.

In thousands of PLN

Registration of Santander Leasing Poland Securitisation 01

On 30.08.2018, a subsidiary of Santander Leasing Poland Securitisation 01 Designated Company seated in Dublin was registered under Irish law. This is a special-purpose vehicle formed for the purpose of securitisation of the leasing and loans receivables. As the control criteria set out in IFRS 10.4 are met, the company is considered as an entity controlled by Santander Leasing SA.

Liquidation of Giełdokracja sp. z o.o.

On 05.03.2018 Giełdokracja sp. z o.o. was liquidated. Final settlement of the company's assets and liabilities was made, the loss on the liquidation of the company is PLN 65 k.

52. Acquisition of an organized part of the enterprise

The below information is an update on the disclosures contained in the Consolidated Financial Statements of Santander Bank Polska Group for 2018. The update is related to the final settlement of the acquisition of an organised part of the enterprise of Deutsche Bank Polska S.A. and DB Securities S.A.

Final purchase price

In accordance with the terms and conditions of the agreement signed on 14 December 2017 and taking into account the final post-transaction settlement, the parties set the acquisition price to PLN 1,235,055,290.20, which includes:

1. PLN 1,206,293,353 in respect of purchase of the demerged part of Deutsche Bank Polska S.A.;
2. PLN 28,761,937.20 in respect of purchase of DB Securities S.A.

The price for purchase of the demerged part of Deutsche Bank Polska S.A. was calculated based on the initial level of risk weighted assets multiplied by 13.875% and discounted by the agreed multiplier of 0.60x.

The fair value of the purchase price consisted of two parts: cash paid of PLN 260,948,269, which accounted for 20% of the total agreed price, and the remainder paid in the form of 2,754,824 demerger shares of the acquiring entity. The number of the shares issued as part of the consideration was based on their value, being an arithmetical average of daily prices weighted by trade volume of the acquiring bank's shares which were traded on the Warsaw Stock Exchange during the period between 14 November 2017 and 13 December 2017, and totaled PLN 374.56. The fair value of the consideration paid in the form of shares was based on the fair value of Santander Bank Polska S.A. stock quoted on the Warsaw Stock Exchange on 9 November 2018, which amounted to PLN 353.60.

The purchase price of DB Securities S.A. in the amount of PLN 28,761,937.20 was determined by the parties based on financial data of DB Securities S.A. verified after the acquisition, and the agreed discount of net assets.

Details of the payment:

	Fair value of purchase consideration as disclosed as of 31.12.2018	Change	Fair value of purchase consideration as disclosed
Cash paid	257 960	2 988	260 948
Oridinary shares issued	1 031 839	(57 732)	974 107
Total purchase consideration	**1 289 799**	**(54 744)**	**1 235 055**

Analysis of the acquired assets and liabilities on the merger date

In 2019 Santander Bank Polska Group made the final valuation of the assets and liabilities related to the acquisition of the organised part of Deutsche Bank Polska S.A. and DB Securities S.A. The valuation included verification of balance sheet items (such as loans and advances to customers, fixed assets and deposits from customers and banks) and contingent liabilities. In addition, as part of the acquisition, the Bank identified assets which meet the conditions to be recognised as intangible assets. They are the result of the valuation of the relationships with deposit customers of Deutsche Bank Polska S.A. (PLN 142.2m) and relationships with customers using investment and insurance products (PLN 50.4m).

The above-mentioned intangible assets (relationships with deposit customers of Deutsche Bank Polska S.A. and relationships with customers using investment and insurance products) are amortised to profit or loss on a non-straight line basis. The assets' useful life has been determined in relation to the life of the underlying products.

In thousands of PLN

The tables below present the fair value of the acquired assets and liabilities.

	Organized part of the DB as disclosed as of 31.12.2018	change	Organized part of the DB after changes	DB Securities
ASSETS				
Cash and balances with central banks	51 073	-	51 073	-
Loans and advances to banks	405	-	405	159 690
Financial assets held for trading	24 049	-	24 049	-
Loans and advances to customers measured at amortised cost	18 781 513	-	18 781 513	-
- Mortgage loans	8 442 540	-	8 442 540	-
- Consumer loans	3 092 067	-	3 092 067	-
- Business loans	7 246 906	-	7 246 906	-
Investment securities incl.:	83 090	-	83 090	271
- debt securities measured at fair value through other	63 077	-	63 077	-
- debt securities measured at fair value through profit and loss	20 013	-	20 013	-
- equity securities measured at fair value through other	-	-	-	271
Intangible assets	195 977	-	195 977	1 041
Property, plant and equipment	19 043	-	19 043	125
Net deferred tax assets	52 972	-	52 972	940
Other assets	37 017	-	37 017	17 896
Total assets	19 245 139	-	19 245 139	179 963
LIABILITIES		-		
Deposits from banks	4 430 226	(12 766)	4 417 460	74
Financial liabilities held for trading	12 122	-	12 122	-
Deposits from customers	13 041 354	-	13 041 354	130 095
Provisions for off balance sheet credit risk	7 945	-	7 945	-
Other provisions	5 230	-	5 230	-
Other liabilities	113 698	35 948	149 646	6 826
Total liabilities	17 610 575	23 182	17 633 757	136 995
Net assets acquired	**1 634 564**	**(23 182)**	**1 611 382**	**42 968**

Significant judgements and valuation assumptions

1. Recognised intangible assets

As a result of the valuation process, Santander Bank Polska Group recognised the following intangible assets:

Core Deposit Intangible (CDI)

CDI is defined as a present value of the difference between the current accounts' cost of financing and the alternative cost of financing that the Bank would have had to bear if it did not own such portfolio of accounts. The fair value of the CDI was estimated with income approach. The cash flows reflecting the cost savings were calculated based on the difference between the forecasted costs of the acquired accounts and the costs of alternative market funds during the average life period of acquired accounts. The cost of alternative funds was estimated on the basis of interest rates market benchmarks for PLN and EUR funding. Computed cash flows for subsequent years were discounted with the appropriate discount rate as of the acquisition date.

Customer relationships intangible – insurance and investments products

The value of a customer relationship is justified by the fact that such a relationship provides the bank with numerous benefits such as potentially reduced selling and marketing expenses, enhanced logistic capabilities between the bank and the customer, and a working rapport between the bank and the customer. The fair value of the intangible was estimated with income approach. The value was determined on the basis of discounted future cash flows resulting from the surplus revenue generated by the Bank holding the given intangible asset. The contributory amount of general expenses (including amortisation) and other charges is deducted from such defined cash flows for each year of expected relationship. The received cash flows for each year are then discounted at the cost of equity increased by an appropriate premium to constitute the fair the value of intangible asset.

In thousands of PLN

2. Acquired loans and advances to customers

Fair value measurement as of the acquisition date was based on data of the acquired portfolio provided to Santander Bank Polska SA in the process of migration. Valuation of loans and advances to customers was conducted taking into account the risk characteristics of the acquired portfolios.

Fair value adjustment to performing loans

The fair value adjustment on performing loans was also calculated using the Discounted Cash Flow (DCF) method. The majority of adjustments resulted mainly from the acquired mortgage and SME loans portfolio, where contractual interest rate margins are lower than interest rates currently observed on the market. The newly acquired performing loans have been classified as Stage 1 portfolio.

Fair value adjustment to non-performing loans

The fair value of non-performing loans subject to collective and individual provisions is measured using the Discounted Cash Flow (DCF) method. For non-performing exposures assessed individually Santander Bank Polska SA estimates expected future cash flows on a case-by-case basis. In the case of collectively assessed non-performing exposures, the future value of recoveries is based on recovery rate curves. Expected cash flows for non-performing exposures have been discounted using appropriate discount rates. The acquired non-performing loans have been classified as POCI portfolio.

As at transaction date, contractual cash flows in respect of the acquired loans were estimated at PLN 19,549,631k and the non-discounted value of non-recoverable cash flows was PLN 602,584k.

3. Significant acquired liabilities

Unfavourable rental agreements

The Bank acquired rental agreements with conditions worse from the market rates as of the acquisition date, therefore additional liability resulting from such onerous contracts was recognised. Estimation of the fair value of agreements for properties (branches) rented by the demerged bank has been conducted with an income approach based on differences between market rent fees per square meter for particular locations and actual rent fees from agreements signed by the demerged bank. Differences were then discounted by risk free rate as at the acquisition date during the remaining rental contract period.

Other liabilities

Apart from the adjustments above, the Bank recognised a number of minor provisions or cost accruals connected with expected litigations, debt enforcement proceedings or differences in accounting estimates related to human resources provisions and accruals. The value of liabilities was estimated on the basis of future expected outflow of funds. As the recognised liabilities are short-term in nature, no discount of cash flows was applied.

Non-controlling interests

Due to the fact that the business combination considered acquisition of an organised part of the enterprise, no non-controlling interests were recognised in the consolidated financial statements of Santander Bank Polska Group.

Gain from the acquisition

In 2019, the Group of Santander Bank Polska performed the final settlement of the acquisition of an organised part of the enterprise of Deutsche Bank Polska S.A. and DB Securities S.A.

The resulting profit, presented in the table below, is recognised as “Gain from the acquisition” in the restated consolidated income statement.

	Preliminary gain from acquisition	change	Gain from acquisition
Fair value of consideration paid	1 289 799	(54 744)	1 235 055
less: fair value of identifiable net assets	(1 677 532)	23 182	(1 654 350)
Total	**(387 733)**	**(31 562)**	**(419 295)**

As required by IFRS 3, prior to profit recognition, the bank reassessed whether the acquired assets and assumed liabilities were identified correctly. The analysis concluded that all assets and liabilities identified at the earlier stage were recognised properly and completely. Next, the bank reassessed procedures applied to measurement of identifiable acquired assets and liabilities and the consideration paid. The bank reviewed significant parameters in fair value models, in particular reference margins applied to the acquired loans and discount rates used in the models. In the opinion of the Management Board, the measurements appropriately reflect all available information as of the acquisition date, which justifies the recognition of the resulting gain from acquisition.

In thousands of PLN

The profit of PLN 387,733k from the preliminary settlement of the acquisition was presented in the consolidated financial statements for 2018.

In connection with the final settlement of the acquisition of an organised part of the enterprise of Deutsche Bank Polska S.A. and DB Securities S.A., the income statement for 2018 was restated.
The difference of PLN 31,562 k between the preliminary and final settlement was recognised in the restated income statement for 2018 as an adjustment to the gain on the acquisition; additional information is presented in Note 2.4 Comparability with the results presented in prior periods.

for reporting period:	1.01.2018-31.12.2018	Change	1.01.2018-31.12.2018 restated
Interest income and similar to income	**7 213 796**	**-**	**7 213 796**
Interest income on financial assets measured at amortised cost	6 345 132	-	6 345 132
Interest income on financial assets measured at fair value through other comprehensive income	733 378	-	733 378
Income similar to interest on financial assets measured at fair value through profit or loss	135 286	-	135 286
Interest expense	(1 471 391)	-	(1 471 391)
Net interest income	**5 742 405**	**-**	**5 742 405**
Fee and commission income	2 526 572	-	2 526 572
Fee and commission expense	(468 770)	-	(468 770)
Net fee and commission income	**2 057 802**	**-**	**2 057 802**
Dividend income	100 116	-	100 116
Net gains/(losses) on subordinated entities	(65)	-	(65)
Net trading income and revaluation	144 539	-	144 539
Gains (losses) from other financial securities	37 480	-	37 480
Other operating income	213 842	-	213 842
Gain on acquisition of enterprise	387 733	31 562	419 295
Impairment losses on loans and advances	(1 085 068)	-	(1 085 068)
Operating expenses incl.:	(3 768 969)	-	(3 768 969)
-Staff, operating expenses and management costs	(3 242 758)	-	(3 242 758)
-Depreciation/amortisation	(333 470)	-	(333 470)
-Other operating expenses	(192 741)	-	(192 741)
Share in net profits (loss) of entities accounted for by the equity method	62 667	-	62 667
Tax on financial institutions	(466 330)	-	(466 330)
Profit before tax	**3 426 152**	**31 562**	**3 457 714**
Corporate income tax	(727 139)	-	(727 139)
Consolidated profit for the period	**2 699 013**	**31 562**	**2 730 575**
of which:			-
-attributable to owners of Santander Bank Polska SA	2 365 222	31 562	2 396 784
-attributable to non-controlling interests	333 791	-	333 791

In thousands of PLN

Revenue and profit contribution

As a result of the provisions of the agreement for the acquisition of the demerged part of Deutsche Bank Polska S.A.:

- Information about the opening balance as at 1 January 2018 and financial results of the demerged part of the enterprise from 1 January 2018 to the transaction date was not available to the acquirer;
- It was not possible to make significant estimates impacting performance of the demerged business for the period prior to the acquisition;
- Cost estimates in respect of funding for the demerged part of Deutsche Bank Polska S.A. differed materially from the cost potentially adopted by the acquirer;
- Impact of material operational aspects of the demerged part of the enterprise is unknown;
- The time between the transaction date and financial closure of 2018 was too short to reliably estimate the results on the basis of extrapolation.

In view of the above, Santander Bank Polska S.A. was not able to determine and disclose the potential impact of the acquired operations on the Group's pre-acquisition results.

Purchase consideration – impact on cash flow statement

Outflow of cash to acquire assets and liabilities, net of cash acquired	
Cash consideration	(260 948)
less: Balances acquired	51 488
Cash	*51 073*
Current accounts	*415*
Other cash equivalents	*-*
Net outflow of cash, investing activities	**(209 460)**

Acquisition-related costs

Santander Bank Polska S.A. incurred acquisition-directly related costs in amounts of PLN 108,870 k in 2018.

These costs were a result of a process of preparation of internal resources and capabilities to execute data migration of customer records from demerged business.

These costs were included in the administrative expenses in profit or loss accounts and in operating cash flows in the statement of cash flows.

Table below presents a functional break down of the above mentioned costs:

Salaries and bonuses	26 529
Consulting fees	30 061
IT costs	10 330
Administrative expences	23 364
Marketing and communication	12 899
Other costs	5 688
Total	**108 870**

53. Employee benefits

Staff benefits include the following categories:

- Short-term benefits (remuneration, social security contributions, paid leaves, profit distributions and bonuses and non-cash benefits, provided free of charge or subsidized). Value of short-term employee benefits are undiscounted,
- Post-employment benefits (retirement benefits and similar payments, life insurance or medical care provided after the term of employment).

In thousands of PLN

Within these categories, the companies of the Santander Bank Polska Group create the following types of provisions:

Provisions for unused holidays

Liabilities related to unused holidays are stated in the expected amount (based on current salaries) without discounting.

Provisions for employee bonuses

Liabilities related to bonuses are stated in the amount of the probable payment without discounting.

Provisions for retirement allowances

Based on internal regulations in respect to remuneration, the employees of the Bank are entitled to defined benefits other than remuneration:

- retirement benefits,
- retirement pension.

The present value of such obligations is measured by an independent actuary using the projected unit credit method.

The amount of the retirement and pension benefits and death-in-service benefits is dependent on length of service and amount of remuneration received by the employee. The expected present value of the benefits is calculated, taking into account the financial discount rate and the probability of an individual get to the retirement age or die while working respectively. The financial discount rate is determined by reference to up-to-date market yields of government bonds. The probability of an individual get to the retirement age or die while working is determined using the multiple decrement model, taking into consideration the following risks: possibility of dismissal from service, risk of total disability to work and risk of death.

These defined benefit plans expose the Group to actuarial risk, such as:

- interest rate risk – the decrease in market yields on government bonds would increase the defined benefit plans obligations,
- remuneration risk – the increase in remuneration of the Bank's employees would increase the defined benefit plans obligations,
- mobility risk – changes in the staff rotation ratio,
- longevity risk – the increase in life expectancy of the Bank's employees would increase the defined benefit plans obligations.

The principal actuarial assumptions adopted by an independent actuary as at 31 December 2019 are as follows:

- the discount rate for future benefits at the level of 2.05% (3.15% as at 31 December 2018),
- the future salary growth rate at the level of 2.0% (2,0% as at 31 December 2018),
- the probable number of leaving employees calculated on the basis of historical data concerning personnel rotation in the Group,
- the mortality adopted in accordance with Life Expectancy Tables for men and women, published the Central Statistical Office, adequately adjusted on the basis of historical data of the Bank.

Reconciliation of the present value of defined benefit plans obligations

The following table presents a reconciliation from the opening balances to closing balances for the present value of defined benefit plans obligations.

	31.12.2019	31.12.2018
As at the beginning of the period	**40 858**	**72 726**
Provision acquired in a business combination	-	5 407
Current service cost	1 871	2 163
Prior service cost	(1 347)	(28 357)
Interest expense	1 909	1 607
Actuarial (gains) and losses	1 345	(12 688)
Balance at the end of the period	**44 636**	**40 858**

In thousands of PLN

Sensivity analysis

The following table presents how the impact on the defined benefits obligations would have increased (decreased) as a result of a change in the respective actuarial assumptions by one percentage point as at 31 December 2019.

Defined benefit plan obligations	1 percent increase	1 percent decrease
Discount rate	-12,02%	5,18%
Future salary growth rate	5,14%	-12,06%

The following table presents how the impact on the defined benefits obligations would have increased (decreased) as a result of a change in the respective actuarial assumptions by one percentage point as at 31 December 2018.

Defined benefit plan obligations	1 percent increase	1 percent decrease
Discount rate	-13,13%	9,06%
Future salary growth rate	3,57%	-13,26%

Other staff-related provisions

These are provisions for the National Fund of Rehabilitation of the Disabled, redundancies, overtime and staff training. These liabilities are stated at the amounts of expected payment without discounting.

The balances of the respective provisions are shown in the table below:

Provisions	31.12.2019	31.12.2018
Provisions for unused holidays	52 702	59 853
Provisions for employee bonuses	254 169	287 191
Provisions for retirement allowances	44 636	40 858
Other staff-related provisions	17 007	17 329
Total	**368 514**	**405 231**

Detailed information on employee provisions have been presented in Note 38.

54. Share based incentive scheme

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

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

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

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

In thousands of PLN

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

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

Share based payments granted in 2017:

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

The following table summarizes the share based payments changes:

	12 months of 2019	12 months of 2018
	Number of share based payments	Number of share based payments
Outstanding at 1 January	**120 686**	**129 799**
Granted	-	-
Exercised	-	-
Forfeited	(5 467)	(9 113)
Expired	-	-
Outstanding at 31 December	**115 219**	**120 686**
Exercisable at 31 December	**-**	**-**

For the share based payments outstanding as at 31 December 2019 and as at 31 December 2018 the average remaining contractual life is approximately 0.5 year and 1.5 years respectively.

The expenses of sixth edition of equity settled share-based payments scheme recognized in profit and loss account for 12 months of 2019 and 2018 amounts to PLN 11,474 k and PLN 12,446 k respectively.

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

No. of awards	2019	2018
Outstanding at 1 January	**27 220**	**34 670**
Granted	820	-
Expired	-	-
Exercised	-	-
Resignation from the function	(2 880)	(7 450)
As at 31 December	**25 160**	**27 220**

In thousands of PLN

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

No. of awards	2019	2018
Outstanding at 1 January	**42 652**	**41 194**
Granted	-	-
Expired	-	-
Exercised	-	-
Change due to inclusion in key management personnel	2 618	9 366
Change due to exclusion from key management personnel	(6 967)	(7 908)
Resignation from the function	-	-
As at 31 December	**38 303**	**42 652**

55. Dividend per share

As of the date of publication of this report, the Management Board of Santander Bank Polska has not finalised its analysis in respect of recommendation on dividend payout for 2019.

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

The Management Board of Santander Bank Polska S.A. informed that, acting in full compliance with the individual recommendation issued by the Polish Financial Supervision Authority on 25th February 2019 to increase the Bank's own funds, it had adopted a resolution with recommendation to allocate 25% of net profit for 2018 to dividend. The recommendation was approved by the Supervisory Board. At the same time, taking into account a good capital position of the Bank and Group, the Bank's Management Board decided to propose to allocate to the dividend for shareholders:

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

which means that the proposed dividend:

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

The Management Board of the Bank proposed to set the dividend registration date for 30th May 2019 and the dividend pay-out date for 14th June 2019.

The Annual General Meeting, held on 16th May 2019, made a decision on dividend payment.

Regarding dividend 2016. Dividend pay – out date for 14 .06.2018

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

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

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

Signatures of the persons representing the entity

Date	Name	Function	Signature
19.02.2020	Michał Gajewski	President	
19.02.2020	Andrzej Burliga	Vice-President	
19.02.2020	Michael McCarthy	Vice-President	
19.02.2020	Juan de Porras Aguirre	Vice-President	
19.02.2020	Arkadiusz Przybył	Vice-President	
19.02.2020	Patryk Nowakowski	Member	
19.02.2020	Carlos Polaino Izquierdo	Member	
19.02.2020	Maciej Reluga	Member	
19.02.2020	Dorota Strojkowska	Member	

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

Date	Name	Function	Signature
19.02.2020	Wojciech Skalski	Financial Accounting Area Director	