

Dear All,

Last year was a time of changes for us – both those arising from business integration after the acquisition of a demerged part of Deutsche Bank Polska, and those related to sector regulations. But above all we have seen changes connected with the delivery of our main aim – to be the best bank for our customers.

Santander Bank Polska Group has increasingly become a customer-centric organisation. The quality of our services is of paramount importance for us, which is why we are going through business, process and cultural transformation that is designed to make our customer relationships even stronger. In 2019, we were applauded for our service quality changes, as evidenced by our top position in prestigious rankings: the “Golden Bank” for the best multi-channel service quality; Number 1 in *Newsweek’s* ranking for traditional banking, and Number 2 for online banking; and the second place in the *Forbes’* Best Business Bank ranking. There is still a long way to go, but these awards and, above all, the growing satisfaction of our customers are proof that they appreciate our transformation.

The high pace of changes in the surrounding world, competition from fintechs and new entrants to the financial sector, alongside the changing needs and requirements of customers motivate us to keep developing and simplifying everyday banking.

Responsible Banking is one of the strategic pillars for our business and an idea that we have successfully embedded in our organisation. Our responsibility as a leading financial group in Poland is understood as sustainable development – both in terms of services and their availability for customers, and in terms of responsibility towards the natural environment and our communities in which we operate.

2019 was another demanding year for the Polish banking sector. Its profitability, measured by ROE, remained at a low one-digit level due to the low interest rate environment and the high regulatory and tax burdens. The initial forecasts for a double-digit profit growth in the sector did not materialise mainly due to two judgments of the Court of Justice of the European Union, which caused costs to rise.

In 2019, profit attributable to the shareholders of Santander Bank Polska was PLN 2.138bn, down 9.5% YoY, but up 19.8% YoY on a comparative basis. Total income increased by 8.8%, net interest income by 14.6%, and net fee and commission income by 3.4% YoY. This is the result of a steady growth in our business and the sound balance sheet structure.

Macroeconomic environment

Last year commenced on a very good note for the economy; however, economic cooling was increasingly evident quarter over quarter, with the GDP decelerating to 3% in Q4 compared to the year’s average of 4%. The slowdown came in the wake of a slower growth of domestic investments, related to e.g. the spending cycle of EU funds and a weaker global economic climate, affected by the escalation of trade conflicts and the uncertainty around how Brexit would play out. These factors led to the shrinking of world trade, which also had repercussions for Poland. The beginning of 2020 saw signals that the problems faced by the global economy might finally be addressed (e.g. due to the easing of the US-China tensions and the Brexit agreement). Regrettably, the coronavirus outbreak introduced an additional risk, the final effects of which are hard to predict today, but they may cast a shadow over economic growth during the first months of 2020. The possibility that the Polish economy will still need some time to recover cannot be ruled out. However, we may be a little more optimistic about the second half of this year.

Even though the domestic economy slowed down, wages in 2019 grew strongly and unemployment decreased, continuously breaking record levels. Tax cuts and additional social benefits were good for the finances of consumers, but contributed to the rebuilding of savings rather than to the acceleration of consumption. Polish firms continued to face rising costs, which increased the upward price and inflationary pressure. The housing market was strong with record-breaking home completions and mortgage sales. At the same time, total lending began to slow down. The Polish zloty was particularly stable against the main currencies, despite numerous concerns related to the global economic situation. The Monetary Policy Council kept interest rates unchanged at a record low level throughout the year, which decreased the demand for term deposits and encouraged the search for alternative gains from investments and savings.

Business development

In 2019, our business grew steadily. At the end of December, the gross loans volume increased by 4.8% YoY to PLN 148.6bn. Deposits from customers increased by 4.6% to PLN 156.5bn. The Group has more than seven million customers.

Safety and innovation are at the foundation of what we do. We also focus on the changing needs and tastes of our customers, which we need to keep up with and anticipate. We listen to our customers because it is their lifestyles that largely determine our business development lines. This is why, for example, we have remodelled the role of branches, simplified processes and identified further areas for improvement this year. We are introducing a new distribution model in our retail banking segment, which includes personal and SME customers. This is the part of our strategy that reflects our aspiration to be an omnichannel bank and allow our customers to choose between various contact channels, including branches, the helpline, video advisors, and mobile and internet applications. We optimise the network of our own branches, develop partner outlets, and open new “Santander Zones” in shopping centres. In Warsaw, we opened the first Work Café – a combination of a banking branch, a coffee house and a coworking space – because we understand the importance of multifunctionality and convenience for our customers. In 2019, we started the distribution of cash loans through a network of agents. The results are promising, and our plan for this year is to expand sales to include personal accounts and POS terminals.

We are developing our digital distribution channels. In 2019, we achieved a growth in online (including e-commerce) sales, primarily of personal and business accounts, and a major increase in cash loan sales. We expect this year to bring further sales increases in these channels, as the number of their users is also growing steadily: our online banking and mobile banking solutions are used by 2.5 million and 1.6 million customers, respectively. To increase the positive experience of our customers using remote channels, we have modified and upgraded the functionality of those channels to bring them in line with the current needs – e.g. in online banking, we have introduced one login for the personal and company profile, the possibility of opening a brokerage account and a version in Ukrainian and Russian, also available in the mobile application.

We are simplifying our products and optimising our processes to be the bank our customers want us to be. In 2019, we introduced a new automatic Smart Loan process for SMEs in our branch network, a fast-track cash loan purchase in online banking and the “Account As I Want It” for people under 13 years of age.

We have also worked on a proposition for private banking customers, offering them an ELITE credit card, among other things. Those who are interested in a long-term cooperation with the bank can benefit from our wealth management services. Private banking customers of Santander Bank Polska are part of the international Santander Private Banking community, enjoying access to the Santander Group’s solutions designed for this wealthiest segment.

2019 was a robust year for our corporate banking. The segment’s income increased, particularly in strategic sectors and international business. Leveraging the international footprint of Santander Group, we supported Polish exporters in their international expansion, offering them a range of opportunities to share their knowledge and experience and establish new business relationships.

In 2019, Santander Bank Polska came top among its peers in various areas of the financial market. We were a leader in the capital market in terms of the value of shares issued, and in the reverse factoring market. On top of that, we were the second in terms of M&A transactions and the value of bonds issued. We won the Euromoney Award for Excellence for Poland’s best investment bank, which also bears witness to our position as a leader.

In addition, last year we were the first institution in Poland to introduce a risk sharing solution in a factoring project, with two innovative deals made with Bank Gospodarstwa Krajowego. It is another step towards extending the cooperation between banks in Poland and bridging the gap in the financial system for the benefit of corporate customers.

As part of our strategic Responsible Banking agenda, we want to participate in energy transformation and support sustainable development initiatives in the Polish energy sector. Last year, we arranged Poland’s first loan agreement linked to ESG (Environmental, Social and Governance) criteria, based on assessment of the borrower’s performance in the area of sustainable development and responsible business. This was the first such loan originated in Poland and the first loan agreement in our market with the financing terms and conditions linked to the borrower’s environmental commitments.

Towards the year-end, we successfully integrated Santander Brokerage Poland and Santander Securities. Santander Brokerage Poland increased its customer base to 100,000 and introduced a range of new products. Other Santander Bank Polska Group companies also saw satisfactory performance. Santander Factoring has been steadily developing its business for several years. The company’s strategy is chiefly focused on

maintaining its strong market position in short-term working capital financing; increasing its portfolio profitability; lowering the cost to income ratio; and continuing the development of innovative solutions supporting the improvement of liquidity of companies. Santander Leasing reported a growth in the financing of machines and equipment, and its leasing portfolio exceeded PLN 10bn.

In 2019, we maintained our focus on the consumer finance market, keeping our leading position in this segment. Santander Consumer Bank Group, which is a part of Santander Group in Poland, served more than 2 million customers, including 580 thousand new ones, expanding its consumer loans portfolio to more than PLN 16.3bn (up 16.2% YoY). This part of our business also continued to work on improving customer experience, simplifying processes and multi-channel service. One of the key enablers of the bank's development was also the high quality of service and added value for the bank's business partners, both in the retail sales and in the car sales market.

In 2019, Santander Consumer Bank Group significantly increased sales in remote channels, digitising many processes and aiming to reduce its operating expenses and keep its cost to income ratio at one of the lowest levels in the banking market.

Even more responsible

We carry on our activities following the Responsible Banking idea, which is predicated on two main pillars: being responsible towards people with whom we do business, and supporting inclusive and sustainable development. Being responsible is the way we approach our relationships with employees, customers and shareholders – with clear terms and conditions, transparent prices, a customised approach and the Simple, Personal and Fair values. We realise this idea by simplifying processes, procedures, and the language of communication, and by participating in such projects as the Declaration on Responsible Sales.

Sustainable development is our responsibility, as the second strongest financial group in Poland, towards the society at large. By deciding how to use our financial potential, we want to contribute to overcoming the great challenges facing the society, Poland and the whole world. We can and want to play an important role in ensuring that economic growth is inclusive and sustainable. Inclusive – by combating financial exclusion, supporting entrepreneurs in setting up firms and creating new jobs, and facilitating people's access to education and training they need. Our main initiatives in this area include the *Finansiaki.pl* project, the "Barrier-Free Banking" Programme and participation in the "Cashless Poland" campaign. We also have the Santander *Universidades* programme to support students in developing the competencies needed in the labour market, including through projects implemented in cooperation with the best universities in the world, scholarships, grants, and the opportunity to participate in workshops, training courses and internships at the bank. In addition, Santander *Universidades* branches operate at selected universities – we currently have 12 of them.

We achieve sustainable growth by financing renewable energy sources and environmentally friendly technologies. By doing so, we fulfill our purpose: to help people and businesses prosper. Our commitment to the environment is demonstrated by our support for the development of a "green" leasing offer, financing the purchase of low-emission cars, solar panels and heat pumps. We obtained a mandate to arrange an issue of EUR 2bn worth of 10Y and 30Y green bonds for the Ministry of Finance. The proceeds from the issue will be earmarked for, among other things, sustainable agriculture, low-emission transport, renewable energy, national parks, afforestation, and refurbishment of waste heaps.

The Group is engaged in charitable and corporate volunteering activities through its Santander Bank Polska Foundation. In 2019, the Foundation supported local communities with the grant programme "Here I live, here I make changes", and ran "The Bank of Young Sports Champions" programme for young people. Overall, 116 grants were distributed for a total value of PLN 800k. The staff volunteering programme coordinated and financially supported by the Foundation covered 200 social initiatives with the involvement of more than 2,000 volunteers from the bank. In addition, the Foundation operates a scholarship programme to provide talented young people with financial assistance. Santander Consumer Bank supported charities, promoted the idea of transplantation, highlighted the problems of people with cystic fibrosis and drew attention to the need for inclusion of people with intellectual disabilities.

In 2019, our non-business activities won us such accolades as: CSR Golden Leaf, the Ethical Company Award, 2nd place in the Ranking of Responsible Companies and the main prize in the CSR Reports competition.

I would like to thank our customers, shareholders and other stakeholders for this year of accomplishments. I also thank the employees of Santander Bank Polska Group for their daily effort and commitment to our transformation.

The future is full of promising challenges. I trust that once again, as a Group, as a Team, we will prove that we know how to address these challenges so that all of our customers can see us as the Bank they want it.

Michał Gajewski
President of the Santander Bank Polska Management Board