

Interim report 2019 of Santander Bank Polska Group for the first half of 2019



FINANCIAL HIGHLIGHTS

	PLN k		EUR k	
	1.01.2019- 30.06.2019	1.01.2018- 30.06.2018	1.01.2019- 30.06.2019	1.01.2018- 30.06.2018
	Consolidated financial statements of Santander Bank Polska Group			
I Net interest income	3 232 132	2 786 033	753 762	657 161
II Net fee and commission income	1 042 419	1 044 874	243 101	246 462
III Profit before tax	1 503 533	1 630 947	350 637	384 703
IV Net profit attributable to owners of Santander Bank Polska SA	957 901	1 092 184	223 391	257 621
V Total net cash flows	(7 192 087)	2 082 114	(1 677 259)	491 123
VI Profit of the period attributable to non-controlling interests	155 009	181 256	36 149	42 754
VII Profit per share in PLN/EUR	9,38	11,00	2,19	2,59
VIII Diluted earnings per share in PLN/EUR	9,38	10,98	2,19	2,59
Stand alone financial statements of Santander Bank Polska S.A.				
I Net interest income	2 346 783	1 968 169	547 291	464 246
II Net fee and commission income	840 361	802 361	195 980	189 258
III Profit before tax	1 459 388	1 438 211	340 342	339 241
IV Profit for the period	1 179 639	1 181 898	275 102	278 782
V Total net cash flows	(7 155 557)	2 011 571	(1 668 740)	474 483
VI Profit per share in PLN/EUR	11,56	11,90	2,70	2,81
VII Diluted earnings per share in PLN/EUR	11,55	11,89	2,69	2,80

FINANCIAL HIGHLIGHTS

	PLN k		EUR k	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
	Consolidated financial statements of Santander Bank Polska Group			
I Total assets	205 826 460	205 852 860	48 406 976	47 196 639
II Deposits from banks	3 456 334	2 832 928	812 873	649 516
III Deposits from customers	149 675 448	149 616 658	35 201 187	34 303 159
IV Total liabilities	180 227 017	179 210 828	42 386 410	41 088 323
V Total equity	25 599 443	26 642 032	6 020 565	6 108 316
VI Non-controlling interests in equity	1 397 309	1 564 184	328 624	358 626
VII Number of shares	102 088 305	102 088 305		
VIII Net book value per share in PLN/EUR	250,76	260,97	58,97	59,83
IX Capital ratio	16,26%	15,98%	-	-
X Declared or Paid dividend per share in PLN/EUR*	19,72	3,10	4,60	0,71
Stand alone financial statements of Santander Bank Polska S.A.				
I Total assets	181 300 141	183 047 326	42 638 791	41 967 931
II Deposits from banks	1 078 151	1 039 979	253 563	238 440
III Deposits from customers	138 414 675	139 469 776	32 552 840	31 976 746
IV Total liabilities	158 108 525	159 204 386	37 184 507	36 501 372
V Total equity	23 191 616	23 842 940	5 454 284	5 466 558
VI Number of shares	102 088 305	102 088 305		
VII Net book value per share in PLN/EUR	227,17	233,55	53,43	53,55
VIII Capital ratio	18,51%	18,04%	-	-
IX Declared or Paid dividend per share in PLN/EUR*	19,72	3,10	4,60	0,71

* Detailed information are described in Note 42.

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

- for balance sheet items – average NBP exchange rate as at 28.06.2019: EUR 1 = PLN 4.2520 and as at 31.12.2018: EUR 1 = PLN 4.3000
- for profit and loss items – as at 30.06.2019 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in H1 2019: EUR 1 = PLN 4.2880; as at 30.06.2018 - the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month in H1 2018: EUR 1 = PLN 4.2395

As at 30.06.2019, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 124/A/NBP/2019 dd. 28.06.2019.

Condensed Interim Consolidated
Financial Statement of
Santander Bank Polska Group
for the 6-month period ended 30 June 2019

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I. Condensed consolidated income statement

for reporting period:	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019	1.04.2018- 30.06.2018	1.01.2018- 30.06.2018
Interest income and similar to income	2 116 449	4 198 148	1 736 743	3 425 244
Interest income on financial assets measured at amortised cost	1 869 671	3 690 953	1 537 794	3 025 737
Interest income on financial assets measured at fair value through other comprehensive income	199 210	408 884	174 832	338 071
Income similar to interest on financial assets measured at fair value through profit or loss	47 568	98 311	24 117	61 436
Interest expense	(492 917)	(966 016)	(340 536)	(639 211)
Net interest income	1 623 532	3 232 132	1 396 207	2 786 033
Fee and commission income	661 065	1 290 868	649 627	1 253 600
Fee and commission expense	(138 708)	(248 449)	(119 867)	(208 726)
Net fee and commission income	522 357	1 042 419	529 760	1 044 874
Dividend income	96 993	97 240	98 323	98 508
Net gains/(losses) on subordinated entities	-	-	-	(65)
Net trading income and revaluation	30 201	78 633	69 249	68 166
Gains (losses) from other financial securities	61 896	94 751	16 900	20 827
Other operating income	60 831	95 701	76 421	153 869
Impairment losses on loans and advances	(356 558)	(619 246)	(257 876)	(461 240)
Operating expenses incl.:	(1 026 680)	(2 265 513)	(915 827)	(1 886 978)
-Staff, operating expenses and management costs	(813 201)	(1 870 060)	(751 413)	(1 613 867)
-Depreciation/amortisation	(102 806)	(202 389)	(79 866)	(162 402)
-Amortisation of right of use asset	(54 412)	(107 410)	-	-
-Other operating expenses	(56 261)	(85 654)	(84 548)	(110 709)
Share in net profits (loss) of entities accounted for by the equity method	15 945	30 283	14 504	25 502
Tax on financial institutions	(140 854)	(282 867)	(112 071)	(218 549)
Profit before tax	887 663	1 503 533	915 590	1 630 947
Corporate income tax	(198 989)	(390 623)	(176 520)	(357 507)
Consolidated profit for the period	688 674	1 112 910	739 070	1 273 440
of which:	-	-	-	-
-attributable to owners of Santander Bank Polska SA	607 214	957 901	651 285	1 092 184
-attributable to non-controlling interests	81 460	155 009	87 785	181 256
Net earnings per share	-	-	-	-
Basic earnings per share (PLN/share)	3,91	9,38	6,56	11,00
Diluted earnings per share (PLN/share)	3,90	9,38	6,55	10,98

Notes presented on pages 10 – 66 constitute an integral part of this Financial Statement.

II. Condensed consolidated statement of comprehensive income

	1.04.2019-	1.01.2019-	1.04.2018-	1.01.2018-
for reporting period:	30.06.2019	30.06.2019	30.06.2018	30.06.2018
Consolidated profit for the period	688 674	1 112 910	739 070	1 273 440
Other comprehensive income which can be transferred to the profit and loss account:	175 943	180 852	(40 968)	97 268
Valuation of debt securities measured at fair value through other comprehensive income gross	210 650	147 207	(83 611)	98 354
Deferred tax	(40 023)	(27 969)	15 886	(18 687)
Valuation of cash flow hedging instruments gross	6 563	76 067	33 034	21 730
Deferred tax	(1 247)	(14 453)	(6 277)	(4 129)
Other comprehensive income which can't be transferred to the profit and loss account:	(9 663)	(12 748)	35 781	35 081
Valuation and sales of equity securities measured at fair value through other comprehensive income gross	(5 882)	(9 691)	30 782	29 919
Deferred and current tax	(3 781)	(3 057)	(5 862)	(5 699)
Provision for retirement allowances – actuarial gains/losses gross	-	-	13 409	13 409
Deferred tax	-	-	(2 548)	(2 548)
Other comprehensive income for the period net of income tax	166 280	168 104	(5 187)	132 349
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	854 954	1 281 014	733 883	1 405 789
Total comprehensive income attributable to:				
Owners of Santander Bank Polska SA	773 137	1 129 501	647 072	1 224 695
Non-controlling interests	81 817	151 513	86 811	181 094

Notes presented on pages 10 – 66 constitute an integral part of this Financial Statement.

III. Condensed consolidated statement of financial position

	as at:	30.06.2019	31.12.2018 * restated
ASSETS			
Cash and balances with central banks	Note 16	6 041 063	8 907 552
Loans and advances to banks	Note 17	2 310 836	2 936 214
Financial assets held for trading	Note 18	9 088 787	9 769 851
Hedging derivatives	Note 19	95 406	73 221
Loans and advances to customers incl.:	Note 20	140 725 703	137 460 378
- measured at amortised cost		139 051 895	135 643 297
- measured at fair value through other comprehensive income		419 535	366 751
- measured at fair value through profit or loss		1 254 273	1 450 330
Buy-sell-back transactions		537 258	177 482
Investment securities incl.:	Note 21	39 164 214	39 179 100
- debt securities measured at fair value through other comprehensive income		38 179 878	38 221 051
- debt securities measured at fair value through profit and loss		177 035	136 511
- equity securities measured at fair value through other comprehensive income		807 301	821 538
Investments in associates	Note 22	865 227	891 952
Intangible assets		742 302	819 409
Goodwill		1 712 056	1 712 056
Property, plant and equipment		748 294	986 384
Right of use asset		922 098	-
Net deferred tax assets		1 776 340	1 760 121
Assets classified as held for sale	Note 23	11 044	12 145
Other assets		1 085 832	1 166 995
Total assets		205 826 460	205 852 860
LIABILITIES AND EQUITY			
Deposits from banks	Note 24	3 456 334	2 832 928
Hedging derivatives	Note 19	882 794	912 482
Financial liabilities held for trading	Note 18	1 721 442	1 233 713
Deposits from customers	Note 25	149 675 448	149 616 658
Sell-buy-back transactions		7 816 340	9 340 788
Subordinated liabilities	Note 26	2 627 382	2 644 341
Debt securities in issue	Note 27	9 888 731	9 368 617
Lease liability		783 653	-
Current income tax liabilities		164 102	288 300
Provisions for off balance sheet credit facilities	Note 28	54 716	81 048
Other provisions	Note 29	179 256	132 881
Other liabilities	Note 30	2 976 819	2 759 072
Total liabilities		180 227 017	179 210 828
Equity			
Equity attributable to owners of Santander Bank Polska S.A.		24 202 134	25 077 848
Share capital		1 020 883	1 020 883
Other reserve capital		20 123 479	18 911 741
Revaluation reserve		1 213 076	1 019 373
Retained earnings		886 795	1 729 067
Profit for the current period		957 901	2 396 784
Non-controlling interests in equity		1 397 309	1 564 184
Total equity		25 599 443	26 642 032
Total liabilities and equity		205 826 460	205 852 860

* details in Note 2.8 and 35

Notes presented on pages 10 – 66 constitute an integral part of this Financial Statement.

IV. Condensed consolidated statement of changes in equity

Consolidated statement of changes in equity	Equity attributable to equity holders of parent entity				Total	Non-controlling interests	Total equity
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period			
Equity as at 1.01.2019 restated *	1 020 883	18 911 741	1 019 373	4 125 851	25 077 848	1 564 184	26 642 032
Total comprehensive income	-	-	171 600	957 901	1 129 501	151 513	1 281 014
<i>Consolidated profit for the period</i>	-	-	-	957 901	957 901	155 009	1 112 910
<i>Other comprehensive income</i>	-	-	171 600	-	171 600	(3 496)	168 104
Profit allocation to other reserve capital	-	1 206 218	-	(1 206 218)	-	-	-
Profit allocation to dividends	-	-	-	(2 012 683)	(2 012 683)	(318 388)	(2 331 071)
Share scheme charge	-	5 520	-	-	5 520	-	5 520
Profit on sale of equity securities measured at fair value through other comprehensive income	-	-	22 103	(22 103)	-	-	-
Other	-	-	-	1 948	1 948	-	1 948
Equity as at 30.06.2019	1 020 883	20 123 479	1 213 076	1 844 696	24 202 134	1 397 309	25 599 443

* details in Note 2.8 and 35

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

Consolidated statement of changes in equity	Equity attributable to equity holders of parent entity				Total	Non-controlling interests		Total equity
	Share capital	Other reserve capital	Revaluation reserve	Retained earnings and profit for the period		interests		
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 (restated)	993 335	16 920 129	670 419	3 068 883	21 652 766	1 436 409	23 089 175	
Coverage of negative impact of IFRS 9 implementation*	-	-	-	222 905	222 905	-	222 905	
Total comprehensive income	-	-	132 511	1 092 184	1 224 695	181 094	1 405 789	
Consolidated profit for the period	-	-	-	1 092 184	1 092 184	181 256	1 273 440	
Other comprehensive income	-	-	132 511	-	132 511	(162)	132 349	
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	-	6 315	-	-	6 315	-	6 315	
Profit on sale of equity securities measured at fair value through other comprehensive income	-	-	(55)	55	-	-	-	
Equity adjustment due to merger and liquidation of subsidiaries and controlling stake at the subsidiaries	-	(234)	954	571	1 291	-	1 291	
Equity as at 30.06.2018	993 335	17 959 061	803 829	2 821 215	22 577 440	1 411 000	23 988 440	

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

As at the end of the period revaluation reserve in the amount of PLN 803,829 k comprises valuation of debt securities and valuation of equity securities of PLN 324,879 k and PLN 538,378 k respectively and additionally valuation of cash flow hedge activities of PLN (70,785) k and accumulated actuarial gains - provision for retirement allowances of PLN 11,357 k.

V. Condensed consolidated statement of cash flows

	for reporting period:	1.01.2019- 30.06.2019	1.01.2018- 30.06.2018
Profit before tax		1 503 533	1 630 947
Total adjustments:			
Share in net profits of entities accounted for by the equity method		(30 283)	(25 502)
Depreciation/amortisation		309 799	162 402
Profit from investing activities		(64 054)	(49 195)
Impairment losses (reversal)		17 361	(75)
		1 736 356	1 718 577
Changes in:			
Provisions		20 043	48 161
Trading portfolio financial instruments		1 168 793	(2 654 545)
Hedging derivatives		(51 873)	499 849
Loans and advances to banks		(447)	113
Loans and advances to customers		(3 265 325)	(6 561 401)
Deposits from banks		353 503	558 266
Deposits from customers		45 098	10 143 211
Buy-sell/ Sell-buy-back transactions		(1 524 448)	2 725 822
Other assets and liabilities		327 563	(484 332)
		(2 927 093)	4 275 144
Interest accrued excluded from operating activities		(214 824)	(195 564)
Dividends		(96 970)	(98 482)
Paid income tax		(576 290)	(528 676)
Net cash flows from operating activities		(2 078 821)	5 170 999
Inflows		2 999 511	1 673 739
Sale/maturity of investment securities		2 507 614	1 414 225
Sale of intangible assets and property, plant and equipment		59 767	68 152
Dividends received		96 850	2 329
Interest received		335 280	189 033
Outflows		(6 351 430)	(5 705 772)
Purchase of investment securities		(6 216 053)	(5 531 049)
Purchase of intangible assets and property, plant and equipment		(135 377)	(174 723)
Net cash flows from investing activities		(3 351 919)	(4 032 033)
Inflows		3 757 214	4 094 374
Debt securities in issue		2 734 500	3 300 999
Drawing of loans		1 022 714	793 375
Outflows		(5 518 561)	(3 151 226)
Debt securities buy out		(2 187 873)	(2 125 000)
Repayment of loans		(741 496)	(383 686)
Repayment of lease liability		(90 720)	-
Dividends and other payments to shareholders		(2 331 071)	(514 130)
Interest paid		(167 401)	(128 410)
Net cash flows from financing activities		(1 761 347)	943 148
Total net cash flows		(7 192 087)	2 082 114
Cash and cash equivalents at the beginning of the accounting period		18 012 307	7 662 368
Cash and cash equivalents at the end of the accounting period		10 820 220	9 744 482

Notes presented on pages 10 – 66 constitute an integral part of this Financial Statement.

VI. Additional notes to condensed interim consolidated financial statement

1. General information about issuer

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

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

Condensed interim consolidated financial statement of Santander Bank Polska Group for the 6-month period ended 30 June 2019 includes Bank's financial information as well as information from its subsidiaries and shares in associated entities (all together called Group).

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

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

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

Santander Bank Polska Group consists of the following entities:

Subsidiaries:

Subsidiaries	Registered office	[%] of votes on AGM at 30.06.2019	[%] 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. ¹⁾	Warszawa	100%	100%
8. Santander Towarzystwo Funduszy Inwestycyjnych S.A. (formerly BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.)	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. ²⁾	Warszawa	Santander Consumer Bank S.A. and 50% of AGM votes are held by Banque PSA Finance S.A.	Santander Consumer Bank S.A. and 50% of AGM votes are held by Banque PSA Finance S.A.
12. PSA Consumer Finance Polska sp. z o.o. ³⁾	Warszawa	100% of AGM votes are held by PSA Finance Polska sp. z.o.o.	100% of AGM votes are held by PSA Finance Polska sp. z.o.o.
13. Santander Consumer Multirent sp. z o.o.	Warszawa	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
14. S.C. Poland Consumer 15-1 sp.z o.o. ⁴⁾	Warszawa	subsidiary of Santander Consumer Bank S.A.	subsidiary of Santander Consumer Bank S.A.
15. S.C. Poland Consumer 16-1 sp.z o.o. ⁴⁾	Warszawa	subsidiary of Santander Consumer Bank S.A.	subsidiary of Santander Consumer Bank S.A.

1) Acquisition of Santander Securities S.A. Details in note 35.

2) As at 30.06.2019, 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.

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

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

Associates:

Associates	Registered office	[%] of votes on AGM at 30.06.2019	[%] of votes on AGM at 31.12.2018
POLFUND - Fundusz Poręczeń Kredytowych S.A.	Szczecin	50%	50%
Santander - Aviva Towarzystwo Ubezpieczeń S.A.	Poznań	49%	49%
Santander - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poznań	49%	49%

2. Basis of preparation of condensed interim consolidated financial statements

2.1 Statement of compliance

This consolidated condensed interim financial statement of Santander Bank Polska S.A. Group was prepared in accordance with the International Accounting Standards (IAS 34) adopted by the European Union, which are applied on a consistent basis, as at 30 June 2019 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.

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	<p>The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.</p> <p>The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:</p> <ul style="list-style-type: none"> • Chapter 1 – The objective of financial reporting • Chapter 2 – Qualitative characteristics of useful financial information • Chapter 3 – Financial statements and the reporting entity • Chapter 4 – The elements of financial statements • Chapter 5 – Recognition and derecognition • Chapter 6 – Measurement • Chapter 7 – Presentation and disclosure • Chapter 8 – Concepts of capital and capital maintenance <p>The Conceptual Framework is accompanied by a Basis for Conclusions. The Board has also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the Conceptual Framework. In most cases, the standard references are updated to refer to the Conceptual Framework. There are exemptions in developing accounting policies for regulatory account balances for two standards, namely, IFRS 3 Business Combinations and for those applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.</p>	Effective immediately for the IASB and the IFRS IC. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.	The amendment will not have a significant impact on financial 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 standard 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 within the scope of IFRS 17 have on the financial position, financial performance and cash flows of the entity. IFRS 17 introduces a number of significant changes in relation to the existing requirements of IFRS 4. They concern, among others: aggregation levels at which the calculations are made, methods for the valuation of insurance liabilities, recognition a profit or loss over the period the entity provides insurance coverage, reinsurance recognition, separation of the investment component and presentation of particular items of the balance sheet and profit and loss account of reporting units including the separate presentation of insurance revenues, insurance service expenses and insurance finance income or expenses.	1 January 2021	The standard will not have a significant impact on financial statement.
Amendments to IFRS 3 Business combinations	As a result of the amendments to IFRS 3, the definition of a "business" has been modified. The definition has been narrowed down and is likely to result in more acquisitions being classified as a purchase of assets.	1 January 2020	The standard 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 assets constitute a business, the investor shall recognize the profit or loss in full. Should the assets not constitute a business, the profit or loss shall be recognised only to the extent of unrelated investors' interests in the associate or joint venture. The improvements were published on 11 September 2014.	The International Accounting Standards Board has not established the validity date of the amended regulations.	The amendment will not have a significant impact on financial statement.

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

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	<p>The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. All lease transactions results in the lessee's right to use the assets and the obligation to make a payment. Accordingly, the classification of leases into operating lease and finance lease as per IAS 17 no longer applies under IFRS 16, as the new standard introduces a single model for accounting for leases by the lessee. The lessee will be required to present the following: (a) assets and liabilities in respect of all leases executed for more than 12 months, except where an asset is of low quality; and (b) depreciation charge for the leased asset separately from the interest expense on the lease liability in the statement of profit or loss and other comprehensive income.</p> <p>The principles of accounting for leases by the lessee established in IFRS 16 are largely the same as in IAS 17. As a consequence, the lessee continues to use the classification into operating lease and finance lease and accounts for them accordingly.</p>	1 January 2019	Standard's implementation impact is described in Note 2.7
IAS 19, Plan Amendment, Curtailment or Settlement*	<p>Amendments to IAS 19 specifies how an entity determines pension expenses when changes to a defined benefit pension plan occur. IAS 19 'Employee Benefits' specifies how an entity accounts for a defined benefit plan. When a change to a plan – an amendment, curtailment or settlement-takes place, IAS 19 requires an entity to remeasure its net defined benefit liability or asset. The amendments require an entity to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.</p>	1 January 2019	The amendment does not have a significant impact on financial statement.
Amendment to IFRS 9 Financial Instruments Prepayment right with negative compensation	<p>Amendments to IFRS 9 introduce the statements with reference to contractual prepayment feature, when the lender could be forced to accept the prepayment amount that is substantially less than unpaid amounts of principal and interest. Such a prepayment amount would be a payment to the borrower from the lender, instead of compensation from the borrower to the lender. Such a financial asset would be eligible to be measured at amortized cost or fair value through other comprehensive income (subject to an assessment of the business model in which they are held), however, the negative compensation must be reasonable compensation for early termination of the contract.</p>	1 January 2019	The amendment does not have a significant impact on financial statement.
IFRIC 23 Uncertainty over Income Tax Treatments*	<p>Interpretation clarifies how the recognition and measurement requirements of IAS 12 "Income taxes" are applied where there is uncertainty over income tax treatments. An uncertain tax treatment is any tax treatment applied where there is uncertainty over whether that treatment will be accepted by the tax authority.</p> <p>IFRIC Interpretation 23 addresses, in particular, when there is uncertainty over income tax treatments, whether an entity considers uncertain tax treatments separately, what assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, tax rates and how an entity considers changes in facts and circumstances.</p> <p>The impact of the uncertainty should be measured using the method that best predicts the resolution of the uncertainty - either the most likely amount method or the expected value method when measuring an uncertainty.</p>	1 January 2019	The amendment does not have a significant impact on financial statement.

2015-2017 Cycle	<p>Following is a summary of the amendments from the 2015-2017 annual improvements cycle:</p> <p>IFRS 3 Business Combinations - Previously held Interests in a joint operation</p> <ul style="list-style-type: none"> • The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. • In doing so, the acquirer remeasures its entire previously held interest in the joint operation. • An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. <p>IFRS 11 Joint Arrangements - Previously held Interests in a joint operation</p> <ul style="list-style-type: none"> • A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. • An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. 	1 January 2019	The amendment does not have a significant impact on financial statement.
2015-2017 Cycle	<p>Following is a summary of the amendments from the 2015-2017 annual improvements cycle:</p> <p>IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity</p> <ul style="list-style-type: none"> • The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. • An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. <p>IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation</p> <ul style="list-style-type: none"> • The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. • An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. • An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. 	1 January 2019	The amendment does 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.

2.4 Basis of preparation of consolidated financial statements

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

The condensed interim consolidated financial statements of Santander Bank Polska Group were prepared in accordance with the International Accounting Standards (IAS 34) applied consistently adopted by the European Union. Santander Bank Polska S.A has produced condensed interim financial statements in accordance with the historical cost principle, except for the items below:

Item	Balance sheet valuation rules
Held-for-trading financial instruments	Fair value through profit or loss
Loans and advances to customers which do not meet the contractual cash flows test	Fair value through profit or loss
Financial instruments measured at fair value through other comprehensive income	Fair value through other comprehensive income
Share-based payment transactions	According to IFRS 2 "Share-based payment" requirements
Equity investment securities	Fair value through other comprehensive income – an option
Debt securities measured at fair value through profit and loss	Fair value through profit or loss
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 policies have been applied consistently by Santander Bank Polska Group entities. 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) and income tax charged under IAS 34.30c.

2.5 Changes in estimated values

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

The Santander Bank Polska Group's significant estimates are estimates of credit risk and fair value.

The Group did not make significant changes in terms of credit risk and fair value estimations, except for those described below.

The Group regularly analyses the risk profile of the CHF portfolio, including in terms of a potential impact of courts' rulings described in Note 32 on expected future cash flows from this portfolio. In 2019, the Group has not made any significant changes to the expected credit loss model for the CHF mortgage loan portfolio in connection with the foregoing uncertainties due to the fact that at the release date of the financial statements, the Group did not have any documentable information about future events which would require it to change the assumptions for estimating expected credit losses in this respect in the half-yearly financial reports. The Group will continue to monitor the above issues in the subsequent periods and will appropriately consider the risk of changes in courts' rulings in the estimation of expected credit losses for the CHF mortgage loan portfolio.

The other estimations were provided in the financial statements for 2018.

Santander Bank Polska Group did not make any new estimates, except for the estimates described below under IFRS 16.

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%.

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 will increase.

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

Class of right-of-use assets	Land	Buildings and structures	Vehicles	Telecommunication lines	Other	TOTAL
TOTAL	20 412	757 175	4 822	2 859	4 128	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 "General and administrative expenses".

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)
Lease liabilities classified as finance lease before initial application of IFRS 16	-
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 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.
- adjusted the carrying amount of the right-of-use asset by assets and liabilities recognized in respect of business combination in line 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,
- decommissioning provision. As regards the lease contracts providing for the 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 are incurred in relation to the right-of-use asset and amortised over the estimated economic life. The fair value of decommissioning costs 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 application date cash incentives.

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	811 419
- provisions for onerous contracts	(8 397)
- assets' adjustment related to 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 as at 1 January 2019, including fixed payments 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 and 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 the to restate comparative data.

At the date of initial application of the standard, Santander Bank Polska S.A. Group decided to use 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 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.

2.6 Judgements that affect the amounts recognised in financial statements

In the process of applying the accounting policies, the management of Santander Bank Polska Group makes various subjective judgements, apart from those involving estimates, that can significantly affect the amounts it recognises in the financial statements. Santander Bank Polska Group did not make new judgements except for the judgements described below, resulting from the implementation of IFRS 16.

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.

Lease term

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. 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.

2.7 Changes to accounting principles

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

Below is the description of changes to accounting policies arising from the implementation of IFRS 16 Lease as of 1 January 2019.

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

Separating components of a lease contract

Lessee

Santander Bank Polska 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 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 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 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 Group (the lessee) is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the 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

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 Group 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 both:

- 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:

- short-term leases; 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 Group 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 Santander Bank Polska Group (the lessee) is reasonably certain to exercise that option; and
- payments of 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.

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 gross 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.

The Group recognises costs, including depreciation, incurred in earning the lease income as an expense.

The 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.

2.8 Comparability with the results from the previous periods

The implementation of IFRS 16

The implementation of IFRS 16 Leases required modification of the lease recognition rules and extension of the scope of the disclosures in additional information, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, which gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of Santander Bank Polska Group as a lessor and lessee.

For the purpose of the initial application of the standard, Santander Bank Polska Group used a modified retrospective approach and measured right-of-use assets at the amount of lease liabilities. This approach did not impact the Group's equity.

Santander Bank Polska Group did not restate comparative information.

The impact of the implementation of IFRS 16 on the consolidated financial statement of the Santander Bank Polska Group as at January 1, 2019 is presented in the table below.

Financial lease so far presented together with property, plant and equipment, from January 1, 2019 are presented in a separate report line "Assets due to rights to use".

	As at 31.12.2018	Impact of implementation of IFRS 16	As at 1.01.2019
Property, plant and equipment	986 384	(209 830)	776 554
Right-of-use asset	-	999 226	999 226
Lease liabilities	-	811 420	811 420

Final settlement 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 changes made in relation 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. on the key items of the Consolidated Income Statement and the Consolidated Statement of Financial Position of Santander Bank Polska Group.

Changes	Gain on acquisition 2018	Impact on retained earnings - adjustment as at 31.12.2018	Impact on other capital - adjustment as at 31.12.2018
Value before restated	387 733	4 094 289	18 969 482
1 Fair value adjustment of consideration in the form of demerger shares	57 741	57 741	(57 741)
2 Adjustment of cash consideration	(2 988)	(2 988)	
3 Update of the fair value of the identified net assets	(23 192)	(23 192)	
Restated value	419 294	4 125 850	18 911 741

- 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.
- The adjustment to the value of the cash consideration reflects the updated key business parameters of the acquired entities, notably the difference in their goodwill between the date of the agreement and the effective date of the transaction.
- 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.

Change of presentation method

As presented in Consolidated Financial Statement of Santander Bank Polska Group for 2018, as a result of the analysis in 2018, on 1 January 2018, the Group changed the method of presentation of discounts or reduction connected with electronic services, in relation to fee and commission income and costs. These changes were applied by the Group to the data for 1H 2018 and 2Q2018 to make them comparable.

These items were previously presented as fee and commission income in "eBusiness and payments" and as fee and commission expenses in "eBusiness and payments", "Insurance fees" and "Other fees". These items have been netted and presented as fee and commission income in "eBusiness and payments".

The table below shows the impact of the presentation change on comparative data.

1.01.2018-30.06.2018	Before conversion	Change of presentation method	Converted
Fee and commission income	317 339	(28 785)	288 554
eBusiness & payments	317 339	(28 785)	288 554
Fee and commission expenses	(153 455)	28 785	(124 670)
eBusiness & payments	(111 876)	13 407	(98 469)
Insurance commissions	(5 396)	1 236	(4 160)
Other	(36 183)	14 142	(22 041)

1.04-2018-30.06.2018	Before conversion	Change of presentation method	Converted
Fee and commission income	170 330	(15 033)	155 297
eBusiness & payments	170 330	(15 033)	155 297
Fee and commission expenses	(88 235)	15 033	(73 202)
eBusiness & payments	(66 668)	7 051	(59 617)
Insurance commissions	(2 678)	728	(1 950)
Other	(18 889)	7 254	(11 635)

The above changes are for presentation purposes only.

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 Santander Bank Polska Group uses to assess performance of business segments activity.

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

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

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

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

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

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

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

In 2019 introduced the following changes:

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

Comparable data are adjusted accordingly.

On 9.11.2018 r. 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 Center segment.

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 wholesale market, Corporate & Investment Banking also generates revenues from interest rate and FX risk positioning activity.

ALM and Centre

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

Santander Consumer

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

Consolidated income statement by business segments

	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate & Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
1.01.2019-30.06.2019						
Net interest income	1 545 079	414 858	144 530	331 561	796 104	3 232 132
incl. internal transactions	(1 164)	(1 241)	2 415	1 853	(1 863)	-
Net fee and commission income	663 370	209 472	105 393	5 936	58 248	1 042 419
incl. internal transactions	68 312	47 948	(116 467)	1 655	(1 448)	-
Other income	26 362	29 584	32 617	154 842	25 680	269 085
incl. internal transactions	6 300	14 711	(19 153)	(1 263)	(595)	-
Dividend income	-	-	270	96 959	11	97 240
Operating costs	(974 807)	(222 160)	(125 264)	(335 541)	(297 942)	(1 955 714)
incl. internal transactions	-	-	-	940	(940)	-
Depreciation/amortisation	(174 301)	(27 951)	(12 165)	(59 063)	(36 319)	(309 799)
Impairment losses on loans and advances	(418 840)	(41 477)	4 483	(2 373)	(161 039)	(619 246)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	30 283	-	30 283
Tax on financial institutions	-	-	-	(261 853)	(21 014)	(282 867)
Profit before tax	666 863	362 326	149 864	(39 249)	363 729	1 503 533
Corporate income tax						(390 623)
Consolidated profit for the period						1 112 910
of which:						
attributable to owners of Santander Bank Polska SA						957 901
attributable to non-controlling interests						155 009

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

	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate & Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
1.04.2019-30.06.2019						
Net interest income	784 301	202 995	68 047	165 639	402 550	1 623 532
incl. internal transactions	(364)	(699)	1 065	1 093	(1 095)	-
Net fee and commission income	335 506	103 595	53 647	4 910	24 699	522 357
incl. internal transactions	33 727	25 957	(59 792)	846	(738)	-
Other income	12 898	7 977	17 829	102 427	11 797	152 928
incl. internal transactions	3 166	6 601	(9 007)	(1 466)	706	-
Dividend income	-	-	269	96 718	6	96 993
Operating costs	(496 643)	(110 594)	(60 162)	(64 476)	(137 587)	(869 462)
incl. internal transactions	-	-	-	625	(625)	-
Depreciation/amortisation	(87 842)	(14 073)	(6 375)	(31 362)	(17 566)	(157 218)
Impairment losses on loans and advances	(246 463)	(25 425)	(2 459)	2 053	(84 264)	(356 558)
Share in net profits (loss) of entities accounted for by the equity	-	-	-	15 945	-	15 945
Tax on financial institutions	-	-	-	(130 210)	(10 644)	(140 854)
Profit before tax	301 757	164 475	70 796	161 644	188 991	887 663
Corporate income tax						(198 989)
Consolidated profit for the period						688 674
of which:						
attributable to owners of Santander Bank Polska SA						607 214
attributable to non-controlling interests						81 460

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

Consolidated statement of financial position by business segment

	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate & Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
30.06.2019						
Loans and advances to customers	75 286 648	35 373 670	13 495 645	-	16 569 740	140 725 703
Investments in associates	-	-	-	865 227	-	865 227
Other assets	8 215 113	1 902 360	9 730 291	40 278 537	4 109 229	64 235 530
Total assets	83 501 761	37 276 030	23 225 936	41 143 764	20 678 969	205 826 460
Deposits from customers	97 275 121	26 276 135	10 728 061	5 903 744	9 492 387	149 675 448
Other liabilities and equity	6 087 986	4 240 297	12 006 192	22 629 955	11 186 582	56 151 012
Total equity and liabilities	103 363 107	30 516 432	22 734 253	28 533 699	20 678 969	205 826 460

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

Consolidated income statement by business segments

	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate & Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
1.01.2018-30.06.2018						
Net interest income	1 273 859	317 273	97 300	356 861	740 740	2 786 033
incl. internal transactions	(577)	(2 207)	2 831	(118)	71	-
Net fee and commission income	662 030	185 127	107 628	5 899	84 190	1 044 874
incl. internal transactions	59 072	42 362	(98 998)	(1 059)	(1 377)	-
Other income	20 890	24 055	68 839	94 977	34 036	242 797
incl. internal transactions	7 168	20 063	(24 317)	10 589	(13 503)	-
Dividend income	-	-	26	98 471	11	98 508
Operating costs	(975 540)	(200 004)	(116 305)	(148 295)	(284 432)	(1 724 576)
incl. internal transactions	-	-	-	978	(978)	-
Depreciation/amortisation	(105 045)	(18 293)	(7 665)	(11 769)	(19 630)	(162 402)
Impairment losses on loans and advances	(278 044)	(54 002)	(4 220)	(308)	(124 666)	(461 240)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	25 502	-	25 502
Tax on financial institutions	-	-	-	(198 965)	(19 584)	(218 549)
Profit before tax	598 150	254 156	145 603	222 373	410 665	1 630 947
Corporate income tax						(357 507)
Consolidated profit for the period						1 273 440
of which:						
attributable to owners of Santander Bank Polska SA						1 092 184
attributable to non-controlling interests						181 256

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

	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Corporate & Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
1.04.2018-30.06.2018						
Net interest income	643 978	159 543	43 692	172 999	375 995	1 396 207
incl. internal transactions	(279)	(1 562)	1 853	(49)	37	-
Net fee and commission income	331 998	97 432	59 692	(176)	40 814	529 760
incl. internal transactions	30 836	23 480	(51 847)	(1 792)	(677)	-
Other income	21 562	15 230	45 006	59 515	21 257	162 570
incl. internal transactions	3 341	12 661	(13 349)	10 402	(13 055)	-
Dividend income	-	-	26	98 292	5	98 323
Operating costs	(519 174)	(100 935)	(63 071)	(16 574)	(136 207)	(835 961)
incl. internal transactions	-	-	-	698	(698)	-
Depreciation/amortisation	(51 511)	(9 133)	(3 691)	(5 836)	(9 695)	(79 866)
Impairment losses on loans and advances	(151 922)	(21 342)	1 299	1 887	(87 798)	(257 876)
Share in net profits (loss) of entities accounted for by the equity method	-	-	-	14 504	-	14 504
Tax on financial institutions	-	-	-	(102 284)	(9 787)	(112 071)
Profit before tax	274 931	140 795	82 953	222 327	194 584	915 590
Corporate income tax						(176 520)
Consolidated profit for the period						739 070
of which:						
attributable to owners of Santander Bank Polska SA						651 285
attributable to non-controlling interests						87 785

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

Consolidated statement of financial position (by business segment)

	Segment Retail Banking*	Segment Business and Corporate Banking	Segment Corporate & Investment Banking	Segment ALM and Centre	Segment Santander Consumer	Total
31.12.2018						
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	10 358 452	41 567 164	4 064 688	67 500 530
Total assets	81 061 851	38 173 616	24 312 559	42 459 116	19 845 718	205 852 860
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	13 016 027	21 728 142	10 970 554	56 236 202
Total equity and liabilities	100 968 293	32 637 918	24 978 248	27 422 683	19 845 718	205 852 860

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

4. Risk management

In the first half of 2019, Santander Bank Polska Group managed its risks in accordance with the principles laid down in the consolidated financial statements for 2018. No material changes took place in the risk management process of Santander Bank Polska Group taking into account information presented in Note 2.5 'Use of estimates'.

Credit risk

In the first half of 2019 no material changes took place in the credit risk management process. The bank carried out a half-year process of updating the parameters used for the calculation of allowances for impairment. Moreover, Group has focused on the implementation of new EU guidance on non-performing and restructured loans which is aimed at more effective management and steady reduction of distressed exposures.

Additional information concerning credit risk is presented in Note 20.

Market risk

In the first half of 2019, Santander Bank Polska Group managed its market risks in accordance with the principles laid down in the consolidated financial statements for 2018. In the first half of 2019 no material changes took place in the market risk management process.

Other key risk indicators. Liquidity risk

In the reporting period, the liquidity risk management of Santander Bank Polska Group did not undergo any material changes. In terms of monitoring and reporting of risk, successfully implemented the requirements set out in the Regulation of the European Parliament and of the Council of the European Union on prudential requirements for credit institutions and investment firms for the measurement and reporting of new liquidity measures.

The table below presents the supervisory liquidity measures of Santander Bank Polska and the Group as at 30.06.2019 and 31.12.2018:

Supervisory liquidity measures	30.06.2019	31.12.2018
M1 (in PLN k)	17 374 725	23 834 991
M2	1,29	1,46
M3	4,11	4,75
M4	1,18	1,2
LCR (Group)	161%	191%

5. Capital management

Details on capital management have been presented in document „Information on Capital Adequacy of Santander Bank Polska Group as at 30th June 2019”.

6. Net interest income

	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019	1.04.2018- 30.06.2018	1.01.2018- 30.06.2018
Interest income and similar to interest				
Interest income on financial assets measured at amortised cost	1 869 671	3 690 953	1 537 794	3 025 737
Loans and advances to enterprises	538 162	1 069 243	449 308	874 311
Loans and advances to individuals, of which:	1 168 705	2 298 045	949 004	1 865 793
<i>Home mortgage loans</i>	407 861	804 125	293 213	573 517
Leasing agreements	79 436	155 832	61 777	132 489
Loans and advances to banks	12 562	25 383	8 378	16 069
Loans and advances to public sector	2 496	5 258	1 941	3 915
Reverse repo transactions	25 573	50 188	15 780	29 433
Interest recorded on hedging IRS	42 737	87 004	51 606	103 727
Interest income on financial assets measured at fair value through other comprehensive income	199 210	408 884	174 832	338 071
Loans and advances to enterprises	4 707	9 245	-	-
Debt securities incl.:	194 503	399 639	174 832	338 071
<i>Investment securities</i>	194 503	399 639	174 832	338 071
Income similar to interest - financial assets measured at fair value through profit or loss	47 568	98 311	24 117	61 436
Loans and advances to enterprises	510	1 011	510	1 011
Loans and advances to individuals	26 279	53 621	29 256	60 212
Debt securities incl.:	20 779	43 679	(5 649)	213
<i>Trading portfolio</i>	20 779	43 679	(5 649)	213
Total income	2 116 449	4 198 148	1 736 743	3 425 244
	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019	1.04.2018- 30.06.2018	1.01.2018- 30.06.2018
Interest expenses				
Interest expenses on financial liabilities measured at amortised cost	(492 917)	(966 016)	(340 536)	(639 211)
Deposits from individuals	(231 345)	(455 078)	(140 819)	(259 714)
Deposits from enterprises	(122 607)	(243 598)	(94 367)	(178 961)
Repo transactions	(33 560)	(62 938)	(17 766)	(35 512)
Deposits from public sector	(15 138)	(28 062)	(16 044)	(29 349)
Deposits from banks	(17 696)	(31 762)	(9 675)	(22 937)
Lease liability	(6 272)	(10 752)	-	-
Subordinated liabilities and issue of securities	(66 299)	(133 826)	(61 865)	(112 738)
Total costs	(492 917)	(966 016)	(340 536)	(639 211)
Net interest income	1 623 532	3 232 132	1 396 207	2 786 033

7. Net fee and commission income

	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019	1.04.2018- 30.06.2018	1.01.2018- 30.06.2018
Fee and commission income				
eBusiness & payments	155 393	290 522	155 297	288 554
Current accounts and money transfer	81 656	162 745	80 399	161 898
Asset management fees	69 875	137 660	79 986	161 187
Foreign exchange commissions	113 794	220 645	100 549	189 640
Credit commissions incl. factoring commissions and other	99 012	199 718	94 901	179 317
Insurance commissions	57 827	106 538	54 189	104 333
Commissions from brokerage activities	13 005	31 721	19 072	37 204
Credit cards	45 249	89 650	42 142	85 260
Off-balance sheet guarantee commissions	16 853	34 244	14 935	29 757
Finance lease commissions	5 998	12 275	4 647	9 019
Issue arrangement fees	964	1 998	2 827	5 885
Distribution fees	1 439	3 152	683	1 546
Total	661 065	1 290 868	649 627	1 253 600
Fee and commission expenses				
eBusiness & payments	(57 297)	(97 953)	(59 617)	(98 469)
Distribution fees	(2 205)	(5 031)	(4 955)	(10 263)
Commissions from brokerage activities	(1 783)	(4 286)	(2 388)	(5 119)
Credit cards	(10 125)	(19 247)	(10 189)	(18 895)
Credit commissions paid	(34 245)	(56 664)	(20 883)	(32 656)
Insurance commissions	(5 187)	(10 325)	(1 950)	(4 160)
Finance lease commissions	(7 575)	(15 139)	(6 451)	(13 495)
Asset management fees and other costs	(1 480)	(3 619)	(1 799)	(3 628)
Other	(18 811)	(36 185)	(11 635)	(22 041)
Total	(138 708)	(248 449)	(119 867)	(208 726)
Net fee and commission income	522 357	1 042 419	529 760	1 044 874

8. Net trading income and revaluation

	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019	1.04.2018- 30.06.2018	1.01.2018- 30.06.2018
Net trading income and revaluation				
Derivative instruments and interbank fx transactions	38 808	82 294	50 283	71 409
Profit on equity securities measured at fair value through profit or loss	(3 102)	(2 133)	(18)	(3 020)
Profit on debt securities measured at fair value through profit or loss	(3 039)	(20 560)	11 114	11 508
Change in fair value of loans and advances mandatorily measured at fair value through profit or loss	(2 466)	19 032	7 870	(11 731)
Total	30 201	78 633	69 249	68 166

The above amounts included CVA and DVA adjustments in the amount of PLN (1,978)k for H1 2019, PLN (636)k for 2Q 2019 and PLN 2,857 k for H1 2018, PLN 5,944 k for 2Q 2018.

9. Gains (losses) from other financial securities

	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019	1.04.2018- 30.06.2018	1.01.2018- 30.06.2018
Gains (losses) from other financial securities				
Profit on sale of debt securities measured at fair value through other comprehensive income	40 500	48 986	7 498	7 708
Profit on sale of debt securities mandatorily measured at fair value through profit or loss	(8)	(8)	3	(1)
Change in fair value of debt securities mandatorily measured at fair value through profit or loss	17 618	42 291	10 713	14 831
Total profit (losses) on financial instruments	58 110	91 269	18 214	22 538
Change in fair value of hedging instruments	(7 809)	(11 917)	6 939	(2 393)
Change in fair value of underlying hedged positions	11 595	15 399	(8 253)	682
Total profit (losses) on hedging and hedged instruments	3 786	3 482	(1 314)	(1 711)
Total	61 896	94 751	16 900	20 827

10. Other operating income

	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019	1.04.2018- 30.06.2018	1.01.2018- 30.06.2018
Other operating income				
Income on sale of services	7 518	13 173	4 672	15 787
Release of provision for legal cases and other assets	8 543	12 872	53 205	55 127
Settlements of leasing agreements	474	1 432	588	1 553
Recovery of other receivables (expired, cancelled and uncollectable)	5 068	5 856	1 928	4 233
Profit on sales or liquidation of fixed assets, intangible assets and assets for disposal	14 134	21 170	(2 797)	41 480
Received compensations, penalties and fines	198	593	268	1 681
Profit on lease modifications	10 231	12 832	-	-
Other	14 665	27 773	18 557	34 008
Total	60 831	95 701	76 421	153 869

11. Impairment losses on loans and advances

Impairment losses on loans and advances measured at amortised cost	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019	1.04.2018- 30.06.2018	1.01.2018- 30.06.2018
Charge for loans and advances to banks	(2)	(2)	(67)	(67)
Stage 1	(2)	(2)	(67)	(67)
Stage 2	-	-	-	-
Stage 3	-	-	-	-
POCI	-	-	-	-
Charge for loans and advances to customers	(366 957)	(647 075)	(260 620)	(479 378)
Stage 1	(30 146)	(46 706)	(7 543)	(10 564)
Stage 2	(199 036)	(246 593)	1 240	28 004
Stage 3	(148 220)	(392 751)	(263 794)	(515 857)
POCI	10 445	38 975	9 477	19 039
Recoveries of loans previously written off	(5 847)	1 595	(1 272)	16 408
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	(5 847)	1 595	(1 272)	16 408
POCI	-	-	-	-
Off-balance sheet credit related facilities	16 248	26 236	4 083	1 797
Stage 1	13 299	15 794	1 976	(564)
Stage 2	388	3 330	3 344	5 455
Stage 3	2 561	7 112	(1 237)	(3 094)
POCI	-	-	-	-
Total	(356 558)	(619 246)	(257 876)	(461 240)

12. Employee costs

Employee costs	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019	1.04.2018- 30.06.2018	1.01.2018- 30.06.2018
Salaries and bonuses	(373 083)	(738 182)	(336 786)	(661 655)
Salary related costs	(64 931)	(133 024)	(58 364)	(117 731)
Staff benefits costs	(9 476)	(18 372)	(9 594)	(17 893)
Professional trainings	(4 323)	(6 850)	(4 740)	(7 617)
Retirement fund, holiday provisions and other employee costs	(4)	(9)	16 487	15 908
Restructuring provision*	(6 320)	(86 320)	-	-
Total	(458 137)	(982 757)	(392 997)	(788 988)

*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.

The intention of the Management Board of the Bank is to make up to 1,400 employees of the Bank redundant, between February and 31 December 2019, and due to this the restructuring provision was created in the Bank's accounting books in amount PLN (80,000) k. Details on charge and utilization of restructuring provision are disclosed in Note 29.

13. General and administrative expenses

	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019	1.04.2018- 30.06.2018	1.01.2018- 30.06.2018
General and administrative expenses				
Maintenance of premises*	(34 252)	(83 877)	(84 204)	(168 371)
Short-term lease costs*	(6 093)	(7 613)	-	-
Low-value assets lease costs*	(2 581)	(2 796)	-	-
Costs of variable lease payments not included in the measurement of the lease liability*	(894)	(1 110)	-	-
VAT costs not deductible*	(15 437)	(23 826)	-	-
Marketing and representation	(43 143)	(77 845)	(43 050)	(68 514)
IT systems costs	(78 060)	(155 567)	(80 520)	(140 851)
Cost of BFG, KNF and KDPW	(29 111)	(257 106)	(3 351)	(166 981)
Postal and telecommunication costs	(15 742)	(31 489)	(20 043)	(32 898)
Consulting fees	(21 059)	(35 581)	(23 433)	(42 295)
Cars, transport expenses, carriage of cash	(14 261)	(33 449)	(16 955)	(32 196)
Other external services	(45 574)	(86 145)	(37 999)	(74 101)
Stationery, cards, cheques etc.	(5 231)	(13 152)	(5 445)	(11 637)
Sundry taxes and charges	(10 536)	(20 171)	(9 020)	(17 527)
Data transmission	(3 128)	(6 448)	(3 482)	(7 044)
KIR, SWIFT settlements	(9 065)	(17 953)	(8 347)	(15 519)
Security costs	(7 650)	(15 030)	(7 698)	(14 781)
Costs of repairs	(4 770)	(5 728)	(7 629)	(18 437)
Other	(8 477)	(12 417)	(7 240)	(13 727)
Total	(355 064)	(887 303)	(358 416)	(824 879)

*Details in note 2.5.

14. Other operating expenses

	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019	1.04.2018- 30.06.2018	1.01.2018- 30.06.2018
Other operating expenses				
Charge of provisions for legal cases and other assets	(15 704)	(29 391)	(69 924)	(79 758)
Impairment loss on property, plant, equipment and intangible assets covered by financial lease agreements	(17 460)	(17 460)	-	-
Costs of purchased services	(718)	(1 216)	(2 342)	(7 947)
Other membership fees	(367)	(549)	(353)	(534)
Paid compensations, penalties and fines	(599)	(899)	(3 568)	(6 907)
Donations paid	(2 229)	(4 462)	(2 729)	(2 768)
Costs of lease modifications	(10 663)	(13 313)	-	-
Other	(8 521)	(18 364)	(5 632)	(12 795)
Total	(56 261)	(85 654)	(84 548)	(110 709)

15. Corporate income tax

Corporate income tax	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019	1.04.2018- 30.06.2018	1.01.2018- 30.06.2018
Current tax charge in the income statement	(269 169)	(449 619)	(264 388)	(452 483)
Deferred tax	70 180	60 608	87 868	92 693
Tax adjustment for previous years	-	(1 612)	-	2 283
Total tax on gross profit	(198 989)	(390 623)	(176 520)	(357 507)

Corporate total tax charge information	1.04.2019- 30.06.2019	1.01.2019- 30.06.2019	1.04.2018- 30.06.2018	1.01.2018- 30.06.2018
Profit before tax	887 663	1 503 533	915 590	1 630 947
Tax rate	19%	19%	19%	19%
Tax calculated at the tax rate	(168 656)	(285 671)	(173 962)	(309 880)
Non-tax-deductible expenses	(19 236)	(25 572)	(10 393)	(12 346)
The fee to the Bank Guarantee Fund	(4 486)	(46 401)	6	(30 442)
Tax on financial institutions	(26 763)	(53 745)	(21 294)	(41 524)
Non-taxable income (dividends)	18 380	18 380	18 642	18 642
Tax adjustment for previous years	-	(1 612)	-	2 283
Tax effect of consolidation adjustments	11 830	11 830	11 284	18 077
Other	(10 058)	(7 832)	(803)	(2 317)
Total tax on gross profit	(198 989)	(390 623)	(176 520)	(357 507)

Deferred tax recognised in other comprehensive income	30.06.2019	31.12.2018
Relating to valuation of debt investments measured at fair value through other comprehensive income	(158 621)	(130 592)
Relating to valuation of equity investments measured at fair value through other comprehensive income	(124 131)	(121 892)
Relating to cash flow hedging activity	792	14 810
Relating to valuation of defined benefit plans	(2 542)	(2 536)
Total	(284 502)	(240 210)

16. Cash and balances with central banks

Cash and balances with central banks	30.06.2019	31.12.2018
Cash	1 939 822	2 452 636
Current accounts in central banks	4 059 981	6 454 916
Term deposits	41 260	-
Total	6 041 063	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 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.

17. Loans and advances to banks

Loans and advances to banks	30.06.2019	31.12.2018
Loans and advances	322 868	1 159 923
Current accounts	1 988 052	1 776 358
Gross receivables	2 310 920	2 936 281
Allowance for impairment	(84)	(67)
Total	2 310 836	2 936 214

18. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading	30.06.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
Trading derivatives	1 336 714	1 401 461	1 081 227	1 058 024
Interest rate operations	723 495	695 089	553 999	545 393
Transactions on equity instruments	3 148	3 148	3 279	3 279
FX operations	610 071	703 224	523 949	509 352
Debt and equity securities	7 752 073	-	8 688 624	-
Debt securities	7 720 903	-	8 671 723	-
Government securities:	7 716 115	-	8 667 540	-
- bonds	7 716 115	-	8 667 540	-
Commercial securities:	4 788	-	4 183	-
- bonds	4 788	-	4 183	-
Equity securities:	31 170	-	16 901	-
Short sale	-	319 981	-	175 689
Total financial assets/liabilities	9 088 787	1 721 442	9 769 851	1 233 713

Financial assets and liabilities held for trading - trading derivatives include the change in the value of counterparty risk in the amount of PLN (2,940) k as at 30.06.2019 and PLN (946) k as at 31.12.2018.

19. Hedging derivatives

Hedging derivatives	30.06.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
Derivatives hedging fair value	1 241	172 234	312	129 205
Derivatives hedging cash flow	94 165	710 560	72 909	783 277
Total hedging derivatives	95 406	882 794	73 221	912 482

As at 30.06.2019 Hedging derivatives - derivatives hedging cash flow include value adjustments day first profit or loss for start forward CIRS transactions in the amount of PLN (8,040) k and PLN (8,562) k as at 31.12.2018.

20. Loans and advances to customers

Loans and advances to customers	30.06.2019			Total
	Measured at amortised cost	Measured at fair value through other comprehensive income	Measured at fair value through profit or loss	
Loans and advances to enterprises	58 700 365	419 529	40 408	59 160 302
Loans and advances to individuals, of which:	76 160 638	-	1 213 865	77 374 503
<i>Home mortgage loans</i>	50 193 481	-	-	50 193 481
Finance lease receivables	8 728 789	-	-	8 728 789
Loans and advances to public sector	256 772	-	-	256 772
Other receivables	25 402	6	-	25 408
Gross receivables	143 871 966	419 535	1 254 273	145 545 774
Allowance for impairment	(4 820 071)	-	-	(4 820 071)
Total	139 051 895	419 535	1 254 273	140 725 703

Loans and advances to customers	31.12.2018			Total
	Measured at amortised cost	Measured at fair value through other comprehensive income	Measured at fair value through profit or loss	
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
<i>Home mortgage loans</i>	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

Loans and advances to enterprises 30.06.2019	Gross carrying amount	Allowance for impairment	Net
Stage 1	51 793 140	(205 796)	51 587 344
Stage 2	3 179 497	(230 802)	2 948 695
Stage 3	3 358 134	(1 772 082)	1 586 052
POCI	369 594	(32 083)	337 511
Total	58 700 365	(2 240 763)	56 459 602

Loans and advances to individuals 30.06.2019	Gross carrying amount	Allowance for impairment	Net
Stage 1	70 198 460	(327 306)	69 871 154
Stage 2	3 060 096	(366 010)	2 694 086
Stage 3	2 553 034	(1 693 393)	859 641
POCI	349 048	(56 929)	292 119
Total	76 160 638	(2 443 638)	73 717 000

Finance lease receivables 30.06.2019	Gross carrying amount	Allowance for impairment	Net
Stage 1	8 008 945	(19 774)	7 989 171
Stage 2	540 303	(18 811)	521 492
Stage 3	177 832	(96 958)	80 874
POCI	1 709	(343)	1 366
Total	8 728 789	(135 886)	8 592 903

Loans and advances to enterprises 31.12.2018	Gross carrying amount	Allowance for impairment	Net
Stage 1	51 944 392	(246 252)	51 698 140
Stage 2	2 407 835	(178 346)	2 229 489
Stage 3	3 367 911	(1 601 041)	1 766 870
POCI	409 752	(17 123)	392 629
Total	58 129 890	(2 042 763)	56 087 127

Loans and advances to individuals 31.12.2018	Gross carrying amount	Allowance for impairment	Net
Stage 1	68 036 395	(301 183)	67 735 212
Stage 2	2 783 788	(332 781)	2 451 007
Stage 3	2 182 315	(1 542 312)	640 003
POCI	349 933	(35 715)	314 218
Total	73 352 431	(2 211 991)	71 140 440

Finance lease receivables 31.12.2018	Gross carrying amount	Allowance for impairment	Net
Stage 1	7 541 511	(16 647)	7 524 863
Stage 2	504 471	(19 125)	485 346
Stage 3	153 437	(92 660)	60 777
POCI	4 877	(275)	4 602
Total	8 204 296	(128 707)	8 075 588

Movements on impairment losses on loans and advances to customers measured at amortised cost for reporting period	1.01.2019- 30.06.2019	1.01.2018- 30.06.2018
Balance at the beginning of the period	(4 384 322)	(4 061 739)
Charge/write back of current period	(721 660)	(541 515)
Stage 1	(46 472)	(22 209)
Stage 2	(246 593)	26 303
Stage 3	(392 753)	(516 030)
POCI	(35 842)	(29 579)
Write off/Sale of receivables	280 515	198 216
Stage 1	-	106
Stage 2	-	-
Stage 3	280 515	198 110
POCI	-	-
Transfer	2 772	11 676
Stage 1	58 542	(514)
Stage 2	161 225	661
Stage 3	(216 586)	11 394
POCI	(409)	135
F/X differences	2 624	(20 925)
Stage 1	239	(1 834)
Stage 2	(26)	(4 335)
Stage 3	2 401	(13 949)
POCI	10	(807)
Balance at the end of the period	(4 820 071)	(4 414 287)

21. Investment securities

Investment securities	30.06.2019	31.12.2018
Debt securities measured at fair value through other comprehensive income	38 179 878	38 221 051
Government securities:	34 219 503	30 403 130
- bonds	34 219 503	30 403 130
Central Bank securities:	1 939 700	5 999 249
- bills	1 939 700	5 999 249
Other securities:	2 020 675	1 818 672
-bonds	2 020 675	1 818 672
Debt securities measured at fair value through profit and loss	177 035	136 511
Equity securities measured at fair value through other comprehensive income	807 301	821 538
- listed	13 997	16 720
- unlisted	793 304	804 818
Total	39 164 214	39 179 100

22. Investments in associates

Balance sheet value of associates	30.06.2019	31.12.2018
Polfund - Fundusz Poręczeń Kredytowych S.A.	44 951	44 703
Santander - Aviva Towarzystwo Ubezpieczeń S.A. and Santander - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	820 276	847 249
Total	865 227	891 952

	1.01.2019- 30.06.2019	1.01.2018- 30.06.2018
Movements on investments in associates		
As at the beginning of the period	891 952	889 372
Share of profits/(losses)	30 283	25 502
Dividends	(58 661)	(60 695)
Other	1 653	1 278
As at the end of the period	865 227	855 457

23. Assets classified as held for sale

Assets classified as held for sale	30.06.2019	31.12.2018
Land and buildings	10 572	11 123
Other fixed assets	472	1 022
Total	11 044	12 145

24. Deposits from banks

Deposits from banks	30.06.2019	31.12.2018
Term deposits	459 178	144 906
Loans received from banks	2 003 749	1 733 724
Current accounts	993 407	954 298
Total	3 456 334	2 832 928

25. Deposits from customers

Deposits from customers	30.06.2019	31.12.2018
Deposits from individuals	90 496 886	88 211 366
Term deposits	31 668 319	32 715 078
Current accounts	58 652 428	55 308 995
Other	176 139	187 293
Deposits from enterprises	54 682 108	57 493 542
Term deposits	23 503 813	24 690 631
Current accounts	25 428 773	27 274 603
Loans	4 739 342	4 751 949
Other	1 010 180	776 359
Deposits from public sector	4 496 454	3 911 750
Term deposits	1 065 014	1 290 086
Current accounts	3 431 396	2 617 635
Other	44	4 029
Total	149 675 448	149 616 658

26. Subordinated liabilities

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

Movements in subordinated liabilities	30.06.2019	30.06.2018
As at the beginning of the period	2 644 341	1 488 602
Additions from:	41 763	1 200 144
- drawing of subordinated loan	-	100 000
- interest on subordinated loans	41 763	26 713
- FX differences	-	68 153
- reclassification *	-	1 005 278
Disposals from:	(58 722)	(23 005)
- interest repayment	(42 141)	(23 005)
- FX differences	(16 581)	-
As at the end of the period	2 627 382	2 665 741
Short-term	16 466	16 810
Long-term (over 1 year)	2 610 916	2 648 931

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

27. Debt securities in issue

Issuance of debt securities in 1H 2019 (non-matured securities)	Nominal value	Currency	Redemption date
Series J bank securities	550 000	PLN	27.04.2020
Series K bank securities	82 000	PLN	23.12.2019
Series D bonds of Santander Factoring	650 000	PLN	18.10.2019
Series E bonds of Santander Factoring	250 000	PLN	27.12.2019
Senior bonds of Santander Leasing Poland Securitization 01 05/2019	1 202 500	PLN	20.02.2035

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	30.06.2019	30.06.2018
As at the beginning of the period	9 368 617	5 895 814
Increase (due to):	2 811 132	3 385 733
- debt securities in issue	2 734 500	3 301 000
- interest on debt securities in issue	76 483	84 733
- other changes	149	-
Decrease (due to):	(2 291 018)	(3 212 739)
- debt securities redemption	(2 187 873)	(2 125 000)
- interest repayment	(68 121)	(82 461)
- reclassification *	-	(1 005 278)
- FX differences	(35 024)	-
As at the end of the period	9 888 731	6 068 808

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

28. Provisions for off balance sheet credit facilities

Provisions for off balance sheet credit facilities	30.06.2019	31.12.2018
Provisions for financial liabilities to grant loans	36 009	67 044
Provisions for financial guarantees	14 648	13 514
Provisions for low-risk credit lines	3 452	-
Other provisions	607	490
Total	54 716	81 048

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

Change in provisions for off balance sheet credit facilities	30.06.2018
As at 31.12.2017	50 652
Impact of the implementation of IFRS 9	15 034
As at 1.01.2018 (restated)	65 686
Provision charge	83 804
Utilization	411
Write back	(85 601)
Other changes	(5)
As at the end of the period	64 295
Short-term	51 320
Long-term	12 975

29. Other provisions

Other provisions	30.06.2019	31.12.2018
Provisions for legal claims	148 365	132 382
Provisions for restructuring*	30 891	499
Total	179 256	132 881

*Details on restructuring provision are disclosed in Note 12.

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

Change in other provisions for the period 30.06.2018	Provisions for legal claims	Provisions for restructuring	Total
As at the beginning of the period	99 463	3 019	102 482
Provision charge	83 884	-	83 884
Utilization	(3 188)	-	(3 188)
Write back	(29 529)	(1 615)	(31 144)
As at the end of the period	150 630	1 404	152 034

30. Other liabilities

Other liabilities	30.06.2019	31.12.2018
Settlements of stock exchange transactions	28 701	17 039
Interbank settlements	754 743	267 844
Employee provisions	280 649	405 231
Other provisions	3 300	3 300
Sundry creditors	882 921	1 003 405
Other deferred and suspended income	223 783	240 637
Public and law settlements	131 934	109 853
Accrued liabilities	583 611	567 220
Finance lease related settlements	82 561	139 232
Other	4 616	5 311
Total	2 976 819	2 759 072
of which financial liabilities *	2 616 486	2 403 271

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

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

	Employee provisions			Total
		of which: Provisions for retirement allowances	Other provisions	
Change in provisions on 30.06.2018				
As at the beginning of the period	407 722	72 726	3 300	411 022
Provision charge	140 134	2 334	-	140 134
Utilization	(199 451)	-	-	(199 451)
Write back	(61 899)	(31 452)	-	(61 899)
Balance at the end of the period	286 506	43 608	3 300	289 806
Short-term	242 898	-	3 300	246 198
Long-term	43 608	43 608	-	43 608

31. Fair value

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

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

ASSETS	30.06.2019		31.12.2018	
	Book Value	Fair value	Book Value	Fair value
Cash and balances with central banks	6 041 063	6 041 063	8 907 552	8 907 552
Loans and advances to banks	2 310 836	2 310 836	2 936 214	2 936 214
Financial assets held for trading	9 088 787	9 088 787	9 769 851	9 769 851
Hedging derivatives	95 406	95 406	73 221	73 221
Loans and advances to customers	140 725 703	141 531 254	137 460 378	138 231 719
- measured at amortised cost	139 051 895	139 857 446	135 643 297	136 414 638
- measured at fair value through other comprehensive income	419 535	419 535	366 751	366 751
- measured at fair value through profit or loss	1 254 273	1 254 273	1 450 330	1 450 330
Investment securities incl.:	39 164 214	39 164 214	39 179 100	39 179 100
- debt securities measured at fair value through other comprehensive income	38 179 878	38 179 878	38 221 051	38 221 051
- debt securities measured at fair value through profit and loss	177 035	177 035	136 511	136 511
- equity securities measured at fair value through other comprehensive income	807 301	807 301	821 538	821 538
LIABILITIES				
Deposits from banks	3 456 334	3 456 334	2 832 928	2 832 928
Hedging derivatives	882 794	882 794	912 482	912 482
Financial liabilities held for trading	1 721 442	1 721 442	1 233 713	1 233 713
Deposits from customers	149 675 448	149 687 191	149 616 658	149 607 250
Subordinated liabilities	2 627 382	2 614 441	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 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. Additional information is presented in Note 2.5 Change in estimates.

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

Debt securities in issue and subordinated liabilities: The Group has made an assumption that fair value of those securities is based on discounted cash flows methods incorporating adequate interest rates.

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

As at 30.06.2019 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 including the discount for liquidity risk and lack of control.

As at 30.06.2019 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

30.06.2019	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	7 752 073	1 336 714	-	9 088 787
Hedging derivatives	-	95 406	-	95 406
Loans and advances to customers measured at fair value through other comprehensive income	-	-	419 535	419 535
Loans and advances to customers measured at fair value through profit or loss	-	-	1 254 273	1 254 273
Debt securities measured at fair value through other comprehensive income	38 152 608	-	27 270	38 179 878
Debt securities measured at fair value through profit and loss	-	-	177 035	177 035
Equity securities measured at fair value through other comprehensive income	13 997	-	793 304	807 301
Total	45 918 678	1 432 120	2 671 417	50 022 215
Financial liabilities				
Financial liabilities held for trading	319 981	1 401 461	-	1 721 442
Hedging derivatives	-	882 794	-	882 794
Total	319 981	2 284 255	-	2 604 236

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 or loss	-	90 300	1 360 030	1 450 330
Debt securities measured at fair value through other comprehensive income	38 193 781	-	27 270	38 221 051
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	46 899 125	1 244 748	2 695 380	50 839 253
Financial liabilities				
Financial liabilities held for trading	175 689	1 058 024	-	1 233 713
Hedging derivatives	-	912 482	-	912 482
Total	175 689	1 970 506	-	2 146 195

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

Level III	Financial assets					
	Financial assets held for trading	Loans and advances to customers measured at fair value through profit and loss	Loans and advances to customers measured at fair value through other comprehensive income	Debt securities measured at fair value through profit and loss	Debt securities measured at fair value through other comprehensive income	Equity securities measured at fair value through other comprehensive income
30.06.2019						
As at the beginning of the period	-	1 360 030	366 751	136 511	27 270	804 818
Profit or losses						
<i>recognised in income statement</i>	-	81 559	-	40 524	-	-
<i>recognised in equity (OCI)</i>	-	-	-	-	-	(7 213)
Purchase/granting	-	288 161	52 784	-	-	-
Sale	-	-	-	-	-	(4 301)
Matured	-	(471 655)	-	-	-	-
Transfer	-	-	-	-	-	-
Other	-	(3 822)	-	-	-	-
As at the end of the period	-	1 254 273	419 535	177 035	27 270	793 304

Level III	Financial assets					
	Financial assets held for trading	Loans and advances to customers measured at fair value through profit and loss	Loans and advances to customers measured at fair value through other comprehensive income	Debt securities measured at fair value through profit and loss	Debt securities measured at fair value through other comprehensive income	Equity securities measured at fair value through other comprehensive income
31.12.2018						
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						
<i>recognised in income statement</i>	(26)	33 539	-	12 573	-	-
<i>recognised in equity (OCI)</i>	-	-	-	-	-	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

32. Contingent liabilities

Significant court proceedings

As at 30.06.2019 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 1,261,750 k, which is 4.93% of the Group's equity. This amount includes PLN 671,670 k claimed by the Group, PLN 541,451 k in claims against the Group and PLN 48,629 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 30.06.2019 the amount of significant court proceedings which had been completed amounted to PLN 343,451 k.

As at 30.06.2019, the value of provisions for legal claims was PLN 148,365 k. In 48 cases against Santander Bank Polska SA, where the claim value was high, a provision of PLN 37,364 k was raised and in 1 case claimed by the Bank, a provision of PLN 26,245 k was raised.

As at 30 June 2019, the Group had PLN 10,116 m worth of retail exposures in respect of mortgage loans denominated in, or indexed to, CHF.

As at 30 June 2019, there were 1,051 pending lawsuits against the Group over loans indexed to, or denominated in, a foreign currency (mainly CHF), whereby the disputed amount totalled PLN 240 m. This included two class actions filed under the Act on pursuing claims through group proceedings:

- a class action against Santander Bank Polska SA in respect of 530 CHF-indexed loans, with the disputed amount of PLN 47 m;
- a class action against Santander Consumer Bank SA in respect of 31 CHF-indexed loans, with the disputed amount of PLN 38.1 k.

As at 30 June 2019, the Group raised PLN 71 m worth of provisions for legal risk connected with the above lawsuits.

So far, in the vast majority of cases brought against Santander Bank Polska SA courts have decided in favour of the bank (15 final rulings dismissing the case vs. one ruling against the bank ordering it to refund the overpaid amount). In the case of Santander Consumer Bank SA, in 9 lawsuits courts decided in favour of the bank and in 9 lawsuits – against it.

There are 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 at issue is treated as a PLN loan with an interest rate based on CHF LIBOR; or (2) the indexation clause is unfair and renders 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 table is unfair and should be deemed invalid. Accordingly, an objective indexation rate should be used, i.e. an average NBP exchange rate (this is usually based on default rules of the national law supported by rulings by the Court of Justice of the European Union (CJEU) and the Supreme Court). As a result, banks may be ordered to refund overpaid amounts; however, they will be equal to FX differences close to the currency spread.

To date, the Supreme Court has presented a uniform stance as to the consequences of rendering the exchange rate calculation clause unfair: indexed loan agreements are lawful and the agreement at issue retains the features of an agreement on an indexed loan. However, in the last two 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 decisions made by the Supreme Court so far.

On 14 May 2019, the Advocate General of CJEU issued an opinion in relation to the lawsuit against Raiffeisen Bank Polska SA regarding unfair contractual clauses in consumer agreements, specifically the consequences of potentially unfair contractual clauses in CHF-indexed loan agreements. The Advocate General concluded that if the FX difference clause is deemed to be unfair, the agreement may be converted to an agreement on a PLN loan with an interest rate based on CHF LIBOR or it may be rendered null and void, as decided by the domestic court. In consultation with the Polish Bank Association (ZBP), Raiffeisen Bank Polska SA filed for rehearing, enclosing a written opinion of the ZBP which pointed to a significant risk of the CJEU ruling based on incorrect legal assumptions presented in the opinion of the Advocate General.

The Group regularly monitors courts' rulings on loans indexed to, or denominated in, a foreign currency in terms of possible changes in courts' stance.

In view of the final and binding courts' decisions in lawsuits against Santander Bank Polska Group (the vast majority of which have been favourable to the Group) and differences in courts' stance, when assessing legal risk associated with lawsuits over foreign currency loans the Group considers the probability of different rulings and raises provisions for pending court proceedings.

The Management Board confirms that the Group maintains capital adequacy ratios in accordance with the applicable laws and individual decisions of the KNF, at the level exceeding regulatory requirements respectively 16.26% of total capital ratio and 14.45% of Tier 1 ratio.

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 provision of PLN 37,340 k was raised and in 1 case claimed by the Bank, a provision of PLN 26,245 k was raised.

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

Off-balance sheet liabilities

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

Contingent liabilities - sanctioned	30.06.2019			Total
	Stage 1	Stage 2	Stage 3	
Liabilities sanctioned				
- financial	27 977 824	534 576	44 884	28 557 284
- credit lines	23 253 958	431 749	33 837	23 719 544
- credit cards debits	4 046 044	95 553	11 047	4 152 644
- import letters of credit	666 822	7 274	-	674 096
- term deposits with future commencement term	11 000	-	-	11 000
- guarantees	6 083 941	142 282	24 713	6 250 936
Provision for off-balance sheet liabilities	(16 251)	(8 709)	(29 756)	(54 716)
Total	34 045 514	668 149	39 841	34 753 504

Contingent liabilities - sanctioned	31.12.2018			Total
	Stage 1	Stage 2	Stage 3	
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

33. Shareholders with min. 5% voting power

According to the information held by the Bank's Management Board, the shareholders with a min. 5% of the total number of votes at the Santander Bank Polska General Meeting as at the publication date of the condensed interim consolidated report for 1H 2019 /23.07.2019/ is Banco Santander S.A.

Shareholder	Number of shares held		% in the share capital		Number of votes at AGM		Voting power at AGM	
	23.07.2019	30.04.2019	23.07.2019	30.04.2019	23.07.2019	30.04.2019	23.07.2019	30.04.2019
Banco Santander S.A.	68 880 774	68 880 774	67,47%	67,47%	68 880 774	68 880 774	67,47%	67,47%
Other	33 207 531	33 207 531	32,53%	32,53%	33 207 531	33 207 531	32,53%	32,53%
Total	102 088 305	102 088 305	100%	100%	102 088 305	102 088 305	100%	100%

34. Related parties

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

Transactions with associates	30.06.2019	31.12.2018
Assets	84	85
Other assets	84	85
Liabilities	129 546	105 680
Deposits from customers	129 401	105 519
Other liabilities	145	161

Transactions with associates	1.01.2019- 30.06.2019	1.01.2018- 30.06.2018
Income	20 324	17 246
Fee and commission income	20 324	17 246
Expenses	2 157	2 620
Interest expense	838	684
Fee and commission expense	743	1 127
Operating expenses incl.:	576	809
<i>General and administrative expenses</i>	576	809

Transactions with Santander Group	with the parent company		with other entities	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
Assets	1 004 785	1 364 172	3 301	6 416
Loans and advances to banks, incl:	415 933	955 508	3 301	6 398
<i>Loans and advances</i>	306 781	583 784	-	-
<i>Current accounts</i>	109 152	371 724	3 301	6 398
Financial assets held for trading	588 852	407 364	-	-
Hedging derivatives	-	1 085	-	-
Other assets	-	215	-	18
Liabilities	746 857	784 526	118 190	127 328
Deposits from banks incl.:	125 431	294 866	12 142	10 721
<i>Current accounts</i>	125 431	294 866	12 142	10 721
Hedging derivatives	1 509	8 634	-	-
Financial liabilities held for trading	596 936	477 638	-	-
Deposits from customers	-	-	66 538	100 130
Lease liability	-	-	1 181	-
Other liabilities	22 981	3 388	38 329	16 477
Contingent liabilities	11 000	-	2 284	-
Sanctioned:	11 000	-	2 284	-
<i>financial</i>	11 000	-	-	-
<i>guarantees</i>	-	-	2 284	-

Transactions with Santander Group	with the parent company		with other entities	
	1.01.2019- 30.06.2019	1.01.2018- 30.06.2018	1.01.2019- 30.06.2019	1.01.2018- 30.06.2018
Income	224 828	6 049	1 000	17 454
Interest income	3 792	4 922	24	12
Fee and commission income	1 128	1 127	153	120
Other operating income	-	-	4	89
Net trading income and revaluation	219 908	-	819	17 233
Expenses	21 230	76 564	33 431	33 007
Interest expense	859	846	433	200
Fee and commission expense	730	644	68	169
Net trading income and revaluation	-	63 741	-	-
Operating expenses incl.:	19 641	11 333	32 930	32 638
<i>Staff, Operating expenses and management costs</i>	19 641	11 332	32 930	32 636
<i>Other operating expenses</i>	-	1	-	2

Transactions with Members of Management and Supervisory Boards

Remuneration of Santander Bank Polska Management Board Members, Supervisory Board Members and key management Santander Bank Polska Group's. Loans and advances granted to the key management personnel

As at 30.06.2019, 31.12.2018 and 30.06.2018 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.

Remuneration of Management Board Members and Key Management	Management Board			
	Members		Key Management	
	1.01.2019- 30.06.2019	1.01.2018- 30.06.2018	1.01.2019- 30.06.2019	1.01.2018- 30.06.2018
Remuneration	5 979	6 448	21 502	19 970
Additional benefits (e.g among others, life insurance cover without pension option, medical cover, travel expenses and school fees)	293	457	415	405
The awards paid in 2019 and 2018 *	10 887	9 940	19 344	18 460
Equivalent paid for unused annual leave	129	146	183	192
Additional compensation for termination of the contract and the non-competition clause	-	1 105	-	660
Provisions for retirement benefits and provision for unused holidays	1 904	1 263	6 310	5 180
The number of conditional rights to shares **	25 160	27 220	37 280	38 000

	Management Board			
	Members		Key Management	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
Loans and advances made by the Bank to the Members of the Management Board/Key Management and to their relatives	8 705	10 103	30 033	25 188
Deposits from The Management Board/Key management and their relatives	17 398	13 714	32 883	26 169

* included part of the award for 2018, 2017, 2016, 2015 and 2014 which was conditional and deferred in time

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

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

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

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

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

In H1 2018, the total remuneration paid to the Supervisory Board Members of Santander Bank Polska totalled PLN 754 k. Mr John Power received remuneration for the supervision over acquisition of a carve-out business of Deutsche Bank Poland by Santander Bank Polska in the amount of PLN 422 k. Mr John Power received remuneration of PLN 13.8 k from subsidiaries for his membership in their Supervisory Boards.

35. 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

Cash paid	260 948
Ordinary shares issued	974 107
Total purchase consideration	1 235 055

Analysis of the acquired assets and liabilities on the merger date

As at the date of publishing the report, 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).

Details of the approach used to calculate above balances are described in the section "Significant judgements and valuation assumptions".

The intangible assets are amortised to profit or loss using the non-straight line method. The assets' useful life was determined in relation to the life of the underlying products.

The tables below present the fair value of the acquired assets and liabilities.

	as at: 09.11.2018	Organized part of the DB	DB Securities
ASSETS			
Cash and balances with central banks	51 073		-
Loans and advances to banks	405		159 690
Financial assets held for trading	24 049		-
Loans and advances to customers measured at amortised cost	18 781 513		-
- Mortgage loans	8 442 540		-
- Consumer loans	3 092 067		-
- Business loans	7 246 906		-
Investment securities incl.:	83 090		271
- debt securities measured at fair value through other comprehensive income	63 077		-
- debt securities measured at fair value through profit and loss	20 013		-
- equity securities measured at fair value through other comprehensive income	-		271
Intangible assets	195 977		1 041
Property, plant and equipment	19 043		125
Net deferred tax assets	52 972		940
Other assets	37 017		17 896
Total assets	19 245 139		179 963
LIABILITIES			
Deposits from banks	4 417 460		74
Financial liabilities held for trading	12 122		-
Deposits from customers	13 041 354		130 095
Provisions for off balance sheet credit risk	7 945		-
Other provisions	5 230		-
Other liabilities	149 646		6 826
Total liabilities	17 633 757		136 995
Net assets acquired	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.

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 S.A. 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 S.A. 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

As at the date of release of the report, 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.

Gain from acquisition

Fair value of consideration paid	(1 235 055)
less: fair value of identifiable net assets	1 654 350
Total	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.

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 2.8 Comparability with the results from the previous periods.

for reporting period:	1.01.2018- 31.12.2018	correction	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	6 349 311	-	6 349 311
Interest income on financial assets measured at fair value through other comprehensive income	729 199	-	729 199
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	2 586 808	-	2 586 808
Fee and commission expense	(529 006)	-	(529 006)
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

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
<i>Cash</i>	51 073
<i>Current accounts</i>	415
<i>Other cash equivalents</i>	-
Net outflow of cash, investing activities	(209 460)

As at the date of publication of this report the Santander Bank Polska S.A. incurred cumulated acquisition-related costs of PLN 190,759 k.

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

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

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

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

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

Acquisition of a carve-out of Deutsche Bank Polska SA (details in Note 35).

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

As at 30.06.2019 and 31.12.2018 Santander Bank Polska and its subsidiaries had not issued any guarantees to one business unit or a subsidiary totalling a minimum of 10% of the issuer's equity.

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

Details in Note 14.

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

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

42. Dividend per share

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.

43. Share based incentive scheme

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

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

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

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

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

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

Share based payments granted in 2017:

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

The table below summaries movement in the plan:

	6 months of 2019	6 months of 2018
	Number of share based payments	Number of share based payments
Outstanding at 1 January	120 686	129 799
Granted	-	-
Exercised	-	-
Forfeited	(4 507)	(5 450)
Expired	-	-
Outstanding at 30 June	116 179	124 349
Exercisable at 30 June	-	-

For the share based payments outstanding as at 30 June 2019 and as at 30 June 2018 the average remaining contractual life is approximately 1 year and 2 years respectively.

The expenses of sixth edition of equity settled share-based payments scheme recognized in profit and loss account for 6 months of 2019 and 2018 amounts to PLN 5,519 k and PLN 6,315 k respectively.

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

No. of awards	30.06.2019	30.06.2018
Outstanding at 1 January	27 220	34 670
Granted	820	-
Expired	-	-
Exercised	-	-
Resignation from the function	(2 880)	(7 450)
As at 30 June	25 160	27 220

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

No. of awards	30.06.2019	30.06.2018
Outstanding at 1 January	42 652	41 194
Granted	1 820	-
Expired	-	-
Exercised	-	-
Resignation from the function	(7 192)	(3 194)
As at 30 June	37 280	38 000

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

Securitisation agreement

On 5 July 2019, Santander Consumer Bank S.A. made a synthetic securitisation agreement (with no financing involved) with the European Investment Fund. The agreement covers a selected loan portfolio and has been signed to release equity for funding projects intended to support the growth of the SME segment.

Signatures of the persons representing the entity

Date	Name	Function	Signature
22.07.2019	Michał Gajewski	President	
22.07.2019	Andrzej Burliga	Vice-President	
22.07.2019	Michael McCarthy	Vice-President	
22.07.2019	Juan de Porras Aguirre	Vice-President	
22.07.2019	Arkadiusz Przybył	Vice-President	
22.07.2019	Patryk Nowakowski	Member	
22.07.2019	Carlos Polaino Izquierdo	Member	
22.07.2019	Maciej Reluga	Member	
22.07.2019	Dorota Strojowska	Member	

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

Date	Name	Function	Signature
22.07.2019	Wojciech Skalski	Financial Accounting Area Director	