

# Management Board Report on Santander Bank Polska Group Performance in 2018

(including Management Board Report on  
Santander Bank Polska Performance)



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# I. Overview of Activities of Santander Bank Polska S.A. and its Group in 2018

## 1. Introduction

### Rebranding

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

The name "Santander Bank Polska S.A." is used in this document with reference to the periods before and after the rebranding to ensure clarity and increase the awareness of the new brand.

### Scope

The Management Board Report on Santander Bank Polska Group Performance in 2018 contains the information required in the standalone Management Board report on activities of Santander Bank Polska S.A.

### Comparability of periods

#### Acquisition of a demerged part of Deutsche Bank Polska S.A.

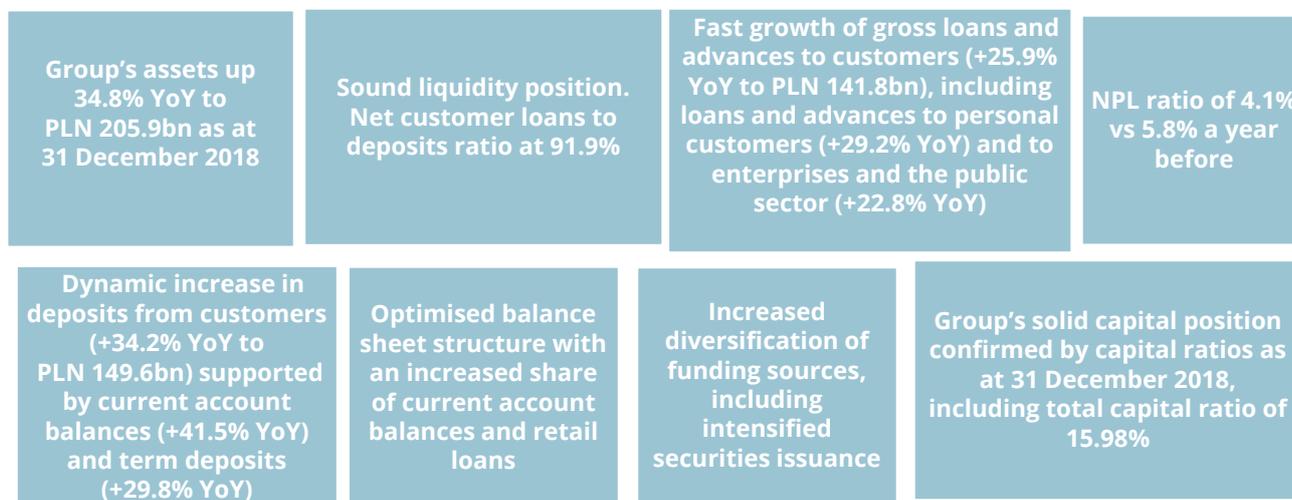
On 9 November 2018, following the registration of an increase in its share capital, Santander Bank Polska S.A. assumed all rights and obligations of a demerged part of Deutsche Bank Polska S.A., including retail banking, private banking, business (SME) banking and DB Securities S.A. (currently Santander Securities S.A.). The transaction did not cover investment and corporate banking, global transactional banking as well as foreign currency mortgage-backed credit facilities, which continue to be serviced by Deutsche Bank Polska S.A.

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

The consolidated financial statements of Santander Bank Polska Group for the 12-month period ending 31 December 2018 were prepared in accordance with the principles for classification and measurement of financial instruments set out in the International Financial Reporting Standard 9 (IFRS 9) Financial Instruments. The Standard became effective as of 1 January 2018 and replaced IAS 39 Financial Instruments: Recognition and Measurement. Data for prior periods have not been restated, which affects the comparability of the selected profit and loss and balance sheet positions in the analysed periods (mainly loans and advances to customers and investment financial instruments) and requires that the foregoing data be presented separately in the financial statements. For the purpose of analysis, the tables presented in this document include current and comparable financial data, which are similar but not the same from the perspective of classification and measurement.

## 2. Key Achievements

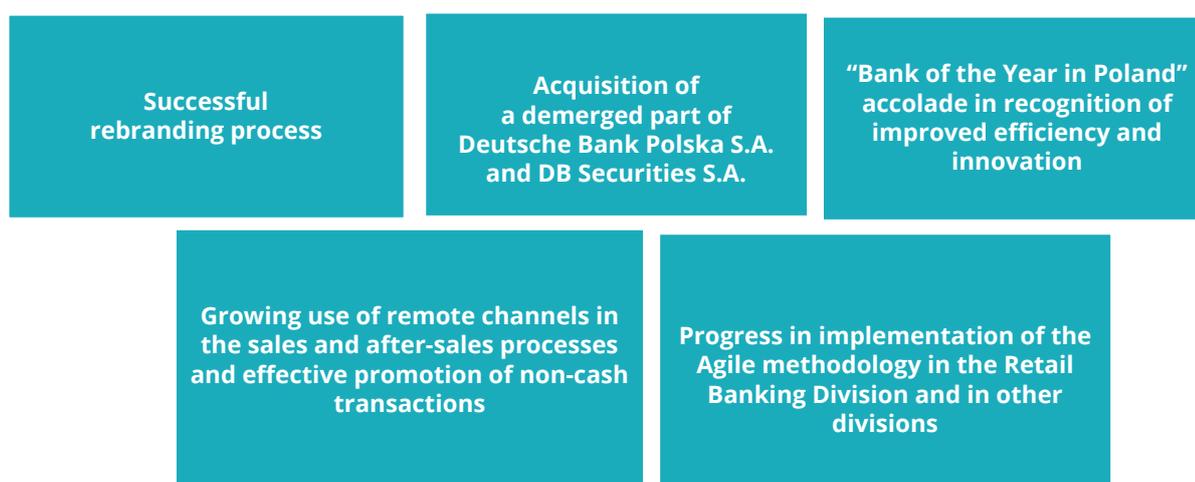
### Strong growth in business volumes



### Satisfactory financial performance



### Organisational development and innovation



### 3. Key Financial and Business Data on Santander Bank Polska Group for 2018

#### Key financial data of Santander Bank Polska Group for 5 previous years

Selected Income Statement data		2018	2017	2016	2015	2014	YoY Change (2018 / 2017)	5-Year CAGR
Total income	PLN m	8 683,9	7 763,6	7 606,2	7 540,2	6 579,0	11,9%	5,7%
Total costs	PLN m	(3 769,0)	(3 372,4)	(3 367,7)	(3 578,9)	(3 103,8)	11,8%	4,0%
Profit before tax	PLN m	3 426,2	3 335,2	3 122,1	3 178,3	2 640,0	2,7%	5,4%
Net profit attributable to Santander Bank Polska S.A.	PLN m	2 365,2	2 213,1	2 166,8	2 327,3	1 914,7	6,9%	4,3%
Impairment losses on loans and advances	PLN m	(1 085,1)	(690,5)	(784,6)	(810,7)	(836,6)	57,1%	5,3%
Selected Balance Sheet data		31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014	YoY Change (2018 / 2017)	5-Year CAGR
Total assets	PLN m	205 852,9	152 674,4	150 099,7	139 708,7	134 501,9	34,8%	8,9%
Total equity	PLN m	26 668,2	23 343,6	21 018,5	20 568,1	18 051,7	14,2%	8,1%
Net loans and advances to customers	PLN m	137 460,4	107 839,9	103 068,5	94 913,9	85 820,6	27,5%	9,9%
Deposits from customers	PLN m	149 616,7	111 481,1	112 522,5	101 245,2	94 981,8	34,2%	9,5%
Selected off-Balance Sheet data		31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014	YoY Change (2018 / 2017)	5-Year CAGR
Net assets under management <sup>1)</sup>	PLN bn	15,4	16,4	13,8	13,0	13,2	-6,1%	3,1%
Selected ratios <sup>2)</sup>		2018	2017	2016	2015	2014	YoY Change (2018 / 2017)	YoY Change (2018 / 2015)
Total costs/Total income <sup>3)</sup>	%	43,4%	43,4%	46,2%	48,4%	47,3%	0,0 p.p.	-3,9 p.p.
Total capital ratio	%	15,98%	16,69%	15,05%	14,62%	12,91%	-0,7 p.p.	3,1 p.p.
ROE	%	11,9%	12,2%	12,8%	15,1%	14,4%	-0,3 p.p.	-2,5%
Basic earning per share	PLN	23,7	22,3	19,4	20,7	19,9	6,3%	19,1%
Book value per share	PLN	261,2	235,0	211,8	207,3	181,9	11,1%	43,6%
NPL ratio	%	4,1%	5,8%	6,6%	7,3%	8,4%	-1,7 p.p.	-4,3 p.p.
Credit risk ratio	%	0,86%	0,63%	0,75%	0,85%	1,03%	0,2 p.p.	-0,2 p.p.
Customer net loans/customer deposits	%	91,9%	96,7%	91,6%	93,2%	90,4%	-4,8 p.p.	1,5 p.p.

#### Key non-financial data of Santander Bank Polska Group for 5 previous years

Selected non-financial data		2018	2017	2016	2015	2014	YoY Change (2018 / 2017)	YoY Change (2018 / 2015)
Number of shares	items	102 088 305	99 333 481	99 234 534	99 234 534	99 234 534	2 754 824	2 853 771
Dividend payout <sup>4)</sup>	PLN	3,1	5,4	13,0	-	10,7	-2,3	-7,6
Customer base	m	7,0	6,5	6,4	6,4	6,3	0,5	0,7
Electronic banking users <sup>5)</sup>	m	4,0	3,4	3,2	3,2	3,0	0,6	1,0
Branches (lokalizacje)	locations	764	735	821	890	961	29	-197
Partner outlets	locations	293	262	258	251	221	31	72
Employment	FTEs	15 357	14 383	14 772	14 218	14 835	974	522

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

2) For definitions of ratios presented in the table above, see Section 3 "Selected Financial Ratios" of Chapter XI "Financial Performance in 2018".

3) The calculations of the C/I and EPS ratios for 2015 and 2016 use the Group's total income, total costs and profit (as applicable) adjusted for non-recurring items (gains on interest in Visa Europe Ltd. and Santander Aviva companies, and a contribution made in 2015 under the deposit guarantee scheme).

4) In 2015, the bank did not pay a dividend in accordance with the KNF recommendation of 1 April 2015 to retain the entire profit earned in 2014.

In 2016, the bank paid a dividend from net profit earned in 2015 and undistributed net profit for 2014.

In 2017, the bank paid a dividend from undistributed net profit for 2014 and 2015.

In 2018, the bank paid a dividend from undistributed net profit for 2016.

5) Registered users of Santander24 electronic banking.

## 4. Key External Factors

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

<b>Economic growth</b>	<ul style="list-style-type: none"><li>Continued robust economic growth.</li><li>Data pointing to some deceleration in the eurozone, in particular with regard to international trade. Negative revision of the global outlook by international institutions.</li><li>Turmoil in selected emerging markets, particularly in Turkey, Argentina and Brazil.</li></ul>
<b>Labour market</b>	<ul style="list-style-type: none"><li>Favourable conditions in the labour market with record-low unemployment and accelerating wage growth in support of private consumption. Private consumption growing at approx. 5% YoY with consumer confidence at high levels.</li><li>Shortage of workforce, making it difficult for companies to expand. Growing labour costs.</li></ul>
<b>Inflation</b>	<ul style="list-style-type: none"><li>Fairly stable inflation rate below 2%. A significant increase in wholesale energy prices.</li><li>An increase in house prices coupled with a slight slowdown in real estate sales.</li></ul>
<b>Monetary policy</b>	<ul style="list-style-type: none"><li>NBP interest rates remaining at all-time lows, with subdued expectations of future rate hikes, even though the United States, and, in our region, the Czech Republic and Romania, already began to increase interest rates.</li></ul>
<b>Credit market</b>	<ul style="list-style-type: none"><li>Solid demand for credit from companies and households.</li></ul>
<b>Trade</b>	<ul style="list-style-type: none"><li>Increased protectionism in international trade. Execution of USMCA (United States–Mexico–Canada Agreement). Slowdown in Polish export growth amid lower external demand.</li></ul>
<b>Financial markets</b>	<ul style="list-style-type: none"><li>Changes of mood in international financial markets influenced by the expected policy orientation of the main central banks (Federal Reserve, ECB), incoming macroeconomic data, worries about the geopolitical situation, including concerns about the results of negotiations between the UK and the EU, the impact of trade wars on the global growth, and the political situation in Italy.</li><li>Limited volatility of the zloty exchange rate versus the main currencies. Declining yields of Polish treasury bonds.</li></ul>

## 5. Corporate Events

### Major corporate events in 2018

<b>January</b>	<ul style="list-style-type: none"><li>KNF decision of 19 December 2017 (received on 4 January 2018) regarding the identification of the bank as other systematically important institution and imposing on the bank a buffer equivalent to 0.50% of total amount of the risk exposure.</li><li>Affirmation of existing ratings of Santander Bank Polska S.A. and change of the outlook on long-term deposit rating from stable to positive by Moody's Investors Service (29 January 2018).</li></ul>
<b>February</b>	<ul style="list-style-type: none"><li>Sale of 1.2 million shares of Santander Bank Polska S.A. by Banco Santander S.A. (as part of a loan agreement) to Deutsche Bank AG, London Branch, resulting in the reduction of the former's share in the registered capital and voting power at the bank's General Meeting from 69.34% to 68.13% (16 February 2018).</li><li>Execution of a demerger plan by Santander Bank Polska S.A. and Deutsche Bank Polska S.A. setting out the terms and conditions of the demerger of Deutsche Bank Polska S.A. in relation to the planned acquisition of the demerged part of the company by the bank (23 February 2018).</li></ul>

## Major corporate events in 2018 (continued)

March	<ul style="list-style-type: none"><li>• Anti-monopoly clearance issued by the Office of Competition and Consumer Protection (UOKiK) for concentration through acquisition of the demerged part of Deutsche Bank Polska S.A. and full control over DB Securities S.A. (currently Santander Securities S.A.) by the bank (2 March 2018).</li></ul>
	<ul style="list-style-type: none"><li>• Resolution of the Management Board of Santander Bank Polska S.A. on the intention to set up a mortgage bank operating as Santander Bank Hipoteczny S.A. with its registered office in Warsaw (7 March 2018) and its approval by the Supervisory Board (8 March 2018).</li></ul>
	<ul style="list-style-type: none"><li>• Individual recommendation issued by the KNF regarding an increase in the bank's own funds through the retainment of the entire profit generated in 2017, with no reservations as to the payment of dividend from the retained profit for 2016 (16 March 2018).</li></ul>
April	<ul style="list-style-type: none"><li>• Issuance of 2,000 series F variable-rate subordinated bonds for a total nominal amount of PLN 1bn with a 10-year maturity and a call option (5 April 2018). All bonds were taken up by bondholders.</li></ul>
	<ul style="list-style-type: none"><li>• Recommendation issued by the Management Board of Santander Bank Polska S.A. on 17 April 2018 (and approved by the bank's Supervisory Board):<ul style="list-style-type: none"><li>✓ not to allocate any part of the net profit for 2017 to dividend payment (pursuant to the KNF recommendation),</li><li>✓ to allocate a part of the retained net profit for 2016 to dividend payment (in view of the bank's solid capital position).</li></ul></li></ul>
	<ul style="list-style-type: none"><li>• The Annual General Meeting of Shareholders of Santander Bank Polska S.A., which approved the distribution of the bank's profit for 2017 and pay-out of dividend of PLN 3.10 per share from the retained earnings for 2016, changed the business name and registered office of the bank and amended the statutes of the bank and the terms of reference of the General Meeting of Shareholders (16 May 2018).</li></ul>
May	<ul style="list-style-type: none"><li>• Appointment of Management Board of Santander Bank Polska S.A. for a new term of office by the bank's Supervisory Board with changes in the composition (removal of Mr Artur Chodacki, Mr Marcin Prell and Mr Mirosław Skiba) (16 May 2018).</li></ul>
	<ul style="list-style-type: none"><li>• Extraordinary General Meeting of Shareholders of Santander Bank Polska S.A. (29 May 2018), which approved the demerger of Deutsche Bank Polska S.A. in accordance with the demerger plan of 23 February 2018, an increase in the bank's share capital and an exchange ratio and share allocation rules, and amended the bank's statutes accordingly.</li></ul>
	<ul style="list-style-type: none"><li>• KNF decision confirming the absence of grounds for objecting to the planned direct acquisition of shares in Deutsche Bank Polska S.A. by Santander Bank Polska S.A. (30 May 2018).</li><li>• Bond issuance programme set up by Santander Bank Polska S.A. with the maximum value of issued and non-redeemed bonds (offered/ sold outside the USA and registered in the international securities registration systems) of EUR 5bn or its equivalent (30 May 2018).</li></ul>
June	<ul style="list-style-type: none"><li>• Notification by the Bank Guarantee Fund of the decision of the Single Resolution Board regarding the minimum requirement for own funds and eligible liabilities (MREL) at 14.087% for Santander Bank Polska Group (to be achieved by 1 January 2023) (4 June 2018).</li></ul>
	<ul style="list-style-type: none"><li>• Letter from Nationale-Nederlanden PTE S.A. (NN PTE) notifying the bank of the acquisition of the bank's shares by the funds managed by NN PTE S.A., i.e. open-end pension fund (NN OFE) and voluntary pension fund (NN DFE), exceeding a 5% share in the number of votes at the bank's General Meeting of Shareholders (8 June 2018).</li></ul>
	<ul style="list-style-type: none"><li>• Consent issued by the KNF to classify series F subordinated bonds as Tier 2 instruments of Santander Bank Polska S.A. (6 June 2018).</li><li>• Payment of dividend to the shareholders of Santander Bank Polska S.A. (14 June 2018).</li></ul>
July	<ul style="list-style-type: none"><li>• Decisions issued by the KNF:<ul style="list-style-type: none"><li>✓ consent to the demerger of Deutsche Bank Polska S.A. and transfer of the demerged assets of the entity to Santander Bank Polska S.A. in exchange for the bank's shares issued in favour of Deutsche Bank AG (17 July 2018);</li><li>✓ confirmation of the absence of grounds for objecting to the planned direct acquisition of 100% shares in DB Securities S.A. by Santander Bank Polska S.A. (31 July 2018).</li></ul></li></ul>

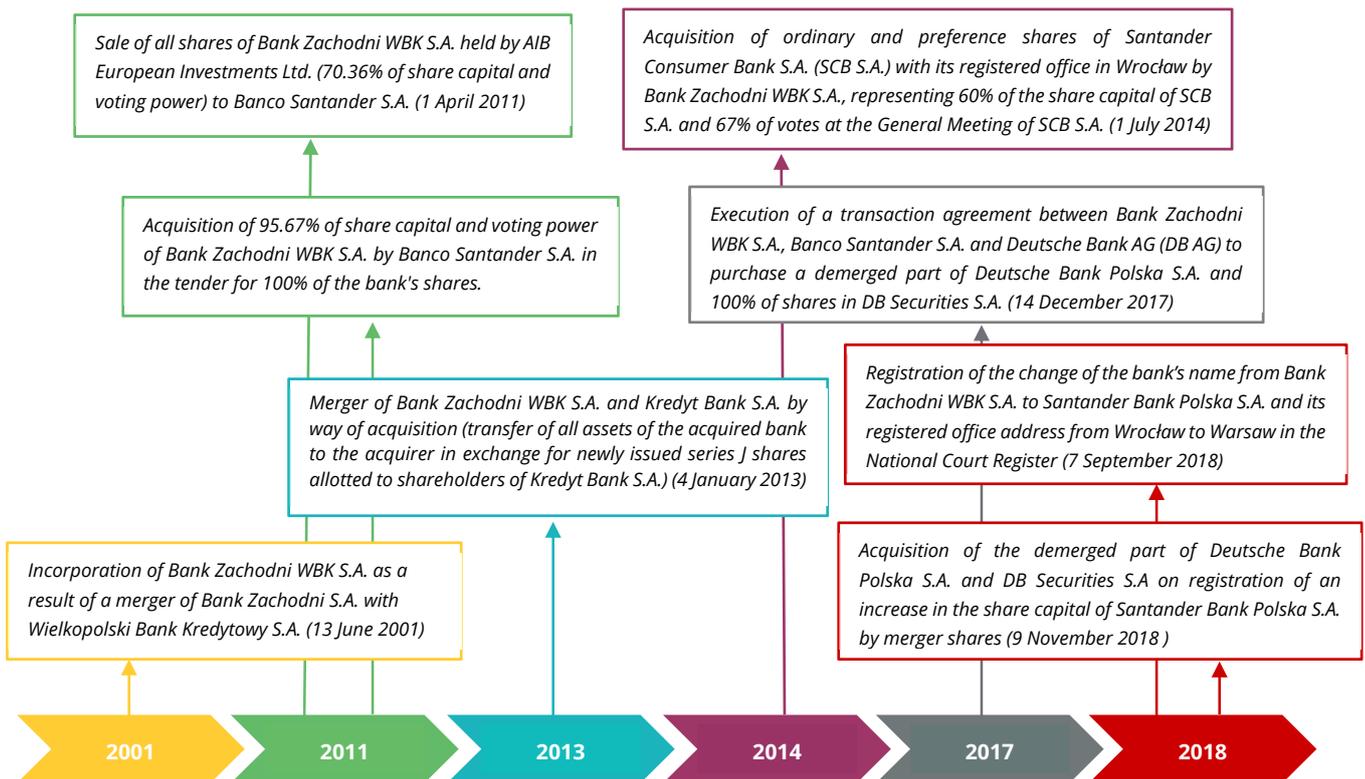
## Major corporate events in 2018 (continued)

	<ul style="list-style-type: none"><li>• Fulfilment of the last condition precedent to the acquisition of the demerged part of Deutsche Bank Polska S.A. by the bank: receipt of KNF's consent to the amendment of the bank's statutes in relation to the share capital increase through the issue of series N shares (demerger shares) for Deutsche Bank AG in exchange for the demerged assets of Deutsche Bank Polska S.A. (7 August 2018).</li><li>• Letter from the KNF (8 August 2018) re review of the adequacy of the buffer for other systemically important institutions concluding there were no premises to repeal or change the KNF's decision of 4 October 2016 re identification of the bank as other systemically important institution (the buffer of other systemically important institution imposed on the bank is 0.50% of the total risk exposure).</li></ul>
<b>August</b>	<ul style="list-style-type: none"><li>• Ratings assigned to the debt issued by the bank:<ul style="list-style-type: none"><li>✓ Fitch Ratings (30 August 2018):<ul style="list-style-type: none"><li>▪ "BBB+" for the bank's programme of senior unsecured eurobonds (EMTN Programme);</li><li>▪ "F2" for short-term debt;</li><li>▪ "BBB+ (EXP)" for the planned senior unsecured notes;</li></ul></li><li>✓ Moody's Investors Service (31 August 2018):<ul style="list-style-type: none"><li>▪ "(P)Baa1" provisional local and foreign-currency rating for the bank's eurobond programme (EMTN Programme);</li><li>▪ "Baa1" long-term foreign-currency senior unsecured debt rating with positive outlook for the notes to be issued under the EMTN Programme.</li></ul></li></ul></li></ul>
<b>September</b>	<ul style="list-style-type: none"><li>• Sale of shares of Santander Bank Polska S.A. by Nationale-Nederlanden OFE resulting in the reduction of the shareholding below 5% of votes at the bank's General Meeting of Shareholders (6 September 2018).</li><li>• Registration of the bank's new name "Santander Bank Polska S.A." (replacing "Bank Zachodni WBK S.A.") and the registered office (relocated from Wrocław to Warsaw) in the National Court Register (7 September 2018). The names of the bank's subsidiaries and associates were changed accordingly.</li><li>• Issue of EUR 500m senior unsecured bonds of Santander Bank Polska S.A. under the EMTN Programme (20 September 2018).</li><li>• Affirmation of provisional ratings for the first tranche of unsecured eurobonds issued under the EMTN Programme.</li></ul>
<b>October</b>	<ul style="list-style-type: none"><li>• Purchase of 274,444,939 ordinary registered shares of Deutsche Bank Polska S.A. by Santander Bank Polska S.A., with the nominal value of PLN 1 each (representing over 10% of the share capital) and the total amount of PLN 257,959,800, in connection with the satisfaction of all conditions set out in the transaction agreement regarding the acquisition of a demerged business of Deutsche Bank Polska S.A. (8 October 2018).</li><li>• KNF recommendation for the bank to maintain own funds at the level sufficient to cover an additional capital requirement for risk related to foreign currency home mortgages (0.51 p.p. above the total capital ratio; previously 0.54 p.p.) (22 October 2018).</li></ul>
<b>November</b>	<ul style="list-style-type: none"><li>• Acquisition of the demerged business of Deutsche Bank Polska S.A. as a result of registration of changes to the statutes of Santander Bank Polska S.A. reflecting an increase in the bank's share capital connected with the demerger of Deutsche Bank Polska S.A. (9 November 2018).</li><li>• Reduction from 68.13% to 66.30% in the share of the total number of votes at the General Meeting of Shareholders of Santander Bank Polska S.A. held by Banco Santander S.A.</li><li>• Completion of the legal merger, branch rebranding and operational merger (including data migration) of the demerged part of Deutsche Bank Polska S.A. during the migration weekend of 10–11 November 2018.</li><li>• Registration of 2,754,824 series N ordinary bearer shares of the bank with the value of PLN 10 each by the Central Securities Depository of Poland (KDPW), and their subsequent admission and introduction to trading on the main floor of the Warsaw Stock Exchange (27 November 2018).</li><li>• Increase from 66.30% to 67.47% in the share of total number of votes at the General Meeting of Shareholders of Santander Bank Polska S.A. held by Banco Santander S.A. as a result of settlement of the stock lending transaction for 1.2 million shares of the bank concluded by Banco Santander S.A. and Deutsche Bank AG.</li><li>• KNF recommendation for Santander Bank Polska S.A. to maintain own funds at the level sufficient to cover an additional capital requirement for risk related to foreign currency home mortgages at 0.47 p.p. above the total capital ratio for Santander Bank Polska Group (29 November 2018).</li></ul>
<b>December</b>	<ul style="list-style-type: none"><li>• Issue of 6-month series I certificates of deposit, with the total nominal value of PLN 150m and a fixed interest rate of 2.05% p.a., as part of the issuance programme up to PLN 5bn or its equivalent in EUR, USD or CHF (21 December 2018).</li></ul>

## II. Basic Information about Santander Bank Polska S.A. and its Group

### 1. History, Ownership Structure and Profile

#### History and profile of Santander Bank Polska S.A. as a parent entity

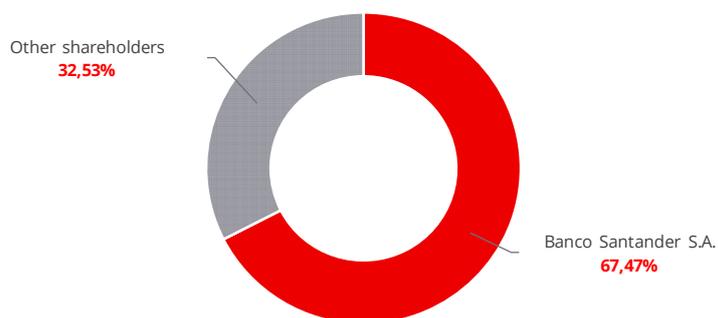


#### Ownership structure

##### Share capital

Santander Bank Polska S.A. is a subsidiary of Banco Santander S.A., which held a 67.47% share in the registered capital and the total number of votes at the bank's General Meeting as at 31 December 2018. The remaining shares were held by minority shareholders, none of which exceeded the 5% threshold according to the information held by the bank's Management Board as at the date of approval of these financial statements.

OWNERSHIP STRUCTURE OF SANTANDER BANK POLSKA SHARE EQUITY  
AS AT 31.12.2018



For more information about the share capital, see Chapter VII “Investor Relations” (Section 2 “Share capital, ownership structure and share price”) and Chapter XIII “Statement on Corporate Governance in 2018” (Section 4 “Issuer’s securities”).

### Majority shareholder

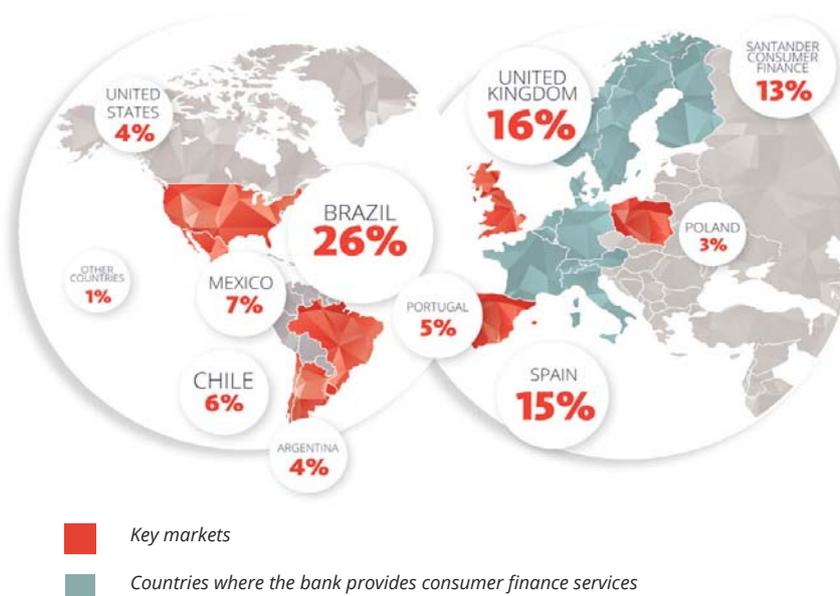
Santander Bank Polska S.A. is a member of Santander Group, with Banco Santander S.A. as a parent entity.

Banco Santander S.A. is one of the largest commercial banks in the world with a more than 160-year history, having its registered office in Santander and operational headquarters in Madrid.

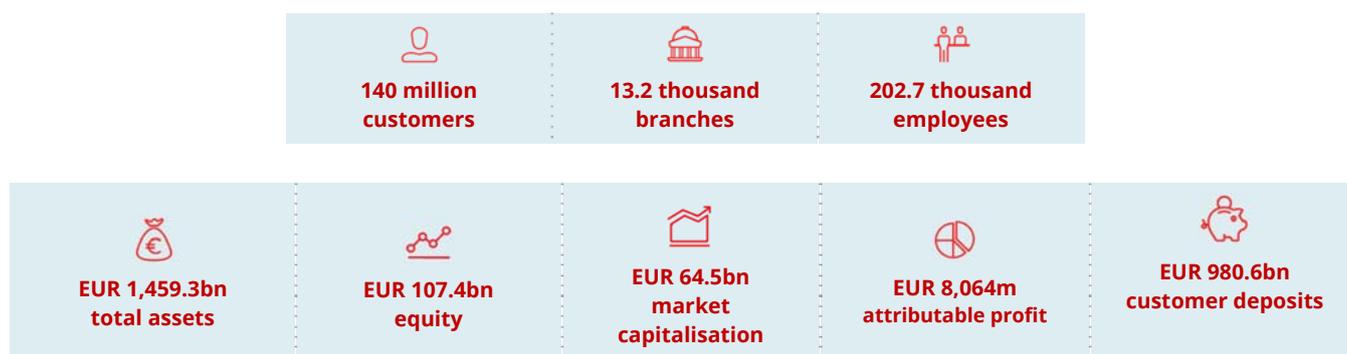
While it specialises in retail banking services, the bank is also very active in private banking, business and corporate banking, asset management and insurance markets.

Banco Santander S.A. is characterised by significant geographic diversification of its business, however, it focuses on its 10 core markets – both developed and emerging, including Spain, Poland, Portugal, Germany, the UK, Brazil, Argentina, Mexico, Chile and the USA.

### GEOGRAPHICAL REACH OF SANTANDER GROUP AND INDIVIDUAL COUNTRIES’ CONTRIBUTION (%) TO THE GROUP’S PROFIT



## SANTANDER GROUP IN NUMBERS <sup>1)</sup>



1) As at 31 December 2018

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

## Business profile of Santander Bank Polska Group

Santander Bank Polska S.A. is a universal bank which provides a full range of services for personal customers, SMEs, large companies, corporates and institutions. The bank's offering is modern, comprehensive and satisfies diverse customer needs with regard to current/personal accounts, credit, savings, investment, settlement, insurance and card products. The financial services of Santander Bank Polska S.A. include cash management, payments, trade finance and transactions in the capital, money, FX and derivative markets, as well as underwriting, brokerage and custody services.

The bank's own product range is complemented by specialist products offered by its group of related companies, including: Santander Towarzystwo Funduszy Inwestycyjnych S.A. (formerly BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.), Santander Leasing S.A. (formerly BZ WBK Leasing S.A.), Santander Factoring Sp. z o.o. (formerly BZ WBK Faktor Sp. z o.o.), Santander Securities S.A., Santander-Aviva Towarzystwo Ubezpieczeń S.A. (formerly BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.) and Santander-Aviva Towarzystwo Ubezpieczeń na Życie S.A. (formerly BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.). Through all these companies, the bank offers its customers access to investment funds and asset portfolios as well as brokerage, insurance, leasing and factoring products.

The bank continually develops its product range to ensure that solutions offered to customers are transparent, simple, digital, flexible and available in self-service channels. It offers unique solutions which are developed within Santander Group based on its global presence, infrastructure and market potential. Customers are provided with comprehensive services in traditional sales channels and via remote channels.

Santander Consumer Bank S.A., which was incorporated into the structures of Santander Bank Polska Group on 1 July 2014, specialises in consumer finance and term deposit accounts for personal and business customers.

As at 31 December 2018, Santander Bank Polska Group provided services to nearly 7m customers, including more than 2m customers of Santander Consumer Bank S.A.

## Business model of Santander Bank Polska Group

### Operating structure

Santander Bank Polska S.A., together with its non-banking subsidiaries, carries on its operations through the following central units: Retail Banking Division, Business and Corporate Banking Division and Corporate and Investment Banking Division (formerly Global Corporate Banking Division).

As a result of the organisational changes introduced in May 2018, the responsibilities of the SME Banking Division were divided between the Retail Banking Division and the Business and Corporate Banking Division, while ensuring top quality services for SME customers.

#### Retail Banking Division

The Retail Banking Division offers products and services to:

- personal customers who are divided into Standard, Premium, Select or Private Banking customer segments, taking into account their diverse needs and expectations;
- small and medium enterprises with lower turnover (SME 1) since May 2018.



Retail customers interact with the bank via an extensive network of branches and remote channels, e.g. telephone banking, internet banking and mobile banking (Santander24 electronic banking platform and the Multichannel Communication Centre). The bank has relationship-building, sales and after-sales contacts with customers.

Premium customers are serviced by dedicated advisors as part of their individual portfolios, based on a personalised approach and regular contacts aimed at strengthening relationship and customer loyalty.

Private Banking and Select customers benefit from a personalised service model under which they may use the support of a specialised advisor and the Select Line operated as part of the Multichannel Communication Centre, which offers support via telephone.

Firms with relatively low turnover (SME 1) are handled by SME advisors in branches and partner outlets. Businesses also have access to a wide range of services via remote channels (Santander24, Mini Firma, Moja Firma Plus, iBiznes24) or the Multichannel Communication Centre.

#### Business and Corporate Banking Division

The Business and Corporate Banking Division provides services to:

- businesses and corporations with turnover above PLN 40m, local administration units and the public sector through 12 Corporate Business Centres operating nationwide and the Property and Hotels Department (central unit operating across Poland) in accordance with customer segmentation (corporate or property finance);
- small and medium enterprises with higher turnover and more complex requirements (SME 2) via mobile advisor teams.



All business customers, regardless of their segment allocation and relationship units in the Business and Corporate Banking Division or the Corporate and Investment Banking Division, are serviced by dedicated advisors responsible for the overall relationship. They are also provided with access to the bank's products and services via remote channels, including internet and mobile iBiznes24 platform as well as phone services of the Business Service Centre, SME Service Centre or Trade Finance Service Centre which deliver a wide range of operational processes. The markedly improving iBiznes24 electronic banking system for businesses and corporations performs a wide range of transactions (e.g. FX and trade finance transactions) and effectively manages companies' finances.

#### Corporate and Investment Banking Division

Corporate and Investment Banking Division:

- is responsible for banking relationships with the Group's largest clients who are offered investment, credit, transactional and treasury products and services as part of the global Customer Relationship Management Model of Santander Group;
- provides treasury, syndicated lending and advisory services to customers handled by other Divisions;

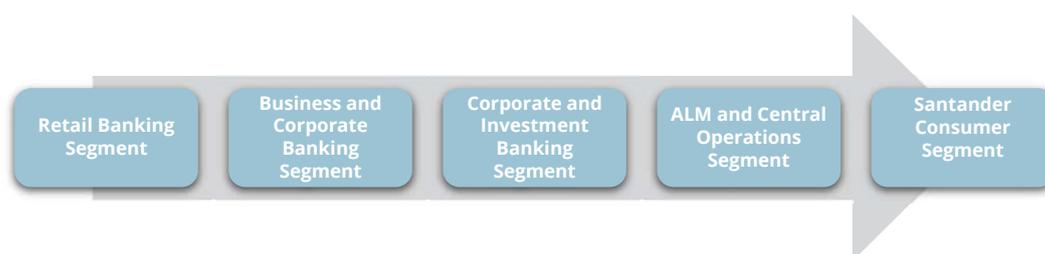
## Santander Consumer Bank Group

Santander Consumer Bank Group (SCB Group), which specialises in consumer finance, forms a separate business segment with its own customer base, product range and distribution channels.

The bank's business model is based on a multi-product and multi-channel approach and a diverse customer base, as well as regular cross-selling and up-selling. The bank offers consumer loans, car finance through lease and factoring, credit facilities for car dealers, retail and business deposits and insurance products.

## Segment reporting

The business management structure presented above corresponds to business segments identified as part of segment reporting (Note 3 to the Consolidated Financial Statements of Santander Bank Polska Group for 2018). They are complemented by ALM and Central Operations segment which covers funding, management of strategic investments and transactions which generate expenses/ revenues that cannot be allocated to individual segments.



## Basic distribution channels

As at 31 December 2018, Santander Bank Polska S.A. operated country-wide through 612 branches divided into and managed by 50 regions and 5 macroregions. The bank's distribution network also included 123 partner outlets and 1 762 self-service units (ATMs, CDMs and dual function machines).

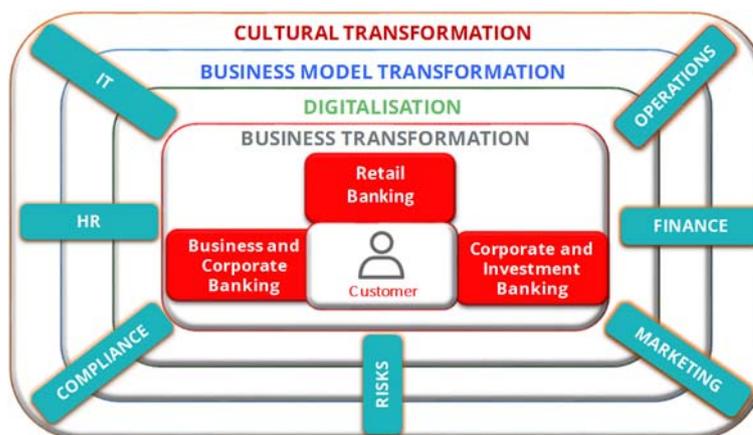
In addition to direct banking via branches, partner outlets and Corporate Business Centres, the bank performs a wide range of operations via contact centres (Multichannel Communication Centre and specialised units: Select Line, Business Service Centre, SME Service Centre) and offers 24-hour access to banking products and services by means of internet and mobile channels (Santander24, Mini Firma, Moja Firma Plus and iBiznes 24 electronic banking platforms). Apart from traditional helpline services, the Multichannel Communication Centre provides support across different customer contact points such as internet chat, audio call, video call, email or a contact form. Customers often choose to visit a virtual branch and use the Online Advisor services (via video chat).

The bank has been steadily developing an integrated CRM system and omnichannel banking solutions to ensure consistent service levels and continuity of communication with customers in all distribution channels. Strong focus has been placed on security of banking processes, which involves regular upgrades to IT security protocols.

Santander Consumer Bank S.A. delivers its products through a network of 152 own branches and 170 franchise outlets, structures for mobile sales of car loans and corporate deposits, remote channels (Call Centre and the Internet) and a network of partners selling the bank's car loans, instalment loans, credit cards and leases.

## Business model framework

The fundamental element of the strategy and business model of Santander Bank Polska Group is customer-centricity, an approach whereby each initiative and banking process is judged from the customer's viewpoint, with a concentration on the customer's needs and experience in order to build lasting mutual relationships underpinned by an attractive, simple and innovative products portfolio and high service quality.



The Group creates value for customers focusing on modern technologies, digitalisation and omnichannel banking. The Group also gives priority to developing a friendly work environment and corporate culture by promoting cooperation and increasing the motivation, engagement and professionalism of employees. It conducts its business activity taking into consideration the interests of all stakeholders, including shareholders and communities it operates in.

The Group focuses on diversification of income, expansion in high-margin market segments, maintenance of a solid capital position and effective risk management. This translates into balanced growth of business volumes, an increasing presence in the most profitable market segments and strong and recurring financial performance.

In view of the strategic Transformation Programme launched in 2016, the bank's business model is continually improved in terms of its effectiveness, suitability to customers' needs, digitalisation and integration of distribution channels, among other things.

## Position of Santander Bank Polska S.A. and its Group in the Polish banking sector

### Position in the banking sector

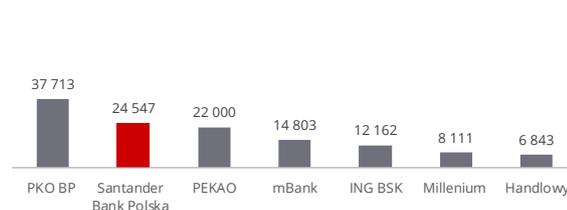
Santander Bank Polska S.A. is ranked among the top three banks in the Polish banking sector (together with PKO BP and Pekao S.A.) and is the largest private bank in Poland.

According to the financial statements for the three quarters ending 30 September 2018, which at the date of approval of this Management Board report (21 February 2019) were the most up-to-date source of comparable data on the performance of banks listed on the Warsaw Stock Exchange (WSE), Santander Bank Polska S.A. – including its subsidiaries and associates – was Poland's third largest banking group in terms of total assets, deposits and loans, and second largest in terms of capital and attributable profit.

TOTAL ASSETS (PLN M) OF SANTANDER BANK POLSKA GROUP AS AT 30.09.2018 AGAINST THE PEER GROUP



TOTAL EQUITY OF SANTANDER BANK POLSKA GROUP (IN PLN M) AS AT 30.09.2018 AGAINST THE PEER GROUP



PROFIT ATTRIBUTABLE TO SANTANDER BANK POLSKA (PLN M) FOR Q1-3 2018 AGAINST THE PEER GROUP



## Share in key market segments

According to NBP statistics, as at the end of December 2018 the Group's share of the market was 12.0% for loans and 12,1% for deposits.

The Group continued to strengthen its presence in the factoring and leasing markets via its subsidiaries, holding a market share of 11.2% and 7,8%, respectively (according to the Polish Factors Association and the Polish Leasing Association as at the end of December 2018). During this period, the Group's share in the retail investment funds market was 10.1% (according to Anality Online) while in the equity and futures markets it held 5.0% and 11.0%, respectively (according to the Warsaw Stock Exchange).



## Competitive advantages

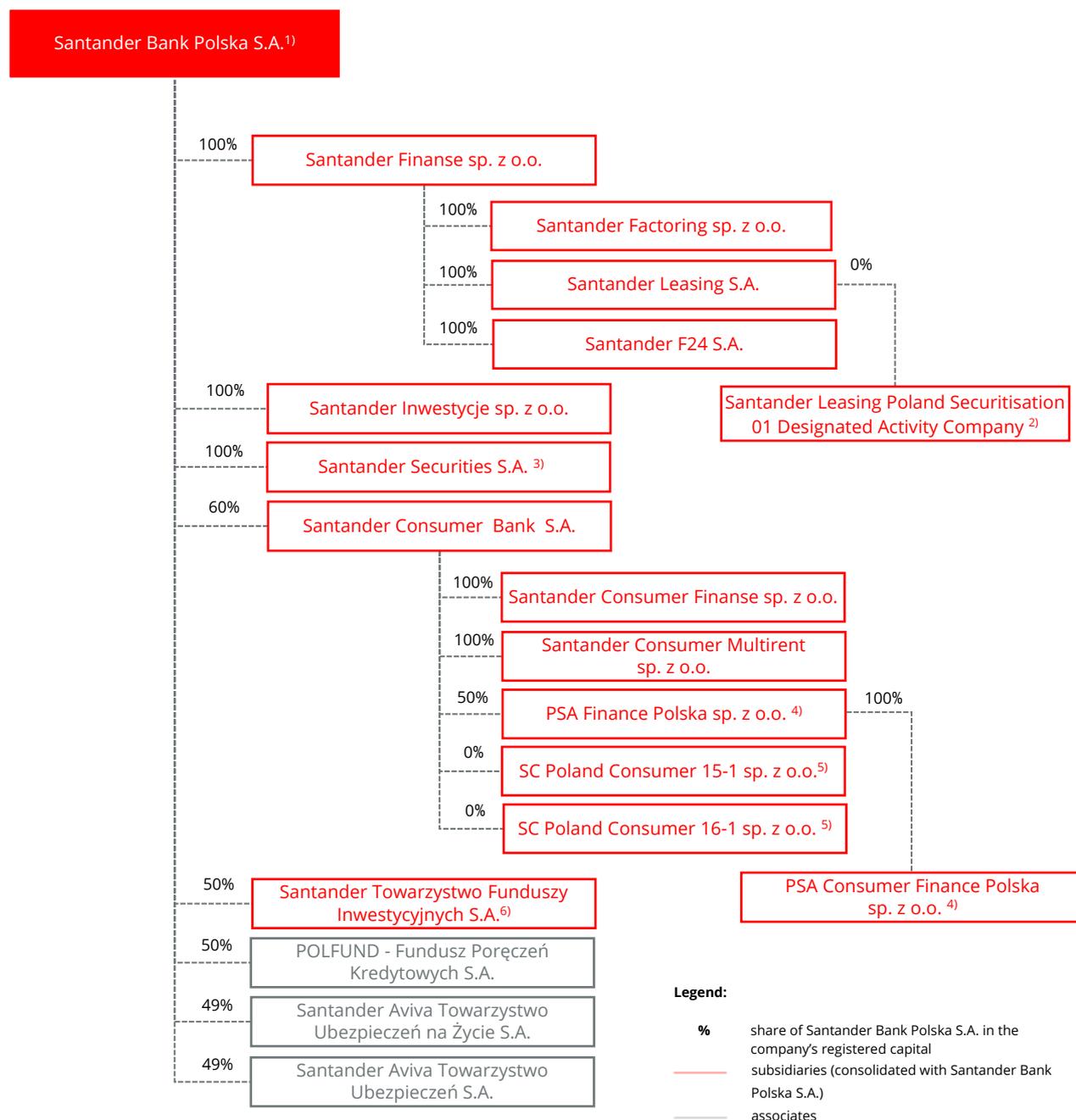
Santander Bank Polska Group has stable sources of funding, solid capital and liquidity position and a diversified asset portfolio. The Group's competitive edge is built on a clear and consistent strategic vision which is focused on customer centricity, process simplification, digitalisation and transformation of the bank into an Agile organisation. What also gives the bank an advantage is an effective and simple business model, an extensive and diversified business, options available to the bank as a member of Santander Group, use of emerging opportunities for non-organic growth and experience in mergers and acquisitions. The business scale, quality of products and services, pursuit of operational excellence and strong focus on building lasting relationships with customers allow the Group to compete successfully with the largest players in the Polish banking market. Participation in the consolidation of the banking sector, a wide array of complementary services for respective customer segments, a large Poland-wide branch network, modern banking technologies, rapidly expanding functionality, integration of remote distribution channels and competent and flexible personnel give the Group good prospects for further market penetration.

### STRENGTHS OF SANTANDER BANK POLSKA S.A. AND ITS GROUP



## 2. Structure of Santander Bank Polska Group

SUBSIDIARIES AND ASSOCIATES OF SANTANDER BANK POLSKA S.A. AS AT 31 DECEMBER 2018



1) Pursuant to the resolution of the General Meeting of 16 May 2018, on 7 September 2018 Bank Zachodni WBK S.A. was rebranded as Santander Bank Polska S.A. The names of the bank's subsidiaries and associates were changed accordingly.

2) Santander Leasing Poland Securitisation 01 Designated Activity Company with its registered office in Dublin is a special vehicle company incorporated under the Irish law on 30 August 2018 for the sole purpose of securitisation of lease and credit portfolio. The company does not have any capital or personal connections with Santander Leasing S.A., a parent entity under IFRS 10.7.

3) Santander Securities S.A. (formerly DB Securities S.A.) is a brokerage company acquired on 9 November 2018 along with a demerged part of Deutsche Bank Polska S.A.

4) On 1 October 2016, Santander Consumer Bank S.A. (SCB S.A.) acquired 50% shares of PSA Finance Polska sp. z o.o. and, indirectly, 50% stake in PSA Consumer Finance Polska sp. z o.o. Both companies are controlled by SCB S.A. as they meet the conditions set out in IFRS 10.7.

5) SC Poland Consumer 15-1 sp. z o.o. and SC Poland Consumer 16-1 sp. z o.o. are SPVs set up for the purpose of securitisation of a part of SCB S.A. credit portfolio. Their shareholder is a legal person that has no ties with the Group. The companies are controlled by SCB S.A. as they meet the conditions laid down in IFRS 10.7.

6) Both owners of Santander Towarzystwo Funduszy Inwestycyjnych S.A. (Santander TFI S.A.), i.e. Santander Bank Polska S.A. and Banco Santander S.A., are members of Santander Group, each holding an equal stake of 50% in the company's share capital. Santander TFI S.A. is controlled by Santander Bank Polska S.A.

## Subsidiaries

As at 31 December 2018, Santander Bank Polska Group comprised Santander Bank Polska S.A. and the following subsidiaries:

1. Santander Consumer Bank S.A. (SCB S.A.)
2. Santander Consumer Finanse Sp. z o.o. (subsidiary of SCB S.A.)
3. Santander Consumer Multirent Sp. z o.o. (subsidiary of SCB S.A.)
4. SC Poland Consumer 15-1 Sp. z o.o. (subsidiary of SCB S.A.)
5. SC Poland Consumer 16-1 Sp. z o.o. (subsidiary of SCB S.A.)
6. PSA Finance Polska Sp. z o.o. (subsidiary of SCB S.A.)
7. PSA Consumer Finance Polska Sp. z o.o. (subsidiary of PSA Finance Polska Sp. z o.o.)
8. Santander Towarzystwo Funduszy Inwestycyjnych S.A.
9. Santander Finanse Sp. z o.o.
10. Santander Factoring Sp. z o.o. (subsidiary of Santander Finanse Sp. z o.o.)
11. Santander Leasing S.A. (subsidiary of Santander Finanse Sp. z o.o.)
12. Santander Leasing Poland Securitisation 01 Designated Activity Company (subsidiary of Santander Leasing S.A.)
13. Santander F24 S.A. (subsidiary of Santander Finanse Sp. z o.o.)
14. Santander Inwestycje Sp. z o.o.
15. Santander Securities S.A.

All the entities within Santander Bank Polska Group are consolidated with the bank in accordance with IFRS 10 as at 31 December 2018.

Compared with 31 December 2017, the list of the bank's subsidiaries was expanded as a result of the following:

- Liquidation of Giełdokracja Sp. z o.o. (approved by the company's EGM held on 29 November 2017) and its removal from the National Court Register on 5 March 2018.
- Takeover of control over Santander Securities S.A. (formerly DB Securities S.A.) by Santander Bank Polska S.A. along with the acquisition of a demerged part of Deutsche Bank Polska S.A. and 100% shares in DB Securities S.A. The acquired company is an investment firm providing brokerage services and offering full access to financial instruments available at the Warsaw Stock Exchange.
- Takeover of control over Dublin-based Santander Leasing Poland Securitisation 01 Designated Activity Company by Santander Leasing S.A. The new subsidiary, which was entered to the Irish business register on 30 August 2018, is a special purpose vehicle set up to purchase debt and acquire funding as part of securitisation of a lease and credit portfolio.

Apart from the above-mentioned changes, on 12 January 2018, ownership changes in Santander F24 S.A. were registered in the National Court Register, confirming the takeover of control over the company by Santander Finanse Sp. z o.o. in November 2017.

## Associates

In the consolidated financial statements of Santander Bank Polska Group for the 12 months ending 31 December 2018, the following companies are accounted for using the equity method in accordance with IAS 28:

1. Santander Aviva Towarzystwo Ubezpieczeń S.A. (Santander Aviva TU S.A.)
2. Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A. (Santander Aviva TUnŻ S.A.)
3. POLFUND – Fundusz Poręczeń Kredytowych S.A.

Compared with 31 December 2017, the list of associates did not change.

### 3. Other Equity Investments

As at 31 December 2018 and 31 December 2017, Santander Bank Polska Group owned at least 5% of share capital or voting power in the following companies:

Ref. Company	% in the Share Capital	Voting Power at AGM	% in the Share Capital	Voting Power at AGM
	31.12.2018		31.12.2017	
1. Invico S.A. <sup>1)</sup>	21,09%	12,21%	21,09%	12,21%
2. Krynicki Recycling S.A. <sup>1)</sup>	19,19%	19,19%	19,19%	19,19%
3. Polski Standard Płatności Sp. z o.o.	16,67%	16,67%	16,67%	16,67%
4. i3D S.A. <sup>1)</sup>	15,77%	15,77%	15,77%	15,77%
5. Krajowa Izba Rozliczeniowa S.A.	14,23%	14,23%	14,23%	14,23%
6. Aviva Powszechnie Towarzystwo Emerytalne Aviva Santander S.A.	10,00%	10,00%	10,00%	10,00%
7. Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	10,00%	10,00%	10,00%	10,00%
8. Aviva Towarzystwo Ubezpieczeń na Życie S.A.	10,00%	10,00%	10,00%	10,00%
9. Infosystems S.A. <sup>1)</sup>	7,50%	7,50%	7,50%	7,50%
10. Hortico S.A. <sup>1)</sup>	6,39%	6,39%	6,39%	6,39%
11. AWSA Holland II B.V.	5,44%	5,44%	5,44%	5,44%
12. Biuro Informacji Kredytowej S.A.	7,72%	9,22%	7,72%	9,22%
13. Gorzowski Rynek Hurtowy S.A. <sup>1)</sup>	2,69%	5,62%	2,47%	6,53%

1) Companies from the equity investment portfolio of Santander Inwestycje Sp. z o.o.

## III. Macroeconomic Situation in 2018

### Economic Growth

In 2018, the Polish economy expanded by 5.1% YoY, with the final quarter running a bit weaker than the previous ones (4.9% YoY) and with business sentiment indicators pointing to an approaching slowdown. Global economy developed at a similar pace as in 2017, but the forecasts for future periods worsened, *inter alia* due to the rising protectionism in international trade. Some emerging economies faced serious trouble. The eurozone rose slower, which negatively affected the demand for Polish exports. The main 2018 growth factor in Poland was private consumption, supported by the strong labour market, high growth of disposable income and consumer optimism. Investments rebounded, rising by 7.3% YoY in 2018, but increased investment activity was seen mainly in the public sector, especially in local governments, while private investments remained stagnant. Housing investments were an exception, and the real estate market was in a phase of strong growth. The basic challenge for Polish enterprises in 2018 was difficulties in finding skilled labour. This led to a strong rise in wages and a search for employees abroad. Despite the difficulties, industrial output rose by approx. 6% YoY and construction output by approx. 20% YoY. The current account balance worsened somewhat (-0.7% of GDP vs +0.1% in 2017), mostly due to a negative trade balance, but remained at a level suggesting no external imbalance. The deficit was amply covered by inflowing EU funds and direct investments. At the same time, a decline of gross external debt was recorded, while the net international investment position improved relative to the GDP. The solid economic results encouraged S&P to upgrade the Polish rating from BBB+ to A-. The other two main agencies also revised upwards their forecasts of Polish economic growth.

### Labour Market

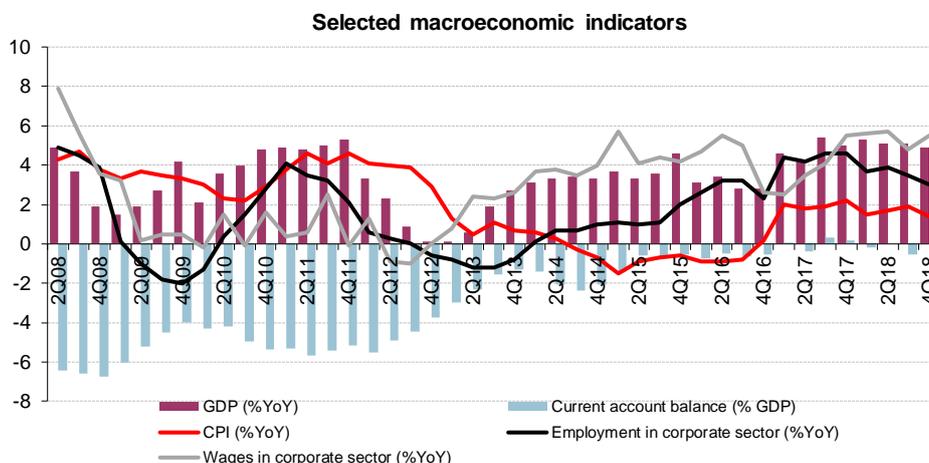
In H1 2018, the pace of employment growth in the corporate sector stabilised and since the beginning of the second half of the year the labour market started to lose momentum. This was as a result of more severe problems in finding new employees, and was also partly due to the higher number of retirees after the retirement age reduction in October 2017. Similar trends were seen in the unemployment data – the unemployment rate was falling in the first half of the year, setting new records, but the trend became less clear later in the year. At the same time, wage growth stayed at approx. 7-8% YoY despite the prevailing employees' market. Wages are likely to grow faster in the coming quarters, though. The deepening labour shortage is one of the key risks to the GDP growth forecast for Poland.

## Inflation

Inflation proved weaker than expected in 2018. It dropped significantly in Q1 to 1.3% YoY, soon after recording 2.5% in November 2017. In the middle of the year, CPI growth rebounded to 2% YoY, but then again it started to decrease faster than expected. The lowest point of inflation was in the final months of the year. Food and fuel prices were responsible for most of the changes, while core inflation, excluding food and energy prices, remained at 0.5-1.0% levels observed also in 2017. Its readings do not signal an upward trend, despite the labour market pressure and rising costs for businesses.

## Monetary Policy

The contained inflation, especially in core categories, has reassured the Polish Monetary Policy Council that its patient strategy of keeping interest rates unchanged at a record-low level and observing the economic reality was correct. The MPC's rhetoric has remained "dovish" and the NBP governor has suggested that the main reference rate might stay at a record low 1.50% beyond 2019. The MPC's stance remained unchanged even after publication of NBP's forecasts in November, which showed inflation above 3% in 2019 and still above the target in 2020. Thus, the motion to raise rates, which was voted in November, does not push forward the expected timing of tightening. We expect that the next decision to change interest rates will be for a hike but this most likely will not happen before the end of 2019.



## Credit and Deposit Market

In 2018, deposit growth accelerated from 4.5% YoY at the start of the year to almost 9% YoY at the year-end. This happened thanks to higher growth rate of households' deposits, which jumped from 3.5% YoY at the start of the year to almost 9% YoY in December. Corporate deposits accelerated to 6-7% YoY in Q3 2018, but the remaining part of the year witnessed a growth at 4%, i.e. close to the 2017 average. Total loan growth accelerated from 4% YoY to almost 8% YoY, with more visible acceleration in households' loans (from approx. 2% YoY to approx. 7.5% YoY), while corporate loan growth stayed fairly stable at 6-7% YoY. PLN-denominated housing loans maintained a robust growth of 10-12% YoY recorded also in the previous two years. Consumer loans accelerated from 7.5% YoY in 2017 to 9.5% YoY in H2 2018 (FX adjusted). Corporate investment loans slowed down from a double-digit growth rate at the start of the year to a decline in H2 2018 (FX adjusted). Current loans of companies accelerated from approx. 7% YoY in January to over 13% YoY in December.

## Situation in the Financial Markets

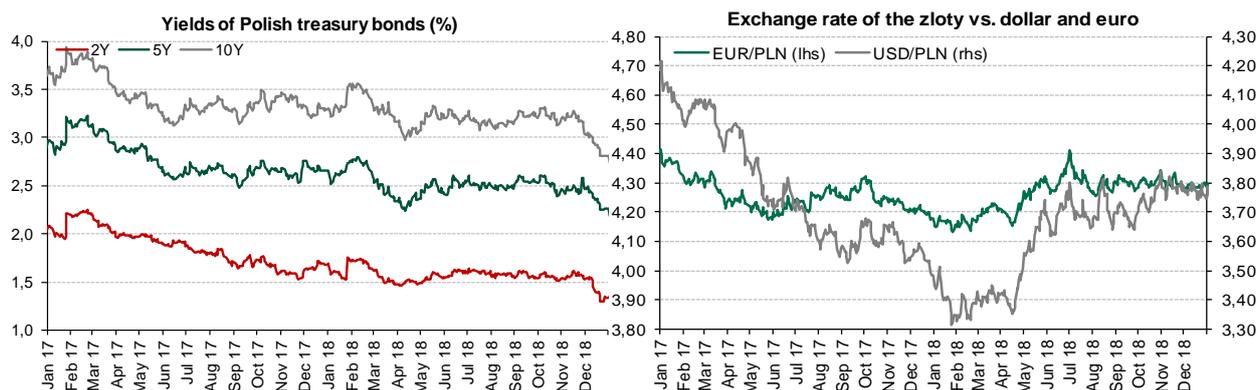
### Bond and Foreign Exchange Market

The US economic activity data resisted the negative pressure from Europe, which allowed the FOMC to effect gradual rate hikes. The ECB maintained its plan to cease asset purchases at the end of 2018 but the rhetoric about the timing of the first rate hike remained ambiguous.

Lower demand for risky assets and the dollar appreciation weighed on the CEE currencies in 2018. The additional pressure on the zloty, forint, Czech koruna and ruble came from a depreciation of the Turkish lira (in reaction to tensions between the USA and Turkey) and weakening of the Brazilian real (before the Brazilian presidential elections).

Polish bond yields jumped in early 2018 following the German bonds amid expectations for an inflation rise and solid economic growth in 2018. Later in the year, yields were falling (with a temporary rise in Q2) discounting consistently weaker macro data from Europe, domestic inflation running below expectations and concerns about the impact of the “trade wars”. Poland’s strong GDP data did not stop the downward trend in bond yields. As a result, Polish yield curve moved down 25bp in 2Y, 36bp in 5Y and 47bp in 10Y part. Asset swap spreads were narrowing during the year but returned to the starting point in late 2018, despite significant improvement in state fiscal performance and Poland’s credit rating upgrade by S&P in autumn.

During the first half of 2018, the zloty was under pressure against the euro and the dollar amid high global risk aversion and the dovish MPC rhetoric due to low inflation in Poland. In H2 2018, the Polish currency stabilised which could be seen as proof of strength given the global uncertainty, the appreciation of the US dollar and the pressure from the other emerging market currencies. The negative external pressure was neutralised by the very fast pace of the GDP growth continued for the whole year. In annual terms, the zloty depreciated 3% against the euro, 7.5% against the dollar, 6.5% against the Swiss franc and 2% against the pound.



## Stock Market

### Global Stock Market

2018 saw deterioration of the global stock performance amid concerns about the impact of the “trade wars”, systematic weakening of European economic activity data and uncertainty related to the way the Great Britain will leave the European Union. The US stock indexes started the year with a fall but in 3Q managed to climb to their new record high levels. In late 2018, profit taking was recorded. In Europe, stock indexes were on the downside for the whole year which was positive for the German bonds.

### Warsaw Stock Exchange Market

Following the winning streak in 2017, investor sentiment soured in 2018, causing a sharp decline across all indexes of the Warsaw Stock Exchange in spite of favourable economic conditions in Poland.

After a strong start to the year, with WIG reaching its all-time high, the stock market moved gradually downwards. The broad-based index showed relative weakness versus mature markets, sliding to the lowest levels since January 2017. It was not until the last weeks of the year when the main indexes rebounded. Contrary to the global trends, WIG and WIG20 managed to stay above the annual minimum levels recorded in October, losing 9.5% and 7.5% YoY, respectively. Mid and small cap indexes fared much worse, with mWIG40 and sWIG80 going down by 19.3% and 27.6%, respectively.

The weak performance of the Warsaw Stock Exchange in 2018 was mainly the result of the downturn in the core markets caused by a gradual tightening of monetary policy by the Federal Reserve, which generated increasing outflows from both developing and matured markets. Another significant factor was the early sign of deceleration of the global economy amid the trade tensions between the USA and the rest of the world, among other things. The domestic factors which adversely impacted index performance included redemptions of investment funds as well as increased outflow of funds from open-end pension funds as part of the so-called “security slider” mechanism following the reduction of the retirement age.

## Investment Fund Market

Assets managed by investment funds totalled PLN 256.8bn at the end of December 2018, down 7.9% YoY and PLN 22.1bn in nominal terms. In general, 2018 was not a good year for investors. On one hand, they tended to choose safe investments due to market uncertainty, on the other they did not obtain satisfactory returns because of economic slowdown. The highest YoY yields were generated on investments in short-term debt securities and safe Treasury bonds. Other asset classes did not provide satisfactory rates of return to Polish investors. It was reflected in redemptions of investment fund units which totalled PLN 12.4bn, mainly on account of negative net sales of non-public market funds (-PLN 12.9bn). The above-mentioned change in the portfolio allocation towards safer assets brought about net redemptions in equity funds and absolute return funds at PLN 7.9bn in total, while net

inflows to money market funds amounted to PLN 13.1bn. In 2018, the largest outflows from investment funds were reported in April and between September and December.

In 2018, MIFID II was transposed into Polish law, resulting in reduction of management fees. A series of ownership changes took place, with more to come, causing further consolidation of the investment fund market in Poland.

## Lease Market

In 2018, the Polish lease companies financed fixed assets of PLN 82.6bn net, up 21.8% YoY. The assets included mainly light vehicles (48.4%), machines and equipment (26.3%) and trucks (23.7%).

The total value of the active lease portfolio was PLN 146.6bn (up 23% YoY) and was comparable with the value of investment loans granted to companies by banks (PLN 124.4bn). 73% of lease customers were micro and small companies with annual turnover of up to PLN 20m.

In Q4 2018, the volume of passenger cars financed by lease companies grew considerably in view of tax changes effective from 1 January 2019. The total value of leased passenger cars was up 31% YoY, reaching PLN 39.9bn.

The net value of machines and equipment financed by lease companies exceeded PLN 21.7bn, up 18% YoY.

The outlook for the lease sector shows a significant slowdown after six years of expansion. Its expected growth of 5.5% in 2019 will correspond to the projected growth in private investments and the scenario of economic development in Poland.

## Situation in the Banking Sector

According to the KNF's Banking Sector Report for January–September 2018, which presented the most up-to-date analysis of the Polish banking sector as at the date of this report, the situation in the banking sector over the first nine months of 2018 was stable amid favourable macroeconomic conditions (strong economic growth and further improvement of labour market conditions and enterprise and consumer sentiment).

The profitability of banks in this period increased by 10.8% YoY, driven by commercial banks whose net profits increased by 13.3% YoY compared with a significant decrease in profits posted by cooperative banks and credit institutions.

The improvement in financial performance was mainly attributed to a 8.7% rise in net interest income driven by credit delivery which increased consumer loan-book by 9.2% YoY, home loans by 8.0% YoY and business credit portfolio by 5.6% YoY. At the same time, banks offered very low or zero interest rates for deposits from the non-financial sector, which reduced the related expense growth to 1.0% YoY.

The financial results were also positively affected by dividend income (+43.4% YoY) and net income from non-core banking operations (+1.6% YoY). A negative impact was exerted by lower net fee and commission income (-4.8% YoY) and higher general and administrative expenses and amortisation (+5.5% YoY). The largest cost item was salaries and statutory deductions from salaries (+5.3% YoY), followed by cost of marketing (+28.7% YoY), IT usage (+10.7% YoY) and tax on certain financial institutions.

The negative balance of allowances and provisions increased by 4.1% mainly due to higher negative allowances for consumer loans (+21.2%) and, to a lesser extent, for business loans (+4.2%) and other loans for households (+1.1% YoY).

Changes in the income statement contributed to a slight improvement in the operational efficiency ratios, with a cost to income ratio falling from 56.60% between January and September 2017 to 56.39% between January and September 2018) and ROA and ROE increasing from 0.81% to 0.85% and from 7.18% to 7.52%, respectively. The interest margin levelled off at 2.65%.

Banks continued to increase their profitability by optimising headcount and sales networks. This was supported by mergers and acquisitions as well as the development of electronic banking. Accordingly, the number of employees in the banking sector was reduced by 0.8 thousand, and the number of branches by 332.

During the first nine months of 2018, the balance sheet total increased by 6.8% YoY. On the asset side, loans to the non-financial sector were the key lines recording growth, while on the liabilities side – deposits from households and the government sector.

The lending growth was driven by continued economic recovery, further improvement in the labour market, strong consumer and enterprise confidence, low interest rates and modification of the operational strategy of some banks towards a higher share of short-term retail loans. Another contributing factor is the Family 500+ child benefit programme, which increases the households' propensity to raise debt.

The credit portfolio quality remained generally stable. At the end of September 2018, impaired loans accounted for 6.9% (vs. 6.8% at the end of 2017). The implementation of IFRS 9 resulted in changes to the presentation, classification and measurement of financial instruments, including recognition and calculation of their impairment. Modification of the reporting rules caused an increase in the balance of impaired loans and impairment allowances, among other things.

An increase of 7.6% YoY in the balance of deposits from the non-financial sector was triggered by an accelerated growth in deposits from households and slightly lower outflows of deposits from the enterprise sector. The rise in deposits from individuals was supported by the growth of salaries, however, the deposit base expansion came under pressure from low interest rates, recurring inflation and banks' policy focused on increasing net interest income.

The capital base remained stable. Between January and September 2018, the level of own funds went up by 5.8%.

The ownership structure in the banking sector did not change significantly in 2018. Polish investors controlled 13 commercial banks (8 banks were controlled by the State Treasury and 5 by private equity companies) and all cooperative banks.

The banking sector concentration level was stable, with 10 largest banks accounting for 71.1% of sector assets, 69.4% of loans to the non-financial sector and 74.7% of deposits from the non-financial sector.

As at the end of September 2018, there were 12 banks listed on the WSE, holding 66.4% of sector assets (on an unconsolidated basis). The stock market downturn translated into a decrease of 8.8% in their total market capitalisation (from PLN 216.5bn at the end of 2017 to PLN 197.3bn at the end of September 2018).

## Legal Environment of the Banking Sector

The table below shows the selected legislation which came into effect in 2018 and has a considerable impact on the financial sector in Poland. In the vast majority of cases, it transposes relevant directives and regulations of the European Parliament and of the Council to the Polish legal system.

Legislation	Effective date	Purpose	Selected regulations affecting the financial sector
<b>Act of 24 November 2017 amending certain acts in order to counteract the use of the financial sector for tax fraud</b>	13 January 2018	<ul style="list-style-type: none"> <li>To improve the security of the tax system, in particular to prevent VAT and other tax frauds.</li> </ul>	<ul style="list-style-type: none"> <li>Creation of an ICT system for the clearing house (STIR) to facilitate the exchange of information between the banking system and the National Revenue Administration (NRA).</li> <li>Introduction of an obligation for banks and credit unions to provide information subject to bank/professional secrecy to STIR for the purpose of determining the risk indicator.</li> </ul>
<b>Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation</b>	17 January 2018	<ul style="list-style-type: none"> <li>To establish common rules for EU member states allowing for the use of securitisation as an effective tool for selected long-term investors and banks to acquire and diversify funding sources.</li> <li>To facilitate the growth of the securitisation market based on sound practices.</li> </ul>	<ul style="list-style-type: none"> <li>Definition of a simple, transparent and standardised securitisation.</li> <li>Ensuring the transparency of securitisations to allow investors to make their own risk assessment (rather than solely use assessments made by rating agencies).</li> <li>Introduction of a possibility to effectively transfer risk to institutional investors and banks.</li> </ul>
<b>Act of 1 March 2018 amending the Act on trading in financial instruments and certain other acts (Act implementing the MiFID 2 package)</b>	21 April 2018 selected provisions: 1 January 2019, 3 July 2019, 1 January 2020	<ul style="list-style-type: none"> <li>To transpose the EU capital market regulations, i.e. Markets in Financial Instruments Directive (MiFID 2) and the Regulations (EU) of the European Parliament and of the Council.</li> <li>MiFID2 and MiFIR provide a legal framework applicable to investment firms, regulated markets, data reporting services providers and third country firms providing investment services or activities in the EU.</li> </ul>	<ul style="list-style-type: none"> <li>Increase in the supervisory powers of the KNF over investment firms and brokerage houses.</li> <li>Allowing brokerage houses to act as intermediaries in the execution of structured deposit agreements.</li> <li>Changes in the outsourcing of brokerage services.</li> <li>Limitation of the possibility to accept or charge any fee or commission or any monetary or non-monetary benefit from third parties, in particular issuers and product providers.</li> <li>New rules of charging fees for the sale and repurchase of investment fund units.</li> <li>Introduction of rules regarding cross-selling by providers of retail financial services.</li> <li>Introduction of new or changed obligations for investment firms regarding: staff competencies, remuneration system, organisation of enterprise, communication with customers, reporting, suitability of a financial instrument and a distribution strategy for the target group, etc.</li> </ul>

Legislation	Effective date	Purpose	Selected regulations affecting the financial sector
<b>Act of 10 May 2018 amending the Payment Services Act and certain other acts</b>	20 June 2018 (obligation to adapt activities by 20 December 2018)	<ul style="list-style-type: none"> <li>To transpose the EU Payment Services Directive 2 (PSD 2).</li> <li>To provide more transparent and consistent legislation regarding payment services and create a single market for payments across the EU.</li> <li>To change the scope of payment services provided by banks and non-bank entities providing payment services.</li> </ul>	<ul style="list-style-type: none"> <li>Extension of the scope of regulations to cover all currencies.</li> <li>Use of the SHA option by banks in payment transactions made on the territory of member states irrespective of the transaction currency and liquidation of the OUR option.</li> <li>Reduction of the maximum amount a payer could be obliged to pay in the case of an unauthorised payment transaction from EUR 150 to EUR 50.</li> <li>Introduction of an obligation for banks to execute messages sent by third party providers (fintechs) under agreements with account holders for the provision of account information services (AIS) and payment initiation services (PIS).</li> </ul>
<b>Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC</b>	25 May 2018	<ul style="list-style-type: none"> <li>The General Data Protection Regulation (GDPR) provides for full harmonisation of law across the EU, free movement of personal data and more effective control of such data.</li> </ul>	<ul style="list-style-type: none"> <li>Easier access to data for customers (more information about the nature of data processing and its presentation in a more transparent and comprehensible manner).</li> <li>Right to data portability (facilitating the transfer of personal data between service providers).</li> <li>Right to erasure (right to be forgotten).</li> <li>Right of the Head of the Personal Data Protection Office to impose fines in the case of breach of personal data protection regulations.</li> <li>Obligation for entities processing data on a large scale to appoint a data protection officer.</li> </ul>
<b>Regulation of the Minister of Finance on the procedure and operating conditions for investment firms, banks referred to in Article 70(2) of the Act on Trading in Financial Instruments, and custodian banks</b>	23 June 2018 (obligation to adapt the activities by 1 October 2018)	<ul style="list-style-type: none"> <li>The Regulation was introduced in relation to the transposition of MiFID 2.</li> <li>It extends the scope of existing regulations to include mechanisms improving the security and quality of services provided to investors and limiting the possibility for investment firms to offer prohibited inducements.</li> </ul>	<ul style="list-style-type: none"> <li>The Regulation provides for the following: <ul style="list-style-type: none"> <li>✓ operating procedure for investment firms which accept or provide monetary or non-monetary benefits</li> <li>✓ rules for accepting or paying inducements (minor monetary benefits)</li> </ul> </li> <li>Introduction of provisions governing investment firm practices regarding: <ul style="list-style-type: none"> <li>✓ cross-selling</li> <li>✓ issuance of financial instruments and the associated advisory services</li> <li>✓ recommending, offering or otherwise facilitating the purchase of a financial instrument</li> <li>✓ reporting (contents and dates of reports).</li> </ul> </li> </ul>
<b>Act of 9 November 2018 amending certain acts to strengthen oversight over financial markets and protection of investors</b>	1 January 2019 (with some exceptions)	<ul style="list-style-type: none"> <li>Added Section AB "Bank Acquisition" in Chapter 12 of the Banking Law Act.</li> </ul>	<ul style="list-style-type: none"> <li>The Polish Financial Supervision Authority (KNF) may decide that a bank may be acquired by another bank, subject to the latter's consent and provided that it does not undermine secure operations of the acquiring bank.</li> <li>The decision may specify the terms and dates relating to the acquisition.</li> <li>On the acquisition date, the acquiring bank assumes all the rights and obligations of the acquired bank.</li> <li>The acquired bank's own funds are used to cover its balance sheet losses.</li> </ul>
<b>Insurance Distribution Act of 15 December 2017</b>	1 October 2018	<ul style="list-style-type: none"> <li>The Act transposes the EU Insurance Distribution Directive and supersedes the Insurance Mediation Act.</li> </ul>	<ul style="list-style-type: none"> <li>The Act requires insurance distributors to act honestly, fairly and professionally.</li> <li>Distributors must specify the customers' demands and needs based on the information received from customers and provide them with appropriate information about an insurance product and an insurance distributor.</li> <li>Insurance distributors are also required to provide information about the nature of their remuneration.</li> <li>Insurance agents must inform customers whether they act on behalf of one or more insurers and specify which insurers they cooperate with.</li> <li>Insurance distributors are required to steadily develop their competencies.</li> </ul>

## IV. Development Strategy of Santander Bank Polska S.A. and its Group

### 1. Mission, Vision, Values and Strategic Objectives for 2019–2021

The strategy of Santander Bank Polska Group for 2019–2021 is a continuation of the previous course of action and is based on the same values and assumptions as applied before. The Group's mission, vision and values have not changed for years:

<b>Mission</b>	<ul style="list-style-type: none"><li>To help people and businesses prosper</li></ul>
<b>Vision</b>	<ul style="list-style-type: none"><li>To be the best retail and commercial bank that earns the lasting loyalty of its employees, customers, shareholders and communities.</li></ul>
<b>Values</b>	<ul style="list-style-type: none"><li>Simple   Personal   Fair</li></ul>

As part of its strategic vision, Santander Bank Polska S.A. intends to:

- Become a leading bank in terms of service quality, focusing on customer needs and expectations;
- Build long-term relationships with customers based on trust, loyalty and enhanced customer experience;
- Anticipate and respond to customers' needs with tailored products, services and solutions;
- Modernise banking services through digital transformation, including end-to-end processes and change the operating model to a more effective and less capital-intensive one;
- Increase the number of digital customers;
- Increase its share in the key market segments and expand its business model through both organic and inorganic growth;
- Grow faster than peers;
- Create an engaging work environment through collaboration, communication and bottom-up initiatives raised in all the bank's units;
- Enhance effectiveness and streamline internal processes in line with an Agile methodology;
- Combine the maximisation of shareholder value with the commitment to the growth of local communities.

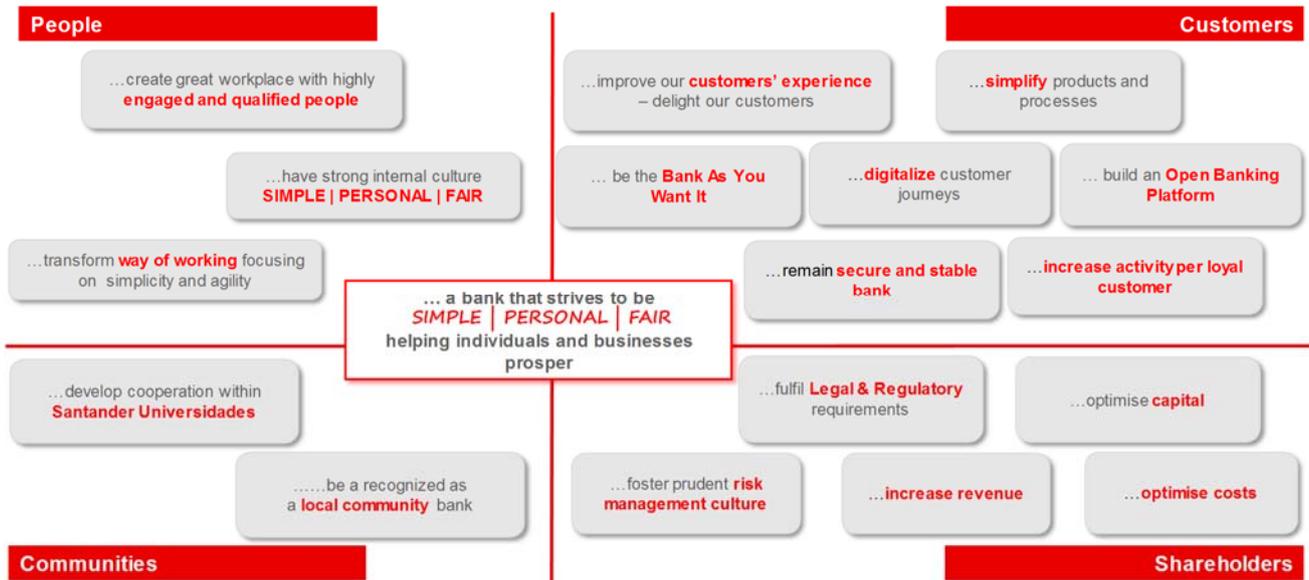
The above assumptions are reflected in the Group's strategic goal for 2019–2021, which is to:

Achieve the **leadership position** in the financial services market owing to:

- **customer-centric and digital services** in line with the **Simple, Personal and Fair** values
- earning **lasting loyalty** of employees, customers, shareholders and communities.

The strategy of Santander Bank Polska S.A. promotes a customer-centric approach to business management, continuous improvement of service quality and product range through digitalisation, increase in operational efficiency, innovative and simple solutions, and transparency. One of its fundamental elements is the corporate culture which is focused on increasing engagement and motivation of employees and social responsibility of the organisation.

The overall goal has been divided in a number of specific objectives for 2019–2021 related to the key stakeholder groups: employees, customers, communities and shareholders. The key performance indicators have been defined for each of the above areas to facilitate the assessment of progress in delivery of the strategy.



In view of dynamic and complex changes in the macroeconomic environment, the strategy of Santander Bank Polska Group is regularly verified, which helps to take prompt action in response to emerging market trends. The external and internal developments may also require the Group to revise its key performance indicators.

## 2. Brand Promise and Values

### Bank As You Want It

The bank's brand promise reflected in the concepts of "Bank As You Want It" ("Bank Jaki Chcesz") and "You Bank As You Want It" ("Bankujesz jak chcesz") focuses on the fundamental consumer need of having influence and control. While placing customers at the heart of its business, the bank strives to identify their needs and provide solutions and functionalities that are tailored to individual requirements. At the same time, the bank provides customers with tools that enable them to personalise products and services on their own (without engaging branch advisors). It is helped by the digitalisation of banking processes and by a growing number of customers who prefer to bank via remote channels.

### Corporate culture

The corporate culture of Santander Bank Polska Group and Banco Santander Group is enshrined in the Simple, Personal and Fair values.

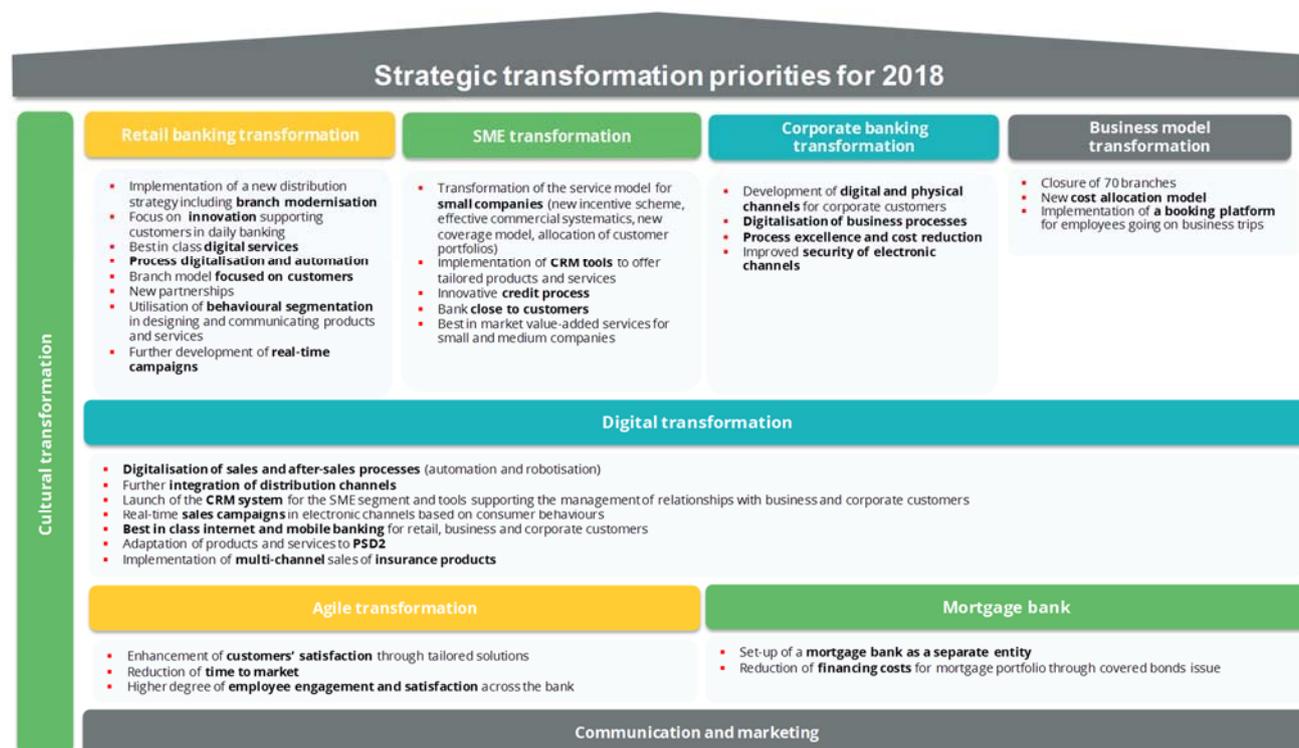


The Group promotes the following behaviours:



### 3. Delivery of Strategic Transformation Programmes

In 2018, the Group continued to deliver its transformation programmes including commercial transformation, business model transformation, digital transformation, cultural transformation, Agile transformation, communication and marketing and mortgage bank project. These initiatives are fundamental to the Group's strategy and are designed to ensure that the Group achieves above-average operational efficiency and effectiveness and that customers are provided with top-quality, accessible, innovative and digitalised services. Solutions implemented as part of the transformation programmes help enhance customers' satisfaction with products and services offered by the Group and build the bank's reputation as an employer and a socially responsible company.



## Selected projects delivered as part of the transformation programmes

Strategic programme	Main directions	Key implementations in 2018
<b>Commercial transformation</b>	<ul style="list-style-type: none"> <li>• Initiatives focused on Retail, SME and Business and Corporate Banking.</li> <li>• Development of a business model that will ensure positive customer experience, help simplify products and support optimisation of processes, pricing policies and distribution.</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation of a new account opening process outside the branch</li> <li>• Multicurrency card for individual customers .</li> <li>• Launch of operations of the first branches in the new format and Santander customer acquisition stands in shopping centres.</li> <li>• Increase in business effectiveness through the implementation of a new grouping model and operational agenda for SME advisors.</li> <li>• Deployment of an accounting platform (via Santander internet services) that helps small business owners do their bookkeeping – on their own or with an assistance of a professional accountant (e-Księgowość).</li> <li>• Launch of a website for individuals planning to start a business (dzialalnosc.pl).</li> <li>• Implementation of a tool based on advanced analytics (both in relation to internal and external data) to better understand the needs of large corporates and to identify new areas for cooperation.</li> <li>• Development of investment products for corporate customers.</li> </ul>
<b>Business model transformation</b>	<ul style="list-style-type: none"> <li>• Increase in operational effectiveness through: <ul style="list-style-type: none"> <li>✓ control of capital and operating expenses;</li> <li>✓ optimisation of property and branch network management;</li> <li>✓ streamlining of the organisational structure, elimination of duplicated functions, use of synergies between different areas of the bank.</li> </ul> </li> <li>• estimation and monitoring of benefits of the transformation process.</li> </ul>	<ul style="list-style-type: none"> <li>• Optimisation of branches</li> <li>• New signage of branch outlets, HO centers, ATMs and cash deposit machines following the rebranding process.</li> <li>• Own real estate optimisation.</li> <li>• Alignment of internal regulations with the new brand.</li> <li>• Re-arrangement of the office space for the purposes of the Agile Project</li> <li>• Implementation of a booking platform for employees making arrangements for a business trip.</li> <li>• New cost allocation model in place.</li> </ul>
<b>Digital transformation</b>	<ul style="list-style-type: none"> <li>• Initiatives taken to improve customer service and develop end-to-end solutions which will be available in distribution channels of the customer's choice, including: <ul style="list-style-type: none"> <li>✓ simplification of processes to suit customers' needs;</li> <li>✓ implementation of remote solutions for new products;</li> <li>✓ extension of the scope of after-sales services and development of new tools for customer advisors, including CRM development using Business Intelligence tools.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• An option for sole traders holding a personal account to sign up for a business account online.</li> <li>• Launch of new after-sales processes in electronic channels including early repayment of a loan or a credit card debt in full or in part via Santander internet services.</li> <li>• Further automation of transactional, after-sales and back-office processes in the RPA platform implemented in 2017.</li> <li>• An option to pay for goods and services online using Apple Pay, Garmin Pay, Fitbit Pay and BLIK.</li> <li>• Extension of the product range to include, among other things, a motor insurance (third party liability, loss or collision damage, personal accident insurance and assistance) including via Santander mobile application.</li> <li>• Expansion of the range of mobile application features to include mSignature: a safe and convenient alternative to text message codes used to authorise online purchases.</li> </ul>
<b>Communication and marketing</b>	<ul style="list-style-type: none"> <li>• Raising awareness of the bank's new brand in Poland and increasing its strength through messages based on emotions and values and clear associations with an international financial group, one of the most recognised banking brands in Europe and globally.</li> </ul>	<ul style="list-style-type: none"> <li>• Delivery of the rebranding process (following the decision to change the name of Bank Zachodni WBK S.A. to Santander Bank Polska S.A.) as part of which a Poland-wide information and image-building campaign was launched, a welcome letter was sent to customers and relevant information about the rebranding and the associated changes was published in electronic banking systems and on the internet.</li> </ul>

## Selected projects delivered as part of transformation programmes (continued)

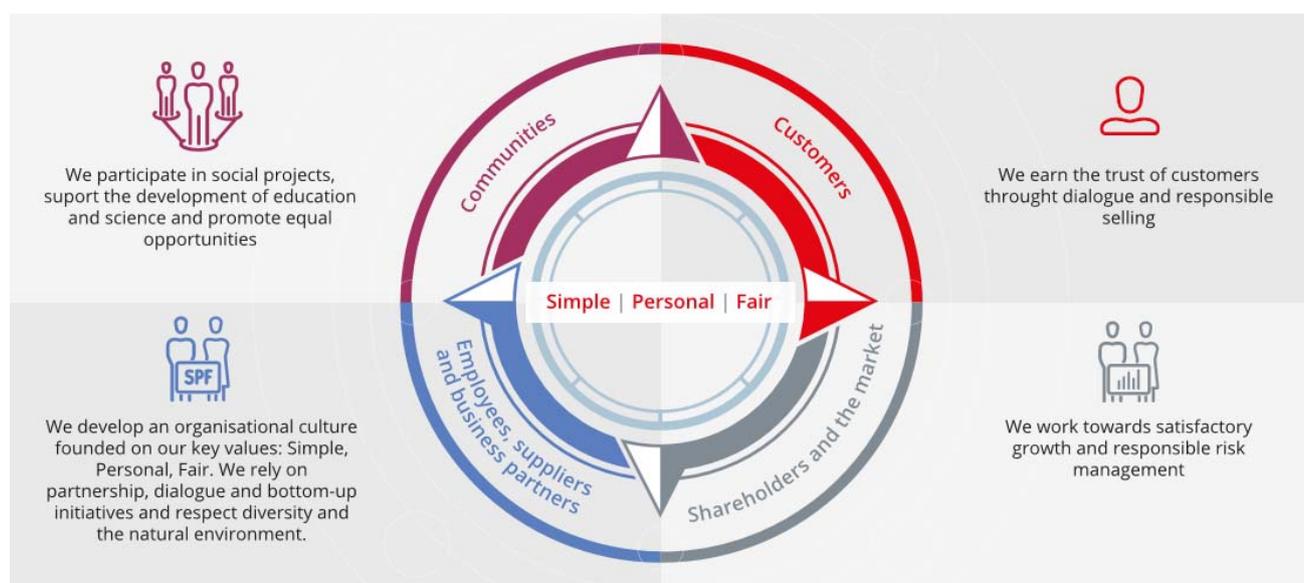
Strategic programme	Main directions	Key implementations in 2018
<b>Cultural transformation</b>	<ul style="list-style-type: none"> <li>• Cultural transformation as a key success factor for all changes taking place at the bank.</li> <li>• The scope includes:               <ul style="list-style-type: none"> <li>✓ enhancement of leadership skills and development of staff and teams;</li> <li>✓ delivery of strategic goals and day-to-day tasks in line with the Simple, Personal and Fair values;</li> <li>✓ increase in employee engagement and delivery of employer branding initiatives;</li> <li>✓ Infusion of agile values.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Introduction of an Agile way of working and transformation of corporate culture in line with the Agile methodology (Agile campaign).</li> <li>• Internal branding initiatives targeted at the bank's employees to increase the pride of belonging to the global Santander Group.</li> <li>• Digitalisation of HR processes – mapping and ongoing improvement of processes connected with recruitment, induction, development, training and termination of employment.</li> <li>• Delivery of strategic goals and projects in line with the Simple, Personal and Fair values and the Bank As You Want It concept.</li> <li>• Launch of the Differently Abled (Różnosprawni) project to promote the employment of people with disabilities.</li> <li>• Cooperation with Santander Universidades to build a consistent, positive image of Santander Bank Polska S.A. among students and academics as part of knowledge-sharing process.</li> <li>• Induction initiatives for employees of the demerged part of Deutsche Bank Polska S.A.</li> </ul>
<b>Mortgage bank</b>	<ul style="list-style-type: none"> <li>• Set up of a mortgage bank as a separate specialised entity of Santander Bank Polska Group operating under the name of Santander Bank Hipoteczny S.A.</li> </ul>	<ul style="list-style-type: none"> <li>• Consent from the Management Board and the Supervisory Board of Santander Bank Polska S.A. for the establishment of the mortgage bank.</li> <li>• Continuation of works related to launching the mortgage bank.</li> </ul>
<b>Agile transformation</b>	<ul style="list-style-type: none"> <li>• Implementation of a new working model in accordance with the Agile methodology, which will help the bank:               <ul style="list-style-type: none"> <li>✓ keep abreast of and respond to changes in market environment and customers' expectations.</li> <li>✓ expedite the time-to-market;</li> <li>✓ facilitate the search for and testing of new innovative solutions;</li> <li>✓ increase customer satisfaction.</li> </ul> </li> <li>• The new methodology will entail modification of the existing operating models with a departure from complex structures in favour of small, cross-functional teams with a sound understanding of customer needs and a capability of fast and effective delivery of new solutions.</li> </ul>	<ul style="list-style-type: none"> <li>• Set up of the first Tribes (Omnichannel, Individual Client, Risk Engineering, Consumer Finance, Day-to-day banking and Business Intelligence).</li> <li>• Work is underway to set up new Tribes in Retail Banking, Business and Corporate Banking and Business Banking, and providing common solutions.</li> </ul>

## 4. Social Responsibility Strategy

Acting on the premise that management compliant with social responsibility principles contributes to long-term sustainable growth, Santander Bank Polska S.A. has made specific ethical, social and environmental commitments that go beyond legal obligations towards stakeholders.

As part of its sustainable development activities, the Bank manages social and environmental risks and creates long-term value for all stakeholders.

### COMPASS OF SANTANDER BANK POLSKA S.A.: VALUES AND DIRECTIONS FOR SOCIAL RESPONSIBILITY ACTIVITIES



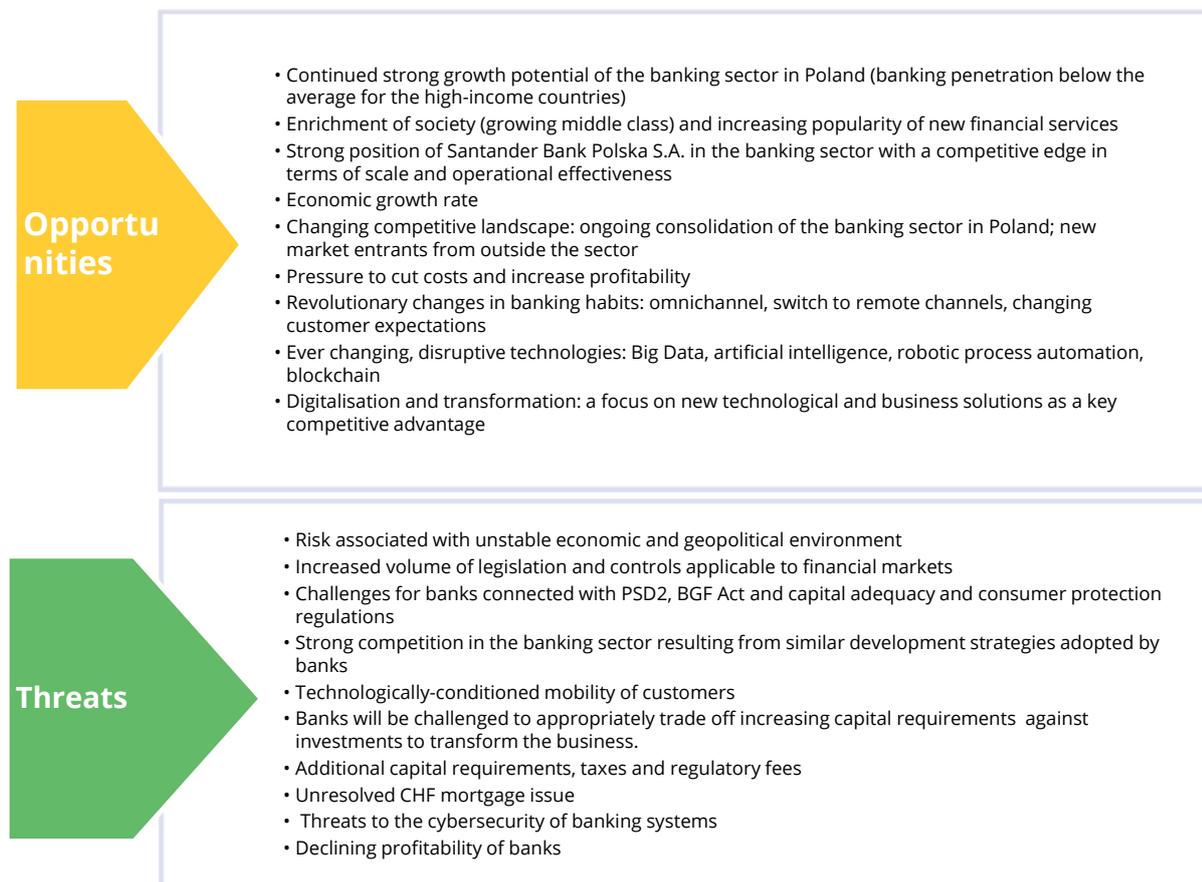
### SOCIAL RESPONSIBILITY STRATEGY OF SANTANDER POLSKA FOR THE YEARS 2019–2021

- First bank in Poland in terms of corporate social responsibility
  - ✓ Support for beneficiaries and active volunteers involved in the bank's projects
  - ✓ Further developments of strategic CSR programs: How's Your Driving, Santander Press Photo, Santander Orchestra, Barrier-Free Bank Program, Here I Live, Here I Make Changes and other
  - ✓ Supporting local initiatives through Santander Poland Foundation
  - ✓ Implementation of responsible sales and service programme
  - ✓ Active participation in all CSR rankings, partnerships
- Fostering climate finance to support the transition towards a low carbon economy
- Tackling social and financial inclusion, helping low income and vulnerable segments access to financial services
  - ✓ Promote financial education so that people can make better use of their financial resources
  - ✓ Guarantee access to quality financial products and services
  - ✓ Products and services adapted to the needs of each community and group
- Investing in the communities where we are present, with focus to extend and improve access to higher education
  - ✓ Further development of the Santander Universidades programme
  - ✓ Educational programmes and tools dedicated to all age groups
  - ✓ A programme for financially excluded persons aimed at providing them with bank account

## 5. External Factors Affecting Strategic Development

### Opportunities and threats for the commercial banking sector in Poland

Below are the selected opportunities and threats affecting the delivery and direction of the strategy of Santander Bank Polska S.A.



## 6. Economic Forecast for 2019

The uncertainty about the global economic outlook is mounting. Investors are concerned about international trade tensions, the Brexit process, slowdown in China and political instability across Europe. Global institutions keep revising down their growth projections for 2019 and yet the demand in the euro zone still seems to be sound and the GDP growth in Europe is likely to decelerate only marginally year-on-year. The US economy may slow down only slightly too: the business confidence indexes remain high, but may be adversely affected by interest rate hikes and the diminishing impact of tax cuts. All in all, the global economic growth, though slower, should remain robust enough for central banks, particularly the Federal Reserve and the ECB, to continue the monetary policy normalisation. However, the deteriorating external environment is projected to weigh down on the Polish exports and industrial output, which is strongly connected with the European supply chain.

In Poland, the negative global trends will be counterbalanced by the continued growth in EU-subsidised investments, already thriving over the last quarters of the year. According to estimates, the peak investments funded from this source are still ahead, given the current seven-year financial framework. Private consumption will remain the leading growth driver, though to a lesser extent than in the previous periods. Consequently, the GDP is expected to gradually decelerate from approx. 5% in 2018 to approx. 4% in 2019, which will still place Poland as one of Europe's growth champions and exceed the country's potential.

The labour market is tightening, with an unemployment rate hitting an all-time low and labour shortages seen as the main barrier to business expansion. Still, the steady inflow of economic migrants gives companies some leeway in this regard. What is worrying is the fact that despite the growth in the number of people active in the labour market, the supply of domestic labour force is not

likely to rise. It makes Poland's economy more dependent on foreign workers and suggests that the wage growth is not expected to lose its momentum if the economy is to grow by about 4% per annum.

Inflation does not only continue to be low but lags behind most EU economies. It may be partly due to the financial results posted by companies which have been strong enough to let them absorb costs rather than pass them onto customers. However, this may be only temporary, as there are already signs of excessive margin compression. In the end, companies will either transfer more costs onto buyers or put in a much weaker performance given the economic slowdown. The core inflation is expected to grow steadily to approx. 2.5% at the end of 2019. CPI will follow a similar trajectory.

The central bank is quite confident about the economic situation in Poland, which seems reasonable given the lack of economic imbalances to date. The core inflation will rebound in 2019 at a relatively slow pace, therefore interest rate hikes are hardly to be expected in Poland this year.

Loans and deposits should continue to grow at a solid rate, though lower than in 2018. Low interest rates will benefit demand deposits, though the recent increase in deposit costs may slightly offset the difference in growth rates between the former and term deposits.

The zloty may weaken at the start of the year due to less favourable macroeconomic data, uncertainty about Brexit and further interest rate hikes in the US.

The EUR/PLN is expected to grow above the upper range of 4.26–4.34 in Q1 2019, only to depreciate gradually to 4.30 at the year's end. The zloty may gain in the later part of the year, yet the growth will be subdued by the lack of interest rate hikes in Poland, economic slowdown and market concerns about the results of parliamentary elections to be held in autumn.

## V. Relations with Employees

### 1. Human Resources Management

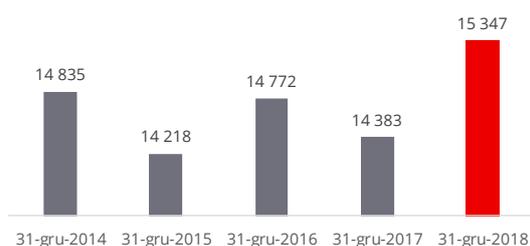
#### Human Capital

As at 31 December 2018, the number of FTEs in Santander Bank Polska Group was 15,347 vs. 14,383 as at 31 December 2017. These headcount figures include 12,253 FTEs of Santander Bank Polska S.A. (11,291 as at 31 December 2017) and 2,628 FTEs of SCB Group (2,664 as at 31 December 2017).

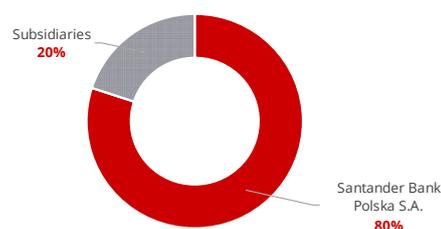
The increase of 8.5% YoY and 6.7% YoY in the bank's and Group's employment levels results from the acquisition of a demerged part of Deutsche Bank Polska S.A. and all shares of Santander Securities S.A. on 9 November 2018. Adjusting for 1,513 FTEs of the acquired bank and 16 FTEs of the investment firm, the underlying headcount went down by 5.0% YoY for the bank and 3.9% YoY for the Group. The decrease in the underlying number of FTEs is attributed to transformation of the business model of Santander Bank Polska S.A., which involves digitalisation and an increase in the share of remote channels in sales and customer service, resulting in the reduction of headcount in the bank's branches, with a concurrent increase in the number of FTEs in business support areas. The process was based on the maximum use of employee attrition and took account of business needs and the prevailing market conditions.

On 10 January 2019, the Management Board of Santander Bank Polska S.A. adopted a resolution on the intended collective redundancies and on 31 January 2019 signed an agreement defining the principles of collective redundancies with all trade unions operating at the Bank. The employment level is to be reduced by a maximum of 1,400 employees between February and 31 December 2019 (approx. 11% of all the staff employed at the bank as at 31 December 2018). The costs of collective redundancies is estimated at PLN 70-90m.

EMPLOYMENT IN SANTANDER BANK POLSKA GROUP  
FROM 31.12.2014 TO 31.12.2018 (IN FTEs)

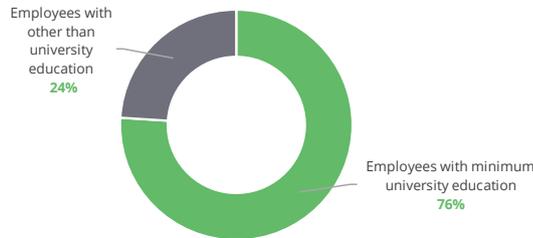


EMPLOYMENT STRUCTURE IN SANTANDER BANK POLSKA GROUP  
AS AT 31.12.2018

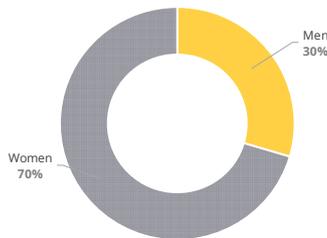


Human and intellectual capital of Santander Bank Polska Group is created by highly-qualified employees who constantly develop their competencies as part of day-to-day activities and top-quality development programmes. Development programmes for managers and employees and a strong focus on knowledge sharing contribute to the growth of intellectual potential as well as efficiency and stability of the Group's human capital.

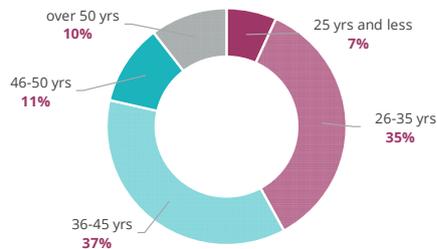
EMPLOYEE STRUCTURE OF SANTANDER BANK POLSKA GROUP  
BY EDUCATION



EMPLOYEE STRUCTURE OF SANTANDER BANK POLSKA GROUP  
BY GENDER



EMPLOYEE STRUCTURE OF SANTANDER BANK POLSKA GROUP  
BY AGE



## Human Resources Management Strategy

The strategic goal of the Business Partnership Division, a unit responsible for managing human resources at Santander Bank Polska S.A., is to build the bank's market position as an employer of choice by creating a positive employee experience at each stage of the professional life cycle, supporting staff development and creating a friendly work environment.

The position of the best banking institution in Poland is to be achieved through activities aimed at strengthening leadership and transforming corporate culture.



In 2018, Santander Bank Polska S.A. delivered its HR objectives as measured by KPIs set for individual areas:

- **engaged employees ratio of 72%** according to the annual engagement survey.
- **the best employer in the banking sector** (according to the Antal ranking).

#### Employer branding

- The employer branding initiatives are aimed at ensuring a steady inflow of talented people to Santander Bank Polska S.A.
- The model for recruitment and induction of new employees is modified on an ongoing basis.
- Increasing presence at the universities, career fairs and the internet.
- Promotion of corporate culture based on the Simple, Personal and Fair values and the Agile methodology.
- Creating positive candidate and employee experience.
- Delivery of initiatives supporting the diversity and inclusion policy.

#### Engagement

- Building an engaging working environment.
- Commitment to increasing the engagement of employees by catering to their needs at each stage of their professional life.
- Continuous improvement of HR processes connected with recruitment, induction, development, training and termination of employment.
- The Engagement Survey held in the third quarter each year helps the bank identify the areas for improvement and build up staff engagement.

#### Development

- Focus on training and development initiatives for experts and managers, including senior executives (such as Leaders for Employees, talent management programmes, YoUniversity and training activities).
- Digital transformation – contributing to the development of a technology-oriented organisation.

#### Leadership

- In their day-to-day work, leaders actively collaborate, support people, talk straight, truly listen, show respect, keep promises, embrace change and bring passion.
- Leaders build up their skills so as to lead and develop their teams and deliver on the business objectives in an even more effective way.
- Development of skills and experience in terms of change management in the Agile leadership model and at the time of transformation.
- The above approach to management enables leaders to successfully achieve their objectives.

## Talent Management Policy and HR Programmes

The cultural transformation process is fundamental to changes taking place at Santander Bank Polska S.A. and is aimed at building the best commercial bank in Poland by 2019. To that end, the bank:

- Continued to implement the Agile methodology entailing modification of the existing operating model and replacement of complex structures in favour of small, cross-functional teams with a sound understanding of customer needs and a capability of fast and effective delivery of new solutions. The new work model has already covered 350 employees of the bank, with the next ones joining in 2019.
- Delivered a number of initiatives to employees as part of the rebranding process to increase the pride of belonging to a global group.
- Continued to promote the corporate culture that is shared by all members of Santander Group, enshrined in the Simple, Personal and Fair values and based on eight attitudes and behaviours as well as mutual recognition (StarMeUp platform).

- Focused on promotion of diversity (mentoring programme for females and a series of inspirational meetings, the Differently Abled [Różnosprawni] project promoting the employment of people with disabilities), improvement of HR processes related to recruitment, induction, development, training and termination of employment (Candidate and Employee Experience) and building a consistent positive image of Santander Bank Polska S.A. among students and academics.

In response to the strategic and business needs of the bank, in 2018 the Personal Development Department prepared a raft of development options for specific employee groups.

A range of initiatives were delivered for the bank's managers to support development of leadership skills including:

- Programmes for executives, senior executives and managers, such as the leadership styles survey, Agile leadership survey and "Leaders for Employees" programme;
- Workshops aimed at developing leaders' attitudes and enhancing employees' engagement, organised in cooperation with a global consulting company as part of the bank's agenda for standardisation of leadership competencies;
- Training for branch leaders: "Leader in the VUCA world: volatility, uncertainty, complexity, ambiguity", responding to dynamic changes in the business environment, as well as training organised as part of the branch network transformation and a new induction programme providing tools for change management;
- Inspirational and mentoring workshops for women in leadership roles, dedicated to personal brand building and organised as part of initiatives taken to promote diversity (in particular an equal ratio of male to female managers).

An important HR initiative delivered in 2018 was the induction of employees of Deutsche Bank Polska S.A. following the acquisition and integration of its demerged part into the bank's structures. To that end, all employees of the acquired bank were covered by a training programme, which was tailored to the profiles of individual target groups and based on the blended learning model, that is a combination of on-site learning, e-learning, gamification and knowledge-sharing workshops.

As an employer, Santander Bank Polska S.A. represents the global Santander brand and follows the Simple, Personal and Fair values which are shared by the entire organisation. It leverages the experience of Santander Group in this respect by participating in the global development and talent management programmes (such as Young Leaders of Tomorrow) and delivering business and technological projects (e.g. Workday) in cooperation with the representatives of 10 key global markets. It is a unique development opportunity and cultural experience for the bank's employees in Poland, which promotes diversity across the bank.

## HR policy

### Recruitment policy

Santander Bank Polska S.A. recruits new employees both internally and externally using methods and sources which are relevant to existing vacancies, including internal recruitment processes, the Referrals Programme, external service providers, specialised social media, practical training and internships, career fairs, events organised by universities, science clubs and career services.

The bank's employees have precedence over other candidates in the internal recruitment processes at Santander Bank Polska S.A. and the companies from Santander Consumer Bank Group, which increases their development opportunities and helps build individual career paths.

The candidate profiles are checked to see if they meet the required job criteria in terms of their competencies, experience, knowledge, motivation, personality and compatibility with the organisational culture. All persons involved in the recruitment process must comply with the business ethics principles arising from the Labour Code and internal policies, in particular with the confidentiality and non-discrimination regulations.

The Referrals Programme of Santander Bank Polska S.A. engages employees in the recruitment process as it provides an opportunity to recommend candidates for vacant job roles in the bank. The system helps to reach a wider group of prospective employees who have relevant skills, aptitude and motivation, and are interested in taking up a job at the bank.

The recruitment process is additionally supported by the Practical Training and Internship Programme run in cooperation with universities across Poland, which is designed to recruit young, qualified and talented individuals.

In 2018, Santander Bank Polska S.A. ran numerous social media recruiting campaigns and focused on initiatives aimed at enhancing candidates' experience. The effectiveness of the recruitment processes was increased by:

- measures taken to promote the image of the bank as a modern employer (chatbot facilitating contact with candidates, Waywer – confirmation of a job interview date via video messages, job postings on Facebook);
- activity in social media (LinkedIn, Facebook);
- programmes targeted at selected candidate groups;
- the Differently Abled (Różnosprawni) Programme aimed at promoting employment of people with disabilities.

A particular focus was placed on acquiring talents with a new profile, i.e. better prepared to deal with such market challenges as volatility, digitalisation and robotisation.

One of the objectives for 2019 is to strengthen the cooperation with Santander Universidades to promote the image of Santander Bank Polska S.A. as an employer and a banking institution among students.

## Performance management

Santander Bank Polska S.A. has an objectives management process in place which supports staff development and promotes behaviours in accordance with the Simple, Personal and Fair values. The process allows for flexibility (as the objectives can be modified along the way) and for communication efficiency (as it facilitates communication between employees and their line managers due to more frequent meetings, regular feedback, and support of the HRup! system). In the existing model, individual performance (assessed in two dimensions: WHAT and HOW) is closely related to the bonus level. The launch of the new process and the IT tool was preceded by extensive preparations, as part of which workshops were held for all the bank's managers.

## Remuneration and incentive system

The objective of the remuneration system of Santander Bank Polska Group is to recruit and retain top talents in the financial sector, using an appropriate and competitive remuneration package including base salary, bonus schemes and attractive benefits. The overarching goal of the remuneration policy is to ensure long-term and sustainable growth of the Group, while safeguarding the interests of the key stakeholder groups (employees, shareholders, customers and communities).

The structure of the total remuneration offered by the bank is in line with the market practice, and the amount of remuneration corresponds to the levels prevailing in the banking sector.

The rules for remunerating employees are set out in the Remuneration Policy of Santander Bank Polska Group, which covers all employees of the bank and its subsidiaries, including those whose professional activity has a significant impact on the bank's risk profile ("Material Risk Takers"). The policy was updated in 2018 and is consistent with the remuneration policy of Santander Group, EBA guidelines and the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, remuneration policy and detailed method of internal capital estimation in banks. The above document sets out the rules for calculating fixed and variable components of remuneration, criteria for payment of variable remuneration and other components of total remuneration (fixed and variable components, long-term incentive programmes, etc.).

In 2018, the Remuneration Policy of Santander Bank Polska Group was updated in accordance with EBA /GL/2016/06 and 13/12/2016 Guidelines on remuneration policies and practices related to the sale and provision of retail banking products and services. Significant changes were introduced to the bonus scheme for branch banking, including stronger focus on quality (a component assessed as part of the bonus scheme regardless of business performance) and modified methodology for calculation of bonuses and weights of respective components of the bonus scheme (recognition of consumer rights and interests). At the same time, the provisions regarding the effective period of the malus clause were refined: the period expires upon the last payment of deferred remuneration in the financial instrument. Furthermore, the scope of the policy was extended to include the provisions concerning variable remuneration in respect of sale of investment and insurance products (MiFID).

## Fixed remuneration

The key component of remuneration at Santander Bank Polska S.A. is the base salary, which is determined on the basis of the role performed, scope of responsibility, qualifications and experience. In its approach to job valuation, the Group uses best market practice to ensure competitiveness of remuneration. In response to dynamic changes in the labour market, the Group's remuneration system is periodically revised using payroll reports of leading advisory companies and data published by Statistics Poland (GUS).

The last comprehensive review of base salaries took place in Q2 2018, leading to a revision of the salaries of the bank's employees. One of the objectives of this process was to recognise the individual contribution and behaviours of employees, retain talents and build a strong reputation of the bank as an employer.

## Variable components of remuneration

The bonus schemes adopted by the bank enhance staff motivation and support the delivery of strategic objectives set by the organisation. Such schemes are linked to the results of the bank, respective units and individual employees whose performance, delivery of objectives, behaviours and engagement are reviewed on a regular basis.

The bank's employees are set individual objectives that correspond to the activities of a given organisational unit. The objectives of the employees within the control units arise from the roles they perform and their remuneration does not depend on the financial performance of business areas they control. In the case of the sales staff, in addition to business objectives the performance review also covers the objectives related to customer service.

Variable remuneration depends on a bonus scheme relevant to a given employee (including bonus regulations for branch employees and Business Support Centre employees). Individual bonus schemes differ in terms of eligibility criteria, bonus amount and payment frequency. Bonus payment is conditioned upon the delivery of specific financial objectives (a stated gross or net profit growth rate or amount, credit cost, NPL, RWA) and satisfaction of qualitative criteria (customer satisfaction).

Incentive programmes for the company's management board members and its key managers make their reward dependent on assessment of the company's long-term financial position, long-term growth in shareholder value, stability of the company's operations and risk appetite. In accordance with the KNF's guidelines, at least 50% of variable remuneration is paid in the form of phantom shares. In addition, 40% of variable remuneration is deferred for the period of three years, and payment of each deferred portion is determined by the absence of negative premises that would prevent from or reduce the amount of payment.

Variable remuneration components also include long-term (three-year) incentive programmes addressed to key employees of the bank. The award is granted in the form of the bank's shares (new issue) provided that certain business criteria defined in the terms of the Programme have been met (for more information, see section "Governing Bodies", Chapter XIII "Statement on Corporate Governance in 2018").

Santander Bank Polska Group applies principles of identification, assessment and ex-post review of performance for which the variable remuneration has to be adjusted based on the performance of employees categorised as material risk takers and other employees subject to those regulations.

The Group also offers additional benefits that suit employees' needs such as: health care packages or the cafeteria system which provides a wide range of cultural, sports or tourist benefits.

## Social and employee benefits

In 2018, Santander Bank Polska S.A. was awarded for the most interesting and most effective strategy of non-salary benefits for employees in the Best Benefits Strategy 2018 competition for the second year in a row.

The bank offers a well-structured range of employee benefits which help make it a more attractive workplace, enhance the comfort and security of employees and their families and promote healthy lifestyle and work-life balance.

The benefits include a Multisport card, group life insurance plans, discounts for products offered by business partners, attractive terms for refunding the purchase of corrective eyeglasses, financial aid, private medical care with a wide array of ancillary services. Moreover, employees may purchase dental packages, medical packages for family members, as well as hospital packages (for them and their families) on attractive terms.

Employees may also choose from a variety of hotel, tourist, cultural, sports and shopping options available in the cafeteria system, which can be paid for using points awarded to each employee.

As part of support to families with children, the bank sponsors school starter kits for children and teenagers up to 16 years old and reimburses the costs of care of children in nurseries, kindergartens, children's clubs as well as summer, winter or day camps for children. Furthermore, pursuant to the new parental support policy, the bank's employees may use an additional three-week paid leave, work reduced hours or take advantage of an induction period.

Each year, the bank organises the "Banker's Hike" ("Rajd Bankowca") as part of which employees and their families can travel to different and interesting places in Poland and abroad. The initiative combines active family holidays with team building and good fun. In 2018, nearly 1,500 employees and their families took part in the event.

Santander Bank Polska S.A. has its corporate wellness programme, called "Zdrowie na Bank", which is a part of the global BeHealthy programme of Santander Group. It is based on a holistic health model whose objective is to promote a healthy lifestyle and work-life balance. The programme has four thematic pillars (eat clean, move, stay healthy, be ergo) and includes educational and motivational campaigns, support for the initiatives of employees and health promotion activities (organised in cooperation with internal and external partners).

## Awards granted to Santander Bank Polska S.A.

Below is the list of the main awards and accolades granted to Santander Bank Polska S.A. as an employer:

- Top Employer Certificate awarded by the Top Employers Institute as a result of an independent research conducted globally. The certificate is granted to top global employers who provide excellent employee conditions, nurture and develop talent at all levels of the organisation and are always striving to improve their HR practices.
- Top award in the banking category and an accolade in the Poland-wide category in the Reliable Employer 2017 competition. The award is granted to companies and organisations which create an exceptional work environment, deliver on best practice in terms of staff recruitment and development and engage in interesting projects and social and marketing campaigns.
- The Employer of Choice, a prestigious accolade which is awarded to the organisations that invest in talent development, create the best working conditions for their personnel and improve their recruitment processes.

- Top award for the most interesting and most effective strategy of non-salary benefits for employees in the Best Benefits Strategy 2018 competition.

## 2. Staff Training and Development

The development programmes and business-as-usual training support the development of employees and management and contribute to the delivery of the bank's strategic goals and key business projects. The development and training model improves the bank's performance and responds to the employees' career development needs. Increasingly often, it also makes use of the solutions available within the global Santander Group.

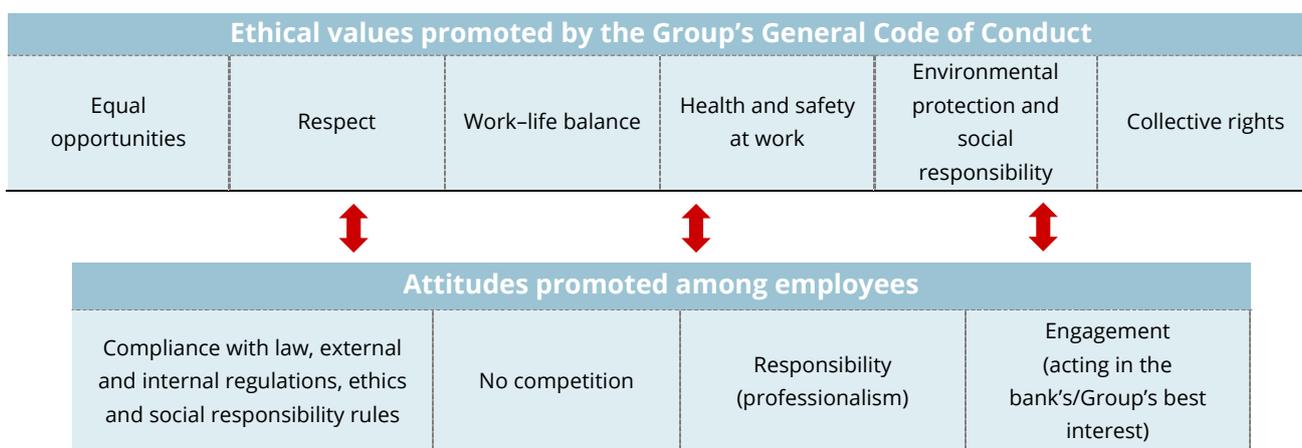
The programmes implemented in 2018 mainly reflect the key areas of the Group's development strategy and can be grouped into the following thematic blocks:

- Building cohesion of leadership in the organisation
- Creating a self-learning organisation (supporting employees in development while providing them with significant decision-making freedom in this area, building a community of people willing to share their knowledge and experience);
- Agile, including work on building team effectiveness, developing technological skills, induction in the agile methodology and a new implementation programme;
- Building new customer experience – mandatory training for branch employees resulting from regulatory requirements or striving to provide customers with the highest-quality service; development of employees' competencies in the sale of selected products of the bank and the Group; training in building customer experience; product training and training in banking knowledge in its broad sense;
- Implementation training for all employees of the former Deutsche Bank Polska S.A. before the demerger date;
- Local and global talent programmes (including training courses "Become a transformation leader" and "Become a portfolio advisor" and the UX Junior and UX Designer training, as well as Santander Group programmes: Mundo and Risk Stars).

## 3. Business Ethics

Santander Bank Polska Group is committed to maintaining high ethical standards in its relationship with shareholders, customers and employees. Integrity, fairness and honesty are fundamental elements of the Group's corporate culture.

The Santander Group's General Code of Conduct establishes standards and promotes attitudes and behaviours that are compliant with the "Simple, Personal and Fair" values. It provides a set of guidelines for all employees, irrespective of their role in the organisation.



The code of standards is complemented with regulations concerning specific areas: Code of Conduct in the Securities Markets, Anti-Money Laundering Policy, Anti-Corruption Programme, Conflict of Interest Policy and many others.

The Group combats any forms of corruption in accordance with the zero tolerance for corruption policy.

The Group continually develops tools and resources to be able to minimise the occurrence and materialisation of legal liability risk arising from its operations. The Corporate Defence Model adopted in this respect is a set of internal rules aimed at mitigating this type of risk.

In order to protect its reputation, the Group continues to deliver the ethics and compliance e-learning programme (COMET), which has become a constant element of the mandatory staff training system. Ethical and reputational issues are also incorporated in the RiskPro campaign that promotes risk culture across the organisation.

In 2018, the bank implemented a methodology and procedure to facilitate the management and improve the control of reputational risk – a transversal risk which is one of the key elements of compliance risk management at the bank. Reputational risk drivers are effectively monitored and managed.

The bank consistently promotes the idea of an open dialogue with employees and provides them with special communication channels whereby they can report any breaches of the General Code of Conduct or other issues and concerns they may have, including anonymously. Apart from the [etyka@santander.pl](mailto:etyka@santander.pl) e-mail inbox, employees may use two helplines to report ethical or employment-related issues, respectively.

In 2018, work was started to design an IT platform which will facilitate incident reporting (including anonymously) and handling.

Furthermore, the bank continued an Intranet-based training and information campaign to remind employees about communication channels available at the bank and to encourage them to report any breaches.

## VI. Relations with Customers

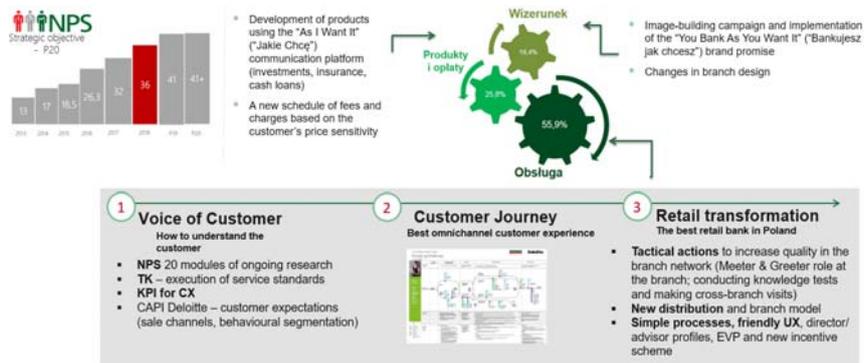
### 4. Customer Relationship Management

#### Service Quality and Customer Experience Management in 2018

Customer satisfaction and loyalty are the fundamental values enshrined in the strategy of Santander Bank Polska S.A., whose ambition is to be the bank of choice for customers. At the heart of the bank's competitive advantage in managing customer experience is the convenient, multi-channel service at all customer touchpoints in accordance with the brand promise "Bank As You Want It"/"You Bank As You Want It".

In 2018, the bank's customer experience management strategy was based on the three main pillars:

- 1) Voice of Customer – gathering feedback from customers within 20 customer satisfaction and loyalty research modules; conducting ongoing Mystery Shopper surveys; defining key performance indicators for customer experience management and carrying out research to broaden the knowledge of what customers expect and how they perceive cooperation with the bank.
- 2) Customer Journey – analysing and designing the customer's omnichannel experience.
- 3) Retail Transformation, including tactical actions to increase quality in the branch network (creating the Meeter & Greeter role at the branch; conducting knowledge tests and making cross-branch visits), a new distribution and branch model, simplification of processes, friendly UX and a new incentive system.



The main actions undertaken by the Group in 2018 to improve customer satisfaction included:

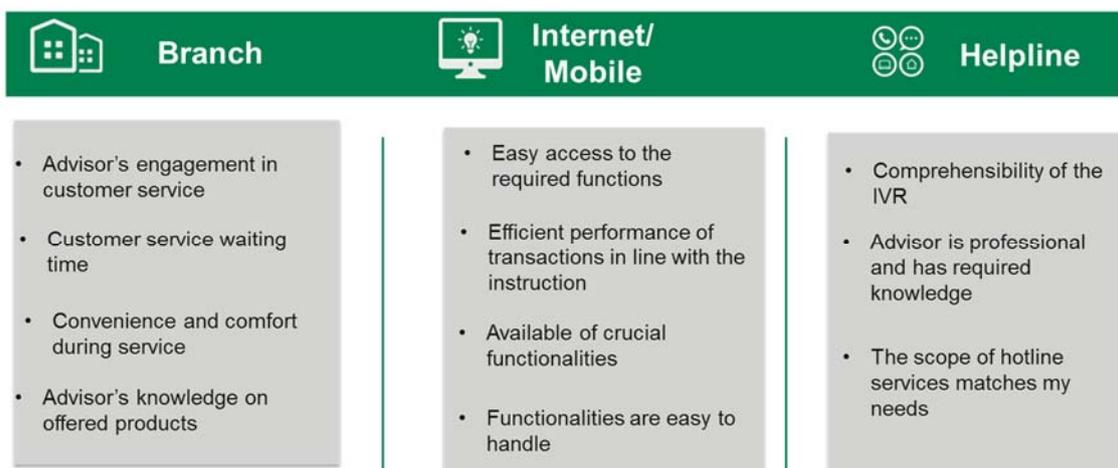
- development of products using the "As I Want It" ("Jakie Chcę") communication platform (investments, insurance, cash loans);
- a new schedule of fees and charges based on the customer's price sensitivity;
- image-building campaign and implementation of the "You Bank As You Want It" ("Bankujesz jak chcesz") campaign;
- changes in branch design.

The bank analyses customers' expectations and needs to create and manage positive customer experience as well as to build loyalty and long-standing relationships with customers. Customer loyalty and willingness to recommend the brand are measured through the Net Promoter Score (NPS), which has been included in the objectives of the sales network and back-office units.

## Listening to the voice of the customer

In order to understand customers' needs and expectations, the bank analyses customer feedback from different sources. Customers' loyalty and satisfaction with the bank's service are monitored on an ongoing basis. Immediately after visiting a branch and talking to the advisor, the customer is asked to provide their feedback about the meeting. In 2018, results of this survey were used to improve quality in the branch network, the VIP and Private Banking network and at partner outlets, and the NPS (Net Promoter Score) was included in the incentive scheme for branch network employees. The survey showed that 90% of customers were happy about their last visit at the branch.

### FACTORS INFLUENCING THE NPS:



The bank also has an alert system in place to notify branch managers of any negative feedback received from the customer (for example, in a questionnaire) so that they can investigate the issue and take measures to prevent any negative experience in the future.

Despite the major changes which took place in 2018 (such as rebranding, acquisition of the demerged part of Deutsche Bank Polska S.A.), customer loyalty remains high. In the retail segment, the NPS was 35%, up 2% compared with the first half of 2018 and up 3% on 2017.

## Creating a positive customer experience

The bank builds positive experience taking into account customers' expectations, changes in the market and the banking sector, as well as social and cultural trends. Great emphasis is placed on ensuring consistent experience and access to products and services across all contact channels. In 2018, customer experience was shaped in accordance with the design thinking methodology and customer journey across all brand touchpoints, taking into account the role of each of them. As part of the Retail Transformation Programme, key customer journey maps were drawn up and key pain points were set for:

- account opening;
- cash loans;
- placing deposits;
- making complaints to the bank;
- account closing.

### Quality awards in 2018:



**Best Bank in 2018**  
according to Customers



**Gold Banker (3<sup>rd</sup> place)**  
Top Service Quality



**Bank of the Year 2018**  
the Banker magazine ranking

## Complaints management

Santander Bank Polska S.A. not only makes sure that complaint handling complies with regulatory requirements, but also constantly works on increasing customer satisfaction at each stage of the process – from receipt of the complaint to its processing to communicating the outcome to the customer. The bank also checks customer satisfaction after the end of the complaint-handling process. The statistics below provide a summary of the bank's activity in this area:

- 78% of complaints are upheld in favour of the customer;
- 22% of customers would recommend our bank to others;
- 60% of all complaints are closed within three working days.

Customers may submit a complaint by following a simple procedure in any of the following ways: at a branch, in writing, over the phone or via an electronic banking platform, including via a video call or chat. The reply to the complaint may be in form of a letter, a text message or a message sent via internet or mobile banking services. Customers receive a text message informing them about the receipt and resolution of a complaint.

Simple complaints, which do not require any complex analysis, are dealt with in a fast-track process supported by robots. This helps the case to be resolved for the customer within one business day (e.g. in the case of complaints about ATM transactions).

Santander Bank Polska S.A. has a Customer Care Officer, who represents customers' interests and manages appeals in the complaint-handling process.

## 5. Barrier-free Service

For more than nine years, Santander Bank Polska S.A. has been running and developing the “Barrier-Free Banking” (“Obsługa bez Barier”) programme, designed to ensure comfortable access to the bank’s services and products for customers with special needs (the disabled, the elderly and pregnant women). Facilities for the disabled are created in cooperation with customers and experts. The bank seeks to ensure that all its service channels, from the branch network to mobile banking, are equally accessible.

Santander Bank Polska S.A. provides its customers with:

- a network of certified “barrier-free” branches (153 branches as at 16 January 2019). Each year, further branches are covered with audits of architectural accessibility for customers with disabilities (19 branches in 2018);
- video service in the Polish sign language (PJM) provided by Contact Centre advisors;
- biometric solutions which support customer identification;
- “talking” ATMs, adapted for use by visually-impaired and blind customers – 217 voice-enabled machines (as at 16 January 2019);
- online and mobile banking service accessible to customers with disabilities;
- advertising communication adapted to the needs of the visually impaired (audio description) and hearing impaired (text and sign language interpreter). Video tutorials are published on the website of the “Barrier-Free Banking” programme ([www.santander.pl/obb](http://www.santander.pl/obb)) and on the bank’s YouTube channel.

In January 2017, Santander Bank Polska S.A. was the first Polish bank to equip 20 selected branches with portable audio induction loops to support the service of the hearing impaired. In 2018, the bank increased the accessibility of its services to this group of people. To this end:

- The bank designed new labelling for “talking ATMs”, using special Braille stickers in high-contrast colours.
- In 2017/2018, a pilot recruitment process was held and a team of people with hearing loss were hired to do archiving tasks. At the same time, a sweeping educational campaign and an internal and external communication were launched in relation to development of accessible work environment. The actions are implemented under the Differently Able (Różnosprawni) project.
- In June 2018, the bank was recognised in the “Wielkopolska Open to People with Disabilities” (“Wielkopolska Otwarta dla Osób z Niepełnosprawnościami”) competition for its actions preventing social exclusion of people with disabilities and creating equality of opportunity for access to banking services.

## 6. CRM Solutions

In 2018, work continued on optimising CRM processes, improving the efficiency of relevant systems and further integration of sales channels.

### Extension of functionality of CRM tools and integration of sales channels

In 2018, Santander Bank Polska S.A. worked on the second stage of the CRM system development, aimed at upgrading the functionality of CRM tools in distribution channels. The first fully automated “end-to-end” functionality was launched in the ATM network, including the identification of customer needs by the CRM system, the presentation of an appropriate offer on the ATM screen and the possibility to purchase a product directly in the machine. In addition, on-line communication with the SMS gateway was implemented to automate the campaign process in this channel. The sales lead distribution model was adapted to the needs of sales channels, especially with regard to services for the bank’s business customers.

The universal features available to all customer segments were further developed and new solutions were put in place to support the new SME customer service model. The previous CRM tools, including front-end applications and analytical environments supporting the CRM campaigns, were optimised.

CRM systems were adapted to bring them in line with the General Data Protection Regulation (GDPR). Following the acquisition of the demerged part of Deutsche Bank Polska S.A. by Santander Bank Polska S.A., the CRM systems were adapted to support the service of customers and products of the merged entities. Mechanisms were also prepared and implemented to help advisors identify and update any incorrect customer data. The implemented solutions made it possible to launch more effective processes of obtaining and updating customer data, in particular contact data and consents to allow proactive offering of the bank’s products and services.

## Increased use of customer potential

At the beginning of the year, customers were reassigned to new portfolios based on their preferred branch location. Customers who use services of a branch other than the home one were assigned to that branch. The group of clients who used the branch network as the sole contact channel with the bank was identified and excluded from the campaigns implemented by the Multichannel Communication Centre, which contributed to an optimised and more effective use of both channels.

The bank launched promotional campaigns (e.g. in relation to the Account As I Want It) based on cross-channel communication to a wider extent. Furthermore, the bank maximised the potential of its customer base as part of the analysis of customer propensity arising from the models in place by modifying the conditions qualifying customers for marketing campaigns. In April 2018, a new management model was put in place in relation to CRM tasks transferred to NEOCRM+ tools. The model takes into account customers' life cycle, facilitating advisors to interact with customers and deal with their portfolios.

The continuous development and optimisation processes led to improvement of the following indicators: hit rate, response rate and use of supporting channels (text message, email, etc.). An increase was observed in the share of sales generated on the basis of CRM campaigns and in customer satisfaction – NPS of customers subject to CRM campaigns is clearly higher than that of other customers.

## VII. Investor Relations

### 1. Investor Relations in Santander Bank Polska S.A.

As a listed company with an established market position, Santander Bank Polska S.A. is required to actively communicate with its stakeholders in order to satisfy their information requirements in accordance with the highest market standards and prevailing laws.

Particularly important is communication with capital market participants: shareholders, investors and analysts. Santander Bank Polska S.A. is committed to providing the above stakeholders with regular and timely access to high quality and clear information in order to facilitate the accurate assessment of the bank's financial standing, market position and the effectiveness of its strategy and business model.

The Investor Relations Office at Santander Bank Polska S.A. maintains relationships with institutional investors and stock market analysts, informing them proactively of the bank's development, performance and other relevant aspects which may affect their decisions. This is to ensure adequate transparency of the company, build trust and promote the bank's image in capital markets.

In 2018 - as part of standard activities in the area of investor relations investors - shareholders and stock market analysts had the opportunity to meet representatives of the bank's Management Board at numerous brokers' conferences in Poland and abroad as well as investor road-shows and individual meetings.

Santander Bank Polska S.A. was present at six international investor conferences and a road-show devoted to the issue of the bank's eurobonds (EMTN Programme).

As usual, four conferences were held to present market analysts with the bank's quarterly performance. In line with best practice, they were broadcast online in both Polish and English, and recordings were made available on the bank's website (<https://santander.pl/investor-relations/investor-relations.html>).

Up-to-date information on key developments regarding Santander Bank Polska S.A. is published at (<https://santander.pl/investor-relations/investor-relations.html>).

## 2. Share Capital, Ownership Structure and Share Price

### Changes in the ownership structure in 2018

As at 31 December 2018, the share capital of Santander Bank Polska S.A. totalled PLN 1,020,883,050, divided into 102,088,305 ordinary bearer shares at a nominal value of PLN 10 each.

Shareholders with a stake of 5% and higher	Number of Shares Held				% in the Share Capital & Voting Power at AGM			
	31.12.2018	30.09.2018	30.06.2018	31.12.2017	31.12.2018	30.09.2018	30.06.2018	31.12.2017
Banco Santander S.A.	68 880 774	67 680 774	67 680 774	68 880 774	67,47%	68,13%	68,13%	69,34%
Nationale Nederlanden PTE S.A. <sup>1)</sup>	n/a	n/a	4 993 431	n/a	n/a	n/a	5,03%	n/a
Others	33 207 531	31 652 707	26 659 276	30 452 707	32,53%	31,87%	26,84%	30,66%
<b>Total</b>	<b>102 088 305</b>	<b>99 333 481</b>	<b>99 333 481</b>	<b>99 333 481</b>	<b>100,00%</b>	<b>100,00%</b>	<b>100,00%</b>	<b>100,00%</b>

<sup>1)</sup> Funds managed by Nationale-Nederlanden PTE S.A.: Nationale Nederlanden Otwarty Fundusz Emerytalny (open-end pension fund) and Nationale Nederlanden Dobrowolny Fundusz Emerytalny (voluntary pension fund).

Compared with the end of 2017, the ownership structure of Santander Bank Polska S.A. changed as follows:

- The shareholding of Banco Santander S.A., the majority shareholder, was diluted from 69.34% to 67.47% following the issue of 2,754,824 series N shares (demerger shares) by the bank, which were subsequently allotted to Deutsche Bank AG as part of acquisition of the demerged part of Deutsche Bank Polska S.A. by the bank.
- The demerger shares allotted to Deutsche Bank AG increased the minority shareholders' share in the registered capital and voting power at the General Meeting of Santander Bank Polska S.A. from 30.66% to 32.52%.

Other interim movements in the share capital were transitional and resulted from:

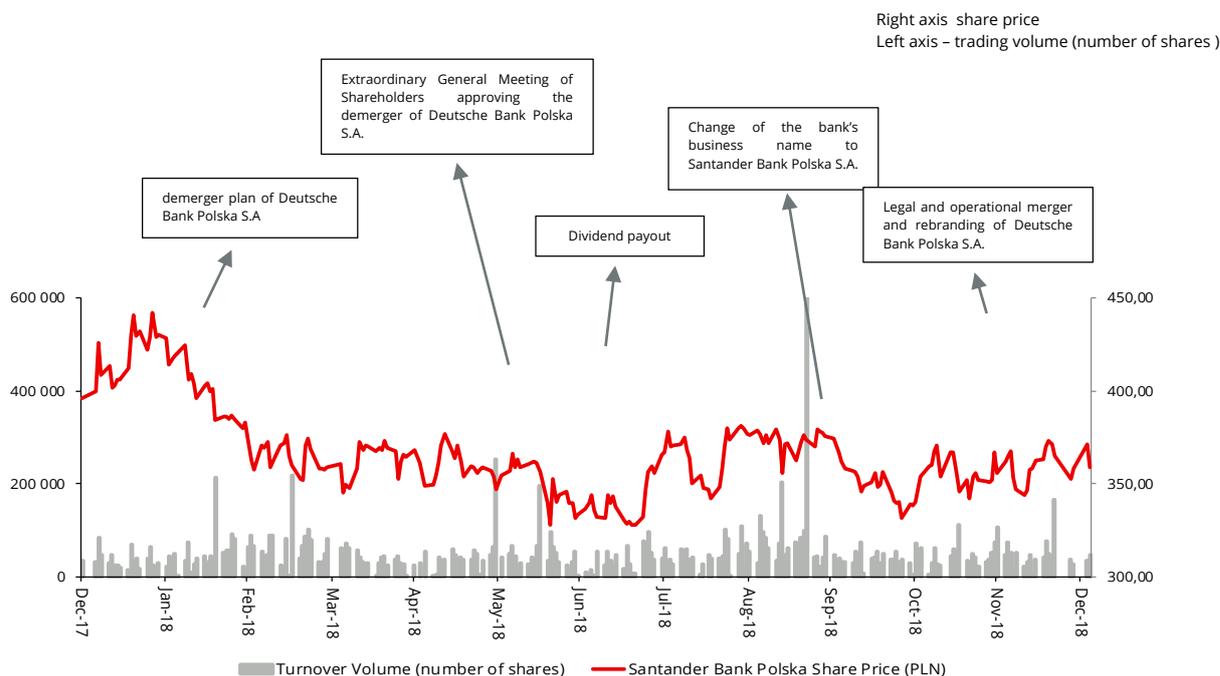
- Settlement of the stock lending transaction for 1.2 million shares of the bank concluded by Banco Santander S.A. and Deutsche Bank AG, London Branch, in accordance with the agreement concerning the demerger of Deutsche Bank Polska S.A.
- Changes in the total number of shares of Santander Bank Polska S.A. held by the funds managed by Nationale-Nederlanden PTE S.A., resulting in an increase above 5% of the share capital and voting power (4 June 2018) and, subsequently, reduction in the shareholding below the foregoing threshold (6 September 2018).

### Majority shareholder

The profile of Banco Santander S.A. and its Group is presented in Chapter II "Basic Information about Santander Bank Polska Group", Section 1 "History, Ownership Structure and Profile".

### 3. Share Price of Santander Bank Polska S.A. vs. Indices

#### SHARE PRICE OF SANTANDER BANK POLSKA S.A. AND THEIR STOCK EXCHANGE TRADING VOLUME IN 2018



Key Data on Santander Bank Polska Shares	2018	2017
Share price at the year-end (in PLN)	358,20	396,25
Maximum closing share price over the year (in PLN)	442,00	400,00
Date of maximum closing share price	24.01.2018	27.12.2017
Minimum closing share price over the year (in PLN)	327,60	319,90
Date of minimum closing share price	19.06.2018	02.01.2017
Price per earning ratio (P/E) at the year-end	16,87	20,54
Number of shares at the year-end (items)	102 088 305	99 333 481
Market capitalisation at the year-end (PLN m)	36 568,00	39 360,90
Dividend per share <sup>1)</sup> (PLN)	3,10	5,40

1) Details in "Dividend per Share" section below.

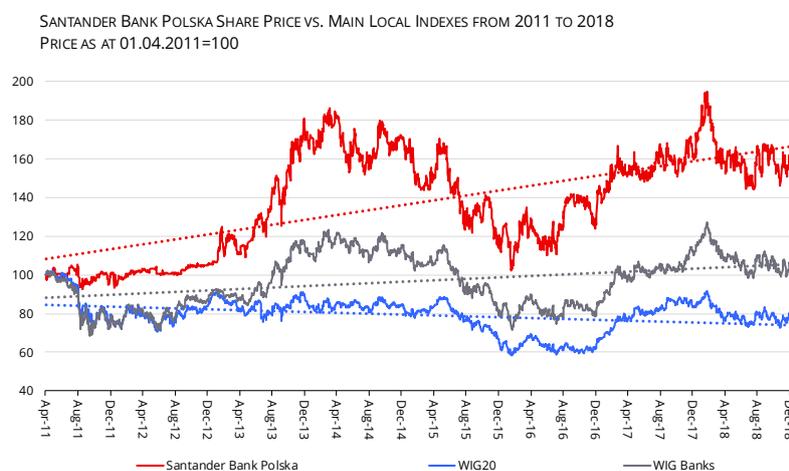
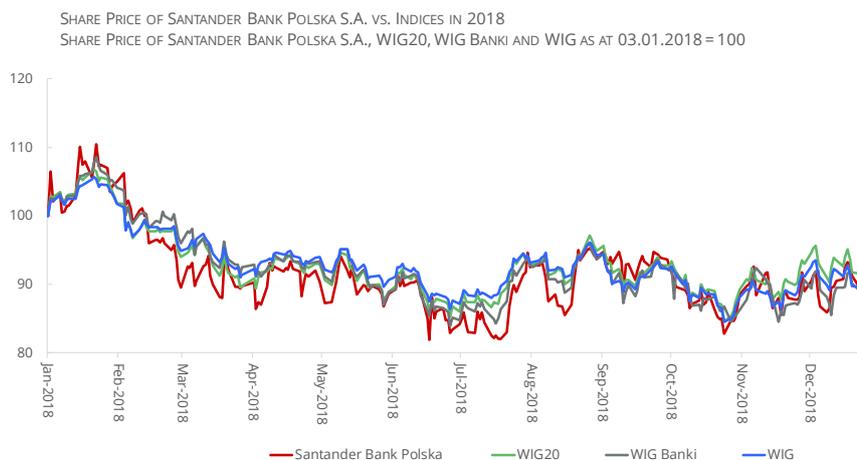
The share price of Santander Bank Polska S.A. was affected by negative trends on the WSE observed in 2018 (see Chapter III "Macroeconomic Situation in 2018"). Like the entire stock market, the bank's shares came under the demand pressure for the greater part of the year. Similarly to the main stock indexes (WIG and WIG20), in H2 2018 the bank's share price improved after the weak first half of the year, with the YoY decrease reduced to 9.6% (from PLN 396.25 as at the end of December 2017 to PLN 358.20 as at the end of December 2018). It is still better performance than that of WIG-Banks, the industry index, which lost 12.5% in the same period, pointing to a significant decrease in market capitalisation of other sector companies and its relative weaknesses versus the main WSE indexes.

During the year, the closing share price of Santander Bank Polska S.A. ranged from PLN 327.60 on 19 June 2018 to PLN 442.00 on 24 January 2018. On 14 June 2018, the bank paid out a dividend of PLN 3.10 per share from undistributed profit for 2016. Aside from global trends, share prices of companies from the banking sector, including Santander Bank Polska S.A., were influenced by the announcements of the Monetary Policy Council suggesting no intention to increase interest rates even until the end of 2020.

As at 31 December 2018, market capitalisation of Santander Bank Polska S.A. amounted to PLN 36,568.0m vs. PLN 39,360.9m a year before.

Due to strong liquidity and high market capitalisation, shares of Santander Bank Polska S.A. are traded in a number of stock market indices. Apart from WIG-Banks (an industry index), WIG (a broad-based index) and WIG20 (blue chip companies), the bank is included in such index portfolios as: RESPECT, WIG-Poland, WIG30, WIG30TR and WIG20TR.

The charts below show the share price of Santander Bank Polska S.A. against main stock exchange indices throughout 2018 and since the acquisition of a controlling stake by Banco Santander on 1 April 2011.



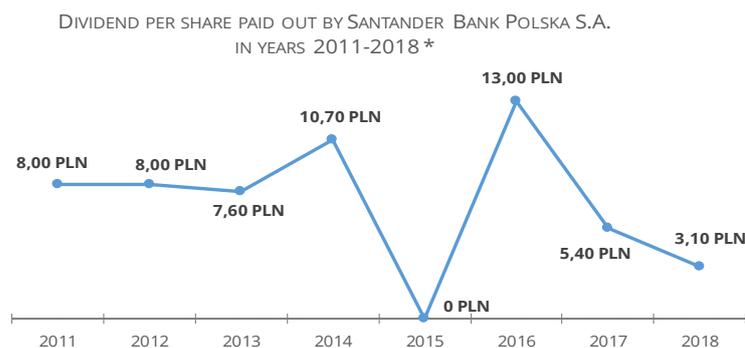
## Dividend per share

As at the publication date of this report the Management Board of Santander Bank Polska S.A. has not yet finished the analysis leading to the dividend recommendation regarding the year 2018.

On the basis of a proposal from the Management Board and the Supervisory Board, and in accordance with recommendation of the KNF of 16 March 2018 re increase in own funds, the bank's Annual General Meeting of Shareholders held on 16 May 2018 approved the distribution of the net profit for 2017 without making any dividend allocation.

Taking into account the strong capital position of the bank and its Group, the Management Board and the Supervisory Board made a proposal, subsequently approved by the AGM of 16 May 2018, to allocate to dividend an amount of PLN 307.6m from the retained profit for 2016. The dividend of PLN 3.10 per share was paid out on 14 June 2018. Pursuant to the resolution of the bank's Annual General Meeting of Shareholders No. 43 of 17 May 2017, the dividend paid out of the profit earned in 2016 did not include the bank's series M shares.

Last year, the AGM of 17 April 2017 decided to allocate PLN 535.9m of the undistributed net profit for 2014 and 2015 for dividend payment. The dividend of PLN 5.4 per share was paid out on 14 June 2017.



\* Santander Bank Polska S.A. pays dividends in accordance with the dividend policy in place, taking into account individual recommendations of the KNF in this respect.

## 4. Rating of Santander Bank Polska S.A.

Santander Bank Polska S.A. has bilateral credit rating agreements with Fitch Ratings Ltd. and Moody's Investors Service.

### Rating by Fitch Ratings

The table below shows rating actions taken by Fitch Ratings in relation to Santander Bank Polska S.A. in 2018.

Category of Fitch Ratings	Ratings affirmed as at 12.10.2018	Ratings assigned to the EMTN Programme as at 30.08.2018	Ratings affirmed as at 20.10.2017
Long-term Issuer Default Rating (long-term IDR)	BBB+	BBB+	BBB+
Outlook for the long-term IDR rating	stable	stable	stable
Short-term Issuer Default Rating (short-term IDR)	F2	F2	F2
Viability rating (VR)	bbb+	bbb+	bbb+
Support rating	2	2	2
National long-term rating	AA(pol)	AA(pol)	AA(pol)
Outlook for the national long-term rating	stable	stable	stable
Long-term senior unsecured debt rating	BBB+	BBB+	AA(pol)
Short-term senior unsecured rating for eurobonds	F2	F2	-
Long-term senior unsecured rating for eurobonds	BBB+	BBB+	-

On 30 August 2018, Fitch assigned a rating for the bank's Euro Medium-Term Note Programme ("EMTN Programme"). An unsecured debt issued as part of the EMTN Programme (Senior Notes) was assigned a rating of BBB+ and short-term debt was assigned a rating of F2. At the same time Fitch has assigned planned senior unsecured notes an expected long-term rating of BBB+(EXP).

In its announcement of 12 October 2018, Fitch Ratings affirmed the ratings of Santander Bank Polska S.A. in view of the lack of major changes to the bank's key financial metrics over the past 12 months.

- The long-term IDR of Santander Bank Polska S.A. (and its senior debt rating) is driven by the bank's intrinsic strength, as reflected in its VR of bbb+. The above ratings are also underpinned by potential support from Banco Santander S.A. as the majority shareholder.
- The stable outlook for the long-term IDR reflects broadly balanced risks related to the credit profile of the bank and Banco Santander S.A.
- The Support Rating (SR) of 2 reflects Fitch's view of a high probability of support from the majority shareholder, Banco Santander S.A., to the bank as its strategically important subsidiary. The bank's synergies with its parent are strong and underpinned by long track records in supporting its parent's objectives and a high level of management and operational integration, solid credit profiles and the small size of the subsidiary relative to the parent.
- The individual rating takes into account the bank's strengths such as optimised market franchise, stable business model, conservative risk appetite, strong capitalisation, solid profitability, sound asset quality and robust liquidity and funding.

- The risks for Santander Bank Polska S.A. from the planned acquisition of Deutsche Bank Polska S.A. are modest due to the target's stronger asset quality metrics. The bank's capital position is not expected to weaken as a result of the planned transaction either.

## Rating by Moody's Investors Service

The table below shows rating actions taken by Moody's Investors in relation to Santander Bank Polska S.A. in 2018.

Category of Moody's Ratings	Ratings affirmed as at 27.12.2018	Ratings as at 31.08.2018 assigned to the EMTN Programme	Changed outlook on ratings as at 29.01.2018	Ratings as at 1.03.2017 and 9.08.2017
Outlook	positive	positive	positive	stable
Counterparty Risk Rating	A2/P-1	A2/P-1	A2/P-1	A2/P-1
Bank Deposit	A3/P-2	A3/P-2	A3/P-2	A3/P-2
Baseline Credit Assessment	baa3	baa3	baa3	baa3
Adjusted Baseline Credit Assessment	baa2	baa2	baa2	baa2
Counterparty Risk Assessment	A2 (cr)/ P-1 (cr)	A2 (cr)/ P-1 (cr)	A2 (cr)/ P-1 (cr)	A2 (cr)/ P-1 (cr)
Long-term local and foreign-currency provisional senior unsecured ratings to EMTN programme	Baa1	Baa1	-	-
Outlook	positive	positive	-	-

Ratings of Santander Bank Polska S.A. were updated by Moody's Investors Service on 29 January 2018. The agency changed the outlook on long-term deposit rating of Santander Bank Polska S.A. from stable to positive and affirmed existing ratings. The above change reflected improving asset quality, resilient capitalisation and strong profitability of the bank. It also factored in positive implications of the acquisition of the demerged business of Deutsche Bank Polska S.A. and estimated costs associated with the legislation regarding foreign currency mortgage portfolio.

On 31 August 2018, Moody's Investors Service assigned a provisional rating for the bank's Euro Medium-Term Note Programme ("EMTN Programme"). The EMTN Programme was assigned a (P)Baa1 provisional rating for local and foreign-currency debt, while senior unsecured foreign-currency notes to be issued as part of the programme were assigned a long-term Baa1 rating with positive outlook.

On 27 December 2018, Moody's affirmed the ratings of Santander Bank Polska S.A. including the bank's standalone baseline credit assessment (BCA) of baa3, which reflects favourable economic conditions in Poland, gradually improving asset quality, good liquidity buffer, adequate capitalisation supported by retained earnings and strong profitability. The bank's BCA is constrained by the material, albeit declining, legacy portfolio of FX mortgages, which entails risks from potential legislations and regulations on such mortgages.

## VIII. Relations with External Environment

### 1. Corporate Social Responsibility of Santander Bank Polska S.A.

Corporate social responsibility initiatives undertaken by the bank are governed by the Sustainability Policy. The objective of sustainable development is to manage social and environmental risks and build a long-term value for all stakeholders, i.e. individuals and entities which affect or are affected by the organisation: employees, customers, business partners, shareholders and communities.

Santander Bank Polska S.A. is a financial institution which recognises that customers are fundamental to its business and endeavours to support the communities it operates in to the largest possible extent. The bank's main objectives are:

- to support education;
- to build a civil society;
- to promote equality of opportunity;
- to prevent social exclusion.

The bank realises the significance of impact it may have on its environment, therefore it carefully identifies the areas where it can make a positive contribution. The measures taken by the bank respond to the biggest challenges of the modern world and reflect the global Sustainable Development Goals set by the United Nations in 2015. The bank's activities bring real benefits to local communities and contribute to social and economic development of individual regions and the country as a whole.

## 2. Major sponsorship projects delivered by the bank in 2018

For many years now, culture and education have been the main priorities of the bank's sponsorship initiatives. The bank particularly focuses on long-term projects which can be associated with the bank's brand and facilitate communication and relationship building activities aimed at employees and customers alike.

### Key sponsorship projects in 2018

<b>Santander Orchestra</b>	<ul style="list-style-type: none"><li>• The project was launched in 2015 by the bank, MyWay Foundation and the Krzysztof Penderecki European Centre for Music.</li><li>• The fourth edition delivered in 2018 included the following events:<ul style="list-style-type: none"><li>✓ Three concerts of Santander Orchestra held in Warsaw, Poznań and Łódź as part of the 22nd Ludwig van Beethoven Easter Festival (26–28 March 2018), under the baton of Lawrence Foster, featuring Łukasz Krupiński, one of the most talented young Polish pianists. The tour was organised as part of celebrations of the 100th anniversary of Poland regaining its independence. The concerts attracted more than 2,500 music lovers.</li><li>✓ Continuation of the Santander Orchestra Academy, started in 2017, combining musical workshops with additional initiatives for young musicians entering the labour market. In 2018, a series of seven workshops were held with world-famous musicians to show young people how to consciously advance their careers and what aspects of their craft they need to focus on to become more competitive. 66 young musicians from all over Poland took part in the workshops conducted from June to November 2018.</li><li>✓ Santander Orchestra music workshops, during which musical aptitude tests were carried out to check musical predispositions of children aged 5-12. During that time, parents could attend lectures on the benefits of music education. A total of 241 people took part in the workshops held in November and December 2018 in four cities in Poland (Gdańsk, Gorzów Wielkopolski, Konin, Kluczbork).</li></ul></li></ul>
<b>How's Your Driving</b>	<ul style="list-style-type: none"><li>• In 2018, the bank continued the "How's Your Driving" ("Jak Jeździsz") educational project, started in 2015. The purpose of the project is to share knowledge about safe driving. To reach the widest possible audience, communication activities on the campaign were held in social media. Educational initiatives were also implemented for local communities, customers and employees of the bank. The number of fans on Facebook is more than 120,000 (as at 31 December 2018). Interactive quizzes and competitions on safe driving each time attract several thousand web users. More than 2,500 persons took part in educational events organised in different cities in Poland.</li><li>• To implement the responsible development strategy, the bank organised the "Eco-Safe" ("Ekobezpieczni") campaign, which covered 50 primary schools from all over Poland. The campaign concerned environmental protection and traffic education, its key element being a nationwide art and film competition focusing on the problem of threat to children's safety on the way to school and environmental pollution. Students' works received more than 176k votes, and campaign messages reached over 80k people in total.</li><li>• To address the dangers of using a mobile phone while driving, the "#Park your phone and drive" ("Zaparkuj telefon i jedź") campaign was carried out to raise awareness of the problem and to eliminate the practice of taking eyes off the road to look at the mobile screen. Radio spots were broadcast in 124 radio stations across Poland, reaching thousands of drivers.</li><li>• The racing driver Kuba Giermaziak became an ambassador of the project.</li></ul>
<b>UEFA Champions League</b>	<ul style="list-style-type: none"><li>• Banco Santander S.A., the main shareholder of Santander Bank Polska S.A., became the official sponsor of the UEFA Champions League, the world's most prestigious football club competition, with mass audiences in Europe and the Americas.</li><li>• The sponsorship agreement, effective from the 2018/2019 season and for the following three years until the 2020/2021 season, was signed on 29 November 2017 by Ana Botin, Banco Santander Group Executive Chairman, and the country heads of all banks within Santander Group, including Santander Bank Polska S.A.</li><li>• The former Brazilian footballer Ronaldo Nazário became an international ambassador of Santander Group for its UEFA Champions League sponsorship.</li><li>• The sponsorship strengthens Santander Group's association with professional football. Over the past 10 years, the Group supported several of the main football competitions in Latin America, including CONMEBOL Libertadores and LaLiga Santander in Spain.</li></ul>

### Key sponsorship projects in 2018 (cont.)

#### National Museum in Wrocław

- The bank was a patron of the exhibition called “The Treasure of Środa Śląska. 30th anniversary of the discovery” (“Skarb Średzki. Trzydziestolecie odkrycia”) held by the National Museum in Wrocław between 2 October and 30 December 2018. The visitors could see one of the most precious treasures found in Europe in the 20th century.
- The exhibition marked the 30th anniversary of the discovery of the treasure, hailed as one of the most important finds of its kind in Europe, mainly as it included a woman’s crown of gold – a masterpiece of medieval goldsmith’s art. It was the first time that all the elements of the treasure were exhibited together: jewels, gold and silver coins and fragments of ceramic vessels in which the treasure was put by its medieval owners.
- During the three months, the exhibition was visited by nearly 37k people.

#### Jazz Juniors International Competition of Young Jazz Bands

- The bank was a patron of the 42nd edition of the Jazz Juniors International Competition of Young Jazz Bands, a festival held between 29 November and 2 December 2018.
- The idea behind the competition (held continuously since 1976) are to set new directions, discover young talents and inspire unique events. In recent years, the programme of the festival proceeded along two lines, i.e. by organising attractive concerts featuring stars and by inviting professional jazz musicians to sit on the competition’s judging panel. In 2018, in addition to star concerts and the competition which selected the best young jazz musicians, the highlight of the festival was the “Tribute to Tomasz Stańko”, a concert devoted to the deceased icon of Polish jazz.
- The last year’s edition of the Jazz Juniors festival attracted nearly 3,200 persons.

## 3. Santander Bank Polska Foundation of I.J. Paderewski

A substantial part of the bank’s social programmes are carried out via the corporate Santander Bank Polska Foundation of I.J. Paderewski.

For 21 years now, the Foundation has been running grant programmes for youth organisations. As part of the last year’s edition of the “Bank of Ambitious Youth” (“Bank Ambitnej Młodzieży”) programme, the foundation subsidised 41 history and music-related initiatives. They were centred around two topics: “The life and work of Ignacy Paderewski during the time of struggle for freedom” and “The 100th anniversary of regaining independence”. Last year’s budget for the project was PLN 300k.

The foundation supported initiatives for local communities as part of the fourth edition of the “Here I live here I make changes” (“Tu mieszkam, tu zmieniam”) competition, granting PLN 800k to 121 organisations.

Under the “Bank of Young Sports Champions” (“Bank Młodych Mistrzów Sportu”) grant programme, which promotes sporting competition, support totalling PLN 292k was granted to 40 projects.

The “Bank of Children’s Smiles” (“Bank Dziecięcych Uśmiechów”) grant programme supported 64 initiatives for a total amount of PLN 250k. In 2018, the foundation was involved in a new Scholarship Programme supporting talented young people. Scholarships were granted to 24 persons, who will receive monthly grants of PLN 500 for 10 months.

In 2018, the foundation supported a total of 290 organisations and 24 scholarship holders as part of its grant programmes.

Since 2010, the foundation has been providing organisational and financial support to the corporate volunteering initiatives at Santander Bank Polska S.A. In 2018, the bank’s employees initiated and carried out 145 initiatives, which included support for people in need and educational actions for children, young people and the elderly.

## 4. Communication with stakeholders

The bank issues regular communications about its CSR activities, mainly by means of its annual Corporate Social Responsibility Report of Santander Bank Polska S.A., prepared in accordance with the guidelines of the Global Reporting Initiative (GRI STANDARDS) and reviewed by an independent auditor.

The report for 2017 was made available online in Polish (at [raport.santander.pl](http://raport.santander.pl)) and in English (at [en.raport.santander.pl](http://en.raport.santander.pl)). The reporting data available on the website are constantly being updated with new information on the bank’s non-financial activity. This new solution ensures ongoing access to information on all the latest and most interesting CSR activities. The website is adapted for use by the blind and visually impaired, compliant with international WCAG 2.0 standards – accessibility for people with special needs.

Last year, Santander Bank Polska S.A. placed a high premium on promoting the 17 UN Sustainable Development Goals and showing the bank's contribution to their implementation. The publication of the report was accompanied by a competition called "We Have Common Goals" ("Mamy Wspólne Cele"), which the bank organised together with the Santander Bank Polska Foundation. Under the competition, social organisations could submit their own initiatives relating to one of the Sustainable Development Goals supported by Santander Bank Polska S.A. The initiative which won the most online votes and obtained a grant of PLN 30k was "Green Power Hackaton" by "The First Places Are Always Free" Foundation.

The bank's commitment to corporate social responsibility is confirmed by its inclusion in the Respect Index of Poland's socially responsible companies.

In 2018, the bank was awarded with CSR Golden Leaf by Polityka magazine. The bank was also among the Top 10 in the 12th Ranking of Responsible Companies, and was recognised for disseminating responsible management standards and for its activities as part of the "Ethical Standard in Poland" programme. In addition, the bank was honoured with the "Ethical Company of the Year" award from Puls Biznesu daily.

## IX. Business Development in 2018

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

#### 1.1. Retail Banking Division

##### Key development directions

The strategy of the Retail Banking Division is to strengthen its presence in the Polish banking sector and maintain its position among the three top banks through unparalleled omnichannel services increasing the loyalty and satisfaction of customers and ensuring income growth.

In 2018, the bank delivered the strategic goals focused on improvement of customer experience, development of remote channels, sale of consumer loans and transformation into an Agile organisation. The above measures brought about the following results:

- further improvement of customer service quality
- increase in the number of loyal customers
- over one million Accounts As I Want It
- growth of consumer and mortgage loan portfolios
- increase in the deposit portfolio
- further optimisation of the distribution network and launch of mass roll-out of the New Branch Model
- change of the operating model in accordance with the Agile methodology.

Work was also underway to ensure compliance with a range of regulatory changes for banking and finance sectors (GDPR, PSD2, MiFID II, IDD).

##### Development of business and products for retail customers

###### Personal accounts and bundled products

###### Account As I Want It (Konto Jakie Chce)

The Account As I Want It is a flagship personal account of Santander Bank Polska S.A. held by more than one million customers. The bank launched websites presenting information about the account in Polish, Ukrainian and Russian. It also offered a special deal on cross-border payment instructions (Western Union money transfers and SWIFT payment orders). The bank waived a fee for instant transfers and standing orders to improve the competitiveness of the Account As I Want It and to strengthen the bank's leadership position in the payments market.

As a result of the operational merger with the demerged part of Deutsche Bank Polska S.A., the bank took over more than 300 thousand personal accounts and 51 thousand credit cards. Customers of the acquired bank were provided with retention product packages on attractive pricing terms. The main tool used by the bank to retain retail customers is the Account As I Want It, which additionally features the Customised Card, the Regular Savings Account (Konto Systematyczne) and an option to apply lower fees. The retention processes were launched in the branch channel and in the Multichannel Communication Centre. As a result of the above measures, the monthly churn rate of customers of the former Deutsche Bank Polska S.A. is close to that of Santander Bank Polska S.A.

### Basic payment account

Pursuant to the requirements arising from the Payment Services Act, on 8 September 2018 the bank introduced a basic payment account with a debit card for customers who do not hold a payment account in any bank in Poland, and an option to switch accounts between banks.

### Personal account for high net worth customers

On 12 November 2018, the range of products and services for high net worth customers was expanded to include the Elite Account (Konto Elite) bundled with the Visa Elite debit card. Customers pay a fixed charge and gain access to an array of free services (cash withdrawals from ATMs in Poland and abroad, overdraft, brokerage account), professional support from a dedicated Private Banking advisor and individual pricing terms for loans, deposits and negotiated exchange rates, among other things.

### Personal account base

The number of personal accounts maintained by Santander Bank Polska S.A. grew by 13.8% YoY and reached 3.6m as at the end of December 2018, including 1.1m Accounts as I Want It. Together with FX accounts, the personal accounts base totalled nearly 4.5m.

### Payment services

On 10 September 2018, the bank launched Santander One Pay FX, a new electronic banking service which makes it possible for customers to complete international transfers in GBP to Santander UK plc in real time. The service will cover all banks in the UK and Banco Santander S.A. in Spain (in terms of EUR payments) and ultimately – all payment orders between Santander Group banks around the world.

In 2018, Santander Bank Polska S.A., as the first bank in Poland, offered contactless payments with Garmin Pay watches to holders of MasterCard cards. In June, it launched Apple Pay contactless payments to iPhone users holding Visa or MasterCard cards, and in October – Fitbit Pay mobile payments. Furthermore, the BLIK functionality was upgraded to include BLIK Booster: an option to confirm e-commerce payments using a BLIK code.

Consequently, Santander Bank Polska S.A. offers the widest range of mobile payments (in terms of solutions and technology) to retail and business customers in Poland, including Santander mobile (HCE), Google Pay, Apple Pay, Garmin Pay, Fitbit Pay and BLIK. Customers may pay with a phone, a tablet or a watch, and make transactions at POS terminals, via e-commerce platforms or through in-app payments.

In October 2018, Santander Bank Polska S.A. hosted Mobile Payments Product Show to present its mobile payments offer to customers, journalists and employees, in cooperation with business partners.

## Debit and credit cards

### Card functionality

As part of development of Santander internet services, the users were provided with an option to manage their debit and credit cards single-handedly, e.g. change the type of a credit card.

In October 2018, the bank introduced an additional service for retail customers: a multi-currency package for holders of debit cards (Customised Visa, Customised MasterCard and Visa VIP), which replaced the overseas ATM package. Customers may make free-of-charge withdrawals from ATMs abroad and convert their card transactions if their card is linked to FX accounts maintained in EUR, GBP or USD and the transaction has been made in one of the above currencies. The transaction will be effected and settled only if the FX account balance is sufficient.

### Product range development

The range of debit cards was extended to include: Basic Card – a debit card issued for the Basic Payment Account in accordance with the statutory obligation, and Visa Elite – a debit card bundled with the new Elite Account for high net worth customers, featuring a multi-currency package.

As part of the rebranding process, in September 2018 the bank started to replace existing credit and debit cards for instruments with a new logo and name.

### Promotional campaigns

In 2018, the bank took further measures to increase cross-selling of credit cards and personal accounts and grow the volume of payments. Particularly noteworthy are the following initiatives:

- special deals for customers signing up for their first credit card via Santander internet, Santander mobile or over the phone at the Multichannel Communication Centre: “Card over phone – it pays off” (“Karta przez telefon – opłaca się”), “Credit card – apply online and benefit” (“Karta kredytowa – wnioskujesz on-line i zyskujesz”), 5th edition of the Starter Card (“Karta na start”);
- special deals aimed at encouraging particular groups to buy/ use accounts or cards or to make payments: “Pay less for transfers to Ukraine” (“Na Ukrainę taniej”): a campaign targeted at Ukrainians who make Western Union money transfers; “Account As I Want It for a student” (“Konto Jakie Chcę dla studenta”): a campaign promoting the account and payment transactions; “PLN 100 for anything you want” (“Stówka na co chcesz”): PLN 100 for customers aged under 26 who sign up for a credit card;
- campaigns targeted at a wide customer base: 2nd edition of “Credit card to the Account As I Want It” (“Karta kredytowa do Konta Jakie Chcę”) and “PLN 300 for your salary” (“PLN 300 za wynagrodzenie”) as part of the Account As I Want It or the VIP Account;
- Referrals Programme rewarding customers who recommend a personal account with a debit card or a credit card offered by the bank;
- promotion of non-cash payments among business customers: a special offer for car drivers and “Visa pays off” (“Z Visą korzystniej”) campaign of MasterCard Business Debit, Visa Business and Visa Business Electron cards;
- Poland-wide multimedia campaign of Apple Pay mobile payments launched in June 2018.

### Card base

As at 31 December 2018, the personal debit card portfolio of Santander Bank Polska S.A. comprised more than 3.7 million cards and increased by 8.8% YoY (excluding prepaid cards which are being gradually removed from the bank's offer). Taking business cards into account, the total number of debit cards reached nearly 4 million, up 9.9% YoY.

The credit card portfolio comprised 849.6 k instruments, an increase of 5.8% YoY.

The number of digital cards used to make HCE, Google Pay, Garmin Pay, Fitbit Pay and Apple Pay mobile payments added up to 431k (up 208.5% YoY).

## Retail loans

### Consumer loans

In 2018, Santander Bank Polska S.A. offered a range of special deals to grow cash loan sales, including:

- “Lower instalment” (“Lżejsza rata”): consolidation of debt with other banks;
- “Cash loan with the Account As I Want It” (“Kredyt gotówkowy z Kontem jakie chcę”): next edition of a special offer designed to support the sale of a personal account, including an opportunity to take out a cash loan on attractive terms;
- Special deal on a cash loan available via Santander internet and Santander mobile: promotion of sales in electronic channels.

Furthermore, changes were introduced to increase the competitiveness of cash loans and amend the rules for assessment of repayment capacity:

- On 21 September 2018, the maximum lending period was extended from 72 to 96 months (for new applications submitted in any sales channel).
- A special deal called “Cash loan with 0% fee” (“Kredyt gotówkowy z 0% prowizji”) was launched on 10 September 2018 in connection with the rebranding process, for holders of the Account As I Want It with Customised debit card applying for a cash loan up to PLN 30k.

Special loan offers were introduced in exDB branches in relation to the acquisition of a demerged part of Deutsche Bank Polska S.A. In November 2018, the bank launched the sale of cash loan through agents and credit intermediaries who used to cooperate with Deutsche Bank Polska S.A.

In 2018, cash loan sales reached an all-time high of PLN 4.9bn, up 17.1% YoY. The most pronounced growth was reported in phone and internet channels (59% and 28%, respectively). The cash loan portfolio was up 51.3% YoY and totalled PLN 11.6bn at the end of December 2018.

## Mortgage loans

The table below presents the main activities of Santander Bank Polska S.A. in the area of mortgage loans:

Main direction	Measures
<b>Further support to home loan and CHF mortgage borrowers</b>	<ul style="list-style-type: none"> <li>• currency spread reduced to 2%;</li> <li>• negative CHF LIBOR interest rate;</li> <li>• an opportunity to extend maturity, use interest-only option or reduce loan instalments free of charge for 3, 6 or 12 months;</li> <li>• flexible loan restructuring options, including waiver of a fee for annexes;</li> <li>• loan conversion to PLN at the mean NBP rate with no additional fees charged, ensuring a preferential credit margin thereafter;</li> <li>• no obligation to provide additional collateral if the acceptable LTV was exceeded as a result of the FX rate increase.</li> </ul>
<b>Changes implemented to improve mortgage proposition</b>	<ul style="list-style-type: none"> <li>• In January 2018, the acceptable LDSR was increased from 60% to 65% for low risk borrowers.</li> <li>• In March 2018, the maximum loan amount offered to customers with a prelimit was increased from 20 times to 30 times the income.</li> <li>• In May 2018, the availability of the fast-track procedure was extended to include credit applications up to PLN 24k and to PLN 48k in the case of customers with the best credit history.</li> <li>• A new functionality was introduced as part of the buy-by-click process (available via Santander internet, Santander mobile) whereby customers who do not have a sufficient credit capacity to be granted a loan in the amount sought are offered a lower amount.</li> <li>• In July 2018, customers were provided with an option to apply for a free-of-charge annex regarding after-sales changes implemented as part of debt restructuring.</li> <li>• In August 2018, changes were introduced in relation to a fee for the verification of a property value: it now depends on the type of property and is charged at the time of disbursement of the loan or the first tranche.</li> <li>• In September 2018, the margin grid was modified to reward loans with max LTV of 80%, higher-amount loans, and Select customer segment.</li> <li>• In October 2018, credit intermediaries were offered a new tool to facilitate processing requests for indicative terms of a mortgage loan in the central process. The application helps shorten the turnaround times and makes it possible for an intermediary to generate an information form for a customer. It also reduces workload and increases the effectiveness of the mortgage lending process for the bank.</li> </ul>
<b>Two special deals on mortgage loans for customers providing min. 20% downpayment</b>	<ul style="list-style-type: none"> <li>• "Springtime reduction of margins" ("Obniżamy marże na wiosnę"): a lower arrangement fee and a lower margin on mortgage loans of min. PLN 200k (a separate margin for loans with max 60% LTV and max 80% LTV) – promotion valid from February till May 2018;</li> <li>• "Summer home loan" ("Kredyt mieszkaniowy w letniej odsłonie"): 0% arrangement fee and a lower margin for customers applying for a loan at min. PLN 150k with max. LTV of 80% - promotion valid from June till August 2018.</li> </ul>

In 2018, the value of new mortgage loans exceeded PLN 6.8bn, up 31.0% YoY. Mortgage loan sales significantly accelerated in Q3 2018, increasing by 16.7% in H2 2018 vs H1 2018.

The gross mortgage portfolio of Santander Bank Polska S.A. grew by 35.6% YoY, reaching PLN 47.3bn at the end of December 2018. The value of PLN mortgage loans amounted to PLN 37.1bn, up 52.6% YoY.

The bank is one of the largest mortgage lenders in the market: it is ranked fourth with a share of 13.1% in terms of new mortgage loans and equity releases and third with a share of 10.9% in terms of the size of the portfolio (data as at December 2018). In 2018, the bank was also one of the leaders in the segment of subsidised loans granted under the "Home for the Young" ("Mieszkanie dla Młodych") programme, with a market share of approx. 22.6%.

## Deposits

As part of deposit base management in 2018, the bank intensified measures to acquire deposits, continued to optimise the deposit portfolio by increasing the share of current and savings account balances, and strengthened the relationships with deposit customers. As a result of intensive preparations taking place throughout the year, at the end of 2018 the bank took over the deposit base of the demerged part of Deutsche Bank Polska S.A.

The bank promoted deposit products with a special focus on savings accounts which were used as a tool to attract new funds and increase cross-sell performance.

- The bank introduced a higher interest rate of 2.70% p.a. (for deposits up to PLN 20k) on the Regular Savings Account (Konto Systematyczne) as part of a bundled offer of the Account As I Want It. The limit of the accounts per customer was increased and a comprehensive communication support was provided, including as part of the rebranding campaign. Due to a simple and customer-friendly sales process, Santander Online was the main sales channel for the Regular Savings Account. As a consequence, the number of account holders increased from 50 thousand at the end of 2017 to nearly 250 thousand at the end of 2018.
- In 2018, the bank introduced two special deals on the Max Savings Account (Konto Max Oszczędnościowe) to attract new funds. The account paid 2.30% and 2.50%, respectively, on balances up to PLN 200k. This way, the bank acquired PLN 4bn of new funds.
- The bank used a mechanism which automatically increased an interest rate on savings accounts along with growth in the volume of transactions in personal accounts. In July 2018, the bank launched the fifth edition of the promotional campaign called "Activity pays off" ("Aktywność procentuje"), which was particularly popular in the Select and Private Banking segments. Active customers could earn even 2% p.a. on their savings accounts, with no maximum balance limit.
- From March to June 2018, the bank launched a pilot for a new sales process and an acquisition tool, i.e. the Mobile Savings Account available for new customers in remote channels only (internet and mobile application).
- Savings accounts were promoted in all distribution channels as basic savings products available to individuals.

Starting from May 2018, the bank intensified efforts to acquire new funds in the Select and Private Banking segments, focusing on deposits with a negotiated interest rate. An active pricing policy for negotiated deposits was also used for retention and cross-selling purposes.

As a result of the measures taken, the bank reported an increase in the number of savings accounts bundled with personal accounts (with a penetration rate of 80% vs 75% at the beginning of 2018) and a dynamic growth in non-interest bearing personal account balances. The overall deposit portfolio grew much faster than the market, with a strictly controlled increase in deposit expenses. Following the acquisition of a demerged part of Deutsche Bank Polska S.A. in November 2018, the retail deposit base increased further by PLN 13bn (mainly term deposits and current account balances).

At the end of December 2018, total retail deposits of Santander Bank Polska S.A. amounted to PLN 81.6bn, up 37.6% YoY. The total balance of savings accounts was PLN 34.5bn, an increase of 37.8% YoY. The balance of other current accounts went up by 15.5% YoY to PLN 20.7bn. Term deposits grew by 61.2% YoY, reaching PLN 26.3bn.

The balance and structure of deposits at the end of 2018 enabled the bank to optimise the structure of the entire deposit and investment portfolio by allocating funds deposited in maturing term deposits. In addition, measures will be taken to increase the Net Promoter Score among deposit customers by improving their experience (in particular in the internet banking) and offering more special deals to loyal customers.

## Structured deposits

Santander Bank Polska S.A. continued to sell structured deposits including deposits with yields linked to stock indices (SX5E, SXEE) or exchange rates (EUR/PLN, USD/PLN), including FX deposits. All deposits provided 100% capital protection on maturity.

In 2018, the bank offered 96 products of various tenors in the total of 59 subscriptions, including 30 subscriptions for standard personal customers and 29 subscriptions for Private Banking customers. In all, more than PLN 605m was collected as a result of the aforementioned subscriptions.

## Investment funds

In February 2018, the range of investment funds was extended to include 9 new products (increasing the total number of funds managed by Santander TFI S.A. to 29):

- Five new subfunds enable customers to invest in new classes of assets and new geographical directions: Santander Prestige Emerging Markets Equity (Santander Prestiż Akcji Rynków Wschodzących), Santander Prestige US Equity (Santander Prestiż Akcji Amerykańskich), Santander Prestige Technology and Innovation (Santander Prestiż Technologii i Innowacji), Santander Prestige Global Corporate Bonds (Santander Prestiż Obligacji Korporacyjnych) and Santander Prestige Alfa (a subfund focused on generating returns irrespective of the stock market conditions owing to the appropriate selection of companies).
- Four new investment strategies: Santander Conservative Strategy (Santander Strategia Konserwatywna), Santander Stable Strategy (Santander Strategia Stabilna), Santander Dynamic Strategy (Santander Strategia Dynamiczna) and Santander Equity Strategy (Santander Strategia Akcyjna) applied for portfolios comprising at least 70% of Santander FIO subfunds are designed to meet diverse investment needs of customers in terms of an investment horizon and acceptable volatility of returns.

Trends prevailing in the global stock markets in 2018 discouraged investors from investing in stock. In H1 2018, the highest net sales were reported by money market subfunds (Santander Gotówkowy, Santander Prestiż Gotówkowy), Santander Small and Medium Caps Equity subfund and Santander Prestiż Alfa subfund. In H2 2018, the most popular investment funds were the following short-term debt subfunds: Santander Dłużny Krótkoterminowy and Santander Prestiż Dłużny Krótkoterminowy. An increase was also reported in the redemption of corporate bond funds, equity funds, and funds with an equity component, which was in line with market trends.

As at 31 December 2018, the total net assets in investment funds managed by Santander Towarzystwo Funduszy Inwestycyjnych TFI S.A. (Santander TFI S.A.) were nearly PLN 15.1bn, down 5.9% YoY.

Customers may sign up for investment funds via Santander internet.

Santander TFI S.A. is one of the oldest and largest investment fund companies in Poland. The company also offers portfolio management services to institutional investors. The funds under management total PLN 15.4bn. The company plans to expand its product range towards global diversification of assets and strengthen its presence in the pension products market as part of the Employee Capital Plans (ECPs).

In March 2018, Santander investment funds were awarded two accolades by Analizy Online for 2017: Alfa 2017 award for Santander Prestige Corporate Bond subfund and an accolade for Santander Corporate Bond subfund in the "Best Polish Corporate Bond Subfund" category.

## Brokerage services

### Santander Brokerage Poland

Santander Brokerage Poland rendered brokerage services to customers, ensuring a wide array of products (with a constantly growing access to foreign markets for business customers), analytical support for investment decisions and access to advanced remote channels (Inwestor online service and Inwestor mobile application). The bureau also focused on activities in the primary market.

In 2018, the product range and customer service were further improved:

- Customers were offered easier access to investment advice (recommendations of instruments that suit customers' investment profiles) as part of the Investment Guide services (Drogowskaz Inwestycyjny).
- The process of brokerage agreement execution was modified in accordance with customers' expectations.
- Customers were provided with access to historical data about closed accounts and choice how they want to be notified about an incoming message (email and/or text message) and confirmations of their orders' execution (e-mail and/or text message/paper form).

The key changes to the product range and services for business customers include the following:

- Direct Market Access enabling investors to place orders on foreign markets;
- Access to Fidessa, an innovative platform supporting ETDs (derivatives trading in the Stock Exchange market).

A strong focus was placed on ensuring compliance with the requirements arising from MiFID II, PRIIP, GDPR or NBP guidelines.

During the year, customers' trading was under downward pressure caused by a decline in the stock market. Nevertheless, Santander Brokerage Poland managed to increase its market share in both retail and business segments. Particularly noteworthy is Santander Brokerage Poland's record share of 13.1% in the WSE retail segment reported in H1 2018 and a further increase from 9% to 9.5% in the key segment of local financial institutions.

In 2018, Santander Brokerage Poland took a leadership position in the primary market (mainly in terms of SPO and ABB) and in the tender offer market. Santander Brokerage Poland completed seven secondary public offerings. It also accepted orders for shares in the second tranche of the Long-Term Incentive Plan of a debt management company. Furthermore, it accepted orders for shares of three companies as part of tender offers. Analysts and brokers of Santander Brokerage Poland provided customers with a comprehensive analytical support (research coverage of 90 WSE and CEE companies).

Santander Brokerage Poland came third in the IPO ranking (*Parkiet*, 13 January 2018) owing to its participation in the largest IPOs in 2017. It was also granted an award by the Warsaw Stock Exchange in recognition of the highest share in the index options trading without market-making in 2017, maintaining the leadership position in the options market for the fourth year in a row.

## Santander Securities

Brokerage services for customers of Santander Securities, an entity acquired by Santander Bank Polska S.A. along with an organised part of Deutsche Bank Polska S.A., are provided on former terms and conditions.

The product range of Santander Securities and Santander Brokerage Poland was expanded to include structured products. Certificates and bonds with various capital protection terms, including exposure to global markets, are targeted at Private Banking customers in the form of private placements.

## Insurance

Santander Bank Polska S.A. offers all insurance products in an individual model, acting as an agent of Santander Aviva TUO, Santander Aviva TUnŻ and Compensa Towarzystwo Ubezpieczeń S.A (Vienna Insurance Group).

The range of insurance products includes insurance linked to credit facilities for retail and business customers such as Worry-Free Loan (Spokojny Kredyt), Business Guarantor (Biznes Gwarant), Safe Mortgage (Bezpieczna Hipoteka) as well as non-linked products such as Family Care (Opiekun Rodziny), Locum Comfort, Partner in Business (Partner w Biznesie) and Partner in Business Plus (Partner w Biznesie Plus).

In 2018, Santander Bank Polska S.A. expanded its range of insurance products to include the following:

- a comprehensive motor insurance offered to passenger car owners since 12 March 2018 in cooperation with Benefia Ubezpieczenia and TU Compensa S.A. Vienna Insurance Group via remote channels, i.e. the bank's website, the Multichannel Communication Centre or Santander mobile application;
- changes to the Worry-Free Loan (Spokojny Kredyt) CPI cash loan insurance introduced on 19 February 2018 in accordance with the new Insurance Distribution Act, KNF recommendations, feedback from the bank's advisors as well as analysis of customers' needs including:
  - ✓ new insurance options: Spokojny Kredyt – życie plus (life insurance available in all sales channels), Spokojny Kredyt – życie and Spokojny Kredyt – praca (life and employment insurance available in all sales channels except for Santander internet);
  - ✓ simplified insurance cover and product terms and conditions;
  - ✓ attractive insurance premiums for loans above PLN 25k;
  - ✓ customer needs survey is to be completed before making an offer;
  - ✓ a standardised insurance product information document needs to be provided to customers.

Santander Bank Polska S.A. developed the first prediction models dedicated to insurance products, so as to identify customers who may be interested in taking out an insurance policy. A range of new CRM campaigns were launched using the new customer communication channels, such as ATMs (online exchange of CRM information). In addition, targeted CRM campaigns were implemented to monitor insurance cover for properties used as collateral to loans granted by the bank.

Finally, the bank took over insurance policies related to the acquired portfolio of Deutsche Bank Polska S.A.

## Private Banking

Private Banking Department of Santander Bank Polska S.A. provides customers with access to investment funds of many Polish and foreign management companies, including to funds managed by Santander TFI S.A. It arranges issues of structured deposits as well as private placements of structured certificates, including issues which are tailored to the needs of individual customers. In cooperation with the Treasury Services Department, it offers specialist derivative instruments that help manage currency and interest rate risks. The product range also includes insurance policies and tax optimisation solutions as well as an opportunity to plan an intergenerational wealth transfer. Private Banking customers have access to Active Stock Market Advice, thanks to which they may take informed investment decisions based on a professional guidance from brokers of Santander Brokerage Poland. The Private Banking Customer Services Team offers a comprehensive support in relation to orders made via phone. Private Banking customers may use biometric solutions in relation to identification over the phone, video verification and mobile application, as well as online advisor services in the video, chat or audio channel available online and through a mobile application.

The bank attaches the greatest importance to the skills of its advisors and the quality of its services. Private Banking advisors have the necessary qualifications confirmed by the EFA certificates issued by EFPA.

Apart from the general ATM and branch network, Private Banking customers may use the services of 59 Private Banking advisors and 29 regional Private Banking offices.

In 2018, the range of products and services for Private Banking customers was expanded to include a new Elite Account featuring a debit card with a Private Banking logo, investment funds offered by Polish and foreign management companies and private placements of structured certificates (the first one to be held in January 2019).

## Development of business and products for SMEs

### Strategic directions

The strategy of the bank is to support the business expansion of small and medium-sized companies based on the following three pillars: top-quality customer services provided through qualified branch advisors and robust remote communication channels, building loyalty and long-term relationships with customers and simple but distinctive products with additional non-financial services.

### Extension of customer base of the Retail Banking Division

As a result of the vertical reorganisation of the Business Support Centre in 2018, the Retail Banking Division took over services for SME customers with lower turnover (SME 1), whereas SME customers with higher turnover (SME 2) were incorporated into the customer base of the Business and Corporate Banking Division. The foregoing SME customer segments had been identified on the basis of turnover and preferred way of banking.

### Products and services for SMEs

The fundamental elements of the offering for the SME and other business segments are the following:

- customised business accounts;
- a wide array of credit facilities such as working capital financing, investment loans (including via the European Investment Bank), preferential loans subsidised by the Agency for Restructuring and Modernisation of Agriculture, and guarantees, leasing and factoring facilities.

The EIB Business Express (Biznes Ekspres EIB) additionally offers a favourable interest rate (a lower margin) based on a guarantee agreement with the European Investment Bank (EIB) as well as a capped rate functionality ("Oprocentowanie nie wyższe niż") which protects customers against an increase in interbank rates.

The bank works with external institutions to provide such market loan collateral tools as de minimis guarantees, COSME guarantees, guarantees of the Polish Agency for Agriculture Restructuring and Modernisation (ARiMR) and POLFUND civil law guarantees, which allow the customer to avoid encumbering their tangible assets to secure the loan and at the same time benefit from a lower loan interest rate.

SME 1 customers are offered services in electronic channels (Kantor Santander currency exchange platform, Moja Firma Plus, Mini Firma, Santander Trade Network), non-financial value added services (e.g. eAccounting platform) and POS terminals as part of Cashless Poland (Polska Bezgotówkowa) programme (available free of charge for up to 18 months).

### Business model development

Main directions	Measures taken in 2018
<p><b>A new work agenda for branch advisors and a new service model in bank branches and remote channels</b></p>	<ul style="list-style-type: none"> <li>• The pilot grouping of SME 1 advisors in branches was completed and the new work agenda along with a new incentive scheme were confirmed to be effective.</li> <li>• The bank implemented remote advisor services for SME 1 Digital customers who prefer to bank remotely. A team of remote advisors was set up, first sales and after-sales processes were designed and a target group of customers was selected.</li> </ul>
<p><b>Development of remote services for SME 1 customers</b></p>	<ul style="list-style-type: none"> <li>• The bank further developed services for SME 1 available with the Multichannel Communication Centre, continued the migration of SME 1 customers to remote channels in which they are serviced by the Multichannel Communication Centre, and took further measures to increase the share of operations done remotely.</li> <li>• Further increase was reported in the number of customers using voice biometrics as an authorisation tool during the contact with the bank over the phone. The bank implemented a fast, simple and secure process to sign agreements (e.g. in relation to a business account) via remote channels using video verification solutions: face recognition, verification of ID details in external databases and customer identification by the bank's video-advisor.</li> <li>• The bank offered an opportunity to order a payment terminal and a debit card by phone (an option available to all SME customers) and increased the amount of a loan that may be applied for in remote channels (via electronic banking services or by phone) by customers with a prelimit.</li> <li>• Companies using internet banking services were provided with an opportunity to set up a trusted profile without the need to visit an office or the bank's branch. This solution enables customers to attend to administrative matters remotely, using the same password and login as in the case of a bank account.</li> </ul>

	<ul style="list-style-type: none"><li>• In June 2018, sole traders were offered an option to buy a range of products online, including a business account such as Business Account Worth Recommending (Konto Firmowe Godne Polecenia) or Premium Business Account (Konto Firmowe Premium) featuring Mini Firma electronic banking services and, optionally, a payment card (Visa Business Electron Santander, MasterCard Business Debit Santander or Visa Business Santander).</li></ul>
<b>Promotion of non-cash transactions in Poland</b>	<ul style="list-style-type: none"><li>• In February 2018, micro and small companies were provided with an option to install POS terminals of Santander Bank Polska S.A. as part of a three-year Non-Cash Payments Initiative, followed up by "I got a Six" ("Dostałem Szóstkę") special offer.</li><li>• In August 2018, the bank launched the campaign called "I got a Six" ("Dostałem Szóstkę") for SME 1 customers signing a payment terminal agreement, under which:<ul style="list-style-type: none"><li>✓ customers who meet the criteria of the "Cashless Poland" ("Polska Bezgotówkowa") programme may rent and use the payment terminal free of charge for the first 18 months;</li><li>✓ customers who do not meet the foregoing criteria are not charged for the rent and use of the terminal for the first 6 months;</li><li>✓ customers are provided with a free-of-charge business account.</li></ul></li></ul>
<b>Continued support for exporters and importers</b>	<ul style="list-style-type: none"><li>• New employees have joined the Trade Finance Service Centre which handles guarantees, letters of credit and documentary collections, as well as the Customer Contact Team which provides support to customers (advisory services, search for solutions for non-standard transactions, help with interpretation of transaction terms, review of customer's instructions and preparation/review of transactions).</li><li>• With the support of the above-mentioned units as well as local International Business Managers, the number of customers using trade finance services grew at a double-digit rate.</li><li>• Leveraging the global presence of Santander Group and an innovative blockchain technology, in March 2018 the bank expanded its range of products and services for foreign customers (exporters and importers) to include instant transfers in GBP to accounts with Santander UK.</li><li>• SME customers were offered instant blockchain-based transfers on attractive terms: they could use a group discount including free express transfers up to GBP 20k to accounts with Santander UK plc.</li></ul>
<b>Non-financial services for SMEs</b>	<ul style="list-style-type: none"><li>• On 31 August 2018, the bank launched a website called <a href="http://dzialalnosc.pl">dzialalnosc.pl</a> to support individuals in setting up their business. The website includes step-by-step information on how to start a business, along with the knowledge base, relevant forms and useful calculators.</li><li>• In October, the bank launched eAccounting through which customers can manage their finances and accounting via the online banking system.</li></ul>

## Lease business

Santander Leasing S.A. is a universal lessor which offers financing for a wide range of assets to SME, corporate and large corporate customers, in particular: financing of machines and equipment, properties and vehicles.

In 2018, the company successfully delivered its development strategy in the selected market segments based on specialised sales networks:

- As part of its commitment to environmentally friendly initiatives, in mid-March 2018 the company launched a special deal, i.e. 100% lease of electric vehicles. The deal covers all new electric cars from approved dealers.
- In September 2018, the company launched a cooperation with new suppliers of Bury and Weidemann agricultural machinery as part of which customers were provided with vendor finance on attractive terms.

To improve service quality in 2018, Santander Leasing S.A.:

- extended the functionality of the customer service portal (with 80% of customers having access to this solution);
- developed and automated credit decision processes: more than 40% of decisions are granted automatically, which reduces time to cash.

The company leverages the cooperation with Santander Bank Polska S.A. to expand its business:

- since April 2018, the products of Santander Leasing S.A. have been marketed as part of the bank's special offer for MasterCard business card (with a zero arrangement fee);
- along with acquisition of a demerged part of Deutsche Bank Polska S.A., the company launched the cooperation with nearly 500 external agents.

In January 2018, the general lease terms and conditions offered by Santander Leasing S.A. were ranked first as the safest ones in the market by independent experts.

In 2018, Santander Leasing S.A. financed fixed assets of nearly PLN 5.4 bn, an increase of 29.2% YoY. In the segment of machines and equipment, where Santander Leasing S.A. has been the leader for years, the lease volumes came in at PLN 2.2bn, up 12.6% YoY. In the vehicles segment, the lease volumes were close to PLN 3.1bn, higher by 45.0% YoY.

In December 2018, Santander Leasing S.A. entered into a securitisation agreement in respect of receivables arising from lease and loan agreements. The transaction was a traditional and revolving securitisation arrangement consisting in the transfer of ownership title to the securitised debt onto the SPV – Santander Leasing Poland Securitization 01 DAC with the registered office in Ireland. Based on the securitised assets, the SPV issued bonds for the total amount of EUR 230m and interest rate based on 1M EURIBOR. The bonds mature in December 2032.

## 1.2. Business and Corporate Banking Division

### Strategic directions

The strategic objective and the top priority of the Business and Corporate Banking Division is to help customers prosper and to understand their business in order to provide them with tailored products and services. The Division focuses on the areas which add competitive advantage in the value chain:

- foreign trade handling
- offer for selected sectors
- digitalisation of processes and products for the corporate segment
- effectiveness of risk management processes
- development of electronic banking channels.

The Division continues the programme aimed at broadening the scope of automation of customer service processes in all electronic channels (internet, mobile, B2B web service) as part of the programme designed to implement internet and mobile banking solutions for Business and Corporate Banking customers (including all SME segments) and Corporate and Investment Banking customers.

### Expanded customer base

Following the decision on reorganisation of the Business Support Centre, the customer base of the Business and Corporate Banking Division was extended to include SME 2 customers, i.e. small and medium enterprises with higher turnover and complex needs. As a result, the Division now provides services to the following segments:

- SME segment including companies with a turnover of more than PLN 8m and a credit exposure exceeding PLN 5m, handled by mobile SME advisors.
- Corporate segment including: a) companies with a turnover above PLN 40m; b) local administration units and the public sector, handled by 12 Corporate Business Centres.
- Property segment including companies from the property sector, handled by the Property and Hotels Department.

As at the end of December 2018, the Business and Corporate Banking Division provided services to the customer base of 20k entities from various sectors, supporting them in building and growing their business. A significant YoY growth in the number of customers is an effect of the bank's acquisition measures and the incorporation of an organised part of Deutsche Bank Polska S.A. on 9 November 2018.

### Products and services for strategic sectors

In view of the growing importance and potential of the agriculture and food, automotive, TSL (transport, shipping and logistics) and industrial production sectors, Santander Bank Polska S.A. has given a strategic priority to these market segments and strives to become the best partner for all companies from the above-mentioned industries. To this end, the sector know-how and competencies were developed across the organisation and the sector training was continued to be delivered to the bank's employees. Measures were also taken to strengthen the bank's presence and position in the respective sectors, such as:

- meetings for customers (including meetings organised as part of the Export Development Programme for customers from the transport sector, meetings for customers from the furniture sector, co-organisation of eight conferences for customers from the agriculture sector, among other things);
- active participation in the major Polish and international sector events (SIAL 2018, Packaging Industry Conference, National Challenges in the Agriculture Sector, Automotive CEE Days, AutoEvent and Automotive Industry and Market Conference);

- establishment and development of cooperation with industry associations and active contributions in industry media (commentaries, sector analyses, expert opinions).

Along with the comprehensive integration measures, in 2018 the bank worked on the new sales network and product support model, which is planned to be implemented in 2019.

## International business development

### Trade and investment corridors

In 2018, the bank pursued its international business development strategy through a range of initiatives targeted at customers operating in foreign markets. The main focus was placed on the development of foreign trade as well as trade and investment corridors (Germany, Spain, Latin America, the USA and the UK), with the latter two launched in 2018. As part of existing corridors, the bank provides customers with specialised support such as assistance of dedicated International Desk managers and a customised relationship strategy and products, taking into account the target market environment. Services rendered by the bank in relation to trade and investment corridors as well as international operations of its customers brought about the expected income in 2018.

### Export Development Programme

The Business and Corporate Banking Division completed the 8th edition of the long-term Exports Development Programme which has been an important element of the Division's strategy for four years. It includes a series of conferences, meetings and seminars as well as trade missions for Polish companies which are already active on the foreign markets or plan to expand their business abroad. The project provides an effective platform to share knowledge and experience and promote networking among business partners. More than 180 Polish companies which took part in the last edition were supported by the bank in their international expansion through the following initiatives:

- the UK – an inbound aerospace mission, automotive sector events, an outbound mission for furniture manufacturers;
- Spain and Latin America – inbound missions for vegetable, fruit and meat importers from Mercamadrid; relationship-building events co-hosted by the bank and the Embassies of Mexico and Peru; an event co-hosted with ProChile, a letter of intent signed with the Mexican Agency for Special Economic Zones;
- Germany – events organised in cooperation with the AHK Chambers of Commerce in Wrocław, Poznań and Katowice; participation in Hannover Messe;
- China – an outbound trade mission for companies participating in CIIE in Shanghai; strategic partnership with the Polish Investment and Trade Agency (PAIH).

### Support for trade finance

As part of its foreign trade development strategy, the bank:

- created value for customers by providing expertise, facilitating B2B networking and offering tools and product solutions to support the delivery of business plans;
- provided access to SantanderTrade.com portal with reports on 180 markets;
- offered an option to make blockchain-based payments as part of Santander One Pay FX service or manage accounts with other banks via electronic banking.

The Santander Trade Network facilitates the international expansion of exporters and importers into the markets where Santander Group operates. It helps bring together potential business partners, among other things. The Santander Trade Network gives access to a solid network of local professionals who provide services in these four key areas: marketing and communication (market research, communication strategy, marketing action plan, optimisation of search engines), networking (commercial agenda, showroom, international trade fairs), business centres (virtual office, business meeting space), other services (legal and tax advice, recruitment services).

Leveraging the global presence of Santander Group, in March 2018 the bank introduced Santander One Pay instant transfers in GBP to accounts with Santander UK plc. Payments up to GBP 10k are automatically qualified to be sent using blockchain technology, which means that a specific amount is paid to a payee's account almost right away. The blockchain technology used by the Group is currently regarded to be one of the safest methods for cross-border transfers.

## Business model development

In 2018, advisors from the 12 Corporate Banking Centres, together with credit partners and product specialists delivered tailor-made solutions to customers and comprehensive services in the area of loans, deposits, transactional banking, treasury, leasing, factoring and capital markets. Positive customer experience was supported by easy and quick access to the banking offer and information necessary for corporate finance management provided via the dynamically developing electronic and telephone banking, i.e. iBiznes24 internet, iBiznes24 mobile, iBiznes connect and the Customer Service Centre.

The bank completed the migration of SME 2 customers to remote channels in the SME Service Centre and took efforts to promote operations in this channel, while streamlining banking operations. An increase was reported in the number of customers using voice biometrics as an authorisation tool during the contact with the bank over the phone. The bank also implemented a fast, simple and secure process to sign agreements (e.g. in relation to a business account) via remote channels using video verification solutions: face recognition, verification of ID details in external databases and customer identification by the bank's video-advisor.

The Business and Corporate Banking Division standardised the processes for SME 2 and corporate segments by introducing a single workflow-based credit process as well as product offering for SME 2 customers which corresponds to processes and products for corporate customers.

Along with the extensive integration measures related to the acquisition of the demerged part of Deutsche Bank Polska S.A., in 2018 the bank worked on the new sales network and product support model, which is planned to be implemented in 2019.

## Product range development

The bank launched a special deal called "Spring with POS terminals" ("Wiosna z terminalami POS") under which SME customers can sign an agreement and rent a terminal free of charge for the first six months. As part of the above offer, customers may set up a free-of-charge business account with the bank.

On 4 April 2018, the bank signed a cooperation agreement with BGK regarding the new Biznesmax Guarantee Programme, under which customers are issued free-of-charge guarantees for 80% of the loan amount along with reimbursement of 3-year interest payments. The programme offers support to companies which take out investment loans and meet specific criteria. According to BGK, the bank is ranked first in terms of sales of loans secured with the foregoing guarantee, with a market share of 41%.

As regards de minimis guarantees, the bank is ranked second in terms of the volume of sales and the number of guarantees granted.

Digital evolution of services and continued product range development are on top of the strategic agenda of the Business and Corporate Banking Division. In 2018, a number of changes were introduced to the iBiznes24 system in response to customers' needs. They enhanced the security and automation of processes both from the customer's and the bank's perspective:

- The range of self-service features was expanded to include an option to generate electronic statements such as account confirmation, account balance, account turnover, general information about loans, information about garnishee orders.
- Companies using internet banking services were provided with an opportunity to set up a trusted profile without the need to visit an office or the bank's branch. This solution enables customers to attend to administrative matters remotely, using the same password and login as in the case of a bank account.
- To enhance system security and facilitate the approval of instructions, a mobile signature was implemented as one of the features of iBiznes24 mobile application.
- The secure file transfer functionality was expanded to include authentication by means of a token, a text message or a mobile signature.
- Customers were offered an option to submit an insurance policy for an asset used as security for a business loan, along with evidence of payment of insurance premiums, via internet banking services.
- The bank launched Santander One Pay – instant payments in GBP to beneficiaries in the UK holding accounts in the Santander Group's bank.
- Changes to the mobile application:
  - ✓ faceID – an option to log into iBiznes24 mobile on the selected iOS devices which support face recognition;
  - ✓ fingerprint – an option to log into iBiznes24 mobile on the selected Android devices;
  - ✓ card module – customers can manage payment card parameters, e.g. change the card status (activate, block or cancel), change PIN, enable cash withdrawals abroad.
- Mandatory projects:
  - ✓ GDPR – system modifications in accordance with the GDPR requirements (limited scope of personal data, consents for contact for marketing purposes);
  - ✓ split payment – processing VAT payments in line with split payment regulations.

## 1.3. Corporate and Investment Banking Division

### Strategy

The ambition of Santander Bank Polska S.A. is to become a bank of choice for the largest corporate customers with an unparalleled investment offering. To that end, the Corporate and Investment Banking Division puts customers at the heart of its business, trying to suit their needs and enhance their positive experience, while focusing on service quality, market position and staff development. Service quality is continually improved through the customisation, digitalisation and diversification of products and services. The market position is strengthened through business growth, whereas staff professionalism is supported by training programmes and development in accordance with the Group's values.

In 2018, as part of enhancing customer experience, the Division took the following measures:

- improved and developed the features of the Kantor Santander currency exchange platform regarded as best practice model at the Santander Group level in terms of IT, marketing, CRM, product range and incentive scheme;
- launched an extensive marketing campaign to promote the Kantor Santander platform;
- developed new products in the area of securities and derivatives, which will be gradually implemented over the next three years;
- extended the range of options as regards underwriting services;
- expanded the range of transactional banking solutions, particularly in the area of cash management and solutions for financial institutions.

### Main directions

In 2018, the Corporate and Investment Banking Division (CIB) continued to provide an end-to-end support to the largest corporate customers of Santander Bank Polska S.A. The active CIB customer base includes nearly 250 of the largest companies and groups in Poland (allocated to that segment based on the turnover) representing all economic sectors.

The Division had a comprehensive proposal covering a wide range of products and services, including transactional banking, working capital, short-, mid- and long-term financing, guarantees, M&A solutions, share issues, liquidity management and custodian services. It conducted the bank's business on financial markets and provided specialist financial products (including treasury and capital market instruments).

The CIB Division leveraged opportunities from the global presence of Santander Group and rendered services to corporations within international Corporate and Investment Banking structures and cooperated with several Santander Group units on the issue of bonds, sale of Polish bonds to foreign investors or trade in Latin American bonds in Poland.

To ensure top quality of services, the Corporate and Investment Banking Division took extensive measures focused on:

- Tailor-made solutions:
  - ✓ A solution enabling instant ordering and settlement of banking operations and maintenance of dedicated VAT accounts for customers of one of the largest US financial institutions;
  - ✓ SCIB Debt Advisory: advice on the optimum funding structure and access to debt financing as well as comprehensive support in the credit rating process and communication with rating agencies;
- Innovations:
  - ✓ Implementation of Cash Nexus, i.e. a simple and fast communication tool for international companies offering a complete set of solutions that provide local transactional services via one global entry point;
  - ✓ Development of Kantor Santander currency exchange platform, a platform which generated a 25% YoY growth;

The Division strengthened its market position and was ranked:

- ✓ First in the capital market in terms of the value of shares and bonds issued;
- ✓ Third in the M&A advisory market in terms of the volume of transactions;
- ✓ Top in terms of supply chain finance: 1st position in the category of confirming and reverse factoring and 3rd position in the category of factoring.

In 2018, the Division continued to develop staff competencies, including as part of the new Continental Europe structure, which created new opportunities in terms of global training solutions. Furthermore, the Division optimised its income and balance sheet structure through the growth of fee and commission income and sale of the selected credit portfolios.

The Division implemented new regulations (MiFID II, FRTB, PRIIPs, IFRS 9, EMIR, GDPR) in cooperation with other organisational units. In 2019, the Division plans to continue the activities in the above-mentioned areas and optimise capital through development of syndicated lending, distribution of bank assets and growth of non-interest business.

## Performance of selected areas

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

Unit	Focus areas in 2018
<b>Credit Markets Department</b>	<ul style="list-style-type: none"> <li>The Department provided funding towards medium- and long-term investment projects delivered by CIB customers, through loans and corporate bonds issues, both single-handedly and in cooperation with other units. It closed several financing deals with companies from economically-important sectors such as the property, services, energy, food, construction, technology, TMT, transport or chemical sectors.</li> <li>The Department acted as the sole lead arranger and book runner with respect to the issue of eurobonds by Santander Bank Polska S.A. with the nominal value of EUR 500m.</li> <li>It optimised its balance sheet position through the sale of selected credit exposures and offered rating advice.</li> </ul>
<b>Capital Markets Department</b>	<ul style="list-style-type: none"> <li>The Department provided analytical and advisory services to customers and was engaged as a financial/transactional advisor for companies from the biotechnology, finance, food, property, industry and healthcare sectors.</li> <li>Thanks to the above transactions, Santander Bank Polska S.A. was ranked first in the capital market in 2018 in terms of the value of trading.</li> </ul>
<b>Global Transactional Banking Department</b>	<ul style="list-style-type: none"> <li>The Department closed a number of deals in relation to financing, guarantees and supply chain finance with companies from the services, household appliances, gas, retail, technology, railway, transport, electronic, energy, clothing, production, mining, finance and automotive sectors.</li> <li>Owing to the efforts taken by the Department, Santander Bank Polska S.A. joined the Santander Group banks offering their customers access to Santander Cash Nexus, a global communication platform which makes it possible to send transfers and receive account statements through one standardised communication channel.</li> <li>As regards cash management, it focused on the development of solutions for banks and financial institutions, primarily based on instant payments.</li> <li>In cooperation with one of the world's largest US banks, the Department designed a solution enabling instant ordering and settlement of banking operations and maintenance of dedicated VAT accounts.</li> </ul>
<b>Treasury Services Department</b>	<ul style="list-style-type: none"> <li>The Department continued a number of projects aimed at ensuring excellent customer service, such as: <ul style="list-style-type: none"> <li>✓ development of an innovative education tool for corporate and SME customers;</li> <li>✓ further development of distribution channels for treasury products (such as the Kantor Santander currency exchange platform) in order to ensure higher level of digitalisation and penetration of customer base and to achieve competitive advantage.</li> </ul> </li> <li>It launched cooperation with Continental Europe bankers as part of Santander Group structures to gain access to new markets.</li> <li>A strong focus was placed on development of investment products for business, corporate and retail customers in cooperation with the Private Banking segment.</li> <li>The Department completed the onboarding of customers of Deutsche Bank Polska S.A., providing them with best-possible services.</li> </ul>
<b>Financial Market Transactions Department</b>	<ul style="list-style-type: none"> <li>The Department proceeded with measures taken to expand the portfolio of global business customers, including: <ul style="list-style-type: none"> <li>✓ Cooperation with a London branch of Santander Corporate and Investment Banking.</li> <li>✓ Organisation of a roadshow for key Asian asset managers with exposure in PLN (Tokyo, Seoul and Singapore).</li> </ul> </li> <li>It leveraged the new features of the global foreign exchange platform and became one of the leaders of the global electronic trading platforms for Polish treasury bonds.</li> <li>It acted as an intermediary in relation to the sale of products and services offered by the bank and Santander Group in Poland (including government bonds issued by peripheral Eurozone states and South American countries).</li> </ul>
<b>Institutional Sales Department</b>	<ul style="list-style-type: none"> <li>The Department focused on further development of systems to automate processes connected with brokerage services offered to business customers.</li> <li>It continued works in relation to a new product offering new investment opportunities both in Poland and abroad.</li> </ul>

#### Stock Market Analysis Department

- The Department made more than 150 recommendations regarding listed companies (several of which were prepared for the first time) and reports related to investment and pension funds as well as performance of stock market indexes. It organised a series of conferences which were very popular among institutional investors, such as the 2018 Annual Financial Sector CEO/CFO Conference, 2018 Annual Utilities/Oil & Gas/Metal & Mining Conference and 2018 Construction Sector Investor Day.

## Key transactions made by the Corporate and Investment Banking Division

- The bank maintains a leadership position in the banking sector in such areas as: public offerings, bond issue, arrangement of finance and supply chain finance.
- The largest deals closed by the Corporate and Investment Banking Division in 2018 were as follows:
  - ✓ Two largest transactions in the capital market this year
  - ✓ Intermediation in the tender for shares of a company from the food sector
  - ✓ Secondary offering of shares of a company from the healthcare sector
  - ✓ New issues of shares of companies from the biotechnology and finance sectors and private placement of shares of a biotechnology company in the US
  - ✓ Sale of stake in a company from the financial sector as part of the accelerated book building
  - ✓ First issue of eurobonds of EUR 500m for Santander Bank Polska S.A., with the Division acting as the sole arranger and book runner
  - ✓ Issue of bonds in the Polish market for customers from the construction and technology sectors
  - ✓ The role of the global coordinator and underwriter in relation to changes in existing financing and underwriting of a syndicated facility for a TMT customer
  - ✓ Refinancing of a loan for a customer operating in the transport, TMT and chemical sectors (including interest rate swap)
  - ✓ Property finance for a private equity investor
  - ✓ Participation in syndicated finance for customers from the property, services and energy sectors
  - ✓ Financing the acquisition of a company from the food sector
  - ✓ Significant loan agreements signed with customers from the railway, mining, finance, services and household appliances sectors
  - ✓ Guarantees for companies from the technology, oil and gas and railway sectors, and a guarantee line for a customer from the transport sector
  - ✓ Supply chain finance for companies from the electronic, energy, clothing, production, automotive and retail sectors
  - ✓ Optimisation of the balance sheet position through the sale of selected credit exposures
  - ✓ Rating advice for a customer from the energy sector.

## Factoring business

In 2018, the receivables purchased by BZ WBK Faktor came in at PLN 27.3bn, up 16.8 YoY, which gave the company a market share of 11,2% and third position in the ranking of members of the Polish Association of Factoring Companies.

As at the end of December 2018, the company's credit exposure was PLN 5.1bn, higher by 21.2% YoY.

## 2. Business Development of Santander Consumer Bank Group

### Business profile

Santander Consumer Bank S.A. is a financial institution with many years of experience and a strong position in the consumer finance sector, specialising in provision of credit facilities to households and businesses, mainly car dealers and importers.

Its lending business is based on cash loans, instalment loans, car loans, business loans and credit cards. Retail and business deposits and insurance products are also important elements of the bank's product range.

The bank's offer is supplemented with car finance through lease facilities provided by Santander Consumer Multirent Sp. z o.o., a wholly-owned subsidiary of Santander Consumer Bank S.A., and through lease and factoring solutions offered by PSA Finance Polska Sp. z o.o., in which Santander Consumer Bank S.A. holds a 50% stake.

In addition, PSA Consumer Finance Polska Sp. z o.o., a subsidiary of PSA Finance Polska Sp. z o.o. which is indirectly 50% owned by the bank, provides consumer finance solutions to support car sales.

Other entities controlled by Santander Consumer Bank S.A. are: Santander Consumer Finance Sp. z o.o. (investment of cash surpluses and cooperation with Santander Bank Polska S.A. and Warta S.A. in terms of financial intermediary services), and SC Poland Consumer 15-1 Sp. z o.o. and SC Poland Consumer 16-1 Sp. z o.o. (SPVs set up for the purpose of securitisation transactions).

## Strategic directions

### Strategy

The key strategic goal of Santander Consumer Bank S.A. for 2018–2020 is to strengthen the position and image of the bank as an innovative, secure and customer-friendly financial institution with a strong capital base as well as a structure and corporate culture harmonised with Santander Group and a leading position in the consumer finance market.

The strategy of Santander Consumer Bank S.A. in key areas can be summarised as follows:

#### Car finance

- Improve the range of products and services and achieve dynamic growth of the lease business
- Ensure stable growth in the volume of new car finance by increasing the number of active dealers
- Achieve a dynamic growth in the volume of second hand car finance through remote distribution channels
- Acquire new partners and continue the cooperation with PSA companies

#### Consumer finance

- Maintain high volume of cash loans and expand the range of products and services for new customer groups
- Ensure a stable volume of instalment loans, while reducing the share of sales in lower profitability channels
- Develop online sales of cash loans and instalment loans
- Increase sales of co-branded cards to new customers
- Develop mobile payments and e-commerce solutions
- Enter the DIY sector with the instalment loan proposition
- Develop digital business

#### Sources of funding

- Ensure a stable deposit base
- Finance working capital requirements through the issue of own securities and securitisation
- Long-term CHF funding
- Ensure a diversified structure of funding
- Maintain LCR > 100%

#### IT and operations

- Provide IT support for development of distribution channels, in particular remote ones
- Develop infrastructure and mobile technologies
- Optimise and streamline processes

#### Risk, cost and financial management and other areas

- Maintain stable risk level, including steady non-performing loans ratio and high provision coverage ratio
- Achieve operational excellence: optimise branch structure, review the cost base in terms of possible improvements, review the scope of management
- Deliver the digitalisation project in the following areas: DIGI business, DIGI process, paperless bank
- Monitor key profitability and growth indicators
- Maintain secure capital position in line with the CRR and regulatory requirements

## Delivery of the strategy

The section below summarises the delivery of business objectives for 2018:

- Reinforcement of business position and image of Santander Consumer Bank Group as the leading institution in the consumer finance market. In H2 2018, the bank was ranked:
  - ✓ 1st in the hire purchase market;
  - ✓ 7th in terms of growth in the number of credit cards;
  - ✓ 4th in the cash loans market;
  - ✓ 3rd in the car finance market.
- Maintenance of strong sales of high-margin consumer loans (10% YoY rise in cash loans and 6% YoY rise in credit cards) and increase in the volume of car finance with a growing share of lease solutions (+56% YoY).
- Digitalisation of business:
  - ✓ Higher sales in remote channels: e-commerce instalment loans (+38% YoY) and eCL (+68% YoY)
  - ✓ 209 thousand active users of internet banking (+59% YoY)
- 22% of instalment loan agreements signed using the Quicksign electronic signature
- One of the best customer satisfaction ratios in the market (NPS=42)
- Diversification and increase in stable sources of funding along with optimisation of cost of financing in an environment of low interest rates and a changing regulatory regime. This was achieved by increasing the balance of the most stable sources of funding such as long-term deposits and mid- and long-term bonds issued as part of the existing issuance programme. The bank was also active in the corporate deposit market, maintaining a stable level of financing from this source. FX funding based on repo transactions remained broadly flat. In addition, the bank raised a subordinated loan with the Group to improve its capital ratios.
- Stable risk level and high provision coverage ratio.
- Stable level of operating costs (excluding obligatory costs such as a banking tax) and optimised cost base: the most cost-effective bank in the Polish banking sector;
- Solid capital position and dividend payout.
- Projects in progress:
  - ✓ Digitalisation of car finance
  - ✓ Launch of Full Service Leasing and an unsecured car loan
  - ✓ Start of IT area transformation
  - ✓ Implementation of the Agile methodology

## Key development directions

Area	Measures taken in 2018	Changes in the product range
<b>Hire purchase</b>	<ul style="list-style-type: none"> <li>• Pursuant to the strategy in place, Santander Consumer Bank S.A. focused on strengthening its leadership position in the hire purchase market by:                             <ul style="list-style-type: none"> <li>✓ maintaining a stable share in traditional sales</li> <li>✓ growing online sales</li> <li>✓ identifying new sales growth opportunities and maintaining profitability of collaboration with trade partners</li> </ul> </li> <li>• The bank continued its customer acquisition strategy based on installment loans and credit cards, maximising sales opportunities by cross-selling and up-selling.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in the maximum loan amount for existing customers.</li> <li>• Implementation of a paperless process in relation to instalment loans and co-branded credit cards in cooperation with trade partners</li> </ul>

Area	Measures taken in 2018	Changes in the product range
Cash loans	<ul style="list-style-type: none"> <li>The bank pursued the policy aimed at maximisation of customer relationships and optimisation of a product range.</li> <li>Intensified efforts were taken during the year to deliver key product-related projects: online sale of cash loans and development of a mobile application.</li> <li>The NPS (Net Promoter Score) survey gave satisfactory results (above the market average), which proved that the product and sales strategy was effective.</li> </ul>	<ul style="list-style-type: none"> <li>Increase in the maximum loan amount for existing customers.</li> <li>Extension of the maximum cash loan tenor from 60 months to 72 months.</li> </ul>
Car finance	<ul style="list-style-type: none"> <li>The bank focuses on the SME market, while leveraging positive market trends. It also takes measures to ensure stable sales to individuals.</li> <li>The above course of action is based on business trends indicating an increase in lease and CFM markets and low interest rate environment bending customers' preference to cash loans rather than car loans.</li> </ul>	<ul style="list-style-type: none"> <li>Further development of the Full Service Leasing, a product offering additional benefits such as car service by approved repairers and full motor insurance.</li> </ul>

## Core business portfolios

### Loans and advances to customers

As at 31 December 2018, net loans and advances granted by SCB Group amounted to PLN 15.8bn and were 8.5% higher YoY due to growth in cash loans, credit cards and leases of new cars.

- Consumer loan sales increased by 11.2% YoY due to a marketing campaign and effective cooperation with existing customers (cross-selling of cash loans and credit cards) and retail networks (household appliances, furniture and DIY).
- An increase of 23.4% YoY was also reported in the personal car finance segment. Growth of lease receivables was attributed to market trends and a competitive product range.

### Deposits from customers

As at 31 December 2018, deposits from customers of SCB Group totalled PLN 8.9bn and increased by 8.8% YoY.

- The balance of deposits from retail customers was higher due to an attractive interest rate for tenors above 12 months. Given a large share of 24- and 36-month deposits maturing the second half of 2018, the bank monitored their maturity and renewability on an ongoing basis.
- The balance of corporate deposits was broadly flat, whereas the balance of retail deposits increased along with a slight reduction in costs.
- The range of retail deposits was expanded to include online deposits which may be opened without assistance of the Contact Centre.

Liabilities in respect of debt securities increased by 6.6% YoY to PLN 4.2bn.

## Other significant events

The section below summarises significant corporate events of Santander Consumer Bank Group in 2018:

- In response to challenges of modern banking, the Strategy, Innovation and Development Division was set up in Santander Consumer Bank S.A. with the following responsibilities: strategic support, search for market innovations, cooperation with universities and fintechs, management of projects and processes, mobile banking and digitalisation.
- At the end of Q2 2018, Santander Consumer Bank S.A. was granted a subordinated loan of PLN 200m by its shareholders: Santander Consumer Finance S.A. and Santander Bank Polska S.A. (each having an equal share in the loan) to improve its capital ratios. In July 2018, SCB S.A. received a consent from the KNF to allocate PLN 100m of the subordinated loan (and another PLN 100m in August 2018) to Tier 2 capital, which significantly improved capital ratios.
- In August, the bank signed an annex to the agreement on securitisation of SC Poland Consumer 16-1 Sp. z o.o., whereby the non-amortisation period was extended by six months to March 2019.
- In September 2018, the bank signed an agreement with the European Investment Bank under which a loan of EUR 50m was granted to finance the activities of small and medium companies. The tranches will be disbursed in PLN.

- In 2018, Santander Consumer Bank S.A. issued securities of PLN 451m with maturity of three to four years. The funds raised were allocated to finance the bank's working capital needs in accordance with the strategy in place.
- Santander Consumer Multirent sp. z o.o., the bank's subsidiary, signed an annex to the agreement with Pekao S.A. to renew the loan of PLN 100m maturing in Q3 2018 for the next year (until August 2019). Furthermore, Santander Consumer Multirent sp. z o.o. drew down funding granted by Santander Consumer Finance S.A. for the average period of 15 months to finance working capital needs.
- In June 2018, Santander Consumer Bank S.A. paid a dividend of PLN 433m.
- In 2018, Santander Consumer Bank S.A. sold the written-off portfolio of cash loans, instalment loans, credit cards, car loans and mortgage loans of PLN 761.1m in total.
- In the reporting period, Santander Consumer Bank S.A. extended cooperation with four key partners from the household appliances and furniture sectors, reinforcing its leadership position in the consumer loans market.

## Distribution network of Santander Consumer Bank S.A.

As at 31 December 2018, Santander Consumer Bank S.A. sold its products through the following distribution channels:

- ✓ an own network of 152 branches and 170 franchise outlets which offered cash loans, credit cards and retail deposits;
- ✓ a structure for mobile sales of car loans and lease facilities;
- ✓ a structure for mobile sales of corporate deposits;
- ✓ remote channels, including a call centre and the Internet used to sell cash loans, credit cards and instalment loans;
- ✓ a network of partners offering the bank's car loans and lease facilities (707 partners: car dealers, second-hand car dealers and intermediaries) as well as instalment loans and credit cards (7,504 partners in retail networks and stores);
- ✓ a remote channel for car loans.

The number of SCB S.A. customers using electronic and mobile banking services was 209.1k as at 31 December 2018 (+59% YoY).

## Awards, recognitions and positions in rankings

In 2018, Santander Consumer Bank S.A. received the following accolades:

- ✓ 1st place in the Best Bank 2018 Awards organised by *Gazeta Bankowa*, in the category: Small and Medium Commercial Banks (June 2018);
- ✓ 1st place in the Banking Stars 2018 Awards organised by *Dziennik Gazeta Prawna* in the category: Specialist Banks (June 2018);
- ✓ 2nd place for Turbocard (Turbokarta) in the Golden Banker credit card ranking (April 2018);
- ✓ Service Quality Star 2018 awarded by VSC Group based on customers' feedback;
- ✓ Top Employer Poland 2018 awarded by Top Employers Institute on the basis of an audit and independent survey;
- ✓ 1st place for the Master Cash Loan (Mistrzowski Kredyt Gotówkowy) in the cash loan ranking published by *Bankier.pl* (January and February 2018);
- ✓ 1st place for the Master Cash Loan (Mistrzowski Kredyt Gotówkowy) in the cash loan ranking published by *Comperia.pl* (March and April 2018);
- ✓ 1st place for the Master Cash Loan (Mistrzowski Kredyt Gotówkowy) in the cash loan ranking published by *eBroker.pl* (May and June 2018).
- ✓ Accolade for the Partner of the Run for New Life Partner granted during the Second Life Transplantology Awards.

## X. Organisational and Infrastructure Development

### 1. Rebranding

#### Scope of rebranding changes

On 7 September 2018, upon registration in the National Court Register, Bank Zachodni WBK S.A. changed its name to Santander Bank Polska S.A. and moved its registered office from Wrocław to Warsaw (al. Jana Pawła II 17, 00-854 Warszawa). Together with the change of the name, the bank introduced a new logo, which is shared with all the markets where Santander Group operates.

On 7 September 2018, the subsidiaries and associates of the bank, which had “BZ WBK” in their names, were also renamed accordingly.

#### Former and new names of entities/ organisational units and electronic banking services:

Before rebranding	After rebranding
	
<b>Bank Zachodni WBK S.A.</b>	<b>Santander Bank Polska S.A.</b>
<a href="http://www.bzwbk.pl">www.bzwbk.pl</a>	<a href="http://www.santander.pl">www.santander.pl</a>
BZWBK24	Santander24
BZWBK24 internet	Santander internet
BZWBK24 mobile	Santander mobile
iBiznes24	iBiznes24
BZWBK24 Mini Firma	Mini Firma
BZWBK24 Moja Firma plus	Moja Firma plus
<a href="mailto:kontakt@bzwbk.pl">kontakt@bzwbk.pl</a>	<a href="mailto:kontakt@santander.pl">kontakt@santander.pl</a>
BZ WBK Leasing S.A.	Santander Leasing S.A.
BZ WBK Finanse Sp. z o.o.	Santander Finanse Sp. z o.o.
BZ WBK Inwestycje Sp. z o.o.	Santander Inwestycje Sp. z o.o.
BZ WBK Faktor Sp. z o.o.	Santander Factoring Sp. z o.o.
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	Santander Towarzystwo Funduszy Inwestycyjnych S.A.
BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Santander Aviva Towarzystwo Ubezpieczeń S.A.
BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A.	Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A.
Dom Maklerski BZ WBK	Santander Brokerage Poland
Inwestor mobile (mobile application)	Inwestor mobile (mobile application)

A new corporate identity was designed in relation to the new brand. On 8-9 September 2018, the signage of branches, partner outlets and ATMs was changed. The names of certain documents and products were modified, along with the forms, business cards, stamps and advertising and information materials for customers. The online and mobile banking also acquired new looks and names.

Customers were not required to do anything in connection with the change of the bank's name, logo and registered office. Agreements signed before the registration of the change in the National Court Register remained in full force and effect. Likewise, bank account numbers, internet banking passwords and PIN codes remained unchanged, while cards with the BZ WBK logo are active until their expiry dates.

## Rationale for rebranding

The change of the name to Santander Bank Polska S.A. is a natural consequence of the bank's being a member, since 2011, of the global Santander Group, one of the strongest and best-recognised bank brands in Europe and worldwide. In addition, it dovetails with the global project launched in late March 2018 to refresh the Santander brand in all geographies of the Group. The new brand image is more modern and better reflects digital transformation as one of the pillars of the Group's global strategy. It also stresses the organisation's stability and over 160 years of history, along with global reach and experience combined with strong local impact. The strength and reliability of the global Santander name should effectively support the strategy of creating the best bank for customers, consistent with the idea of the "Bank As You Want It". In line with the new brand, Santander Bank Polska S.A. intends to capitalise even more on being part of Santander Group to offer more value to its customers in Poland.

## 2. Acquisition of a demerged part of Deutsche Bank Polska S.A.

### Contractual arrangements regarding the subject and terms of the transaction

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

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

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

#### Key stages of the demerger:

- Before the demerger: purchase of approx. 10% of shares in Deutsche Bank Polska S.A. from Deutsche Bank AG, representing 10% of votes at the General Meeting of Shareholders of Deutsche Bank Polska S.A.
- Transfer of the demerged assets of Deutsche Bank Polska S.A. to Santander Bank Polska S.A. upon the registration of the increase in the bank's share capital through the issuance of demerger shares allotted to Deutsche Bank AG.
- Reduction in the share capital of Deutsche Bank Polska S.A. by way of cancellation of all shares of that bank held by Santander Bank Polska S.A.

#### Conditions of the transaction:

- Preliminary purchase price was set at PLN 1 289 799 k (including DB Securities)
- Form of payments:
  - ✓ 20% of a purchase price in cash as a payment for purchased shares.
  - ✓ 80% of the purchase price in the form of shares issued as part of a carve-out.
- Execution of the transaction was contingent on obtaining the regulatory consents from KNF i UOKiK.

### Transaction execution process

Taking into account economic and financial benefits for both banks and their shareholders, the Extraordinary General Meeting of 29 May 2018 approved of the carve-out of Deutsche Bank Polska S.A. in compliance with a demerger plan.

In early August 2018, Santander Bank Polska S.A. received all the regulatory consents from the KNF and the Office of Competition and Consumer Protection (UOKiK) which are necessary to acquire the demerged part of Deutsche Bank Polska S.A. Administrative decisions in this respect are presented in the section on corporate events for 2018 in Chapter I "Overview of Activities of Santander Bank Polska S.A. and its Group in 2018" (Section 5 "Corporate Events").

In connection with satisfaction of all conditions set out in the transaction agreement of 14 December 2017, on 8 October 2018 Santander Bank Polska S.A. purchased 274,444,939 ordinary registered shares of Deutsche Bank Polska S.A. from Deutsche Bank AG for the total amount of PLN 257,959,800. Pursuant to the agreement, the shares, having the nominal value of PLN 1 each and representing over 10% of the share capital of Deutsche Bank Polska S.A., were cancelled on the date a reduction in the share capital of Deutsche Bank Polska S.A. was entered in the National Court Register.

On 9 November 2018, Santander Bank Polska S.A. increased its share capital by PLN 27,548,240 to PLN 1,020,883,050 by issuing 2,754,824 series N shares (demerger shares) which were allotted to Deutsche Bank AG. Accordingly, the bank assumed all rights and obligations of Deutsche Bank Polska S.A. related to the demerged business.

## Integration process

In preparation for the operational merger, Santander Bank Polska S.A. used its own experience from the process of integration with Kredyt Bank S.A. and worked closely with Deutsche Bank Polska S.A. and DB Securities S.A. in accordance with the agreement of 23 February 2018, setting out a detailed action plan and responsibilities of individual parties.

The bank implemented the plan of communication with customers and employees of Deutsche Bank Polska S.A. and DB Securities S.A., ran an information campaign among employees of the acquired bank and started an induction process for new staff.

On 9 November 2018, the demerger of Deutsche Bank Polska S.A. was registered by the relevant court and the demerged part of the company was acquired by Santander Bank Polska S.A. The legal merger was completed in parallel with the rebranding and the operational integration (during the weekend of 10–11 November 2018), which included the migration of 400 k customers to the bank's IT platform, change of the signage of 112 branches and integration of 1,600 employees of Deutsche Bank Polska S.A.

The integration process was executed in such a way as to ensure that the bank would be fully operational upon incorporation of the demerged business of Deutsche Bank Polska S.A. and that customer service would not be affected. Customers of Deutsche Bank Polska S.A. acquired by Santander Bank Polska S.A. kept their account numbers and financial conditions unchanged. On the merger date, they gained full access to the bank's products and services, including innovative internet and mobile banking solutions.

Since the operational merger, the bank has been operating on the basis of a uniform business model, combining the elements of the demerged business model and strong competencies of Deutsche Bank Polska S.A. in the area of private banking, services for high net worth customers, cooperation with external distribution channels and credit products dedicated to selected market segments.

In 2019, the bank plans to further develop products and services for private banking customers and leverage the distribution model based on external channels used so far by Deutsche Bank Polska S.A.

## Business, operational and financial objectives of the transaction

The above-mentioned purchase transaction regarding an organised part of Deutsche Bank Polska S.A. is Santander Bank Polska's response to consolidation trends in the Polish banking sector.

As a result of acquiring the demerged business of Deutsche Bank Polska S.A. (with credit portfolio of PLN 18.8bn and customer deposits of PLN 13.0 bn), the bank strengthened its market position, achieved synergies and savings, and leveraged new competencies in relation to services for high net worth and private banking customers as well as management of the distribution model based on intermediaries.

The main business and operational objectives are as follows:

- ✓ extension of the range of products and services, improvement of customer service quality and enhancement of customer experience;
- ✓ growth of the customer base and business volumes;
- ✓ extension of the sales network;
- ✓ improvement of operational efficiency, capitalising on the potential of both banks, best practices of the acquiring bank and economies of scale;
- ✓ significant increase in value with limited impact on capital ratios.

Retail and business customers of the acquired bank have gained access to one of Poland's largest network of branches and innovative sales channels, as well as a rich offer of products and services. At the same time, the customers of Santander Bank Polska S.A. get access to a broad range of private banking products and an unparalleled network of financial agents, intermediaries and partners cooperating with the acquired bank.

The acquisition of the demerged business of Deutsche Bank Poland S.A. has also brought benefits to the shareholders of the acquiring bank such as increased stock liquidity (increase in free float as a result of the new issue). Within several years, the shareholders can expect a return on investment above the cost of equity and growth in earnings per share.

### 3. Organisational changes in the Business Support Centre

#### Vertical restructuring

On 16 May 2018, the Management Board of Santander Bank Polska S.A. was appointed for a new term of office, with a reduced number of members (from 12 to 9). Consequently, changes were introduced to the scope and division of responsibilities of this governance body, as a result of which the internal structures were streamlined and an increased focus was placed on customers and the market.

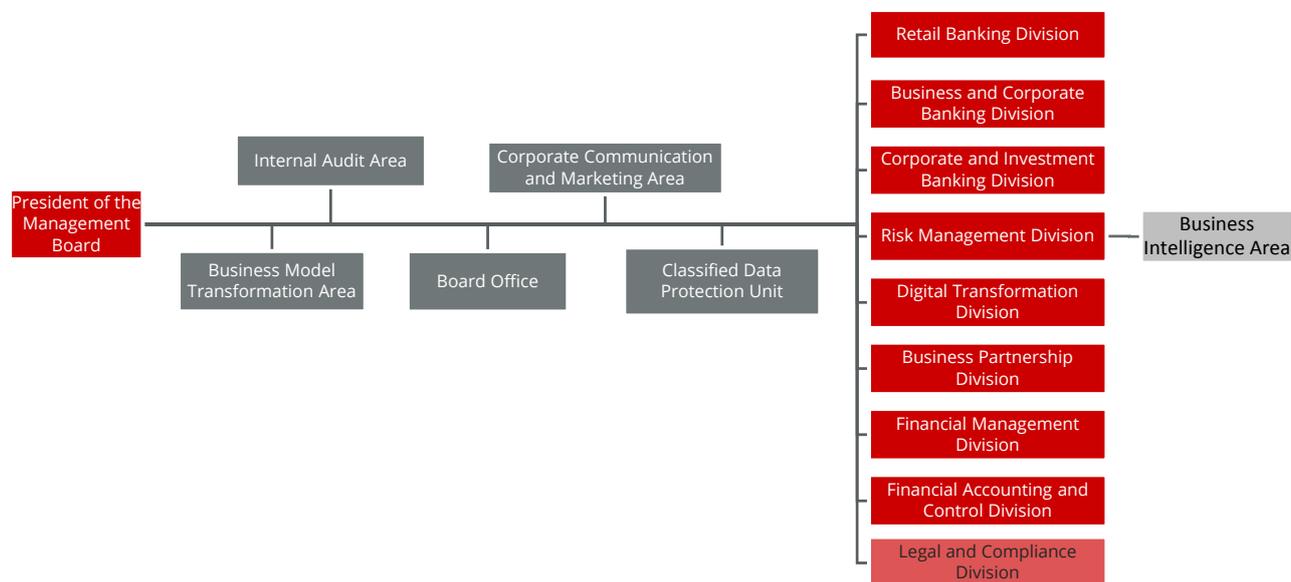
- The SME Banking Division was liquidated and services for SME 1 (micro companies) and SME 2 (larger entities) were taken over by the Retail Banking Division and the Business and Corporate Banking Division, respectively.
- Lease companies, which used to report to the Head of the SME Banking Division, now report to the Head of the Retail Banking Division.
- The Wealth Management Area, a unit covering the activities of Asset Management and Private Banking and operating outside the divisional structure, became a part of the Retail Banking Division and reports to the Head of the Division.
- The Legal and Compliance Division now reports to the President of the Management Board and includes relevant resources dedicated to competition and consumer protection.

The above structural changes in the Retail Banking Division and the Business and Corporate Banking Division helped the bank more effectively develop its products and services, and improve customer experience owing to more uniform expectations and profile of customers handled by the individual business divisions subject to the new segmentation:

- personal customers, private banking customers and SME 1 customers (Retail Banking Division)
- corporate customers, business customers and SME 2 customers (Business and Corporate Banking Division).

The Global Corporate Banking Division was renamed the Corporate and Investment Banking Division in accordance with changes in the corresponding structures of Santander Group at the global level.

#### ORGANISATIONAL UNITS IN THE BUSINESS SUPPORT CENTRE OF SANTANDER BANK POLSKA S.A.



#### Legend:

- divisions managed by Management Board members
- Legal and Compliance Division reporting to the President of the Management Board
- units operating outside the divisional structure and reporting to the President of the Management Board
- unit operating outside the divisional structure and reporting to the Management Board member in charge of the Risk Management Division

## Changes related to the implementation of the Agile methodology

In order to achieve a long-term success in a dynamically developing environment (notably in terms of technology) Santander Bank Polska S.A. began implementation of a new work model in accordance with the Agile methodology.

The fundamental concept of the new work model is:

- close cooperation within multidisciplinary teams that make joint decisions;
- flexibility and transparency;
- autonomy;
- more room for experiments on the way to achieve a common goal.

The Agile vision at Santander Bank Polska S.A. places an emphasis on attainment of the following goals:

<b>Minimised time-to-market</b> Quick decision-making, concepts tested in practice, operational autonomy	<b>Higher engagement of staff members</b> Fostering of the growth of entrepreneurship at Santander
<b>Improved satisfaction of customers</b> Focus on customer needs and organisational culture which fosters high quality of products and services	<b>Larger scope of responsibilities in business divisions</b> Clear objective, responsibility for results and proper allocation of staff members and budget
<b>Real emphasis on creating added value</b> Cooperation within cross-functional teams in order to reach a shared goal	<b>Improved operational effectiveness</b> Less red tape and fewer cases where process tasks are re-assigned

An essential element of the Agile transformation is to move away from complex hierarchical structures towards small interdisciplinary teams that are capable of quick and effective implementation of new solutions in accordance with customer needs. Team work in the Agile methodology is based on cooperation in short and repeatable production cycles, generation of “Minimum Viable Products” and visualisation of work processes.

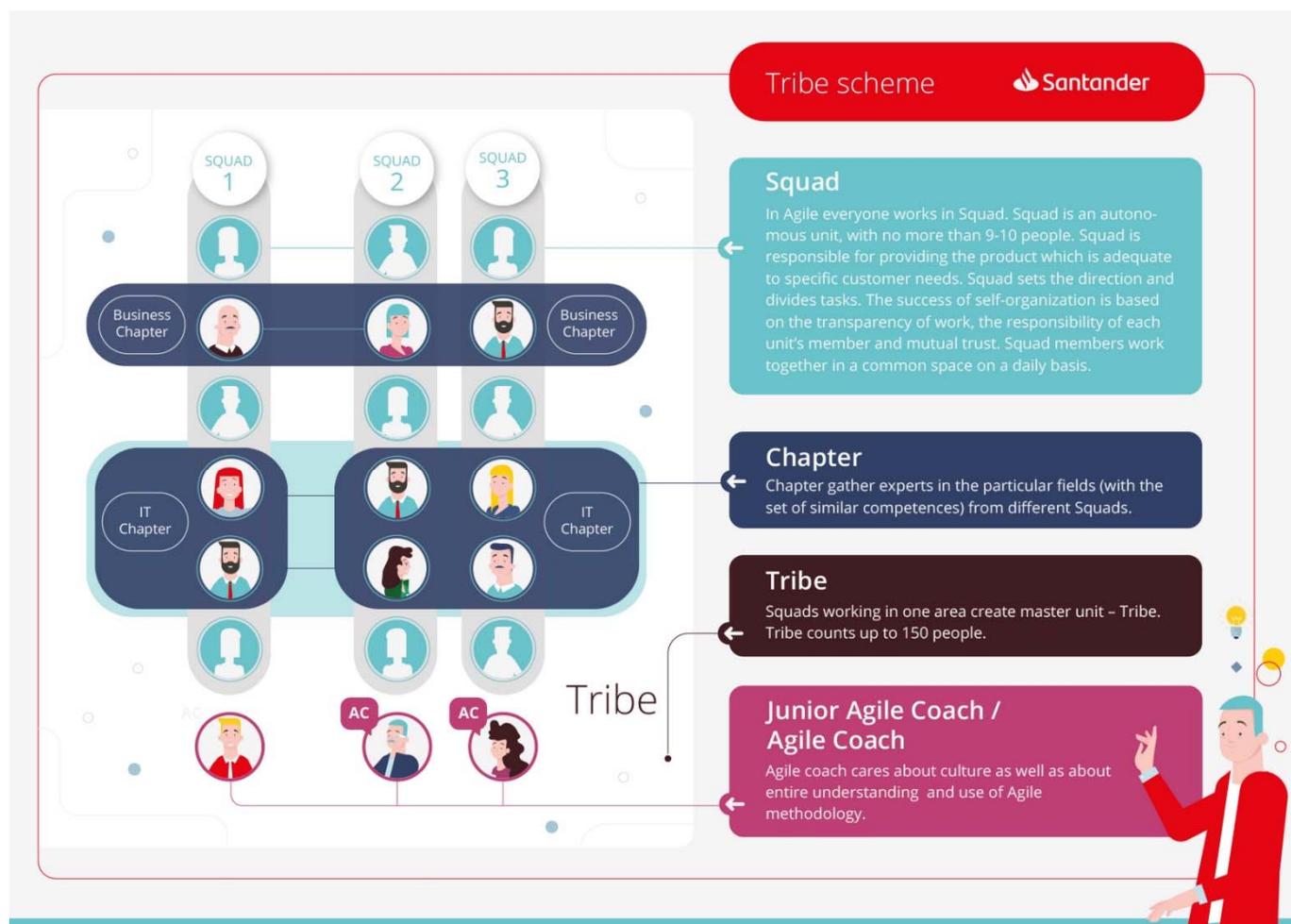
The Agile methodology is being implemented at the bank in three phases:

- The process started from the Retail Banking Division, where four Tribes were set up in H1 2018: Omnichannel, Individual Client, Risk Engineering and Consumer Finance.
- In H2 2018, the second and third phase of Agile implementation ran in parallel to set up further Tribes, including: Daily Banking, Home Solutions, Insurance, Small and Medium Enterprises, Business Intelligence and Wealth Management.

The Tribes presented below were established within the Retail Banking Division before the end of 2018. In addition, the Business Intelligence Tribe was set up outside the divisional structure.

Ultimately, the bank will apply different Agile models in different areas of the organisation, depending on the type of business, including cross-functional product and segment teams (covering all core business areas of the bank), “flow-to-work” (a pool of people who can be dynamically allocated to tasks as and when needed), or self-managed teams ensuring back and front office integration.

## AGILE MODEL IMPLEMENTED AT SANTANDER BANK POLSKA S.A.



## 4. Extension of Santander Bank Polska Group

### Intention to establish a mortgage bank by Santander Bank Polska S.A.

On 7 March 2018, the Management Board of Bank Zachodni WBK S.A. (presently Santander Bank Polska S.A.) adopted a resolution on the intention to set up a mortgage bank operating as BZ WBK Bank Hipoteczny S.A. (presently Santander Bank Hipoteczny S.A.) with its registered office in Warsaw (mortgage bank). On 8 March 2018, the bank's Supervisory Board gave consent to the establishment of the foregoing entity.

Santander Bank Polska S.A. will be the sole shareholder.

As part of its business profile, the mortgage bank will:

- ✓ handle mortgage loans for retail customers;
- ✓ purchase receivables arising from mortgage loans of retail customers to its own portfolio on the basis of a strategic cooperation with the bank;
- ✓ issue covered bonds.

The mortgage bank will ensure a stable and long-term source of funding for Santander Bank Polska's mortgage lending activity in the form of covered bonds. It will enhance the stability and security of Santander Bank Polska Group, and indirectly, the entire banking sector.

## Extension of the scope of controlled entities

In Q4 2018, Santander Leasing S.A. took control over Santander Leasing Poland Securitisation 01 Designated Company with its registered office in Dublin. This is a special purpose company incorporated on 30 August 2018 for the sole purpose of securitisation of lease and credit portfolio. The company does not have any capital or personal connections with Santander Leasing S.A., its parent entity under IFRS 10.7.

## 5. Development of Distribution Channels of Santander Bank Polska S.A.

### Retail business distribution strategy

In line with the retail business distribution strategy, in 2018 Santander Bank Polska S.A. was consistently moving towards an omni-channel bank with a wide network of branches and customer service points and the best digital banking.

The distribution strategy defines new digital channel roles, modern and spacious branch design, new profile of advisors and an optimum geographical coverage of the branch network. In the new distribution model, the advisor's approach to customers is more open and empathic to respond to their needs and expectations.

The growing role of digital channels as the main source of retail business is facilitated by the redefined role of branches, which focus on developing customer relations and providing customers with education and support with regard to the use of remote channels.

### Branch network

In 2018, Santander Bank Polska S.A. launched another 31 innovative branches, where advisors may provide service in modern and spacious areas. Branches are divided into several functional zones: the self-service zone (equipped with ATMs and CDMs) provides 24-hour access to money in the account; the waiting zone, the teller zone, meeting rooms and open meeting counters, where customers can use financial services in comfortable conditions, with the full support from bank advisors.

New Distribution Model Strategy Delivery in 2018



Together with modernisation of the branch network, the bank opened five customer acquisition stands in shopping centres and started the process of converting branches into partner outlets. Last year, 25 branches were converted into partner outlets, and the process will be continued in the following years.

At the same time, the bank is preparing the implementation of a new branch format. In Q1 2019, the bank is going to implement the first WorkCafe, a bank outlet combining co-working space and a café.

As at 31 December 2018, the branch network of Santander Bank Polska S.A. included 612 branches (576 branches at the end of 2017) and 123 partner outlets (109 outlets at the end of 2017). As a result of acquisition of an organised part of Deutsche Bank Polska S.A., the branch network was increased by 112 branches. Like the branches of Santander Bank Polska S.A., these branches will be covered by an optimisation process, with relocations, liquidations and transformation into partner outlets.



up for an account via personal customer profile. The bank also launched the sale of motor insurance and accounts with video verification, and offered an option to manage alerts and to unblock cards.

As at 31 December 2018, the number of digital customers, i.e. Santander24 users who at least once logged into the bank's electronic banking system, was 2.3 million (vs. 4.0 million customers with access to Santander24) and increased by 14.0% YoY. The number of mobile application users increased by 22.2% YoY to more than 1.3 million, including 357.8 thousand using only Santander mobile.

## Multichannel Communication Centre

In 2018, the Multichannel Communication Centre of Santander Bank Polska S.A. implemented new or modified processes, including end-to-end processes (E2E) enabling customers to buy products and services in remote channels. Customers may now apply for a loan up to PLN 100k, buy investment fund units or grant consent to incur a loan by a spouse over the phone. Furthermore, customers may sign up for motor insurance or switch their joint accounts to the Account As I Want It (Konto Jakiej Chce) by calling the Multichannel Communication Centre. A range of new customer instructions are now processed remotely: earlier renewal of a credit card, reposting of overpayment/ payment from a credit card account, disabling/ opting out of/ activating BLIK service, transfer of remuneration, set up/ modification/ revocation of a power of attorney to accounts; activation/ deactivation of a multi-currency package and a support for mobile authorisation. SME customers were given the option to buy/ temporarily block/ unblock a company card, change the company data and transfer limits (available to personal customers only).

<b>Santander Bank Polska S.A.</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Branches (location)	612	576
Partner Outlets	123	109
Corporate Banking Centres	12	12
Business Banking Centres	21	21
ATMs	858	948
CDMs	4	13
Dual Function Machines	900	771
Santander24 - registered customers (in thousands)	4 019	3 388
Santander24 - digital customers (in thousands) <sup>1)</sup>	2 345	2 056
Santander mobile - mobile customers (in thousands) <sup>2)</sup>	1 338	1 094
iBiznes24 - registered companies <sup>3)</sup> (in thousands)	17	15

1) Number of active users of Santander24 (digital customers) who at least once used the system in the last month of the reporting period.

2) Number of active users of the Santander mobile service.

3) Only the customers using iBiznes24 – an electronic platform for business customers (the customers having access to Moja Firma Plus and Mini Firma platforms are not included).

## 6. Development of Distribution Channels of Santander Consumer Bank S.A.

In 2018, Santander Consumer Bank S.A. took further measures to increase the effectiveness of the distribution network. The bank's customers also had access to steadily developed electronic and mobile banking services.

<b>Santander Consumer Bank</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Branches	152	159
Partner Outlets	170	153
Registered Electronic Banking Users (in thousands) <sup>1)</sup>	209	132

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

Aside from branches, franchise outlets and electronic channels, as at 31 December 2018, the distribution network of Santander Consumer Bank S.A. included:

- ✓ a mobile sales channel for car loans and corporate deposits;
- ✓ a remote channel for car loans;
- ✓ a network of external partners offering the bank's car loans (707) as well as instalment loans and credit cards (7,504).

## 7. IT Development

In 2018, the bank worked closely with Santander Group to share best practice in terms of IT architecture, work out new solutions to achieve cost synergies (e.g. Common Mobile Platform project) and effectiveness (e.g. Conversion Rate Optimisation project) and generate new sources of revenue through the transfer of technology within the Group (e.g. Asto project, Big Data/ Machine Learning projects).

The Technology Area actively supports the following three global digital initiatives:

- Big Data/ Machine Learning – development of models to optimise conversion in sales, anti-money laundering and debt collection processes, among other things;
- Optimisation of the sales funnel – improvement of conversion in online sales processes;
- Optimisation of the Multichannel Communication Centre – process streamlining based on new technologies.

Apart from the above-mentioned global digital initiatives, the bank participates in projects connected with Common Services such as:

- Common Mobile Platform – development of reusable mobile banking modules and design of the final mobile banking architecture;
- Common APIs – design of a standardised interface for banking services across Santander Group;
- Intelligent Document Processing – automation of document circulation;
- Virtual Assistant – development of AI-powered assistants that will be able to attend to customers or support bank staff in this respect;
- Authentication & Access – design of a technology for identification of customers and authentication of transactions, with a focus on biometric solutions.

The purpose of Common Services is to develop and transfer technology across Santander Group (including wider use of existing tried-and-tested local solutions) in accordance with the “build once, deploy many” approach.

Santander Bank Polska S.A. and Santander UK are running a joint project of a value-added services platform for SMEs (Asto) – the first solution of this kind in Poland, which is planned to be launched in late 2019.

Similarly to the previous years, significant resources were invested in 2018 to meet regulatory requirements. One of such initiatives was the implementation of Payment Services Directive 2 (PSD2), which imposes certain obligations on banks in relation to processing payments initiated by third party payment service providers and ensuring access to customers' account information. In order to meet the regulatory obligations, specifically the requirements of the Office of Competition and Consumer Protection (UOKiK), the bank implemented a durable medium solution, which enables the bank to communicate with customers via electronic channels and reduce the cost of customer correspondence.

In 2018, the bank took measures to design a new, multi-layer reference architecture based on the Resource-Oriented-Architecture approach, which is initially intended to be deployed in the systems dedicated to corporate customers and SMEs, and ultimately – in the entire bank.

Furthermore, DevOps methodology was used to automate the development and implementation of IT systems. In the long term, this methodology is going to be applied to all stages of the life cycle of software available at the bank.

The user authentication process based on the OpenID Connect solution was tested in preparations for its implementation across the bank.

## 8. Capital Expenditure

In 2018, Santander Bank Polska Group incurred PLN 581.2m worth of capital expenditure on delivery of ambitious strategic projects (PLN 414.2m in 2017). The highest spend was on projects related to the development and management of IT systems/ infrastructure/ equipment, acquisition and integration of a demerged part of Deutsche Bank Polska S.A., process digitalisation, risk management, development of internet, mobile and phone banking, and strategic transformation. Significant expenditure was also incurred in relation to rebranding, rationalisation and transformation of retail banking and Agile transformation.

The Digital Transformation Division made a considerable outlay on development of the consolidated infrastructure and the related software in response to growing needs connected with business projects. Furthermore, the bank continued the upgrade of hardware infrastructure (a process started in late 2017) and purchased new licences to develop the Ab Initio environment.

In view of an increased workload resulting from an organic growth in the number of transactions and customers, in 2018 the server platform supporting the bank's central system was replaced to increase its capacity. Significant investments were also made into maintaining an appropriate level of IT security and ensuring satisfactory quality and continuity of operations within the entire IT environment.

The bank continued the digitalisation of sales and after-sales processes with respect to credit facilities, accounts, and investment and insurance products. It used the Robotic Process Automation (RPA) platform implemented last year to automate manual processes without the need for complex modification of IT systems. The automated processes include account closing, trade finance, mortgage loan disbursements/ repayments, cash loan repayments, complaints (cards, accounts and ATMs). Furthermore, the bank implemented a platform for agents and a CCS platform providing customers with a range of self-service solutions for arrears management. In May 2018, the Front End 2.0 platform was deployed along with a user-friendly and intuitive application environment which facilitates customer service. The OCR software was implemented to optimise document management and a durable medium solution was put in place to meet the requirements of the Office of Competition and Consumer Protection (UOKiK) regarding communication with customers via electronic channels.

The capital expenditure connected with acquisition and integration of an organised part of Deutsche Bank Polska S.A. included development of a migration engine (supporting the transfer of customers' data and products), delivery of business projects to close product gaps and modification of existing systems in view of an increased number of customers. Investments were also made into development of IT infrastructure (including software) and fit-out of 112 branches of Deutsche Bank Polska S.A. in line with the new branch model of Santander Bank Polska S.A.

In 2018, the bank implemented an Agile way of working to increase customer satisfaction and achieve a long-term success in a dynamically developing environment. The capital expenditure incurred in relation to the Agile transformation included implementation of the new organisational model and adaptation of the properties and office premises to the new work model.

Measures were continued in the reporting period to establish a mortgage bank as an independent entity.

In 2018, a range of initiatives were delivered in the risk management area with respect to strategic and mandatory projects including tools for calculation of capital requirements and advanced liquidity and interest risk measures, among other things.

Significant investments were also made into development of digital channels, extension of the range of mobile payments and upgrade of the functionality of electronic banking channels to enhance customer experience. Finally, the bank continued to replace the legacy ATM/CDM machines with recyclers (devices enabling withdrawal of cash that is previously deposited in a recycler by other customers) and develop, modernise and optimise the branch network (for more information see in section 6 "Development of Distribution Channels of Santander Bank Polska S.A.").

## XI. Financial Performance in 2018

### 1. Income Statement of Santander Bank Polska Group

Structure of Santander Bank Polska Group profit before tax

Condensed Consolidated Income Statement of Santander Bank Polska Group in PLN m (for analytical purposes)	2018	2017	YoY Change
<b>Total income</b>	<b>8 683,9</b>	<b>7 763,6</b>	<b>11,9%</b>
- Net interest income	5 742,4	5 276,9	8,8%
- Net fee & commission income	2 057,8	2 013,1	2,2%
- Gain on acquisition of enterprise	387,7	-	-
- Other income <sup>1)</sup>	496,0	473,6	4,7%
<b>Total costs</b>	<b>(3 769,0)</b>	<b>(3 372,4)</b>	<b>11,8%</b>
- Staff, general and administrative expenses	(3 242,8)	(2 939,4)	10,3%
- Depreciation/amortisation	(333,5)	(318,9)	4,6%
- Other operating expenses	(192,7)	(114,1)	68,9%
<b>Impairment losses on loans and advances</b>	<b>(1 085,1)</b>	<b>(690,5)</b>	<b>57,1%</b>
Profit/loss attributable to the entities accounted for using the equity method	62,7	58,3	7,5%
Tax on financial institutions	(466,3)	(423,8)	10,0%
<b>Consolidated profit before tax</b>	<b>3 426,2</b>	<b>3 335,2</b>	<b>2,7%</b>
Tax charges	(727,2)	(816,7)	-11,0%
<b>Net profit for the period</b>	<b>2 699,0</b>	<b>2 518,5</b>	<b>7,2%</b>
- <b>Net profit attributable to Santander Bank Polska shareholders</b>	<b>2 365,2</b>	<b>2 213,1</b>	<b>6,9%</b>
- Net profit attributable to non-controlling shareholders	333,8	305,4	9,3%

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

In 2018, Santander Bank Polska Group posted a profit before tax of PLN 3,426.2m, up 2.7% YoY. Profit attributable to the shareholders of Santander Bank Polska S.A. increased by 6.9% YoY to PLN 2,365.2m. Factors determining the profit included in particular:

- **Dynamic growth in income from the core business, including an increase of 8.8% YoY and 2.2% YoY in net interest income and net fee and commission income, respectively.**

The income from the Group's core business increased mainly on account of business volumes which grew both organically and as a result of the acquisition of selected portfolios of Deutsche Bank Polska S.A. on 9 November 2018 (excluding foreign currency mortgage loans). Both the value of the loan book and the value of deposits from customers grew significantly by 25.9% YoY and 34.2% YoY, respectively. The lending business, next to trade finance, also had a major impact on the increase in the Group's net fee and commission income.

- **Delivery of the Group's strategic projects, in particular rebranding and acquisition and integration of a demerged part of Deutsche Bank Polska S.A.**

The cost of rebranding amounted to PLN 66.4m, whereas the impact of the acquisition and integration of an organised part of Deutsche Bank Polska S.A. on the consolidated profit was manifold:

- ✓ PLN 108.9m – costs associated with the project of acquisition and legal and operational merger
- ✓ PLN 387.7m – gain from the acquisition of an organised part of the enterprise
- ✓ PLN 130.5m – increase in allowances in respect of loans and advances to customers of Deutsche Bank Polska S.A.

**• Increase in net impairment allowances**

Increase of 57.1% YoY in net impairment allowances as a combined effect of the following:

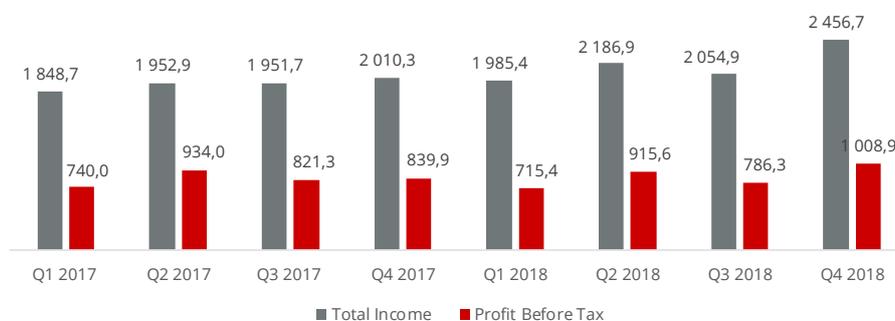
- ✓ recognition of a lower gain on the sale of matured receivables by PLN 199.6m in 2018 compared with 2017
- ✓ an additional allowance in respect of loans and advances to customers of Deutsche Bank Polska S.A.
- ✓ dynamic growth in the Group's credit portfolio and impact of the implementation of IFRS 9, update of parameters used for calculation of expected credit losses and zloty depreciation.

**• Increase in underlying total costs (excluding the impact of rebranding and acquisition)**

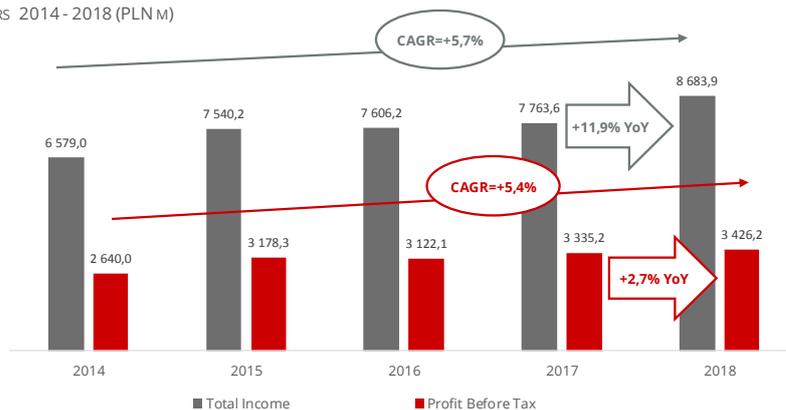
Excluding the two flagship projects, the underlying total costs of the Group were up 7.0% YoY, largely impacted by a 110.5% YoY increase in provisions for legal disputes and other assets recognised in other operating costs. The underlying staff and general expenses were up 4.9% YoY due to an increase in the Group's headcount following the acquisition of an organised part of Deutsche Bank Polska S.A., salary review, introduction of new bonus schemes for employees, implementation of IT projects supporting the digital transformation and strategic and operating programmes, purchase of equipment for a new branch model and the new Business Support Centre building in Wrocław, as well as a higher cost of third party services.

**• Increase of 10.0% in tax on financial institutions as a result of the growth in taxable assets.**

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



TOTAL INCOME AND PROFIT BEFORE TAX  
FOR THE YEARS 2014 - 2018 (PLN M)



## Comparability of periods

### Application of new IFRS

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- Pursuant to IFRS 9 Financial Instruments, on 1 January 2018, Santander Bank Polska Group changed the classification and measurement of financial instruments on the basis of a detailed analysis of its business models for managing financial assets and analysis of cash flows arising from existing agreements.
- The financial impact of the changed approach to classification and measurement of financial assets, allowances for expected credit losses and provisions for liabilities is presented in Note 2 "Basis of preparation of consolidated financial statements" in the "Consolidated Financial Statements of Santander Bank Polska Group for 2018". The value of other assets and liabilities has not changed significantly as a result of the implementation of IFRS 9.
- The Group elected to use an option for exemption of the obligation to restate comparative information for prior periods in relation to the changes arising from classification, measurement and impairment. Differences in the carrying amounts of financial assets and liabilities resulting from the application of IFRS 9 are reported in retained earnings for the previous years and in revaluation reserve as at 1 January 2018 (-PLN 254.5m).

### IFRS 9

- On 30 June 2018, the Group completed the analysis of a credit card portfolio in terms of contractual cash flows (resulting from the application of IFRS 9). As a result, it changed the classification and measurement of credit cards sold till 1 August 2016, whose contractual structure of interest rate was based on four times the NBP Lombard rate and the contractual clauses did not include a direct reference to the Civil Code in terms of the maximum statutory interest. The above-mentioned credit card portfolio has been measured at fair value and classified in the statement of financial position as "loans and advances to customers measured at fair value through profit or loss". The interest income from such instruments is presented in "interest-like income from assets measured at fair value through profit or loss". Santander Bank Polska Group ceased to recognise impairment allowances on such portfolio and the assessment of credit risk for such products is now an integral part of measurement at fair value. The amount resulting from the change in classification and measurement is recognised in profit for the current period instead of retained earnings as at 1 January 2018. The same approach was adopted in relation to the credit card portfolio of Santander Consumer Bank S.A.
  - As a result of the analysis, Santander Bank Polska Group reclassified the investments in preference shares of Visa Inc. from equity instruments to debt instruments. Due to the failure to meet the contractual cash flow test, the instruments were classified as measured at fair value through profit or loss. The cumulated change in the fair value and FX differences of PLN 23.1m arising from the accounting measurement and the corresponding deferred income tax of PLN 4.4m were transferred from the revaluation reserve to the retained earnings.
-

**Selected items affecting the comparability of periods in the income statement of Santander Bank Polska Group**

Type of impact	2018	2017
<b>Gain from the acquisition of an organised part of the enterprise</b>	<ul style="list-style-type: none"> <li>• PLN 387.7m – gain from the settlement of the acquisition of a demerged part of Deutsche Bank Polska S.A. (a surplus of the fair value of the acquired net assets over the purchase price)</li> </ul>	<ul style="list-style-type: none"> <li>• No acquisition of an enterprise or its organised part</li> </ul>
<b>Reclassification of convertible preference shares of Visa Inc.</b>	<ul style="list-style-type: none"> <li>• PLN 21.6m – impact of reclassification of shares of Visa Inc. from equity instruments measured at fair value through other comprehensive income to debt instruments measured at fair value through profit or loss</li> </ul>	<ul style="list-style-type: none"> <li>• Classification of the shares to the portfolio of available-for-sale equity instruments measured at fair value through other comprehensive income in accordance with IAS 39</li> </ul>
<b>Profit before tax on the sale of credit receivables</b>	<ul style="list-style-type: none"> <li>• The sale of credit receivables brought a loss of PLN 3.1m for Santander Bank Polska S.A. and a profit of PLN 27.7m for Santander Consumer Bank S.A.</li> </ul>	<ul style="list-style-type: none"> <li>• PLN 224.2m on account of the sale of credit receivables of Santander Bank Polska S.A. and Santander Consumer Bank S.A.</li> </ul>
<b>Dividend income</b>	<ul style="list-style-type: none"> <li>• PLN 100.1m, including a dividend of PLN 91.4m paid by Aviva Group companies from the portfolio of equity investments of Santander Bank Polska S.A.</li> </ul>	<ul style="list-style-type: none"> <li>• PLN 76.8m, including a dividend of PLN 68.6m paid by Aviva Group companies from the portfolio of equity investments of Santander Bank Polska S.A.</li> </ul>
<b>Gain on the sale or liquidation of fixed assets and assets held for sale</b>	<ul style="list-style-type: none"> <li>• PLN 51.4m – gain on the sale or liquidation of fixed assets and assets held for sale, including PLN 44.3m on account of the sale of real estate of Santander Bank Polska S.A. in Wrocław</li> </ul>	<ul style="list-style-type: none"> <li>• PLN 11.5m</li> </ul>
<b>Gains on the sale of equity instruments</b>	<ul style="list-style-type: none"> <li>• No such gains</li> </ul>	<ul style="list-style-type: none"> <li>• PLN 26.5m, including PLN 10.8m and PLN 13.5m on account of the sale of all shares of Polimex-Mostostal S.A. and PBG S.A. from the bank's portfolio of equity investments</li> </ul>
<b>Allowance in respect of loans and advances acquired along with an organised part of the enterprise</b>	<ul style="list-style-type: none"> <li>• PLN 130.5m</li> </ul>	<ul style="list-style-type: none"> <li>• No acquisition of an enterprise or its organised part</li> </ul>
<b>Costs related to the acquisition of an organised part of the enterprise</b>	<ul style="list-style-type: none"> <li>• PLN 108.9m – costs of the project of acquisition and integration of a demerged part of Deutsche Bank Polska S.A.</li> </ul>	<ul style="list-style-type: none"> <li>• PLN 14.1m</li> </ul>
<b>Costs of rebranding</b>	<ul style="list-style-type: none"> <li>• PLN 66.4m</li> </ul>	<ul style="list-style-type: none"> <li>• No such costs</li> </ul>
<b>Provisions raised and released and other income connected with legal disputes and other assets</b>	<ul style="list-style-type: none"> <li>• - PLN 61.8m – combined impact of legal disputes on the Group's financial performance for 2018 reflecting the sum of the provisions raised for legal disputes and other assets (recognised in other operating expenses) and the provisions released as well as other income (recognised in other operating income)</li> </ul>	<ul style="list-style-type: none"> <li>• PLN 8.0m</li> </ul>

Compared with the preliminary non-audited financial data for 2018 published by Santander Bank Polska S.A. as part of the Selected Financial Information of Santander Bank Polska S.A. for 2018, on 30 January 2018, the bank reclassified certain items of the consolidated income statement and the statement of financial position. The tables below summarise the reclassification changes and their impact on the financial statements, financial ratios and other analytical data contained in the Annual Report of Santander Bank Polska Group for 2018.

#### Summary of differences between the reports (in PLN m)

Type of classification	Item	Value according to the annual report for 2018	Value according to the selected financial information for 2018
Reclassification of business loans portfolio of PLN 1,088.4m (covered by the common business model) from loans and advances measured at fair value through other comprehensive income to loans and advances measured at amortised cost	Net loans and advances to customers measured at fair value through other comprehensive income	366,8	1 455,2
	Net loans and advances to customers measured at amortised cost	135 643,3	134 554,9
	Gross loans and advances to customers	141 844,7	141 845,4
Reclassification of interest income of PLN 4.6m on the foregoing loans and advances to customers	Interest income on assets measured at fair value through other comprehensive income	733,4	738,0
	Interest income on financial assets measured at amortised cost	6 345,1	6 340,5
	Net impairment allowances on loans and advances, incl.:	(1 085,1)	(1 137,7)
Reclassification of a change of PLN 52.6m in the fair value of loans and advances measured at fair value through profit or loss from net trading income and revaluation to net credit impairment allowances	- Allowances on loans and advances to customers (Stage 2)	5,0	4,0
	- Allowances on loans and advances to customers (Stage 3)	(1 029,9)	(1 020,9)
	- POCI	60,7	-
	Net trading income and revaluation	144,5	197,1

#### Impact of reclassification on the financial aggregates and ratios

Item	Value according to this annual report for 2018	Value according to the selected financial information for 2018
Total income	8 683,9	8 736,4
YoY increase in total income	11,9%	12,5%
Adjusted total income	8 296,1	8 348,7
YoY increase in adjusted total income	6,9%	7,5%
Other income	883,7	936,2
Other adjusted income	495,9	548,5
YoY increase in other adjusted income	4,7%	15,8%
Cost to income ratio	43,4%	43,1%
Adjusted cost to income ratio	43,3%	43,0%
Net interest income/ Total income	66,1%	65,7%
Net fee and commission income/ Total income	23,7%	23,6%
Cost of credit	0,86%	0,90%
NPL	4,10%	4,53%
Provision coverage ratio	56,74%	52,25%
Adjusted net impairment allowances on loans and advances	979,2	1 028,9
YoY increase in adjusted net impairment allowances on loans and advances	7,1%	12,5%

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

<b>Components of Santander Bank Polska Group Profit Before Tax in PLN m (by contributing entities)</b>	<b>2018</b>	<b>2017</b>	<b>YoY Change</b>
<b>Santander Bank Polska S.A.</b>	<b>2 658,1</b>	<b>2 515,3</b>	<b>5,7%</b>
<b>Subsidiary undertakings:</b>	<b>1 076,3</b>	<b>984,1</b>	<b>9,4%</b>
Santander Consumer Bank and its subsidiaries <sup>1)</sup>	764,1	823,3	-7,2%
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	234,6	82,1	185,7%
Santander Finanse Sp. z o.o. and its subsidiaries (Santander Leasing S.A., Santander Leasing Poland Securitisation 01, Santander Factoring Sp. z o.o., Santander F24 S.A.)	77,5	79,3	-2,3%
Other companies <sup>2)</sup>	0,1	(0,6)	-
<b>Equity method valuation</b>	<b>62,7</b>	<b>58,3</b>	<b>7,5%</b>
<b>Elimination of dividends received by Santander Bank Polska and consolidation adjustments</b>	<b>(370,9)</b>	<b>(222,2)</b>	<b>66,9%</b>
<b>Profit before tax</b>	<b>3 426,2</b>	<b>3 335,2</b>	<b>2,7%</b>

- 1) As at 31 December 2018, SCB Group comprised Santander Consumer Bank S.A. and the following entities: Santander Consumer Multirent Sp. z o.o., Santander Consumer Finanse Sp. z o.o., SC Poland Consumer 15-1 Sp. z o.o., SC Poland Consumer Finance 16-1 Sp. z o.o., PSA Finance Polska Sp. z o.o. and PSA Consumer Finance Polska Sp. z o.o. AKB Marketing Services Sp. z o.o. was liquidated and removed from the court register on 20 November 2017. The amounts provided above represent profit before tax of SCB Group (after intercompany and consolidation adjustments) for the periods indicated.
- 2) Other companies include Inwestycje Sp. z o.o. and Santander Securities S.A.

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

The unconsolidated profit before tax of Santander Bank Polska S.A. was PLN 2,658.1m for 2018, up 5.7% YoY. The respective components of the profit earned by the bank are presented in the section "Financial Performance of Santander Bank Polska S.A. in 2018" below.

### Subsidiaries

The subsidiaries consolidated by Santander Bank Polska S.A. reported an increase of 9.4% YoY in their total profit before tax as a result of a significant rise in profitability of Santander TFI S.A.

#### SCB Group

The contribution of Santander Consumer Bank Group to the consolidated profit before tax of Santander Bank Polska Group for 2018 was PLN 764,1m (after intercompany transactions and consolidation adjustments) and decreased by 7.2% YoY due to the following factors:

- An increase of 12.7% YoY in net interest income to PLN 1,513.2m, driven by steady growth of the credit portfolio and favourable changes in its structure (e.g. a bigger share of high-margin products such as cash loans and credit cards).
- Stable net fee and commission income of PLN 128.8m (-1.0% YoY) on account of an increase in net income from the growing credit card base, which set off a decrease in insurance fees.
- Increase of PLN 160.2m YoY in negative net impairment charges to PLN 271.0m resulting from non-recurring items in 2017 (extension of the recovery horizon to 60 months for all products with a positive impact on income statement) and higher provisions in 2018, mainly on account of higher value of loans and a growing credit portfolio.
- Decrease of 40.9% YoY in other operating income (i.e. non-interest and non-fee income) to PLN 43.2m due to lower net trading income and revaluation in the analysed period as well as a high base effect in the comparable period arising from the release of the provision for insurance business (PLN 22m) to other operating expenses.
- An increase of 6.0% YoY in total operating expenses to PLN 610.9m driven by outlays on modification and development of IT systems of Santander Consumer Bank S.A., rebranding costs and costs of implementation of the GDPR requirements at the bank.

## Other subsidiaries

Profit before tax of Santander TFI S.A. for 2018 increased by 185.7% YoY due to changes to the distribution model and settlements with Santander Bank Polska S.A. in early 2018. Income from fund and portfolio management fees grew on account of higher average value of assets under management.

- Total profit before tax posted by companies controlled by Santander Finanse sp. z o.o. decreased by 2.3% YoY to PLN 77.5m.
- The profit before tax earned by Santander Factoring Sp. z o.o. went up by 26.6% YoY to PLN 23.8m due to a decrease in negative impairment allowances for factoring receivables and an increase in net interest income on factoring exposures which grew by 21.2% YoY.
- The total profit before tax of Santander Leasing S.A., Santander Finanse Sp. z o.o., Santander Leasing Poland Securitisation 01 Designated Activity Company and Santander F24 S.A. declined by 11.2% YoY to PLN 53.7m as a result of higher costs of financing credit exposures, increased operating expenses on account of business development and negative measurement of instruments hedging a fixed-rate lease portfolio. Record sales posted by Santander Leasing S.A., Santander F24 S.A. and Santander Finanse Sp. z o.o. (a controlling entity) in terms of lease and insurance facilities translated into significant growth in net interest income, net fee and commission income and other operating income. A dynamic growth of the performing loan portfolio (+16% YoY) did not result in a deterioration of its quality.

## Structure of Santander Bank Polska Group profit before tax

### Total income

Total income of Santander Bank Polska Group for 2018 increased by 11.9% YoY to PLN 8,683.9m. Adjusting for the PLN 387.7m gain from the acquisition of an organised part of Deutsche Bank Polska S.A., the underlying total income grew by 6.9% YoY on account of an increase in the Group's income from the core business.

### Net interest income

Net interest income for 2018 amounted to PLN 5,742.4m and increased by 8.8% YoY, impacted by a sound balance sheet structure and flexible pricing management amid fast growth of net earning assets and their funding deposits.

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



NET INTEREST INCOME IN YEARS 2014-2017 (PLN M)



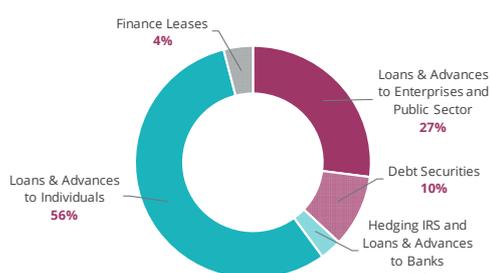
The Group's interest expenses went up by 17.5% YoY to PLN 1,471.4m, outpacing interest income growth of 10.5% to PLN 7,213.8m. This is the result of the process of strengthening the liquidity position of the Group through deposit acquisition in the wake of the scheduled takeover of an organised part of Deutsche Bank Polska S.A.

The growth of interest income was driven by loans and advances to retail and business customers, lease receivables, repurchase transactions and debt securities, but slowed down by loans and advances to banks, CIRS/IRS transactions hedging cash flows and debt securities held for trading.

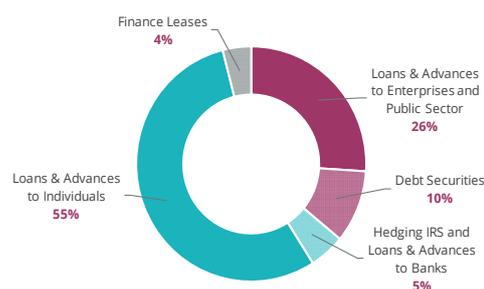
An increase was reported across all components of interest expenses, with the most pronounced growth reported for liabilities in respect of repo transactions (+50.2% YoY) as well as subordinate debt and securities in issue (+25.1% YoY).

In 2018, loans to customers brought a yearly average nominal interest income of 5.0% compared with 5.1% in 2017. Customer deposits carried a yearly average nominal interest cost of 0,9% which was relatively stable year-on-year.

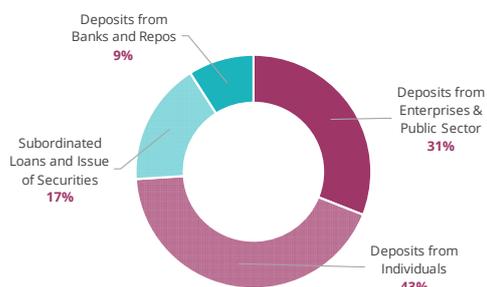
STRUCTURE OF INTEREST REVENUES IN 2018



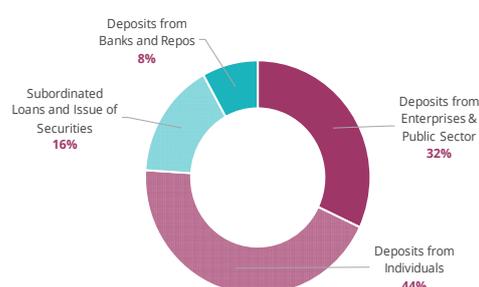
STRUCTURE OF INTEREST REVENUES IN 2017



STRUCTURE OF INTEREST EXPENSE IN 2018



STRUCTURE OF INTEREST EXPENSE IN 2017



NET INTEREST MARGIN BY QUARTER IN YEARS 2017-2018  
(INCLUDING SWAP POINTS\*)



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

After a steady increase observed since the beginning of 2017, the quarterly net interest margin (annualised on a quarterly basis) gradually declined starting from Q2 2018 to 3.52% in Q4 2018 (-0.41 p.p. YoY). The underlying cause was the growing costs of asset funding in connection with the accelerated acquisition of deposits as well as enhanced activity in the area of own securities issue as part of preparations for the acquisition of a demerged business of Deutsche Bank Polska S.A. Increasing credit volumes (cash loans, mortgage loans and business loans) and investment portfolios of debt securities fuelled the growth of interest income, which was nevertheless outpaced by a YoY increase in interest expenses.

In line with the downward trend of a quarterly margin (annualised on a quarterly basis), the annual cumulative net interest margin shrank from 3.84% in 2017 to 3.68% in 2018.

### Net fee and commission income

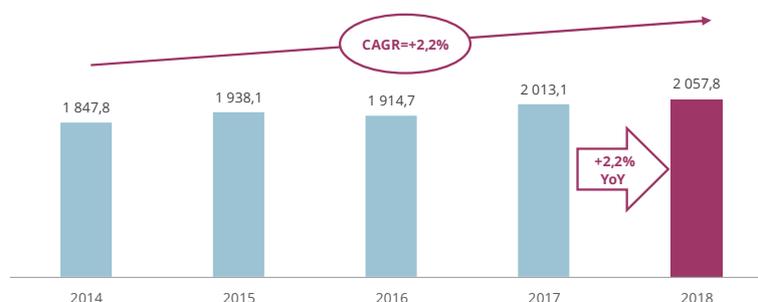
Net Fee and Commission Income (in PLN m)	2018	2017	YoY Change
FX fees	396,0	346,1	14,4%
E-Business and payments <sup>1)</sup>	386,4	372,7	3,7%
Account maintenance and cash transactions <sup>2)</sup>	317,4	337,6	-6,0%
Asset management and distribution	290,4	288,0	0,8%
Credit fees <sup>3)</sup>	246,3	206,8	19,1%
Insurance fees	182,4	198,8	-8,2%
Credit cards	135,7	136,3	-0,4%
Brokerage activities	58,9	76,9	-23,4%
Other <sup>4)</sup>	44,3	49,9	-11,2%
<b>Total</b>	<b>2 057,8</b>	<b>2 013,1</b>	<b>2,2%</b>

- 1) Fees for foreign and mass payments, Western Union transfers, trade finance, debit cards, services for third party institutions as well as other electronic and telecommunications services.
- 2) Fee income from account maintenance and cash transactions has been reduced by the corresponding expenses which are included in the line item "Other" in Note 7 of the Consolidated Financial Statements of Santander Bank Polska Group for 2018 (PLN 5.8m for 2018 vs. PLN 0.7m for 2017).
- 3) Net fee income from lending, leasing and factoring activities which is not amortised to net interest income. This line item includes inter alia the cost of credit agency.
- 4) Guarantees and sureties, issue arrangement fees and other.

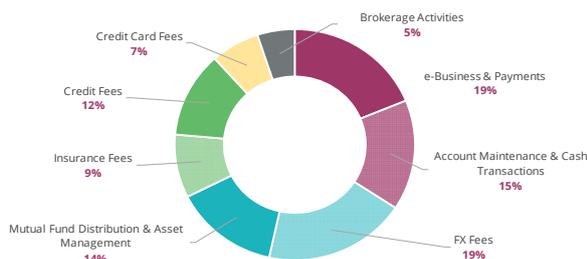
NET FEE & COMMISSION INCOME BY QUARTER IN YEARS 2017-2018  
(PLN m)



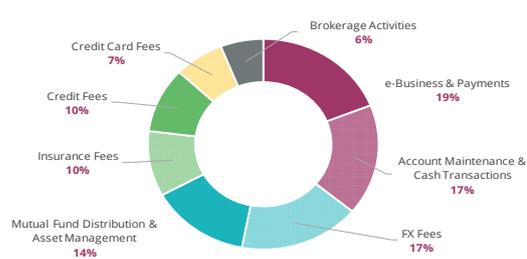
NET FEE & COMMISSION INCOME IN YEARS 2014-2018 (PLN m)



NET COMMISSION INCOME STRUCTURE FOR 2018



NET COMMISSION INCOME STRUCTURE FOR 2017

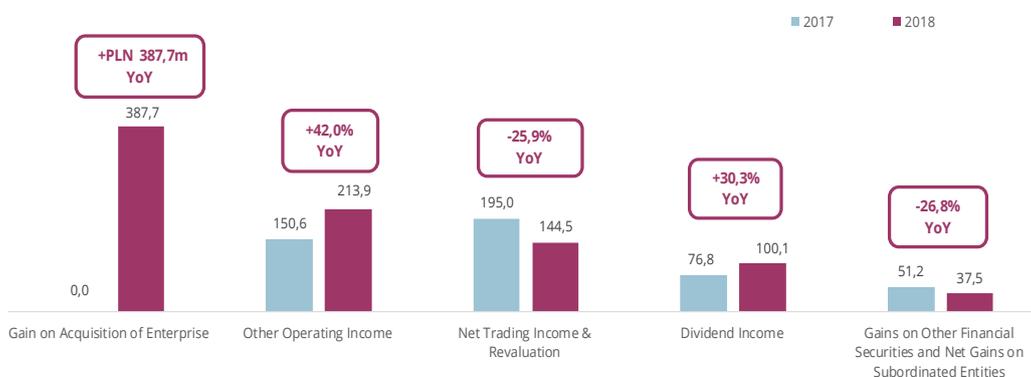


Net fee and commission income for 2018 amounted to PLN 2,057.8m and increased by 2.2% YoY driven by the performance of business lines of the bank and its subsidiaries.

- The Group's net fee and commission income from the lending business grew by 19.1% YoY on account of dynamic sales of loans and management of the schedule of fees and charges. The increase was partly offset by higher agency costs connected with the operating model acquired along with a demerged part of Deutsche Bank Polska S.A.
- An improvement in FX fee income (+14.4% YoY) is attributed to the positive impact of exchange rates and the Group's comprehensive measures taken to support foreign trade and develop e-FX services in iBiznes24.
- Santander Bank Polska Group generated stable fee and commission income from distribution and asset management (+0.8% YoY) owing to high average net value of assets managed by Santander TFI S.A., which were collected in H2 2017 amid the inflow of cash to investment funds driven by favourable stock market trends and continuously low interest rates which discouraged investors from bank deposits.
- Net fee and commission income aggregated under the "eBusiness and payments" line item rose by 3.7% YoY as a result of an increase in income from issuance and management of debit cards driven by the growth of this instrument base (+9.9 YoY) and non-cash transactions made with such cards.
- In spite of a 4.3% YoY increase in the number of credit cards, net fee and commission income from issuance and management of a combined portfolio of credit cards of Santander Bank Polska S.A. and Santander Consumer Bank S.A. was stable (-0.4% YoY) due to a range of special deals with lower fees, a decrease in the volume of cash transactions and transfers made with cards, and an increasing share of customers opting for simple cash loans.
- Brokerage fees went down by 23.4% YoY along with a decline in trading in the secondary market amid deteriorating investor sentiment observed since February 2018.
- The decline of 8.2% YoY in net fee and commission income from insurance business was due to changes to the Group's insurance sales model in accordance with new EU regulatory requirements and a drop in the insurance coverage of the Group's cash loans.

### Non-interest and non-fee income

Components of Other Income (PLN m) in 2018 vs. 2017



The Group's non-interest and non-fee income presented in the figure above totalled PLN 883.7m and increased by 86.6% YoY, mainly as a result of recognition of PLN 387.7m gain from the acquisition of an organised part of Deutsche Bank Polska S.A. (a surplus of the fair value of the acquired net assets over the purchase price) and PLN 21.6m from the reclassification of preference shares of Visa Inc. from equity instruments measured at fair value through other comprehensive income to debt instruments measured at fair value through profit or loss.

- Net trading income reported by Santander Bank Polska Group for 2018 was PLN 144.5m, down 25.9% YoY.
  - ✓ The Group's profit in the market of derivatives and FX interbank transactions was PLN 150.2m vs. PLN 196.7m in 2017. The above component of net trading income excludes net interest income from the CIRS and IRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 204.7m for 2018 vs. PLN 224.4m for 2017), which are disclosed under "Interest income".
  - ✓ Trading in debt and equity securities measured at fair value through profit or loss brought in a total profit of PLN 18.8m vs. a loss of PLN 1.7m in 2017, mainly on account of gains from trading in debt instruments (mainly Treasury bonds).
  - ✓ Change in the fair value of credit receivables measured at fair value through profit or loss, recognised in the net trading income for 2018, was negative and totalled PLN 24.4m.
- In 2018, the Group disclosed dividend income of PLN 100.1m, i.e. up PLN 30.3% YoY on account of higher dividends from Aviva Group companies from the portfolio of equity investments of Santander Bank Polska S.A.
- Gains on other financial instruments and subordinate entities decreased by 26.8% YoY to PLN 37.5m due to the lack of significant transactions in equity financial instruments in 2018. In the comparable period, the Group sold shares from the portfolio of investment securities, gaining PLN 26.5m in total (including PLN 10.8m and PLN 13.5m on account of the sale of all shares of Polimex-Mostostal S.A. and PBG S.A., respectively). Lower trading in the capital market was partly offset by higher gains on the sale of bonds (PLN 28.3m in 2018 vs. PLN 20.8m in 2017) and PLN 12.6m on account of changes in the fair value measurement arising from reclassification of Visa Inc.'s shares.
- Other operating income totalled PLN 213.9m and increased by 42.0% YoY, mainly on account of the profit of PLN 44.3m from the sale of the bank's real estate and higher income from the sale of services.

## Impairment allowances

Impairment losses on loans and advances (in PLN m)	Measured at amortised cost under IFRS 9 <sup>1)</sup>				Total IFRS 9 <sup>1)</sup>	Total IAS 39 <sup>2)</sup>
	Stage 1	Stage 2	Stage 3	POCI	2018	2017
Charge on loans and advances to banks	(0,1)	-	-	-	(0,1)	
Charge on loans and advances to customers	(125,5)	10,7	(1 035,7)	60,7	(1 089,8)	(733,6)
Recoveries of loans previously written off	-	-	11,9	-	11,9	43,5
Off-balance sheet credit related facilities	(5,0)	4,5	(6,6)	-	(7,1)	(0,4)
<b>Total</b>	<b>(130,6)</b>	<b>15,2</b>	<b>(1 030,4)</b>	<b>60,7</b>	<b>(1 085,1)</b>	<b>(690,5)</b>

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

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

In 2018, the impairment charge to the income statement of Santander Bank Polska Group was PLN 1,085.1m vs. PLN 690.5m last year. SCB Group posted allowances of PLN 271.0m vs. PLN 110.8m a year before.

The increase in the balance of allowances is attributed to the following:

- lower gain on the sale of matured receivables by PLN 199.6m YoY;
- additional allowance in respect of loans and advances acquired along with a demerged part of Deutsche Bank Polska S.A. (PLN 130.5m);
- dynamic growth of the Group's credit portfolio;
- impact of the implementation of IFRS 9, update of parameters used for calculation of expected credit losses and zloty depreciation.

In 2018, Santander Bank Polska S.A. sold non-performing matured receivables of PLN 1,361.7m vs. PLN 1,088.2m in 2017 (including the principal amount of PLN 1,268.0m and PLN 1,008.0m, respectively). The impact of the above transactions on the profit before tax was negative at PLN 3.1m vs. PLN 172.7m a year before.

Santander Consumer Bank S.A. sold the written-off portfolios of cash loans, instalment loans, credit cards and car loans of PLN 761.1m, which brought in a profit before tax of PLN 27.7m. Last year, the company sold written-off credit portfolios of PLN 382.7m, generating a profit before tax of PLN 51.5m.

The NPL ratio of Santander Bank Polska Group was 4.5% vs. 5.8% at the end of 2017. The cost of credit increased from 0.63% in 2017 to 0.86% in 2018.

## Total costs

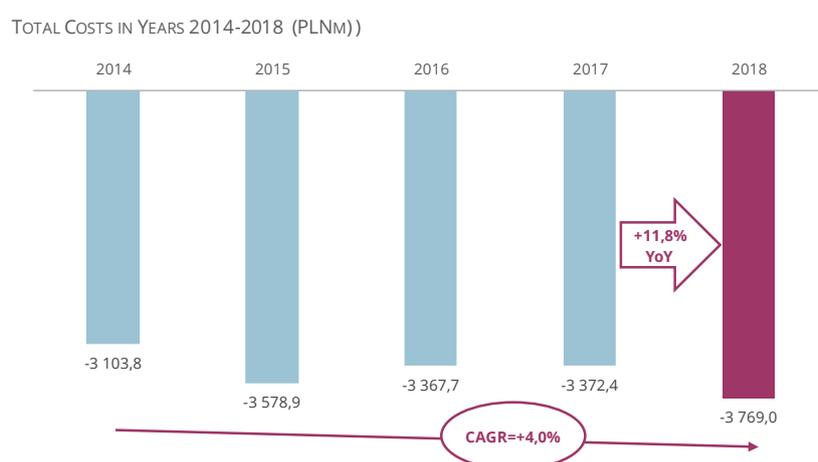
Total costs of (in PLN m)	2018	2017	YoY Change
Staff, general and administrative expenses, of which:	(3 242,8)	(2 939,4)	10,3%
- Staff expenses	(1 670,5)	(1 562,6)	6,9%
- General and administrative expenses	(1 572,3)	(1 376,8)	14,2%
Depreciation/amortisation	(333,5)	(318,9)	4,6%
Other operating expenses	(192,7)	(114,1)	68,9%
<b>Total costs</b>	<b>(3 769,0)</b>	<b>(3 372,4)</b>	<b>11,8%</b>
Costs related to acquisition of organised part of Deutsche Bank Polska S.A.	(108,9)	(14,1)	672,3%
Rebranding costs	(66,4)	-	-
<b>Underlying total costs</b>	<b>(3 593,7)</b>	<b>(3 358,3)</b>	<b>7,0%</b>

The total costs of Santander Bank Polska Group for 2018 amounted to PLN 3,769.0m, and were 11.8% higher YoY, which is attributed to all key cost items. The cost base was mostly affected by strategic development and transformation projects (including the transfer of a demerged business of Deutsche Bank Polska S.A., rebranding and extension of IT infrastructure) as well as competitive and regulatory pressure and provisions for legal claims.

Excluding two flagship projects of 2018, i.e. rebranding (PLN 66.4m) and acquisition of a demerged part of Deutsche Bank Polska S.A. (PLN 108.9m), the underlying total costs of the Group were up 7.0% YoY, largely impacted by a 110.5% YoY increase in provisions for legal disputes and other assets recognised in other operating expenses. Adjusting for the above-mentioned provisions, the cost base grew by 5.1% mainly on account of staff and general expenses.

Excluding the foregoing two projects, the underlying staff and general expenses were up 4.9% YoY, mainly due to the salary review, introduction of new bonus schemes for employees, implementation of IT projects supporting the digital transformation and strategic and operating programmes, purchase of equipment for a new branch model and the new Business Support Centre building in Wrocław commissioned in 2018, as well as higher cost of third party service.

The Group's cost to income ratio was stable versus the previous year, both in its basic (43.4%) and underlying variety (43.3%).



## Staff expenses

Staff expenses of Santander Bank Polska Group for 2018 totalled PLN 1,670.5m and increased by 6.9% YoY. SCB Group's contribution to the above figure was PLN 265.0m and up 8.7% YoY.

The key staff expense line items, i.e. "Salaries and bonuses" and "Statutory deductions from salaries", increased by 8.5% YoY to PLN 1,638.2m in total as a result of salary review, new bonus schemes, costs connected with the optimisation of headcount and acquisition of 1,513 employees of Deutsche Bank Polska S.A.

## General and administrative expenses

- In 2018, general and administrative expenses of Santander Bank Polska Group went up by 14.2% YoY to PLN 1,572.3m. Costs incurred by SCB Group totalled PLN 273.8m and were 1.3% higher YoY.
- The above increase in general and administrative expenses was attributed to the following:
  - ✓ IT usage costs (+14.7% YoY) and consultancy and advisory fees (+36.8% YoY) connected with the project of acquisition of a demerged part of Deutsche Bank Polska S.A. and other strategic projects;
  - ✓ cost of other third party services (+46.3% YoY) resulting from document processing in accordance with the General Data Protection Regulation, modification of the system of settlements with the ultimate parent and relocation of the Business Support Centre in Wrocław to a new building;
  - ✓ cost of machine repair (+71.0% YoY) arising from the purchase of equipment for the redesigned branches and the new building of the Business Support Centre;
  - ✓ cost of marketing and entertainment (+41.4% YoY) connected with rebranding;
  - ✓ settlement costs (+9.0% YoY) connected with BIK reports.
- At the same time, fees payable to market regulators levelled off (-1.9% YoY), as did the cost of maintenance and rental of premises (-0.6% YoY). The cost of data transmission decreased by 16.1% YoY.

## Effective tax rate

In 2018, the consolidated effective tax rate was 21.2% vs. 24.5% in 2017, due to a lower cash flow from the debt sale (a non-tax deductible item following the amendment of laws introduced on 1 January 2018), gain on the acquisition of an organised part of the enterprise and dividend received (non-tax deductible item).

## 2. Statement of financial situation of Santander Bank Polska Group

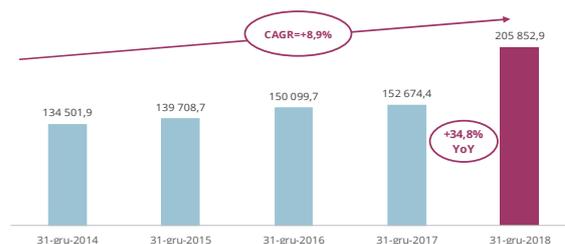
### Consolidated assets

As at 31 December 2018, the total assets of Santander Bank Polska Group were PLN 205,852.9m, up 34.8% YoY. The value and structure of the Group's financial position is determined by the parent entity, which holds 88.9% of the consolidated total assets vs. 87.0% as at the end of December 2017.

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



TOTAL ASSETS AT THE END OF YEARS 2014-2018 (PLN M)



## Structure of consolidated assets

Assets in PLN m (condensed presentation for analytical purposes)	31.12.2018	Structure	31.12.2017	Structure	YoY Change
	(under IFRS 9)	31.12.2018	(under IAS 39)	31.12.2017	
	1	2	3	4	1/3
Loans and advances to customers <sup>1)</sup>	137 460,4	66,8%	107 839,9	70,6%	27,5%
Investment financial assets	39 179,1	19,0%	28 415,8	18,6%	37,9%
Financial assets held for trading and hedging derivatives	9 843,1	4,8%	3 634,1	2,4%	170,9%
Cash and operations with Central Banks	8 907,6	4,3%	4 146,2	2,7%	114,8%
Fixed assets, intangibles and goodwill	3 517,8	1,7%	3 133,1	2,1%	12,3%
Loans and advances to banks	2 936,2	1,4%	2 136,5	1,4%	37,4%
Other assets <sup>2)</sup>	4 008,7	2,0%	3 368,8	2,2%	19,0%
<b>Total</b>	<b>205 852,9</b>	<b>100,0%</b>	<b>152 674,4</b>	<b>100,0%</b>	<b>34,8%</b>

1) Net loans and advances to customers, as presented according to IFRS 9, contain a portfolio measured at amortised cost and at fair value and take into account a different treatment of interest income and a methodology for estimating allowances based on expected credit losses.

2) Other assets include the following items of the full version of financial statements: receivables from repurchase transactions, investments in associates, net deferred tax assets, assets classified as held for sale and other assets.

In the above statement of financial position as at 31 December 2018, net loans and advances to customers were the key item of consolidated assets. They totalled PLN 137,460.4m, up 27.5% vs. 31 December 2017, mainly on account of strong credit delivery to retail and business customers and acquisition of selected credit portfolios (retail, Private Banking and SME portfolios excluding foreign currency mortgage loans) along with an organised part of Deutsche Bank Polska S.A. SCB Group contributed PLN 15,562.0m to this line (after intercompany transactions and consolidation adjustments), up 8.6% compared with the end of 2017.

In 2018, the aggregated line encompassing financial assets held for trading and hedging derivatives increased significantly (+170.9%), which is an effect of expansion of the bonds portfolio. The purchase of treasury bonds and NBP bills also increased the value of investment securities (+37.9%). SCB Group contributed PLN 2,785.0m to this item, which is an increase of 6.8% vs. 31 December 2017.

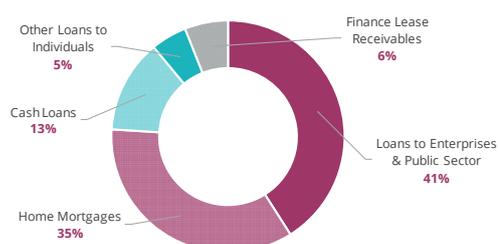
As part of the Group's ongoing liquidity management, the balance of funds deposited with NBP increased, whereby the cash and operations with central banks rose by 114.8% YoY. This was coupled by an increase in loans and advances to banks (by 37.4%) and the growth of term deposits, loans and current account balances.

## Credit portfolio

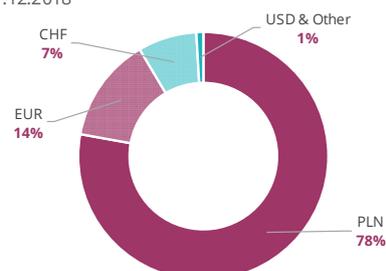
Gross Loans and Advances to Customers (in PLN m)	31.12.2018 <sup>1)</sup> under IFRS 9	31.12.2017 under IAS 39	YoY Change
Loans and advances to individuals	74 696,4	57 822,4	29,2%
Loans and advances to enterprises and public sector customers	58 928,8	48 005,2	22,8%
Finance lease receivables	8 204,3	6 849,0	19,8%
Other	15,2	9,4	61,7%
<b>Total</b>	<b>141 844,7</b>	<b>112 686,0</b>	<b>25,9%</b>

1) Gross loans and advances to customers, as presented in accordance with IFRS 9, are not fully comparable with the previous periods as the balance as at the end of 2018 contains portfolios measured at fair value, net value of POCI exposures and reflects the effect of changes in the recognition of interest income.

PRODUCT STRUCTURE OF CONSOLIDATED LOANS & ADVANCES TO CUSTOMERS AS AT 31.12.2018



FX STRUCTURE OF CONSOLIDATED LOANS AND ADVANCES TO CUSTOMERS AS AT 31.12.2018

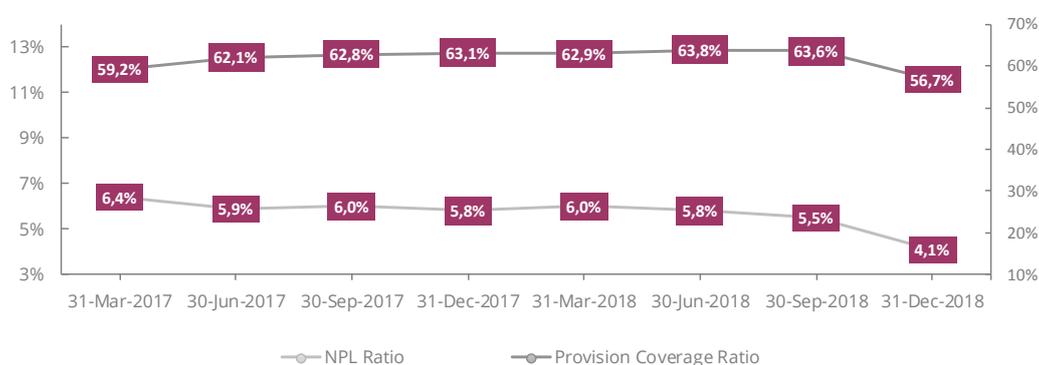


As at 31 December 2018, consolidated gross loans and advances to customers were PLN 141,844.7m and increased by 25.9% vs. 31 December 2017. The portfolio includes loans and advances to customers measured at fair value through profit or loss, totalling PLN 1,450.3m, including the reclassified credit card portfolio, and loans and advances to customers measured at fair value through other comprehensive income, totalling PLN 366.8m.

Loans and advances to individuals increased by 29.2% to PLN 74,696.4m. Home loans, the largest constituent item, increased by 32.0% YoY to PLN 49,211.0m, with the portfolio of Santander Bank Polska S.A. growing by 36.2% and the portfolio of SCB S.A. decreasing by 5.0%. The second significant constituent item, i.e. cash loans, went up by 37.2% YoY to PLN 17,910.9m.

Loans and advances to enterprises and public sector entities were PLN 58,929.5m, 22.8% higher YoY, mainly driven by lending to retail, SME and corporate customers. Finance leases, which include the portfolios of Santander Leasing S.A., Santander Consumer Multirent sp. z o.o. and PSA Finance Polska sp. z o.o., increased by 19.8% YoY to PLN 8,204.3m on account of dynamic growth in the sales of machines and equipment and of vehicles. Loans granted by Santander Leasing S.A. to finance machines and vehicles for business customers, which totalled PLN 2,566.4m at the end of December 2018 (vs. PLN 2,027.7m at the end of December 2017), were disclosed outside the lease portfolio, as loans and advances to enterprises.

CREDIT QUALITY RATIOS BY QUARTER IN 2017 AND 2018



\* As of 30 June 2018, the calculation of credit quality indicators does not include the portfolio measured at fair value and as of 31 December 2018 it also leaves out POCI exposures.

As at 31 December 2018, non-performing loans to customers accounted for 4.1% of the gross portfolio of Santander Bank Polska Group vs. 5.8% 12 months before. The provision coverage ratio for impaired loans was 56.7% as at 31 December 2018 compared with 63.1% as at 31 December 2017. As of 30 June 2018, the calculation of credit quality indicators does not include the portfolio measured at fair value and as of 31 December 2018 it also bypasses purchased or originated financial assets classified as impaired on first recognition due to credit risk (POCI). Towards the end of 2018, Santander Bank Polska Group completed the implementation of IFRS 9 in respect of POCI exposures which are now disclosed on a net basis as a separate category of loans and advances.

## Structure of consolidated equity and liabilities

Liabilities & Equity in PLN m (condensed presentation for analytical purposes)	31.12.2018	Structure	31.12.2017	Structure	YoY Change
	(under IFRS 9)	31.12.2018	(under IAS 39)	31.12.2017	
	1	2	3	4	1/3
Deposits from customers	149 616,7	72,7%	111 481,1	73,0%	34,2%
Subordinated liabilities and debt securities in issue	12 013,0	5,8%	7 384,4	4,9%	62,7%
Sell-buy-back transactions	9 340,8	4,5%	2 650,9	1,7%	252,4%
Deposits from banks	2 832,9	1,4%	2 783,1	1,8%	1,8%
Financial liabilities held for trading and hedging derivatives	2 146,2	1,0%	1 816,5	1,2%	18,2%
Other liabilities <sup>1)</sup>	3 235,1	1,6%	3 214,8	2,1%	0,6%
Total equity	26 668,2	13,0%	23 343,6	15,3%	14,2%
<b>Total</b>	<b>205 852,9</b>	<b>100,0%</b>	<b>152 674,4</b>	<b>100,0%</b>	<b>34,8%</b>

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

The total liabilities of the consolidated statement of financial position of Santander Bank Polska Group as at 31 December 2018 show a major YoY increase in deposits from customers (+34.2% YoY) resulting from intensified acquisition efforts taken by Santander Bank

Polska S.A. in 2018 and takeover of the customer deposit portfolio of Deutsche Bank Polska S.A. as part of acquisition of an organised part of this enterprise.

A dynamic growth was also reported for liabilities due to repurchase transactions (+252.4% YoY) made mainly with banks and other institutions from the financial market. Hedging derivatives, including liabilities held for trading, went up by 18.2% YoY.

An upward trend was also observed in the case of subordinated liabilities and debt securities in issue (+62.7% YoY). This item grew as a result of the Group's increased activity in relation to the issue of own securities. In 2018, Santander Bank Polska S.A. issued three series of certificates of deposit with a total nominal value of PLN 1,150m as part of its issue programme, subordinated series F bonds with a nominal value of PLN 1bn and eurobonds with a nominal value of PLN 2,145.6m (the equivalent of EUR 500m) as part of the EMTN programme. Santander Factoring sp. z o.o. and SCB S.A. issued bonds with a nominal value of PLN 1,700.0m and PLN 451m, respectively. Furthermore, Santander Leasing Poland Securitization 01 issued senior bonds of EUR 230m as part of securitisation of receivables arising from lease and loan agreements.

In the same period, Santander Bank Polska S.A., Santander Factoring S.A. and SCB S.A. redeemed matured own securities for a total amount of PLN 1,235m, PLN 1,550m and PLN 190m, respectively.

In relation to the above aggregated line, pursuant to KNF decision, subordinated series F bonds with a nominal value of PLN 1bn, maturing on 5 April 2028, were taken from debt securities in issue to subordinated liabilities.

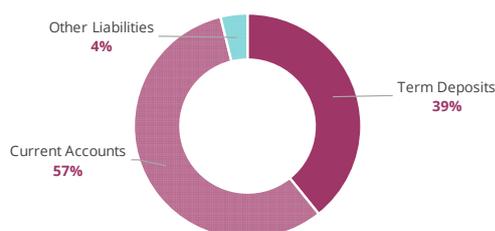
The total equity of Santander Bank Polska Group increased by 14.2% as the bank's profit generated in the current period and the whole profit for 2017 were retained in accordance with guidelines issued by the regulator. The equity value was reduced by dividend payout of PLN 307.6m from the retained profit for 2016. As part of acquisition of an organised part of Deutsche Bank Polska S.A., the share capital was increased by the share issue of PLN 27.5m and the value of sale of shares of PLN 1bn at premium. The retained profit and the revaluation reserve reflect the differences in the carrying amounts of financial assets and liabilities as at 1 January 2018 arising from adoption of IFRS 9, in the total amount of PLN -254.5m.

## Deposit base

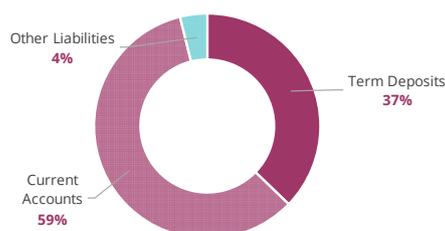
Deposits from Customers	31.12.2018	31.12.2017	YoY Change
Deposits from individuals	88 211,4	64 987,7	35,7%
Deposits from enterprises and public sector customers	61 405,3	46 493,4	32,1%
<b>Total</b>	<b>149 616,7</b>	<b>111 481,1</b>	<b>34,2%</b>

In 2018, consolidated deposits from customers increased by 34.2% YoY to PLN 149,616.7m at the end of December 2018, including PLN 8,862.5m relating to SCB Group (after intercompany eliminations), up 8.8% on PLN 8,148.6m recorded at the end of December 2017.

STRUCTURE OF CONSOLIDATED CUSTOMER DEPOSITS AS AT  
31.12.2018



STRUCTURE OF CONSOLIDATED CUSTOMER DEPOSITS AS AT  
31.12.2017



The Group's total term deposits from customers amounted to PLN 58,695.8m and increased by 41.5% vs. 31 December 2017. Current account balances rose by 29.8% to PLN 85,201.2m, and other liabilities were PLN 5,719.6m, up 32.0%.

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



\* include savings accounts

The retail deposit base stood at PLN 88,211.4m, higher by 35.7% YoY as a result of a fast increase in term deposit balances (+49.3%) and current account balances (+28.8%). In 2018, the acquisition of new money accelerated on account of planned integration of a demerged business of Deutsche Bank Polska S.A. The process was supported by special deals on savings accounts, including the Max Savings Account (Konto Max Oszczędnościowe) and the Regular Savings Account (Konto Systematyczne) sold together with the Account As I Want It (Konto Jakiej Chce), as well as flexible pricing and mechanisms that rewarded customers' activity with a higher interest rate.

Deposits from enterprises and the public sector grew by 32.1% to PLN 61,405.3m as a result of an increase of 32.7% YoY in term deposits to PLN 25,980.7m and 31.6% YoY in current account balances to PLN 29,892.2m.

The largest constituent of other liabilities were loans and advances (PLN 4,751.9m vs. PLN 3,552.4m as at 31 December 2017), reported under deposits from enterprises which included loans granted by international financial organisations (the European Investment Bank/EIB, the European Bank for Reconstruction and Development/EBRD and the Council of Europe Development Bank/CEB) to finance the bank's credit delivery and the lease business of the bank's subsidiaries. The YoY increase in loans and advances results from payout of:

- PLN 1,368.5m under the agreements signed by Santander Bank Polska S.A. with the EIB (in November 2017 and July 2018), CEB (in June 2016) and EBRD (in March 2016);
- PLN 463.7m under the agreements signed by Santander Bank Leasing with EBRD (in January 2018) i CEB (in October 2018).

The loan re-payments to the international financial organisations totalled PLN 757.6m. This includes the contribution of the bank which re-paid in full two loans for PLN 50m and PLN 100m under agreements of February and September 2011, respectively.

## Diversification of funding sources

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

### Loan agreements with financial institutions

Entity	Date of the agreement	Subject of the agreement
<b>Santander Bank Polska S.A.</b>	16 July 2018	<ul style="list-style-type: none"> <li>A loan agreement with the European Investment Bank for EUR 175m, with an option to apply for additional funding of EUR 50m. The funds will be earmarked for financing SME and corporate customers and public sector entities.</li> </ul>
	5 September 2018	<ul style="list-style-type: none"> <li>An annex to the loan agreement of 16 March 2016 with the European Bank for Reconstruction and Development, providing an option to draw the next tranche in PLN.</li> </ul>
	7 December 2018	<ul style="list-style-type: none"> <li>A transaction agreement signed by the bank with the European Investment Fund (EIF) regarding synthetic securitisation of the cash loan portfolio with the total volume of more than PLN 2bn. The purpose of the transaction is to release equity in order to finance projects supporting the development of SME, corporate and public sector segments.</li> <li>The guarantee will be provided under the agreement by 10 September 2019.</li> <li>The transaction, which is a synthetic securitisation with no financing granted, will cover the selected portfolio of cash loans (with specific loans remaining in the bank's balance sheet).</li> </ul>
<b>Santander Leasing S.A.</b>	22 June 2018	<ul style="list-style-type: none"> <li>A loan agreement with a domestic bank providing variable-rate financing of PLN 300m maturing on 30 June 2019.</li> </ul>
	30 October 2018	<ul style="list-style-type: none"> <li>An agreement signed with one of the Polish banks on 22 October 2018 providing for a non-revolving loan of PLN 500m. The repayment period is three years.</li> </ul>
	25 October 2018	<ul style="list-style-type: none"> <li>An agreement with the Council of Europe Development Bank for a loan of EUR 120m. The loan is to be repaid by 28 November 2023 (guaranteed by the bank).</li> </ul>
	17 December 2018	<ul style="list-style-type: none"> <li>A securitisation agreement in respect of receivables arising from lease and loan agreements.</li> <li>The transaction is a traditional and revolving securitisation arrangement consisting in the transfer of ownership title to the securitised debt onto the SPV. The purpose of the securitisation is to implement a specific instrument enabling the company to raise funds before the maturity date of the receivables in the form of financing granted by the SPV and secured by the receivables. The securitisation, which is an alternative financing method, will improve the financial liquidity of Santander Leasing S.A.</li> </ul>
<b>Santander Factoring Sp. z o.o.</b>	13 November 2018	<ul style="list-style-type: none"> <li>A credit agreement with a foreign bank for a loan of EUR 100m (guaranteed by Santander Bank Polska S.A.)</li> <li>The loan was paid in full on 31 December 2018.</li> </ul>
<b>Santander Consumer Bank S.A.</b>	The agreements and annexes made by SCB S.A. in 2018 were presented in Chapter IX "Business Development in 2018", section 2 "Business Development of Santander Consumer Bank Group".	

## Issues

Entity	Date of the issue	Subject of the issue
<b>Santander Bank Polska S.A.</b>	5 April 2018	<ul style="list-style-type: none"> <li>• Issue of 2,000 subordinated series F bonds for a total nominal value of PLN 1bn (5 April 2018).</li> <li>• Type of bonds issued: unsecured variable-rate bearer bonds with a 10-year maturity and a call option enabling the issuer to redeem all instruments after five years of their issuance (subject to the KNF consent)</li> <li>• Interest rate: variable interest rate equal to the sum of 6M WIBOR and the margin of 1.6% Issue price: equal to the nominal value</li> <li>• Purpose: to increase the bank's supplementary funds (subject to the KNF consent)</li> <li>• All the bonds totalling PLN 1bn were taken up by bondholders.</li> <li>• On 12 June 2018, the KNF gave its approval for classifying the bonds as the bank's Tier 2 instruments.</li> </ul>
	26 April 2018	<ul style="list-style-type: none"> <li>• Issue of series G certificates of deposit with a nominal value of PLN 500m, a fixed interest rate of 2.02% p.a. and a maturity date of 26 April 2019.</li> </ul>
	27 June 2018	<ul style="list-style-type: none"> <li>• Issue of series H certificates of deposit with a nominal value of PLN 500m, a fixed interest rate of 2.25% p.a. and a maturity date of 27 September 2019.</li> </ul>
	20 September 2018	<ul style="list-style-type: none"> <li>• Issue of senior unsecured bonds of EUR 500m as part of the EMTN Programme of EUR 5bn launched on 30 May 2018. The bonds bear a fixed coupon of 0.75% p.a. and mature on 20 September 2021. The bonds will be admitted to trading on the Irish stock exchange (Euronext Dublin) and the Warsaw Stock Exchange.</li> <li>• The above bond tranche was assigned "BBB+" and "Baa1" rating by Fitch Ratings and Moody's Investor Service, respectively.</li> </ul>
	21 December 2018	<ul style="list-style-type: none"> <li>• Issue of series I certificates of deposit with a nominal value of PLN 150m, a fixed interest rate of 2.05% p.a. and a maturity date of 21 June 2019.</li> </ul>
<b>Santander Factoring Sp. z o.o.</b>	18 April 2018	<ul style="list-style-type: none"> <li>• Issue of series B bonds of PLN 850m with a maturity date of 18 October 2018.</li> </ul>
	18 October 2018	<ul style="list-style-type: none"> <li>• Issue of series C bonds of PLN 850m with a maturity date of 18 April 2019 (guaranteed by Santander Bank Polska S.A.)</li> </ul>

## Selected Ratios of Santander Bank Polska Group

Selected Financial Ratios of Santander Bank Polska Group	2018	2017
Total costs/Total income	43,4%	43,4%
Net interest income/Total income	66,1%	68,0%
Net interest margin <sup>1)</sup>	3,68%	3,84%
Net commission income/Total income	23,7%	25,9%
Customer net loans/Customer deposits	91,9%	96,7%
NPL ratio <sup>2)</sup>	4,1%	5,8%
NPL coverage ratio <sup>3)</sup>	56,7%	63,1%
Credit risk ratio <sup>4)</sup>	0,86%	0,63%
ROE <sup>5)</sup>	11,9%	12,2%
ROTE <sup>6)</sup>	14,1%	14,3%
ROA <sup>7)</sup>	1,3%	1,5%
Capital ratio <sup>8)</sup>	15,98%	16,69%
Tier I ratio <sup>9)</sup>	14,11%	15,28%
Book value per share (in PLN)	261,23	235,00
Earnings per share (in PLN) <sup>10)</sup>	23,72	22,29

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

### 3. Income Statement of Santander Bank Polska S.A.

#### Profit of Santander Bank Polska S.A.

<b>Condensed Unconsolidated Income Statement of Santander Bank Polska S.A. in PLN m (for analytical purposes)</b>	<b>2018</b>	<b>2017</b>	<b>YoY Change</b>
<b>Total income</b>	<b>6 885,7</b>	<b>6 123,0</b>	<b>12,5%</b>
- Net interest income	4 063,1	3 785,6	7,3%
- Net fee & commission income	1 616,9	1 726,6	-6,4%
- Gain on purchase of enterprise	364,8	-	-
- Other income <sup>1)</sup>	840,9	610,8	37,7%
<b>Total costs</b>	<b>(3 023,0)</b>	<b>(2 679,3)</b>	<b>12,8%</b>
- Staff, general and administrative expenses	(2 590,3)	(2 323,2)	11,5%
- Depreciation/amortisation	(280,3)	(274,9)	2,0%
- Other operating expenses	(152,4)	(81,2)	87,7%
<b>Impairment losses on loans and advances</b>	<b>(777,5)</b>	<b>(540,4)</b>	<b>43,9%</b>
Tax on financial institutions	(427,1)	(388,0)	10,1%
<b>Profit before tax</b>	<b>2 658,1</b>	<b>2 515,3</b>	<b>5,7%</b>
Tax charges	(490,9)	(599,1)	-18,1%
<b>Net profit for the period</b>	<b>2 167,2</b>	<b>1 916,2</b>	<b>13,1%</b>

1) Other income includes the following items of the comprehensive income statement: dividend income; net gains/losses on shares in subordinate entities; net trading income and revaluation; gains on other financial instrument and other operating income.

The unconsolidated profit before tax of Santander Bank Polska S.A. for 2018 was PLN 2,658.1m, up 5.7% YoY, as a combined effect of changes in the following line items:

- A major improvement of 7.3% YoY in net interest income driven by dynamic growth in lending to retail and corporate customers, optimisation of a deposit range for individuals and a sound balance sheet structure.
- A decrease of 6.4% YoY in net fee and commission income on account of lower income from:
  - distribution and insurance fees (law-induced change of the business model)
  - brokerage fees (decline in the stock market)
  - account maintenance and cash management services (special deals and modification of schedule of fees and charges to encourage customers to make more transactions)

which was partly offset by increases in other business lines such as: credit delivery, foreign exchange transactions, and guarantees and sureties.

- Recognition of a gain of PLN 364.8m from the acquisition of an organised part of Deutsche Bank Polska S.A.
- An increase of 64.5% YoY in dividend income attributed to higher dividend paid by Santander Consumer Bank S.A. (PLN 259.9m in 2018 vs. PLN 108.3m in 2017), Aviva Group companies (PLN 152.1m in 2018 vs. PLN 113.4m in 2017) and Santander Finanse Sp. z o.o. (PLN 38.8m in 2018 vs. PLN 32.0m in 2017).
- Growth of 84.3% YoY in other operating income on account of the gain from sale of the property in Wrocław.
- An increase of 43.9% YoY in impairment allowances is attributed to significantly lower gains on the debt sale compared to the previous year, dynamic growth of the credit portfolio and additional allowances made for receivables acquired along with a demerged part of Deutsche Bank Polska S.A.
- A rise of 12.8% YoY in total operating expenses on account of costs incurred in relation to rebranding and acquisition of a demerged business of Deutsche Bank Polska S.A. as well as provisions raised for legal claims.
- A decrease of 9.2% YoY in gains on other financial instruments impacted by lower profit on debt securities trading and net trading income and revaluation (-16.2% YoY) connected with derivative and currency exchange transactions.
- Increase of 10.1% in tax on financial institutions as a result of growth in taxable assets.
- Profit for the period amounted to PLN 2,167.2m, up 13.1% YoY.

## Structure of total income of Santander Bank Polska S.A.

Total income of Santander Bank Polska S.A. for 2018 increased by 12.5% YoY to PLN 6,885.7m. Adjusting for PLN 364.8m gain from the acquisition of a demerged part of Deutsche Bank Polska S.A., the underlying total income grew by 6.5% YoY.

### Net interest income

In 2018, the bank's net interest income increased by 7.3% YoY to PLN 4,063.1m alongside a narrowing net interest margin in the stable low interest rate environment, which was impacted by:

- a dynamic growth of the Group's net earning assets supported by robust lending and acquisition of assets of Deutsche Bank Polska S.A. (PLN 18.8bn of credit receivables taken over on 9 November 2018);
- increase in the funding base in relation to a growing value of assets (deposits, loans from global financial institutions and own securities issues);
- solid balance sheet structure of the Group (high share of retail loans and low-cost current account balances);

In 2018, annualised net interest margin was 3.0% compared with 3.2% a year before.

<b>Interest Revenue of Santander Bank Polska S.A. (PLN m) due to:</b>	<b>2 018</b>	<b>2 017</b>	<b>YoY Change</b>
Loans and advances to individuals	2 398,5	2 140,4	12,1%
Loans and advances to enterprises and the public sector	1 795,2	1 661,2	8,1%
Debt securities	693,5	609,5	13,8%
Interest on hedging IRS	177,9	204,4	-13,0%
Other revenues <sup>1)</sup>	109,1	87,7	24,4%
<b>Total</b>	<b>5 174,2</b>	<b>4 703,2</b>	<b>10,0%</b>
<b>Interest Expense of Santander Bank Polska S.A. (PLN m) due to:</b>	<b>2 018</b>	<b>2 017</b>	<b>YoY Change</b>
Deposits from individuals	(503,0)	(433,9)	15,9%
Deposits from enterprises and the public sector	(411,1)	(345,8)	18,9%
Subordinated liabilities and issue of securities	(100,2)	(73,1)	37,1%
Other expenses <sup>2)</sup>	(96,8)	(64,8)	49,4%
<b>Total</b>	<b>(1 111,1)</b>	<b>(917,6)</b>	<b>21,1%</b>
<b>Net Interest Income</b>	<b>4 063,1</b>	<b>3 785,6</b>	<b>7,3%</b>

1) Other interest revenue due to deposits from banks and buy-sell-back transactions.

2) Other interest expense due to deposits from banks and sell-buy-back transactions.

## Net fee and commission income

In 2018, Santander Bank Polska S.A. earned net fee and commission income in the total amount of PLN 1,616.9m, down 6.4% YoY.

Net Fee and Commission Income of Santander Bank Polska S.A. (PLN m)	2 018	2 017	YoY Change
FX fees	396,0	346,1	14,4%
E-Business and payments <sup>1)</sup>	387,8	373,3	3,9%
Account maintenance and cash transactions <sup>2)</sup>	309,2	329,9	-6,3%
Credit fees <sup>3)</sup>	268,0	238,3	12,5%
Guarantees	74,0	62,4	18,6%
Credit cards	69,3	72,8	-4,8%
Brokerage activities	57,4	77,0	-25,5%
Insurance fees	49,7	64,2	-22,6%
Asset management and distribution	18,2	167,5	-89,1%
Other <sup>4)</sup>	(12,7)	(4,9)	159,2%
<b>Total</b>	<b>1 616,9</b>	<b>1 726,6</b>	<b>-6,4%</b>

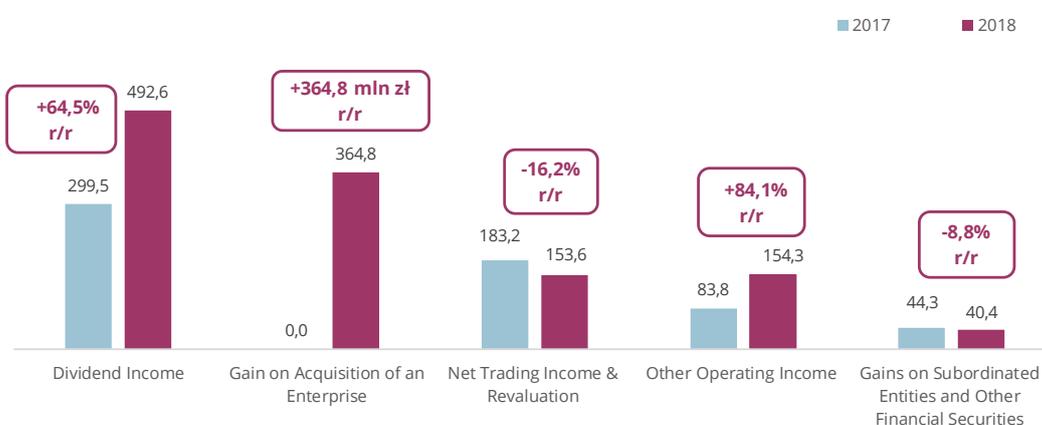
- 1) Fees for foreign and mass payments, Western Union transfers, trade finance, debit cards, services for third party institutions as well as other electronic and telecommunications services.
- 2) Fee income from account maintenance and cash transactions has been reduced by the corresponding expenses which are included in the line item "Other" in Note 6 of the Financial Statements of Santander Bank Polska S.A. for 2018 (PLN 5.8m for 2018 vs. PLN 0.7m for 2017).
- 3) Fee and commission income from lending, factoring and lease activities which is not amortised to net interest income. This line item includes, inter alia, the cost of credit agency.
- 4) Issue arrangement fees and others.

Lower net fee and commission income of Santander Bank Polska S.A. is attributed to regulatory changes which resulted in a considerable modification of the bank's business models in terms of distribution of insurance and investment products. Both items decreased significantly compared with the previous year, by 22.6% YoY and 89.1% YoY, respectively. Lower net fee and commission income (-25.5% YoY) was also reported by Santander Brokerage Poland, which was impacted by downward trends in the stock market. Fee income from credit cards and from account maintenance and cash transactions declined by 4.8% YoY and 6.3% YoY, respectively, mainly on account of numerous promotions offered by the bank, often as part of cross-sell activities. In the case of bank accounts, the profitability was also adversely impacted by changes to the schedule of fees and charges which were favourable for customers, and in the case of credit cards by a reduced number of card payments and the customers' growing preference for cash loans.

The above decreases were partly set off by significant increases in fee and commission income driven by growing loan sales in all customer segments (+12.5% YoY), FX operations (+14.4% YoY) supported by exchange rate fluctuations, strong growth in the bank's guarantee business (+18.6% YoY) and an increasing debit card base with a high volume of transactions reported in the "eBusiness and payments" line item (+3.9% YoY).

## Structure of non-interest and non-fee income of Santander Bank Polska S.A.

COMPONENTS OF OTHER INCOME (PLN M) OF SANTANDER BANK POLSKA S.A. IN 2017 VS. 2018



The bank's non-interest and non-fee income presented in the figure above totalled PLN 1,205.7m and increased by 97.4% YoY, mainly as a result of recognition of PLN 364.8m gain from the acquisition of an organised part of Deutsche Bank Polska S.A. (a surplus of the fair value of the acquired net assets over the purchase price), higher dividends received from subsidiaries and associates (+PLN 193.1m) and PLN 20.8m from the reclassification of preference shares of Visa Inc. from equity instruments measured at fair value through other comprehensive income to debt instruments measured at fair value through profit or loss. Adjusting for the above items, other income increased by 5.2% YoY.

Net trading income reported by Santander Bank Polska S.A. for 2018 was PLN 153.6m, down 16.2% YoY. A decrease in profit on derivatives and interbank FX trading (PLN 142.7m in 2018 vs. PLN 185.0m in 2017) was partly offset by profit on trading in debt and equity instruments measured at fair value through profit or loss (PLN 18.8m in 2018, mainly on account of transactions in Treasury bonds, vs. a loss of PLN 1.7m in 2017) and negative change of PLN 7.9m in the fair value of credit receivables measured at fair value through profit or loss recognised in 2018.

Gains on other financial instruments and subordinate entities decreased by 8.8% YoY to PLN 40.4m due to the lack of significant transactions in equity financial instruments in 2018. In the comparable period, the bank sold shares from the portfolio of investment securities, gaining PLN 26.5m in total (including the sale of shares of Polimex-Mostostal S.A. and PBG S.A., respectively). Lower trading in the capital market was partly offset by higher gains on the sale of bonds (PLN 28.3m in 2018 vs. PLN 20.5m in 2017) and PLN 12.1m on account of change in the fair value measurement arising from reclassification of Visa Inc.'s shares.

Other operating income totalled PLN 154.3m and increased by 84.1% YoY, mainly on account of the profit of PLN 44.3m from the sale of the bank's real estate and higher income from the sale of services.

## Impairment allowances

Impairment losses on loans and advances of Santander Bank Polska S.A. (PLN m)	Measured at amortised cost under IFRS 9 <sup>1)</sup>				Total IFRS 9 <sup>1)</sup>	Total IAS 39 <sup>2)</sup>
	Stage 1	Stage 2	Stage 3	POCI	2018	2017
Impairment charge on loans and advances to banks	(0,1)	-	-	-	(0,1)	-
Impairment charge on loans and advances to customers	(111,6)	39,6	(749,0)	51,3	(769,7)	(541,1)
Recoveries of loans previously written off	-	-	(7,7)	-	(7,7)	(2,1)
Off-balance sheet credit related facilities	(1,4)	5,6	(4,2)	-	-	2,8
<b>Total</b>	<b>(113,1)</b>	<b>45,2</b>	<b>(760,9)</b>	<b>51,3</b>	<b>(777,5)</b>	<b>(540,4)</b>

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

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

In 2018, the impairment charge to the income statement of Santander Bank Polska S.A. was PLN 777.5m vs. PLN 540.4m last year. The increase in the balance of allowances is attributed to the following:

- loss of PLN 3.1m on the sale of matured receivables in 2018 vs. profit of PLN 172.7m in 2017
- additional allowance of PLN 130.5m in respect of loans and advances to customers acquired along with a demerged part of Deutsche Bank Polska S.A.
- dynamic growth of the bank's credit portfolio
- impact of the implementation of IFRS 9, update of parameters used for calculation of expected credit losses and zloty depreciation.

In 2018, Santander Bank Polska S.A. sold non-performing matured receivables of PLN 1,361.7m vs. PLN 1,088.2m in 2017 (including the principal amount of PLN 1,268.0m and PLN 1,008.0m, respectively). The impact of the above transactions on the profit before tax was negative at PLN 3.1m vs. PLN 172.7m a year before.

## Staff and general expenses of Santander Bank Polska S.A.

Total costs of Santander Bank Polska	2018	2017	YoY Change
Staff, general and administrative expenses, of which:	(2 590,3)	(2 323,2)	11,5%
- Staff expenses	(1 336,1)	(1 255,0)	6,5%
- General and administrative expenses	(1 254,2)	(1 068,2)	17,4%
Depreciation/amortisation	(280,3)	(274,9)	2,0%
Other operating expenses	(152,4)	(81,2)	87,7%
<b>Total costs</b>	<b>(3 023,0)</b>	<b>(2 679,3)</b>	<b>12,8%</b>
Costs related to acquisition of organised part of Deutsche Bank Polska S.A.	(108,9)	(14,1)	672,3%
Rebranding costs	(66,4)	-	-
<b>Underlying total costs</b>	<b>(2 847,7)</b>	<b>(2 665,2)</b>	<b>6,8%</b>

Total costs went up by 12.8% YoY to PLN 3,023.0m, with an increase of 11.5% YoY in staff and general expenses driven by business growth and strategic development projects.

Excluding two flagship projects, i.e. rebranding (PLN 66.4m) and acquisition and integration of an organised part of Deutsche Bank Polska S.A. (PLN 108.9m), the underlying total costs were up 6.8% YoY (4.5% YoY excluding provisions for legal disputes and other assets), whereas the underlying staff and general expenses were up 4.6% YoY.

Cost effectiveness ratio was 43.9% for 2018 and was stable YoY (43.8% in 2017). On a comparable basis the ratio was at 43.7%.

## 4. Statement of Financial Position of Santander Bank Polska S.A.

Assets of Santander Bank Polska S.A. (PLN m) (condensed presentation for analytical purposes)	31.12.2018	31.12.2017	YoY Change
Loans and advances to customers	117 492,5	90 537,0	29,8%
Investment securities	36 372,1	25 784,0	41,1%
Cash and operations with Central Banks	8 841,9	4 114,8	114,9%
Financial assets held for trading and hedging derivatives	9 829,3	3 568,3	175,5%
Fixed assets, intangibles and goodwill	3 335,1	2 970,0	12,3%
Loans and advances to banks	2 859,5	2 012,1	42,1%
Other assets <sup>1)</sup>	4 308,2	3 877,1	11,1%
<b>Total</b>	<b>183 038,6</b>	<b>132 863,3</b>	<b>37,8%</b>
Liabilities & Equity of Santander Bank Polska S.A. (PLN m) (condensed presentation for analytical purposes)	31.12.2018	31.12.2017	YoY Change
Deposits from customers	139 469,8	102 155,5	36,5%
Subordinated liabilities and debt securities in issue	5 855,9	2 728,9	114,6%
Financial liabilities held for trading and hedging derivatives	2 141,2	1 842,7	16,2%
Deposits from banks	1 040,0	1 414,4	-26,5%
Sell-buy-back transactions	8 234,0	1 479,7	456,5%
Other liabilities <sup>2)</sup>	2 437,3	2 403,3	1,4%
Total equity	23 860,4	20 838,8	14,5%
<b>Total</b>	<b>183 038,6</b>	<b>132 863,3</b>	<b>37,8%</b>

1) Other assets include receivables from repurchase transactions, net deferred tax assets, assets classified as held for sale and other assets.

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

As at 31 December 2018, the total assets of Santander Bank Polska S.A. were PLN 183,038.6m, an increase of 37.8% YoY.

Changes in assets, equity and liabilities presented in the statement of financial position of Santander Bank Polska S.A. as at the end of December 2018 reflect changes in the consolidated statement described in the relevant section above.

Net loans and advances to customers were the key asset item. They totalled PLN 117,492.5m, up 29.8% YoY, mainly on account of strong credit delivery to retail and business customers and acquisition of selected credit portfolios (retail, Private Banking and SME portfolios excluding foreign currency mortgage loans) along with an organised part of Deutsche Bank Polska S.A.

<b>Gross Loans and Advances to Customers of Santander Bank Polska S.A.</b>	<b>31.12.2018 <sup>1)</sup> under IFRS 9</b>	<b>31.12.2017 under IAS 39</b>	<b>YoY Change</b>
Loans and advances to individuals	60 581,9	44 322,8	36,7%
Loans and advances to enterprises and public sector customers	59 622,1	49 239,0	21,1%
Other	11,5	7,3	57,5%
<b>Total</b>	<b>120 215,5</b>	<b>93 569,1</b>	<b>28,5%</b>

2) Gross loans and advances to customers, as presented in accordance with IFRS 9, are not fully comparable with the previous periods as the balance as at the end of 2018 contains portfolios measured at fair value, net value of POCI exposures and reflects the effect of changes in the recognition of interest income.

Gross loans and advances to customers amounted to PLN 120,215.5m, up 28.5% YoY. The most pronounced growth was recorded in loans and advances to retail customers, supported by an increase of 36.2% YoY and 51.3% YoY in the portfolio of mortgage loans and cash loans to PLN 45,927.6m and PLN 11,551.9m, respectively. Loans and advances to enterprises and the public sector went up by 21.1% to PLN 59,622.1m. In 2018, the NPL ratio of the total credit portfolio measured as amortised cost was at 3.5%.

<b>Deposits of BZ WBK Customers</b>	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>YoY Change</b>
Deposits from individuals	81 591,7	59 310,8	37,6%
Deposits from enterprises and public sector customers	57 878,1	42 844,7	35,1%
<b>Total</b>	<b>139 469,8</b>	<b>102 155,5</b>	<b>36,5%</b>

Deposits from customers totalled PLN 139,469.8m and increased by 36.5% YoY on account of an organic growth and acquisition of a demerged part of Deutsche Bank Polska S.A. Deposits from retail customers grew by 37.6% YoY to PLN 81,591.7m as a result of an increase in savings account balances (up 37.8% YoY to PLN 34,495.8m), other current account balances (up 15.5% YoY to PLN 20,885.0m) and term deposits (up 61.2% YoY to PLN 26,315.1m). Deposits from enterprises and the public sector went up by 35.1% YoY to PLN 57,878.1m driven by a rise in all components, including an increase of 39.3% YoY in term deposits to PLN 24,003.1m and 31.7% YoY in current account balances to PLN 29,977.6m.

## Selected Financial Ratio of Santander Bank Polska S.A.

<b>Selected Financial Ratios of Santander Bank Polska S.A.</b>	<b>2018</b>	<b>2017</b>
Total costs/Total income	43,9%	43,8%
Net interest income/Total income	59,0%	61,8%
Net interest margin <sup>1)</sup>	3,00%	3,20%
Net commission income/Total income	23,5%	28,2%
Customer net loans/Customer deposits	84,2%	88,6%
NPL ratio <sup>2)</sup>	3,5%	5,0%
NPL coverage ratio <sup>3)</sup>	49,7%	56,6%
Credit risk ratio <sup>4)</sup>	0,73%	0,59%
ROE <sup>5)</sup>	11,4%	11,0%
ROTE <sup>6)</sup>	13,6%	13,0%
ROA <sup>7)</sup>	1,4%	1,5%
Capital ratio <sup>8)</sup>	18,04%	18,95%
Tier I ratio <sup>9)</sup>	15,85%	17,37%
Book value per share (in PLN)	233,72	209,79
Earnings per share (in PLN) <sup>10)</sup>	21,73	19,30

The methods of calculation of financial ratios of Santander Bank Polska S.A., which are included in the table above and assigned with numbers, have been provided under the table with ratios of Santander Bank Polska Group.

## 5. Additional Financial Information about Santander Bank Polska S.A. and Santander Bank Polska Group

### Selected transactions with related entities

#### Key intercompany transactions with subsidiaries

Transactions between Santander Bank Polska S.A. and its related entities are banking operations carried out on an arm's length basis as part of their ordinary business and mainly represent loans, bank accounts, deposits, guarantees and leases.

As at 31 December 2018, the bank's total exposure on loans to subsidiaries (e.g. Santander Factoring sp. z o.o., Santander Leasing S.A.) amounted to PLN 9,342.6m compared with PLN 8,816.5m as at 31 December 2017.

The deposits held with the bank by its subsidiaries (e.g. Santander Finanse Sp. z o.o., Santander Towarzystwo Funduszy Inwestycyjnych S.A.) totalled PLN 476.2m vs. PLN 154.5m as at 31 December 2017.

Contingent financial liabilities totalled PLN 5,495.3m compared with PLN 1,185.4m as at 31 December 2017. Guarantees to subsidiaries amounted to PLN 1,995.9m vs. PLN 63.5m as at 31 December 2017.

These intercompany items are excluded from the consolidated accounts.

#### Intercompany transactions with parent entity

The bank's receivables from the parent entity (Banco Santander S.A.) were PLN 955.5m compared with PLN 308.7m as at 31 December 2017, while obligations were PLN 294.9m compared with PLN 63.0m as at 31 December 2017. A full disclosure on related party transactions is available in Note 49 of the Consolidated Financial Statements of Santander Bank Polska Group for 2018 and in Note 47 of the Financial Statements of Santander Bank Polska S.A. for 2018.

### Selected off-balance sheet items

#### Guarantees and derivatives

The tables below present contingent liabilities and nominal amounts of derivative transactions of Santander Bank Polska Group.

<b>Conditional liabilities (granted)</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
<b>Financial:</b>	<b>28 477,2</b>	<b>24 642,3</b>
- credit lines	23 563,8	20 279,5
- credit cards	4 105,2	3 730,7
- import letters of credit	800,6	624,2
- term deposits with future	7,6	7,9
<b>Guarantees</b>	<b>5 606,8</b>	<b>4 885,7</b>
<b>Provision for off-balance sheet liabilities</b>	<b>(81,1)</b>	<b>(50,7)</b>
<b>Total</b>	<b>34 002,9</b>	<b>29 477,3</b>

<b>Derivatives' nominal values</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
Term derivatives (hedging)	23 562,6	25 301,4
Term derivatives (trading)	405 539,6	282 611,4
Currency transactions- spot	1 600,3	2 894,1
Transactions on equity financial instruments	555,8	817,7
<b>Total</b>	<b>431 258,3</b>	<b>311 624,6</b>

## Description of guarantees issued

Santander Bank Polska S.A. guarantees obligations arising from customers' operating activities. These are: payment guarantees, performance bonds, warranty bonds, bid bonds, loan repayment guarantees and customs guarantees. In justified cases, the bank issues counter-guarantees and standby letters of credit.

All guarantees are granted in accordance with the Polish Banking Law and the Polish Civil Code. Guarantees issued by the bank to secure cross-border transactions may be subject to applicable rules as agreed by the parties (e.g. Uniform Rules for Demand Guarantees) or to foreign law if a guarantee is governed by such law.

The process and information required in the case of guarantees are similar to the lending process. The bank adopts the same approach to credit risk here as in the case of balance sheet exposures.

## Operating lease

Santander Bank Polska S.A. and Santander Consumer Bank S.A. lease office premises in compliance with operating lease agreements. Typically, Santander Bank Polska S.A. signs its lease agreements for a term above 5 years, while lease agreements of Santander Consumer Bank S.A. are signed for a fixed term of 3–5 years (except for lease agreements concerning the premises of mobile units which are signed for an indefinite period subject to 2 to 6 months' notice).

PSA Finance Polska Sp. z o.o. – together with its subsidiary PSA Consumer Finance Polska Sp. z o.o. – generally operates on the premises leased under an agreement valid until 2021.

Total liabilities arising from all the irrevocable operating leases (including the value of land in perpetual usufruct) are presented below.

<b>Payments by maturity</b>	<b>31.12.2018</b>	<b>31.12.2017</b>
less than 1 year	212,0	208,0
between 1 and 5 years	539,7	474,2
over 5 years	152,6	384,5
<b>Total</b>	<b>904,3</b>	<b>1 066,7</b>

## Collateral

As at 31 December 2018, the value of borrowers' accounts, assets or leased assets pledged as collateral to Santander Bank Polska Group amounted to PLN 113,222.2m (PLN 89,730m as at 31 December 2017), including PLN 90,024,1m related to Santander Bank Polska S.A.

## 6. Factors Affecting the Profit in the Next Year

The following external developments may have a significant impact on the financial performance and activity of Santander Bank Polska Group in the next year:

- Gradual economic slowdown in Poland coupled with a growing inflation rate
- Further increase in operation costs of companies, particularly due to the growing costs of labour and energy
- Increased protectionism in global trade
- Growth in real disposable income of households on account of the continued employment and wage growth
- Further rise of labour market tension due to the continued shortage of a qualified workforce
- Low financing costs for households and businesses should stimulate demand for bank debt. At the same time, low interest on deposits should encourage bank customers to seek alternative savings/investment options.
- Further developments in the global equity markets and their impact on demand for investment fund units or, alternatively, safe bank deposits
- Changes in asset funding costs dependent on the pace and degree of changes in base rates, movements in the PLN exchange rate, liquidity position of the banking sector and the degree of price competition between banks seeking to attract customer deposits
- A possible increase in volatility in financial markets in the event of a more negative outlook for global economic growth, growing concerns about potential monetary policy tightening by the Federal Reserve or about intensification of trade wars

- Possible changes in the monetary policy of the NBP, the ECB and the Federal Reserve
- Effects of the negotiations regarding the Britain's exit from the European Union
- Price changes in commodity markets
- Regulatory changes.

## XII. Risk and Capital Management

### 1. Risk Management Principles and Structure in the bank and in Santander Bank Polska Group

#### Key risk management principles

Both the bank and other members of Santander Bank Polska Group are exposed to various risks within their day-to-day activities which adversely affect the delivery of strategic priorities of the organisation. The main types of risks include: credit risk, concentration risk, market risk (in the banking book and in the trading book), liquidity risk, operational risk, compliance risk and reputational risk.

The main objective of risk management in the bank and Santander Bank Polska Group is to ensure effective and safe operations to support development within approved risk parameters. Risk management practice is defined in keeping with the industry benchmark, regulatory guidance and recommendations from supervisory authorities.

Risk management in the bank and Santander Bank Polska Group is consistent with the risk profile which corresponds to the general risk appetite defined by the Group. Risk appetite is expressed as quantitative limits and captured in the Risk Appetite Statement approved by the Management Board and the Supervisory Board. Limits are set using stress tests and scenario analyses to ensure stability of the bank's position even if adverse circumstances materialise. Global limits are used to set watch limits and define risk management policies.

The integrated risk management structure contains separate units responsible for identification, measurement, monitoring and mitigation of risks in a way that ensures independence of risk management functions from risk-taking units. The responsibilities of risk management units are defined by the risk management framework that governs the process of identifying, measuring and reporting the risks taken. Furthermore, limits are set on a regular basis to mitigate exposure to individual risks.

#### Risk management structure

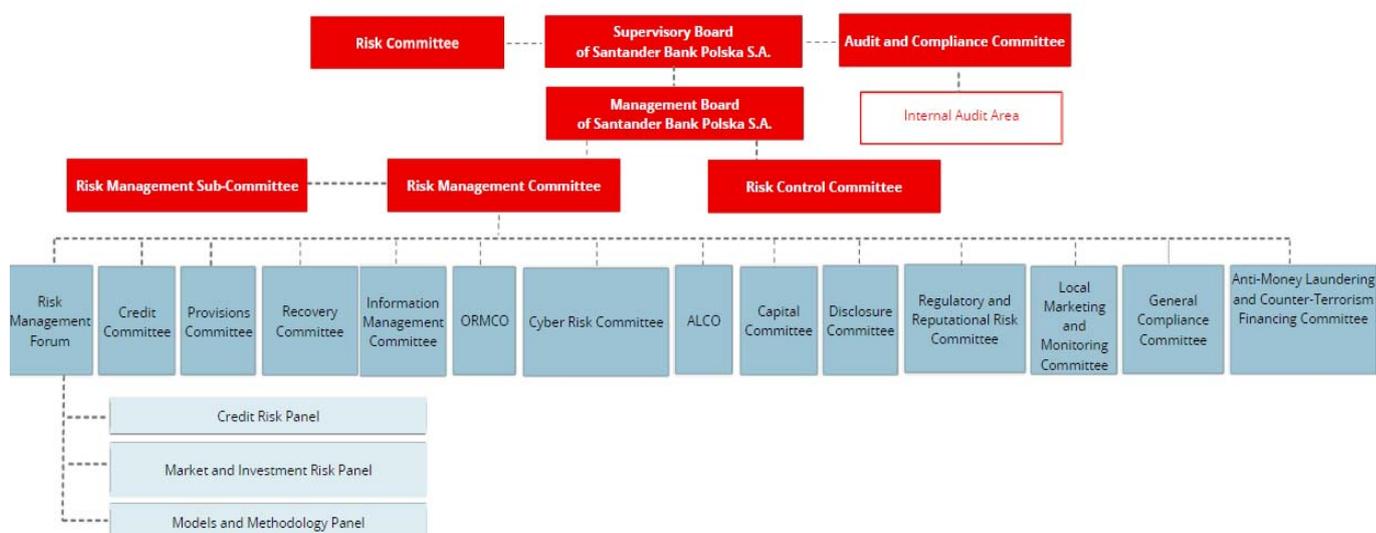
The bank's Supervisory Board, supported by the Audit and Compliance Committee of the Supervisory Board and the Risk Committee, is responsible for ongoing supervision of the risk management system in Santander Bank Polska S.A. The Supervisory Board approves the strategy, key risk management policies and risk appetite, and monitors the use of internal limits from the perspective of current business strategy and the macroeconomic environment. It conducts the reviews of the key risk areas, the identification of threats and the process of defining and monitoring remedial actions. The Supervisory Board also assesses the effectiveness of measures taken by the Management Board.

The bank's Management Board is responsible for implementing an effective risk management system compliant with the bank's regulatory obligations and internal regulations. Specifically, the bank's role in this regard is to set up an organisational structure tailored to the size and profile of the risks taken, to segregate responsibilities in order that risk measurement and control functions remain independent of operational functions, to introduce and update a risk management strategy and ensure an adequate information policy.

The Management Board fulfils its risk management role through the following three committees:

- The Risk Management Committee, which is an executive committee responsible for taking key decisions concerning risk management across the Group;
- The Risk Management Sub-Committee set up as part of the Risk Management Committee to approve the key decisions taken by the main lower-level risk committees;
- The Risk Control Committee that monitors the risk level across different areas of the bank's operations and supervises the activities of lower-level risk management committees set up by the Management Board.

## Corporate governance structure for risk supervision and management



The Risk Control Committee supervises the following committees responsible for risk management in the Group:

- The Risk Management Forum composed of panels dedicated to credit risk, market risk, equity investments and underwriting and models and methodology
- Credit Committee
- Provisions Committee
- Recovery Committee
- Operational Risk Management Committee/ ORMCO
- Cyber Risk Committee
- Information Management Committee
- Assets and Liabilities Committee/ ALCO
- Capital Committee
- Disclosure Committee
- Local Marketing and Monitoring Committee
- General Compliance Committee
- Regulatory and Reputational Risk Committee
- Anti-Money Laundering and Counter-Terrorism Financing Committee

These committees, acting within the respective remits defined by the Management Board, are directly responsible for developing risk management methods and monitoring risk levels in specific areas. Through these committees, the bank also supervises the risk attached to the operations of its subsidiaries.

The subsidiaries implement risk management policies and procedures that reflect the approach adopted by Santander Bank Polska S.A., which ensures the consistency of risk management processes across the Group.

Acting under the applicable law, the bank exercises oversight of risk management in Santander Consumer Bank S.A. (SCB S.A.) in line with the same oversight rules as applied to the other Santander Bank Polska Group companies. Representatives of Santander Bank Polska S.A. on the Supervisory Board of SCB S.A. are the bank's Management Board members in charge of the Risk Management Division and the Retail Banking Division.

Pursuant to the Santander Bank Polska S.A. strategy of investments in capital market instruments, they are responsible for supervision over SCB S.A. and they ensure, together with the Supervisory Board of SCB S.A., that the company operates in line with the adopted plans and operational security procedures. The bank monitors the profile and level of SCB S.A. risk via risk management committees of Santander Bank Polska S.A.

## 2. Risk Management Priorities in 2018

The bank continuously optimises its processes and products to increase the profitability of business, while ensuring attractive products and services for customers.

In response to these emerging challenges, the bank continues the Transformation Programme, which will introduce significant changes in the credit processes and technologies in place. The bank also consistently develops and promotes the remote channels in relationships with customers. It regularly optimises its existing processes and products to remain both competitive and profitable at the same time. Furthermore, it develops innovative risk management solutions to facilitate the safe and stable growth of business volumes while ensuring compliance with regulatory requirements relating to advanced risk management methods.

Work is being finalised to implement a centralised system for identifying, measuring, modelling and reporting on interest rate risk and liquidity risk to facilitate balance sheet management and ensure best-in-class standards in data quality assurance. The bank completed the first stage of the project involving the development of a data model and measurement of interest rate risk on the banking book. Measures are continued to implement advanced balance sheet scenario analysis and measurement of liquidity risk.

Until November 2018, the intensive preparations were under way to ensure smooth takeover of a part of the portfolio of Deutsche Bank Poland S.A. A number of projects were finalised such as the integration of data for sound risk management with respect to the acquired credit exposures, calibration of models for risk assessment of the combined customer base, and steps taken to ensure liquidity following the takeover of assets as well as compliance with provision and impairment allowance calculation and reporting standards. In addition, a lot of measures were applied to mitigate the operational risk and the reputational risk attached to the consolidation of portfolios. The work on acquisition of the portfolio of Deutsche Bank Polska S.A. were successful – the portfolios were integrated in the IT systems of Santander Bank Polska S.A. and no crisis situations occurred during the merger process.

On 1 January 2018, IAS 39 was replaced by IFRS 9, which introduced significant changes to the classification and measurement of financial instruments. For several years the bank was doing a number of projects to prepare the organisation in terms of operations, accounting and reporting to adopt the new standard. After finalisation of the projects in early 2018, in H1 2018, the bank focused on analytical work to implement IFRS 9, including an analysis of the bank's adaptation to the emerging market practice and industry interpretations aimed at ensuring consistent application of the standard. At the same time, the bank took relevant measures to guarantee the stability of models used to classify and measure exposures and performed the activities related to the model life cycle, such as the required calibration or validation.

## 3. Material Risk Factors Expected in 2019

Adverse macroeconomic developments such as an increased risk of trade conflict following the steps taken by the US, geopolitical tensions connected with ongoing armed conflicts and a difficult political and military situation in certain regions, concerns about the global economic outlook, risk of continued depreciation of the zloty as a result of the Britain's exit from the European Union, labour market tension resulting in an increased wage pressure and labour shortage may have a negative impact on the performance of companies and their investments, which in turn may affect the results of the banking sector. The bank monitors potential impact on an ongoing basis. So far, the situation has been stable.

Market observations give rise to concerns about possible deterioration of the economic situation in 2019. The threats include the increasing number of bankruptcies and insolvencies among companies despite the rapid economic growth in Poland, as well as the growing risk of slowdown in the industrial sector in 2019, signalled by the record low PMI (Purchasing Managers' Index) for Poland recorded in December 2018.

Faced with the observed threats, the bank is undertaking preventive actions. First of all, it will continue the strategy based on the best understanding of the business customers through the use of a sectoral approach, development of risk assessment models and focus on financing companies with good and very good financial positions.

The challenges invariably include the possibility of legislative solutions being introduced with respect to loans indexed to/denominated in foreign currency, which may substantially affect the bank's performance and risk profile. The bank is actively involved as a member of a working group set up by the Polish Bank Association (ZBP) and monitors the impact of potential solutions on the bank's loan book on an ongoing basis. The bank's position is secure in all the analysed scenarios.

What remains as a material risk factor is the scope and pace of changes in the regulatory environment, requiring the involvement of appropriate resources, starting from the stage of monitoring regulatory initiatives to analysis and design of changes, to their implementation. In H2 2018, the bank continued the implementation work connected with the Directive of the European Parliament and of the Council on payment services in the internal market ("PSD2"), which is to become effective in 2019. The Directive may reduce banks' competitive advantage that they enjoy at present as the only institutions that have access to information about customers' income and expenses. Under PSD2, non-banking entities will be able to examine behavioural data on customers' accounts while being subject to less stringent legal requirements than those imposed on banks.

Particularly important to the banking sector is the continuation of talks regarding the legislation on the resolution of banks ensuring stability of the financial system. The new regulations will result in further requirements imposed on banks in relation to the issue of eligible liabilities that meet the prudential requirements under MREL (minimum requirement for own funds and eligible liabilities).

## 4. Credit Risk Management

### Credit risk

Credit risk is defined as the possibility of suffering a loss if the borrower fails to meet their credit obligation, including payment of interest and fees. It results in the impairment of credit assets and contingent liabilities as a consequence of the borrower's worsening credit quality. Credit risk measurement is based on the estimation of credit risk weighted assets, with the relevant risk weights representing both the probability of default and the potential loss in the event of the borrower's default.

Credit risk in the bank and Santander Bank Polska Group arises mainly from lending activities on the retail, corporate and interbank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit procedures and discretionary limits. The internal system of credit grading and monitoring used by the bank and Santander Bank Polska Group allows for the early identification of potential defaults that might impair the loan book. Additionally the bank and the Group use a large set of credit risk mitigation tools, both collateral (financial and non-financial) and specific credit provisions and clauses (covenants).

Credit risk management in the bank and Santander Bank Polska Group involves actions taken as a result of the ongoing analysis of the macroeconomic environment and internal reviews of particular credit portfolios. These advanced credit risk assessment tools allow quick remedial actions to be effected in response to the first signs of any change in the portfolio's quality or structure.

### Credit policy

The credit policy adopted by the bank and Santander Bank Polska Group is a set of principles and guidelines included in credit policies and procedures which are reviewed on a regular basis. Internal limits are crucial components of the lending policy because they facilitate the monitoring of exposure concentration within individual sectors, geographical regions and foreign currencies. Pursuant to the policy, the bank and Santander Bank Polska Group ensure adequate diversification of the credit portfolio in terms of exposure towards individual customers and sectors.

In 2018, the bank and the Group continued their existing credit risk management policy, keeping credit risk at a safe level while ensuring the high profitability of loan portfolios, the growth of business volumes and an increase in market share. Credit policies were optimised in response to macroeconomic developments.

The most important measures taken by the bank to manage credit risk in 2018 included:

- Optimisation and harmonisation of the credit process for corporate and mid-corporate customers;
- Preparation and smooth completion of the takeover of the demerged part of the portfolio of Deutsche Bank Polska S.A. by Santander Bank Polska S.A.;
- Implementation of new risk assessment tools using new modeling methods;
- Optimisation of the credit policy with regard to retail and SME lending through changes in customer assessment parameters aimed at reducing the cost of credit.

The lending activity of subsidiaries is modelled on the bank's credit policies. In the decision making process, the bank and Santander Bank Polska Group follow a consistent approach to credit risk and use the same IT platform to assign rating/ scoring (this does not apply to SCB S.A.). Subsidiaries have credit risk management procedures in place which are consistent with the regulations applied by the bank.

## Credit risk management process

### Key elements of the credit risk management process in the bank and in Santander Bank Polska Group

<b>Credit decision making process</b>	<ul style="list-style-type: none"> <li>Discretionary limits are governed by the Guidelines on Discretionary Limits in Santander Bank Polska S.A. The Guidelines define roles and responsibilities of individual units and staff members involved in the credit delivery process.</li> <li>The credit decision making process is based upon individual credit discretions vested in credit officers, commensurate with their knowledge and experience relating to particular activities and specific needs of respective segments (branch banking, SME banking, business banking and corporate banking).</li> <li>Large credit exposures in excess of PLN 25m are referred to the Credit Committee composed of senior management and top executives. Transactions above PLN 187.5m are additionally signed off by the Management Board's Risk Management Sub-Committee. The existing system of credit discretion ensures segregation of the credit risk approval function from the sales function.</li> </ul>
<b>Credit grading</b>	<ul style="list-style-type: none"> <li>The credit risk assessment tools conform to KNF guidelines, International Accounting Standards/ International Financial Reporting Standards (IAS/IFRS) and best market practice.</li> <li>The Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, home loans, property loans, cash loans, credit cards and personal overdrafts.</li> <li>Credit grading is subject to regular monitoring which is carried out in accordance with the rules described in the lending manuals. Additionally, for selected models, automated processing of credit grade verification is carried out based on the number of overdue days or an analysis of behavioural factors. Credit grade is also verified at subsequent credit assessments.</li> </ul>
<b>Credit reviews</b>	<ul style="list-style-type: none"> <li>The Group performs regular reviews to determine the actual quality of the credit portfolio, confirm that adequate credit grading and provisioning processes are in place and verify compliance with the procedures and credit decisions.</li> </ul>
<b>Collateral</b>	<ul style="list-style-type: none"> <li>The Collateral and Credit Agreements Department is a central unit responsible for ensuring that any security items at Santander Bank Polska Group are duly established and held effective in line with the lending policy for respective business segments. The unit develops standardised internal procedures with respect to collateral and ensures that the establishment, monitoring and release of security covers is duly effected. In addition, the Collateral and Credit Agreements Department provides assistance to credit units in credit decision making and the development of credit policies, collects data on security covers and ensures adequate management information.</li> </ul>
<b>Credit risk stress testing</b>	<ul style="list-style-type: none"> <li>Stress testing is a part of the credit risk management process used to evaluate potential effects of specific events, movements in financial and macroeconomic ratios or changes in the risk profile on the condition of the bank and Santander Bank Polska Group. Stress tests are conducted to assess potential changes in credit portfolio quality when faced with adverse conditions. The process also delivers management information about the adequacy of the agreed limit and internal capital allocation.</li> </ul>
<b>Calculation of impairment</b>	<ul style="list-style-type: none"> <li>Impairment allowances reflect credit impairment, which is recognised if the bank or the Group presents objective evidence that such amounts cannot be recovered in line with the signed loan agreement.</li> <li>Impairment is calculated on the basis of the estimated recoverable amount. Impairment analysis is performed using both an individual (for individually significant exposures with objectively evidenced impairment) and collective approach (individually insignificant exposures with objectively evidenced impairment, and incurred but not reported losses).</li> <li>Twice a year, the Group compares the assumptions and parameters used for impairment calculations with the actual situation, including changes of economic conditions, and amendments to the Group's credit policies and recovery process. This process provides assurance that impairment allowances are recognised correctly. The responsibility for ensuring the adequacy of impairment allowances rests with the Provisions Committee.</li> </ul>
<b>Forbearance</b>	<ul style="list-style-type: none"> <li>As part of proactive management of credit risk and credit portfolio quality, Santander Bank Polska Group takes measures aimed at the early implementation of debt restructuring (forbearance solutions) with respect to customers in financial difficulty. The purpose of debt restructuring is to better match repayment terms with the current and projected financial standing of the customer, minimise default risk and/or maximise recovery.</li> <li>The portfolio subject to restructuring is monitored on a regular basis. The debt is classified as restructured until the customer's circumstances stabilise. For more information on forbearance, see Note 4 "Risk Management" in "Consolidated Financial Statements of Santander Bank Polska Group for 2018".</li> </ul>

## Credit portfolio quality

### SANTANDER BANK POLSKA GROUP LOANS AND ADVANCES TO CUSTOMERS BY IMPAIRED AND NON-IMPAIRED LOAN PORTFOLIOS

<b>Risk Structure of Loans and Advances to Customers</b>	<b>31.12.2018</b>
Gross amount of exposures classified as stage 3 (Individually impaired)	2 071,3
Allowance for credit losses	(796,2)
<b>Net amount of stage 3 individually impaired exposures</b>	<b>1 275,1</b>
Gross amount of exposures classified as stage 3 (collectively impaired)	3 632,3
Allowance for credit losses	(2 440,1)
<b>Net amount of stage 3 collectively impaired exposures</b>	<b>1 192,2</b>
Gross amount of exposures classified as stage 2	5 696,1
Allowance for expected credit losses	(530,3)
<b>Net amount of stage 2 exposures</b>	<b>5 165,8</b>
Gross amount of exposures classified as stage 1	127 863,3
Allowance for expected credit losses	(564,6)
<b>Net amount of stage 1 exposures</b>	<b>127 298,7</b>
Exposures classified as purchased or originated credit-impaired assets (POCI)	764,6
Allowance for credit losses	(53,1)
<b>Net amount (POCI)</b>	<b>711,5</b>
<b>Total loans and advances to customers valued by amortised costs</b>	<b>135 643,3</b>
<b>Non-performing and underperforming loan ratio</b>	<b>4,1%</b>
<b>Non-performing and underperforming loan coverage ratio</b>	<b>56,7%</b>

<b>Loans and Advances to Customers by Impaired and Non-Impaired Loan Portfolios</b>	<b>31.12.2017</b>
Individually impaired (gross amount)	2 378,3
Allowance for impairment	(1 225,2)
<b>Net amount (individually impaired)</b>	<b>1 153,1</b>
Collectively impaired (gross amount)	4 129,3
Allowance for impairment	(2 882,4)
<b>Net amount (collectively impaired)</b>	<b>1 246,9</b>
<b>Total net impaired loans and advances to customers</b>	<b>2 400,0</b>
IBNR portfolio (gross amount)	106 169,0
IBNR provisions	(738,5)
<b>Net amount (non-impaired)</b>	<b>105 430,5</b>
Other receivables	9,4
<b>Total net loans and advances to customers</b>	<b>107 839,9</b>
<b>Impaired loan ratio</b>	<b>5,8%</b>
<b>Impaired loan coverage ratio</b>	<b>63,1%</b>

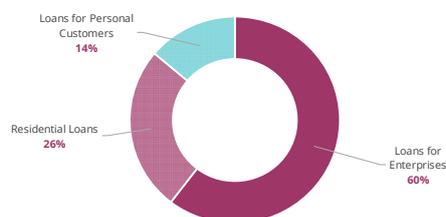
## SANTANDER BANK POLSKA S.A. LOANS AND ADVANCES TO CUSTOMERS BY IMPAIRED AND NON-IMPAIRED LOAN PORTFOLIOS

<b>Risk Structure of Loans and Advances to Customers</b>	<b>31.12.2018</b>
Gross amount of exposures classified as stage 3 (Individually impaired)	1 947,9
Allowance for credit losses	(716,8)
<b>Net amount of stage 3 individually impaired exposures</b>	<b>1 231,1</b>
Gross amount of exposures classified as stage 3 (collectively impaired)	2 204,9
Allowance for credit losses	(1 346,7)
<b>Net amount of stage 3 collectively impaired exposures</b>	<b>858,2</b>
Gross amount of exposures classified as stage 2	3 430,1
Allowance for expected credit losses	(264,1)
<b>Net amount of stage 2 exposures</b>	<b>3 166,0</b>
Gross amount of exposures classified as stage 1	110 468,3
Allowance for expected credit losses	(362,5)
<b>Net amount of stage 1 exposures</b>	<b>110 105,8</b>
Exposures classified as purchased or originated credit-impaired assets (POCI)	728,4
Allowance for credit losses	(32,9)
<b>Net amount of POCI</b>	<b>695,5</b>
<b>Total non-performing and underperforming loans and advances to customers</b>	<b>116 056,6</b>
<b>Non-performing and underperforming loan ratio</b>	<b>3,5%</b>
<b>Non-performing and underperforming loan coverage ratio</b>	<b>49,7%</b>

<b>Loans and Advances to Customers by Impaired and Non-Impaired Loan Portfolios</b>	<b>31.12.2017</b>
Individually impaired (gross amount)	2 246,0
Allowance for impairment	(1 144,5)
<b>Net amount (individually impaired)</b>	<b>1 101,5</b>
Collectively impaired (gross amount)	2 477,6
Allowance for impairment	(1 530,2)
<b>Net amount (collectively impaired)</b>	<b>947,4</b>
<b>Total net impaired loans and advances to customers</b>	<b>2 048,9</b>
IBNR portfolio (gross amount)	88 838,2
IBNR provisions	(357,4)
<b>Net amount (non-impaired)</b>	<b>88 480,8</b>
Other receivables	7,3
<b>Total net loans and advances to customers</b>	<b>90 537,0</b>
<b>Impaired loan ratio</b>	<b>5,0%</b>
<b>Impaired loan coverage ratio</b>	<b>56,6%</b>

## VALUE AND STRUCTURE OF SANTANDER BANK POLSKA GROUP DEBT SUBJECT TO FORBEARANCE

STRUCTURE OF GROSS LOANS AND ADVANCES SUBJECT TO FORBEARANCE  
ARRANGEMENTS BY CUSTOMER TYPE AS AT 31.12.2018



Loans and Advances to Customers Subject to Forbearance Arrangements (PLN m)		
	31.12.2018	31.12.2017
Loans and advances to customers in the gross amount	3 325,8	3 460,8
- Impaired	2 206,2	1 774,3
- Unimpaired	1 119,6	1 686,5
Allowance for impairment	(1 080,1)	(847,6)
<b>Loans and advances to customers in the net amount</b>	<b>2 245,7</b>	<b>2 613,2</b>

## 5. Market Risk and Liquidity Risk Management

### Market risk

Market risk within the bank's and the Group's operations is derived mainly from customer service operations, transactions effected to maintain liquidity on the money market and the capital market as well as proprietary trading in debt, FX and equity instruments.

The key objective of the market risk policy adopted by the bank and Santander Bank Polska Group is to reduce the impact of interest and FX rates movements on the Group's profitability and market value as well as to increase income within strictly defined risk limits and to ensure the Group's liquidity.

### Market risk management

The Risk Management Forum approves market risk management strategies and policies as well as limits that define the maximum acceptable exposure to individual risk types, in accordance with the Risk Appetite Statement.

The Management Board takes its strategic decisions on the basis of recommendations put forward by the Risk Management Forum, to which direct supervision of market risk management has been delegated.

ALCO – supported by the Financial Management Division – is responsible for managing market risk in the banking book, while the market risk in the trading book is managed by the Corporate and Investment Banking Division of Santander Bank Polska S.A.

### Identification and assessment of market risk

Interest rate and FX risks associated with the banking book are managed by the Financial Management Division, which is also responsible for managing open positions in interest rate and FX risks of companies from Santander Bank Polska Group.

The Corporate and Investment Banking Division is responsible for managing the market risk of the trading book, while Santander Brokerage Poland is responsible for the risk attached to equity instruments.

The responsibility for measurement, monitoring and reporting of market risk and compliance with risk limits is vested in the Risk Management Division, which is responsible for regular reviews of market risk exposure and reporting results to the Risk Management Forum.

With the division of roles, the management of risk in the banking book is fully separate from the management of risk in the trading book, and the risk measurement and reporting functions are separate from the risk managing and taking units.

The market risk management policies adopted by the bank and the Group set out a number of measures in the form of obligatory and watch limits and ratios. Limits are reviewed and risk appetite is updated on an annual basis. The process is coordinated by the Financial Risk Department in the Risk Management Division.

To control the banking book risk, the following maximum sensitivity limits have been set for the risk of interest rate changes:

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

#### SENSITIVITY OF BANKING BOOK TO INTEREST RATE MOVEMENTS AS AT 31.12.2017 AND 31.12.2018

1 day holding period (PLN k)	NII Sensitivity		MVE Sensitivity	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Maximum	273	238	375	377
Average	224	211	316	267
As at the end of period	273	238	298	347
<b>Limit</b>	<b>300</b>	<b>310</b>	<b>400</b>	<b>380</b>

In 2018, the global NII and MVE limits for the banking book were not exceeded.

The bank and Santander Bank Polska Group use the following measures and limits to mitigate and control exposure to market risk in the trading book:

- daily VaR limit and Stressed VaR limit for interest rate risk, FX risk and the repricing risk of equity instruments held by Santander Brokerage Poland;
- PV01 limit set for individual currencies and transaction repricing dates;
- stop-loss mechanism used to manage the risk of loss on trading positions subject to fair value measurement through profit or loss;
- maximum limit of the total FX position and an open position for individual currencies.

As these measures relate to the calculation of a potential loss under normal market conditions, the bank and Santander Bank Polska Group also use stress tests which show the estimated potential losses in the event of the materialisation of adverse market conditions.

#### VAR AS AT 31.12.2017 AND 31.12.2018 FOR INTEREST RATE, CURRENCY AND EQUITY RISK IN THE TRADING BOOK OF SANTANDER BANK POLSKA GROUP

PLN k	Interest Rate Risk VAR		FX Risk		Equity Securities Risk VAR	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
<b>1 day holding period</b>						
Average	1 702	1 559	473	414	208	304
Maximum	5 966	4 777	1 939	1 725	584	694
Minimum	523	373	53	50	5	46
as at the end of the period	1 508	839	150	175	106	90
<b>Limit</b>	<b>6 767</b>	<b>6 266</b>	<b>2 820</b>	<b>2 611</b>	<b>3 760</b>	<b>3 621</b>

### Financial instruments used for management of market and other risks

The bank and the Group use the following financial instruments in relation to repricing risk, credit risk, cash flow risk and liquidity risk:

- derivative instruments held for trading – proprietary transactions in connection with treasury services rendered to bank customers in order to mitigate market risk, maintain liquidity or as part of underwriting services;
- other financial instruments, including investment securities held for sale, hedging derivatives and equity instruments.

Market risk associated with open positions in financial instruments is mitigated through a set of limits (defined separately for the trading book and the banking book). The credit risk of such positions is curbed using concentration limits in respect of individual counterparties. In order to mitigate liquidity risk, the bank and the Group keep an adequate level of liquid financial assets bearing low credit risk (in particular treasury bonds and NBP money market bills) in line with the liquidity risk appetite defined by the bank and the Group.

No derivative instruments were used by the bank or the Group to hedge credit risk, while FX options and interest rate options were executed on a back-to-back basis and therefore did not expose the bank or the Group to market risk.

The market risk of the balance sheet is managed by the bank and the Group using, among other things, derivative instruments and hedge accounting with respect to:

- mortgage loans bearing WIBOR rate – interest rate swaps are used to receive fixed interest and pay floating interest thus hedging the risk of movements in cash flows relating to floating interest loans;
- mortgage loans in CHF and EUR – basis swaps are used to hedge the risk of movements in interest rates (CHF LIBOR, EURIBOR) and exchange rates (CHF/PLN and EUR/PLN);
- fixed interest cash loans – interest rate swaps are used to receive floating interest and pay fixed interest thus hedging the fair value of positions;
- selected fixed coupon bonds – interest rate swaps are used to hedge the fair value of bonds whereby the bank and the Group receive floating interest and pay fixed interest.

## Liquidity risk

Liquidity risk is the risk of failure to meet contingent and non-contingent obligations made to customers and counterparties.

The Liquidity Risk Policy adopted by the bank and the Group is to ensure that all outflows expected in the short term are fully covered by anticipated inflows or liquid assets. In addition, the aim of the policy is to ensure an adequate structure of funding for the bank's and the Group's operations by maintaining medium- and long-term liquidity ratios at a pre-defined level and monitoring stress testing results. This policy covers all assets and liabilities as well as off-balance sheet items impacting the liquidity level.

### Liquidity risk management

ALCO and the Risk Management Forum have overall responsibility for the supervision of liquidity risk on behalf of the Management Board. As part of their roles, they make recommendations to the Management Board on appropriate strategies and policies for strategic liquidity management. Liquidity risk reports and stress test results are regularly reviewed by senior management.

ALCO also supervises the liquidity management process in subsidiaries.

Liquidity management is the role of the Financial Management Division, which is responsible for the development and maintenance of appropriate strategies. The Risk Management Division is responsible for the independent measurement and reporting of liquidity risk and defining liquidity risk management policies. The Financial Risk Department in the Risk Management Division is also responsible for the regular performance of stress tests with respect to liquidity, and for the review of the Contingency Liquidity Plan approved by the Management Board and the Supervisory Board.

### Identification and assessment of liquidity risk

Liquidity risk is identified and measured daily, mainly using modified liquidity gap reports, intraday liquidity reports and regulatory reports. These reports include a number of internal and regulatory limits. Cyclical liquidity measurement reports are supported by stress test results. The bank regularly calculates the measures laid down in CRD IV/CRR (LCR and NSFR) and in KNF Resolution No. 386/2008.

## CONTRACTUAL LIQUIDITY GAP ANALYSIS AS AT 31.12.2018 AND IN COMPARABLE PERIOD

31.12.2018 PLN m	A'vista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years
Contractual liquidity mismatch/gap	(63 228,9)	(9 754,0)	(10 842,2)	(3 790,8)	2 125,6	13 113,5	32 569,4	43 941,4
Cumulative liquidity gap	(63 228,9)	(72 982,9)	(83 825,1)	(87 615,9)	(85 490,3)	(72 376,8)	(39 807,4)	4 134,0
Net derivatives	-	40,3	(25,1)	(11,3)	(2,7)	(59,3)	(450,7)	(308,2)
31.12.2017 PLN m	A'vista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years
Contractual liquidity mismatch/gap	(2 557,6)	(22 395,2)	(13 701,1)	(1 661,3)	(1 247,2)	5 374,2	19 057,2	17 131,0
Cumulative liquidity gap	(2 557,6)	(24 952,8)	(38 653,9)	(40 315,2)	(41 562,4)	(36 188,2)	(17 131,0)	-
Net derivatives	-	(64,0)	13,8	(76,8)	(33,3)	12,9	(6,0)	(119,7)

According to the Group's policy, the bank should have sufficient funds to cover in full outflows expected over a one-month horizon, including that of the selected stress test scenarios. The liquidity position over a longer time horizon and the level of qualified liquid assets are also monitored.

In 2018, the bank's funds significantly exceeded the level required to cover the expected outflows. The bank also met the regulatory quantitative requirements for liquidity. Key regulatory indicators (i.e. LCR and ratio of coverage of non-liquid assets and assets of limited liquidity with own funds and core external funds) comfortably exceeded the required levels.

## 6. Operational Risk Management

According to the definition of the Basel Committee on Banking Supervision, operational risk is the risk of loss resulting from external factors or inadequacy or failure of internal processes, human resources and systems.

The objective of operational risk management is to minimise the likelihood and/or reduce the impact of unexpected adverse events.

Employees across the bank and Santander Bank Polska Group are involved in operational risk management – this process covers a number of interrelated concepts. Operational risk is inherent in all the bank's and Group's business processes, including outsourced functions or services delivered jointly with third parties.

The bank and the Group apply the Operational Risk Management Strategy.

The Operational Risk Management Committee (ORMCO) established by the Management Board is responsible for setting operational risk management standards for Santander Bank Polska Group. ORMCO is the main forum for discussions on operational risk. It sets the strategic direction for operational risk management, determines and monitors objectives for managing operational risk, including business continuity, information security, outsourcing/ insourcing and money laundering risk. As part of ORMCO, there are dedicated forums which deal with specific operational risk aspects: the Anti-Fraud Forum and the Insurance Forum. The results of ORMCO's work are reported to the Risk Control Committee.

In view of a growing cyber threat, the Cyber Risk Committee was set up as a forum for direct cooperation and communication among all organisational units involved in the processes related to cyber security in a broad sense. The Committee also supervises the adherence to the cyber security strategy at Santander Bank Polska S.A.

## Operational risk management tools

### Tools used by the bank and the Group to manage operational risk

<b>Identification and assessment of operational risk</b>	<ul style="list-style-type: none"> <li>In the self-assessment process, the bank and Santander Bank Polska Group identify the risks they may be exposed to when delivering their functions, assess inherent and residual risks in terms of their likelihood and impact, and evaluate the design and effectiveness of existing controls.</li> <li>The process of identification and assessment of operational risk is additionally supported by such tools as: scenario analyses, business impact analyses and an analysis of risk in new initiatives.</li> </ul>
<b>Reporting</b>	<ul style="list-style-type: none"> <li>Each organisational unit is required to report operational risk events identified in its area of responsibility. Relevant operational risk events are escalated to senior management using a fast-track procedure. The Group runs a database of operational events identified across the organisation. The data are used to analyse the causes and consequences of operational risk events, facilitate the lessons learned process and implement remedial and preventive actions.</li> <li>The Group also makes inputs to the external database of operational risk events run by the Polish Banks Association and uses information about external events from a number of sources. The analysis of external events allows for benchmarking and lesson learning from events identified outside the Group.</li> </ul>
<b>Analysis of risk indicators</b>	<ul style="list-style-type: none"> <li>Santander Bank Polska Group monitors financial, operational and technological risk indicators. Risk indicators provide an early warning of emerging threats and operational losses and support monitoring of risk in the bank's and Group's operations.</li> </ul>
<b>Defining risk mitigants</b>	<ul style="list-style-type: none"> <li>The process of managing operational risk mitigants is designed to eliminate or reduce operational risk. Risk mitigation measures are determined based on the results of analyses carried out using various operational risk tools (including operational risk events database, risk indicators, and risk self-assessment).</li> </ul>
<b>Business continuity management (BCM) plans</b>	<ul style="list-style-type: none"> <li>Each organisational unit is required to develop and update its business continuity management plan to ensure that critical business processes remain uninterrupted following an unplanned disruption. BCM plans are tested on a regular basis to provide assurance to Santander Bank Polska Group that critical business processes may be restored at the required service level and within the agreed time frame. The bank and the Group have backup locations in place where critical processes can be restored and continued should an incident occur.</li> </ul>

### Tools used by the bank and the Group to manage operational risk

<b>Information security</b>	<ul style="list-style-type: none"> <li>Santander Bank Polska S.A. has the Information Security Management System in place which has a certificate of compliance with the ISO/IEC 27001:2013 standard. The purpose of the system is to supervise information security in Santander Bank Polska Group's business environment, and assess specific information and system security requirements.</li> </ul>
<b>Insurance</b>	<ul style="list-style-type: none"> <li>For the purpose of operational risk mitigation, Santander Bank Polska Group has an insurance scheme in place which covers various financial risks, plus motor, property and professional indemnity insurance.</li> </ul>
<b>Reporting to the Risk Management Committee and Supervisory Board</b>	<ul style="list-style-type: none"> <li>The aim of operational risk reporting is to provide up-to-date and adequate information to the management team. Operational risk reports record details on operational risk events and losses, information security incidents, risk indicators and defined mitigants.</li> </ul>

## 7. Legal and Compliance Risk Management

Operating in the complex legal and regulatory environment, the bank and Santander Bank Polska Group are exposed to the risk of misapplication or misinterpretation of legal provisions, regulatory requirements, industry codes and ethical codes adopted by the bank, and internal policies and procedures (including codes of best practice). Non-compliance might expose the bank to loss of reputation or administrative or criminal sanctions.

The management and control of compliance risk includes application of controls, independent monitoring of their execution and reporting. The control function is performed under three lines of defence:

- the first line of defence: management of operational risk arising from the bank's operations;
- the second line of defence: on-going vertical verification and vertical testing;
- the third line of defence: the internal audit function.

According to the Compliance Policy, the Legal and Compliance Division of Santander Bank Polska S.A. includes a compliance function, which is independent of business units, and which comprises the Compliance Area and the Anti-Money Laundering Department. This compliance function acts as the second line of defense by setting and enforcing standards, providing advice and reporting in the interest of employees, customers, shareholders and the public.

The compliance function supports the bank's strategy with respect to managing regulatory risk, conduct risk, money laundering and terrorism financing risk and reputational risk. Its activity is also determined by the bank's business profile: it carries out tasks related to the protection of consumer rights or the constant digitalisation and standardisation of financial services.

In particular, the compliance function is responsible for:

- independent identification, monitoring and assessment of compliance risk that the Group is exposed to (with particular focus on new products and services, prevention of using the financial system for money laundering and terrorist financing purposes, protection of confidential information, conflicts of interest or private account share dealing by employees);
- preventing the use of the financial system for money laundering and terrorist financing;
- providing advice and reporting to the Risk Management Committee, the bank's Management Board and the Audit and Compliance Committee on the effectiveness of processes established to ensure compliance with legal and regulatory requirements;
- communication of policies and procedures, providing the management and staff with guidance on compliance risk management;
- coordination of contacts with market regulators (KNF, UOKiK, GIIF, GIODO);
- coordination of the approval of new products;
- coordination and support for compliance processes regarding a model for the sale of investment products and the MiFID Directive;
- strengthening the principles of ethical business conduct;
- cooperation with the Corporate Communication and Marketing Area and the Risk Management Division in the area of reputational risk management.

The compliance function also coordinates the activities of committees supporting compliance risk management processes in respective areas of the Group.

- General Compliance Committee
- Regulatory and Reputational Risk Committee
- Local Marketing and Monitoring Committee
- Anti-Money Laundering and Counter-Terrorism Financing Committee.

Sitting on these committees are representatives of key organisational units that have the necessary expertise and authority to ensure that relevant decisions can be taken and high quality advice is provided in the course of the proceedings. These are:

Employees of the compliance function support the senior management of the bank in effective compliance risk management and report on key compliance issues to the bank's Management Board, the Risk Management Committee and the Audit and Compliance Committee of the Supervisory Board.

The Management Board and the Supervisory Board (through the Audit and Compliance Committee) regularly review key compliance issues identified by the Compliance Area and the Anti-Money Laundering Department. The review particularly includes:

- monitoring of new products;
- test compliance monitoring;
- monitoring of employees' own trades;
- information on the activity of market regulators;
- review of upcoming legislative initiatives;
- review of anti-money laundering issues;
- ethical review;
- review of customer complaints.

In September 2018, the bank's Supervisory Board, based on a positive recommendation of the Audit and Compliance Committee, positively assessed the effectiveness of compliance risk management at Santander Bank Polska S.A.

In addition to the compliance function, the second line of defence also includes other organisational units operating under internal regulations, in particular:

- for labour law responsibilities – HR unit
- for commercial companies law responsibilities – corporate governance unit
- for health and safety responsibilities – health and safety unit
- for accounting, reporting and tax responsibilities – financial, accounting and tax units
- for prudential requirements – risk units.

## 8. Reputational Risk Management

Reputational risk is defined as the risk arising from any negative perception of the bank and other members of Santander Bank Polska Group by customers, counterparties, shareholders, investors, regulators or communities.

Potential sources of this risk are internal operational incidents and external events, such as adverse publicity, dissemination of negative feedback from customers, e.g. via the Internet, in social media and other mass media. They may refer directly to Santander Bank Polska Group and its products as well as the bank's shareholders and the entire banking or financial sectors (both domestic and international).

The elements of reputational risk include customer complaints and claims related to the process of offering banking products, including complaints about the lack of sufficient (i.e. complete, true, reliable and non-misleading) information about products and related risks, the complexity of products, improper sales practices or loss of capital.

The owners of the reputational risk are the Corporate Communication and Marketing Area and the Compliance Area.

The objective of the reputational risk management process is to protect the image of Santander Bank Polska Group and to limit and eliminate negative events which affect the image and financial results of the Group.

The key risk mitigation measures include:

- Disclosure Policy of Santander Bank Polska S.A.
- Reputational Risk Management Policy of Santander Bank Polska S.A.
- Daily monitoring of local, nationwide and certain international mass media sources (Corporate Communication and Marketing Area)
- Daily monitoring of social media sources (in particular: Facebook, Twitter) in the context of references to the bank (Corporate Communication and Marketing Area)
- Analysis of image-sensitive information by the Press Office (Corporate Communication and Marketing Area)
- Response to information which poses a threat to public perception of the bank's image (Corporate Communication and Marketing Area)
- Keeping the representatives of national and local media up to date about new products and changes to regulations regarding existing products
- Customer satisfaction survey (Chief Customer Officer)
- Recommendations and preventive actions arising from the analysis of complaints (Chief Customer Officer)
- Preparation and control by relevant units of Santander Bank Polska S.A. of all important communications and reports for shareholders, the Polish Financial Supervision Authority (KNF) and the Warsaw Stock Exchange and the timely publication of such communications and reports
- Evaluation of new products or their modifications, procedures, communication, commercial materials, banking initiatives addressed to customers (promotions, contests) and training materials for sales staff in respect of their compliance with laws and regulatory guidelines (Compliance Area)
- Participation in the process of handling customer complaints, especially those addressed to the regulators (Compliance Area)
- Supervision of after-sales control of investment products (Compliance Area)
- Mystery shopping surveys for investment products (Compliance Area)
- Regular monitoring of reputational risk associated with products offered by Santander Bank Polska Group through the analysis of customer complaints, sales volumes, the number of customers and rate of return, if applicable (Compliance Area)
- Participation in the analysis of customers/ transactions from sensitive sectors (including energy, arms and soft commodities industries) (Compliance Area).

## 9. Capital Management

### Background

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

The level of own funds required to ensure safe operations of the bank and Santander Bank Polska Group and capital requirements estimated for unexpected losses is determined in accordance with: the provisions of the CRD IV/CRD package and the Macroprudential Supervision Act, taking into account KNF's recommendations (see Note 4 "Risk Management" in "Consolidated Financial Statements of Santander Bank Polska Group for 2018").

The Management Board is accountable for capital management, calculation and maintenance processes, including the assessment of capital adequacy in different economic conditions and the evaluation of stress test results and their impact on internal and

regulatory capital and capital ratios. Responsibility for the general oversight of internal capital estimation rests with the Supervisory Board.

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

Pursuant to the bank's information strategy, details about the level of own funds and capital requirements are presented in the separate report entitled "Information on capital adequacy of Santander Bank Polska Group as at 31 December 2018".

In 2018, the bank and Santander Bank Polska Group met all regulatory requirements regarding capital management.

## Capital policy

Provided below are the minimum levels of capital ratios as at 31 December 2018, satisfying the provisions of the CRR and the Macroprudential Supervision Act as well as regulatory recommendations regarding additional own funds requirements under Pillar 2 at the level of Santander Bank Polska S.A.:

Minimum capital ratio levels as at 31.12.2018	Tier 1	Total capital ratio
Santander Bank Polska S.A.	11.76%	13.89%
Santander Bank Polska Group	11.73%	13.85%

The above capital ratios take into account:

Regulatory basis	Components of the minimum capital requirement
Capital Requirements Regulation	<ul style="list-style-type: none"> <li>Minimum capital ratios: Common Equity Tier 1 ratio at 4.5%, Tier 1 capital ratio at 6.0% and the total capital ratio at 8.0%.</li> </ul>
KNF's recommendations regarding an additional capital requirement relating to the portfolio of FX mortgage loans for households (decisions of 15.10.2018 and 28.11.2018)	<ul style="list-style-type: none"> <li>Additional capital requirement as at 31.12.2018:                             <ul style="list-style-type: none"> <li>✓ for Santander Bank Polska S.A.: 0.51 p.p. for the total capital ratio and 0.38 p.p. for the Tier 1 ratio and 0.29 p.p. for the Common Equity Tier 1 ratio.</li> <li>✓ for Santander Bank Polska Group: 0.47 p.p. for the total capital ratio and 0.35 p.p. for the Tier 1 ratio and 0.26 p.p. for the Common Equity Tier 1 ratio.</li> </ul> </li> </ul>
Regulatory basis	Components of the minimum capital requirement (cont.)
The capital buffer for Santander Bank Polska S.A. as other systemically important institution (KNF meeting of 4.10.2017).	<ul style="list-style-type: none"> <li>Additional capital buffer for the bank and the Group at 0.5 p.p.</li> </ul>
The capital conservation buffer maintained in accordance with the Macroprudential Supervision Act.	<ul style="list-style-type: none"> <li>On 1 January 2018, the minimum capital ratios for the banking sector in Poland were increased by the capital conservation buffer of 1.875 p.p. Following adaptation to the CRR requirements, the buffer will be 2.5 p.p. in 2019.</li> </ul>
The systemic risk buffer introduced by Regulation of the Minister of Economic Development and Finance of 1 September 2017, which applies to all the exposures in Poland.	<ul style="list-style-type: none"> <li>Since 1 January 2018, the systemic risk buffer has been 300 p.p.</li> </ul>

From 1 January 2019, the capital conservation buffer will be 2.5 p.p., which will affect the minimum ratios for the bank, i.e.:

Minimum capital ratios from 01.01.2019	Tier 1	Total capital ratio
Santander Bank Polska S.A.	12.38%	14.51%
Santander Bank Polska Group	12.35%	14.47%

## Regulatory capital

The capital requirement for Santander Bank Polska Group is determined in accordance with Part 3 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR), which formed a legal basis as at the reporting date, i.e. 31 December 2018.

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

### CALCULATION OF THE CAPITAL RATIO FOR SANTANDER BANK POLSKA GROUP AS AT 31 DECEMBER 2018 AND 31 DECEMBER 2017

Santander Bank Polska Group (in PLN m)		31.12.2018	31.12.2017
<b>I</b>	<b>Total capital requirement (Ia+Ib+Ic+Id), of which:</b>	<b>11 434,2</b>	<b>9 520,3</b>
Ia	- due to credit risk & counterparty credit risk	10 202,5	8 361,5
Ib	- due to market risk	83,1	107,8
Ic	- due to credit valuation adjustment risk	24,9	42,4
Id	- due to operational risk	1 123,7	1 008,6
II	Total own funds <sup>1)</sup>	25 266,0	22 314,6
III	Reductions	2 426,3	2 454,1
<b>IV</b>	<b>Own funds after reductions (II-III)</b>	<b>22 839,8</b>	<b>19 860,5</b>
<b>V</b>	<b>Capital Ratio [IV/(I*12.5)]</b>	<b>15,98%</b>	<b>16,69%</b>
<b>VI</b>	<b>Tier 1 Ratio</b>	<b>14,11%</b>	<b>15,28%</b>

1) On 31 October 2018, a part of the bank's profit (PLN 581,844,321) for the period between 1 January 2018 and 30 June 2018 was allocated to own funds, in accordance with the the KNF's consent of 28 September 2018.

### CALCULATION OF THE CAPITAL RATIO FOR SANTANDER BANK POLSKA S.A. AS AT 31 DECEMBER 2018 AND 31 DECEMBER 2017

Santander Bank Polska S.A. (in PLN m)		31.12.2018	31.12.2017
<b>I</b>	<b>Total Capital requirement (Ia+Ib+Ic+Id), of which:</b>	<b>9 206,5</b>	<b>7 542,2</b>
Ia	- due to credit risk & counterparty credit risk	8 224,0	6 606,7
Ib	- due to market risk	88,0	120,6
Ic	- due to credit valuation adjustment risk	22,6	38,3
Id	- due to operational risk	871,9	776,6
II	Total own funds <sup>1)</sup>	23 778,7	20 931,0
III	Reductions	3 023,5	3 067,6
<b>IV</b>	<b>Own funds after reductions (II-III)</b>	<b>20 755,2</b>	<b>17 863,4</b>
<b>V</b>	<b>CAD [IV/(I*12.5)]</b>	<b>18,04%</b>	<b>18,95%</b>
<b>VI</b>	<b>Tier I ratio</b>	<b>15,85%</b>	<b>17,37%</b>

1) On 31 October 2018, a part of the bank's profit (PLN 581,844,321) for the period between 1 January 2018 and 30 June 2018 was allocated to own funds, in accordance with the the KNF's consent of 28 September 2018.

## Internal capital

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

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

In the ICAAP the Group uses assessment models based on the statistical loss estimation for measurable risks, such as credit risk, market risk and operational risk, plus its own assessment of capital requirements for other material risks not covered by the model, e.g. reputational risk and compliance risk. The internal capital is estimated on the basis of risk parameters including the probability of default (PD) by Santander Bank Polska S.A. customers and the loss given default (LGD).

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

Internal capital estimation models are assessed and reviewed annually to adjust them to the scale and profile of the business of Santander Bank Polska S.A. and to take account of any new risks and the management's judgement. The review and assessment is the responsibility of the bank's risk management committees, including: the Capital Committee and the Models and Methodology Panel, which is part of the Risk Management Forum.

Information on bond issue	KNF consent to allocate the bonds to the Tier 2 capital	Amount qualified as subordinated bonds
Amendments (made in 2016) to the agreement under which subordinated bonds were issued on 5 August 2010 and taken up by the European Bank for Reconstruction and Development (including extension of the maturity date to 5 August 2025)	18 May 2017	EUR 100m
Issue of bonds of Santander Bank Polska S.A. on 2 December 2016	24 February 2017	EUR 120m
Issue of subordinated bonds of Santander Bank Polska S.A. on 22 May 2017	19 October 2017	EUR 137.1m
Issue of series F subordinated bonds of Santander Bank Polska S.A. on 5 April 2018	12 June 2018	PLN 1bn

*For more information on subordinated liabilities, see Note 33 of the Consolidated Financial Statement of Santander Bank Polska Group.*

## XIII. Statement on Corporate Governance in 2018

### 1. Legal and Regulatory Basis of Corporate Governance

The corporate governance framework applicable at Santander Bank Polska S.A. is based on existing laws (in particular the Commercial Companies Code, Banking Law and capital market regulations) as well as recommendations included in the following documents: the "Code of Best Practice for WSE Listed Companies" and "Principles of Corporate Governance for Supervised Institutions".

This Statement on Corporate Governance in 2018 was prepared in accordance with § 70(6)(5) of the Finance Minister's Regulation of 29 March 2018 on current and financial reports published by the issuers of securities and the rules of equal treatment of the information required by the laws of a non-member state.

### 2. Principles of Corporate Governance

#### Code of Best Practice for WSE Listed Companies

In 2018, Santander Bank Polska S.A. was subject to the rules of corporate governance and conduct applicable as conveyed in the Code of Best Practice for WSE Listed Companies, and appended to WSE Supervisory Board Resolution No. 26/1413/2015 of 13 October 2015. This document was drawn up as part of market self-regulation in order to improve the transparency of listed companies and the quality of their relationships with the market environment.

This version of the Code became effective on 1 January 2016, once adopted for use by the Management Board (Resolution No. 160/2015 of 2 December 2015) and approved by the Supervisory Board (Resolution No. 61/2015 of 16 December 2015). The full text is available on WSE website (<http://www.gpw.pl>), section on corporate governance of listed companies, and on the bank's website (<http://www.santander.pl>), "Investor Relations" tab.

Santander Bank Polska S.A. has complied with the official corporate governance rules since 2002 when the first issue of the code of best practice was published (Best Practice for Public Companies in 2002).

#### Principles of Corporate Governance for Supervised Institutions

Santander Bank Polska S.A. abides by Principles of Corporate Governance for Supervised Institutions as published by the KNF on 22 July 2014. The document describes internal and external relations of supervised institutions, including relationships with shareholders and customers, their organisation, corporate governance framework and key internal systems and functions, as well as statutory bodies and the rules of their cooperation. The aforementioned Principles are available on the KNF website ([www.knf.gov.pl](http://www.knf.gov.pl)) via "Market" tab, and on the bank's website (<http://www.santander.pl>) via the "Investor Relations" tab.

Principles of Corporate Governance for Supervised Institutions were adopted by Santander Bank Polska S.A. as of 1 January 2015 by virtue of Management Board Resolution no. 116/2014 of 9 October 2014 and Supervisory Board Resolution no. 58/2014 of 17 December 2014. As the above guidelines are also applicable to shareholders, they were submitted to and approved by the General Meeting (GM) of Santander Bank Polska S.A. on 23 April 2015.

### 3. Management Board's Statement on Corporate Governance

In 2018, Santander Bank Polska S.A. duly complied with all corporate governance rules set out in the existing version of the Code of Best Practice for WSE Listed Companies and Principles of Corporate Governance for Supervised Institutions. In this period, no breaches of the above-mentioned regulations were reported.

## 4. Issuer's Securities

### Structure of share capital

The table below presents the entities with significant holdings of Santander Bank Polska S.A. shares as at 31 December 2018 and 31 December 2017.

Shareholders with a stake of 5% and higher	Number of Shares and Voting Rights Held		% in the Share Capital & Voting Power at AGM	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Banco Santander S.A.	68 880 774	68 880 774	67,47%	69,34%
Others	33 207 531	30 452 707	32,53%	30,66%
<b>Total</b>	<b>102 088 305</b>	<b>99 333 481</b>	<b>100,00%</b>	<b>100,00%</b>

According to information held by the Management Board of Santander Bank Polska S.A. as at 31 December 2018, Banco Santander S.A. was the only shareholder holding at least 5% of the total number of votes at the bank's General Meeting of Shareholders, with shareholding of 67.47%.

Compared with 31 December 2017, the shareholding of Banco Santander S.A. decreased by 1.87 p.p. YoY following its dilution caused by an increase in the share capital of Santander Bank Polska S.A. by PLN 27,548,240 to PLN 1,020,883,050 through the issue of 2,754,824 series N shares as part of acquisition of the demerged part of Deutsche Bank Polska S.A. The demerger shares were allotted to Deutsche Bank AG, increasing the non-controlling shareholders' share in the registered capital and voting power at the bank's General Meeting from 30.66% to 32.53%.

The increase in the share capital was approved by the bank's Extraordinary General Meeting of 29 May 2018 and recorded in the National Court Register on 9 November 2018. On 27 November 2018, series N shares were registered in the Central Securities Depository of Poland (KDPW), and were admitted and introduced to trading on the main floor of the Warsaw Stock Exchange.

The table below presents the structure of the bank's share capital as at 31 December 2018 by share series:

Series/ issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue (in PLN)
A	bearer	none	none	5 120 000	51 200 000
B	bearer	none	none	724 073	7 240 730
C	bearer	none	none	22 155 927	221 559 270
D	bearer	none	none	1 470 589	14 705 890
E	bearer	none	none	980 393	9 803 930
F	bearer	none	none	2 500 000	25 000 000
G	bearer	none	none	40 009 302	400 093 020
H	bearer	none	none	115 729	1 157 290
I	bearer	none	none	1 561 618	15 616 180
J	bearer	none	none	18 907 458	189 074 580
K	bearer	none	none	305 543	3 055 430
L	bearer	none	none	5 383 902	53 839 020
M	bearer	none	none	98 947	989 470
N	bearer	none	none	2 754 824	27 548 240
<b>Total</b>				<b>102 088 305</b>	<b>1 020 883 050</b>

### Rights and restrictions attached to the issuer's securities

The shares of Santander Bank Polska S.A. are ordinary bearer shares. Each share carries one vote at a General Meeting of Shareholders. The nominal value is PLN 10 per share. All the shares issued have been fully paid up.

The bank did not issue any series of shares that would give their holders any special control rights towards the issuer or would limit their voting power or other rights. Neither are there any restrictions on the transfer of title to the issuer's shares.

## 5. Governing Bodies

### General Meeting of Shareholders

#### General Meetings of Shareholders in 2018

##### Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders of Santander Bank Polska S.A. held on 16 May 2018 (AGM) approved the reports for 2017 submitted by the Management Board and the Supervisory Board, granted discharge to members of these governing bodies for the performance of their duties in the previous year and agreed on the distribution of the net profit for 2017 and the retained net profit for 2016, including dividend payment from retained earnings for 2016 (see Chapter VII "Investor Relations"). The AGM adopted a resolution on the change of the bank's business name from "Bank Zachodni WBK Spółka Akcyjna" to "Santander Bank Polska Spółka Akcyjna", relocation of the bank's registered office from Wrocław to Warsaw and amendment of the bank's statutes and the terms of reference of the General Meeting of Shareholders.

##### Extraordinary General Meeting of Shareholders

The Extraordinary General Meeting of Shareholders of Santander Bank Polska S.A. held on 29 May 2018 (EGM) approved the demerger of Deutsche Bank Polska S.A. in accordance with Article 529(1)(4) of the Commercial Companies Code, i.e. through the transfer to Santander Bank Polska S.A. of an organised part of the enterprise of Deutsche Bank Polska S.A. and shares of DB Securities S.A. held by Deutsche Bank Polska S.A. The EGM approved the demerger plan of 23 February 2018 providing for an increase in the share capital of Santander Bank Polska S.A., dematerialisation of demerger shares (series N shares of the bank) and their admission and introduction to trading on the regulated market of the Warsaw Stock Exchange.

Furthermore, the EGM approved relevant amendments to the statutes of Santander Bank Polska S.A. and agreed on their consolidated text.

#### Organisation and powers of the General Meeting of Shareholders

The General Meeting of Shareholders of Santander Bank Polska S.A. (GM) is held as provided for in the Commercial Companies Code of 15 September 2000, Statutes of Santander Bank Polska S.A. and Terms of Reference of the GM. The statutes as well as the terms of reference are available on the bank's website.

The GM agrees on the issues within its remit, as defined by the above laws and internal regulations.

The resolutions are voted on using an electronic voting system which returns the number of votes ensuring that they correspond to the number of shares held, and in the case of a secret ballot – allows shareholders to remain anonymous. Each share carries one vote.

Candidates for the Supervisory Board attain votes on an individual basis, in alphabetical order.

The GM is broadcast live online to all interested parties and a recording is available on the bank's website for later review.

#### Shareholders' rights

The rights of shareholders of Santander Bank Polska S.A. are set out in the terms of reference of the bank's GM in line with the Commercial Companies Code.

In particular, shareholders have the following rights with respect to the GM:

- Each shareholder may request that a list of shareholders be e-mailed free-of-charge to a valid address. Each shareholder may have access to the list of shareholders in the bank's MB office and request a copy of the list at their own expense.

- Shareholders may:
  - ✓ demand copies of requests included in the GM agenda one week before the GM;
  - ✓ have access to the GM's minutes and request copies of resolutions confirmed by the bank's Management Board as true copies;
  - ✓ request voting by secret ballot;
  - ✓ appeal against resolutions made by the GM in cases permitted in the Commercial Companies Code;
  - ✓ seek information from the Management Board regarding issues on the GM agenda, as provided for by the Commercial Companies Code;
  - ✓ exercise their voting rights (each share equates to one vote at the GM).
- Shareholders may attend the GM and vote personally or through proxies. In line with the terms of reference, shareholders may also participate in the GM via electronic communication channels.

## Method of changing the statutes

Any amendments to the Statutes of Santander Bank Polska S.A. may be made by way of resolution of the GM and must be entered to the register of entrepreneurs in order to be valid. Pursuant to the Banking Law, such amendments also require consent from the KNF.

Pursuant to the resolutions of the General Meetings of Santander Bank Polska S.A. of 16 May 2018 and 29 May 2018, the bank's statutes were amended as follows:

- In § 10, the amount of the bank's share capital was increased to PLN 1,020,883,050 as a result of the issuance of 2,754,824 series N ordinary bearer shares.
- The name of the statutes and § 1, § 3, § 19(4) and 19a(2) were amended to reflect the change of the bank's business name from Bank Zachodni WBK Spółka Akcyjna to Santander Bank Polska Spółka Akcyjna as well as the change of the bank's registered office address from Wrocław to Warsaw;
- The issuance of electronic money instruments was excluded from the objects clause and § 7(1)(6a) was repealed accordingly;
- § 37(3)(3) and § 42(2)(2) were amended to reflect the provisions of the KNF's Recommendation H regarding independence of the compliance unit.

The above amendments became effective on 9 November 2018 (as regards the share capital increase) and 7 September 2018 (within the remaining scope) once approved by the KNF and registered by the relevant registry court.

## Supervisory Board

### Composition of the Supervisory Board

The table below presents the composition of the Supervisory Board of Santander Bank Polska S.A. as at 31 December 2018 and 31 December 2017:

<b>Role in the Supervisory Board</b>	<b>Ref.</b>	<b>Composition as at 31.12.2018 and 31.12.2017</b>
Chairman of the Supervisory Board:	1.	Gerry Byrne
Vice Chairman of the Supervisory Board:	2.	José Luis de Mora
Members of the Supervisory Board:	3.	José Manuel Campa
	4.	José Garcia Cantera
	5.	Danuta Dąbrowska
	6.	David Hexter
	7.	Witold Jurcewicz
	8.	John Power
	9.	Jerzy Surma
	10.	Marynika Woroszyńska-Sapieha

The bank's Supervisory Board, in its composition as at 31 December 2018, was appointed for a new term of office by the Annual General Meeting held on 17 May 2017.

The following members of the Supervisory Board held an independent status: Danuta Dąbrowska, David R. Hexter, Witold Jurcewicz, Jerzy Surma and Marynika Woroszyńska-Sapieha.

In 2018, 11 Supervisory Board meetings were held at which 99 resolutions were passed. Average attendance of the Supervisory Board members was 95.45%.

Members of the Supervisory Board of Santander Bank Polska S.A. have extensive expertise and considerable professional experience. The combined competencies and track record enable the members to effectively fulfil their supervisory duties.

Details about the academic background and professional experience of the bank's Supervisory Board members are also published on the bank's website at <https://santander.pl/investor-relations/company/supervisory-board/supervisory-board.html>.

## Role of the Supervisory Board

The Supervisory Board of Santander Bank Polska S.A. operates strictly under the Banking Law of 29 August 1997, the Commercial Companies Code of 15 September 2000, the bank's Statutes and the Terms of Reference of the Supervisory Board, available on the bank's website.

The Supervisory Board consists of at least five members appointed for a joint, three-year term of office. The Supervisory Board members, including the Chairman of the Supervisory Board, are appointed and removed by a General Meeting of Shareholders. The Management Board notifies the KNF about Supervisory Board membership.

Pursuant to the bank's Statutes, at least half the members of the Supervisory Board should be of an independent status.

The Supervisory Board exercises ongoing supervision over all aspects of the bank's activities. The Supervisory Board takes decisions in the form of resolutions which are adopted by an absolute majority of votes in open voting. Resolutions are voted upon in a secret ballot in cases stipulated by law, in personal matters or at the request of any Supervisory Board member accepted by the Supervisory Board in a secret vote. The Supervisory Board's meetings are held as and when required and at least three times in any financial year. The Supervisory Board's members convene in a single location, or in different locations communicating via telephone or video links.

## Supervisory Board Committees

The Supervisory Board may establish committees and designate individuals responsible for managing the work of such committees. These committees are designed to facilitate the current activities of the Supervisory Board by preparing draft Supervisory Board recommendations and decisions with regard to their own motions or the motions presented by the Management Board.

The following Supervisory Board committees operate in Santander Bank Polska S.A.: Audit and Compliance Committee, Risk Committee, Remuneration Committee and Nominations Committee. The responsibilities of the Committees are set out in their respective terms of reference introduced by virtue of Supervisory Board resolutions.

The membership of the Supervisory Board committees is presented below.

Supervisory Board Committees as at 31.12.2018 and 31.12.2017						
Role in the Supervisory Board	Ref.	Composition as at 31.12.2018	Audit and Compliance Committee	Risk Committee	Nominations Committee	Remuneration Committee
Chairman	1.	Gerry Byrne			●	●
Vice Chairman of the Members	2.	José Luis de Mora			●	●
	3.	José Manuel Campa		●		
	4.	José Garcia Cantera				
	5.	Danuta Dąbrowska	●		●	●
	6.	David Hexter	●	●		
	7.	Witold Jurcewicz	●		●	●
	8.	John Power		●		
	9.	Jerzy Surma	●	●	●	
	10.	Marynika Woroszyńska-Sapieha	●		●	●

● Chairman  
● Members

The annual reports on the activities of the Supervisory Board and its committees are approved by the Annual General Meeting of Shareholders of Santander Bank Polska S.A. and published on the bank's website.

## Audit and Compliance Committee

### *Responsibilities and competencies of the Committee*

The **Audit and Compliance Committee** supports the Supervisory Board in fulfilment of its oversight obligations towards shareholders and other stakeholders in terms of:

- ✓ the quality and integrity of the accounting policies, financial statements and disclosure practices;
- ✓ compliance of the bank's business with laws and internal regulations;
- ✓ independence and effectiveness of activities undertaken by internal and external auditors;
- ✓ the system of internal control and management of financial and non-financial risks.

Pursuant to its terms of reference, the Audit and Compliance Committee and Risk Committee should convene at least four times per year at dates corresponding to the reporting and audit cycle. Additional meetings are held when necessary. In 2018, six Committee meetings were held.

As at 31 December 2018, all members of the Audit and Compliance Committee met the independence criteria in accordance with the bank's statutes and the Act of 11 May 2017 on statutory auditors, audit firms and public oversight.

The following members had the most relevant expertise and experience from the perspective of the Committee's roles and responsibilities:

- Danuta Dąbrowska: competencies in the area of accounting and review of financial statements confirmed by the ACCA certificate and membership.
- David Hexter: competencies in the banking area gained while holding executive positions in the banking and financial services sectors, including in Citibank and the EBRD.

### *Audit and Compliance Committee's oversight of auditor selection*

Pursuant to the Policy of Auditor Selection at Santander Bank Polska S.A., the bank selects an entity authorised to audit financial statements pursuant to the following rules:

- The bank and the Committee may invite any audit firm to place bids for carrying out statutory audits on condition of a four-year cooling-off period after the end of the relationship following the expiry of the maximum duration of the engagement.
- An audit firm is selected taking into account findings and conclusions made in the final report of the Audit Supervision Authority (KNA) published on its website.
- The Audit and Compliance Committee's recommendation regarding the selection of an auditor takes into consideration the following aspects:
  - ✓ In case of initial engagement of an auditor:
    - at least two audit firms to choose from, along with the rationale and the Committee's justified preference for one of them;
    - competencies and ability to perform the required services;
    - independence of the auditor;
    - legal requirements;
    - consistency and effectiveness of the audit from the Group's perspective as well as from the higher-level consolidation perspective;
    - comparison of individual proposals in accordance with the agreed criteria, having regard to the weights allocated on the basis of a relevant questionnaire.
  - ✓ In the case of reappointment of the auditor:
    - evaluation of the quality of services provided to date;
    - independence of the auditor;
    - legal requirements;
    - consistency and effectiveness of the audit from the local Group's perspective as well as from the higher-level consolidation perspective.
- The same auditor is appointed for the audit of financial statements of the bank and consolidated financial statements of the Group. The same auditor may be appointed to perform all other attestation services for the bank and the Group.
- With respect to the minimum and maximum duration of an audit engagement and the minimum cooling-off period after the expiry of the maximum duration, the bank/the Group complies with the applicable laws.

The recommendation issued by the Audit and Compliance Committee before the appointment of PricewaterhouseCoopers Sp. z o.o. to review and audit the financial statements of Santander Bank Polska S.A. and Santander Bank Polska Group for 2017 and 2018 met all the required criteria and was presented to the Supervisory Board as part of the selection procedure carried out in accordance with the applicable principles.

#### *Permitted non-audit services*

In 2018, PricewaterhouseCoopers Sp. z o.o., an audit firm appointed to audit the financial statements of Santander Bank Polska S.A. and its Group for 2017 and 2018, along with other entities from the PWC network, provided the following permitted non-audit services:

- ✓ review of interim financial statements of the bank/ Group;
- ✓ verification of consolidation packages;
- ✓ attestation services related to safekeeping of customers' assets and disclosures regarding capital adequacy and variable remuneration;
- ✓ audit of historical financial information for the purpose of the prospectus.

The Audit and Compliance Committee approved the appointment of an audit firm (i.e. PricewaterhouseCoopers Sp. z o.o. and other entities from its network) to provide the foregoing permitted services other than audit services. Before the relevant recommendations were presented to the Audit and Compliance Committee, the independence of the auditor had been verified with a positive outcome.

Once a year, before the conclusion of the audit of the Group's annual financial statements, aggregated information on non-audit services is sent to the Committee for verification of their potential impact on the auditor's independence and objectivity.

#### **Risk Committee**

The **Risk Committee** is specifically responsible for:

- ✓ issuing opinions on the current and future readiness of the bank to take on risk;
- ✓ issuing opinions on the risk management strategy developed by the bank's Management Board and on its execution;
- ✓ supporting the Supervisory Board in overseeing the implementation of the risk management strategy by the senior management;
- ✓ checking if the bank's business model and risk strategy are duly reflected in the prices of liabilities and assets offered to customers. If the result is negative, it makes a proposal to the Management Board to ensure adequacy of asset and liability prices vis-à-vis different risk types.

The Risk Committee convenes at least four times per year at dates corresponding to the reporting and audit cycle. Additional meetings are held when necessary. In 2018, 5 Committee meetings were held.

#### **Nominations Committee**

Pursuant to its mission, the **Nominations Committee**:

- ✓ presents the Supervisory Board with recommendations with regard to appointing and removing members of the Supervisory Board and the Management Board as well as other senior managers;
- ✓ defines the policy on the selection and suitability assessment of Supervisory Board and Management Board members;
- ✓ participates in the competence assessment of candidates for members of these governing bodies;
- ✓ analyses succession plans for the Management Board and recommends them to the Supervisory Board.

The Committee holds regular meetings three times a year, as per the schedule agreed upon at the beginning of the year. Additional meetings are held when necessary. In 2018, 4 Committee meetings were held.

## Remuneration Committee

The **Remuneration Committee** reviews and monitors the remuneration policy adopted by the bank and supports the General Meeting, the Supervisory Board and the Management Board in developing and implementing that policy. In particular, the Committee:

- ✓ defines the remuneration policy for the Management Board members, linking the performance remuneration scheme with long-term interests of the shareholders and the bank's objectives;
- ✓ recommends remuneration for all members of the Management Board in accordance with the agreed principles, taking into account the assessment of their performance. It includes variable remuneration components and eligibility criteria;
- ✓ provides the Supervisory Board with general recommendations for the level and structure of remuneration for senior executives and monitors the level and structure based on relevant information provided by the Management Board;
- ✓ verifies compliance with the criteria and conditions justifying the award of variable remuneration to the Management Board members.

The Committee holds regular meetings three times a year, as per the schedule agreed upon at the beginning of the year. Additional meetings are held when necessary. In 2018, 5 Committee meetings were held.

## Management Board

The table below presents the composition of the Management Board of Santander Bank Polska S.A. as at 31 December 2018 and 31 December 2017 and the roles and responsibilities of its members.

Role in the Management Board	Ref.	Composition as at 30.06.2018	Reporting Areas as at 30.06.2018	Composition as at 31.12.2017	Reporting Areas as at 31.12.2017
President:	1.	Michał Gajewski	Units reporting directly to the President: Legal & Compliance Division, Internal Audit Area, Corporate Communications, Marketing and Service Quality Management Area, Business Model Transformation Area, Board Office, Strategic Transformation Office	Michał Gajewski	Units reporting directly to the President: Internal Audit Area, Corporate Communications, Marketing and Service Quality Management Area, Business Model Transformation Area, Board Office, Strategic Transformation Office
	2.	Andrzej Burliga	Risk Management Division, Business Intelligence Area	Andrzej Burliga	Risk Management Division, Business Intelligence Area
Vice Presidents:	3.	Michael McCarthy	Business & Corporate Banking Division	Michael McCarthy	Business & Corporate Banking Division
	4.	Juan de Porras Aguirre	Santander Corporate & Investment Banking	Juan de Porras Aguirre	Global Corporate Banking Division
	5.	Arkadiusz Przybył	Retail Banking Division, Wealth Management Programme	Arkadiusz Przybył	Retail Banking Division
	-	-	-	Mirosław Skiba	Wealth Management Programme
	6.	Feliks Szyszkowiak	Digital Transformation Division	Feliks Szyszkowiak	Digital Transformation Division
	-	-	-	Artur Chodacki	Small & Medium Enterprise Banking Division
Board Members:	7.	Maciej Reluga	Financial Management Division	Maciej Reluga	Financial Management Division
	8.	Carlos Polaino Izquierdo	Financial Accounting & Control Division	Carlos Polaino Izquierdo	Financial Accounting & Control Division
	-	-	-	Marcin Prell	Legal & Compliance Division, Classified Data Protection Unit
	9.	Dorota Strojowska	Business Partnership Division	Dorota Strojowska	Business Partnership Division

On 16 May 2018, the Supervisory Board of Santander Bank Polska S.A. appointed the Management Board members for a new three-year term of office, except for Artur Chodacki, Marcin Prell and Mirosław Skiba. Reduction in the number of the Management Board members was accompanied by the reorganisation of the Business Support Centre, i.e. transfer of the organisational units managed by the persons who were not appointed for a new term of office to other divisions (Wealth Management Programme, SME segments) or transformation into units directly reporting to the President of the Management Board (Legal and Compliance Division). Five

Management Board members were appointed Vice Presidents: Andrzej Burliga, Michael McCarthy, Juan de Porras Aguirre, Arkadiusz Przybył and Feliks Szyszkowiak.

Details about the academic background and professional experience of the bank's Management Board members are published on the bank's website at <https://santander.pl/investor-relations/company/management-board/management-board.html>.

## Appointment and removal of executives

Members of the Management Board of Santander Bank Polska S.A. are appointed and removed in accordance with the Commercial Companies Code, Banking Law and the bank's Statutes.

The bank's Management Board consists of at least three persons (including the Management Board President) appointed by the Supervisory Board for a joint three-year term of office. At least half of the Management Board's members are required to be permanent residents of Poland, speak Polish, have good knowledge of the Polish banking market and sufficient experience of the home market to manage a Polish banking institution. Two Management Board members, including the Management Board President, are appointed with the approval of the KNF. Management Board members may be removed by the Supervisory Board or General Meeting at any time.

## Powers of executives

The Management Board of Santander Bank Polska S.A. manages and represents the bank. The Management Board possesses comprehensive powers that are not otherwise governed or stipulated by law or statutes within the remit of other governing bodies of the bank.

The Management Board takes decisions to raise obligations or transfer assets where the total value for one entity exceeds 5% of the bank's own funds. The Management Board can also, by way of resolution, delegate its powers to refer such decisions to other committees or persons in the bank. The Management Board members run the bank's affairs jointly, and in particular: define the bank's mission, set long-term action plans and strategic objectives, prepare assumptions for the bank's business and financial plans, approve proposed plans and monitor their performance, regularly report to the Supervisory Board on the bank's position in the scope and at the dates agreed with the Supervisory Board, appoint permanent or ad hoc committees and designate individuals responsible for managing the work of such committees. The committees are composed of both Management Board members and persons from outside the Management Board.

Management Board members acting severally do not have any specific powers and cannot take decisions on issuing or redeeming shares.

Permanent committees operating at the bank include: Risk Committee, Assets and Liabilities Committee (ALCO), Credit Policy Forum for Retail Portfolios, Credit Policy Forum for SME Portfolios, Credit Policy Forum for Business and Corporate Portfolios, Provisions Committee, Operational Risk Management Committee (ORMCO), Disclosure Committee, Information Management Committee, Risk Management Committee, Marketing Forum, Risk Management Forum, Anti-Money Laundering and Counter-Terrorism Financing Committee, Urban Regeneration Fund Investment Committee, Procurement Investment Committee, Regulatory Risk Committee, Credit Committee, Local Marketing and Monitoring Committee, Public Policy Committee, Recovery Committee, CSR and Sustainability Committee, Capital Committee, Suppliers Panel, Capital Stress Test Forum, Investment Advisory Committee, Risk Control Committee, Cyber Risk Committee, Special Situations Management Committee, Operations Committee of the Business Model Transformation Area, Customer Value Committee, General Compliance Committee.

## Role of the Management Board

The Management Board's operations are primarily governed by Banking Law, the Commercial Companies Code, the bank's Statutes and the Terms of Reference of the Management Board, available on the bank's website.

According to the bank's Statutes, the following individuals are authorised to represent and bind the bank: a) the Management Board President acting individually, and b) two members of the Management Board acting jointly, or a member of the Management Board acting jointly with a commercial representative (proxy), or two commercial representatives (proxies) acting jointly. Representatives may be appointed and authorised to act individually or jointly with any of the persons indicated in b) or with another appointed and authorised representative.

The Management Board deals with all issues which have not been restricted to the remit of the General Meeting of Shareholders or the Supervisory Board. The Management Board takes decisions in the form of resolutions which are adopted by an absolute majority of votes in open voting. Secret ballots may be held in cases stipulated by law, in personal matters or at the request of any Management Board member accepted by the Management Board in a secret vote. Management Board meetings are held as required. Management Board members convene at the same time in a single location or in different locations communicating via telephone or video links.

## Remuneration of Management and Supervisory Boards

### Remuneration of Supervisory Board Members

As at 31 December 2018, the remuneration for the Supervisory Board members was set by virtue of Resolution No. 41 of the Annual General Meeting of Shareholders of Santander Bank Polska S.A. of 17 May 2017 and Resolution No. 34 of the Annual General Meeting of Shareholders of Santander Bank Polska S.A. of 16 May 2018. The remuneration was determined in accordance with EU guidelines, latest domestic laws, corporate governance rules for supervised entities and the Remuneration Policy for Supervisory Board Members of Santander Bank Polska S.A. Gerry Byrne, José Manuel Campa, José García Cantera and José Luis de Mora did not receive remuneration for their membership of the Supervisory Board.

The table below presents the remuneration paid to members of the Supervisory Board of Santander Bank Polska S.A. in 2017 and 2018.

First and last name	Position	2018		2017	
		Period	PLN k	Period	PLN k
Gery Byrne <sup>1)</sup>	Chairman of the Supervisory Board	01.01.2018-31.12.2018	-	01.01.2017-31.12.2017	-
José Luis de Mora <sup>1)</sup>	Chairman of the Supervisory Board	01.01.2018-31.12.2018	-	01.01.2017-31.12.2017	-
José Manuel Campa <sup>1)</sup>	Member of the Supervisory Board	01.01.2018-31.12.2018	-	17.05.2017-31.12.2017	-
José García Cantera <sup>1)</sup>	Member of the Supervisory Board	01.01.2018-31.12.2018	-	01.01.2017-31.12.2017	-
Danuta Dąbrowska	Member of the Supervisory Board	01.01.2018-31.12.2018	232	01.01.2017-31.12.2017	234
David Hexter	Member of the Supervisory Board	01.01.2018-31.12.2018	274	01.01.2017-31.12.2017	263
Witold Jurcewicz	Member of the Supervisory Board	01.01.2018-31.12.2018	231	01.01.2017-31.12.2017	240
John Power	Member of the Supervisory Board	01.01.2018-31.12.2018	198	01.01.2017-31.12.2017	272
Jerzy Surma	Member of the Supervisory Board	01.01.2018-31.12.2018	269	01.01.2017-31.12.2017	244
Marynika Woroszylska-Sapieha	Member of the Supervisory Board	01.01.2018-31.12.2018	228	01.01.2017-31.12.2017	214
José Manuel Varela <sup>2)</sup>	Member of the Supervisory Board			01.01.2017-17.05.2017	89

- 1) Gerry Byrne, José Manuel Campa, José García Cantera and José Luis de Mora did not receive remuneration for their membership of the Supervisory Board.  
2) Pursuant to the Resolution of the General Meeting of 17 May 2017, the existing Supervisory Board members were appointed for a new term of office, except for José Manuel Varela. The Supervisory Board was additionally joined by José Manuel Campa.

John Power received additional remuneration of PLN 853.5k for the supervision over integration of the demerged part of Deutsche Bank Polska S.A. into the structures of Santander Bank Polska S.A. (PLN 84.0m in 2017), and PLN 37,3k from the bank's subsidiary for his membership of the company's Supervisory Board (PLN 28.7k in 2017).

Except for John Power, no other Supervisory Board member sat on the boards of subsidiaries or associates of Santander Bank Polska S.A.

### Remuneration of Management Board members

#### Agreements between Santander Bank Polska S.A. and its executives

The Management Board members signed employment contracts with Santander Bank Polska S.A. for the current term of office. The terms and conditions of employment comply with general laws and internal regulations, including the Remuneration Policy of Santander Bank Polska Group.

The Management Board members also signed agreements prohibiting competitive activity after termination of their employment with Santander Bank Polska S.A.

A Management Board member who is not appointed for a new term of office or is removed from the Board is entitled to one-off severance pay. It does not apply to Management Board members who accept a new role in the bank, are removed due to gross negligence, resign or are not granted discharge.

#### Internal regulations concerning remuneration for executives

The rules regarding fixed and variable components of remuneration for the Management Board members and material risk takers are set out in the Remuneration Policy of Santander Bank Polska Group, effective since 20 April 2017.

## Fixed remuneration

Pursuant to the Statutes of Santander Bank Polska S.A. and the Remuneration Policy of Santander Bank Polska Group, the remuneration of the President and members of the Management Board is set by the Supervisory Board, having due regard to recommendations of the Remuneration Committee. The Committee defines the remuneration policy in respect of Management Board members and individual terms and conditions as part of remuneration packages for each Management Board member.

The table below presents the total remuneration and additional benefits received by members of the Management Board of Santander Bank Polska S.A. in 2017 and 2018 for their membership in the Management Board.

First and last name	Position	2018			2017		
		Period	Remuneration (PLN k)	Additional benefits	Period	Remuneration (PLN k)	Additional benefits
Michał Gajewski	President of the Management Board	01.01.2018-31.12.2018	2 082	93	01.01.2017-31.12.2017	1 931	92
Andrzej Burliga	Vice President of the Management Board	01.01.2018-31.12.2018	1 198	93	01.01.2017-31.12.2017	1 012	92
Michael McCarthy	Vice President of the Management Board	01.01.2018-31.12.2018	1 301	24	01.01.2017-31.12.2017	1 162	23
Juan de Porras Aguirre	Vice President of the Management Board	01.01.2018-31.12.2018	1 273	50	01.01.2017-31.12.2017	1 222	99
Arkadiusz Przybył	Vice President of the Management Board	01.01.2018-31.12.2018	1 288	92	10.03.2017-31.12.2017	978	69
Mirosław Skiba <sup>1)</sup>	Vice President of the Management Board	01.01.2018-16.05.2018	389	46	01.01.2017-31.12.2017	1 032	93
Feliks Szyzkowskiak	Member of the Management Board	01.01.2018-31.12.2018	1 066	93	01.01.2017-31.12.2017	1 032	93
Eamonn Crowley	Member of the Management Board				01.01.2017-16.02.2017	167	3
Artur Chodacki <sup>1)</sup>	Member of the Management Board	01.01.2018-16.05.2018	272	34	01.01.2017-31.12.2017	716	93
Carlos Polaino Izquierdo	Member of the Management Board	01.01.2018-31.12.2018	1 491	320	01.01.2017-31.12.2017	1 347	246
Marcin Prell <sup>1)</sup>	Member of the Management Board	01.01.2018-16.05.2018	338	35	01.01.2017-31.12.2017	912	93
Maciej Reluga	Member of the Management Board	01.01.2018-31.12.2018	883	92	16.02.2017-31.12.2017	631	71
Dorota Strojkwowska	Member of the Management Board	01.01.2018-31.12.2018	992	93	01.04.2017-31.12.2017	632	69

1) Changes in the membership of the Management Board of Santander Bank Polska S.A. in 2018 result from the appointment, on 16 May 2018, of the Management Board members for a new term of office, except for Mirosław Skiba, Artur Chodacki and Marcin Prell.

2) Changes in the membership of the Management Board of Santander Bank Polska S.A. in 2017 followed from Eamonn Crowley's resignation as a Management Board member (on 16 February 2017), Dorota Strojkwowska taking up the position of a member of the Management Board (on 1 April 2017) and Arkadiusz Przybył joining the Management Board (on 10 March 2017).

3) Additional benefits received by the Management Board members include, among other things, life insurance cover without pension option and, in case of Juan de Porras Aguirre and Carlos Polaino Izquierdo, also medical cover, accommodation, travel expenses and school fees.

In 2018, Management Board members were paid an allowance in lieu of annual leave of PLN 146.3k (PLN 124.7k in 2017).

In both periods, no Management Board member received remuneration for their membership in the governing bodies of the subsidiaries or associates.

In 2018, Mirosław Skiba received additional remuneration of PLN 1,105k in relation to the termination of his employment contract and the non-competition clause.

## Awards paid

The rules for determining variable remuneration for Management Board members and material risk takers are laid down in the Remuneration Policy of Santander Bank Polska Group. These rules are regularly (or at least annually) reviewed by the Remuneration Committee of the Supervisory Board.

Management Board members 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 the applicable bonus regulations for Management Board members (adopted by virtue of the Supervisory Board's resolution), which set out the principles for determination of a bonus and a bonus pool depending on the achievement of personal objectives as well as business and financial objectives of an organisational unit and the bank. The performance is assessed against the financial and non-financial criteria for the period of a minimum three years to take into account the bank's economic cycle and business risk.

The total variable remuneration paid to Management Board members and material risk takers for a given calendar year cannot exceed 100% of the total fixed remuneration paid. However, in exceptional cases, this limit may be increased up to 200% of fixed remuneration subject to the approval of the General Meeting of Shareholders.

Variable remuneration is awarded in accordance with bonus regulations and paid in cash and phantom stock. The latter shall represent min. 50% of the total amount of variable remuneration. Payment of a min. 40% of variable remuneration is conditional

and deferred for the period of three years. It is paid in arrears in equal annual instalments depending on the individual performance in the analysed period and the value of the phantom stock.

The table below presents awards paid to the Management Board members in 2017 and 2018.

First and last name	Position	2018		2017	
		Period	Benefits (in PLN k)	Period	Benefits (in PLN k)
Michał Gajewski	President of the Management Board	01.01.2018-31.12.2018	690	01.01.2017-31.12.2017	-
Andrzej Burliga	Vice President of the Management Board	01.01.2018-31.12.2018	1 142	01.01.2017-31.12.2017	1 049
Michael McCarthy	Vice President of the Management Board	01.01.2018-31.12.2018	1 224	01.01.2017-31.12.2017	1 077
Juan de Porras Aguirre	Vice President of the Management Board	01.01.2018-31.12.2018	1 415	01.01.2017-31.12.2017	1 291
Arkadiusz Przybył	Vice President of the Management Board	01.01.2018-31.12.2018	345	01.01.2017-31.12.2017	-
Mirosław Skiba <sup>1)</sup>	Vice President of the Management Board	01.01.2018-16.05.2018	1 155	01.01.2017-31.12.2017	1 074
Feliks Szyszkowskiak	Member of the Management Board	01.01.2018-31.12.2018	1 170	01.01.2017-31.12.2017	1 083
Eamonn Crowley	Member of the Management Board			01.01.2017-16.02.2017	930
Artur Chodacki <sup>1)</sup>	Member of the Management Board	01.01.2018-16.05.2018	514	01.01.2017-31.12.2017	198
Carlos Polaino Izquierdo	Member of the Management Board	01.01.2018-31.12.2018	838	01.01.2017-31.12.2017	635
Marcin Prell <sup>1)</sup>	Member of the Management Board	01.01.2018-16.05.2018	926	10.03.2017-31.12.2017	849
Maciej Reluga	Member of the Management Board	01.01.2018-31.12.2018	255	16.02.2017-31.12.2017	-
Dorota Strojowska	Member of the Management Board	01.01.2018-31.12.2018	267	01.04.2017-31.12.2017	-

1) Details about changes to the composition of the Management Board in 2018 are provided below the above table presenting fixed remuneration.

2) The awards paid in 2018 include part of the award for 2017, 2016 and 2015 which was conditional and deferred in time.

3) The awards paid in 2017 include part of the award for 2016, 2015 and 2014 which was conditional and deferred in time.

Pursuant to the remuneration system applicable at the bank, Management Board members may be conditionally entitled to a bonus for 2018 which would be paid in part in 2019 and thereafter, if specific criteria are met. As at the date of these financial statements, the Supervisory Board did not take a decision in this respect.

## Performance Share Programme

The Annual General Meeting of Santander Bank Polska S.A. of 17 May 2017 launched the sixth edition of the three-year incentive programme (6th Incentive Programme) for the employees of the bank and the subsidiaries that have a key contribution to the value of the organisation. The main objective of the programme is to retain and motivate top-performing executives.

The incentive programme covers no more than 250 key employees of Santander Bank Polska Group indicated by the Management Board and approved by the Supervisory Board, inclusive of all Management Board members. The participants include a specific group of material risk takers (identified participants) to whom separate award criteria apply. For the purpose of the Programme, the bank will issue up to 250,000 performance shares.

Having executed an agreement with the bank and satisfied the vesting criteria set out in an agreement, the participants will be eligible to subscribe for and acquire a stated number of the bank's shares at a nominal value of PLN 10 each. The award and its amount depends on the satisfaction of the economic criteria, i.e. the level of the compound annual growth rate of PAT and the annual average RoRWA in 2017-2019. The award for material risk takers is granted at the time of execution of an agreement and is either retained or reduced on the basis of the analysis of economic (PAT growth rate, RoRWA) and qualitative criteria (customer satisfaction, employee engagement) in the consecutive years of the programme.

The three-year long 6th Incentive Scheme is monitored on a quarterly basis to verify if any employees have lost their participant status. The usual reason for the loss of such status is termination of employment, either with the bank or another entity of Santander Bank Polska Group. Furthermore, the Business Partnership Division monitors the underlying financial ratios in cooperation with the Financial Accounting and Control Division.

## Shares and conditional rights held by Supervisory and Management Board members

As at the release dates of the Annual Reports of Santander Bank Polska Group for 2018 and 2017, respectively, none of the members of the Supervisory Board held any shares or attached conditional rights to shares of Santander Bank Polska S.A.

The table below shows shares and attached conditional rights to shares of Santander Bank Polska S.A. held by Management Board members as at the release dates of the reports in relation to the annual periods ending 31 December 2017 and 31 December 2018.

Management Board Members	22.02.2019		13.02.2018	
	No. of Santander Bank Polska shares	Rights (6th Incentive Scheme)	No. of Santander Bank Polska shares	Rights (6th Incentive Scheme)
Michał Gajewski	-	5 420	-	5 420
Andrzej Burliga	4 389	2 820	4 389	2 820
Artur Chodacki <sup>1)</sup>			790	2 030
Michael McCarthy	1 528	3 250	1 528	3 250
Carlos Polaino Izquierdo	631	2 820	631	2 820
Juan de Porras Aguirre	1 397	2 240	1 397	2 240
Marcin Prell <sup>1)</sup>			1 250	2 540
Arkadiusz Przybył	-	3 390	-	3 390
Maciej Reluga	505	2 030	505	2 030
Mirosław Skiba <sup>1)</sup>			2 474	2 880
Dorota Strojowska	635	2 370	635	2 370
Feliks Szyszkwiaak	1 621	2 880	1 621	2 880
<b>Total</b>	<b>10 706</b>	<b>27 220</b>	<b>15 220</b>	<b>34 670</b>

1) Details about changes to the composition of the Management Board in 2018 are provided below the above table presenting fixed remuneration.

Relationship between the remuneration paid to Management Board members and key managers and long-term business and financial objectives of the company

The remuneration policy of Santander Bank Polska S.A., which provides for, among other things, variable components of remuneration paid to material risk takers (identified employees), has an overall objective to incentivise employees, and is strictly connected with the achievement of strategic goals, short- and long-term operational objectives and the financial and non-financial results of the company.

Variable remuneration is awarded to material risk takers of Santander Bank Polska S.A. on the basis of an assessment of individual performance, results of the reporting organisational unit or the area of responsibility, and business performance of the bank, taking into account the bank's business cycle and risk arising from its operations. The assessment is made as part of the performance review system applicable at the bank.

In addition to financial ratios, the annual objectives of the bank's Management Board include qualitative (customer satisfaction, employee engagement) and risk metrics which reflect the sustainable management strategy. The objectives are described in detail in the balanced scorecard. They are communicated at the beginning of the year and monitored accordingly.

Pursuant to the policy on variable components of remuneration, a min. 40% of variable remuneration to executives is deferred for the period of three years and paid in three equal annual instalments, unless there are reasons for reduction or non-payment. Furthermore, min. 50% of remuneration is paid in the form of financial instruments, mainly phantom stock based on the bank's shares.

In addition, Management Board members and key employees may receive awards under long-term incentive programmes (and take up the bank's shares at their nominal value). The purpose of these programmes is to retain the above-mentioned staff and improve the efficiency and value of the organisation. The programmes set out in detail the criteria that must be met by Management Board members and other participants for an award to be granted, and the right of the bank's Supervisory Board to change the terms and conditions of the incentive programme, e.g. in the event of any substantial deterioration of the financial standing or the risk profile. For more information on the 6th Incentive Programme, see the "Performance Share Programme" section.

## Other transactions with the bank's executives

### Loans and advances

Loans and advances granted by Santander Bank Polska S.A. to the bank's managers totalled PLN 10,103k as at 31 December 2018 vs. PLN 11,054k as at 31 December 2017. These facilities were sanctioned on the regular terms and conditions.

Deposits placed with Santander Bank Polska S.A. by the bank's executives totalled PLN 13,714k as at 31 December 2018 vs. PLN 17,328k as at 31 December 2017.

### Provisions for employee benefits

Provisions for employee benefits disclosed in Note 49 of the Consolidated Financial Statements of Santander Bank Polska Group for 2018 include the provisions of PLN 1,184k for unused holidays related to members of the bank's Management Board (PLN 797k in 2017).

## 6. Diversity Policy

### Management of diversity within the bank's activities

For many years now, Santander Bank Polska S.A. has been committed to promoting diversity in accordance with best practice and ensuring equal treatment of employees and other stakeholders regardless of their gender, age, education, health conditions, race, religion, national or ethnic origin, political beliefs, trade union membership, family status or sexual orientation.

Aspects such as respect for individuality, promotion of equal treatment and the prevention of discrimination have been addressed by a number of policies and procedures applicable at the bank:

- The Sustainability (CSR) Policy of Santander Bank Polska S.A., which sets out the following principles with respect to employee relationships:
  - ✓ to respect diversity and prevent discrimination because of gender, race, age or on any other grounds;
  - ✓ to encourage equal treatment of employees and aspire to have a balanced representation between men and women in all functions and responsibilities.
- The Human Rights Policy of Santander Bank Polska S.A., which establishes a set of principles regarding the relationships with various stakeholders, including commitment to:
  - ✓ ensure equal access to employment and promotion, and protection against discrimination based on age, gender, race, religion, origin, marital status or financial situation;
  - ✓ prevent and eliminate disrespect and abuse at work.
- The Speak Up Policy and the Dignity and Respect at Work Policy of Santander Bank Polska S.A.:
  - ✓ set out prevention and intervention measures with respect to discrimination, bullying and harassment;
  - ✓ establish channels and procedures for reporting/ analysing suspected violation of law, procedures, standards and employee relationships.

As a signatory to the Diversity Charter, Santander Bank Polska S.A. has committed to:

- creating a corporate culture that encourages respect for diversity;
- developing policies and mechanisms that effectively support equal treatment and diversity management at work;
- promoting benefits of diversity among stakeholders (employees, communities, shareholders and customers);
- reporting on measures taken and their outcome.

The principles promoting diversity and equal treatment are applied at each stage of the employee lifecycle, starting from recruitment and throughout each employee's time with the organisation (terms of employment, access to training and development initiatives, promotion opportunities) to the termination of employment with the bank.

As part of its diversity agenda, the bank takes measures to provide barrier-free banking for disabled customers and raise their awareness of existing facilities and enhancements (in cooperation with the Polska bez Barrier Foundation). The bank has also launched the Differently Abled (Różnosprawni) project to build an inclusive and diverse work environment by employing people with disabilities. To that end, measures were taken in 2018 to increase the awareness of rights and needs of the disabled among employees and managers, remove the barriers and create an environment in which employees would be encouraged to submit certificates of disability, thus increasing the number of differently abled teams.

## Diversity policy with respect to supervisory, management and administration bodies

The Appointment and Succession Policy for Management Board Members and Key Function Holders of Santander Bank Polska S.A. is to ensure the continuity of business processes delivered by senior managers, while achieving the best possible balance of gender, knowledge, skills and experience. The promotion of diversity is also one of the objectives of the policies of Santander Bank Polska S.A. on the selection and suitability assessment of members of the Management and Supervisory Boards and key function holders. Aside from relevant academic background, professional experience and good repute, these policies require that candidates for members of Supervisory and Management Boards have a wide range of skills and be able to offer independent judgements and opinions. The Management Board Diversity Policy of Santander Bank Polska S.A. introduced on 6 July 2018 emphasises the importance of the above criteria and the need to prevent any discrimination against the candidates for Management Board members, in particular in terms of gender, education, experience and age.

Santander Bank Polska S.A. makes every effort to ensure appropriate gender diversity on its Supervisory and Management Boards, having full regard to the applicable qualification criteria and diversity considerations. As at 31 December 2018, there were two women on the bank's Supervisory Board: Ms Danuta Dąbrowska and Ms Marynika Woroszyńska-Sapieha and one woman on the Management Board: Ms Dorota Strojowska, Head of the Business Partnership Division.

Women account for 44.6% of senior management and 62.0% of middle management.

Pursuant to the HR management strategy, when nominating Management Board members, the Supervisory Board will strive to achieve the objective to move towards 30% female representation on the Management Board in 2025, while ensuring geographical diversity in the membership of the Management Board. The Nominations Committee of the Supervisory Board will take into account all personnel of Santander Group and business objectives related to cross-border activities.

The current composition of the Supervisory and Management Boards as well as the population of other key function holders ensure diversity in terms of gender, age, experience and academic background. The

Sex	Women	Men				
Supervisory Board	2	8				
Management Board	1	8				
Key Managers	10	46				

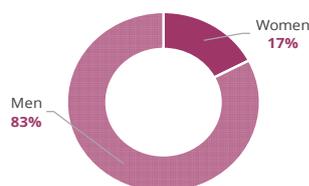
  

Age	30-40	41-50	51-60	over 60		
Supervisory Board	-	-	6	4		
Management Board	-	3	6	-		
Key Managers	13	34	9	-		

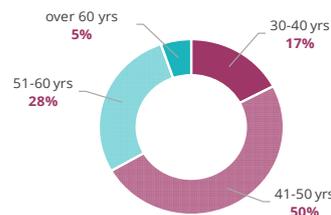
  

Years of employment with Santander Bank Polska S.A	up to 5	6-10	11-15	16-20	21-25	over 25
Supervisory Board	4	4	-	2	-	-
Management Board	3	3	-	1	2	-
Key Managers	12	4	9	15	7	9

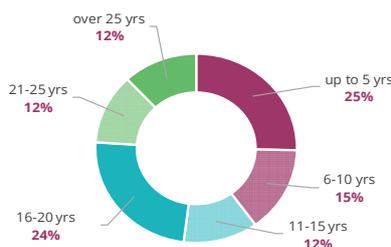
SEX OF SUPERVISING STAFF AND KEY EXECUTIVES OF SANTANDER BANK POLSKA S.A.



AGE OF SUPERVISING STAFF AND KEY EXECUTIVES OF SANTANDER BANK POLSKA S.A.



WORK EXPERIENCE OF SUPERVISING STAFF AND KEY EXECUTIVES OF SANTANDER BANK POLSKA S.A.



## 7. Control System of Financial Statements

### Internal control and risk management system

#### Internal control system

Santander Bank Polska S.A. has an internal control system in place which comprises the control function, the compliance unit and the independent internal audit unit. The internal control system supports decision-making processes and growth of operational efficiency, and ensures the reliability of financial reporting and its compliance with laws, international standards, internal regulations, regulatory requirements (KNF's Recommendation H) and best banking practice. The internal control system is tailored to the organisational structure, risk management system and market environment. It covers the Business Support Centre, branches, partner outlets and subsidiaries. The Management Board of the bank is charged with developing and implementing an effective internal control system across all organisational units and positions. It is also responsible for updating internal regulations and establishing adequacy and effectiveness criteria for evaluating the internal control system. The role of the Management Board is to define and take relevant measures to remove any deficiencies promptly after they are identified. Oversight of the implementation and the annual assessment of the internal control system is exercised by the Audit and Compliance Committee of the Supervisory Board of Santander Bank Polska S.A.

The bank has adopted the "Internal Control Policy of Santander Bank Polska S.A.". The document defines, among other things, the objective, structure and scope of the internal control system and lists related roles and responsibilities. In particular, the policy and other regulations describe the bank's internal control system, defining the rules and organisation of the process of identifying the risks that are material from the point of view of the control environment, along with their controls, risk control mechanisms and inspections carried out as part of independent monitoring of controls. Independent monitoring is inherent to the processes delivered by units and the accountability for their effective execution is clearly defined. The purpose of monitoring, testing and reporting is to ensure that the control environment is effective, both in terms of design and operation of the controls, and to strengthen the control culture at all levels within the organisation.

The internal control and risk management systems are based on three lines of defence.

#### THREE LINES OF DEFENCE IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM



Each organisational unit operates in line with their terms of reference approved by the head of the division. The document defines the roles and responsibilities within each business area, including the quality and processing of financial data. The internal control model in place allows for regular verification of controls in terms of their effectiveness. The results are escalated to and reviewed by the bank's Management Board and the Audit and Compliance Committee of the Supervisory Board of Santander Bank Polska S.A.

## Controls in financial reporting processes

One of the key objectives of the internal control system is to ensure full accuracy and credibility of financial reporting.

The process of preparing financial data for the purpose of reporting is automated and based on the consolidated General Ledger and Data Warehouse. The underpinning IT systems are regularly reviewed and tested in terms of conformity to IT architecture and cybersecurity requirements and strictly controlled in terms of integrity and security of information.

Data inputs in the source systems are subject to formal operational and approval procedures which state the responsibilities of individual staff members. Data processing for the purpose of financial reporting is subject to a suite of specialist internal controls whose objective is to monitor and test the correctness and accuracy of data. Any manual corrections or management overrides are also under strict control. Santander Bank Polska Group has a BCM plan in place, which covers all IT systems used to prepare financial reports. The plan is updated on an ongoing basis.

In order to manage risk associated with the preparation of financial statements, the bank follows legal and regulatory changes related to reporting obligations and updates its accounting rules and disclosures accordingly. The bank, through its representatives sitting on the supervisory boards of individual subsidiaries, exercises oversight of its consolidated subsidiaries.

Financial statements are approved by the Disclosure Committee, which is responsible for ensuring that the financial disclosures of Santander Bank Polska Group comply with all legal and regulatory requirements before they are released.

The bank's management confirms that the controls in place effectively mitigate the risk of any failure to identify any material error in the financial statements.

The effectiveness of controls in financial reporting is additionally assessed by an independent external auditor as part of the annual certification process for compliance with the Sarbanes-Oxley Act.

## Internal control under the Sarbanes-Oxley Act and other regulations

In the light of the Sarbanes-Oxley Act, Santander Bank Polska Group operates as a material and independent organisation within the structure of Santander Group and as such is required to implement, maintain and assess the effectiveness of the internal control environment pursuant to the above-mentioned act.

The certification process for compliance with the Sarbanes-Oxley Act in 2018 covered all key business areas of Santander Bank Polska S.A. and was carried out using solutions and methodology based on Santander Group's approach. The scope of testing included risk factors which were particularly significant for the reliability and accuracy of financial statements, taking into account the local control environment.

In view of the requirements arising from external regulations, Santander Bank Polska S.A. took measures to adjust the internal control system to comply with the Volcker Rule (section 619 of Dodd-Frank Wall Street Reform and Consumer Protection Act) and ensure compliance with RDA/RRF (Basel Committee on Banking Supervision 239: Principles for effective risk data aggregation and risk reporting), the Regulation of the Minister of Finance on the risk management system, internal control system, remuneration policy and detailed method of internal capital estimation in banks, and KNF's Recommendation H on the internal control system in banks.

The assessment of the design and effectiveness of the internal control system covers all available information and related recommendations, including those concerning audit and post-inspection. Results of assessments and tests form the basis for the bank's management to make representations on the effectiveness of the control environment.

As part of the SOX certification process for 2018, the bank's management confirmed that no incidents were identified in Santander Bank Polska Group which could significantly affect the relevant processes and threaten the effectiveness of the internal control over financial reporting.

## Auditor

Auditor In accordance with the bank's Statutes and applicable regulations, on 19 April 2017 the bank's Supervisory Board passed a resolution appointing PricewaterhouseCoopers as the entity to:

- review the bank's unconsolidated financial statements and the Group's consolidated financial statements for H1 2017 and the entire year 2018;
- audit the bank's unconsolidated financial statements and the Group's consolidated financial statements for 2017 and 2018. The bank signed agreements with PricewaterhouseCoopers Polska for the terms required to carry out the specified work.

The bank also contracted PricewaterhouseCoopers and other companies from PricewaterhouseCoopers Group for consulting services.

In the bank's view, the above services do not affect the impartiality and independence of the auditor. Employing the auditor from the same network for both Santander Bank Polska S.A. and Banco Santander ensures a consistent approach to the audit process across Santander Group.

Santander Bank Polska S.A. selects the entity authorised to audit financial statements pursuant to the Policy of Auditor Selection adopted on 4 October 2017 which is compliant with the EU law (Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities) and the Polish law (Act of 11 May 2017 on statutory auditors, audit firms and public supervision), in particular with regard to the principle of rotation of auditors

## Remuneration of external auditor

The table below shows the remuneration paid to PricewaterhouseCoopers Polska in 2018 and 2017 for audit/review of the financial statements of Bank Zachodni WBK Group pursuant to concluded agreements.

Remuneration of External Auditors (in PLN k)	Reporting Year ended on	Reporting Year ended on
	31.12.2018	31.12.2017
Audit fees in respect of the parent bank <sup>1)</sup>	3 109	2 363
Audit fees in respect of the subsidiaries	2 114	2 107
Audit fees related to assurance services, including the review of the parent bank and subsidiaries <sup>1)</sup>	908	870
Fees for non-assurance services <sup>2)</sup>	493	461

1) Remuneration for audit and review performed in 2018 and 2017 based on the Agreement with Santander Bank Polska S.A. on the audit and review of financial statements of 9.05.2018 and 19.06.2017.

2) Remuneration for non-assurance services regards among others custody report and Jessica Programme.

## 8. Pending Court Proceedings

As at 31 December 2018, no case was pending before any court or state administration agencies with regard to any claims made by or against Santander Bank Polska S.A. or its subsidiaries amounting to a minimum of 10% of the Group's equity.

Court Proceedings with Santander Bank Polska as a Party (in PLN m)	31.12.2018	31.12.2017
Amounts claimed by the Group	730,1	717,6
Claims against the Group <sup>1)</sup>	550,8	359,4
Receivables due to bankruptcy or arrangement cases	47,2	3,8
<b>Value of all litigation</b>	<b>1 328,1</b>	<b>1 080,8</b>
<b>Share [%] of all litigation in equity</b>	<b>4,98%</b>	<b>4,60%</b>
Completed significant court proceedings	565,3	532,5

1) On 20.10.2017 Santander Bank Polska was submitted a collective claim by customers with mortgage loans indexed to the CHF, originated by the former Kredyt Bank S.A. The total value of claims, estimated based on available documents as of 31.12.2017 was PLN 32.3 m. On 27.02.2018, the Bank received a notice of broaden class action by next groups of borrowers and the total value of the claim increased to PLN 47.0m. The Bank responded to the claim. At the date of preparing the Financial Statements, we were waiting for the court to decide if the case can be heard as a class action.

## XIV. Statement on Non-Financial Information

This statement is based on the Accounting Act, particularly Article 49b and Article 55. In addition to this statement, which is a separate part of the Management Board Report on Santander Bank Polska Group Performance (which includes the Management Board Report on Santander Bank Polska S.A. Performance), the bank also publishes its CSR reports, which give a full picture of the bank's social and environmental impact.

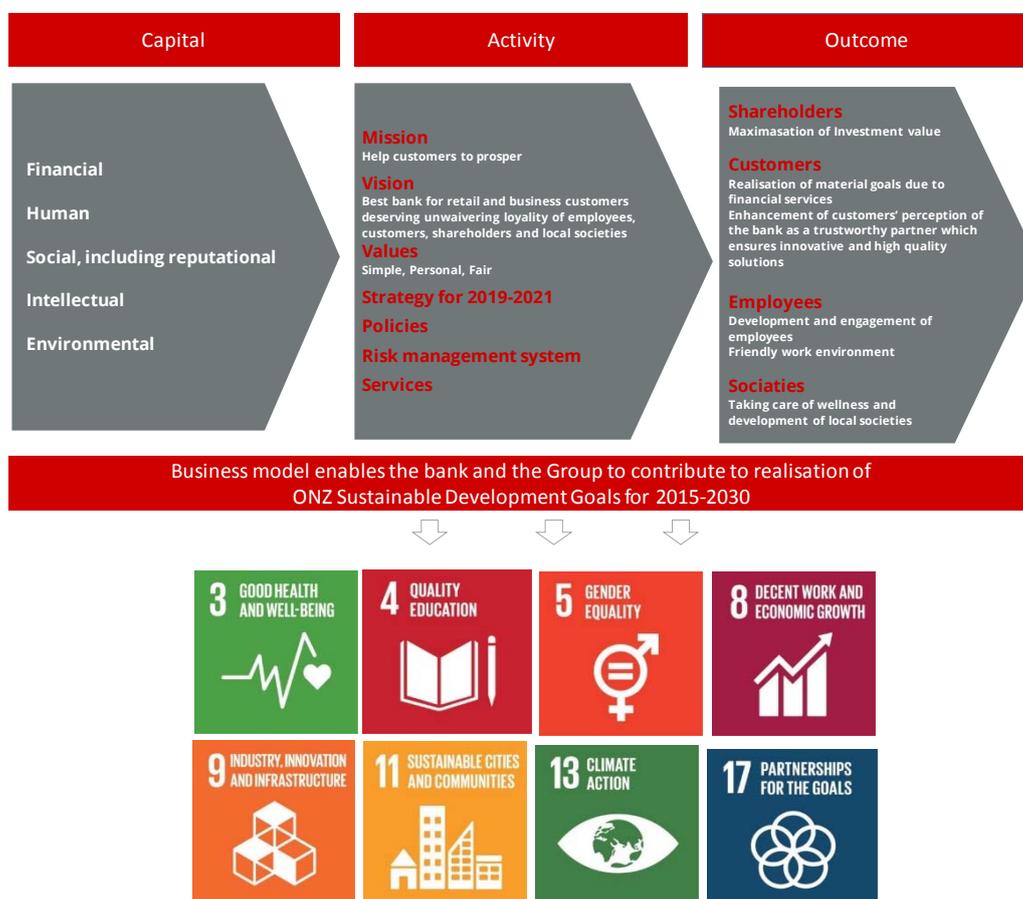
The statement has been prepared using the Global Reporting Initiative Standards, notably with regard to selection of the topics relating to employees, social and environmental matters, human rights and anti-corruption, and the presentation of selected ratios.

### 1. Business Model and Key Non-Financial Ratios

Santander Bank Polska S.A. is a universal bank which provides services to personal customers, businesses and institutions. The services provided by members of Santander Bank Polska Group are complementary to the bank's services as they offer customers access to investment fund units (shares), insurance, leasing and factoring products, brokerage services and a wide range of consumer loans.

The bank's and the Group's strategy and business model are founded upon the concept of "customer-centricity" or looking at each banking activity and process with the customer's eyes. In this model, the bank and the Group leverage their different capital categories to achieve results and to affect the quality of people's lives and the social and economic growth, in accordance with the lines of action mapped out by the UN Sustainable Development Goals 2015-2030. The bank uses a number of capitals, including financial capital (e.g. deposits), human capital (e.g. employees), intellectual capital (licenses, processes), social capital (e.g. reputation capital). In addition, like any other company, it draws on environmental capital (e.g. uses energy resources). By processing these capitals through its strategy, activities and products, it creates value not only for shareholders, but also for a wider group of stakeholders.

#### VALUE CREATION BY THE BANK AND THE GROUP



Key Performance Indicators	2018	2017
Total number of customers, in thousands (Group)	6 956,3	6 454
Total number of bank customers, in thousands (Bank)	4 884,2	4 412
Number of electronic banking users	4 019,1	3 388
Profit attributable to shareholders (in PLN million)	2 365,2	2 213,1
Net profit for the period (in PLN million)	2 167,2	1 916,2
ROE (Group)	11,9%	12,2%
ROE (Bank)	11,4%	11,0%
Loans/Deposits (Group)	91,9%	96,7%
Loans/Deposits (Bank)	84,2%	88,6%
Capital ratio (Group)	15,98%	16,69%
Capital ratio (Bank)	14,04%	18,95%

## 2. Risk Management System

The framework for the risk management system in the organisation is defined in keeping with the banking sector standards and regulatory guidance and recommendations. All units of the bank and the Group are responsible for identification, measurement, monitoring and mitigation of risks as part of the first line of defence. Risk profile is determined, approved by the Risk Management Committee. Risk appetite, together with a number of risk limits, is reflected in the Risk Appetite Statement approved by the Management Board and the Supervisory Board.

The risk management system includes the following significant risks: credit risk, market risk, liquidity risk, capital risk, models risk, business risk, risk of excessive leverage, operational risk and compliance risk (which encompasses regulatory risk), conduct risk, money laundering and terrorism financing risk and reputational risk. From the point of view of negative impact of those risks on society, environment, employees, human rights and anti-corruption measures, particular importance is attached to operational risk, compliance risk and reputational risk. In addition, the bank has identified social and environmental risks related to financing.

Risk	Risk description	Risk management	Possible significant negative impact on:				
			S	Em	En	HR	AC
<b>Operational risk</b>	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	The bank and the Group apply the Operational Risk Management Strategy. In addition, detailed policies, procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated. The responsibility for setting operational risk management standards rests with the Operational Risk Management Committee (ORMCO).	✓	✓	✓	✓	✓
<b>Compliance risk</b> (regulatory risk, conduct risk and money laundering and terrorism financing risk).	Compliance risk is defined as the risk of legal or regulatory sanctions, significant financial loss influencing the results or having negative impact on reputation that the bank may suffer due to its failure to comply with the law, internal regulations and market standards.	<p>Compliance risk is managed at the bank and in the Group as part of several processes, namely:</p> <ul style="list-style-type: none"> <li>• identification of compliance risk</li> <li>• assessment of identified risk</li> <li>• use of controls</li> <li>• monitoring the risk size and profile</li> <li>• results reporting.</li> </ul> <p>Compliance assurance, as part of the control function, encompasses implementation of controls, independent monitoring of their observance and reporting.</p> <p>The control function is performed under the so-called three lines of defence:</p> <ol style="list-style-type: none"> <li>1. At the first line of defence, compliance risk is managed as part of business areas (conduct of business), and in other areas of the bank's operations (non-conduct of business).</li> </ol> <p>The second line of defence includes on-going vertical verification and vertical testing, the scope of which is adapted to the process characteristics and the risk level.</p> <ol style="list-style-type: none"> <li>2. The tasks of the second line of defence are carried out by the compliance function or another organisational unit operating in accordance with internal regulations, and in particular: <ul style="list-style-type: none"> <li>• for labour law responsibilities – HR unit</li> <li>• for commercial companies law responsibilities – corporate governance unit</li> <li>• for health and safety responsibilities – health and safety unit</li> <li>• for accounting, reporting and tax responsibilities – financial, accounting and tax units</li> <li>•</li> <li>• for prudential requirements – risk units.</li> </ul> </li> </ol>	✓	✓			✓

		<p>3. The third line of defence is the internal audit function.</p> <p>In addition, risk management is supported by specialist committees, such as the General Compliance Committee, the Regulatory Risk Committee, the Local Marketing and Monitoring Committee and the Anti-Money Laundering and Counter-Terrorism Financing Committee.</p> <p>The key policies are the General Code of Conduct and the Rules for preventing criminal responsibility.</p>					
<b>Reputational risk</b> (an element of compliance risk)	The risk of deterioration of the bank's and Santander Group's image from the point of view of the bank's and Group's customers, employees, shareholders and communities in a broad sense, as a result of other types of risk, including individual categories of compliance risk.	Reputational risk is owned by the Corporate Communication and Marketing Area and by the Compliance Area, which use a number of mechanisms, including the bank's Disclosure Policy, the Reputational Risk Management Policy, the risk appetite for reputational risk, the Compliance Policy of Santander Bank Polska S.A., the Procurement Policy, the Supplier Selection Procedure, the Media Monitoring Policy, the Code of Conduct in the Securities Markets, customer satisfaction surveys and mystery shopping.	✓	✓			
<b>Social and environmental risks related to financing</b>	Social and environmental risks resulting from customers' activities in sensitive sectors, constituting elements of reputational risk.	The key document on social and environmental risks is the Sustainability (CSR) Policy of Santander Bank Polska S.A., which covers the whole Santander Bank Polska Group. The Policy is supplemented by policies on sectoral risk management for such sensitive sectors as defence, energy or soft commodities as well as the sensitive sectors financing policy. Each sectoral policy defines the scope of its application, prohibited or restricted activities in relation to individual sectors, approval limits for transactions and the responsibility for each policy and its maintenance.	✓	✓	✓	✓	
		Furthermore, in this area the bank respects international best practices concerning social aid and environmental protection, particularly the Equator Principles.					

S – Society, Em – Employees, En – Environment, HR – Human Rights, AC – Anti-Corruption

In order to strengthen the risk management system, the bank conducts activities that reinforce risk awareness among employees, making sure that each staff member is responsible for risk management and knows how to respond to risk materialisation. The risk culture being promoted by Santander Bank Polska S.A. is called **Risk pro**, and consists of five principles: accountability, resilience, simplicity, challenge and customer focus. Activities implemented within this culture include: education of the bank's employees as part of the **Risk pro Banking School**, including training in risk management (over 100 training sessions organised in 2018); awareness-raising activities among employees relating to risks encountered in day-to-day work; providing channels for anonymous reporting of issues of concern; and features of the incentive system encouraging employees to adhere to the risk culture values. These activities are accompanied by such events as the "Risk Culture Week", during which best risk management practices are promoted through articles, interviews, infographics made available to employees as well as through discussions and competitions. According to the bank's Engagement Survey (2018), **97% of employees** are able to identify and take accountability for the risks they encounter in their daily work.

The bank's and the Group's risk management system is described in Chapter XII "Risk and Capital Management".

### 3. Anti-Corruption Policies and their Outcomes

Due to the nature of their operations, the bank and Santander Bank Polska Group have the status of public trust institutions. For this reason, their activities are regulated by a number of domestic and EU guidelines, which ensure safety of customer funds and stability of the banking system. In this context, anti-corruption is high on the agenda. The bank and the Group have an efficient ethical infrastructure founded upon the **General Code of Conduct** (the "Code"), which is binding on all the bank's and the Group's employees. It lays down ethical standards applied across Santander Group, and thus to Santander Bank Polska Group as its member, covering specific situations, some of which are specifically related to corruption prevention. They are contained in the following sections of the Code:

1. Conflicts of interest covering relations with the Group, banking transactions, investing into companies, relations with suppliers and customers, gifts, commissions and other financial benefits. In addition, both the bank and Santander Bank Polska Group operate the General Conflict of Interest Policy, which supplements the Code.
2. Cooperation with third parties and regulatory relations.
3. Prevention of money laundering and terrorism financing.
4. Corrupt practices.

The General Code of Conduct also determines the organisation and responsibilities of units. Implementation of the Code is the responsibility of the compliance function's management, Committee for Compliance with Santander Group's Regulatory Requirements, Internal Audit, Audit and Compliance Committee, Supervisory Board, the HR function and the Business Ethics Council. The Code also lays down the roles of heads of units, areas and divisions, and clearly defines the consequences for breaching its provisions.

The General Code of Conduct lays the foundations for a culture of openness and reporting breaches. A separate part of the Code is dedicated to whistleblowing, ensuring its confidential nature, and the analysis of reported complaints.

The bank's and the Group's approach is fleshed out in the **Anti-Corruption Programme**. The document emphasises the policy of "zero tolerance" for corruption, and sets out anti-corruptions rules. The following elements make up the Anti-Corruption Programme:

1. Controls
  - a. Register of gifts and invitations to public officials
  - b. Actions taken by agents, intermediaries, advisers and business partners
  - c. Activities in high-risk countries
  - d. Accounting controls
  - e. Offering gifts or entertainment to the bank's employees and managers
2. Whistleblowing channel
3. Training
4. Responsibility of the corporate compliance area.

Corruption prevention is also covered by the umbrella document **Sustainability (CSR) Policy of Santander Bank Polska S.A.**, which refers to the bank's and the Group's approach to running the business responsibly and in keeping with the sustainable development principles.

As a result of implementation of the Code and its supporting documents, the bank's and the Group's employees participate in training on the anti-corruption policy and procedures.

<b>Anti-corruption policy indicators in Santander Bank Polska</b>	<b>2018</b>	<b>2017</b>
<b>Percentage share of employees who are familiar with the anti-corruption policy and procedures:</b>		
Group	100%	100%
Bank	100%	100%
<b>Percentage share of employees who completed anti-corruption training:</b>		
Group	93%	97%
Bank	92%	97%

Lower share in 2018 is due to inclusion of employees of former Deutsche Bank Polska S.A. in the structures of Santander Bank Polska S.A.

## 4. Employee Policies and their Outcomes

Employment in Santander Bank Polska S.A. is 12,253 FTEs. Employment in the Group is 15,347 FTEs. The bank and the Group have a number of documents which govern staff-related matters.

The key aspects relating to the internal organisation of work and rights and obligations of the employees and the employer are set out in the bank's **Labour Regulations**. All companies of the Group employing more than 50 people have their own Labour Regulations. The approach to workplace matters is laid down in HR Policies. Key to the bank's and the Group's growth is development of staff competencies, and the goals in this regard are outlined in the Training Policy. In 2016, the bank signed the "**Diversity Charter**", an initiative administered by the Responsible Business Forum, designed to promote diversity management in Poland. Adoption of the "Diversity Charter" means that its provisions became applicable in the bank's working environment. In this context, particularly important is the **Respect and Dignity Policy**, which relates to building a diversified working environment with respect for ethical standards and dignity of each employee, which prevents such negative behaviours as discrimination, bullying and harassment. Attached to the Policy is a document "**Support for new parents**", which describes the bank's and the Group's actions addressed to the employees who have been absent for a long time due to pregnancy, or who are on maternity or parental leaves. In 2018, the bank adopted the **Management Board Diversity Policy**, whereby the bank strives to ensure that the candidates for the roles of Management Board members and key function holders possess a wide range of qualities and skills as well as ability to show independence of mind and opinions, to ensure gender balance in the composition of the Management Board and to fight any discrimination against the candidates for Management Board members. It should be noted that starting from 2018, when nominating Management Board members, the Supervisory Board strives to achieve the objective to move towards 30% female representation on the Management Board in 2025, while ensuring geographical diversity in the membership of the Management Board.

As part of implementation of the Diversity Charter, the bank launched, for example, the **Female Side of Business (Kobięca Strona Biznesu)** programme, whose objective is to increase female representation in managerial positions. The programme involves mentoring activities and inspirational meetings. The bank has also implemented the **Differently Abled (Różnosprawni)** project to build an inclusive and diverse work environment by preparing the organisation to employ people with disabilities. Since 2018, measures have been taken to raise awareness of the needs and rights of the disabled, overcome any potential barriers to employment, create conditions for communicating the disability status to the employer and increase the number of teams with disabled members.

Another key document, in addition to the Labour Regulations, is the **General Code of Conduct**, which sets out ethical standards and rules of conduct for all the bank's and the Group's employees. It sets out such aspects as ethical standards and general standards for dealing with special situations, including conflicts of interest or corrupt practices. Each employee must be familiar with and follow the General Code of Conduct.

The General Code of Conduct is supplemented by the **Sustainability (CSR) Policy of Santander Bank Polska S.A.**, which applies both to the bank and the Group. It sets out the bank's and the Group's responsibilities in their relations with stakeholders, including employees. It requires that the bank and the Group should comply with the following rules in relation to their employees:

1. Respect for diversity – preventing discrimination because of gender, race, age or on any other grounds
2. Promoting employment stability, flexible working hours and work-life balance, and ensuring health and safety in the workplace
3. Encouraging equal opportunities among employees, aspiring to have a balanced representation between men and women in all functions and responsibilities
4. Ensuring that employees follow the rules of ethics and responsible behaviour based on the General Code of Conduct
5. Santander Bank Polska S.A. will encourage employees to engage in corporate volunteering to support local communities and strengthen employees' pride about being part of the organisation.

The bank's and the Group's employees participate in many social activities as volunteers. Corporate volunteering is understood as any initiatives promoted and supported by Santander Bank Polska S.A., in which the bank's employees are involved voluntarily and in their free time (and partly during working hours, if possible), using their skills to support non-profit initiatives, projects or organisations for the good

for local communities. Corporate volunteering is governed by the **Corporate Volunteering Policy of Santander Bank Polska S.A.**, which applies to all Group employees. The Policy determines three volunteering areas: 1. Supporting education; 2. Promoting equality of opportunity; 3. Building a civil society. In addition, the Corporate Volunteering Policy of Santander Bank Polska S.A. defines traceable volunteering indicators with their related procedures, including responsible units, i.e. the Santander Bank Polska Foundation and the Public Relations Department, acting in coordination with the HR function.

For more information on social and volunteering activities, see Chapter VIII "Relations with External Environment" on implementation of the CSR policy in Santander Bank Polska Group in 2018 (including sponsoring and corporate giving activities) and in the bank's CSR reports available on the bank's website: [www.santander.pl/raport-csr](http://www.santander.pl/raport-csr).

HR policies indicators	2018		2017	
	Female	Male	Female	Male
<b>Number of employees:</b>				
Capital Group	11 194	4 690	10 454	4 030
Bank	8 931	3 710	8 330	3 159
<b>Employee turnover:<sup>1)</sup></b>				
Group (without SCB Group)	17,5%		17,3%	
Bank	19,3%		17,5%	
<b>Average number of training hours per employee:</b>				
Group	55,1		56,8	
Bank	56,9		55,3	

1) Turnover rate: number of terminations during the period to total employment at the end of the period.

Ratios reflecting the participation of women in the Bank's management	2018	2017
Women in the bank's senior management (%)	44,6%	37,1%
Women in the bank's medium management (%)	62,0%	60,6%

The bank also undertakes many initiatives addressed to employees to aid implementation of the ideas underpinning the individual policies. One of the many examples is the **BeHealthy (Zdrowie na bank)** programme, which has been divided into four pillars: eat clean, move, stay healthy, be ergo. The programme includes educational and motivational activities, including those relating to rational nutrition, prevention of mental and physical health problems, sports and leisure activity, as well as work ergonomics.

Another example is the Banker's Hike (Rajd Bankowca), the biggest (bank-wide) recreation and family event for employees and their families. It has been organised for the last 24 years and is available, on preferential conditions, to all the bank's employees and pensioners, including their families. In 2018, nearly 1,500 people took part in the event.

## 5. Human Rights Policies and their Outcomes

The overarching document which defines the bank's and the Group's approach to human rights is the **Sustainability (CSR) Policy of Santander Bank Polska S.A.** In accordance with this Policy, the bank, as part of its business, "shall respect and promote the observance of human rights in relation to employees, customers, shareholders, suppliers and local communities."

The key document which establishes details of the bank's and the Group's approach is the **Human Rights Policy of Santander Bank Polska S.A.** In this Policy, the bank sustains the obligation to respect and protect human rights. It applies to the bank's employees, its customers, suppliers and the local communities to which the bank provides its services. The policy relates to the bank's and the Group's activity, processes, services and operations. It establishes detailed rules and obligations relating to the observance of human rights.

## Human Rights Policy of Santander Bank Polska S.A. Areas covered

Relations with bank employees	<ul style="list-style-type: none"> <li>✓ Preventing discrimination and practices against personal dignity</li> <li>✓ Forced labour and child labour</li> <li>✓ Respecting the right to form trade unions and enter into collective agreements</li> <li>✓ Protecting employees' health</li> <li>✓ Working environment</li> </ul>
Cooperation with customers and suppliers	<ul style="list-style-type: none"> <li>✓ Obligations to customers</li> <li>✓ Obligations to suppliers</li> <li>✓ Obligations to business partners</li> </ul>
Cooperation with local communities	<ul style="list-style-type: none"> <li>✓ Respecting, supporting and promoting the observance of human rights in local communities</li> <li>✓ Monitoring the impact of the business on local communities</li> <li>✓ Respecting human rights by ensuring safety</li> <li>✓ Taking anti-corruption measures</li> </ul>

The bank's Management Board is responsible for the human rights policy, while the bank's employees are obliged to report any breaches of the policy. In accordance with the General Code of Conduct, such cases are reported to [etyka@santander.pl](mailto:etyka@santander.pl), with assured protection against reprisal and other negative consequences.

The Human Rights Policy of Santander Bank Polska S.A. is supplemented by the **Respect and Dignity Policy**, which relates to building a diversified working environment with respect for ethical standards and dignity of each employee, which prevents such negative behaviours as discrimination, bullying and harassment (including sexual harassment). The Respect and Dignity Policy establishes methods of reporting breaches of ethical standards and irregularities, including discrimination, bullying and harassment. The Policy also determines the responsibility of management and each employee for its implementation. **Appendix 1 to the Respect and Dignity Policy** lays down the **Rules for dealing with alarming incidents relating to breaches of law, banking procedures, standards and employee relations reported by employees**.

Human rights issues are also covered by the sectoral document **Santander Bank Polska Environment and Social Policy. Defence Sector**. It introduces exclusions and limitations to the bank's relationship with customers dealing with defence and dual-use technologies. The bank also notes risks related to projects carried out in the countries which have not ratified the key UN legal documents on human rights and those which are subject to UN/EU sanctions for violating human rights or using internal repressions, as defined in the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights and the Optional Protocol to the Convention on the Rights of the Child on the involvement of children in armed conflict.

## 6. Social Policies and their Outcomes

In terms of social matters, two areas are of particular importance for the bank's and the Group's operations, namely: the customers and business partners area and the general public, including local communities.

The overarching document which defines the bank's and the Group's approach to social matters is the **Sustainability (CSR) Policy of Santander Bank Polska S.A.** It sets out the bank's and the Group's responsibilities in their relations with stakeholders: employees, shareholders, local communities and suppliers. The bank and the Group also respect international best practices concerning social aid and environmental protection, particularly the Equator Principles. They relate to such issues as social health and security, purchase of land and voluntary resettlement, the rights of indigenous peoples or cultural heritage.

**The priority areas in the bank's and the Group's social activity** are education and science development, support for social initiatives, equalisation of opportunities and prevention of social exclusion.

The bank's and the Group's employees participate in social activities in accordance with the **Corporate Volunteering Policy of Santander Bank Polska S.A.**, which provides for three volunteering areas: 1. Supporting education; 2. Promoting equality of opportunity; 3. Building a civil society. In addition, the Policy defines traceable volunteering indicators with their related procedures, including responsible units, i.e. the Santander Bank Polska Foundation and the Public Relations Department, acting in coordination with the HR function.

Each year, the bank develops many social projects which are designed to have a positive influence on the communities in which the bank operates. In 2018, the bank continued the **How's Your Driving** ("Jak Jeździsz") educational project, designed to share knowledge about safe driving. The project was accompanied by the **Eco-Safe** (Ekobezpieczni) campaign, addressed to primary schools, and combining ecology and road safety education. Another example is **Santander Orchestra**, a project for young musicians, which combines musical practice with additional activities. In addition to classes with world-famous musicians, students and graduates of music schools took part in theoretical lectures on financial management, image management/ public relations and social media. The 4th edition of the project

included three symphonic concerts: in Warsaw, Łódź and Poznań and a cycle of seven workshops with internationally renowned musicians of various instruments. These are only some examples of the completed initiatives. For more information, see the CSR reports issued by the bank.

The bank's and the Group's social activity is largely carried out through the Santander Bank Polska Foundation, in accordance with its **Charter**. In addition to the corporate volunteering programme, the Foundation is also engaged in such grant programmes as: **"The Bank of Young Sports Champions"** (**"Bank Młodych Mistrzów Sportu"**), **"Here I live, here I make changes"** (**"Tu mieszkam, tu zmieniam"**), **"The Bank of Children's Smiles"** (**"Bank Dziecięcych Uśmiechów"**), **"The Bank of the Ambitious Youth"** (**"Bank Ambitnej Młodzieży"**) and **"Eco-Competition"** (**"Eko-rozgrywka"**). For example, in 2018, there were 774 organisations from across Poland involved in the "Here I live, here I make changes" project. As a result, support totalling PLN 800,000 was provided to 121 projects, and the number of beneficiaries reached 280,128.

The bank is also engaged in educational projects, such as a portal on financial education for parents and teachers: **Finansiaki.pl**. Furthermore, the bank and the Group are engaged in Santander Group's projects, including **Santander Universidades**, which covers universities from the whole of Poland.

The social commitment of Santander Bank Polska S.A. is demonstrated by the number of people helped (external beneficiaries – local communities, customers and groups at risk of social exclusion).

### Number of beneficiaries

2016	2017	2018
119,840	173,843	Preliminary target: 131,080

For more information on social activities, see Chapter VIII on implementation of the CSR policy in Santander Bank Polska Group in 2018 (including sponsoring and corporate giving activities) and in the bank's CSR reports available on the bank's website: [www.santander.pl/raport-csr](http://www.santander.pl/raport-csr)

**Supplier relationship management** is the responsibility of the Contracts and Procurement Management Department. All suppliers are subject to uniform selection criteria. The main documents governing the purchasing process are the **Procurement Policy** and the **Supplier Selection Procedure**. The rules used vis-à-vis suppliers also take into account social criteria, observance of human rights and environmental commitments. Bidders are required to fill in a CSR questionnaire with questions relating to employment practices, human rights or environmental criteria. Following the supplier selection stage, the **Policy on Cooperation with Suppliers** and the **Suppliers Management Procedure** apply, providing for the process of qualifying suppliers for cooperation with the bank, monitoring the relationship and the rules for signing contracts with suppliers.

The bank and the Group have a number of documents which establish **customer relationship standards** in relation to communication, service, complaint-handling and data security. These areas are the responsibility of individual units dealing with retail and business customers. The bank runs the **Entrepreneur Academy (Akademia Przedsiębiorcy)**, an initiative which includes conferences held across Poland.

The bank pays attention to customers with special needs. For eight years, the bank has been running the **Barrier-Free Banking** („Obsługa bez Barier”) programme, designed to ensure comfortable access to the bank's services and products for customers with special needs (the disabled, the elderly, pregnant women). Customers can use a network of certified branches without barriers, video service in the Polish sign language (PJM) provided by Contact Centre advisors, biometric solutions, "talking" ATMs for blind and visually impaired people, as well as internet and mobile banking services available for customers with disabilities. Advertising communication is also adapted to the needs of the visually impaired and hearing impaired. Each year, further branches are covered with audits of architectural accessibility for customers with disabilities (19 branches in 2018). In turn, mobile and internet banking are subject to regular accessibility audits based on the WCAG 2.0 standard.

Indicators of social policy effectiveness	2018	2017
<b>Number of staff volunteers</b>		
Group	1 519	1 080
Bank	1 200	580
Donations made by the Santander Bank Polska Foundation towards corporate volunteering projects (PLN thousand)	145	130
NPS	33,9%	32%

## 7. Environmental Policies and their Outcomes

Environmental issues relating to the bank's and the Group's activities are looked at from two perspectives: firstly, in terms of direct impact, e.g. the use of paper, and secondly, in terms of indirect impact through the financial services provided. This is reflected in the **Sustainability (CSR) Policy of Santander Bank Polska S.A.**, which stipulates that the bank and the Group attach great importance to environmental protection, particularly in the context of climate changes, and undertake to:

1. minimise the environmental impact of their branches and business;
2. promote environmentally-friendly products and services;
3. take into account and assess the impact that their financed projects have on climate changes.

The Policy is supplemented by the **Climate Change Policy of Santander Bank Polska S.A.**, applicable across the Group. It lays down the actions and initiatives which support environmental protection and mitigate the impact of climate changes, including:

1. control of resource consumption and emission levels by all the bank's facilities;
2. financial activity;
3. other environmental protection activities, including awareness-raising among employees and in the supply chain through initiatives aimed at suppliers and by means of product and service selection rules.

As regards resource consumption, the bank and the Group monitor the use of energy, paper and other resources. As regards financial services, the Climate Change Policy of Santander Bank Polska S.A. is operated by financing renewable energy and energy efficiency projects; financing electric, hybrid and low-emission cars; water and waste management infrastructure; supporting products and services for sustainable construction; activity in the market of trading in emission allowances; developing products for the agricultural and livestock breeding sector (including weather risks and other natural disaster risks) or financing socially responsible investments.

The Climate Change Policy of Santander Bank Polska S.A. is supplemented by sectoral policies on financing projects and customers from sensitive sectors, notably the **Santander Bank Polska Environment and Social Policy. Energy Sector; Santander Bank Polska Environment and Social Policy. Soft Commodities; Santander Bank Polska Environment and Social Policy. Defence Sector and the Sensitive Sectors Financing Policy.**

The bank respects international best practices concerning social aid and environmental protection, particularly the Equator Principles. These principles relate to environmental issues, such as biodiversity protection, long-term natural resource management, pollution and toxic emissions prevention and climate changes.

In 2018, the bank arranged an **"Eco-Fridays"** ("Eko-piątki") initiative addressed to employees. The purpose of the initiative was to increase employees' awareness about environmental challenges. The first edition of the initiative included a series of articles about the environmental impact of plastics, the methods of mitigating this impact and about recycling. The articles were followed by a competition for employees called "Zero plastics" ("Zero plastiku"). 84 employees proposed 100 ideas about how to limit the use of plastics, both at the bank and in everyday life.

<b>Environmental policy indicators *</b>	<b>2018</b>	<b>2017</b>
Total energy consumption in the Bank (MWh)	36 144	36 555
Paper consumption in the Bank (kg)	368 312	301 805

\* data for the Bank

## XV. Representations of the Management Board

### True and Fair Presentation of the Financial Statements

To the best of the Management Board's knowledge, the financial figures and the comparable data presented in the financial statements incorporated in the "Annual Report 2018 of Santander Bank Polska S.A." and "Annual Report 2018 of Santander Bank Polska Group" were prepared in keeping with the applicable accounting policies and give a true and fair view of the state of affairs and earnings of Bank Zachodni WBK Group. The Management Board's Report contained in this document shows a true picture of the development, achievements and position of the parent entity and the Santander Bank Polska (including the underlying risks) in 2018.

### Signatures of the persons representing the entity

Date	Name	Function	Signature
21.02.2019	Michał Gajewski	President	
21.02.2019	Andrzej Burliga	Vice-President	
21.02.2019	Michael McCarthy	Vice-President	
21.02.2019	Juan de Porras Aguirre	Vice-President	
21.02.2019	Arkadiusz Przybył	Vice-President	
21.02.2019	Feliks Szyszkowiak	Vice-President	
21.02.2019	Carlos Polaino Izquierdo	Member	
21.02.2019	Maciej Reluga	Member	
21.02.2019	Dorota Strojowska	Member	