

Management Board Report on Santander Bank Polska Group Performance in H1 2020



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I. Overview of Activities of Santander Bank Polska S.A. and its Group in H1 2020

1. Key Achievements

<p>Sound liquidity position Net customer loans to deposits ratio at 86.0%</p>	<p>Group's solid capital position confirmed by capital ratios as at 30 June 2020, including total capital ratio of 18.76%</p>	<p>Close monitoring of risk associated with the pandemic, with a particular focus on credit risk</p>
<p>Change of the Group's work organisation and effective adaptation to the new circumstances during the pandemic</p>	<p>Further development and growing use of remote channels in the sales and after-sales</p>	<p>Wide support for customers in relation to the economic impact of the COVID-19 pandemic, including solutions beyond the financial stimulus package introduced by the government</p>
<p>2% YoY growth in gross loans and advances to customers to PLN 148.5bn, including a rise of 9.7% YoY in cash loans, 4.3% YoY in home loans and an increase of 7.6% YoY in leasing receivables</p>	<p>Dynamic growth in deposits (+10.8% YoY to PLN 165.9bn) supported by an increase in current deposits from personal customers (+22.1% YoY) and from businesses and the public sector (+70.0% YoY)</p>	<p>7.6% YoY increase in total assets to PLN 221.6bn</p>
<p>Dynamic sales of brokerage accounts and an increase in stock trading supported by market trends and remote technologies</p>	<p>Increase in net fee and commission income from brokerage services (+93.1% YoY), insurance services (+3.7% YoY) and foreign exchange (+2.3 YoY)</p>	<p>Decrease of 1% YoY in total operating expenses, including reduction of staff expenses (-19.2% YoY) and stabilisation of general and administrative expenses</p>
<p>Golden Banker 2020 award winner in the following categories: Personal Account - 1st place Social Sensitivity - 1st place Multichannel Quality of Service - 2nd place Cash Loan - 3rd place</p>	<p>2.6m digital customers, including 1.7m mobile banking customers</p>	<p>7.2m customers of Santander Bank Polska S.A. and Santander Consumer Bank S.A. (+1.6% YoY), including 3.5m loyal customers</p>

2. Key Financial and Business Data of Santander Bank Polska Group for H1 2020 vs. the Previous Year

Key financial data of Santander Bank Polska Group

Selected Income Statement data		H1 2020	H1 2019	YoY Change (%)
Total income	PLN m	4 330,5	4 628,0	-6,4%
Total costs	PLN m	(2 229,1)	(2 252,7)	-1,0%
Impairment allowances for expected losses	PLN m	(947,2)	(619,2)	53,0%
Profit before tax	PLN m	889,9	1 481,1	-39,9%
Net profit attributable to Santander Bank Polska S.A.	PLN m	475,8	935,5	-49,1%
Selected Balance Sheet data		30.06.2020	30.06.2019	YoY Change (%)
Total assets	PLN m	221 609,2	205 901,2	7,6%
Net loans and advances to customers	PLN m	142 622,1	140 725,7	1,3%
Deposits from customers	PLN m	165 889,5	149 675,5	10,8%
Total equity	PLN m	27 887,5	25 529,7	9,2%
Selected off-Balance Sheet data		30.06.2020	30.06.2019	YoY Change (%)
Net assets of Santander mutual funds ¹⁾	PLN bn	13,1	15,8	-17,1%
Selected ratios ²⁾		30.06.2020	30.06.2019	YoY Change (p.p.)
Total costs/Total income	%	51,5%	48,7%	2,8%
Total capital ratio	%	18,76%	16,26%	2,5%
ROE	%	7,1%	10,1%	-3,0%
NPL ratio	%	5,6%	4,7%	0,9%
Credit risk ratio	%	1,06%	0,88%	0,2%
Customer net loans/customer deposits	%	86,0%	94,0%	-8,0%

Key non-financial data of Santander Bank Polska Group

Selected non-financial data		30.06.2020	30.06.2019	YoY Change
Internet and mobile banking customers ³⁾	m	4,1	4,2	-0,1
Digital (active) internet and mobile banking customers ⁴⁾	m	2,6	2,4	0,2
Digital (active) mobile banking customers	m	1,7	1,5	0,2
Debit cards	m	4,2	4,1	0,1
Credit cards	m	1,2	1,3	-0,1
Customer base	m	7,2	7,0	0,2
Branches	locations	584	675	-91
Partner outlets	locations	369	306	63
Off-site Locations and Santander Zones	locations	11	7	4
Employment	FTEs	13 201	14 058	-857

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

2) For definitions of ratios presented in the table above, see part 3 „Selected Financial Ratios”, Chapter VIII “Financial Situation in H1 2020”.

3) Registered users of Santander electronic banking services. Effective from Q1 2020, more restrictive definition of this customer group is applied. The stated numbers do not include 0.2m of active customers of Santander Consumer Bank S.A.

4) Active users of Santander electronic banking who at least once used the service in the last month of the reporting period. The stated numbers do not include 0.2m of active electronic banking customers of Santander Consumer Bank S.A.

3. Key External Factors

Factors and events, especially untypical ones, significantly affecting financial results of the bank in 1H 2020:

- Coronavirus pandemic created significant supply and demand shocks for the global and Polish economies, pushing them towards unexpected recession.
- Liquidity problems of some corporates, multiple withdrawals from running business, closed factories, declines in companies' workforce due to health issues and the need to take care of the children after schools and kindergartens got closed in the first months of the pandemic.
- Due to imposed restrictions some business sectors ceased operating, came almost to a standstill (e.g. tourism, restaurants, entertainment, barber shops), many others had much lower turnover in the first months of the pandemic.
- Unexpectedly large interest rate cuts by the NBP with effects of, inter alia, significantly decreasing the maximum allowed cost of credit.
- Start of distribution of anti-crisis support, in particular the payments from PFR (Polish Development Fund) to companies as part of the Financial Shield, abruptly increased the amount of money in the economy, on the bank accounts and resulted in major liquidity overhang in the banking sector.
- Gradual taking down of restrictions imposed earlier on economic and social activity, the realisation of postponed consumer demand.
- Precautionary behavior of households resulting in increased demand for cash and foreign currencies as a store of value; simultaneously, pressure to use debit and credit cards instead of cash, for health safety reasons.
- Further increase in both the headline and core inflation, price increases especially significant as far as food, services and house maintenance costs are concerned.
- Initially significant declines in stock prices globally, then surprisingly fast rebound and optimism and this all despite the increase in the new covid-19 cases globally. Significant flows to and from the funds as well as low yields globally, including Polish government bonds.
- Initial quick zloty depreciation was followed by a surprising stability and this despite further rate cuts and incoming macroeconomic data confirming the economic shock.

4. Corporate Events

Major corporate events in the reporting period

KNF recommendations regarding own funds pre-Covid-19	<ul style="list-style-type: none"> • On 9 March 2020, the Polish Financial Supervision Authority (KNF) issued an individual recommendation for Santander Bank Polska S.A. to increase its own funds by retaining at least 50% of its profit earned in 2019. <ul style="list-style-type: none"> ✓ As at 31 December 2019, the bank met the basic dividend policy criteria for commercial banks for distribution of up to 100% of the profit earned in 2019. ✓ Adjustment of the dividend payout ratio by 50 p.p. due to the additional criteria binding on the banks with major residential mortgage exposures in foreign currencies.
Supervisory restriction on profit distribution in the wake of the Covid-19 pandemic	<ul style="list-style-type: none"> • In its letter of 26 March 2020, the KNF stated that in view of the state of epidemic announced in Poland and its adverse impact on the economy, it is expected that banks will retain their entire profits earned in the previous years in addition to any steps already taken in relation to the epidemic. Banks are also expected not to take any other measures which might weaken the capital base, unless agreed with the supervisory authority.
"We will double your impact" ("Podwójna moc pomagania") charity event	<ul style="list-style-type: none"> • On 25 March 2020, Santander Bank Polska S.A. together with the Santander Foundation launched a charity event called "We will double your impact" ("Podwójna moc pomagania") to help health professionals fight the SARS-CoV-2 virus. The bank donated PLN 2m to that end, and initiated a fundraiser in which it doubled each contribution. In this way, PLN 5m worth of medical equipment and protective clothing were purchased and transferred to 23 hospitals in Poland.

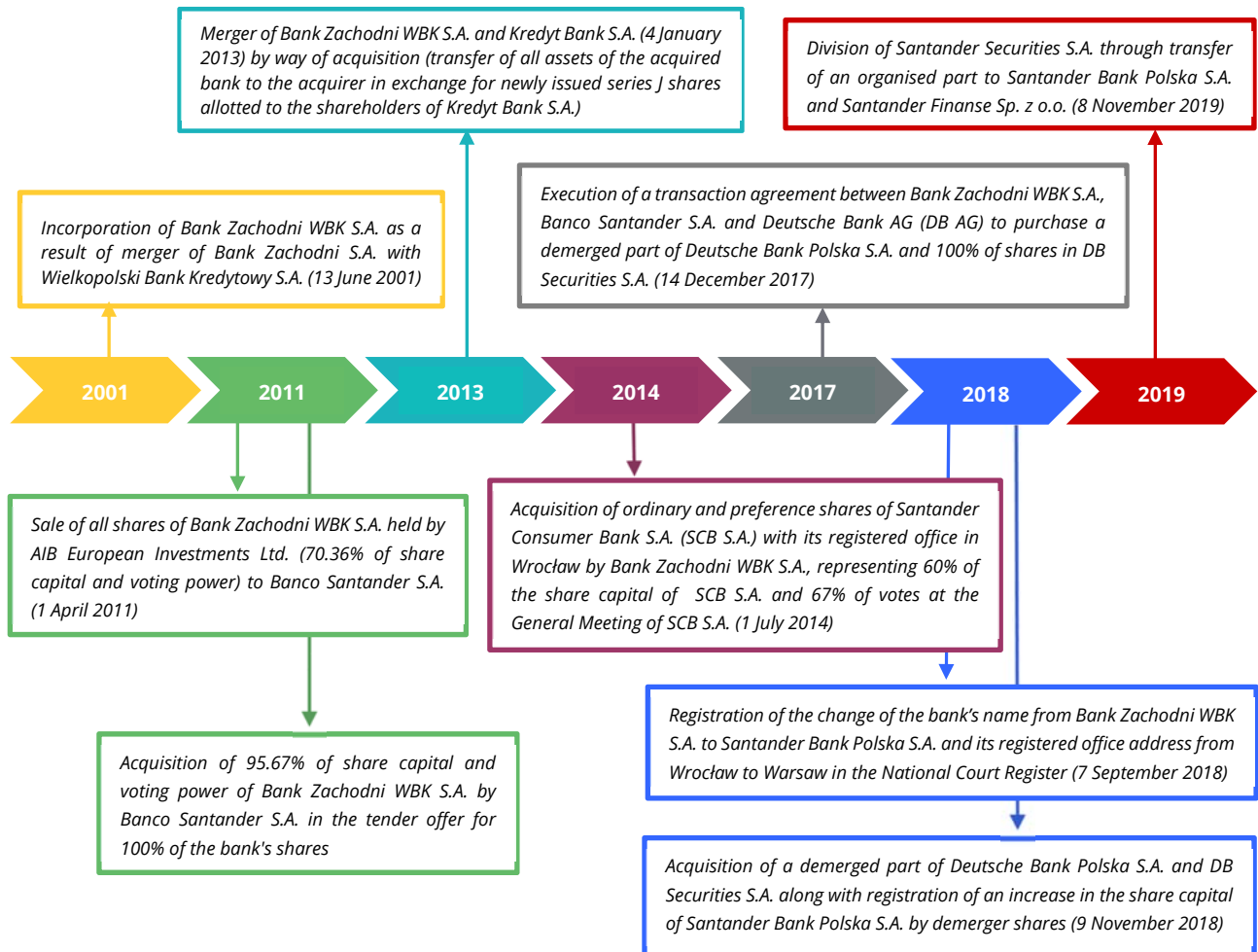
Major corporate events in the reporting period (continued)

Recommendation regarding profit distribution for 2019	<ul style="list-style-type: none"> • In accordance with the KNF letter of 26 March 2020, and having regard to changes in the macroeconomic environment, on 31 March 2020 the Management Board of Santander Bank Polska S.A. adopted a resolution recommending the retention of the bank's entire profit for 2019 totalling PLN 2,113.5m, with 50% of the profit to be allocated to the reserve capital and 50% to be left undistributed.
Fitch Ratings revises its rating outlook to negative to reflect the impact of the Covid-19 pandemic.	<ul style="list-style-type: none"> • On 14 April 2020, Fitch Ratings affirmed the IDR for Santander Bank Polska S.A. at BBB+ and VR at bbb+. At the same time, the rating outlook was revised to negative to reflect the economic impact of the coronavirus outbreak.
Suspension of the mortgage bank project	<ul style="list-style-type: none"> • On 6 May 2020, the Management Board of Santander Bank Polska S.A. adopted a resolution whereby it suspended the project of establishing the mortgage bank within Santander Bank Polska Group, and asked the KNF to suspend the administrative procedure concerning the grant of licence to establish the mortgage bank. • The administrative procedure was suspended under the KNF decision of 26 May 2020.
Approval of the base prospectus for the EMTN programme of Santander Bank Polska S.A. and assignment of rating for the programme by Fitch Ratings	<ul style="list-style-type: none"> • On 12 May 2020, the Central Bank of Ireland issued a decision approving the base prospectus drawn up by the bank for its Euro Medium Term Note Programme of up to EUR 5bn (the "EMTN Programme"). • On 13 May 2020, Fitch Ratings assigned the following ratings for the programme: long-term senior unsecured debt rating of BBB+, and short-term senior unsecured debt rating of F2.
Impact of NBP interest rate cuts on the performance of Santander Bank Polska Group in 2020	<ul style="list-style-type: none"> • On 1 June 2020, the Management Board of Santander Bank Polska S.A. disclosed to the public that based on its estimation, the bank expected that the Monetary Policy Council's decisions of 17 March 2020, 8 April 2020 and 28 May 2020 to reduce interest rates by 140 basis points in total would have a negative impact of PLN 635m–700m on the Group's 2020 net interest income. • The impact may change in response to business conditions and will gradually materialise over the year.
Annual General Meeting of Santander Bank Polska S.A.	<ul style="list-style-type: none"> • On 22 June 2020, the Annual General Meeting of Santander Bank Polska S.A. was held. It appointed the Supervisory Board for a new three-year term (the previous Supervisory Board members were joined by Dominika Bettman), approved the profit distribution as recommended by the bank's Management Board, and adopted a resolution increasing the bank's share capital through the issue of series O shares (performance shares awarded under the 6th Incentive Programme). See Chapter X "Governing Bodies" for more information about the AGM resolutions.

II. Overview of Santander Bank Polska Group Performance in H1 2020

1. History, Ownership Structure and Profile

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



Ownership structure of share capital

Structure of share capital

The table below presents the entities with significant holdings of Santander Bank Polska S.A. shares as at 30 June 2020, 31 December 2019 and 30 June 2019.

Shareholders with a stake of 5% and higher	Number of Shares and Voting Rights Held			% in the Share Capital & Voting Power at AGM		
	30.06.2020	31.12.2019	30.06.2019	30.06.2020	31.12.2019	31.03.2019
Banco Santander S.A.	68 880 774	68 880 774	68 880 774	67,47%	67,47%	67,47%
Nationale-Nederlanden OFE ¹⁾	5 123 581	5 123 581	n/a	5,02%	5,02%	n/a
Nationale-Nederlanden DFE ¹⁾						
Others	28 083 950	28 083 950	33 207 531	27,51%	27,51%	32,53%
Total	102 088 305	102 088 305	102 088 305	100,00%	100,00%	100,00%

1) Funds managed by Nationale-Nederlanden Powszechna Towarzystwo Emerytalne S.A.

Santander Bank Polska S.A. is a subsidiary of Banco Santander S.A., which held 67.47% share in the bank's registered capital and the total number of votes at the bank's General Meeting as at 30 June 2020. The remaining shares were held by the minority shareholders, of which, according to the information held by the bank's Management Board, only Nationale-Nederlanden Otwarty Fundusz Emerytalny (OFE) and Nationale Nederlanden Dobrowolny Fundusz Emerytalny (DFE) exceeded the 5% threshold in terms of share capital and voting power.

Compared with the end of December 2019, the ownership structure of Santander Bank Polska S.A. did not change. In the period between the close of H1 2020 and the approval of these statements for publication (28 July 2020), the bank's Management Board did not learn about any changes to the shareholder structure.

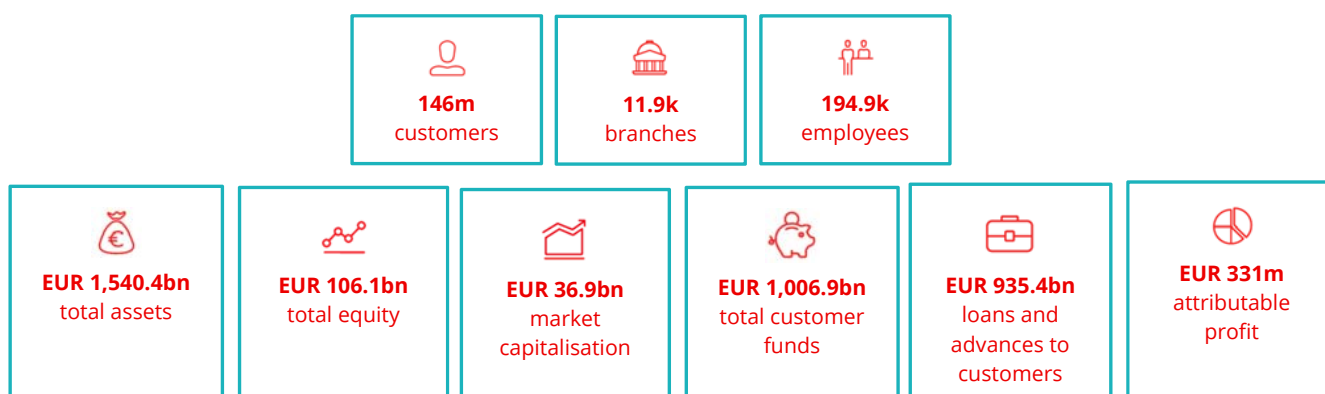
As Santander Bank Polska Group achieved the economic objectives for allocating an award to the participants of the three-year 6th Incentive Programme introduced by way of Resolution no. 44 of the bank's General Meeting on 17 May 2017, the bank's share capital is to be increased by an amount not higher than PLN 1,050,000 to an amount not higher than PLN 1,021,933,050 by issuing no more than 105k series O ordinary bearer shares whose nominal value and issue price will be PLN 10.00 each. The series O shares will be issued as part of private placement and offered to the eligible participants of the 6th Incentive Programme (excluding pre-emption rights of existing shareholders).

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 operational headquarters in Madrid. The bank specialises in retail banking services but it is also very active in the private banking and corporate banking, asset management and insurance markets.

The business of Banco Santander S.A. is geographically diversified, but it focuses on 10 core markets – both developed and emerging, including Spain, Poland, Portugal, Germany, the UK, Brazil, Argentina, Mexico, Chile and the USA.

SANTANDER GROUP IN NUMBERS ¹⁾

1st largest bank in the eurozone and 29th largest bank in the world in terms of market capitalisation

(source: Financial Report of Banco Santander Group for Q1 2020)

1) Data as at 31 March 2020

Business profile of Santander Bank Polska Group

Santander Bank Polska S.A. with its registered office in Warsaw is a universal bank which provides a full range of services for personal customers, SMEs, large companies, corporates and public sector 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 and brokerage 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., Santander Leasing S.A., Santander Factoring Sp. z o.o., Santander Aviva Towarzystwo Ubezpieczeń S.A. and Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A. In cooperation with all these companies, the bank provides its customers with access to investment funds, asset portfolios, insurance, leasing and factoring products.

Santander Bank Polska S.A. continuously 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. and its subsidiaries form a separate business segment with its own customer base, offering and distribution channels. It provides credit facilities to households, mainly in the consumer finance and car finance sectors. It also offers financing to businesses, notably car dealers and importers. Santander Consumer Bank Group offers consumer loans, car finance through lease and factoring, credit facilities for car dealers, retail and business deposits and insurance products.

As at 30 June 2020, Santander Bank Polska Group provided services to 7.2m customers, including 2.0m customers of Santander Consumer Bank S.A.

Business model of Santander Bank Polska Group

Business model framework

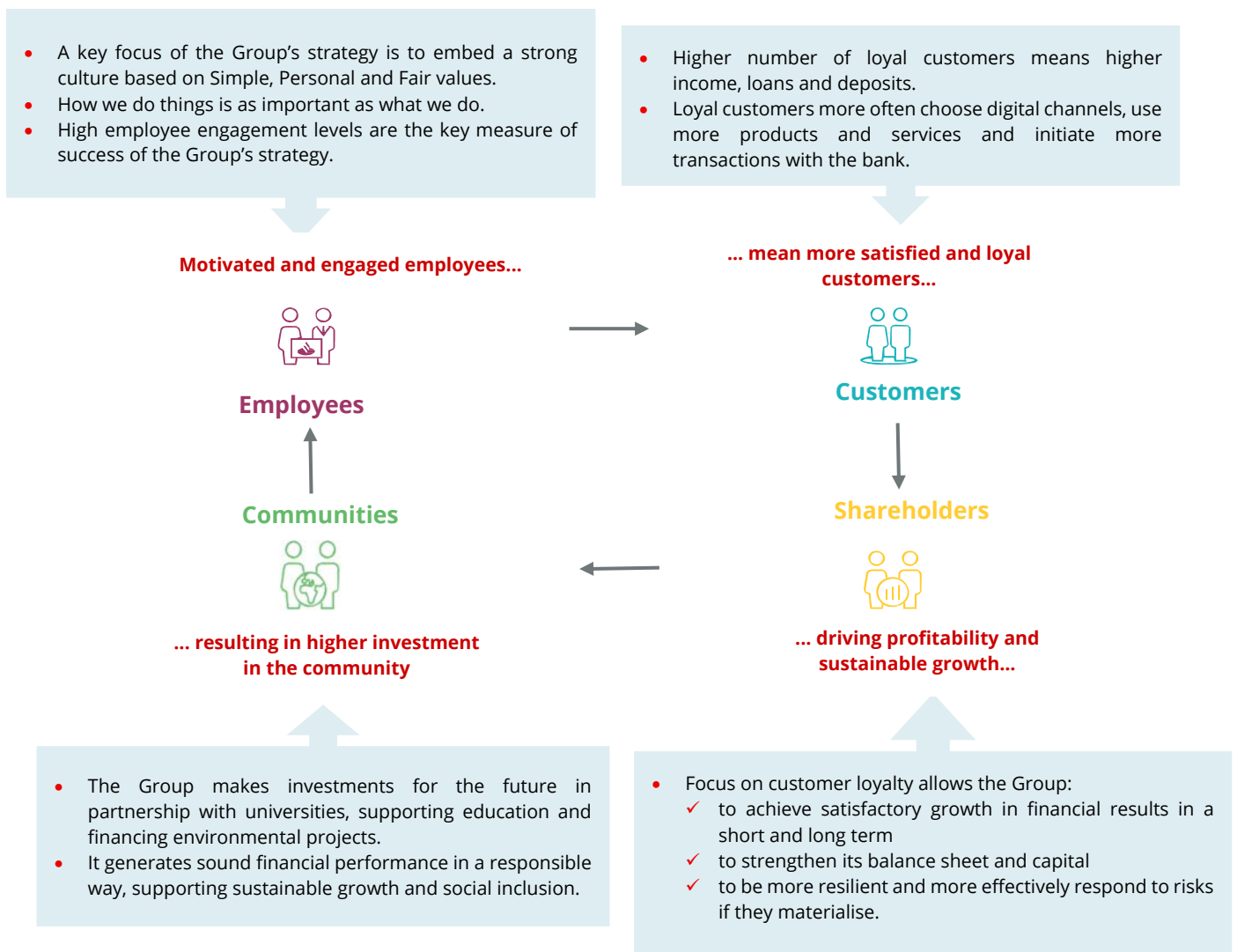
The fundamental element of the strategy and business model of Santander Bank Polska Group is customer-centricity, an approach whereby each initiative and banking process is judged from the customer's viewpoint, with a concentration on the customer's needs and experience in order to build lasting mutual 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, simple solutions 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 in business volumes, an increasing presence in the most profitable market segments and strong and recurring financial performance.

The organisation's business model is gradually adapted to the rapid changes in the business environment and improved in terms of its effectiveness, suitability to customers' needs, technologies used, the scope of automation, digitalisation and integration of distribution channels.

Value creation



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

Position in the banking sector

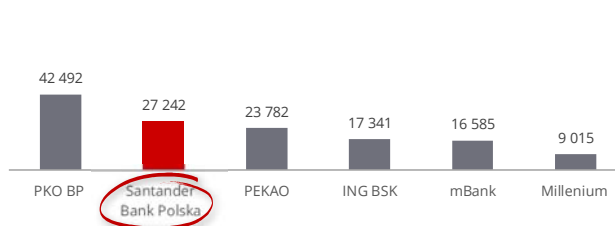
Santander Bank Polska S.A. is ranked among the top three banks in the Polish banking sector (together with PKO BP S.A. and Pekao S.A.) and is the largest private bank in Poland.

According to the financial statements for the quarter ended 31 March 2020, which at the date of approval of this Management Board report (28 July 2020) 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 second largest banking group in terms of total equity and net customer loans, and the third largest one in terms of total assets and deposit value.

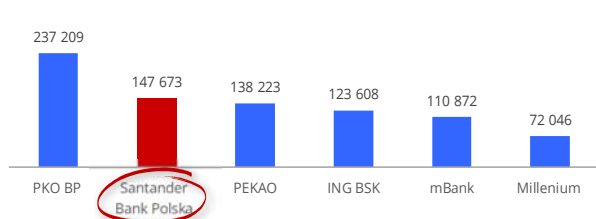
TOTAL ASSETS (PLN M) OF SANTANDER BANK POLSKA GROUP AS AT 31.03.2020 AGAINST THE PEER GROUP



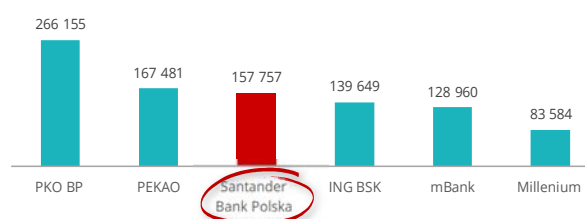
TOTAL EQUITY OF SANTANDER BANK POLSKA GROUP (IN PLN M) AS AT 31.03.2020 AGAINST THE PEER GROUP



CUSTOMER LOANS AND ADVANCES OF SANTANDER BANK POLSKA GROUP (PLN M) AS AT 31.03.2020 AGAINST THE PEER GROUP



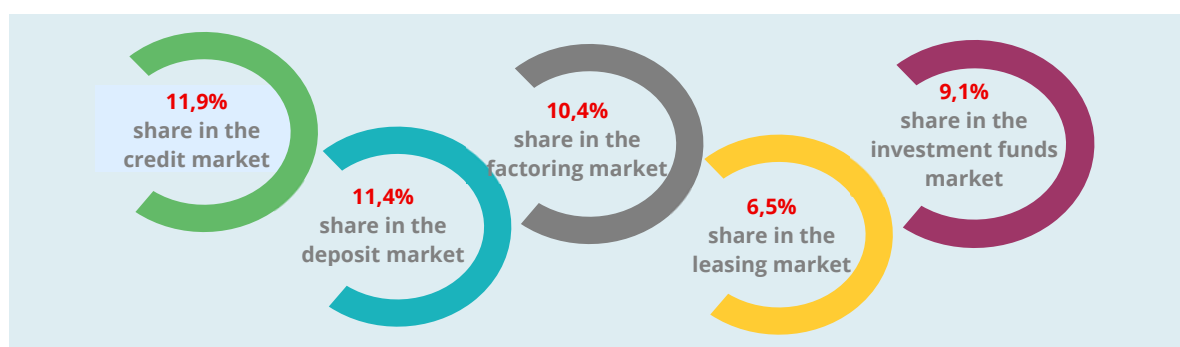
CUSTOMER DEPOSITS OF SANTANDER BANK POLSKA GROUP (PLN M) AS AT 31.03.2020 R. AGAINST THE PEER GROUP



Share in key market segments

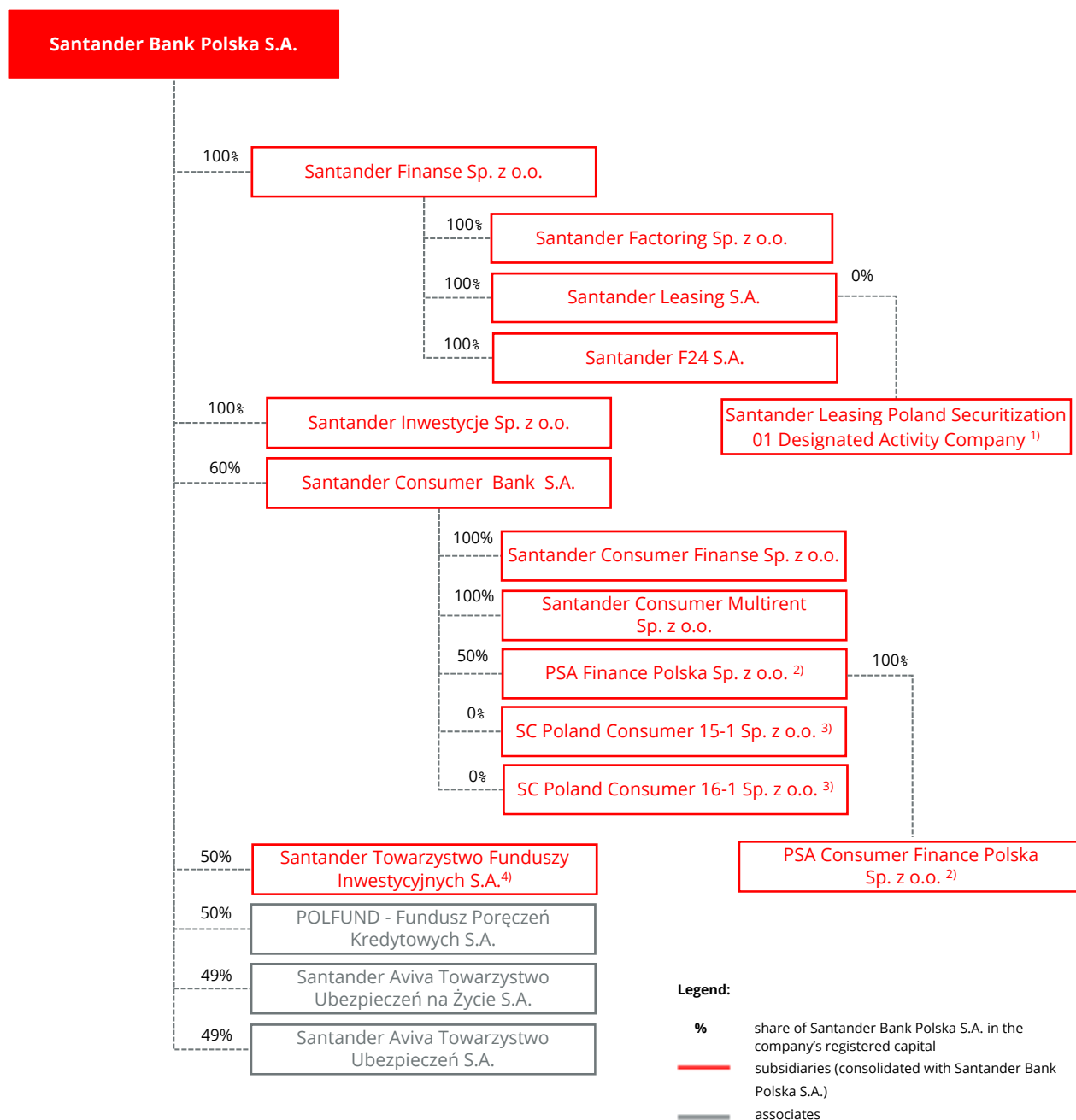
According to the NBP statistics, as at the end of March 2020 the market share of Santander Bank Polska Group was 11.9% for loans (11.9% as at 31 December 2019) and 11.4% for deposits (11.6% as at 31 December 2019).

The Group operates in the factoring and leasing markets via its subsidiaries, holding a market share of 10.4% and 6.5%, respectively, as at 31 March 2020 (according to the Polish Factors Association and the Polish Leasing Association). At the same time, the Group’s share in the retail investment funds market was 9.1% (according to Analizy Online) while in the equity and futures markets it held 5.5% and 8.3%, respectively (according to the Warsaw Stock Exchange).



2. Structure of Santander Bank Polska Group

SUBSIDIARIES AND ASSOCIATES OF SANTANDER BANK POLSKA S.A. AS AT 30 JUNE 2020



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

2) According to the Management Board of Santander Bank Polska S.A. the investment in PSA Finance Polska Sp. z o.o. is an investment in a subsidiary for the purpose of preparation of consolidated financial statements due to the fact that it is controlled by Santander Consumer Bank S.A. (directly) and Santander Bank Polska S.A. (indirectly).

3) SC Poland Consumer 15-1 Sp. z o.o. and SC Poland Consumer 16-1 Sp. z o.o. are SPVs set up for the purpose of securitisation of part of SCB S.A. credit portfolio. The shareholder of each of the companies is a legal person that is not connected with the Group. The companies are controlled by SCB S.A. as they meet the conditions laid down in IFRS 10.7.

4) Both owners of Santander Towarzystwo Funduszy Inwestycyjnych S.A. (Santander TFI S.A.), i.e. Santander Bank Polska S.A. and Banco Santander S.A., are members of Santander Group and hold an equal stake of 50% in the company's share capital. Santander TFI S.A. is controlled by Santander Bank Polska S.A. because it is the company through which Banco Santander S.A. pursues its policy in Poland.

Subsidiaries

As at 30 June 2020, 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 Securitization 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.

Compared with 31 December 2019, no changes were made to the composition of the bank's Group. Compared with 30 June 2019, the list of the bank's subsidiaries excludes Santander Securities S.A. as a result of the division of the company and its liquidation on 8 November 2019.

As at 30 June 2020, all companies within Santander Bank Polska Group are consolidated with the bank in accordance with IFRS 10.

Associates

In the consolidated financial statements of Santander Bank Polska Group for the 6-month period ended 30 June 2020, the following companies are accounted for using the equity method in accordance with IAS 28:

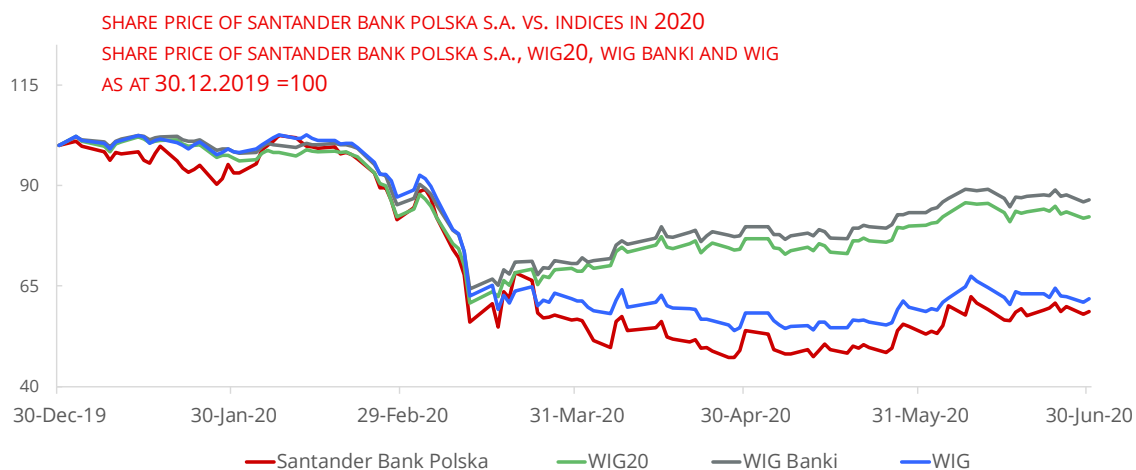
1. Santander Aviva Towarzystwo Ubezpieczeń S.A. (Santander Aviva TU S.A.)
2. Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A. (Santander Aviva TUnŻ S.A.)
3. POLFUND – Fundusz Poręczeń Kredytowych S.A.

Compared with 31 December 2019 and 30 June 2019, the list of associates did not change.

3. Share Price vs. Indices

The banking sector is one of the industries that have been worst hit by the global pandemic and economic shutdown. In Poland, the banking industry, which is considered to be the cornerstone of the economy, faced new challenges, too. Apart from lower activity of customers, banks had to cope with three interest rate cuts and legislative moratorium on loan repayments. Operational disruptions were only temporary, as financial institutions promptly responded to the coronavirus crisis and flexibly adapted to the new circumstances.

However, from the market valuation perspective, the sector remains under the supply pressure, which makes more permanent rebound impossible. It is most likely caused by the uncertain recovery horizon of the sector. As at the end of June 2020, WIG-Banks lost 38.6% compared with the end of 2019. The market capitalisation of Santander Bank Polska S.A. followed a similar trend, decreasing by 41.4% in the year to date. In terms of closing prices, the share price of Santander Bank Polska S.A. reached its maximum at PLN 315.00 on 7 February 2020 and its minimum at PLN 145.20 on 28 April 2020 (its lowest level since 2009). The share price of PLN 180.10 recorded at the end of June 2020 points to a gradual upward trend. In accordance with the KNF recommendations, the bank's Annual General Meeting decided not to pay out dividend for 2019, and to allocate 50% of the net profit to the reserve capital and leave the other 50% undistributed.



4. Rating of Santander Bank Polska S.A.

Fitch Ratings and Moody's Investors Service assess financial credibility of Santander Bank Polska S.A. based on bilateral credit rating agreements.

Ratings by Fitch Ratings

The table below shows rating actions taken by Fitch Ratings in relation to Santander Bank Polska S.A., which were applicable on 30 June 2020 and 31 December 2019.

Rating Category of Fitch Ratings	Ratings affirmed/changed as at 14.04.2020	Ratings affirmed as at 7.10.2019
Long-term Issuer Default Rating (long-term IDR)	BBB+	BBB+
Outlook for the long-term IDR rating	negative	stable
Short-term Issuer Default Rating (short-term IDR)	F2	F2
Viability rating (VR)	bbb+	bbb+
Support rating	2	2
National long-term rating	AA(pol)	AA(pol)
Outlook for the national long-term rating	negative	stable
National short-term rating	F1+(pol)	F1+(pol)
Long-term senior unsecured debt rating (EMTN Programme)	BBB+	BBB+
Short-term senior unsecured debt rating (EMTN Programme)	F2	F2

On 14 April 2020, Fitch Ratings revised the outlook on the bank's IDR and national ratings from stable to negative to reflect the economic impact of the Covid-19 pandemic. The agency believed that the fallout from the coronavirus outbreak represented a medium-term risk to the bank's ratings. The outlook revision also reflected lower potential for available support from the bank's parent, Banco Santander S.A., given the recent revision of the outlook on the latter's rating to A-/Negative/a-.

At the same time, Fitch affirmed the bank's IDRs at BBB+ and its VR at bbb+, pointing out that the IDRs are underpinned by both the bank's VR and potential shareholder support.

The agency noted that the resilience of Santander Bank Polska S.A. to the pressure from the economic environment is based on its strong domestic franchise, solid capital position and healthy funding and liquidity profile. The bank's capital can absorb the impact of potential shocks connected with risks to the economy.

Ratings by Moody's Investors Service

The table below sums up the ratings assigned by Moody's Investors to Santander Bank Polska S.A., which were applicable on 30 June 2020 and 31 December 2019.

Category of Moody's Ratings	Ratings upgraded as at 3.06.2019
Long-term/Short-term Counterparty Risk Rating	A1/P-1
Long-term/Short-term Bank Deposits	A2/P-1
Outlook for long-term deposits	stable
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Long-term/Short-term Counterparty Risk Assessment	A1 (cr)/P-1 (cr)
Long-term foreign-currency ratings to senior unsecured eurobonds	A3
Outlook for the bonds	stable
Long-term domestic and foreign-currency senior unsecured eurobond issue programme	(P)A3

III. Macroeconomic Situation on H1 2020

Economic growth

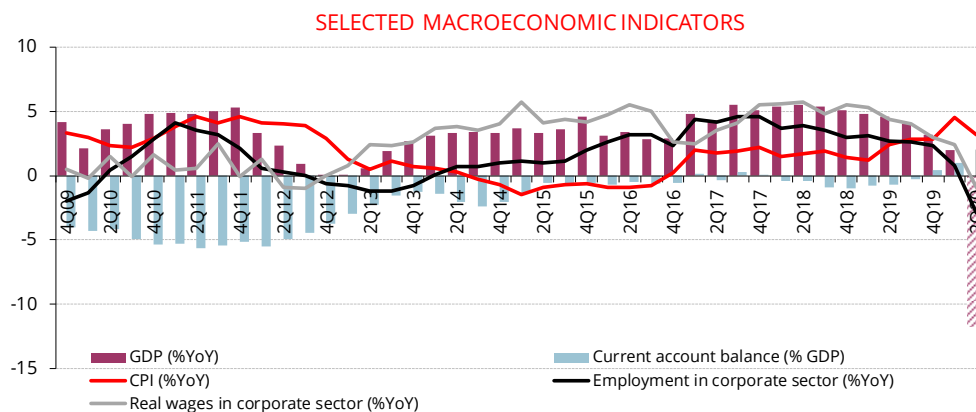
In Q1 2020, Poland's GDP growth was 2.0% YoY, down from 3.2% YoY in Q4 2019. Monthly data on the economic activity showed strong drop in April of more than 20% YoY in industrial output and real retail sales, and their relatively quick rebound in May-June as well as a relatively small decline in construction output. It points to an estimated decrease of approximately 10% YoY in GDP in Q2 2020. This would be the first negative reading of GDP growth since Poland's economic transition in early 1990s. At the same time, along with gradual removal of anti-pandemic social and economic restrictions, in May and June there were signs of a rebound of the economic activity. High frequency data, for example on energy use, mobility and card payments, also indicate an improvement.

Labour market

Corporate sector data show that the response of the labour market to the pandemic and the related restrictions was faster and stronger than during the previous crises in the Polish economy. However, in the first months of the pandemic the adjustment of employment was largely based on worktime reduction, while redundancies accounted for about a third of the drop in employment. We estimate that until May the number of the employed decreased by approx. 350-370k, that is approx. 2%. Wage growth in the corporate sector fell to 1.2% YoY in May from around 7.5% YoY in January and February but in June rebounded to 3.6% YoY amid partial restoration of working hours. As a result, the YoY growth of wage bill adjusted for inflation turned negative (approx. -5% in May, -3% in June vs. +4% in the first two months of the year). The registered unemployment rate was moderately affected and totalled 6.1% in June (up 0.9 pp YoY and up 0.6 pp Ytd).

Inflation

At the start of the year, the headline CPI increased at a higher pace than anticipated and reached a peak at 4.7% YoY in February. The reasons included unfreezing of energy prices as well as further acceleration of food price dynamics (7-8% YoY) and a significant increase in service prices (above 6% YoY), especially those related to housing costs. As a result, in Q1 2020 prices in Poland grew at the highest rate in the entire EU. In March, due to the measures related to Covid-19, GUS fieldwork was suspended and the statistical office switched to online/telephone surveying. The GUS was not able to obtain credible readings for approx. 20% of goods and services in the inflation basket, which contributed to lower inflation data quality in the following months. Until June, CPI declined to 3.3% YoY, mostly as a result of a drop in prices of fuels and then clothing and footwear, with the latter two attributed to a lower demand caused by the pandemic. In general, inflation declined less than expected, partly due to higher service prices resulting from additional sanitary fees.



Monetary policy

The radical monetary policy loosening which started on 17 March and was affirmed on 8 April was reinforced by another rate cut at the end of May: the reference rate was cut by 40 bp to 0.10%, and the lombard rate by 50 bp to 0.50%. The deposit rate was left unchanged at 0.00%. At the MPC meetings in June and July, the parameters of the monetary policy were not further adjusted. However, in its communique from the June meeting, the MPC mentioned that despite the measures taken the zloty weakening was not sufficient, which could risk economic recovery. It could be interpreted as verbal intervention and was repeated in the July communique. The NBP purchased PFR (Polish Development Fund), BGK and government bonds, totalling PLN 20bn in March, PLN 44bn in April, PLN 24bn in May and PLN 11bn in June. It also issued NBP bills in significant amounts (at the start of the year, the average auction sales stood at PLN 90-100bn, then as the Covid-19 related funds were released, the abundance of liquidity in the banking sector increased and in July the auction sales exceeded PLN 180bn).

Credit and deposit markets

In Q1 2020, total credit growth adjusted for exchange rate fluctuations reached 4.7% YoY vs. 5.2% YoY at the end of 2019, with household loans slowing down to 6.1% YoY and corporate loans to 3.2% YoY. Changes in the loan and deposit market in Q2 2020 were mainly the consequences of the coronavirus pandemic as well as measures taken by the government and the NBP. Credit sales dropped heavily (e.g. in May, consumer loans were down 45% YoY, housing loans 14% YoY and corporate loans 7% YoY). At the same time, credit volumes were supported by payment holidays and suspension of repayments. In total, credit growth adjusted for exchange rate fluctuations fell to 2.1% YoY in June (4.7% YoY in the case of personal loans and -0.8% YoY in the case of corporate loans). Deposits were created by an expansive fiscal policy financed by commercial banks' purchases of government bonds and state-guaranteed bonds. Due to these measures, deposit growth rose to 15.8% YoY in June 2020 from 10.6% YoY in March and 8.5% YoY at the end of 2019. Low interest rates and demand for liquidity discouraged customers from opening term deposits, as a result of which their growth rate fell to -16.4% YoY in June from -7.8% YoY in March 2020 and -3.3% YoY in December 2019. Meanwhile, growth of current account balances increased to 33.0% YoY in May 2020 from 21.0% YoY in March 2020 and 15.0% YoY in December 2019.

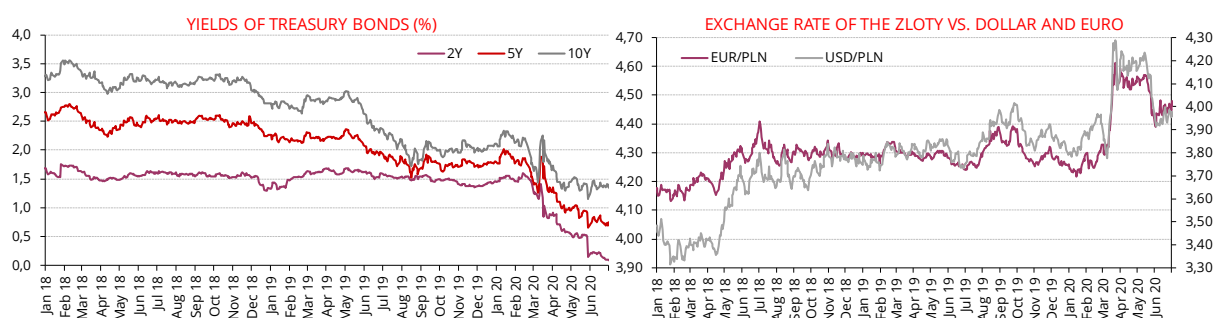
Financial markets

A swift and firm response of the central banks to the Covid-19 pandemic and its impact on the global economy (interest rate cuts, asset purchases) helped stabilize the situation on global markets in a relatively short time. Looser fiscal policies and gradual easing of restrictions to the economic activity also contributed to investors pricing in a quick economic rebound after the sudden recession. The European Commission presented a draft of Next Generation EU programme focused on supporting European economies after the pandemic. The fund is to total EUR 750bn. As a result, stock indexes across the globe recovered all or majority of losses and business activity indexes started to rise following the crash a couple of months before. Data from real economy also started to show signs of deceleration of negative tendencies.

In Q2 2020, the yields of Polish government bonds continued to trend downwards. This was supported by significant easing of monetary policy by the MPC, including an unexpected interest rate cut in May. The decline in the yield curve, especially the short end, was also caused by a large increase in excess liquidity of the domestic banking sector. As a result, in Q2 2020 the 2Y benchmark yield dropped by 75 bp (to 0.17%), 5Y benchmark yield by 57 bp (to 0.73%) and 10Y benchmark yield by 28 bp (to 1.38%). With a sharper response of the short end, the yield curve visibly steepened in the 2x10 segment (the spread rose to approx. 120 bp from 76 bp). In Q2, the spread between 10Y yields in Poland and Germany decreased from 227 bp to around 185 bp, mostly due to strengthening of the Polish debt. The National Bank of Poland continued its bond purchase programme. In Q2, it bought government

bonds worth almost PLN 32bn, which increased its holdings to PLN 50.8bn. At the end of June, the NBP also held BGK and PFR bonds with the total nominal value of PLN 45.4bn.

After strong depreciation in March and subsequent stabilisation, in the second half of May the zloty started to gain significantly vs. the major currencies amid further aggressive pricing of a quick economic rebound by global stock exchanges, the rapid rise in EUR/USD rate and the lack of global sentiment deterioration expected by some investors. In a broader context, the performance of the zloty did not differ significantly from CEE peers in spite of the lowest interest rates in the region. In June, the zloty gave back some of the gains when stock indexes stopped rising and also possibly due to the verbal FX intervention of the MPC (in the form of a remark in the communique). In Q2 2020, EUR/PLN rate fell by PLN 0.09 (2.17%) to 4.44, USD/PLN by more than PLN 0.17 (4.32%) to 3.95, CHF/PLN by almost PLN 0.12 (2.77%) to 4.175 and GBP/PLN by almost PLN 0.24 (4.65%) to 4.905.



Stock market

The first six months of 2020 were one of the most turbulent periods in the history of the Warsaw Stock Exchange. The rapid increase in volatility caused by the global pandemic and the shutdown of major economies resulted in the worst stock market crash in the last decade, after which the global economies rebounded. Stocks on the Warsaw floor hit their 10-year lows, but then they bounced back by 75%. As a result, at the end of June 2020 the balance of the majority of indices was not as dramatic as in March. Shareholders of Polish blue chip companies statistically lost most, as WIG20 fell by 18.2% during the first six months of the year, with the loss of 42% recorded in March. WIG (the broad-based index) and mWIG40 (the mid-cap index) fared better, losing 14.3% and 11.3%, respectively. sWIG80 (the small-cap index) surprised on the upside and gained 11.4% in the first half of the year thanks to the highest demand.

Early in the year, the US–China trade war and its consequences might have seemed to be the most significant challenge for financial markets. However, the coronavirus crisis eclipsed all other issues. The prompt response from the major central banks (notably the Federal Reserve) which relaxed their policies and significantly cut interest rates helped in recovery of stock markets. This was particularly evident in the case of mature markets, but less so in the case of emerging economies such as Poland. The Warsaw Stock Exchange was not at the top of the league table, as it had to cope with capital outflows and depreciation of the zloty (following three interest rate cuts). The recovery was impeded by the composition of the main indices which predominantly include companies representing the old economy. Reopening of the economy and the spread of the coronavirus will have a critical impact on the Polish and foreign stock markets in H2 2020. Other contributing factors will be the presidential elections in the US and the associated policy of the White House.

Regulatory environment of the banking sector

The table below shows the selected legislation which came into effect in H1 2020 and has impact on the financial sector in Poland.

Legislation	Effective date	Selected regulations affecting the financial sector
Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) No 924/2009 as regards certain charges for cross-border payments in the Union and currency conversion charges	15 December 2019 and 19 April 2020 (selected provisions)	<ul style="list-style-type: none"> The Regulation provides for equalisation of charges for cross-border transfers (as part of the EEA) with charges for corresponding national transactions. Banks have an obligation to provide customers with sufficiently clear information about the cost of online transfers and the cost of potential currency conversion.

Legislation (continued)	Effective date	Selected regulations affecting the financial sector
Act of 30 August 2019 amending the Act on the Commercial Companies Code and certain other acts	1 March 2021	<ul style="list-style-type: none"> From 1 March 2021, all shares of public limited companies and partnerships limited by shares will have to be dematerialised (either entered in the shareholder register or recorded in the securities account).
Regulation of the Council of Ministers of 9 March 2020 on documents connected with banking activities saved on electronic data media	19 September 2020	<ul style="list-style-type: none"> Alignment of the terminology and requirements concerning electronic statements of will with Regulation (EU) No. 910/2014 of the European Parliament and of the Council of 23 July 2014 on electronic identification and trust services for electronic transactions in the internal market (eIDAS).
Amendment of the Bankruptcy Law Act and certain other acts (Journal of Laws of 2019, item 1802)	24 March 2020	<ul style="list-style-type: none"> Simplification of the bankruptcy procedure and reduction of workload for bankruptcy courts: <ul style="list-style-type: none"> ✓ Refinement of provisions on the bankruptcy of sole traders to include debtor's protection available under the consumer bankruptcy procedure (previously, the self-employed could file for bankruptcy on the same conditions as legal entities). ✓ No obligation for courts to check the causes of debt when processing bankruptcy filings. Each person who meets all formal requirements may be declared bankrupt. ✓ An option for natural persons to file for pre-pack bankruptcy, under which they can quickly sell all assets subject to debt enforcement.
Financial Stimulus Package, including the Act of 31 March 2020 on amendment of the act on special measures aimed at prevention and containment of Covid-19 and other contagious diseases and management of crisis situations caused by them, and on amendment of certain other acts	<p>March 2020</p> <p>31 March 2020 for selected changes; other effective dates in the case of other changes (including retroactive)</p>	<ul style="list-style-type: none"> Implementation of the following solutions: <ul style="list-style-type: none"> ✓ changes to the calculation of the maximum non-interest cost of consumer loans; ✓ interest capitalisation on state-subsidised loans provided under the "Home for the Family" ("Rodzina na swoim") programme subject to grace period; ✓ option for micro, small and medium companies to have certain loan agreement terms and repayment dates amended. Financial aid (mostly non-repayable) available on preferential terms to micro, small and medium businesses and large companies under the PFR Financial Stimulus Package to support liquidity and financial stability during the economic slowdown caused by the Covid-19 pandemic; Support for businesses affected by the coronavirus, including: <ul style="list-style-type: none"> ✓ subsidies from the Guaranteed Employee Benefits Fund towards salaries and social insurance contributions available to entities whose turnover decreased due to the pandemic (as a result of temporary suspension of operations or reduction of working hours); ✓ furlough pay available on specific terms to individuals conducting non-agricultural activity and persons providing services under civil-law agreements; ✓ loans for micro companies from the Labour Fund (with a debt cancellation option). An option for employers to instruct employees to work from home; Additional carer's allowance for parents staying with children whose schools have been closed; No right for landlords to terminate lease agreements or increase rent until 30 June 2020 (except as otherwise specified in the act); No trials or open hearings to be held during the state of epidemic emergency or the state of epidemic (except for urgent trials or open hearings specified in the act); Suspension or deferral of procedural and court deadlines in relation to, among others, court, debt enforcement, criminal, fiscal or administrative proceedings.
Act of 16 April 2020 on special support measures in response to the spread of SARS-CoV-2	18 April 2020	<ul style="list-style-type: none"> Refinement of Financial Stimulus Package 1.0: <ul style="list-style-type: none"> ✓ Extension of an option to have loan agreement terms and repayment dates amended without the need to undergo full repayment capacity analysis to all businesses; A possibility for entities facing financial difficulties as a result of announcement of the state of epidemic emergency or the state of epidemic to claim a repayable financial aid from Agencja Rozwoju Przemysłu S.A. in the form of loans, guarantees, sureties or leases.




Legislation (continued)	Effective date	Selected regulations affecting the financial sector
Act of 14 May 2020 amending certain acts on protection measures in response to the spread of SARS-CoV-2	16 May 2020 (for selected changes; other effective dates in the case of other changes, including retroactive)	<ul style="list-style-type: none"> • Penalisation of charging costs in excess of the maximum non-interest credit costs and maximum interest (Article 304 of the Criminal Code); • A possibility to suspend student loan repayments for the maximum period of six months (with interest for this period covered in full from the Student Loan Fund); • Revocation of the provision of Financial Stimulus Package 1.0 on deferral or suspension of procedural or court deadlines.
Act of 19 June 2020 on subsidies for interest on bank loans granted to businesses affected by Covid-19 and on simplified arrangement approval proceedings in connection with Covid-19	24 June 2020 (majority of provisions)	<ul style="list-style-type: none"> • Introduction of a possibility to: <ul style="list-style-type: none"> ✓ suspend repayments on mortgage loans granted under the Housing Development Support Act; ✓ suspend principal and interest payments on consumer loans, mortgage loans or other loans due to the loss of job or other main source of income by the borrower after 13 March 2020 (the payments may be suspended at the request of the borrower for the maximum period of three months); ✓ apply for subsidies for interest on renewable and non-renewable w/c loans for up to 12 months to improve financial liquidity.
Act of 5 June 2020 amending the PIT Act, CIT Act, Act on lump sum income tax on certain income earned by natural persons and certain other acts (amendment to the White List)	1 July 2020 (majority of provisions)	<ul style="list-style-type: none"> • Amendment of the VAT Act and the General Tax Code to reflect the tax rulings issued in December with regard to legal effects of payments to banks' assignment accounts/ accounts for in-house settlements which are not included in the White List.
New Recommendation S on best practice in the management of mortgage-backed credit exposures (the KNF Office is to apply to the KNF to postpone the effective date of Recommendation S till 30 June 2021)	December 2020	<ul style="list-style-type: none"> • Extension of the existing scope of the Recommendation to include rules for managing fixed-rate and term fixed-rate home mortgages. • Introduction of provisions on the "key-for-debt" option, stipulating that the borrowers' obligations will be considered discharged if the title to the financed property is transferred to the bank.

IV. Development Strategy of Santander Bank Polska Group

1. Strategy of Santander Bank Polska S.A.

Purpose, aim, values and strategic objectives of Santander Bank Polska S.A. for 2020–2022

The strategy of Santander Bank Polska Group for 2020–2022 is a continuation of the previous course of action and is based on the same values and assumptions as applied before. The Group's purpose, aim and values have not changed for years:

 <p>PURPOSE</p> <p><i>To help people and businesses prosper</i></p>	 <p>AIM</p> <p><i>To be the best open financial services platform by acting responsibly and earning the lasting loyalty of employees, customers, shareholders and communities</i></p>	 <p>VALUES</p> <p><i>Simple Personal Fair</i></p>
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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;
- Focus on the growth of profitable business, strengthening its position in the key market segments through organic growth and using emerging opportunities for inorganic growth;
- Create an engaging work environment through collaboration, communication and bottom-up initiatives raised in the bank’s units;
- Enhance efficiency and streamline internal processes by developing the 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 2020–2022, which is to:

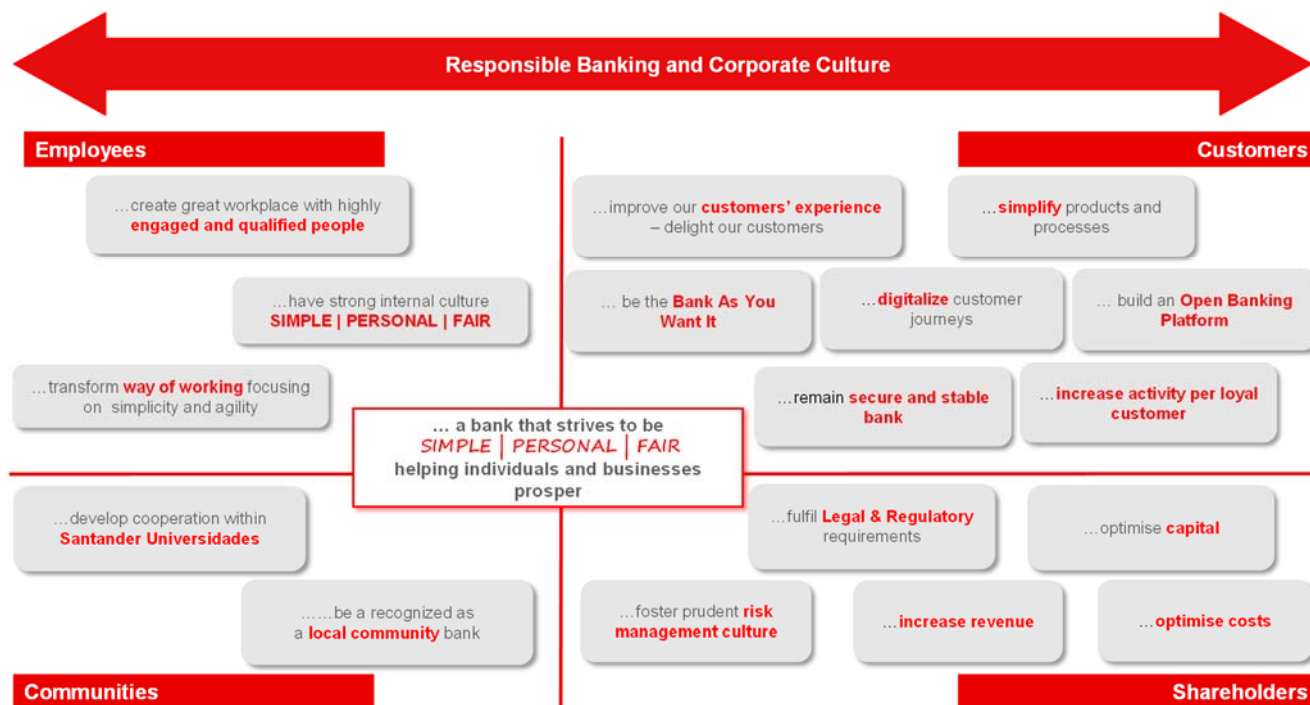
Achieve the leadership position in the financial services market owing to:

- *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 through continuous improvement of service quality and product range. A special focus is placed on digitalisation and simplification of processes from the customer’s perspective, which results in increased operational efficiency, simple solutions, and transparency of the offer. The strategy also supports innovation and the corporate culture based on people’s commitment and motivation, as well as sustainable development and corporate social responsibility.

The overall goal has been divided in a number of specific objectives for 2020–2022 related to the key stakeholder groups: employees, customers, communities and shareholders.

SPECIFIC OBJECTIVES FOR 2020–2022 FOCUSED ON EMPLOYEES, CUSTOMERS, COMMUNITIES AND SHAREHOLDERS



In view of dynamic and complex changes in the macroeconomic environment, the strategy of Santander Bank Polska S.A. is regularly verified, which helps take prompt action in response to emerging market developments and trends. The macroeconomic shock caused by Covid-19 reoriented the bank's strategic priorities and gave impetus to a modification of the operating model to increase the organisation's flexibility and change implementation capabilities so it can better leverage the opportunities of accelerated digitalisation, and mitigate risks more effectively.

Digital transformation

The bank continuously focuses on creating a competitive edge based on new technologies, digital processes and simple procedures. The key element of the bank's digital transformation is implementation of the DevOps culture, which ensures undisturbed implementation of changes in production systems responding to customer needs while significantly reducing the time-to-market. The process proceeds in accordance with the plan.

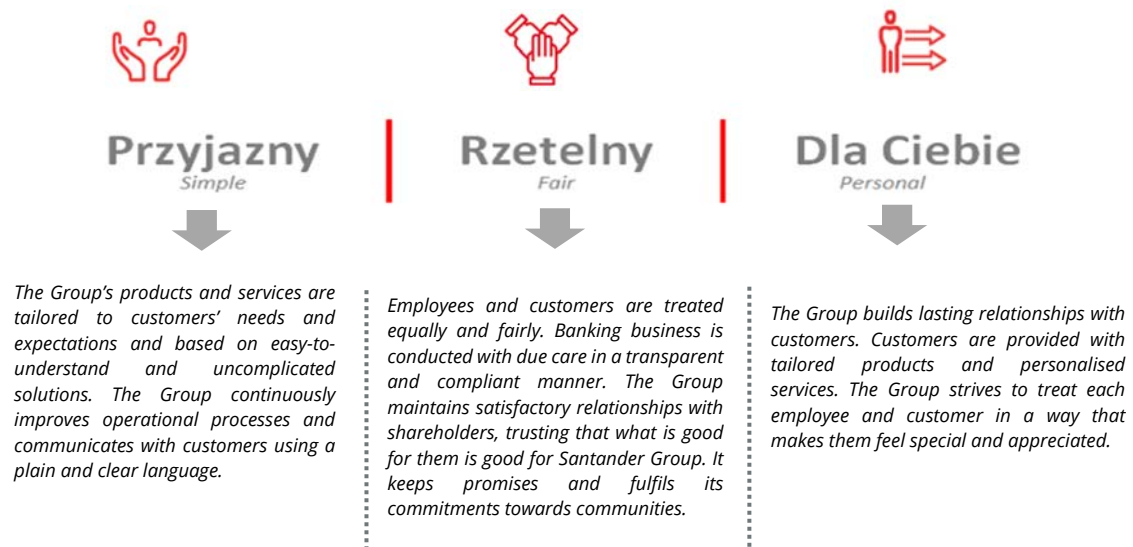
In order to increase the organisational, process and cost efficiency, the bank launched the programme which seeks to develop a simple offer, create better and easier-to-use products, simplify and increase the flexibility of the IT infrastructure, facilitate investment into new technologies, ensure long-term competitive edge and improve working conditions.

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.

Corporate culture

The corporate culture of Santander Bank Polska Group and Banco Santander Group is embodied by the **Simple, Personal and Fair values.**



The corporate culture of Santander Bank Polska Group is based on:

- 8 behaviours:



Show respect



Truly listen



Talk straight



Keep promises



Support people



Embrace change



Actively collaborate



Bring passion

- individual responsibility of each employee for risk management as part of their activities in accordance with the “risk pro” attitude

risk pro

Socially responsible bank

The Group conducts its activity in line with the Principles for Responsible Banking, understanding the role and importance of banks to customers, the economy and the community. It focuses on developing fair and transparent relationships with customers and making a positive contribution to communities and the environment. Particularly important are responsible sales and prevention of misselling. By embedding responsible business principles in its day-to-day management, the Group increases loyalty of its customers and delivers its strategy in a more effective way.

2. Strategy of Santander Consumer Bank S.A.

The key strategic goal of Santander Consumer Bank S.A. (SCB S.A.) for 2020–2022 is to strengthen the position and image of the bank as an innovative, secure and customer-friendly financial institution with a strong capital base, and a structure and corporate culture harmonised with Santander Group. In terms of sales objectives, the bank is looking to maintain its strong position in the consumer finance market, both in branches and in remote channels.

The strategic priorities and the degree of their implementation are presented in Part 3 “Business Development of Santander Consumer Bank Group” of Chapter V “Business Development of Santander Bank Polska Group in H1 2020”.

V. Business Development of Santander Bank Polska Group in H1 2020

1. Group’s Business Management Structure

Operational structure

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

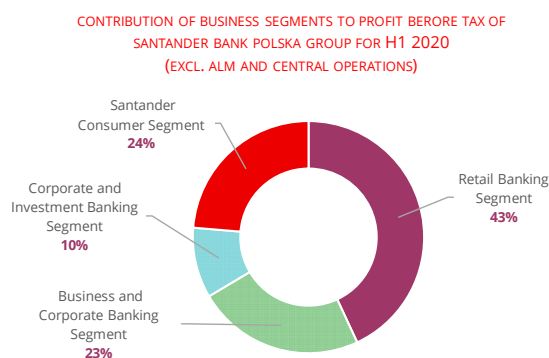
Santander Consumer Bank Group (SCB Group), which specialises in consumer finance, forms a separate business segment with its own customer base, product range and distribution channels.

Segment reporting

The business management structure presented above corresponds to business segments identified as part of segment reporting (Note 3 to the Condensed Interim Consolidated Financial Statements of Santander Bank Polska Group for the 6-month period ended 30 June 2020). They are complemented by the 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.



THE STRUCTURE OF SANTANDER BANK POLSKA GROUP'S PROFIT BEFORE TAX FOR H1 2020 BY BUSINESS SEGMENTS (EXCLUDING ALM AND CENTRAL OPERATIONS)

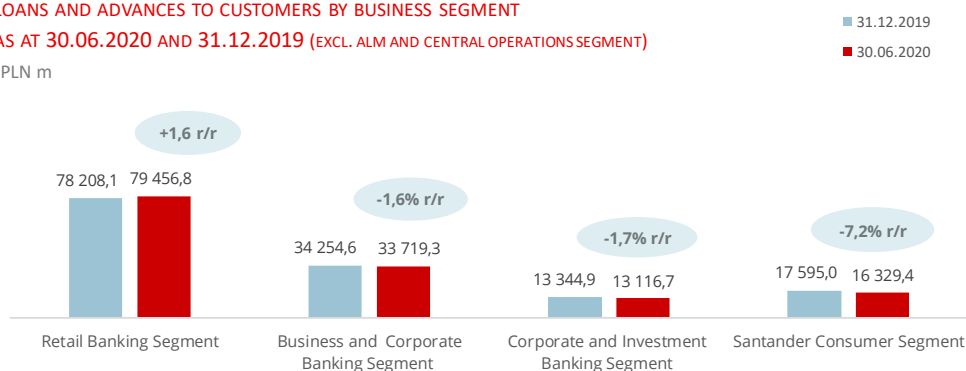


LOANS AND ADVANCES TO CUSTOMERS AND DEPOSITS FROM CUSTOMERS BY BUSINESS SEGMENTS AS AT 30 JUNE 2020 AND 31 DECEMBER 2019 (EXCLUDING ALM AND CENTRAL OPERATIONS)

LOANS AND ADVANCES TO CUSTOMERS BY BUSINESS SEGMENT

AS AT 30.06.2020 AND 31.12.2019 (EXCL. ALM AND CENTRAL OPERATIONS SEGMENT)

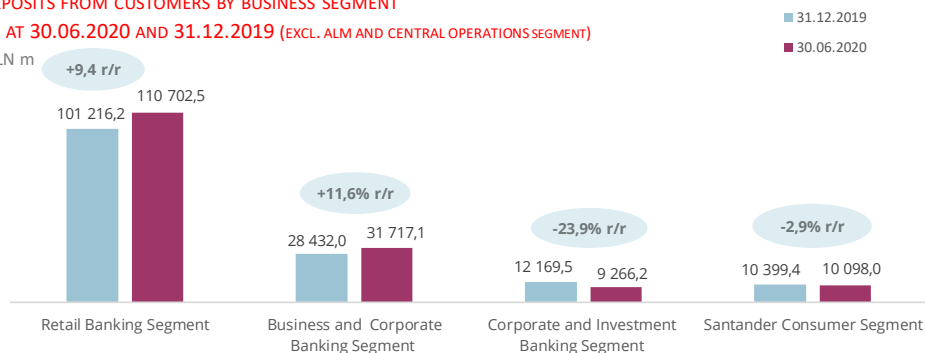
PLN m



DEPOSITS FROM CUSTOMERS BY BUSINESS SEGMENT

AS AT 30.06.2020 AND 31.12.2019 (EXCL. ALM AND CENTRAL OPERATIONS SEGMENT)

PLN m



The table below presents the business segments of Santander Bank Polska Group in three dimensions: customer profile, key product lines and service model.

Segment	Area	Operating model
RETAIL BANKING	<ul style="list-style-type: none"> Customer profile 	<ul style="list-style-type: none"> Personal customers (divided into Standard, Premium, Select and Private Banking customer segments based on their diverse needs and expectations). Small and medium-sized companies (with annual turnover up to PLN 8m).
	<ul style="list-style-type: none"> Key product lines 	<ul style="list-style-type: none"> Savings products, consumer and mortgage loans, credit and debit cards, insurance and investment products, clearing services, brokerage services, mobile phone top-ups, foreign payments, Western Union money transfers and services for high-net-worth customers. Business loans, business deposits, cash management, leasing facilities, factoring, letters of credit and guarantees. Asset management services as part of investment funds.
	<ul style="list-style-type: none"> Service model 	<ul style="list-style-type: none"> Relationship-building, sales and after-sales contacts with retail customers through the network of branches and partner outlets, phone banking (Multichannel Communication Centre) and electronic banking (Santander internet, Santander mobile in a mobile browser and Santander mobile application). Premium customers are serviced by dedicated advisors as part of their individual portfolios, based on a personalised approach and regular contacts aimed at strengthening relationships and customer loyalty. Private Banking and Select customers benefit from a personalised service model under which they can use the support of a specialised advisor and the Select Line operated as part of the Multichannel Communication Centre, which offers support via telephone. Private Banking customers have several dozens dedicated private bankers operating from 5 Private Banking Centres and 22 other locations. Firms with relatively low turnover are handled by SME advisors in branches and partner outlets. They can also use the services of the Multichannel Communication Centre and electronic channels (Santander internet and Santander mobile and dedicated services: Mini Firma, Moja Firma Plus and iBiznes24). Customers of Santander Brokerage Poland may invest via the Inwestor online system, Inwestor mobile application, the Multichannel Communication Centre and at the bank's branches providing brokerage services.
BUSINESS AND CORPORATE BANKING	<ul style="list-style-type: none"> Customer profile 	<ul style="list-style-type: none"> Businesses and corporations with turnover of PLN 8m–PLN 1.2bn, local authorities and the public sector.
	<ul style="list-style-type: none"> Key product lines 	<ul style="list-style-type: none"> Payment transactions, loans, deposits, cash management, leasing facilities, factoring, letters of credit and guarantees. Services to customers of other banks and financial institutions provided under agreements with those institutions.
	<ul style="list-style-type: none"> Service model 	<ul style="list-style-type: none"> Services are provided by 19 Business and Corporate Banking Centres. The Business and Corporate Banking Department – Premium deals with largest corporate customers, local authorities and the public sector, as well as customers from the property finance segment. Customers have dedicated advisors who are responsible for the overall relationship. They are supported by units specialised in transaction structuring, lending and product development. Customers are provided with access to the bank's products and services via remote channels, including internet and mobile iBiznes24 platform (featuring such modules as currency exchange and trade finance) as well as call centres which handle a wide range of operating processes (Business Service Centre, SME Service Centre and Trade Finance Service Centre).

Segment	Area	Operating model
CORPORATE AND INVESTMENT BANKING	• Customer profile	<ul style="list-style-type: none"> • Largest corporate customers allocated to that segment based on their turnover (nearly 250 of the largest companies and groups). • Corporations serviced within the international Santander Corporate and Investment Banking structures. • Treasury, syndicated lending and advisory services for customers of other Divisions.
	• Key product lines	<ul style="list-style-type: none"> • Transactional banking (including cash management), deposits, w/c finance, mid- and long-term finance, leasing facilities, factoring, letters of credit, guarantees and trade finance. • Project finance, syndicated loans, arranging and financing of securities issues, financial advisory and brokerage services for financial institutions. • FX and interest rate risk hedging products (offered to all customers of the bank).
	• Service model	<ul style="list-style-type: none"> • Customers of Corporate and Investment Banking Segment have dedicated product specialists and managers who are responsible for the overall relationship. • They are provided with access to the bank's products and services via remote channels, including internet and mobile iBiznes24 platform, as well as dedicated call centres (Business Service Centre and Trade Finance Service Centre).
SANTANDER CONSUMER	• Customer profile	<ul style="list-style-type: none"> • Personal and business customers.
	• Key product lines	<ul style="list-style-type: none"> • Hire purchase loans, cash loans (including consolidation loans), credit cards, car finance (refinance solutions, leasing facilities and lease loans), business loans, factoring and bank guarantees. • Term deposits and insurance products (mainly related to credit facilities).
	• Service model	<ul style="list-style-type: none"> • The bank sells its products through: <ul style="list-style-type: none"> ✓ a network of own branches and franchise outlets, which offer cash loans, credit cards and retail deposits; ✓ a structure for mobile sales of car loans and leasing facilities; ✓ a structure for mobile sales of corporate deposits; ✓ remote channels, i.e. a call centre and internet and mobile banking used to sell cash loans, credit cards and hire purchase loans; ✓ a network of partners offering the bank's car loans and leasing facilities (car dealers, second-hand car dealers and intermediaries) as well as hire purchase loans and credit cards (retail chains and stores); ✓ a remote channel for car loans.

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

Measures connected with the Covid-19 pandemic

In March 2020, the Group's priorities and focus areas changed due to the outbreak of the SARS-CoV-2 virus. The most important issue was to ensure the safety of employees and customers, whilst maintaining the continuity of business and services. Right from the start, the main focus was placed on implementing solutions which would support businesses and individuals in the new circumstances. This required reorganisation of the Group's operations and posed a significant IT challenge.

Management of the crisis situation connected with the pandemic

Measures taken by Santander Bank Polska S.A. in relation to the coronavirus outbreak were initiated by the Response Group to Relevant Operational Events (RGROE) and coordinated by the Digital Transformation Division. Action plans and scenarios in case of pandemic had been developed before the virus spread to Poland. The work was delivered in the following seven streams: IT, BCM, Logistics and Procurement, Communication, HR, Operations and Business Response. From March to April 2020, the progress of each stream was monitored on an ongoing basis, with daily updates provided to the executive group including the Management Board members. Next, the Business Rebound initiative was set up to ensure smooth transition of the organisation to the new normal, i.e. to rebuild business, explore new business opportunities, maintain savings and protect revenues, whilst providing unparalleled customer service. The bank developed a phased plan of return to offices to be progressed depending on how the pandemic evolves.

Safe work environment and support for employees

In the initial stage after the coronavirus outbreak, the bank focused on providing support and protection for employees and ensuring safe working environment.

- The organisation of work changed as follows:
 - ✓ Employees from units which could remotely deliver all their business processes switched to working from home.
 - ✓ 100 bank's branches were closed during the lockdown period.
 - ✓ The working time of branch staff was shortened to six hours per day, with five hours dedicated to direct customer service (seven hours per day since 1 June 2020).
 - ✓ Vulnerable employees (in particular people over 55 years of age with underlying conditions) were assigned to other tasks than direct customer service (including tasks performed as part of the remote work model).
 - ✓ A remote recruitment process was implemented.
- Coordinated extensive communication campaigns for employees were launched:
 - ✓ Regular updates were sent via traditional and dedicated channels (such as intranet sites: "Coronavirus" and "Extreme Ownership", newsletters and mailing).
 - ✓ Regular feedback was obtained from employees to accommodate their needs and increase their effectiveness.
- Employees were offered additional forms of support in accordance with their diverse needs, such as:
 - ✓ external psychological support provided via chat or phone;
 - ✓ online consultation with HR experts on HR issues during the pandemic;
 - ✓ "Extreme Ownership" intranet site set up to provide managers with best practice and guidelines on how to manage virtual teams and handle stress during the crisis;
 - ✓ safety procedure to be followed in case of a suspected or confirmed Covid-19 case at the bank.
- Measures taken in relation to Branch Banking included the following:
 - ✓ regular supply of protective equipment to branches;
 - ✓ regular disinfection of branches and their ATMs;
 - ✓ new bonus schemes for branch employees which were adjusted to the new circumstances;
 - ✓ regular updates provided to branch staff about changes to the organisation of work during the pandemic (coordination of communication with sales network, prompt response to internal communication needs, set-up of a dedicated website with key information for branch staff).

Remote work and technological support for customers and employees

The home office model introduced by the bank for approximately six thousand employees (nearly 60% of headcount) posed a serious challenge, as all employees needed to be provided with secure access to the infrastructure.

New laptops and desktops were bought in a relatively short time for employees who had not worked remotely before. The capacity of telephone links was extended by nearly 50%, the functionality of conference call bridges was enhanced, and the transmission capacity of the external links was increased to ensure the comfort of work and facilitate customer service. The VPN connectivity was improved through split tunneling, which makes it easier to install security patches on banking devices. Finally, remote positions were configured for employees of the Multichannel Communication Centre.

The new circumstances required the bank to introduce changes in the management and customer service processes. First and foremost, the bank extended the scope of operational services available in remote channels. Along with the solutions aimed to improve customers' liquidity and mitigate the economic impact of the Covid-19 pandemic, the bank implemented new remote processes and further digitalised, automated and simplified customer service.

Despite changes to the organisation of work, the bank maintained high quality of IT service delivery and high availability of IT systems. For the first time, IT changes (releases) were implemented remotely, with no adverse impact on customer experience (thanks to high stability of the live environment). In H1 2020, the bank implemented one of the largest releases over the last few years, which included 141 projects. Another release comprised 99 projects. In addition to this, 320 changes have been implemented outside the releases in the year to date.

Support for customers

- At the peak of the pandemic, the bank introduced a range of solutions and modifications to enhance customers' safety and convenience:
 - ✓ Sales campaigns were reviewed and suspended or modified and new initiatives were launched to promote remote channels.
 - ✓ An option to sign a personal or business account agreement via a courier was temporarily suspended.
 - ✓ The limit of contactless payments without a PIN was increased from PLN 50 to PLN 100 for holders of debit and credit cards.
- An extensive communication campaign was launched:
 - ✓ Customers were informed about changes in the organisation of branch work, automated remote processes and support for borrowers, and were encouraged to use remote channels (including free-of-charge ATMs across Poland and contactless payments up to PLN 100).
 - ✓ The messages addressed to business customers included information about solutions supporting liquidity and business continuity (including the simulator), rules of PLN and FX cash transactions, e-guarantees available via electronic channels and expert articles.
 - ✓ A special information campaign was addressed to the elderly.
- A range of temporary solutions were implemented for borrowers – individuals and businesses alike (grace periods, extension or suspension of agreements) and other measures aimed to increase liquidity such as:
 - ✓ an option to apply via Santander internet or the Multichannel Communication Centre for deferral of principal repayments or principal and interest repayments on cash loans and mortgage loans for three or six months;
 - ✓ an option to apply for deferral of principal repayments or principal and interest repayments under loan, factoring or lease agreements for three or six months;
 - ✓ automatic renewal of overdrafts and credit card limits during the Covid-19 pandemic;
 - ✓ automatic free-of-charge two-month extension of SME business overdrafts due for renewal during the coronavirus pandemic; and a possibility for large companies to apply for such extension without additional fees and charges as part of a fast-track credit procedure;
 - ✓ an option to apply via Santander internet, branches or partner outlets for suspension of cash loan, mortgage loan, overdraft or credit card agreements for one, two or three months;
 - ✓ suspension of repayments on SME overdrafts with a decreasing limit for three or six months;
 - ✓ a possibility to apply for a grant under the Polish Development Fund's stimulus package aimed to help businesses in financial distress;
 - ✓ waiver of a management fee and a fee for failure to ensure the declared inflows previously collected from SME customers;
 - ✓ access to preferential collateral for business customers in the form of de minimis guarantees offered by the BGK on more attractive terms and liquidity guarantees securing up to 80% of the loan amount (up to PLN 250m) and offered by the Polish Development Fund (PFR) as part of the portfolio guarantee line of the Liquidity Guarantee Fund totalling PLN 13bn and;
 - ✓ execution of ad-hoc transactions under a personalised approach (e.g. bridge financing, short-term liquidity support);
 - ✓ an option for customers of Santander Leasing S.A. to defer or reschedule payments of motor insurance premiums and to extend the payment date of a loan granted to finance stock (in the case of dealers cooperating with the leasing company) or machines and equipment by up to 90 days (in addition to the above-mentioned changes to the repayment schedule and deferral of lease payments for up to six months).
- Other measures included:
 - ✓ waiver of fees on Business Accounts Worth Recommending held by SMEs on condition of payment of social insurance contributions from that account;
 - ✓ a possibility for SMEs to order a payment terminal via remote channels and use it free of charge for a specified period as part of the Non-Cash Payments Initiative;
 - ✓ further improvements to simplify the credit process for businesses, including submission of documents;
 - ✓ a possibility to take out Family Care (Opiekun Rodziny) term life insurance remotely (branch as the Multichannel Communication Centre);

- ✓ launch of a helpline for business customers in partnership with inFakt and organisation of webinars with accounting experts about the anti-crisis legislation;
- ✓ development of remote channels, particularly iBiznes24, in view of an increased use of electronic banking services by business customers;
- ✓ communication with customers (text messages and messages on the electronic banking platform) about stages of the loan repayment deferral process;
- ✓ an option of verification and approval of documents based on a qualified signature.

Support for hospitals

On 25 March 2020, Santander Bank Polska S.A. and Santander Foundation launched a charity event called “We will double your impact” (“Podwójna moc pomagania”) to help health professionals fight the SARS-CoV-2 virus. The bank donated PLN 2m to that end, and initiated a fundraiser in which it doubled each contribution. This way, PLN 5m worth of medical equipment and protective clothing were purchased and transferred to 23 hospitals in Poland.

Risk management

The risk management priorities during the Covid-19 pandemic are presented in Part 2 “Risk Management Priorities” of Chapter IX “Risk and Capital Management”.

2.1. Retail Banking Division

Main development directions

In H1 2020, the strategic activities of the Retail Banking Division focused on:

- creating an outstanding experience for customers (projects aimed to improve credit processes for retail customers, measures taken to support customers during the coronavirus pandemic) and employees (improvement of the work environment for advisors and implementation of a new communication portal);
- simplifying and digitalising products and processes;
- increasing the share of remote channels in the sale process and customer service (“Branch as the Multichannel Communication Centre”: sale of selected products by branch staff over the phone);
- further optimisation of distribution network.

Development of selected business areas

The table below presents the performance of individual product lines of the Retail Banking Segment (personal and SME customers):

Personal customers

Product line for personal customers	Activities in H1 2020
Cash loans	<ul style="list-style-type: none"> • In H1 2020, Santander Bank Polska S.A. modified its cash loan pricing policy. • As a result of three interest rate cuts by the Monetary Policy Council, the maximum interest rate on loans decreased by 26% in H1 2020 to 7.20%. • The bank offered a number of special offers to encourage customers to take out cash loans in the remote channels and transfer their facilities from other banks. • The half-yearly cash loan sales of Santander Bank Polska S.A. totalled PLN 3.3bn, i.e. down 15.8% YoY. Sales reported by the market decreased by 33.2% during this period (according to the BIK data for the first five months of 2020). Sales generated via the remote channels have been growing consistently, accounting for 37% in June 2020 vs. 28% in the same period last year. • The cash loan portfolio of Santander Bank Polska S.A. was up 14.1% YoY and totalled PLN 14.6bn at the end of June 2020.

Product line for personal customers	Activities in H1 2020 (continued)
Mortgage loans	<ul style="list-style-type: none"> • In H1 2020, Santander Bank Polska S.A. modified its mortgage loan pricing three times: <ul style="list-style-type: none"> ✓ Interest rates on mortgage loans (both variable-rate and fixed-rate ones) were linked to LTV (February 2020). The highest margins/ rates were applied to loans with LTV above 80% in order to encourage borrowers to put down a higher deposit. ✓ The pricing was differentiated depending on a customer group (May 2020), with more attractive margins and interest rates offered to internal customers. ✓ Due to interest rate cuts, fixed interest rates on mortgage loans were reduced (June 2020). • On 3 June 2020, the bank limited access to home loans with LTV above 80%: mortgage loans with a low deposit (below 20%) were offered only to internal customers. • In H1 2020, the value of new mortgage loans totalled PLN 2.7bn, down 11.9% YoY. The gross mortgage portfolio of Santander Bank Polska S.A. grew by 4.5% YoY, reaching PLN 50.5bn as at 30 June 2020. The value of PLN mortgage loans amounted to PLN 40.8bn, up 5.9% YoY.
Personal accounts and bundled products, including:	<ul style="list-style-type: none"> • The internet banking functionality was expanded to include an option for parents to open an account for children up to 13 years of age. The Child's Account is a savings and settlement account without a card or access to internet or mobile banking, which helps children learn how to manage and save money. • On 1 February 2020, the bank launched the 6th edition of the Referrals Programme, which awards both the person who recommends a personal account with Santander Bank Polska S.A. and the person who opens it. • The number of PLN personal accounts grew by 4.9% YoY and reached 3.9m as at 30 June 2020. The number of Accounts As I Want It (the bank's main acquisition product for a wide group of customers) was 2m. Together with FX accounts, the personal accounts base totalled nearly 4.8m.
➤ Payment cards	<ul style="list-style-type: none"> • In H1 2020, the bank launched a range of special deals to support the sale of credit cards to personal customers and increase the number of credit card transactions. Customers could take advantage of various benefits: sign up for and use a credit card free of charge during the first two years ("Mastercard credit card on special offer"/ "Karta kredytowa Mastercard w promocji"); receive cashback on transactions made during 12 months and prizes for signing an agreement on an additional card and a mobile card ("PLN 800 with VISA credit card"/ "800 zł z kartą kredytową VISA"); earn higher interest on the bonus deposit ("Card with a bonus deposit"/ "Karta z lokatą bonusową"); or receive coins that could be exchanged for Allegro coupons under a promotional campaign organised in partnership with Allegro ("Coins from Santander Bank Polska S.A."/ "Monety od Santander Bank Polska S.A.") • As at 30 June 2020, the volumes of key payment cards offered by Santander Bank Polska S.A. were as follows: <ul style="list-style-type: none"> ✓ The personal debit card portfolio comprised more than 3.9m cards and increased by 3.1% YoY. Including business cards, the total number of debit cards reached 4.2m, up 4.4% YoY. ✓ The credit card portfolio comprised 816.3k instruments, a decrease of 2.4% YoY.

Product line for personal customers	Activities in H1 2020 (continued)
Deposit and investment products, including:	<ul style="list-style-type: none"> In H1 2020, the bank's priority in terms of management of deposit and investment products was to maintain profitability of the portfolio in the volatile financial market environment and to optimise its structure in view of the transfer of funds from investment to deposit products as a result of Covid-19.
<p>➤ Deposits</p>	<ul style="list-style-type: none"> The savings account continued to be the most popular product among personal customers in H1 2020. The account comes in a number of options which are tailored to individual customer segments. On 2 March 2020, the existing range of savings accounts (the Regular Savings Account for Standard and Premium customers and the Private Banking Savings Account for Private Banking customers) was expanded to include the Select Savings Account for Select customers. The new account is available on preferential terms as part of the offer called "We reward active customers" ("Doceniamy aktywnych"): customers who make a stated number of transactions earn higher interest. On 2 March 2020, the bank launched a special deal for deposit customers who can open a bonus deposit account with a higher interest rate provided that they sign an agreement on a VISA credit card and use it actively. In H1 2020, the deposit offer was reviewed and modified in accordance with new market rates. <ul style="list-style-type: none"> On 2 March 2020, the bank reduced interest rates on selected savings and personal accounts. Interest rates on all personal term deposits in PLN, USD and GBP as well as personal and savings accounts were lowered, following three consecutive interest rate cuts of 1.4 p.p. in total announced by the Polish Monetary Policy Council and interest rates reductions announced by the Federal Reserve and the Bank of England. Messages were sent to around 1.4m customers to inform them about the above changes in interest rates effective as of 30 June 2020. Further to this, following the last MPC's interest rate cut of 0.40 p.p. on 28 May 2020, the bank standardised interest rates on all savings accounts (effective as of 18 August 2020). As at 30 June 2020, total deposits from retail customers increased by 7.2% YoY to PLN 89.8bn, owing to transfers from investment funds among other things. Current account balances increased by 22.4% YoY to PLN 71.6bn, including PLN 33.2bn worth of savings account balances (up 19.0% YoY). As a result of interest rate optimisation, term deposit balances decreased by 28.1% YoY to PLN 18.1bn.
<p>➤ Investment funds</p>	<ul style="list-style-type: none"> In H1 2020, the total net sales of investment funds managed by Santander TFI S.A. were negative due to mass redemptions of investment fund units observed in March and April 2020 as a result of the Covid-19 pandemic. The largest outflows were recorded by corporate bond sub-funds. In other months of H1 2020, the company reported positive net sales, ranking third and second in the market in June and May, respectively. The growth in sales in the above months was mainly driven by the bank's distribution activities and the special deal called "We add 1%" ("Dodajemy 1%"), which was launched by Santander TFI S.A. at the beginning of June and offered a bonus of 1% on the balance of contributions made by investors. Investments were made in both equity and debt funds. As at 30 June 2020, the total net assets of investment funds managed by Santander TFI S.A. were PLN 13.1bn and decreased by 22.8% Ytd and 17.5% YoY as a result of an unprecedented outflow of funds and fall in asset prices across financial markets in March 2020. In H1 2020, the investment funds managed by Santander TFI S.A. introduced a number of changes in terms of fees management: <ul style="list-style-type: none"> On 1 January 2020, Santander FIO, an open-end investment fund, lowered management fees in relation to five sub-funds. Fees for management of the Employee Capital Plans were permanently reduced (starting from the year in which the target date falls), which together with zero performance and conversion fees made it one of the most attractive offers of this kind in the market. A special deal on Santander FIO and Santander Prestiż SFIO funds was launched on 16 March 2020, as part of which customers could purchase, redeem and convert investment fund units free of charge.

Product line for personal customers	Activities in H1 2020 (continued)
<p>➤ Brokerage services</p>	<ul style="list-style-type: none"> • In H1 2020, Santander Brokerage Poland achieved growth in the following business areas: <ul style="list-style-type: none"> ✓ The number of newly opened brokerage accounts grew by 546.3% YoY and the activity of existing customers was enhanced due to: a) an option offered to Santander internet users to open a brokerage account in a buy-by-click formula and to start investing via the remote channels; b) shorter time taken to start trading in the case of customers who opened a brokerage account via Santander internet compared with the traditional procedure; c) promotional campaigns; d) increased capital market volatility caused by the coronavirus pandemic. ✓ The value of investments in foreign markets went up by 665.6% YoY, after expert analyses on foreign instruments had been made available to customers and a simple order placement process had been put in place (along with automatic conversion without the need to hold foreign currency). • The functionality of the Investor mobile application was expanded to include biometric solutions and transfers to predefined accounts held by customers with other financial institutions or to other own accounts maintained by Santander Brokerage Poland. • For the sixth time in a row, Santander Brokerage Poland was awarded by the Warsaw Stock Exchange for the highest share in the index options trading without market-making in 2019. • Experts from Santander Bank Polska S.A. topped the analysts ranking of the <i>Parkiet</i> daily in terms of the quality of analyses regarding the banking, financial, energy, mining and industry sectors.
<p>Bancassurance</p>	<ul style="list-style-type: none"> • In H1 2020, income from bancassurance was generated mainly on the basis of the following products: individual insurance packages for cash loan borrowers (Życie and Życie+ life insurance, and Praca unemployment insurance), insurance package for business loan borrowers (Biznes Gwarant life insurance), Opiekun Rodziny life insurance and Locum/ Locum Comfort home insurance. • Insurance premiums decreased by 10,8% YoY, as a result of lower sales caused by the Covid-19 pandemic. A slight upward trend has been observed since mid-May 2020, particularly in the sale of non-linked insurance products.

SMEs

Product line for SMEs	Activities in H1 2020
<p>Business accounts and bundled products</p>	<ul style="list-style-type: none"> • On 2 March 2020, the bank provided personal customers with a possibility to set up a sole proprietorship along with a business account via Santander internet. • On 23 June 2020, three new non-banking services were offered to sole traders who use Mini Firma electronic banking services: <ul style="list-style-type: none"> ✓ eDebtCollection (eWindykacja): soft debt collection; ✓ eFactoring (eFaktoring): exchange of sales invoices to cash; ✓ eAgreements (eUmowy): access to contract templates and other documents. • A range of special deals were made to encourage customers to use the bank's products and services: <ul style="list-style-type: none"> ✓ The bank continued the "Special Offer for Businesses" ("Promocja dla Przedsiębiorców") in the remote channels (e-request, electronic banking platform and the Multichannel Communication Centre), as part of which customers were exempt from selected business account fees for 24 months and could get cashback if they made certain operations. ✓ Customers using inFakt accounting services were encouraged to set up a business account as part of the "Special Offer for Businesses" and to activate e-Accounting in the Moja Firma electronic banking services. ✓ The bank launched the fifth edition of the special deal called "I got a Six" ("Dostałem Szóstkę") for new and existing customers who sign a payment terminal agreement, offering them a possibility to use the terminal free of charge during a specific period provided that they fulfil certain conditions.

Product line for SMEs	Activities in H1 2020 (continued)
Business loans	<ul style="list-style-type: none"> On 14 January 2020, the range of credit facilities was expanded to include Business Express Loan for Professionals up to PLN 500k.
Leasing products	<ul style="list-style-type: none"> In H1 2020, Santander Leasing S.A. offered temporary solutions to support liquidity of customers and implemented new products and processes such as: <ul style="list-style-type: none"> ✓ Solar Lease (April 2020): financing of photovoltaic panels up to 50kW in the form of a lease or a loan granted for the maximum period of 72 months (product offered to the customers of Santander Bank Polska S.A. on preferential terms over a closed period of time); ✓ promotional offer of hybrid and electric cars and trucks up to 3.5 t; ✓ products with a grace period for principal and interest payments (from 3 to 6 months) provided under vendor schemes (dealers of Ford and Subaru); ✓ a possibility to sign an agreement remotely during an e-meeting, using a traditional signature or a qualified electronic signature (an option offered as part of comprehensive measures connected with development of the ebok24 platform and digitalisation of processes). The value of fixed assets financed by Santander Leasing S.A. in H1 2020 totalled PLN 2,265.3m and was down 8.1% YoY due to the coronavirus epidemic and temporary shutdown of the economy. At the same time, the market reported approx. 26% YoY decrease in sales (according to the data of the Polish Leasing Association for the period from January to May 2020) caused by changes in the main segments (cars, trucks, machines and equipment). A key element of the company's strategy is to cooperate with international financial institutions and to secure effective funding sources: <ul style="list-style-type: none"> ✓ In the reporting period, the company issued two series of bonds with a variable interest rate: <ul style="list-style-type: none"> ❖ series D bonds of PLN 440m maturing on 10 March 2021; ❖ series E bonds of PLN 550m maturing on 4 December 2020. ✓ In March 2020, Santander Leasing S.A. signed an annex to the securitisation agreement of December 2018 providing for a EUR 100m increase in financing. Accordingly, Santander Leasing Poland Securitization 01 DAC, a special purpose vehicle, issued bonds of EUR 330m which were secured by a registered pledge on cash flows from the securitised assets. Further to this, the subordinated loan granted by Santander Leasing S.A. was increased to EUR 122.3m. The bonds bear an interest rate based on 1M EURIBOR and mature in March 2036. The revolving period for the EUR tranche expires in March 2022. In June 2020, Santander Leasing S.A. signed an agreement with the EIB Group for synthetic securitisation of a portfolio of leasing receivables totalling PLN 2.0bn (approx. EUR 450m). The purpose of the transaction is to address the working capital, liquidity needs and investment constraints of SMEs and mid-caps in Poland, in the context of the Covid-19 outbreak. The EIB Group will guarantee a mezzanine tranche of PLN 284m (approx. EUR 64m) and a senior tranche of PLN 1.7bn (approx. EUR 380m) in a synthetic securitisation transaction. The underlying portfolio is a granular portfolio of leasing receivables originated by Santander Leasing S.A. Thanks to the capital released through the transaction, Santander Leasing S.A. will be able to extend new financing to eligible beneficiaries in an amount of approx. PLN 2.8bn.
Deposits	<ul style="list-style-type: none"> On 25 March 2020, Santander Bank Polska S.A. lowered interest rates on selected business term deposit accounts in PLN, USD and GBP, following the decision of the Polish Monetary Policy Council of 17 March 2020 to reduce the reference rate by 0.5 p.p. and interest rate cuts announced by the Federal Reserve and the Bank of England in March.

2.2. Business and Corporate Banking Division

Main development directions

The Business and Corporate Banking Division helps customers prosper by gaining a better understanding of their businesses and providing them with tailored products and services. In H1 2020, the Division focused on the areas which add competitive advantage in the value chain such as:

- proposition for selected sectors;
- digitalisation of processes and products for the corporate segment;
- effectiveness of risk management processes;
- development of electronic banking channels as well as CRM and Big Data tools.

Development of selected business areas

The section below presents the main focus areas of the Business and Corporate Banking Segment in H1 2020.

Area	Activities in H1 2020
Development of the product offering and service processes	<ul style="list-style-type: none"> • Extension of the range of products and services for shared customers of Private Banking and Business and Corporate Banking segments. • Strong focus on further standardisation and simplification of the lending process. • Further implementation of Standard Credit Facilities, i.e. solutions enabling process improvements such as optimisation and reduction of time-to-yes and time-to-cash. • Creating value for customers by providing expertise, facilitating B2B networking and offering tools and products to support delivery of business plans. • Highest sales of loans secured by Biznesmax guarantees in Poland (45% share in the market) awarded by Bank Gospodarstwa Krajowego. • Regular customer satisfaction surveys.
Financing for customers	<ul style="list-style-type: none"> • Arrangement of a syndicated loan of PLN 180m for a group from the energy sector, with Santander Bank Polska S.A. acting as the Facility and Security Agent with the biggest share in the deal (40%). • Disbursement of the first tranche of financing for an office scheme in Warsaw with the total leasable area of 78.3k sqm. The project is financed by a syndicate of four banks, with Santander Bank Polska S.A. acting as the Facility Agent. The total lending amount is EUR 162m and PLN 20m (VAT financing).
Cross-segment expertise-based sector approach	<ul style="list-style-type: none"> • Continuation of measures taken to build sector expertise, both within the organisation and among customers. <ul style="list-style-type: none"> ✓ As part of regular reports and analyses concerning strategic sectors (automotive/ TFL, food/ FMCG, industrial production, windows & doors and services), in June the bank published "Shock and what's next?" ("Szok i co dalej?") report prepared together with SpotData, which discussed Polish food exports in the light of the restrictions related to the coronavirus pandemic. ✓ Publication of dedicated expert market commentaries, periodical reports and analyses of developments in individual sectors (including in social media and trade press). ✓ Online initiatives undertaken by the bank in the place of face-to-face meetings to provide customers and employees with reliable information: <ul style="list-style-type: none"> ❖ 16 webinars for customers held in May and June 2020 to discuss the situation of selected sectors and key markets of Santander Group as well as business activities supported by trade finance instruments. ❖ Periodical webinars for employees presenting information about the sectors in which the bank's customers operate.

Area	Activities in H1 2020 (continued)
Activities supporting trade finance	<ul style="list-style-type: none"> • Further development of the platform enabling exporters and importers to share their knowledge and experience and establish relationships with new business partners. • Continuation of a series of business breakfasts organised by the Foreign Trade Office (Szczecin, Zielona Góra, Gdańsk, Kalisz) for existing and prospective customers (thematic panels included Santander Trade Portal, financing solutions offered together with the Treasury Services Department and Santander Factoring Sp. z o.o., International Business and Google).
Activities supporting foreign expansion of Polish businesses	<ul style="list-style-type: none"> • Further support for foreign expansion of Polish exporters and foreign investors in Poland, leveraging the global footprint of Santander Group (facilitation of networking through B2B meetings and foreign trade missions). • Active participation of representatives of the International Banking Office in the following events: <ul style="list-style-type: none"> ✓ Go Poland (January 2020) organised in Porto (Portugal) by the Polish-Portuguese Commercial Chamber to promote Poland among Portuguese companies, present legal and tax aspects of investing in Poland and facilitate networking between Polish and Portuguese companies; ✓ business seminar called “New investment opportunities in the Dolnośląskie and Świętokrzyskie Provinces” organised in February 2020 in Madrid by the Polish-Spanish Chamber of Commerce and the Spanish Confederation of Employers’ Organisations (CEOE) in partnership with Santander Bank Polska S.A. to present the investment potential of the above regions, legal and tax aspects of doing business in Poland, the banking sector and products and services of Santander Bank Polska S.A.; ✓ annual conference of members of the Polish-Portuguese Chamber of Commerce hosted by Santander Bank Polska S.A. in Warsaw in February 2020, including networking meetings and presentation of macroeconomic forecast for 2020 by the Head of the Economic Analysis Department, taking account of impact of Covid-19 on the global economy; ✓ meeting between Polish companies and the Undersecretary of State at the Ministry of Finance organised by the Polish-German Chamber of Commerce in March 2020 with the participation of the bank’s representatives to discuss changes in the tax system, new taxes, withholding tax, tax scheme reporting, instruments supporting innovation and entrepreneurship and impact of Covid-19 on the Polish and German economy.
Focus on development of the iBiznes24 platform and continuity of services for customers	<ul style="list-style-type: none"> • Further development of iBiznes24 with a particular focus on: <ul style="list-style-type: none"> ✓ improvement of system performance through a range of enhancements aimed to eliminate downtimes and slowdowns; ✓ implementation of changes required by law (e.g. individual payer’s account); ✓ remote support for new users of electronic banking: dispatch of authentication tools (SMScodes) to new and blocked users; ✓ video calls with customers (maintenance/ training); ✓ implementation of an application for subsidy from the Polish Development Fund (PFR) in all electronic banking channels for business customers. • Stronger focus on remote processes and effective customer service: <ul style="list-style-type: none"> ✓ promotion of remote solutions such as eGuarantee; ✓ remote instructions from customers (customers without access to iBiznes24 or IVR handled as part of the emergency procedure); ✓ agreements with existing and new customers using a qualified signature and scans of documents; ✓ support for new/ blocked credit card holders: remote dispatch of PINs. • Implementation of improvements: <ul style="list-style-type: none"> ✓ an increase in contactless payment card limit from PLN 50 to PLN 100; ✓ special offer for holders of the Account Worth Recommending (Konto Godne Polecenia) who use it to make social insurance contributions (no account maintenance fee); ✓ simplification of the cash management process; ✓ communication activities.

Area	Activities in H1 2020 (continued)
Factoring business	<ul style="list-style-type: none"> • During the first six months of 2020, the receivables purchased by Santander Factoring Sp. z o.o. totalled PLN 13.8bn, down 2.9% YoY, which gave the company the fourth position in the ranking of members of the Polish Association of Factoring Companies, with a market share of 10.2%. • As at the end of June 2020, the company's credit portfolio was PLN 5.3bn, up 3.1% YoY. • On 30 January 2020, Santander Factoring Sp. z o.o. issued series G bonds of PLN 620m, with an interest rate based on 1M WIBOR and a maturity date of 30 July 2020. • On 2 April 2020, Santander Factoring Sp. z o.o. signed USD 100m loan agreement with an international bank. On 7 April 2020, the loan was disbursed in full. The interest rate is based on 3M LIBOR and the repayment date is 31 March 2021. • In H1 2020, the company financed specific factoring agreements under the Funded Risk Participation Agreement signed with Banco Santander S.A., Frankfurt Branch. Pursuant to the agreement, the Frankfurt Branch is to take over the debtor's default risk. The repayment of individual tranches of the loan is conditioned upon repayment of factoring receivables to Santander Factoring Sp. z o.o. As at 30 June 2020, PLN 1.4bn worth of tranches were disbursed.

2.3. Corporate and Investment Banking Division

Main directions

The Corporate and Investment Banking Division (CIB) helps customers prosper and enhances their positive experience by focusing on service quality, market position and staff development.

Service quality	Service quality is continuously improved through customisation, digitalisation and diversification of the product range.
Market position	The bank steadily strengthens its market position through a range of activities, ensuring top ranking positions of its strategic products and services.
Staff development	The bank's employees pursue their professional careers in accordance with the Group's values, taking advantage of experience-sharing opportunities in an international work environment.

As at 30 June 2020, the CIB Division provided end-to-end services to nearly 250 of the largest companies and groups in Poland. It also renders services to customers within the integrated international Corporate and Investment Banking structures of Santander Group and cooperates with Group units in terms of transactions in debt securities.

Performance of selected areas

In H1 2020, individual units of the Corporate and Investment Banking Division focused on the following initiatives:

Unit	Key measures taken in H1 2020
Capital Markets Department	<ul style="list-style-type: none"> • Execution of a large number of transactions (arranged in 2019 and early 2020) despite the challenges arising from the coronavirus pandemic. • Completion of eight bond issues, financing asset acquisition and sale, participation in syndicated lending and receipt of a mandate for debt-related advisory services. The key activities included: <ul style="list-style-type: none"> ✓ Co-arrangement of Poland's first issue of green bonds in the non-financial sector with the total value of PLN 1bn. ✓ Acting as the joint bookrunner in relation to the issue of negative-yielding euro bonds of EUR 1.5bn for a public sector institution, a first transaction of this kind executed outside the eurozone and by a country with <AAA rating. ✓ Execution of PLN 350m (EUR 79m) facility agreement (as a co-lender) to finance the solar power plants project to be delivered by the leading developer of photovoltaic power plants in Poland. • Active management of the credit portfolio based on the sale of selected credit exposures. • Deceleration of business growth (starting from the end of March) reflected in a lower number of transactions arranged. Relatively high potential for transactions in the defensive sectors such as TMT and renewable energy, notably as part of project finance and syndicated lending. • Good performance in the M&A and ECM markets thanks to the completion of transactions arranged in 2019. Record high number of deals closed in March. • The major transactions included: <ul style="list-style-type: none"> ✓ Acting as an intermediary in a PLN 5.3bn public tender offer, the second largest in the history of the Polish market and the largest in 9 years. ✓ Carrying out the first IPO on the Warsaw Stock Exchange since April 2019 despite difficult market conditions caused by the coronavirus pandemic. ✓ Sale of PLN 700m worth of existing shares of a telecommunications company as part of accelerated book building. ✓ Issue of PLN 507m worth of shares for a company from the retail sales sector, the first transaction of this kind completed in Poland as a direct result of adverse impact of the coronavirus pandemic on the company's performance. • Suspension or slowdown of work on selected early-stage transactions by investors.
Global Transactional Banking Department	<ul style="list-style-type: none"> • Increased use of trade finance channels, notably in the area of working capital financing. Strong focus on export financing and cooperation with KUKE. • Business trends observed: <ul style="list-style-type: none"> ✓ A decrease in term deposits as a result of interest rate cuts. ✓ A temporary decline in payment cash flows caused by reduction in the number of transactions in parallel to the restrictions imposed as a result of the coronavirus pandemic. • Slightly higher use of credit lines in Q2 compared to Q1, followed by the return to the first-quarter levels at the end of June 2020.
Financial Markets Area	<ul style="list-style-type: none"> • Modification of processes to enable remote working during the pandemic and ensure unparalleled customer service. • Delivery of work aimed at implementation of a new market-making system based on one of the best solutions available in the equity market. • Issuance of 149 recommendations and organisation of the 2020 CEE Equity Outlook conference for institutional investors, attended by several dozens investment and pension fund managers. • Continuous development of the Kantor Santander currency exchange platform to provide unparalleled customer experience (24/7 access, new features facilitating the use of the platform). • Design of a new single-platform portal for the bank's analytical products in partnership with Santander Group units to provide business customers with access to products of all regions in which Santander Group operates.

3. Business Development of Santander Consumer Bank Group

Main development directions

In H1 2020, Santander Consumer Bank Group focused on five strategic priorities:

Priority:	Objective:	Action:
1. Customer focus	<ul style="list-style-type: none"> To strengthen relationships with customers and increase their satisfaction. 	<ul style="list-style-type: none"> To gather customer feedback about new products and processes. To improve products and processes based on customer feedback. To use advanced customer analytics tools.
2. Leader of e-commerce	<ul style="list-style-type: none"> To develop and implement solutions which will position the bank as a strategic provider of financing in the electronic channel. To grow the share of sales via the electronic channel. 	<ul style="list-style-type: none"> To develop processes and financial products aligned to e-commerce requirements. To build partnerships with entities from the e-commerce sector.
3. Leader of growth	<ul style="list-style-type: none"> To increase the share in the consumer finance market (to maintain at least the existing customer acquisition levels in the credit area). 	<ul style="list-style-type: none"> To launch new products. To develop sales tools. To establish and strengthen relationships with business partners.
4. Data management expert	<ul style="list-style-type: none"> To improve technological and data management capabilities of the bank. 	<ul style="list-style-type: none"> To raise employees' knowledge about the latest analytical methods. To automate the processes. To improve existing and implement new technological solutions.
5. Employer of choice	<ul style="list-style-type: none"> To develop talents and corporate culture and attract highly-qualified staff. 	<ul style="list-style-type: none"> To improve working conditions. To foster the corporate culture. To build the employer brand.

Delivery of strategic priorities

Delivery of the above-mentioned strategic priorities enhances a competitive advantage in terms of products offered by the bank, particularly in electronic channels. In H1 2020, Santander Consumer Bank S.A. reported dynamic growth of sales in the electronic channel and a two-fold increase in the share of this channel in the acquisition of new customers compared to the last year. From January to April 2020, the share of the internet channel in the acquisition of new customers was nearly 24%, i.e. twice as high as the figure expected for the entire 2020. The bank also exceeded the strategic assumptions in terms of customer experience: customer NPS was higher than expected.

In H1 2020, Santander Consumer Bank Group focused on the following areas:

- Maintenance of the leadership position in the hire purchase market through stable share in traditional sales, optimisation of cooperation with large retailers, further development and increase in share in online sales, as well as identification of new sales growth opportunities and increase in profitability of collaboration with trade partners;
- Acquisition of customers based on installment loans and credit cards followed by cross-selling and up-selling of other products.
- Continuation of measures related to cash loans aimed at maximisation of value of customer relationships and optimisation of product range.
- Further delivery of key projects (online sale of instalment and cash loans and development of the mobile application) to increase customer satisfaction.
- Car finance in accordance with customers' preferences, taking account of existing market trends.
- Delivery of support programmes such as payment deferral and extension of the range of services available in the remote channel:
 - ✓ Payment deferral available to personal customers (in relation to instalment loans, cash loans, car loans and mortgage loans) and business customers (in relation to leasing facilities, stock loans and factoring).
 - ✓ Support for hire purchase partners in moving their business online given temporary reduction of opening hours and closure of shopping centres.
 - ✓ Disbursement of car loans (without the need for re-registration of cars due to the closure of the departments of transportation) and support for customers in the remote process.
- Intensive efforts taken to restore the assumed levels of sales to individuals (other than sole traders).

Development of selected business areas

The table below summarises the performance of individual business lines of Santander Consumer Bank Group in the reporting period:

Area	Activities in H1 2020
Lending	<ul style="list-style-type: none"> • At the start of the year, the bank launched sales of two new Banking Services Packages which complement the cash loan and consolidated loan offer, providing such features as deferral or change of the payment date. • Existing and prospective customers were offered a possibility to sign an online cash loan agreement. • The bank modified pricing of cash and consolidated loans, increasing the range of arrangement fees. The interest rates were adapted to the reduced NBP reference rate. • The bank further developed the Full Service Leasing, a product offering (apart from vehicle leasing) additional benefits such as car service by approved repairers (Mazda) and damage and theft insurance.

Area	Activities in H1 2020 (continued)
Lending (continued)	<ul style="list-style-type: none"> As at 30 June 2020, net loans and advances granted by Santander Consumer Bank Group amounted to PLN 16.3bn and decreased by 1.5% YoY due to the slowdown in sales recorded in March and April 2020 due to the Covid-19 pandemic. A gradual upward trend has been observed since May as a result of reopening the economy and lifting restrictions connected with the coronavirus.
Deposits	<ul style="list-style-type: none"> As at 30 June 2020, deposits from customers of Santander Consumer Bank Group totalled PLN 10.1bn and increased by 6.4% YoY, combined with a lower demand for credit due to the Covid-19 pandemic. The bank lowered interest rates on retail deposits as a result of reduction of the NBP reference rate and the need to adjust the offering to the market levels. The bank focuses on the sale of deposits with tenors longer than one year, offering attractive pricing, particularly for 12-month, 24-month and 36-month deposits. An increasing share of sales is transferred from branches to remote channels (internet).
Debt sale	<ul style="list-style-type: none"> In March 2020, Santander Consumer Bank S.A. sold the written-off portfolio of cash loans, instalment loans and car loans of PLN 282.5m, with a P&L impact of PLN 28.7m gross (PLN 23.3m net).
Other product lines	<ul style="list-style-type: none"> The range of non-related insurance products was expanded to include insurance of a bicycle/scooter for customers of retailers offering hire purchase in cooperation with the bank. In order to increase the safety of payments during the Covid-19 pandemic, the bank increased the limit for contactless payments without PIN up to PLN 100.
Personnel management	<ul style="list-style-type: none"> In H1 2020, the bank announced collective redundancies to be completed by the end of H1 2021 with 430 people to be covered. The process results from the closure of the bank's branches as well as digitalisation, automation and optimisation of business processes.
Other	<ul style="list-style-type: none"> In H1 2020, Santander Consumer Bank S.A. extended the cooperation agreement with Suzuki Motor Poland regarding stock financing for Suzuki dealerships and exclusive participation in Suzuki Finance programme which supports retail car sales. In H1 2020, the revolving credit facility agreement of 1 October 2015, as amended, was extended until 31 May 2021. The loan of PLN 600m was not disbursed in the analysed period.

VI. Human Resources Management

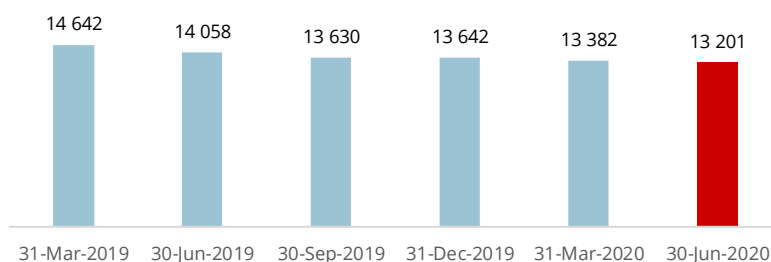
Human resources

As at 30 June 2020, the number of FTEs in Santander Bank Polska Group was 13,201 vs. 13,642 as at 31 December 2019. These headcount figures include 10,574 FTEs of Santander Bank Polska S.A. (10,726 as at 31 December 2019) and 2,165 FTEs of Santander Consumer Bank Group (2,452 as at 31 December 2019).

In H1 2020, employment in the Group decreased by 3.2% YoY as a result of collective redundancies at Santander Consumer Bank S.A. and ongoing transformation of the business models of both banks through digitalisation, optimisation of the branch network, continued migration of products and financial services to remote distribution channels and gradual implementation of technological and organisational solutions increasing operational efficiency. The collective redundancies started by Santander Consumer Bank S.A. in H1 2020 will be completed by the end of H1 2021 and will cover 430 employees.

The objective of these measures is to allocate the maximum resources to grow business and build competencies, which involves a steady reduction of branch headcount and an increase in staffing levels of business support areas. The staffing processes are based on natural employee attrition, taking into account present business needs and market conditions.

EMPLOYMENT IN SANTANDER BANK POLSKA GROUP IN 2019 AND 2020 BY QUARTERS (IN FTES)



Changes in the compensation and benefits system

Remuneration Policy

In H1 2020, the bank updated Remuneration Policy of Santander Bank Polska Group and the Remuneration Policy of the Bank's Management Board, and implemented the new Remuneration Policy of the Bank's Supervisory Board.

The above regulations were adopted by the Management Board on 12 May 2020 and approved by the Supervisory Board on 20 May 2020. The policies applicable to the governing bodies were approved by the Annual General Meeting of 22 June 2020. The regulations were updated in accordance with the Act of 16 October 2019 amending the Act on public offering, conditions for introducing financial instruments to organised trading, and on public companies, and certain other acts. The above act transposes a range of EU regulations, such as Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 (Shareholder Rights Directive II), including the say-on-pay rule.

The updated Remuneration Policy of Santander Bank Polska Group incorporates the requirements arising from the amended Act on public offering and reflects the conclusions from the annual review of remuneration regulations and harmonisation measures taken across Santander Group. The key changes are summarised below:

- Selected sections concerning the Management Board were removed and incorporated into the Remuneration Policy of the Management Board.
- The provisions were elaborated on the internal process of market benchmarking of salary.
- The rules for remuneration of internal audit and compliance managers were refined (in accordance with Recommendation H).
- A reference was offered to a separate procedure on severance pay and compensation.
- Sections about potential payments under no competition clauses were added.
- Options were introduced for the Management Board to extend the variable remuneration deferral period and increase the share of variable remuneration paid to the selected key employees in the form of financial instruments.

The total remuneration package for 2019 (including available benefits) was presented to employees in the form of a TRS report called "Here I work – here I gain" to build their awareness and increase their satisfaction with the scope and value of total remuneration offered by the bank.

Stable financial results for 2019 enabled the bank to launch annual bonus payments for employees in Q1 2020. Variable remuneration for 2019 was calculated before the state of epidemic emergency was introduced in Poland.

6th Incentive Programme

In its Resolution no. 16/2020 of 20 February 2020, the Supervisory Board of Santander Bank Polska S.A. confirmed the fulfilment of the award criteria under the 6th Incentive Programme. Accordingly, on 22 June 2020 the bank's Annual General Meeting decided to increase the bank's share capital, and the Supervisory Board approved the final list of the participants of the 6th Incentive Programme who will be entitled to sign a subscription agreement and take up the specified number of series O shares of the bank. For more details about the issue of shares and the related actions, see Section "Ownership structure of share capital" of Chapter II "Overview of Santander Bank Polska Group Performance in H1 2020" and Section "Shares of Santander Bank Polska S.A. held by Supervisory and Management Board members" of Chapter X "Governing Bodies".

Selected HR initiatives

The strategy of the Business Partnership Division of Santander Bank Polska S.A. is to build positive employee experience, as higher employee engagement is believed to have direct impact on customer satisfaction. This helps the organisation pursue its strategic goal, which is to become the best bank in Poland for customers and employees. To this end, the following HR initiatives were undertaken in H1 2020:

HR development directions	Measures taken in H1 2020
Identification of strategic areas for HR development	<ul style="list-style-type: none"> • Based on the results of surveys and analyses, the bank identified four areas for development which have significant impact on employee satisfaction and set the bank's HR development priorities: <ul style="list-style-type: none"> ✓ to create safe working environment and build relationships based on empathy, mutual support, and reliable and transparent communication; ✓ to develop expertise and tools to support remote processes; ✓ to create a remote work culture; ✓ to develop best practice and guidelines for the onboarding process. • Since June 2020, the effectiveness of the above initiatives has been measured as part of quarterly eNPS (employee Net Promoter Score) survey.
Simplification and improvement of HR processes	<ul style="list-style-type: none"> • As part of process simplification, the functionalities of various systems were integrated within one application: HR Portal. Users of mobile corporate email were provided with access to HR Portal via mobile phones. • The bank provided employees with a possibility to request a salary advance based on the number of days worked during the month. Employees can initiate the process using a simple application and the money is quickly transferred to their accounts.
Measures connected with the Covid-19 pandemic	<ul style="list-style-type: none"> • As part of extensive measures taken in response to the Covid-19 pandemic, a range of solutions were put in place in March 2020 to provide support to employees and maintain a safe work environment in the new circumstances. For details, see Chapter V "Business Development of Santander Bank Polska Group in H1 2020".
Inclusion initiatives	<ul style="list-style-type: none"> • The bank launched the #SantanderWomen project to create an inclusive platform for both women and men working at various organisational levels at the bank to discuss the situation of women in the organisation.

VII. Organisational and Infrastructure Development

1. Organisational Development

Changes in the divisional structure and the organisation of work

Wide adoption of a remote work model

In H1 2020, the bank and its subsidiaries took intensive measures to ensure safety of employees and customers during the Covid-19 pandemic, whilst maintaining business continuity and effectiveness. In organisational terms, it involved shifting from the existing work model to the wide-scale home office model. For more information, see Section "Measures connected with the Covid-19 pandemic" in Chapter V "Business Development of Santander Bank Polska Group in H1 2020".

Optimisation of organisational structures

On 1 May 2020, the Help Desk was transferred from the Central Operations Area in the Digital Transformation Division to the Multichannel Communication Centre in the Retail Banking Division. The objective of this change was to align and improve customer service standards and enhance performance.

Implementation of the Agile methodology in new areas

In view of the dynamic business environment, digital transformation, changing expectations of employees and leaders, ongoing need to optimise costs and increase quality, the HR organisational structures and business model of Santander Bank Polska S.A. are steadily changed towards:

- implementation of Agile teams comprising dedicated HR specialists in accordance with the Agile methodology;
- centralisation of HR Business Partners' competencies around the key business areas within small teams/ communities to ensure optimum allocation of resources and support development, succession and agility;
- set-up of a centre of excellence to build positive employee experience leveraging such methodologies as Customer Design, Design Thinking and HCM.

Decisions concerning the structure of Santander Bank Polska Group

Suspension of the mortgage bank project

On 6 May 2020, the Management Board of Santander Bank Polska S.A. adopted a resolution to suspend the project of establishing the mortgage bank within Santander Bank Polska Group, and to request the KNF to suspend the administrative procedure concerning the grant of a consent for establishing the mortgage bank.

The administrative procedure was suspended under the KNF decision of 26 May 2020.

2. Key IT Projects

The table below presents the selected IT projects delivered by Santander Bank Polska Group in H1 2020.

Initiative	Key projects delivered in H1 2020
Improved availability, reliability and performance of the bank's systems	<ul style="list-style-type: none"> • After the availability and reliability of the Cortex card system was improved, a similar project was launched in relation to the CEKE system, which impacts the performance of electronic channels. Most of the stabilisation work was completed in March 2020 and capacity issues were successfully resolved, in particular with respect to peak transaction volumes. • The bank continued the work in the Release, Change and Incident Management areas and implemented KPI for the IT Services Area, which resulted in a 50% decrease in the number of incidents causing downtime compared with the same period last year. • Highly efficient core network was developed to connect the Data Centres with the Business Support Centre, which translated into a tenfold increase in the transfer capacity of the bank's links. The upgrades implemented in response to higher demand for network resources significantly facilitated remote work during the pandemic.
Participation in global optimisation initiatives of Santander Group	<ul style="list-style-type: none"> • As a member of Santander Group, the bank participates in the following global projects: <ul style="list-style-type: none"> ✓ Global Transactional System (GTS) and Common API – development of a new payment component. ✓ One Pay FX – further extension of the payment system within Santander Group in relation to online payments in USD made via Ripple. ✓ NeurOne – a project designed to integrate and harmonise the selected processes across the Group to improve their quality and effectiveness. • Santander Bank Polska S.A. successfully implemented OpenAPI Platform, which provides access to corporate programmes as part of Open Banking services (also for third parties). Global Trade Services (GTS) will be the first programme launched under the above services, followed by Nexus Moneway.

Initiative	Key projects delivered in H1 2020 (continued)
Increased security of the bank's systems	<ul style="list-style-type: none"> • Santander Bank Polska S.A. is the first bank in Europe to have developed and implemented 3DSecure 2.2 solution as part of PSD2, which significantly enhances security of online card transactions. • The bank proactively builds the cybersecurity culture among employees and customer by promoting safe online behaviours. To that end, in H1 2020 the bank continued its educational campaigns in social media and organised workshops with customers and employees. As a member of the Polish Bank Association (ZBP), it also actively contributed to the creation of a series of videos about cybersecurity. • The bank started to implement SAS Fraud Management, a system which will enable 24/7/365 monitoring of online transactions in real time.
Implementation of regulatory requirements	<ul style="list-style-type: none"> • The bank implemented the following regulatory requirements: <ul style="list-style-type: none"> ✓ Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) No 924/2009 as regards certain charges for cross-border payments in the Union and currency conversion charges. ✓ "Witraż" project – special micro accounts for tax payments. ✓ Automated verification of the counterparty's data against the White List – a functionality available to business customers in electronic channels. ✓ Pilot implementation of verification of domestic transactions against sanctions lists. • Several other technological projects are in the pipeline, including a cash management application (IBKB) and a nostro account liquidity management application (Nostradamus). • The control of customers' consents required under the GDPR was enhanced.
Automation and optimisation of operational processes	<ul style="list-style-type: none"> • MVP (Minimum Viable Product) of the Smart Loans system supporting loan sales for SMEs was implemented in the internet channel, along with three new added values: amicable debt collection, microfactoring and an online contracting application (Umownik). • New remote processes were put in place for personal customers as part of mobile and electronic banking modules, including mass disbursement of a new overdraft, pilot disbursement of an overdraft and a new credit card using the latest architecture, and implementation of nine after-sales instructions in Santander mobile. • The operating hours of the Kantor Santander currency exchange platform were extended, enabling customers to exchange currency 24/7 in the bank's remote channels (internet and mobile application). • A new system was put in place to support the recovery process in real time through online communication with other systems of the bank. • The first components of the new architecture for non-linked insurance were deployed in connection with the planned launch of a life and health insurance product (Życie i Zdrowie) in the internet channel (in the form of MVP). • The bank achieved the key milestone of data migration to the target transfer agent service system (PMFS). Meanwhile, changes were introduced to the bank's investment funds distribution systems to enable cooperation with the new transfer agent system. • The bank continued to digitalise and automate central banking operations, and increased access to operational services in the remote channels. A range of solutions were implemented to support liquidity of customers during the pandemic. The key measures taken in this period are presented in Chapter V "Business Development of Santander Bank Polska Group in H1 2020".

3. Development of Distribution Channels

Business distribution strategy

In H1 2020, Santander Bank Polska S.A. pursued its business distribution strategy which focuses on development of omni-channel banking based on a network of branches, customer service points and best-in-class digital banking solutions.

The bank's distribution strategy:

- defines new roles of digital channels, modern and spacious branch design, a new profile of advisors, and optimises the branch network (by closing branches or transforming them into partner outlets) alongside the digitalisation of after-sale processes in line with customers' needs and expectations;

- promotes an open and empathic approach to customers (including educational support) to be adopted by well-trained advisors who have access to comprehensive information about products and sale campaigns;
- redefines the role of branches, focusing on development of customer relationships, education and support for customers in the use of remote channels.

Basic Statistics on Distribution Channels

Santander Bank Polska S.A.	30.06.2020	31.12.2019	30.06.2019
Branches (location)	484	505	525
Off-site Locations	2	2	2
Santander Zones (acquisition stands)	9	8	5
Partner Outlets	133	134	124
Business and Corporate Banking Centres	19	19	18
ATMs and CDMs (unifunctional)	748	777	819
Dual Function Machines	934	923	907
Registered internet and mobile banking customers (in thousands) ¹⁾	4 056	4 424	4 229
Digital (active) internet and mobile banking customers (in thousands) ²⁾	2 635	2 510	2 408
Digital (active) mobile banking customers (in thousands) ³⁾	1 703	1 577	1 461
Registered iBiznes24 companies ⁴⁾ (in thousands)	19	18	17

1) In Q1 2020, the bank introduced a narrower definition of customers with active access to electronic services.

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

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

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

Branches and outlets

In H1 2020, another 19 branches were adapted to the new format, 6 of which were thoroughly remodelled. Currently, there are 117 premium-standard branches, where advisors may provide service in modern and spacious areas.

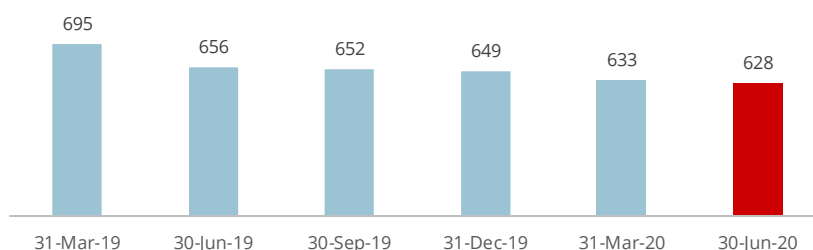
The bank steadily develops and pilots innovative branch formats.

- In accordance with the plan, in March 2020 another WorkCafé of Santander Bank Polska S.A. was opened in Olivia Business Center in Gdańsk. The first branch of this kind was opened in Warsaw. Due to the coronavirus, the co-working space, the room booking option and the cafés are temporarily not available in any of the two outlets.
- In March 2020, the bank launched the ninth Santander Zone (acquisition stands) in the Pasaż Grunwaldzki shopping centre in Wrocław, which offers banking services also in the evenings and on Saturdays. The main objective of such outlets is to acquire customers through the sale of personal accounts in a remote, paperless process and to promote Santander brand.

For customers who prefer face-to-face interaction instead of remote contact, the bank steadily develops the network of partner outlets. As part of this process, the bank's branches are transformed into partner outlets in line with the ongoing optimisation measures.

As at 30 June 2020, the bank had 484 branches, 2 off-site locations, 9 Santander Zones and 133 partner outlets. During the first six months of 2020, the number of banking outlets (branches, off-site locations and Santander Zones) decreased by 20 and the number of partner outlets declined by 1.

NUMBER OF BANKING OUTLETS OF SANTANDER BANK POLSKA S.A. AND PARTNER OUTLETS OF THE BANK BY QUARTER IN YEARS 2019 -2020



In addition to the network of banking outlets and partner outlets, Santander Bank Polska S.A. developed its indirect distribution channels. As at the end of June 2020, the bank cooperated with 450 agents who offered the bank's cash loans, mortgage loans, SME loans, loan insurance, accounts and leasing facilities.

Remote channels

Internet and mobile banking

In the reporting period, the bank focused on improving the functionality and capacity of digital contact channels, which is in line with its long-term strategy to increase the share of such channels in customer acquisition, sales and communications but most importantly takes into account customer preferences under the threat posed by the coronavirus.

Particular focus was placed on the following development directions:

- Digital acquisition and sales – enhancement of user experience and introduction of new products:
 - ✓ A possibility to open an account for children under 13 via internet banking.
 - ✓ An option for electronic banking users to open a business account and set up a sole proprietorship.
 - ✓ FX transfers to accounts with other banks, including outside the European Union (24 currencies available).
 - ✓ 24/7 access to the Kantor Santander currency exchange platform.
- Santander mobile – improvement of existing features, introduction of new functionalities and enhancement of security:
 - ✓ An option to add cards to Google Pay and Apple Pay via Santander mobile.
 - ✓ Introduction of biometric solutions in the Inwestor mobile application.

E-commerce

Santander Bank Polska S.A. develops an e-commerce channel to sell strategic products online. The bank offers personal accounts, business accounts and cash loans in partnership with affiliate networks in Poland, i.e. the largest online platforms. In H1 2020, the digital channels had a record high share in acquisition and sales.

Multichannel Communication Centre

In the first half of 2020, the Multichannel Communication Centre integrated the customer contact channels and expanded the range of processes and tools, using advanced technologies. Measures were taken to improve customer service standards across all communication channels. Santander Bank Polska S.A. was ranked second in the 2020 edition of Hot Spot – FCR, a customer satisfaction survey, losing by a narrow margin only. In 2019, the bank took the sixth place. The bank was also awarded the Institution of the Year title by the Moje Bankowanie portal, in the “Best customer service quality in remote channels” category.

The largest number of interactions were made in the phone banking channel. However, dynamic growth was reported in the number of interactions in the video channel (up 179% YoY) and via email (up 31% YoY), which prompts further development of the Online Advisor services, i.e. video, chat and audio channels (with a particular focus on video).

In H1 2020, the Multichannel Communication Centre introduced a range of new solutions and enhancements to encourage personal and business customers to make more transactions. The key ones included:

- a possibility to set up electronic banking services via video;
- optimisation of the voice sample collection process;
- identification of customers (calling to reset electronic banking password) using voice biometrics or verification quiz;
- support for borrowers intending to use the solutions introduced by the bank in relation to the Covid-19 pandemic (deferral/ cancellation/ suspension of loan payments);
- support for customers applying for financial aid as part of the PFR Financial Shield for SMEs via Santander internet;
- launch of a chatbot informing customers about the bank's product offering and changes connected with the coronavirus pandemic (the bot's knowledge base is continuously expanded to include new facts/ products).

ATM network

In H1 2020, the bank continued to install recyclers, i.e. dual function ATMs enabling withdrawal of cash that has been previously deposited by other customers. The number of such devices increased by 16 Ytd to 414, while the number of single function ATMs was reduced by 28 to 746.

As at 30 June 2020, the network of self-service devices of Santander Bank Polska S.A. comprised 1,682 units, including ATMs, 2 CDMs and 934 dual function machines (dual-chamber devices and recyclers).

The bank was ranked second among Polish banks both in terms of the number of ATMs and the number of machines with a cash deposit function (according to data as at 31 March 2020).

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

The section below presents the main sales channels of Santander Consumer Bank S.A.

Basic Statistics on Distribution Channels

Santander Consumer Bank S.A.	30.06.2020	31.12.2019	30.06.2019
Branches	100	150	150
Partner Outlets	236	183	182
Auto Loan lending Partners	658	780	747
Installment Loan Lending Partners	6 975	7 224	7 219
Registered electronic banking users (in thousands)	200	253	181

CRM solutions

Below are the main customer relationship management (CRM) solutions implemented in H1 2020:

- Personalised messages in internet banking, resulting in a two-fold increase in the customer's interest in the bank's products and services measured by the number of clicks.
- Quick customer support, when needed, in the completion of online applications using real-time technology.
- New fully automated CRM campaigns delivered by the bank based on longer messages in an automated SMS gate.
- Support for customers during the Covid-19 pandemic, including information about safe remote banking solutions.
- Simplification of communication, documents and website content as part of the "Rzecz Jasna" project and delivery of plain language training.

VIII. Financial Performance in H1 2020

1. Income Statement

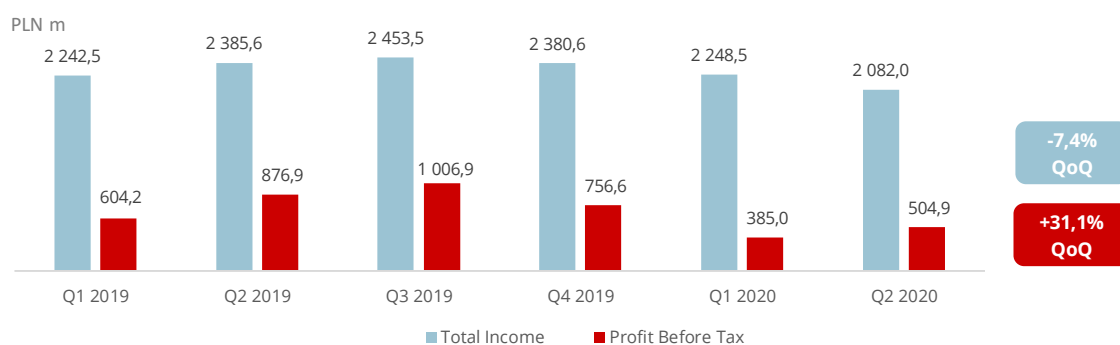
Structure of Santander Bank Polska Group's profit before tax

Condensed Consolidated Income Statement of Santander Bank Polska Group in PLN m (for analytical purposes)	H1 2020	H1 2019	YoY Change
Total income	4 330,5	4 628,0	-6,4%
- Net interest income	3 094,7	3 232,1	-4,3%
- Net fee & commission income	1 030,1	1 042,4	-1,2%
- Other income ¹⁾	205,7	353,5	-41,8%
Total costs	(2 229,1)	(2 252,7)	-1,0%
- Staff, general and administrative expenses	(1 688,7)	(1 870,1)	-9,7%
- Depreciation/amortisation ²⁾	(299,0)	(309,8)	-3,5%
- Other operating expenses	(241,4)	(72,8)	231,6%
Impairment allowances for expected credit losses	(947,2)	(619,2)	53,0%
Profit/loss attributable to the entities accounted for using the equity method	36,8	30,3	21,5%
Tax on financial institutions	(301,1)	(305,3)	-1,4%
Consolidated profit before tax	889,9	1 481,1	-39,9%
Tax charges	(309,9)	(390,6)	-20,7%
Net profit for the period	580,0	1 090,5	-46,8%
- Net profit attributable to Santander Bank Polska shareholders	475,8	935,5	-49,1%
- Net profit attributable to non-controlling shareholders	104,2	155,0	-32,8%

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 trading income and revaluation, gain/ loss on other financial instruments and other operating income.

2) Amortisation/ depreciation includes depreciation of property, plant and equipment, amortisation of intangible assets and depreciation of the right-of-use asset.

THE GROUP'S TOTAL INCOME AND PROFIT BEFORE TAX BY QUARTER
IN 2019 AND 2020



In H1 2020, Santander Bank Polska Group posted a profit before tax of PLN 889.9m, down 39.9% YoY. Profit attributable to the shareholders of Santander Bank Polska S.A. decreased by 49.1% YoY to PLN 475.8m.

Comparability of periods

Selected items of the income statement affecting the comparability of periods

	H1 2020	H1 2019
Contributions to the Bank Guarantee Fund made by Santander Bank Polska Group <i>(general and administrative expenses)</i>	<ul style="list-style-type: none"> • PLN 328.0m, including a contribution of PLN 80.8m to the bank guarantee fund and a contribution of PLN 247.2m to the bank resolution fund 	<ul style="list-style-type: none"> • PLN 241.3m, including a contribution of PLN 42.0m to the bank guarantee fund and a contribution of PLN 199.3m to the bank resolution fund
Additional expected credit loss allowance (post-model adjustment) <i>(impairment allowances for expected credit losses)</i>	<ul style="list-style-type: none"> • PLN 150.3m, including PLN 108.5m in relation to Santander Bank Polska S.A., PLN 30.3m in relation to Santander Consumer Bank S.A., and PLN 11.5m in relation to other subsidiaries 	<ul style="list-style-type: none"> • No such allowance
Collective provisions for legal risk <i>(other operating expense)</i>	<ul style="list-style-type: none"> • PLN 110.3m, including a provision of PLN 63.2m for the foreign currency mortgage loan portfolio and a provision of PLN 47.1m for partial reimbursement of fees in respect of early repaid consumer loans 	<ul style="list-style-type: none"> • No such provision
Charge to net interest income in respect of costs connected with reimbursement of fees related to early repaid consumer loans <i>(net interest income)</i>	<ul style="list-style-type: none"> • PLN 92.6m, including PLN 62.4m in relation to Santander Bank Polska S.A. and PLN 30.2m in relation to Santander Consumer Bank S.A. 	<ul style="list-style-type: none"> • No such charge
Income of Santander Consumer Bank S.A. from the update of the calculation model for provisions for insurance premium refunds <i>(net interest income and net fee and commission income)</i>	<ul style="list-style-type: none"> • PLN 103m, of which PLN 90m increased interest income and PLN 13m was credited to fee and commission income 	<ul style="list-style-type: none"> • No such one off income
Dividend income	<ul style="list-style-type: none"> • PLN 20.7m, including PLN 11.0m from Aviva Powszechnie Towarzystwo Emerytalne Aviva Santander S.A. 	<ul style="list-style-type: none"> • PLN 97.2m, including PLN 88.6m from three companies from Aviva Group
Provision for employment restructuring <i>(staff expenses)</i>	<ul style="list-style-type: none"> • PLN 11.1m in respect of collective redundancies at Santander Consumer Bank S.A. 	<ul style="list-style-type: none"> • PLN 86.3m, including PLN 80m for severance pay for employees selected for collective redundancies at Santander Bank Polska S.A. and PLN 6.3m for optimisation of employment at Santander Consumer Bank S.A.

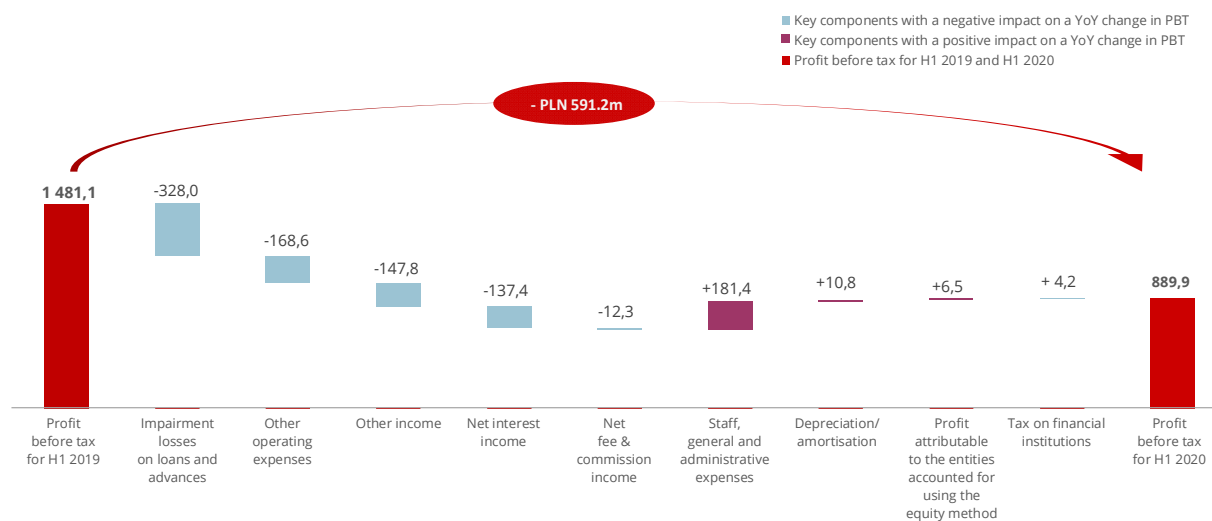
On a comparative basis, i.e. assuming a fixed level of contributions to the BFG and excluding the income/expense and other items as specified in the table above from the respective periods of their occurrence:

- the **underlying profit before tax** decreased by 17.2% YoY and
- the **underlying profit attributable to the shareholders of the parent** went down by 17.1% YoY.

Determinants of the Group's profit for H1 2020

CHANGES IN THE KEY COMPONENTS OF THE CONSOLIDATED PROFIT BEFORE TAX FOR H1 2019 VS H1 2020

PLN m



- During the first six months of 2020, the Group achieved comparable YoY results from the core business (-3.5% YoY) despite the pressure of the three interest rate cuts on the net interest margin, charge to net interest income for partial refund of fees connected with early repayment of consumer loans in line with the CJEU judgement, deceleration of loan sales, unprecedented volatility of financial markets and other adverse impact of the Covid-19 pandemic.
 - ✓ **Net interest income** decreased by 4.3% YoY, reflecting a negative impact of interest rate cuts, lower level of exposures towards business customers and the first financial effects of support measures.
 - ✓ **Net fee and commission income** fell by 1.2% YoY, largely impacted by external factors. During the economic shutdown, the number of transactions made by customers decreased, which, coupled with changes to EUR cross-border payments arising from the EU regulations, translated into lower net fee and commission income under such lines as e-business and payments (-9.5% YoY) and account maintenance and cash transactions (-6.3% YoY). The Group's net income from asset management and distribution fell by 13.1% YoY amid high volatility of financial markets, while net income from brokerage activities increased by 93.1% YoY as customers were more actively looking for investment opportunities. The demand for credit declined, and the Group incurred higher costs connected with guarantees and securitisation, mostly as part of efforts to diversify funding sources and manage the equity.
- **Other income** went down by 41.8% YoY, in particular:
 - ✓ **Dividend income** was down 78.7% as in the base period the Group recognised dividends of PLN 76.2m from Aviva insurance companies, which have not paid out dividends this year in line with the supervisory requirements for the insurance sector;
 - ✓ **Other operating income** fell by 19.8% due to a lower gain on sale/liquidation of property, plant and equipment and assets held for sale (down PLN 19m YoY).

- ✓ The Group posted a decrease in net income from financial instruments under both relevant components:
 - ❖ **Net trading income and revaluation** was down 17.4% YoY due to a negative change of PLN 16.7m in the fair value of credit card receivables recognised in the reporting period, which translated into a decline of PLN 35.7m YoY under this item. This was accompanied by a fall of PLN 5.7m YoY in the Group's total gain on derivatives, interbank FX transactions and FX trading transactions. The above negative changes were partially offset by PLN 27.8m increase in total gain on trading in equity and debt instruments.
 - ❖ **Gains on other financial instruments** decreased by 43.5% as a result of PLN 39m lower positive adjustment of market valuation of shares in Visa Inc. (the fair value of these instruments increased by PLN 3.3m in the reporting period vs. PLN 42.2m in the same period last year) and an additional impairment allowance of PLN 8.5m in respect of PBG bonds. The negative financial impact of the above-mentioned changes was partially offset by a higher gain on sales of government bonds (+11.5m YoY).
- **Net impairment allowances for expected credit losses** went up by 53.0% YoY, reflecting:
 - ✓ higher credit risk associated with the sectors which were worst hit by the economic shutdown;
 - ✓ individual cases of deterioration of customers' financial standing;
 - ✓ an additional expected credit loss allowance of PLN 150.3m as post-model adjustment in relation to uncertainty about future developments connected with Covid-19 and economic climate.
- **Total operating expenses** went down by 1.0%, as a combined effect of the following:
 - ✓ higher fees payable to market regulators resulting from an increase of PLN 86.7m YoY in the total mandatory contributions to the Bank Guarantee Fund recognised in H1 2020 (an annual contribution to the bank resolution fund rose by 24.0% YoY to PLN 247.2m and a quarterly contribution to the bank guarantee fund grew by 92.2% YoY to PLN 80.8m);
 - ✓ provisions of PLN 110.3m for legal risk of customer claims connected with FX mortgage loans and partial reimbursement of fees related to early repaid consumer loans;
 - ✓ an increase of 131.4% YoY in provisions for legal claims and other assets;
 - ✓ impairment allowances of PLN 32.7m vs. PLN 17.5m in H1 2019 in respect of property, plant and equipment and intangible assets arising from lease contracts (in accordance with IFRS 16) as well as other long-term assets, taken to other operating expenses.

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

Components of Santander Bank Polska Group Profit Before Tax in PLN m (by contributing entities)	H1 2020	H1 2019	YoY Change
Santander Bank Polska S.A.	621,3	1 437,0	-56,8%
Subsidiary undertakings:	318,5	502,6	-36,6%
Santander Consumer Bank S.A. and its subsidiaries ¹⁾	207,3	363,5	-43,0%
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	88,0	105,2	-16,3%
Santander Finanse Sp. z o.o. and its subsidiaries (Santander Leasing S.A., Santander Leasing Poland Securitization 01 Designated Activity Company, Santander Factoring Sp. z o.o., Santander F24 S.A.)	23,1	37,7	-38,7%
Other companies ²⁾	0,1	(3,8)	-
Equity method valuation	36,8	30,3	21,5%
Elimination of dividends received by Santander Bank Polska S.A. and consolidation adjustments ³⁾	(86,8)	(488,8)	-82,2%
Profit before tax	889,8	1 481,1	-39,9%

1) As at 30 June 2020 and 30 June 2019, 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 16-1 Sp. z o.o., PSA Finance Polska Sp. z o.o. and PSA Consumer Finance Polska Sp. z o.o. The amounts provided above represent profit before tax (after intercompany and consolidation adjustments) of SCB Group for the periods indicated.

2) Santander Inwestycje Sp. z o.o. and Santander Securities S.A. until the latter's division and dissolution on 8 November 2019.

3) The figure for H1 2020 mainly includes the dividend of PLN 86.6m from Santander TFI S.A., whereas the figure for H1 2019 comprises the dividend of PLN 335.1m from SCB S.A., PLN 95.0m from Santander TFI S.A. and PLN 58.7m from Aviva Group associates.

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

The unconsolidated profit before tax of Santander Bank Polska S.A. for H1 2020 totalled PLN 621.3m and decreased by 56.8% YoY, with relatively stable income from the core business in a deteriorating economic environment:

- Net interest income went down by 2.4% YoY to PLN 2,290.1m amid lower interest rates, decelerated lending activity and changes in the customer offer.
- Net fee and commission income was stable at PLN 835.7m (-0.6% YoY) as a result of an increase in FX and brokerage fees and a parallel decline in net fee and commission income from lending activities and such business lines as e-business and payments, account maintenance and cash transactions.

The drop in the net half-yearly profit can be attributed to:

- A high base effect resulting from the recognition of a dividend of PLN 335.1m from Santander Consumer Bank S.A. for 2018 which was not recorded in the current period (in 2020, the General Meeting of Santander Bank Polska S.A. decided to retain the entire profit for 2019 in line with the supervisory guidelines on profit distribution for financial sector entities).
- A decrease in the components of other income (i.e. non-interest and non-fee income) such as:
 - ✓ gains on other financial instruments, which were down 43.7% to PLN 53.9m as a result of a lower positive market valuation of shares of Visa Inc. in the current reporting period (down 92.0% YoY), additional impairment allowances of PLN 8.5m in respect of PBG bonds, and lower gains on hedging and hedged instruments (down PLN 7.3m), partially offset by higher gains on sale of government bonds (up PLN 11.5m);
 - ✓ other operating income, which declined by 37.6% to PLN 30.9m, mainly due to lower gains on sale or liquidation of property, plant and equipment and assets held for sale.
- An increase in charges to the income statement in respect of:
 - ✓ net expected credit loss allowances (down 70.3% to PLN 737.1m) resulting from higher credit risk in the economic environment and an additional allowance of PLN 108.5m made to account for uncertainty about the scale and scope of deterioration in economic outlook (post-model adjustment);
 - ✓ other operating expenses (down 191.5% to PLN 141.5m) in connection with higher provisions for legal claims and other assets (up PLN 14.0m YoY to PLN 31.3m) and provisions of PLN 58.6m for legal risk associated with consumer loans and FX mortgage loans (recognised since Q4 2019 in line with the CJEU judgments);
 - ✓ general and administrative expenses (down 2.8% to PLN 743.5m) as a result of higher contributions to the BFG (up 42.3% YoY) and costs connected with IT usage (+13.4 YoY).

Subsidiaries

The subsidiaries consolidated by Santander Bank Polska S.A. reported a drop of 36.6% YoY in their total profit before tax.

SCB Group

The contribution of Santander Consumer Bank Group to the consolidated profit before tax of Santander Bank Polska Group for H1 2020 was PLN 207.3m (after intercompany transactions and consolidation adjustments) and went down by 43.0% YoY as a combined effect of the following:

- A decrease of 11.1% YoY in net interest income to PLN 704.2m due to a negative adjustment to interest income on account of early repaid consumer loans (PLN 30.2m) and impact of the Covid-19 pandemic, i.e. sharp official interest rate cuts, payment deferrals, deceleration of sales and reduction in the value of the credit portfolio. The financial effect of the above-mentioned developments was offset to some extent by a positive impact of one-off income of PLN 90m from the update of parameters under the revised calculation model for insurance premium refund provisions.
- An increase of 17.0% YoY to PLN 68.0m in net fee and commission income driven by higher gains on settlements with retail network partners and a rise in insurance proceeds resulting from a one-off adjustment of PLN 13m in connection with the update of parameters of provision for insurance premium refunds based on the revised calculation model. This was accompanied by an increase in fee and commission expenses related to securitisation and the lack of income from spot transactions (since July 2019).
- Higher net impairment allowances of PLN 166.1m (up 3.1% YoY) for financial assets as a result of an additional allowance of PLN 32m made to cover uncertainty as to the scale and scope of the impact of the coronavirus crisis on the macroeconomic situation. Its impact was partly offset by an increase of PLN 18.5m in gain on debt sale compared with the corresponding period last year.

- A drop in gains on investment and trading in financial instruments (down PLN 11.3m to -PLN 5.5m) due to fair value measurement of the credit card portfolio taking account of interest rate cuts.
- An increase of 13.4% YoY to PLN 395.7m in operating expenses, reflecting a top-up of PLN 11.1m in the employment restructuring provision, a provision of PLN 29.5m for legal risk connected with partial reimbursement of fees on early repaid consumer loans, a revision of the value of the provision for legal risk related to the FX mortgage loans portfolio totalling PLN 22.2m and a higher provision for legal claims associated with such loans.

Other subsidiaries

Profit before tax of Santander TFI S.A. for H1 2020 decreased by 16.3% to PLN 88.0m. Income from fund management fees was down 10.6% YoY due to a lower value of average net assets under management and a lower margin reflecting changes to the asset structure and reduction of management fees in accordance with the applicable regulations. Operating expenses grew by 4.9% YoY, mainly as a result of implementation of the Employee Capital Plans in November 2019, generating additional staff expenses and general and administrative expenses connected with their service and sale.

Total profit before tax posted by companies controlled by Santander Finanse Sp. z o.o. dropped by 38.7% YoY to PLN 23.1m.

- The total profit before tax of Santander Leasing S.A., Santander Finanse Sp. z o.o., Santander Leasing Poland Securitization 01 Designated Activity Company and Santander F24 S.A. declined by 55.9% YoY to PLN 11.2m. This negative change was mainly attributed to higher expected credit loss allowances for the lease portfolio, including allowances made as a result of the Covid-19 pandemic. The quality of the lease portfolio measured by the NPL ratio was satisfactory and improved 0.46 p.p. YoY. The rapid development of the lease business in that period triggered an increase of 7.7% in the performing portfolio, growth of 7.4% YoY in net interest income and a rise of 6% in net insurance income.
- The profit before tax posted by Santander Factoring Sp. z o.o. was down 3.9% YoY and totalled PLN 11.9m. An increase in expected credit loss allowances connected, among other things, with Poland's uncertain economic outlook resulting from the Covid-19 pandemic was offset by a rise of 17.1% YoY in net interest income from factoring receivables.

Structure of Santander Bank Polska Group's profit before tax

Total income

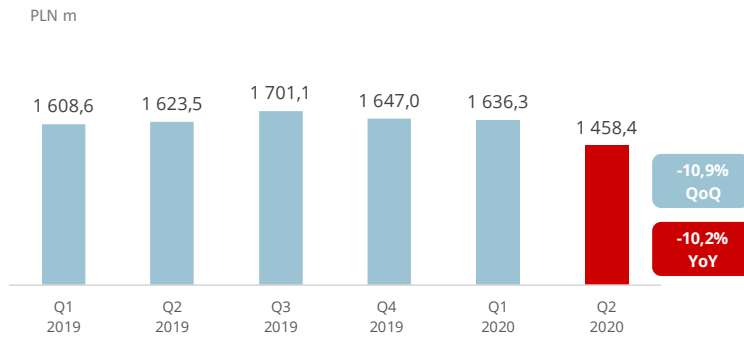
Total income of Santander Bank Polska Group for H1 2020 decreased by 6.4% YoY to PLN 4,330.5m. Excluding dividend income (PLN 20.7m in H1 2020 and PLN 97.2m in H1 2019) and income of PLN 103m from revision of the model used in Santander Consumer Bank S.A. for calculating provisions for refund of insurance premiums and fees as well as negative adjustment of net interest income of PLN 92.6m for partial refund of fees on early repaid consumer loans, the underlying total income was down 5.1% YoY.

Net interest income

Net interest income for the first six months of 2020 was PLN 3,094.7m, down 4.3% YoY. Included in this line item was also the negative adjustment of PLN 92.6m related to partial reimbursement of fees on early repaid consumer loans and one-off income of PLN 90m from the update of parameters under the revised calculation model for insurance refund provisions. Given the offsetting effect of both amounts indicated above, the Group's decrease in net interest income was impacted by the following:

- Pressure on net interest margin from sharp NBP interest rate cuts in H1 2020 (the reference rate was reduced by the MPC three times: on 17 March, 8 April and 28 May by 1.4 p.p. in total to 0.1%) and decreasing market rates.
- Flexible pricing management aimed at optimising the cost of asset funding and supporting the bank's credit policy.
- Negative impact of the coronavirus pandemic on the Group's lending business observed in Q2 2020, including deceleration of the lending activity (particularly in the SMEs segment), and implementation of support measures for borrowers such as suspension/ deferral of principal and interest payments.
- Continued favourable YoY developments in the Group's balance sheet structure (an increase in low-cost balances of personal savings and current accounts combined with a rise in high-margin retail loans).
- Growth of interest earning assets, including debt financial assets held for investment which are measured at fair value through other comprehensive income. Lower yields of the above-mentioned instruments compared with the same period last year.

NET INTEREST INCOME BY QUARTER IN 2019 AND 2020

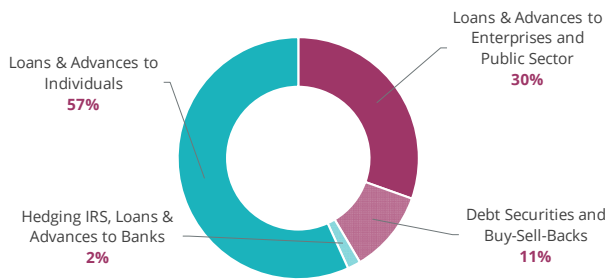


Interest income for H1 2020 totalled PLN 3,808.3m and was down 9.3% YoY due to pressure from the key components. In absolute terms, loans and advances to personal and business customers had the largest impact on the above figure, but the fastest rate of decline was observed in interest income from loans and advances to banks (down 52.0% YoY) and repurchase transactions (down 69.4% YoY).

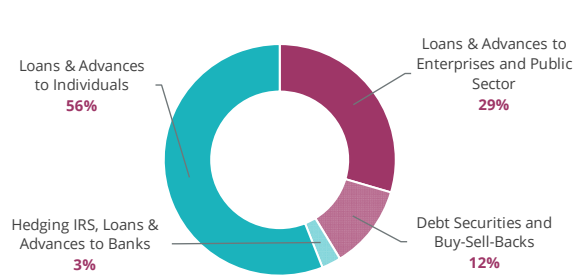
Interest expense decreased at a much faster rate than interest income (down 26.1% YoY to PLN 713.6m for H1 2020), as personal and business customers transferred funds from term deposit accounts to current and savings accounts. This was accompanied by changes to pricing of term deposits offered by the Group in response to official interest rate cuts.

The net interest margin (annualised on a year-to-date basis) was down from 3.48% to 3.09%.

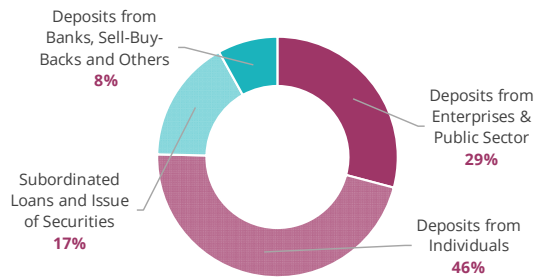
STRUCTURE OF INTEREST REVENUE IN H1 2020



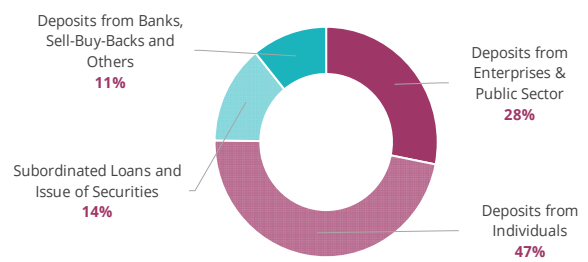
STRUCTURE OF INTEREST REVENUES IN H1 2019



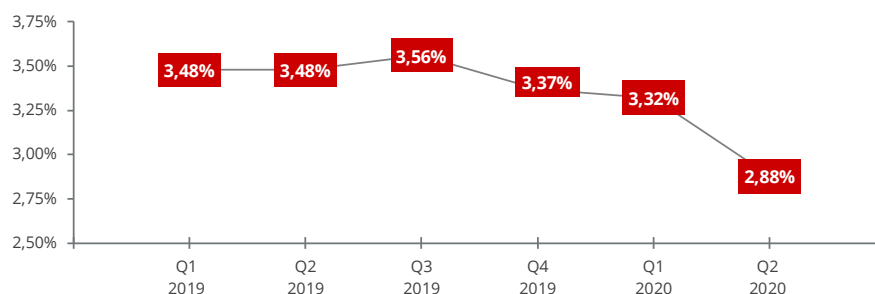
STRUCTURE OF INTEREST EXPENSE IN H1 2020



STRUCTURE OF INTEREST EXPENSE IN H1 2019



NET INTEREST MARGIN¹⁾ BY QUARTER IN THE YEARS 2019 AND 2020
(INCLUDING SWAP POINTS)²⁾



- 1) The quarterly net interest margin in 2019 takes account of the retrospective change to the recognition of repurchase transactions introduced in Q4 2019.
2) The calculation of the net interest margin of Santander Bank Polska S.A. takes account of swap points allocation from derivative instruments used for the purpose of liquidity management but excludes interest income from the portfolio of debt securities held for trading and other exposures connected with trading.

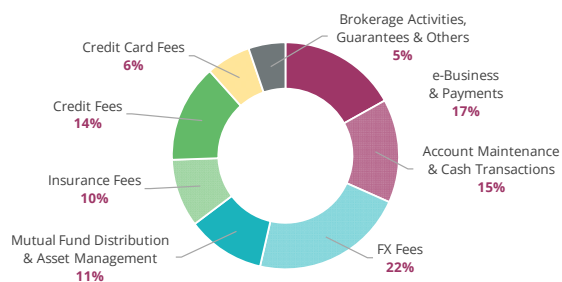
Net interest margin for Q2 2020 (annualised on a quarterly basis) totalled 2.88% and was down 44 bp QoQ and down 60 bp YoY. Q2 saw two of three interest rate cuts introduced this year. By the end of H1 2020, they were fully reflected in interest rates offered by the Group, with an impact on both interest income and interest expense. Meanwhile, further outflow of funds from term deposits was observed, coupled with lower growth of credit receivables due to the economic shock caused by the Covid-19 pandemic, and significant investments of free cash in debt securities of relatively low yields. The majority of the foregoing factors had a negative impact on the margin.

Net fee and commission income

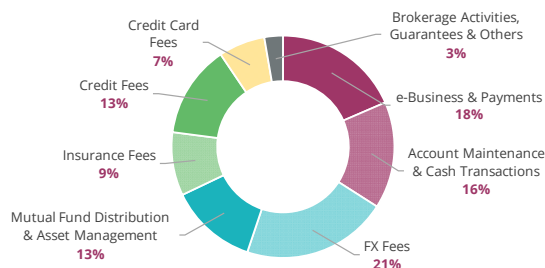
Net Fee and Commission Income (in PLN m)	H1 2020	H1 2019	YoY Change
FX fees	225,7	220,6	2,3%
E-Business and payments ¹⁾	174,3	192,6	-9,5%
Account maintenance and cash transactions ²⁾	152,0	162,2	-6,3%
Credit fees ³⁾	143,8	140,2	2,6%
Asset management and distribution	114,9	132,2	-13,1%
Insurance fees	99,8	96,2	3,7%
Credit cards	65,5	70,4	-7,0%
Brokerage activities	52,9	27,4	93,1%
Guarantees and sureties ⁴⁾	16,3	27,5	-40,7%
Other ⁵⁾	(15,1)	(26,9)	-43,9%
Total	1 030,1	1 042,4	-1,2%

- 1) Fees for payments (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 and commission income from account maintenance and cash transactions has been reduced by the corresponding expenses which in Note 7 to the Condensed Interim Consolidated Financial Statements of Santander Bank Polska Group for the 6-month period ended 30 June 2020 are included in the line item "Other" (PLN 1.2m for H1 2020 and PLN 0.5m for H1 2019).
3) Net fee and commission income from lending, factoring and leases which is not amortised to net interest income. This line item includes, inter alia, the cost of credit agency.
4) Fee and commission income from guarantees and sureties has been reduced by the corresponding expenses which in Note 7 to the Condensed Interim Consolidated Financial Statements of Santander Bank Polska Group for the 6-month period ended 30 June 2020 are included in the line item "Other" (PLN 25.9m for H1 2020 and PLN 6.8m for H1 2019).
5) Issue arrangement fees and others.

NET COMMISSION INCOME STRUCTURE IN H1 2020



NET COMMISSION INCOME STRUCTURE IN H1 2019

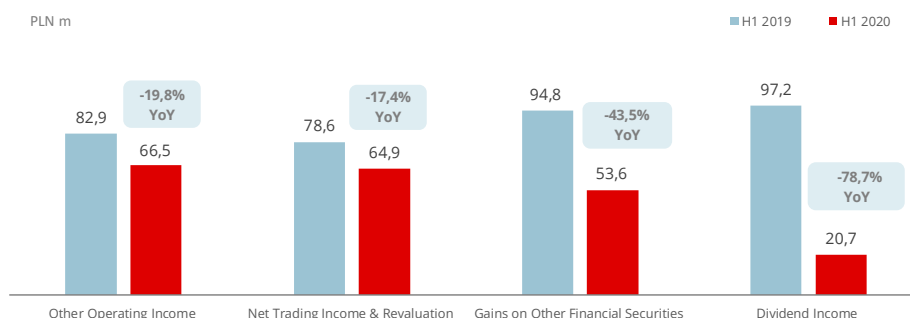


Net fee and commission income for the 6-month period ended 30 June 2020 amounted to PLN 1,030.1m and decreased by 1.2% YoY due to the performance of individual business lines of Santander Bank Polska S.A. and its subsidiaries. The key changes were as follows:

- Brokerage fees rose by 93.1% YoY as a result of higher trading generated by all segments of Santander Brokerage Poland customers who looked for investment opportunities in view of the crash in stock markets and higher volatility. The increase in trading was supported by remote processes available in the internet and mobile banking channels, such as a new procedure for opening an investment account.
- Net fee and commission income from asset management and distribution fell by 13.1% YoY as a result of slump in share prices in March 2020. Developments in the financial markets caused a decline in the value of average net assets managed by Santander TFI S.A. and reduction in the margin due to a changed structure of assets under management and lower fees.
- An increase of 2.6% YoY in net credit fee and commission income is a combined effect of lower costs of credit agency as part of settlements between Santander Consumer Bank S.A. and its retail partners, and lower income from overdraft sales to SMEs impacted by Covid-19.
- A moderate improvement in FX fee income (up 2.3% YoY) was driven by transactions in e-FX (iBiznes24 module) and Kantor Santander currency exchange platform (available in Santander online and Santander mobile) coupled with a decrease in average quotations.
- An increase of 3.7% YoY in net fee and commission income from insurance business is a combined effect of solid sales of motor insurance by Santander Leasing S.A. and recognition of non-recurring income of PLN 13m by Santander Consumer Bank S.A. following update of parameters of the provision for insurance premium refunds (as part of revision of the underlying calculation model).
- A decrease of 6.3% YoY in net fee and commission income from account maintenance and cash transactions is attributed to lower number of transactions made by customers, among other things. This factor, alongside changes to cross-border payments in EUR arising from the new EU regulations, also caused a decline of 9.5% YoY in e-business and payments.
- 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. decreased by 7.0% YoY due to a reduced number of cards resulting from modification of the product range and varied intensity of promotional and CRM activities. Further to this, a drop in the number of credit card transactions was recorded in March and April 2020, including the number of transfers from credit cards and currency conversions.
- A 40.7% YoY drop in net fee and commission income from guarantees and sureties was down to higher costs incurred by the bank and its subsidiaries in relation to guarantee and securitisation activities taken mainly to diversify the sources of funding and manage the equity.

Non-interest and non-fee income

Components of Other Income for H1 2019 vs. H1 2020



Non-interest and non-fee income of Santander Bank Polska Group presented above totalled PLN 205.7m and decreased by 41.8% YoY due to the volatility of the financial instruments market and measures taken by the financial supervision authority to ensure security of the financial system by restricting profit distributions by the supervised entities. Pursuant to the KNF recommendation, the insurance companies from Aviva Group included in the portfolio of Santander Bank Polska S.A. retained their entire profit for 2019, which resulted in a decrease of 78.7% YoY in dividend income on a consolidated basis.

- Net trading income and revaluation for H1 2020 was PLN 64.9m, down 17.4% YoY due to:
 - ✓ a decrease of 7.0% YoY in gains on derivatives, interbank FX transactions and FX trading transactions which totalled PLN 76.6m; this line item excludes net interest income from the CIRS and IRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 70.5m for H1 2020 vs. PLN 89.6m for H1 2019), which is disclosed under "Interest income";
 - ✓ a negative change of PLN 16.7m in the fair value of credit card receivables mandatorily measured through profit or loss in H1 2020 vs. an increase of PLN 19.0m in their fair value in H1 2019;
 - ✓ a loss of PLN 9.4m in H1 2020 (down PLN 7.2m YoY) on trading in debt securities measured at fair value through profit or loss.

The negative impact of the above components of net trading income was offset by a gain of PLN 14.4m on trading in debt financial assets measured at fair value through profit or loss vs. a loss of PLN 20.6m incurred on such transactions in the same period last year.

- Gains on other financial instruments totalled PLN 53.6m vs. PLN 94.8m in the corresponding period of 2019. Amid favourable market trends (low profitability of bonds), the Group generated a profit of PLN 60.5m from the sale of government bonds (PLN 49.0m in H1 2019) and recorded a positive change in the fair value of shares of Visa Inc. amounting to PLN 3.3m vs. PLN 42.2m in H1 2019 (excluding FX differences).
- Other operating income fell by 19.8% YoY to PLN 66.5m due to PLN 19.0m YoY drop in gain on sale/ liquidation of property, plant and equipment and assets held for sale which totalled PLN 2.2m in the reporting period. This was partially offset by PLN 5.5m higher releases of provisions for legal claims and other assets and income of PLN 4.7m from modification of lease contracts.

Impairment allowances

Impairment allowances for expected credit losses on loans and advances measured at amortised cost (in PLN m)	Stage 1		Stage 2		Stage 3		POCI		Total	Total
	H1 2020	H1 2019	H1 2020	H1 2019	H1 2020	H1 2019	H1 2020	H1 2019	H1 2020	H1 2019
Charge on loans and advances to banks	-	-	-	-	-	-	-	-	-	-
Charge on loans and advances to customers	(56,0)	(46,7)	(464,8)	(246,6)	(444,6)	(392,7)	5,1	39,0	(960,3)	(647,0)
Recoveries of loans previously written off	-	-	-	-	7,1	1,6	-	-	7,1	1,6
Off-balance sheet credit related facilities	3,6	15,8	(3,7)	3,3	6,1	7,1	-	-	6,0	26,2
Total	(52,4)	(30,9)	(468,5)	(243,3)	(431,4)	(384,0)	5,1	39,0	(947,2)	(619,2)

In H1 2020, the charge made by Santander Bank Polska Group to the income statement on account of expected credit loss allowances was PLN 947.2m vs. PLN 619.2m in H1 2019. This figure includes allowances of PLN 166.1m made by Santander Consumer Bank Group, which were broadly stable compared to the base period (PLN 161.1m, up 3.1% YoY).

The increase in impairment allowances on loans to the Group's customers (from PLN 647.0m for H1 2019 to PLN 960.3m for H1 2020) is attributed to:

- ✓ moderate growth of new credit exposures, including in consumer and mortgage loan portfolios;
- ✓ higher credit risk associated with the sectors which were worst hit by the economic shutdown;
- ✓ individual cases of deterioration in the financial standing of business customers;
- ✓ an additional expected credit loss allowance of PLN 150.3m made as post-model adjustment in relation to an uncertain economic outlook.

In H1 2020, the Group's profit before tax on the sale of credit receivables of Santander Bank Polska S.A. and Santander Consumer Bank S.A. was PLN 18.7m, up PLN 28.7m YoY. It sold credit receivables from personal and business customers in the total amount of PLN 894.2m. In the same period last year, the Group sold credit receivables of PLN 533.3m, generating a profit before tax of PLN 10.1m.

NPL ratio (including POCI exposures) was 5.6% as at 30 June 2020 (4.7% as at 30 June 2019), while the ratio of impairment allowances to average gross loans and advances measured at amortised cost was 1.06% (0.88% a year before).

Total costs

Total costs (in PLN m)	H1 2020	H1 2019	YoY Change
Staff, general and administrative expenses, of which:	(1 688,7)	(1 870,1)	-9,7%
- Staff expenses	(793,7)	(982,8)	-19,2%
- General and administrative expenses	(895,0)	(887,3)	0,9%
Depreciation/amortisation	(299,0)	(309,8)	-3,5%
- Depreciation/amortisation of PP&E and intangible assets	(194,8)	(202,4)	-3,8%
- Depreciation of right-of-use assets	(104,2)	(107,4)	-3,0%
Other operating expenses	(241,4)	(72,8)	231,6%
Total costs	(2 229,1)	(2 252,7)	-1,0%

In H1 2020, total operating expenses of Santander Bank Polska Group went down by 1.0% YoY to PLN 2,229.1m. On a comparative basis, i.e.:

- assuming a fixed level of fees payable to the Bank Guarantee Fund in both analysed periods (i.e. excluding the surplus of PLN 86.7m from the cost base for H1 2020) and
- excluding:
 - ✓ from the current reporting period: provisions for legal risk of customer claims connected with FX mortgage loans (PLN 63.2m) and partial reimbursement of fees related to early repaid consumer loans (PLN 47.1m);
 - ✓ from both analysed periods: provisions for employment restructuring at Santander Consumer Bank S.A. (PLN 11.1m for H1 2020 and PLN 6.3m for H1 2019) and at Santander Bank Polska S.A. (PLN 80m for H1 2019);

the underlying operating expenses declined by 6.7% YoY.

The Group's cost to income ratio increased moderately to 51.5% from 48.7% for H1 2019. Adjusting for the above-mentioned cost and income items, the underlying cost to income ratio went down from 47.8% to 47.0% for H1 2020.

Staff expenses

In H1 2020, staff expenses of Santander Bank Polska Group totalled PLN 793.7m, down 19.2% YoY. Excluding employment restructuring provisions from both analysed periods, the underlying staff expenses declined by 12.7% YoY, reflecting lower fixed labour costs given 8.1% YoY reduction in average employment. This was achieved along with the periodic salary review and payment of annual bonuses connected with performance review.

General and administrative expenses

General and administrative expenses of Santander Bank Polska Group were stable (up 0.9% YoY) and totalled PLN 895.0m. Fees payable to the BFG, KNF and KDPW, which are the largest constituent item, went up by 32% YoY, largely as a result of an increase in amounts paid to the BFG, including an annual contribution to the bank resolution fund for 2020 (up 24.0% YoY to PLN 247.2m) and a quarterly contribution to the bank guarantee fund (up 92.2% to PLN 80.8m). If the above-mentioned contributions had not changed compared to the last year, the Group's general and administrative expenses would have declined by 8.9% YoY, which indicates the level of savings generated.

In H1 2020, the most pronounced drop was recorded under marketing and entertainment (down 43.3% YoY), as the bank completed the brand awareness campaign continued last year. Due to ongoing optimisation of the branch network and lower costs of repairs, the cost of maintenance of premises went down (by 18.5% YoY), as did the cost of short-term leases and leases of low-value assets (down 39.9% YoY) and the cost of bank security (down 16.8% YoY). Owing to a reduced number of branches, optimised cash replenishments and active management of car fleet, the cost generated by cars, transport and CIT declined by 14.7% YoY. Costs of other external services were reduced by 15.1% YoY along with a lower number of meetings and demand for third party services.

At the same time, the cost of IT usage went up by 7.3% YoY in connection with delivery of numerous IT projects as well as support and maintenance of systems used at within Santander Group and locally (including by Branch Banking and the Multichannel Communication Centre).

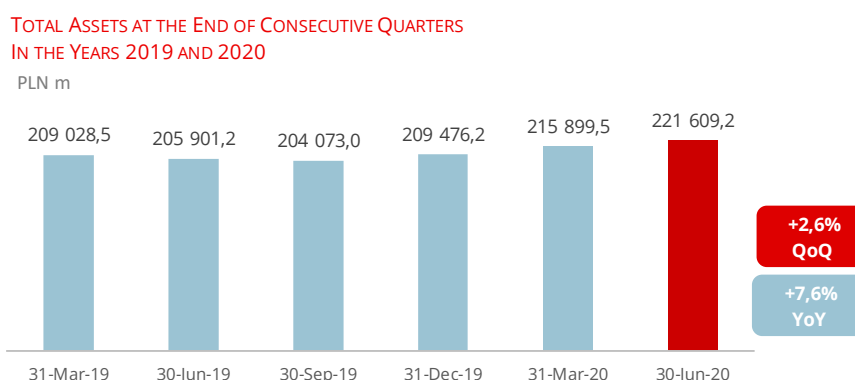
Effective tax rate

The consolidated effective tax rate after H1 2020 was 34.8% vs. 26.4% in the corresponding period last year due to lower profit before tax for H1 2020 (down 39.9% YoY), lower dividend income (down 78.7% YoY) from the portfolio of non-controlled entities and higher contributions to the Bank Guarantee Fund (up 35.9% YoY).

2. Statement of Financial Position

Consolidated assets

As at 30 June 2020, the total assets of Santander Bank Polska Group were PLN 221,609.2m, up 5.8% Ytd and 7.6% YoY. The value and structure of the Group's financial position is determined by the parent entity, which held 87.7% of the consolidated total assets vs. 86.6% as at the end of December 2019.



Structure of consolidated assets

Assets in PLN m (condensed presentation for analytical purposes)	Structure		Structure		Structure		Ytd	YoY
	30.06.2020	30.06.2020	31.12.2019	31.12.2019	30.06.2019	30.06.2019	Change	Change
	1	2	3	4	5	6	1/3	1/5
Loans and advances to customers ¹⁾	142 622,1	64,4%	143 402,6	68,5%	140 725,7	68,4%	-0,5%	1,3%
Investment financial assets	56 806,9	25,6%	41 328,1	19,7%	38 081,4	18,5%	37,5%	49,2%
Cash and operations with Central Banks	4 211,9	1,9%	7 973,0	3,8%	6 041,1	2,9%	-47,2%	-30,3%
Loans and advances to banks	3 987,6	1,8%	3 716,6	1,8%	2 310,8	1,1%	7,3%	72,6%
Fixed assets, intangibles, goodwill and right-of-use assets	3 956,5	1,8%	4 197,1	2,0%	4 124,8	2,0%	-5,7%	-4,1%
Buy-sell-back transactions and assets pledged as collateral	3 299,8	1,5%	2 940,7	1,4%	9 263,4	4,5%	12,2%	-64,4%
Financial assets held for trading and hedging derivatives	2 750,9	1,2%	2 102,5	1,0%	1 615,6	0,8%	30,8%	70,3%
Other assets ²⁾	3 973,5	1,8%	3 815,6	1,8%	3 738,4	1,8%	4,1%	6,3%
Total	221 609,2	100,0%	209 476,2	100,0%	205 901,2	100,0%	5,8%	7,6%

1) Net loans and advances to customers include a portfolio measured at amortised cost and portfolios measured at fair value through other comprehensive income and through profit or loss.

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

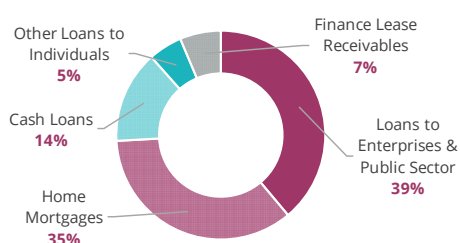
In the above condensed statement of financial position as at 30 June 2020, net loans and advances to customers were the key item of the consolidated assets, contributing 64.5%. They totalled PLN 142,622.1m and were broadly stable on 31 December 2019 (down 0.5% Ytd), mainly on account of slowdown in lending. The first half of 2020 saw deceleration in sales of consumer loans, which was coupled with a lower demand for business loans (notably overdrafts) due to financial stimulus packages offered by the government. At the same time, the risk profile of customers became more dynamic.

As part of management of the Group's liquidity and balance sheet structure, a drop was reported in H1 2020 in cash and balances at central banks (down 47.2% Ytd), while the balance of investment financial assets grew by 37.5% Ytd, driven by debt securities held for investment and measured at fair value through other comprehensive income. These changes reflect extra liquidity resulting from reduction of the obligatory reserve requirement by the NBP as well as a tendency to invest free cash in government bonds and bonds of the Polish Development Fund (PFR) and BGK, which finance the financial stimulus programme. In H1 2020, the Group also reported a significant growth in assets held for trading and hedging derivatives (up 30.8% Ytd), mainly on account of IRS transactions.

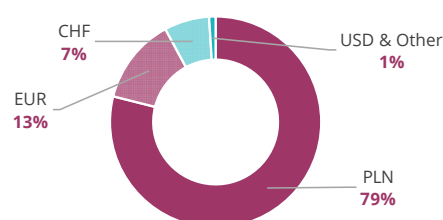
Credit portfolio

Gross Loans and Advances to Customers (in PLN m)	30.06.2020	31.12.2019	30.06.2019	Ytd Change	YoY Change
	1	2	3	1/2	1/3
Loans and advances to individuals	81 390,3	80 895,6	77 374,5	0,6%	5,2%
Loans and advances to enterprises and public sector customers	57 699,8	58 455,0	59 417,1	-1,3%	-2,9%
Finance lease receivables	9 389,6	9 267,0	8 728,8	1,3%	7,6%
Other	36,4	29,4	25,4	23,8%	43,3%
Total	148 516,1	148 647,0	145 545,8	-0,1%	2,0%

PRODUCT STRUCTURE OF CONSOLIDATED LOANS & ADVANCES TO CUSTOMERS AS AT 30.06.2020



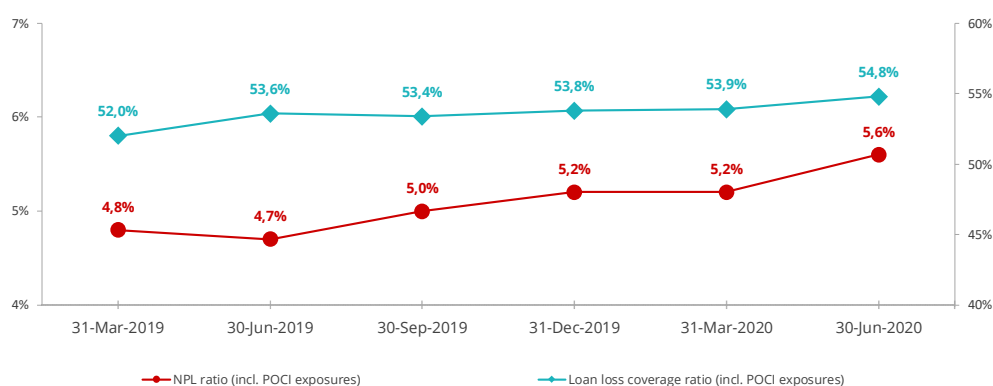
FX STRUCTURE OF CONSOLIDATED LOANS AND ADVANCES TO CUSTOMERS AS AT 30.06.2020



As at 30 June 2020, consolidated gross loans and advances to customers were PLN 148,516.1m and were stable compared to the end of 2019. In terms of measurement criteria, the portfolio includes loans and advances to customers measured at amortised cost totalling PLN 146,331.0m (down 0.1% Ytd), loans and advances to customers measured at fair value through other comprehensive income totalling PLN 1,135.5m (up 22.9% Ytd) and loans and advances to customers measured at fair value through profit or loss at PLN 1,049.7m (down 12.3% Ytd).

- Loans and advances to individuals went up by 0.6% Ytd to PLN 81,390.3m. Housing loans, which were the main contributor to this figure, increased by 2.2% Ytd to PLN 52,340.0m. The second significant constituent item, i.e. cash loans, grew by 0.5% Ytd to PLN 21,252.6m. Cash loan sales strongly decelerated both at Santander Bank Polska S.A. and Santander Consumer Bank S.A., particularly during the economic shutdown.
- Loans and advances to enterprises and public sector entities declined by 1.3% Ytd to PLN 57,699.8m due to a lower demand for business loans, notably overdrafts. One of the contributing factors was the financial aid programme introduced by the government under which some companies were granted subsidies to finance their working capital needs. Other factors included uncertainty as to the scope and scale of the pandemic impact on the economic outlook and changes in the risk profile of customers from the sectors which have been worst hit by the coronavirus crisis. This line item includes credit exposures of Santander Leasing S.A., Santander Consumer Multirent Sp. z o.o. and PSA Finance Polska Sp. z o.o. related to financing machines and vehicles, which totalled PLN 5.2bn at the end of June 2020 (PLN 5.1bn at the end of 2019).
- Finance lease portfolios of subsidiaries of Santander Bank Polska S.A. rose by 1.3% Ytd to PLN 9,389.6m, supported by sales of machines and equipment and of vehicles.

CREDIT QUALITY RATIOS BY QUARTER IN 2019 AND 2020



Including POCl exposures, NPL ratio was 5.6% as at 30 June 2020 compared with 5.2% six months before and 4.7% a year before. The provision coverage ratio for impaired loans was 54.8% compared with 53.8% as at 31 December 2019 and 53.6% as at 30 June 2019.

Structure of consolidated equity and liabilities

Liabilities & Equity in PLN m (condensed presentation for analytical purposes)	30.06.2020	Structure 30.06.2020	31.12.2019	Structure 31.12.2019	30.06.2019	Structure 30.06.2019	Ytd Change	YoY Change
	1	2	3	4	5	6	1/3	1/5
Deposits from customers	165 889,5	74,9%	156 480,3	74,7%	149 675,5	72,7%	6,0%	10,8%
Subordinated liabilities and debt securities in issue	12 670,3	5,7%	13 259,8	6,3%	12 516,1	6,1%	-4,4%	1,2%
Deposits from banks	5 370,7	2,4%	5 031,8	2,4%	3 456,3	1,7%	6,7%	55,4%
Financial liabilities held for trading and hedging derivatives	4 510,0	2,0%	2 852,4	1,4%	2 679,0	1,3%	58,1%	68,3%
Sell-buy-back transactions	1 084,2	0,5%	990,9	0,5%	7 816,3	3,8%	9,4%	-86,1%
Other liabilities ¹⁾	4 197,0	1,9%	3 881,5	1,8%	4 228,3	2,0%	8,1%	-0,7%
Total equity	27 887,5	12,6%	26 979,5	12,9%	25 529,7	12,4%	3,4%	9,2%
Total	221 609,2	100,0%	209 476,2	100,0%	205 901,2	100,0%	5,8%	7,6%

1) Other liabilities include lease liabilities, current income tax, provisions for off-balance sheet liabilities bearing credit risk, other provisions and other liabilities

Deposits from customers disclosed in the consolidated statement of financial position of Santander Bank Polska Group as at 30 June 2020 totalled PLN 165,889.5m and increased by 6.0% Ytd, fuelled among others by customers' funds from government programmes aimed to contain the economic impact of the Covid-19 pandemic. Deposits from customers were the largest constituent item of the Group's total equity and liabilities (74.9%) and were the main source of funding for the Group's assets.

Compared with the end of 2019, a strong upward trend was observed in financial liabilities held for trading and hedging derivatives (up 58.1% Ytd), which was driven by trading in interest rate derivatives amid increased volatility of financial markets.

The aggregated subordinated liabilities and liabilities in respect of debt securities went down by 4.4% Ytd as a combined effect of the issue of debt instruments by members of Santander Bank Polska Group with a total nominal value of PLN 3,120.7m, repurchase of matured securities of PLN 2,867.6m and their redemption at PLN 1,052.9m.

In H1 2020, Santander Factoring Sp. z o.o. issued series G variable-coupon bonds with a nominal value of PLN 620m, and Santander Leasing S.A. made two issues of variable-coupon bonds with a total nominal value of PLN 990m (including series D bonds of PLN 440m and series E bonds of PLN 550m). Due to developments in the bond market, in April 2020 Santander Leasing S.A. repurchased series D bonds of PLN 363.3m at a discount of 99.85% for the purpose of redemption.

Further to this, as part of the securitisation agreement signed in December 2018 and annexed in March 2020 to increase financing by EUR 100m Santander Leasing Poland Securitization 01 DAC, a special purpose vehicle, issued EUR 330m worth of senior bonds secured by a registered pledge on cash flows from the securitised assets. The bonds of EUR 230m issued in December 2018 were redeemed.

Compared to 31 December 2019, total equity increased by 3.4% Ytd to PLN 27,887.5m under the resolution of the Annual General Meeting of Santander Bank Polska S.A. of 22 June 2020 to retain the entire profit of PLN 2,113.5m for 2019. For more information, see Section 4 "Capital Management" of Chapter IX "Risk and Capital Management".

Deposit base

Deposits by entities

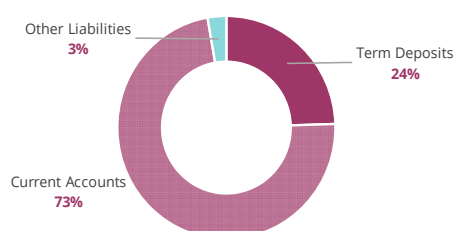
	30.06.2020	31.12.2019	30.06.2019	Ytd Change	YoY Change
Deposits from Customers in PLN m	1	2	3	1/2	1/3
Deposits from individuals	96 477,0	91 716,3	90 496,9	5,2%	6,6%
Deposits from enterprises and public sector customers	69 412,5	64 764,0	59 178,6	7,2%	17,3%
Total	165 889,5	156 480,3	149 675,5	6,0%	10,8%

During the first six months of 2020, consolidated deposits from customers went up by 6.0% to PLN 165,889.5m as at the end of June.

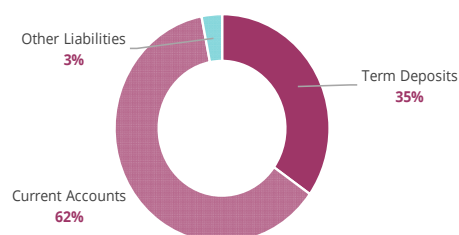
- The retail deposit base was up 5.2% at PLN 96,477.0m, driven by an increase of 16.4% Ytd in current deposits, including a rise in savings account balances from PLN 29.1bn as at the end of December 2019 to PLN 33.2bn as at the end of June 2020. Current account balances comprised mainly amounts transferred from investment funds (down 22.8% Ytd) and term deposits (down 18% Ytd), as significant outflows were recorded during the first six months as a result of the crash and increased volatility of financial markets, and sharp NBP interest rate cuts affecting deposit pricing.
- Deposits from enterprises and the public sector grew by 7.2% Ytd to PLN 69,412.5m along with an increase in current account balances (up 37.1% Ytd), including, among other things, subsidies granted to businesses as part of the financial stimulus programme introduced by the government. The rise in current account balances offset the outflow of term deposits (down 34.3% Ytd).

Deposits by tenors

STRUCTURE OF CONSOLIDATED CUSTOMER DEPOSITS AS AT 30.06.2020



STRUCTURE OF CONSOLIDATED CUSTOMER DEPOSITS AS AT 31.12.2019



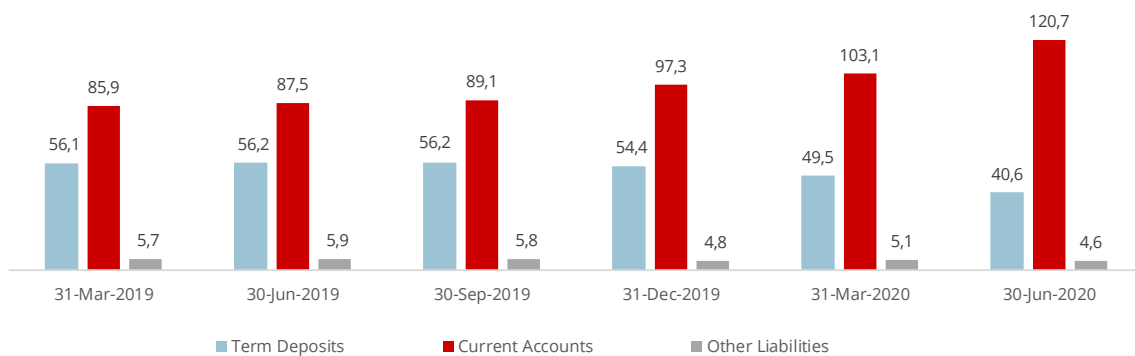
The Group's total term deposits from customers amounted to PLN 40,630.8m and declined by 25.3% in the year to date. Current account balances rose by 24% to PLN 120,674.7m, and other liabilities were PLN 4,584.0m, down 4.2%.

Loans and advances (PLN 3,439.2m vs. PLN 3,537.0m as at 31 December 2019) were the largest constituent item of other liabilities and were disclosed 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 lending activity of the bank and its subsidiaries. A drop in the foregoing liabilities is attributed to the scheduled repayments of the loans and disbursement of a tranche of EUR 50m as part of the agreement made by Santander Leasing S.A. and the EBRD last year.

On 24 April 2020, Santander Bank Polska S.A. signed an agreement with the European Investment Bank under which a loan of EUR 50m was granted to finance the activities of SMEs and mid caps. The loan is to be disbursed within 12 months after execution of the agreement.

TERM DEPOSITS AND CURRENT ACCOUNTS * AT QUARTER-ENDS OF 2019 AND 2020

PLN m



* including savings accounts

3. Selected Financial Ratios

Selected financial ratios of Santander Bank Polska Group	H1 2020	H1 2019 ¹¹⁾
Total costs/Total income	51,5%	48,7%
Net interest income/Total income	71,5%	69,8%
Net interest margin ¹⁾	3,09%	3,48%
Net commission income/Total income	23,8%	22,5%
Customer net loans/Customer deposits	86,0%	94,0%
NPL ratio ²⁾	5,6%	4,7%
NPL coverage ratio ³⁾	54,8%	53,6%
Credit risk ratio ⁴⁾	1,06%	0,88%
ROE ⁵⁾	7,1%	10,1%
ROTE ⁶⁾	8,6%	12,1%
ROA ⁷⁾	0,8%	1,1%
Capital ratio ⁸⁾	18,76%	16,26%
Tier I ratio ⁹⁾	16,81%	14,45%
Book value per share (in PLN)	273,17	250,07
Earnings per share (in PLN) ¹⁰⁾	4,66	9,16

1) Net interest income annualised on a year-to-date basis (excluding interest income from the portfolio of debt securities held for trading and other exposures related to trading) to average net earning assets as at the end of consecutive quarters after the end of the year preceding the accounting year (excluding financial assets held for trading, hedging derivatives, other exposures related to trading and other loans and advances to customers).

2) Gross loans and advances to customers classified to stage 3 and POCI exposures 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 and POCI exposures to gross value of such loans and advances at the end of the reporting period.

4) Impairment allowances (for four consecutive quarters) to average gross loans and advances to customers (as at the end of the current reporting period and the end of the last year).

5) Profit attributable to the parent's shareholders (for four consecutive quarters) to average equity (as at the end of the current reporting period and the end of the last year) less non-controlling interests, current period profit and the undistributed portion of the profit. The underlying ROE was 10.2% as at 30 June 2020.

6) Profit attributable to the parent's shareholders (for four consecutive quarters) to average tangible equity (as at the end of the current reporting period and the end of the last year) defined as common equity attributable to the parent's shareholders less revaluation reserve, current year profit, dividend, undistributed portion of the profit, intangible assets and goodwill.

7) Profit attributable to the parent's shareholders (for four consecutive quarters) to average total assets (as at the end of the current reporting period and the end of the last year). The underlying ROA was 1.1% as at 30 June 2020.

8) The capital adequacy ratio was calculated on the basis of own funds and 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 capital ratio calculated as a quotient of Tier 1 capital and risk-weighted assets for credit, market and operational risk.

10) Net profit for the period attributable to shareholders of the parent entity to the average weighted number of ordinary shares.

11) The ratios for H1 2019 were recalculated taking into account the impact of an adjustment to the accounting treatment of repurchase transactions.

4. Additional Financial Information

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 30 June 2020, the bank's total exposure on loans to banking and non-banking subsidiaries (including Santander Factoring sp. z o.o., Santander Leasing S.A., Santander Consumer Multirent Sp. z o.o.) amounted to PLN 7,852.1m compared with PLN 7,961.0m as at 31 December 2019.

The deposits held with the bank by its subsidiaries (including Santander Finanse Sp. z o.o., Santander Factoring Sp. z o.o., Santander TFI S.A., Santander Leasing Poland Securitization 01, Santander Consumer Multirent Sp. z o.o., Santander Consumer Bank S.A., Santander F24 S.A.) totalled PLN 384.2m vs. PLN 353.5m as at 31 December 2019.

Contingent financial liabilities were PLN 6,351.8m compared to PLN 6,533.8m as at 31 December 2019. Guarantees to subsidiaries amounted to PLN 4,912.0m vs. PLN 3,988.4m six months before.

The above transactions are excluded from the consolidated financial statements.

Intercompany transactions with the parent entity

The bank's receivables from the parent entity (Banco Santander S.A.) totalled PLN 369.3m compared with PLN 740.3m as at 31 December 2019, while liabilities amounted to PLN 650.8m compared with PLN 381.2m as at 31 December 2019.

A full disclosure on related party transactions is available in Note 34 to the Condensed Interim Consolidated Financial Statements of Santander Bank Polska Group for the 6-month period ended 30 June 2020 and in Note 34 to the Condensed Interim Financial Statements of Santander Bank Polska S.A. for the 6-month period ended 30 June 2020.

Contingent liabilities and court proceedings

Guarantees

The tables below present contingent liabilities of Santander Bank Polska Group and pending court proceedings.

Conditional liabilities (granted)	30.06.2020	31.12.2019
Financial:	31 725,0	33 506,6
- credit lines	26 528,7	28 753,4
- credit cards	4 218,3	4 139,0
- import letters of credit	978,0	614,2
Guarantees	7 134,7	6 711,6
Provision for off-balance sheet liabilities	(60,7)	(66,1)
Total	38 799,0	40 152,1

Pending court proceedings

Court Proceedings with Santander Bank Polska Group as a Party (in PLN m)	30.06.2020	31.12.2019
Amounts claimed by the Group	967,7	925,7
Claims against the Group ¹⁾	929,9	604,3
Receivables due to bankruptcy or arrangement cases	49,6	49,4
Value of all litigation	1 947,2	1 579,4
Share [%] of all litigation in equity	6,98%	5,85%
Completed significant court proceedings	340,2	630,3

- 1) As at 30 June 2020, there were 2,782 pending lawsuits against the Group over loans indexed to, or denominated in, a foreign currency (mainly CHF), with the disputed amount of PLN 519.3m. This included two class actions filed under the Class Action Act:
- ✓ a class action against Santander Bank Polska S.A. in respect of 527 CHF-indexed loans, with the disputed amount of PLN 47m;
 - ✓ a class action against Santander Consumer Bank S.A. in respect of 31 CHF-indexed loans, with the disputed amount of PLN 38k.
- The underlying legal circumstances are described in Note 32 "Contingent liabilities" to the Condensed Interim Consolidated Financial Statements of Santander Bank Polska Group for the 6-month period ended 30 June 2020.

5. Factors Which May Affect Future Financial Results in the Next Half-Year

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

- Potential for further monetary policy adjustments by ECB, Fed and other key central banks, as well as NBP - in order to further limit the depth of the global recession.
- Potential for increase of anti-crisis measures of government and government agencies, resulting inter alia in a significant increase of government deficit and the state indebtedness.
- Further spread of the pandemic and related potential government decisions regarding loosening or reintroducing social and economic limitations.
- Credit market risk pricing in the financial markets.

- Government bonds yield curve changes as a function of the expectations regarding the monetary policy, fiscal policy and changes to the liquidity in the banking sector.
- Variation in the demand for bank credit as liquidity situation of companies and their perception of business outlook changes.
- Changes to the financial situation of households as a function of labour market trends but also affected by the companies' use of government rescue package, helping to reduce job cuts.
- Changes in clients' decisions regarding the allocation of savings, under influence of expected returns on different asset classes.
- Further developments on the global stock market and their impact on demand for mutual funds units or equity shares.

IX. Risk and Capital Management

1. 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 (including technological risk), compliance risk and reputational risk.

The main objective of risk management in the bank and Santander Bank Polska Group is to ensure safe and effective operations to generate profit and grow within the approved risk parameters. Risk management practice is defined in keeping with the industry benchmarks, regulatory guidance and recommendations from banking supervision 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 bank. 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 highly adverse circumstances materialise. The approved limits are used to set watch limits and define risk management policies.

The integrated risk management structure contains dedicated organisational 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 the former 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.

A detailed description of the principles of managing the key risk types identified in Santander Bank Polska Group together with selected results of their measurement is presented in the Annual Report of Santander Bank Polska Group for 2019.

Risk management structure

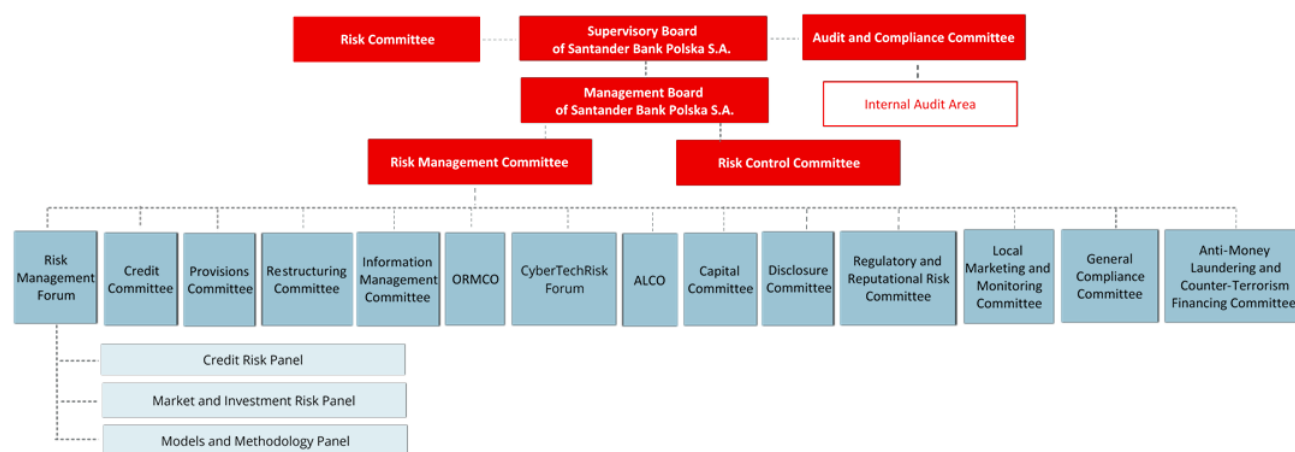
The bank's Supervisory Board, supported by the Audit and Compliance Committee and the Risk Committee, is responsible for ongoing supervision of the risk management system in Santander Bank Polska S.A. The Supervisory Board approves the strategy, key risk management policies and risk appetite, and monitors 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 the risk management strategy, and to ensure an adequate information policy.

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

- The Risk Management Committee, which ratifies the key credit decisions (above specified thresholds) taken by the Credit Committee, and fulfils the role of a decision-making body responsible for dealing with requests escalated by lower-level committees.
- The Risk Control Committee, which 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:

- Risk Management Forum composed of panels dedicated to credit risk, market risk, equity investments and underwriting, and models and methodology
- Credit Committee
- Provisions Committee
- Restructuring Committee
- Information Management Committee
- Operational Risk Management Committee/ ORMCO
- CyberTechRisk Forum
- 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. The bank's representatives sitting on the supervisory boards of the subsidiaries monitor if the risk management system complies with the rules established by the bank. Risks involved in the activities of the subsidiaries are operationally monitored by respective departments of the bank.

In addition, the subsidiaries are subject to regular reviews carried out by the Risk Committee of the bank's Supervisory Board and by the Supervisory Board itself.

In the case of Santander Consumer Bank S.A. (SCB S.A.), the bank exercises oversight of risk management under the applicable law and in line with the same oversight rules as applied to other Santander Bank Polska Group companies. The representatives of Santander Bank Polska S.A. on the Supervisory Board of SCB S.A. are two Vice Presidents of the bank's Management Board 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, together with other members of the Supervisory Board of SCB S.A., for supervision over SCB S.A., ensuring 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

The Group's main risk management priority is to undertake initiatives to enable secure operations of the organisation (in accordance with the banking supervision requirements), while supporting business growth and profit generation for the shareholders. The Group continues to develop innovative risk management solutions, including advanced risk assessment models and tools that help automate banking processes and reduce human errors. Another rapidly developing area is data management, analysis and use in tools and reports to support prompt, accurate and secure decision-making leading to sustainable growth of business volumes.

In H1 2020, the Group focused on tackling the threats posed by the Covid-19 pandemic.

In the state of epidemic emergency, the key operational risk to the Group is associated with unavailability of human resources (Group and third party service providers) and buildings (both branch and Business Support Centre buildings). Should the above generic risks materialise, the continuity of the Group's key processes could be disrupted, which might cause an increase in other bank risks, including credit risk, liquidity risk, market risk, reputational risk and regulatory risk.

The crisis management bodies set up by the Group (dedicated committees activated in contingency situations) have developed the Pandemic Response Plan containing preventive and reactive measures for the pandemic scenario. As part of the pandemic scenario, the Group's organisational units were verifying their continuity plans, including the effectiveness of the adopted recovery strategies in the event of unavailability of key employees. Priorities were defined for critical business processes.

The Group undertook measures to ensure safety for its customers, providing branches with appropriate equipment (face masks for employees, counter screens, safety notices, etc.) and expanding the functionality of its electronic banking solutions to reduce customer visits to branches. The pandemic accelerated the progressing digitalisation of banking processes.

During the pandemic, the importance of cyber security has increased significantly due to mass telecommuting (covering almost all processes) and the dynamically growing use of remote channels by customers in sales and after-sales processes. The Group kept track of risks, taking mitigating measures on an ongoing basis in relation to both customers and employees. Security warnings were being released in response to cybercriminals' attempts to exploit the outbreak. The areas exposed to the risk of fraud were covered with increased surveillance. Moreover, preventive measures were arranged, including campaigns addressed to customers and employees (e.g. educational campaigns in social media) to increase their awareness of cyber risks and build cybersecurity culture.

An increased focus was placed on risk trends in credit portfolios amid the Covid-19 outbreak and the lockdown of many economic activities. Numerous internal regulations were adapted as a matter of urgency, management reports and early warning systems were expanded, and early restructuring measures were strengthened to cushion the effects of economic slowdown.

- As part of the analyses, current reports with detailed management information have been expanded, stress tests have been conducted to verify the potential liquidity gap following the lockdown, the early warning system has been extended to include variables related to the Covid-19 pandemic and intensive measures have been taken to obtain information about customers' financial standing. Furthermore, guidelines on rating models have been prepared for employees conducting customer risk assessment on how to take account of the impact of the pandemic.
- The early warning system including an additional Covid-19 flag is to help identify customers who may be most affected by the pandemic based on the analysis of behavioural and external data. The model results are used to identify the population which should be subject to close monitoring. The individual credit risk assessment is verified first.

The analyses point to a deterioration of the financial position of business customers from the sectors most hit by the economic lockdown in the second quarter of the year. The Group benefitted from the government anti-crisis support programmes for customers in financial distress due to the Covid-19 pandemic (including PFR support, BGK guarantees). At the same time, the Group contributed to and adopted a special moratorium developed by the banking sector under the auspices of the Polish Bank Association, which laid down uniform rules for offering tools to aid those customers.

Owing to the high uncertainty as to further developments related to the Covid-19 pandemic, particularly the economic slowdown, its duration and the impact of the financial stimulus package, an additional expected credit loss allowance of PLN 150.3m was raised in the form of a post-model adjustment. For more information about the above adjustment, see Note 2 and 4 to the Condensed Interim Consolidated Financial Statements of Santander Bank Polska Group for the 6-month period ended 30 June 2020.

In view of uncertainty as to the future developments of the Covid-19 pandemic, the bank implemented additional controls in the liquidity area, such as daily monitoring of drawdowns of off-balance sheet facilities granted to customers and enhanced daily monitoring of liquidity measures. No additional threats connected with the Covid-19 outbreak were identified in the liquidity area in the course of the inspections. The bank's liquidity position significantly improved in Q2 2020, including as a result of an increase in the deposit balances of customers benefitting from the government's support packages, and the ensuing decrease in the level of the minimum reserve requirement. Another factor which strengthened the liquidity position was the decision not to pay out dividend for 2019. As at 30 June 2020, the consolidated LCR was 209% vs. 171% as at 31 December 2019.

3. Material Risk Factors Expected in H2 2020

The Covid-19 outbreak has significantly affected the economic outlook. H2 2020 is expected to see a recession alongside an increase in unemployment and SME bankruptcies. Due to the worsening financial situation of borrowers, the quality of credit portfolios is expected to decline, leading to an increase in the cost of credit. At the same time, as epidemiologists predict the pandemic to bounce back in autumn, an unprecedented uncertainty prevails around the economic outlook with a reduced possibility to estimate the economic consequences and ways of dealing with the recession. The uncertainty may also reduce the risk appetite of investors, which will affect the volatility and liquidity of equity and investment funds markets.

The bank also expects the banking regulator to issue numerous new guidelines, which will require adaptation of the bank's practices while ensuring appropriate risk assessment and asset classification.

Notwithstanding the Covid-19 pandemic, cyber risk remains one of the key risks to the banking and financial sector. This relates both to human behaviour and technological aspects. The key threats include the loss or theft of sensitive data, disruption of key services, attacks against customer assets and fraudulent transactions in the wake of the dynamic growth of modern IT technologies, digital transformation and globalisation.

Cyber attacks have become more sophisticated and specialised. Particularly popular are attacks based on new technologies offered by cybercriminals under a service model. Those threats are addressed in the Cybersecurity Strategy of Santander Bank Polska Group for 2019–2020 and the specific mitigants are defined in the Cybersecurity Plan.

4. Capital Management

Introduction

Santander Bank Polska Group maintains 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/CRR package, regulations of the European Parliament and of the Council (EU) (including 2020/873), and the Macroprudential Supervision Act, taking into account KNF's recommendations.

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

The Management Board has delegated ongoing capital management to the Capital Committee which regularly assesses the capital adequacy of the bank and Santander Bank Polska Group (including in stressed conditions), monitors the actual and required capital levels and takes actions affecting own funds (e.g. by recommending the amount of the dividend to be paid). The Capital Committee is the first body that defines the capital policy, principles of capital management and principles of internal capital adequacy assessment.

All 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.

Capital requirements

Below are the minimum levels of capital ratios as at 30 June 2020 which meet the provisions of the CRR and the Macroprudential Supervision Act as well as the regulatory recommendations regarding additional own funds requirements under Pillar 2 at the level of Santander Bank Polska S.A. and Santander Bank Polska Group.

To mitigate the risk of credit crunch arising from the Covid-19 pandemic, on 18 March 2020 the Minister of Finance, issued a regulation based on the recommendation of the Financial Stability Committee removing banks' obligation to keep the systemic risk buffer of 3%. The released funds may be used by banks to support their lending activity and cover potential losses in the upcoming quarters.

Moreover, the Financial Stability Committee kept the countercyclical capital buffer at 0%.

The decrease in the systemic risk buffer results in the reduction of the total capital ratio from 14.29% to 11.29% for the Group, and from 14.25% to 11.25% for the bank.

Minimum Capital Ratio Levels as at 30.06.2020 r.	Tier 1	Total Capital Ratio
Santander Bank Polska S.A.	9,25%	11,25%
Grupa Kapitałowa Santander Bank Polska S.A.	9,28%	11,29%

In H1 2020, the bank and Santander Bank Polska Group met all regulatory requirements regarding capital management.

Regulatory capital

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%. Risk-weighted exposures are calculated by applying risk weights to all exposures in accordance with the CRR.

Due to the Covid-19 pandemic, the KNF, similarly to other EU supervisory authorities, took measures to enhance resilience of the financial sector entities by imposing restrictions on profit distribution. In the letter of 26 March 2020, Polish banks were informed that they were expected to retain the entire profit earned in the previous years.

Accordingly, on 22 June 2020 the Annual General Meeting of Santander Bank Polska S.A. distributed the net profit of PLN 2,113,523,989.28 for 2019, allocating PLN 1,056,761,994.64 to the reserve capital and leaving PLN 1,056,761,994.64 undistributed.

Pursuant to the AGM resolution of 10 June 2020, Santander Consumer Bank S.A. also retained the entire net profit of PLN 511,689,611.43 for 2019 as undistributed.

CAPITAL RATIOS OF SANTANDER BANK POLSKA GROUP
AS AT 30 JUNE 2020, 31 DECEMBER 2019 AND 30 JUNE 2019

Capital Ratios of Santander Bank Polska Group	30.06.2020 ¹⁾	31.12.2019	30.06.2019
I Total capital requirement	11 215,6	11 454,5	11 748,8
II Own funds after reductions	26 294,1	24 440,2	23 878,7
Total Capital Ratio [II/(I*12.5)]	18,76%	17,07%	16,26%
Tier I Ratio	16,81%	15,21%	14,45%

1) Own funds as at 30 June 2020 take account of the distribution of the net profit earned by Santander Bank Polska S.A. for 2019.

CAPITAL RATIOS OF SANTANDER BANK POLSKA S.A. AND SANTANDER CONSUMER BANK S.A.
AS AT 30 JUNE 2020, 31 DECEMBER 2019 AND 30 JUNE 2019

Santander Bank Polska Capital Ratios	30.06.2020 ¹⁾	31.12.2019	30.06.2019
Total Capital Ratio	21,52%	19,58%	18,51%
Tier I Ratio	19,24%	17,38%	16,37%

1) Own funds as at 30 June 2020 take account of the distribution of the net profit earned by Santander Bank Polska S.A. for 2019.

Santander Consumer Bank Capital Ratios	30.06.2020 ¹⁾	31.12.2019	30.06.2019
Total Capital Ratio	24,42%	19,03%	18,97%
Tier I Ratio	22,96%	17,64%	17,57%

1) Own funds as at 30 June 2020 take account of the distribution of the net profit earned by Santander Consumer Bank S.A. for 2019.

In accordance with the Bank's information strategy, detailed information on the level of own funds and capital requirements is disclosed in a separate report on capital adequacy of Santander Bank Polska Group as at 30 June 2020 ("Information on Capital Adequacy of Santander Bank Polska Group as at 30 June 2020").

X. Governing Bodies

Annual General Meetings of Santander Bank Polska S.A.

On 22 June 2020, the Annual General Meeting (AGM) of Santander Bank Polska S.A. was convened. It approved the 2019 reports submitted by the Management Board and the Supervisory Board, and the Supervisory Board's assessment of a number of areas. The AGM also considered the Management Board's proposal regarding the 2019 profit distribution, approved the assessment of suitability of the existing and proposed Supervisory Board members, granted discharge to the members of the Management Board and Supervisory Board of the bank and Santander Securities S.A., and appointed the Supervisory Board for a new term, electing its chairman. It also adopted a remuneration policy for the bank's Supervisory Board and Management Board, and set remuneration for the former body. Furthermore, the AGM adopted resolutions increasing the bank's share capital by means of an issue of series O ordinary bearer shares, depriving the existing shareholders of all their pre-emptive rights to those shares; amending the bank's Statutes; dematerialising series O shares; placing a request for admission of the shares to the regulated market of the Warsaw Stock Exchange; and granting authorisation for the Supervisory Board and the Management Board to undertake any necessary actions to implement the decisions relating to the issue of series O shares.

Supervisory Board

The table below presents the composition of the Supervisory Board of Santander Bank Polska S.A. as at 30 June 2020 and 31 December 2019:

Role in the Supervisory Board	Ref.	Composition as at 30.06.2020	Ref.	Composition as at 31.12.2019
Chairman of the Supervisory Board:	1.	Gerry Byrne	1.	Gerry Byrne
Vice Chairman of the Supervisory Board:	2.	José Luis de Mora	2.	José Luis de Mora
	3.	Dominika Bettman	-	-
	4.	José Garcia Cantera	3.	José Garcia Cantera
	5.	Danuta Dąbrowska	4.	Danuta Dąbrowska
	6.	Isabel Guerreiro	5.	Isabel Guerreiro
Members of the Supervisory Board:	7.	David Hexter	6.	David Hexter
	8.	John Power	7.	John Power
	9.	Jerzy Surma	8.	Jerzy Surma
	10.	Marynika Woroszyńska-Sapieha	9.	Marynika Woroszyńska-Sapieha

The bank's Supervisory Board, in its composition as at 30 June 2020, was appointed for a new term by the Annual General Meeting held on 22 June 2020. The new Supervisory Board was joined by Dominika Bettman as an independent member. Gerry Byrne was again appointed Supervisory Board Chairman, and José Luis de Mora took the role of Deputy Chairman.

Details about the academic background and professional experience of the bank's Supervisory Board members are published on the bank's website at <https://santander.pl/investor-relations/company/supervisory-board/supervisory-board.html> and https://static3.santander.pl/asset/r/a/p/raport-15-2020_99025.pdf.

The Supervisory Board members sat on the following Committees as at 30 June 2020 and 31 December 2019:

Role in the Supervisory Board	Ref.	Composition as at 30.06.2020	Audit and Compliance Committee		Risk Committee		Nominations Committee		Remuneration Committee	
			30.06.2020	31.12.2019	30.06.2020	31.12.2019	30.06.2020	31.12.2019	30.06.2020	31.12.2019
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.	Dominika Bettman	●	-	●	-		-	●	-
	4.	José Garcia Cantera								
	5.	Danuta Dąbrowska	●	●			●	●	●	●
	6.	Isabel Guerreiro								
	7.	David Hexter	●	●	●	●				
	8.	John Power			●	●				
	9.	Jerzy Surma	●	●	●	●	●	●		
	10.	Marynika Woroszyńska-Sapieha	●	●			●	●	●	●

● Chairman
● Members

As at 30 June 2020, the following members of the Supervisory Board held independent status: Dominika Bettman, Danuta Dąbrowska, David Hexter, Jerzy Surma and Marynika Woroszyńska-Sapieha.

Management Board

The table below presents the composition of the Management Board of Santander Bank Polska S.A. as at 30 June 2020 and 31 December 2019, and the roles and responsibilities of its members.

Role in the Management Board	Ref.	Composition as at 30.06.2020 and 31.12.2019	Reporting Areas as at 30.06.2020
President:	1.	Michał Gajewski	Units reporting directly to the President: 1) Legal & Compliance Division, 2) units outside of the divisional structure: Internal Audit Area, Corporate Communications and Marketing Area, Strategy and Business Model Transformation Area, Customer Excellence Centre, Classified Data Protection Unit, Corporate Governance Office
Vice Presidents:	2.	Andrzej Burliga	1) Risk Management Division, 2) Business Intelligence Area (unit outside of the divisional structure)
	3.	Michael McCarthy	Business & Corporate Banking Division
	4.	Juan de Porras Aguirre	Santander Corporate & Investment Banking
	5.	Arkadiusz Przybył	Retail Banking Division
Board Members:	6.	Patryk Nowakowski	Digital Transformation Division
	7.	Maciej Reluga	Financial Management Division
	8.	Carlos Polaino Izquierdo	Financial Accounting & Control Division
	9.	Dorota Strojowska	Business Partnership Division

All members sitting on the bank's Management Board as at 30 June 2019 were appointed by the Supervisory Board for a three-year term of office on 16 May 2018 (except for Patryk Nowakowski, who joined the Management Board on 5 June 2019). Compared to 31 December 2019, the Management Board's composition remained unchanged.

Details about the academic background and professional experience of the bank's Management Board members are available on the bank's website at: <https://www.santander.pl/relacje-inwestorskie/spolka/zarząd/zarząd-banku-bz-wbk-sa.html>.

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

As at the release date of this report (the Report of Santander Bank Polska Group for H1 2020) and the two previous reports (the Report of Santander Bank Polska Group for Q1 2020 and the Annual Report of Santander Bank Polska Group for 2019), none of the members of the Supervisory Board held any shares or 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 part of the 6th Incentive Programme) as at the release dates of the above-mentioned reports for the periods ended 30 June 2020, 31 March 2020 and 31 December 2019.

Management Board Members	28.07.2020		28.04.2020		20.02.2020	
	No. of Santander Bank Polska shares	Rights ¹⁾ (6th Incentive Scheme)	No. of Santander Bank Polska shares	Rights ¹⁾ (6th Incentive Scheme)	No. of Santander Bank Polska shares	Rights (6th Incentive Scheme)
Michał Gajewski	-	4 795	-	4 795	-	5 420
Andrzej Burliga	1 389	2 495	1 389	2 495	1 389	2 820
Michael McCarthy	1 528	2 875	1 528	2 875	1 528	3 250
Patryk Nowakowski	329	726	329	726	329	820
Carlos Polaino Izquierdo	631	2 495	631	2 495	631	2 820
Juan de Porras Aguirre	1 397	1 982	1 397	1 982	1 397	2 240
Arkadiusz Przybył	-	2 999	-	2 999	-	3 390
Maciej Reluga	505	1 796	505	1 796	505	2 030
Dorota Strojowska	635	2 097	635	2 097	635	2 370
Total	6 414	22 260	6 414	22 260	6 414	25 160

1) The number of conditional rights to shares granted to members of the Management Board of Santander Bank Polska S.A. as part of the 6th Incentive Programme has changed as a result of recalculation made under the Supervisory Board's resolution of 20 February 2020 on delivery of the criteria for granting annual awards to participants for individual years of the programme. On 22 June 2020, the AGM of Santander Bank Polska S.A. adopted a resolution to increase the bank's share capital under the programme.

As Santander Bank Polska Group achieved the economic objectives defined in Resolution no. 44 of the bank's Annual General Meeting of 17 May 2017 (including Resolution no. 49/2019 of the Supervisory Board of 5 June 2019), the award criteria under the 6th Incentive Programme were met. As a result, the bank is required to undertake actions to issue the performance shares and offer them to the eligible programme participants, including the Management Board members who are covered by the programme by default. Each participant will be able to sign a subscription agreement whereby they will be able to take up the allotted series O shares within the anticipated period of six weeks from the date of the General Meeting (22 June 2020) which approved the share capital increase. The issue price of the series O shares is equal to their nominal value and amounts to PLN 10 per share. Once the performance shares are registered with the National Depository for Securities, they will be recorded in the respective securities accounts of the programme participants.

XI. Statement 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 Condensed Interim Financial Statements of Santander Bank Polska S.A. for the 6-month period ended 30 June 2020 and the Condensed Interim Consolidated Financial Statements of Santander Bank Polska Group for the 6-month period ended 30 June 2020 were prepared in keeping with the applicable accounting policies and give a true and fair view of the state of affairs and earnings of Santander Bank Polska S.A. and Santander Bank Polska Group.

The half-yearly Management Board's report contained in this document gives a true picture of the development, achievements and position of Santander Bank Polska S.A. and Santander Bank Polska Group (including the underlying risks) in the first half of 2020.

Date	Name and Surname	Function	Signature
28.07.2020	Michał Gajewski	President of the Management Board	
28.07.2020	Andrzej Burliga	Vice President of the Management Board	
28.07.2020	Michael McCarthy	Vice President of the Management Board	
28.07.2020	Juan de Porras Aguirre	Vice President of the Management Board	
28.07.2020	Arkadiusz Przybył	Vice President of the Management Board	
28.07.2020	Patryk Nowakowski	Member of the Management Board	
28.07.2020	Carlos Polaino Izquierdo	Member of the Management Board	
28.07.2020	Maciej Reluga	Member of the Management Board	
28.07.2020	Dorota Strojowska	Member of the Management Board	