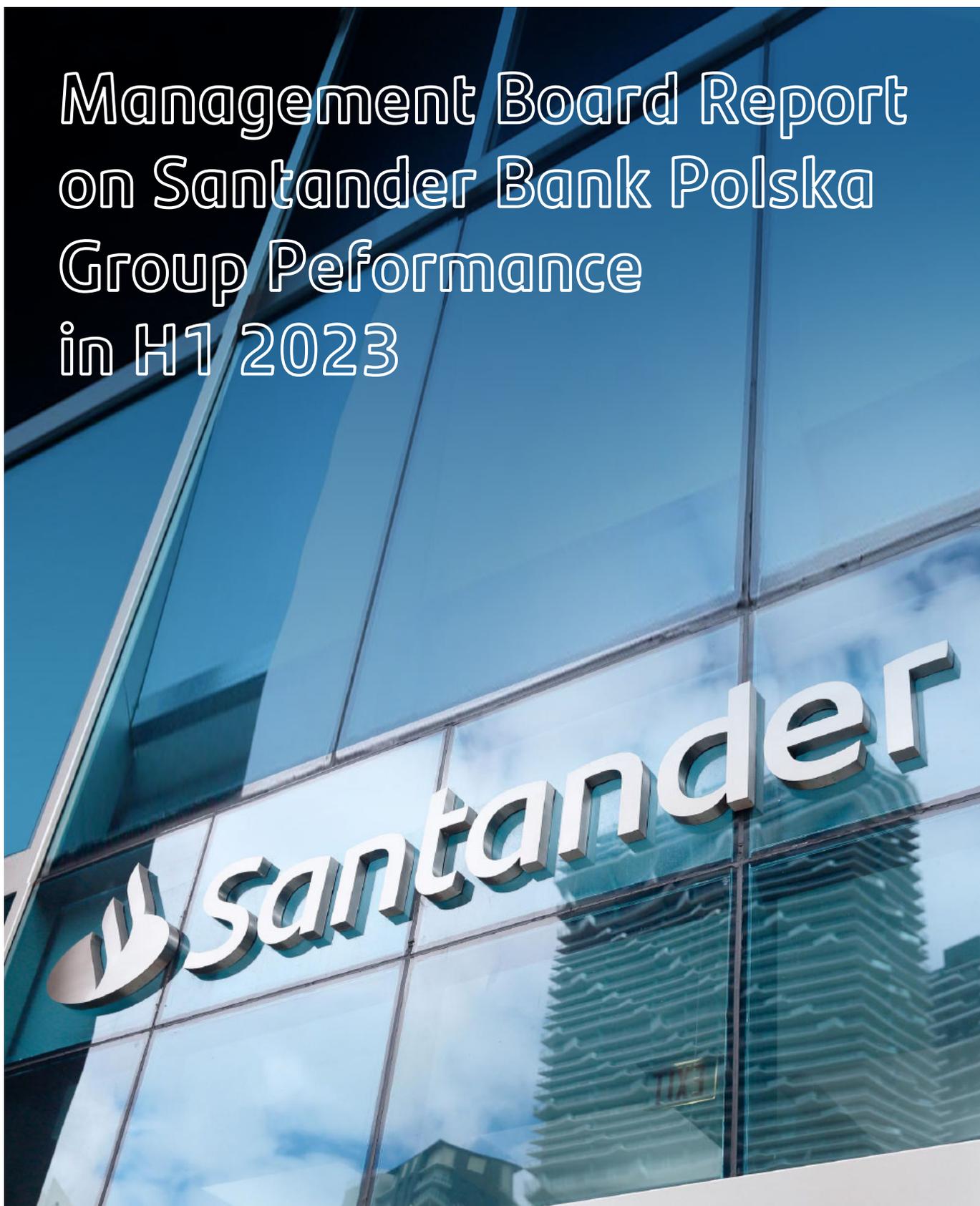


# Management Board Report on Santander Bank Polska Group Performance in H1 2023



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# I. Overview of Activities of Santander Bank Polska S.A. and its Group in H1 2023

## 1. Key achievements

### EFFICIENCY AND SECURITY

- ▶ Group's solid capital position confirmed by capital ratios as at 30 June 2023, including the total capital ratio of 20.77% (19.18% as at 30 June 2022).
- ▶ Higher ROE YoY (14.3% vs 9.8% as at 30 June 2022 on an underlying basis).
- ▶ Sound liquidity position. Net customer loans to deposits ratio at 78.2%. Supervisory liquidity ratios well above the regulatory minimum.
- ▶ Close monitoring of risk and implementation of relevant prudential measures.
- ▶ Increase in cost efficiency supported by high income growth rate. Decline in the cost-to-income ratio from 38.9% to 30.4% in H1 2023.
- ▶ Further automation and optimisation of operational processes.
- ▶ Improved availability, reliability, performance and cybersecurity of the Group's systems.

### BUSINESS VOLUMES AND ASSET QUALITY

- ▶ 7.0% YoY increase in total assets to PLN 263.8bn.
- ▶ 9.3% YoY growth in deposits from customers to PLN 200.7bn with term deposits increasing at a fast rate of 85.4% YoY and current account balances lower by 7.1% YoY.
- ▶ 2.9% YoY increase in gross loans and advances to customers to PLN 162.9bn, including loans to business customers and the public sector (+9.2% YoY) and leasing receivables (+10.1% YoY).
- ▶ Good quality of the credit portfolio, with the NPL ratio of 4.9%.
- ▶ Growth of the annualised net interest margin from 4.63% in H1 2022 to 5.38% in H1 2023, supported by an increase in business volumes.
- ▶ 4.6% YoY increase in net fee and commission income on account of higher income from banking activities, with lower income dependent on the financial market conditions (i.e. from brokerage activities and investment fund management).
- ▶ Dynamic growth in the number of transactions made via mobile banking (+30.0% YoY) and in the share of this channel in remote loan sales.
- ▶ Establishment of the bond issue programme with the maximum total nominal value of PLN 5bn.
- ▶ Issue of PLN 1.9bn worth of senior non-preferred bonds under the above programme with a possibility to classify them as eligible liabilities.

### CUSTOMERS AND COMMUNITIES

- ▶ 7.5m customers of Santander Bank Polska S.A. and Santander Consumer Bank S.A., including 3.5m loyal customers.
- ▶ 11.3% YoY increase in the number of Accounts As I Want It opened with Santander Bank Polska S.A. to 3.0m.
- ▶ 4.1m digital customers of both banks, including 2.9m mobile banking customers.
- ▶ Further automation, robotisation, optimisation and simplification of operational processes.
- ▶ Continued delivery of IT projects aimed at improving experience of customers and employees.
- ▶ Continuation of the special offer for Ukrainian citizens.
- ▶ Implementation of measures to support sustainable development and promote cybersecurity culture.

### AWARDS

- ▶ "Best Bank in Poland" title received in this year's edition of Euromoney Awards for Excellence in recognition of top quality of the Bank's products and services and its innovative approach to customer solutions.
- ▶ The Great Place To Work certificate awarded to Santander Bank Polska S.A. as the first large bank in Poland, confirming the high rating of the corporate culture and friendly working conditions by employees.
- ▶ First place in the 9th edition of the "Banking Stars" ranking published by *Dziennik Gazeta Prawna* and PwC in recognition of the Bank's overall performance as indicated by the scoring achieved in six categories and an independent assessment by the jury.
- ▶ Third place in the "Best multichannel service provider" category of the 2023 Golden Banker ranking and awards granted to the Bank's personal account, cash loan and payment card.

## 2. Financial and business highlights of Santander Bank Polska Group

Selected income statement items		H1 2023	H1 2022	YoY change
Total income	PLN m	7,600.6	6,513.2	16.7%
Total costs	PLN m	(2,313.4)	(2,532.1)	-8.6%
Net expected credit loss allowances	PLN m	(590.2)	(229.5)	157.2%
Profit before tax	PLN m	3,212.2	2,472.7	29.9%
Net profit attributable to the shareholders of the parent entity	PLN m	2,322.2	1,616.4	43.7%
Selected balance sheet items		30.06.2023	30.06.2022	YoY change
Total assets	PLN m	263,777.2	246,504.6	7.0%
Total equity	PLN m	33,408.1	28,464.7	17.4%
Net loans and advances to customers	PLN m	156,867.3	152,635.3	2.8%
Deposits from customers	PLN m	200,655.6	183,536.3	9.3%
Selected off-balance sheet items		30.06.2023	30.06.2022	YoY change
Net assets of investment funds <sup>1)</sup>	PLN bn	15.5	12.7	21.8
Selected ratios <sup>2)</sup>		30.06.2023	30.06.2022	YoY change
Costs/Income	%	30.4%	38.9%	-8.5 p.p.
Total capital ratio	%	20.77%	19.18%	1.59 p.p.
ROE	%	14.3%	9.8%	4.5 p.p.
NPL ratio	%	4.9%	4.7%	0.2 p.p.
Cost of credit risk	%	0.80%	0.48%	0.32 p.p.
Loans/Deposits	%	78.2%	83.2%	-5.0 p.p.
Selected non-financial data		30.06.2023	30.06.2022	YoY change
Electronic banking users <sup>3)</sup>	m	6.4	6.0	0.4
Active digital customers <sup>4)</sup>	m	4.1	3.5	0.6
Active mobile banking customers	m	2.9	2.5	0.4
Debit cards	m	4.7	4.6	0.1
Credit cards	m	0.9	1.0	-0.1
Customer base	m	7.5	7.3	0.2
Branch network	locations	378	406	-28
Santander Zones and off-site locations	locations	17	13	4
Partner outlets	locations	425	431	-6
Employment	FTEs	11,397	11,349	48

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

2) For definitions of ratios presented in the table above, see Chapter V "Financial Performance in H1 2023", Part 3 "Selected financial ratios of Santander Bank Polska Group".

3) Registered users with active access to internet and mobile banking services of Santander Bank Polska S.A. and Santander Consumer Bank S.A.

4) Active users of electronic banking services of Santander Bank Polska S.A. and Santander Consumer Bank S.A. who at least once used the services in the last month of the reporting period.

## 3. Main external factors

### Main macroeconomic factors which impacted the financial and business performance of Santander Bank Polska Group in H1 2023

Economic growth	<ul style="list-style-type: none"> <li>▶ Further slowdown of economic growth, including weakness of consumer demand.</li> </ul>
Labour market	<ul style="list-style-type: none"> <li>▶ Record low unemployment rate, continued double-digit wage growth.</li> </ul>
Inflation	<ul style="list-style-type: none"> <li>▶ Peak of inflation reached in February 2023, downward trend since March.</li> <li>▶ Rapid decline of inflation in fuel, energy and food prices.</li> <li>▶ Beginning of a gradual descent of core inflation.</li> </ul>
Monetary policy	<ul style="list-style-type: none"> <li>▶ Stabilization of the main interest rates and in July the announcement of the Monetary Policy Council (MPC) of the decision to formally end the tightening cycle. Statements of MPC members about possible rate cuts by the end of 2023.</li> </ul>
Fiscal policy	<ul style="list-style-type: none"> <li>▶ State budget results worse than last year; the government's proposal of the amendment increasing the planned central deficit to PLN 92 billion from PLN 68 billion; decline in revenues in relation to GDP.</li> <li>▶ On the one hand, positive influence on budget revenues of high inflation, quick nominal GDP growth, and the withdrawal of the anti-inflationary shield on energy prices; on the other, negative influence of weak consumption and high PIT refunds due to the changes in tax law made in 2022.</li> </ul>
Credit market	<ul style="list-style-type: none"> <li>▶ Continued deceleration of overall credit growth, but also an improvement in the number of credit applications and new lending to individuals.</li> <li>▶ Deposits accelerated on the back of growth in net foreign assets.</li> </ul>
Financial markets	<ul style="list-style-type: none"> <li>▶ High volatility in debt markets due to fluctuating expectations for global monetary policy outlook, turmoil caused by the collapse of regional banks in the US, interest rate cuts increasingly priced-in in Poland.</li> <li>▶ Stability of the zloty despite volatile global sentiment in Q1. Significant strengthening of the zloty in Q2.</li> </ul>

## 4. Corporate events

### Major corporate events in the reporting period until the release date of the report for H1 2023

General Meetings	<ul style="list-style-type: none"> <li>▶ On 12 January 2023, the Extraordinary General Meeting (EGM) of Santander Bank Polska S.A. was held. It authorised the Management Board to buy back the Bank's shares for the purpose of Incentive Plan VII and established a capital reserve for that purpose. The EGM also introduced changes to AGM Resolution no. 30 of 27 April 2022 on the rules of the incentive plan, assessed the effectiveness of the Supervisory Board and presented changes made by the Supervisory Board to the Policy on Suitability Assessment of Supervisory Board Members in Santander Bank Polska S.A. and to the Terms of Reference of the Supervisory Board of Santander Bank Polska S.A.</li> <li>▶ On 19 April 2023, the Annual General Meeting (AGM) of Santander Bank Polska S.A. was held. Apart from transacting ordinary business, it approved changes to the Bank's Statutes, authorised the Management Board to buy back shares as part of Incentive Plan VII and gave its consent for establishing a capital reserve for that purpose. The AGM distributed the profit for 2022 in line with the Management Board's recommendation presented below and informed the participants about the progress in the buyback process.</li> <li>▶ On 20 July 2023, the EGM of Santander Bank Polska S.A. was held. It approved the results of the individual and collective suitability assessment of the Supervisory Board, appointed members for a new term of office, determined their remuneration and presented changes to the Terms of Reference of the Supervisory Board.</li> </ul>
Profit distribution and dividend payment	<ul style="list-style-type: none"> <li>▶ Pursuant to the recommendation of the Management Board of Santander Bank Polska S.A. of 22 March 2023 (approved by the Supervisory Board and the General Meeting), the Bank's profit was distributed as follows: <ul style="list-style-type: none"> <li>▶ the profit of PLN 2,449.0m for 2022 was allocated to: <ul style="list-style-type: none"> <li>✓ the capital reserve (PLN 72.4m);</li> <li>✓ the dividend reserve (PLN 2,376.7m);</li> </ul> </li> <li>▶ the profit of PLN 840.9m earned on the sale of shares in AVIVA insurance companies was allocated to the dividend reserve.</li> </ul> </li> <li>▶ The above profit distribution took into account the macroeconomic environment as well as the recommendations and then-current stance of the Polish Financial Supervision Authority (KNF).</li> </ul>
Changes to the Supervisory Board composition	<ul style="list-style-type: none"> <li>▶ On 6 June 2023, John Power resigned as a member of the Supervisory Board of Santander Bank Polska S.A. (effective as of 1 August 2023) due to his decision to retire.</li> <li>▶ The remaining members were appointed on 20 July 2023 for a new three-year term of office (effective as of 1 August 2023). The Supervisory Board was joined by Adam Celiński.</li> </ul>
Changes to the Management Board composition	<ul style="list-style-type: none"> <li>▶ On 4 April 2023, the Supervisory Board of Santander Bank Polska S.A. adopted a resolution appointing Magdalena Proga-Stepień as a Management Board member, effective as of 4 April 2023.</li> </ul>

**Major corporate events in the reporting period until the release date of the report for H1 2023 (cont.)**

<p><b>Establishment of the bond issue programme and the issue of bonds</b></p>	<ul style="list-style-type: none"> <li>▶ On 31 January 2023, the Management Board of Santander Bank Polska S.A. adopted a resolution on the establishment of the bond issue programme with the maximum total nominal value of PLN 5bn. The bonds: <ul style="list-style-type: none"> <li>▶ will be offered in Poland and will not require preparation of a prospectus or base prospectus.</li> <li>▶ will be offered exclusively to investors that are eligible counterparties or professional clients.</li> <li>▶ can be unsubordinated bonds or subordinated bonds (T2 bonds representing Tier 2 capital instruments) or bonds which are eligible liabilities (MREL bonds).</li> <li>▶ will be denominated in PLN and the nominal value of one bond will be no less than PLN 1k or a multiple of this amount, with the unit nominal value of each T2 bond and each MREL bond amounting to at least PLN 500k.</li> <li>▶ will bear a floating interest rate determined through bookbuilding.</li> <li>▶ will be dematerialised and will be registered with the Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych S.A.).</li> <li>▶ once admitted, will be traded in an alternative trading system of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).</li> </ul> </li> <li>▶ Pursuant to the Management Board's decision of 14 March 2023, the Bank issued series 1/2023 senior non-preferred bonds as part of the above-mentioned programme with the following terms and conditions: <ul style="list-style-type: none"> <li>▶ The bonds will be redeemed on 31 March 2025 subject to the Bank's right to exercise a call option.</li> <li>▶ The nominal value of one bond will be PLN 500k and the total nominal value of bonds will not exceed PLN 1,900m.</li> <li>▶ The issue price of the bonds will be equal to their nominal value.</li> <li>▶ The bonds will bear a floating interest rate equal to the sum of 6M WIBOR and the margin of 1.90% per annum.</li> <li>▶ The bonds will be issued as liabilities which can be classified as eligible liabilities.</li> <li>▶ All benefits arising from the bonds will be cash benefits.</li> <li>▶ The bonds will not be secured.</li> </ul> </li> <li>▶ The above issue of senior non-preferred bonds was settled on 30 March 2023. All the bonds totalling PLN 1,900m were taken up.</li> </ul>
<p><b>KNF's individual recommendation regarding the satisfaction of the criteria for payment of a dividend from the net profit earned in 2022</b></p>	<ul style="list-style-type: none"> <li>▶ On 17 March 2023, the Management Board of Santander Bank Polska S.A. received an individual recommendation from the KNF with regard to the Bank's dividend policy.</li> <li>▶ According to the KNF, as at 31 December 2022 the Bank met the basic criteria of the Dividend Policy to pay a dividend up to 100% of its net profit earned in 2022. Additionally, after factoring in the quality of the Bank's loan portfolio measured as the share of NPLs in the total portfolio of receivables from the non-financial sector, the potential dividend payout ratio remained at 100%. The Bank's receivables arising from FX home loans to households did not account for more than five per cent of the above-mentioned portfolio.</li> <li>▶ Taking into account the uncertainty related to the macroeconomic situation as well as: (a) dynamic changes in the banking sector's environment; (b) risks the Bank is exposed to, including the risk related to the decision of the Court of Justice of the European Union (CJEU) on case C-520/21; (c) potential deterioration of credit quality due to increased inflation, economic slowdown as well as high debt service costs for borrowers; (d) need to ensure the stability of the Bank's business and its further growth, the KNF recommended that the Bank: <ul style="list-style-type: none"> <li>▶ do not pay dividend from the profit earned in 2022 until the CJEU issues its decision with regard to case C-520/21 regarding reimbursement of additional costs in excess of the funds paid out in performance of the CHF loan agreement invalidated on grounds of unfair clauses;</li> <li>▶ consult the supervisory authority before paying a dividend from the profit earned in 2022 after the CJEU issues the above-mentioned decision;</li> <li>▶ consult the supervisory authority before taking any other measures which could reduce its own funds (in particular if they go beyond the scope of the ordinary business and operational activity), including the distribution of the profit retained in previous years or repurchase or redemption of the Bank's shares.</li> </ul> </li> </ul>
<p><b>Buyback under Incentive Plan VII</b></p>	<ul style="list-style-type: none"> <li>▶ On 23 February 2023, the Bank's Management Board passed a resolution on the commencement of buyback of the Bank's shares as part of Incentive Plan VII in order to pay out awards for 2022 based on the KNF consent and other authorisations and resolutions of relevant governing bodies. The following rules for the buyback were defined: <ul style="list-style-type: none"> <li>▶ The maximum amount allocated to the 2022 buyback is PLN 55.3m. The Bank may buy back not more than 207k shares (representing not more than 0.2% of the Bank's share capital).</li> <li>▶ The Bank's shares will be purchased on the regulated market of the Warsaw Stock Exchange via the agency of Santander Brokerage Poland.</li> <li>▶ The price of own shares subject to buyback cannot be lower than PLN 50 and higher than PLN 500.</li> <li>▶ The Bank may purchase not more than 25% of average daily share volume traded during 20 session days preceding the buyback day.</li> <li>▶ The shares will be bought back from the dedicated capital reserve.</li> </ul> </li> <li>▶ On 14 March 2023 the Bank announced the end of the share buyback in 2023 having repurchased shares that were sufficient to pay out awards for 2022 to the Incentive Plan participants. For more details see section "Ownership structure".</li> </ul>

**Major corporate events in the reporting period until the release date of the report for H1 2023 (cont.)**

**Registration of changes to the Statutes approved by the Annual General Meeting**

- ▶ On 15 May 2023, the District Court for the capital city of Warsaw in Warsaw registered changes to the Bank's Statutes approved by the Bank's Annual General Meeting of 19 April 2023.
- ▶ A provision has been added stating that the redemption, repurchase or cancellation of own shares is subject to consent of the Polish Financial Supervision Authority (KNF).
- ▶ In addition, changes have been made to the criteria which must be met for written resolutions to be deemed effective (all members must be informed about the contents of the draft resolution and at least half of the members must participate in the adoption of the resolution).

## II. Basic Information about the Bank and Santander Bank Polska Group

### 1. History, ownership structure and profile

> History of Santander Bank Polska S.A. (key events)

- 2001** ▶ Incorporation of Bank Zachodni WBK S.A. (BZ WBK S.A.) as a result of a merger of Bank Zachodni S.A. with Wielkopolski Bank Kredytowy S.A. (13 June 2001)
- 2011** ▶ Sale of all shares of Bank Zachodni WBK S.A. held by AIB European Investments Ltd. (70.36% of share capital and voting power) to Banco Santander S.A. (1 April 2011) ▶ Acquisition of 95.67% of share capital and voting power of BZ WBK S.A. by Banco Santander S.A. in the tender offer for 100% of the Bank's shares
- 2013** ▶ Merger of BZ WBK S.A. and Kredyt Bank S.A. by way of acquisition (transfer of all assets of the acquired bank to the acquirer in exchange for newly issued series J shares allotted to shareholders of Kredyt Bank S.A.) (4 January 2013)
- 2014** ▶ Acquisition of ordinary and preference shares of Santander Consumer Bank S.A. (SCB S.A.) with its registered office in Wrocław by BZ WBK S.A., representing 60% of the share capital of SCB S.A. and 67% of votes at the General Meeting of SCB S.A. (1 July 2014)
- 2018** ▶ Registration of the change of the Bank's name from Bank Zachodni WBK S.A. to Santander Bank Polska S.A. and its registered office address from Wrocław to Warsaw in the National Court Register (7 September 2018) ▶ Acquisition of a demerged part of Deutsche Bank Polska S.A. and 100% shares of DB Securities S.A. along with registration of an increase in the share capital of Santander Bank Polska S.A. by demerger shares (9 November 2018)

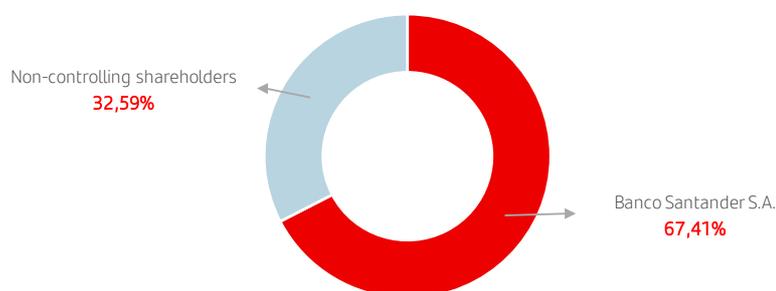
## Ownership structure

> Entities with significant holdings of Santander Bank Polska S.A. shares as at 30 June 2023 and 31 December 2022

Shareholders with a stake of 5% and higher	Number of shares and voting rights		% in the share capital and total votes at GM	
	30.06.2023	31.12.2022	30.06.2023	31.12.2022
Banco Santander S.A.	68,880,774	68,880,774	67.41%	67.41%
Nationale-Nederlanden OFE <sup>1)</sup>	5,123,581	5,123,581	5.01%	5.01%
Other shareholders	28,184,959	28,184,959	27.58%	27.58%
<b>Total</b>	<b>102,189,314</b>	<b>102,189,314</b>	<b>100.00%</b>	<b>100.00%</b>

1) Nationale-Nederlanden Otworthy Fundusz Emerytalny (OFE) is managed by Nationale-Nederlanden Powszechna Towarzystwo Emerytalne (PTE) S.A.

Ownership structure of Santander Bank Polska share capital as at 30.06.2023



As at 30 June 2023, Banco Santander S.A. held a controlling stake of 67.41% in the registered capital of Santander Bank Polska S.A. and in the total number of votes at the Bank's General Meeting. 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 Otworthy Fundusz Emerytalny (OFE) exceeded the 5% threshold in terms of share capital and voting power.

According to the information held by the Management Board, the ownership structure did not change in the period from the end of H1 2023 until the authorisation of the "Management Board Report on Santander Bank Polska Group Performance for H1 2023" for issue.

On 12 January 2023, the Extraordinary General Meeting of Santander Bank Polska S.A. authorised Management Board members to acquire own shares to perform the Bank's obligations under Incentive Plan VII. In 2023, the Bank has bought back the total of 165,406 own shares representing 0.162% share in the registered capital and in the total number of votes at the Bank's General Meeting. As the number of repurchased shares was sufficient to pay out awards for 2022 to the Incentive Plan participants, on 14 March 2023 the Bank announced the end of the share buyback in 2023. Instructions were made to transfer the above shares to brokerage accounts of the eligible participants. Having settled all the instructions, the Bank does not hold any own shares. For more information about the rules for the share buyback under Incentive Plan VII, see Part 4 "Corporate events".

### 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., having its registered office in Santander and operating headquarters in Madrid, is one of the largest commercial banks in the world with more than 165 years of history. The bank specialises in retail banking services, but it is also very active in the private banking, business 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. With geographic location as the primary criterion, the Group has identified four main operating segments: Europe, North America, South America, and the Santander Open Platform.

> Santander Group in numbers (as at 31 March 2023)



**2nd largest bank in the eurozone and 25th largest bank in the world in terms of market capitalisation**

(source: Financial Report of Santander Group for Q1 2023)

## Profile of the organisation

### Legal form

Santander Bank Polska S.A. with its registered office in Warsaw started operations in 1989 as one of the first universal commercial banks in post-war Poland. Since 1993, it has been listed on the Warsaw Stock Exchange. After several ownership changes and more than 30-year presence on the Polish banking market, it was the second largest bank in terms of market capitalisation and third in terms of total assets as at 31 March 2023.

The Bank is a parent entity of Santander Bank Polska Group and forms a domestic bank holding group as defined in the Polish Banking Law Act together with its related entities, including Santander Consumer Bank S.A. (a domestic subsidiary bank). It is also registered as a foreign bank holding group with Spain-based Banco Santander S.A. as the ultimate parent entity. No financial support agreements referred to in Article 141t of the Polish Banking Law Act have been concluded as part of the above-mentioned holding groups.

Santander Bank Polska S.A. operates in Poland and has standard business and operational relationships with foreign banks and financial institutions. It also provides services to foreign customers and cooperates with Santander Group companies on a large scale. The Bank does not conduct active cross-border operations in other countries.

### Business profile of Santander Bank Polska Group

Santander Bank Polska S.A. is a universal bank which provides a full range of services for personal customers, SMEs, large companies, corporates and public sector institutions. The Bank's offer is modern, comprehensive and satisfies diverse customer needs with regard to bank accounts and credit, savings, investment, settlement, insurance and card products. The financial services of Santander Bank Polska S.A. also 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 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 in technologically advanced remote channels. The Bank's outlets are located Poland-wide.

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

As at 30 June 2023, Santander Bank Polska Group provided services to 7.5m customers, including 1.7m customers of Santander Consumer Bank S.A.

### Value creation at Santander Bank Polska Group



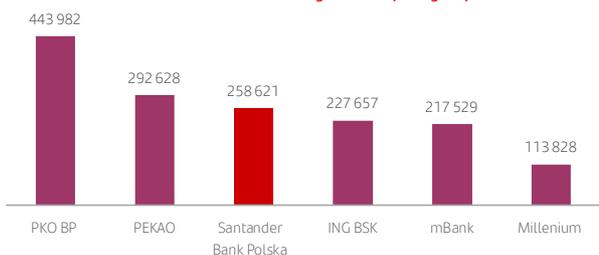
### Position of Santander Bank Polska S.A. and its Group in the Polish banking sector

#### Position in the banking sector

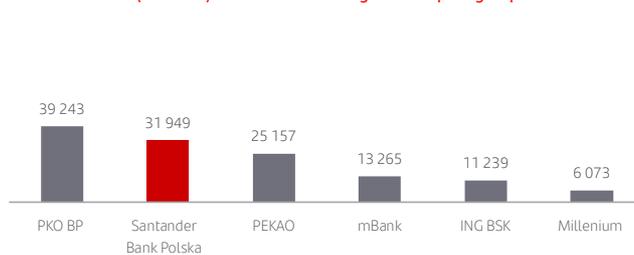
Santander Bank Polska S.A. is ranked among the top three banks in the Polish banking sector (together with PKO BP S.A. and Pekao S.A.) and is the largest private bank in Poland.

According to the interim reports for the quarter ended 31 March 2023, which at the date of approval of this Management Board report for publication 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 market capitalisation, third largest one in terms of total assets and fourth largest one in terms of net loans and deposits.

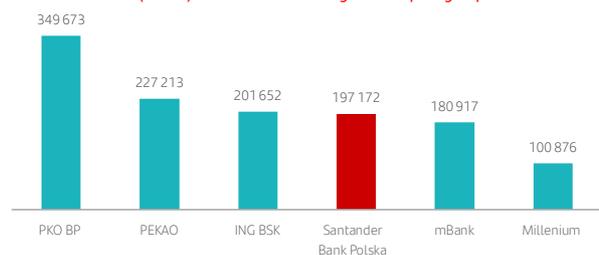
**Total assets (PLN m) of Santander Bank Polska Group as at 31.03.2023 against the peer group**



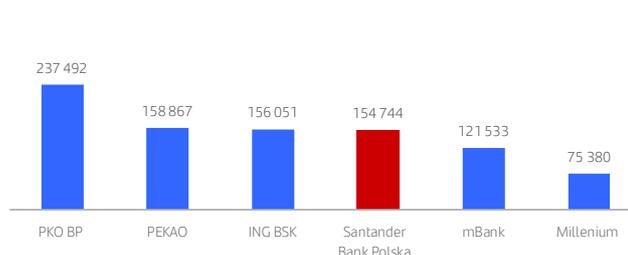
**Total equity of Santander Bank Polska Group (in PLN m) as at 31.03.2023 against the peer group**



**Customer deposits of Santander Bank Polska Group (PLN m) as at 31.03.2023 r. against the peer group**



**Customer loans and advances of Santander Bank Polska Group (PLN m) as at 31.03.2023 against the peer group**



### Share in key market segments

According to the NBP statistics on the banking market, as at the end of March 2023 the market share of Santander Bank Polska Group was 11.9% for loans (11.6% as at 31 December 2022) and 11.1% for deposits (11.5% as at 31 December 2022).

The Group operates in the factoring and leasing markets via its subsidiaries, holding a market share of 10.0% and 10.3%, respectively, as at 31 March 2023 (according to the Polish Factors Association and the Polish Leasing Association). In the same period, the Group's share in the retail investment fund market was 9.7% (according to Analityz Online):



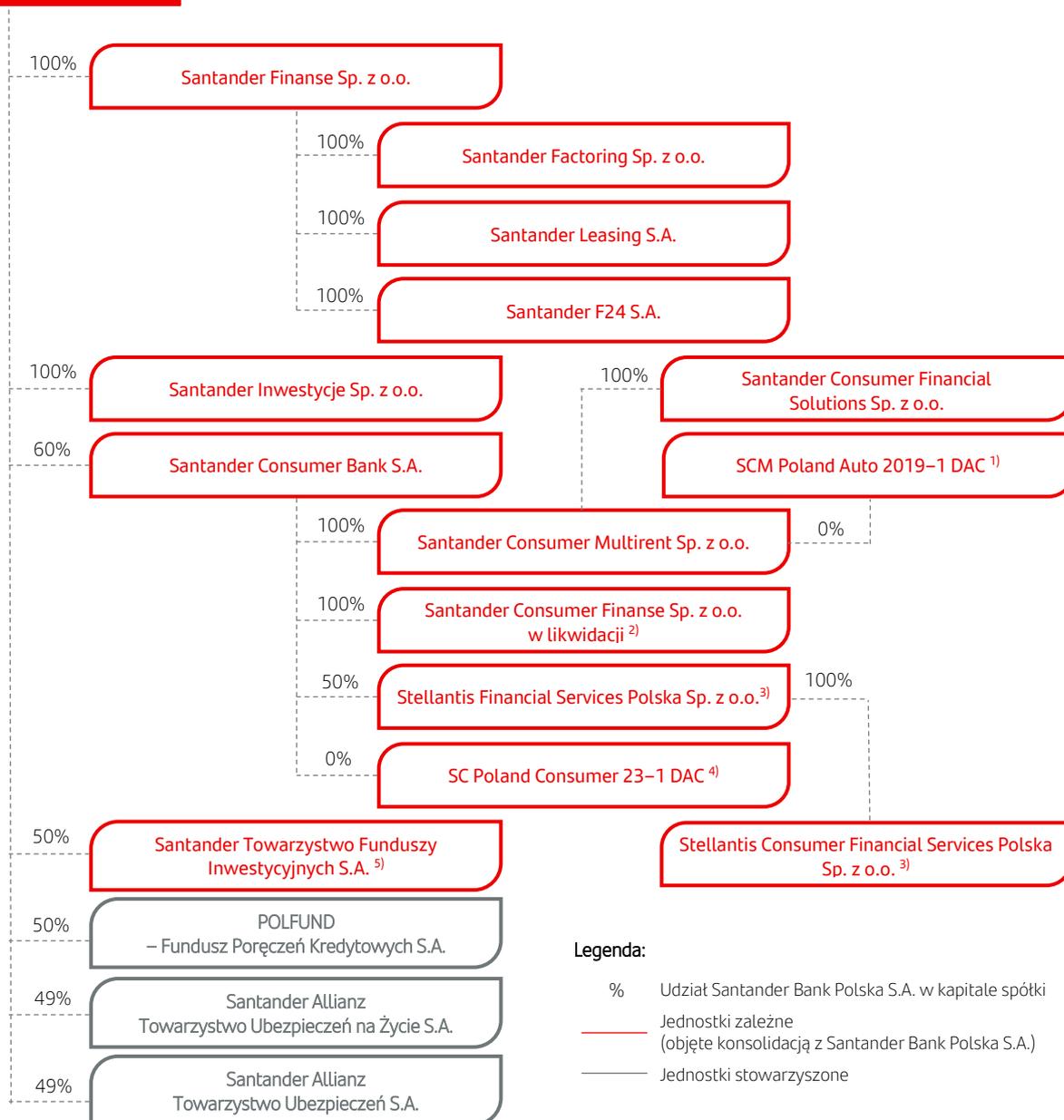
\* Total share of Santander Leasing S.A. and Santander Consumer Multirent Sp. z o.o.

\*\* Share in the retail investment fund market. As at the end of June 2023, this share increased to 10.2%.

## 2. Structure of Santander Bank Polska Group

> Subsidiaries and associates of Santander Bank Polska S.A. as at 30 June 2023

### Santander Bank Polska S.A.



- 1) SCM Poland Auto 2019-1 Designated Activity Company with its registered office in Dublin was incorporated on 18 November 2019. Its shareholder is a legal person that is not connected with the Group. It is an SPV established to securitise a part of the lease portfolio of Santander Consumer Multirent Sp. z o.o., which is its controlling entity in accordance with the conditions laid down in IFRS 10.7.
- 2) Santander Consumer Finanse Sp. z o.o. w likwidacji was dissolved and put into liquidation as of 31 December 2020 by virtue of a resolution of the company's Extraordinary General Meeting of 23 December 2020.
- 3) In relation to the formation of the automotive manufacturing corporation Stellantis N.V. in 2021 as a result of merger between the Italian-American conglomerate Fiat Chrysler Automobiles and the French Groupe PSA, on 3 April 2023 PSA Finance Polska Sp. z o.o. and PSA Consumer Finance Polska Sp. z o.o. were renamed Stellantis Financial Services Polska Sp. z o.o. and Stellantis Consumer Financial Services Polska Sp. z o.o., respectively. Stellantis Financial Services Polska Sp. z o.o. is an investment in a subsidiary for the purpose 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).
- 4) SC Poland Consumer 23-1 Designated Activity Company (DAC) is a special purpose vehicle incorporated in Dublin on 17 June 2022 for the purpose of securitising a part of the retail loan portfolio of Santander Consumer Bank S.A. (SCB S.A.) The SPV does not have any capital connections with SCB S.A., which is its controlling entity in accordance with the conditions laid down in IFRS 10.7.
- 5) Co-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 global Santander Group and hold an equal stake of 50% in the company's share capital. In practice, Santander Bank Polska S.A. controls Santander TFI S.A. within the meaning of the International Financial Reporting Standards (IFRS) because, as the main business partner and distributor of investment products, it has a real impact on the operations and financial performance of Santander TFI S.A.

## Subsidiaries

As at 30 June 2023, 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. w likwidacji (subsidiary of SCB S.A.)
3. Santander Consumer Multirent Sp. z o.o. (SCM Sp. z o.o. – subsidiary of SCB S.A.)
4. Santander Consumer Financial Solutions Sp. z o.o. (subsidiary of SCM Sp. z o.o.)
5. SCM Poland Auto 2019-1 DAC (subsidiary of SCM Sp. z o.o.)
6. SC Poland Consumer 23-1 DAC (subsidiary of SCB S.A.)
7. Stellantis Financial Services Polska Sp. z o.o. (subsidiary of SCB S.A.)
8. Stellantis Consumer Financial Services Sp. z o.o. (subsidiary of Stellantis Financial Services Polska Sp. z o.o.)
9. Santander Towarzystwo Funduszy Inwestycyjnych S.A.
10. Santander Finanse Sp. z o.o.
11. Santander Factoring Sp. z o.o. (subsidiary of Santander Finanse Sp. z o.o.)
12. Santander Leasing S.A. (subsidiary of Santander Finanse Sp. z o.o.)
13. Santander F24 S.A. (subsidiary of Santander Finanse Sp. z o.o.)
14. Santander Inwestycje Sp. z o.o.

Compared with 31 December 2022, the list of subsidiaries of Santander Bank Polska S.A. did not change.

In relation to the formation of the automotive manufacturing corporation Stellantis N.V. in 2021 as a result of merger between the Italian–American conglomerate Fiat Chrysler Automobiles and the French Groupe PSA, on 3 April 2023 PSA Finance Polska Sp. z o.o. and PSA Consumer Finance Polska Sp. z o.o. were renamed Stellantis Financial Services Polska Sp. z o.o. and Stellantis Consumer Financial Services Polska Sp. z o.o., respectively.

## Associates

In the consolidated financial statements of Santander Bank Polska Group for the 6-month period ended 30 June 2023, the following companies are accounted for using the equity method in accordance with IAS 28:

1. Santander Allianz Towarzystwo Ubezpieczeń S.A.
2. Santander Allianz Towarzystwo Ubezpieczeń na Życie S.A.
3. POLFUND – Fundusz Poręczeń Kredytowych S.A.

Compared with 31 December 2022, the list of associates did not change.

## 3. Share price of Santander Bank Polska S.A. vs the market

After 2022, which was a challenging year for the banking sector, the first half of 2023 saw an increase in sentiment on the Warsaw Stock Exchange. Despite some turbulences, the last six months were very successful for Polish banks, including Santander Bank Polska S.A. The Bank's share price gained 50% in that period, whereas WIG-Banks, a sector index, climbed by 27%. The Bank's share price in intraday trading was highest on 16 June (PLN 405.60) and lowest on 20 March (PLN 253.20). These impressive rates of return were achieved despite the problems in the US banking sector and the unfavourable CJEU ruling on CHF loans issued in June. Hints of the first rate cuts, driven by the current election campaign, have not posed serious risk yet. The Bank's AGM held in April allocated PLN 3.22bn (PLN 2.38bn of the profit earned in 2022 and PLN 0.84bn of the profit from the sale of Aviva companies) to the dividend reserve. However, in line with the KNF's recommendation, the Bank will not decide about dividend payout until the effects of the CJEU ruling on CHF loans are estimated.

On 1 June 2023, it was announced that Santander Bank Polska S.A. had joined Stoxx 600, a consolidated index of major European companies.

Key data on shares of Santander Bank Polska S.A.	Unit	30.06.2023	31.12.2022
Total number of shares at the end of the period	item	102,189,314	102,189,314
Nominal value per share	PLN	10.00	10.00
Closing share price at the end of the reporting period	PLN	389.00	259.40
Ytd change	%	50.0%	-25.6%
Highest closing share price Ytd	PLN	390.60	385.00
Date of the highest closing share price	-	29.06.2023	12.01.2022
Lowest closing share price Ytd	PLN	256.00	191.70
Date of the lowest closing share price	-	02.01.2023	10.10.2022
Capitalisation at the end of the period	PLN m	39,751.64	26,507.91
Average trading volume per session	item	69,479	72,485

Share price of Santander Bank Polska S.A. vs. indices in H1 2023  
 Share price of Santander Bank Polska S.A., WIG, WIG20 and WIG Banki at 31.12.2022=100



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

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

The tables below show the latest ratings assigned by the agencies to the Bank, which remained in effect on the date the Report of Santander Bank Polska Group for H1 2023 was authorised for issue. A more detailed rating justification is presented in the Management Board Report on Santander Bank Polska Group Performance in 2022 (including Report on Santander Bank Polska S.A. Performance).

## Ratings by Fitch Ratings

Rating category	Ratings changed/affirmed on 14.09.2022 <sup>1)</sup>	Ratings changed/affirmed on 5.08.2022	Ratings changed/affirmed on 11.06.2021 and 23.09.2021
Long-term issuer default rating (long-term IDR)	BBB+	BBB+	BBB+
Outlook for the long-term IDR	stable	stable	stable
Short-term issuer default rating (short-term IDR)	F2	F2	F2
Viability rating (VR)	bbb removed from Rating Watch Negative	bbb+ placed on Rating Watch Negative	bbb+
Support rating	-	2	2
Shareholder support rating	bbb+	-	-
National long-term rating	AA(pol)	AA(pol)	AA(pol)
Outlook for the long-term IDR	stable	stable	stable
National short-term rating	F1+(pol)	F1+(pol)	F1+(pol)
Long-term senior unsecured debt rating (EMTN Programme)	BBB+	BBB+	BBB+
Short-term senior unsecured debt rating (EMTN Programme)	F2	F2	F2

<sup>1)</sup> Ratings of Santander Bank Polska S.A. applicable as at 30 June 2023

## Ratings by Moody's Investors Service

Rating category	Ratings affirmed on 20.12.2022 <sup>1)</sup>	Ratings upgraded on 3.06.2019
Long-term/short-term counterparty risk rating	A1/P-1	A1/P-1
Long-term/short-term deposit rating	A2/P-1	A2/P-1
Outlook for long-term deposit rating	stable	stable
Baseline credit assessment (BCA)	baa2	baa2
Adjusted baseline credit assessment	baa1	baa1
Long-term/short-term counterparty risk assessment	A1 (cr)/P-1 (cr)	A1 (cr)/P-1 (cr)
Senior unsecured euro notes rating (EMTN Programme)	(P) A3	(P) A3

<sup>1)</sup> Ratings of Santander Bank Polska S.A. applicable as at 30 June 2023

On 7 June 2023, Moody's Investors Service updated its credit analysis of Santander Bank Polska S.A. (without taking any rating actions).

The A2/Prime-1 long-term and short-term deposit ratings and the A3 senior unsecured euro notes rating reflect the Bank's Baseline Credit Assessment (BCA) of baa2, the agency's assumption of moderate parental support from Banco Santander S.A. in the case of problems, the advanced loss given failure analysis, and the likelihood of support from the government if necessary.

The Bank's baa2 BCA captures its good capitalisation, moderate asset risk and good profitability despite adverse government measures and rising legal risk connected with the CHF mortgage loan portfolio. It also reflects good liquidity and moderate market funding with some dependence on corporate deposits and derivative exposure.

The likelihood of support from Banco Santander S.A. also translates into a one-notch uplift in the Adjusted BCA to baa1 from the Assigned BCA of baa2.

The stable outlook on long-term deposit rating reflects the agency's view that the Bank's credit profile will remain broadly unchanged over the next 12–18 months despite the difficult operating conditions.

## III. Macroeconomic Situation in H1 2023

### Economic growth

The Polish economy stagnated during the first half of 2023. In the first quarter of the year, GDP declined by 0.3% YoY, and in the second quarter its growth was probably close to zero (official data will be published in August). A strong decline in domestic demand was evident in the first quarter, mainly due to weak consumption and a fall in inventories coupled with quite good growth in capital expenditure. GDP growth was also supported by an increase in net exports. There was a marked improvement in the current account balance in the first half of the year, to around 0% of GDP from -3.0% of GDP in 2022. This was mainly due to lower imports of energy commodities, both in terms of volume (warm winter) and price. The available high-frequency data indicate that stagnation in private consumption and slowdown in industry continued during the second quarter. The first half of 2023 is likely to mark the trough of the current recession cycle. Subsequent quarters should show a rebound thanks to the expected improvement in private consumption.

### Labour market

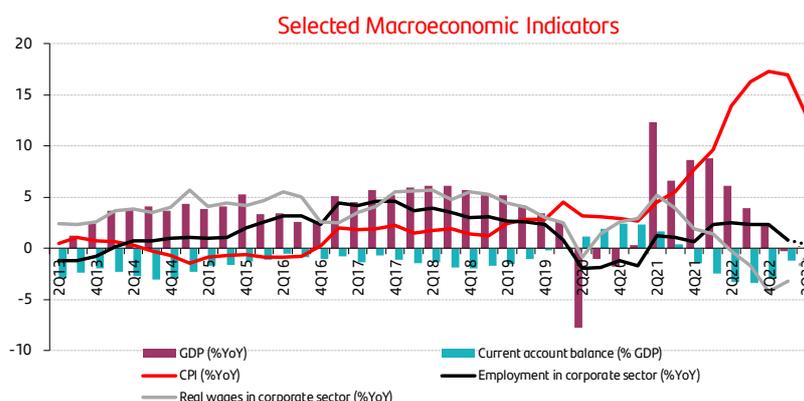
Despite the slower GDP growth, the labour market remained relatively strong. The unemployment rate is at its record low (2.7% in May according to the LFS). The labour market adjustment to temporarily weaker business conditions was mostly via lower hours worked rather than by reducing jobs. The jobs, which were moderately cut in some industries struggling with lower activity, such as manufacturing, were easily absorbed by the service and public sectors. The scale of the inflow of foreigners to the Polish labour market was markedly lower than in 2022 and those already here moved to jobs better suited to their skills and experience. In the corporate sector, wage growth remained at double-digit levels and totalled 11.9% YoY in June.

### Inflation

In February 2023, CPI inflation peaked at 18.4% YoY, after which it began to go down quickly and consistently. As a result, in June it was only 11.5% YoY. The fall was caused to a large degree by statistical effects and the normalisation of global energy prices. The slowdown in energy and food inflation as well as declines of fuel prices were key contributing factors. Core inflation also started to go down, but in this case the decline is not so intense - it peaked in March at 12.3% YoY and in June it was still around 11% YoY. The decline of CPI inflation has been aided by a marked fall in PPI, which has slipped from around 20% to near zero during the first half of this year.

### Monetary policy

So far this year, the Monetary Policy Council has made no changes to interest rates - the reference rate remains at 6.75%. The NBP president Adam Glapiński communicated after the July meeting that the monetary policy tightening cycle had ended. Moreover, during the first half of the year, the Council changed its communication on potential rate cuts; instead of signalling that it is still too early to consider them, the MPC hinted in July that macroeconomic developments in line with NBP projections and a fall in CPI inflation below 10% YoY are sufficient conditions to discuss the monetary policy easing.



### Credit and deposit market

In the first half of the year, the credit market was characterised by low activity, with the value of loan portfolios stable or even slightly declining. That was the effect of high interest rates and the cautious behaviour of households, which overpaid loans in the face of heightened uncertainty. In turn, the fall in commodity prices reduced companies' demand for current financing. However, after the very weak first two months of the year, there has been some recovery in demand for consumer loans and mortgages, suggesting an imminent market recovery.

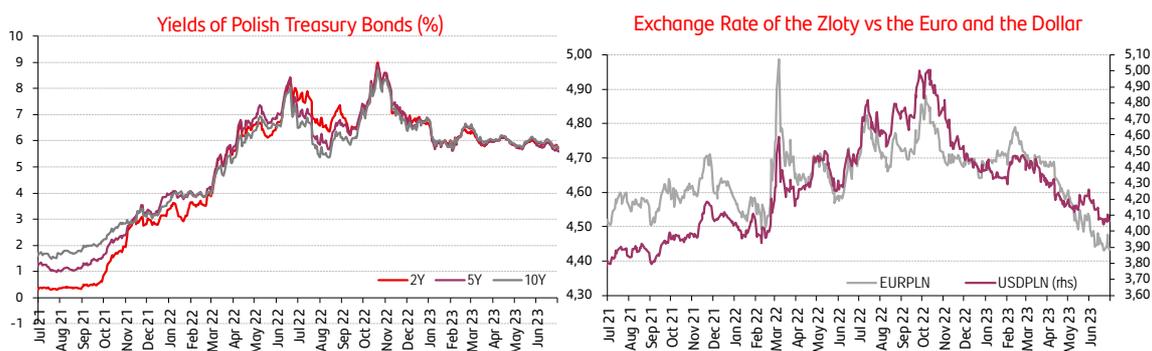
Despite the weak performance of the credit market, deposit growth accelerated in the first half of 2023 and was close to 10% YoY. Net foreign assets of the banking sector were the main source of deposit creation, which can be linked to the improvement in the balance of payments. Fixed-term deposits continued to grow strongly amid a decline in demand deposits.

## Financial markets

The main theme in the core debt markets was the hawkish monetary policy of major central banks. The Fed, ECB and many other raised interest rates and maintained their restrictive rhetoric. Initially, that was due to the relatively slow pace of disinflation, only temporary impact of the banking crisis in the US and Europe on economic activity concerns, the focus on restraining inflation expectations and core inflation in Europe, as well as the reaction to the still very strong US labour market data. This resulted in a strong upward repricing of short-term market rates (up to 3 years) in Europe and of the entire US curve. During this period, EUR/USD remained fairly stable with a slight upward trend, ending the first half of the year close to 1.09 against 1.07 at the end of the last year, and temporarily crossing 1.10. At the beginning of July, EUR/USD rose above 1.12 driven by faster disinflation in the US and reduced expectations of rate hikes by the Fed.

In the face of the growing expectations of the monetary easing and the strengthening of the zloty, trends in the domestic financial market diverged from those observed in the main markets. The gradual decline of inflation from the peak in February, which accelerated in the second quarter faster than expected, and the marked strengthening of the zloty contributed to the gradual building of expectations for interest rate cuts this year. The decline in market rates accelerated after a dovish change in tone of the NBP president, the announcement of the end of the monetary tightening cycle, and the signalling of rate cuts by the MPC this year. This trend accelerated in response to the behaviour of the core markets following the fast and surprising decline of the US inflation. 3M WIBOR declined to 6.70% at the end of June from 6.82% at the end of December 2022. The 2-year bond yield and the 10-year yield fell to 5.85% from 6.73% and to 5.78% from 6.88%, respectively.

The zloty strengthened significantly in the first half of the year and was one of the best-performing currencies of emerging economies against both the euro and the dollar. The scale of the strengthening of the domestic currency might have been somewhat surprising, and both local and global factors might have contributed to that. The region's currencies were certainly supported by an improvement in terms of trade attributable to falling commodity prices, which increased current account flows. In addition, volatility in international markets has gradually decreased in recent months, favouring currencies with high interest rates, especially those without significant structural imbalances. The domestic currency was also supported by a gradual increase in the real rate. EUR/PLN fell by 5.6% since the end of last year to 4.43 at the end of June. In view of the weakening of the dollar on global markets, USD/PLN fell by 7.4% to 4.06 at the end of June.



## Stock market

The Warsaw Stock Exchange (WSE) made solid gains in the first half of the year. The majority of indices recorded impressive double-digit growth, successfully navigating persistently high interest rates in Poland. The most popular barometers, i.e. WIG and WIG20, increased by 17% and 15% respectively, and sWIG80 and mWIG40 (small- and mid-cap indexes) were up 24% and 17% respectively. Global market upturn supported both Polish stocks and Polish zloty, which gained almost 8% against US dollar in H1 2023. The war in Ukraine did not hit Polish assets this time and Poland might even be perceived as a beneficiary of new capital inflows. During the last six months, clear deterioration in market sentiment was observed only in March, when WSE indices declined by more than ten percent over two weeks on news about liquidity problems of US regional banks. Despite weaker economic data, the indices kept rising, as did their counterparts in the mature markets, notably the Wall Street. A new bubble has formed amid the surge in stocks of AI-linked companies. Gains posted by some of the US tech companies inspired growth on the WSE, particularly in the banking sector, which readily uses the latest technologies. Other hot stocks included retailers such as Dino or LPP.

## Legal environment of the banking sector

The table below shows the selected legislation which came into effect in 2023 and has impact on the financial sector in Poland.

Act or regulation	Effective date	Selected regulations affecting the financial sector
Act of 1 December 2022 on the Financial Information System	10 February 2023	<ul style="list-style-type: none"> <li>▶ The purpose of this legislation is to establish the Financial Information System (SInF) to collect, process and disclose information about opened and closed accounts (including bank accounts, accounts with credit unions, payment accounts with other entities, securities accounts, omnibus accounts along with cash accounts) and about safe deposit box agreements.</li> <li>▶ The information stored in the SInF will be used by courts, prosecutors and other law enforcement agencies (the police, Central Anti-Corruption Bureau, Internal Security Agency, Military Counterintelligence Service, Intelligence Agency, Military Intelligence Service, Military Police, Border Guard, General Inspector of Financial Information, National Revenue Administration) to carry out their statutory duties.</li> <li>▶ The start date for recording the information in the system is:                             <ul style="list-style-type: none"> <li>▷ for banks: two months after the effective date of the Act, but not later than three months after that date;</li> <li>▷ for investment companies and custodian banks, as referred to in the Act on trading in financial instruments: seven months after the effective date of the Act, but not later than nine months after that date.</li> </ul> </li> </ul>
Act of 1 December 2022 amending the Act on processing complaints by financial market entities and on the Financial Ombudsman and on the Financial Education Fund	16 March 2023	<ul style="list-style-type: none"> <li>▶ The amended legislation introduces higher administrative fines. For example, the maximum fine imposed by the Financial Ombudsman on financial market entities which fail to perform their statutory obligations related to customer complaints will be increased from PLN 100k to PLN 1m.</li> <li>▶ The new legislation also increases the powers of the Financial Ombudsman and facilitates the use of their resources. The Financial Ombudsman may take part in the civil law proceedings of financial institutions' customers and their successors.</li> </ul>
Act of 14 April 2023 amending the Act on investment funds and management of alternative investment funds, Bonds Act, Act on the Bank Guarantee Fund, deposit guarantee scheme and resolution, and certain other acts	1 October 2023 (majority of provisions)	<ul style="list-style-type: none"> <li>▶ Pursuant to the amended Act, banks, brokerage houses, insurance companies and reinsurance companies can issue a new type of bonds: capital bonds. They qualify as regulatory capital of banks and brokerage houses and as own funds of insurance and reinsurance companies.</li> <li>▶ Accordingly:                             <ul style="list-style-type: none"> <li>▷ the Commercial Companies Code has been amended to include provisions about the share capital increase by way of bond-to-equity swap;</li> <li>▷ the Act on trading in financial instruments has been amended to include provisions under which financial instruments can be recorded using a distributed ledger technology.</li> </ul> </li> </ul>
Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088	1 January 2022 (part of provisions), 1 January 2023 and 1 January 2024 (part of provisions)	<ul style="list-style-type: none"> <li>▶ The regulation introduces the EU taxonomy of environmentally sustainable economic activities and sets out reporting obligations for financial market entities as well as obligations directly applicable to companies publishing non-financial reports and indirectly to all other companies.</li> <li>▶ With respect to interim disclosures, the regulation applies to banks from 1 January 2022 (starting from annual reports for 2021) until 31 December 2023. With regard to final disclosures, the regulation is implemented in two stages: on 1 January 2024 and on 1 January 2026.</li> </ul>
Act of 9 March 2023 amending the Act on competition and consumer protection and certain other acts	20 May 2023	<ul style="list-style-type: none"> <li>▶ The main purpose of the legislation is to transpose Directive (EU) 2019/1 of the European Parliament and of the Council of 11 December 2018 to empower the competition authorities of the Member States to be more effective enforcers and to ensure the proper functioning of the internal market.</li> </ul>
Act of 26 January 2023 on a family foundation	22 May 2023	<ul style="list-style-type: none"> <li>▶ The act introduces a new legal form: a family foundation. It also changes the definition of a beneficial owner of a trust and sets rules for identifying a beneficial owner of a family foundation.</li> <li>▶ As of the effective date of the act, banks are required to be ready from organisational, technical and procedural perspective to handle the new legal form as well as to identify beneficial owners of family foundations and record them in their systems.</li> </ul>

Act or regulation (cont.)	Effective date	Selected regulations affecting the financial sector
Act of 26 May 2023 on state aid for saving for housing purposes	1 July 2023; part of provisions will become effective on 1 January and 1 March 2024	<ul style="list-style-type: none"> <li>▶ The act introduces the "Secure Loan with 2%" ("Bezpieczny kredyt 2 proc") with state-subsidised repayments and a home account with a home bonus from the state budget.</li> <li>▶ It limits the assignment of reservation and development agreements.</li> </ul>
Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011 ("DORA")	17 January 2025	<ul style="list-style-type: none"> <li>▶ The regulation introduces:                             <ul style="list-style-type: none"> <li>▷ an obligation to set roles and responsibilities in relation to the management of ICT risk;</li> <li>▷ an obligation to adopt a dedicated ICT risk management policy and strategies, in particular: business continuity policy, audit plans, digital operational resilience strategy;</li> <li>▷ a requirement to develop and regularly update ICT risk scenarios and a list of threats;</li> <li>▷ an obligation to test digital resilience, including to test regularly (at least once a year) all key ICT systems and tools in terms of vulnerability, performance, security, etc.;</li> <li>▷ provisions regulating relationships with ICT service providers;</li> <li>▷ rules for sharing and exchanging information about ICT risks between financial institutions and service providers.</li> </ul> </li> </ul>

Regulatory recommendations and guidelines	Effective date	Selected recommendations and guidelines affecting the financial sector
KNF's stance on AMLRO, taking into account EBA Guidelines on policies and procedures in relation to compliance management and the role and responsibilities of the AML/CFT Compliance Officer under Article 8 and Chapter VI of Directive (EU) 2015/849 (EBA/GL/2022/05 of 14 June 2022) in relation to Polish laws and regulatory framework on the prevention of money laundering and terrorist financing	1 December 2022	<ul style="list-style-type: none"> <li>▶ The document describes the roles and responsibilities of the AML Officer and the Management Board member in charge of AML/CFT.</li> <li>▶ If an institution is part of a group, a group AML Officer should be appointed. The AML Officer should have the relevant knowledge, skills and experience.</li> <li>▶ An institution should approve a general AML/CFT strategy and oversee its implementation as well as ensure cooperation between compliance, AML and risk units.</li> </ul>
EBA Guidelines of 22 November 2022 on the use of remote customer onboarding solutions	6 months after publication of the guidelines in all EU official languages	<ul style="list-style-type: none"> <li>▶ The guidelines set out common EU standards with respect to development and implementation of due diligence policies and processes connected with remote customer onboarding in the context of AML/CFT regulations.</li> </ul>

# IV. Development Strategy

## 1. Purpose, aim, values and strategic objectives for 2021–2023

The strategy of Santander Bank Polska Group for 2021–2023 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:

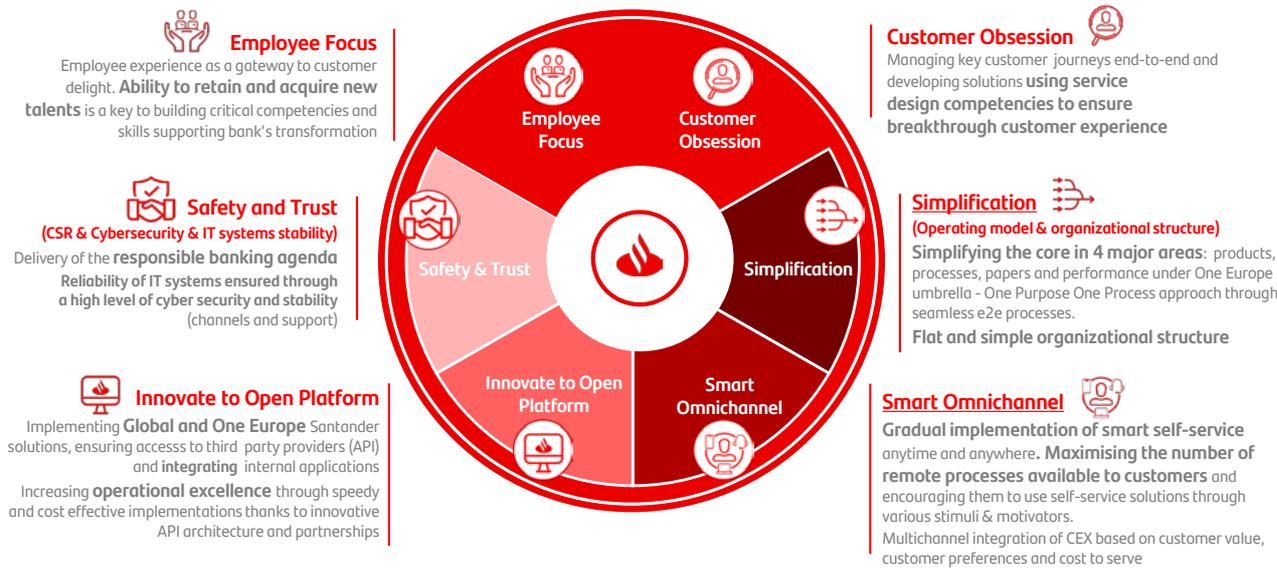
 <b>Purpose</b> To help people and businesses prosper.	 <b>Aim</b> To be the best open financial services platform by acting responsibly and earning the lasting loyalty of employees, customers, shareholders and communities.	 <b>Values</b> Simple Personal Fair
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### > Key strategic dimensions for 2021–2023

 Our Purpose /Mission	<b>Help people and businesses prosper</b>					
 Our Aim /Vision	Be the Best Open Financial Services <b>PLATFORM</b> by acting <b>RESPONSIBLY</b> and earning the lasting <b>LOYALTY</b> of our people, customers, shareholders and communities					
 Values	Simple – Personal - Fair					
 Behaviours & Leadership Commitment	• Think customer	• Embrace change	• Act now	• Move together	• Speak up	<b>risk pro</b>
	• Being open and inclusive	• Inspiring and executing transformation	• Leading by example	• Encouraging the team to prosper		
 Strategic Directions	 Customer Obsession	 Employee Focus	 Simplification	 Omnichannel	 Evolution to Open Platform	 Safety & Trust
 Initiatives	• Strategic programs	• Hotspots		• Bets		• Group programs
 Metrics	• NPS	• Loyal Customers	• eNPS	• ROTE	• C/I	• TCR • C/I

The strategy of Santander Bank Polska Group reflects 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 perspective of customers, which helps to enhance their experience, increase operational efficiency and provide more simple and transparent products and services. The delivery of the Group’s strategy is underpinned by innovative solutions and the corporate culture which is focused on increasing engagement and motivation of employees as well as social responsibility of the organisation.

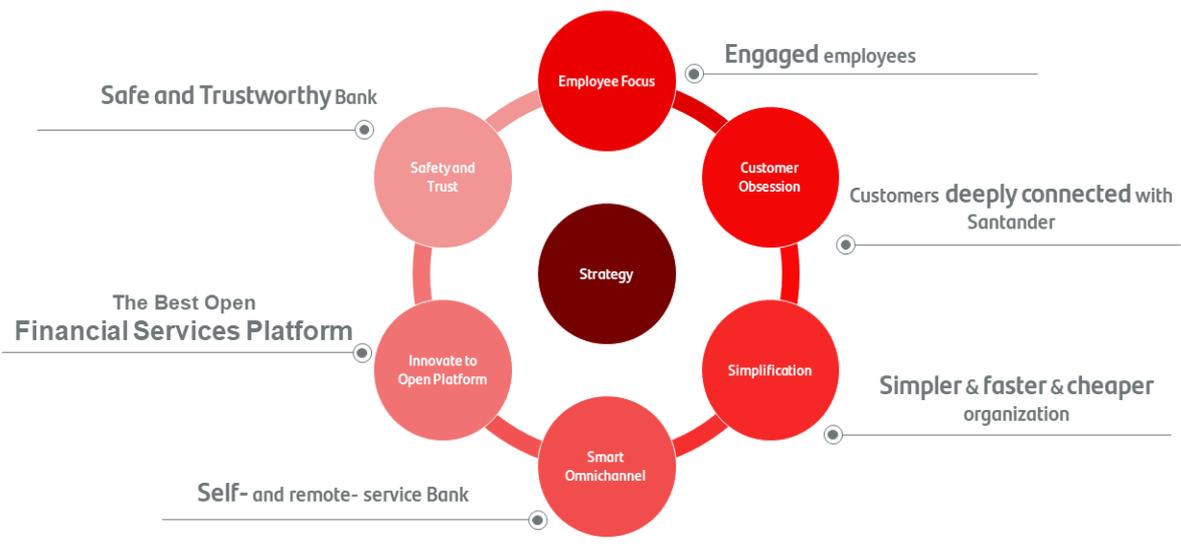
> Six strategic directions for 2021–2023: “Focus to accelerate”



The following six strategic directions have been defined as part of the strategy for 2021–2023: Customer Obsession, Employee Focus, Simplification, Smart Omnichannel, Innovate to Open Platform, Safety and Trust. They are the key focus areas of the Group's transformation. The strategic directions set by the Group:

- consolidate specific objectives set to increase loyalty of individual stakeholder groups: employees (employee focus), customers (customer obsession), communities and shareholders (safety and trust);
- place the highest transformational value on the objectives related to development of the Group's operating model: simplification and smart omnichannel;
- comply with the aim of Santander Group's regional strategic plan One Europe, emphasising the foundations for the development of the organisation (safety and trust), with a particular focus on responsible banking and ESG (Environmental, Social and Governance) matters;
- reflect the Group's ambition to build competitive advantages through innovation to an "Open platform".

> Strategic objectives for 2021–2023



The activities undertaken as part of the six strategic directions are based on strategic initiatives, i.e. strategic programmes, bets (initiatives in the Agile model) and Group programmes. They are regularly monitored and their results are reviewed on the basis of qualitative and quantitative metrics. The following are measures defining the Group's financial ambitions.

**Ambitions of Santander Bank Polska Group (financial measures) as part of the strategy for 2021–2023**

	Our Ambition
Cost /Income Ratio	<40%
Dividend Payout Ratio	50% of PAT
Total Capital Ratio	at the level allowing dividend payout
Cost of Credit Risk	at the average through-the-cycle level

In view of dynamic and complex changes in the macroeconomic environment, the strategy of Santander Bank Polska Group is regularly verified, which helps take prompt action in response to market trends and other changes in the dynamic environment.

## 2. Ambitions for 2021–2023 and delivery of the strategy

### Strategic directions

When setting strategic directions, the Group also defines strategic objectives and key success measures that let it track the progress in delivery of the strategy.

#### Employee focus

<b>Our achievements:</b>	<b>Key success measure:</b>	<b>Our ambition:</b>
→ Further optimisation of a significant number of HR processes through automation and digitalisation.	→ Monitoring of employee satisfaction based on the results of the eNPS survey.	→ Continue to develop the corporate culture based on the Simple, Personal and Fair values.
→ Promotion of diversity, equal treatment and inclusion.	→ Ensuring equal pay.	→ Increase employee engagement and retain the employer of choice title.
→ Support for talent development and responsible leadership both locally and by leveraging the Group's potential.	→ High level of Agile maturity (ceremonies and tools).	→ Attract and retain best talents.
→ Ongoing development of solutions as part of cross-functional teams to enhance employee experience.		→ Continue to develop key competencies (including leadership skills).
		→ Foster an inclusive and friendly work environment.

## Customer obsession

### **Our achievements:**

- Acceleration of process digitalisation and optimisation.
- Optimisation of the deposit offer to suit customer needs.
- More extensive communication and measures taken in response to key issues concerning Poles.
- Support for Ukraine: solutions for business customers.
- "We Will Double Your Impact" ("Podwójna Moc Pomagania") fundraiser.
- Further simplification of the language used in documents, offers and communication with customers.
- Adaptation of communication (channels, language, message, offer) to the needs of specific customer groups.

### **Key success measure:**

- Stable increase in mass NPS.
- Over 2.4m loyal customers of Santander Bank Polska S.A.

### **Our ambition:**

- Build long-term customer relationships thanks to products created using service design competencies and feedback from customers from individual segments.
- Build loyalty and increase digitalisation of our customers.
- Increase the customer satisfaction level (NPS).

## Simplification

### **Our achievements:**

- Simplification of the product range and a number of key processes used by customers and employees.
- Further measures taken to reduce paper consumption as part of the "Paperless bank" agenda.
- Implementation of a process of signing documents in advisor-based channels in electronic form.
- Launch of the first set of remote post-sales services as part of the centralisation of services related to mortgage loans.
- Implementation of a digital statement for a notary to enter a mortgage charge.

### **Key success measure:**

- Substantial increase in the effectiveness of the key processes.
- Positive environmental impact due to significant reduction of paper consumption.
- Increase in the number of customers using e-communication channels.
- Increased use of digital transaction authorisation methods in the advisor-based channels.
- Reduction of the number of products.

### **Our ambition:**

- Further digitalise and simplify post-sales processes and processes designed to support customers in distress.
- Continue to significantly simplify everyday processes used by the Bank's employees.
- Complete the "Paperless bank" transformation.

## Smart omnichannel

### **Our achievements:**

- Measures taken to develop the new application and get it ready for mass rollout.
- Further development of iBiznes24 internet banking for corporate customers.
- Increased availability of products and processes in digital channels (autosavings, insurance offer, price comparison engine for motor insurance, restructuring portal).
- Reduction of the number of processes requiring a visit to a branch.
- Focus on personalisation of communication and offer in digital channels.
- Active measures taken to migrate customers to digital channels and increase the number of customers acquired in those channels.
- Further optimisation of branch network.
- Alignment of customer experience across all channels.
- Development of the restructuring portal.

### **Key success measure:**

- Increase in the number of digital customers.
- Increase in the number of transactions made in remote channels.
- Growth of product sales through self-service channels.
- Increase in the number of transactions and communications which are paperless and do not require a traditional hand-written signature.
- NPS for the mobile application.

### **Our ambition:**

- Maximise the use of self-service and remote channels in key sales and post-sales processes.
- Increase the number of digital customers.
- Improve customer experience in remote contact channels.

## Innovate to open platform

### **Our achievements:**

- Support for further evolution to an open platform in cooperation with Santander Group and external partners.
- Development of open banking solutions via Santander Open.

### **Key success measure:**

- Development of GTS platform offering new digital services for corporate customers.
- Extension of cooperation with external partners (e.g. mojID).
- Growing number of customers using Santander Open (PSD2 aggregator).

### **Our ambition:**

- Further develop and improve the open financial services platform.

## Safety and trust

### Our achievements:

- Further steps taken to meet the objectives of the Group's Net-Zero strategy.
- Implementation of the Sustainable Finance Classification System based on the EU taxonomy.
- Expansion of the range of green products and services and support for customers in their green transition.
- Creation of a diverse and friendly working environment.
- Continuation of the ESG Database project addressing regulatory (Taxonomy, Pillar 3) and reporting requirements.
- Top award for the Bank's ESG report in the Sustainability Reports competition.

### Key success measure:

- Support for green transformation of corporate and investment banking customers.
- Green finance of EUR 664m in 2022.
- 34.7% of women in managerial positions.
- Equal Pay Gap of 2.0%.
- 83.5% of energy used by the Bank coming from renewable sources.
- Issuance of the first card made of biodegradable plastic.
- Introduction of a cash loan for environmental purposes with a fee refund for the purchase of green products.

### Our ambition:

- Develop green finance and support customers in their transition to a low- and zero-emission operating models.
- Adapt measures to meet the requirements of the TCFD (Task Force on Climate-related Financial Disclosures).
- Further develop leadership skills, focus on employees and promote diversity, equal treatment and inclusion in the workplace.
- Continue to build the awareness of fraud risk among the Bank's customers and employees as part of promotion of cybersecurity culture.
- Take further measures to ensure high stability and security of our systems and significantly reduce the number of system failures.

## > Financial and non-financial measures of Santander Bank Polska Group (as at 30 June 2023 and 31 December 2022)

	30.06.23	31.12.22		30.06.23	31.12.22		30.06.23	31.12.22
 Number of customers	7.5m	7.4m	 NPS Mass*	TOP 4	TOP 4	 C/I	30.4%	37.9%
 Number of employees (FTEs)	11,397	11,309	 Number of digital customers*	3,384k	3,285k	 Dividend payout ratio*	0%	29.90%
 Number of branches	345	351	 Number of internet and mobile banking transactions **	466 m	438 m	 TCR	20.77%	21.13%
						 CoR	0.80%	0.59%

\* Only Santander Bank Polska S.A. (the number of branches also includes off-site locations and Santander Zones)

\*\* Number of transactions executed during the four consecutive quarters

## Key activities planned for 2023

The Bank's strategic priorities for 2023 are consistent with the ambitions defined as part of the six strategic directions set in the strategy for 2021–2023. Both the objectives and success measures of the strategy will be regularly reviewed and adjusted to the changing environment if needed.

The existing strategy covers the period until the end of 2023, which means that a new strategy will be developed. It will comprise the key elements that will ensure business continuity and enhance the Bank's competitive position in the banking sector.

## 3. Economic outlook for 2023

### Economic growth

The negative impact of macroeconomic shocks is gradually fading, with economic recovery expected in the second half of the year. Its main driver will be a rebound in private consumption, supported by a good labour market situation (low unemployment and high wage growth) and improved consumer sentiment. We expect an average GDP growth rate of 1% in 2023, which will be caused, among other factors, by the low starting point. Towards the end of the year, the growth rate should accelerate to around 3% YoY from the level close to zero in the first half of the year.

### Labour market

The improving economic activity later in the year should help to revive the demand for labour. The improved economic sentiment, together with tight labour availability, will translate into a strong wage growth, which is likely to remain at double-digit levels. High wage growth will also be supported by strong minimum wage increases in 2023 and 2024.

### Inflation

Inflation is likely to remain in a downward trend in the coming months. Single-digit readings may already occur in autumn. At the end of the year, inflation may be just above 7% YoY, although this would still be several times higher than the official target of 2.5% YoY. In our opinion, it may take several years, even until 2026, for CPI to return to the target. The relative resilience of the labour market and a not very restrictive fiscal policy, including the growing likelihood of fiscal loosening due to the upcoming parliamentary elections, do not support the decline in inflation, either.

### Monetary policy

In the first half of 2023, NBP rates remained stable, with MPC members expressing hope that rate cuts would be possible towards the end of the year. In July, the NBP President Adam Glapinski declared that a rate cut would be considered if inflation fell below 10% YoY. In light of our CPI forecasts, the first rate cut may take place in October or, which is slightly less likely, in September. We assume that monetary easing will continue in 25bp-steps in the following months of 2023. This scenario will become more likely if the economic slowdown proves more severe than expected and the pace of disinflation accelerates.

### Credit and deposit markets

In the second half of the year, along with a recovery in economic growth, an awakening of the credit market is expected, but its total value will only increase by a few percent. Improvement in the credit market and an expansionary fiscal policy will support the deposit growth rate, with the gap between deposit and loan growth rates likely to narrow.

### Financial markets

We believe that it is slightly more likely now that the zloty will weaken a bit rather than continue the trend from the first half of the year. According to the NBP's surveys among businesses, EUR/PLN and USD/PLN are close to profitability thresholds for exports, which suggests less room for appreciation of the domestic currency. The weakening could be fostered by an expected deterioration in the current account balance in the second half of the year due to the expected recovery in private consumption and imports, and upward risks to gas and oil prices. In addition, a correction in global risk appetite could be encouraged by major central banks tightening their monetary policy to the extent that fears of recession and a destabilising impact on emerging markets could take hold. The zloty may also start to lose value once the MPC cuts rates, and the uncertainty about the shape of the future economic policy could increase ahead of the parliamentary elections. Movements towards a weaker zloty may be constrained by an active exchange of currencies by the Ministry of Finance, as the strong zloty may be favoured before the elections and will certainly be desired by the NBP as it would facilitate a lower inflation. Against this background, we assume that in the longer term, the zloty may remain slightly weaker than at present.

We think that the downward trend of the yield curve and the swap curve can be sustained in the longer term in view of the expected decline in inflation and interest rate cuts by the MPC. However, in our opinion the overly aggressive NBP rate cut scenario is already priced in after the recent falls in market rates, offering potential for periodic upward adjustments in market rates. Asset swap credit spreads may remain elevated due to long maturities next year and the potential loosening of the fiscal policy in the wake of the elections.

# V. Business Development in H1 2023

## 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, Wealth Management and Insurance Division, Business and Corporate Banking Division, and Corporate and Investment Banking Division. The Wealth Management and Insurance Division was formed on 4 April 2023 from the following units of the Retail Banking Division: Santander Brokerage Poland, Private Banking & Wealth Management Department, Bancassurance Area and the Support and Distribution Office. The new Division is also responsible for operational cooperation with Santander Towarzystwo Funduszy Inwestycyjnych S.A. and investment companies outside the Group.

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

### Segment reporting

The business management structure presented above largely 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 2023). An exception to the above is the newly created Wealth Management and Insurance Division, whose performance continues to be reported as part of the Retail Banking Segment. The segments representing the organisational structures are complemented by the ALM and Central Operations segment, which covers funding, management of strategic investments and transactions which generate expenses/ income that cannot be allocated to individual segments.



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
<b>RETAIL BANKING</b>	→ Customer profile	<ul style="list-style-type: none"> <li>▶ Personal customers (divided into Standard, Premium, Select and Private Banking customer segments based on their diverse needs and expectations).</li> <li>▶ Small and medium-sized companies (with annual turnover up to PLN 8m).</li> </ul>
	→ Key product lines	<ul style="list-style-type: none"> <li>▶ Current and business accounts, 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, open banking services.</li> <li>▶ Business loans, business deposits, cash management, leasing facilities, factoring, payment orders, letters of credit, collections and guarantees, payment terminals, additional services.</li> <li>▶ Asset management services as part of investment funds.</li> <li>▶ The offer for Private Banking customers also includes third-party investment funds available as part of open architecture, the Global Value Proposition service (enabling customers to use global Private Banking facilities available in various Santander Group countries), custom structured deposits and currency conversion with an FX dealer.</li> </ul>
	→ Service model	<ul style="list-style-type: none"> <li>▶ Relationship-building, sales and after-sales contacts with retail customers through the network of branches, partner outlets and remote channels (Multichannel Communication Centre, Santander internet and Santander mobile).</li> <li>▶ 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.</li> <li>▶ 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 operating as part of the Multichannel Communication Centre, which offers support via telephone. Private Banking customers have several dozen dedicated private bankers operating from 24 locations around Poland, including five Private Banking Centres.</li> <li>▶ 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 mobile and dedicated services: Mini Firma, Moja Firma plus and iBiznes24).</li> <li>▶ 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.</li> </ul>

Segment	Area	Operating model
<b>BUSINESS AND CORPORATE BANKING</b>	→ Customer profile	▶ Businesses and corporations with turnover of PLN 8m–PLN 1.2bn, local authorities and the public sector.
	→ Key product lines	▶ 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.
	→ Service model	▶ Business customers are managed by the Business Clients Department and the Corporate Clients Department. These units encompass six regional centres (three Business Banking Centres and three Corporate Banking Centres) divided into 29 offices located across Poland. ▶ Premium customers and entities from the public and commercial properties sector are handled by four dedicated offices. ▶ 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 contact centres which handle a wide range of operating processes (Business Service Centre, SME Service Centre, and Trade Finance Service Centre).
<b>CORPORATE AND INVESTMENT BANKING</b>	→ Customer profile	▶ 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	▶ Transactional banking (including cash management), deposits, working capital 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 services (including those related to mergers and acquisitions), and brokerage services for financial institutions. ▶ FX and interest rate risk hedging products (offered to all customers of the Bank).
	→ Service model	▶ Customers of the 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).
<b>SANTANDER CONSUMER</b>	→ Customer profile	▶ Personal and business customers.
	→ Key product lines	▶ Hire purchase loans, cash loans (including consolidation loans), credit cards, online renewable limits, special-purpose loans, car finance (refinance solutions, leasing facilities and leasing loans), business loans, factoring and bank guarantees. ▶ Term deposits and insurance products.
	→ Service model	▶ The bank sells its products through: <ul style="list-style-type: none"> <li>▷ a network of own branches and franchise outlets, which offer cash loans, credit cards and retail deposits;</li> <li>▷ a structure for mobile sales of car loans and leasing facilities;</li> <li>▷ a structure for mobile sales of corporate deposits;</li> <li>▷ a structure for mobile sales of hire purchase loans;</li> <li>▷ remote channels, i.e. a call centre and internet and mobile banking used to sell cash loans, credit cards and hire purchase loans;</li> <li>▷ 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);</li> <li>▷ a remote channel for car loans.</li> </ul>

## 2. Business development of Santander Bank Polska S.A. and non-banking subsidiaries

### 2.1. Retail Banking Segment

Product line for personal customers	Activities of the Retail Banking Division and the Wealth Management & Insurance Division in H1 2023
Cash loans	<ul style="list-style-type: none"> <li>▶ The Bank focused on the continuous development of digital processes in line with customers' expectations. As part of sales and post-sales process, it implemented:               <ul style="list-style-type: none"> <li>▶ New to Bank (NTB) – a fully remote cash loan application process for new customers with a Polish ID card that can authenticate themselves using one of the three methods: eDO App, mObywatel or Signin. This way, Santander Bank Polska S.A. can now identify the customer, grant them a loan up to PLN 6k and offer electronic banking services on a fully remote basis.</li> <li>▶ Income Verification Module – a functionality which makes it possible for customers to confirm their income online without having to visit the Bank's branch. Customers applying for a loan in BBC were provided with a possibility to confirm their income using one of the three methods: searching the internal database, aggregating an account with another bank using PSD2 or automatically downloading a document from PUE ZUS.</li> <li>▶ Flexible management of the loan repayment schedule (commercial moratorium) – a new post-sales process facilitating the management of loan repayments. New and existing borrowers were offered three new, entirely remote functionalities: suspension of the total principal and interest rate, reduction of instalment amounts (maximum three instalments) and extension of the lending period by up to 12 months.</li> </ul> </li> <li>▶ The Bank offered a range of special cash loan offers in line with market trends:               <ul style="list-style-type: none"> <li>▶ ECO cash loan with promotion – an offer supporting sustainable purchases and an offer from the so-called green product basket.</li> <li>▶ E-commerce offer – an acquisition offer available in web browsers and loan comparison engines.</li> <li>▶ Fixed-rate offer – for customers opting for a fixed interest rate (maximum period of five years).</li> <li>▶ Industry offer for employees of selected companies.</li> </ul> </li> <li>▶ The pricing policy was adjusted to prevailing macroeconomic conditions (standard pricing terms were updated, special offers and offers dedicated to specific customer groups were prepared).</li> <li>▶ In H1 2023, cash loan sales of Santander Bank Polska S.A. were PLN 4.8bn, up 5.4% YoY. Sales generated via remote channels accounted for 64.7% of total cash loan sales vs 52.7% in H1 2022. As at 30 June 2023, the cash loan portfolio of Santander Bank Polska S.A. totalled PLN 16bn, up 8.0% YoY.</li> </ul>
Mortgage loans	<ul style="list-style-type: none"> <li>▶ The Bank simplified the mortgage loan application process for freelancers.</li> <li>▶ The Family Home Loan (Rodzinny Kredyt Mieszkaniowy) was modified in accordance with the amended FHL Act.</li> <li>▶ A fully remote process was put in place to provide customers with a statement for the notary required to establish a mortgage.</li> <li>▶ An option was provided to remotely sign annexes regarding tranche disbursements.</li> <li>▶ New tools were implemented to support advisors in the post-sales process.</li> <li>▶ The Bank prepared and launched the first marketing campaign promoting mortgage loan prelimits among existing customers.</li> <li>▶ As part of management of CHF loan portfolios, the Bank continued the pilot campaign of settlements available on preferential terms.</li> <li>▶ In the reporting period, the pricing of mortgage loans was modified several times. Margins on variable rate loans were increased and fixed interest rates for the first five years were changed depending on 5Y IRS quotations.</li> <li>▶ In H1 2023, new mortgage loans totalled PLN 2.4bn down 54.3% compared with H1 2022 and up 30.8% compared with H1 2022. The gross mortgage loan portfolio of Santander Bank Polska S.A. decreased by 5.5% YoY to PLN 50.4bn as at 30 June 2023. PLN mortgage loans were stable at PLN 46.7bn.</li> <li>▶ The Bank is ranked third in the mortgage loan market with a share of 11.5% in terms of new mortgage loans and equity releases and fourth with a share of 10.5% in terms of the value of the portfolio (data published by the Polish Bank Association as at the end of March 2023).</li> </ul>

Product line for personal customers	Activities of the Retail Banking Division and the Wealth Management & Insurance Division in H1 2023
Personal accounts and bundled products, including:	<ul style="list-style-type: none"> <li>▶ The number of PLN personal accounts grew by 4.3% YoY to 4.5m as at 30 June 2023. The number of Accounts As I Want It (the main acquisition product for a wide group of customers) was 3.0m, up 11.3% YoY. Together with FX accounts, the Bank maintained 5.7m accounts (+6.0% YoY).</li> <li>▶ In H1 2023, the Bank continued to offer personal accounts to Ukrainian refugees on special terms, i.e. without charging account maintenance fees, card fees and fees for transfers to Ukraine.</li> <li>▶ A new account offer was introduced on 1 July 2023. The key changes included:               <ul style="list-style-type: none"> <li>▷ renaming the Account As I Want It (Konto Jakiej Chce) as Santander Account (Konto Santander);</li> <li>▷ changed conditions of waiver of a maintenance fee for Santander Account;</li> <li>▷ new Santander Max Account (Konto Santander Max) with a benefit package available for a single fee of PLN 15;</li> <li>▷ reduced the fee for cash withdrawals from ATMs of other banks in Poland and the fee for the ATM Package;</li> <li>▷ the "Santander on the go" ("Santander w podróży") package, including free ATM withdrawals and transfers from/to banks from Santander Group;</li> <li>▷ discounts at the Rabaty platform;</li> <li>▷ carbon footprint tracker (a new service: Carbon Footprint);</li> <li>▷ refreshed Select Account (Konto Select) with competitive terms and conditions aligned with market trends.</li> </ul> </li> </ul>
▶ <i>Payment cards</i>	<ul style="list-style-type: none"> <li>▶ In H1 2023, the Bank took promotional, sales and relationship-building activities to increase payment card turnover. The card plastic recycling process was continued to support sustainable development.</li> <li>▶ Technical solutions were implemented to enable customers to use payment cards in mobile wallets before they receive plastic cards.</li> <li>▶ The range and functionality of card products was expanded to include new mobile wallets: Xiaomi Pay and Swatch Pay.</li> <li>▶ As at 30 June 2023, the personal debit card portfolio comprised around 4.3m cards and was up 3.1% YoY. Along with business debit cards, it generated a 16.9% YoY increase in the half-yearly non-cash turnover.</li> <li>▶ The credit card portfolio of Santander Bank Polska S.A. included 632k instruments, a decrease of 9.7% YoY. The half-yearly non-cash turnover went up by 9.0% YoY. The credit card debt was down 3.7% YoY.</li> </ul>
Deposit and investment products, including:	<ul style="list-style-type: none"> <li>▶ In H1 2023, the Bank's priority in terms of management of deposit and investment products amid high interest rates and high inflation was to maintain the existing portfolio while optimising its average cost and ensuring high satisfaction of savers.</li> <li>▶ Despite the highest outflows of funds to investment products over the last two years and deposit pricing optimisation measures, the total balance of deposits increased in H1 2023.</li> <li>▶ The most popular products in the reporting period were term deposits (including the Mobile Deposit/ Lokata Mobilna, 3- and 6-month deposits and negotiated deposits), savings accounts (particularly Max Savings Account/ Konto Max oszczędnościowe with a special deal for depositors of new funds) and low-risk investment products (debt funds).</li> <li>▶ The Bank's investment offer consisted mainly of brokerage services and investment funds, including funds managed by the Bank's subsidiary Santander Towarzystwo Funduszy Inwestycyjnych S.A. (Santander TFI S.A.) and selected Polish and foreign funds.</li> <li>▶ While the Bank's share in the retail deposit market decreased in the reporting period, the share of net assets managed by Santander TFI S.A. in the investment fund market increased considerably.</li> </ul>
▶ <i>Deposits</i>	<ul style="list-style-type: none"> <li>▶ In H1 2023, the deposit offer of Santander Bank Polska S.A. was adjusted to market conditions, i.e. stable interest rates and pricing offered by competitors. To meet customers' expectations, the Bank offered special deals for both depositors of new funds and existing customers:               <ul style="list-style-type: none"> <li>▷ new Investor Deposit (Lokata dla Inwestora) available on special terms to customers investing in investment funds, with an 8% interest rate on deposits up to PLN 400k (January);</li> <li>▷ a special offer on new funds in the Max Savings Account (Konto Max Oszczędnościowe), bearing an 8% interest rate on deposits up to PLN 100k (March-June);</li> <li>▷ new Mobile Deposit (Lokata Mobilna), with a 7% interest rate on deposits up to PLN 20k (April);</li> <li>▷ a special offer of Select Savings Account (Konto oszczędnościowe Select) called "We reward active customers 8" ("Doceniamy aktywnych 8") offering a 5% interest rate to Select customers who make a stated number of transactions.</li> </ul> </li> <li>▶ More than 200k customers availed of special deals in H1 2023.</li> <li>▶ At the same time, the Bank optimised interest rates on off-sale PLN term deposits and negotiated deposits.</li> <li>▶ The share of term deposits and savings accounts increased at the expense of the share of personal accounts.</li> <li>▶ As at 30 June 2023, total deposits from retail customers were PLN 104.5bn, up 4.9% YoY and 2.1% Ytd. Term deposit balances grew dynamically YoY (by 101.6% to PLN 31.4bn) but decelerated during the first six months of 2023 (to 5.0%). Current account balances fell by 13.1% YoY and grew by 0.9% Ytd to PLN 73.0bn.</li> </ul>

Product line for personal customers	Activities of the Retail Banking Division and Wealth Management & Insurance Division in H1 2023
➤ <i>Investment funds</i>	<ul style="list-style-type: none"> <li>▶ Customers' interest in investment funds increased during H1 2023 due to attractive yields offered by these products.</li> <li>▶ Half-yearly net sales of investment funds managed by Santander TFI S.A were positive at PLN 2,005.9m.</li> <li>▶ The company was the market leader in terms of net sales generated in H1 2023, with an 91 b.p. increase in the share of the retail market to 10.22% as at 30 June 2023.</li> <li>▶ The most popular were debt sub-funds, notably the continually promoted short-term debt sub-funds, followed by treasury debt sub-funds.</li> <li>▶ As at 30 June 2023, the total net assets of investment funds managed by Santander TFI S.A. were PLN 15.5bn, up 26.3% Ytd and 22.3% YoY.</li> <li>▶ In the reporting period, Santander TFI S.A. took further measures to build its market position in terms of Employee Capital Plans (ECPs), including a campaign addressed to employers (supporting the first automatic enrollment). As at the end of June 2023, Santander TFI S.A. managed PLN 275m worth of EPC assets of 83.3k ECP participants (individuals) under 15.8k management agreements made with employers.</li> </ul>
➤ <i>Brokerage services</i>	<ul style="list-style-type: none"> <li>▶ Since the beginning of 2023, the range of structured products was expanded to include products that meet sustainability criteria (e.g. green bonds).</li> <li>▶ On 9 January 2023, two-factor authentication was implemented in the brokerage platform. Secure biometric login solutions have been available to users of the mobile application for some time now.</li> <li>▶ The team of institutional brokers of the Brokerage House won the annual ranking of the Parkiet newspaper.</li> </ul>
Bancassurance	<ul style="list-style-type: none"> <li>▶ In the reporting period, changes arising from the IDD BIS project were implemented (analysis of customer needs in the sale of insurance).</li> <li>▶ In response to customers' expectations, the scope of the life and health insurance was extended to include an additional child insurance package and an additional risk in the health insurance package (benign tumor operation).</li> <li>▶ A life insurance linked to a mortgage loan was offered to citizens of non-EEA countries irrespective of their residence status in Poland.</li> </ul>
Private Banking	<ul style="list-style-type: none"> <li>▶ Customers were reallocated between segments and portfolios. Like every year, the portfolio of Private Banking (PB) customers was expanded to include customers from other segments with assets above PLN 1m. The monthly transfer of customers to the PB segment was streamlined. New PB customers are regularly onboarded.</li> <li>▶ For another year, Santander Brokerage Poland was recognised in Euromoney Private Banking Awards, receiving the title of Best International Private Banking 2023 in Poland.</li> </ul>
Temporary solutions related to the war in Ukraine	<ul style="list-style-type: none"> <li>▶ The Bank continued to offer special solutions for Ukrainian nationals:                             <ul style="list-style-type: none"> <li>▷ waiver of an account maintenance fee and a monthly card fee until 30 April 2023;</li> <li>▷ simplification of the collection of the required documents and extension of the list of identity documents;</li> <li>▷ waiver of fees for transfers from and to Ukraine until 30 April 2023.</li> </ul> </li> <li>▶ The Bank continued to restrict access to banking products for non-residents from Russia, including with regard to personal and savings accounts and term deposits.</li> <li>▶ In H1 2023, the Bank acquired around 57k foreign customers, of which 43% were Ukrainians (24.5k). The total number of foreign customers increased to 544k, of which 60% are Ukrainians.</li> </ul>

## Small and Medium Enterprises (SMEs)

Product line for SMEs	Activities of the Retail Banking Division and the Wealth Management & Insurance Division in H1 2023
Business accounts and bundled products	<ul style="list-style-type: none"> <li>▶ In H1 2023, the Bank offered a range of promotions for SME customers:                             <ul style="list-style-type: none"> <li>▶ another edition of the special package of the Business Account Worth Recommending (Konto Firmowe Godne Polecenia) available online (including bonuses for specific banking operations and use of selected products and a waiver of selected fees and charges for an indefinite period);</li> <li>▶ a special offer of a business account, including an opportunity to receive a shopping voucher to be used on one of the Polish e-commerce platforms;</li> <li>▶ a special offer of POS terminals (second edition);</li> <li>▶ a special deal on softPOS terminals, a new product in the Bank's offer (the softPOS application enables customers to use their tablet or phone as a terminal);</li> <li>▶ promotion of additional services: eLeasing (leaseback up to PLN 20k), eHealth/ eZdrowie (private healthcare packages), eAccounting/ eKsięgowość, eAgreements/ eUmowy, eWadia/ePoręczenia Wadialne i eFactoring/eFaktoring.</li> </ul> </li> <li>▶ As part of the Entrepreneurs Week held in June 2023, each day the Bank offered a new special deal for SME customers, e.g. term deposits with a fixed annual rate of 4%, promotional offer of POS terminals (no subscription fee for up to 12 months), a discount at the Kantor Santander currency exchange platform, CyberRescue package, 10% off on eAccounting plans.</li> <li>▶ Business customers were provided access to BLIK service in the mobile application.</li> <li>▶ Interest rates on the following term deposits were increased: Lokata24 Biznes Impet and Lokata Biznes Impet.</li> <li>▶ Educational and development initiatives were put in place, including:                             <ul style="list-style-type: none"> <li>▶ Webinars about taxation methods (organised in partnership with inFakt) and changes in business (with Miłoz Brzeziński);</li> <li>▶ #afFIRMation – a series of training sessions organised in partnership with the Polish Entrepreneurship Foundation, including a webinar about motivation with Karol Bielecki (a former handball player).</li> </ul> </li> </ul>
Loans	<ul style="list-style-type: none"> <li>▶ In H1 2023, the Bank introduced a range of promotions to increase customers' satisfaction with financing solutions. They included the following special lending terms:                             <ul style="list-style-type: none"> <li>▶ a loan with 0% arrangement fee available in remote channels;</li> <li>▶ a loan with an arrangement fee reduced to 0.5% available at branches and the Multichannel Communication Centre;</li> <li>▶ special pricing for customers intending to switch their loans from other banks;</li> <li>▶ "Loan and leasing with a medical package", offering a voucher for free private healthcare at LUX MED over 12 months to eligible customers;</li> <li>▶ "Green 0%" – a waiver of an arrangement fee on loans or leasing used to finance photovoltaic panels, heat pumps, energy storage facilities and charging stations.</li> </ul> </li> <li>▶ Measures were taken to optimise the lending process and reduce the time to yes.</li> <li>▶ A prelimit offer was prepared for existing customers of the Bank and the leasing company.</li> </ul>
Solutions for business customers from Ukraine	<ul style="list-style-type: none"> <li>▶ In H1 2023, the Bank continued to offer special solutions for business customers registered or resident in Ukraine. The Bank waived selected fees (until 31 January 2024), including a business account maintenance fee (PLN and FX accounts) and fees for company debit cards (excluding charge cards) issued to PLN or FX accounts after 1 March 2022 (such as a monthly card fee and fees for the list of card transactions, the balance check at ATMs and card renewal).</li> <li>▶ Fees for transfers from and to Ukraine were suspended until 30 April 2023.</li> </ul>

Product line for SMEs	Activities of Santander Leasing S.A. in H1 2023
Leasing	<ul style="list-style-type: none"> <li>▶ On 2 March 2023, Santander Leasing S.A. signed an operational agreement with Bank Gospodarstwa Krajowego to grant liquidity loans to companies from the Łódzkie Province using funds available under the Smart Growth Operational Programme 2014–2020. The pool of aid funds allocated to that region was PLN 25m. Zero-interest rate loans were aimed to support micro, small and medium companies affected by changes in economic conditions, Covid-19 pandemic or Russian invasion of Ukraine. The loan agreements were signed with customers in April and May 2023.</li> <li>▶ At the beginning of February 2023, the company introduced a simplified procedure with respect to key products in the renewable energy segment. Customers can apply for financing of photovoltaic panels, heat pumps, energy storage facilities and chargers for electric cars with specific parameters. The maximum financing period is 10 years and a down payment is 10%.</li> <li>▶ Santander Leasing S.A. simplified a leasing agreement and the General Terms and Conditions of Leasing (March 2023) and documents related to a fuel card (May 2023) in accordance with plain language standards. The purpose of the changes was to ensure that communication with customers is clear and transparent and that documents are easy to navigate.</li> <li>▶ The company launched zielonepanele.pl, a website where customers can learn about the benefits of investments in photovoltaic solutions, check information about the cost of installation, indicative financing terms and offers of selected suppliers, as well as submit a request for proposal. The purpose of the initiative is to reach a new customer group and present advantages of investments in renewable energy.</li> </ul>

Product line for SMEs	Activities of Santander Leasing S.A. in H1 2023 (cont.)
Leasing (cont.)	<ul style="list-style-type: none"> <li>▶ To increase its competitiveness, the company extended the offer to include:                             <ul style="list-style-type: none"> <li>▷ a simplified procedure for financing heavy-duty vehicles of up to PLN 1m for SME customers (excluding customers providing passenger transport services);</li> <li>▷ loans with a fixed principal instalment for customers from the agri segment;</li> <li>▷ a simplified procedure for corporate customers for financing assets of up to PLN 100k (which previously could only be financed as part of a standard procedure);</li> <li>▷ new financing schemes offered together with the suppliers cooperating with Santander Leasing S.A. (PIAGGIO, Komatz Polska, Mzuri);</li> <li>▷ a solution under which customers who lease a new zero-emission vehicle with the "My electric car" subsidy do not have to pay the entire deposit but may settle the subsidy with the first leasing payment.</li> </ul> </li> <li>▶ Santander F24 S.A. extended the scope of assets that can be financed with a consumer loan (to include pick-up trucks and camper vans) and introduced eco and agri financing in partnership with suppliers.</li> <li>▶ On 6 June 2023, Santander Leasing S.A. and Santander Bank Polska Foundation (together with GreenWay Poland and the Polish Alternative Fuels Association) launched the nationwide grant programme for local governments called: "Together for Eco-Change". The programme, which is the first one of this kind in the leasing industry, involves the financing of a network of at least 16 electric car charging stations and their maintenance for two years. The program budget is PLN 1m.</li> <li>▶ In H1 2023, Santander Leasing S.A. financed assets of PLN 3.8bn (+16.0% YoY). The growth was driven mainly by sales in the vehicles segment (+31.8% YoY).</li> </ul>

## 2.2. Corporate and Business Banking Segment

### Business highlights of H1 2023

→ Increase in the number of mobile customers	+13% YoY
→ Increase in the number of customer transactions	+5% YoY
→ Increase in FX income from eFX platform	+12% YoY
→ Number of e-guarantees issued	+34% YoY
→ Growth of credit volumes	+5% YoY
→ Growth of deposit volumes	+10% YoY

Area	Activities of the Business and Corporate Banking Division in H1 2023
Business developments	<ul style="list-style-type: none"> <li>▶ Strong business growth in all segments and business lines, generating an increase of 58.0% YoY in income, including income from transactional banking (+72.5% YoY), leasing (+21.6% YoY), factoring (+10.5% YoY) and lending (+16.5% YoY).</li> <li>▶ Sound sales performance despite challenging market conditions, notably in terms of leasing (+9.2% YoY).</li> <li>▶ Increase in volumes, including deposit (+10.3% YoY), lending (+4.3% YoY) and leasing volumes (+11.5% YoY).</li> <li>▶ Growing sales in digital channels, particularly in terms of currency exchange (+11.7% YoY) and e-guarantees (+33.8% YoY).</li> <li>▶ 4.7% YoY increase in the number of transactions made by customers.</li> <li>▶ High credit quality of the corporate lending portfolio, with a low and stable cost of risk.</li> </ul>

Area	Activities of the Business and Corporate Banking Division in H1 2023
Business/ digital transformation	<p><b>Simplification and digitalisation</b></p> <ul style="list-style-type: none"> <li>▶ Continuation of digitalisation and development projects aimed to ensure best-in-class services.</li> <li>▶ Implementation of further improvements, changes in design and functionality for users of the new iBiznes24 e-banking platform and the iBiznes24 mobile application; the new features include export of the credit schedule, the ability to change the appearance of the landing page in mobile banking, passive view of the customer screen for iBiznes24 Advisors, the ability to make future-date transactions in the e-FX module, simplified execution and handling of service parameterisation requests, and a new, more user-friendly funds transfer and batch approval process.</li> <li>▶ Introduction of an option for customers to buy a qualified signature via electronic banking of Santander Bank Polska S.A., whereby the process of executing documents with customers is easier, faster and entails less workload. Agreements are made remotely and can be easily archived in electronic form.</li> <li>▶ Improvement of phone banking experience by integrating phone systems with CRM Salesforce, which ensures faster and more effective services for customers. Launch of specialist processes to speed up execution of customers' instructions regarding bank certificates, opinions for auditors and sealed cash deposits.</li> <li>▶ Development of the CLP (Corporate Lending Platform) – introduction of changes resulting in a considerable increase in the number of credit customers processed at a time and in simplification and acceleration of the credit process by automating data processing, limiting email correspondence and making other improvements:             <ul style="list-style-type: none"> <li>▷ a functionality enabling the sanction of a working capital loan and its end-to-end service in the CLP;</li> <li>▷ an option to renew the de minimis guarantee;</li> <li>▷ services for customers availing of lease loans;</li> <li>▷ new screens in the system, reducing operational risk;</li> <li>▷ a number of other functionalities which increase user-friendliness of the CLP.</li> </ul> </li> </ul> <p><b>Products</b></p> <ul style="list-style-type: none"> <li>▶ Introduction of changes arising from the amended Development Act and execution of first agreements under new rules.</li> <li>▶ Modification of the credit process: implementation of a credit decision-maker model in relation to customers with turnover of up to PLN 60m, resulting in decentralisation and speed-up of the credit decision-making process.</li> <li>▶ Introduction of CAP options with a deferred premium in response to customer expectations, enabling flexible allocation of pre-hedging costs. A non-exercised CAP option can be transferred to another project, a feature particularly important for property developers.</li> <li>▶ Completion of the first round of applications for grants in the form of a technology bonus in the process implemented under the Technology Credit programme, as part of the European Funds for a Modern Economy (FENG) programme.</li> <li>▶ Implementation (as of 1 June 2023) of changes to the Schedule of Fees and Charges and product rules, including: amending, clarifying and simplifying provisions for users of Trade Finance products as part of implementation of regulatory obligations arising from VAT interpretations.</li> </ul> <p><b>Transformation</b></p> <ul style="list-style-type: none"> <li>▶ Continuation of #4US and #4Leaders – innovative transformation programmes aimed to improve work environment, develop skills and share leadership experiences. Optimisation of the credit process – implementation of changes in the cooperation of the teams responsible for the parameterisation and disbursement of credit facilities.</li> <li>▶ Optimisation of the credit process – implementation of changes in the cooperation of the teams responsible for the parameterisation and disbursement of credit facilities.</li> </ul>
Commercial activities	<ul style="list-style-type: none"> <li>▶ The Bank was the partner of the BUDMA International Construction and Architecture Fair, promoting solutions that facilitate global business growth.</li> <li>▶ The Bank was invited by the Polish Chamber of Packaging to participate in the Warsaw Plast Expo International Plastics Industry Trade Fair, where it gave a presentation to plastic packaging manufacturers.</li> <li>▶ Development of Santander Factoring's cooperation with the European Bank for Reconstruction and Development (EBRD), participation in the EBRD and FCI conference on how to support factoring in developing markets in Central Asia under the Trade Facilitation Programme (TFP), which seeks to help local financial institutions in designing Trade Finance products, including in legal transformation, development of legislation and building a regulatory framework around factoring.</li> <li>▶ Patronage of the 4th edition of the Energy Industry Mixer, an international networking meeting that uses the "speed dating" formula and brings together companies, local authorities and technology companies from the energy sector; the theme of the 4th edition was "Waste to Energy".</li> <li>▶ Participation in the "International Automotive Business Meeting", an event focused on electromobility and IZERA, the Polish flagship product in this area. Participating in the event were representatives from Santander UK, which organised a trade mission for UK automotive operators interested in establishing trade relations with Polish companies, including IZERA.</li> <li>▶ Participation in a business mission organised by the Polish-Portuguese Chamber of Commerce (PPCC), which was an opportunity for representatives of Polish companies to meet potential business partners from Portugal.</li> <li>▶ Preparation of an automotive market analysis for customers with market forecasts for the following quarters.</li> </ul>
Awards and recognitions	<ul style="list-style-type: none"> <li>▶ At the gala celebrating the 10th anniversary of de minimis guarantees, the Bank was awarded the title of Cooperation Quality Leader by the BGK, in recognition of satisfactory cooperation with the state bank as well as high quality of the guarantee portfolio and documents.</li> </ul>

Area	Activities of Santander Factoring Sp. z o.o. in H1 2023
Factoring	<ul style="list-style-type: none"> <li>▶ The value of the credit portfolio of Santander Factoring Sp. z o.o. grew by 7.1% YoY to PLN 8.6bn as at 30 June 2023.</li> <li>▶ The receivables purchased by the company increased by 14.5% YoY in H1 2023 to PLN 22.6bn.</li> <li>▶ The company continued its cooperation with Bank Gospodarstwa Krajowego (BGK) in terms of liquidity guarantees for factoring, and with Banco Santander S.A. and the Frankfurt Branch of Banco Santander S.A. under the Funded Risk Participation Agreement, raising financing for specific factoring agreements.</li> </ul>

## 2.3. Corporate and Investment Banking Segment

Unit	Key activities of the Corporate and Investment Banking Division in H1 2023
Credit Markets Department	<ul style="list-style-type: none"> <li>▶ Project finance and syndicated lending:                             <ul style="list-style-type: none"> <li>▷ A leading role (including as the ESG Coordinator) in syndicated lending for a company from the telecommunications sector.</li> <li>▷ Participation in syndicated lending for a group from the energy sector.</li> <li>▷ Financing of a project in the residential lettings sector.</li> </ul> </li> <li>▶ Active communication with key customers in terms of project finance (particularly in connection with renewable energy), securitisation structuring and finance, and debt and rating advisory services.</li> <li>▶ Steady activity in the asset turnover and underwriting area, with a notable performance in the telecommunications, commercial properties and industrial sectors. Stable activity in the local bank debt market despite a significant uncertainty caused by the geopolitical situation, weighed down by growing cost of PLN finance for foreign banks operating in Poland. The main debt transactions concerned the following sectors: renewable energy, power generation, telecommunications, commercial properties (logistics and office segments) and the private rented sector.</li> <li>▶ Completion of bond issues, including:                             <ul style="list-style-type: none"> <li>▷ Participation in transactions in the international markets, including the issue of EUR 750m worth of MREL-eligible eurobonds for a customer from the financial sector and the first issue of USD 1.75bn worth of bonds for a company from the public sector.</li> <li>▷ Participation in transactions in the Polish market, in particular the issue of the Bank's MREL-eligible senior non-preferred bonds (the first transaction of this kind in Poland). The issue attracted a lot of interest from investors. The nominal value of the bonds reached PLN 1.9bn, making it the second largest issue in the financial sector since 2017. The Bank also participated in the issue of PLN 220m for a customer from the property sector as well as the issues for customers from the financial sector with a total amount of PLN 410m.</li> </ul> </li> </ul>
Capital Markets Department	<ul style="list-style-type: none"> <li>▶ Acting as the joint bookrunner in relation to the sale of shares of a company from the retail sector (the first transaction of this kind on the WSE in 2023 and one of the largest deals on the WSE in recent years).</li> <li>▶ Transactional advisory and intermediary services for an acquirer in the tender offer for shares of a leading entity from the chemical sector.</li> <li>▶ Intermediary services in relation to share buyback for an interior fittings manufacturer.</li> <li>▶ Acting as the global joint coordinator and joint bookrunner in relation to the issue of shares of a company from the retail sector.</li> <li>▶ Transactional advisory and intermediary services for an acquirer in the tender offer for shares of a company from the electrical goods distribution sector.</li> <li>▶ Acting as the sole global coordinator and joint bookrunner as part of accelerated book building for existing shares of a company from the financial sector.</li> <li>▶ Transactional advisory in the sale of a leading aluminum processing company listed on the WSE.</li> <li>▶ Advisory services for the renewable energy platform operated in Poland and Baltic states in relation to the search for another minority shareholder for the purpose of a capital increase.</li> <li>▶ Participation in multiple M&amp;A and ECM projects, with the former focused on relatively resilient sectors (renewable energy, basic consumer goods, utilities, etc.).</li> </ul>

Unit	Key activities of the Corporate and Investment Banking Division in H1 2023
<p><b>Global Transactional Banking Department</b></p>	<ul style="list-style-type: none"> <li>▶ Business trends in trade finance:                             <ul style="list-style-type: none"> <li>▷ The demand for working capital finance increased in H1 2023 despite persistently high PLN reference rate. As a result, the utilisation of working capital finance grew slowly but steadily. An increasing number of customers were interested in mitigating counterparty risk.</li> <li>▷ Particularly popular were documentary letters of credit and collections used to mitigate counterparty risk and the risk of the counterparty's country.</li> <li>▷ High demand for stable long-term sources of financing translated into active use of export finance products as part of existing transactions and acquisition of new business based on these structures.</li> </ul> </li> <li>▶ Business trends in transactional banking:                             <ul style="list-style-type: none"> <li>▷ The deposit volume fluctuated significantly during the first six months of 2023. In the first quarter, the balance of deposits grew at a record rate and returned to a stable level in the second quarter, still much above the average for the past few years. This was mainly attributed to trends in the interest rate market and geopolitical factors.</li> <li>▷ The fee and commission income was lower than expected. Part of the fees collected in 2022 are no longer charged due to the current level of interest rates. Furthermore, as a result of legislative changes and decline in the residential market, the Division has lost one of its main sources of income: accounts for developers. In the first quarter, customers made fewer high-value (e.g. escrow) transactions. In the second quarter, the profitability of transactions clearly rebounded as customers were more active and the number of transactions processed by the Cash Management Team increased.</li> <li>▷ The overall outlook for transactional banking is positive. The Cash Management Team is focused on increasing net fee and commission income, with the first effects already observed in the last months of H1.</li> </ul> </li> <li>▶ Business trends in other areas:                             <ul style="list-style-type: none"> <li>▷ The average utilisation of overdrafts was stable during the last six months.</li> <li>▷ As the EUR/PLN swap market steadily returned to the levels recorded at the end of H1 2022, intragroup financing was seen by global entities as a better option than financing granted by Polish banks.</li> </ul> </li> <li>▶ There were still no signs of deterioration in customers' financial standing measured by PD and ODR based on GTB credit facilities.</li> </ul>
<p><b>Financial Markets Area</b></p>	<ul style="list-style-type: none"> <li>▶ Main activities related to services for business customers of Santander Brokerage Poland:                             <ul style="list-style-type: none"> <li>▷ First position of the brokers team and fourth position of the equity research team in the ranking published by <i>Parkiet</i>.</li> <li>▷ Second position of Mateusz Choromański in the brokers ranking and first position of Kamil Stolarski and Tomasz Sokotowski in the analysts ranking by sectors.</li> <li>▷ Development of GlobalConnect (introduction of shares of Jeronimo Martins, Inditex, Porsche, Zalando, SAP, RWE, Adidas, Bayer).</li> </ul> </li> <li>▶ Activities in the equity research area:                             <ul style="list-style-type: none"> <li>▷ Publication of 158 recommendations with regard to CEE listed companies.</li> <li>▷ Providing institutional investors with an opportunity to participate in investor conferences.</li> </ul> </li> <li>▶ Treasury Services Department:                             <ul style="list-style-type: none"> <li>▷ Clear economic slowdown and demanding geopolitical environment with no impact on the delivery of business objectives set for H1 2023.</li> <li>▷ Increased popularity of investment products, including higher volume and number of transactions in the SME and Private Banking segments in Q1 2023.</li> <li>▷ Declining demand for interest rate hedges in Q1 2023 amid hints about possible interest rate cuts at the end of 2023.</li> <li>▷ FX turnover at a level similar to 2022. Downward trend caused by the economic slowdown offset by increased turnover driven by high inflation.</li> <li>▷ Persistently high inflation in Q2 2023, causing customers to look for alternative investment solutions. Similar trend observed in the SME segment, with increased popularity of investment products.</li> <li>▷ Partnership of Santander Bank Polska S.A. and Banco Santander S.A. during the conference organised by the Polish Corporate Treasurers Association (PCTA).</li> <li>▷ Extension of cooperation with customers in terms of debt structuring and solutions for local authorities.</li> </ul> </li> </ul>

### 3. Business development of Santander Consumer Bank Group

Areas	Activities of Santander Consumer Bank Group in the main business areas in H1 2023
<b>Key focus areas of Santander Consumer Bank Group's operations</b>	<ul style="list-style-type: none"> <li>▶ In the reporting period, Santander Consumer Bank Group focused on:                             <ul style="list-style-type: none"> <li>▶ Maintaining the leadership position in the installment loan market based on a stable share in traditional sales, existing relationships with large retailers, further growth of online sales, identification of new sales growth opportunities and profitability of cooperation with trade partners.</li> <li>▶ Further acquisition of customers based on consumer finance products and credit cards and maximisation of sales opportunities through cross-selling and up-selling.</li> <li>▶ Maximising the effectiveness of customer contacts and optimising the product range. Growing sales in remote channels (including online) and cash loan sales in the mobile application.</li> <li>▶ Improving efficiency of sales at branches through implementation of incentive measures.</li> <li>▶ Focusing on the SME segment due to unfavourable developments in the automotive market, leveraging the extended base of distribution partners.</li> <li>▶ Developing second-hand car finance products.</li> </ul> </li> </ul>
<b>Lending</b>	<ul style="list-style-type: none"> <li>▶ As at 30 June 2023, net loans and advances granted by SCB Group totalled PLN 17.0bn and increased by 8.4% Ytd on account of higher supply of cars subject to lease and higher demand for stock finance, factoring and installment loans.</li> <li>▶ A stable balance of cash loans reflects a weaker demand resulting from high interest rates and inflation, and restrictions arising from the Usury Prevention Act.</li> <li>▶ Thanks to a range of acquisition activities, the sales of credit cards grew in both traditional and remote channels.</li> <li>▶ Based on its partnership with the largest retail chains in terms of installment loans, the bank increased the use of remote channels in terms of number and value.</li> <li>▶ Customers were offered an option to apply for a cash loan directly in the mobile application, which translated into growth in the share of this sales channel.</li> <li>▶ The bank increased the maximum cash loan amounts available to non-customers at branches and remote channels (by phone or online). In addition, the maximum cash loan period for non-customers was extended in all distribution channels.</li> <li>▶ The bank also extended the maximum lending period (up to 84 instalments) and maximum loan amount (up to PLN 60k) as part of standard online cash loan offers.</li> <li>▶ In H1 2023, SCB S.A. sold the written-off credit portfolio of PLN 219.7m, with a P&amp;L impact of PLN 45.6m gross (PLN 37.2m net).</li> </ul>
<b>Deposits</b>	<ul style="list-style-type: none"> <li>▶ As at 30 June 2023, deposits from customers of Santander Consumer Bank Group totalled PLN 12.1bn and increased by 17.4% Ytd owing to the continuation of acquisition activities started in late 2022 to attract new deposits from both retail and corporate customers.</li> <li>▶ 6-month term deposits and savings accounts were most popular in H1 2023.</li> </ul>
<b>Bond issue</b>	<ul style="list-style-type: none"> <li>▶ Santander Consumer Multirent sp. z o.o. issued another tranche of 2-year variable-rate bonds of PLN 50m. The proceeds will be used for general corporate purposes.</li> </ul>
<b>Insurance</b>	<ul style="list-style-type: none"> <li>▶ The bank's insurance offer was extended to include three new products not linked to cash loans: Accident Package (Pakiet Wypadkowy), Care Package (Pakiet z Troską) and My Car (Moje Auto) insurance. The first two replaced existing Safe Package (Pakiet Bezpieczny) and Senior Package (Pakiet Senior).</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>▶ In H1 2023, Santander Consumer Bank S.A. renewed or extended cooperation with two key partners from the household appliances sector, maintaining its leadership position in the consumer finance market.</li> </ul>

# VI. Organisational and Infrastructure Development

## 1. Human Resources management

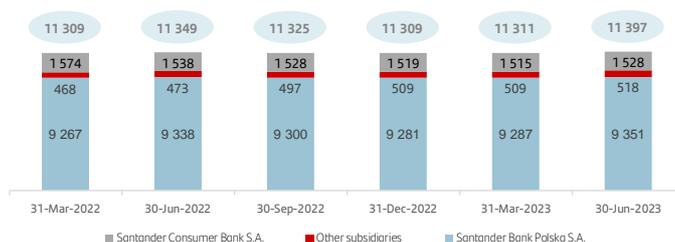
### Employment

As at 30 June 2023, the number of FTEs in Santander Bank Polska Group was 11,397 (11,309 as at 31 December 2022), including 9,351 FTEs of Santander Bank Polska S.A. (9,281 as at 31 December 2022) and 1,528 FTEs of Santander Consumer Bank Group (1,519 as at 31 December 2022).

The employment in Santander Bank Polska Group was up 88 FTEs Ytd and 48 FTEs YoY.

The Group continues the transformation of the business model through digitalisation, branch network optimisation, migration of products and services to remote distribution channels, and gradual implementation of technological and organisational solutions increasing operational efficiency of the organisation. The objective is to allocate the maximum resources to strengthen customer relationships, grow business and build skills matching the target profile for the organisation. The HR processes take into account both present operational needs as well as market conditions. They are based on natural employee attrition.

Employment at Santander Bank Polska Group (in FTE) by quarter in 2022 and 2023



### Key HR management directions in 2023

The Group is focused on digitalising processes and ensuring friendly and flexible work environment.

Building employees' trust and ensuring system security through compliance with current regulatory requirements

- ▶ The Bank's HR systems are continuously developed and adapted to changing regulatory requirements in order to provide employees with effective HR services and fast and user-friendly access to self-service functionalities (e.g. solutions related to remote work, GDPR and work-life balance directive; system changes ensuring compliance with amended tax regulations, etc.).

Continuous delivery of the paperless strategy

- ▶ In line with the Bank's paperless strategy, since 1 March 2023 all employee files have had digital form. The Bank is one of the leaders of digital solutions in this regard in the Polish banking market.

Focusing on employees and improving their experience with OneHR

- ▶ Workday (OneHR system) is subject to a regular housekeeping process, whose main objective is to ensure high quality data in the Bank's systems (particularly in respect of the organisational structure and user rights management) and continuously improve and update the global HR processes (mainly in relation to talent acquisition).
- ▶ The Bank regularly improves the performance of the OneHR system and looks for opportunities to further automate and simplify HR processes.

#### Developing smart HR data management

- ▶ Measures were continued as part of HR Europe Analytics, a Group project, to design a solution presenting employment data. In May 2023, a competency assessment application was rolled out (270-degree evaluation, 360-degree evaluation and a solution for the Product Owner) in addition to the existing application used by managers to calibrate performance ratings.

#### Management Board's Roadshow

- ▶ In March and April 2023, the Management Board organised the Roadshow: a series of meetings with employees and customers across Poland. Management Board members met with more than a thousand leaders to discuss the Bank's objectives and priorities for 2023 as well as leadership, i.e. the role of managers in delivering those goals. It is an important step to build trust, effectively communicate and ensure that employees at each organisational level have full understanding of measures taken by the Bank.

#### Refreshing corporate behaviours (TEAMS) and promoting them across the organisation

- ▶ The corporate behaviours of Santander Bank Polska S.A. have been modified, forming an acronym: TEAMS. The knowledge of the reshaped behaviours was cascaded down through the organisation, starting from the top management through middle management to employees. Between February and June, the series of initiatives called "Months with Behaviours" took place to foster the corporate culture among employees. Each month was dedicated to one behaviour.

#### Extensive employer branding initiatives

- ▶ Employer branding measures were continued to promote the Bank as a great place to work. Two new image-building and recruitment campaigns were launched: 1) "Let's combine our powers": a campaign run across all distribution channels (branches, Select line, Multichannel Communication Centre, agent network, partner outlets); 2) "Backend: behind the scenes": a campaign promoting the knowledge of banking IT among candidates and employees. The Bank's employees participated in both campaigns as brand ambassadors.

## Changes in the personnel and remuneration policies

### Variable remuneration

Santander Bank Polska S.A. consistently delivers its remuneration strategy in line with the Group's remuneration policy. Pursuant to the bonus regulations, annual bonuses for 2022 were settled in Q1 2023 (and paid out in March). The Group has a share-based incentive plan (Incentive Plan VII) addressed to the employees who significantly contribute to growth in the value of the organisation. Its purpose is to motivate the participants to achieve business and qualitative goals in line with the Group's long-term strategy. Pursuant to the Resolution of the Extraordinary General Meeting of 12 January 2023, in Q1 2023 the Management Board bought back treasury shares in the number sufficient to pay the awards due to the plan participants in 2023 for 2022. All the above shares were transferred to individual brokerage accounts of the participants. For more information, see section "Incentive Plan VII" in Chapter IX "Governing Bodies".

### Salary review

In Q2 2023, the Bank started an annual salary review. Based on its results, the Management Board will decide about potential pay rises.

### Changes arising from the amended Labour Code

#### Remote work

In April 2023, the Labour Code was amended to include provisions on remote work, which became a common work model during the Covid-19 pandemic. They supersede the previous provisions arising from the emergency legislation. On 7 April 2023, the Bank and trade unions signed an agreement on remote work, setting out, among other things, the rules for settling costs directly related to teleworking. The wording of the document was agreed in accordance with Article 67<sup>20</sup> of the Labour Code, taking into account the hybrid model applicable at the Bank. Convenient self-service tools were implemented to support employees and managers in fulfilling formal requirements and managing the hybrid work (statements, applications for remote work, solutions for selected groups of employees, e.g. parents of children with disabilities).

#### Other statutory changes

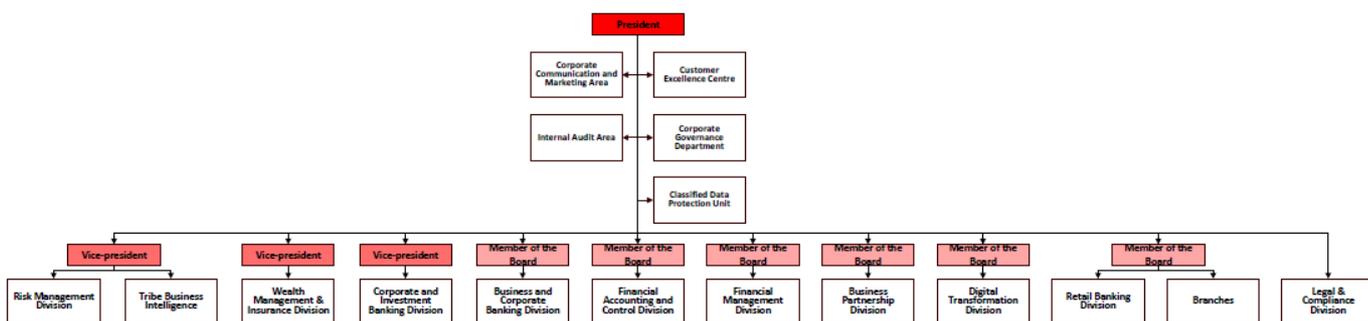
In April 2023, the provisions of the Labour Code transposing the EU directive on work-life balance for parents and carers and the EU directive on transparent and predictable working conditions in the European Union entered into force. They introduced changes to the rules for terminating fixed-term contracts, granting parental leaves and paying maternity allowance, extended employers' information obligations towards employees, and introduced two new types of justified absence (carers' leave and absence on the grounds of force majeure).

## 2. Optimisation of the organisational structure

In H1 2023, the organisational structure of Santander Bank Polska S.A. was changed to increase the operational efficiency of the organisation through its better alignment with the business environment and optimisation of management processes.

- Retail Banking Division and Branch Network**
  - ▶ The following units were separated from the Retail Banking Division to form the Wealth Management and Insurance Division: Santander Brokerage Poland, Private Banking and Wealth Management Department, Bancassurance Area and the Support and Distribution Office. This change was intended to strengthen the business focus on the mass market, increase the effectiveness of sales management and facilitate digital transformation of this segment. At the same time, the new structure reflects the global functional structure of Santander Group.
  - ▶ The Omnichannel Area was moved to the Digital Transformation Division.
  - ▶ The above changes in the Retail Banking Division and the Branch Network strengthened the functional dependence between the Distribution and Business Support Centre across all segments, products and channels and enhanced the cooperation with other Divisions of the Bank. The structure was adjusted to the newly defined strategic areas. To that end, the Retail Customer Segment and the External Distribution Area were established and the reporting lines of the Multichannel Communication Centre, CRM Area and the Consumer Finance Area were changed – these units now report directly to the member of the Management Board.
- Digital Transformation Division**
  - ▶ The structure of IT Areas supporting retail and corporate business and operating within the CIO (Chief Information Officer) structure was extended. The Commercial Financing Area was established, with the responsibility for maintenance and development of IT systems supporting the corporate lending process.
  - ▶ The Omnichannel Area, whose role is to develop the omnichannel product distribution and service platform, was moved from the Retail Banking Division and incorporated into the CIO structure. To optimise business processes related to complaints handling, effectiveness management and operations development, the Complaints and Customers Relationship Department and the Effectiveness and Development Operations Department were set up in the Central Operations Area.
- Wealth Management and Insurance Division**
  - ▶ For information about the establishment of the new Wealth Management and Insurance Division from the units of the Retail Banking Division, please see the section on the Retail Banking Division.
- Business and Corporate Banking Division**
  - ▶ The following units were created in the Business and Corporate Banking Division: Business Development and Service Area, Business Service Department and Trade Finance Department. The purpose of this comprehensive reorganisation (which includes the lower-level units) is to replace the geographical management structure with segmental management structure.

### > Organisational units of the Business Support Centre of Santander Bank Polska S.A.



### 3. Development of distribution channels of Santander Bank Polska S.A.

#### Basic Statistics on Distribution Channels

Santander Bank Polska S.A.	30.06.2023	31.12.2022	30.06.2022
Branches (locations)	328	335	356
Off-site locations	2	2	2
Santander Zones (acquisition stands)	15	14	11
Partner outlets	170	170	165
Business and Corporate Banking Centres	6	6	6
Single-function ATMs	447	472	562
Dual-function machines	957	952	917
Registered internet and mobile banking customers <sup>1)</sup> (in thousands)	4 980	4 869	4 714
Digital (active) mobile and internet banking customers <sup>2)</sup> (in thousands)	3 384	3 285	3 170
Digital (active) mobile banking customers <sup>3)</sup> (in thousands)	2 595	2 452	2 280
iBiznes24 – registered companies <sup>4)</sup> (in thousands)	25	25	24

1) The number of customers who signed an electronic banking agreement under which they can use remotely the available products and services.

2) The number of active internet and mobile banking users (digital customers) who at least once logged into internet or mobile banking or checked their balance without logging in the last month of the reporting period.

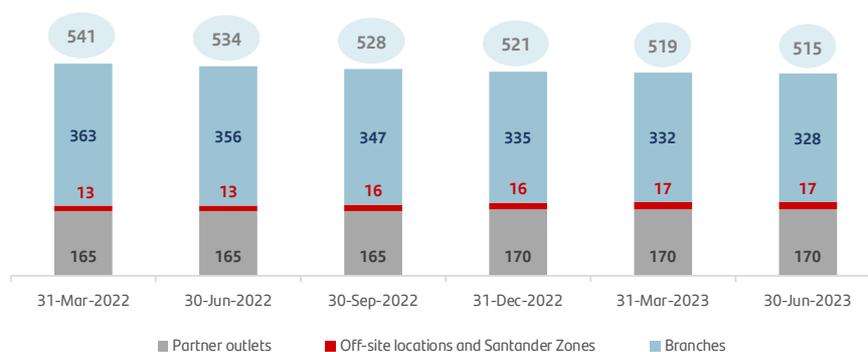
3) The number of active mobile banking customers who at least once logged into the mobile application or checked their balance without logging in the last month of the reporting period.

4) Customers using iBiznes24 – an electronic platform for business customers (iBiznes24, iBiznes24 mobile and iBiznes24 Connect).

#### Traditional distribution channels

As at 30 June 2023, Santander Bank Polska S.A. had 328 branches, 2 off-site locations, 15 Santander Zones and 170 partner outlets. During H1 2023, the number of bank outlets (branches, off-site locations and acquisition stands) decreased by 6 (7 branches were liquidated and a new Santander Zone was set up in Łódź), and the number of partner outlets was stable Ytd.

Number of branches and partner outlets of Santander Bank Polska S.A. by quarter in 2022 and 2023



At the end of June 2023, the Private Banking model included 65 Private Bankers based in 24 outlets across Poland (5 Private Banking Centres and 19 other locations).

Services to businesses and corporations were provided by two departments: the Business Clients Department and the Corporate Clients Department with their 6 Banking Centres (3 Business Banking Centres and 3 Corporate Banking Centres) operating within three regional structures through 29 offices located Poland-wide. Premium customers and entities from the public and commercial properties sector were handled by four dedicated offices.

## Intermediaries network

Indirect distribution channels, whose main role is to acquire new customers, include mainly agents and intermediaries/ brokers.

- In H1 2023, the external network employed 258 people as the Bank's tied agents on average per month (Mobile Agency Network). The Bank used their services to offer cash loans, mortgage loans, SME loans, loan insurance, personal and business accounts, and leasing facilities.
- Cooperation with financial and real estate brokers (network agents) was centrally managed under nine agreements. The mortgage loan offer did not change, neither did the terms of cooperation between the Bank and brokers.

## ATMs

As at 30 June 2023, the network of self-service devices of Santander Bank Polska S.A. comprised 1,404 units, including 447 ATMs (dispensing cash only) and 957 dual function machines (including 512 recyclers, i.e. devices enabling withdrawal of cash that has been previously deposited by other customers).

The Bank continued to replace machines and increase the number of dual function devices. As a result, 12 recyclers were installed while 7 dual function machines and 25 single function machines were removed in H1 2023.

## Remote channels

In H1 2023, Santander Bank Polska S.A. further improved the functionality and performance of digital contact channels in line with its long-term strategy which is to increase the share of such channels in customer acquisition and sales.

The changes were intended to improve the user-friendliness of existing features and processes, and add new ones, while enhancing security of operations. Furthermore, channel integration was continued, harmonising customer service across the Bank.

Electronic channel	Selected solutions and improvements introduced in H1 2023
santander.pl	<ul style="list-style-type: none"> <li>▶ Continuation of the work on the digital accessibility of santander.pl (WCAG).</li> <li>▶ Improvement of the website performance, reducing its carbon footprint by 70% and making it one of the fastest websites in Poland.</li> <li>▶ Optimisation of sale and conversion capabilities, resulting in record customer acquisition in June 2023 (more than six thousand accounts).</li> </ul>
Internet and mobile banking	<ul style="list-style-type: none"> <li>▶ Introduction of an option for sole traders who use Mini Firma services and have an active NIK identification number for personal customers to integrate their NIK in internet banking.</li> <li>▶ Implementation of the BLIK service for business customers.</li> <li>▶ Continuation of the pilot of Santander OneApp Polska and preparations for mass rollout in H2 2023.</li> </ul>
Santander Open	<ul style="list-style-type: none"> <li>▶ Extension of the availability of Santander Open service to include Nest Bank S.A. (6 March 2023), allowing customers to integrate accounts online (AIS) and initiate transfers (PIS) via electronic and mobile banking in relation to accounts held with any of the following nine banks: Alior Bank S.A., Bank Millennium S.A., BNP Paribas S.A., Credit Agricole S.A., ING Bank Śląski S.A., mBank S.A., PKO BP S.A., Pekao S.A. and Nest Bank S.A.</li> </ul>
Multichannel Communication Centre (MCC)	<ul style="list-style-type: none"> <li>▶ Introduction of an option to accept instructions from an attorney, minor or statutory representative to close an account via phone or Online Advisor (previously, it was only possible at branches).</li> <li>▶ Development of a procedure with respect to vulnerable customers who indicate difficult personal circumstances, illness or other limitations in their complaints as part of measures taken by the Bank to build relationships (help with daily banking and elimination of inconveniences) and retain customers (offers made on the basis of customer complaints).</li> <li>▶ Implementation of a tool for sending documents to customers that meets the KNF's encryption and security requirements.</li> <li>▶ Introduction of an option for integrating the NIK identification number of a business customer with that of a personal customer via phone (previously, this option was available only in the video channel).</li> <li>▶ Upgrade of the IVR system including technical enhancements and more coherent and user-friendly services. Messages are now shorter, easier to understand and quicker (energetic voice-over recordings, new music on hold).</li> <li>▶ Implementation of the menu in the IVR system for Ukrainian- and Russian-speaking customers, launch of customer service in Russian and extension of opening hours.</li> <li>▶ Development of the IVR system for Select customers.</li> </ul>

## 4. Development of distribution channels of Santander Consumer Bank S.A.

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

Santander Consumer Bank S.A.	30.06.2023	31.12.2022	30.06.2022
Branches	50	50	50
Partner outlets	255	263	266
Car finance partners	1,485	1,188	1,215
Hire purchase partners	6,082	6,085	6,526
Registered internet and mobile banking customers <sup>1)</sup> (in thousands)	1,454	1,404	1,314
Digital (active) mobile and internet banking customers <sup>2)</sup> (in thousands)	748	348	282
Digital (active) mobile banking customers <sup>3)</sup> (in thousands)	354	276	209

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

2) The number of active internet and mobile banking users (digital customers) who at least once logged into internet or mobile banking or checked their balance without logging in the last month of the reporting period. From Q1 2023, this category also includes e-commerce customers.

3) The number of active mobile banking customers who at least once logged into the mobile application or checked their balance without logging in the last month of the reporting period.

## 5. Continuation of digital transformation

The table below presents the selected IT projects delivered by Santander Bank Polska Group in H1 2023 in line with the main directions of digital transformation.

Initiative	Key projects delivered in H1 2023
Improvement of availability, reliability and performance of the Bank's systems	<ul style="list-style-type: none"> <li>▶ Continued replacement of network devices and increase in the capacity of network connections at branches (the process covered 100% branches by June 2023).</li> <li>▶ Commencement of the testing optimisation proces of internet banking and a new mobile application.</li> <li>▶ Execution of the first outsourcing agreement in relation to ATM cash supply and maintenance services, ensuring high service quality and lower maintenance costs.</li> <li>▶ Execution of an outsourcing agreement with respect to card personalisation (final stage of a pilot).</li> <li>▶ Launch of work to:                             <ul style="list-style-type: none"> <li>▷ optimise and standardise the processes available in DCL (a system used for customer service at branches) as part of the omnichannel model;</li> <li>▷ migrate Cortex (a system for card transaction authorisation) to a new database technology to improve its reliability.</li> </ul> </li> <li>▶ Completed optimisation of the application for managing garnishee orders (shortening of data processing time, optimisation of disk space, improvement of response time, changes in the garnishee order service process etc.).</li> <li>▶ Improvement of the availability and resilience of CSR, the key payment processing system.</li> <li>▶ Modification of credit collateral processes, improving data quality, performance and security of the system.</li> </ul>
Participation in global optimisation initiatives of Santander Group	<ul style="list-style-type: none"> <li>▶ Implementation of the DNS (Domain Name System) infrastructure project, ensuring the readiness of the Landing Zone for automatic creation of virtual machines and developing an onboarding process for new initiatives in Azure (Azure Landing Zone/cloud platform).</li> <li>▶ Completion of the next stages of the OneAML programme in relation to the OneFCC Sanctions area and in the KYC area.</li> <li>▶ Implementation of a carbon footprint tracking feature in the internet and mobile application.</li> <li>▶ Switch of all incoming Express Elixir payments to PayHubPL.</li> <li>▶ Migration of corporate and investment banking customers to a new platform, i.e. EBICS 3.0 (Electronic Banking Internet Connection Standard).</li> <li>▶ Start of the first stage of implementation of the Loan IQ (credit intermediary and advisory services for individuals and businesses) in relation to syndicated finance and payment automation.</li> <li>▶ Continuation of the business and system analysis of the process dedicated to Private Banking customers: sanction of asset-backed loans.</li> </ul>

Initiative	Key projects delivered in H1 2023 (cont.)
Enhancement of security of the Bank's systems	<ul style="list-style-type: none"> <li>▶ Improvement of security, reliability and performance of web servers for electronic banking through the migration to the new software.</li> <li>▶ Purchase of a new inter-operator line to reduce current traffic and minimise the impact of DDOS attacks.</li> <li>▶ Migration of business applications to a new container platform (Openshift 4), with an increased capacity and potential for automation of tests and implementation.</li> <li>▶ Continuation of the campaign: "Don't believe in fairy tales for adults" in social media to promote the knowledge of cyber risk and warn customers of latest threats via different communication channels: social media, electronic banking, websites and CRM messages.</li> </ul>
Implementation of regulatory requirements	<ul style="list-style-type: none"> <li>▶ Modification of insurance sale and service processes to ensure compliance with the new interpretation of the Insurance Distribution Directive (IDD).</li> <li>▶ Introduction of changes in the Corporate Data Warehouse (CDW) and banking processes as a result of changes in the Developer Guarantee Fund (Property Developer Act).</li> <li>▶ Completion of the first stage of the project in the CDW aimed to implement recommendations and operating procedures related to resolution and bail-in.</li> <li>▶ Conclusion of the main analysis of the new PROMAK Next platform – a cloud solution for the automation of services provided by Santander Brokerage Poland.</li> <li>▶ Continuation of work in relation to the WIBOR reform (introduction of WIRON and launch of sales in 2024): completion of business and system analyses with respect to new sales of products referencing WIRON (Warsaw Interest Rate Overnight).</li> <li>▶ Start of data reporting to the National Clearing House (KIR) and analysis of requirements for customer account information reporting to Santander Brokerage Poland as part of the STIR programme, which implements the requirements of the Tax Ordinance Act (STIR) and the Financial Information System Act (SiNF).</li> <li>▶ Implementation of changes in Cortex (a system for authorisation of banking transactions) as part of VISA and Mastercard Release.</li> <li>▶ Completion of the next stages of digitalisation of correspondence between the Bank and the State Prosecutor's Office (Cybercrime and IT Department).</li> <li>▶ Migration of the TARGET platform to Eurosystem Single Market Infrastructure Gateway (ESMIG) in line with ISO20022. Preparations for processing SWIFT payments in the new XML (Extensible Markup Language) format as part of the CBPR+ cross-border payments and reporting project.</li> <li>▶ Launch of a process for CHF lawsuits based on the new Litigation Inventory (RPS).</li> </ul>
Automation and optimisation of operational processes	<ul style="list-style-type: none"> <li>▶ Delivery of projects under the Galaxy 1 (G1) Programme:                         <ul style="list-style-type: none"> <li>▷ Credit stream: launch of a remote cash loan process for external retail customers, with the use of the Income Verification Model to confirm the customer's income in a remote channel.</li> <li>▷ SME stream: implementation of a capped-rate loan process and improvement of the credit process at branches.</li> <li>▷ Account stream: introduction of a mass remote process for opening personal accounts.</li> <li>▷ Bancassurance stream: implementation of a 360-degree view of an insurance policy in the mobile application.</li> </ul> </li> <li>▶ Functional development of the pilot OneApp: linking a card to the wallet before the receipt of a plastic card, view of CWV numbers and the list of insurance policies.</li> <li>▶ Mass rollout of an electronic signature at branches for all deposit documents.</li> <li>▶ Launch of a new process to support customers with the inheritance-related procedure.</li> <li>▶ Processing of corporate customers' payments as part of Host-to-host/ Webservice solutions.</li> <li>▶ Transfer of post-sales mortgage services to remote channels (dispatch of an electronic statement on mortgage establishment to a notary, pilot authorisation of annexes to mortgage loan agreements). Santander Bank Polska S.A. was the first bank in Poland to introduce the above remote solutions.</li> <li>▶ Full automation of the processing of pre-limit cash loan requests from agents and partners.</li> <li>▶ Optimisation of the application for management of garnishee orders (automation of transfers pending approval, shortening of request processing time, automated processing of customer statements on early execution of a garnishee order).</li> </ul>

## VII. Financial Performance in H1 2023

### 1. Consolidated 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 2023	H1 2022	YoY change
<b>Total income</b>	<b>7,600.6</b>	<b>6,513.2</b>	<b>16.7%</b>
- Net interest income	6,292.5	5,178.8	21.5%
- Net fee and commission income	1,340.0	1,281.4	4.6%
- Other income <sup>1)</sup>	(31.9)	53.0	-160.2%
<b>Total costs</b>	<b>(2,313.4)</b>	<b>(2,532.1)</b>	<b>-8.6%</b>
- Staff, general and administrative expenses	(1,978.4)	(2,189.3)	-9.6%
- Depreciation/amortisation <sup>2)</sup>	(275.8)	(263.7)	4.6%
- Other operating expenses	(59.2)	(79.1)	-25.2%
<b>Net expected credit loss allowances</b>	<b>(590.2)</b>	<b>(229.5)</b>	<b>157.2%</b>
<b>Cost of legal risk connected with foreign currency mortgage loans <sup>3)</sup></b>	<b>(1,149.5)</b>	<b>(947.4)</b>	<b>21.3%</b>
Profit/loss attributable to the entities accounted for using the equity method	52.2	36.1	44.6%
Tax on financial institutions	(387.5)	(367.6)	5.4%
<b>Consolidated profit before tax</b>	<b>3,212.2</b>	<b>2,472.7</b>	<b>29.9%</b>
Tax charges	(848.7)	(732.4)	15.9%
<b>Net profit for the period</b>	<b>2,363.5</b>	<b>1,740.3</b>	<b>35.8%</b>
- Net profit attributable to the shareholders of the parent entity	<b>2,322.2</b>	<b>1,616.4</b>	<b>43.7%</b>
- Net profit attributable to the non-controlling shareholders	40.3	123.9	-66.7%

1) Other income includes total non-interest and non-fee income of the Group comprising the following items of the full income statement: dividend income, net trading income and revaluation, gain/loss on other financial instruments, gain/loss on derecognition of financial instruments measured at amortised cost and other operating income.

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

3) This line item discloses raised and released provisions for legal risk and legal claims connected with foreign currency mortgage loans under the IFRS 9-based accounting approach. Along with Gain/loss on derecognition of financial instruments measured at amortised cost (disclosed in the table as part of Other income) it presents the overall impact of legal risk of such loans on the Group's performance. Starting from 1 January 2022, the Group recognises and presents legal risk of the above credit portfolio, reducing the gross carrying amount of mortgage loans in line with IFRS 9. If there is no exposure to cover the estimated provision (or the existing exposure is insufficient), the provision is recognised in accordance with IAS 37.

#### The Group's total income and profit before tax by quarter in 2022 and 2023



The profit before tax of Santander Bank Polska Group for the 6-month period ended 30 June 2023 was PLN 3,212.2m, up 29.9% YoY. The profit attributable to the Bank's shareholders increased by 43.7% YoY to PLN 2,322.2m.

The table presented in the "Comparability of periods" section below contains the selected items of the income statement of Santander Bank Polska Group which affect the comparability of the analysed periods. After the relevant adjustments:

- the underlying profit before tax increased by 17,2% YoY and
- the underlying profit attributable to the shareholders of the parent entity went up by 21,4% YoY.

## Comparability of periods

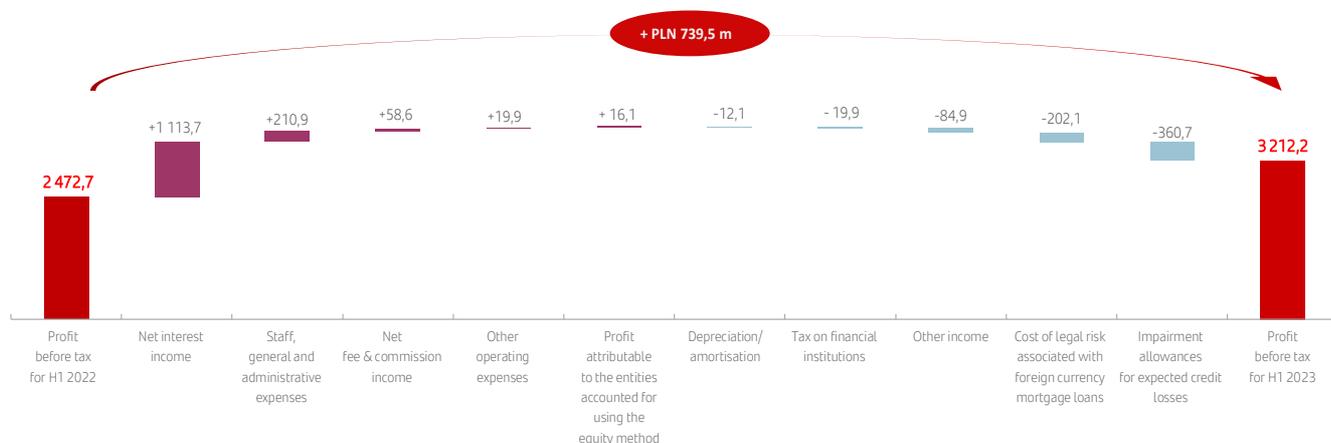
### Selected items of the income statement affecting the comparability of periods

	H1 2023	H1 2022
Cost of legal risk connected with foreign currency mortgage loans <i>(income statement item)</i>	▶ PLN 1,149.5m	▶ PLN 947.4m
Cost of settlements connected with foreign currency mortgage loans <i>(gain/loss on derecognition of financial instruments measured at amortised cost)</i>	▶ PLN 267.5m	▶ PLN 40.8m
Negative adjustment to interest income on mortgage loans due to payment deferrals <i>(interest income)</i>	▶ PLN 44.0m	▶ No corresponding costs
Costs related to the Institutional Protection Scheme (IPS) <i>(general and administrative expenses)</i>	▶ PLN 0.2m	▶ PLN 407.3m
Contributions to the Bank Guarantee Fund made by Santander Bank Polska S.A. and Santander Consumer Bank S.A. <i>(general and administrative expenses)</i>	▶ Contribution of PLN 174.6m to the bank resolution fund	▶ PLN 266.7m, including a contribution of PLN 57.7m to the bank guarantee fund and PLN 209.0m to the bank resolution fund

### Changes in the key components of the consolidated profit before tax for H1 2023 vs H1 2022

PLN m

■ Key components with a negative impact on a YoY change in PBT  
■ Key components with a positive impact on a YoY change in PBT  
■ Profit before tax for H1 2022 and H1 2023



The increase in the consolidated profit before tax of Santander Bank Polska Group for H1 2023 was driven mainly by net interest income (+21.5% YoY) as a consequence of persistently high interest rates following the hikes in 2022 and satisfactory growth of the Group's credit portfolios.

Gain on derivatives improved due to more favourable conditions in the money market (relative stabilisation of interest rates), resulting in an increase of 376.5% YoY in net trading income and revaluation. Gain on other financial instruments went up too (+PLN 37.8m YoY) on account of, inter alia, a positive change in the valuation of Visa Inc. shares and profit on the settlement of the conversion and sale of series A Visa shares recognised in the current reporting period.

Net fee and commission income was up 4.6% YoY on account of net fee and commission income from the core business, i.e. lending and guarantee activities and settlement and payment activities (card-related, electronic and payment services) as well as insurance activities and currency exchange. On the other hand, despite a higher volume of accounts a decrease was reported in account maintenance fees because of promotional and preference terms offered to customers. Declines were also observed in income from activities in the stock and investment fund markets reflecting the prevailing trends, i.e. lower YoY equity trading and lower average net value of assets managed by the Group (the average net assets were higher in the comparative period due to the increased value at the start of 2022).

Staff, general and administrative expenses were down 9.6% YoY due to a substantially lower contribution to the aid fund of System Ochrony Banków Komercyjnych S.A. and lower amounts payable to the Bank Guarantee Fund. This was partly offset by an increase in other components of general and administrative expenses and higher cost of salaries resulting from the inflationary pressure, costs of active incentive schemes and pay rises in line with market rates.

The profit before tax for H1 2023 was negatively affected by the cost of PLN 1,417.0m in respect of legal risk and settlements connected with CHF mortgage loans (+43.4% YoY) and higher expected credit loss allowances (+157.2% YoY) resulting from the deterioration of the macroeconomic environment (economic slowdown, high inflation, lower consumer demand, higher geopolitical risk) and worsening situation of borrowers. This was coupled with an increase in tax on financial institutions (+5.4% YoY) following the annual growth in taxable assets.

## Profit before tax of Santander Bank Polska Group by contributing entities

Components of Santander Bank Polska Group's profit before tax in PLN m (by contributing entities)	H1 2023	H1 2022	YoY change
<b>Santander Bank Polska S.A.</b>	<b>3,185.9</b>	<b>2,120.1</b>	<b>50.3%</b>
<b>Subsidiaries:</b>	<b>204.6</b>	<b>478.4</b>	<b>-57.2%</b>
Santander Consumer Bank S.A. and its subsidiaries <sup>1)</sup>	56.2	336.8	-83.3%
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	44.9	46.1	-2.6%
Santander Finanse Sp. z o.o. and its subsidiaries <sup>2)</sup> (Santander Leasing S.A., Santander Factoring Sp. z o.o., Santander F24 S.A.)	102.6	95.4	7.5%
Santander Inwestycje Sp. z o.o.	0.9	0.1	800.0%
<b>Equity method valuation</b>	<b>52.2</b>	<b>36.1</b>	<b>44.6%</b>
<b>Consolidation adjustments and exclusion of dividends received by Santander Bank Polska S.A.</b>	<b>(230.5)</b>	<b>(161.9)</b>	<b>42.4%</b>
<b>Profit before tax</b>	<b>3,212.2</b>	<b>2,472.7</b>	<b>29.9%</b>

1) In both periods under review, 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. w likwidacji, Stellantis Financial Services Polska Sp. z o.o., Stellantis Consumer Financial Services Polska Sp. z o.o., Santander Consumer Financial Solutions Sp. z o.o. and SCM Poland Auto 2019-1 DAC. In 2022, SCB S.A. lost control over S.C. Poland Consumer 16-1 Sp. z o.o. due to the restructuring of the securitisation transaction and established a new entity to secure a retail loan portfolio: S.C. Poland Consumer 23-1 DAC. The amounts provided above represent profit before tax (after intercompany transactions and consolidation adjustments) of SCB Group for the periods indicated.

2) Due to the settlement of the securitisation transaction, in 2022 Santander Bank Polska S.A. lost control over Santander Leasing Poland Securitization 01 Designated Activity Company with its registered office in Dublin. The Bank had no capital connections with that entity.

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

The profit before tax of Santander Bank Polska S.A. was PLN 3,185.9m, up 50.3% YoY. Changes to the components of the Bank's profit before tax are presented below.

**Year-on-year changes in the main items of the income statement of Santander Bank Polska S.A. for H1 2023 in absolute numbers**



Changes in the main components of the standalone profit reflect the trends relating to the consolidated profit. Similarly to the Group, the Bank's profit before tax was positively affected by: net interest income, net fee and commission income, net trading income and revaluation and general and administrative expenses. In addition, H1 2023 witnessed higher dividend income from subsidiary undertakings. The increase in the above-mentioned items was partly offset by a rise in: cost of legal risk and settlements connected with foreign currency mortgage loans, staff expenses, net expected credit loss allowances and tax on financial institutions.

## Subsidiaries

The subsidiaries consolidated by Santander Bank Polska S.A. reported a decline of 57.2% 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 2023 was PLN 56.2m (after intercompany transactions and consolidation adjustments) and decreased by 83.3% YoY as a combined effect of the following:

- A decline of 2.8% YoY in net interest income to PLN 633.2m resulting from growing cost of funding and implementation of statutory solutions regarding maximum non-interest costs of consumer loans (effective as of 18 December 2022).
- A decrease of 7.4% YoY in net fee and commission income to PLN 52.8m on account of lower fee and commission income from credit cards and insurance products resulting from the above-mentioned consumer loan legislation.
- Net expected credit loss allowances of PLN 123.5m compared with a positive balance of PLN 32.0m in H1 2022 resulting from:
  - ✓ Lower sales of overdue receivables affecting the profit on sales.
  - ✓ No non-recurring events recognised in the comparative period (i.e. the release of provisions following the change in the approach to the recognition of legal risk connected with foreign currency mortgage loans).
  - ✓ Normalisation of credit risk along with changes in the credit portfolio structure (a lower share of mortgage loans and a higher share of consumer loans).
- An increase of 23.7% YoY in other non-interest and non-fee income to PLN 34.0m reflecting an improvement in gain on other financial instruments and in other operating income.
- A rise of 6.1% YoY in operating expenses to PLN 283.9m on account of higher staff and general and administrative expenses, and higher depreciation/ amortisation.
- Costs of legal risk of foreign currency mortgage loans totalled PLN 241.9m and were 62.3% higher YoY as a result of an update of provisions for legal claims and cost of legal risk of foreign currency mortgage loans reflecting the court ruling practice and changes in borrowers' willingness to bring a case to the court.

## Other subsidiaries

The profit before tax of Santander TFI S.A. for H1 2023 decreased by 2.6% YoY to PLN 44.9m, mainly due to inflation, staff expenses, costs of sales support and business access to market reports. Net interest income grew by 29.5% YoY and net fee and commission income increased by 2.7% YoY as a combined effect of a rise in income from success fees and a decrease in income from management fees. The decline in income from fees on net fund asset management was caused by lower YoY value of average assets under management and average margin reflecting changes in the asset structure (increased share of low-margin assets, notably short-term debt sub-funds). Higher income from success fees is attributed to rates of return exceeding benchmarks for individual sub-funds. Robust performance was reported by both equity and mixed funds and by government bond funds.

Profit before tax posted by companies controlled by Santander Finanse Sp. z o.o. increased by 7.5% YoY to PLN 102.6m.

- Total profit before tax of Santander Leasing S.A., Santander Finanse Sp. z o.o. and Santander F24 S.A. for H1 2023 grew by 34.4% YoY to PLN 68.0m, reflecting lower net expected credit loss allowances (-31.1% YoY) and higher net fee and commission income (+201.2% YoY) resulting from an increase in insurance income and reduction in fees on synthetic securitisation. Strong sales generated in the reporting period (notably in the vehicles segment) triggered an increase of 9.9% YoY in the lease portfolio as well as growth of 13.2% YoY in net interest income. The quality of the lease portfolio remained high, with the NPL ratio of 3.57% (+0.11 p.p. YoY). The total result of the companies was negatively affected by the valuation of IRS and currency hedges.
- The profit before tax posted by Santander Factoring Sp. z o.o. decreased by 22.8% YoY to PLN 34.6m, reflecting lower net fee and commission income combined with higher operating expenses and net expected credit loss allowances.

## Structure of Santander Bank Polska Group's profit before tax

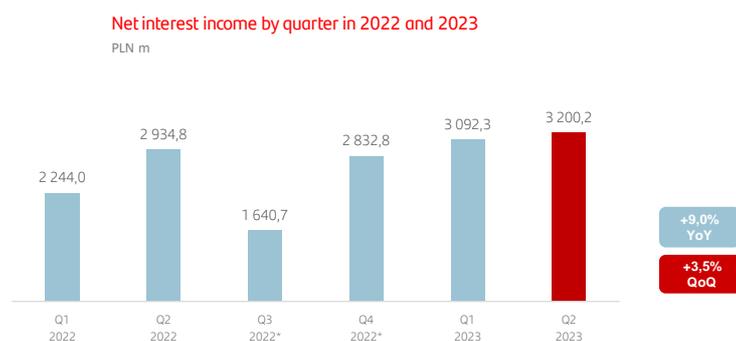
### Total income

During the first six months of 2023, total income of Santander Bank Polska Group increased by 16.7% YoY to PLN 7,600.6m.

### Net interest income

Net interest income for H1 2023 was PLN 6,292.5m and grew by 21.5% YoY supported by an increase in business volumes in the favourable high interest rate environment resulting from a series of NBP interest rate hikes in 2022 aimed at tightening the monetary policy and curbing inflation (the NBP reference rate was up 5.00 p.p. in total, including up 0.75 p.p. in H2 2022).

In H2 2022, the Group estimated and recognised a negative adjustment to interest income on account of payment holidays for PLN mortgage loan borrowers. The adjustment totalled PLN 1,544.4m and reflected the utilisation of interest deferrals (up to four months per year) expected by the Group during the solution application period (2022–2023). As the assumed percentage of deferred instalments grew from 63.8% at the end of 2022 to 64.7% at the end of June 2023, the estimates were increased by the amount of PLN 44.0m recognised in Q2 2023.

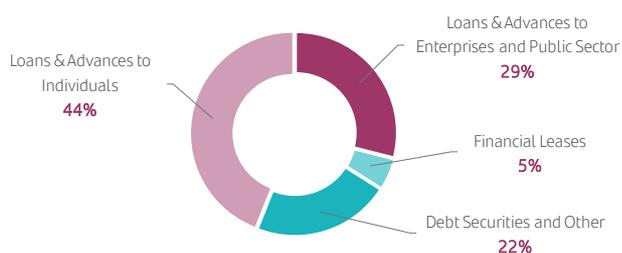


\* In H2 2022, net interest income included an adjustment of PLN 1,544.4m in total in respect of payment holidays, of which PLN 1,358.2m was taken to P&L for Q3 2022.

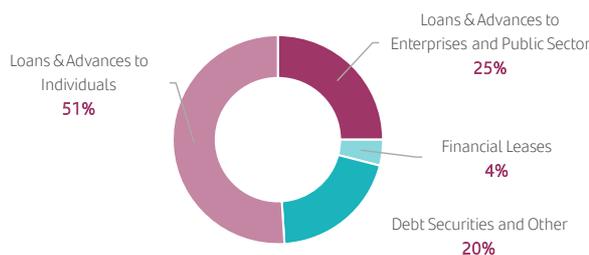
Interest income for H1 2023 totalled PLN 8,884.8m and was up 50.5% YoY, supported by the key categories of earning assets, mainly loans and advances to business and personal customers and banks, and debt securities.

Interest expenses grew much faster by 258.7% YoY to PLN 2,592.3m on the back of deposits from customers (including deposits from enterprises and the public sector and from personal customers) as well as liabilities in respect of repurchase transactions and liabilities due to debt securities in issue.

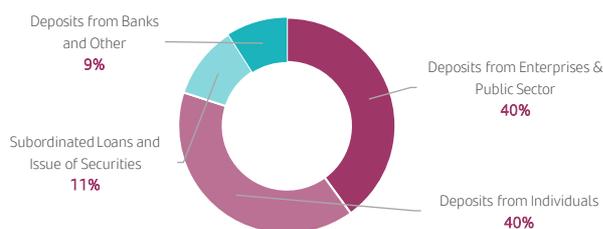
Structure of interest revenue for H1 2023



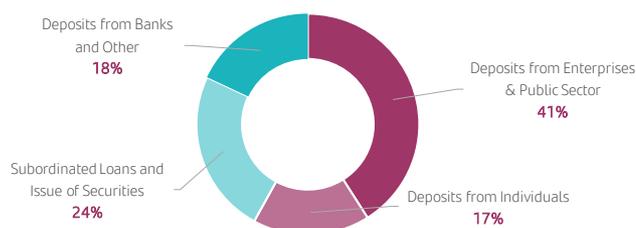
Structure of interest revenue in H1 2022



Structure of interest expense for H1 2023



Structure of interest expense for H1 2022



In H1 2023, the cumulative net interest margin (annualised on a Ytd basis) was 5.38% vs 4.63% in H1 2022. The YoY margin increase of 0.75 p.p. reflects trends in the money market (including higher official interest rates resulting from NBP rate hikes continued in H2 2022) as well as higher business volumes and effectiveness of the Group's earning assets. Significant growth was reported in loans and advances to enterprises and the public sector (+9.2% YoY) and leasing receivables (+10.1% YoY) coupled with a decrease in loans and advances to individuals (-2.9% YoY) caused by a slowdown in the home loans market. The above portfolios generated a total increase of 47.1% YoY in interest income. At the same time, the cost of deposits went down due to dynamic growth in term deposit balances (+85.4% YoY) and the Group's acquisition activities.

The quarterly net interest margin (annualised on a quarterly basis) declined slightly QoQ (from 5.40% in Q1 2023 to 5.37% in Q2 2023) as the interest rate environment stabilised during the 6-month period ended 30 June 2023. The value of on-balance sheet loans and advances to business customers and leasing receivables continued to grow moderately (by 2.8% QoQ and 2.2% QoQ, respectively), as did term deposits from individuals (+6.3 QoQ) and from enterprises and the public sector (+1.3% QoQ). The Group's deposit and credit offer was further modified in both quarters of 2023 in line with market trends and internal objectives in terms of competitive position, balance sheet structure, liquidity and profitability. A range of special pricing offers were made to increase sales.

Net interest margin<sup>1)</sup> by quarter in the years 2022 and 2023 (including swap points)<sup>2)</sup>



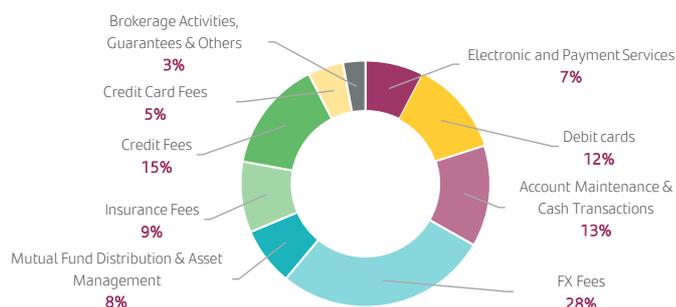
- 1) Net interest margin curve annualised on a quarterly and year-to-date basis. The margin for Q3 2022 takes into account the estimated financial impact of payment holidays and liabilities arising from regulations concerning mortgage loans in the total amount of PLN 1,430.0m compared to PLN 192.7m recognised in Q4 2022. Excluding the impact of the above adjustments on the Group's net interest income, at the end of December 2022 the cumulative margin was 4.96% and the quarterly margin was 5.28%.
- 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 fee and commission income

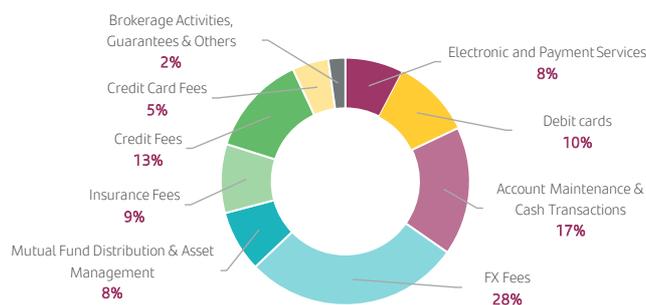
Net fee and commission income (PLN m)	H1 2023	H1 2022	YoY change
FX fees	371.5	360.4	3.1%
Credit fees <sup>1)</sup>	195.0	168.8	15.5%
Account maintenance and cash transactions <sup>2)</sup>	177.9	215.4	-17.4%
Debit cards	166.6	132.5	25.7%
Insurance fees	124.7	115.8	7.7%
Electronic and payment services <sup>3)</sup>	101.5	97.2	4.4%
Asset management and distribution	101.4	102.9	-1.5%
Brokerage activities	61.4	64.3	-4.5%
Credit cards	62.3	59.7	4.4%
Guaranties and sureties	24.0	11.4	110.5%
Other fees <sup>4)</sup>	(46.3)	(47.0)	-1.5%
<b>Total</b>	<b>1,340.0</b>	<b>1,281.4</b>	<b>4.6%</b>

- 1) Net fee and commission income from lending, factoring and leasing activities which is not amortised to net interest income. This line item includes inter alia the cost of credit agency.
- 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 2023 are included in the line item "Other" (PLN 12.0m for H1 2023 and PLN 9.8m for H1 2022).
- 3) Fees for payments (foreign and mass payments, Western Union transfers), trade finance, services for third party institutions as well as other electronic and telecommunications services.
- 4) Issue arrangement fees and other fees.

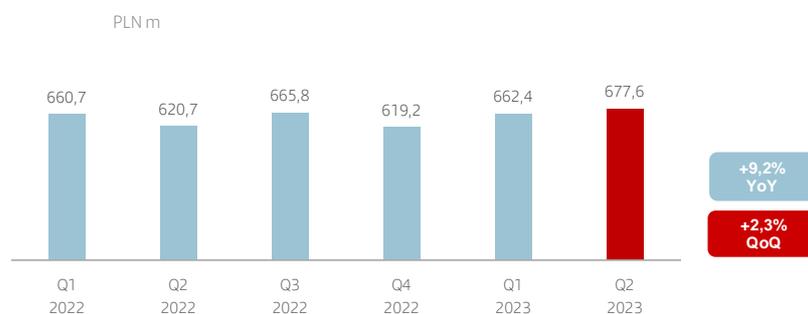
Net fee & commission income structure in H1 2023



Net fee & commission income structure in H1 2022



Net fee & commission income by quarter in 2022 and 2023

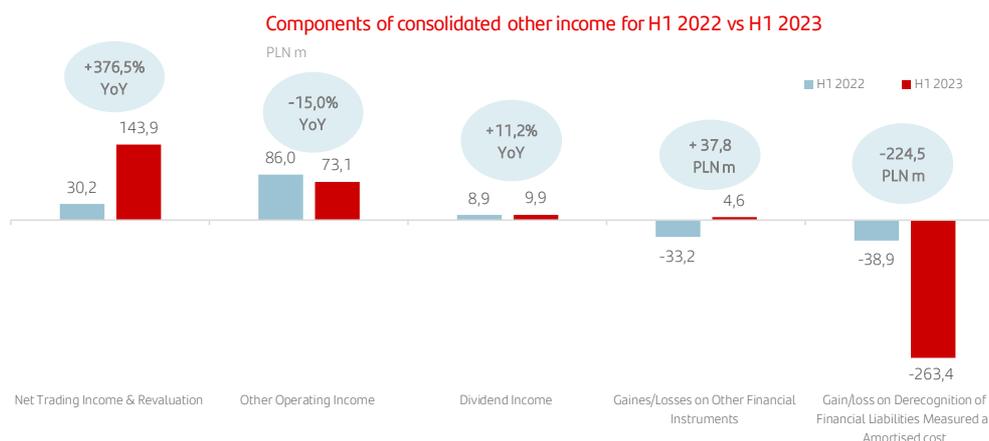


Net fee and commission income for the 6-month period ended 30 June 2023 amounted to PLN 1,340.0m and increased by 4.6% YoY. A decrease in the Group's income from operations in the investment fund and stock markets and from account maintenance and cash transactions was more than offset by an increase in other components of net fee and commission income, notably from loans, debit cards, guarantees and sureties.

The key changes to net fee and commission income items were as follows:

- An increase of 15.5% YoY in net credit fee income is a combined effect of the Group's services related to project finance for corporate customers, modification of fees in line with market trends and lower cost of agency services.
- An increase of 25.7% YoY in net income from debit cards is a combined effect of a growing number of cards (+3.6% YoY), a higher value of non-cash transactions with such cards (+16.9% YoY), a seasonal increase in income from currency exchange transactions (winter holidays, high exchange rates), fewer price concessions and special deals compared to the last year, and higher income from settlement of financial support from payment organisations for 2022.
- Net fee and commission income from guarantees and sureties was up 110.5% YoY as a result of growth in guarantee business coupled with relatively stable costs related to securitisation transactions.
- Net fee and commission income disclosed under the Group's electronic and payment services went up by 4.4% YoY as a consequence of international payments and services provided to third party institutions.
- FX fee income increased by 3.1% YoY as an effect of a lower FX turnover (-2.2%) accompanied by higher average quotations. The turnover in the eFX channel declined in the retail customer segment, but increased in the business segments. In the traditional channel, higher turnover was observed across all customer segments.
- A decrease of 17.4% YoY in net fee and commission income from account maintenance and cash transactions reflected favourable pricing for corporate customers with regard to liquidity management and preferential terms for customers from Ukraine such as free-of-charge current accounts. The base of current and personal accounts operated by the Bank has been growing steadily since 2022, with a particular increase reported in the number of Accounts As I Want It (+11.3% YoY to 3.0m). These changes translated into a higher number of transactions with debit cards and an increased use of electronic services and payments.
- A 4.5% YoY decrease in income from brokerage services resulted from lower trading on the main floor compared to H1 2022, when a revival reported at the start of the year was followed by increased volatility in response to Russia's invasion of Ukraine. In the current year, the situation has normalised, resulting from a relatively lower investor activity.
- Net fee and commission income from distribution and asset management declined by 1.5% YoY on account of lower income from management fees collected by funds managed by Santander TFI S.A. The decrease in the above income is attributed to lower average net value of assets and a growing share of lower-margin products such as short-term debt securities. Meanwhile, an increase was reported in income from success fees, reflecting higher rates of return generated by individual sub-funds due to improved market sentiment.

## Non-interest and non-fee income



Non-interest and non-fee income of Santander Bank Polska Group presented above was negative at -PLN 31.9m and declined by PLN 84.9m YoY due to a loss of PLN 263.4m on derecognition of financial instruments measured at amortised cost (vs a loss of PLN 38.9m in the corresponding period last year). This line item includes mainly costs of voluntary settlements with CHF home loan borrowers, which totalled PLN 267.5m in H1 2023 vs PLN 40.8m in H1 2022. By 30 June 2023, 7,374 settlements were made (4,337 in H1 2023), both pre-court and following the lawsuits. Settlement proposals made by Santander Bank Polska S.A. take into account both the elements of conversion proposed by the KNF Chairman in 2020, and the conditions defined internally by the Bank.

The aggregated non-interest and non-fee income was negatively affected by other operating income, which decreased by 15.0% YoY to PLN 73.1m due to lower income from indemnity payments and from the sale of services.

The Group reported an increase in other components of non-interest and non-fee income:

- Net trading income and revaluation grew by 376.5% YoY to PLN 143.9m as a result of a higher gain of PLN 109.2m on transactions in derivative and interbank FX markets (vs PLN 4.1m in H1 2022). An increase was reported in the fair valuation of the credit card portfolio measured through profit or loss, reflected in a positive adjustment of 10.3m in the fair value (vs PLN 3.2m in the comparative period). Trading in financial assets measured at fair value through profit or loss (both equity and debt instruments) brought in a total profit of PLN 24.4m vs PLN 22.9m in the comparative period.
- Gain on other financial instruments went up by PLN 37.8m to PLN 4.6m as a combined effect of:
  - ✓ A positive difference in the valuation of Visa Inc. shares reflecting a rise in the share price, among other things (positive adjustment of PLN 15.6m in the fair value of Visa Inc. shares vs PLN 12.4m in the comparative period).
  - ✓ A profit of PLN 2.9m from the conversion of series A convertible preference shares of Visa Inc. to 68k ordinary shares sold in several stages.

At the same time, the Group incurred a loss of PLN 3.7m (vs a profit of PLN 0.2m in H1 2022) on the sale of debt instruments due to an increase in bond yields driven by the evolution of interest rates, and reported a lower loss of PLN 8.3m on hedged and hedging instruments (vs a loss of PLN 19.9m in H1 2022).

- Dividend income totalled PLN 9.9m and was up 11.2% YoY on account of higher dividends from Krajowa Izba Rozliczeniowa S.A. and Biuro Informacji Kredytowej S.A.

## Expected credit loss allowances

Net expected credit loss allowances on loans and advances measured at amortised cost (PLN m)	Stage 1		Stage 2		Stage 3		POCI		Total	Total
	H1 2023	H1 2022	H1 2023	H1 2022	H1 2023	H1 2022	H1 2023	H1 2022	H1 2023	H1 2022
Allowance on loans and advances to banks	(1.5)	-	-	-	-	-	-	-	(1.5)	-
Allowance on loans and advances to customers	(91.0)	(45.2)	(291.2)	(148.5)	(282.3)	(142.5)	43.9	60.4	(620.6)	(275.8)
Recoveries of loans previously written off	-	-	-	-	34.6	42.1	-	-	34.6	42.1
Allowance on off-balance sheet credit liabilities	(3.3)	4.2	(3.1)	1.4	3.7	(1.4)	-	-	(2.7)	4.2
<b>Total</b>	<b>(95.8)</b>	<b>(41.0)</b>	<b>(294.3)</b>	<b>(147.1)</b>	<b>(244.0)</b>	<b>(101.8)</b>	<b>43.9</b>	<b>60.4</b>	<b>(590.2)</b>	<b>(229.5)</b>

In H1 2023, the charge made by Santander Bank Polska Group to the income statement on account of net expected credit loss allowances was PLN 590.2m and increased by 157.2% YoY, reflecting the impact of the economic environment on the credit portfolio. This figure includes net allowances of Santander Consumer Bank Group, which totalled PLN 123.5m, up 155.6m YoY.

Net allowances on loans and advances to the Group's customers for H1 2023 were a combined effect of:

- Half-yearly review of provisions and management adjustments, resulting in PLN 56.4m worth of top-ups.
- Increase in arrears above 30 days in the retail customer portfolio. Risk of downgrades to NPLs in the mortgage loan portfolio, partly mitigated by aid measures. In Q2 2023, an increase was reported in the number of entries to NPL in the case of customers who used the aid from the Borrowers Support Fund and had insufficient repayment capacity.
- Stable level of arrears and downgrades to NPLs in the SME segment.
- Provisions steadily raised in the corporate segment to account for worsening ratings and risk parameters of the performing loan portfolio.
- Sale of credit receivables of Santander Bank Polska S.A. and Santander Consumer Bank S.A. totalling PLN 897.4m at a profit before tax of PLN 109.8m (last year, receivables of PLN 902.1m were sold at a profit before tax of PLN 107.8m).

In H1 2023, the cost of credit risk of Santander Bank Polska Group was 0.80% (vs 0.48% in H1 2022), with a higher value of the credit portfolio measured at amortised cost (+2.8% YoY including finance lease receivables).

The Group closely monitors its loan portfolio, and promptly responds to changes in risk by adjusting credit ratings and classifying exposures to individual stages (taking into account the risk connected with the epidemic situation, the war in Ukraine and deteriorating macroeconomic conditions).

## Total costs

Total costs (PLN m)	H1 2023	H1 2022	YoY change
<b>Staff, general and administrative expenses, of which:</b>	<b>(1,978.4)</b>	<b>(2,189.3)</b>	<b>-9.6%</b>
- Staff expenses	(1,075.1)	(885.0)	21.5%
- General and administrative expenses	(903.3)	(1,304.3)	-30.7%
<b>Depreciation/amortisation</b>	<b>(275.8)</b>	<b>(263.7)</b>	<b>4.6%</b>
- Depreciation/amortisation of property, plant and equipment and intangible assets	(199.4)	(187.1)	6.6%
- Depreciation of the right-of-use asset	(76.4)	(76.6)	-0.3%
<b>Other operating expenses</b>	<b>(59.2)</b>	<b>(79.1)</b>	<b>-25.2%</b>
<b>Total costs</b>	<b>(2,313.4)</b>	<b>(2,532.1)</b>	<b>-8.6%</b>

In H1 2023, total operating expenses of Santander Bank Polska Group went down by 8.6% YoY to PLN 2,313.4m, reflecting lower contributions to the Bank Guarantee Fund and to the institutional protection scheme (IPS). It is an effect of significant aid provided last year by the largest domestic banks to the bank resolution fund of IPS, with Santander Bank Polska S.A. contributing PLN 407.3m (by the end of June 2022).

Other operating expenses went down too. On the other hand, an increase was reported in staff expenses and depreciation/amortisation of property, plant and equipment and intangible assets, resulting from delivery of further investment projects and capitalisation of the related costs. The level of expenses was also adversely affected by indexation and revision of pricing due to an increasing inflation rate, among other things.

As total income grew by 16.7% and total costs decreased by 8.6%, the Group's cost to income ratio was 30.4% in H1 2023 vs 38.9% in H1 2022.

## Staff expenses

Staff expenses totalled PLN 1,075.1m for H1 2023 and increased by 21.5% YoY. The average employment in the Group was relatively stable in both periods. The main components of staff expenses, i.e. salaries, bonuses and statutory deductions from salaries, went up by 21.6% YoY to PLN 1,042.6m on account of the salary review in line with market rates conducted in September 2022 and the costs of PLN 81.3m related to the launch of the share-based incentive plan (Incentive Plan VII). In the reporting period, the Group disclosed higher cost of internal meetings and recruitment in connection with the employees' return to offices as part of the hybrid work model.

## General and administrative expenses

In H1 2023, general and administrative expenses of Santander Bank Polska Group decreased by 30.7% YoY to PLN 903.3m, as a high base effect connected with the contribution of PLN 407.3m made by the Bank to the IPS aid fund last year (vs PLN 0.2m in the reporting period). Fees payable to market regulators (BFG, KNF and KDPW) declined by 31.8% YoY to PLN 194.3m. This included a decrease of 34.5% YoY in the charge made to the Group's income statement on account of contributions to the BFG, which totalled PLN 174.6m. It resulted from the BFG Council's decision to waive contributions to the bank guarantee fund in 2023, as the target level of deposit guarantee funds has already been exceeded. At the same time, the annual contribution to the bank resolution fund was reduced.

Excluding the mandatory contributions payable to the BFG as well as contributions made as part of the voluntary participation in the IPS, the Group's general and administrative expenses increased by 15.6% YoY, mainly on account of higher cost of IT usage and marketing as well as the cost of third party services, premises, cars and transport services.

The cost of IT usage, the largest item of the Group's general and administrative expenses, went up by 16.3% YoY in connection with delivery of multiple IT projects (business, regulatory and optimisation ones) across Santander Group and locally and due to processes related to support and maintenance of the existing infrastructure. The increase in marketing and entertainment (+13.2% YoY) results from advertising campaigns (promoting SME products, My Goals, Max Savings Account, etc.), periodic customer satisfaction surveys and higher cost of entertainment. The costs of third party services were also up 38.2% YoY in relation to an increase in back office service rates and remuneration payable to temporary staff, as well as the launch of new external services as part of banking operations. Higher cost of maintenance of premises (+15.7% YoY) is attributed to higher prices of energy, heating and other service charges as well as rent indexation. External factors (higher prices of CIT services and fuel) also contributed to an increase of 17.8% YoY in the cost of car fleet and transport services.

At the same time, the Group reported a decrease in security costs (-14.1% YoY) and consulting and advisory fees (-7.3% YoY) and a moderate reduction in other cost items.

## Tax and other charges

Tax on financial institutions for H1 2023 totalled PLN 387.5m and was up 5.4% YoY, reflecting a YoY increase in assets, including loans and advances, and a YoY decrease in the portfolio of treasury securities which lowers the tax base.

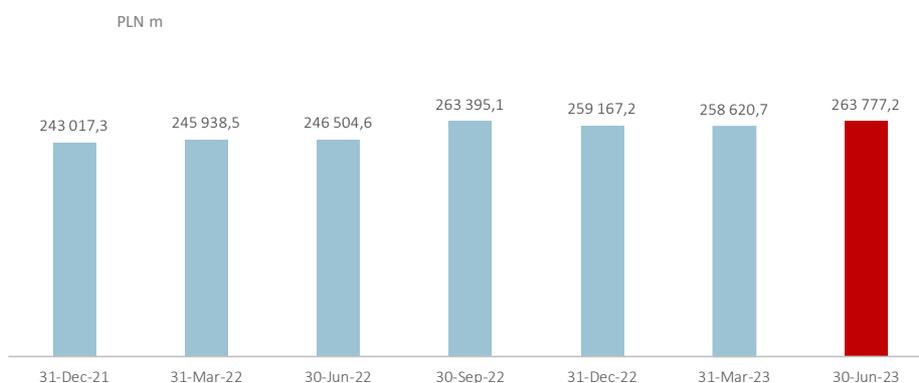
Corporate income tax was PLN 848.7m and effectively lower compared to the previous year (the effective tax rate fell from 29.6% for H1 2022 to 26.4% for H1 2023), mainly on account of an increase in profit before tax combined with higher cost of legal risk related to foreign currency mortgage loans, higher tax on financial institutions and lower contributions to the Bank Guarantee Fund.

## 2. Consolidated statement of financial position

### Consolidated assets

As at 30 June 2023, the total assets of Santander Bank Polska Group were PLN 263,777.2m, up 7.0% YoY and 1.8% Ytd. The value and structure of the Group's financial position is determined by the parent entity, which held 91.3% of the consolidated total assets vs 91.9% as at the end of December 2022.

Total consolidated assets at the end of consecutive quarters in 2022 and 2023



### Structure of consolidated assets

Assets in PLN m (for analytical purposes)	Structure		Structure		Structure		Change 1/3	Change 1/5
	30.06.2023	30.06.2023	31.12.2022	31.12.2022	30.06.2022	30.06.2022		
	1	2	3	4	5	6		
Net loans and advances to customers	156,867.3	59.5%	152,508.7	58.8%	152,635.3	61.9%	2.9%	2.8%
Investment securities	60,208.0	22.8%	55,371.1	21.4%	62,902.8	25.5%	8.7%	-4.3%
Cash and balances with central banks	10,376.7	3.9%	10,170.0	3.9%	6,234.8	2.5%	2.0%	66.4%
Loans and advances to banks	9,729.6	3.7%	9,577.5	3.7%	5,209.0	2.1%	1.6%	86.8%
Buy-sell-back transactions and assets pledged as collateral	9,373.3	3.6%	16,142.8	6.2%	1,841.3	0.8%	-41.9%	409.1%
Financial assets held for trading and hedging derivatives	9,327.6	3.5%	7,432.8	2.9%	9,532.3	3.9%	25.5%	-2.1%
Property, plant and equipment, intangible assets, goodwill and right-of-use assets	3,623.5	1.4%	3,638.4	1.4%	3,557.9	1.5%	-0.4%	1.8%
Other assets <sup>1)</sup>	4,271.2	1.6%	4,325.9	1.7%	4,591.2	1.8%	-1.3%	-7.0%
<b>Total</b>	<b>263,777.2</b>	<b>100.0%</b>	<b>259,167.2</b>	<b>100.0%</b>	<b>246,504.6</b>	<b>100.0%</b>	<b>1.8%</b>	<b>7.0%</b>

1) Other assets include the following items of the full version of financial statements: investments in associates, current tax assets, 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 2023, net loans and advances to customers were the key item of the consolidated assets (59.5%). They totalled PLN 156,867.3m and increased by 2.9% compared to the end of December 2022 along with a rise in loans for business customers and the public sector and leasing receivables.

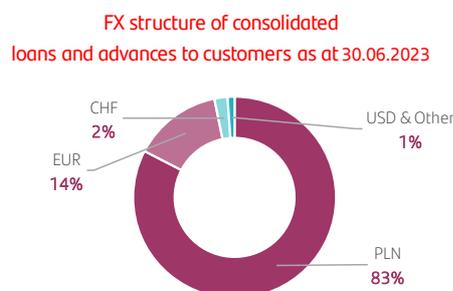
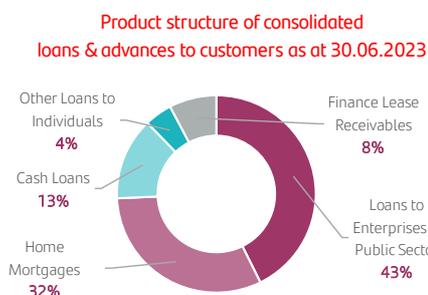
Investment securities were the second largest item. They went up by 8.7% over the first six months of 2023 as a result of the purchase of treasury bonds (allocated to the portfolio of debt financial assets measured at amortised cost) as well as NBP bills and non-treasury bonds (allocated to the portfolio of debt financial assets measured at fair value through other comprehensive income).

As part of ongoing liquidity management, the level of financial assets held for trading and hedging derivatives increased significantly (+25.5% Ytd) on account of the trading portfolio of treasury bonds.

At the same time, the Group's activity in the interbank repo market decelerated as reflected in assets under buy-sell-back transactions and assets pledged as collateral, which declined by 41.9% Ytd.

## Credit portfolio

	30.06.2023	31.12.2022	30.06.2022	Change	Change
Gross loans and advances to customers in PLN m	1	2	3	1/2	1/3
Loans and advances to individuals	80,874.7	81,483.3	83,316.5	-0.7%	-2.9%
Loans and advances to enterprises and the public sector	69,416.7	64,833.2	63,564.8	7.1%	9.2%
Finance lease receivables	12,575.8	11,998.3	11,421.4	4.8%	10.1%
Other	72.0	77.9	87.1	-7.6%	-17.3%
<b>Total</b>	<b>162,939.2</b>	<b>158,392.7</b>	<b>158,389.8</b>	<b>2.9%</b>	<b>2.9%</b>

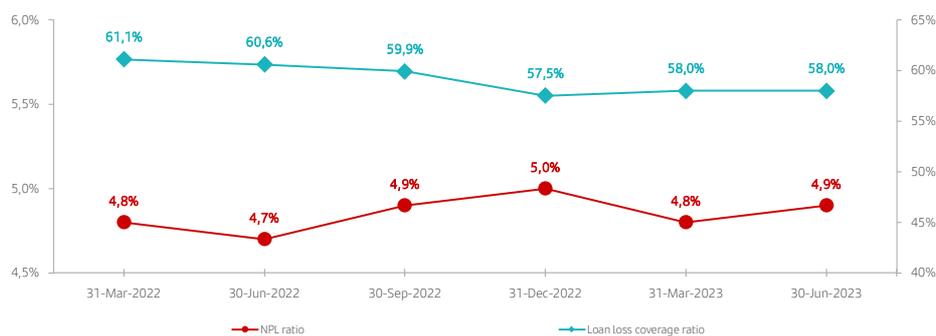


As at 30 June 2023, consolidated gross loans and advances to customers were PLN 162,939.2m and increased by 2.9% vs 31 December 2022. The portfolio includes loans and advances to customers measured at amortised cost of PLN 147,592.8m (+2.8% Ytd), loans and advances to customers measured at fair value through other comprehensive income of PLN 2,666.0m (+1.2% Ytd), loans and advances to customers measured at fair value through profit or loss of PLN 104.5m (-56.4% Ytd), and finance lease receivables of PLN 12,575.8m presented below.

The section below presents the Group's credit exposures by key portfolios in terms of customer segments and products:

- Loans and advances to individuals decreased by 0.7% Ytd to PLN 80,874.7m as at the end of June 2023. Home loans, which were the main contributor to this figure, totalled PLN 51,546.6m and decreased by 3.1% as a result of a slowdown in the mortgage loan market and an increase in an adjustment to gross carrying amount in respect of legal risk connected with foreign currency mortgage loans. The second largest item was cash loans, which totalled PLN 21,955.5m (+4.4%) supported by moderate growth in sales.
- Loans and advances to enterprises and the public sector (including factoring receivables) went up by 7.1% Ytd to PLN 69,416.7m supported by higher utilisation of overdrafts by business customers, and an increase in the Group's exposure on account of term loans in the Corporate and Investment Banking segment, including loans for investment purposes.
- Finance lease receivables of the subsidiaries of Santander Bank Polska S.A. rose by 4.8% Ytd to PLN 12,575.8m, supported by 16.0% growth in sales of leased assets, particularly in the vehicles segment.

## Credit quality ratios by quarter in 2022 and 2023



As at 30 June 2023, the NPL ratio was 4.9% and the provision coverage ratio for impaired loans was 58.0% (vs 4.7% and 60.6% at the end of June 2023 and 5.0% and 57.5% at the end of December 2022).

## Structure of consolidated equity and liabilities

Equity and liabilities in PLN m (for analytical purposes)	Structure		Structure		Structure		Change 1/3	Change 1/5
	30.06.2023	30.06.2023	31.12.2022	31.12.2022	30.06.2022	30.06.2022		
	1	2	3	4	5	6		
Deposits from customers	200,655.6	76.1%	196,496.8	75.8%	183,536.3	74.5%	2.1%	9.3%
Subordinated liabilities and debt securities in issue	11,206.8	4.2%	12,137.7	4.7%	13,147.7	5.3%	-7.7%	-14.8%
Financial liabilities held for trading and hedging derivatives	8,861.9	3.4%	9,087.9	3.5%	10,411.6	4.2%	-2.5%	-14.9%
Deposits from banks and sell-buy-back transactions	4,419.6	1.7%	6,356.2	2.5%	5,744.9	2.3%	-30.5%	-23.1%
Other liabilities <sup>1)</sup>	5,225.2	2.0%	4,973.3	1.9%	5,199.4	2.1%	5.1%	0.5%
Total equity	33,408.1	12.6%	30,115.3	11.6%	28,464.7	11.6%	10.9%	17.4%
<b>Total</b>	<b>263,777.2</b>	<b>100.0%</b>	<b>259,167.2</b>	<b>100.0%</b>	<b>246,504.6</b>	<b>100.0%</b>	<b>1.8%</b>	<b>7.0%</b>

1) Other liabilities include leasing liabilities, current tax liabilities, deferred tax liabilities, provisions for financial and guarantee liabilities, other provisions and other liabilities.

As at 30 June 2023, deposits from customers totalled PLN 200,655.6m and were the largest constituent item of the total equity and liabilities (76.1%) disclosed in the consolidated financial statements and the main source of funding for the Group's assets. They were up 2.1% Ytd as a result of a steady inflow of funds to term deposits, which further increased their share in the deposit structure at the expense of current account balances.

A decrease was reported in other categories of consolidated liabilities, notably in deposits from banks and sell-buy-back transactions, which went down by 30.5% Ytd, reflecting the Group's decelerated activity in the sell-buy-back market.

Subordinated liabilities and liabilities in respect of debt securities in issue decreased by 7.7% during H1 2023, with the latter item falling by 9.1% to PLN 8,483.2m, as a combined effect of the issue of debt instruments with a total nominal value of PLN 2,310.0m and redemption of PLN 2,976.1m worth of securities on their maturity dates.

During the reporting period, the following issues were made:

- ➔ On 15 February 2023, Santander Factoring Sp. z o.o. issued PLN 160m worth of series P bonds with an interest rate equal to 1M WIBOR plus margin and a maturity date of 15 August 2023. The issue was guaranteed by Santander Bank Polska S.A.
- ➔ On 30 March 2023, Santander Bank Polska S.A. issued PLN 1.9bn worth of series 1/2023 senior non-preferred bonds as part of the programme for issuing bonds up to PLN 5bn. The bonds bear an interest rate equal to the sum of 6M WIBOR and the margin of 1.90% on the nominal value of the issue. The bonds will be redeemed on 31 March 2025 subject to the Bank's right to exercise a call option. The bonds were issued for sustainability purposes.
- ➔ On 26 May 2023, Santander Consumer Multirent Sp. z o.o. issued a tranche of PLN 50m worth of mid-term (2-year) bonds as part of the debt securities issue programme delivered together with Santander Consumer Bank S.A.

- On 23 June 2023, Santander Leasing S.A. issued PLN 200m worth of 1-year series M bonds with a put option and an interest rate based on 3M WIBOR.

The majority of proceeds from the bond issue are earmarked for general corporate purposes of the issuers, except for the issue made by Santander Bank Polska S.A., whose purpose was to raise capital for financing sustainable investments.

## Deposit base

### Deposits by entities

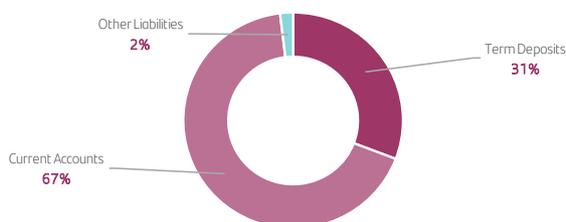
Deposits from customers in PLN m	30.06.2023	31.12.2022	30.06.2022	Change	Change
	1	2	3	1/2	1/3
Deposits from individuals	111,517.6	107,927.3	105,055.9	3.3%	6.2%
Deposits from enterprises and the public sector	89,138.0	88,569.5	78,480.4	0.6%	13.6%
<b>Total</b>	<b>200,655.6</b>	<b>196,496.8</b>	<b>183,536.3</b>	<b>2.1%</b>	<b>9.3%</b>

As at 30 June 2023, consolidated deposits from customers totalled PLN 200,655.6m and increased by 2.1% Ytd as an effect of high base comprising funds received by customers under state aid programmes during the pandemic period and an inflow of funds since the end of 2022 deferred by business customers for future investments.

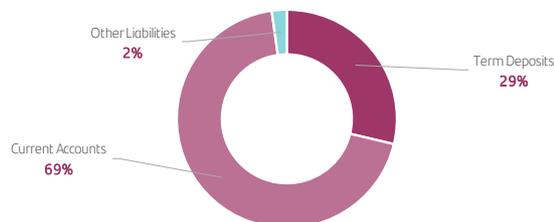
- The retail deposit base totalled PLN 111,517.6m and increased by 3.3% Ytd. Customers preferred term deposits which offered interest rates better adjusted to the high interest rate environment. As a result, their balance increased by 7.7% Ytd to PLN 37,520.3m, whereas the total balance of savings and current accounts rose by 1.2% Ytd to PLN 73,716.2m. Personal customers also more often invested their liquidity surpluses in investment funds managed by Santander TFI S.A., which reported stronger performance in H1 2023 and a positive balance of contributions and redemptions.
- Deposits from enterprises and the public sector increased by 0.6% Ytd to PLN 89,138.0m as a consequence of a rise of 12.3% Ytd in term deposits to PLN 24,254.0m and a fall of 2.5% Ytd in current deposits to PLN 61,339.2m.

### Deposits by tenors

Structure of consolidated customer deposits as at 30.06.2023



Structure of consolidated customer deposits as at 31.12.2022

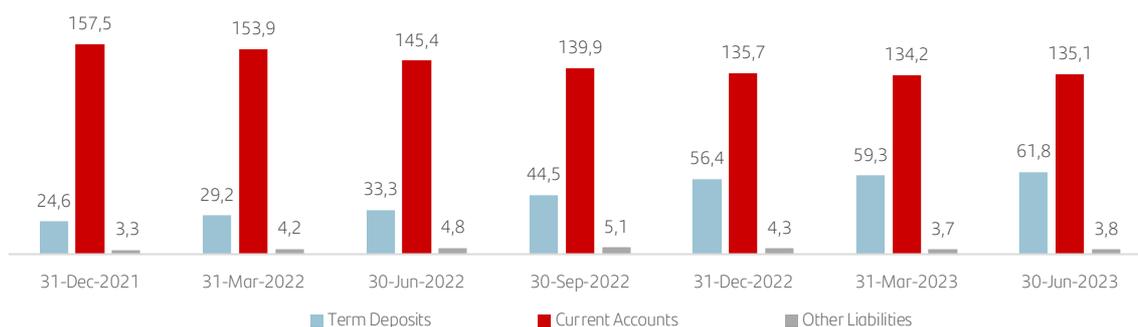


In H1 2023, the Group's total term deposits from customers amounted to PLN 61,774.3m, up 9.4% Ytd. Current account balances fell by 0.5% Ytd to PLN 135,055.4m, and other liabilities were PLN 3,825.9m, down 11.8% Ytd.

Loans and advances from financial institutions (PLN 1,172.5m vs PLN 1,316.7m as at 31 December 2022) were one of the main components 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. The Ytd decrease in the above line item results from scheduled repayments.

## Term deposits and current accounts \* at quarter-ends of 2022 and 2023

PLN bn



\* Include savings accounts

### 3. Selected financial ratios of Santander Bank Polska Group

Selected financial ratios of Santander Bank Polska Group	30.06.2023	30.06.2022
Cost/Income	30.4%	38.9%
Net interest income/Total income	82.8%	79.5%
Net interest margin <sup>1)</sup>	5.38%	4.63%
Net fee and commission income/Total income	17.6%	19.7%
Net loans and advances to customers/Deposits from customers	78.2%	83.2%
NPL ratio <sup>2)</sup>	4.9%	4.7%
NPL provision coverage ratio <sup>3)</sup>	58.0%	60.6%
Cost of credit risk <sup>4)</sup>	0.80%	0.48%
ROE <sup>5)</sup>	14.3%	9.8%
ROTE <sup>6)</sup>	15.4%	10.2%
ROA <sup>7)</sup>	1.3%	1.0%
Total capital ratio <sup>8)</sup>	20.77%	19.18%
Tier 1 capital ratio <sup>9)</sup>	19.21%	17.31%
Book value per share (PLN)	326.92	278.55
Earnings per ordinary share (PLN) <sup>10)</sup>	22.72	15.82

- 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 a given accounting year (excluding financial assets held for trading, hedging derivatives, other exposures related to trading and other loans and advances to customers).
- 2) Lease receivables and gross loans and advances to customers measured at amortised cost and classified to stage 3 and POCI exposures to the total gross portfolio of such loans and advances and lease receivables as at the end of the reporting period.
- 3) Impairment allowances for loans and advances to customers measured at amortised cost and lease receivables classified to stage 3 and POCI exposures to gross value of such loans and advances and lease receivables as at the end of the reporting period.
- 4) Net expected credit loss allowances (for four consecutive quarters) to average gross loans and advances to customers measured at amortised cost and lease receivables (as at the end of the current reporting period and the end of the previous 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 previous year), excluding non-controlling interests, current period profit, dividend reserve and recommended dividend.
- 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 previous year) defined as common equity attributable to the parent's shareholders less revaluation reserve, current year profit, recommended dividend, dividend reserve, 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).
- 8) The capital 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. The comparative period includes profits allocated to own funds pursuant to applicable EBA guidelines.
- 9) Tier 1 capital ratio calculated as a quotient of Tier 1 capital and risk-weighted assets for credit, market and operational risk. The comparative period includes profits allocated to own funds pursuant to applicable EBA guidelines.
- 10) Net profit for the period attributable to shareholders of the parent entity to the average weighted number of ordinary shares.

## 4. Additional financial information

### Transactions with related parties

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

As at 30 June 2023, the Bank's total exposure in respect of loans granted to banking and non-banking subsidiaries (including Santander Factoring Sp. z o.o., Santander Leasing S.A., Santander Consumer Multirent Sp. z o.o. and Santander Consumer Bank S.A.) was PLN 19,480.9m compared with PLN 17,507.0m as at 31 December 2022.

The deposits held with the Bank by its subsidiaries (including Santander Finanse Sp. z o.o., Santander Inwestycje Sp. z o.o., Santander TFI S.A., Santander Factoring Sp. z o.o., Santander Leasing S.A., Santander F24 S.A., Santander Consumer Multirent Sp. z o.o., Santander Consumer Bank S.A., Santander Consumer Financial Solutions Sp. z o.o.) totalled PLN 276.2m vs PLN 401.6m as at 31 December 2022.

Contingent liabilities granted to subsidiaries were PLN 5,005.4m as at 30 June 2023 (PLN 5,000.7m as at 31 December 2022), of which guarantees to subsidiaries totalled PLN 3,571.1m (PLN 3,281.0m as at 31 December 2022).

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.) were PLN 5,985.9m (PLN 6,202.3m as at 31 December 2022), while liabilities were PLN 1,189.0 m (PLN 594.4m as at 31 December 2022).

For more information about related party transactions see Note 35 to the Condensed Interim Consolidated Financial Statements of Santander Bank Polska Group for the 6 month period ended 30 June 2023 and to the Condensed Interim Financial Statements of Santander Bank Polska S.A. for the 6 month period ended 30 June 2023.

### Off-balance sheet items

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

<b>Contingent liabilities (granted) (PLNm)</b>	<b>30.06.2023</b>	<b>31.12.2022</b>
<b>Financial liabilities:</b>	<b>37,277.9</b>	<b>34,341.2</b>
- credit lines	33,039.3	30,018.1
- credit cards	3,436.3	3,481.1
- import letters of credit	757.8	820.2
- term deposits with future term start date	44.5	21.8
<b>Guarantees</b>	<b>14,838.7</b>	<b>8,935.7</b>
Provision for off-balance sheet liabilities	(63.7)	(61.9)
<b>Total</b>	<b>52 052.9</b>	<b>43 215.0</b>

<b>Contingent liabilities (received) (PLNm)</b>	<b>30.06.2023</b>	<b>31.12.2022</b>
Financial liabilities	354.5	364.7
Guarantees	61,848.4	55,950.7
<b>Total</b>	<b>62,202.9</b>	<b>56,315.4</b>

### Court proceedings

The table below presents the amounts disputed in pending court proceedings with regard to claims made by or against the Bank or its subsidiaries as at 30 June 2023 and 31 December 2022.

<b>Court proceedings with Santander Bank Polska Group as a party (PLN m)</b>	<b>30.06.2023</b>	<b>31.12.2022</b>
Value of claims in lawsuits filed by the Group	2,712.1	1,384.9
Value of claims in lawsuits filed against the Group	5,673.2	4,175.4
Receivables of the Group in arrangement or bankruptcy cases	77.2	74.3
<b>Value of claims in all pending court proceedings</b>	<b>8,462.5</b>	<b>5,634.6</b>
Value of claims in completed proceedings	278.3	254.5

As at the end of June 2023 there were 2,029 cases (1,403 as at 31 December 2022) against Santander Bank Polska Group, where the claim value was high (equal or above PLN 500 k). The total amount of provisions recognized in accordance with IAS 37 and the adjustment to gross carrying amount under IFRS 9 related to such legal claims was PLN 849.5m (PLN 656.6m as at 31 December 2022).

14,948 lawsuits were filed against the Group over loans indexed to or denominated in CHF, with the disputed amount totalling PLN 4.9bn (vs 12,225 with the disputed amount of PLN 3.6bn as at 31 December 2022). This included two class actions filed under the Class Action Act.

For more information on legal claims in respect of foreign currency mortgage loans, see Note 32 "Contingent liabilities" and Note 33 "Legal risk connected with foreign currency mortgage loans" to the Condensed Interim Consolidated Financial Statements of Santander Bank Polska Group for the 6 month period ended 30 June 2023.

## 5. Factors affecting the financial performance in H2

The following external developments may have a significant impact on the financial performance and activity of Santander Bank Polska Group in H2 2023:

- War between Russia and Ukraine, impact of sanctions and international trade restrictions. Migration. Potential disruptions in the supply of energy resources. Increased defence expenditure in Poland.
- Possible further changes in the monetary policy of the ECB, the Federal Reserve and other main central banks aimed at combating inflation.
- Decrease in inflation rate impacting the market pricing of changes to NBP rates.
- Further decisions on interest rates taken by the MPC.
- Foreign currency loans: banks' decisions on settlements with customers and court proceedings.
- Payment holidays: possible extension of the deferral of PLN mortgage repayments.
- Changes in the valuation of credit risk in financial markets, including due to changes in geopolitical risk assessment.
- Changes in bond yields which are a function of monetary and fiscal policy expectations, among other things.
- Changes in credit demand in the context of liquidity, rate increases and the impact of the armed conflict
- Changes in households' financial situation under the influence of labour market trends.
- Changes to customers' savings allocation decisions, impacted by expected returns on different asset classes as well as changes to the approach to saving and spending.
- Further developments in global equity markets and their impact on the demand for investment funds and shares.
- Suspension of EU structural fund disbursements to Poland due to the ongoing dispute over the rule of law and the government's failure to meet the condition to restore the independence of the judiciary.

## VIII. Risk and Capital Management

### 1. Key risk management principles and structure in the Bank and in Santander Bank Polska Group

#### Key risk management principles

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

Risk management allows Santander Bank Polska S.A. and its Group to conduct effective and safe operations that enable development and profitability within approved risk parameters. The Bank follows a range of external standards and requirements in this respect which are binding on financial institutions. It also relies on best practice and standards developed by Santander Group.

The Bank and Santander Bank Polska Group have defined their risk profile which corresponds to the general risk appetite established by the Group. It is expressed as quantitative limits and captured in the Risk Appetite Statement adopted by the Management Board and approved by the Supervisory Board. The limits are set using stress tests and scenario analyses. They ensure stability of the Bank's and the Group's position even if special situations occur. Global limits are used to set watch limits and define risk management policies.

The integrated risk management structure includes relevant committees which have been set up to decide on identification of individual risks and internal risk management standards and policies, and to monitor the risk level.

The Bank has also established a relevant organisational structure to mitigate risk at three independent and complementary levels (lines of defence), i.e.:

- organisational units which generate risk and are required to comply with the rules ensuring high quality and correctness of their performance;
- units responsible for identification, measurement, monitoring and mitigation of risks in a way that ensures independence of risk control functions from risk-taking units;
- the internal audit function, whose tasks involve assessment of the management system of the Bank and its subsidiaries, including the effectiveness of managing the risk related to the Bank's business and the business of its subsidiaries.

#### Risk management structure

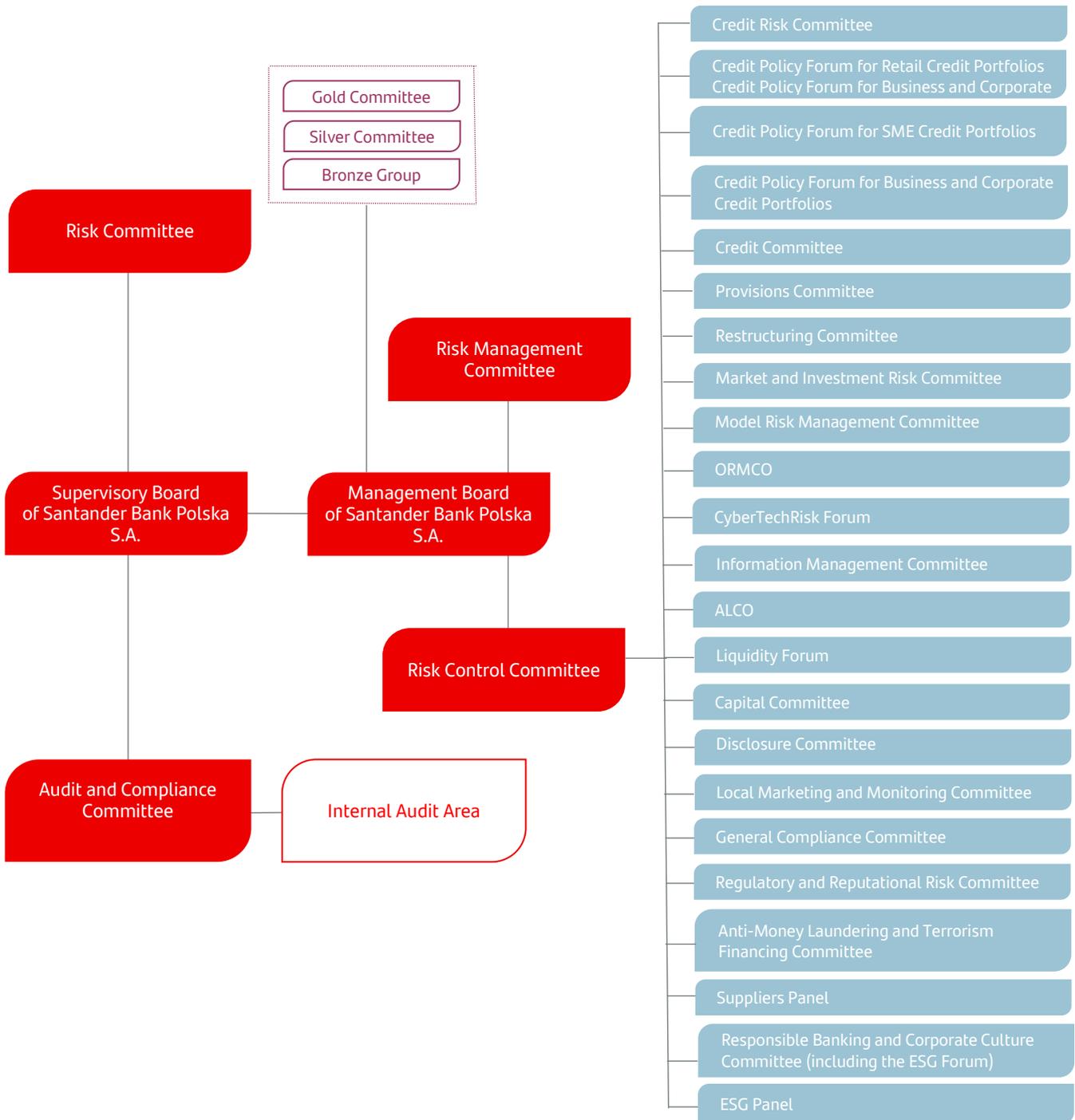
The Bank's Supervisory Board, supported by the Audit and Compliance Committee of the Supervisory Board and the Risk Committee, is responsible for ongoing supervision of the risk management system in Santander Bank Polska S.A. The Supervisory Board approves the strategy, key risk management policies and risk appetite, and monitors the use of internal limits from the perspective of current business strategy and the macroeconomic environment. It reviews 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 risk management measures taken by the Management Board.

The Bank's Management Board is responsible for implementing an effective risk management system that is compliant with the regulatory requirements 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 ensure an adequate information policy.

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

- The Risk Management Committee, which approves the key decisions taken by the main lower-level risk committees (mainly credit decisions), annual limits for securities trading and ALM transactions and an annual plan of risk assessment models.
- 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 Bank's Management Board.

> Governance structure for risk supervision and management



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

- Credit Risk Committee
- Credit Policy Forum for Retail Credit Portfolios
- Credit Policy Forum for SME Credit Portfolios
- Credit Policy Forum for Business and Corporate Credit Portfolios
- Credit Committee
- Provisions Committee

- Restructuring Committee
- Market and Investment Risk Committee
- Model Risk Management Committee
- Operational Risk Management Committee/ ORMCO
- CyberTech Risk Forum
- Information Management Committee
- Assets and Liabilities Committee/ ALCO
- Liquidity Forum
- Capital Committee
- Disclosure Committee
- Local Marketing and Monitoring Committee
- General Compliance Committee
- Regulatory and Reputational Risk Committee
- Anti-Money Laundering and Terrorist Financing Committee
- Suppliers Panel
- Responsible Banking and Corporate Culture Committee (including the ESG Forum)
- ESG Panel

The Bank has dedicated authorities which are convened in crisis situations:

- Gold Committee
- Silver Committee
- Bronze Group

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

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

Acting under the applicable law, the Bank exercises oversight of risk management in Santander Consumer Bank S.A. (SCB S.A.) in line with the same oversight rules as applied to other Santander Bank Polska Group companies. 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, respectively. Together with SCB S.A. Supervisory Board, they are responsible for supervision over SCB S.A. and make sure 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., which receive relevant reports on SCB S.A.'s operations.

## 2. Risk management priorities in H1 2023

### War in Ukraine, deterioration of the macroeconomic environment and inflation

Due to the war in Ukraine, the importance of geopolitical risk in risk management processes is still high. The Group identifies this risk both in its operations and in relation to its loan book and financial assets. It is based on the definition and assessment of material risks that may arise due to the geopolitical situation and threaten the delivery of business plans of Santander Bank Polska S.A.

To maintain business continuity, the Group closely monitors external developments and their impact on its operations. The monitoring covers, among other things, the key threats related to the above armed conflict, which allows the Group to appropriately adjust its control mechanisms to potential scenarios and be fully prepared to minimise the impact of emerging risks. Both first and second line of defence units are involved in this process and key information is provided to senior management.

Similarly to 2022, in H1 2023 the Bank regularly monitored its credit portfolio in terms of the impact of geopolitical factors on the performance of borrowers from individual segments. The assessment covered both direct consequences (sanctions, restriction of operations of business customers in Russia and Belarus) and indirect consequences of the geopolitical situation for borrowers (increased prices of energy, commodities, materials and labour as well as the impact of inflation, increased interest rates and changes in consumer behaviour). The quality of loans held by Ukrainian citizens was closely monitored too.

Apart from the standard monitoring performed on an ongoing basis, the Bank assessed the impact of the geopolitical factors on individual customers by:

- analysing macroeconomic indicators and monitoring behavioural models (including transactional patterns);
- monitoring market trends using stress tests based on external and internal macroeconomic scenarios (the analysis covered in particular zloty depreciation and interest rate hikes).

The Bank also identified and analysed potential new risks for individual sectors and portfolios connected with the geopolitical situation and developed relevant mitigants.

Due to increasing interest rates, new laws were introduced in 2022 under which banks offered payment holidays and increased access to the Borrowers Support Fund. Both processes, implemented in remote channels last year, remain in the Group's offer in 2023. The use of these aid solutions by customers is still closely monitored.

## Problems of the banking sector

In Q1 2023, Silicon Valley Bank (SVB) collapsed and Credit Suisse was taken over by UBS. These events led to a temporary loss of confidence in the banking sector, reflected in increased volatility of financial markets. Things calmed down in the second quarter, proving that Polish banks are more resilient to liquidity shocks than the troubled US banks, as the former have a far more diversified deposit base, the majority of which is guaranteed by the Bank Guarantee Fund. Therefore, the risk of a bank run similar to the one affecting SVB is very limited.

## Cybersecurity

The importance of cybersecurity has been steadily growing because of the increasing digitalisation of the banking sector. The geopolitical situation did not improve in H1 2023, therefore the risk of targeted attacks made by well-structured, disciplined and sophisticated hacker groups was monitored on an ongoing basis. The risk connected with the consequences of potential attacks was regularly analysed and relevant measures were taken where justified.

Disinformation campaigns aimed to destabilise the financial sector were also subject to close monitoring. The Bank kept taking measures to build awareness among employees and customers, e.g. by issuing security warnings about emerging threats. Particular focus was placed on the problem of unauthorised transactions and on the security of processes, including the authentication and authorisation of transactions in remote channels. Other priority issue was the risk of DDoS attacks, malware and attacks against customers and employees with the use of social engineering.

Cyber attacks have become more sophisticated and specialised. Particularly popular are attacks based on new technologies offered by cybercriminals under a service model.

The Group is analysing the growing role of artificial intelligence technologies, both in terms of their use by attackers but also in terms of their potential as control mechanisms that can facilitate risk and cybersecurity management. A special focus is placed on the proposed European law on artificial intelligence (EU AI Act) and its impact on the organisation.

## ESG risks

The Group keeps developing its resources in terms of the management of ESG (Environmental, Social and Governance) risks. In Q1 2023, the Head of ESG Risk was appointed in the Risk Management Division. The role is mainly responsible for ensuring that ESG risk is appropriately assessed by managing data collection and analysis using business intelligence solutions, and for initiating, supporting and coordinating ESG-related activities. The ESG policies and procedures were also reviewed and are to be supplemented. The admission process for sustainable finance was formalised across all segments, both at a transaction and credit product level. A series of meetings were held in the Risk Management Division to raise the awareness of ESG risks and present the impact of ESG requirements on the Bank's operations. In particular, a dedicated training was delivered to members of the Bank's Management and Supervisory Boards.

In Q1 2023, the Group joined the project on the measurement of financed emissions in accordance with the PCAF methodology in order to more precisely analyse the structure of emissions in all sectors and business segments. The project involves six training sessions for all interested units of the Bank on the three scopes of emissions and their calculation.

## 3. Material risk factors expected in the future

The economic growth in H1 2023 was characterised by deceleration in output and consumption, and high expansion in services and investments. While the economic activity is expected to pick up in H2 2023 in terms of output and consumption, there is a growing risk of slowdown in services. Investments should continue the upward trend. GDP growth is projected to gradually accelerate to approx. 1% on average during the year. PLN appreciation limiting the profitability of exports may weigh down on the performance of some companies. On the other hand, it may help combat inflation, which has fallen but remains elevated, negatively affecting the purchasing power (particularly of those who do not benefit from higher deposit interest rates or returns on equity). As a result, the quality of credit portfolios will be under pressure:

- In the case of individuals, the level of arrears will remain high due to increased interest rates.
- In the case of businesses, liquidity problems are likely to occur, particularly in the case of highly leveraged companies (which account for an insignificant share of the Bank's loan book).

The quality of the Bank's credit portfolios is still good.

In May 2023, the representatives of the Polish Financial Supervision Authority (KNF) announced that a new long-term financing indicator would be introduced, requiring banks to finance a specific part of the mortgage loan portfolio with long-term liabilities. The target value of the indicator has not been proposed yet. Once introduced, the indicator may cause an increase in the cost of funding incurred by Polish mortgage lenders.

Cyber risk and risk related to modern digital technology have been the top concerns for many years. This relates both to human behaviour and technological aspects. The following threats still prevail: the loss or theft of sensitive data, disruption of key services, attacks against customer assets and fraudulent transactions. They result from the dynamic growth of modern IT technologies and digital transformation.

The risk of ransomware attacks, DDoS attacks or use of social engineering is not likely to decrease in 2023 either. Supply chain attacks, mobile malware attacks, cyber spying and attacks involving artificial intelligence are expected to be a growing threat to cybersecurity. Other challenges will include supplier risk management, cloud computing and shadow IT.

Due to the geopolitical situation connected with the war in Ukraine, the Group will continue to place a special focus on the risk of targeted attacks made by well-structured, disciplined and sophisticated hacker groups.

The Group will continue to build, test and improve digital operational resilience ensuring the continuity and high quality of services in accordance with the Digital Operational Resilience Act (DORA).

Another priority for H2 2023 will be to implement new elements of ESG risk management in the Group. It will be particularly important to integrate climate-related factors into existing risk assessment policies and procedures for the purpose of investment and credit decision-making as well as to approve and implement the CLIMATE RACE Target Operational Model in accordance with the Santander Group's plan. The environmental risk analysis will be introduced as an integral part of the standard credit risk analysis. It will cover the borrower's exposure to environmental risks related to climate change as well as the impact of those risks on the customer's business and their repayment capacity in the next years.

## 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.

As at 30 June 2023, the Group had a capital surplus of PLN 12.7bn above the regulatory requirements.

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) (2019/876 of 20 May 2019, 2019/630 of 17 April 2019, 2020/873 of 24 June 2020), and the Polish Macroprudential Supervision Act, taking into account KNF recommendations.

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

The Management Board has delegated ongoing capital management to the Capital Committee, which 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 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 2023 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 its letter of 11 February 2022, the KNF recommended the Bank to mitigate its risk by maintaining own funds on a standalone and consolidated level to cover an additional capital requirement to absorb potential losses resulting from materialisation of stress conditions. The recommended capital add-on is 0.31 percentage point over the total capital ratio and should consist entirely of Common Equity Tier 1 capital. Pursuant to KNF letter of 23 December 2022, the amount of capital add-on was changed from 0.31% to 0.26% for the Bank and 0.23% for the Group.

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

As at 30 June 2023, the minimum capital ratios satisfying the provisions of the CRR and the Macroprudential Supervision Act as well as regulatory recommendations regarding additional own funds requirements under Pillar 2 were as follows:

Minimum capital ratio levels as at 30 June 2023	Tier 1	Total capital ratio
Santander Bank Polska S.A.	9.760%	11.760%
Santander Bank Polska Group	9.742%	11.746%

In H1 2023, 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%. To determine risk-weighted exposures, risk weights are assigned to all exposures in accordance with the CRR provisions.

Pursuant to resolution of the Bank's Annual General Meeting (AGM) of 19 April 2023, PLN 2,376.7m was allocated to the dividend reserve (Dividend Reserve) created by force of resolution no. 6 of the Bank's Annual General Meeting of 22 March 2021 on profit distribution and creation of capital reserve (Resolution no. 6/2021). PLN 72.4m was allocated to the capital reserve.

Furthermore, PLN 840.9m worth of undistributed profit earned on the sale of shares in AVIVA insurance companies was allocated to the Dividend Reserve.

### > Capital ratios of Santander Bank Polska Group as at 30 June 2023, 31 December 2022 and 30 June 2022

Capital ratios of Santander Bank Polska Group	30.06.2023	31.12.2022 <sup>1)</sup>	30.06.2022
I Total capital requirement	11,267.2	10,895.1	10,791.3
II Capital and funds after deductions	29,254.4	28,783.0	25,874.1
<b>Total capital ratio [II/(I*12.5)]</b>	<b>20.77%</b>	<b>21.13%</b>	<b>19.18%</b>
<b>Tier 1 capital ratio</b>	<b>19.21%</b>	<b>19.40%</b>	<b>17.31%</b>

1) Including profits allocated to own funds pursuant to EBA guidelines.

### > Capital ratios of Santander Bank Polska S.A. and Santander Consumer Bank S.A. as at 30 June 2023, 31 December 2022 and 30 June 2022

Capital ratios of Santander Bank Polska S.A.	30.06.2023	31.12.2022 <sup>1)</sup>	30.06.2022
Total capital ratio	24.45%	24.32%	21.75%
Tier 1 capital ratio	22.59%	22.29%	19.53%

1) Including profits allocated to own funds pursuant to EBA guidelines.

Capital ratios of Santander Consumer Bank S.A.	30.06.2023	31.12.2022 <sup>1)</sup>	30.06.2022
Total capital ratio	33.97%	29.15%	28.58%
Tier 1 capital ratio	32.28%	27.50%	26.96%

1) Including profits allocated to own funds pursuant to EBA guidelines.

As at 30 June 2023, the total capital ratio (TCR) and the Tier 1 capital ratio of Santander Bank Polska Group were 20.77% and 19.21%, respectively. Compared to Q1 2023, TCR decreased by 27 b.p. and Tier 1 capital ratio was down 18 b.p. As at 30 June 2023, the capital adequacy of the Bank and the Group was assessed in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) amended by CRR II and Regulation (EU) 2020/873 of 24 June 2020 amending Regulations (EU) No 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the Covid-19 pandemic

Pursuant to the Bank's information strategy, details about the level of own funds and capital requirements are presented in a separate report on capital adequacy of Santander Bank Polska Group as at 30 June 2023 ("Information on capital adequacy of Santander Bank Polska Group as at 30 June 2023").

## IX. Governing Bodies

### General Meetings of Santander Bank Polska S.A.

Before the release date of the report of Santander Bank Polska S.A. for H1 2023, the following General Meetings of Santander Bank Polska S.A. were held: the Annual General Meeting on 19 April 2023 and two Extraordinary General Meetings on 12 January 2023 and 20 July 2023.

A brief description of the main resolutions of the General Meetings is provided in Part 4 "Corporate events" of Chapter I "Overview of Activities of Santander Bank Polska S.A. and its Group in H1 2023".

The full versions of the resolutions are available on the website of Santander Bank Polska S.A. at <https://www.santander.pl/en/investor-relations/about-company/annual-general-meeting>.

### Supervisory Board

#### Composition of the Supervisory Board

The table below presents the composition of the Supervisory Board of Santander Bank Polska S.A. and Supervisory Board Committees as at 30 June 2023 and 31 December 2022.

Role in the Supervisory Board	No.	Members of the Supervisory Board as at 30.06.2023 and 31.12.2022	Audit and Compliance Committee	Risk Committee	Nominations Committee	Remuneration Committee
Chairman of the Supervisory Board:	1.	Antonio Escámez Torres				
Deputy Chairman of the Supervisory Board:	2.	José Luis de Mora				
	3.	Dominika Bettman				
Members of the Supervisory Board:	4.	José García Cantera				
	5.	Danuta Dąbrowska				
	6.	Isabel Guerreiro				
	7.	David Hexter				
	8.	John Power				
	9.	Jerzy Surma				
	10.	Marynika Woroszyńska-Sapieha				

Przewodniczący Komitetu  
Członek Komitetu

From 1 January to 30 June 2023, the composition of the Supervisory Board of Santander Bank Polska S.A. did not change.

On 6 June 2023, John Power resigned as a member of the Bank's Supervisory Board (effective as of 1 August 2023) due to his decision to retire after over 20 years at Santander Bank Polska S.A. (formerly: Bank Zachodni WBK S.A. before the rebranding in 2018).

Extraordinary General Meeting of Santander Bank Polska S.A. of July 20, 2023 appointed the Bank's Supervisory Board for a new 3-year term of office. It is composed of the existing members (without the retired John Power) and Mr. Adam Celiński.

Pursuant to the Bank's Statutes, Terms of Reference of the Supervisory Board and Terms of Reference of the Audit and Compliance Committee, half of the members of the Supervisory Board meet the independence criteria. The following members of the Supervisory Board held independent status: Dominika Bettman, Danuta Dąbrowska, David Hexter, Jerzy Surma and Marynika Woroszyńska-Sapieha. Each of the foregoing persons made a relevant written statement in this respect.

Details about the academic background and professional experience of the Bank's Supervisory Board members are published on the Bank's website at <https://www.santander.pl/en/investor-relations/about-company/authorities>.

## Management Board

### Composition of the Management Board

The table below presents the composition of the Management Board of Santander Bank Polska S.A. as at 30 June 2023 and 31 December 2022, and the roles and responsibilities of its members.

Role in the Management Board	No.	Composition as at 30.06.2023	Reporting area as at 30.06.2023	No.	Composition as at 31.12.2022	Reporting area as at 31.12.2022
President of the Management Board:	1.	Michał Gajewski	Units reporting directly to the President: 1) Legal and Compliance Division 2) Units outside the divisional structure: Internal Audit Area, Corporate Communication and Marketing Area, Corporate Governance Department, Classified Data Protection Unit	1.	Michał Gajewski	Units reporting directly to the President: 1) Legal and Compliance Division 2) Units outside the divisional structure: Internal Audit Area, Corporate Communication and Marketing Area, Corporate Governance Department, Classified Data Protection Unit
Vice Presidents of the Management Board:	2.	Andrzej Burliga	1) Risk Management Division 2) Business Intelligence Area (unit outside the divisional structure)	2.	Andrzej Burliga	1) Risk Management Division 2) Business Intelligence Area (unit outside the divisional structure)
	3.	Juan de Porras Aguirre	Corporate and Investment Banking Division	3.	Juan de Porras Aguirre	Corporate and Investment Banking Division
	4.	Arkadiusz Przybył	Wealth Management and Insurance Division	4.	Arkadiusz Przybył	Retail Banking Division
Members of the Management Board:	5.	Lech Gałkowski	Business and Corporate Banking Division	5.	Lech Gałkowski	Business and Corporate Banking Division
	6.	Patryk Nowakowski	Digital Transformation Division	6.	Patryk Nowakowski	Digital Transformation Division
	7.	Magdalena Proga-Stepień	Retail Banking Division	-	-	-
	8.	Maciej Reluga	Financial Management Division	7.	Maciej Reluga	Financial Management Division
	9.	María Elena Lanciego Pérez	Financial Accounting and Control Division	8.	Carlos Polaino Izquierdo	Financial Accounting and Control Division
	10.	Dorota Strojowska	Business Partnership Division	9.	Dorota Strojowska	Business Partnership Division

In H1 2023, the Bank's Management Board was joined by:

1. María Elena Lanciego Pérez, who took up her role as a Management Board member in charge of the Financial Accounting and Control Division on 1 January 2023, following the resignation of Carlos Polaino Izquierdo and his return to the global structures of Banco Santander Group.
2. Magdalena Proga-Stepień, who was appointed a Management Board member in charge of the Retail Banking Division on 4 April 2023 (effective immediately), replacing Arkadiusz Przybył, who is now the Head of the newly established Wealth Management and Insurance Division.

The information about the academic background and professional experience of the Bank's Management Board members is published on the Bank's website at <https://www.santander.pl/en/investor-relations/about-company/authorities>.

### Bank's shares held by Supervisory and Management Board members

As at the release dates of the financial reports for the periods ended 30 June 2023, 31 March 2023 and 31 December 2022, no member of the Supervisory Board held any shares of Santander Bank Polska S.A.

The table below shows shares of Santander Bank Polska S.A. held by Management Board members as at the release dates of the above-mentioned reports and shares awarded to them as part of Incentive Plan VII.

Performance shares awarded to Management Board members under Incentive Plan VII are deferred and will be transferred to their individual brokerage accounts in 2024–2029.

## Number of shares of Santander Bank Polska S.A.

Management Board members as at the release date of the report for H1 2023	26.07.2023		25.04.2023		22.02.2023
	Shares awarded as part of the incentive plan <sup>1)</sup>		Shares awarded as part of the incentive plan <sup>1)</sup>		Shares held
	Shares held		Shares held		
Michał Gajewski	4,795	9,519	4,795	9,519	4,795
Andrzej Burliga	1,884	2,539	1,884	2,539	1,884
Lech Gałkowski <sup>2)</sup>	-	2,956	-	2,956	951
María Elena Lanciego Pérez <sup>3)</sup>	-	-	-	-	-
Patryk Nowakowski	-	2,484	-	2,484	-
Juan de Porras Aguirre	3,379	3,627	3,379	3,627	3,379
Magdalena Proga-Stępień <sup>4)</sup>	-	-	-	-	-
Arkadiusz Przybył <sup>2)</sup>	-	2,956	-	2,956	2,999
Maciej Reluga	2,301	2,484	2,301	2,484	2,301
Dorota Strojowska	2,732	2,484	2,732	2,484	2,732
<b>Total</b>	<b>15,091</b>	<b>29,049</b>	<b>15,091</b>	<b>29,049</b>	<b>19,041</b>

1) Shares awarded to members of the Management Board of Santander Bank Polska S.A. as part of Incentive Plan VII which are deferred and will be transferred to individual brokerage accounts in 2024–2029.

2) Lech Gałkowski and Arkadiusz Przybył sold all of their shares of Santander Bank Polska S.A. on 6 March 2023 and 9 March 2023 respectively.

3) María Elena Lanciego Pérez took up her role as a Management Board member on 1 January 2023.

4) Magdalena Proga-Stępień took up her role as a Management Board member on 4 April 2023. As a key executive, she was awarded 1,310 shares under Incentive Plan VII for 2022. The shares are deferred and will be transferred in 2024–2029.

## Incentive Plan VII

### Rules

On 27 April 2022, Santander Bank Polska Group established Incentive Plan VII under resolution no. 30 of the Annual General Meeting. The plan is addressed to the employees of the Bank and its subsidiaries (excluding Santander Consumer Bank S.A.) who significantly contribute to growth in the value of the organisation. Its purpose is to motivate the participants to achieve business and qualitative goals in line with the Group's long-term strategy. This mechanism is to strengthen the employees' relationship with the Group and encourage them to act in its long-term interest.

The plan obligatorily covers all persons with an identified employee status in Santander Bank Polska Group (MRTs/ Material Risk Takers). Other key employees indicated by the Management Board and approved by the Supervisory Board may participate in the plan on a voluntary basis.

The plan covers the period of five years (2022–2026). However, as the payment of variable remuneration is deferred, the share buyback and allocation will be completed by 2033.

The participants are entitled to variable remuneration in the form of the Bank's shares provided that they meet the terms and conditions stipulated in the participation agreement and the resolution. To that end, Santander Bank Polska S.A. will buy back up to 2,331,000 shares from 1 January 2023 until 31 December 2033.

Participants who join the Incentive Plan are excluded from other incentive schemes applicable in the Bank and are not entitled to bonuses defined in the bonus rules applicable at their units in a given year. This provision does not apply to MRTs who receive variable remuneration in line with the Rules for payment of variable remuneration to identified employees of Santander Bank Polska Group applicable in a given year.

Below are the vesting conditions that must be met jointly in a given year:

- 1) Delivery of at least 50% of the profit after tax target of Santander Bank Polska Group excluding Santander Consumer Bank S.A. ("SAN PL Group") for a given year.
- 2) Delivery of at least 80% of the team business targets for a given year at the level of SAN PL Group, Division or unit; the performance against the target is calculated as the weighted average of performance against at least three business targets defined as part of the financial plan approved by the Supervisory Board for a given year for SAN PL Group, Division or unit where the participant works, in particular:
  - a) PAT (profit after tax) of SAN PL Group;
  - b) ROTE (return on tangible equity expressed as a percentage) calculated in line with SAN PL Group's reporting methodology;
  - c) NPS (Net Promoter Score) calculated in line with SAN PL Group's reporting methodology;
  - d) RORWA (return on risk weighted assets) calculated in line with SAN PL Group's reporting methodology;
  - e) number of customers;
  - f) number of digital customers.
- 3) The participant's performance rating for a given year at the level not lower than 1.5 on the 1–4 rating scale.

In addition, at the Management Board's request, the Supervisory Board decides to grant a retention award to a participant, if the following criteria are met:

- 1) the participant's average annual individual performance rating is at least 2.0 on the 1–4 rating scale during the period of their participation in Incentive Plan VII;
- 2) the average annual weighted performance against the Bank's targets in the years 2022–2026 is at least 80%, taking into account the following weights:
  - a) 40% for the average annual performance against the PAT target;
  - b) 40% for the average annual performance against the RORWA target;
  - c) 20% for the average annual performance against the ESG target.

## Delivery of the Incentive Plan in H1 2023

In H1 2023, Santander Bank Polska S.A. implemented the resolutions of the Extraordinary General Meeting of 12 January 2023 authorising the Management Board to buy back the Bank's shares as part of Incentive Plan VII and establish a capital reserve for that purpose.

For the purpose of the plan, in Q1 2023 Santander Bank Polska S.A. bought back 165,406 shares (of 207,000 shares eligible for buyback) with the value of PLN 48,884,192 (from PLN 55,300,000 worth of capital reserve allocated to the delivery of the plan for 2022).

All the above shares were transferred to individual brokerage accounts of the participants. As the number of shares bought back by the Bank was sufficient to pay awards to the participants of Incentive Plan VII for 2022, on 16 March 2023 the Bank's Management Board adopted a resolution to end the buyback in 2023.

As at 30 June 2023, the total amount recognised in line with IFRS 2 (Share-based Payment) in the Group's equity (establishment of a capital reserve for the share buyback) was PLN 153.4m, including PLN 81.3 m taken to staff expenses in H1 2023. As at 30 June, PLN 48.2m worth of shares were transferred to employees.

## X. 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 for the current and comparative reporting periods presented in the Condensed Interim Financial Statements of Santander Bank Polska S.A. for the 6-month period ended 30 June 2023 and the Condensed Interim Consolidated Financial Statements of Santander Bank Polska Group for the 6-month period ended 30 June 2023 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 report contained in this document gives a true view 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 2023.

### Signatures of the persons representing the entity

Date	Name and surname	Position/Function	Signature
25.07.2023	Michał Gajewski	President of the Management Board	The original Polish document has been signed with a qualified electronic signature
25.07.2023	Andrzej Burliga	Vice President of the Management Board	The original Polish document has been signed with a qualified electronic signature
25.07.2023	Juan de Porras Aguirre	Vice President of the Management Board	The original Polish document has been signed with a qualified electronic signature
25.07.2023	Arkadiusz Przybył	Vice President of the Management Board	The original Polish document has been signed with a qualified electronic signature
25.07.2023	Lech Gatkowski	Member of the Management Board	The original Polish document has been signed with a qualified electronic signature
25.07.2023	María Elena Lanciego Pérez	Member of the Management Board	The original Polish document has been signed with a qualified electronic signature
25.07.2023	Patryk Nowakowski	Member of the Management Board	The original Polish document has been signed with a qualified electronic signature
25.07.2023	Magdalena Proga-Stępień	Member of the Management Board	The original Polish document has been signed with a qualified electronic signature
25.07.2023	Maciej Reluga	Member of the Management Board	The original Polish document has been signed with a qualified electronic signature
25.07.2023	Dorota Strojowska	Member of the Management Board	The original Polish document has been signed with a qualified electronic signature