

# **REPORT OF THE MANAGEMENT BOARD ON THE ACTIVITIES OF**

## **THE BANK GOSPODARSTWA KRAJOWEGO GROUP IN 2019**

(comprising the report of the Management Board on the  
activities of  
Bank Gospodarstwa Krajowego)



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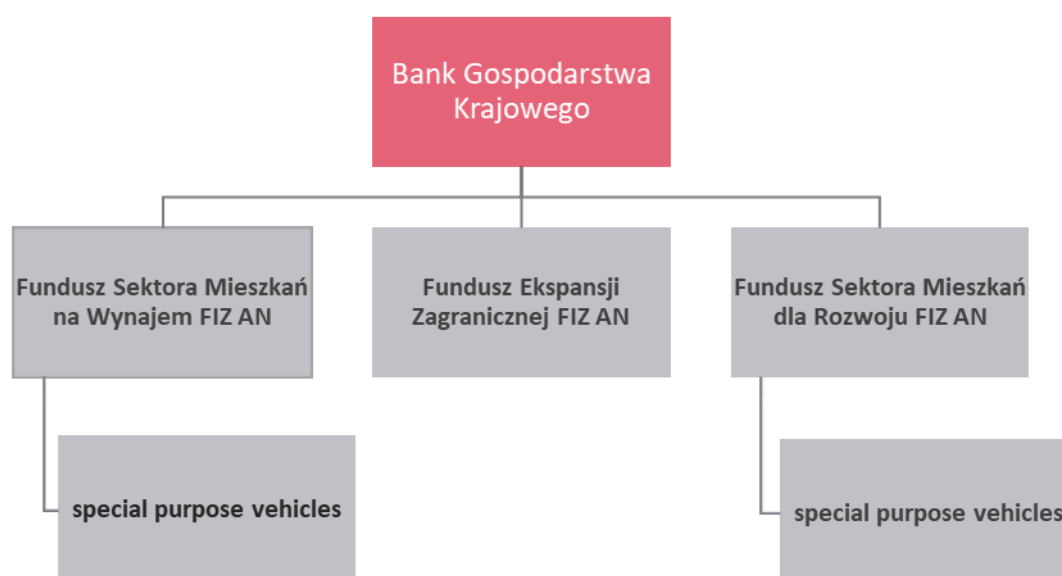
## 1. SUMMARY OF 2019

### 1.1 DESCRIPTION OF THE BGK GROUP

Bank Gospodarstwa Krajowego (BGK) is a state development bank whose mission is to support the social and economic development of Poland and the public sector in the fulfilment of its tasks. BGK and the BGK Group entities initiate and participate in cooperation between business, public sector entities and financial institutions.

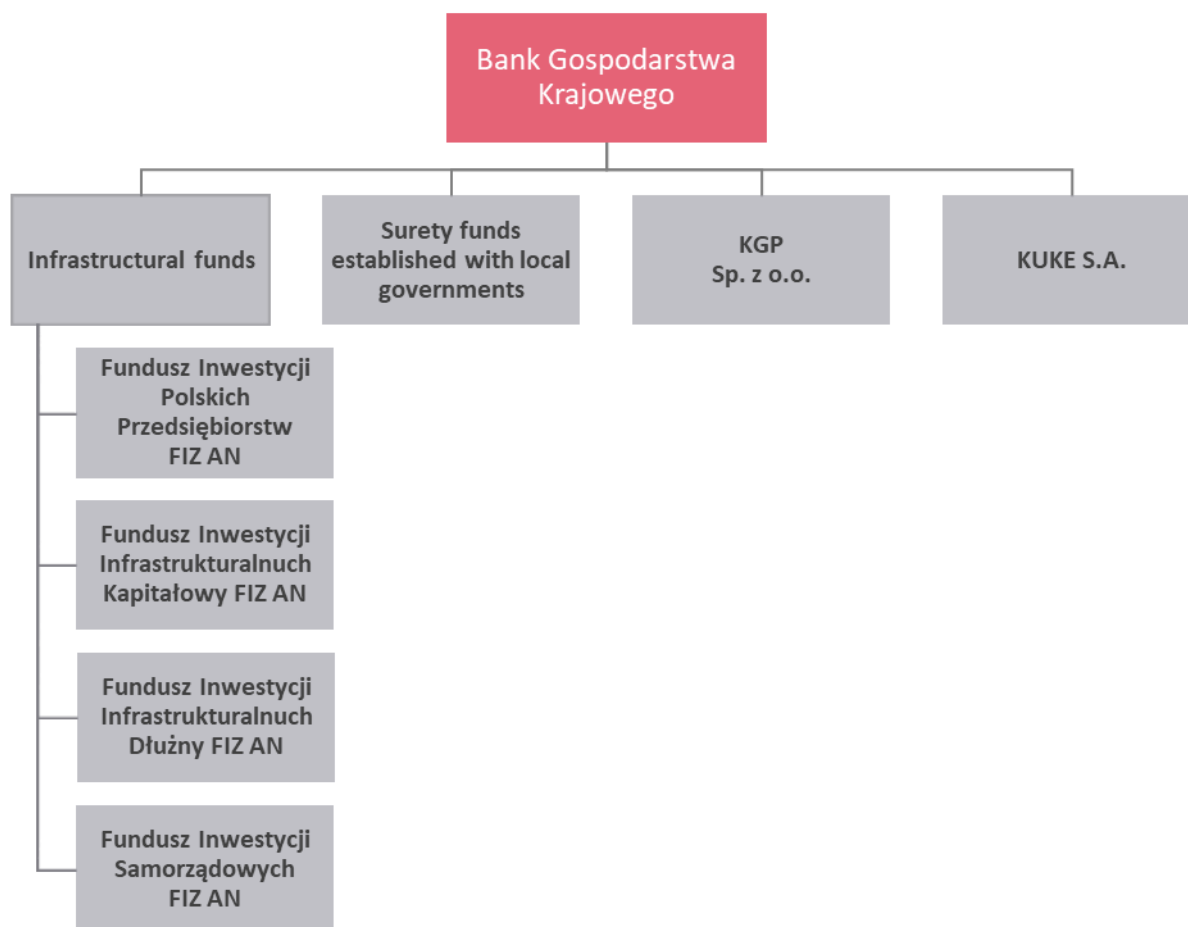
As at 31 December 2019, the Group consisted of the following entities consolidated with the full method and entities consolidated with the equity method.

#### Structure of the BGK Group as regards entities consolidated with the full method



- **Bank Gospodarstwa Krajowego** – The only state-owned bank, which is also a state development bank – the parent entity of the BGK Group,
- **Fundusz Sektora Mieszkań na Wynajem FIZ AN** (Dwelling for Rent Sector Closed-End Private Equity Investment Fund) – For more information see Section 4.24.,
- **Fundusz Sektora Mieszkań dla Rozwoju FIZ AN** (Dwelling for Development Sector Closed-End Private Equity Investment Fund) – For more information see Section 4.24.,
- **Fundusz Ekspansji Zagranicznej FIZ AN** (Foreign Expansion Closed-End Private Equity Investment Fund) – Its business is to invest funds collected through a non-public offering for the purchase of investment certificates by acquiring and subscribing for shares of project companies. It supports foreign expansion by investing in shares of foreign entities owned by Polish companies.

Structure of the BGK Group as regards entities consolidated with the equity method



- **Infrastructural funds whose management has been entrusted by BGK to PFR TFI S.A., i.e.:**
  - Fundusz Inwestycji Polskich Przedsiębiorstw FIZ AN (Polish Enterprise Investments Closed-End Private Equity Investment Fund),
  - Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZ AN (Equity Infrastructure Investment Closed-End Private Equity Investment Fund),
  - Fundusz Inwestycji Infrastrukturalnych – Dłużny FIZ AN (Debt Infrastructure Investment Closed-End Private Equity Investment Fund),
  - Fundusz Inwestycji Samorządowych FIZ AN (Local Government Investments Closed-End Private Equity Investment Fund).
- **Surety funds** established in cooperation with local government units,
- **Krajowa Grupa Poręczeńowa Sp. z o.o. (National Guarantee Group),**
- **Korporacja Ubezpieczeń Kredytów Eksportowych S.A. (Export Credit Insurance Corporation)**

For a detailed description and list of subsidiaries and associates see the consolidated financial statements.

Bank Gospodarstwa Krajowego and the BGK Group entities focus their activities on four aspects:

- carrying out activities to support the economic growth of Poland by financing infrastructure projects and local government projects and by co-financing the foreign expansion of Polish companies and export projects. BGK offers surety and guarantee schemes in order to stimulate entrepreneurship and the development of micro, small and medium-sized enterprises. The Bank and group entities also operate programmes intended to improve the situation on the housing market;

- initiating and implementing actions aimed at supporting economic growth and enterprise development;
- mobilising capital in the economy – BGK stimulates the use of capital in the economy by participating in consortia and structuring transactions in the domestic and foreign markets. The Bank finances capital needs through cooperation with development institutions and the mobilisation of private capital through the development of guarantee and surety programmes;
- supplementing the banking system by filling the market gap in key areas of the economy. BGK supplements the banking system, filling the market gap in key areas of the economy through programmes activating stagnant sectors and regular initiatives. The Bank finances projects of significant importance to the market economy and associated with high risk and supports economic growth in areas where the market is inefficient. The Bank cooperates with other financial institutions on a partnership basis, complementing their offerings.

BGK is an institution responsible for the process of consolidating public finances, management of European programmes and distribution of EU funds on a regional and national scale.

The Bank expands its product offer in the area of debt financing as well as surety and guarantee financing by investing in funds supporting the growth of Polish enterprises and infrastructure development.

The BGK Group's activities have a multidimensional development context. The implementation of activities in one area, such as financing reindustrialisation, has a positive impact on other areas, i.e. on labour market development, reduction of the unemployment rate or increase in state budget revenue. The BGK Group's infrastructure projects improve the quality and accessibility of services to the public and have a positive impact on the environment and the economy.

The BGK Group carries out its activities in a responsible and sustainable manner, while maintaining a reasonable risk appetite. Planned projects are analysed in terms of risk and their impact on the Poland's sustainable economic growth. In 2019, the liquidity of BGK was at a safe level and its level of capital adequacy, monitored using capital adequacy ratios determined in line with the Banking Law and the CRR (Capital Requirements Regulation).

#### **Financing of housing**

An important element of the Bank's and BGK Group's operations are activities related to the administration of housing programmes supporting the housing industry, including provision of debt financing to Social Housing Associations. BGK provides capital to Fundusz Sektora Mieszkań na Wynajem FIZ AN and Fundusz Sektora Mieszkań dla Rozwoju FIZ AN.

#### **Support for exports and foreign expansion**

The Bank and the BGK Group actively support activities focused on exports. The Bank is a shareholder of Korporacja Ubezpieczeń Kredytów Eksportowych S.A. (KUKE S.A.). Apart from its capital involvement, BGK is KUKE S.A.'s key partner in the implementation of the government export support programme, as part of which BGK grants export credits insured by KUKE S.A. In addition, BGK finances export projects that are partially implemented at 'own risk', with supplementary security provided by KUKE S.A. Another BGK Group member, which provides funding to actively support the foreign expansion of Polish businesses is Fundusz Ekspansji Zagranicznej FIZ AN managed by PFR TFI S.A. The Fund helps Polish entities co-finance their investment projects abroad by offering loans or acquiring minority shareholdings with a buyout option on arm's length terms. The Fund may invest both in EU and non-EU member states, also in developing and high-risk countries, in almost all sectors, not only in manufacturing, but also in distribution and service companies.

In 2019, Fundusz Ekspansji Zagranicznej FIZ AN signed six investment agreements on the support of investment projects pursued by Polish partners as part of equity or debt financing. BGK is the only participant of this investment fund.

In addition, the Bank carries out management activities related to export credits under the DOKE Programme (system of subsidies from the state budget to interest on export credits). The DOKE Programme is a system designed to stabilise interest on export credits advanced to buyers by Polish or foreign banks or international financial organisations. The rules of the Programme are based on the OECD Arrangement on Officially Supported Export Credits.

## 1.2 MAJOR EVENTS IN THE BGK GROUP

### Three Seas Initiative Investment Fund

In May 2019, on the initiative of BGK, the Three Seas Initiative Investment Fund was established (operating under the name Three Seas Initiative Investment Fund S.A. SICAV-RAIF) as an international investment fund to support infrastructure projects which are significant growth drivers for countries located in Central and Eastern Europe between the Baltic Sea, the Black Sea and the Adriatic. The main objective of this breakthrough financial vehicle is to fill in the infrastructure gap between western and eastern parts of the European Union by financing transport, energy and digital connections on the north-south axis in countries located in the Three Seas Region.

The Fund was established by BGK (Poland) and EximBank (Romania), which made a commitment to contribute a total of EUR 520 million. It is assumed that the target size of the Fund will be in the range of EUR 3–5 billion. The Fund is open to other Three Seas Initiative states that can join it after securing relevant permits and obtain the *Core Sponsor* status. Concurrently, in 2019 negotiations were commenced with international financial institutions, such as the European Investment Bank, the World Bank and the European Bank for Reconstruction and Development.

The Fund was set up in line with Luxembourg law and its management was entrusted to independent entities: (i) Fuchs Asset Management – a licensed fund manager, and (ii) Amber Infrastructure – an entity responsible for the investment process and portfolio management.

In 2019, two meetings of the Fund's Supervisory Board were held: the first in Luxembourg (in July) and the second in Tallinn (in October). Apart from representatives of Poland and Romania, members of the Supervisory Board of the Three Seas Initiative Investment Fund include the representatives of Estonia, Czechia and Latvia.

In April and May 2020, governments of Estonia, Latvia and Hungary resolved to join the Three Seas Initiative Investment Fund.

### Changes regarding the support of the housing industry

In 2019, the Housing for a Start programme was rolled out to provide direct support to tenants in the form of rent subsidies. The programme is addressed to persons who cannot afford to rent or purchase an apartment in the market, and whose income is too high to apply for communal housing. The subsidy system also covers housing projects implemented as part of Social Rental Housing (SRH). In the programme supporting rental and municipal housing construction applications were accepted on a continuous basis instead of in rounds. As part of amendments to the Act on National Property Resources a number of amendments were introduced to make the SRH programme more attractive, *inter alia*: the programme was made more accessible to housing cooperatives and periodic verification of tenants' income was waived. An important trend observed in 2019 was the growing number of investors in housing projects and using the so-called hybrid financing offered by BGK, which involves a combination of preferential loans under the SRH programme and grants for communes and municipalities. This model makes securing the financing of an investment project easier and makes it possible to reduce the rent payable by tenants.

### Development of the surety and guarantee system

In 2019, as part of the EU's 2014-2020 perspective, guarantees were provided from the Guarantee Fund under the Operational Programme Smart Growth by enabling the implementation of new projects focused on ecological innovation with an environmental benefit.

In 2019, guarantees under the Operational Programme Digital Poland were added to the offer.

In 2019, BGK established the Agricultural Guarantee Fund under the Rural Areas Development Programme, an initiative intended to include agricultural producers in BGK's guarantee system and ramp up aid for the agri-food processing industry.



### **Foreign representative offices of Bank Gospodarstwa Krajowego**

The primary purpose of the operation of BGK's offices abroad is to promote the Bank and Poland, monitor the process of international legislation, actively participate in preparation and amendment of legal acts, and support exports and the foreign expansion of Polish businesses. The offices are intended to support foreign expansion and attract foreign investors through BGK's communication and promotional activities abroad. Their role is to build and foster relations with financial centres and institutions with the strongest impact on regulations affecting global economy and the international banking system.

In 2018, BGK opened its first agency in Brussels, which was followed by representatives offices in Frankfurt am Main and London opened in 2019. The Bank intends to set up further representative offices in the EU and the USA.

### **Establishment of the Polish Science Fund (PSF)**

The Polish Science Fund was launched in 2019. Its key objective is to finance scientific activities of particular importance to Poland's growth, facilitating the development of innovative products, and to aid the establishment and development of innovative models for organisation of R&D activities. The Fund operates under the Act on Supporting Scientific Activities from the Polish Science Fund of 4 April 2019 (Journal of Laws, item 823, as amended) and the agreement between BGK and the Ministry of Science and Higher Education. Under the Act, in June 2019 PLN 500 million was transferred to the PSF from BGK's statutory capital.

### 1.3 IMPORTANT EVENTS FOR THE BGK GROUP IN 2019

Key events in 2019	
January	<ul style="list-style-type: none"> <li>Launch of the government rent subsidy programme "Housing for a Start"</li> <li>Start of celebration of the 95th anniversary of BGK</li> <li>Announcement of incentives for beneficiaries of the Social Rental Housing (SRH) programme – less paperwork and easier loan application procedure, especially for housing cooperatives</li> </ul>
	<ul style="list-style-type: none"> <li>BGK received the Top Employer 2019 award</li> <li>Placement of BGK's 4-year bonds worth PLN 2 billion in Poland</li> <li>Advancement of loans secured by BGK and KUKE to a Norwegian shipowner ordering ferries for PLN 350 million in a Polish shipyard</li> </ul>
	<ul style="list-style-type: none"> <li>The first Polish-Ukrainian purchase of debts: agreement between BGK and Feerum for EUR 30.25 million</li> <li>Summary of six years of <i>de minimis</i> guarantees: more than 145 thousand businesses received loans for over PLN 100 billion, which helped create or maintain 200 thousand jobs</li> </ul>
April	<ul style="list-style-type: none"> <li>Launch of guarantees under the Creative Europe programme for creative industries. The total value of available financing expected to amount to as much as PLN 525 million over the next three years</li> <li>In the spring call for applications under the SRH programme BGK received 26 applications for more than PLN 136 million. This means potentially 1,079 new apartments</li> </ul>
	<ul style="list-style-type: none"> <li>BGK's second foreign agency opened in Frankfurt am Main</li> <li>Acquisition of PLN 1.6 billion from COSME, the EU's guarantee programme for micro, small and medium enterprises – guarantees may be provided for PLN 6 billion worth of loans</li> <li>Execution of an agreement with the EIB on co-financing by the National Road Fund of the final sections of the A1 motorway</li> <li>Signing of the founding act of the Three Seas Fund</li> </ul>
June	<ul style="list-style-type: none"> <li>Participation by BGK in the 2nd Vision for Development Forum in Gdynia, of which the Bank was a strategic partner</li> <li>Establishment of the Polish Science Fund operated by BGK</li> </ul>
	<ul style="list-style-type: none"> <li>Launch of a common initiative promoting circular economy by a group of five European national development banks and the EIB of Luxembourg</li> <li>Establishment of the Agricultural Guarantee Fund as part of the Rural Areas Development Programme for 2014-2020 under an agreement between the Ministry of Agriculture and Rural Development and BGK</li> </ul>
August	<ul style="list-style-type: none"> <li>Execution by BGK of an agreement for up to PLN 200 million with Santander Bank Polska and Santander Factoring, under which the Bank shares factoring risk</li> <li>Publication of BGK's CSR report for 2018 showing the Bank's contribution to Poland's social and economic growth</li> <li>Start of cooperation with LfA Förderbank Bayern, a Bavarian development bank</li> </ul>
	<ul style="list-style-type: none"> <li>Launch of the Accessibility Fund programme – loans for removing architectural barriers in multi-family and public utility buildings</li> <li>Organisation of the 14th BGK's Conference for local government units</li> </ul>
	<ul style="list-style-type: none"> <li>Commencement of the 6th edition of the competition for a technological grant from the EU's programme Smart Growth (with PLN 350 million allocated)</li> <li>Placement of BGK's 4-year bonds worth PLN 1.85 billion in the market</li> <li>A record-breaking 7th call for applications under the SRH programme. BGK received two times more applications than in 2018. Thanks to preferential loans, 41 investors will be able to build even 2.1 thousand apartments</li> <li>Beata Daszyńska - Muzyczka, the President of the Management Board, chaired BGK's panel: "Cooperation in the Three Seas Initiative – Poland's role: leader and partner" at Congress 590, of which BGK was a strategic partner</li> </ul>
November	<ul style="list-style-type: none"> <li>Execution of an agreement between BGK and the European Commission on the implementation of the CEF Blending Facilities project, designed to promote the development of alternative fuels and extension of the European transport system</li> </ul>
December	<ul style="list-style-type: none"> <li>Beata Daszyńska - Muzyczka, the President of the Management Board, received the Manager Award granted to the most effective and the best managers in Poland</li> </ul>

## **1.4 HISTORICAL OVERVIEW OF THE BGK GROUP**

### **Establishment of BGK**

Bank Gospodarstwa Krajowego is the only state-owned development bank in Poland. It was established by an order of the President of the Republic of Poland in 1924. During the interwar period, it focused on supporting public and municipal institutions as well as armament manufacturers, in addition to managing industrial plants the control of which was assumed by the state. The Bank also administered government special purpose funds and provided significant financial support to the modernisation and development of the Polish economy of that period, including the Central Industrial District and the city and sea port of Gdynia. After WWII, the operations of BGK were suspended in 1948.

### **Resumed operation in 1989**

The Bank was reactivated in 1989 as an institution specialising in the provision of services to the public sector. The operations of BGK are governed by the Act on Bank Gospodarstwa Krajowego of 14 March 2003 with subsequent amendments and the Ordinance of the Minister of Development on the adoption of the Articles of Association of Bank Gospodarstwa Krajowego, dated 16 September 2016. Currently, BGK is the major institution supporting the State in the administration of socio-economic government programmes designed to promote entrepreneurship as well as infrastructure and residential investment at the national, regional and local level.

### **Establishment of the National Housing Fund (NHF)**

One of the first funds implementing government programmes within BGK was the National Housing Fund (Krajowy Fundusz Mieszkaniowy - KFM), whose key objective was to provide loans for the construction of social rental housing and auxiliary technical infrastructure. The legal basis of the NHF's operations was the Act on Certain Forms of Support for Residential Construction of 26 October 1995. On 31 May 2009, the National Housing Fund was transformed into the Residential Construction Support Programme and the portfolio of loans advanced by the National Housing Fund is now managed by BGK.

### **Establishment of the Subsidy Fund (SF)**

The Subsidy Fund was established at BGK pursuant to the Act on Interest Subsidies for Fixed-Rate Housing Loans of 5 December 2002. The Subsidy Fund commenced its operations in 2003 by subsidising interest on fixed-rate housing loans. In the first year of its operation, it also took over the programme of interest subsidies for loans and bonds as part of repayable financing of investments and construction projects carried out by BGK under the residential construction support government programme. In the following years, subsequent residential construction support programmes were launched by the Fund.

### **Establishment of the National Road Fund (NRF)**

The National Road Fund was established with a view to finance the construction and alteration of national roads, including motorways and expressways, cover any payments to toll motorway operators and expenditure related to the construction and operation of toll collection systems on national roads. The Fund was established at Bank Gospodarstwa Krajowego under the Act on Toll Motorways and the National Road Fund of 27 October 1994. The NRF has been operated within BGK since 2004.

### **Taking over the management of the government programme "Support of Entrepreneurship with Sureties and Guarantees of Bank Gospodarstwa Krajowego"**

Access of micro, small and medium-sized enterprises to financing for development needs, including investments, is facilitated thanks to BGK's surety and guarantee scheme. Activities under the government programme have been carried out since 2009 in accordance with provisions laid down in the Act on Sureties and Guarantees Granted by the State Treasury and Certain Legal Persons of 8 May 1997. The Bank carries them out directly in the form of surety and

guarantee activities by performing tasks related to the development of the system of regional and local surety funds, as well as through the National Guarantee Fund (NGF) established by BGK.

#### **Establishment of investment funds managed by TFI BGK S.A. (currently PFR TFI S.A.)**

In pursuing the mission of supporting the economic growth of Poland, the Bank also actively carries out operations related to capital investments. These operations are carried out by closed-end investment funds and entities established by them. Investment funds were created by Towarzystwo Funduszy Inwestycyjnych (Investment Fund Management Company) established by BGK in November 2013. The first investment fund created by TFI BGK S.A. and managed by BGK Nieruchomości S.A. was Fundusz Sektora Mieszkań na Wynajem FIZ AN, which commenced its operations in November 2014. In 2015, next to commence their operations within the BGK Group were funds managed by PFR TFI S.A., i.e. Fundusz Ekspansji Zagranicznej FIZ AN, Fundusz Inwestycji Infrastrukturalnych (Dłużny and Kapitałowy) FIZ AN, Fundusz Inwestycji Polskich Przedsiębiorstw FIZ AN, and Fundusz Inwestycji Samorządowych FIZ AN, established in mid-2015. The last fund was Fundusz Muncypalny FIZ AN (Municipal Fund) created at the end of 2015, which was transformed into Fundusz Sektora Mieszkań dla Rozwoju FIZ AN in 2017. In September 2017, TFI BGK S.A. was sold to Polski Fundusz Rozwoju S.A., but it retained the right to appoint three members of the Supervisory Board.

PFR Nieruchomości S.A. manages the assets of Fundusz Sektora Mieszkań na Wynajem FIZ AN and Fundusz Sektora Mieszkań dla Rozwoju FIZ AN, whose sole investor is BGK.

### **1.5 KEY FINANCIAL DATA OF THE BGK GROUP FOR 2019**

The BGK Group reported a net profit of PLN 390.2 million for 2019, down by PLN 123.9 million, or 24.1%, year on year. Worse performance was mainly attributable to a PLN 311.6 million lower share of profit of associates and lower impairment losses and provisions resulting from a larger loan portfolio and a conservative approach to recognition and measurement of credit risk. Net impairment losses and provisions under IFRS 9 dropped by PLN 104.2 million, or 81.9%, year on year.

Administrative expenses grew faster (up 27.8%) than net banking income (up 15.7%).

**TABLE 1: Key financial parameters of the BGK Group's operations**

Item	Performance			Change
	2019	2018	2017	2019/2018
<b>Profitability</b>				
Net banking operations <sup>1</sup> (in PLN million)	1,377.4	1,190.9	989.5	15.7%
Administrative expenses (in PLN million)	-600.8	-470.3	-394.0	27.8%
Net impairment losses and provisions (in PLN million)	-231.4	-127.2	-49.6	81.9%
Share of profit or loss of associates (in PLN million)	-268.6	43.0	72.0	-
Profit before tax (in PLN million)	459.2	601.6	690.5	-23.7%
Net profit (in PLN million)	390.2	514.1	584.4	-24.1%
<b>Scale of activity</b>				
Net credit exposures (in PLN million)	38,310.3	32,820.6	27,223.8	16.7%
Investments in associates (in PLN million)	3,652.8	3,883.6	1,066.2	-5.9%
Liabilities to customers (in PLN million)	59,701.4	47,637.3	33,692.3	25.3%
Total equity (in PLN million)	18,653.9	19,233.7	20,081.0	-3.0%
Balance sheet total (in PLN million)	100,521.2	84,772.3	74,314.0	18.6%
<b>Operating performance<sup>2</sup></b>				
C/I <sup>3</sup> ratio on core activities	43.6%	39.5%	39.8%	4.1 pp
C/I <sup>4</sup> ratio including other income and expenses	38.5%	40.7%	37.1%	-2.2 pp
ROE (net profit / average total equity)	2.1%	2.7%	4.0%	-0.6 pp
ROA (net profit / average assets)	0.3%	0.5%	0.6%	-0.2 pp
Net interest margin (net interest income / average assets)	0.8%	0.9%	0.8%	-0.1 pp

<sup>1</sup> Net interest and commission income, net gain/loss on financial instruments at fair value through profit or loss and net exchange differences, net gain/loss on investments in financial assets

<sup>2</sup> Carrying amounts for the period of 13 months (e.g. December 2018 – December 2019) were used as average balances used to calculate the measures.

<sup>3</sup> C/I = (administrative expenses) / (interest income, net provisions, net gain/loss on financial instruments at fair value through profit or loss, net exchange differences and net gain/loss on investments in financial assets)

<sup>4</sup> C/I same as above, with the proviso that the denominator includes other income/expenses and net modification gain/loss

The BGK Group closed the year 2019 with a balance sheet total of PLN 100,521.2 million. It went up by PLN 15,749.0 million, or 18.6%, year on year. The increase was mainly attributable to:

- higher credit exposures by PLN 5,489.7 million,
- changes in assets, liabilities and equity resulting from the management of BGK's liquidity position.

ROE fell by 0.6 pp, to 2.1%, as a result of a decline in net profit from PLN 514.1 million in 2018 to PLN 390.2 million in 2019. ROA decreased by 0.2 pp, to 0.3%. The C/I ratio, including other operating expenses and income, dropped by 2.2 pp year on year, to 38.5%.

The C/I ratio on core activities increased from 39.5% in 2018 to 43.6% in 2019, as expenses grew faster than income.

The strong capital position of the BGK Group at the end of 2019 improves the potential to achieve BGK's mission in upcoming years and allows to speed up lending, improve net interest income and expand investment activity supporting the Poland's economic growth.

## 1.6 KEY FINANCIAL DATA OF BGK FOR 2019

In 2019, the Bank reported a net profit of PLN 511.2 million, up by PLN 65.9 million as compared to the preceding year. Improved performance resulted mainly from a PLN 223.2 million higher net banking income, which grew by 19.0% as compared to 2018.

Key performance indicators for 2019 were better than those achieved in 2018. ROE notched up by 0.4 pp to 2.7%, ROA remained flat (at 0.4%), while the C/I ratio on core activities fell by 0.2 pp, to 34.1%, over 2018.

Solvency ratio remained at a high and stable level of 28.7%.

TABLE 2: Key financial parameters of BGK's operations

Item	Performance			Change
	2019	2018	2017	2019/2018
<b>Profitability</b>				
Net banking operations <sup>1</sup> (in PLN million)	1,396.9	1,173.7	978.9	19.0%
Administrative expenses (in PLN million)	-475.9	-402.1	-320.9	18.4%
Net impairment losses and provisions (in PLN million)	-403.8	-165.2	-49.6	144.5%
Profit before tax (in PLN million)	578.6	519.5	606.2	11.4%
Net profit (in PLN million)	511.2	445.3	517.8	14.8%
<b>Scale of activity</b>				
Net credit exposures (in PLN million)	38,284.9	32,811.5	27,233.8	16.7%
Liabilities to customers (in PLN million)	59,821.3	47,769.3	33,808.0	25.2%
Capital investment	5,397.5	5,556.7	2,098.9	-2.9%
Total equity (in PLN million)	18,675.2	19,127.3	20,047.7	-2.4%
Balance sheet total (in PLN million)	100,604.2	84,746.4	74,334.2	18.7%
<b>Operating performance<sup>2</sup></b>				
C/I <sup>3</sup> ratio on core activities	34.1%	34.3%	32.8%	-0.2 pp
C/I <sup>4</sup> ratio including other income and expenses	32.6%	37.0%	32.9%	-4.4 pp
ROE (net profit / average total equity)	2.7%	2.3%	3.5%	0.4 pp
ROA (net profit / average assets)	0.4%	0.4%	0.6%	0.0 pp
Net interest margin (net interest income / average assets)	0.8%	0.9%	0.8%	-0.1 pp
Solvency ratio <sup>5</sup>	28.7%	32.1%	38.0%	-3.4 pp

<sup>1</sup> Net interest and commission income, net gain/loss on financial instruments at fair value through profit or loss and net exchange differences, net gain/loss on investments in financial assets

<sup>2</sup> Carrying amounts for the period of 13 months (e.g. December 2018 – December 2019) were used as average balances used to calculate the measures.

<sup>3</sup>  $C/I = (\text{administrative expenses}) / (\text{interest income, net provisions, net gain/loss on financial instruments at fair value through profit or loss, net exchange differences and net gain/loss on investments in financial assets})$

<sup>4</sup> C/I same as above, with the proviso that the denominator includes other income/expenses and net modification gain/loss

<sup>5</sup> Excluding cash flow funds

In 2019, the Bank reported the balance sheet total of PLN 100,604.2 million, which grew year on year by PLN 15,857.8 million, or 18.7%.

The increase was mainly attributable to:

- increases related to the development of lending activities – up by PLN 5,473.4 million, or 16.7%, year on year,
- liabilities to customers – up by PLN 12,052.0 million, or 25.2%, year on year.

## 2. THE ECONOMY IN 2019

### 2.1 DOMESTIC ECONOMY

#### *GDP on the decline*

After a very strong performance in 2018, the year 2019 brought a gradual year-on-year decline in GDP growth rate in Poland – from 4.8% in the first quarter to 3.2% in the fourth quarter. The contraction was mainly caused by weakening domestic demand. The GDP growth rate was strongly weighted by a significant drop in resources. Although the growth in consumption and gross expenditure on property, plant and equipment remained strong, these categories suffered a slowdown over the year. The growth of investments was impeded by sluggish activity of local government units and was adversely affected by the base effect. The growth in consumption was limited by diminishing impact of social benefits and higher prices of food and energy, combined with stabilised wage growth. International trade performance was relatively strong, given the adverse external conditions related to the economic downturn in the eurozone and the growing tension in trade relations. However, this area also suffered a significant decline in the last quarter of 2019.

#### *Continued low budget deficit*

The setback in GDP growth, which has not yet had a major impact on retail consumption, left the budget in a good shape. As at the end of 2019, the budget deficit stood at PLN 13.7 billion, i.e. half of what was originally expected. It was supported by the solid, albeit slowing, growth of VAT receipts, combined with a strong rise in tax collected from enterprises and natural persons. Similarly to 2018, the needs of the Social Security Fund dropped. The above circumstances, along with signals of slowing GDP growth, aversion to risky assets and a strong demand from domestic banks, contributed to higher prices of domestic bonds. This in turn resulted in lower yields of Polish bonds in the third quarter of 2019, which fell to record-low levels and caused a slight drop in their prices in late 2019.

**TABLE 3: Changes in macroeconomic indicators year on year in real terms**

Item	2019				
	I-IV kw.	I kw.	II kw.	III kw.	IV kw.
<b>Gross Domestic Product</b>	<b>104.1</b>	<b>104.8</b>	<b>104.6</b>	<b>103.9</b>	<b>103.2</b>
Domestic demand	103.5	103.9	104.6	103.3	102.2
Total consumption	103.9	104.4	104.0	104.0	103.2
Individual consumption	103.9	103.9	104.4	103.9	103.3
Gross capital formation	101.8	101.5	107.1	100.4	99.8
Gross fixed capital formation	106.9	112.2	109.1	104.7	104.9
Exports	104.2	107.3	103.2	105.0	101.4
Imports	103.0	106.0	103.1	103.9	99.3
<b>Gross value added</b>	<b>104.0</b>	<b>104.6</b>	<b>104.5</b>	<b>103.9</b>	<b>103.2</b>
Manufacturing	104.2	106.0	104.4	103.4	103.1
Construction	102.9	108.6	104.1	103.6	98.3
Trade and repair of motor vehicles	104.7	103.2	107.0	104.7	104.1
Transportation and warehouse management	108.0	110.4	105.4	107.0	109.3

Source: Statistics Poland

#### *Reference rate stabilisation*

The slowing GDP growth helped justify the Monetary Policy Council's resolve to maintain rates unchanged (at 1.5%), despite the clearly growing inflation. This approach was also supported by the development of core inflation (excluding food and energy prices), which did not exceed the midpoint of the inflation target (2.5% y-o-y) until the end of 2019, but was nonetheless adversely affected by growing tensions in world trade. In effect, in late 2019 the Central Bank and the markets, which did not expect such a scenario in the first half of the year, forecast interest rate cuts rather than hikes. The observed tensions in global trade and international relations contributed to greater volatility of the zloty compared to 2018. As a result, in the first half of the year the EUR/PLN exchange rate was nearly fixed at 4.30, but in

the last six months of the year its range of fluctuation widened from 4.26-4.33 to 4.24-4.39. Similarly, the USD/PLN exchange rate stayed within the 3.73-3.86 range in the first half of the year to push the upper limit close to 4.02 in the other half of the year on the back of stronger US dollar and increased international tensions.

## **2.2 ECONOMY ABROAD**

### ***Trade tensions fuelling uncertainty***

The year 2019 was marked by a trade war between the USA and China. During the year both countries increased customs duties on mutual imports. Tensions in trade also erupted between the USA and the EU. The related uncertainty weighed on the global economy. The investment environment deteriorated, in particular in the industrial sector. The rate of economic growth was dampened both in the USA and China. As a result, key central banks, including the Federal Reserve Bank, returned to monetary policy easing. The Fed rate was cut by a total of 75bps. The decision was supported by the weakening of inflationary processes.

### ***Worse economic situation in the eurozone***

The tensions between the USA and China combined with a drop in sentiment in the industry had an adverse effect on the economic situation in the eurozone. It must be noted that an additional risk factor for EU Member States is the United Kingdom's exit from the EU and the uncertainty related to the future trade relations between the EU and UK. These circumstances mostly affected the economic growth in Germany. Its growth rate remained on the verge of a recession. In consequence, the ECB reduced the deposit rate, reopened the asset purchase programme and extended the scope of existing programmes.

## **2.3 THE COVID-19 EPIDEMIC**

The COVID-19 pandemic has cast a shadow over the global economic situation. The economic slump resulting from the imposed restrictions, natural limitation of social and economic life, and supply chain disruptions has affected all major economies across the world. It must be pointed out that it is commonly believed that the coronavirus crisis is temporary, which is a crucial assumption in the context of its actual mid- and long-term impact. Nonetheless, even taking into account certain assumptions it is practically impossible to quantify the impact of the crisis and, as a result, determine its effect on economic indicators. It is increasingly feared that 2020 will see a global recession. On the other hand, generous fiscal packages combined with monetary intervention on an unprecedented scale may help derailed economies get back on track in a relatively short period.

It goes without saying that due to global and local economic conditions Poland will also suffer a sharp slowdown in the economic growth in 2020. The slump will affect all major components of GDP, including consumption, investment and international trade. The most likely scenario is a recession. Assuming that the period of fighting the epidemic will be relatively short and that the announced fiscal and monetary measures will be implemented, it may be expected that the first half of 2020 will bring a strong trend towards recession, while in the second half of the year businesses will return to normal operations. However, as in the case the global economy, the realisation of such expectations rests on the actual development of the epidemiological situation in Poland, Europe and across the world, as well as a flexible and adequate response of fiscal and monetary bodies to the changing environment.



### **3. CHANGES IN THE REGULATORY ENVIRONMENT**

The operations of Bank Gospodarstwa Krajowego, whose mission is to support the state in the implementation of the social and economic growth policy, are subject to more Polish and EU regulations than the activities of other banking sector entities – the Banking Law, Recommendations of the PFSA, requirements of CRR and other regulations applicable to banks.

The most important amendments that affect BGK's operations concerned the following laws and regulations:

- The Act on the Protection of Personal Data in Connection with the Prevention and Combating of Crime of 14 December 2018, which entered into force on 6 February 2019;
- The Act Amending the Act on the Bank Guarantee Fund, Deposit Guarantee Scheme, and Compulsory Restructuring, and Certain Other Acts, dated 17 January 2019, which entered into force on 7 March 2019;
- The Act of 21 February 2019 Amending Certain Acts in Connection with Ensuring the Application of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation), which entered into force on 4 May 2019;
- The Act Amending the Act on the Rules of State Property Management and Certain Other Acts of 21 February 2019, which entered into force on 29 March 2019;
- The Act on Supporting Scientific Activities from the Polish Science Fund of 4 April 2019, which entered into force on 21 May 2019;
- The Act on the Public Bus Transport Development Fund of 16 May 2019, which entered into force on 18 July 2019;
- The Act on the Development Institution System of 4 July 2019, which entered into force on 5 September 2019;
- The Act on Accessibility to Individuals with Special Needs of 19 July 2019, which entered into force on 20 September 2019;
- The Act on Financial Support of Inland Shipowners, the Inland Waterways Fund and the Reserve Fund of 31 July 2019, which entered into force on 9 November 2019;
- The Public Procurement Act of 11 September 2019, which entered into force on 1 January 2021;
- The Act Amending the Act on Branches of the Government Administration and Certain Other Acts, dated 23 January 2020, which entered into force on 29 February 2020.

Apart from the above, a number of other generally applicable laws that govern the Bank's operations to a varying degree were enacted in 2019.

## **4. OPERATIONS OF BANK GOSPODARSTWA KRAJOWEGO AND THE BGK GROUP**

### **4.1 DIVISION OF OPERATIONS WITHIN BANK GOSPODARSTWA KRAJOWEGO GROUP**

The operations of BGK Group are carried out by the Bank and a group of institutions with organisational links to the Bank. These include primarily financial institutions or auxiliary institutions with equity links to the Bank or linked to the Bank by the fact that it exercises supervision over them, as well as subsidiaries and associates which implement BGK's mission. They supplement the Bank's operations by carrying out growth-oriented investment activities based on equity financing and the best asset management practices.

Therefore, the BGK Group's operations include:

- banking activity, in which a major role is played by lending and surety activities as well as maintenance of accounts and deposits,
- commissioned activities related to supporting the State and managing government and EU programmes,
- investment activities, carried out to a large extent by the Group entities.

Bank Gospodarstwa Krajowego as a state development bank is the key institution supporting the State in the administration of social and economic government programmes intended to promote entrepreneurship as well as infrastructure and housing projects at the national, regional and local level. In addition to conducting banking activities, BGK actively cooperates with ministries competent for specific areas of Poland's growth and Polish development institutions. BGK carries out government tasks on the basis of acts and agreements with ministries, including through funds established, entrusted or transferred to the Bank for which, by virtue of law, BGK keeps separate accounting books and prepares separate financial statements.

These include:

- cash flow funds – related to the management and administration of cash flows which are not recognised in the Bank's statement of financial position and the statement of profit or loss. Tasks in the formula of cash flow funds are carried out by the National Road Fund (NRF), Railway Fund (RF), Thermal Modernization and Refurbishment Fund (TMRF), Subsidy Fund (SF), Student Loan Fund (SLF), Borrower Support Fund (BSF), National Guarantee Fund (NGF), Polish Science Fund (PSF) and Inland Waterways Fund (IWF).

Through investment funds and cooperation with surety funds and KUKE S.A. BGK also supports the development of entrepreneurship by providing sureties and facilitates the export of Polish businesses.

## 4.2 LENDING ACTIVITY OF BGK

The gross value of the Bank's credit exposures in 2019 reached PLN 39,484.2 million. The year-on-year increase was PLN 5,602.6 million and was related mainly to the area of financing self-government institutions and municipal companies, structured financing and financing of enterprises and financial entities. The Bank engages in providing financing to bridge the gap in the banking sector by participating in syndicate loans.

The table below presents the portfolio of credit exposures by business line.

**TABLE 4: Gross credit exposures\* (in PLN million)**

Item	Performance		Change versus 2018	
	2019	2018	in nominal terms	%
<b>Gross credit exposures</b>	<b>39,484.2</b>	<b>33,881.6</b>	<b>5,602.6</b>	<b>16.5%</b>
Structured finance	14,225.6	12,558.0	1,667.6	13.3%
Export and foreign expansion financing	2,695.8	2,428.0	267.8	11.0%
Businesses and financial entities	7,019.0	5,696.2	1,322.8	23.2%
Local government institutions and municipal companies	9,792.9	7,661.6	2,131.3	27.8%
Central government entities	47.0	16.4	30.6	186.6%
Healthcare entities	1,249.2	1,051.2	198.0	18.8%
Social housing programmes	4,207.7	4,136.0	71.7	1.7%
Other	247.1	334.2	-87.1	-26.1%

*\* the item includes loans, municipal bonds and commercial bonds measured at amortised cost*

The Bank achieved the strongest growth in the area of financing local government institutions and municipal companies of PLN 2,131.3 million, i.e. 27.8% in relation to the previous year.

The amount of credit exposures to local government units and municipal companies as at the end of 2019 was PLN 9,792.9 million and was PLN 2,131.3 million higher compared to the previous year. The rise was attributable to increased activity of the Bank's Regions compared to local government entities as part of the Tactical Plan for 2019 and to the BGK's role of a market stabiliser during the limited presence of commercial and cooperative banks on the market for financing local government institutions.

In the area of structured financing, BGK recorded a 13.3% rise in the portfolio value. In this category BGK classified primarily financing related to the implementation of investment and infrastructure projects.

As regards the financing of social housing, the scale of growth of new programmes implemented by BGK fully compensated repayments in the portfolio of the former National Housing Fund.

### Loan portfolio statistics

To ensure comparability with market data, in the tables below the loan portfolio of BGK is presented by sector. Below are also presented the changes in lending activity by sector.

**TABLE 5: Volume and structure of gross credit exposures\* (in PLN million)**

Wyszczególnienie	2019		2018		Change versus 2018	
	Performance	Structure	Performance	Structure	in nominal terms	%
<b>Gross credit exposures</b>	<b>39,484.2</b>	<b>100.0%</b>	<b>33,881.6</b>	<b>100.0%</b>	<b>5,602.6</b>	<b>16.5%</b>
financial sector entities	1,609.9	4.1%	753.9	2.2%	856.0	113.5%
non-financial sector entities	28,178.8	71.4%	25,000.9	73.8%	3,177.9	12.7%
individuals	44.3	0.1%	55.2	0.2%	-10.9	-19.8%
businesses	28,134.5	71.3%	24,945.7	73.6%	3,188.8	12.8%
budget sector entities	9,695.4	24.6%	8,126.8	24.0%	1,568.6	19.3%
central government entities	467.5	1.2%	352.4	1.0%	115.0	32.6%
local government entities	9,228.0	23.4%	7,774.3	22.9%	1,453.6	18.7%

\* the item includes loans, municipal bonds and commercial bonds measured at amortised cost

In 2019, the most considerable growth was observed in the non-financial sector. This was attributable mainly to the financing of enterprises. The amount of loans advanced to public sector entities grew as well, including mainly to local government units.

**TABLE 6: BGK's share in the loan market**

Item	Change versus		
	2019	2018	2018 in p.p.
<b>Loans</b>	<b>3.2%</b>	<b>2.9%</b>	<b>0.3</b>
financial sector entities	2.0%	1.1%	0.9
businesses	5.8%	5.2%	0.6
individuals	0.0%	0.0%	0.0
central government entities	41.5%	25.3%	16.1
local government entities	25.8%	16.8%	9.0

As at the end of 2019, BGK's market share was higher than in the previous year and stood at 3.2%. The increase was mainly driven by the implementation of the Bank's strategy with respect to the funding of investments and development of businesses. In line with its mission, the Bank arranged financing largely through participation in syndicates formed together with commercial banks. The Bank has not been granting loans to natural persons since 2009.

As at the end of 2019, exposures past due by more than 90 days went up by PLN 4.4 million, i.e. 1.7%, to PLN 258 million, and constituted less than 1.0% of the credit exposures portfolio.

As at the end of 2019, total debt subject to collection or restructuring was PLN 1,632 million (1,264 transactions), while recoveries in 2019 totalled PLN 96.9 million.

The Bank is not involved in any litigation where the unit amount of the claim represents at least 10% of its equity. The total value of claims also does not exceed that threshold.

**TABLE 7: Amount and structure of receivables that were subject to enforcement (in PLN million)**

Receivables by type	2019			2018		
	Volume	exposure value	collateral value	Volume	exposure value	collateral value
construction loans	8	109.0	62.3	8	104.9	102.9
investment loans	15	79.2	84.6	13	18.1	9.4
working capital loans	12	35.4	30.7	10	20.1	8.9
sureties and guarantees	305	73.6	26.6	242	64.7	13.0
other	50	101.4	31.6	34	17.2	17.6
Total	390	398.6	235.8	307	224.9	151.8

## Development and structure of lending activity within the framework of BGK's mission

The Bank pursues its Strategy as part of priorities: knowledge-based economic growth and sustainable social and territorial development. The Bank focuses on supporting activities concerning:

- reindustrialisation and promoting infrastructure investments,
- foreign expansion and export of Polish enterprises,
- financing local government projects,
- promoting equal opportunities and housing.

### **Support for reindustrialisation and infrastructure investment financing**

Within the framework of its lending activity, the Bank primarily finances investment and infrastructure projects. The Bank's operations are focused on supporting strategic sectors of Polish economy. These operations are carried out mainly through structured transactions that enable large investments in the production, fuel and gas sectors, and through financing of new technologies. These investments are carried out primarily through the participation of BGK in consortia and by increasing the use of leverage in financing investments of strategic importance to Poland. This enables using the funds of the financial sector in addition to BGK's own funds. The share of structured financing in the exposure portfolio was 36.0% as at the end of 2019, which represented a balance sheet exposure of PLN 14,225.6 million.

Equally important are revolving facilities or medium-value investment loans that do not require structured financing. These types of loans are granted through BGK's regional network. In 2019, to meet the financial needs of Polish businesses, BGK significantly increased the value of financing provided to enterprises and financial entities by PLN 1,322.8 million.

As regards funding of infrastructure projects, the Bank also carries out its statutory activities through the National Road Fund, the Railway Fund and investment funds.

### **Export and foreign expansion financing**

One of the objectives of the state Strategy for Responsible Development is to internationalise Polish economy. A special emphasis has been placed on the development of business relationships with non-EU member states (including higher risk countries), in addition to more sophisticated forms of international cooperation.

BGK plays a crucial role in providing Polish companies with solutions enabling them to effectively compete on international markets. Year by year, the Bank has been increasing its exposure to export financing and foreign expansion instruments granted both under the "Finansowe Wspieranie Eksportu" (Financial Exports Support) Programme and as part of the Bank's own activities. In 2019, BGK continued to strengthen its commitment to supporting not only exports, but also foreign expansion, through financing projects implemented by Polish businesses on international markets. This was expressed, *inter alia*, in the number countries where BGK supported transactions/projects of Polish enterprises, which reached 69 as at the end of 2019 (up by 9 countries compared to the end of 2018).

- "Finansowe Wspieranie Eksportu" (Financial Exports Support) Programme

BGK supports Polish exports by advancing export credits under the Financial Exports Support Government Programme adopted by the Council of Ministers in 2009. BGK provides credit facilities to foreign buyers (directly or through the buyer's bank) to finance the purchase of Polish goods or services. The funds are transferred directly to the bank accounts of Polish exporters, which eliminates the risk of default, as the Polish business receives the transfer directly from BGK.

The solution offered under the Programme is considered particularly attractive for higher risk markets (such as Belarus, Ukraine), where the instruments offered by commercial banks are limited and the borrowing costs charged by local banks are high.

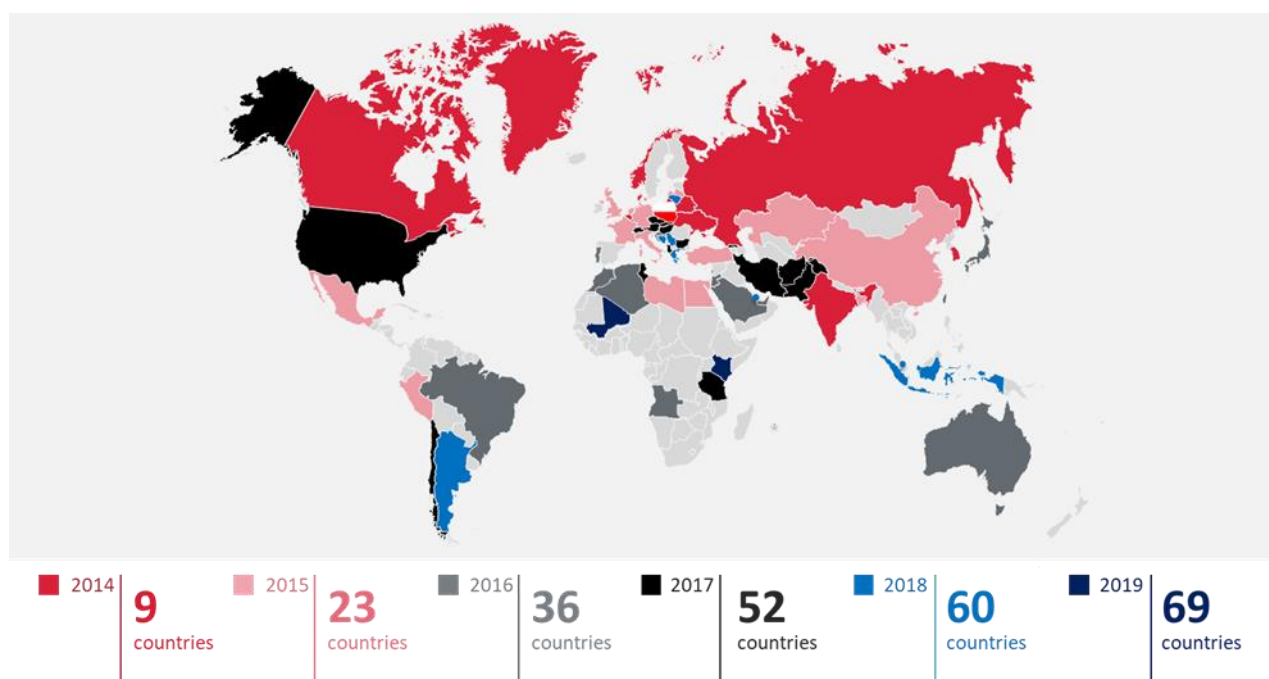
Since the launch of the Financial Exports Support Programme until the end of 2019, BGK advanced loans for an aggregate of approximately PLN 4.0 billion. The amount disbursed by the end of 2019 was approximately PLN 3.0 billion, while the value of supported export contracts was about PLN 4.8 billion.

■ *Own activities of BGK in the area of export and foreign expansion support*

Since 2015, in connection with the growing interest in financing expressed by Polish businesses operating on international markets, BGK expanded its product offer to include loans dedicated for foreign investments of Polish enterprises. Such a financial instruments is complementary to the available export credit products and to products offered by other financial institutions. This significantly increased the amount of loans granted in subsequent years and, at the same time, allowed BGK to enter the markets of highly developed countries through various forms of financing. The expansion of the product offer also affected the geographical diversification of BGK's portfolio and enabled Polish businesses to secure attractive forms of support in relation to exports and when planning expansion into foreign markets.

The amount of export and foreign expansion financing provided by BGK in 2019 (under the Financial Exports Support Government Programme and as part of own activities) totalled PLN 1.3 million. BGK completed more than 270 foreign transactions/projects for Polish enterprises, including the financing of: sale of silos to Ukraine, sale of semi-trailers to Mali, sale of consumer goods to Nigeria, construction of a retail and service complex in Kharkiv (Ukraine), financing of acquisitions in the USA and refinancing of acquisitions in Belarus.

The geographical scope of transactions/projects of Polish enterprises supported by BGK since 2014 is presented on the figure below.



***Financing of projects undertaken by local governments and healthcare entities***

The amount of credit exposures of local government units and municipal companies as at the end of 2019 was PLN 9,792.9 million and was PLN 2,131.3 million higher compared to the previous year.

The Bank also finances healthcare sector entities. As at the end of 2019, its credit exposure was PLN 1,249.2 million, having increased by PLN 198 million over the previous year.

BGK also finances local government projects by means of equity instruments and acting through the Group entities. This applies to the Dwelling for Development Sector Fund and the Local Government Investments Fund.

### **Promoting equal opportunities and housing**

The area of promoting equal opportunities features a whole spectrum of the BGK Group instruments related to the development of housing and ensuring access to housing for young families and persons with relatively low income as well as instruments to promote social mobility and labour market balance through the development of the institutional rental housing sector.

Within the framework of its lending activity, the Bank implemented social rental housing government programmes and its credit exposure as at the end of 2019 amounted to PLN 4,207.7 million. The amount comprises the portfolio of the former National Housing Fund and loans granted under the new social rental housing programme. For a detailed description of the execution of government programmes see Section 4.13 of this report. These programmes financed the construction of nearly 104 thousand housing units.

BGK also supports the housing industry both through government programmes administered by the Subsidy Fund (including those related to social housing) and through the investment activities of funds managed by PFR Nieruchomości S.A.

## **4.3 LENDING POLICY OF BGK**

The purpose of the lending policy is to create a framework for the implementation of BGK's mission which consists in supporting social and economic growth of Poland and supporting the public finance sector in the performance of its tasks, and in particular to:

- strengthen the role of BGK as a development bank and significantly increase its current involvement in financing undertakings under the "Strategy for Responsible Development (SRD)" by:
  - supporting existing and developing new competitive advantages and specialisations of Polish economy,
  - supporting innovation and the development of high technologies,
  - supporting reindustrialisation and strategic sectors from the perspective of economic growth of Poland,
  - increasing the level of investments,
  - supporting social and regional development,
  - establishing a new guarantee system for microenterprises, small and medium-sized enterprises (SMEs) and a sustainable systemic instrument supporting the development of SMEs,
- achieve and maintain the key role in the implementation of European programmes, in particular in the field of repayable instruments,
- implement social housing support government programmes,
- ensure the availability of export financing and increase the scale of operations in the field of solutions that support export-related activity of enterprises, support foreign expansion of businesses and promote Polish export and Polish products,
- provide financial support to the Polish defence system,
- carry out tasks within the framework of government programmes other than those mentioned above,

while maintaining the high quality of assets (especially the loan portfolio) within a specific risk level.

BGK carries out a broad range of tasks specified in the Strategy and defined in the Bank's mission, prioritising lending decisions based on evaluation criteria related to impact on the following five areas:

- quality of life of the community and availability of services provided to the public,
- economic development,
- state of the environment,
- improving the labour market,
- state of public finance.

Lending decisions are made based not only on legal (Banking Law) and internal regulations, the economic viability of projects and their safety in terms of credit risk, but also on the project's impact on Poland's economic growth.

#### 4.4 DEPOSIT ACTIVITIES OF BGK

In 2019, BGK saw a year-on-year increase in the balance of deposits, from PLN 47,769.3 million to PLN 59,821.3 million, i.e. by 25.2%. In terms of value, the most considerable increase of PLN 6,933.3 million (up 43.9% year on year) was recorded in the non-financial segment. In 2019, the value of deposits made by local government units went up by PLN 1,164.4 million, up by 43.0% year on year.

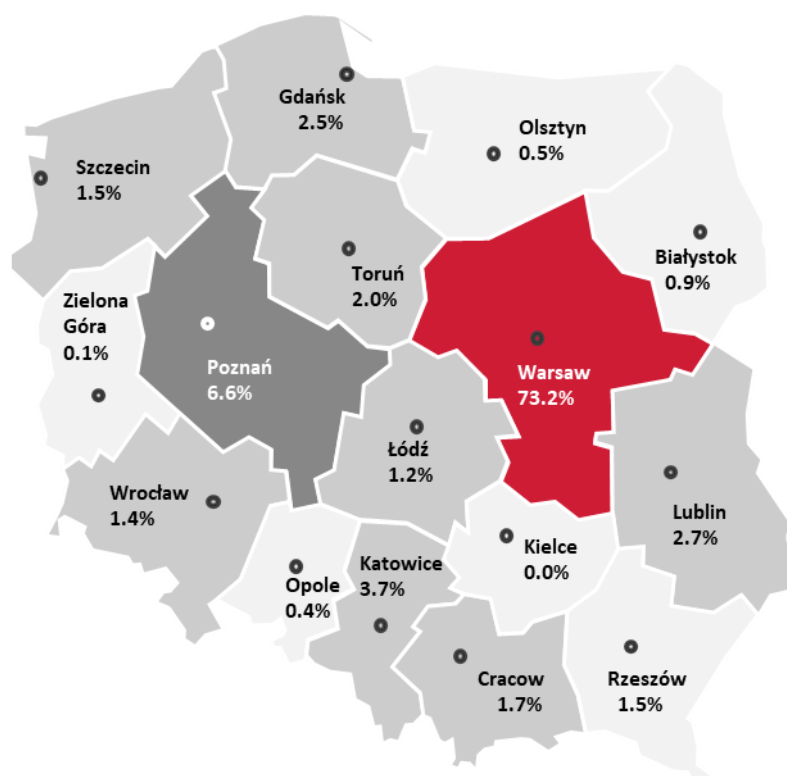
TABLE 8: Volume and customer structure of the deposit base (in PLN million)

Item	2019		2018		Change versus 2018	
	Performance	Structure	Performance	Structure	in nominal terms	%
<b>Deposits from customers</b>	<b>59,821.3</b>	<b>100.0%</b>	<b>47,769.3</b>	<b>100.0%</b>	<b>12,052.0</b>	<b>25.2%</b>
financial sector entities	5,847.8	9.8%	2,463.5	5.2%	3,384.3	137.4%
non-financial sector entities	22,754.5	38.0%	15,819.3	33.1%	6,935.2	43.8%
individuals	44.2	0.1%	42.3	0.1%	1.9	4.5%
businesses	22,710.3	38.0%	15,777.0	33.0%	6,933.3	43.9%
budget sector entities	31,219.0	52.2%	29,486.5	61.7%	1,732.5	5.9%
central government entities	27,346.0	45.7%	26,777.9	56.1%	568.1	2.1%
local government entities	3,873.0	6.5%	2,708.6	5.7%	1,164.4	43.0%

As at the end of December 2019, the balance of public sector deposits was PLN 31,219.0 million, up by 5.9% year on year. Due to the high volatility of this item at the end of the year, BGK diversifies its market sources of funds to ensure the stable financing of assets.

Customer deposits constitute an important source of financing, given the growing level of BGK's lending and investment activities, and ensure a safe level of liquidity.

The territorial structure of deposits by volume as at 31 December 2019 is presented on the map below.

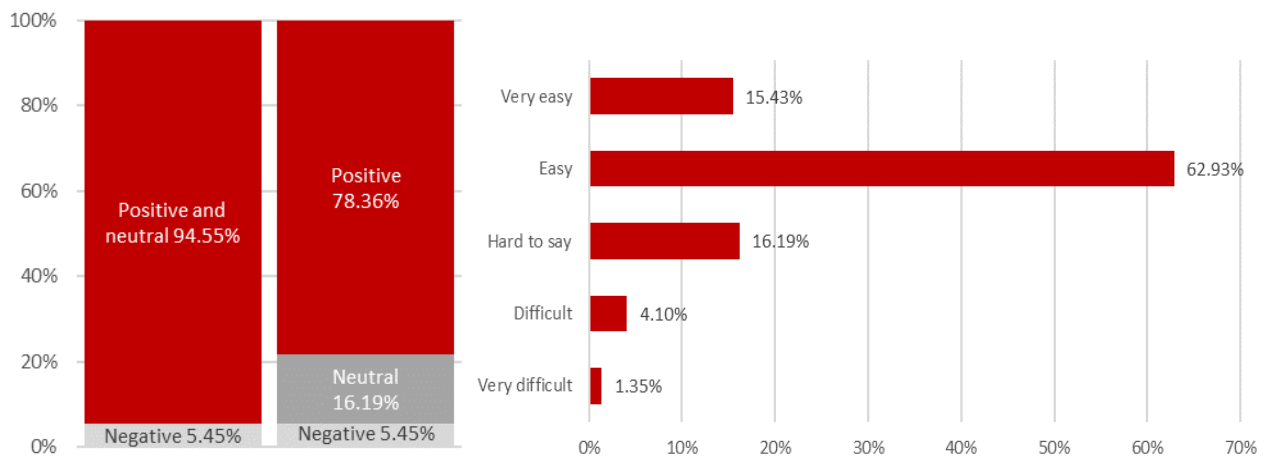




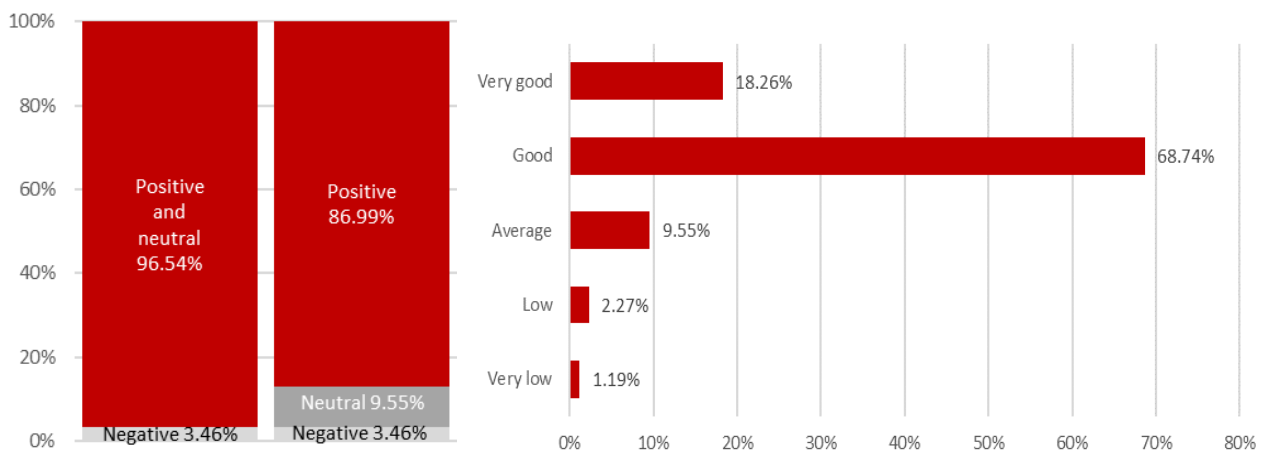
## 4.5 ELECTRONIC BANKING

The Bank's operational excellence is one of key tools supporting the implementation of its strategy for 2017-2020. The Bank adapts its initiatives and projects to the needs of its customers and changing external conditions. It is demonstrated in product management, which is oriented towards improvement and searching for the most effective solutions.

In 2019, BGK completed the New Digital Banking Service project. In its final stage, new functions made available in the bgk24 system included payment card processing, deposit and loan statements, applications filed in the system and a lightweight version. The implemented bgk24 system meets the strictest security requirements thanks to the application of market standards based on legal regulations, recommendations of the PFSA and guidelines for security of electronic banking services in Poland. A survey on the bgk24 system carried out among all BGK's customers showed that they had a very positive opinion on the system. In the question "How would you rate the ease of use of the bgk24 system?" a positive or neutral rating was given by 94.55% of respondents.



The reliability of the system was rated equally high – in this case positive and neutral ratings accounted for more than 96.54% of all answers.

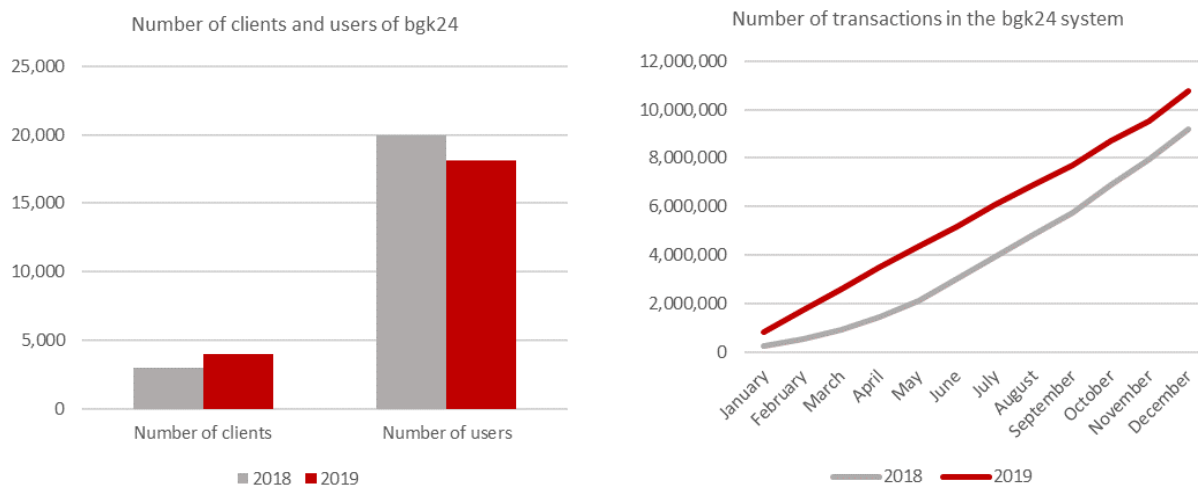


The Bank has consistently worked on the development of the bgk24 system. In the fourth quarter of 2019, it implemented leadlight projects and made cross-border transfers, which resulted in the introduction of new functionalities related to Split Payment and processing of tax payments to Individual Tax Accounts. Further efforts to improve digital banking service at BGK are made as part of the "Development of bgk24" project.

In the fourth quarter of 2019, the Bank provided access to the bgk24 system to all public higher education institutions, which as of January 2020 are obliged to process part of their payments through accounts at BGK. To facilitate the use of the new system BGK employees conducted several dozen trainings sessions providing instructions on the system's functions and how to use the system.

#### Number of clients, users and transactions in the bgk24 online system

As at the end of 2019, there were 3,958 active clients in the bgk24 system. The number of clients grew by more than 24% year on year. In 2019, bgk24 users made over 10.7 million financial instructions, up by more than 17% compared to 2018. We estimate that in 2020 the number of instructions made through the bgk24 system will increase by approximately 15-20%.



#### 4.6 BGK'S ACTIVITY ON THE MONEY MARKET AND THE DEBT SECURITIES MARKET

The Bank's activities on the money market were designed to achieve the following two objectives:

- management of the current liquidity position (investment of excess liquidity);
- maintenance of a liquidity buffer in the longer term by holding short-term and/or highly liquid assets.

As in previous years, BGK continued to play an active role on the Polish money market, acting as the Money Market Dealer. In 2019, for the first time in history BGK was ranked first in the ranking of dealer activities in the money and currency market prepared by the National Bank of Poland to promote banks that are the most active in the market, to which the NBP proposes to carry out the function of a Money Market Dealer.

Current liquidity needs of BGK were regulated on the interbank market with basic liquidity instruments, mainly deposits, FX swaps, purchases of sell-back securities and sales of buy-back securities. In 2019, BGK's exposure to different types of financial instruments was the effect of the situation on the interbank market and the implementation of the adopted investment strategy.

As BGK allocated its liquid assets in the portfolio of Treasury debt securities on an ongoing basis, its value exceeded PLN 10.7 billion as at the end of 2019.

**TABLE 9: Value and composition of the debt securities portfolio (in PLN million)**

Item	2019		2018		Change versus 2018	
	Performance	Structure	Performance	Structure	in nominal terms	%
<b>Debt securities</b>	<b>19,210.0</b>	<b>100.0%</b>	<b>15,492.3</b>	<b>100.0%</b>	<b>3,717.7</b>	<b>24.0%</b>
NBP money market bills	3,598.1	18.7%	1,412.2	9.1%	2,185.9	154.8%
treasury bonds	10,725.1	55.8%	9,362.8	60.4%	1,362.3	14.5%
municipal bonds	1,806.6	9.4%	2,187.7	14.1%	-381.1	-17.4%
corporate bonds	1,399.4	7.3%	1,093.0	7.1%	306.4	28.0%
other securities	1,680.9	8.7%	1,436.6	9.3%	244.3	17.0%

"Other securities" mostly comprise debt securities issued by banks. As at the end of 2019, the Bank's exposure to those securities was PLN 1.7 billion.

As part of its activity on the money market and the market of debt securities, BGK cooperated with the Ministry of Finance, e.g. by investing excess liquidity of the State Treasury.

#### 4.7 SHARE PORTFOLIO

As at 31 December 2019, BGK's total exposure to shares measured at carrying amount was PLN 1,069.2 million, i.e. it was reduced by PLN 145.4 million compared to the figure as at the end of December 2018. As at the end of 2019, the Bank held shares in 32 companies (including seven public companies, of which six were listed on the Warsaw Stock Exchange). The table below presents the largest items in the share portfolio.

**TABLE 10: Composition of the share portfolio (in PLN million)**

Wyszczególnienie	2019		2018		Change versus 2018 carrying amount		2019
	Contribution value	Carrying amount	Contribution value	Carrying amount	in nominal terms	%	
<b>Shares in public companies</b>	<b>881.9</b>	<b>925.3</b>	<b>881.9</b>	<b>1,068.5</b>	<b>-143.2</b>	<b>-13.4%</b>	-
PKO BP S.A.	800.0	843.8	800.0	966.5	-122.7	-12.7%	2.0%
PZU S.A.	13.8	61.8	13.8	67.7	-6.0	-8.8%	0.2%
POLNORD S.A.	23.2	6.2	23.2	17.9	-11.7	-65.4%	6.4%
BIOTON S.A.	9.7	3.5	9.7	4.7	-1.2	-24.9%	1.1%
Polimex Mostostal S.A.	23.4	2.0	23.4	2.6	-0.6	-23.3%	0.4%
Elektrociepłownia Będzin S.A.	10.3	4.4	10.3	6.6	-2.2	-33.1%	9.9%
Visa Inc.	1.5	3.7	1.5	2.5	1.1	43.8%	< 0,1%
<b>Shares in subsidiaries and associates*</b>	<b>73.2</b>	<b>71.4</b>	<b>65.0</b>	<b>63.4</b>	<b>8.0</b>	<b>12.6%</b>	-
KUKE S.A.	63.0	63.0	63.0	63.0	-	0.0%	36.7%
Krajowa Grupa Poręczeniowa Sp. z o.o.	2.0	0.2	2.0	0.3	-0.2	-52.6%	39.3%
Three Seas Initiative Investment Fund S.A. SICAV-RAIF	8.2	8.2	-	-	8.2	100.0%	96.2%
<b>Other shares</b>	<b>24.3</b>	<b>28.2</b>	<b>24.3</b>	<b>26.8</b>	<b>1.4</b>	<b>5.2%</b>	-
Polski Fundusz Rozwoju S.A.	15.0	18.8	15.0	17.3	1.4	8.4%	0.6%
Europejski Fundusz Inwestycyjny	8.1	9.3	8.1	9.4	-0.0	-0.3%	0.1%
Metanel Group S.A.	0.4	-	0.4	-	-	-	5.1%
Zakłady Sprzętu Instalacyjnego "Polam-Nakło" S.A.	0.3	-	0.3	-	-	-	19.9%
Wałbrzyski Rynek Hurtowy S.A.	0.3	-	0.3	-	-	-	10.7%
S.W.I.F.T. srl	0.1	0.1	0.1	0.2	-0.0	-15.3%	< 0,1%
<b>Investment fund certificates (closed-end private equity investment funds)</b>	<b>5,455.4</b>	<b>5,282.8</b>	<b>5,446.8</b>	<b>5,446.8</b>	<b>-164.0</b>	<b>-3.0%</b>	-
<b>Shares in surety funds</b>	<b>62.0</b>	<b>52.5</b>	<b>62.6</b>	<b>55.9</b>	<b>-3.4</b>	<b>-6.1%</b>	-
<b>Total</b>	<b>6,496.7</b>	<b>6,360.2</b>	<b>6,480.6</b>	<b>6,661.4</b>	<b>-301.2</b>	<b>-4.5%</b>	-
<b>Total, excluding shares in investment funds</b>	<b>1,033.2</b>	<b>1,069.2</b>	<b>1,033.8</b>	<b>1,214.6</b>	<b>-145.4</b>	<b>-12.0%</b>	-

\* including the Three Seas Initiative Investment Fund

As at 31 December 2019, BGK's total exposure to shares measured at initial value was PLN 1,033.2 million, i.e. it went down by PLN 0.6 million compared to the end of 2018.

The shares in PKO BP S.A., received by BGK free of charge from the State Treasury in 2015 for the purposes of the Bank's investment activities, represent the key item of the share portfolio in terms of value. Additionally, as at the end of 2019 the Bank also held shares in 25 non-public companies, including 17 regional and local surety funds, 13 of which were classified as associates of BGK and are consolidated with the Group's results using the equity method.

#### Portfolio of investment certificates

Through its holdings in closed-end investment funds the Bank fulfils its mission, which is to support the social and economic development of Poland. As at the end of 2019, the Bank was a unitholder of seven closed-end investment private equity funds managed by PFR TFI S.A. The funds in which BGK held units invest mainly in infrastructure and residential properties.

**TABLE 11: Overview of investment funds in which BGK is a unitholder**

	Fund	Investment strategy assumptions	Geographical structure	Established on
1	Fundusz Sektora Mieszkań na Wynajem FIZ AN	The fund finances companies holding real properties for rent.	Investment projects in Poland.	26 Aug 2014
2	Fundusz Ekspansji Zagranicznej FIZ AN	The Fund carries out projects in cooperation with Polish enterprises undergoing expansion.	No geographical or industry focus.	25 Jun 2015
3	Fundusz Inwestycji Infrastrukturalnych – Dłużny FIZ AN	The funds support investment projects primarily in the following industries: energy, hydrocarbons (crude oil and natural gas), transport and logistics. The project may cover construction and modernisation of assets.	The main area of the funds' investments is the territory of Poland, with possible financing of cross-border investments.	2 Jul 2015
4	Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZ AN			
5	Fundusz Inwestycji Polskich Przedsiębiorstw FIZ AN	The fund supports investments of companies, whose activity is closely connected to Polish economy. The fund focuses on manufacturing companies and companies providing services for the industry.	Manufacturing resources located or a major portion of income generated in the territory of Poland.	2 Jul 2015
6	Fundusz Inwestycji Samorządowych FIZ AN	The fund finances investment projects implemented in cooperation with local government entities in the following industries and areas: water supply and sewage systems, heating, waste management, regional airports, infrastructure and transportation.	No geographical focus	2 Jul 2015
7	Fundusz Sektora Mieszkań dla Rozwoju FIZAN (wcześniej Fundusz Muncypalny FIZ AN)	The fund invests in the segment of affordable housing and in local government infrastructure.	Investment projects in Poland.	30 Dec 2015

Compared to the figure as at the end of 2018, the total issue price of investment certificates held by the Bank dropped by PLN 107.4 million, which resulted from the cancellation of several series of investment certificates of Fundusz Sektora Mieszkań na Wynajem FIZ AN with a total issue price of PLN 584.1 million. In 2019, new investment certificates of Fundusz Sektora Mieszkań dla Rozwoju FIZ AN worth PLN 479.8 million were issued.

In 2019, the Bank recognised an impairment loss on FIPP FIZ AN due to a long-term decline in the value of part of deposits included in the Fund's portfolio.

**TABLE 12: Investment certificates held by the Bank as at 31 December 2019**

Item	Number of investment certificates held by the Bank	Total issue price of investment certificates (in PLN million)		Total payments to the fund made by BGK (in PLN million)		Percentage share of BGK (2019)
		2019	2018	2019	2018	
Fundusz Sektora Mieszkań na Wynajem FIZ AN	853,313	808.0	1,392.0	808.0	1,037.2	100.0%
Fundusz Inwestycji Polskich Przedsiębiorstw FIZ AN	1,296,000	1,296.0	1,296.0	1,296.0	1,296.0	86.4%
Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZ AN	1,901,988	1,902.0	1,902.0	1,902.0	1,902.0	86.5%
Fundusz Inwestycji Samorządowych FIZ AN	310,000	310.0	310.0	310.0	310.0	50.0%
Fundusz Ekspansji Zagranicznej FIZ AN*	74,457	313.4	316.5	222.7	224.9	100.0%
Fundusz Sektora Mieszkań dla Rozwoju FIZ AN d. Fundusz Muncypalny FIZ AN	4,078,290	1,029.6	549.8	789.8	549.8	100.0%
Fundusz Inwestycji Infrastrukturalnych – Dłużny FIZ AN	129,681	129.7	129.7	126.9	126.9	5.9%
<b>RAZEM</b>	<b>8,643,729</b>	<b>5,788.6</b>	<b>5,896.0</b>	<b>5,455.4</b>	<b>5,446.8</b>	<b>-</b>

\*Translated with the average National Bank of Poland (NBP) EUR/PLN F/X rate for 31 December 2019 and 31 December 2018, as applicable.

The Bank is also an investor in Polski Fundusz Funduszy Wzrostu (Polish Growth Fund of Funds, PGFF) established in 2013 with a five-year investment term, as part of a joint initiative of BGK and the European Investment Fund. The PGFF invests in private equity (major share) and venture capital funds, with no industry specialisation, investing in Poland (dominating area) and other Central and Eastern Europe countries. In addition, the Bank invested in pan-European equity funds operating under the Luxembourg law, established to finance infrastructure projects in the energy sector, including in generation of electricity from renewable energy sources, transportation and digital infrastructure, i.e. *Th 2020 European Fund for Energy, Climate Change and Infrastructure* and *Marguerite II SCSp*.

### Major events in the share portfolio

- *Three Seas Initiative Investment Fund S.A.*

In May 2019, on the initiative of BGK, the Three Seas Initiative Investment Fund was established (operating under the name Three Seas Initiative Investment Fund S.A.) as a type of an alternative investment fund to implement major infrastructure projects supporting the economies of countries located in the Three Seas Region (Central and Eastern Europe region between the Baltic Sea, the Black Sea and the Adriatic).

- *Polnord S.A.*

In February 2020, in connection with the registration of a share capital increase of Polnord S.A. by way of issue of Series T shares, BGK's interest in the company fell below the 5% threshold (from 6.38% to 2.14%).

The Bank's Management Board responded to the tender offer for the sale of shares and it adopted a resolution to approve the sale of shares in Polnord S.A. to its main shareholder.

- *KUKE S.A.*

In April 2020, the Bank increased its equity interest in KUKE S.A. by PLN 50.0 million, adding 11.8 pp to its share in the company's share capital, which now stands at 48.5%. The recapitalisation was designed to support KUKE S.A. in its efforts to facilitate the operations of Polish exporters during the COVID-19 pandemic.

- *Fundusz Poręczeń Kredytowych Sp. z o.o. of Jelenia Góra*

In 2019, the Bank sold its entire shareholding in Fundusz Poręczeń Kredytowych Sp. z o.o. of Jelenia Góra.

## 4.8 PROJECTS

The year 2019 was yet another period in which BGK implemented numerous projects and faced many challenges as an entity supporting Poland's economic growth. In that period, BGK implemented 105 projects, of which 45 were completed, while the remaining ones will be continued in 2020.

From among the projects completed in 2019, those with the largest impact on the Bank's operations are as follows:

*95th anniversary of Bank Gospodarstwa Krajowego* – It was an opportunity to present the history and activities of the Bank. As planned, the year was filled with many unique events related to the celebration of the 95th anniversary of the Bank, such as anniversary events held in Warsaw and the Regions, the Day of the Employee, Day of Values, and a media campaign.

*Cultural transformation.* Its purpose was to prepare the organisation for effective implementation of BGK's mission and strategy by undertaking a cultural transformation, whose elements include fostering a sense of responsibility, managerial and business maturity, and introducing the culture of dialogue and giving feedback. These efforts were the basis for the implementation of effective communication and the foundations of process and project-based management at BGK. The project resulted in successful anchoring of the such values as professionalism, partnership cooperation and commitment among employees.

The cultural transformation at BGK was largely affected by the promotion of the Bank's ethical rules, that is why 2019 was the year of "Ethics at BGK". As part of the campaign, numerous unconventional awareness building initiatives were carried out, such as the "Ethics is your metrics" competition, in which employees, e.g. sent photographs showing how they understood ethical conduct, competed in quizzes and exchanged views. The Bank also held a Compliance Day, which featured an expert panel on ethical issues.

As part of the *New Business Model (NBM)* project supporting the implementation of strategic objectives, the Bank's business model was prepared and widely communicated. The direct benefits of the implementation of the NBM project include effective realisation of the strategy by changing the approach from purely transactional to programmatic, the

possibility to assess the implementation of the mission and delivered values by applying objectives and their measures adequate for a development bank, positive image of the Bank's business by strengthening partnership cooperation with stakeholders in line with BGK's vision and values, as well as joint implementation of programmes in the area of sales, products, risk, finances and support, which can be achieved thanks to improved cooperation within the entire organisation. At present, the project is in the implementation stage, which will continue until December 2020.

In 2019, the Bank continued its *BGK's Registered Office* programme and the *Modernisation of registered offices of the BGK Regions* project. The expected benefits include providing office space to a higher number of employees of the BGK's Head Office, improving BGK's operational efficiency by consolidation of locations, ensuring an engaging working environment, and maintaining the historical function of BGK's Head Office, while preserving the architectural and historical features of the building. In 2019, Regions in Toruń, Kraków and Lublin moved successfully to new offices, and the offices at existing locations in Poznań, Szczecin, Kielce and Łódź were renovated.

In 2019, work was continued in connection with the project of the *rollout of a network of foreign representative offices* as an additional effort to support Polish enterprises in foreign expansion and promote Polish economic development. The project involves the opening and launch of operations of foreign representative offices with a specified scope of business in more than a dozen locations. By March 2020, four representative offices were opened: in Brussels, Frankfurt, London and Amsterdam. Further offices are planned in Washington, Singapore and Milan.

One of the biggest achievements in 2019 in the IT sector was the transfer of the *Main server room* from BGK's Head Office to a new location. It was decided that the server room has to be relocated due to planned comprehensive renovation of the Head Office building and upgrade of infrastructure.

As part of the ULTRA project (Ultimate Lean Transformation of IT Architecture) intended to transform the IT area, in 2019 the Bank took stock of the organisation's applications and technological solutions, developed the existing architecture, defined a list of projects leading to target architecture, streamlined the IT area by defining, improving and implementing maintenance and development processes, began to roll out the as-a-service model and updated its IT organisational structure accordingly.

Another large project at the interface of business and technology was the launch of new FusionCapital and FusionRisk systems under the *Upgrade Kondor+* project to support treasury operations to a much larger extent than before.

As regards regulations, the Bank ensured compliance with the *GDPR*, the *MiFID II* and the *MiFIR regulation*.

In addition, in 2019 the Bank implemented a tool for monitoring of and reporting changes in the law. Thanks to process automatisations, monitoring of regulatory changes is carried out on an ongoing basis, the reporting efficiency has been improved and the need to create Excel spreadsheets has been eliminated.

#### 4.9 SURETIES AND GUARANTEES PROVIDED BY BGK UNDER GOVERNMENT PROGRAMMES

As part of its surety and guarantee operations BGK supports SMEs in financing their development needs, including investments.

BGK carries out surety and guarantee operations in compliance with the Act on Sureties and Guarantees Granted by the State Treasury and Certain Legal Persons of 8 May 1997 (Journal of Laws of 2018, item 1808, as amended).

In 2019, BGK performed tasks in four primary areas:

- **continued implementation of the government programme of *de minimis* guarantees** for SMEs – As of July 2018 guarantees are provided as part of the National Guarantee Fund,
- **utilisation of EU funds for guarantees in the SME sector** – An initiative under the Operational Programme Smart Growth (SG OP) and the framework programme for the competitiveness of enterprises and SMEs for 2014-2020 (COSME), the Creative Europe programme for 2014-2020, the Rural Areas Development Programme 2014-2020, the Operational Programme Digital Poland (OP DP) for 2014-2020,
- **management of active portfolios of sureties and guarantees**, including portfolios, which have been removed from offer,
- **cooperation with surety funds.**

## Programme implementation

In 2019, BGK offered the following surety and guarantee products:

- loan repayment guarantees/sureties provided on a portfolio basis, including:
  - loan repayment guarantees as part of the Portfolio *De Minimis* Guarantee Facility (PDMGF) – since 1 July 2018 guarantees under the PDMGF have been provided as part of the National Guarantee Fund; additionally, *de minimis* guarantees combined to secure loan repayment with a surety provided by the surety fund (PDMGF PLUS) are also granted under the PDMGF;
  - loan repayment guarantees as part of the Portfolio Guarantee Facility with European Investment Fund's (EIF) counter-guarantees under the COSME Programme (PGF COSME);
  - loan repayment guarantees as part of the Guarantee Fund under the SG OP (PGF-GF SG OP);
  - loan repayment guarantees as part of the Operational Programme Digital Poland (PGF-OP DP);
  - loan repayment guarantees as part of the Portfolio Guarantee Facility with EIF's counter-guarantees under the Creative Europe programme (PGF-Creative Europe);
  - loan repayment guarantees as part of the Agricultural Guarantee Fund (AGF);
  - student loan repayment guarantees;
- guarantees/sureties provided on a case-by-case basis, including:
  - loan repayment guarantees and sureties;
  - performance bonds.

**TABLE 13: Terms of sureties and guarantees (in PLN million)**

Item	Loan amount	Maximum guarantee value	Term of guarantee	Commission fee
Guarantees under PDMGF-NGF				
working capital loan	up to 60%	up to PLN 3.5 million	27-month	0.5 % p.a.
investment loan			99-month	
Guarantees under PGF COSME				
working capital loan	up to 80%	up to PLN 0.5 million	27-month	1.0% p.a.
investment loan			99-month	
Guarantees under GF SG OP				
working capital loan	up to 80%	up to EUR 2.5 million	240-month	0.0% p.a.
investment loan				
Guarantees under PGF OP DP				
working capital loan	up to 80%	up to EUR 2.5 million	240-month	0.0% p.a.
investment loan				
Guarantees under PGF-Creative Europe				
working capital loan	up to 80%	up to EUR 1.5 million	27-month	0.25% p.a.
investment loan			99-month	
Guarantees under AGF				
working capital loan	up to 80%	up to PLN 10.0 million	51-month	0.0% p.a.
investment loan			120 or 183-month	

As part of the PDMGF PLUS, the funds sold 296 sureties for the amount of PLN 16.0 million by 31 December 2019. BGK issued guarantees under PDMGF PLUS for PLN 46.9 million.

Portfolio guarantees and sureties were offered under agreements entered into by BGK with the lending banks. As at 31 December 2019, BGK had signed 61 agreements with 19 banks – BGK cooperates with most of lending banks in Poland, including all major banks. Facilities opened under those agreements by the end of 2019 totalled PLN 30.1 billion.

PDMGF guarantees were made available under the *de minimis* aid limit for a single business entity from the micro, small and medium-sized enterprise sector. PDMGF does not generate credit risk for BGK and is recognised outside its books.

In addition, as at 31 December 2019 BGK had entered into 5 agreements with lending banks, which set out the terms and conditions for issuing guarantees/sureties on a case-by-case basis.

**TABLE 14: Sales of sureties and guarantees (in PLN million)**

Item	2019		2018	
	Volume	Value	Volume	Value
Sureties and guarantees provided on a portfolio basis	51 257	13 907,4	42 914	11 684,9
PDMGF	39 329	11 562,2	34 619	10 169,1
PGF COSME	11 827	2 130,4	8 268	1 469,5
GF SG OP	93	204,0	27	46,3
PGF OP DP	1	0,2	0	0,0
PGF Creative Europe	2	2,8	0	0,0
PGF AGF	5	7,7	0	0,0

#### **Off- and on-balance sheet liabilities of the liquidated National Fund of Credit Guarantees (Krajowy Fundusz Poręczeń Kredytowych – KFPK) and the EU Guarantee Fund (Fundusz Poręczeń Unijnych – FPU)**

KFPK and FPU are the former surety funds that were liquidated by BGK in 2009. On the date of their liquidation, the liabilities of these funds were taken over by BGK. At the time when they were most active, the funds totalled approximately PLN 200 million and PLN 1,000 million, respectively. In 2019, the portfolio included expiring or non-performing items. Off-balance sheet liabilities arising from sureties provided as a security for the repayment of business loans from the former KFPK amounted to PLN 20.5 million as at 31 December 2019. Off-balance sheet liabilities arising from sureties provided from the former FPU amounted to PLN 4.1 million as at 31 December 2019. Gross receivables arising from KFPK sureties and guarantees used as at the end of 2019 totalled PLN 52.2 million.

#### **Development of the surety and guarantee system in the EU Financial Perspective 2014-2020**

In 2019, guarantees were provided from the GF SG OP to a wider group of entrepreneurs by enabling the implementation of new projects focused on ecological innovation with an environmental benefit.

In 2019, guarantees under the OP DP were added to the offer. Thanks to a guarantee under the OP DP businesses have better access to financing of broadband investments and telecoms can better finance their liquidity needs.

In 2019, BGK established the Agricultural Guarantee Fund under the Rural Areas Development Programme. Its purpose is to include producers of basic agricultural products in BGK's guarantee system and ramp up aid for the agri-food processing industry. It also helps achieve the objectives for the agricultural sector and related to development of rural areas: to enhance competitiveness, modernise agricultural holdings, implement development-oriented investments, foster cooperation between producers by facilitating access to external financing sources.

#### **Surety funds**

In accordance with the Act on Sureties and Guarantees, BGK may acquire or subscribe for shares in regional and local surety funds which offer sureties and guarantees securing the repayment of loans to micro, small and medium-sized enterprises. As at 31 December 2019, BGK's exposure to 17 surety funds, measured at par value, was PLN 62.0 million. The guarantee capital at their disposal totalled PLN 529 million.

In 2019, the funds provided 9,176 sureties with a total value of PLN 951.2 million. As at 31 December 2019, the active surety fund portfolio totalled PLN 1,108.9 million.



#### **4.10 COOPERATION WITH INTERNATIONAL PUBLIC STAKEHOLDERS**

Internationally, in 2019 BGK regularly collaborated with four groups of public entities:

- international financial institutions,
- foreign banks and development institutions,
- international associations,
- the European Commission.

##### **Cooperation with International Financial Institutions (IFI)**

###### ***European Investment Bank (EIB)***

The EIB remains BGK's main EU partner in the acquisition of funding for programmes, funds and own activities.

In 2019, BGK continued the allocation of funds under the Multi-Beneficiary Intermediated Loan V contract from 2016 for EUR 125 million. The funds secured under the EIB's global loan are used to finance investment projects implemented by local governments, SMEs and mid-caps.

In 2019, BGK worked together with the EIB to secure financing for the National Road Fund. The cooperation resulted in execution of an agreement on a EUR 300 million loan for the co-financing of the construction of the last section of the A1 motorway between Tuszyn and Częstochowa (total length of approximately 81 km) and a EUR 270 million loan agreement Warsaw Approaches II on the construction and modernisation of several sections of approach roads to Warsaw: S7 (Warsaw-Grójec by-pass), A2 (Lubelska intersection-Mińsk Mazowiecki), S17 (Warsaw (Zakręt intersection)-Warsaw (Lubelska intersection)), to upgrade them to motorway or expressway standards.

###### ***European Investment Fund (EIF)***

In December 2019, BGK signed an agreement with the European Investment Fund to increase the amount of the maximum volume of the guarantee portfolio covered by EIF's counter-guarantee under the COSME programme from PLN 4.8 billion to PLN 8.4 billion. Moreover, the period of availability of the product was extended by one year, i.e. until 31 October 2021. As the guarantee portfolio was increased, the amount of loans to SMEs that can be guaranteed by BGK under the COSME programme was raised to as much as PLN 10.5 billion. The increase of the portfolio and extension of the period of the product's availability provides a strong bridge for COSME guarantees between the ending and the new financial perspective for 2021-2027.

BGK also continued its activities within the framework of the EUR 90 million Polish Growth Fund of Funds established together with the EIF. The Fund invests in investment funds which provide funding to business entities at the stage of growth or expansion.

Cooperation with the EIF is also implemented at the "ownership" level. BGK holds 5 shares in EIF and is its only Polish shareholder.

###### ***Other international financial institutions***

Moreover, in 2019 the Bank regularly exchanged information on potential areas of cooperation with other international financial institutions, including the World Bank (WB), the European Bank for Reconstruction and Development (EBRD), and the International Monetary Fund (IMF). BGK's representatives regularly participated in meetings organised by the World Bank and the International Monetary Fund.

##### **Bilateral and multilateral cooperation with foreign banks and development institutions**

In 2019, BGK continued its active cooperation with public banks and development institutions from other countries both as part of bilateral relations and multilateral initiatives and groups.

As part of the so-called "5+1" Group, which includes the EIB and five top European development banks (BGK, CDC of France, CDP of Italy, ICO of Spain, and KfW of Germany), the Bank participated in the Group's meeting held in July 2019. At the meeting, a joint initiative was announced to accelerate the transition towards a sustainable circular economy

(Joint Initiative on Circular Economy – JICE). As part of the initiative, in 2019-2023 innovative and pro-environmental investment projects worth at least EUR 10 billion will be launched.

Apart from the above top public banks in Europe, BGK's close partners also include smaller banks and development institutions from other countries, in particular from Central and Eastern Europe. By maintaining these relations, BGK has direct access to information concerning their operations, may exchange know-how and establish business relationships in selected areas.

### **Cooperation with international trade associations and organisations**

In 2019, BGK was a member of six international associations:

- European Association of Public Banks (EAPB);
- European Association of Guarantee Institutions (AECM);
- European Long-Term Investors Association (ELTI);
- International Project Finance Association (IPFA);
- International Swaps and Derivatives Association (ISDA);
- Network of European Financial Institutions for SMEs (NEFI).

Thanks to its membership, BGK has an active influence on proposed EU legislation developed by the associations. In addition to the activities of BGK's representative office in Brussels, membership in associations offers better access to information, *inter alia*, on the planned changes in EU laws, which are significant to BGK's operations. In 2019, together with other banks and development institutions the Bank was also a partner in talks with EU institutions on instruments supporting the economy and legal solutions, as well as on such important matters to the Bank as Invest EU, MFF 2021–2027, and sustainable financing.

Major events related to BGK's membership in international associations:

- In November 2019, Paweł Nierada, the First Vice-President of the BGK Management Board, was elected and appointed as Vice-President of the Management Board of ELTI (for a three-year term of office);
- In March 2019, the EAPB's State Aid and Development Committee held a meeting at the registered office of BGK.

### **Collaboration as part of the Three Seas Initiative and the Three Seas Initiative Investment Fund**

In 2019, the Bank continued to intensify its activities as part of the Three Seas Initiative Investment Fund. In May 2019 in Luxembourg, representatives of BGK and EximBank Romania, representing the government of Romania, signed the founding act of the Fund. In 2019, two meetings of the Fund's Supervisory Board were held: the first in Luxembourg (in July) and the second in Tallinn (in October).

In September 2019, in cooperation with the Ministry of Investments and Development, a meeting between ministers of finance and CEOs of development banks of the Three Seas Initiative's member states was held at BGK's registered office.

In November 2019, a series of mini-conferences was launched to promote and increase awareness on the Fund in other states of the Three Seas Region. The first mini-conference was held in Romania. The series has been continued in 2020 – in Riga in February (where the meeting of the Fund's Supervisory Board was held as the first meeting in 2020). Further mini-conferences were to be held in Tallinn (in March), Ljubljana (in April) and other capitals of the Three Seas Initiative member states, but due to the situation related to the COVID-19 epidemic they have been postponed.

The Three Seas Initiative Investment Fund is a financial instrument established to support the implementation of major commercial infrastructure projects and has been inspired by the assumptions of the Three Seas Initiative established by the presidents of Poland and Croatia in collaboration with the presidents of the region's other 10 states. The primary objective of the Three Seas Initiative Investment Fund is to invest in commercial projects in the area of transport, energy, and digital infrastructure on the north-south axis in the Three Seas Region states and projects that improve the economic potential and reduce differences in the development of Three Seas Region states comparing to Western Europe.

## **Cooperation with the European Commission**

In 2019, BGK actively cooperated with the European Commission as part of consultations related to establishment of new financial arrangements for the future MFF 2021-2027. The key topics for discussion were as follows:

- Invest EU, where in 2019 BGK initiated efforts to obtain the status of an implementing partner for the programme in Poland. The key stakeholders of BGK were the representatives of the European Commission's Directorate-General for Economic and Financial Affairs; Regional Development; Energy, Transport and Budget, as well as the EU's Structural Reform Support Service (SRSS). In the first half of 2019, BGK also actively participated in the legislation process related to the regulation establishing Invest EU,
- The future of the cohesion policy, where BGK takes active part in preparations of the architecture of financial instruments for 2021-2027. The key stakeholders of BGK in that area were the representatives of the European Commission's Directorate-General for Regional Development.

## **4.11 PUBLIC FINANCE CONSOLIDATION MANAGEMENT**

In accordance with the Public Finance Act of 27 August 2009 (as amended), since May 2011 the Bank has administered the process of consolidation of public funds and since 1 January 2015 it has also been responsible for the management of deposit accounts of the Minister of Finance (MF).

Under the Agreement of 19 December 2014 between the Minister of Finance and BGK (as amended), BGK is responsible for:

- carrying out operations related to the acceptance as deposits or under management of unallocated financial resources of public sector entities/non-public sector entities classified as government sector entities;
- refunding the amounts provided to the Minister of Finance, with interest, to the bank accounts of those entities;
- maintaining bank accounts for the Ministry of Finance for the purposes of accepting amounts from entities and refunding them, in addition to transferring interest accrued on such amounts;
- processing transfers initiated by the Ministry of Finance from the bank accounts maintained by BGK;
- preparing reports on the amounts accepted as deposits or under management for the Ministry of Finance.

Under the Agreement of 3 December 2014 between the Ministry of Finance and Bank Gospodarstwa Krajowego (as amended), BGK is responsible for:

- carrying out operations related to the management of the deposit accounts of the Minister of Finance (maintenance of subsidiary ledgers for each court deposit held in each deposit account of the Minister of Finance, daily interest accrual and periodic capitalisation of interest due on each court deposit);
- maintaining bank accounts for the Ministry of Finance for the purposes of accepting amounts from the deposit accounts of the Ministry of Finance as overnight deposits and refunding them, in addition to transferring interest accrued on such amounts;
- preparing reports on court deposits for the Minister of Finance;
- cooperating with the heads of courts of general jurisdiction and heads of public sector entities providing services to military courts or their field divisions with respect to the management of the deposit accounts of the Minister of Finance assigned to each court.

As at 31 December 2019, the total value of consolidated funds amounted to PLN 70.1 billion and was PLN 15.2 billion higher compared to the figure as at the end of 2018.

### **Consolidation of public finances**

As at 31 December 2019, BGK consolidated 2,366 bank accounts where public funds were deposited. In 2019, the number of transactions whereby term deposits were opened/funds were placed under management for a fixed term was 8,045. As at 31 December 2019, the value of transactions whereby term deposits were made or funds were placed under management for a fixed term was PLN 49.5 billion. The remaining funds were transferred to overnight

deposits/placed under overnight management. As at 31 December 2019, the value of funds transferred into overnight deposits/placed under overnight management totalled PLN 14.3 billion.

#### Court deposits

In 2015, in accordance with Article 83a of the Public Finance Act, BGK opened deposit accounts for the Ministry of Finance, dedicated for court deposits made by each court of general jurisdiction and each military court. As at 31 December 2019, BGK provided services to 282 courts of general jurisdiction and military courts, for which it kept 3,123 court deposit accounts. As at 31 December 2019, the consolidated amount of court deposits totalled PLN 6.3 billion.

#### 4.12 EUROPEAN PROGRAMMES

Bank Gospodarstwa Krajowego is an active partner in the implementation of European programmes. The Bank implements programmes on the national and regional level. In 2019, the Bank completed projects in cooperation with local governments of all provinces.

#### Manager of the Mutual Fund/Fund of Funds under Regional Operational Programmes for 2007-2013 and 2014-2020

The Bank carries out tasks related to the implementation of financial instruments under the EU financial perspective for the years 2014-2020, consisting in the management of funds of funds offering non-grant support for the development of micro, small and medium-sized enterprises, improving energy efficiency, regeneration and support for the unemployed in starting business activity.

As at 31 December 2019, the Bank completed projects in cooperation with 15 provinces (Dolnośląskie, Kujawsko-Pomorskie, Lubelskie, Lubuskie, Łódzkie, Małopolskie, Mazowieckie, Opolskie, Podkarpackie, Podlaskie, Pomorskie, Świętokrzyskie, Warmińsko-Mazurskie, Wielkopolskie and Zachodniopomorskie). Total funds entrusted to BGK by the authorities of those provinces is PLN 5,564.1 million. These funds are distributed to beneficiaries of support, mainly to SMEs, in the form of loans advanced on attractive terms. This support is available from financing institutions designated by BGK in tender procedures. In 2019, 70 new Operational Agreements were executed with Financial Intermediaries for a total of PLN 908.4 million. In 2019 alone, a total of PLN 1.25 billion worth of support funds was granted to 7,481 Final Recipients. From the beginning of the programme until 2019, support was provided to Final Recipients in a total of 13,508 cases for an aggregate of PLN 2,518 million.

The amount of funds transferred to BGK by province is presented below.



No.	Province	Allocation
1	dolnośląskie	703.6
2	kujawsko-pomorskie	205.4
3	lubelskie	404.6
4	lubuskie	256.1
5	łódzkie	570.9
6	małopolskie	555.4
7	mazowieckie	225.7
8	opolskie	181.4
9	podkarpackie	282.9
10	podlaskie	265.4
11	pomorskie	408.4
12	świętokrzyskie	242.7
13	warmińsko-mazurskie	254.1
14	wielkopolskie	605.7
15	zachodniopomorskie	401.7
	<b>Total</b>	<b>5,564.1</b>

In 2019, within the framework of the EU financial perspective 2007-2013, BGK followed the policy of exiting projects related to the management of JEREMIE mutual funds, including those offering non-grant support for entrepreneurship from public funds. The value of projects remaining under BGK's management in Łódzkie and Mazowieckie provinces as at 31 December 2019 was PLN 86.1 million.

### **Management of funds of funds under the Operational Programme Smart Growth 2014–2020**

Equity instruments are implemented through four closed-end investment private equity funds established as part of three sub-measures and one measure under SG OP 2014-2020: sub-measure 3.1.1 *Investments in innovative start-ups – Starter*; sub-measure 3.1.2 *Business angels' group investments in SMEs – Biznest*; sub-measure 3.1.4 *CNFIF – Competitive Nationwide Fund of Innovative Funds*; measure 2.1 *Open innovation – support for technology transfer*. The implementation of each of the above four projects is based on cooperation and the assignment of functions specified in detail in the Cooperation Agreement signed by specialised entities, i.e. Bank Gospodarstwa Krajowego (BGK), PFR TFI S.A. and PFR Ventures Sp. z o.o. Under the concluded co-financing agreement, BGK is the beneficiary of SG OP funds and the entity responsible for the settlement of those funds.

PFR TFI S.A. is responsible for the establishment and management of funds. PFR Ventures Sp. z o.o. acts as the manager of investment portfolios of funds.

The role of the funds is to invest in SMEs through designated financial intermediaries using the proceeds from acquisition by BGK of investment certificates issued by the funds and paid for using the SG OP funds. The value of SG OP projects for equity funds amounts to PLN 1,784.6 million.

### **Loan for Technological Innovations / technological grant**

Under an agreement signed with the Minister of Development, as of 30 May 2016 BGK acts as an Intermediary Institution responsible for implementing the Loan for Technological Innovations under the Operational Programme Smart Growth 2014–2020. The instrument is a means of providing support to SMEs implementing innovative projects, provided in the form of a technological grant earmarked for the partial repayment of a loan granted by commercial banks for the implementation of aforementioned projects. Enterprises that place innovative products or services on the market may apply for a technological grant of up to PLN 6 million.

The funds entrusted to BGK for that purpose total approximately PLN 2.5 billion. The role of BGK is to organise calls for applications to provide co-financing to SMEs in the form of a technological grant.

In 2019, BGK announced one call for applications for co-financing, as part of which first applications were filed in late 2019 and early 2020. In addition, as part of the call for applications announced in 2018, which lasted from 8 October 2018 to 26 April 2019, enterprises submitted 262 applications for the total amount of co-financing exceeding the available budget (PLN 908.9 million). Upon their evaluation, 152 projects were selected, for which the total amount of co-financing was more than PLN 520 million. Projects were selected based on the awarded number of points – the objective was to select projects that will contribute to the achievement of SG OP objectives to the greatest possible extent.

In 2019, BGK also carried out tasks related to:

- entry into co-financing agreements with enterprises. Since the beginning of its implementation, a total of 623 agreements have been concluded for co-financing totalling PLN 2.1 billion, including 210 agreements in 2019 for co-financing totalling approximately PLN 710 million,
- the payment of co-financing. Payments made by BGK to enterprises totalled PLN 390.4 million, which enabled the bank to certify eligible expenditures under projects approved for co-financing in the amount of PLN 795.1 million; the amount of payments made by BGK means that the projected level of certification of expenditure to the European Commission (105.46%), adopted by the Council of Ministers, has been achieved,
- on-site checks on projects. In 2019, 55 checks on projects under SG OP 2014-2020 were performed (including: 38 scheduled checks performed during their implementation; 8 scheduled sustainability checks; 9 ad hoc checks in connection with suspected irregularities in their implementation).

- implementation of technical assistance project No. POPT.01.01.00-00-0254/19. In 2019, BGK financed personal costs of the employees involved in completion of tasks related to the implementation of sub-measure 3.2.2 of SG OP Loan for technological innovations. In accordance with the special-purpose grant agreement No. 3/DC/2019 of 21 March 2019, Bank Gospodarstwa Krajowego was allocated PLN 4.1 million. The funds were earmarked for, among other things, salaries and wages, bonuses, awards and overtime payments – in 2019 a total of 333 FTE months were financed. As at 31 December 2019, PLN 3.9 million of the grant was used.
- implementation of technical assistance project No. UDA-POIR.05.01.00-00-0001/18-00. By 31 December 2019, BGK financed, among other things, the costs related to an application call, assessment of applications by external experts, and maintenance of the local IT system LSI 2014-2020. In the area of furnishing institutions BGK financed, among other things, lease of office space, running costs, purchase of computer hardware, office furniture and stationery. In the area of information and promotion and support for beneficiaries, BGK financed, among other things, an online information and promotion campaign, IT training, information posted on BGK's website, distribution of information and promotional materials, and participation in conferences, workshops and briefings. In addition, as part of sub-measure 3.2.2 of SG OP Loan for technological innovations, financing covered costs of business trips made to exercise on-site project supervision and costs of monitoring visits to beneficiaries paid by a third-party contractor. Spending financed under the Project also covers the Bank's reallocated costs incurred in connection with the implementation of sub-measure 3.2.2 of SG OP, costs of mandate agreements related to temporary support for tasks carried out by full-time employees of IB/BGK, as well as 2018 expenses, which were actually incurred in 2019. As part of the project "Support for management, furnishing of institutions, information and promotion at II – BGK", for 2019 IB/BGK received PLN 8.3 million. As at 31 December 2019, PLN 5.5 million of that amount was used.

#### **Financing of regeneration and energy efficiency – 2014-2020 (Loans under JESSICA 2)**

Within the framework of the financial perspective 2014-2020, BGK cooperates with regional governments and the European Investment Bank (EIB), acting as an entity granting loans for financing investments that consist in the regeneration of problem areas in provinces and improving the energy efficiency of buildings. Activity to that extent is the continuation of BGK's operations as the Urban Area Development Fund in the financial perspective 2007-2013, i.e. a financial intermediary granting loans under the JESSICA initiative.

BGK acts as the entity implementing the financial instrument in the Wielkopolskie province (cooperation agreement between BGK and regional government was concluded in November 2016). Loans are granted to local government units, utilities sector entities and enterprises. As at 31 December 2019, BGK advanced 52 loans in the Wielkopolskie province for a total of PLN 193 million. PLN 285.8 million entrusted to BGK for loans in the Wielkopolskie province was increased by PLN 33.9 million by the end of 2019 (including by PLN 13.2 million in 2019 alone).

In the process of granting loans for the financing of regeneration, BGK also cooperates with the European Investment Bank (Fund of Funds Manager). Under the operating agreements executed with the EIB, BGK acts as the Financial Intermediary in the Pomorskie (agreement executed in December 2017), Mazowieckie and Śląskie (agreements executed in February 2018) provinces. The funds entrusted to BGK amount to, respectively, PLN 76.2 million, PLN 103.0 million, and PLN 193.3 million. By 31 December 2019, the Bank advanced four loans for a total of PLN 21.5 million in the Pomorskie province, five loans for a total of PLN 60 million in the Mazowieckie province, and two loans for a total of PLN 13.9 million in the Śląskie province.

Apart from funds entrusted to the Bank for preferential loans in regions, BGK also contributes not less than PLN 135 million by co-financing investments (as part of own activities). The amount covers the following provinces: Wielkopolskie, Pomorskie, Mazowieckie and Śląskie.

### **Implementation of financial instruments under Priority Axis I “Universal Access to High-Speed Internet” of Operational Programme Digital Poland**

In February 2017, BGK entered into a co-financing agreement with Centrum Projektów Polska Cyfrowa (Digital Poland Project Centre) whereby BGK acts as the Fund of Funds Manager responsible for the implementation of a loan instrument under the Operational Programme Digital Poland 2014–2020.

Funds amounting to PLN 686.8 million are made available to telecoms through a network of selected financial intermediaries, in the form of loans for the implementation of investments related to the construction, expansion and modification of broadband Internet access networks.

Thus far, BGK has selected five financial intermediaries (ALIOR Bank S.A., TISE S.A., Agencja Rozwoju Regionalnego MARR S.A., Bank Spółdzielczy w Trzebiezowie and Vistula Bank Spółdzielczy), which grant loans across the country. By the end of 2019, financial intermediaries advanced 39 loans for nearly PLN 109.3 million.

Under the Co-financing Agreement the project will be continued until 31 December 2031.

### **Rural Areas Development Programme (RADP)**

In 2009, BGK began to manage loans from the State Budget for advance funding of projects carried out as part of several measures under the Rural Development Programme 2007-2013. Thanks to that system local government units and local action groups can implement projects more efficiently, including water and sewage management projects, projects intended to create a system for the collection, segregation and disposal of municipal waste, generate and distribute energy from renewable sources, activate rural population, stimulate the creation of new jobs in rural areas, improve the condition of cultural and natural heritage of rural areas, and also construct, convert, renovate or furnish a permanent marketplace.

5,518 loan agreements for a total of PLN 3.9 billion were concluded under RDP 2007-2013.

Since July 2016, the advance funding mechanism has been continued under the Rural Development Programme for the years 2014-2020. Loans are granted to finance eligible costs of projects implemented by local government units and local action groups. 281 loan agreements for an aggregate of PLN 129 million were concluded in 2019.

Since RDP 2014-2020 was launched, 1,219 loan agreements for a total of PLN 749.3 million have been concluded.

### **Support for businesses under the project Business in Eastern Poland – Tourism**

The project “*Business in Eastern Poland – Tourism*” is implemented by BGK using the funds of the Minister of Investment and Development (funds administrator) under an agreement of 22 December 2016. Its purpose is to provide financial support to businesses from Eastern Poland. The total amount earmarked for such support is approximately PLN 200 million, which is to be used in the next few years. The funds are made available on a continuous basis as they are released from debt financing instruments, offered by BGK in the 2007-2013 financial perspective as part of the Development of Eastern Poland Operational Programme. The Project, in line with the adopted Investment Strategy, will be implemented until 2027, with the option of its extension by the funds administrator.

The Project funds are used to provide “Tourism Development Loans” to micro-, small- and medium-sized enterprises (SMEs) active in the tourism and related industries, conducting economic activity in provinces of Eastern Europe, i.e. the Lubelskie, Podkarpackie, Podlaskie, Świętokrzyskie and Warmińsko-Mazurskie provinces. The loans are advanced by financing institutions selected by BGK in tender procedures. As at 31 December 2019, 344 loans were advanced for approximately PLN 52.1 million.

#### **4.13 SOCIAL RENTAL HOUSING (SRH) PROGRAMMES**

With a view to implement tasks related to supporting social rental housing, the Bank provided funding and managed the following government programmes:

- a programme of repayable financing for SRH, which consists in granting loans to finance the construction of affordable rental and cooperative tenancy housing,
- a residential construction support programme implemented to fulfil the obligations of the liquidated National Housing Fund (NHF). The programme consisted in the provision of loans for investment and construction projects (ICP loan) involving the construction of rental and cooperative tenancy housing.

An amended Regulation of the Council of Ministers amending the regulation on the conditions and procedure for repayable funding provided as part of the government residential construction support programme implemented by BGK and on minimum requirements for apartments developed using such financing was signed in December 2018 and became effective in February 2019. The most significant amendment involves a change of the time when the final building permit is required from the stage of submitting an application to the time when a lending decision is made. Its purpose was to facilitate the use of the programme by investors.

In June 2019, an amendment was made to the Act Amending the Act on National Property Resources and Certain Other Acts, which changed the provisions of the Act on Certain Forms of Support for Residential Construction. The key changes introduced by the amendment include: simplification of the procedure for obtaining a loan approval by housing cooperatives, i.e. a relevant resolution is passed by the management board of the cooperative (instead of its general meeting); limitation of the list of entities obliged to execute an agreement with the municipality having territorial jurisdiction over a given investment and construction project to only those entities, in which the municipality or municipalities, respectively, hold more than 50% of total voting rights at the general meeting; increase of the maximum share of repayable financing from 75% of costs of an investment and construction project to 80%; introduction of the need to obtain an approval of a social housing association for the transfer by a natural person of the rights and obligations under a participation agreement to a third party.

In 2019, BGK participated in meetings with associations of investors in SRH (social housing associations and housing cooperatives) and organised a series of regional conferences “BGK’s housing products – support for local governments”. More than 100 meetings were also held across the country, during which BGK employees presented repayable financing products and construction loans offered by the Bank.

In 2019, two application calls under the SRH programme were held. In the sixth and seventh edition of the programme the total amount of the submitted loan applications was 85% higher than in 2018. 73 applications were filed for an aggregate of over PLN 441 million, with 57% of them related to hybrid financing (an SRH loan + a subsidy from the Subsidy Fund).

After applications that did not meet statutory criteria and requirements set by the Bank were rejected and after the resignation of two applicants, 63 applications for financing of the construction of 2,739 apartments, totalling more than PLN 383 million, were designated for further processing. The applicants included mostly municipal social housing associations, one private social housing association, and one operated by the State Treasury. Four applications were filed by municipal companies and four by housing cooperatives. BGK assumes that the vast majority of loan agreements under the sixth and seventh edition will be signed in the first quarter of 2021, whereas funds will be disbursed successively in the period from 2021 to 2023.

In 2019, BGK advanced 26 loans for a total of PLN 172.5 million. They were earmarked for the implementation of projects for the construction of 1,273 apartments. 1,522 apartments were completed in 2019.

Apart from its duties related to financing the construction of rental housing arising in relation to the implementation of government programmes, BGK offers construction loans on commercial terms. In 2019, BGK granted a total of 17 construction loans for an aggregate of PLN 104.7 million for the construction of 869 affordable apartments for rent.



### **Fulfilment of the obligations of the former National Housing Fund (NHF)**

A major part of the Bank's operations focused on the management of the portfolio of loans granted from the liquidated National Housing Fund, in particular on amending contractual provisions to comply with the existing regulations, updating legal security interests and monitoring credit exposures.

As at 31 December 2019, the amount of loans of the former National Housing Fund (after valuation) was PLN 3,581.8 million and was PLN 203.7 million lower than as at the end of 2018.

### **Transfer of title to housing units**

The provisions laid down in the Act of 19 August 2011 amending the Act on Certain Forms of Support for Residential Construction and the Act on Housing Cooperatives enabled the conversion of housing units constructed with the use of loans granted by BGK from the former National Housing Fund and own funds into private housing units as part of fulfilling the NHF's obligations.

In 2019, at the request of 79 borrowers, the ownership title to 541 housing units was transferred onto the borrowers. In connection with the transfer, PLN 23.8 million of debt under loans was repaid and the Subsidy Fund received PLN 4.0 million on account of partial relief of a preferential loan for investment and construction projects (the partial loan relief is available to borrowers where a given investment project was completed within the time limit specified in external regulations, but in the case of a transfer of the title to housing units constructed with the use of loans from the former National Housing Fund there is an obligation to return a portion of the relief attributable to a given housing unit to the Subsidy Fund).

## **4.14 NATIONAL ROAD FUND**

The largest cash flow fund managed by BGK is the National Road Fund (NRF). In accordance with the Articles of Association of BGK as well as separate legislation and other legal acts, BGK assumes responsibility for the preparation of the statement of financial position and the statement of profit or loss of each fund related to commissioned activities, including cash flow funds. The assets and liabilities of cash flow funds are not recognised in BGK's statement of financial position as they do not meet the definition of assets and liabilities. The Bank is an organisational unit which – under relevant acts – manages the financial and operating policy of cash flow funds but does not control them, as the Bank does derive economic benefits from their activities and does not bear credit risk related to those assets.

The National Road Fund (NRF), established at Bank Gospodarstwa Krajowego under the Act on Toll Motorways and the National Road Fund of 27 October 1994, has been operated by the Bank since 2004. The purpose of the fund is to finance the construction and alteration of national roads, including motorways and expressways, as well as cover any expenditures related to payments due to toll motorway operators and costs of construction and maintenance of toll collection systems on national roads. By managing the fund, the Bank manages the assets contributed to the fund (proceeds from the fuel charge on motor fuels and gaseous fuels for the propulsion of motor vehicles, refunds from EU funds, proceeds from the electronic and manual toll collection system on national roads, road charges, fines and penalties), acquires external funding through the issue of bonds and taking out loans (mainly from the European Investment Bank), makes disbursements from the fund to finance road infrastructure and service the fund's debt.

The NRF is the main source of financing for national roads constructed and modernised as part of multi-annual government road programmes. Currently, the fund is involved in the financing of *the National Road Construction Programme for the years 2014-2023 (with an outlook to 2025)* – a key document for the implementation of the *“Strategy for Responsible Development until 2020 (with an outlook to 2030)”* in the area of the State transport policy. The limit of expenditures to be financed by BGK from the National Road Fund (NRF) under the Programme was set at PLN 142.2 billion.

### **Fulfilment of the Fund's tasks**

In 2019, the proceeds of the National Road Fund totalled PLN 13.95 billion. Proceeds from the key source of its funding, i.e. the fuel charge, reached PLN 5.8 billion. Proceeds from the reimbursement of expenditures incurred in investment

projects co-financed from EU funds from the EU budget amounted to PLN 5.2 billion. Given the fund's liquidity position, it was not necessary to use debt financing.

**TABLE 15: Cash flows of the National Road Fund (in PLN million)**

Item	Performance		Change versus 2018	
	2019	2018	in nominal terms	%
Proceeds from fuel charge	5,811.8	5,213.0	598.8	11.5%
Proceeds from EU funds	5,193.5	7,142.7	-1,949.2	-27.3%
Proceeds from loans received	0.0	5,122.6	-5,122.6	-100.0%
Proceeds from bond issues	0.0	4,286.3	-4,286.3	-100.0%
Proceeds from toll collection	2,042.6	2,027.5	15.1	0.7%
Proceeds from road tolls, fines and penalties	203.0	200.3	2.7	1.3%
Proceeds from toll motorway operators	215.1	304.8	-89.7	-29.4%
Other proceeds	484.5	349.3	135.2	38.7%
<b>TOTAL INFLOWS</b>	<b>13,950.6</b>	<b>24,646.5</b>	<b>-10,695.9</b>	<b>-43.4%</b>
Payments for road projects	9,597.5	10,847.4	-1,249.9	-11.5%
Payments to the toll motorway operators	1,702.6	1,593.5	109.1	6.8%
Financing of toll collection systems	390.5	402.9	-12.4	-3.1%
Payments for servicing loans and bonds	2,111.2	14,118.3	-12,007.1	-85.0%
Other payments	8.3	9.5	-1.2	-12.6%
<b>TOTAL OUTFLOWS</b>	<b>13,810.1</b>	<b>26,971.6</b>	<b>-13,161.5</b>	<b>-48.8%</b>

In 2019, BGK concluded two financial agreements with the EIB: "A1 Motorway Tuszyn-Częstochowa (TEN-T)" for EUR 300 million and "Warsaw Approaches II (TEN-T)" for EUR 270 million.

Expenditures from the National Road Fund in 2019 totalled PLN 13.8 billion, including:

- payments related to the implementation of road projects by the General Director for National Roads and Motorways, amounted to PLN 9.6 billion;
- expenditures related to the funding of a toll collection system, amounting to PLN 0.4 billion;
- expenditures related to the servicing of bonds and loans amounting to PLN 2.1 billion (PLN 0.6 billion for servicing bonds, and PLN 1.5 billion for servicing loans);
- payments made to the operators of toll motorways, amounting to PLN 1.7 billion.

#### Statement of financial position and statement of profit or loss

As at 31 December 2019, the balance sheet total of the Fund was PLN 52.7 billion, down by 0.3% compared to the figure as at the end of 2018. Receivables from the public sector, comprising the equivalents of payments under loans taken out and bonds issued for the National Road Fund, totalled PLN 49.9 billion as at the end of 2019 and were PLN 0.3 billion lower than the figure as at the end of 2018. Liabilities under loans incurred and bonds issued for the purposes of the National Road Fund, amounting to PLN 50.3 billion, went down by PLN 0.8 billion as compared to the end of 2018.

**TABLE 16: Key figures relating to the National Road Fund (in PLN million)**

Item	Performance		Change versus 2018	
	2019	2018	in nominal terms	%
Balance sheet total	52,733.3	52,896.1	-162.8	-0.3%
Receivables from the State Treasury due to settlement of amounts paid out by the National Road Fund	49,918.2	50,219.7	-301.5	-0.6%
Liabilities due to loans and issued bonds	50,305.5	51,124.5	-819.0	-1.6%
Profit or loss	-1,559.8	-1,956.5	396.7	-20.3%

#### 4.15 RAILWAY FUND

The Railway Fund (RF), established at Bank Gospodarstwa Krajowego under the Act on the Railway Fund of 16 December 2005, has been functioning since 2006. Its purpose is to finance the preparation, construction and modification of railway lines, repairs and maintenance of railway lines, liquidation of unused railway lines, running costs of PKP Polskie Linie Kolejowe S.A. (PKP PLK S.A.) related to railway infrastructure management, and co-financing of the activities of railway infrastructure management entities, which cannot be financed from fees for the use of the railway infrastructure. The Railway Fund can also finance purchase and modernisation of rolling stock used for diagnosing, maintenance, repair or construction of railway infrastructure, rescue operations, purchase of shares in PKP PLK S.A. from Polskie Koleje Państwowe S.A. (PKP S.A.) by the State Treasury represented by the minister competent for transport, and tasks of local governments in individual provinces related to the purchase, modernisation and repair of rolling stock used for the carriage of passengers. By managing the RF, the Bank manages funds originating from proceeds from the fuel charge on motor fuels and gaseous fuels for the propulsion of motor vehicles (in the portion attributable to the fund) and makes payments from the Fund to finance the tasks referred to above.

The Railway Fund's participation in financing railway infrastructure managed by PKP PLK S.A. has been specified in the government programme (updated on an annual basis) "*National Railway Programme until 2023. Railway infrastructure managed by PKP Polskie Linie Kolejowe S.A.*", adopted in 2015, which is a strategic document establishing financial frameworks as well as terms for the implementation of railway projects in Poland. Another strategic document is the multiannual programme "*Support for financing the costs of railway infrastructure management, including its maintenance and repairs, until 2023*", aimed at improving the availability of transport and integration of communication in different regions of Poland. The programme objectives were defined in the "*Strategy for Responsible Development until 2020 (with an outlook to 2030)*" and the "*Transport Development Strategy until 2020 (with an outlook to 2030)*." Under the Programme, funds earmarked for its implementation may be sourced from, *inter alia*, the Railway Fund.

##### Fulfilment of the Fund's tasks

Proceeds of the Railway Fund totalled PLN 2.0 billion in 2019 and primarily comprised proceeds from the fuel charge. The Railway Fund's expenditures totalled PLN 1.7 billion, including:

- expenditures on the projects implemented by PKP PLK S.A. and PKP Szybka Kolej Miejska w Trójmieście Sp. z o.o. amounting to PLN 1.2 billion,
- payments to local governments in individual provinces related to the purchase, modernisation and repair of rolling stock amounting to PLN 0.1 billion,
- payments for the purchase of PKP PLK S.A. shares from PKP S.A. by the State Treasury amounting to PLN 46.5 million,
- running costs related to the tasks performed by the infrastructure manager (PKP PLK S.A.) amounting to PLN 0.3 billion.

TABLE 17: Key figures relating to the Railway Fund (in PLN million)

Item	Performance		Change versus 2018	
	2019	2018	in nominal terms	%
<b>Carrying amount:</b>				
Balance sheet total	781.0	485.4	295.6	60.9%
Debt securities	762.6	464.4	298.2	64.2%
<b>Profit or loss and amounts disclosed in the schedule:</b>				
Profit or loss	18.8	14.3	4.5	31.5%
Inflows to the Fund:	1,972.9	1,818.4	154.5	8.5%
Proceeds from fuel charge	1,953.0	1,803.2	149.8	8.3%
Other inflows	19.9	15.1	4.8	31.8%
Outflows from the Fund:	1,677.3	1,615.7	61.6	3.8%
Payments for railway projects	1,676.4	1,614.9	61.5	3.8%
<i>investment projects</i>	1,175.9	1,148.3	27.6	2.4%
<i>railway infrastructure management, including maintenance and repairs</i>	0.0	5.3	-5.3	-100.0%
<i>purchase, modernisation, repair of rolling stock - local governments at regional level</i>	121.4	111.3	10.1	9.1%
<i>purchase of PKP PLK SA shares by the State Treasury</i>	46.5	0.0	46.5	-
<i>current expenditures of PKP PLK S.A.</i>	332.5	350.0	-17.5	-5.0%
Other payments	0.9	0.8	0.1	12.5%

#### Statement of financial position and statement of profit or loss

As at the end of 2019, the balance sheet total of the Railway Fund was PLN 0.8 billion, i.e. PLN 0.3 billion higher than as at the end of 2018. In 2019, the Railway Fund reported a net profit of PLN 18.8 million.

#### 4.16 INLAND WATERWAYS FUND

The Act on Financial Support of Inland Shipowners, the Inland Waterways Fund and the Reserve Fund of 31 July 2019 entered into force on 9 November 2019. In accordance with this Act, the existing Inland Waterways Fund created at Bank Gospodarstwa Krajowego under the Act on the Inland Waterways Fund and the Reserve Fund of 28 October 2002 became the Inland Waterways Fund within the meaning of the new Act, assuming its existing assets and liabilities and equity and commenced operations as a cash flow fund operated by BGK. The purpose of the fund is to support inland waterway transport through the provision of financial support for the modernisation of the shipping fleet as well as other projects intended to restructure inland navigation, including those implemented with a view to protect the natural environment and improve the safety of navigation. The Fund finances payments to inland shipowners under the advanced preferential loans. The new act also provides for the possibility to refinance the purchase of ship equipment and cancel part of preferential loans with the related costs charged against the fund. Support to shipowners from the Inland Waterways Fund constitutes *de minimis* aid and is provided by BGK in compliance with the terms laid down in the Commission Regulation (EU) No. 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid. By operating the fund, the Bank manages the fund's resources from grants from the National Fund for Environmental Protection and Water Management and state budget subsidies.

#### Fulfilment of the Fund's tasks

In 2019, the proceeds of the Inland Waterways Fund totalled PLN 4.0 million, including PLN 1.5 million from a grant received from the National Fund for Environmental Protection and Water Management, whereas its expenditures amounted to PLN 2.2 million. The Bank granted three preferential loans totalling PLN 1.4 million from the Fund in 2019.

**TABLE 18: Key figures relating to the Inland Waterways Fund (in PLN million)**

Item	Performance		Change versus 2018	
	2019	2018	in nominal terms	%
<b>Carrying amount:</b>				
Balance sheet total	51.5	49.7	1.8	3.6%
Receivables from preferential loans granted	5.2	5.2	0.0	0.0%
<b>Profit or loss and amounts disclosed in the schedule:</b>				
Profit or loss	0.5	0.5	0.0	0.0%
Regulatory payments made and contributions paid by shipowners less any reimbursements of unused grant from the NFOŚiGW	1.5	1.4	0.1	7.2%
Preferential loans committed	1.4	2.0	-0.6	-29.9%

As at the end of 2019, the balance sheet total of the Fund was PLN 51.5 million and its loan portfolio amounted to PLN 5.2 million. The Fund generated a profit of PLN 0.5 million. Income on investing temporary cash surplus of the Fund and interest on loans advanced were the key sources of revenue generated by the Inland Waterways Fund.

#### 4.17 SUBSIDY FUND

In 2019, BGK used the Subsidy Fund to finance tasks relating to the management of the following programmes:

- fixed-rate housing loan interest subsidy programme (DSS),
- programme of financial aid for families and other persons purchasing their own apartment (Family's Own Home),
- municipal and rental housing financial support programme (BSK),
- programme of state aid for young people in purchasing their first apartment (Apartment for the Young),
- subsidies to rents (Housing for a Start),
- programme of interest subsidies for loans granted by BGK to Social Housing Associations, hereinafter referred to as "residential construction support programme" (SRH).

#### Fulfilment of the Fund's tasks

##### Loan interest subsidies

Interest subsidies for fixed-rate housing loans are granted under the *Act on Interest Subsidies for Fixed-Rate Housing Loans of 5 December 2002*. Under the fixed-rate housing loan interest subsidy programme, BGK continued its cooperation with banks with regard to the settlement of interest subsidies and surplus interest paid by borrowers under fixed-rate loans advanced by lending banks between 2003 and 2005. BGK grants subsidies in periods when the contractual interest based on a fixed interest rate (6.5%) is lower than the statutory 3M WIBOR rate increased by a fixed margin of 1.5%. If the contractual interest is higher, excess interest paid by borrowers is subject to settlement.

The surplus interest on fixed-rate housing loans transferred to BGK in 2019 by lending banks totalled PLN 0.2 million and increased the balance of the Subsidy Fund on that account to PLN 2.3 million.

##### Rodzina na Swoim (Family's Own Home)

Activities in relation to the management of the Family's Own Home programme (mortgage programme for families) were carried out on the basis of the *Act on the Financial Aid for Families and Other Persons Buying Their Own Apartment of 8 September 2006*. They consisted in day-to-day management of preferential loan interest subsidy agreements entered into with the lending banks, maintenance of the register of target preferential loan borrowers, payment of subsidies due as well as conducting inspections at the lending banks to verify compliance of loans and subsidies granted with the regulations in force.

As at the end of 2019, the lending banks managed 191,972 preferential loans granted between 2007 and 2013. From the launch of the programme to 31 December 2019, the total subsidies transferred to lending banks in relation to preferential loans were PLN 4,452.6 million, with subsidies provided in 2019 amounting to PLN 161.9 million.

### **Support for development of apartments for rent**

Activities related to the management of the BSK (municipal and rental housing) programme were carried out on the basis of the Act on the Financial Aid for the Purposes of Apartments for Rent, Assisted Accommodation, Lodging Houses, Houses for Homeless, Warming Centres and Temporary Shelters, dated of 8 December 2006, and in 2019 consisted in the acceptance, evaluation and qualification of applications for financial support, as well as execution and management of agreements from 2015-2019. The amount disbursed under the programme from its launch until 31 December 2019 totalled PLN 746.0 million, of which PLN 123.5 million was disbursed in 2019. In 2019, 55 applications were considered eligible for support from the Subsidy Fund in the aggregate amount of PLN 137.6 million. In addition, one application submitted in the 2018 spring edition was qualified following an appeal was granted by the City of Wrocław concerning PLN 2.1 million in support.

From the launch of the programme until 31 December 2019, 1,481 agreements (terminated agreements excluded) for a total amount of support of PLN 1,191.0 million were concluded, of which 105 agreements for an aggregate of PLN 209.4 million in support were concluded in 2019 (terminated agreements excluded). From the beginning of the programme until 31 December 2019, investors completed and settled 1,309 projects, resulting in the construction of 19,811 apartments and creation of 1,111 beds in lodging houses and houses for the homeless. This includes a total of 115 projects settled in 2019, which created 2,124 apartments.

As of 1 July 2018 BGK accepts applications for financial support according to new rules (following the entry into force as of 1 May 2018 of the Act of 22 March 2018 Amending the Act on Financial Support for Development of Social Housing, Assisted Accommodation, Lodging Houses and Houses for Homeless, the Act on Protection of Tenants' Rights, Municipal Housing Resources and Amending the Civil Code and Certain Other Acts (Journal of Laws of 2018, item 756)). As of 2019 applications under the programme are accepted on a continuous basis.

### **Mieszkanie dla Młodych (Apartment for the Young)**

The Bank's activities related to the management of the Mieszkanie dla Młodych (Apartment for the Young) programme were carried out on the basis of the Act on State Aid Provided for the Purchase of the First Flat by Young People of 27 September 2013 and in 2019 consisted in maintaining a record of buyers and their children meeting the statutory requirements to obtain the financial support, granting the additional co-financing for the repayment of a part of the loan based on requests for additional financial support submitted by credit institutions, paying the additional financial support from the Subsidy Fund and carrying out controls at lending institutions, involving verification of whether a loan advanced complied with the provisions of the Act and terms of the agreement between the lending institution and BGK. From the launch of the programme until 31 December 2019, BGK transferred financial support totalling PLN 3,015.2 million to lending institutions as loans with a subsidy to own contribution and as additional financial support, including PLN 5.8 million in 2019.

### **Residential construction support programme**

From the launch of the programme until 31 December 2019, BGK disbursed a total of PLN 6.5 million as loan interest subsidies. Under the Tripartite Agreement (setting out detailed terms of interest subsidies for loans or bonds, as referred to in Article 15c.2 of the Act on Certain Forms of Support for Residential Construction), concluded on 23 May 2016 between BGK, the Ministry of Infrastructure and Construction and the Ministry of Finance, the proceeds of the Subsidy Fund from the payment of a portion of a loan relief are transferred to a separate account of the Subsidy Fund maintained for purposes of managing the Social Rental Housing Programme.

In accordance with the Act on Certain Forms of Support for Residential Construction of 26 October 1995, the title to apartments managed by social housing associations and housing cooperatives, built with the use of BGK loans, may be transferred onto the tenants. A contribution from the State budget, proceeds from the payment of a portion of a loan relief attributable a given apartment and income on the Bank's investment of these funds (less disbursed loan interest subsidies) increased the Subsidy Fund by PLN 19.0 million in 2019, thus increasing the balance of these funds in the Subsidy Fund to PLN 44.1 million.

### Mieszkanie na Start (Housing for a Start)

The activities related to the management of the Housing for a Start programme were carried out under the Act on State Subsidies to Household Expenses in the First Years of Tenancy, dated 20 July 2018, and in 2019 consisted in accepting applications submitted by municipalities for conclusion of subsidy agreements, reviewing the applications, and executing of relevant agreements with municipalities. From the launch of the programme until 31 December 2019, the subsidies to be paid out as per the submitted applications totalled PLN 60.0 million, including PLN 1.0 million planned to be paid out in 2019. In 2019, rent subsidies paid out amounted to PLN 0.3 million in total. By 31 December 2019, BGK had received 30 applications from eight municipalities for execution of a subsidy agreement, in which the municipalities requested subsidies for 1,197 housing units. Based on the submitted applications BGK signed 14 subsidy agreements covering a total of 578 apartments.

**TABLE 19: Key figures relating to the Subsidy Fund (in PLN million)**

Item	Performance		Change versus 2018	
	2019	2018	in nominal terms	%
<b>Carrying amount:</b>				
Balance sheet total	449.4	628.4	-179.0	-28.5%
Debt securities	446.4	604.5	-158.1	-26.2%
<b>Profit or loss and amounts disclosed in the schedule:</b>				
Profit or loss	2.1	3.2	-1.1	-34.7%
Proceeds from regulatory payments	134.2	1,336.9	-1,202.7	-90.0%
Payments for the programme of state aid for the purchase of the first apartment by young people	5.8	779.1	-773.3	-99.3%
Payments for the Programme of financial aid for families purchasing their own apartment*	151.7	268.4	-116.7	-43.5%
Payments under the municipal and rental housing financial support programme	123.5	132.3	-8.8	-6.7%
Payments under the rent subsidy program	0.3	0.0	0.3	-
* payments due from January to December 2019 (payments for December fall due in January 2020)				

In 2019, the Subsidy Fund received a state budget grant of PLN 134.2 million, including PLN 128.0 million earmarked for the Family's Own Home programme, PLN 5.9 million for the Apartment for the Young programme and PLN 0.3 million for the Housing for a Start programme. In addition, in 2019 a PLN 14.6 million subsidy from the State budget was credited to the account separated within the Subsidy Fund for the purpose of managing the social rental housing (SRH) programme.

### Statement of financial position and statement of profit or loss

The balance sheet total of the Subsidy Fund as at the end of December 2019 stood at PLN 449.4 million and was PLN 179.0 million lower than as at the end of 2018. In 2019, the Subsidy Fund generated a net profit of PLN 2.1 million, down PLN 1.1 million versus 2018.

### 4.18 STUDENT LOAN FUND

As of 1 January 2019, the Student Loan and Credit Fund changed its name to the Student Loan Fund (hereinafter referred to as the Fund), which operates under the Act on Higher Education and Science of 20 July 2018 (Journal of Laws of 2018, item 1668, as amended) and the Regulation of the Minister of Science and Higher Education on student loans of 20 December 2018 (Journal of Laws of 2018, item 2468). The statutory objective of the Fund is to provide wider access to tertiary education through a system of preferential student loans in the form of loan interest subsidies and in the form of partial or complete forgiveness of loans. The Fund also disburses funds for the repayment of loans with BGK guarantees, if claims under the loan guarantee may not be satisfied on legal grounds.

## Fulfilment of the Fund's tasks

Since the launch of the preferential student loan system, over 405.2 thousand students have obtained such loans. In 2019, the Fund disbursed PLN 13.8 million in interest subsidies for student loans, while student loans cancelled, either in whole or in part, amounted to PLN 1.9 million.

In 2019, the Fund received a state budget grant of PLN 16.2 million (after taking into account the refund of unused subsidy from 2018 and 2019). The grant was sufficient to ensure ongoing and timely provision of subsidies in 2019, while the amount which was not used in 2019 (PLN 0.24 million) was refunded to the Ministry of Science and Higher Education in January 2020.

**TABLE 20: Key figures relating to the Student Loan Fund (in PLN million)**

Item	Performance		Change versus 2018	
	2019	2018	in nominal terms	%
<b>Carrying amount:</b>				
Balance sheet total	0.9	0.9	0.0	0.0%
<b>Profit or loss and amounts disclosed in the schedule:</b>				
Profit or loss	-0.7	-0.6	-0.1	16.7%
Income from the state budget	16.2	18.9	-2.7	-14.3%
Payments from the Fund:	15.7	17.6	-1.9	-10.8%
Student loan interest subsidies	13.8	15.8	-2.0	-12.7%
Subsidised student loan forgiveness	1.9	1.8	0.1	5.6%

\* The income includes the refund of unused subsidy to the Ministry of Science and Higher Education from 2018 and 2019.

## Statement of financial position and statement of profit or loss

As at 31 December 2019, the balance sheet total of the Fund was PLN 0.9 million and was the same as at the end of 2018.

The Fund reported a loss of PLN 0.7 million for 2019, similarly as in 2018.

### 4.19 THERMAL MODERNIZATION AND REFURBISHMENT FUND

The Fund's objective is to provide financial aid to Investors pursuing thermal modernisation and refurbishment projects and make compensation payments to owners of residential buildings implementing renovation projects or making repairs using own or borrowed funds.

The financial aid is intended for Investors implementing:

- thermal modernisation projects, i.e. designed to: reduce the demand for heat or heat losses, replace the energy source, install a technical connection to a central heat source,
- renovation projects, i.e. renovations, alterations and improvements related to thermal modernisation of multi-family buildings,
- repairs of single-family buildings,
- repair projects executed by owners of buildings with lodging units (Pol. *lokal kwaterunkowy*) under the regulations on setting rents for the rental of lodging units in buildings applicable between 12 November 1994 and 25 April 2005.

In 2019, the Fund also performed tasks related to co-financing of low-emission projects considered as state aid under municipal low-emission programmes set up to reduce the emission of pollutants and improve air quality. Low-emission projects are co-financed by the Fund under an agreement concluded by the minister competent for the economy with the municipality that runs a low-emission programme. The aid beneficiaries are owners of single-family houses at risk of energy poverty. The co-financing of low-emission projects may cover in particular the costs of replacement of heating or domestic hot water equipment or systems with such equipment and systems that meet the low-emission standards.

In 2019, the Fund performed the tasks specified in the Act on Supporting Thermal Efficiency Improvement and Repairs of 21 November 2008, consisting in awarding three types of bonuses: thermomodernisation, renovation and



compensation bonus, and executing instructions of payment of funds earmarked for co-financing of low-emission projects as part of the STOP-SMOG programme. In addition, the Fund made payments of bonuses awarded in 2019 and previous years in accordance with the rules specified in the said Act.

An amendment to the Act on Supporting Thermal Efficiency Improvement and Repairs of 21 November 2008 will enter into force in 2020 and will include changes regarding:

- thermomodernisation bonus – introduction of an additional bonus for strengthening of walls of prefabricated concrete apartment buildings (additional 50% of the cost of the strengthening); and a bonus related to additional installation of a photovoltaic system and a wind turbine (a bonus of 21%),
- renovation bonus – the bonus will be also paid for multi-family buildings owned by local government units and will be increased (to 50% of the project costs or 60% in the case of buildings entered in the register of monuments); more entities will be eligible to receive the bonus – the list will be the same as for the thermomodernisation bonus,
- compensation bonus – it will be possible to receive the bonus from BGK in up to four tranches, where the final tranche cannot be lower than 25% of the amount of the awarded compensation bonus.

### Fulfilment of the Fund's tasks

In 2019, BGK granted the thermomodernisation bonus, the repair bonus and the compensation bonus in partnership with 12 lending banks.

**TABLE 21: Key figures relating to the Thermal Modernization and Refurbishment Fund (in PLN million)**

Item	Performance		Change versus 2018	
	2019	2018	in nominal terms	%
<b>Carrying amount:</b>				
Balance sheet total	581.8	570.7	11.1	1.9%
Debt securities measured at cost	581.8	567.9	13.9	2.4%
<b>Profit or loss and amounts disclosed in the schedule:</b>				
Profit or loss	4.2	2.2	2.0	90.9%
Proceeds from regulatory payments	122.1	251.3	-129.2	-51.4%
Number of bonuses awarded	1,747	1,981	-234	-11.8%
Number of bonuses paid out	1,998	2,278	-280	-12.3%
Value of bonuses awarded	111.7	110.7	1.0	0.9%
Value of bonuses paid out	114.7	129.4	-14.7	-11.4%

The number of new applications for the thermomodernisation bonus, the repair bonus and the compensation bonus received in 2019 was 1,760. 1,747 bonuses totalling PLN 111.7 million were granted. The Bank issued 1,998 bonus decisions for a total of PLN 114.7 million.

Liabilities arising from thermomodernisation, repair and compensation bonuses granted but not yet disbursed amounted to PLN 135.1 million as at the end of 2019. In 2019, the amount appropriated from the government budget to the Fund totalled PLN 122.1 million.

### Statement of financial position and statement of profit or loss

As at the end of 2019, the balance sheet total of the TMRF increased by PLN 11.1 million compared to the previous year and reached PLN 581.8 million. The Fund reported a net profit of PLN 4.2 million for 2019, up by PLN 2.0 million compared to 2018.

## 4.20 BORROWER SUPPORT FUND

The Borrower Support Fund (hereinafter referred to as the Fund) operates under the Act on Support for Housing Loan Borrowers in a Difficult Financial Situation and Certain Other Acts, dated 4 July 2019 (Journal of Laws item 1358).

The Fund's objective is to provide repayable support to individuals in a difficult financial condition who are obliged to repay housing loans that constitute a considerable financial burden on their household budget. The funds are derived

from payments made by lenders in proportion to the size of their portfolio of housing loans to households, where the delinquency in payment of the principal or interest exceeds 90 days, repayments of the support funds as well as income on invested cash surplus of the Fund. The initial value of the Fund was PLN 598.7 million. As at 31 December 2019, BGK has entered into agreements with 42 lenders regarding the implementation of the above Act.

**TABLE 22: Key figures relating to the Borrower Support Fund (in PLN million)**

Item	Performance		Change versus 2018	
	2019	2018	in nominal terms	%
<b>Carrying amount:</b>				
Balance sheet total	611.7	605.8	5.9	1.0%
Debt securities (measured at cost)	611.5	604.1	7.4	1.2%
<b>Profit or loss and amounts disclosed in the schedule:</b>				
Profit or loss	7.8	7.7	0.1	1.3%
Proceeds from regulatory payments	0.0	0.0	0.0	-
Payments for support programmes	1.7	4.2	-2.5	-59.5%

The Borrower Support Fund provides support with respect to agreements between lenders and borrowers. Its amount is expressed in the Polish złoty as the equivalent of the expected 36 monthly principal and interest payments under a housing loan agreement, with the proviso that if the expected monthly principal and interest payment exceeds PLN 2,000, the amount of PLN 2,000 is used as the basis for the determination of the amount of support. The support is provided on an aggregate basis in monthly instalments to the lender's bank account.

As at 31 December 2019, the Bank registered 947 support agreements for a total of PLN 20.9 million. As at 31 December 2019, 12,956 instalments were disbursed in the amount of PLN 16.4 million. The Fund received repayments of the provided support in the amount of PLN 0.5 million. Expenditures from the Fund in 2019 comprised financial support disbursements and commissions.

#### Statement of financial position and statement of profit or loss

As at 31 December 2019, the balance sheet total of the Borrower Support Fund was PLN 611.7 million. The Borrower Support Fund reported a net profit of PLN 7.8 million in 2019.

#### 4.21 POLISH SCIENCE FUND

The key objective of the Polish Science Fund (hereinafter referred to as the Fund) is to finance scientific activities of particular importance to Poland's growth, facilitating the development of innovative products, as well as to aid the establishment and development of innovative models for organisation of R&D activities. The Fund operates under the Act on Supporting Scientific Activities from the Polish Science Fund of 4 April 2019 (Journal of Laws, item 823, as amended) and the agreement between the Ministry of Science and Higher Education and Bank Gospodarstwa Krajowego of 19 June 2019.

On 18 June 2019, Bank Gospodarstwa Krajowego transferred PLN 500 million to the Fund, reducing the Bank's statutory capital. Free cash is deposited with the Minister of Finance. In 2019, no payments were made to finance research teams conducting scientific activities.

**TABLE 23: Key figures relating to the Polish Science Fund (in PLN million)**

Wyszczególnienie	Performance		Change versus 2018	
	2019	2018	in nominal terms	%
<b>Carrying amount:</b>				
Balance sheet total	500.3	0.0	500.3	-
<b>Profit or loss and amounts disclosed in the schedule:</b>				
Profit or loss	3.5	0.0	3.5	-
Proceeds from regulatory payments	500.0	0.0	500.0	-
Payments made to finance research teams	0.0	0.0	0.0	-

#### Statement of financial position and statement of profit or loss

As at 31 December 2019, the balance sheet total of the Fund was PLN 500.3 million.

The Fund reported a net profit of PLN 3.5 million in 2019.

#### 4.22 NATIONAL GUARANTEE FUND

The National Guarantee Fund has been operated by BGK since January 2018 under the Act on Sureties and Guarantees Granted by the State Treasury and Certain Legal Persons of 8 May 1997 (Journal of Laws of 2018, item 1808, as amended) (the "Act") as part of the government programme "Supporting Entrepreneurship through BGK Sureties and Guarantees". The establishment of the Fund was aimed at implementing the guarantee model in line with the Strategy for Responsible Development (SRD), i.e. an instrument of systemic strategic intervention in the SME sector that mobilises public and private funds for the implementation of state policy. In accordance with the Strategy for Responsible Development, the commonly available guarantees for SMEs on the one hand will promote the use of financial resources of Polish businesses and motivate them to invest, and on the other hand will improve the efficiency of using EU funds. The establishment of the NGF makes it possible to use funds released from financial instruments of operational programmes at the central level of the current and previous financial perspective of the European Union, funds reallocated from BGK's capitals and any voluntary participation of stakeholders within any timeframe, thus diversifying the source of financing for *de minimis* guarantees. The state budget plays a supplementary and supporting role as the guarantor of the system's liquidity.

#### Fulfilment of the Fund's tasks

In 2019, 39,329 *de minimis* guarantees were provided for an aggregate of PLN 11,562.2 million. Cumulatively from the establishment of the Fund, i.e. from 1 July 2018 to 31 December 2019, 53,719 guarantees were provided for PLN 15,836.4 million. In this period, 84 payments under guarantees were made for a total of PLN 24.3 million (all of them in 2019).

In 2018, the Fund received PLN 900 million from BGK's statutory capital. In 2019, the Fund received PLN 120.9 million from EU instruments and it was not necessary to transfer any funds from the State budget to cover the costs and expenses of the Fund.

**TABLE 24: Key figures relating to the National Guarantee Fund (in PLN million)**

Item	Performance		Change versus 2018	
	2019	2018	in nominal terms	%
<b>Carrying amount:</b>				
Balance sheet total	1,091.6	926.6	165.0	17.8%
<b>Profit or loss and amounts disclosed in the schedule:</b>				
Wynik finansowy	68.1	26.4	41.7	158.0%
Inflows to the Fund in the period, cumulatively, including:	191.0	926.6	-735.6	-79.4%
under EU instruments	120.9	0.0	120.9	-
other inflows	70.2	926.6	-856.4	-92.4%
Outflows from the Fund in the period, cumulatively, including:	26.1	0.4	25.7	7343%
payments under guarantees	24.4	0.0	24.4	-
other outflows	1.7	0.4	1.3	371.4%

#### Statement of financial position and statement of profit or loss

As at 31 December 2019, the balance sheet total of the Fund was PLN 1,091.6 million. The Fund reported a net profit of PLN 68.1 million in 2019.

### 4.23 OTHER PROGRAMMES AND DELEGATED TASKS

#### Distribution of EU funds

In accordance with the Act on Public Finance of 27 August 2009 (as amended), BGK has been processing payments from EU funds to beneficiaries since January 2010. Under the Act, payments may also be made as part of state aid distributed through BGK.

Under an agreement with the Minister of Finance and agreements with the Minister of Funds and Regional Policy, the Minister of Labour and Social Policy and the Minister of Health, BGK is obliged to:

- disburse payments from EU funds and state aid;
- maintain bank accounts in the Polish złoty for purposes of payment processing;
- prepare appropriations for the purpose of making payments;
- cooperate with the Ministry of Finance, administrators of each budget function as well as institutions that submit payment instructions insofar as it is necessary for their processing, including reporting, registration of refunds and preparation of the related reports.

In 2019, the Bank processed:

- 30 payment instructions totalling PLN 147.9 million under EU funds as part of the 2007-2013 Financial Perspective;
- 103,771 payment instructions totalling PLN 52.4 billion, including 467 payment instructions for PLN 25.3 million with respect to state aid under the Financial Perspective 2014-2020.

From the launch of the service until the end of 2019, the Bank processed:

- 741,792 payment instructions totalling PLN 275.2 billion, including 12,786 payment instructions for PLN 670.3 million with respect to state aid under the Financial Perspective 2007-2013;
- 305,483 payment instructions totalling PLN 147.4 billion, including 1,412 payment instructions for PLN 66.0 million with respect to state aid under the Financial Perspective 2014-2020.

#### Banking services with respect to, and keeping accounting records of, liabilities and receivables of the State Treasury

In 2019, BGK carried out tasks related to its cooperation with the Ministry of Finance, which consisted in the provision of banking services with respect to, and keeping accounting records of, foreign and domestic liabilities and receivables of the State Treasury. As at the end of 2019, foreign liabilities and receivables of the State Treasury under BGK's management totalled USD 51 billion and USD 1.7 billion, respectively.

### **Fixed-rate export credit interest subsidy programme**

BGK manages the fixed-rate export credit interest subsidy programme on behalf of the Ministry of Finance.

As at the end of 2018 and 2019, the value of the export contracts supported under the Programme managed by BGK totalled EUR 244.2 million and CAD 165.3 million. They are financed by loans amounting to DKK 289.3 million, NOK 926.1 million and CAD 135.4 million.

Since the launch of the Programme in 2003, BGK has made a total of 50 commitments to provide subsidies for export credits financing export contracts totalling USD 1,446.0 million, EUR 973.3 million, NOK 380.0 million, CAD 165.7 million and GBP 15.2 million.

### **Programmes launched by the Minister of Family, Labour and Social Policy**

In 2019, BGK operated four programmes launched by the Minister of Family, Labour and Social Policy.

Under an agreement of 25 April 2016, BGK has been offering a **repayable support instrument to Social Economy Entities (SEEs), financed under the Operational Programme Knowledge Education Development 2014–2020 (POWER)**. The funds entrusted to BGK amount to approximately PLN 143 million, which are used to provide repayable preferential financing to SEEs (loans and counter-guarantees). Additional approximately PLN 16 million was provided from private funds of financial intermediaries.

The Bank acts as the Fund of Funds Manager in that programme and selects financial intermediaries granting support to eligible SEEs in an open tendering procedure. Agreements with financial intermediaries were concluded in December 2016 and in October 2019.

Ultimately, 1,200 preferential loans is to be granted under the loan instrument. The execution of projects by SEEs financed with the loans is to help create 1,250 jobs. On account of high demand for the loans among SEEs, the second tranche of funds for loans under the POWER programme was released in December 2017. In 2019, in a tender procedure two financial institutions were appointed as financial intermediaries, with whom agreements were signed in October 2019. Loans for SEEs are available anywhere in Poland on a continuous basis.

As supplementation to loan products available to SEEs, funds from the repayment of loans granted under the pilot programme, i.e. in the 2007-2013 perspective, were used to launch a guarantee instrument for SEEs by decision of the Ministry of Development and the Ministry of Family, Labour and Social Policy. BGK offers that instrument in partnership with banks associating co-operative banks that may grant loans secured with a BGK guarantee to SEEs. As only one guarantee has been provided to date, the instrument will be phased out at the consent of the Managing Authority and subject to signing an annex to the co-financing agreement with the Minister of Family, Labour and Social Policy.

Under a partnership agreement with the Ministry of Family, Labour and Social Policy and the Nowy Staw Foundation, BGK implements a project *System of certification with quality labels for social economy entities and local government units* (measure 2.9 POWER), co-financed from the European Social Fund. The role of BGK as a partner consists in supporting the Ministry in the preparation, implementation and settlement of the project, work of project teams and issuing opinions on documents prepared by the programme Partners. BGK participates actively in development of procedures for financial assessment/economisation of social economy entities and their modification at a later stage. BGK is involved in the application call by, among other things, supporting entities applying for a certificate. As part of commissioned tasks, BGK organises support for certified entities and winners, including through purchase of third-party advisory or training services using project funds. In 2018, under the project 27 social economy entities were certified with the "Quality Label", while in 2019 it was 47. On 28 February 2020, a call for applications was announced in the competition for the award of the *Quality Label of Social and Solidarity Economy 2020* certificate carried out as part of the project.

### **Payment of compensations for real property left outside the current borders of Poland**

Since 2006 BGK has been processing payments relating to cash compensation for real property left outside the current borders of the Republic of Poland (the so-called Bug River Area Displaced Person Act of 8 July 2005). In 2019 alone, the

Bank made nearly 2.8 thousand payments totalling PLN 127 million. From the introduction of the aforesaid compensation until the end of December 2019, the Bank processed 76 thousand compensation payments totalling PLN 4,627.8 million.

### **First Business – Start-Up Support programme**

The Bank also acts as the fund operator under the “**Pierwszy Biznes – Wsparcie w Starcie**” (**First Business – Start-Up Support**) Programme implemented nationwide since 2014. The purpose of the programme is to foster entrepreneurship and create new jobs as part of labour market development, counteracting unemployment and promoting employment. Under the Programme, students, graduates, the unemployed and guardians of persons with disabilities may apply for low interest loans to start their own business or create jobs. Under the Programme, applicants and borrowers may use free advisory and training services, including related to setting up economic activity, keeping accounting records or marketing.

The financial intermediaries selected by the Bank in tender procedures assume responsibility for granting loans as well as the provision of training and advisory services. As at 31 December 2019, since the programme had been launched a total of 4,582 loans were provided for more than PLN 296.8 million, of which 4,467 loans for PLN 293.9 million were related to setting up economic activity and 115 loans for PLN 2.8 million were related to job creation/furnishing a workplace.

### **Accessibility Fund**

The Accessibility Fund programme is carried out by BGK based on the funds managed by the minister competent for regional development (funds administrator) under an agreement of 4 October 2019. The Accessibility Fund is operated as a loan instrument intended to ensure accessibility of buildings, whose objective is to support activities related to ensuring accessibility to persons with special needs or improving the accessibility of buildings.

The loan instrument can be used to finance projects designed to adapt multi-family residential buildings, collective residential buildings and public utility buildings to the needs of persons with permanent or temporary mobility impairments by installing passenger lifts and other amenities specified as required under an optimum scope of activities in an accessibility audit.

Loans have been granted since 4 October 2019 across entire Poland. The programme is addressed to public administration entities both at the central and local government level, housing communities and cooperatives, social housing associations, scientific units and cultural operators. At present, the Accessibility Fund is operated in a direct model, but work is carried out to create an indirect model (with the participation of financial intermediaries). By the end of 2019, six loan applications were filed for an aggregate of PLN 4.6 million.

### **CEF Transport Blending Facility**

As of 26 November 2019, under an agreement with the European Commission BGK acts as an Implementing Partner for CEF Transport Blending Facility (CEF TBF), which is one of the measures carried out under the European Commission's instrument named Connecting Europe Facility (CEF). CEF TBF's objective is to support the use of alternative fuels and enhance the interoperability of rail services in the European transport system.

The instrument worth EUR 198 million is implemented as a European-wide contest from November 2019 until the available funds are depleted (but not longer than until March 2021). Thanks to the Bank's active efforts in 2019 BGK was reviewed positively and became the first State-owned national development bank to sign an agreement for the implementation of CEF TBF with the European Commission. The Implementing Partner's key role is to promote the instrument, identify potentially eligible projects, carry out their initial evaluation in terms of meeting the relevant requirements and provision of repayable financing to project promoters in accordance with own credit policy.

BGK's activities in 2019 chiefly consisted in the promotion of the instrument in Poland in cooperation with the Ministry of Investments and Development (as of 15 November 2019 the Ministry of Development), holding initial talks with the interested project promoters, and commencement of work on internal regulations.

In 2019, BGK managed a number of smaller-scale delegated programmes.

## **4.24 OPERATIONS OF THE BGK GROUP ENTITIES**

### **Equity investment operations**

In carrying out the mission of supporting the economic growth of Poland, apart from banking instruments and operations under government programmes, Bank Gospodarstwa Krajowego carries out operations related to equity investments. These operations are carried out by closed-end investment funds and entities established by those funds. Investment funds were established by Towarzystwo Funduszy Inwestycyjnych (management company) created by BGK (sold to Polski Fundusz Rozwoju S.A. in September 2017) and are managed by designated companies.

Activities in the area of reindustrialisation and infrastructure project financing are managed by PFR TFI S.A., a company owned by PFR S.A. In the area of supporting foreign expansion of Polish businesses, the dedicated investment fund is managed directly by PFR TFI S.A. PFR TFI entrusted the implementation of housing projects to a specialised entity PFR Nieruchomości S.A., while in other areas – to PFR S.A. In addition, the Bank holds shares in Korporacja Ubezpieczeń Kredytów Eksportowych S.A., with which the Bank cooperates on the implementation of a government export support programme and on securing debt financing transactions as part of foreign trade.

As at 31 December 2019, the BGK Group entities responsible for equity investment activities included:

- Fundusz Sektora Mieszkań na Wynajem FIZ AN,
- Fundusz Sektora Mieszkań dla Rozwoju FIZ AN,
- Fundusz Ekspansji Zagranicznej FIZ AN,
- Special purpose vehicles of Fundusz Sektora Mieszkań dla Rozwoju FIZ AN,
- Special purpose vehicles of Fundusz Sektora Mieszkań na Wynajem FIZ AN.

### **Reindustrialisation and infrastructure project financing**

PFR TFI S.A. is an entity commissioned to manage funds established by BGK and PFR S.A. making equity investments in the area of reindustrialisation and infrastructure project financing. PFR TFI S.A. entrusted PFR S.A. with the management of the fund's assets.

Fundusz Inwestycji Polskich Przedsiębiorstw FIZ AN is a fund established to support investments made by entities whose activity is closely connected with the Polish economy. The Fund specialises in manufacturing companies and companies providing services to the industrial sector. Its investment strategy stipulates that the fund will finance the investments of entities with the majority of their production capacity or revenue sources located in the territory of the Republic of Poland. As at 31 December 2019, the issue price of fully-paid certificates held by BGK was PLN 1,296 million.

Infrastructure investment debt and equity funds finance investments in the energy, oil and gas, transport and logistics industries, among others. Financing can be provided either as debt or equity financing and can be used to finance new assets or modernise existing assets. The funds focus their investments in Poland, but may also finance cross-border projects. The issue price of certificates held by BGK as at 31 December 2019 was PLN 1,902 million for the equity fund (fully paid) and PLN 129.7 million for the debt fund (of which PLN 126.9 million was paid up).

Fundusz Inwestycji Samorządowych FIZ AN finances investment projects implemented jointly with local government units in such areas, as water supply and sewage systems, heating, waste management, infrastructure and transportation. As at the end of 2019, the total issue price of fully-paid certificates held by BGK was PLN 310 million.

### **Housing**

The financing of housing is a major area of the BGK Group's efforts under the Strategy for Responsible Development adopted by the Council of Ministers. The purpose of the carried out activities is to support social and territorial development and promote equal social opportunities. Apart from financing social rental housing programmes and government programmes of subsidies for the young and families, the Bank also supports the housing industry by

financing construction of apartments for rent and investments in the segment of affordable housing, in cooperation with closed-end private equity investment funds. The funds are managed by PFR TFI S.A., which in turn entrusted the implementation of those tasks and the management of such assets to PFR Nieruchomości S.A.

Through investment funds the Bank supports tasks related to ensuring access to housing for young families and persons with relatively low income (equity financing of housing investments of the Dwelling for Development Sector Fund) as well as promoting social mobility and labour market balance by supporting the development of the institutional rental housing sector (continuation of the programme of the Dwelling for Rent Sector Fund).

**Fundusz Sektora Mieszkań na Wynajem FIZ AN** is a fund that invests in companies building properties for rent. The fund supports property development projects in six largest agglomerations in Poland and it was also responsible for the pilot projects under the government programme Apartment+, which primarily focused on activities promoting the construction of rental housing in smaller urban areas to ensure access to housing for people with a relatively low income.

The operations of Fundusz Sektora Mieszkań na Wynajem FIZ AN consist in investing funds collected through non-public offerings of investment certificates. The Fund seeks to achieve its investment objective mainly by purchasing and subscribing for shares in SPVs and debt securities issued by SPVs. The SPVs implement construction projects related to the construction of buildings, purchase and sale of properties for their own account, and lease out apartments located in their multi-family residential buildings, in addition to real estate activities. SPVs established to implement investments are members of the BGK Group and are subject to consolidation using the full method. As at 31 December 2019, The Fund held 11 SPVs (a detailed list of the SPVs can be found in the consolidated financial statements of the BGK Group, in the note on the composition of the BGK Group).

As at the end of December 2019, the total price of outstanding investment certificates, fully paid up, held by BGK was PLN 808 million.

**Fundusz Sektora Mieszkań dla Rozwoju FIZ AN** (formerly: Fundusz Muncypalny) is a fund that invests in the segment of affordable housing and local government infrastructure. In December 2017, the fund was transformed into Fundusz Sektora Mieszkań dla Rozwoju FIZ AN, it was subject to major structural changes and in 2019 it completed the takeover of part of the assets of Fundusz Sektora Mieszkań na Wynajem, which mostly include investments related to the pilot programme Apartment+.

The fund's investments consist in acquiring and subscribing for shares and debt securities issued by SPVs, advancing loans to SPVs and providing sureties and guarantees at the request of SPVs established for the purposes of project implementation. The fund can also engage in property projects implemented under a public private partnership as the financing entity. Special purpose vehicles established to implement projects are also members of the BGK Group and are subject to consolidation using the full method. As at 31 December 2019, the fund held 52 SPVs (a detailed list of the SPVs can be found in the consolidated financial statements of the BGK Group, in the note on the composition of the BGK Group).

The total issue price of investment certificates of the fund as at the end of 2019 was PLN 1,029.6 million. BGK's payments totalled PLN 790 million.

### **Foreign expansion financing**

The BGK Group provides financial support for foreign expansion of Polish businesses through Fundusz Ekspansji Zagranicznej FIZ AN managed by PFR TFI S.A. The fund invests jointly with Polish partners in projects related to the establishment of new or acquisition of existing companies outside the borders of the Republic of Poland. The fund does not have a narrow sector focus, making investments together with Polish expansion-stage enterprises.

Fundusz Ekspansji Zagranicznej FIZ AN invests proceeds from non-public offerings of investment certificates. The fund seeks to achieve its investment objective mainly by purchasing and subscribing for shares and debt securities issued by project companies, advancing loans to project companies as well as providing sureties and guarantees at the request of project companies. Some of the project companies of the fund are consolidated with the Group's results using the equity method. As at 31 December 2019, this applied to five foreign companies.



As at 31 December 2019, the total issue price of FEZ FIZ AN certificates amounted to PLN 313.4 million, of which PLN 222.7 million was paid up.

### **Three Seas Initiative Investment Fund**

In May 2019, on the initiative of BGK, the Three Seas Initiative Investment Fund was established (operating under the name Three Seas Initiative Investment Fund S.A. SICAV-RAIF) as a type of an alternative investment fund to implement commercial infrastructure projects which are significant growth drivers for economies of countries located in Three Seas Region (Central and Eastern Europe between the Baltic Sea, the Black Sea and the Adriatic). The Fund is consolidated with the Group's results using the equity method.

### **Other operations of BGK's associates**

Associates consolidated with the BGK Group's results with the equity method also include Korporacja Ubezpieczeń Kredytów Eksportowych S.A., which cooperates with the Bank to carry out activities designed to support exports and foreign expansion of Polish businesses, as well as entities providing sureties on a local scale in cooperation with BGK, i.e. 13 surety funds and an SPV Krajowa Grupa Poręczeniowa Sp. z o.o. The Bank also holds shares in four lower-value surety funds.

### **Korporacja Ubezpieczeń Kredytów Eksportowych S.A. (Export Credit Insurance Corporation)**

Korporacja Ubezpieczeń i Kredytów Eksportowych S.A. (KUKE) is a Polish insurance company whose shareholders are the State Treasury and Bank Gospodarstwa Krajowego. BGK holds a share of 36.69%. On 10 April 2020, the General Meeting of KUKE S.A. passed a resolution to increase the share capital. The Bank contributed PLN 50.0 million to the company, increasing its interest to 48.5%. The purpose of the recapitalisation was to mitigate the adverse economic effects caused by the COVID-19 pandemic.

KUKE S.A. insures commercial transactions of Polish enterprises, ensuring that they can trade safely both domestically and abroad. KUKE S.A. focuses its operations on insuring receivables from the sale of goods and services with a deferred payment date and on providing insurance guarantees.

As the only insurer in Poland KUKE S.A. has the right to offer export insurance guaranteed by the State Treasury that ensures safe trading on high-risk markets. KUKE insurance policies also cover long-term export investment projects financed by a loan with a repayment period longer than two years.

As part of its cooperation with KUKE S.A., Bank Gospodarstwa Krajowego insures the majority of debt financing provided as well as guarantee and letters of credit in the area of financing export and foreign expansion support. In particular, this applies to the financing of transactions on high-risk markets covered by State Treasury guarantees. In addition, BGK provides financing to KUKE Finance S.A. in relation to the subsidiary's factoring activity (KUKE S.A. holds 100% of shares).

### ***Surety funds and the National Guarantee Group***

In accordance with the Act on Sureties and Guarantees, BGK may acquire or subscribe for shares in regional and local surety funds which offer sureties and guarantees securing the repayment of loans to micro, small and medium-sized enterprises. As at 31 December 2019, BGK had an equity interest in 17 surety funds, of which 13 were recognised as associates. The detailed list of those funds can be found in the consolidated financial statements of the BGK Group.

The Bank and surety funds entered into an agreement on the National Guarantee Group to establish a joint action platform and ensure that surety activities are carried out in compliance with the best standards and practices. A special purpose vehicle under the name Krajowa Grupa Poręczeniowa Sp. z o.o. was established for that purpose.

The vehicle's objective is to carry out and support actions to strengthen surety funds and raise their importance as a special instrument supporting micro, small and medium-sized enterprises. Cooperation between the Bank, surety funds and the SPV resulted in the development of an IT solution designed to streamline surety and information flow management processes, including:

- Following the takeover of the Nationwide System Supporting the Provision of Sureties (OSWUP) together with servers, the SPV maintains the operation of the system and its servers and makes its functionalities available to surety funds. The system enables registration of requests for surety, their processing and management after a surety is provided, and the preparation of reporting data,
- The SPV extended the OSWUP system with the e-SOP Reporting module, which ensures full digital management of the database on sureties and financial statements,
- Also, the system was extended by adding the e-SOP Registers module, which enables the exchange of monthly and quarterly data on sureties sourced from syndicate surety agreements between KGP Sp. z o.o. and surety funds and:
  - Spółdzielcza Grupa Bankowa (portfolio sureties),
  - four lease companies (individual sureties for leases),
  - Agencja Rozwoju Przemysłu S.A. (individual sureties for loans).

The SPV creates websites for surety funds and provides their content and IT support and manages the relevant e-mail accounts. At present, it manages four external websites: [www.poreczenia-kredytowe.info](http://www.poreczenia-kredytowe.info), [www.swietokrzyskifp.pl](http://www.swietokrzyskifp.pl), [www.pzfp.pl](http://www.pzfp.pl), and [fpkjg.pl](http://fpkjg.pl).

#### **4.25 TRANSACTIONS WITH ASSOCIATES OF BGK**

A detailed list of transactions with entities with capital and organisational relations with BGK is presented in Note 39 to separate financial statements of BGK.

## 5. STRATEGY AND DEVELOPMENT DIRECTIONS OF BGK AND THE BGK GROUP

### 5.1 STRATEGY OF BGK AND THE BGK GROUP

BGK is currently in the final stage of implementation of its strategy for 2017–2020. The mission, vision and values defined in the strategy continue to apply. BGK's mission is to support social and economic growth of Poland and the public finance sector in the performance of its tasks. The four key pillars of the mission are based on core values: professionalism, partnership cooperation and commitment. Work on the new strategy for the Bank will commence in 2020.

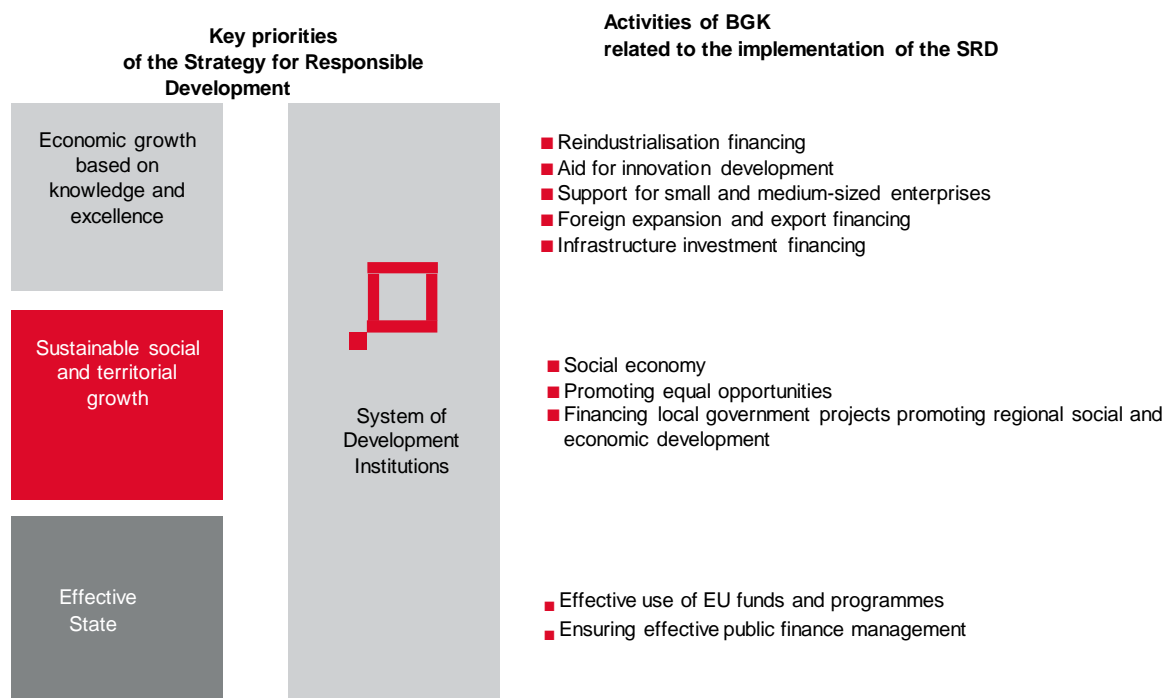
The BGK's strategy results from the challenges faced by the Polish economy. It prioritises economic growth based on knowledge and excellence, sustainable social and territorial development and an effective State.

As part of BGK's investment policy, in December 2019 the Supervisory Board approved BGK's Investment Strategy. The Strategy was devised in connection with the PFSA's recommendation issued in March 2019 regarding the reduction of banks' investment risk. In line with BGK's Investment Strategy, a target level for the use of own funds was set for equity investments, which is to be achieved by reducing the Bank's exposure over the next few years.



In the process of drafting the strategy for 2017-2020, BGK has prepared action plans for key areas of the Bank's activities.

## The Bank's mission in the implementation of the Strategy for Responsible Development (SRD)



BGK's objective is to initiate and carry out activities conducive to general growth, it finances infrastructure projects, provides sureties and guarantees as well as manages numerous programmes, including those designed to improve the situation in the housing market. In 2019, after Brussels, BGK opened further foreign representative offices in Frankfurt am Main and London, which, among other things, will strengthen Poland's presence in foreign markets.

To optimally adapt to the changing market environment, BGK seeks to develop a new business model. The model will facilitate more effective support of the country's sustainable growth, allowing BGK to provide a precise response to the development challenges of individual segments of the economy. The most important needs of the market will be addressed through dedicated programmes. The programmes will be designed to provide a comprehensive response to satisfy the needs of customers and stakeholders and will help strengthen partnership relations and cooperation with the market.

In 2020, the Bank will take steps to define its new strategy for the next few years.

### 5.2 DEVELOPMENT DIRECTIONS OF THE BGK GROUP

In its operations in the next few years the BGK Group will continue to pursue the priorities defined in the strategy for 2017–2020 based on three main pillars:

- Economic growth based on knowledge,
- Sustainable social and territorial growth,
- Effective State.

#### Economic growth based on knowledge

As part of supporting knowledge-based economic growth, the BGK Group will engage in financing reindustrialisation and infrastructure investments, supporting foreign expansion and export of Polish enterprises, supporting small and medium-sized enterprises, and facilitating innovation development.

### **Reindustrialisation and infrastructure investment financing**

The Bank intends to further increase the funding for enterprises and ensure a rapid growth of guarantee operations supported by its specialist knowledge and experience, also with the aid of industry specialists. The Bank will be a member in bank syndicates due to the specific terms of such financing, including a very long financing period and complex financial and legal structures.

In the area of equity financing, the scale of activity is determined in cooperation with institutions supporting economic growth. The Bank will continue its efforts in international cooperation as part of Marguerite Fund and the Polish Growth Fund of Funds.

A new international initiative, implemented jointly by development institutions mostly from Central and Eastern Europe countries, in which BGK will act as an investor, is the establishment of the Three Seas Initiative Investment Fund. The fund will support major commercial infrastructure projects implemented in that part of Europe.

### **Supporting foreign expansion and export of Polish enterprises**

The Bank plans to significantly increase its involvement in financing the foreign expansion and export of Polish enterprises in the form of loans, letters of credit, purchase of debts and provision of guarantees.

The main pillar of BGK's operations in that area is the Financial Exports Support Programme. The Programme is intended to improve the competitive position of Polish exporters and increase Polish exports by facilitating access to Polish goods and services, ensuring more attractive financing terms for purchase of Polish goods and services, and significantly reducing the export risk of Polish businesses. To that end, BGK advances loans to buyers of Polish goods and services or their banks with insurance provided by Korporacja Ubezpieczeń Kredytów Eksportowych S.A. (KUKE S.A.).

### **Support for small and medium enterprises**

In the area of SME sector support, the Bank continued to operate the *de minimis* guarantee programme through the National Guarantee Fund and utilise EU funds to reduce the competitive gap of that sector.

In 2019, sale of guarantees provided from the Guarantee Fund under the Operational Programme Smart Growth (GF SG OP) was continued. The guarantees offered to SMEs under the GF SG OP are designed to increase the willingness of businesses to invest, while improving the efficiency of use of EU funds.

The Bank has taken an active part in development of systemic solutions that will help entrepreneurs survive in this difficult period of the pandemic of the virus causing COVID-19. One solution involves increasing the maximum amount of a *de minimis* guarantee up to 80% of the loan amount. BGK will waive the commission on such guarantee.

### **Aid for innovation development**

BGK supports innovation through the instrument "Loan for Technological Innovations" offered as part of the Operational Programme Smart Growth 2014–2020, by using other funds under the EU financial perspective for 2014–2020, and through establishment of investment funds financing research and development work.

In 2019, further agreements were executed with SMEs on co-financing and disbursement of technological grants and the provision of guarantees counter-guaranteed by the European Investment Fund (EIF) under the COSME programme.

With support for the creation and development of innovative ways to organise R&D activities in mind, BGK established the Polish Science Fund (PSF), whose objective is to finance scientific activities of particular importance to the development of innovative products.

### **Sustainable social and economic growth**

The area of social economy and promoting equal opportunities features a whole spectrum of instruments related to the development of housing and ensuring access to housing for young families and persons with relatively low income as

well as instruments to promote social mobility and balance of the labour market through the development of the rental housing sector.

The Bank's operations in the area of housing involve the implementation of dedicated government programmes (activities of cash flow funds) and (currently) investment activity carried out through funds managed by PFR Nieruchomości. As part of its day-to-day business activities, the Bank will manage credit exposures related to the portfolio of the former NHF, including the transfer of title to dwellings to their existing tenants.

In the area of cash flow funds active in the housing market, BGK will support the financing of purchases of dwellings and houses for young families (Family's Own Home and Apartment for the Young), social housing and rent subsidies.

The "First Business – Start-Up Aid" programme supports development of entrepreneurship and creation of new jobs as part of labour market development, counteracts unemployment and promotes employment. BGK acts as the programme manager.

The Operational Programme Digital Poland 2014–2020, as part of which BGK uses the entrusted funds to support – through repayable financial instruments – projects aimed at developing, extending or altering telecommunications infrastructure that ensures access to fast broadband Internet.

### **Effective State**

On account of the specific nature of activities carried out by BGK, a major element of the Bank's development are activities specified in the "Effective State" priority. These include the effective implementation of EU programmes and management of public finance and commissioned government programmes. It is also important for BGK and the Group to utilise the Bank's potential in cooperation with Polish development institutions.

The primary objectives of projects supported under Regional Operational Programmes are to: develop SME entrepreneurship, improve energy efficiency in the housing and public building sector and energy efficiency of SMEs, develop the labour market, finance renewable energy sources and regenerate urban areas. The Bank will cooperate with local government partners on the best plan of actions co-financed from EU funds tailored to the specific nature of the region.

As part of activities carried out under the EU perspective 2014-2020, BGK will focus on increasing the pace of absorption of EU funds under Regional Operational Programmes.

### ***Effective use of EU funds and programmes***

Implementation of financial instruments as part of Regional Operational Programmes (ROP) for 2014–2020 is a continuation of the Bank's prior activity in the field of non-grant support for entrepreneurship from public funds.

The primary objectives of projects supported under Regional Operational Programmes are to: develop SME entrepreneurship, improve energy efficiency in the housing and public building sector and energy efficiency of SMEs, develop the labour market, finance renewable energy sources and regenerate urban areas. Support is provided through financial lending instruments (microloans, loans), surety instruments and equity investments.

### ***Ensuring effective public finance management***

As regards public finance sector management and distribution of EU funds, BGK will seek to maintain a high standard of service and achieve operational excellence.

### **Cultural transformation at BGK and the BGK Group**

The defined development directions required a cultural transformation, which became the cornerstone of the Bank's strategy for 2017-2020. Its pillars are the values of professionalism, commitment and partnership cooperation, which unite employees and are present in all processes carried out at the Bank. In 2019, we relied on strengthening of partnership cooperation, whose purpose is to dismantle the silos, develop a comprehensive approach to bank processes and projects, and promote exchange of experiences. We achieved this objective by organising workshops and team

bonding events integrating different divisions and departments, holding BGK Olympic Games for employees, a mentoring programme, continuing training for managers seeking to improve their management competences and conducting an employee evaluation, which involved an assessment of performance of business targets and evaluation of attitudes.

The organisational culture incorporating the values of professionalism, commitment and partnership cooperation became built in the BGK reality.

### 5.3 IMPACT OF COVID-19 PANDEMIC ON THE BANK'S OPERATIONS

Due to COVID-19 pandemic, the Polish government offered additional support for Polish businesses as part of anti-crisis shields. The Bank joined the effort to work out multiple systemic solutions that will help businesses survive in this difficult period.

The Bank has introduced an electronic document flow between BGK, banks and customers, enabling entrepreneurs to file an application without leaving home.

The date of launch of individual aid measures for businesses requires legislative changes, required notifications to the EC, obtaining approvals from the Polish Financial Supervision Authority and execution of agreements with commercial and cooperative banks, which at the date of closing this report were still being processed for part of the aid measures.

Concurrently, thanks to the collaboration with legislative bodies, BGK works on priority measures which can be used by customers immediately after passing relevant acts and preparation of appropriate regulations. Such measures enable the Bank to react quickly to customers' needs, launch new products and modify existing products on an ongoing basis.

The proposed BGK's aid package for businesses hit by the COVID-19 pandemic comprises:

- a guarantee system, including:
  - *de minimis* guarantees - an aid package for micro, small and medium-sized companies,
  - Biznesmax guarantees - an aid package for micro, small and medium-sized companies,
  - guarantees from the Liquidity Guarantee Fund - support for medium and large companies active in any industry,
- a subsidy system - support for small, medium and large companies granted as part of the prepared Subsidy Fund in the form of subsidies to loan interest,
- COVID-19 Response Fund,
- support with the use of EU funds, including:
  - loan for technological innovations,
  - programme addressed to social economy entities,
  - EU loans from Regional Operational Programme funds and under the project Business in Eastern Poland – Tourism,
  - SG OP Liquidity Loans,
  - Liquidity Loans for Social Economy Entities.

Changes in the *de minimis* guarantee scheme will improve access to loans in commercial and cooperative banks that collaborate with BGK. The key changes are as follows:

- increase of the maximum amount of the *de minimis* guarantee from 60% to 80% of the loan amount, which is the highest level that does not require notification to the European Commission,
- waiver of commission on the guarantees,
- extending the term of *de minimis* guarantees for working capital facilities for entrepreneurs from 27 to 39 months.

As part of *de minimis* guarantees, from 19 March 2020 to 30 April 2020 the Bank provided more than 14,000 guarantees for over PLN 4,709.8 million.

The Bank also implemented changes that make it easier for entrepreneurs to use the Biznesmax Guarantee programme. The key changes are as follows:

- possibility to provide a guarantee, which is *de minimis* aid, covering a revolving working capital facility, including an overdraft revolving facility securing the financial liquidity of companies focused on innovation and with strong environmental performance,
- revolving credit facilities do not need to be related to an implemented or completed project and will be advanced on simplified rules – without having to submit financial and accounting documentation to the bank,
- in the case of a guarantee which is *de minimis* aid there is no catalogue of eligible project costs and the borrower is not obliged to submit a business plan – the credit facility is provided in accordance with the bank's procedure and used to finance the project specified in the credit facility agreement,
- apart from innovative businesses, the guarantee for a revolving working capital facility may be used by companies with strong environmental performance, which have been implementing green solutions – introduction of a new borrower eligibility criterion,
- extension until the end of 2021 (before the modification: until 2020) of the effective period for the 5% annual rate for the calculation of loan interest subsidy,
- the interest subsidy system also covers revolving credit facilities.

In April 2020, the Bank launched the Liquidity Guarantee Fund (LGF). Businesses may receive guarantees from lending banks – both commercial and cooperative – which signed a relevant agreement with BGK. This solution will be a lifeline for SMEs, which have lost liquidity due to the COVID-19 pandemic. The Fund's details:

- guaranteed loan amount as high as PLN 250 million,
- the guarantee will provide security for up to 80% of the loan amount intended to ensure the entity's liquidity (guarantee amount from PLN 3.5 million to PLN 200 million),
- the guarantee will be provided for up to 27 months and for no longer than the loan term +3 months,
- available for new or renewed after 1 March 2020 overdraft working capital facilities and credit lines.

Businesses may receive guarantees from lending banks – both commercial and cooperative – which signed a relevant agreement with BGK.

Another assistance solution developed by BGK is a system of subsidies to interest on loans advanced to entrepreneurs and farmers by the banking sector. The Bank considers various scenarios and possibilities of how to implement such a mechanism quickly. The most important element is how BGK can support businesses, farmers and the banking sector so that banks are able to advance loans on better terms by applying the interest subsidy scheme. Preparation of this form of support will take more time, but all institutions involved act with urgency. At the date of closing this report, the legislative procedure regarding the establishment of the Subsidy Fund ensuring loan interest subsidies was pending.

Another support measure being prepared by BGK will be the COVID-19 Response Fund (planned size of the fund is PLN 100 billion). The Fund, whose administrators will be public institutions, will transfer funds to support a wide range of instruments combating the effects of the COVID-19 pandemic. At the date of closing this report, the Bank had issued bonds for a total of PLN 21 billion, which were transferred to the Fund.

Moreover, in consultation with the legislator, the European Commission and the EIF, the Bank prepares changes that would facilitate the use of:

- COSME guarantees,
- guarantees for the agricultural sector,
- guarantees for factoring companies.

These changes will double the number of entities using guarantees, which will cushion the effect of the pandemic on businesses and the agricultural sector.

Aid with the use of EU funds includes:

A loan for technological innovations is a subsidy for up to 70% of the project amount. Funds are provided in the form of a technological grant. To finance a project, an entrepreneur must invest own funds and incur a technology loan (investment loan) from a commercial bank, which is partially repaid with the technological grant once the project is



completed. The Bank also implemented changes that make it easier for entrepreneurs to use the loan for technological innovations. The key changes are as follows:

- extension of the time limit for the call for applications,
- extension of the time limit for execution of a loan agreement from 30 to 60 days,
- extension of the time limit for delivery of documents required to execute a co-financing agreement from 37 to 67 days,
- extension of the time limit for delivery of environmental documentation from 10 to 12 months,
- introduction of remote panels (to avoid making it necessary for entrepreneurs and experts to personally attend the panels).

Programme addressed to social economy entities. The key changes are as follows:

- extension of the grace period for the repayment of principal to a period no longer than six months (for new and existing loans, under which the repayment of principal has not yet started),
- payment holiday of up to six months (possibility to suspend the repayment of principal or principal and interest instalments – to be agreed between the intermediary and a given social economy entity),
- twofold reduction of interest for a period no longer than 12 months (for new and existing loans),
- if a given social economy entity is found in a difficult financial situation due to the COVID-19 outbreak, the financial intermediary may reduce the interest rate to 0% for up to 12 months,
- extension of the period for job creation up to 12 months (by additional six months in the case of existing agreements and new loans taken out by 31 December 2020),
- extension of the loan repayment period by up to 12 months (for Loan for a Start and Development Loan).

EU loans, package for micro, small and medium-sized companies. The key changes in terms and rules of repayment of EU loans from Regional Operational Programmes of individual provinces:

- additional grace period for repayment of principal of at least six months,
- four-month payment holiday, i.e. suspension of repayments for four months,
- reduction of interest rates on loans,
- no increased interest rate on past due liabilities resulting from the COVID-19 outbreak and no debt collection activities before making favourable amendments to a relevant agreement,
- extension of the scope of financing for SMEs by adding loans for the financing of working capital and introduction of new support products to maintain the level of employment at companies and ensure their continued operations.

SG OP Liquidity Loans as a support for micro, small and medium-sized companies from any industry, which enable borrowers to finance a wide range of expenses related to day-to-day operations of the company and ensuring its financial liquidity. Key terms of Liquidity Loans:

- repayment term – up to six years,
- interest rate – 0%,
- grace period – up to six months from the date of loan disbursement,
- payment holiday – extension of the repayment period to two months once in a year (in the first and second year of the loan repayment term),
- no fees and commissions charged for the provision of the loan and handling,
- an entrepreneur may receive more than one liquidity loan, provided that their total amount will not exceed PLN 15 million,
- possibility to combine the loan with other forms of financial support provided as part of the Shield of the Polish Development Fund.

Liquidity Loans for Social Economy Entities. The purpose of the loan is to help maintain ongoing operations by the borrower and ensure its financial liquidity. Key loan parameters:

- maximum loan amount of 25% of annual revenue, but not more than PLN 100 thousand,
- interest rate of 0.1% per annum,

- repayment period up to 48 months and a grace period of even up to 12 months (during that period the borrower repays only interest, which can be done on a quarterly basis instead of each month),
- in justified cases the loan may be repaid in quarterly instalments (e.g. if the borrower conducts a business subject to seasonality),
- easily provided security – e.g. blank promissory note,
- no commissions and fees,
- use of proceeds: to finance the entity's liquidity, day-to-day operations.

The application procedure is simplified and takes into account the specific nature and financial position of the social economy entity. In the case of loans with preferential interest, *de minimis* aid may be granted.

The Bank also wants to improve the availability of EU funds to businesses. The Ministry of Funds and Regional Policy holds advanced talks with the European Commission on transferring parts of the funds from the financial perspective for 2014-2020 to support businesses, in particular micro-enterprises.

Moreover, as part of liquidity aid provided to its customers the Bank applies facilitations in loan repayment by deferring the repayment of principal and interest instalments and extending repayment periods. As at 30 April 2020 such applications filed in connection with the COVID-19 pandemic represented exposure of PLN 4,256.1 million, which accounted for approximately 6% of the Bank's portfolio from the end of March 2020 (PLN 69,596.2 million). About 67% was related to exposure resulting from applications for payment holiday, and 98% of exposure resulting from the submitted applications was attributable to customers from the enterprise segment. The largest exposure relates to investment loans (approximately 66%).

For more information see <https://www.bgk.pl/pakietpomocy/>.

## 6. FINANCIAL OVERVIEW OF THE BGK GROUP AND BGK

### 6.1 FINANCIAL PERFORMANCE OF THE BGK GROUP

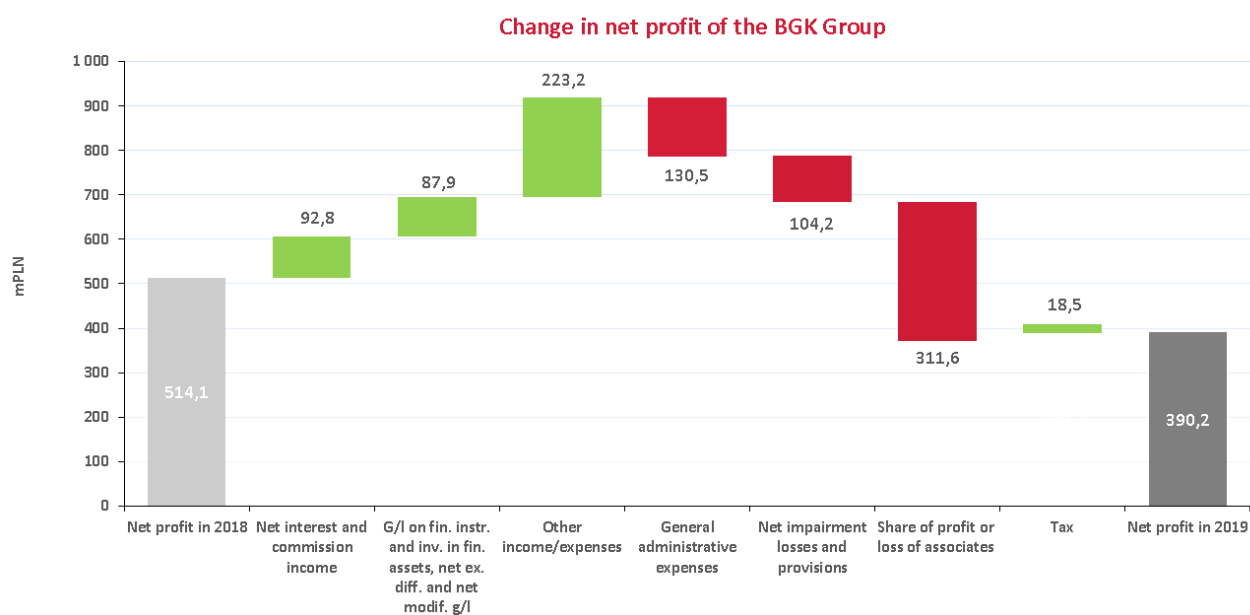
The BGK Group's recorded net profit for 2019 of PLN 390.2 million and it was PLN 123.9 million lower compared to the profit earned in 2018. Lower performance was mainly attributable to a PLN 311.6 million lower share of profit of associates and lower impairment losses and provisions resulting from a larger loan portfolio and a conservative approach to recognition and measurement of credit risk. Net impairment losses and provisions recognised in accordance with IFRS 9 contributed to a PLN 104.2 million increase in costs compared to the figure reported in 2018.

TABLE 25: Statement of profit or loss of the BGK Group (in PLN million)

Item	Performance		Change versus 2018	
	2019	2018	in nominal terms	%
Interest income	953.4	889.1	64.3	7.2%
Fee and commission income	218.6	190.1	28.5	15.0%
Gain/loss on financial instruments at fair value through profit or loss and net exchange differences	119.7	51.2	68.5	133.7%
Gain/loss on investments in financial assets	85.7	60.5	25.2	41.6%
<b>Net banking operations</b>	<b>1,377.4</b>	<b>1,190.9</b>	<b>186.5</b>	<b>15.7%</b>
Other income/expenses	191.8	-31.4	223.2	-711.6%
General administrative expenses	-600.8	-470.3	-130.5	27.8%
Net modification gain/loss	-9.2	-3.4	-5.8	167.5%
Net impairment losses and provisions	-231.4	-127.2	-104.2	81.9%
<b>Operating profit/loss</b>	<b>727.8</b>	<b>558.6</b>	<b>169.2</b>	<b>30.3%</b>
Share of profit or loss of associates	-268.6	43.0	-311.6	-725.0%
<b>Profit before tax</b>	<b>459.2</b>	<b>601.6</b>	<b>-142.4</b>	<b>-23.7%</b>
Income tax	-69.0	-87.5	18.5	-21.2%
<b>Net profit</b>	<b>390.2</b>	<b>514.1</b>	<b>-123.9</b>	<b>-24.1%</b>
<b>Net profit attributable to the owner of the Parent</b>	<b>390.1</b>	<b>514.4</b>	<b>-124.3</b>	<b>-24.2%</b>
<b>Net profit per non-controlling interest</b>	<b>0.1</b>	<b>-0.3</b>	<b>0.4</b>	<b>-123.7%</b>

The following had the greatest impact on net profit compared to the previous year:

- share of profit or loss of associates – down by PLN 311.6 million year on year – drop of the Group's final financial performance in 2019 by PLN 268.6 million,
- year-on-year rise in income from banking activity by PLN 186.5 million, or 15.7%,
- general administrative expenses – up by PLN 130.5 million, or 27.8%, year on year, other operating income/expenses – up by PLN 223.2 million year on year, net impairment losses and provisions – increase in costs by PLN 104.2 million, or 81.9%, year on year.



## Statement of profit or loss

### **Net interest, fee and commission income**

Net interest, fee and commission income for 2019 stood at PLN 1,172.0 million and was PLN 92.8 million, or 8.6%, higher year on year. This was mostly attributable to the increase of the item at BGK by PLN 91.6 million. It was caused primarily by the rise in net interest income earned by BGK by PLN 62.9 million, which was mainly the result of increased lending and deposit activities and an increase in fee and commission income by PLN 28.7 million, or 15.1%, year on year.

### **Net income on financial instruments and investments in financial assets**

Net income on financial instruments and investments in financial assets for 2019 amounted to PLN 205.4 million and was PLN 93.7 million higher compared to the result achieved in 2018. The performance for 2019 was significantly affected by valuation of Margueritte and PGFF funds and dividends received by the Bank in 2019, amounting to PLN 37.0 million, which were PLN 19.6 million higher than a year before.

### **Other operating income and expenses**

Net other operating income for 2019 amounted to PLN 191.8 million and was PLN 223.2 million higher compared to the result achieved in 2018. The main growth drivers were the positive valuation of property investment, a low 2018 base (significant provisions for litigation and claims at BGK), and settlement by BGK of adjustment of valuation of the National Housing Fund's loans.

### **General administrative expenses**

General administrative expenses of the BGK Group in 2019 amounted to PLN 600.8 million and were PLN 130.5 million higher compared to those incurred in 2018. The increase was attributable to higher costs of operations of BGK and other Group entities, which went up by PLN 73.8 million and PLN 56.7 million, respectively. Higher general administrative expenses resulted from continuation of the initiatives designed to improve the efficiency of the Bank's operations and greater scale and commitment in the pursued projects, chiefly as part of the Dwelling for Development Sector Fund.

### **Net impairment losses and provisions**

Net impairment losses and provisions of the BGK Group for 2019 amounted to PLN -231.4 million and were PLN 104.2 million lower compared to the result achieved in 2018. The result was attributable to higher credit exposure and a conservative approach to credit risk as part of the Bank's core activities.

### Share of profit or loss of associates

The share of profit or loss of associates of the BGK Group in 2019 amounted to PLN -268.6 million and was PLN 311.6 million lower compared to that reported for 2018. The change in relation to the previous year resulted from the current valuation of investments implemented by funds managed by PFR TFI S.A.

### Tax expense

Tax expense for 2019 was PLN 69.0 million and was PLN 18.5 million lower compared to 2018.

## 6.2 STATEMENT OF FINANCIAL POSITION OF THE BGK GROUP

The balance sheet total reported in the statement of financial position as at the end of 2019 was PLN 100,521.2 million.

### The BGK Group's assets

The largest component of assets were net credit exposures, with a share of 38.1%, whose carrying amount as at the end of 2019 stood at PLN 38,310.3 million, having increased by 16.7% year on year.

The carrying amount of investments in associates as at the end of 2019 was PLN 3,652.8 million, accounting for 3.6% of total assets.

Changes in the remaining items recognised under assets of the BGK Group were attributable mainly to the management of the liquidity position of BGK as well as changes in prepayments and accruals and settlements.

TABLE 26: Asset structure of the BGK Group (in PLN million)

Item	2019		2018		Change versus 2018	
	Performance	Structure	Performance	Structure	in nominal terms	%
Cash with the Central Bank	22,729.4	22.6%	16,668.9	19.7%	6,060.5	36.4%
Receivables from banks	6,938.7	6.9%	8,365.0	9.9%	-1,426.3	-17.1%
Net credit exposures	38,310.3	38.1%	32,820.6	38.7%	5,489.7	16.7%
Debt instruments and derivatives	19,281.9	19.2%	15,733.5	18.6%	3,548.4	22.6%
Receivables under reverse repurchase agreements	5,301.5	5.3%	3,874.7	4.6%	1,426.8	36.8%
Investments in associates	3,652.8	3.6%	3,883.6	4.6%	-230.8	-5.9%
Other assets	4,306.7	4.3%	3,426.0	4.0%	880.6	25.7%
<b>Total assets</b>	<b>100,521.2</b>	<b>100.0%</b>	<b>84,772.3</b>	<b>100.0%</b>	<b>15,748.9</b>	<b>18.6%</b>

### The BGK Group's liabilities and equity

Liabilities to customers had the largest share in liabilities and equity of the BGK Group, representing 59.4% of total liabilities and equity as at the end of 2019. Liabilities to customers as at the end of 2019 amounted to PLN 59,701.4 million, up by 25.3% year on year. The higher share of liabilities to customers in liabilities and equity, which was up by 3.2 pp, resulted from the rise in liabilities and the balance sheet total of the BGK Group.

The share of total equity of the BGK Group in total liabilities and equity fell by 4.1 pp, to 18.6%, mainly following the transfer by BGK of PLN 500 million to the Polish Science Fund operated by the Bank.

The value of liabilities arising from the issue of securities of the BGK Group amounted to PLN 7,251.5 million as at the end of 2019. As at the end of 2019, liabilities to banks stood at PLN 4,119.6 million.

Changes in the remaining items of liabilities and equity of the BGK Group were attributable mainly to the management of the Bank's liquidity position. With equity totalling PLN 18,653.9 million, the BGK Group has significant potential to boost its lending and investment activity, support the economic growth of Poland in such areas as reindustrialisation and infrastructure investments, and support the foreign expansion of Polish enterprises.

**TABLE 27: Structure of liabilities and equity of the BGK Group (in PLN million)**

Item	2019		2018		Change versus 2018	
	Performance	Structure	Performance	Structure	in nominal terms	%
Liabilities to banks	4,119.6	4.1%	3,879.2	4.6%	240.4	6.2%
Liabilities to customers	59,701.4	59.4%	47,637.3	56.2%	12,064.1	25.3%
Liabilities under securities issued	7,251.5	7.2%	5,787.2	6.8%	1,464.3	25.3%
Liabilities under repurchase agreements	9,113.4	9.1%	5,214.1	6.2%	3,899.3	74.8%
Other equity and liabilities	1,681.4	1.7%	3,020.8	3.6%	-1,339.4	-44.3%
Total equity	18,653.9	18.6%	19,233.7	22.7%	-579.8	-3.0%
<b>Total Liabilities</b>	<b>100,521.2</b>	<b>100.0%</b>	<b>84,772.3</b>	<b>100.0%</b>	<b>15,748.9</b>	<b>18.6%</b>

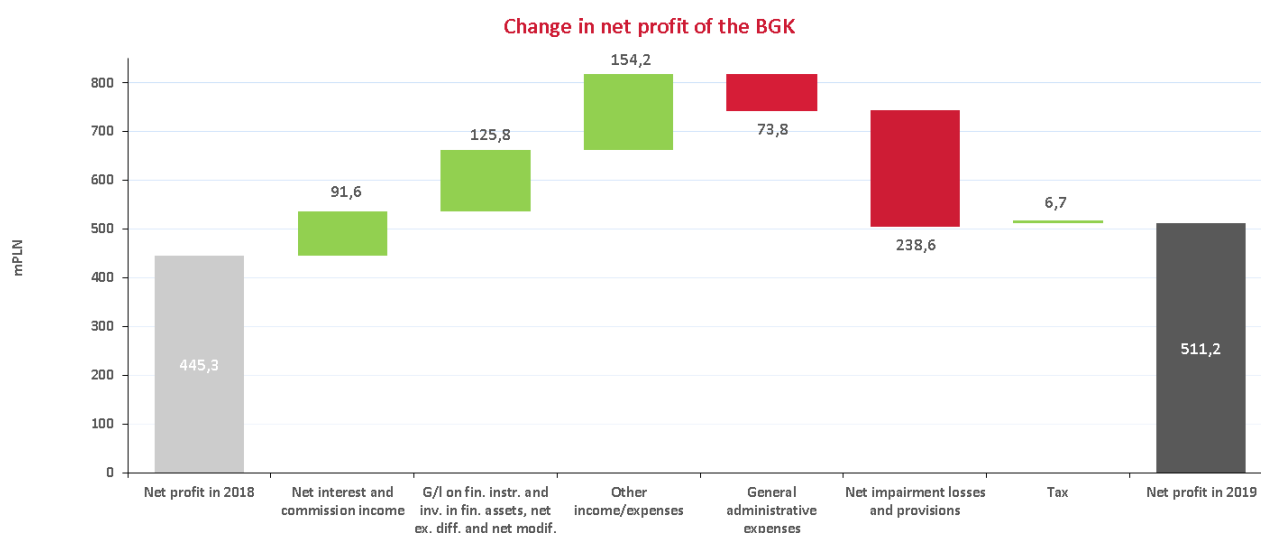
### 6.3 FINANCIAL PERFORMANCE OF BANK GOSPODARSTWA KRAJOWEGO

BGK reported a net profit of PLN 511.2 million for 2019, which was higher by PLN 65.9 million, or 14.8% year on year. The increase was attributable mostly to a PLN 5,473.4 million, or 16.7%, year-on-year rise in net credit exposures and a PLN 12,052.0 million, or 25.2%, year-on-year increase in liabilities to customers. Profit before tax was PLN 578.6 million, up by PLN 59.1 million, or 11.4%, year on year.

**TABLE 28: Statement of profit or loss of BGK (in PLN million)**

Item	Performance		Change versus 2018	
	2019	2018	in nominal terms	%
Interest income	945.7	882.8	62.9	7.1%
Fee and commission income	219.1	190.4	28.7	15.1%
Gain/loss on financial instruments at fair value through profit or loss and net exchange differences	120.1	52.1	68.0	130.6%
Gain/loss on investments in financial assets	111.9	48.4	63.5	131.3%
<b>Net banking operations</b>	<b>1,396.9</b>	<b>1,173.7</b>	<b>223.2</b>	<b>19.0%</b>
Other income/expenses	70.6	-83.6	154.2	-184.5%
General administrative expenses	-475.9	-402.1	-73.8	18.4%
Net modification gain/loss	-9.2	-3.4	-5.8	167.5%
Net impairment losses and provisions	-403.8	-165.2	-238.6	144.5%
<b>Operating profit/loss</b>	<b>578.6</b>	<b>519.5</b>	<b>59.1</b>	<b>11.4%</b>
<b>Profit before tax</b>	<b>578.6</b>	<b>519.5</b>	<b>59.1</b>	<b>11.4%</b>
Income tax	-67.4	-74.1	6.7	-9.0%
<b>Net profit</b>	<b>511.2</b>	<b>445.3</b>	<b>65.9</b>	<b>14.8%</b>

The increase in net profit was mostly driven by income from banking activities, which improved by PLN 223.2 million, or 19.0%, year on year.



### Net interest income

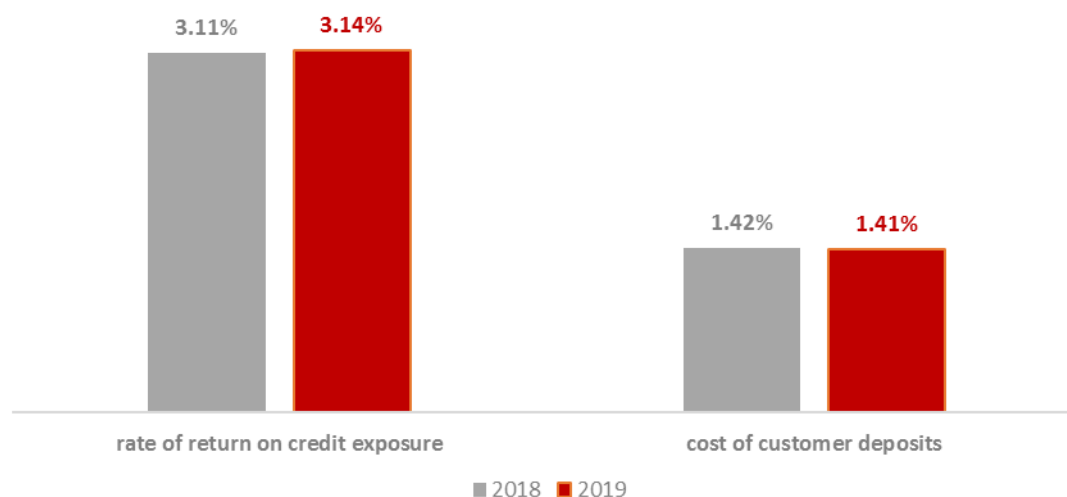
As at the end of 2019, net interest income totalled PLN 945.7 million and went up by PLN 62.9 million (7.1%) compared to the previous year.

The increase in net interest income was primarily attributable to the greater scale of lending and deposit activities.

Relative to 2018, both interest income and expenses increased – by PLN 305.6 million and PLN 242.7 million, or 16.1% and 23.8%, respectively.

The average level of interest-bearing assets was PLN 94.3 billion, having grown by PLN 4.8 billion, or 5.3%, year on year.

The average interest rate on assets in 2019 was 2.19% and was higher by 7bps than that in 2018.



Income on credit exposures represented the largest component of interest income and amounted to PLN 1,284.7 million, up PLN 230.4 million (21.9%) compared to the previous year. The average interest rate on that portfolio was 3.14%, compared to 3.11% for 2018. The average balance of credit exposures went up year on year by 21.0%, from PLN 33.9 billion to PLN 41 billion.

The second largest group of interest-bearing assets was the portfolio of debt securities with an average yield of 1.64% (1.61% in 2018). In 2019, the average balance of debt securities was PLN 36.5 billion, down by PLN 6.4 billion (15.0%) year on year.

The average balance of other interest-bearing assets (BSB, nostro accounts and interbank deposits) in 2019 was PLN 17.0 billion, which means an increase of PLN 4.1 billion (31.8%) on the preceding year.

In 2019, the average balance of interest-bearing liabilities was PLN 79.9 billion, up by PLN 7.7 billion (10.7%) in relation to the previous year.

The rise in interest expenses mainly resulted from the larger scale of operations, with the average interest rate paid at 1.39% (1.38% in 2018).

Customer deposits represented the largest item of interest-bearing liabilities. In 2019, the average balance of customer deposits was PLN 68.6 billion, up by PLN 7.6 billion (12.4%) over 2018. Cost of average interest rate paid to customer deposits was 1bps lower than in 2018.

Interest expenses on liabilities arising from issue of debt securities and loans received went up by PLN 19.2 million, while the average balance of such liabilities was PLN 9.7 billion, up by PLN 0.8 billion (9.6%) year on year.

### Net commission income

Net commission income amounted to PLN 219.1 million and was PLN 28.7 million, or 15.1%, higher year on year. Commission income went up by PLN 31.2 million. The rise was mainly attributable to higher provisions on guarantee commitments, which increased by PLN 20.8 million. In addition, in 2019 BGK generated higher income on fund and programme management (up by PLN 5.0 million). Commission expense grew by PLN 2.5 million.

TABLE 29: Net commission income structure (in PLN million)

Item	Performance		Change versus 2018	
	2019	2018	in nominal terms	%
<b>Net commission income</b>	<b>219.1</b>	<b>190.4</b>	<b>28.7</b>	<b>15.1%</b>
Commission income	232.0	200.8	31.2	15.5%
- on loans and advances and securities operations	53.9	50.4	3.5	6.9%
- on guarantee commitments	84.9	64.1	20.8	32.4%
- on fund and programme management	63.8	58.8	5.0	8.5%
- other commission income	29.4	27.5	1.9	6.9%
Commission expense	12.9	10.4	2.5	23.9%

### Net income on financial instruments and investments in financial assets

As at the end of 2019, dividend income amounted to PLN 37.0 million and was PLN 19.6 million (112.6%) higher over 2018.

Foreign exchange gains amounted to PLN 50.3 million at the end of 2019, having increased by PLN 23.9 million, or 90.5%, year on year.

In 2019, net income on financial instruments grew to PLN 144.7 million, up by PLN 88.0 million, or 155.3%, compared to 2018.

TABLE 30: Net income on financial instruments and investments in financial assets (in PLN million)

Item	Performance		Change versus 2018	
	2019	2018	in nominal terms	%
<b>Gain/loss on financial instruments and investments in financial assets</b>	<b>232.0</b>	<b>100.5</b>	<b>131.5</b>	<b>130.9%</b>
Dividends	37.0	17.4	19.6	112.6%
Foreign exchange gain/loss	50.3	26.4	23.9	90.5%
Gain/loss on instruments	144.7	56.7	88.0	155.3%



## Other operating income / expenses

As at the end of 2019, net other operating income amounted to PLN 70.6 million. The result improved by PLN 154.2 million compared to 2018. The key reason for the difference was the change in provisions for litigation and claims and receivables from sundry debtors recognised by the Bank in 2018, as well as the settlement in 2019 of adjustment in valuation of the National Housing Fund's loans amounting to PLN 93.3 million following the expiry of a potential liability under loan classification.

**TABLE 31: Other operating income and expenses (in PLN million)**

Item	Performance		Change versus 2018	
	2019	2018	in nominal terms	%
<b>Other income/expenses, including:</b>	<b>70.6</b>	<b>-83.6</b>	<b>154.2</b>	<b>-184.6%</b>
balance of provisions for disputes and receivables from sundry debtors	-2.2	-68.1	65.9	-96.7%
revenues from sales, liquidation of fixed assets	2.2	0.0	2.2	>100%
donations	-21.1	-4.0	-17.1	425.9%
other	91.6	-11.4	103.0	-903.5%

## General administrative expenses

In 2019, general administrative expenses totalled PLN 475.9 million, which marks an increase by PLN 73.8 million (18.4%) relative to the previous year.

The rise was caused by continued technological transformation and expenditure incurred on enhancing organisational effectiveness, which corresponded to the growing scale of the Bank's operations. In 2019, BGK also celebrated its 95th anniversary, which helped strengthen the Bank's brand as an institution that effectively supports Poland's economy by implementing key government programmes, which are currently subsidised with EU funds.

A major increase in depreciation and amortisation by nearly 70% resulted from a change in accounting for long-term lease agreements, in particular all property lease agreements, which under IFRS 16 are to be disclosed as operating leases.

**TABLE 32: Costs of operations, depreciation and amortisation (in PLN million)**

Item	Performance		Change versus 2018	
	2019	2018	in nominal terms	%
<b>General administrative expenses</b>	<b>475.9</b>	<b>402.1</b>	<b>73.8</b>	<b>18.4%</b>
Employee benefits	319.8	273.0	46.8	17.1%
Material costs	120.8	108.3	12.5	11.5%
Depreciation and amortisation	35.3	20.8	14.5	69.7%

## Net impairment losses and provisions

As at the end of 2019, net impairment losses and provisions amounted to PLN 403.8 million and changed by PLN 238.6 million year on year.

**TABLE 33: Net impairment losses and provisions (in PLN million)**

Item	Performance		Change versus 2018	
	2019	2018	in nominal terms	%
<b>Net impairment losses and provisions</b>	<b>-403.8</b>	<b>-165.2</b>	<b>-238.6</b>	<b>144.5%</b>
provisions for credit exposures	-95.8	-74.5	-21.3	28.6%
impairment losses on contingent liabilities and guarantees	-132.6	-49.5	-83.1	167.7%
impairment losses on subsidiaries and associates	-175.4	-41.2	-134.2	326.0%

Net impairment losses and provisions reflect the Bank's conservative approach to measurement of credit risk and the impairment loss on Fundusz Inwestycji Polskich Przedsiębiorstw FIZ AN. The impairment loss results from the long-term

decline in the value of part of deposits included in the Fund's portfolio. The factors that mostly contributed to the increase included higher value of the total loan portfolio, higher risk, change of scenarios for some customers and greater exposure to customers with increased credit risk, in particular in the healthcare entities sector.

#### Income tax

Income tax for the 2019 amounted to PLN 67.4 million, down by PLN 6.7 million relative to 2018. The effective tax rate was 11.7% versus 14.3% as at the end of 2018.

## 6.4 STATEMENT OF FINANCIAL POSITION OF BANK GOSPODARSTWA KRAJOWEGO

In 2019, the balance sheet total reported by the Bank was PLN 100,604.2 million. It went up by PLN 15,857.7 million, i.e. 18.7%, year on year. The increase was mainly attributable to:

- increases related to intensification of lending activities,
- higher liquid assets resulting from deposits from central budget units.

An increase in customer deposits was the key factor affecting the rise in the balance sheet total of the Bank.

Net balance-sheet credit exposures increased by PLN 5,473.4 million, i.e. 16.7%, year on year. The growth was mainly attributable to the development of financing for companies.

**TABLE 34: Structure of assets of BGK**

Item	2019		2018		Change versus 2018	
	Performance	Structure	Performance	Structure	in nominal terms	%
Cash with the Central Bank	22,729.4	22.6%	16,668.9	19.7%	6,060.5	36.4%
Receivables from banks	6,846.1	6.8%	7,904.4	9.3%	-1,058.3	-13.4%
Net credit exposures	38,284.9	38.1%	32,811.5	38.7%	5,473.4	16.7%
Debt instruments and derivatives	19,697.9	19.6%	15,734.2	18.6%	3,963.7	25.2%
Receivables under reverse repurchase agreements	5,301.5	5.3%	3,874.7	4.6%	1,426.8	36.8%
Investments in subsidiaries and associates	5,397.5	5.4%	5,556.8	6.6%	-159.3	-2.9%
Other assets	2,347.0	2.3%	2,195.9	2.6%	151.1	6.9%
<b>Total assets</b>	<b>100,604.2</b>	<b>100.0%</b>	<b>84,746.4</b>	<b>100.0%</b>	<b>15,857.9</b>	<b>18.7%</b>

#### Cash and balances with the Central Bank

As at the end of 2019, the balance of deposits with the Central Bank was PLN 22,729.4 million, having increased by PLN 6,060.5 million (36.4%) relative to the end of 2018.

#### Receivables from banks, including in nostro accounts (except cash deposited with the National Bank of Poland)

As at the end of 2019, the portfolio of receivables from banks amounted to PLN 6,846.1 million and was lower by PLN 1,058.4 million, or 13.4%, year on year.

#### Credit exposures

Net credit exposures as at the end of 2019 amounted to PLN 38,284.9 million, i.e. went up by PLN 5,473.4 million (up 16.7%) in relation to the balance as at the end of 2018. The highest increase over the end of 2018, i.e. by PLN 2,131.3 million, was reported for local government units and municipal companies, and by PLN 1,667.6 million for structured financing.

#### Debt instruments and derivatives

This item includes debt securities. As at the end of 2019, the amount of such securities increased year on year by PLN 3,963.7 million, or 25.2%, to PLN 19,697.9 million. As in the previous year, the largest item in this category was treasury bonds accounting for 54.0% of the total.

### Purchase of securities under reverse repurchase agreements

Reverse repurchase agreements totalled PLN 5,301.5 million as at the end of 2019 and were higher by PLN 1,426.9 million (up 36.8%) compared to the end of 2018. The balance of the receivables was related to liquidity operations.

### Investments in subsidiaries and associates

The carrying amount of the portfolio of investments in subsidiaries and associates stood at PLN 5,397.5 million as at the end of 2019, down PLN 159.3 million, or 2.9%, compared to the end of the previous year.

**TABLE 35: Structure of liabilities and equity of BGK**

Item	2019		2018		Change versus 2018	
	Performance	Structure	Performance	Structure	in nominal terms	%
Liabilities to banks	4,119.6	4.1%	3,879.2	4.6%	240.4	6.2%
Liabilities to customers	59,821.3	59.5%	47,769.3	56.4%	12,052.0	25.2%
Liabilities under securities issued	7,251.5	7.2%	5,786.6	6.8%	1,464.9	25.3%
Liabilities under repurchase agreements	9,113.4	9.1%	5,214.1	6.2%	3,899.3	74.8%
Other equity and liabilities	1,623.2	1.6%	2,969.9	3.5%	-1,346.7	-45.3%
Total equity	18,675.2	18.6%	19,127.3	22.6%	-452.1	-2.4%
<b>Total Liabilities</b>	<b>100,604.2</b>	<b>100.0%</b>	<b>84,746.4</b>	<b>100.0%</b>	<b>15,857.8</b>	<b>18.7%</b>

### Liabilities to customers

In 2019, the Bank's deposit base increased by PLN 12,052.0 million (25.2%) year on year, which was chiefly attributable to a higher balance of deposits from enterprises, which went up by PLN 6,932.4 million (43.8%). Central budget units still accounted for the major part of the Bank's deposit portfolio, contributing PLN 27,341.7 million as at the end of 2019, with a 45.7% share in total deposits versus 56.1% a year before.

### Sale of securities under repurchase agreements

Liabilities due to repurchase agreements totalled PLN 9,113.4 million as at the end of 2019 and were PLN 3,899.3 million higher (74.8%) than at the end of 2018. The balance resulted from liquidity management and customer transactions.

### Loans incurred

BGK continued its cooperation with international financial institutions in the area of acquiring loans under the existing agreements.

As at the end of 2019, the balance of loans received from international financial institutions was PLN 3,199.3 million and went up by PLN 300.6 million (10.4%) year on year. The funds secured under the European Investment Bank's (EIB) global loan are used to finance investment projects implemented by local governments, SMEs and mid-caps.

In 2019, as a result of the cooperation with the EIB related to funding secured for the National Road Fund, an agreement was concluded on a EUR 300 million loan for the co-financing of the construction of the last section of the A1 motorway between Tuszyn and Częstochowa (total length of approximately 81 km) and a EUR 270 million loan agreement (Warsaw Approaches II) on the construction and modernisation of several sections of approach roads to Warsaw.

### Issue of bonds

With a view to securing stable sources of funding for its operations, BGK continued its bond programme.

In 2019, two issues of 4-year bonds for an aggregate of PLN 3,850 million were carried out. The bonds bear interest at a floating rate based on 6M WIBOR plus a margin. In 2019, the Bank also redeemed bonds of with a value of PLN 2,392 million. The bonds issued by BGK in 2019 were introduced to trading on the CATALYST market.

**TABLE 36: Bonds issued by the Bank as at 31 December 2019 (in PLN million)**

Own bonds	Issued on	Maturing on	Amount in PLN million	Interest rate
BGK0220	27 Feb 2017	27 Feb 2020	1 159	WIBOR6M + 40 bps
BGK0520	19 May 2017	19 May 2020	1 200	WIBOR6M + 43 bps
BGK0121	25 Jan 2018	25 Jan 2021	500	WIBOR6M + 24 bps
BGK1021	3 Oct 2017	3 Oct 2021	500	WIBOR6M + 42 bps
BGK0223	19 Feb 2019	19 Feb 2023	2 000	WIBOR6M + 45 bps
BGK1023	28 Oct 2019	28 Oct 2023	1 850	WIBOR6M + 40 bps

### Total equity

In the recent years, the Bank maintained a secure and high level of equity enabling it to increase its lending and investing activities. As at the end of 2019, the Bank's total equity (including current and prior year profit) was PLN 18,675.2 million, having dropped by PLN 452.1 million (2.4%) versus the end of 2018. The key driver of the decline was the transfer of PLN 500 million to the Polish Science Fund operated by BGK. On 24 April 2020, the Minister of Finance transferred, free of charge, treasury bonds with a total nominal value of PLN 5 billion to BGK to increase the Bank's statutory capital. The increase is aimed at supporting the implementation government programmes under the so-called anti-crisis shield prepared by the Council of Ministers to counteract the effects of the COVID-19 epidemic and continuing BGK's mission as a development bank supporting the economy.

**TABLE 37: Amount and structure of the Bank's equity (in PLN million)**

Item	2019		2018		Change versus 2018	
	Performance	Composition	Performance	Structure	in nominal terms	%
<b>Total equity</b>	<b>18,675.2</b>	<b>100.0%</b>	<b>19,127.3</b>	<b>100.0%</b>	<b>-452.1</b>	<b>-2.4%</b>
Share capital	16,646.9	89.1%	17,102.4	89.4%	-455.5	-2.7%
Supplementary capital	1,125.6	6.0%	1,032.8	5.4%	92.8	9.0%
Other reserve capitals	232.3	1.2%	232.3	1.2%	0.0	0.0%
Revaluation reserve	159.1	0.9%	257.3	1.3%	-98.2	-38.2%
Prior year profit (loss)	0.1	0.0%	57.1	0.3%	-57.1	-99.9%
Net profit	511.2	2.7%	445.3	2.3%	65.8	14.8%

### Overview of financial performance and financial standing of BGK

The year 2019 saw the Bank's increased activity in the area of providing financing to its customers. The total gross credit exposure (gross loans, commercial and municipal bonds) went up by PLN 5,602.6 million year on year. This was attributable to increased lending to business entities.

As at the end of 2019, the Bank's financial standing was stable and safe, as reflected by its financial performance as well as liquidity and capital adequacy indicators.

## 6.5 RATING OF BGK

On 25 November 2019, the Fitch rating agency upheld the national long-term rating of BGK at AAA(pol) with a stable outlook, and the international long-term rating at A-, also with a stable outlook. The agency also confirmed the short-term foreign currency rating at F2, long-term national currency rating at A- (stable outlook), the support rating at 1 and the minimum support rating at A-. The national short-term rating was confirmed at F1+(pol).

## **7. ORGANISATIONAL STRUCTURE OF THE BANK**

At the end of 2019, the Bank carried out its operations through the Head Office and a network of 16 Regions located across Poland. As at the end of 2019, the Bank operated its foreign representative offices in Brussels, Frankfurt am Main and London.

## **8. CORPORATE SOCIAL RESPONSIBILITY OF BGK**

The Bank develops its corporate social responsibility, including by paying special attention to social responsibility initiatives and taking action to improve the living conditions of the local community. The most important initiatives to support the social development in Poland undertaken by the Bank in 2019 included:

- promoting equal educational opportunities,
- building social capital,
- promoting volunteer work.

### **Sharing knowledge, experience and competences of BGK employees**

As the only development bank in Poland, BGK boasts unique know-how and experience gained in the course of its operations. In 2019, BGK's representatives actively participated in many events, conferences and seminars addressed to private enterprises, local governments and individuals planning to set up a business.

### **BGK's social engagement**

The Bank operates its CSR programmes through the BGK J.K. Steczkowski Foundation. The Foundation's mission is to mobilise and support citizens at various stages of their life. Strategic operations of the Foundation in 2017-2019 focus on promoting equal educational opportunities, supporting individuals aged 50 or more, reinforcing national identity and the sense of community among the youth. The projects were executed with the assistance of volunteers from BGK. The Foundation provided support to children's homes, community centres, hospices, schools, kindergartens and hospital paediatric wards.

### **Effect of activities of the BGK Foundation in 2019:**

- As part of all initiatives and projects carried out in 2019 there were approximately 190,000 beneficiaries of co-financing provided by the BGK Foundation.
- In 2019, co-financing was provided to 48 educational projects for equal education opportunities for children from rural areas and small towns in the 11th edition of grant contest "Off to a Good Start!". The programme had over 5,000 beneficiaries and the total amount of co-financing was nearly PLN 0.5 million.
- In the 3rd and 4th edition of the "Once Upon a Time... Money" programme, 38 economic education projects for children and the youth were co-financed, which were participated by some 860 students and 40 teachers.
- The 2nd edition of the "Small Town" programme covered approximately 1,600 students and volunteers, with a total of nearly 1,200 hours of general education provided. The co-financing provided under the "Small Town" programme totalled approximately PLN 0.8 million.
- In 2019, two editions of the "Generation 5.0" programme were completed, in which co-financing was provided with respect to 48 applications for a total of almost PLN 0.7 million. There were approximately 2,900 beneficiaries of the programme.
- In 2019, the 3rd edition of the "My Little Homeland" programme was held, in which 30 projects received co-financing for a total of about PLN 0.8 million.
- As part of the Bank's social initiatives with the participation of its employees, in the 11th edition of the "Voluntary service is great!" programme 45 social projects received co-financing. The projects were supported by a total of over 780 volunteers, including more than 650 BGK employees. Owing to the engagement of the volunteers, over 6,000 beneficiaries received support for a total of PLN 0.2 million.

- A competition “Quality Label of Social and Solidarity Economy 2019” was held in cooperation with the Ministry of Family, Labour and Social Policy. The total amount of co-financing in the competition was PLN 40 thousand, which was granted in the form of 4 awards of PLN 10 thousand each.
- In the area of health protection and promoting a healthy lifestyle, in 2019 the BGK Foundation engaged in the “Metro Project”. The project was implemented at the Children's Memorial Health Institute in Warsaw, where a communication route was established to facilitate movement around the entire hospital complex. Thanks to modern and easy to understand marking in corridors, on walls and floors, patients and their parents know how to reach a given place in the hospital. Over PLN 160 thousand was designated for that purpose.

### **Equalising educational opportunities**

- *11th and 12th edition of the “Off to a Good Start!” grant contest*

As part of the “Off to a Good Start!” grant contest, the BGK Foundation encourages the beneficiaries of grants to apply innovative methods of working with pre-school and early school age children, which facilitate interaction between children, develop communication and teamwork skills, creativity, initiative, empathy and responsibility, and promote physical activity. In particular, it involves preparation and holding classes for children, purchase of learning aids, purchase of the necessary equipment related to the executed project, expert advice for children and workshops for parents and guardians.

- *Further editions of the “Once Upon a Time... Money” programme*

Since 2017 the BGK Foundation has accepted applications for the “Once Upon a Time... Money” programme. It is addressed to children aged between 3 and 9 and its purpose is to improve awareness of financial matters and introduce the basics of finances, so that children can function better in a modern society. The programme objectives are achieved by giving internally prepared lessons on financial matters to children in specific age groups. The lessons build awareness of, among other things, the value of money, the basics of economy, managing personal finances, the role and function of banks, and critical thinking, and teach how to apply this knowledge in practice and make reasonable consumer decisions.

- *2nd edition of the “Small Town” programme*

In 2019, the BGK Foundation held the 2nd edition of the “Small Town” programme. The project was held in as many as four towns.

“Small Town” is an educational programme developed by the BGK Foundation and addressed to children between 8 to 12 years of age. For five days children are given an opportunity to assume the role of an adult: they work, earn, save and spend money. Through play and action children learn the value of money, how to manage their budget, and how the economy works.

Children as residents of a “Small Town” participate in educational workshops organised by local entrepreneurs.

### **Initiatives addressed to persons over 50**

- *2nd edition of the “Generation 5.0” programme*

“Generation 5.0” is a programme addressed to persons over 50 years of age, intended to improve their social, technological and physical activity, prevent their exclusion and set new development paths for them. The programme involves cyclical courses, workshops or classes, e.g. in financial matters, language courses, workshops on digital skills, professional development courses, group rehabilitation or physiotherapy etc.

## My Little Homeland

- *3rd edition of the "My Little Homeland" programme*

In 2019, the Bank held the 3rd edition of the "My Little Homeland" programme. The programme is aimed at co-financing initiatives improving the infrastructure of local communities and activating them to work for the common good in the local environment, design public space and improve its visual appearance and functionality and modernise it. Under the programme, co-financing is awarded also for activities which foster local patriotism, commemorating local heroes and historical events, as well as initiatives supporting sports, recreation and educational centres.

## Education supporting citizenship and patriotism

- *The "Quality Label of Social and Solidarity Economy 2019" contest*

In 2019, the BGK Foundation engaged in the project "System of certification with quality labels for social economy entities and local government units", implemented by the Ministry of Family, Labour and Social Policy and co-financed from EU funds under Measure 2.9 of the Knowledge, Education and Development Operational Programme. As part of the project the "Quality Label of Social and Solidarity Economy 2019" contest was held.

## Social initiatives implemented with the participation of Bank employees

- *The "Voluntary service is great!" programme*

The programme of voluntary employee service has been conducted at Bank Gospodarstwa Krajowego since 2009. Its key element is the "**Voluntary service is great!**" contest. In the contest, BGK employees may submit their own social projects addressing local problems and needs that they have identified.

- *"Good – Pay it Forward!"*

In 2019, the BGK Foundation organised 12 projects under the "Good – Pay it Forward!" programme. Voluntary work for various entities was performed by a total of 12 divisions, departments and offices of Bank Gospodarstwa Krajowego.

- *Volunteer work campaigns*

In 2019, the BGK Foundation in partnership with the employees of Bank Gospodarstwa Krajowego organised six volunteer work campaigns:

- sale of Easter and Christmas cards,
- collection of hygiene products, foodstuffs and household chemicals for people in need,
- "Back to School" volunteer work campaign,
- collection of diapers and wet wipes for the Pre-Adoption Centre in Otwock,
- "Making Little Wishes Come True."

Moreover, in 2019 the Foundation held two economic conferences under the name "Bank Horizons". The project is implemented jointly by the BGK Foundation and BGK Regions. Its participants include the representatives of the Foundation's and BGK's Management Board as well as invited special guests. The meeting is an inspiration for young people in choosing their career and personal development path. In 2019, the workshops attracted more than 240 students and teachers. Conferences were held in Łódź and Kraków. They were positively received and attracted great interest.

## **9. HR POLICY PURSUED BY BGK**

### **Employment**

As at 31 December 2019, the headcount at BGK was 1,708 FTEs. Compared to the end of 2018, the number of FTEs increased by 97 (i.e. by 6.0%). The growth in FTEs was observed mainly in the markets and finance area, risk management area, and strategic management area.

The headcount at the BGK Group was the same as at the Bank.

### **Remuneration system**

The Bank pursues a remuneration policy compliant with its strategy and values. The remuneration policy meets legal requirements, compliance principles and external guidelines and regulations which BGK is obliged to follow.

The primary internal regulation in the area of the remuneration policy applicable to BGK employees is the "Remuneration Rules for Employees of Bank Gospodarstwa Krajowego", which sets out the terms of employee remuneration and award of other work-related benefits. In 2019, the remuneration rules was amended in the part relating to the bonus system. The most important change involved linking the amount of the bonus with the annual evaluation of an employee.

BGK has adopted a remuneration system that includes base remuneration and variable remuneration components. It is a consistent set of key employee remuneration tools and standards. Additionally, BGK offers other non-cash benefits.

For more than two years the Bank has adjusted salaries to match remuneration offered by the Bank with that paid in the financial sector and to ensure that its amount does not constitute an incentive to take excessive risks in BGK's operations.

The Bank keeps a list of persons whose professional duties have a significant impact on the risk profile of BGK. The principles that govern the award and payment of variable remuneration to those employees are regulated in the "Policy governing variable remuneration components of employees identified to have a significant impact on the risk profile of Bank Gospodarstwa Krajowego".

At the same time, the principles that govern the remuneration of persons serving as Members of the Management Board are based on the Act on Rules of Remunerating Persons Who Manage Certain Companies of 9 June 2016.

### **Employee development**

In 2019, staff development policy in the Bank was carried out in the form of development projects, closed (external and internal) training courses, open training courses, language classes and post-graduate studies. The majority of training and development activities were held in the form of closed sessions. This form makes it possible to adapt the training programme specifically to the needs of the Bank's employees and to manage funds effectively, allowing more people to receive training.

For the first time, all employees of the Bank were covered by the programme "Many roles – one life", whose purpose has been to provide inspiration to seek balance between professional and personal life, motivate to pursue personal development and care for near relatives. In 2019, we launched the mentoring academy "Symphony of inspirations" to build a consistent organisational culture, support knowledge sharing and motivate to personal development. The academy is addressed to future leaders, persons with a C+ rating, and persons being prepared to the succession programme. As part of the mentoring academy a certification project covering all mentors was carried out.

Employees in the risk area and the sales and products area participated in the Loan Academy, which involved, among other things, a series of trainings on analysis and assessment of credit standing of enterprises, local government units and SHA. Participation in these trainings was one of the elements required for certification of credit skills by BGK.

In 2019, managers participated in development activities based on leadership skills (coaching management style, emotional intelligence, motivating and building committed teams, building trust quickly, public speeches – elements of



team meetings). The initiatives included: Leadership GRID, Aware Leadership, Maxwell's Leadership Academy, Manager's Handbook, and Manager's ABCs. In addition, we have carried out a 360-degree feedback process for the Management Board and managing directors.

Employees on expert positions participated in a number of general development training courses, which covered five training areas: emotional intelligence, personal effectiveness, communication, creativity, and presentation skills.

In 2019, for the fourth time an employee satisfaction survey was conducted to analyse employee opinions and insights on the Bank's employer brand.

In 2019, the Work Evaluation Process was linked with the bonus system for the first time. The employee evaluation process was extended by adding a preliminary evaluation, a tool available to managers to prepare them for calibration of evaluations and ensuring consistency and objectivity.

### Diversity policy

The Bank follows diversity management principles in its recruitment practices and ensures equal treatment of staff. In line with BGK's Work Rules, Bank employees are treated equally with respect to commencing and terminating employment, employment terms, promotion, access to training and development, irrespective of their sex, age, disability, race, religion, nationality, political beliefs, trade union membership, ethnic identity, religion, sexual orientation or employment contract (for a limited or unlimited term, full-time and part-time contract). Employees have the right to equal remuneration for the same job or its equivalent. In 2018, the resolution of the Management Board introducing the employee relations policy "Respect in the workplace" entered into force.

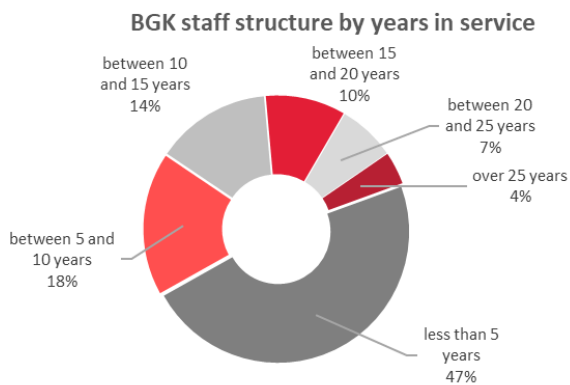
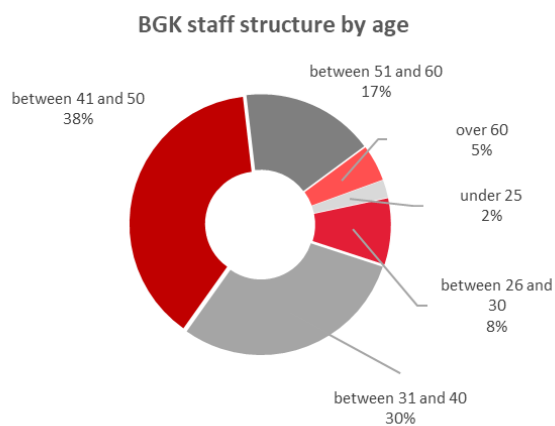
The Bank's staff are diverse in terms of sex, age, experience and education both at the executive and less senior levels. Statistical data as at 31 December 2019 is presented below.

**TABLE 38: BGK's staff structure by age**

	under 25	between 26 and 30	between 31 and 40	between 41 and 50	between 51 and 60	over 60
Management staff		3	57	164	60	16
Other staff	39	143	464	506	232	64
<b>TOTAL</b>	<b>39</b>	<b>146</b>	<b>521</b>	<b>670</b>	<b>292</b>	<b>80</b>

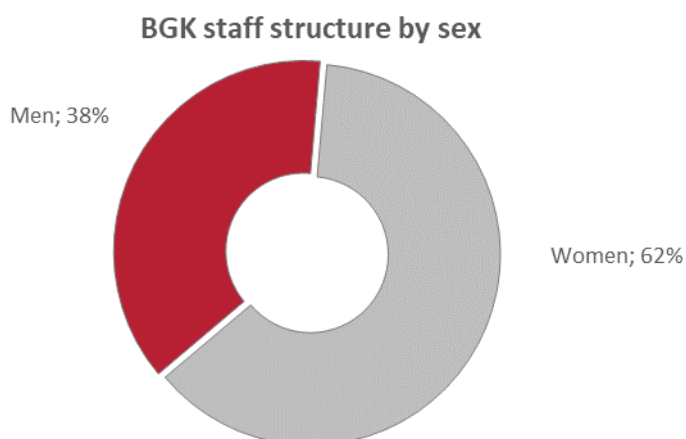
**TABLE 39: BGK's staff structure by length of service**

	less than 5 years	between 5 and 10 years	between 10 and 15 years	between 15 and 20 years	between 20 and 25 years	over 25 years
Management staff	120	55	48	42	19	16
Other staff	709	252	199	130	104	54
<b>TOTAL</b>	<b>829</b>	<b>307</b>	<b>247</b>	<b>172</b>	<b>123</b>	<b>70</b>



**TABLE 40: BGK's staff structure by sex**

	Women	Men	Total
Management staff	137	163	300
Other staff	955	493	1,448
<b>TOTAL</b>	<b>1,092</b>	<b>656</b>	<b>1,748</b>



## **10. AUDITOR OF THE FINANCIAL STATEMENTS**

Details of the audit agreement date and the auditor's fees are presented in Note 51 to the separate financial statements of Bank Gospodarstwa Krajowego for 2019.

## **11. DISCLOSURES REQUIRED UNDER BANKING LAW SUBJECT TO AUDIT BY AN AUDITOR**

In performance of the requirements of Article 111a of the Banking Law (Journal of Laws of 2018, item 2187, as amended), BGK reports that:

- Bank Gospodarstwa Krajowego acts only on the territory of the Republic of Poland as the only state-owned Bank and does not have any foreign subsidiaries,
- BGK did not enter into an agreement referred to in Article 141t.1 of the Banking Law,
- in accordance with its financial statements, in 2019 the Bank's turnover, (calculated as the total of interest income, commission income, net gain on financial instruments at fair value through profit or loss, net exchange differences, and net gain on investments in financial assets) was PLN 2,672.3 million, profit before tax amounted to PLN 578.6 million, and income tax totalled PLN 67.4 million,
- as at the end of December 2019, headcount at the Bank was 1,708 FTEs,
- the Bank did not receive any financial support from public funds under the Act on Support from the State Treasury to Financial Institutions of 12 February 2009 (Journal of Laws of 2016, item 1436).

The above information was audited by an auditor.

## **12. NON-FINANCIAL STATEMENT**

As an entity operating as a state bank, Bank Gospodarstwa Krajowego does not submit a non-financial statement as part of the report of the Management Board on its activities in accordance with Article 49b.1 of the Accounting Act (Journal of Laws of 2019, item 351, as amended).

## **13. STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RULES**

### **13.1 GENERAL RULES**

Bank Gospodarstwa Krajowego complies with the "Principles of Corporate Governance for Supervised Institutions" of the Polish Financial Supervision Authority, which entered into force on 1 January 2015. The corporate governance framework of BGK is defined by other external legal acts:

- the Act on Bank Gospodarstwa Krajowego of 14 March 2003,
- the Articles of Association of Bank Gospodarstwa Krajowego, attached as an appendix to the Regulation of the Minister of Development of 16 September 2016 on the adoption of the Articles of Association of Bank Gospodarstwa Krajowego,
- the Banking Law of 29 August 1997,
- the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed procedure for measuring internal capital in banks,
- Resolution No. 141/2017 of the Polish Financial Supervision Authority of 25 April 2017 on the issue of Recommendation H concerning the internal control system in banks,

In accordance with the Principles of the Polish Financial Supervision Authority, BGK became a state bank whose sole owner is the State Treasury with the following specifications:

- no General Meeting and no candidates appointed from among minority interests;

- additional activity of members of the management and supervisory bodies regulated by separate legislation;
- the Bank does not offer any services consisting in asset management at the risk of the customer.

### **13.2 TASKS, SCOPE OF BUSINESS AND ORGANISATION OF BGK**

The Act on Bank Gospodarstwa Krajowego sets out the tasks, scope of business and organisation of BGK. The key objectives of BGK's activities, as defined in the Act on Bank Gospodarstwa Krajowego and separate legislation, include supporting the economic policy of the Council of Ministers, social and economic government programmes, as well as local government and regional development programmes, in particular:

- projects financed by EU funds and international financial institutions, as defined by Article 4.1.3 of the Banking Law of 29 August 1997;
- infrastructure projects;
- projects related to the development of the small and medium-sized enterprise sector, including those financed with public funds.

BGK's tasks include:

- performance of activities specified in the Banking Law of 29 August 1997;
- administration of funds established, entrusted or transferred to BGK under separate legislation;
- management of export transactions with the use of export support instruments, and supporting exports of Polish goods and services under separate legislation or in performance of government programmes;
- performance of activities related to credit institutions which were liquidated or regarded as liquidated under three acts (decrees) of 25 October 1948;
- offering, directly or indirectly, guarantee and/or surety services under government programmes or on behalf of and for the account of the State Treasury in accordance with the Act on Sureties and Guarantees Granted by the State Treasury and Certain Legal Persons, dated 8 May 1997, in particular to the small and medium-sized enterprise sector;
- issuing declarations which have the power of official documents and enable the deletion of entries made in Sections III and IV of Land and Mortgage Registers or document sets for:
  - credit institutions which were liquidated or regarded as liquidated under the decrees referred to above;
  - the State Treasury in relation to:
    - purchases of land and property from the National Land Fund established under the Decree of 6 September 1944 on the Agrarian Reform;
    - credit facilities and loans advanced between 1945 and 1990 for the purpose of demolition, repair and completion of construction, superstructures, renovation and reconstruction of buildings, sale of development land and sale of single- and multi-family residential buildings by the state;
    - the State Treasury or entities whose successor is the State Treasury, made before 1 September 1939;
- supporting residential construction, in particular construction designed to build apartments for rent, in accordance with separate legislation or under government programmes.

The Bank may also fulfil the function of a body implementing a financial instrument or a fund of funds as referred to in Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.

The Articles of Association of BGK are adopted by way of a regulation by the Minister of Economy. In particular, the Articles of Association of BGK set out the internal organisation and a detailed scope of the Bank's activities, detailed roles of the Supervisory Board and the Management Board, powers and duties of the President of the Management Board, the Bank's own funds and its financial management principles.

The Act on Bank Gospodarstwa Krajowego and the Articles of Association of BGK ensure the division of duties between the Supervisory Board, which is a supervisory body, and the Management Board, which is a managing body of the Bank.

Unless otherwise provided for by the applicable laws, the activities of the Bank are governed by the Banking Law of 29 August 1997.

### **13.3 COMPOSITION AND RULES OF BGK'S GOVERNING BODIES AND COMMITTEES, REPRESENTATION AND POWERS VESTED IN THE PRESIDENT OF THE MANAGEMENT BOARD**

The Management Board and the Supervisory Board are the Bank's governing bodies.

The representation method is defined by the Act on Bank Gospodarstwa Krajowego and the Articles of Association of BGK, whereby declarations concerning the financial rights and obligations of the Bank may be made by:

- two members of the Management Board acting jointly;
- attorneys-in-fact – within the scope of their powers of attorney, acting independently or jointly with another attorney-in-fact or a member of the Management Board.

#### **Supervisory Board**

The Supervisory Board exercises permanent supervision of the activities of BGK in all areas of its operations. The term of office of the Supervisory Board is four years. The 9th term of office of the Supervisory Board began on 1 September 2016.

In accordance with the Act on BGK, as at 31 December 2019 the Supervisory Board was composed of 12 members, including the Chairperson, appointed from among the persons with appropriate qualifications (Act Amending the Act on Branches of the Government Administration and Certain Other Acts, dated 23 January 2020, introduced changes in, among other things, the Act on Bank Gospodarstwa Krajowego of 14 March 2013 related to increasing the composition of the Bank's Supervisory Board from 12 to 14 members). Candidates for the BGK Supervisory Board must be approved by the Council for Companies with State Treasury Shareholding and State Legal Persons operating at the Chancellery of the Prime Minister of Poland. The Chairperson of the Supervisory Board is appointed and removed from office by the President of the Council of Ministers at the request of the Minister of Economy. The remaining members of the Supervisory Board are appointed and removed from office by the President of the Council of Ministers at the request of the competent ministers. A member of the Supervisory Board may not be a member of the Management Board.

Information on the current composition of the Supervisory Board is available at [www.bgk.pl](http://www.bgk.pl).

Meetings of the Supervisory Board are held when needed but at least each quarter. Resolutions of the Supervisory Board are adopted by absolute majority of votes in the presence of at least a half of its members, including the Chairperson or a member of the Supervisory Board acting as a Deputy Chairperson on a permanent basis. Resolutions of the Supervisory Board are provided to the Management Board for implementation or for information purposes.

Composition of the Supervisory Board as at 31 December 2019 was as follows:

- Paweł Borys – Chairman;
- Beata Gorajek – Deputy Chairwoman;
- Jarosław Nowacki – Secretary;
- Artur Adamski – Member;
- Daniel Bieszczad – Member;
- Mariusz Gruda – Member;
- Zbigniew Krysiak – Member;
- Adam Rudzewicz – Member;
- Jan Filip Staniłko – Member;
- Jerzy Szmit – Member;
- Łukasz Robert Śmigasiewicz – Member;

- Magdalena Tarczewska-Szymańska – Member.

The table below presents the composition of the Bank's Supervisory Board and information on the term of office and remuneration of the Supervisory Board members in 2019.

**TABLE 41: Supervisory Board of BGK in 2019**

Full name	Term in office in the Supervisory Board	Position in the Supervisory Board	remuneration in PLN
Paweł Borys	01.01.2019 – 31.12.2019	Chairman	100,411
Kamil Mrocza	01.01.2019 – 27.02.2019	Deputy Chairman	15,974
Beata Gorajek	01.01.2019 - 13.03.2019	Member	99,487
	14.03.2019 - 31.12.2019	Deputy Chairman	
Jarosław Nowacki	01.01.2019 – 12.12.2019	Secretary	100,411
Artur Adamski	01.01.2019 – 31.12.2019	Member	100,411
Daniel Bieszczad	24.09.2019 - 31.12.2019	Member	24,632
Mariusz Gruda	01.01.2019 – 31.12.2019	Member	95,847
Zbigniew Krysiak	24.09.2019 – 31.12.2019	Member	24,632
Adam Rudzewicz	12.06.2019 - 31.12.2019	Member	50,446
Jan Filip Staniłko	01.01.2019 – 31.12.2019	Member	100,411
Łukasz Robert Śmigasiewicz	01.01.2019 – 31.12.2019	Member	100,411
Jerzy Szmit	01.01.2019 – 31.12.2019	Member	95,847
Magdalena Tarczewska-Szymańska	22.02.2019 - 31.12.2019	Member	77,971

Mateusz Morawiecki, the President of the Council of Ministers, appointed the following persons as Members of the BGK Supervisory Board:

- Ms Magdalena Tarczewska-Szymańska as of 22 February 2019,
- Mr Adam Rudzewicz as of 12 June 2019,
- Mr Zbigniew Krysiak and Mr Daniel Bieszczad as of 24 September 2019.

On 28 February 2019, Mr Kamil Mrocza resigned from his position on the Supervisory Board.

#### *Remuneration of Members of the BGK Supervisory Board*

Members of the Supervisory Board of Bank Gospodarstwa Krajowego are remunerated in accordance with Article 10.1.5 of the Act on Rules of Remunerating Persons Who Manage Certain Companies (Journal of Laws of 2016, item 1202) and the Declaration of the Minister of Development and Finance of 14 October 2016 on remuneration of Members of the Supervisory Board of Bank Gospodarstwa Krajowego.

#### **Management Board**

The basis and the scope of functions of the Management Board are set out in the Act on Bank Gospodarstwa Krajowego, the Articles of Association of BGK, the Banking Law and the Rules of the BGK Management Board approved by a resolution of the Supervisory Board. The Management Board has the power to decide on any matters related to the management of BGK, except those which have been assigned to the Supervisory Board and President of the Management Board. The term of office of the Management Board is five years.

In accordance with the Act on Bank Gospodarstwa Krajowego, the Management Board is composed of six members, including the President, First Vice-President and Vice-President. The President, First Vice-President, Vice-President, and the remaining members of the Management Board are appointed and removed from office by the President of the Council of Ministers at the request of the competent ministers. In addition, the appointment of the President of the Management Board and one member of the Management Board entrusted with the management of risk relevant to

the operations of BGK must be approved by the Polish Financial Supervision Authority. The provisions of Articles 22a.2 and 22b of the Banking Law of 29 August 1997 apply accordingly.

The Management Board holds meetings in accordance with the schedule of Management Board meetings or as needed. The schedule of Management Board meetings is determined at the end of each year and specifies planned meeting dates. The Management Board adopts resolutions at its meetings or in writing. In both cases resolutions may be passed using means of remote communication. Resolutions of the Management Board are passed by a simple majority of votes in the presence of at least a half of its members. In the case of a tied vote, the President of the Management Board or, if absent, the First Vice-President has the casting vote.

Mr Wojciech Hann tendered his resignation as Member of the Management Board with effect from 29 November 2019. The table below presents the composition of the BGK Management Board and the terms of office of its members.

**TABLE 42: Composition of the BGK Management Board in 2019**

<b>Full name</b>	<b>Term in office in the Management Board</b>	<b>Position in the Management Board</b>
Beata Daszyńska-Muzyczka	01.01.2019 - 31.12.2019	President of the Management Board
Paweł Nierada	01.01.2019 - 31.12.2019	First Vice-President of the Management Board
Włodzimierz Kocon	01.01.2019 – 31.12.2019	Vice-President of the Management Board
Przemysław Cieszyński	01.01.2019 - 31.12.2019	Members of the Management Board
Wojciech Hann	01.01.2019 - 28.11.2019	Members of the Management Board
Radosław Kwiecień	01.01.2019 - 31.12.2019	Members of the Management Board

Information on the current composition of the Management Board is available at [www.bgk.pl](http://www.bgk.pl).

The President of the Management Board represents the Bank in relations with third parties, chairs Management Board meetings, organises the activities of the Bank and ensures that resolutions of the Management Board are enforced. All BGK employees report to the President of the Management Board. The powers vested in the First Vice-President, the Vice-President and members of the Management Board are defined in the Act on Bank Gospodarstwa Krajowego.

#### *Remuneration of Members of the BGK Management Board*

Members of the BGK Management Board are remunerated in accordance with the Act on Rules of Remunerating Persons Who Manage Certain Companies of 9 June 2016 (consolidated text: Journal of Laws of 2019, item 1885, as amended), the Declaration of the Minister of Development and Finance on remuneration of Members of the Management Board of Bank Gospodarstwa Krajowego of 14 October 2016, and the Rules of Remuneration of Members of the Management Board of BGK, attached as an appendix to Resolution No. 57/2016/IX of the Supervisory Board dated 3 November 2016, as amended, and the “Policy governing variable remuneration components of employees identified to have a significant impact on the risk profile of Bank Gospodarstwa Krajowego” implemented under Resolution No. 42/2018/IX of the BGK Supervisory Board of 13 December 2018.

The table below presents the remuneration of Members of the Management Board.

**TABLE 43: Remuneration of Members of the BGK Management Board in 2019 (in PLN)**

Full name	Position held in 2018	Base pay	Supplementary pay**
Beata Daszyńska-Muzyczka	President of the Management Board	792,000	470,400
Paweł Nierada	First Vice-President of the Management Board	624,000	381,867
Włodzimierz Kocon	Vice-President of the Management Board	624,000	381,867
Przemysław Cieszyński	Members of the Management Board	624,000	355,659
Wojciech Hann	Members of the Management Board	624,000	381,867
Radosław Kwiecień	Members of the Management Board	624,000	374,400
<b>RAZEM</b>		<b>3,912,000</b>	<b>2,346,060</b>

\* Members of the Management Board of BGK are remunerated in accordance with the Act on Remuneration of the Management of Certain Entities of 9 June 2016 (Journal of Laws of 2016, item 1202, as amended), the Declaration of the Minister of Development and Finance of 14 October 2016 on remuneration of Members of the Management Board of Bank Gospodarstwa Krajowego as well as the Rules of Remuneration of Members of the Management Board of BGK, attached as an appendix to Resolution No. 57/2016/IX of the Supervisory Board dated 3 November 2016, as amended, and the Policy governing variable remuneration components of employees identified to have a significant impact on the risk profile of BGK.

\*\* Part of supplementary remuneration for 2017 awarded in 2019 and the third instalment of deferred supplementary remuneration for 2016 awarded in 2017 were paid in 2019.

The Supervisory Board and the Management Board of Bank Gospodarstwa Krajowego have established committees which perform control or advisory and review functions. Committees set up by the Supervisory Board:

- Audit Committee;
- Risk Committee;
- Remuneration Committee.

On 17 January 2020, the Supervisory Board passed Resolution No. 1/2020/IX to extend the scope of competence of the Remuneration Committee and change its name to the Remuneration and Nomination Committee.

Within its competence, the Management Board has set up two obligatory committees: the Asset and Liability Committee and the Credit Committee, in addition to six committees in charge of specific areas of the activities pursued by BGK, namely the Operational Risk and Internal Control Committee, Change Committee, Architecture Committee, Expenditure Authorisation Committee, Data Quality Management Committee, and Model Management Committee. These Committees are collegial bodies that carry out review and decision-making functions and whose composition and duties are set out by way of a resolution of the Management Board. The Committees operate based on their respective Rules adopted by the Management Board.

#### Audit Committee

The Audit Committee was established in December 2007 by a Resolution of the Supervisory Board of the Bank. Its members are appointed from among Members of the Supervisory Board. As at 31 December 2019, the Audit Committee was composed of five Members of the Supervisory Board. In accordance with the Act on Statutory Auditors, Audit Firms and Public Supervision of 11 May 2017:

- three Supervisory Board Members appointed as members of the Audit Committee met the independence criteria, i.e. Jarosław Nowacki, Beata Gorajek and Łukasz Śmigasiewicz,
- three Supervisory Board Members met the criterion of possessing the knowledge and skills in accounting or audit of financial statements, i.e. Jarosław Nowacki, Mariusz Gruda and Łukasz Śmigasiewicz,
- four Supervisory Board Members met the criterion of possessing the knowledge of the industry, i.e. Jarosław Nowacki, Mariusz Gruda, Jan Filip Staniłko and Beata Gorajek.

The Bank assessed whether the Supervisory Board Members meet the criteria of possessing the knowledge and skills in accounting or audit of financial statements and the knowledge of the industry based in the information included in the "Survey of independence and qualifications of Members of the Supervisory Board of Bank Gospodarstwa Krajowego" regarding their education, completed training and professional experience.



In particular, the Committee's duties are:

- to supervise the organisation of the internal audit function and compliance function at the Bank,
- to monitor the financial reporting process, the management reporting process and audit procedures at BGK,
- to monitor the area of internal control and risk management systems at BGK,
- to develop an audit firm selection policy, policy governing the performance of any additional non-audit services by entities related to the audit firm and by a member of the audit firm's network, and the procedure to be followed by BGK when selecting an audit firm,
- to control and monitor the independence of the audit firm and certified auditor.

A detailed scope of duties of and procedures followed by the Audit Committee are defined in the Rules of the Audit Committee adopted by the Supervisory Board.

In 2019, the Audit Committee did not approve the provision of, nor engage the auditor of BGK's financial statements to perform, permitted non-audit services.

In 2019, eight meetings of the Audit Committee and four joint meetings of the Audit Committee and the Risk Committee were held and one procedure was carried out in writing.

### **Risk Committee**

The Risk Committee was established in December 2015 by a Resolution of the Supervisory Board of the Bank. Its members are appointed from among members of the Supervisory Board of the Bank. The Committee is composed of three to five members.

In particular, the Committee's duties are:

- to review overall current and future readiness of BGK to accept risk,
- to review the strategy for risk management at BGK developed by the Management Board,
- to review the information provided by the Management Board on the implementation of policies governing the management of specific risks,
- to support the Supervisory Board in supervising the implementation of the strategy for management of risks inherent in the operations of BGK by the senior management,
- to review reports on the prices of assets and liabilities on a periodic basis in the context of the Bank's multi-annual development plan and the risk management model.

### **Remuneration Committee**

The Remuneration Committee was established in February 2013 by a Resolution of the Supervisory Board. Its members are appointed from among members of the Supervisory Board. The Committee is composed of three to five members.

In particular, the Committee's duties are:

- monitoring of and issuing opinions on:
  - the policy for variable components of remuneration for persons whose professional activity has a significant impact on the Bank's risk profile,
  - the list of employees identified to have a significant impact on the risk profile at BGK,
  - variable components of remuneration for persons whose professional activity has a significant impact on the Bank's risk profile, who are responsible for level two risk management, holding positions or operating within organisational units that were created specifically for this purpose, for management of the compliance unit and for management of the internal audit unit,
- preparation of recommendations for the Management Board and the Supervisory Board regarding the remuneration package and amounts of remuneration for persons responsible for management of the internal audit unit and the compliance unit,
- assessment of the achievement of management goals by the Management Board and presentation of recommendations concerning payment of variable remuneration components to the Supervisory Board,

- issuing opinions on agreements on the provision of management services or other agreements under the civil law executed with Management Board Members.

### **Asset and Liability Committee**

The primary objective of the Asset and Liability Committee is to determine the current, mid-term and long-term asset and liability management policy of the Bank. Its purpose is to optimise the Bank's performance and the efficiency of capital allocation, while considering an appropriate level of the exposure to banking risk and the nature of tasks fulfilled by the Bank with respect to the administration of funds established, entrusted or transferred to the Bank under separate legislation or other legal acts.

The Committee also acts as the Investment Policy Committee, whose responsibilities include issuing opinions on and monitoring of investments to protect the nature and level of the accepted risk and their compliance with the Investment Strategy and Investment Policy. The Investment Policy Committee approves all high-value investments and investments generating a high risk.

### **Credit Committee**

The scope of competence of the Credit Committee covers activities exposed to credit risk that are pursued by BGK under its own activities or under activities commissioned to BGK, in particular those that concern making decisions regarding loan applications, applications for restructuring or debt collection operations and the acquisition of assets that fall within the committee's competence, as well as the performance of quarterly loan portfolio reviews and taking action in the area of rating model management.

### **Operational Risk and Internal Control Committee**

The Operational Risk Committee was established with a view to ensure effective management of operational and compliance risk and the control function in the organisation. The Committee carries out review and decision-making functions.

### **Change Committee**

The primary objective of the Committee is to manage the portfolio of projects (including projects, programmes and initiatives) within its competence, in particular to ensure that projects are implemented in accordance with the Bank's Strategy.

### **Architecture Committee**

The objective of the Architecture Committee established in 2017 is to ensure effective and efficient IT infrastructure management at BGK.

### **Expenditure Authorisation Committee**

The primary objective of the Expenditure Authorisation Committee is to ensure the high cost efficiency of current activities and projects supporting the implementation of the Bank's Strategy.

### **Data Quality Management Committee**

The Data Quality Management Committee was established to ensure effective and efficient management of data quality and to build an organisational culture in which special attention is given to ensuring proper quality of data entered to and processed in IT systems. The Committee carries out review and decision-making functions.

## **Model Management Committee**

The overriding objective of the Committee is to supervise and control all models at BGK, including to take actions in the area of model management and reporting model risks to the Bank's Management and Supervisory Boards and the Risk Committee. It was established in January 2019.

## **13.4 INTERNAL CONTROLS, RISK AND CAPITAL MANAGEMENT AND FINANCIAL REPORTING AT THE BANK**

### **Internal control system**

BGK has an internal control system in place, whose objective is to ensure operational effectiveness and efficiency, reliability of its financial reporting, compliance with risk management policies as well as conformity with the applicable laws, internal regulations and market standards. The internal control system also encompasses the functioning of subsidiaries and third parties, to whom the Bank has entrusted the performance of banking operations and activities related to banking operations.

The internal control system at BGK is organised around three independent levels (lines of defence):

- the first level (first line of defence) comprises the operational risk management,
- the second level (second line of defence) comprises:
  - risk management by employees at positions or in organisational units established specifically for that purpose, independent from the risk management under the first line of defence,
  - activities of the Compliance Department,
- the third level (third line of defence) comprises operations carried out by the Internal Audit Department.

The internal control system is governed by the BGK Internal Control Rules adopted by the Management Board and subsequently approved by the Supervisory Board. The Rules were drafted in accordance with the Banking Law, the Act on Bank Gospodarstwa Krajowego, the Regulation of the Minister of Development and Finance regarding the risk management system and internal control system, remuneration policy and detailed procedure for measuring internal capital in banks, dated 6 March 2017, Resolution No. 141/2017 of the Polish Financial Supervision Authority on the issue of Recommendation H concerning the internal control system in banks, and international standards and best practices. The BGK Internal Control Rules are supplemented by the Principles of organising the control function at BGK.

The Rules define the objectives, scope and the rules of organisation and functioning of internal controls in the organisational units of the head office and regions of the Bank as well as rules for monitoring the risk inherent in the operations of subsidiaries.

BGK has an internal audit function that reports directly to the President of the Management Board, in accordance with the Articles of Association of the Bank. Its task is to investigate and evaluate, independently and objectively, the adequacy and effectiveness of the risk management and internal control system. In compliance with external requirements and best practices, all operations of BGK are subject to audit. The internal audit function at BGK follows the IIA's International Standards for the Professional Practice of Internal Auditing, which is confirmed by regular independent external reviews (the results of the most recent review were presented to the Supervisory Board in early 2018). In line with regulatory requirements, the Bank has mechanisms in place which guarantee independence of the internal audit function, including supervision of the internal audit function by the Audit Committee, approval of changes in the position of the internal audit head by the Supervisory Board, approval of the function's plans and reports by the Supervisory Board, and direct communication between the internal audit head and the Chairperson of the Audit Committee.

The compliance function at BGK is carried out by the Compliance Department (CD). The objective of the Compliance Department is to monitor the process of ensuring compliance of BGK's activities with applicable laws, internal regulations and market standards. That monitoring is carried out in particular through:

- independent monitoring and reporting of the compliance of control mechanisms, especially through continuous vertical review and vertical testing in dedicated areas,

- implementation of the compliance risk management process (identification, assessment, control, monitoring and reporting).

Powers, obligations and the scope of duties of the Compliance Department are set out in the Compliance Policy of BGK, Organisational Rules of the Compliance Department, and the Internal Control Rules of BGK. The head of the Compliance Department, i.e. the Compliance Officer, and the CD's employees have been entrusted with appropriate powers. Additionally, in line with regulatory requirements, BGK has mechanisms in place which guarantee independence of the compliance function, including the subordination of the compliance function directly to the President of the Management Board, supervision of the compliance function's operations by the Audit Committee, approval of changes in the position of the compliance function head by the Supervisory Board, approval of the function's plans and reports by the Supervisory Board, and direct communication between the Compliance Officer and the Chairperson of the Audit Committee.

### **Risk and capital management**

The Bank's risk management is based on its internal regulations. The organisation of the risk management process is described in detail in Section 14.1.

### **Preparation of the Bank's financial statements**

The financial statements of Bank Gospodarstwa Krajowego are prepared in accordance with International Financial Reporting Standards approved by the European Union as at 31 December 2019 and the related interpretations published as Commission Regulations (IFRS), and to the extent not regulated by these standards, in accordance with the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2019, item 351, as amended) and secondary legislation thereto. The final text of the financial statements of BGK, adopted by a resolution of the Management Board, is provided by the Management Board to the Supervisory Board for approval by 31 May of the year immediately following the financial year for which the financial statements are prepared. The full-year financial statements of BGK are audited by an entity authorised to audit the financial statements of BGK, which is appointed by the Supervisory Board.

## 14. MANAGING AND ASSESSING CREDIT, FINANCIAL, OPERATIONAL AND OTHER RISKS

### 14.1 ORGANISATION OF THE RISK MANAGEMENT PROCESS

The risk management system in place at BGK is organised on three independent levels. The first level (first line of defence) comprises the management of risk in operating activities of BGK. The second level (second line of defence) comprises risk management by employees at positions or in organisational units established specifically for that purpose (independent from risk management under the first line of defence) and the compliance function. The third level (third line of defence) comprises operations carried out by the Internal Audit Department.

The internal objective of risk management at BGK is to maintain stability and security of operations as well as to maintain the high quality of assets and achieve the anticipated financial result within an acceptable risk level.

The risk management is based on:

- Strategy for Risk Management at BGK approved by the Supervisory Board of the Bank,
- Capital Management and Internal Capital Assessment Policy at BGK endorsed by the Supervisory Board of the Bank,
- risk management policies, principles, and procedures developed in written form and endorsed by the Supervisory Board or Management Board of the Bank,
- principles of selection, remuneration and monitoring of employees performing crucial functions for the Bank and the Policy governing variable remuneration components of persons holding managerial positions endorsed by the Supervisory Board of the Bank or Management Board of the Bank.

The risk management system in place at the Bank includes the following tasks:

- **risk identification**, which comprises the determination of: risk types, their sources (risk factors), significance and relationships between individual types of risk,
- **risk measurement/assessment**, which comprises the determination and enforcement of risk quantification methods and stress test performance,
- **risk control**, which comprises the determination and enforcement of risk control mechanisms (including a limit system, ensuring independence between first-level risk management and second-level risk management, insurance, risk transfer, financing plans),
- **risk monitoring**, which comprises the monitoring of risk levels, review of relevance and accuracy of the applied risk assessment methods and the evaluation of efficiency of the tools used,
- **risk reporting**, which comprises provision of information on the risk profile, identification of possible threats, and provision of information on the measures adopted.

The Strategy for risk management at BGK covers all identified risks to which BGK is exposed in its activities. The Strategy also defines the general acceptable level of risk, whereas the acceptable risk level in relation to specific risks is specified in risk management policies applicable to those risks.

The Strategy also defines the principles of risk culture. Through its actions and conduct, the Management Board of BGK promotes the awareness of the relevance of risk in BGK's operations, the principles of assuming risk and its management (risk culture). These practices then cascade down to individual levels of BGK's organisational structure.

In 2019, the Bank:

- adapted to the requirements of the PFSA's amended Recommendation B on reducing investment risk of banks by preparing a detailed document describing the investment strategy and policy and setting out investment limits,
- for the first time carried out comprehensive stress tests in line with the Guidelines on institutions' stress testing (EBA/GL/2018/04 of 19 July 2018).

## **14.2 ORGANISATION OF THE CREDIT AND CONCENTRATION RISK MANAGEMENT PROCESS**

Credit risk is the most important element of financial risk to which the Bank is exposed in its activities. The Bank uses a credit risk management process that comprises risk identification, measurement and assessment, control, monitoring and reporting to identify credit risk and mitigate it to an acceptable level, and for the purposes of controlling the effectiveness of actions taken on a continuous basis.

Credit risk management is carried out at two levels:

- customer risk, accounting for an individual credit exposure,
- loan portfolio risk.

The Bank identifies and assesses the existing credit risk based on:

- the implementation of internal procedures enabling the assessment of creditworthiness for individual borrowers and classification of credit exposures into relevant risk groups,
- the results of control and monitoring measures taken with regard to assets managed by the organisational units of BGK.

In the credit risk management process the Bank applies a prudential approach. Key characteristics of the current risk management system are:

- separation of sales functions from client risk assessment at both region and Head Office levels of BGK,
- comprehensive individual credit risk assessment for all customers and transactions, so as to assign them to a specific credit risk category,
- application of expert and statistical methods for measuring credit risk arising from transaction and customer risk, supporting the estimation of the probability of default and the amount of loss in the event of a default,
- a system for measuring portfolio risk by assessing its concentration by industry, sector, type of product and borrower,
- a system of decision-making competencies,
- regular verification of the risk of past transactions, including changes in the financial condition of borrowers and in the Bank's environment,
- diversification of industry and sectors, types of products and borrowers, within the resource exposure limits set out by the Bank,
- determination of impairment losses on credit exposures,
- analysis and verification of valuation principles related to loan collaterals,
- a system for monitoring exposures and their collaterals allowing threat to be identified early.

The system of limits constitutes one of the tools for credit risk management at BGK. Limits are established at both operational and strategic levels in line with relevant responsibilities.

The following limit groups are used with respect to credit risk:

- industry limits reflecting the risk inherent in the customer's core business,
- objective limits, resulting from the risk related to the purpose of the loan,
- subjective limits, defined depending on the customer type,
- product limits.

One of the most important credit risk factors is concentration risk. At BGK, it is monitored in line with the provisions of the Banking Law, the relevant recommendations of the Polish Financial Supervision Authority, the Act on Bank Gospodarstwa Krajowego and the Regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms. In accordance with the resolution of the Management Board, irrespective of statutory concentration limits, BGK has additional exposure limits applicable at the stage of making financial decisions.

The risk monitoring process consists in cyclical reviews of the parameter levels which are subject to limits in addition to analysing the utilisation of those limits.

The Bank drafts regular credit risk and concentration risk reports presented to the Bank's Credit Committee, the BGK Management Board, each quarter to the Risk Committee at the Supervisory Board, and once every six months to the Supervisory Board.

The Bank has in place procedures that specify the rules to be followed in the event of an increased level of credit risk.

### **14.3 OVERVIEW OF KEY CREDIT AND CONCENTRATION RISKS**

Credit risk is defined as a risk that a borrower will default on their contractual obligations, i.e. fail to repay receivables under credit exposure along with the Bank's fee, either in whole or in part, within time limits defined in the agreement.

The Bank mitigates credit risk at the micro level by assessing and monitoring individual customers and transactions, and at the macro level – for the entire portfolio – by establishing limits for individual segments and products.

Although the credit risk is uniform in nature, its subtypes can be distinguished.

#### ***Concentration risk***

The risk of exposure concentration is an important aspect of credit risk. The Bank has adopted appropriate internal rules and procedures applicable to exposure concentration, with a particular focus on large exposures to individual customers and customer groups. Portfolio concentration is monitored at the level of individual borrowers, entities with equity or organisational relationships, industries etc. The exposure concentration policies address different areas of the Bank's operations (not only lending but also investing activities or money market transactions).

#### ***Risk of partial or total default***

The default risk is a situation where a customer fails to meet the contractual repayment deadlines or fails to make any payment whatsoever. The materialisation of that risk is associated with an increase in costs by generating loss allowances which in the case of total non-payment turn into a loss incurred.

The Bank mitigates the default risk by:

- assessing a customer's credit rating based on financial models, including predictive models based on which the customer is assigned a credit rating adequate to the level of associated risk,
- periodically monitoring a customer's economic and financial situation.

#### ***Collateral risk***

Collateral risk occurs when taken collateral of a credit exposure is inadequate to the financing granted or when the value of the collateral fluctuates significantly.

Collateral risk is mitigated by:

- collateral policy adopted by a resolution of the Management Board, which sets the boundary conditions of collateral's adequacy for a particular type of exposure, customer and collateral,
- monitoring the value of collateral, in particular mortgages, through periodic verification of property valuation,
- stress tests, including simulations of changes in the value of collaterals.

#### ***Interest rate risk and foreign exchange risk***

Interest rate risk and foreign exchange risk are associated directly with the default risk, because the materialisation of the former considerably increases the likelihood of occurrence of the latter. This risk causes increased payments due from a customer due to an increase in interest rates or an adverse change in currency exchange rates, which results in higher debt service costs and amount of instalments.

The Bank mitigates interest rate risk and foreign exchange risk by:

- applying appropriate procedures for financing in foreign currencies, in particular when verifying the repayment sources of the Bank's receivables,
- performing stress tests, including, *inter alia*, simulations of interest rate and foreign exchange rate fluctuations and their impact on the customers' creditworthiness.

#### **Credit risk related to the COVID-19 pandemic**

The Bank analyses the situation related to COVID-19 and takes appropriate measures on an ongoing basis. In the first months of the epidemic, before the virus spilled across Europe, the Bank carried out stress test for customers that relied on trade with China. The tests were performed in consultation with the customers and using the Bank's risk assessment tools. As the epidemic grew in strength, the stress tests covered the entire portfolio by industry with gradation of how the epidemic affects individual industries. The Bank takes account of the results of stress tests in financial planning.

Regardless of the impact on customers' standing and BGK's performance, the epidemic of COVID-19 has a significant impact on the entire lending process. The Bank took a number of steps to facilitate the lending process during the epidemic, which involved the simplification of rules applied to changing the existing financing terms, including deferral of repayments. Also, it introduced a simplified approval path for deferral of repayments and renewal of financing for customers affected by the epidemic, while retaining the acceptable level of risk. In the lending process the Bank has applied the guidelines of the Polish Financial Supervision Authority and the European Banking Authority regarding the classification and assessment of exposures in the light of the COVID-19 crisis.

#### **14.4 ORGANISATION OF THE FINANCIAL RISK MANAGEMENT PROCESS**

BGK's system of financial risk measurement includes, in particular, the following approaches and tools:

- liquidity ratios, liquidity gap analysis, fund stability analyses, daily monitoring of the deposit base – applied in relation to the liquidity risk,
- measures of position volumes (such as foreign exchange position, interest rate gap) – applied to foreign exchange risk and interest rate risk, measures of sensitivity used for detailed analyses (BPV, duration, sensitivity of net interest income to fluctuations in interest rates, sensitivity of the economic value) – applied to interest rate risk;
- Value at Risk (VaR) – applied to market risk;
- capital adequacy ratios – measures related to the requirements of external regulations, determining the adjustment of equity to the level and nature of risks of the Bank, including the size and structure of risk-weighted assets;
- leverage ratios – applied to excessive leverage risk;
- stress tests – applied to the financial risk.

One of the key mechanisms of financial risk management at BGK is the system of limits. BGK uses the following limits:

- for liquidity risk – limits and threshold values of liquidity ratios;
- for interest rate risk – sensitivity limits, position limits and loss limits;
- for foreign exchange risk – position limits and loss limits;
- for capital adequacy – capital adequacy limits and capital limits in the particular types of activity;
- for financial leverage risk – internal limits for regulatory leverage ratio.

The risk monitoring process consists in periodic control of the limited parameter levels in addition to analysing utilisation of limits. Financial risk reports are submitted to the Asset and Liability Committee, the Management Board, the Risk Committee and the Supervisory Board. Procedures additionally specify the rules to be followed in the event of an increased level of financial risk.



## 14.5 OVERVIEW OF KEY FINANCIAL RISKS

### Liquidity risk

Liquidity risk is a risk of losing the ability to pay liabilities as they fall due as a result of unfavourable changes in assets and liabilities and equity, off-balance-sheet transactions, maturity mismatch of current cash flows resulting in the need to incur unacceptable losses.

The purpose of liquidity risk management is to:

- ensure and maintain the Bank's ability to meet both current and planned future liabilities, including costs of liquidity and return on equity;
- prevent a crisis;
- define business continuity solutions for a potential crisis.

Liquidity risk level is presented in cyclical liquidity reports including, in particular, information on the utilisation of regulatory and internal liquidity limits, the stability of external funding and stress tests results as well as additional analyses concerning, *inter alia*, long-term liquidity.

The Bank controls the liquidity risk using a system of limits and liquidity ratio thresholds. The limit system covers current, short-term, medium-term and long-term liquidity.

In 2019, BGK developed its liquidity risk management, including by modifying the calculation of selected liquidity ratios and calculation of stability for individual categories of liabilities.

In the entire 2019, the liquidity of BGK was at a safe level. Regulatory liquidity measures defined in Resolution No. 386/2008 of the Polish Financial Supervision Authority of 17 December 2008 on setting liquidity standards for banks (as amended) and in Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No. 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for credit institutions (OJ L 11, 17.1.2015, p. 1) were not breached.

**TABLE 44: Regulatory liquidity measures**

Item	limit	as at 31 Dec 2019	as at 31 Dec 2018	Additional information – excluding cash flow funds	
				as at 31 Dec 2019	as at 31 Dec 2018
M3—own funds to non-liquid assets	1,0	2,5	2,6	2,5	2,5
M4 – total equity and stable external funds to non-liquid and limited-liquidity assets	1,0	1,3	1,3	1,5	1,6
LCR—liquidity coverage ratio	100,0%*	193%	241%	228%	310%

\* the limit applicable as at 31 December 2019

The change in the liquidity measures was mainly driven by the fact that long-term funding sources grew slower than the Bank's lending activities and equity investments.

### Market risk

Market risk is defined as a risk of a possible drop in the value of the Bank's portfolio of financial instruments or its financial result as a consequence of unfavourable changes in market parameters (exchange rates, interest rates, prices of debt and equity instruments).

The objectives of market risk management are:

- for interest rate risk (including the risk of change in prices of debt securities) – to reduce the risk of losing a part of the interest income or a drop in the value of the portfolio of financial instruments as a result of a change in market interest rates,
- for foreign exchange risk – to mitigate the risk of losses that may be incurred as a result of changes in market foreign exchange rates,

- for equity price risk – to mitigate the risk of losses that may be incurred as a result of changes in prices of equity instruments.

In 2019, BGK maintained the acceptable levels of market risk and interest rate risk arising from the banking book specified by the Supervisory Board (risk appetite).

In 2019, the Bank met the requirements set out in EBA's guidelines on the management of interest rate risk arising from non-trading activities (EBA/GL/2018/02).

- Market risk management was improved following the implementation in 2019 of a system delivered by one of the top software vendors.

### **Interest rate risk**

The Bank monitors interest rate risk using:

- BPV limits for the trading book and the banking book,
- loss limits,
- limits for income risk in the banking book.

Risk monitoring process involves primarily cyclical review of risk measure levels and analysis of the limit usage.

The measurement of the risk covers: net present value (NPV), duration, measures of sensitivity of financial instrument prices on changes in interest rates (basis point value – BPV, economic value of equity – EVE), net interest income sensitivity to changes in interest rates (NII), repricing gap, value at risk (VaR), and stress tests. The Bank also prepares lists of financial instruments using a given reference rate as a benchmark (basis risk) and sets levels of termination of term deposits and prepayments under loans advanced (customer option risk).

The internal reporting system for interest rate risk includes, in particular, information on the utilisation of limits and the threshold values for interest rate risk, gains/losses on interest rate movements, measures (VaR, BPV, duration, modified duration), interest rate gap analyses, interest income sensitivity, sensitivity of the economic value, and results of stress tests.

In 2019, the sensitivity of interest income dropped due to a higher current account balance and measures of price sensitivity went up following an increase in the T-bond portfolio.

As at the date of preparation of its financial statements, the Bank estimated the impact on interest income for 2020 of the two interest rate cuts by the Monetary Policy Council made on 17 March and 8 April 2020 and the change of parameters of the minimum reserve to PLN 25-40 million per quarter. Concurrently, high capital adequacy and liquidity ensures stable management of the Bank.

**TABLE 45: Key interest rate risk measures (in PLN thousand)**

<b>Item</b>	<b>Banking book</b>		<b>Trading book</b>	
	<b>as at 31 Dec 2019</b>	<b>as at 31 Dec 2018</b>	<b>as at 31 Dec 2019</b>	<b>as at 31 Dec 2018</b>
BPV	-1,432	-1,382	-22	-13
VaR 1D 99%	7,495	5,145	4,679	2,486

### **Foreign exchange risk**

The foreign exchange risk was measured in accordance with the applicable principles, including based on analysis of foreign exchange positions, VaR and foreign exchange gains or losses. The utilisation of internal limits was also monitored on an ongoing basis with respect to currency position and loss.

Foreign exchange reports include, in particular, information on the utilisation of foreign exchange risk limits, performance, VaR and results of stress tests.

BGK's total foreign currency position as at 31 December 2019 stood at PLN 26.7 million, whereas the relevant VaR 1D 99% totalled PLN 156 thousand.

In 2019, the Bank decided to close its currency position related to allowances for expected credit losses and revaluation of securities, which caused a drop in the total foreign currency position.

### **Equity price risk**

Compared to 2018, the share portfolio value fell by PLN 143 million (following a drop in the price of PKO BP S.A. shares and due to a high volume of those shares in BGK's portfolio). Also, the total value of the portfolio of investment certificates fell below the acquisition price, which was mostly attributable to a lower valuation of the Polish Enterprise Investments Fund.

Risk was measured in accordance with the applicable principles, mainly through analysing the equity instruments portfolio and VaR. As at 31 December 2019, VaR 1D 99% for the share portfolio was PLN 35.2 million.

## **14.6 ORGANISATION OF THE OPERATIONAL RISK MANAGEMENT PROCESS**

Operational risk is inherent in all major areas of operations pursued by BGK, including any new, existing and modified products, processes and systems, and is related to both internal factors (such as the organisational structure, business profile, IT systems used, customer profile, customer complaints, HR quality, organisational changes and employee turnover) and external factors (external environment of the Bank).

Operational risk management covers all regions/organisational units of the Head Office of BGK and subsidiaries supervised by appropriate organisational units of the Bank's Head Office in line with the Head Office Organisational Rules and their responsibilities.

The Bank manages operational risk through:

- the function of the Operational Risk Coordinator,
- process-based approach to the assessment of business lines, high-risk products and the risk related to regions of BGK and organisational units of its Head Office,
- operational risk ratios (KRI),
- centralised database of all recommendations.

The purpose of operational risk measurement is to evaluate threats resulting from operational risks using pre-determined risk measurements. Operational risk assessment includes: calculation of KRIs, calculation of the capital requirement using BIA, stress tests, and determination of the internal capital.

Information on operational risk for the Bank and its subsidiaries is reported on a regular basis to executive management, the Operational Risk and Internal Control Committee, the Bank's Management Board, the Bank's Supervisory Board and the Risk Committee.

The Operational Risk and Internal Control Committee (ORC) functions at the Bank as an opinion-forming and decision-making body, assisting the Bank's Management Board in the oversight and control of the operational risk, compliance risk, and the control function at BGK, as well as the effectiveness of the risk management system.

## **14.7 OVERVIEW OF OPERATIONAL RISK**

The net loss (including provisions) arising from operational risk events in 2019 amounted to PLN 0.3 million. The total amount of provisions for operational risk events reached PLN 79.7 million as at the end of 2019 (including a PLN 67.2 million provision recognised in 2018).

## **14.8 OVERVIEW OF BUSINESS RISK**

Business risk is defined as the risk of failure to achieve the assumed and required economic goals, in particular with respect to the financial result, due to changes in economic, social, legal, business and market environment, and failure to achieve business and social goals implemented by the Bank in line with its mission and as part of tasks defined by the owner. Business risk involves strategic risk.

The purpose of business risk management is to maintain at an acceptable level the potential negative financial impact of adverse changes in the business environment, adverse decisions, inadequate implementation of decisions or inadequate response to changes in the business environment.

## **14.9 OTHER RISKS**

In addition, BGK manages other risks, in particular compliance risk and reputation risk, adopting similar principles as in the case of management of operational risk, as well as model risk and risk of changes in macroeconomic conditions, in accordance with relevant internal procedures.

### **14.10 MITIGATION OF THE RISK RELATED TO COVID-19 EPIDEMIC**

In view of the rapidly changing factual and legal circumstances related to the spread of the novel coronavirus (SARS-CoV-2) and in connection with the recommendation of the Polish Financial Supervision Authority of 12 March 2020, the Bank's Management Board reports that the Bank has implemented the business continuity plan to maintain its operations in full scope and meet its liabilities as a state bank.

BGK took measures to prevent the occurrence of COVID-19 cases at the Bank. A decision was made to ensure parallel work of persons involved in critical processes from two isolated locations in different parts of Warsaw. Moreover, to minimise the risk of spread of the virus employees were advised to work remotely from home. Employees involved in critical processes were provided with adequate support measures (business cars) and technical means. Most employees began working remotely on 16 March 2020, while retaining access to all necessary bank applications.

The crisis management team appointed at BGK has been holding regular remote meetings and preparing solutions since early March 2020. The crisis management team comprises two teams: operational crisis management team and support team, which prepares solutions for BGK's aid package for entrepreneurs offered as part of anti-crisis shields of the Polish government.

The Bank's Management Board monitors on an ongoing basis the developments related to the prevailing consequences of the spread of SARS-CoV-2 and the impact of COVID-19 epidemic on its business, including on its obligations as an issuer of bonds.

### **14.11 CAPITAL ADEQUACY**

The Bank monitors the level of capital adequacy using capital adequacy ratios determined in line with the Banking Law and the CRR<sup>1</sup>. In addition, the Bank sets the leverage ratio in accordance with the CRR.

In 2019, BGK expanded its capital adequacy management, including by developing methods and updating principles related to capital adequacy. The methods of setting capital limits and selected methods of determining internal capital were changed.

In 2019, the capital adequacy requirements laid down in Article 128.1 of the Banking Law and in Article 92.1 of the CRR were met (CET1 capital ratio of at least 4.5%, the Tier 1 capital ratio of at least 6%, the solvency ratio of at least 8%, and the internal capital ratio not higher than 100%).

The above ratios are specified on an individual basis as the CRR does not require prudential consolidation.

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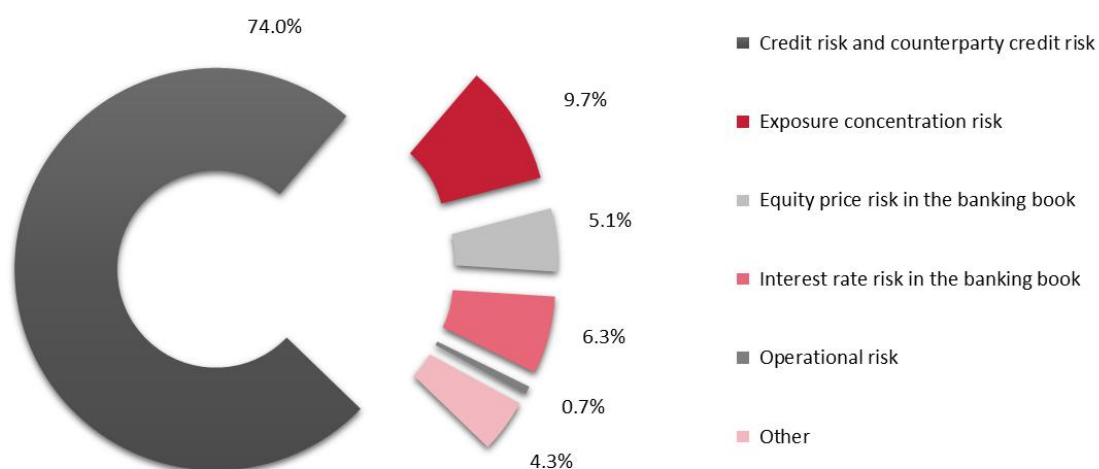
<sup>1</sup> Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 (OJ L 176, 27.6.2013, p. 1, as amended)

**TABLE 46: Capital adequacy ratios**

Item	as at 31 Dec 2019	as at 31 Dec 2018	change PLN million / pp	Additional information – excluding cash flow funds		
				as at 31 Dec 2019	as at 31 Dec 2018	change PLN million / pp
Total capital requirement (in PLN million)	5,190.1	4,642.2	547.9	4,979.5	4,555.6	423.9
Internal capital (in PLN million)	6,651.2	5,829.8	821.4	6,440.7	5,742.4	698.3
Total equity (in PLN million), including:	17,869.9	18,275.9	-406.0	17,869.9	18,275.9	-406.0
Tier 1 capital, including:	17,869.9	18,275.9	-406.0	17,869.9	18,275.9	-406.0
Common Equity Tier 1	17,869.9	18,275.9	-406.0	17,869.9	18,275.9	-406.0
Tier 2 capital	0.0	0.0	0.0	0.0	0.0	0.0
<b>CET1</b>	<b>27.5%</b>	<b>31.5%</b>	<b>-4.0</b>	<b>28.7%</b>	<b>32.1%</b>	<b>-3.4</b>
<b>Tier1 capital ratio</b>	<b>27.5%</b>	<b>31.5%</b>	<b>-4.0</b>	<b>28.7%</b>	<b>32.1%</b>	<b>-3.4</b>
<b>Solvency ratio</b>	<b>27.5%</b>	<b>31.5%</b>	<b>-4.0</b>	<b>28.7%</b>	<b>32.1%</b>	<b>-3.4</b>
<b>Internal capital ratio</b>	<b>37.2%</b>	<b>31.9%</b>	<b>5.3</b>	<b>36.0%</b>	<b>31.4%</b>	<b>4.6</b>
<b>Leverage ratio</b>	<b>10.3%</b>	<b>11.7%</b>	<b>-1.4</b>	<b>15.1%</b>	<b>18.1%</b>	<b>-3.0</b>

An increase in the total capital requirement and internal capital in 2019 was related to a rise in risk weight from 4% to 10% for exposure to the State Treasury in currencies of EU Member States and an increase in exposure to corporates. Concurrently, own funds went down as a result of a drop in BGK's statutory capital following a transfer of PLN 500 million to the Polish Science Fund.

Internal capital is determined in respect of the risks identified by the Bank as material. Its largest part is represented by internal capital for credit risk and for counterparty credit risk. Internal capital structure is seen below.



## **MANAGEMENT BOARD OF BANK GOSPODARSTWA KRAJOWEGO**

President of the Management Board

/-/

**Beata Daszyńska-Muzyczka**

First Vice-President of the Management Board

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**Paweł Nierada**

Vice-President of the Management Board

/-/

**Włodzimierz Kocon**

Member of the Management Board

/-/

**Przemysław Cieszyński**

Member of the Management Board

/-/

**Radosław Kwiecień**

Warsaw, 18 May 2020