BANK GOSPODARSTWA KRAJOWEGO

Consolidated financial statements
of the Bank Gospodarstwa Krajowego Group
prepared in accordance with IFRS
for the financial year from 1 January to 31 December 2018

The above Consolidated financial Statements of Bank Gospodarstwa Krajowego is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

Warsaw, 15 April 2019

Selected financial data on consolidated financial statements

The selected financial data specified below constitutes additional information to the consolidated financial statements of the BGK Group for 2018.

	in PLN thousand		in EUR thousand	
	For the period from 1 Jan 2018 to 31 Dec 2018	For the period from 1 Jan 2017 to 31 Dec 2017	For the period from 1 Jan 2018 to 31 Dec 2018	For the period from 1 Jan 2017 to 31 Dec 2017
Net interest income	889,076	776,106	208,366	182,841
Net fee and commission income	190,099	156,596	44,552	36,892
Operating result	558,626	618,460	130,921	145,702
Profit before tax	601,605	690,452	140,993	162,662
Net profit	514,080	584,439	120,481	137,687
Net profit attributable to the owner of the parent entity	514,397	584,565	120,555	137,716
Net comprehensive income	450,733	1,016,602	105,635	239,499
Cash flows from operating activities	25,176,670	-1,443,834	5,900,459	-340,150
Cash flows from investing activities	-3,073,463	-614,551	-720,303	-144,781
Cash flows from financing activities	-1,219,000	1,779,597	-285,688	419,252
Net cash flows	-20,884,207	-278,338	-4,894,468	-65,573

	in PLN thousand		in EUR thousand	
	As at 31 Dec 2018	As at 31 Dec 2017	As at 31 Dec 2018	As at 31 Dec 2017
Balance sheet total	84,772,266	74,314,015	19,714,480	17,817,261
Total equity	19,233,675	20,081,034	4,472,948	4,814,557
Equity attributable to the parent entity	19,220,315	20,076,620	4,469,841	4,813,498
Solvency ratio (total capital ratio) excluding cash flow funds	32.09%	37.96%	32.09%	37.96%
Solvency ratio (total capital ratio) including cash flow funds	31.50%	37.95%	31.50%	37.95%
Basic funds (Tier 1)	18,275,914	18,864,232	4,250,213	4,522,820
Supplementary funds (Tier 2)	0	0	0	0

Selected financial data on the consolidated financial statements was translated to EUR in line with the following rates:

	31 Dec 2018	31 Dec 2017
▪ items from the statement of profit or loss, statement of other comprehensive income, and statement of cash flows at the mid-market rate quoted by the National Bank of Poland (NBP) calculated as an arithmetic mean of the exchange rates applicable on the last day of each month in a given period	4.2669	4.2447
▪ items from the statement of financial position at the mid-market rate quoted by the NBP for the last day of the period	4.3000	4.1709

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(in PLN thousand)

Consolidated statement of profit or loss

	Note	2018	2017
Continuing operations			
Interest income		1,906,870	1,703,308
Interest income calculated by using the effective interest method		1,754,741	x
Income similar to interest on instruments at fair value through profit or loss		152,129	x
Interest expense		-1,017,794	-927,202
Net interest income	4	**889,076**	**776,106**
Fee and commission income		200,541	167,909
Fee and commission expense		-10,442	-11,313
Net fee and commission income	5	**190,099**	**156,596**
Gain/loss on financial instruments at fair value through profit or loss and net exchange differences	6	51,222	26,239
Gain/loss on investments in financial assets	7	60,511	30,578
Net modification gain/loss	8	-3,429	x
Other operating income	9	80,868	102,358
Other operating expenses	9	-112,233	-29,730
General administrative expenses	10	-470,261	-394,049
Net impairment losses and provisions	11	-127,227	-49,638
Operating result		**558,626**	**618,460**
Share of profit or loss of associates	25	42,979	71,992
Profit before tax		**601,605**	**690,452**
Income tax	12	-87,525	-106,013
Net profit		**514,080**	**584,439**
Net profit attributable to the owner of the parent entity		514,397	**584,565**
Net profit attributable to non-controlling interests	36.1	**-317**	**-126**

Consolidated statement of comprehensive income

	Note	2018	2017
Net profit		**514,080**	**584,439**
Other comprehensive income		**-63,347**	**432,163**
Item that are or may be reclassified subsequently to profit or loss		**33,455**	**432,279**
Revaluation of financial assets at fair value through other comprehensive income, including:		33,328	x
Deferred tax on financial assets at fair value through other comprehensive income	12	-7,780	x
Available-for-sale financial assets, including:		x	432,241
Deferred tax on available-for-sale financial assets	12	x	-101,401
Foreign exchange gains or losses on translating subordinates		127	38
Items that will not be reclassified subsequently to profit or loss		**-96,802**	**-116**
Revaluation of equity instruments designated as at fair value through other comprehensive income, including:		-96,115	x
Deferred tax on revaluation of equity instruments designated as at fair value through other comprehensive income	12	22,622	x
Property, plant and equipment and investment property, including:		0	-27
Deferred tax on property, plant and equipment and investment property	12	0	6
Gains and losses due to measurement of defined benefit plans, including:		-687	-89
Deferred tax on measurement of defined benefit plans	12	161	21
Total net comprehensive income		**450,733**	**1,016,602**
Net comprehensive income attributable to the owner of the parent entity		**451,050**	**1,016,728**
Net comprehensive income attributable to non-controlling interests	36.1	**-317**	**-126**

Notes to the consolidated financial statements on the pages to follow form their integral part.

(in PLN thousand)

Consolidated statement of financial position

	Note	31 Dec 2018	31 Dec 2017
Assets			
Cash and balances with the Central Bank	15	16,668,895	988,581
Receivables from banks	16	8,364,968	3,247,473
Financial assets held for trading	17	979,480	1,342,070
Financial assets at fair value through profit or loss	18	740,141	130,233
Financial assets at fair value through other comprehensive income	19	15,861,979	x
Loans and advances to customers	20	25,938,781	27,223,753
- measured at amortised cost		25,792,693	x
- obligatorily measured at fair value through profit or loss		146,088	x
Debt instruments at amortised cost	21	6,881,770	x
Reverse repurchase agreements	22	3,874,660	2,105,540
Available-for-sale financial assets	23	x	37,061,252
Held-to-maturity financial assets	24	x	0
Investments in associates	25	3,883,564	1,066,205
Intangible assets	26	49,082	43,176
Property, plant and equipment	27	138,869	143,974
Investment property	28	1,178,986	834,428
Current tax receivables		103	1
Deferred tax assets	12	125,712	80,185
Other assets	29	85,276	47,144
Total assets		**84,772,266**	**74,314,015**
Liabilities and equity			
Liabilities			
Liabilities to the Central Bank	30	0	0
Liabilities to banks	31	3,879,221	3,594,140
Financial liabilities held for trading	17	1,576,995	1,284,618
Liabilities to customers	32	47,637,298	33,692,320
Liabilities due to repurchase agreements	22	5,214,051	7,573,820
Debt securities issued	33	5,787,209	6,299,315
Other liabilities	34	1,001,822	1,421,778
Current tax liabilities		30,516	70,136
Deferred tax liabilities	12	13,278	7,090
Provisions	35	398,201	289,764
Total liabilities		**65,538,591**	**54,232,981**
Equity			
Statutory capital		17,102,410	17,950,629
Supplementary capital		1,053,260	679,249
Revaluation reserve		252,449	355,456
Other reserve capitals		232,330	232,330
Foreign exchange gains or losses on translating subordinates		-98	29
Retained earnings (accumulated loss)		65,567	274,362
Net profit (loss) in the current year		514,397	584,565
Equity attributable to the owner of the parent entity		**19,220,315**	**20,076,620**
Non-controlling interests	36.1	**13,360**	**4,414**
Total capital		**19,233,675**	**20,081,034**
Total liabilities and equity		**84,772,266**	**74,314,015**
Solvency ratio (total capital ratio) excluding cash flow funds	52	32.09%	37.96%
Solvency ratio (total capital ratio) including cash flow funds	52	31.50%	37.95%

Notes to the consolidated financial statements on the pages to follow form their integral part.

(in PLN thousand)

Consolidated statement of changes in equity

Equity attributable to the parent entity														Non-controlling interests	Total equity
Changes from 1 January to 31 December 2018	Note	Statutory capital	Supplementary capital	Revaluation reserve					Other reserve capitals		Foreign exchange gains or losses on translating subordinates	Retained earnings	Total		
				Available-for-sale financial assets	Financial assets at fair value through other comprehensive income	Actuarial gains and losses	Investment property revaluation reserve	PPE revaluation reserve	Reserve capital	General banking risk reserve					
1 January 2018		**17,950,629**	**679,249**	**355,961**	**0**	**-2,085**	**1,580**	**0**	**76,830**	**155,500**	**29**	**858,927**	**20,076,620**	**4,414**	**20,081,034**
Effect of application of IFRS 9		**0**	**0**	**-355,961**	**316,428**	**0**	**0**	**0**	**0**	**0**	**0**	**57,128**	**17,595**	**0**	**17,595**
Adjusted opening balance in accordance with IFRS 9		**17,950,629**	**679,249**	**0**	**316,428**	**-2,085**	**1,580**	**0**	**76,830**	**155,500**	**29**	**916,055**	**20,094,215**	**4,414**	**20,098,629**
Total comprehensive income, including:		**0**	**0**	**0**	**-62,787**	**-687**	**0**	**0**	**0**	**0**	**-127**	**514,397**	**450,796**	**-317**	**450,479**
net profit for the current year		0	0	0	0	0	0	0	0	0	0	514,397	514,397	-317	514,080
deferred tax		0	0	0	14,842	161	0	0	0	0	0	0	15,003	0	15,003
remeasurement of defined benefit plan liabilities		0	0	0	0	-848	0	0	0	0	0	0	-848	0	-848
revaluation of debt financial instruments at fair value through other comprehensive income (gross)		0	0	0	41,108	0	0	0	0	0	0	0	41,108	0	41,108
revaluation or disposal of equity instruments at fair value through other comprehensive income (gross)		0	0	0	-118,737	0	0	0	0	0	0	0	-118,737	0	-118,737
Foreign exchange gains or losses on translation of FEZ FIZ AN		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-127**	**0**	**-127**	**0**	**-127**
Retained earning distribution, including:		**51,781**	**374,011**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-426,110**	**-318**	**0**	**-318**
allocation to capital		51,781	378,635	0	0	0	0	0	0	0	0	-430,416	0	0	0
appropriation of profit to the Inland Waterways Fund (IWF)		0	0	0	0	0	0	0	0	0	0	-312	-312	0	-312
income tax		0	0	0	0	0	0	0	0	0	0	-6	-6	0	-6
coverage of loss brought forward at the Group entities		0	-4,624	0	0	0	0	0	0	0	0	4,624	0	0	0
Reduction of the statutory capital – establishment of the National Guarantee Fund	36	**-900,000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-900,000**	**0**	**-900,000**
Distribution of profit to the State Budget	14	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-424,253**	**-424,253**	**0**	**-424,253**
Change in non-controlling interests		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-125**	**-125**	**9,263**	**9,138**
31 December 2018		**17,102,410**	**1,053,260**	**0**	**253,641**	**-2,772**	**1,580**	**0**	**76,830**	**155,500**	**-98**	**579,964**	**19,220,315**	**13,360**	**19,233,675**

Notes to the consolidated financial statements on the pages to follow form their integral part.

(in PLN thousand)

Equity attributable to the parent entity														
Changes from 1 January to 31 December 2017	**Note**	**Statutory capital**	**Supplementary capital**	**Revaluation reserve**				**Other reserve capitals**		**Foreign exchange gain/loss on translating subordinates**	**Actuarial gains/ accumulated loss**	**Total**	**Non-controlling interests**	**Total equity**
				Available-for-sale financial assets	**Actuarial gains and losses**	**Investment property revaluation reserve**	**PPE revaluation reserve**	**Reserve capital**	**General banking risk reserve**					
1 January 2017		**11,339,138**	**646,414**	**-76,280**	**-1,996**	**1,607**	**0**	**76,830**	**155,500**	**-9**	**628,405**	**12,769,609**	**0**	**12,769,609**
Total comprehensive income, including:		**0**	**0**	**432,241**	**-89**	**-27**	**0**	**0**	**0**	**0**	**584,598**	**1,016,723**	**-126**	**1,016,597**
net profit for the current year		0	0	0	0	0	0	0	0	0	584,565	584,565	-126	584,439
remeasurement of available-for-sale financial assets (gross)		0	0	533,642	0	0	0	0	0	0	0	533,642	0	533,642
Deferred income tax		0	0	-101,401	21	6	0	0	0	0	0	-101,374	0	-101,374
remeasurement of defined benefit plan liabilities		0	0	0	-110	0	0	0	0	0	0	-110	0	-110
transfer to the current year profit or loss		0	0	0	0	-33	0	0	0	0	33	0	0	0
Foreign exchange gains or losses on translation of FEZ FIZ AN		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**38**	**0**	**38**		**38**
Retained earning distribution, including:		**320,906**	**34,035**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-355,276**	**-335**	**0**	**-335**
allocation to capital		320,906	34,035	0	0	0	0	0	0	0	-354,941	0	0	0
appropriation of profit to the Inland Waterways Fund (IWF)		0	0	0	0	0	0	0	0	0	-329	-329	0	-329
income tax		0	0	0	0	0	0	0	0	0	-6	-6	0	-6
Contribution of bonds and funds by the State Treasury – increase in equity	36	**6,290,400**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**6,290,400**	**0**	**6,290,400**
Profit distribution (dividend payment)		**0**	**-1,200**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1,200**	**0**	**0**	**0**
Transfer of net asset fair value of the NHF		**185**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**185**	**0**	**185**
Contribution of non-controlling interests		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**4,540**	**4,540**
31 December 2017		**17,950,629**	**679,249**	**355,961**	**-2,085**	**1,580**	**0**	**76,830**	**155,500**	**29**	**858,927**	**20,076,620**	**4,414**	**20,081,034**

Notes to the consolidated financial statements on the pages to follow form their integral part.

(in PLN thousand)

Consolidated statement of cash flows

Consolidated statement of cash flows	Note	2018	2017
A. Cash flows from operating activities			
Net profit/loss		**514,080**	**584,439**
Total adjustments:		**24 662,590**	**-2,027,823**
Income tax recognised in profit or loss		87,525	106,013
Depreciation and amortisation	10	21,121	23,024
Profit/loss on investing activities		-51,500	-88,522
Interest and dividends	38	162,993	188,724
Foreign exchange gain/loss		12 121	-16,980
Change in receivables from banks		85,859	-231,250
Change in financial assets held for trading		362,590	-857,096
Change in loans and advances to customers		1,292,365	-2,590,442
Change in financial assets at fair value through profit or loss		-621,224	0
Change in financial assets at fair value through other comprehensive income		-15,986,570	x
Change in debt instruments at amortised cost		-6,867,238	x
Change in reverse repurchase agreements		-1,769,120	1,841,347
Change in available-for-sale financial assets		37,061,252	-107,049
Change in other assets and assets held for sale		-22,593	-13,151
Change in liabilities to banks		374,499	-348,220
Change in financial liabilities held for trading		292,377	676,613
Change in liabilities to customers		13,944,978	-3,411,964
Change in liabilities due to repurchase agreements		-2,359,769	1,821,636
Change in provisions		116,244	37,065
Change in other liabilities		-1,320,267	1,009,289
Income tax paid		-153,910	-67,739
Other adjustments	38	857	879
Net cash from operating activities		**25,176,670**	**-1,443,384**
B. Cash flows from investing activities			
Inflows		**92,414**	**5,205**
Sale of property, plant and equipment		14	7
Sale of intangible assets		0	10
Sale of investment property		11,900	2,900
Sale of shares in subsidiaries and associates	25	14,400	0
Sale of investments in financial assets		48,700	0
Dividends received	38	17,400	2,288
Outflows		**3 165,877**	**619,756**
Purchase of property, plant and equipment	27	11,485	17,913
Purchase of intangible assets	26	27,828	16,243
Purchase of investment property	28	349,652	220,228
Purchase of shares in associates	25	2,776,912	348,902
Purchase of investments in financial assets		0	16,470
Net cash from investing activities		**-3,073,463**	**-614,551**
C. Cash flows from financing activities			
Inflows		**735,468**	**4,574,037**
Net proceeds on share issued		468	598
Long-term loans received		235,000	208,454
Debt securities issued		500,000	2,864,985
Increase in equity of the parent entity by the State Treasury		0	1,500,000
Outflows		**1,954,468**	**2,794,440**
Repayment of long-term loans		337,449	236,026
Repayment of interest		52,235	54,757
Redemption of debt securities issued		1,006,300	2,370,000
Interest paid on debt securities issued		134,231	133,657
Other financial expenditure		424,253	0
Net cash from financing activities		**-1,219,000**	**1,779,597**
D. Net cash flows		**20,884,207**	**-278,338**
E. Cash and cash equivalents at the beginning of the period		**3,220,438**	**3,498,776**
F. Cash and cash equivalents at the end of the period	38	**24,104,645**	**3,220,438**

Notes to the consolidated financial statements on the pages to follow form their integral part.

Notes to the consolidated financial statements

1. General information

Bank Gospodarstwa Krajowego (the "parent entity", the "Bank", "BGK") is the parent of the Bank Gospodarstwa Krajowego Group (the "Group", the "BGK Group").

Bank Gospodarstwa Krajowego is a state-owned bank as defined by the Banking Law of 29 August 1997 (Journal of Laws of 2018, item 2187, as amended) as well as the Act of 14 March 2003 on Bank Gospodarstwa Krajowego (Journal of Laws of 2018, item 1543, as amended), along with the Articles of Association adopted by the Regulation of the Minister of Development of 16 September 2016 on the adoption of the Articles of Association of Bank Gospodarstwa Krajowego (Journal of Laws of 2016, item 1527). The Bank operates in the Republic of Poland. The registered office is located at Al. Jerozolimskie 7, 00-955 Warsaw. The Bank's REGON statistical number is 000017319 and NIP tax identification number is 525-00-12-372. Apart from the head office, BGK also operates 16 branches located in all province capitals and one agency in Brussels.

The Bank is the parent of the Bank Gospodarstwa Krajowego Group and a significant investor for associates which are held by the Bank and its subsidiaries.

While fulfilling the functions specified in the Banking Law of 29 August 1997, the Bank carries out its own activities, which are complementary to its core, commissioned activities.

Under Article 4 of the Act on Bank Gospodarstwa Krajowego, the primary purpose of BGK's activity is to support the economic policy of the Council of Ministers, social and economic government programmes, including surety and guarantee programmes, as well as local government and regional development programmes, specifically:

- projects financed by EU funds and international financial institutions,
- infrastructure projects,
- projects related to the development of micro, small and medium-sized enterprise sector, including those financed with public funds.

Tasks fulfilled by the Bank under Articles 5 and 6 of the Act on BGK involve (*inter alia*):

- administration of funds created by, entrusted with or transferred to BGK under separate legislation,
- export transaction handling with the use of export support instruments, in addition to supporting exports of Polish goods and services under separate legislation or government programmes,
- offering, whether directly or indirectly, guarantee and/or surety services under government surety and guarantee 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, in particular to the small and medium-sized enterprise sector,
- supporting the development of residential construction, in particular development of residential property for rent, under separate legislation or government programmes,
- maintenance of Treasury bank accounts,
- local government budget administration,
- maintenance of the accounts of national or local government legal entities established under separate legislation to carry out public functions,
- other functions carried out with the use of public funds, as specified in agreements entered into with public administration bodies.

Bank Gospodarstwa Krajowego is halfway through the implementation of its Strategy for 2017-2020 approved by the Supervisory Board on 12 July 2017.

The strategy defines BGK as a financial partner that actively supports entrepreneurship and efficient use of development programmes and that also initiates and is involved in cooperation with business and public sectors as well as financial institutions.

The BGK's strategy results from challenges faced by the Polish economy and addressed, inter alia, as part of the Strategy for Responsible Development. BGK strives to ensure that Poland's development is driven by economic growth based on knowledge and excellence, a sustainable social and territorial growth, and efficiency of the State. The key values defining the Bank's organisational culture are:

- professionalism,
- partnership cooperation,

(in PLN thousand)

- commitment.

With regard to these values, the following four basic pillars of the Bank's operations were defined: financing development and investments, European programmes, public finance, and operational excellence.

As a state development bank, Bank Gospodarstwa Krajowego focuses on initiating and implementing tasks that serve a general economic growth and development. It finances infrastructural projects, provides sureties and guarantees as well as manages numerous programmes aimed at improving the situation on the residential property market. It is paramount for the Bank to support economic growth in areas where the market does not operate effectively and to support sectors which are key to the implementation of the objectives of the government's economic policy. In 2018, Bank Gospodarstwa Krajowego opened its first foreign establishment in Brussels. Opening further agencies is planned.

The achievement of the Bank's strategic objectives will be dependent on cultural transformation, attained by, among other things, developing operational excellence in terms of delivering value to both external and internal customers. Projects and internal efforts undertaken to that end are focused in four key areas: business model, IT, HR and communications.

The scope of commissioned activities of Bank Gospodarstwa Krajowego comprises:

	Commissioned activity type	Legal basis
I. Funds created, entrusted or transferred to BGK under separate legislation		
1.	Krajowy Fundusz Drogowy (National Road Fund, NRF)	The Act on Toll Motorways and on the National Road Fund of 27 October 1994 (Journal of Laws of 2018, item 2014, as amended)
2.	Fundusz Kolejowy (Railway Fund, RF)	The Act of 16 December 2005 on the Railway Fund (Journal of Laws of 2017, item 510)
3.	Fundusz Żeglugi Śródlądowej (Inland Waterways Fund, IWF)	The Act of 28 October 2002 on the Inland Waterways Fund and the Reserve Fund (Journal of Laws of 2017, 2095)
4.	Fundusz Termomodernizacji i Remontów (Thermal Modernisation and Renovation Fund, TMRF)	The Act of 18 December 1998 on Supporting Thermal Efficiency Improvement Investments (Journal of Laws of 1998 No. 162, item 1121, as amended – archive act); at present, the Fund acts on the basis of the Act of 21 November 2008 on Supporting Thermal Efficiency Improvement and Repairs (Journal of Laws of 2018, item 966, as amended)
5.	Fundusz Kredytów Studenckich (Student Loan Fund, SLF)	The Act on Higher Education and Science of 20 July 2018 (Journal of Laws of 2018, item 1668)
6.	Fundusz Dopłat (Subsidy Fund, SF) which comprises the following programmes:	
	• Mieszkanie na Start (Housing for a Start)	The Act of 20 July 2018 on State Subsidies to Household Expenses in the First Years of Tenancy (Journal of Laws of 2018, item 1540)
	• Mieszkanie dla Młodych (Apartment for the Young)	The Act of 27 September 2013 on State Aid Provided for the Purchase of the First Apartment by Young People (Journal of Laws of 2018, item 604, as amended)
	• Rodzina na Swoim (Family's Own Home)	The Act of 8 September 2006 on the Financial Aid for Families and Other Persons Buying Their Own Flat (Journal of Laws of 2017, item 1407, as amended)
	• Social Housing Programme – financial support for the development of social housing, assisted accommodation, lodging houses named "Budownictwo Socjalne"	The Act of 8 December 2006 on the Financial Aid for the Purposes of Apartments for Rent, Assisted Accommodation, Lodging Houses, Houses for Homeless, Warming Centres and Temporary Shelters (consolidated text: Journal of Laws of 2018, item 2321, as amended)
	• Subsidised interest on fixed-rate housing loans (programme)	The Act of 5 December 2002 on Interest Subsidies to Fixed Interest Rate Housing Credits (Journal of Laws of 2018, item 1188, as amended)
	• Additional payments for the interest rate of loans and bonds under refundable financing of investment and construction ventures carried out by BGK as part of Program rządowy popierania budownictwa mieszkaniowego (Residential construction support government programme)	The Act of 26 October 1995 on Certain Forms of Support for Residential Construction (Journal of Laws of 2018, item 1020, as amended)
7.	Fundusz Wsparcia Kredytobiorców (Borrowers' Support Fund, BSF)	The Act of 9 October 2015 on Supporting Housing Loan Borrowers in a Difficult Financial Condition (Journal of Laws of 2015, item 1925, as amended)
8.	Krajowy Fundusz Gwarancyjny (National Guarantee Fund, NGF)	The Act of 8 May 1997 on Sureties and Guarantees Granted by the State Treasury and Certain Legal Persons (Journal of Laws of 2018, item 1808)

(in PLN thousand)

II. Government's social and economic programmes, as well as programmes of local governments and regional development		
1.	JEREMIE initiative	Financing contracts concluded with Managing Authorities of Regional Operating Programmes for the years 2007-2013 within the scope of management of mutual funds in Dolnośląskie, Łódzkie, Mazowieckie, and Pomorskie provinces (a non-grant support for micro, small and medium enterprises from public funds).
2.	JESSICA initiative; consisting of the following programmes:	
	JESSICA initiative	The Bank acts as the manager of portfolio of investment loans granted under JESSICA initiative implemented in Mazowieckie, Pomorskie, Wielkopolskie provinces. The total amount of granted loans amounts to around PLN 720 million. The loans were granted as part of regional operational programmes for the years 2007-2013 of the above provinces. The Bank will administer the Jessica loans until 2035.
	JESSICA 2 Wielkopolska (2014-2020)	In November 2016, BGK signed two agreements with the Management Board of the Wielkopolskie province under which the Bank manages a total of PLN 285 million allocated to preferential loans that finance projects related to regeneration and energy efficiency in public and multi-family residential buildings. The funds in this respect were granted as part of Wielkopolskie Regional Programme for the years 2014-2020. The implementation of the programme is based on experiences from JESSICA initiative 2007-2013.
	JESSICA 2 Pomorskie (2014-2020)	In December 2017, BGK entered into an operating contract with EIB covering the Pomorskie province. Under the contract BGK will receive funds in the amount of PLN 76.2 million to be allocated to preferential loans that finance projects related to regeneration under the Regional Operational Programme for the Pomorskie Province for the years 2014-2020. The Bank will act as a financial intermediary. The implementation of the programme is based on experiences from JESSICA initiative 2007-2013.
	JESSICA 2 Mazowieckie (2014-2020)	In February 2018, BGK entered into an operating contract with EIB covering the Mazowieckie province. Under the contract BGK will receive funds in the amount of PLN 103 million to be allocated to preferential loans that finance projects related to regeneration under the Regional Operational Programme for the Mazowieckie Province for the years 2014-2020. The Bank will act as a financial intermediary. The implementation of the programme is based on experiences from JESSICA initiative 2007-2013.
	JESSICA 2 Śląskie (2014-2020)	In February 2018, BGK entered into an operating contract with EIB covering the Śląskie province. Under said contract BGK will receive funds in the amount of PLN 377.52 million to be allocated to preferential loans that finance projects related to regeneration under the Regional Operational Programme for the Śląskie Province for the years 2014-2020. The Bank will act as a financial intermediary. The implementation of the programme is based on experiences from JESSICA initiative 2007-2013.
3.	Public Finances Consolidation - administration programme	The Public Finance Act of 27 August 2009 (Journal of Laws of 2017, item 2077, as amended). As of 1 May 2011, the Bank has administered public funds consolidation and maintained the bank accounts of entities whose public funds are consolidated; under the Act of 26 September 2014 on Amending the Public Finance Act and Certain Other Acts (Journal of Laws of 2014, item 1626 – archive act), the scope of public fund consolidation was extended with new units from the public finance sector and the consolidation of common courts' deposit sums was introduced. New units were subject to the 2nd public fund consolidation stage as of 1 January 2015.
4.	Programme of Payments Servicing under Programmes financed by EU Funds and Domestic Co-financing	The Public Finance Act of 27 August 2009 (Journal of Laws of 2017, item 2077, as amended); as of 1 January 2010, the Bank launched a system for administration of payments financed by EU funds and the state.
5.	Support of Entrepreneurship with BGK Sureties and Guarantees; Government programme "Support of Entrepreneurship with BGK Sureties and Guarantees" (including de minimis)	The Act of 8 May 1997 on Sureties and Guarantees Granted by the State Treasury and Certain Legal Persons (Journal of Laws of 2018, item 1808)
6.	Re-compensation Programme due to Leaving Real Estate Properties outside the Current Polish Borders	The Act of 8 July 2005 on Exercising the Right to Compensation for Leaving Real Property Outside the Present Borders of the Republic of Poland (Journal of Laws of 2017, item 2097)
7.	Budgetary loans for anticipatory financing of projects carried out under Rural Areas Development Programme 2007-2013; Budgetary loans for anticipatory financing of projects carried out under Rural Areas Development Programme 2014-2020	The Act of 22 September 2006 on Disbursement of Funds from the Budget of the European Union for Purposes of Common Agricultural Policy Financing (Journal of Laws of 2018, item 221); the Act of 27 May 2015 on Funding Common Rural Policy (Journal of Laws of 2018, item 719)

(in PLN thousand)

8.	Residential construction support programme (closed down NHF)	The Act of 2 April 2009 Amending the Act on Sureties and Guarantees Granted by the State Treasury and Certain Legal Entities, the Act on Bank Gospodarstwa Krajowego and Certain Other Acts (Journal of Laws of 2009 No. 65, item 545 – archive act); residential construction support programmes – the Act of 26 October 1995 on Certain Forms of Support for Residential Construction (Journal of Laws of 2018, item 1020, as amended)
9.	Programme for Social Rental Housing	The Act of 26 October 1995 on Certain Forms of Support for Residential Construction (Journal of Laws of 2018, item 1020, as amended).
10.	The “First Business” programme	withdrawn from the Bank’s offer but is still administered.
11.	The “First Business – Start-Up Support” programme	An agreement concluded with the Ministry of Family, Labour and Social Policy (previously the Ministry of Labour and Social Policy) – legal basis: the Act of 20 April 2004 on Employment Promotion and Labour Market Institutions (Journal of Laws of 2018, item 1265, as amended). The purpose of the programme is to develop entrepreneurship and create new jobs as constituents of the development of the labour market, counteract unemployment, and promote employment through refundable financing (loans) on preferential terms to cover the costs of starting business activity and creating new jobs, in particular by students, graduates, and the unemployed. In addition to loans, the programme enables both applicants for and beneficiaries of start-up loans to obtain free-of-charge training and consultancy services, e.g. on how to run a business, on bookkeeping, and tax regulations. The programme is financed from the Labour Fund and proceeds from the sale of shares held by the State Treasury and administered by the minister competent for labour. The programme’s total budget amounts to around PLN 500 million.
12.	Financial Exports Support, FES Government Programme	The Financial Exports Support (FES) Government Programme was adopted at a meeting of the Council of Ministers held on 28 July 2009. Under the programme, BGK grants loans to foreign buyers (directly or through buyer’s bank) to finance the purchase of Polish goods and services. The FES GP is managed by Bank Gospodarstwa Krajowego based on the Agreement concluded by BGK, the Ministry of Finance, and Korporacja Ubezpieczeń Kredytów Eksportowych S.A. (Export Credit Insurance Corporation) (KUKE S.A.) of 23 May 2013 and based on the Agreement on the implementation of government programme “Financial Exports Support” concluded on 27/29 August 2013 by the Minister of Finance and Bank Gospodarstwa Krajowego.
13.	Banking services, including book-keeping, with respect to liabilities and receivables of the State Treasury	The Bank provides banking services and carries out cost settlement in relation to the obligations and receivables of the State Treasury as of 1 December 2002. The programme is managed pursuant to the agreement of 21 December 2015 on entrusting BGK with banking services and settlement of selected liabilities and receivables of the State Treasury concluded between the Minister of Finance and Bank Gospodarstwa Krajowego.
14.	Rural Areas Activation Programme – Component A of Micro-loan	The programme has been completed, but BGK continues to administer loans granted as part of the programme.
15.	Special Economic Zone Programme (Zone Fund – ZF)	The Act of 2 October 2003 Amending the Act on Special Economic Zones and Certain Other Acts (Journal of Laws No. 188, item 1840, as amended).
16.	Subsidised interest on fixed rate export loans – SIEL	The Act of 8 June 2001 on Fixed-Rate Export Loan Interest Subsidies (Journal of Laws, No. 2019, item 208)
17.	System project titled “Support of financial engineering for the development of social economy”	A project implemented by BGK pursuant to an agreement concluded with the Ministry of Family, Labour and Social Policy in 2012 under the Human Capital Operational Programme 2007-2013 (Activity 1.4), as amended, covering: a) monitoring preferential loans granted to social economy entities (PES) by the end of 2016 as part of loan pilot for PES (Pilot) and b) providing funds for PES in the form of guarantees granted under the Guarantee Fund based on repayments within the Pilot.

(in PLN thousand)

18.	Non-system project "Implementation of a loan and counter-guarantee instrument as part of Krajowy Fundusz Przedsiębiorczości Społecznej" ("National Social Entrepreneurship Fund")	A project implemented by BGK pursuant to an agreement concluded with the Ministry of Family, Labour and Social Policy in 2016 under the Operational Programme Knowledge Education Development 2014–2020 (Activity 2.9); the purpose of the project is to increase the number of PES using repayable funding, e.g. loans and counter-guarantees, as a result of which these entities will have an opportunity to strengthen and extend their activities or undertake new ventures.
19.	State Treasury loan programme to finance public health care centre restructuring projects	The Act of 15 April 2005 on State Aid and Public Health Care Centre Restructuring Projects (Journal of Laws of 2005, No. 78, item 684, as amended) – the final loan was repaid in December 2018
20.	Subsidised interest on loans for reversal of the effects of floods, landslides, and hurricanes	The Act of 8 July 1999 on Subsidised Interest on Loans for Reversal of the Effects of Floods (Journal of Laws, No. 62, item 690, as amended)
21.	Financial instruments under the European Social Fund as part of regional operational programmes 2014-2020	Within the framework of implementation of operational programmes from the financial perspective 2014-2020, BGK entered into contracts for funding with Managing Authorities in 10 provinces (to carry out 11 Projects), i.e. Dolnośląskie, Lubelskie, Lubuskie, Łódzkie, Małopolskie, Opolskie, Podkarpackie, Podlaskie, Zachodniopomorskie, and Świętokrzyskie provinces, based on which the Bank acts as the Manager of the Fund of Funds. Projects are carried out by financial intermediaries selected in line with the procedures defined by Public Procurement Law. Funding covers expenditure associated with establishment of business activities by the unemployed, economically inactive and job seekers or related to the creation of a workplace.
22.	Digital Poland Operational Programme (funded under European Regional Development Fund). Project titled Implementation of financial engineering instruments under Priority Axis I "Common Access to High-Speed Internet", under Digital Poland Operational Programme for the years 2014-2020	A funding contract of 6 February 2017 (as amended) concluded by the Digital Poland Project Centre (Intermediate Body) and Bank Gospodarstwa Krajowego (Fund of Funds Manager). Preferential loans are offered to telecommunication enterprises for investments, mainly related to broadband Internet; liquidity funding of the SME sector is also possible. The total budget for the project amounts to nearly PLN 686.85 million (EU sub-financing and national contribution). Due to the fact that loans may be granted even for a 15-year period, it is assumed that the project will be implemented until 2035.
23.	Enterprise support projects under Regional Operational Programmes 2014-2020	Financing contracts concluded with Managing Authorities of Regional Operating Programmes for the years 2014-2020 within the scope of management of fund of funds in Dolnośląskie, Kujawsko-Pomorskie, Lubelskie, Lubuskie, Łódzkie, Małopolskie, Mazowieckie, Opolskie, Podkarpackie, Podlaskie, Pomorskie, Świętokrzyskie, Warmińsko-Mazurskie, Wielkopolskie, and Zachodniopomorskie provinces (a non-grant support for micro, small and medium enterprises from public funds).
24.	Support for businesses under the Development of Eastern Poland Operational Programme and Enterprising Eastern Poland – Tourism	Financing contacts with the Polish Agency for Enterprise Development and the State Treasury – the Ministry of Development and Finance within the scope of projects implemented under the Development of Eastern Poland Operational Programme in the following provinces: Lubelskie, Podlaskie, Podkarpackie, Świętokrzyskie, and Warmińsko-Mazurskie (a non-grant support for micro, small and medium enterprises from public funds).
25.	Entrepreneurship support projects (equity instruments) under the Smart Development Operational Programme	Financing contracts with the State Treasury – the Ministry of Development and Finance as part of projects carried out under the Smart Development Operational Programme 2014-2020 (equity instruments).
26.	Technology Credit Fund, TCF	The Act of 30 May 2008 on Certain Forms of Support for Innovations (Journal of Laws of 2015, item 1710, as amended). BGK provides funding to SMEs to carry out projects associated with implementation of innovative technologies. The purpose of funding, referred to as a technological grant, is partial repayment of loans advanced to enterprises by commercial banks co-operating with BGK. The technological grant is paid from funds of the Smart Development Operational Programme 2014-2020, subactivity 3.2.2 (previously Innovative Economy Operational Programme 2007-2013), in which BGK is an Intermediary Institution for subactivity 3.2.2 Loan for Technological Innovations of the Smart Development Operational Programme. As of 31 December 2017, under the Act of 29 November 2017 (item 2201) Amending Certain Acts to Improve Legal Environment for Innovations, the form of the special purpose state fund was liquidated, but the Bank still is an Intermediary Institution for subactivity 3.2.2. and performs tasks related to granting and payment of sub-financing in the form of a technological grant.

In addition, the Bank entered into global loan agreements with the European Investment Bank (EIB), under which BGK opens preferential credit facilities to finance specific investment projects carried out by public sector bodies (in particular local governments and municipal companies) and supports operational activities conducted by private entities (especially SMEs). In practice, this means that the Bank receives grants from the European Commission to boost its lending activities.

1.1. Composition of the Supervisory Board and the Management Board of the parent entity

1) Composition of the Bank's Supervisory Board

As at 31 December 2018, the composition of the Bank's Supervisory Board was as follows:

- Paweł Borys – Chairman of the Supervisory Board,
- Kamil Mroczka – Deputy Chairman of the Supervisory Board,
- Jarosław Nowacki – Secretary of the Supervisory Board,
- Artur Adamski – Member of the Supervisory Board,
- Beata Gorajek – Member of the Supervisory Board,
- Mariusz Gruda – Member of the Supervisory Board,
- Jan Filip Staniłko – Member of the Supervisory Board,
- Jerzy Szmit – Member of the Supervisory Board,
- Łukasz Robert Śmigasiewicz – Member of the Supervisory Board.

Composition of the Supervisory Board as at the date on which the consolidated financial statements were signed:

- Paweł Borys – Chairman of the Supervisory Board,
- Beata Gorajek – Deputy Chairwoman of the Supervisory Board,
- Jarosław Nowacki – Secretary of the Supervisory Board,
- Artur Adamski – Member of the Supervisory Board,
- Mariusz Gruda – Member of the Supervisory Board,
- Jan Filip Staniłko – Member of the Supervisory Board,
- Jerzy Szmit – Member of the Supervisory Board,
- Łukasz Robert Śmigasiewicz – Member of the Supervisory Board,
- Magdalena Tarczewska-Szymańska – Member of the Supervisory Board.

2) Composition of the Bank's Management Board

Composition of the Bank's Management Board as at 31 December 2018 was as follows:

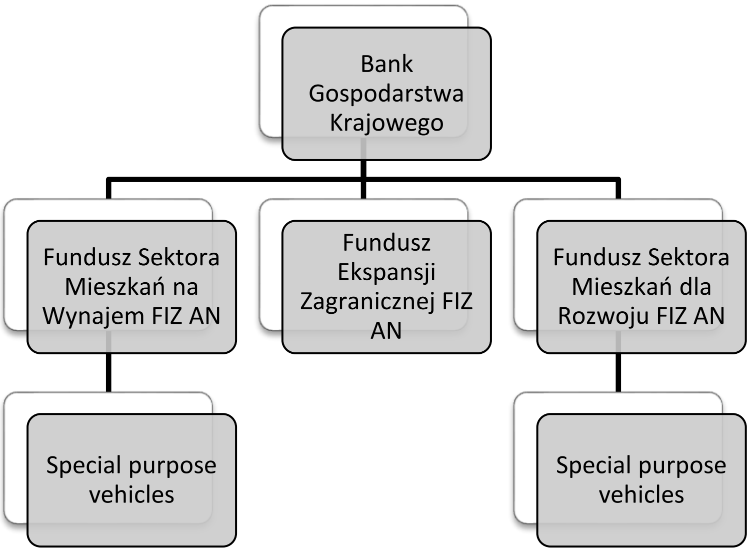
- Beata Daszyńska-Muzyczka – President of the Management Board,
- Paweł Nierada – First Vice-President of the Management Board,
- Włodzimierz Kocon – Vice-President of the Management Board,
- Wojciech Hann – Member of the Management Board,
- Przemysław Cieszyński – Member of the Management Board,
- Radosław Kwiecień – Member of the Management Board.

Composition of the Bank's Management Board did not change from 31 December 2018 until the date on which these consolidated financial statements were signed.

(in PLN thousand)

1.2. Composition of the Bank Gospodarstwa Krajowego Group

As at 31 December 2018, the composition of the Bank Gospodarstwa Krajowego Group was as follows: Bank Gospodarstwa Krajowego (the parent entity) and the following direct or indirect subsidiaries:



Fundusz Sektora Mieszkań na Wynajem FIZ AN (Dwelling for Rent Sector Closed-End Private Equity Investment Fund) – its operations consist in investing proceeds from non-public offering 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.

Fundusz Ekspansji Zagranicznej FIZ AN (Foreign Expansion Closed-End Private Equity Investment Fund) – its operations consist in investing proceeds from non-public offering of investment certificates. The Fund seeks to achieve its investment objective mainly by purchasing and subscribing for shares. It supports foreign expansion by investing in foreign operations of Polish companies.

Fundusz Sektora Mieszkań dla Rozwoju FIZ AN (Dwelling for Development Sector Closed-End Private Equity Investment Fund) – its operations consist in co-financing investments in building real estate carried out by municipalities and communes or companies under their management. The fund invests in projects consisting in constructing or purchasing buildings that lie in significant interests of a municipality or commune, along with reconstructing and adjusting them to its needs, as well as in real estate projects carried out as part of urban areas regeneration projects.

Special Purpose Vehicle – an entity whose scope of business includes implementation, on own account, of construction projects involving the construction of buildings, purchase and sale of real estate, including multi-family residential buildings, as well as lease of apartments located in its multi-family residential buildings on own account, in addition to real estate services.

1.3. Subsidiaries

Composition of the BGK Group is presented below:

Composition of the BGK Group				
Entity name	**Registered office**	**Scope of business**	**Direct/indirect interest held by the parent endity in the entity's capital**	
			31 Dec 2018	**31 Dec 2017**
Investments of Bank Gospodarstwa Krajowego				
TFI BGK S.A (currently PFR TFI S.A.)*	Warsaw	investment fund establishment and management	-	Sale
BGK Nieruchomości S.A. (currently PFR Nieruchomości S.A.) **	Warsaw	real estate services, lease and rental, management of assets of FSMnW FIZ AN and FSMdR FIZ AN	Sale	100%
Fundusz Ekspansji Zagranicznej FIZ AN***	Warsaw	investment of proceeds from fund participants	100%	100%
Fundusz Sektora Mieszkań dla Rozwoju FIZ AN***	Warsaw	investment of proceeds from fund participants	100%	100%
Fundusz Sektora Mieszkań na Wynajem FIZ AN***	Warsaw	investment of proceeds from fund participants	100%	100%

(in PLN thousand)

Special Purpose Vehicles of Fundusz Sektora Mieszkań na Wynajem FIZ AN				
FSMnW Poznań Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	100%
FSMnW Kraków Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	100%
FSMnW Trójmiasto Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	100%
FSMnW Warszawa 1 Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	100%
FSMnW Wrocław Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	100%
FSMnW Katowice Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	100%
FSMnW Inwestycje Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	100%
FSMnW Warszawa 2 Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	100%
FSMnW Warszawa 3 Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	100%
MP Inwestycje Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	100%
MP Inwestycje 3 Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	100%
MP Wałbrzych Sp. z o.o.	Warsaw	implementing construction projects related to erecting buildings	97%	72%
FSMnW Warszawa 4 Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
Special Purpose Vehicles of Fundusz Sektora Mieszkań dla Rozwoju FIZ AN				
MP Inwestycje 2 Sp. z o.o.****	Warsaw	rent and management of own or rented property	100%	100%
MDR Katowice (previous name: MP Inwestycje 4 Sp. z o.o.)****	Warsaw	rent and management of own or rented property	76%	100%
Projekt Municypalny Jarocin 1 Sp. z o.o.	Warsaw	Implementing construction projects related to erecting buildings	94%	93%
Projekt Municypalny Kępice 1 Sp. z o.o.	Warsaw	Implementing construction projects related to erecting buildings	87%	98%
Projekt Municypalny Kępno 1 Sp. z o.o.	Warsaw	Implementing construction projects related to erecting buildings	90%	84%
Projekt Municypalny Sulęcin 1 Sp. z o.o.	Warsaw	Implementing construction projects related to erecting buildings	100%	100%
Spółka Operacyjna Projektów Municypalnych Sp. z o.o.	Warsaw	Activities of head offices and holdings, excluding financial holdings	100%	100%
Projekt Municypalny Nysa 1 Sp. z o.o.*****	Warsaw	Implementing construction projects related to erecting buildings	75%	75%
MP Biała Podlaska Sp. z o.o.****	Warsaw	rent and management of own or rented property	100%	83%
MDR Inwestycje 8 Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
MDR Inwestycje 9 Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
MDR Radom Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
MDR Inwestycje 6 Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
MDR Inwestycje 7 Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
MDR Inwestycje 13 Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
MDR Inwestycje 12 Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
MDR Szczecin Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
MDR Warszawa Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
MDR Inwestycje 10 Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
MDR Katowice 2 Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
MDR Inwestycje 15 Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
MDR Inwestycje 16 Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
MDR Inwestycje 5 Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
MDR Inwestycje 14 Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
MDR Łowicz	Warsaw	rent and management of own or rented property	100%	-
Projekt Municypalny Zgorzelec 1 Sp. z o.o.	Warsaw	rent and management of own or rented property	75%	-
MDR Toruń Sp. z o.o.	Warsaw	rent and management of own or rented property	55%	-
MDR Świdnik Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
MDR Dębica Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
MDR Skawina Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
MDR Zamość Sp. z o.o.	Warsaw	rent and management of own or rented property	100%	-
Projekt Municypalny Nidzica 1 Sp. z o.o.	Warsaw	Implementing construction projects related to erecting buildings	75%	-

* On 28 September 2017, Bank Gospodarstwa Krajowego sold 100% shares of TFI BGK S.A. (currently PFR TFI S.A) to Polski Fundusz Rozwoju S.A.
** On 3 October 2018, Bank Gospodarstwa Krajowego sold 100% shares in BGKN S.A. (currently PFR Nieruchomości S.A.) to Polski Fundusz Rozwoju S.A.
*** "Direct/investment interest in capital of the parent entity" presents the share in the Fund's investment certificates.
**** As at 31 December 2017, special purpose vehicles were investments of Fundusz Sektora Mieszkań na Wynajem FIZ AN.
***** The entity was not consolidated as at 31 December 2017.

(in PLN thousand)

1.4. Associates

BGK Group has the following associates:

Associates				
Entity name	Registered office	Scope of business	Interest held by the parent entity in the entity's capital	
			31 Dec 2018	31 Dec 2017
Investments of Bank Gospodarstwa Krajowego				
Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	Warsaw	investment of proceeds from fund participants	86.45%	13.75% (86.45%)*
Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	Warsaw	investment of proceeds from fund participants	86.40%	40.32% (86.40%)*
Fundusz Inwestycji Samorządowych Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	Warsaw	investment of proceeds from fund participants	50.00%	12.5% (75.00%)*
Fundusz Inwestycji Infrastrukturalnych – Dłużny Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	Warsaw	investment of proceeds from fund participants	5.89% (86.45%)*	5.89% (86.45%)*
Korporacja Ubezpieczeń i Kredytów Eksportowych S.A.	Warsaw	insurance activities	36.69%	36.69%
Krajowa Grupa Poręczeniowa Sp. z o.o.	Warsaw	surety activities	39.29%	39.29%
Świętokrzyski Fundusz Poręczeniowy Sp. z o.o.	Kielce	surety activities	49.99%	49.99%
Kujawsko-Pomorski Fundusz Poręczeń Kredytowych Sp. z o.o.	Toruń	surety activities	49.38%	49.38%
Opolski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o.	Opole	surety activities	48.27%	48.27%
Fundusz Pomerania Sp. z o.o.	Szczecin	surety activities	41.15%	46.95%
Samorządowy Fundusz Poręczeń Kredytowych Sp. z o.o. in Gostyń	Gostyń	surety activities	41.01%	41.65%
Śląski Regionalny Fundusz Poręczeniowy Sp. z o.o.	Katowice	surety activities	46.08%	46.08%
Fundusz Poręczeń Kredytowych Sp. z o.o in Jelenia Góra	Jelenia Góra	surety activities	44.60%	44.60%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Poznań	surety activities	44.44%	44.44%
Dolnośląski Fundusz Gospodarczy Sp. z o.o.	Wrocław	surety activities	42.62%	42.62%
Małopolski Regionalny Fundusz Poręczeniowy Sp. z o.o.	Kraków	surety activities	36.87%	36.87%
Warmińsko-Mazurski Fundusz "Poręczenia Kredytowe" Sp. z o.o.	Działdowo	surety activities	36.19%	36.19%
Małopolski Fundusz Poręczeń Kredytowych Sp. z o.o. w likwidacji (in liquidation)	Nowy Sącz	surety activities	32.86%	32.86%
Bydgoski Fundusz Poręczeń Kredytowych Sp. z o.o.	Bydgoszcz	surety activities	31.09%	31.09%
Fundusz Rozwoju i Promocji Województwa Wielkopolskiego S.A.	Poznań	surety activities	22.47%	22.47%
Investments of Fundusz Ekspansji Zagranicznej FIZ AN				
Esotiq Germany GMBH	Stuttgart	Retail sale of textile goods	48.78%	48.78%
UAB EMP Recycling	Galines (Lithuania)	Acquisition, processing, and sale of recyclable waste	49.00%	49.00%
ASM Germany GmbH	Nuremberg	Sales support services	49.90%	-

* target interest

Closed-End Private Equity Investment Funds (FIZ AN) (the Funds) whose certificate holders are Bank Gospodarstwa Krajowego and Polski Fundusz Rozwoju S.A. (Polish Development Fund, PFR) are classified as associates. Despite holding a significant interest in the Funds, the Bank only has significant influence over the Funds due to:

- commissioning to PFR by PFR TFI S.A. of management and investment activities with respect to part of the Funds' investment portfolio as part of the investment strategy, and
- participation of only one representative of the Bank in the work of investment committee composed of five members (share of 20%), whose positive opinion is required for making investments by the Funds.

(in PLN thousand)

1.5. Change in presentation of financial data (comparative data)

In the full-year consolidated financial statements for the period from 1 January 2018 to 31 December 2018, relative to the full-year financial statements for the period from 1 January 2017 to 31 December 2017, the Group restated the consolidated statement of profit or loss due to a change in the presentation of share premium cost – transfer from interest expenses as a reduction of interest income relevant for a given portfolio.

The introduction of the change resulted in the need to ensure comparability with the current period of comparable data disclosed in these financial statements.

Below are presented the individual items of the consolidated statement of profit or loss at amounts disclosed in the full-year consolidated financial statements for the period from 1 January 2017 to 31 December 2017 and after restatement.

Continuing operations	Note	2017 (before restatement)	restatement	2017 (restated)
Interest income		1,826,232	-122,924	1,703,308
Interest income calculated by using the effective interest method		x	x	x
Income similar to interest on instruments at fair value through profit or loss		x	x	x
Interest expense		-1,050,126	122,924	-927,202
Net interest income	4	**776,106**	**0**	**776,106**
Fee and commission income		167,909	0	167,909
Fee and commission expense		-11,313	0	-11,313
Net fee and commission income	5	**156,596**	**0**	**156,596**
Gain/loss on financial instruments at fair value through profit or loss and net exchange differences	6	26,239	0	26,239
Gain/loss on investments in financial assets	7	30,578	0	30,578
Net modification gain/loss	8	x	x	x
Other operating income	9	102,358	0	102,358
Other operating expenses	9	-29,730	0	-29,730
General administrative expenses	10	-394,049	0	-394,049
Net impairment losses and provisions	11	-49,638	0	-49,638
Operating result		**618,460**	**0**	**618,460**
Share of profit or loss of associates	25	71,992	0	71,992
Profit before tax		**690,452**	**0**	**690,452**
Income tax	12	-106,013	0	-106,013
Net profit		**584,439**	0	**584,439**
Net profit attributable to the owner of the parent entity		**584,565**	0	**584,565**
Net profit attributable to non-controlling interests		**-126**	0	**-126**

2. Accounting policies

2.1. Statement of compliance

These consolidated financial statements of the Bank Gospodarstwa Krajowego Group for 2018 (the "financial statements") have been prepared in accordance with the International Financial Reporting Standards approved by the European Union as at 31 December 2018, and the related interpretations published as Commission Regulations (IFRS), and to the extent not regulated by the aforesaid standards, in accordance with the requirements of the Accounting Act of 29 September 1994 and implementing acts issued on its basis (Polish accounting standards – PAS).

The accounting policies applied by the members of the Group and associates are in line with PAS. For the purposes of these financial statements, adjustments were made to apply uniform accounting policies.

These financial statements were approved for issue by the Management Board of Bank Gospodarstwa Krajowego on 15 April 2019.

These consolidated financial statements of the Bank Gospodarstwa Krajowego Group are published on the same date as the separate financial statements of Bank Gospodarstwa Krajowego for 2018.

2.2. Amendments to accounting standards

Amendments to the existing standards adopted for the first time in the financial statements for 2018

The following new standards, amendments to existing standards and interpretations approved for use in the EU were adopted for the first time in the financial statements for 2018:

- IFRS 9 "Financial Instruments" introduces requirements for recognition and measurement, impairment, derecognition and hedge accounting of financial instruments – a more detailed description of the standard and presentation of its effect on the Group's financial condition is included further in this Note.
- IFRS 15 "Revenue from Contracts with Customers" including the amendment of the effective date – the standard specifies the manner and timing of revenue recognition – a more detailed description of the standard and analysis is included further in this Note.
- Amendments to IFRS 2 "Share-Based Payment" – classification and measurement of share-based payment. The amendment introduces requirements for recognition of: (a) the consequences of acquisition of the rights and conditions other than conditions of acquisition of the rights on measurement of share-based payment to be settled in cash; (b) share-based payments settled in net against tax liabilities; and (c) modifications of share-based payment transactions from cash-settled to equity-settled.
- Amendments to IFRS 4 "Insurance Contracts" – the amendments were introduced to solve problems resulting from the implementation of a new standard: IFRS 9 "Financial instruments" before the new standard is implemented to replace IFRS 4.
- Amendments to IAS 40 "Investment property" – under the amendments, an entity transfers specific property items to or from investment property only if there is evidence of a change in use of the property. A change in use occurs where a specific property meets or no longer meets the definition of "investment property", as appropriate. Change in the intention of the management as regards the use of the property itself does not serve as a reason for changing its use.
- Amendments to IFRS 1 and IAS 28 as part of the "Annual Improvements to IFRS Standards (2014–2016 Cycle)" – amendments were made to different standards as part of the annual improvements process (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording.
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" – the interpretation specifies that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

The above new standards, amendments to existing standards and the interpretation, save for IFRS 9 "Financial Instruments", had no effect on the Group's financial statements for 2018.

IFRS 9 "Financial Instruments"

As of 1 January 2018 the Group adopted International Financial Reporting Standard 9 "Financial Instruments" ("IFRS 9") The standard introduces certain changes concerning the principles for classification and measurement of financial instruments (especially financial assets) and a new model for impairment of financial assets based on expected loss.

The new accounting policies resulting from the adoption of IFRS 9 applied by the Group are presented in Note 2.5 Significant accounting policies.

IFRS 9 introduced significant changes in the manner of presentation and scope of disclosures on financial instruments. The Bank decided to apply IFRS 9 which allowed it to be released from the obligation to restate comparative data for the previous periods with regard to changes resulting from classification and measurement (including impairment). The differences in the carrying amount of financial assets resulting from the adoption of IFRS 9 are recognised under "Retained earnings (accumulated loss)" and "Revaluation reserve" as at 1 January 2018.

The effect of first-time adoption by the Group of IFRS 9 is presented below.

(in PLN thousand)

The table below presents changes in the categories of financial assets which took place as a result of adoption of IFRS 9.

Classification of financial assets and liabilities as at the date of adoption of IFRS 9	Classification according to IAS 39	Classification according to IFRS 9	Carrying amount according to IAS 39	Carrying amount according to IFRS 9
Cash and balances with the Central Bank	Loans and receivables	Measured at amortised cost	988,581	988,581
Receivables from banks	Loans and receivables	Measured at amortised cost	3,247,473	3,246,935
Financial assets held for trading	Measured at fair value through profit or loss	Measured at fair value through profit or loss (mandatory)	1,342,070	1,342,070
Financial assets at fair value through profit or loss	Measured at fair value through profit or loss (designated)	Measured at fair value through profit or loss (designated)	130,233	130,233
Loans and advances to customers	Loans and receivables	Loans and advances at amortised cost	21,455,457	21,466,982
Loans and advances to customers	Loans and receivables	Loans and advances at fair value through profit or loss (mandatory)	169,049	164,916
Loans and advances to customers	Loans and receivables	Debt securities at fair value through profit or loss (mandatory)	33,709	44,805
Loans and advances to customers	Loans and receivables	Debt securities at amortised cost	5,565,538	5,557,657
Reverse repurchase agreements	Loans and receivables	Measured at amortised cost	2,105,540	2,105,540
Available-for-sale financial assets – debt instruments	Available for sale	Measured at fair value through other comprehensive income	35,699,238	35,699,238
Available-for-sale financial assets – equity instruments	Available for sale	Measured at fair value through profit or loss (mandatory)	136,988	136,988
Available-for-sale financial assets – equity instruments	Available for sale	Measured at fair value through other comprehensive income	1,225,026	1,225,026
Other assets	Loans and receivables	Measured at amortised cost	38,757	38,656
Total financial assets			**72,137,659**	**72,147,627**
Provisions	Measured at amortised cost	Measured at amortised cost	170,799	162,144

In addition, held-to-maturity assets with a gross amount of PLN 166 thousand and net amount of PLN 0 were reclassified in accordance with IFRS 9 to debt securities at amortised cost.

(in PLN thousand)

The table below presents reconciliation between carrying amounts of financial assets by measurement category under IAS 39 and the carrying amounts of the items by measurement category under IFRS 9, as at the date of adoption of IFRS 9 for the first time.

	FINANCIAL ASSETS	Carrying amount as at 31 Dec 2017 under IAS 39	Reclassification	Revaluation	Carrying amount as at 1 Jan 2018 under IFRS 9
	MEASURED AT AMORTISED COST				
	Receivables from banks				
	Opening balance	3,247,473			
	Recognition of allowances for expected credit losses			-538	
	Closing balance				3,246,935
	Loans and advances to customers				
	Opening balance	27,223,753			
A	Reclassification to financial assets at fair value through profit or loss (mandatory)		-202,758		
B	Reclassification to debt securities at amortised cost		-5,565,538		
	Change in presentation of gross carrying amount according to IFRS 9 – impairment interest adjustment		6,524		
	Change in presentation of gross carrying amount according to IFRS 9 – penalty interest		267,628		
	Reversal of allowances for expected credit losses, including impairment interest adjustment in connection with recognition of POCI assets			47,156	
	Settlement of commissions in connection with recognition of POCI assets			452	
	Adjustment of carrying amount of POCI assets			-47,156	
	Change in allowances for expected credit losses resulting from change in presentation of gross carrying amount according to IFRS 9 – impairment interest adjustment			-6,524	
	Change in allowances for expected credit losses resulting from change in presentation of gross carrying amount according to IFRS 9 – penalty interest			-267,628	
	Change in allowances for expected credit losses, including impairment interest adjustment as a result of application of IFRS 9			11,073	
	Closing balance				21,466,982
	Debt instruments at amortised cost				
	Opening balance	x			
B	Reclassification from loans and advances to customers		5,565,538		
	Change in presentation of gross carrying amount according to IFRS 9 – impairment interest adjustment		1,828		
	Change in allowances for expected credit losses resulting from change in presentation of gross carrying amount according to IFRS 9 – impairment interest adjustment			-1,828	
	Change in allowances for expected credit losses, including impairment interest adjustment as a result of application of IFRS 9			-7,881	
	Closing balance				5,557,657
	Other assets				
	Opening balance	38,757			
	Recognition of allowance			-101	
	Closing balance				38,656
	AVAILABLE FOR SALE				
	Available-for-sale financial assets				
	Opening balance	37,061,252			
C	Reclassification to fair value through other comprehensive income – debt instruments		-35,699,238		
D	Reclassification to fair value through other comprehensive income – equity instruments (designated)		-1,225,026		
E	Reclassification to fair value through profit or loss – equity instruments (mandatory)		-136,988		
	Closing balance				x
	MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME				
	Debt securities				
	Opening balance	x			
C	Reclassification from available-for-sale		35,699,238		
	Closing balance				35,699,238
	Equity securities				
	Opening balance	x			
D	Reclassification from available-for-sale		1,225,026		
	Closing balance				1,225,026
	MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
	Loans and advances to customers				
	Opening balance	x			
A	Reclassification from measured at amortised cost		169,049		
	Reversal of allowance for expected credit losses			476	
	Fair value measurement			-4,609	
	Closing balance				164,916
	Receivables under debt instruments				
	Opening balance	x			
A	Reclassification from measured at amortised cost		33,709		
	Reversal of allowance for expected credit losses			22,001	
	Reversal of impairment interest adjustment			411	
	Fair value measurement			-11,316	
	Closing balance				44,805
	Equity securities				
	Opening balance	x			
E	Reclassification from available-for-sale		136,988		
	Closing balance				136,988

Below is explained how the adoption of new requirements of IFRS 9 resulted in reclassification of certain financial assets held by the Group presented in the table above.

Loans and advances to customers

A. Loans and advances to customers, whose SPPI test result was negative, were obligatorily reclassified into the fair value through profit or loss category. The fact that contractual cash flows do not constitute only a repayment of principal and interest on outstanding principal resulted from:
- using a financial leverage in loan agreements that increases contractual cash flow volatility, and
- in certain disbursements of debt securities, using participation clauses in the financial result of the customer which entitle the Bank to collect additional cash flows.

Other loans and advances to customers, held with a view to collecting contractual cash flows and meeting the criteria of SPPI, continue to be measured at amortised cost.

Debt instruments at amortised cost

B. The Group assessed the business model for municipal and corporate debt securities and concluded that they meet the criteria of a business model whose objective is to collect contractual cash flows. As a result, they were reclassified to “Debt instruments at amortised cost”. Before the adoption of the requirements of IFRS 9, the items were disclosed under loans and advances to customers, as they were classified into the loans and receivables in line with IAS 39.

Debt securities

C. Debt securities which, in line with IAS 39, were classified as available for sale, were reclassified into the fair value through other comprehensive income category, without changing the measurement method. The Group assessed the business model for such securities and concluded that they are held with a view to collecting cash flows and for sale.

Equity instruments

D. Equity instruments held by the Group long-term were irrevocably designated as at fair value through other comprehensive income in accordance with IFRS 9. Before the adoption of IFRS 9, the instruments were measured at fair value through other comprehensive income (in the financial assets available for sale category).

E. Other equity instruments which, in line with IAS 39, were classified as available for sale and were measured at fair value through other comprehensive income and which were not irrevocably designated as at fair value through other comprehensive income, were reclassified into the fair value through profit or loss category.

(in PLN thousand)

The table below presents the reconciliation of the impairment allowances recognised in accordance with IAS 39 and the provisions recognised in accordance with IAS 37 to the allowances for expected credit losses in accordance with IFRS 9.

Reconciliation of impairment allowances	Impairment allowances under IAS 39 and provisions under IAS 37	Reclassifications	Revaluation	Impairment allowances and provisions under IFRS 9 as at 1 Jan 2018
Receivables from banks	482	0	538	1,020
Loans and advances to customers at amortised cost	758,203	85,905	-11,076	833,032
Debt instruments at amortised cost	x	120,610	7,881	128,491
Available-for-sale financial assets – equity instruments	72,051	-72,051	0	0
Financial assets at fair value through other comprehensive income	x	0	1,810	1,810
Held-to-maturity financial assets	166	-166	0	0
Other assets	5,302	0	101	5,403
Total balance-sheet items	**836,204**	**134,298**	**-746**	**969,756**
Credit facilities	98,843	0	-22,023	76,820
Guarantees	71,956	0	13,368	85,324
Total off-balance-sheet items	**170,799**	**0**	**-8,655**	**162,144**
Total	**1,007,003**	**134,298**	**-9,401**	**1,131,900**

The item "Reclassifications" comprises: reversal of allowances following reclassification of financial assets into the FVPL category and the change of the level of allowances, which occurred together with a corresponding change in the gross carrying amount, including:

- an increase in allowances as a result of adjustment of the gross carrying amount to the requirements of IFRS 9 (presentation change where the gross carrying amount is increased by recognising contractual interest on receivables charged in full, with a corresponding increase in the amount of allowances – PLN 267,628 thousand),
- a decrease in receivables classified into the POCI category, which at initial recognition are recognised at fair value and have no allowances – PLN 47,156 thousand,
- reclassification of impairment interest adjustment – PLN 8,352 thousand.

The table below presents the effect of IFRS 9 as at the first day of its adoption. The effect associated with the adoption of IFRS 9 has been recognised in "Retained earnings (accumulated loss)" and "Revaluation reserve".

Impact of IFRS 9 on retained earnings	
Net retained earnings (accumulated loss) as at 31 December 2017 according to IAS 39	**274,362**
Allowances for expected credit losses	**9,401**
Reclassification of financial assets to FVPL category in connection with failed SPPI test, including:	**6,963**
reversal of impairment allowances	22,888
adjustment of fair value measurement	-15,925
Reclassification of total equity instruments, including:	**50,381**
reclassification AFS -> FVPL	49,376
reclassification AFS -> FVOCI	1,005
Other adjustments	**451**
Deferred income tax	**-10,068**
Total effect of application of IFRS 9 (impact of IFRS 9 on retained earnings)	**57,128**
Net retained earnings as at 1 January 2018 as a result of IFRS 9 implementation	**331,490**
Impact of IFRS 9 on revaluation reserve	
Net revaluation reserve as at 31 December 2017 according to IAS 39	**355,456**
Recognition of allowances for expected credit losses for exposures classified previously as AFS	**1,810**
Reclassification of total equity instruments, including:	**-50,381**
reclassification AFS -> FVPL	-49,376
reclassification AFS -> FVOCI	-1,005
Deferred income tax	**9,038**
Total effect of application of IFRS 9 (impact of IFRS 9 on revaluation reserve)	**-39,533**
Net revaluation reserve as at 1 January 2018 as a result of IFRS 9 implementation	**315,923**

The Group resolved not to apply transitional arrangements specified in Article 473 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as amended by Regulation (EU) No. 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No. 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 "Revenue from Contracts with Customers" replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" as well as any interpretations related with revenue disclosure. The standard applies to contracts signed with customers, except for financial instruments, leasing contracts, insurance contracts, and guarantees. The core principle of the new standard is to recognise revenue that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. In line with IFRS 15, the transfer of goods or services is based on the concept of passing control onto the customer, which may take place at a defined moment (delivery of a good or performance of a service) or over time (when the service is being provided). The cost of obtaining and securing contracts with customers should be capitalised and settled over the period in which the contract's benefits are consumed.

IFRS 15 introduced a new, five-step model that should be used to any contracts giving rise to revenue. The model consists of the following steps:

1) Identification of contract with a customer.
2) Identification of separate performance obligations.
3) Determining the transaction price.
4) Allocation of the transaction price to performance obligations.
5) Recognition of revenue.

The review identified that the Group carries revenue which falls under IFRS 15 and which mainly includes:

- fees for asset management as part of European Union Perspective 2014-2020;
- remuneration for management of programmes/funds of commissioned activities;
- remuneration for public funds consolidation administration;
- rental income.

As a result of analyses performed in the above areas and the fact that a significant part of the Group's revenue results from activities regulated under other standards, no items calling for a change in accounting recognition were identified. In the opinion of the Group, the adoption of IFRS 15 will have no impact on the financial condition and own funds of the Group.

New standards and amendments to existing standards which have been approved by the European Union, but which have not yet become effective

The following amendments have been approved for use in the EU, but are not yet effective:

- IFRS 16 "Leases" – effective for annual periods beginning on or after 1 January 2019 – the description of the standard and the analysis of its impact on the Group are presented further in this Note.
- Amendment to IFRS 9 "Financial Instruments" – the amendments modify the requirements of IFRS 9 regarding the rights of early contract termination for the purpose of measurement at amortised cost or at fair value through other comprehensive income even in the case of negative compensation.
- IFRIC 23 "Uncertainty over Income Tax Treatments" – the interpretation contains guidelines that supplement the IAS 12 requirements while specifying the manner of depicting the effects of uncertainty while recognising income tax.

The Group estimates that the above standards would not have had a material effect on these financial statements if they had been applied in these financial statements, except for IFRS 16 "Leases".

IFRS 16 "Leases"

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It is effective for accounting periods beginning on 1 January 2019 and supersedes the requirements for leases, in particular IAS 17 "Leases".

The objective of the new standard is to facilitate comparison of financial statements in which both finance and operating lease is disclosed in the statement of financial position of the lessee and to provide users of financial statements with information on the risks associated with these types of lease. Unlike the rules of accounting for lease applicable to lessees, the new standard does not change the requirements of IAS 17 applicable to lessors.

The new standard does not distinguish between finance lease and operating lease in the lessee's accounting books and requires the recognition of the right-of-use asset and lease liability for all agreements executed by the lessee. The Group does not apply the provisions of the standard to agreements under which it is a lessee to the extent permitted by IFRS 16, i.e. to leases of assets that are not material, short-term leases (lease term of less than 12 months) and leases of low-value assets.

When an entity first applies IFRS 16, the lease liability is measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. At initial recognition, the right-of-use asset is recognised at the amount of the lease liability.

The Group decided to apply IFRS 16 to its lease agreements for the first time using the modified retrospective approach. In effect, the Group does not restate comparatives.

As a result of the IFRS 16 project implemented at the parent entity, as at 1 January 2019 the following items were estimated:

- right-of-use asset in the amount of PLN 31,409 thousand;
- lease liability in the amount of PLN 31,409 thousand.

New standards and amendments to existing standards published by the IASB, but have not yet been approved for use in the EU

The EU-approved IFRS do not differ significantly from the regulations issued by the International Accounting Standards Board (IASB), with the exception of the following new standards and amendments to standards, which have not yet been approved for use in the EU:

- IFRS 14 "Regulatory Deferral Accounts" – The purpose of the standard is to enable entities that apply IFRS for the first time and recognise regulatory deferral accounts in line with previous generally applicable accounting principles, to continue disclosing these accounts following transition to IFRS.
- IFRS 17 "Insurance Contracts" – The new standard calls for measurement of insurance contracts in an amount of present value of payment and ensures a more uniform approach for measuring and recognising all insurance contracts. The purpose of these requirements is to achieve a coherent disclosure of insurance contracts based on uniform accounting principles. IFRS 17 replaces IFRS 4 "Insurance Contracts" and its interpretations on the date of adoption of the new standard.
- Amendments to IFRS 3 "Business Combinations" – The amendments are implemented to improve the definition of a business. The revised definition of a business specifies that the objective (result) of a business is to provide goods and services to customers, while the existing definition focuses on results in the form of dividends, lower costs or other economic benefits for investors and other entities.
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – The purpose of these amendments is to remove any discrepancy between IAS 28 and IFRS 10 as well as to clarify that the recognition of profit or loss in transactions involving an associate or joint venture depends on whether the sold or incurred assets constitute a venture.
- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – The amendments were introduced to various standards as part of the annual improvements process (IFRS 1, IFRS 12 and IAS 28) primarily to remove inconsistencies and clarify wording.
- Amendments to IAS 19 "Employee Benefits" – According to the amendment, following a change of the plan the measurement premises should be updated in order to define current costs of services and net interest for the remaining part of the reporting period.
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – The amendments were introduced to clarify that an entity applies IFRS 9 (including requirements regarding impairment) with regard to long-term interests in associates or joint ventures that form part of the net investment in the associate or joint venture but to which the equity method is not applied.
- Amendments to various standards as part of the "Annual Improvements to IFRS Standards (2015–2017 Cycle)" – The amendments were introduced to various standards as part of the annual improvements process (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily to remove inconsistencies and clarify wording.
- Update of references to the conceptual framework in IFRS Standards – Due to an update of conceptual framework, the IASB updated references to the revised conceptual framework in IFRS Standards.

The Group estimates that the above new standards and amendments to existing standards would not have had a material effect on these financial statements if they had been applied by the Group as at 31 December 2018.

2.3. Basis of preparation of the financial statements

These consolidated financial statements of the Bank Gospodarstwa Krajowego Group contain data for the financial year from 1 January to 31 December 2018 as well as comparative financial data for the financial year from 1 January to 31 December 2017.

These financial statements were prepared on the assumption that the Group will continue as a going concern for at least twelve months after the reporting date. As at the date of approval of these financial statements, the Management Board of the parent entity did not identify any facts or circumstances that would pose a risk for the Group to continue as a going concern as a result of intended or forced discontinuation or material limitation of existing operations.

Unless otherwise stated, the data in these consolidated financial statements is presented in the Polish złoty, rounded to PLN ‘000.

Policies applicable as of 1 January 2018

These consolidated financial statements were prepared based on the following measurement principles:

- at fair value for financial assets and liabilities at fair value through profit or loss, including financial assets held for trading and financial assets at fair value through other comprehensive income,
- at amortised cost for other financial assets, including loans and advances and other financial liabilities,
- at historical cost for associates and subsidiaries and non-financial assets and liabilities, less impairment allowances,
- at fair value for investment property.

Policies applicable until 31 December 2017

These financial statements of the Group were prepared based on the following measurement principles:

- at fair value for financial assets and liabilities held for trading, including derivatives, financial assets designated at initial recognition as financial assets measured through profit or loss and financial assets available for sale, except those whose fair value cannot be reliably estimated,
- at amortised cost for other financial assets, including loans and advances and other financial liabilities,
  - at historical cost for non-financial assets and liabilities, less impairment allowances, and available-for-sale financial assets whose fair value cannot be reliably estimated,
- at fair value for investment property.

2.4. Estimates and assumptions

The Group makes certain estimates and assumptions that affect both the financial statements and the accompanying notes. The estimates and assumptions made for purposes of recognition of the respective amounts of assets and liabilities as well as revenue and costs are based on historical data and other factors which are available and considered appropriate under given circumstances.

The assumptions concerning the future and the available data are used for purposes of estimating the carrying amounts of assets and liabilities that cannot be measured reliably using other sources. While making such assumptions, the causes and sources of uncertainty foreseeable at the end of the reporting period are taken into account. Actual performance may differ from estimates.

The estimates and assumptions are reviewed on a regular basis. Estimation adjustments are recognised in the period when the estimates are modified, if they pertain to that period only. If the adjustments affect both the period of the modification and future periods, they are recognised in the period of the modification and in future periods.

Allowances for expected credit losses

As at each reporting date, the Group assesses whether there is any objective evidence of impairment of a financial asset/a group of financial assets. The methods for impairment tests and calculation of expected credit losses are described in Note 47 “Credit risk management”.

The tables below present the estimated effect of changes in the present value of cash flows as well as PD and LGD on the amount of allowances for expected credit losses – for three impairment testing stages. Negative value means a decrease in allowances for expected credit losses. In connection with the entry into force of IFRS 9 as of 1 January 2018, the data as at 31 December 2018 comprises figures in accordance with IFRS 9, while comparative figures reflect the estimated change determined in accordance with IAS 39.

(in PLN thousand)

Allowances for expected credit losses on financial assets – policies applicable as of 1 January 2018

Effect of an increase/decrease in the present value of cash flows on impairment allowances on/provisions for impaired exposures – tested individually – Stage 3 as at 31 December 2018		
Increase/decrease in the present value of cash flows	**10%**	**-10%**
Estimated change in impairment allowances on on-balance-sheet exposures tested individually	-107,839	183,477
Estimated change in provisions for off-balance-sheet liabilities tested individually	-23,236	127,509

Effect of an increase/decrease in LGD on impairment allowances on/provisions for impaired exposures – tested on a collective basis – Stage 3 as at 31 December 2018		
Increase/decrease in LGD	**10%**	**-10%**
Estimated change in impairment allowances on on-balance-sheet exposures tested on a collective basis	4,595	-6,755
Estimated change in provisions for off-balance-sheet liabilities tested on a collective basis	108	-126
Effect of an increase/decrease in PD and LGD on impairment allowances on/provisions for non-impaired exposures – Stage 1 and 2 as at 31 December 2018		
Increase/decrease in PD	**10%**	**-10%**
Estimated change in impairment allowances on non-impaired on-balance-sheet exposures	26,751	-28,058
Estimated change in provisions for non-impaired off-balance-sheet liabilities	15,607	-15,569
Increase/decrease in LGD	**10%**	**-10%**
Estimated change in impairment allowances on non-impaired on-balance-sheet exposures	26,562	-26,562
Estimated change in provisions for non-impaired off-balance-sheet liabilities	15,540	-15,560

Impairment – policies applicable until 31 December 2017

As at each reporting date, the Group assesses whether there is any objective evidence of impairment of a financial asset/a group of financial assets. The methods for impairment tests and calculation of impairment allowances are described in Note 47 “Credit risk management”.

The tables below present the estimated effect of changes in the present value of cash flows as well as PD and LGD on the amount of impairment allowances/provisions – for three impairment testing methodologies. A negative value means a decrease in impairment allowances/provisions.

Effect of an increase/decrease in the present value of cash flows on impairment allowances/provisions – tested individually as at 31 December 2017		
Increase/decrease in the present value of cash flows	**+ 10%**	**- 10%**
Estimated change in impairment allowances on on-balance-sheet exposures tested individually	-54,670	174,842
Estimated change in provisions for off-balance-sheet liabilities tested individually	-9,459	87,435

Effect of an increase/decrease in LGD on impairment allowances/provisions – tested on a collective basis as at 31 December 2017		
Increase/decrease in LGD	**+ 10%**	**- 10%**
Estimated change in impairment allowances on on-balance-sheet exposures tested on a collective basis	6,377	-16,305
Estimated change in provisions for off-balance-sheet liabilities tested on a collective basis	318	-339

Effect of an increase/decrease in PD and LGD on IBNR impairment allowances or provisions as at 31 December 2017		
Increase/decrease in PD	**+ 10%**	**- 10%**
Estimated change in IBNR impairment allowances on balance-sheet exposures	22,152	-22,152
Estimated change in IBNR provisions for off-balance-sheet liabilities	14,168	-14,168
Increase/decrease in LGD	**+ 10%**	**- 10%**
Estimated change in IBNR impairment allowances on balance-sheet exposures	22,152	-22,152
Estimated change in IBNR provisions for off-balance-sheet liabilities	14,145	-14,168

(in PLN thousand)

Fair value of derivatives, unlisted debt securities and receivables

Derivatives, unlisted debt securities and receivables recognised in the consolidated statement of financial position at fair value, with no active market identified, are measured using generally accepted measurement techniques, using inputs based on observable market data and professional judgment to the maximum extent possible. The measurement techniques and input data are reviewed on a regular basis.

The estimated effect of changes in the fair value measurement of derivatives with a symmetrical risk profile, unlisted debt securities at fair value through other comprehensive income, and receivables classified in the fair value through profit or loss measurement category, due to a parallel shift in the yield curve is presented in the tables below.

Change in the measurement of derivatives with a linear risk profile due to a parallel shift in the yield curve				
Change in the measurement of derivatives with a linear risk profile due to a parallel shift in the yield curve by:	**31 Dec 2018**		**31 Dec 2017**	
	+ 50bp	**- 50bp**	**+ 50bp**	**- 50bp**
Change in measurement of derivatives (assets decreased by liabilities)	2,671	-2,671	994	-994

Change in the fair value measurement of unlisted debt securities at fair value through other comprehensive income due to a parallel shift in the yield curve				
Change in the measurement due to a parallel shift in the yield curve by:	**31 Dec 2018**		**31 Dec 2017**	
	+ 50bp	**- 50bp**	**+ 50bp**	**- 50bp**
Change in measurement of unlisted financial instruments	-5,373	5,373	-17,988	17,988

Change in the fair value measurement of receivables at fair value through profit or loss due to a parallel shift in the yield curve				
Change in the measurement due to a parallel shift in the yield curve by:	**31 Dec 2018**		**31 Dec 2017**	
	+ 50bp	**- 50bp**	**+ 50bp**	**- 50bp**
Change in measurement of receivables	1,309	-1,309	x	x

Provisions for defined benefit plans

A sensitivity analysis of provisions for defined benefit plans is presented in Note 35 “Provisions”.

Deferred tax assets

The Group recognises deferred tax assets based on the assumption that it will generate taxable profit sufficient to realise the assets in the future. If the actual tax results were to deteriorate in the future, the above assumption might prove baseless.

2.5. Significant accounting policies

This note includes a detailed description of the accounting policies applied by the Group as of 1 January 2018 in accordance with IFRS 9 “Financial Instruments” as well as the accounting policies applied by the Group until 31 December 2017 (greyed out text) in accordance with IAS 39. Where no special distinction exists, the relevant accounting policies are the same or do not differ materially for 2017 and 2018 financial data.

2.5.1 Presentation of the statement of financial position and the statement of profit or loss of the parent entity

Apart from own activities, the parent entity carries out commissioned activities via the following funds:

- fund associated with granting loans and advances or off-balance-sheet liabilities – "fund exposed to credit risk":
  - Inland Waterways Fund,
- funds associated with managing cash flows for specific budgetary targets – "cash flow funds", comprising:
  - National Road Fund,
  - Railway Fund,
  - Thermal Modernisation and Renovation Fund,
  - Student Loan and Credit Fund,
  - Subsidy Fund,
  - Borrowers' Support Fund,
  - National Guarantee Fund.

The financial data of the parent entity cover own activities and commissioned activities carried out as part of funds exposed to credit risk. It is compiled by adding individual items of the statement of financial position, statements of off-balance-sheet items and the statement of profit or loss concerning own activities and the activities of such funds.

The assets and liabilities and equity of the funds exposed to credit risk are presented within the assets and liabilities and equity of the parent entity, with the related financing being presented as "Other liabilities".

The parent entity's statement of profit or loss presents revenue and costs related to own activities and the funds exposed to credit risk.

The net profit generated on the activities of the funds exposed to credit risk is used, in accordance with the parent entity's Articles of Association, to supplement the said funds and in part to increase reserve funds.

In accordance with the Articles of Association of the parent entity, any losses on the activities of the funds exposed to credit risk and cash flow funds are offset against such funds.

The assets and liabilities and equity of the cash flow funds are not presented in the parent entity's statement of financial position as they do not meet the definition of assets and liabilities. Under relevant legislation, the parent entity is responsible for management of the financial and operational policies of the cash flow funds but it does not control such funds, derive economic benefits from their operations or bear the credit risk related to such assets.

2.5.2 Consolidation principles

Subsidiaries

These financial statements comprise the financial statements of the parent entity and the financial statements of its subsidiaries, prepared for the year ending 31 December 2018. The accounting policies applied by the subsidiaries are in line with PAS.

The financial data of consolidated subsidiaries, after adjustments made to bring it in line with IFRS, is prepared for the same reporting period as the financial statements of the parent entity, in line with consistent accounting policies applied to similar transactions and business events.

Subsidiaries are consolidated in the period from the date when the Group assumes control of those entities until the date when control is no longer exercised. It is assumed that the parent entity controls an investee if and only if the parent entity:

- exercises power over the investee, and
- is exposed, or has rights, to variable returns from its involvement with the investee, and
- has the ability to use its power over the investee to affect the amount of its returns.

If the facts and circumstances indicate that at least one of the aforesaid three elements of control has changed, the Group has to reassess whether or not it still controls the entity. When assessing whether or not the parent entity has control over an investee if it holds less than the majority of voting rights in that investee, the parent entity considers other facts and circumstances to determine whether or not it has power over that investee, with particular focus on the contractual arrangements between the Group and other holders of voting rights, rights resulting from other contractual arrangements, voting rights held by the Group as well as potential voting rights.

In the financial statements:

- similar items of assets, liabilities, equity, income, expenses and cash flows of the parent entity and its subsidiaries are aggregated,
- the carrying amount of the parent entity's investment in each subsidiary and the parent entity's portion of equity of each subsidiary is set off (eliminated),
- intra-group assets and liabilities, equity, income, expenses and cash flows resulting from transactions between the Group entities are eliminated in whole.

Associates

An associate is an entity over which the Group has significant influence, i.e. the power to participate in decisions about the financial and operating policy of the investee, which does not involve control or joint control of those policies. The financial statements of associates (in line with the PAS) and of the parent entity are prepared for the same reporting period.

In these financial statements, associates are accounted for using the equity method. Before calculating the share in net assets of associates, relevant adjustments are made to ensure compliance of the associates' financial information with IFRSs applied by the parent entity.

These financial statements present the Group's share of profit or loss of associates determined by reference to its interest in their equity, from the date when significant influence begins to be exercised to the date when it expires. If the Group's share of loss of an associate exceeds the value of interest in that associate, the carrying amount is reduced to zero. At that point, no additional losses are recognised, except those resulting from the Group's assumption of legal or constructive obligations or from a payment made on behalf of an associate.

2.5.3 Foreign currencies

Functional and presentation currency

The Polish złoty is the functional currency (the currency of the primary economic environment where the Group operates) of the parent entity and other entities presented in these financial statements, except for Fundusz Ekspansji Zagranicznej FIZ AN. EUR is the functional and presentation currency of Fundusz Ekspansji Zagranicznej FIZ AN.

Figures in these consolidated financial statements are presented in the Polish złoty.

Translation of financial data of the Group entities

Assets and liabilities and equity relating to the investment in Fundusz Ekspansji Zagranicznej FIZ AN, as recognised in these financial statements, were translated from the euro, i.e. the functional currency of the Fund, into the Polish złoty at the following exchange rates:

- translation of on-balance-sheet items as at 31 December 2018 – the mid-market rate quoted by the National Bank of Poland as at 31 December 2018, i.e. 4.30, except for retained earnings which employs an arithmetic mean of the mid-market rates as at the last day of each month in which the Fund carried out activity,
- translation of items of the statement of profit or loss for 2018 – the arithmetic mean of the mid-market rates quoted by the National Bank of Poland as at the last day of each month, i.e. January–December 2018: 4.2669.

Foreign exchange gains or losses on the measurement of the Fund are recognised in other comprehensive income.

Translation of foreign currency items

Exchange differences arising from the settlement of transactions and the accounting measurement of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(in PLN thousand)

Policies applicable as of 1 January 2018

Exchange differences arising from translation of equity instruments classified as financial assets measured at fair value through other comprehensive income are recognised in other comprehensive income.

Policies applicable until 31 December 2017

Exchange differences arising from translation of equity instruments classified as available-for-sale financial assets are recognised in other comprehensive income.

At the end of each reporting period:

- foreign currency monetary items are translated at the closing rate,
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction,
- non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Assets, liabilities and equity, and off-balance-sheet liabilities in foreign currencies and indexed to a foreign exchange rate are measured at the mid-market exchange rate quoted for a given currency by the National Bank of Poland as at the reporting date.

Mid-market exchange rates of selected foreign currencies relative to the Polish złoty:

Currency	As at 31 Dec 2018	As at 31 Dec 2017
EUR	4.3000	4.1709
GBP	4.7895	4.7001
USD	3.7597	3.4813
CHF	3.8166	3.5672

2.5.4 Cash and cash equivalents

Cash and cash equivalents include cash in hand and in nostro account at the National Bank of Poland as well as cash in the current accounts in banks and other cash with original maturity of up to 3 months. The assets are recognised at nominal value.

2.5.5 Financial assets and financial liabilities

2.5.5.1 Initial recognition

The Group recognises a financial asset or a financial liability in its consolidated statement of financial position when, and only when, it becomes party to the contractual provisions of the financial instrument.

2.5.5.2 Classification and measurement

Policies applicable as of 1 January 2018

Classification of financial assets that are not equity instruments

The Group classifies financial assets that are not equity instruments to one of the following categories:

1) financial assets at amortised cost;
2) financial assets at fair value through other comprehensive income;
3) financial assets at fair value through profit or loss, including:

- obligatorily measured at fair value through profit or loss;
- irrevocably designated as at fair value through profit or loss at initial recognition.

Financial assets at amortised cost

The Group classifies financial assets that are not equity instruments to this category, if

1) the asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI – solely payments of principal and interest).

Financial assets classified in this category are measured at amortised cost with the use of the effective interest rate method and taking into account allowances for expected credit losses. Amortised cost is determined with regard to a discount or a premium as well as fees, charges and transaction costs, which form an integral part of the effective interest rate, while the effect of the measurement is recognised as "Net interest income" in the statement of profit or loss. Loss allowance for expected credit losses are recognised in the statement profit or loss under "Net impairment losses and provisions".

The financial assets at amortised cost category includes primarily: loans and advances to customers, municipal and commercial bonds, and reverse repurchase agreements.

Financial assets at fair value through other comprehensive income

The Group classifies financial assets that are not equity instruments to this category, if

a) the asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling financial assets and

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI – solely payments of principal and interest).

Changes in fair value are recognised in other comprehensive income until an asset is removed from the consolidated statement of financial position, at which time accumulated gains (losses) are recognised in profit or loss. The revaluation reserve is recognised in profit or loss when the asset is sold.

For financial assets classified in this category the Bank determines allowances for expected credit losses, which are recognised under other comprehensive income in correspondence with the statement of profit or loss. Allowances for expected losses do not adjust the carrying amount of financial assets measured at fair value through other comprehensive income.

Interest income and a discount or a premium related to debt financial instruments are deferred – with the use of an effective interest rate and recognised in net interest income as "Net interest income".

Quoted market prices based on which the fair value of government debt securities is measured are obtained from widely available information systems. Where no quoted market prices are available for a debt security (e.g. municipal bonds, commercial bonds), the fair value is not determined on the basis of the quoted market prices but using the NPV technique (net present value of future cash flows). The present value is calculated by reference to market yield curves obtained from widely available information systems (zero-coupon yield curves or curves based on the yield on government debt securities are used, depending on the security type). For non-government debt securities, the present value of future cash flows is determined considering the issuer credit risk and the liquidity risk spread.

The financial assets at fair value through other comprehensive income measurement category includes in particular: treasury bonds, treasury bills, and municipal and commercial bonds.

Financial assets at fair value through profit or loss

The Group classifies the following items as financial assets measured at fair value through profit or loss:

1) financial assets held for trading, including derivatives;
2) financial assets held under the business model whose objective is achieved by selling financial assets;
3) financial assets which are obligatorily classified to this category because they failed the SPPI test;
4) financial assets which were designated to this category at initial recognition, if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Equity instruments

The Group classifies equity instruments:

1) to financial assets at fair value through profit or loss or

2) to financial assets at fair value through other comprehensive income, provided that:

   - they are not held for trading;
   - they are not contingent consideration recognised in a business combination.

Changes in fair value and any other items (e.g. dividend, gains/losses on sales) for equity instruments classified in the financial assets at fair value through profit or loss measurement category are recognised in the statement of profit or loss.

The Group classifies in the fair value through other comprehensive income measurement category those equity instruments, which are not held for sale and are held as a long-term commitment related to the implementation of the parent entity's strategy, implementation of government economic programmes or access to infrastructure which is material for the parent entity's operations. The Group may make such classification only at initial recognition of an asset in the accounting books and cannot subsequently reclassify the asset to other category.

A change in the fair value of equity instruments classified in the financial assets at fair value through other comprehensive income measurement category is recognised in other comprehensive income. Only dividend is recorded in profit or loss. Changes in the fair value of such securities will never be reclassified to profit or loss (including upon disposal).

Business models

The following business models for holding financial assets are identified:
- holding financial assets to collect cash flows;
- holding financial assets to collect cash flows and sell the financial assets;
- selling financial assets.

Business models are determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Group accepts a sales transaction as consistent with the assumptions of the holding financial assets to collect cash flows model, if:
- the sales resulted from an increase in the credit risk and were aimed at minimising potential credit losses due to credit deterioration, or
- the sales were made close to maturity and the proceeds from the sales approximate the collection of the remaining contractual cash flows, or
- the sales are infrequent, or
- sales are insignificant in value, both individually and in aggregate.

The condition of infrequent sales is deemed fulfilled if not more than 1% (by volume) of all transactions out of a portfolio are sold in a given year.

The condition of sales insignificant in value is deemed fulfilled if not more than 5% (by value) of all transactions out of a portfolio are sold in a given year.

Assessment of the nature of cash flows

For the purposes of the assessment of the nature of collected cash flows (SPPI test) the Group defines:
- equity as the fair value of a financial instrument at initial recognition,
- interest as a reflection of the time value of money and the credit risk associated with the nominal value of a financial instrument in a given period, as well as margin, liquidity risk and administrative costs.

The SPPI test consists in verifying whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. In particular, the following conditions are assessed:
- contingent events that affect the amount of the cash flows,
- financial leverage,
- terms of prepayment or extension of financing,
- terms limiting the right to seek legal claims to the collected cash flows,
- terms modifying the consideration for a change in the time value of money.

The assessment of the terms modifying the change in the time value of money is performed based on a qualitative or quantitative analysis.

Where a qualitative assessment does not make it possible to confirm the conclusion that the SPPI test has been passed, it is necessary to perform an assessment of the impact of the modified time value of money element. The objective of such assessment is to determine how different the contractual undiscounted cash flows could be from the undiscounted cash flows that would arise if a given agreement would not provide for a modified time value of money element. If the analysed cash flows are significantly different, the assessed asset is obligatorily classified to fair value through profit or loss measurement category, because the SPPI test has not been passed, i.e. the contractual terms result in the fact that the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding.

Policies applicable until 31 December 2017

The Group classified financial assets to the following categories:
- financial assets at fair value through profit or loss,
- held-to-maturity financial assets,
- loans and receivables,
- available-for-sale financial assets.

Financial assets and liabilities at fair value through profit or loss

Assets and liabilities at fair value through profit or loss are items of financial assets and liabilities which meet any of the following conditions:
- they are classified as held for trading, with the proviso that items of financial assets or financial liabilities are classified as held for trading, if they are acquired or incurred principally for the purpose of selling or repurchasing them in the near term; they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also classified as held for trading (unless they are a financial guarantee contract),
- at initial recognition they have been designated as at fair value through profit or loss. The Group may indicate such a designation only where:
  - such classification eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as ‘an accounting mismatch’ that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases);
  - a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or an investment strategy, with information on the group being provided internally on this basis to the parent entity’s management.

Held-to-maturity financial assets

This category comprises non-derivative financial assets with fixed or determinable payments and maturity that the Group has an intention and ability to hold to maturity, other than:
- designated at initial recognition as at fair value through profit or loss,
- designated as available for sale,
- meeting the definition of loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:
- financial assets which the Group intends to sell immediately or in the near future and which are classified as held for trading, and those that at initial recognition were designated as at fair value through profit or loss,
- financial assets designated as available for sale at initial recognition,
- those for which the holder may not recover substantially all of his initial investment, for reasons other than credit deterioration, which are classified as available for sale.

Loans and receivables and held-to-maturity financial assets are measured at amortised cost with the use of the effective interest rate method and taking into account impairment.

Amortised cost is determined with regard to a discount or a premium as well as fees, charges and transaction costs, which form an integral part of the effective interest rate, while the effect of the measurement is recognised as “Net interest income” in the statement of profit or loss. Impairment losses are recognised in profit or loss as “Net impairment losses and provisions”.

Available-for-sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or that are not financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value, while the effects of changes in the fair value (except impairment allowances) are recognised in other comprehensive income (other comprehensive income is accumulated within the “Revaluation reserve”) until the asset is derecognised from the statement of financial position, at which time accumulated gains (losses) are recognised in profit or loss. The revaluation reserve is recognised in profit or loss when the asset is sold or when objective evidence of its impairment is identified. When evidence of impairment of an asset is identified, any prior increases in its value resulting from fair value measurement reduce the revaluation reserve. If the prior increase amount is insufficient to offset the impairment loss, the difference is recognised in profit or loss.

In the case of debt instruments, interest income and a discount or a premium are deferred – with the use of an effective interest rate and recognised in net interest income as “Interest income”.

In the case of equity instruments, dividends relating to equity instruments classified as available for sale are recognised in profit or loss when the right to receive payment is established.

If the fair value of investments in equity instruments which are not quoted on an active market cannot be estimated reliably using measurement techniques, they are recognised at cost and their impairment is reviewed periodically. Impairment losses are recognised in profit or loss as “Net impairment losses and provisions”.

The policies of fair value measurement of treasury and other debt securities are described above under “Financial assets at fair value through other comprehensive income”.

Available-for-sale financial assets include shares and debt securities.

Financial liabilities

All financial liabilities are classified as measured at amortised cost, except for:

1) financial liabilities at fair value through profit or loss, including derivatives that are liabilities;
2) financial guarantee contracts, which after initial recognition the Group (as an issuer) subsequently measures at the higher of:
   - the amount of the allowance for expected credit losses, and
   - the fair value less, when appropriate, the cumulative amount of income recognised (settled amount of commission).

2.5.5.3 Reclassification

Policies applicable as of 1 January 2018

Reclassification of financial assets occurs only when the business model for managing financial assets is changed. In such an event, the asset is reclassified into a given category in accordance with the new business model.

Upon reclassification:

- of a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss;
- of a financial asset out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount;
- of a financial asset out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income;
- of a financial asset out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. The cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost;
- of a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value and the effect of measurement is recognised in other comprehensive income;

- of a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

Policies applicable until 31 December 2017

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified by the Group from the available-for-sale category to loans and receivables if the Group has an intention and ability to hold the financial asset for the foreseeable future or until maturity. The fair value of the financial asset at the reclassification date is treated as its new amortised cost.

The Group may reclassify financial instruments classified as held-for-trading (other than derivatives) and designated as measured at initial recognition as measured at fair value to loans and receivables if the instrument is no longer held to be sold or repurchased in the near term. In order to be reclassified, a financial asset has to meet the definition of loans and receivables and the Group needs to have the intention and ability to hold the financial asset in the foreseeable future or until maturity.

2.5.5.4 Modification of financial assets

Policies applicable as of 1 January 2018

A substantial modification of contractual cash flows related to a financial asset results in derecognition of the asset and recognition of a (new) modified financial asset.

The Group considers a modification as substantial when one of the following criteria is met:

1) quantitative criteria:
   - extension of the credit duration by more than one year and more than twofold extension of the period remaining until the original maturity date (when both these conditions are met jointly);
   - increase in the amount of credit by at least 50%;
2) qualitative criteria:
   - redenomination of the loan;
   - assumption of debt (change of borrower);
   - change in terms resulting in a change of the SPPI test result;
   - change of funded assets where the purpose of the loan is changed.

A non-substantial modification of contractual cash flows related to a financial asset does not result in derecognition of the asset. In such situation the Group recalculates the gross carrying amount of the financial asset and recognises a modification gain or loss in profit or loss.

The modification is treated as a change in estimates if the change in cash flows related to a financial asset results from existing contractual terms and it is solely related to the exercise by a customer of an available option.

2.5.5.5 Impairment

Policies applicable as of 1 January 2018

The Group measures and recognises an allowance for expected credit losses on financial assets that are not equity instruments, which are:

1) measured at amortised cost;
2) measured at fair value through other comprehensive income;
3) contract assets or loan commitments and financial guarantee contracts.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

Evidence of impairment

Evidence that a financial asset is credit-impaired includes observable data about one or more of the following events:

1) significant financial difficulty of the issuer or the borrower;
2) a breach of contract, such as a default or past due event;
3) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
4) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
5) the disappearance of an active market for a given financial asset due to financial difficulties;
6) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Measurement of allowances for expected credit losses

The Group measures an allowance for expected credit losses on financial assets in the following manner:

1) at an amount equal to 12-month expected credit losses (Stage 1) – if the credit risk on a financial instrument has not increased significantly since initial recognition; for such assets impairment is measured as 12-month expected credit losses;
2) at an amount equal to lifetime expected credit losses (Stage 2) – if the credit risk on that financial instrument has increased significantly since initial recognition (whether assessed on an individual or portfolio basis) – considering all reasonable and supportable information, including that which is forward-looking. For such assets the impairment loss is measured as lifetime expected credit losses;
3) at an amount equal to accumulated changes in lifetime expected credit losses from their initial recognition (Stage 3) – for impaired financial assets, for which impairment will be measured as lifetime expected credit losses.

The classification of financial assets to three stages and the determined impairment calculation method affect the recognition of interest revenue. Interest income on financial assets classified to Stages 1 and 2 are determined based on gross exposures (amortised cost of a financial asset, before adjustment for any allowances for expected credit losses) using the effective interest method. For Stage 3 assets – based on the amortised cost of those assets.

POCI assets comprise a separate category of financial assets. They are purchased or originated financial assets which at initial recognition are impaired due to a credit risk. Interest income on POCI assets is calculated based on net carrying amount using the effective interest rate adjusted for the credit risk recognised for the entire useful life of the asset.

Recognition of allowances for expected credit losses

Allowances for expected credit losses on financial assets at amortised cost adjust the carrying amount of the relevant asset and are recognised in profit or loss.

Allowances for expected credit losses on financial assets at fair value through other comprehensive income are recognised in other comprehensive income in correspondence with the profit or loss. Such loss allowances do not adjust the carrying amount of financial assets, because the assets are recognised at fair value.

Allowances for expected credit losses on trade receivables

The Group applies the simplified method of measurement of allowances for expected credit losses on trade receivables. The loss allowance is calculated based on fixed indicators dependent on actual payment default.

Policies applicable until 31 December 2017

Impairment of financial assets

Loans and advances granted

As at each reporting date, the Group assesses for loans and advances whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. If any such evidence exists, the Bank estimates the related impairment allowances. An impairment loss is incurred if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of an asset ("triggering event") and the event affects the estimated future cash flows resulting from a financial asset or a group of financial assets which may be estimated reliably.

Each credit exposure in the portfolio of individually significant exposures is individually tested to determine whether there is any indication of impairment and to determine the level of recognised impairment allowances. For individually insignificant exposures, impairment allowances are recognised and measured based on portfolio risk parameters estimated using statistical methods. If an individual credit exposure is found to be impaired, an appropriate impairment allowance is recognised. If no impairment is recognised for an individual exposure, the exposure is included in a portfolio of assets with similar characteristics, which are tested on a collective basis and an appropriate IBNR provision is recognised.

The IBNR provision is determined by reference to portfolio parameters which are estimated for groups of exposures with similar characteristics.

The amount of impairment loss and the IBNR provision is the difference between the carrying amount of an asset and the present value of estimated future cash flows (excluding future credit losses which have not been incurred yet), discounted using the effective interest rate as at the date when an evidence of impairment was identified for that financial asset.

If, in the subsequent period, the amount of the impairment drops as a result of an event occurring after the impairment was recognised (e.g. improved creditworthiness of a debtor), the impairment loss recognised before is reversed through an appropriate adjustment to the impairment loss account. The reversal amount is recognised in profit or loss.

Available-for-sale financial assets

At the end of each reporting period, the Group verifies whether there is any objective evidence that a financial asset classified as available for sale may be impaired. If any such evidence exists, the Bank estimates the related impairment allowances.

If there is objective evidence of impairment of financial assets classified as debt instruments available for sale, the impairment allowance is the difference between the carrying amount of an asset and the present fair value determined as the value of future cash flows discounted using market interest rates.

Impairment losses on assets available for sale are recognised in the statement of profit or loss, which calls for removal of accumulated losses on measurement which were previously recognised in other comprehensive income and their recognition in the statement of profit or loss.

If, in the subsequent period, the fair value of debt instruments increases and the increase can be objectively linked to an event occurring after the impairment loss has been recognised in the statement of profit or loss, the amount of the reversed impairment loss is recognised in the statement of profit or loss under "Net impairment losses and provisions".

Impairment allowances on investments in equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment losses are recognised directly in other comprehensive income.

2.5.5.6 Derecognition of financial assets and financial liabilities from the statement of financial position

The Group derecognises a financial asset when, and only when:

1) the contractual rights to the cash flows from the financial asset expire, or
2) it transfers the financial asset.

While transferring a financial asset, the Group evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. In this case:

1) if the Group transfers substantially all the risks and rewards of ownership of the financial asset, it derecognises the financial asset and separately recognises as assets or obligations all the rights and obligations arising or maintained as a result of transfer;
2) if the Group retains substantially all the risks and rewards of ownership of the financial asset, the entity continues to recognise the financial asset;

3) if the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it determines whether it has retained control of the financial asset. In that event:
   - if the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer,
   - if the Group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

Upon derecognition of a financial asset in whole, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

The Group derecognises a financial liability (or its part) from its consolidated statement of financial position when the obligation specified in the contract is discharged or cancelled or expires.

2.5.6 Fair value measurement

The fair value of a financial asset, financial liability or off-balance-sheet liabilities is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Determination of fair value is based on the following assumptions:

1) the financial asset or liability is exchanged in an orderly transaction between market participants to sell the financial asset or transfer the financial liability at the measurement date under current market conditions;
2) the sale of the financial asset or transfer of the financial liability is made:
   - in the principal market for the financial asset or liability; or
   - in the absence of a principal market, in the most advantageous market for the financial asset or liability.

When a quoted price for the transfer of an identical or a similar financial liability is not available and the identical item is held by another party as a financial asset, the Group measures the fair value of the liability from the perspective of a market participant that holds the identical item as a financial asset at the measurement date.

When a quoted price for the transfer of an identical or a similar financial liability is not available and the identical item is not held by another party as a financial asset, the Group measures the fair value of the liability using a valuation technique from the perspective of a market participant that owes the financial liability.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs for measurement techniques designed to determine the fair value of financial assets and liabilities are classified into three levels:

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical financial assets or liabilities that the Group can access at the measurement date;
2) Level 2 inputs are inputs other than quoted prices in active markets, that are observable, either directly or indirectly. Such inputs include in particular, the following:
   - quoted prices for similar financial assets or liabilities in active markets,
   - quoted prices for identical or similar financial assets or liabilities in markets that are not active,
   - observable inputs other than quoted prices, in particular: interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spread, or market-corroborated inputs;
3) Level 3 inputs are unobservable inputs reflecting the assumptions that market participants would use when pricing financial assets or liabilities, including assumptions about risk.

If a quoted price in an active market is not available, the Group determines the fair value of financial assets or liabilities by applying measurement techniques incorporating all factors that market participants would consider in setting a price, which are consistent with accepted economic methodologies for pricing financial instruments.

2.5.7 Repurchase and reverse repurchase transactions

Repo and sell-buy-back as well as reverse repo and buy-sell-back transactions are transactions involving the sale or purchase of securities with a commitment to repurchase or resell the security at an agreed date and at an agreed price.

Financial assets sold with a commitment to buy them back (repo and sell-buy-back transactions) are recognised by the Group in the consolidated statement of financial position, with liabilities arising from the commitment to buy the securities back as a corresponding item of liabilities and equity. Such a solution is possible only where the Group retains the risks and rewards of ownership of the financial asset despite its transfer. For transactions involving the purchase of securities with a commitment to resell them (reverse repo and buy-sell-back), the financial assets held by the Bank are presented as receivables arising from the repurchase clause.

Reverse repurchase agreements and liabilities due to repurchase agreements are measured at amortised cost. The difference between the sale/purchase and repurchase/resale price is treated as interest expense or income and deferred over the term of agreement. Securities in repo and sell-buy-back transactions are not derecognised from the statement of financial position and are measured using the principles applicable to the relevant categories of financial assets.

2.5.8 Derivatives

Derivative financial instruments and forward and futures transactions with a symmetrical risk profile are measured using the NPV technique (net present value of future cash flows). The present value of future cash flows is measured for each transaction based on properly constructed projection and discount curves. Projection curves are built based on quoted prices of deposits, FRA, IRS and basis swap rates appropriate for a given currency and the reference rate. Discount curves are built based on quoted prices of deposits, FRA and IRS rates, business swaps, currency swap basis, as well as swap points. OIS transactions are measured using a curve based on OIS rates in the transaction currency. Quoted market prices for curve building purposes are obtained from widely available information systems. Instruments denominated in a currency other than the Polish złoty are measured by reference to the mid-market exchange rate quoted by the National Bank of Poland for the measurement date.

Transactions with an asymmetrical risk profile (option transactions) are measured using Black-Scholes and Bachelier models, which are widely used on the market and rely on the implied (if quoted market prices are available) or historical volatilities (determined with the use of statistical models based on quoted market prices).

The fair value of financial instruments reflects the credit risk. In the case of debt instruments, a liquidity margin and a margin for the issuer's credit risk is applied. For derivatives, the credit value adjustment (CVA) and the debit value adjustment (DVA) are calculated.

In these consolidated financial statements, derivatives are presented on a net basis at the transaction level (positive fair values as assets and negative fair values as liabilities).

2.5.9 Property, plant and equipment and intangible assets

Property, plant and equipment

Property, plant and equipment (PPE) includes controlled fixed assets and expenditure on their development. These are assets of an estimated useful life exceeding one year, which are held for internal use or to be leased to third parties under a lease agreement, or for administrative purposes. Property, plant and equipment is recognised at historical cost less depreciation and impairment allowances.

Historical cost includes the cost of acquisition/construction of an asset and expenses directly related to its acquisition and bringing it to a working condition.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. At initial recognition, intangible assets are measured at cost, and their value is subsequently decreased by accumulated amortisation and impairment allowances, if any.

The Group uses the right of perpetual usufruct of land, whether acquired for consideration or free of charge. The right of perpetual usufruct of land acquired for consideration (from third parties) is presented within intangible assets and amortised over its useful life. The right of perpetual usufruct of land acquired free of charge from the State Treasury is not disclosed in the statement of financial position.

Intangible assets of the Group include assets with an estimated useful life of over one year, in particular: copyrights, licences, and the right of perpetual usufruct of land.

(in PLN thousand)

Depreciation charges related to property, plant and equipment and amortisation charges related to intangible assets

Depreciation and amortisation apply to all items of non-current assets whose value is reduced as a result of their use over their estimated useful lives.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Items of PPE and intangible assets are depreciated/amortised over their useful lives, starting from the first day of the month following immediately the month when the item was made available for use.

Depreciation and amortisation periods for groups of PPE and intangible assets, as applicable at the Group:

Property, plant and equipment	Periods
Buildings, premises, cooperative rights to premises	between 40 and 49 years
Leasehold improvements (to buildings and premises)	between 1 and 15 years
Machines, technical equipment, tools and devices	between 2 and 19 years
Computer sets	between 3 and 10 years
Vehicles	between 2 and 5 years

Intangible assets	Periods
Software	between 1 and 12 years
Other intangible assets	between 1 and 10 years
Right of perpetual usufruct of land	between 42 and 87 years

The residual value of the amortisation rate and the useful life are reviewed on an annual basis and adjusted if necessary.

Impairment of property, plant and equipment and intangible assets

The Group assesses whether there is any evidence of impairment of any non-financial non-current assets. The Group estimates the recoverable amount as the fair value less cost of sale or the value in use of an asset (whichever is higher) if such evidence is identified. Impairment allowances are recognised where the carrying amount of the asset exceeds its recoverable amount.

2.5.10 Investment property

Investment property is a property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation or both. At the same time, such property:

- is occupied by the Group only to an inconsiderable extent,
- is not intended for sale in the ordinary course of the Group's business.

Initially, investment property is recognised at cost. After initial recognition, its value is measured in the fair value model. Any gains or losses resulting from changes in its value are recognised in the statement of profit or loss for the period. Valuation services are provided by independent property appraisers.

2.5.11 Leases

The Group is a party to lease agreements whereby it accepts or grants fixed assets and investment property for a fee for an agreed period of time.

The Group classifies lease agreements with regard to extent to which the risks and rewards of ownership of the leased assets are allocated to the lessor and to the lessee.

The Group has entered into lease agreements under which the lessor retains substantially all the risks and rewards of ownership of the leased assets, which are classified as operating leases. Operating lease payments and the subsequent rent are recognised as an expense in profit or loss (over the term of lease).

2.5.12 Other prepayments and deferred expenses

Prepayments are recognised if the expenses pertain to months following the month when they were incurred. Prepayments are recognised in the consolidated statement of financial position under "Other assets" and include mainly prepaid expenses and accrued revenue. Prepaid expenses include different types of expenses that will be recognised in profit or loss after the lapse of time, in future reporting periods, such as prepaid rental costs, insurance costs, and software maintenance.

Accrued expenses include costs of services provided to the Group which have not been classified as their liabilities yet. Accruals include expenses to be incurred in the future, including the cost of bonuses, outstanding sick leaves, and jubilee awards. The Group settles accrued revenue where it receives payment for a service provided or goods delivered to be effected in future reporting periods.

This in particular comprises deferred commissions and other operating income collected in advance whose recognition in profit or loss will be effected in future reporting periods.

Accrued expenses and deferred income are presented in the consolidated statement of financial position in "Other liabilities".

2.5.13 Provisions

Provisions are liabilities the amount or due date of which are not certain. They are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, while it is probable that an outflow of resources embodying economic benefits will be required to fulfil the obligation and the amount of the obligation can be estimated reliably.

Where the effect of the time value of money is material, the amount of provision is determined by discounting estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and any potential risks specific to the liability.

The Group recognises provisions in particular for disputes with its counterparties, customers and third-party institutions, provisions for retirement, disability and survivor benefits.

2.5.14 Employee benefits

Short-term employee benefits include benefits due within twelve months from the end of the reporting period, in which employees performed work, in particular salaries, wages, bonuses, paid annual leave, and social security contributions. The estimated undiscounted amount of short-term employee benefits is recognised as an expense in the period they concern.

Long-term employee benefits include benefits which are due after twelve months from the end of the reporting period, in which employees performed work, in particular retirement, disability, death, and jubilee benefits. The relevant provision is measured using actuarial methods by a third-party actuary as the present value of future liabilities to employees considering the payroll and the level of salaries and wages as at the measurement date. Provision for employee benefits is presented under "Provisions" or "Other liabilities" and as other operating income and other operating expenses, as appropriate, or general administrative expenses. A certain amount of provisions for retirement, disability, and death benefits resulting from changes in actuarial (financial, demographic and other) assumptions made for purposes of measurement is recognised in other comprehensive income.

The parent entity offers a post-employment benefit plan, known as the defined contribution plan, whereby it has a contractual obligation to make specified contributions to an employee pension plan. The fund, which also includes a return on invested contributions, is used for payment of post-employment benefits to employees. As a result, the parent entity is not subject to a legal or constructive obligation to make additional contributions, if the pension fund's assets are insufficient to finance the benefits.

2.5.15 Off-balance-sheet liabilities granted

In the course of its operations, the Group enters into transactions which are not recognised in the consolidated statement of financial position as assets or liabilities at the conclusion date but result in the occurrence of contingent liabilities. A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly controlled; or
- a present obligation that arises from past events but is not recognised in the statement of financial position because it is not probable that an outflow of funds or other assets will be required to settle the obligation or the amount of obligation cannot be measured with sufficient reliability.

Off-balance-sheet liabilities granted include mainly credit commitments and financial guarantees granted.

Policies applicable as of 1 January 2018

At initial recognition, off-balance-sheet liabilities granted are measured at fair value. In subsequent periods, at the reporting date they are measured at an amount of the allowance for expected credit losses accordance with IFRS 9.

Policies applicable until 31 December 2017

The Bank recognises provisions for off-balance-sheet liabilities granted and involving the risk of the principal's non-compliance with the agreement, in accordance with IAS 37.

At initial recognition, a financial guarantee agreement is measured at fair value. Following initial recognition, it is measured at the value determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

2.5.16 Equity

Classification into the items presented below is made in compliance with the requirements of the Act on Bank Gospodarstwa Krajowego and the parent entity's Articles of Association adopted by way of Regulation of the Minister of Development.

The parent entity's equity includes:

- statutory capital,
- reserve funds,
- revaluation reserve (including in particular the value of financial assets at fair value through other comprehensive income and allowances for expected credit losses on such assets as well as actuarial gains and losses),
- other capital reserves (including the general banking risk reserve and other reserves),
- retained earnings (accumulated loss),
- profit for the period.

Items of equity of the subsidiaries, other than their share capital, to the extent that the parent entity is the owner of the subsidiary, are added to the relevant items of the parent entity's equity.

The equities of the Group comprise only those parts of equities of subsidiaries which emerged after the acquisition of shares or stock by the parent entity.

2.5.17 Income tax

Income tax consists of current tax and deferred tax. Income tax is recognised in profit or loss. Deferred tax, depending on the source of the temporary differences, is recognised in profit or loss or in the consolidated statement of comprehensive income.

Current tax

Current tax is a tax liability related to taxable profit and determined using a tax rate in effect as at the end of the reporting period.

Deferred tax

The Group recognises deferred tax assets and liabilities. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carryforward of unused tax losses, and the carryforward of unused tax credits. The Group's deferred tax assets and liabilities are recognised in the consolidated statement of financial position as assets or liabilities, as the case may be. A change in the deferred tax liabilities and assets is recognised as a statutory withholding from profit, except for the effects of measurement of financial assets measured at fair value through other comprehensive income (IFRS 9) or available-for-sale financial assets (IAS 39) and actuarial gains and losses recognised in other comprehensive income, in case of which changes in the deferred tax liabilities and assets are also recognised in other comprehensive income. Deferred tax is measured by reference to the deferred tax assets and liabilities at the beginning and at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that future taxable profit will be available against which the deferred tax assets can be realised in whole or in part.

The deferred tax assets and liabilities are measured by reference to tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) in effect at the end of the reporting period or those certain to enter into force in the future as at the end of the reporting period.

With regard to deferred income tax the Group entities apply a 19% tax rate, except for entities which, under Article 19 sec. 1 item 2 of the Corporate Income Tax Act, apply a 9% tax rate. The Group offsets deferred tax assets against deferred tax liabilities when, and only when, there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income tax relates to the same income tax levied by the same taxation authority.

2.5.18 Measurement of profit/loss

Interest income and expense

Interest income comprises interest and fees (received or due) taken into account in the calculation of the effective interest rate for, inter alia: loans with agreed repayment schedules, interbank deposits, and financial instruments classified to the fair value through other comprehensive income or profit or loss measurement category.

In the case of financial assets for which a Stage 3 allowance for expected credit losses (impairment – IAS 39) was recognised, the item includes impairment interest adjustment.

Fee and commission income and expense

Commission income and expense and bank fees concern mainly financial services offered by the Group and comprise in particular: commissions on credits granted and guarantee liabilities, costs of securities operations, and management fees as well as costs related to administration and management of funds and programmes. Commissions/fees are settled in the period of transactions, except for commissions on administrative fees which are recognised on a one-off basis in profit or loss.

Commission income and expense also include fees, whether received or paid, on financial instruments without an agreed repayment schedule. Fees on overdraft facilities, guarantees granted, and other revolving facilities are deferred and classified as commission income.

In relation to bancassurance products, the parent entity, as the policyholder, offers free-of-charge insurance coverage to credit card holders in the form of an additional card functionality, which is an integral feature of the payment card and does not involve any additional fees on the part of the customer. Payment card insurance costs are deferred and recognised in profit or loss as commissions.

Net gain/loss on financial instruments at fair value through profit or loss and net exchange differences

The result on financial instruments at fair value through profit or loss comprises gains and losses resulting from changes in the fair value of assets classified as held for trading and those which were designated as at fair value through profit or loss at initial recognition or are obligatorily measured at fair value through profit or loss.

Net exchange differences comprise positive and negative exchange differences, whether realised or not, resulting from the daily measurement of foreign currency assets and liabilities at the mid-market exchange rate quoted by the National Bank of Poland as at the end of the reporting period. In addition, net exchange differences include the net realised and unrealised gain/loss, including the effects of changes in the measurement related to such derivatives as FX FORWARD, FX SWAP (including swap points), CIRS or FX options.

The item does not include the interest portion of the net gain/loss on interest rate derivatives and swap points on FX derivatives classified in the banking book, which are recognised under interest income and expenses.

Gain/loss on investments in financial assets

Policies applicable as of 1 January 2018

Gain/loss on investments in financial assets comprises gains and losses arising from the sale of financial instruments classified to the portfolio of financial assets at fair value through profit or loss as well as dividend income.

Policies applicable until 31 December 2017

Gain/loss on investments in financial assets comprises gains and losses arising from the sale of financial instruments classified as available for sale as well as dividend income.

Net modification gain/loss

The net modification gain/loss includes gains and losses on a non-substantial modification, which did not result in derecognition of an asset from the consolidated statement of financial position. Upon a non-substantial modification, the modification gain or loss is recognised in a given asset and is subsequently amortised until derecognition of the asset from the consolidated statement of financial position.

Other operating income and expenses

Other operating income and expenses comprise income and expenses which are not directly related to banking operations. Other operating income includes mainly income from investment property at fair value, bad debt that has been recovered, received damages, penalties, fines, reversal of provisions for disputes and other receivables as well as from the sale of property, plant and equipment and investment property. Other operating expenses include mainly: costs of donations, costs of debt collection, recognition of provisions for disputes and other amounts due, and the costs of fair-value measurement and maintenance of investment property.

General administrative expenses

The item includes costs relating to: employee benefits (including payroll, social insurance and training), material costs (including instalments under rental contracts), depreciation of property, plant and equipment, amortisation of intangible assets, along with taxes and charges.

Net impairment losses and provisions

Policies applicable as of 1 January 2018

The item includes increases and decreases related to allowances for expected credit losses on assets at amortised cost (in particular loans and advances, purchased debt and fulfilled guarantees and sureties), the related off-balance-sheet items, subordinates and financial assets at fair value through other comprehensive income.

Policies applicable until 31 December 2017

"Net impairment losses and provisions" presents increases and decreases related to impairment losses on: balance-sheet and off-balance-sheet items related to loans and advances (including purchased debt and fulfilled guarantees and sureties), subordinates and financial assets available for sale.

Share of profit or loss of associates

This item comprises the Group's share in profits and losses of associates (in proportion to interest held), in which it invested.

3. Operating segments

In compliance with IFRS 8, information on operating segments is presented on the basis of the reporting structure used for internal reporting to the Management Board of the Bank.

Financing investments and enterprise development, supporting exports and construction as well as services to public sector and local government units are the major areas of growth.

Four operating segments have been identified for the purpose of evaluation of the nature and financial consequences of the operations carried out by the Group entities and the economic environment in which they carry on their business:

- Settlement and Treasury – the segment identification criteria are liquidity and financial risk management (including interbank deposits and placements, repo, buy-sell-back and sell-buy-back transactions, money bills, T-bonds, commercial bank bonds, nostro account and the account at the National Bank of Poland, derivatives), deposit and derivative services at the request of the Ministry of Finance as well as financing the Bank's operations in the medium and long term (loans obtained from financial institutions and issues of own bonds). This segment includes also gain/loss on internal fund transfer pricing settlements with the remaining segments.

  The internal fund transfers are based on transfer pricing rates determined by reference to market rates and the cost of liquidity, while inter-segment transactions are made on arm's length terms.

- Public Sector comprises transactions with central and local government institutions, excluding those items which fall within the scope of Settlement and Treasury and are related to deposits and derivatives for the Ministry of Finance. The segment identification criterion is based on customer classification for management reporting purposes and comprises local government units, central budget entities, and public health care institutions. The key products generating the segment's revenue are loans granted, bonds acquired by the Group as well as current accounts and term deposits.

- Corporate – the segment identification criterion was established based on customer classification for management reporting purposes and the type of business, which includes private companies and state-owned enterprises, municipal companies, private health care institutions as well as entities supporting the Bank's exports and construction support activities. The key products generating the segment's revenue are corporate loans and project finance products (offered individually or as part of a consortium) in the form of loans and issues of non-Treasury securities, sureties and guarantees as well as current accounts and term deposits (recognised as liabilities).

- Other – comprises the Bank's investing activities, mainly in the form of acquired investment fund certificates (in the consolidated financial statements, certificates issued by funds with the majority interest held by BGK are recognised as shares in associates measured with the equity method), shares (mainly in subsidiaries) and their effect on the consolidated financial statements, other shares, and investment property. Additionally, this segment presents items related to and performance of the funds and programmes administered by the Bank as well as items which are not recognised in any other segment, such as transactions with financial sector entities other than banks or services provided to individuals, which are being discontinued.

(in PLN thousand)

3.1. Selected items of the statement of profit or loss and the statement of financial position

The tables below present data on revenue, costs, and performance of each operating segment of the Bank Gospodarstwa Krajowego Group for 2018 and 2017 as well as assets and liabilities as at 31 December 2018 and 31 December 2017.

Operating segments					
for the year ended 31 December 2018	**Continuing operations**				
	Settlement and Treasury	**Public sector**	**Corporate**	**Other**	**Total Group**
Net interest income *	469,683	119,724	254,053	45,616	**889,076**
Net fee and commission income/expense	-618	49,585	134,464	6,668	**190,099**
Gain/loss on financial instruments at fair value through profit or loss and net exchange differences	25,189	2,319	8,067	15,647	**51,222**
Gain/loss on investments in financial assets	27,194	0	0	33,317	**60,511**
Net modification gain/loss	0	-1,947	-1,516	34	**-3,429**
Other operating income	0	0	79	80,789	**80,868**
Other operating expenses	0	0	-2	-112,231	**-112,233**
General administrative expenses**	-11,535	-120,745	-162,785	-175,196	**-470,261**
Net impairment losses and provisions	-521	-37,320	-34,111	-55,275	**-127,227**
Operating result	**509,392**	**11,616**	**198,249**	**-160,631**	**558,626**
Share of profit or loss of associates	0	0	0	42,979	**42,979**
Profit before tax	**509,392**	**11,616**	**198,249**	**-117,652**	**601,605**
Income tax					-87,525
Net profit					**514,080**

* The presentation of net interest income takes into account expenses/revenue related to internal fund transfers based on transfer prices determined by reference to market rates. Therefore, the figure is presented in the table on a net basis, without division into revenue and interest income.
** Operating expenses as well as depreciation and amortisation expense were allocated to each customer segment based on the cost of internal services determined in line with the allocation model adopted by the Bank. Due to the indirect nature of allocation, depreciation and amortisation expense is presented to the management board without division into segments.

(in PLN thousand)

Operating segments					
For the year ended 31 December 2017	**Continuing operations**				
	Settlement and Treasury	**Public sector**	**Corporate**	**Other**	**Total Group**
Net interest income *	433,861	71,991	241,453	28,801	**776,106**
Net fee and commission income/expense	-1,072	46,065	98,108	13,495	**156,596**
Gain/loss on financial instruments at fair value through profit or loss	27,662	-194	0	-1,229	**26,239**
Gain/loss on investments in financial assets	20,520	0	0	10,058	**30,578**
Other operating income	0	0	2,872	99,486	**102,358**
Other operating expenses	366	0	-753	-29,343	**-29,730**
General administrative expenses**	-36,857	-96,931	-117,549	-142,712	**-394,049**
Net impairment losses and provisions	0	-6,096	-46,142	2,600	**-49,638**
Operating result	**444,480**	**14,835**	**177,989**	**-18,844**	**618,460**
Share of profit or loss of associates	0	0	0	71,992	**71,992**
Profit before tax	**444,480**	**14,835**	**177,989**	**53,148**	**690,452**
Income tax	0	0	0	0	-106,013
Net profit	0	0	0	0	**584,439**

* The presentation of net interest income takes into account expenses/revenue related to internal fund transfers based on transfer prices determined by reference to market rates. Therefore, the figure is presented in the table on a net basis, without division into revenue and interest income.
** Operating expenses as well as depreciation and amortisation expense were allocated to each customer segment based on the cost of internal services determined in line with the allocation model adopted by the Bank. Due to the indirect nature of allocation, depreciation and amortisation expense is presented to the management board without division into segments.

Operating segments					
31 Dec 2018	**Continuing operations**				
	Settlement and Treasury	**Public sector**	**Corporate**	**Other**	**Total Group**
Total assets	42,344,206	9,487,525	25,578,692	7 361,843	**84,772,266**
Total liabilities	23,210,134	22,959,976	15,985,291	3 383,190	**65,538,591**

Operating segments					
31 Dec 2017	**Continuing operations**				
	Settlement and Treasury	**Public sector**	**Corporate**	**Other**	**Total Group**
Total assets	40,027,034	7,034,035	23,797,333	3,455,613	**74,314,015**
Total liabilities	21,896,679	7,267,642	23,086,251	1,982,409	**54,232,981**

3.2. Geography

The Group operates within the territory of the Republic of Poland. Its operations focus on the Polish market.

(in PLN thousand)

Notes to the consolidated statement of profit or loss and statement of other comprehensive income

4. Interest income and expense

Interest income	2018		2017
	Interest income calculated by using the effective interest method	Income similar to interest on instruments at fair value through profit or loss	
Income on financial instruments at amortised cost, including:	993,613		968,913
receivables from banks	87,207		128,517
loans and advances to customers	746,567		840,396
debt instruments	159,839		x
Income on available-for-sale financial assets	x		666,563
Income on financial assets at fair value at fair value through other comprehensive income	761,128		x
Total	**1,754,741**		**1,635,476**
Income on financial assets held for trading		144,581	65,893
Income on financial assets obligatorily measured at fair value through profit or loss		5,427	x
Income on financial assets designated as at fair value through profit and loss		2,121	1,939
Total		**152,129**	**67,832**
Total interest income		**1,906,870**	**1,703,308**

Interest expense	2018	2017
Cost of financial instruments at amortised cost, including	**1,003,003**	**921,255**
liabilities to banks	21,976	11,146
liabilities to customers	852,629	773,472
issue of debt securities	128,398	136,637
Costs of derivatives – banking book	**14,761**	**5,947**
Other expense	**30**	**0**
Total	**1,017,794**	**927,202**

5. Fee and commission income and expense

Fee and commission income due to:	2018	2017
Securities operations	12,248	19,480
Settlements	11,523	11,044
Loans and advances granted	38,194	37,798
Custody activity	29	31
Fund and programme management	58,753	47,407
Guarantee commitments	64,127	36,158
Other	15,667	15,991
Total	**200,541**	**167,909**

(in PLN thousand)

Fee and commission expense due to:	**2018**	**2017**
Commissions on operating services	1,654	1,375
Custody activity	1,707	1,122
Settlement activity	2,589	3,073
Fund and programme management	1,142	2,322
Guarantee commitments	254	237
Other	3,096	3,184
Total	**10,442**	**11,313**

6. Gain/loss on financial instruments at fair value through profit or loss and net exchange differences

Gain/loss on financial instruments at fair value through profit or loss	**2018**	**2017**
Gain/loss on financial liabilities designated as at fair value through profit and loss, including:	**-652**	**385**
Debt instruments	-652	385
Gain/loss on financial instruments obligatorily measured at fair value through profit or loss, including:	**33,512**	**0**
Debt instruments	8,067	x
Equity instruments	-1 426	x
Loans and advances	2,383	x
Other	24,488	x
Gain/loss on financial instruments held for trading, including:	**-8,058**	**372**
Debt instruments	76	-1,762
Derivatives	-8,134	2,134
Foreign exchange gain/loss	**26,420**	**25,482**
Total	**51,222**	**26,239**

7. Gain/loss on investments in financial assets

Gain/loss on investments in financial assets	**2018**	**2017**
Available-for-sale debt instruments	x	19,837
Disposal of investments in subsidiaries and associates	15,910	8,453
Debt instruments at fair value through other comprehensive income	26,600	x
Financial assets at amortised cost	601	x
Dividend, including:	17,400	2,288
from issuers of financial instruments available for sale	x	2,288
from issuers of equity instruments designated as at fair value through other comprehensive income	17,400	0
Gain/loss on investments in financial assets	**60,511**	**30,578**

As regards debt instruments at fair value through other comprehensive income, the Group transferred PLN 26,600 thousand in 2018 from other comprehensive income to profit or loss. In 2017, as regards debt instruments available for sale, the Group transferred PLN 19,837 thousand from other comprehensive income to profit or loss.

8. Net modification gain/loss

The table below presents the net gain/loss on modification of cash flows related to a financial asset.

	2018	**2017**
Financial assets at amortised cost	-3,429	x
Total	**-3,429**	**x**

(in PLN thousand)

9. Other operating income and expenses

Other operating income	2018	2017
Rental income, including:	29,581	17,438
- rental income from investment property	23,135	7,351
Income on sale or liquidation of property, plant and equipment and assets for sale	21	0
Received damages, penalties and fines	5,572	1,560
Bad debt collected	81	223
Release of provisions for disputes, other future liabilities and receivables from sundry debtors	219	2,471
Reversal of provisions for expenses	1,862	0
Investment fund management fees	0	38,447
Income on asset management	6,051	1,403
Measurement of investment property at fair value	19,576	34,470
Income on investment property sold	0	1,600
Income on reversal of impairment losses on investment property	8,625	0
Other operating income	9,280	4,746
Total	**80,868**	**102,358**

Other operating expenses	2018	2017
Cost of donations, including:	4,015	8,178
- statutory activities of J.K.Steczkowski BGK Foundation	4,000	8,163
Cost of debt collection	332	1,648
Cost of impairment losses on investment property	15	9,104
Cost of recognition of provisions for disputes, other future liabilities and other assets*	68,068	230
Cost of recognition of impairment loss on property, plant and equipment and intangible assets**	15,133	0
Cost of writing off past due and cancelled receivables, bad debt, damages, penalties and fines	445	155
Cost of impairment losses on sundry debtors	950	400
Cost of discontinued investment projects – investment property	692	0
Cost of investment property	1,204	1,046
Measurement of investment property at fair value	16,213	2,547
Net income on sale or liquidation of property, plant and equipment and assets for sale	0	15
Cost of impairment losses on investment property	237	0
Other operating expenses	4,929	6,407
Total	**112,233**	**29,730**

* For more information see Note 35.
** For more information see Note 26 and 27.

10. General administrative expenses

General administrative expenses	2018	2017
Employee benefits	292,454	246,085
Material costs, including:	142,657	115,751
- cost of operating lease payments*	17,466	16,217
Depreciation and amortisation, including:	21,121	23,024
- property, plant and equipment	13,216	13,275
- intangible assets	7,905	9,749
Taxes and charges	14,029	9,189
Total	**470,261**	**394,049**

* The cost of operating lease payments includes: service charges included in the rent, rental fees related to premises, and car lease.

Employee benefits	2018	2017
Salaries and wages	238,780	204,628
Payroll charges	37,377	32,484
Other employee benefits	16,297	8,973
Total	**292,454**	**246,085**

(in PLN thousand)

Operating lease agreements

Tenancy agreements account for around 97% of all operating leases. The majority of them have been concluded for an indefinite period of time. For indefinite-term agreements, the calculations were based on the notice period (1, 3 or 6 months). Approximately 40% of fixed-term agreements contain clauses whereby the term may be extended.

In tenancy agreements, the price may be changed mainly under clauses concerning rent indexation and amendments to VAT regulations. Additionally, under some agreements the price is conditional on foreign exchange rates (the rent is agreed in a foreign currency).

Under car lease agreements, the Bank has the pre-emption right to the leased cars after the end of the lease term at the prices defined in the agreement.

- Information concerning operating leases entered into by the Group as the lessee:

Operating lease agreements	2018	2017
Total future lease payments under irrevocable operating lease:	**47,840**	**21,091**
up to 1 year	18,688	12,030
between 1 and 5 years	28,572	8,960
over 5 years	580	101

- Information concerning operating leases entered into by the Group as the lessor:

Operating lease agreements	2018	2017
Total future lease payments under irrevocable operating lease:	**92,218**	**28,921**
up to 1 year	30,263	13,608
between 1 and 5 years	32,609	12,526
over 5 years	29,346	2,787

In 2018 and 2017, no depreciation charge was recognised on PPE held under operating leases.

11. Net impairment losses and provisions

Net impairment losses and provisions	2018	2017
Receivables from banks at amortised cost	-65	-44
Loans and advances to customers at amortised cost	-68,066	-4,977
Debt securities at amortised cost	-3,510	x
Debt securities at fair value through other comprehensive income	-2,822	x
Investments in available-for-sale financial assets	x	-7,873
Investments in associates	-3,224	0
Provisions for liabilities and guarantees	-49,540	-36,744
Total	**-127,227**	**-49,638**

(in PLN thousand)

12. Income tax

Key items of the tax charge and reconciliation of the effective tax rate for the year ending on 31 December 2018 and 31 December 2017:

Items of the tax charge	2018	2017
Current tax charge	-114,181	-77,327
Deferred income tax related to occurrence and reversal of temporary differences	26,656	-28,686
Income tax in the consolidated statement of profit or loss	**-87,525**	**-106,013**
Income tax presented in other comprehensive income and related to occurrence and reversal of temporary differences	15,003	-101,374
Total	**-72,522**	**-207,387**

Reconciliation of the effective tax rate	2018	2017
Profit before tax	601,605	690,452
Income tax at Poland's statutory tax rate (19% or 9%)	-114,006	-131,167
Effect of permanent differences between profit before tax and taxable income, including:	**26,480**	**25 154***
Impairment losses for assets and provisions for off-balance sheet liabilities that are not deductible	-96	-3 286*
Effect of other differences between profit before tax and taxable income, including donations	-1,457	-7 510*
Other differences	-7	294*
Activities exempt from taxation	28,040	33 675*
Settlement of tax loss	0	1,981
Income tax in the statement of profit or loss	**-87,526**	**-106,013**
Effective tax rate	**14.55%**	**15.35%**

* In the note on reconciliation of the effective tax rate in the financial statements for 2017 the amounts of permanent differences were disclosed as gross amounts, while in the financial statements for 2018 only their tax effect is presented.

Under Article 17 sec. 1 item 37 and 51 of the Corporate Income Tax Act of 19 February 1992 (Journal of Laws of 2018, item 1036, as amended), any income generated by the funds and government programmes is not subject to income tax where it is used for purposes related to their activities. In light of the above, the Bank does not recognise any income tax charge on the profit generated by the funds or government programmes, which applies to the Inland Waterways Fund, Residential Construction Support Government Programme, Government Programme for Social Rental Housing and Support of Entrepreneurship with BGK Sureties and Guarantees.

(in PLN thousand)

Deferred income tax for the year ending on 31 December 2018 and 31 December 2017 results from the following items:

Deferred tax assets/liabilities	**Consolidated statement of financial position**	**Consolidated statement of profit or loss**	**Consolidated statement of other comprehensive income**	**Effect of application of IFRS 9 1 Jan 2018**		**31 Dec 2017**
	31 Dec 2018	**2018**	**2018**	**Retained earnings (accumulated loss)**	**Revaluation reserve**	
Interest accrued on credit exposures	7,189	-2,285	0	0	0	9,474
Valuation of derivative financial instruments	12 304	3 129	0	0	0	9,175
Discount, interest and securities valuation	111,010	14,254	-14,026	9,969	-9,969	110,782
Difference between the carrying amount and the tax base of property, plant and equipment and intangible assets including: measurement of investment property	25,899	5,570	0	0	0	20,329
Other	265	-1,083	0	0	0	1,348
Gross deferred tax liabilities	**156,667**	**19,585**	**-14,026**	**9,969**	**-9,969**	**151,108**
Interest accrued on deposit liabilities	5,729	-22,218	0	0	0	27,947
Valuation of derivative financial instruments	18,291	5,661	0	0	0	12,630
Premium, interest and securities valuation	26,109	18,047	816	3,614	-588	4,220
Debt securities issued	6,863	-1,169	0	0	0	8,032
Provisions for employee benefits	15,710	3,491	161	0	0	12,058
Provisions for future liabilities	13,186	13,018	0	0	0	168
Impairment losses for assets and provisions for off-balance sheet liabilities	156,238	30,495	0	-3,712	-344	129,799
Accrued commissions	19,751	5	0	0	0	19,746
Accrued expenses	2,653	-2,967	0	0	0	5,620
Tax loss	2,115	-1,869	0	0	0	3,984
Other	2,456	2,456	0	0	0	0
Gross deferred tax assets	**269,101**	**44 950**	**977**	**-98**	**-932**	**224,204**
Total effect of temporary differences	**112,434**	**25,365**	**15,003**	**-10,067**	**9,037**	**73,096**
Deferred tax assets (disclosed in the statement of financial position)	125,712	0	0	0	0	80,185
Deferred tax liabilities (disclosed in the statement of financial position)	13,278	0	0	0	0	7,090
Net effect of deferred tax on deconsolidation adjustment following the sale of BGKN S.A.	0	-1,291	0	0	0	0
Net effect of deferred tax on the statement of profit or loss	0	26,656	0	0	0	0

(in PLN thousand)

Deferred tax assets/liabilities	Consolidated statement of financial position	Consolidated statement of profit or loss	Consolidated statement of other comprehensive income	31 Dec 2016
	31 Dec 2017	31 Dec 2017	31 Dec 2017	
Interest accrued on credit exposures	9,474	-2,367	0	11,841
Valuation of derivative financial instruments	9,175	1,722	0	7,453
Discount, interest and securities valuation	108,784	-1,679	72,092	38,371
Difference between the carrying amount and the tax base of property, plant and equipment and intangible assets	20,329	7,301	-6	13,034
Other	1,349	-121	0	1,470
Gross deferred tax liabilities	**149,111**	**4,856**	**72,086**	**72,169**
Interest accrued on deposit liabilities	27,947	24,318	0	3,629
Valuation of derivative financial instruments	12,629	-34,437	0	47,066
Premium, interest and securities valuation	2,223	-42,855	-29,309	74,387
Debt securities issued	8,032	617	0	7,415
Provisions for employee benefits	12,058	1,967	21	10,070
Provisions for future liabilities	168	-1,528	0	1,696
Impairment losses for assets and provisions for off-balance sheet liabilities	129,799	23,254	0	106,545
Accrued commissions	19,745	2,102	0	17,643
Accrued expenses	5,620	4,123	0	1,497
Tax loss	3,984	3,984	0	0
Other	1	-7,143	0	7,144
Gross deferred tax assets	**222,206**	**-25,598**	**-29,288**	**277,092**
Total effect of temporary differences	**73,095**	**-30,454**	**-101,374**	**204,923**
Deferred tax assets (disclosed in the statement of financial position)	80,185	0	0	207,724
Deferred tax liabilities (disclosed in the statement of financial position)	7,090	0	0	2,800
Net deferred tax on deconsolidation adjustment following the sale of BGK TFI S.A.	0	-1,768	0	0
Net effect of deferred tax on the statement of profit or loss	0	-28,686	0	0

The long-term portion of deferred income tax to be realised or paid following the expiry of 12 months is:

	31 Dec 2018	31 Dec 2017
assets – long-term portion	162,117	137,246
liabilities – long-term portion	51,488	20,342

	31 Dec 2018	31 Dec 2017
The nature of evidence supporting recognition of deferred tax assets in connection with realisation of deferred tax assets depending on generation of a taxable profit in the future in the amount that will exceed gains from reversal of the existing taxable temporary differences and on loss incurred in the current or previous period in the tax jurisdiction, to which the deferred tax asset relates, is related to the assumption that the average annual financial result for 2018 will be at least PLN 103.5 million. This means that it is highly probable that the disclosed tax assets will be realised within the upcoming five years.	based on future yield rate in the upcoming 5 years at the cumulative level of at least PLN 661.6 million	based on future yield rate in the upcoming 5 years at the cumulative level of at least PLN 407.6 million

13. Earnings per share

The Bank is not an issuer of shares. The legal status of the parent entity is described in Note 1.

14. Contribution to the State Budget

In December 2018, the Bank made a contribution to the State Budget from the net profit for 2017 in the amount of PLN 424,253 thousand.

In 2017 the Bank did not make any contribution to the State Budget from the net profit for 2016.

(in PLN thousand)

Notes to the consolidated statement of financial position

15. Cash and balances with the Central Bank

Cash and balances with the Central Bank	31 Dec 2018	31 Dec 2017
Current account at Central Bank	8,668,176	812,677
Cash	609	5,897
Overnight deposit	8,000,110	170,007
Total	**16,668,895**	**988,581**

The Bank is obliged to maintain a statutory reserve at the National Bank of Poland that can be used by the Bank on condition that an average balance per month in the current account at NBP is not lower than declared.

From 31 December 2018 to 30 January 2019, the Bank was obliged to keep an average balance totalling PLN 2,401,845 thousand, whereas from 30 November 2017 to 1 January 2018 – a total of PLN 2,089,153 thousand.

16. Receivables from banks

Receivables from banks	31 Dec 2018	31 Dec 2017
Current accounts	4,472,918	1,755,870
Bank deposits	2,963,286	476,121
Loans and advances	642,793	637,024
Other receivables	287,056	378,940
Total	**8,366,053**	**3,247,955**
Impairment allowances	-1,085	-482
Total, net	**8,364,968**	**3,247,473**

Cash deposited with banks includes assets securing the payment of the Bank's liabilities, including settlements related to loss on valuation of derivatives. As at 31 December 2018, the assets totalled PLN 270,370 thousand, relative to PLN 312,253 thousand as at 2018 December 2017.

- The table below presents the change in gross amounts and impairment allowances on receivables from banks.

Receivables from banks at amortised cost	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Gross carrying amount as at 31 December 2017					**3,090,230**
Effect of application of IFRS 9	**0**	**0**	**0**	**0**	**0**
Gross carrying amount as at 1 January 2018	**3,090,230**	**0**	**0**	**0**	**3,090,230**
New/purchased/granted financial assets	52,955,377	0	0	0	52,955,377
Derecognition of financial assets	-47,626,604	0	0	0	-47,626,604
Other changes (including partial repayments and disbursements of further tranches)	-52,950	0	0	0	-52,950
Gross carrying amount as at 31 December 2018	**8,366,053**	**0**	**0**	**0**	**8,366,053**
Impairment allowance					
Impairment allowances as at 31 December 2017					**482**
Effect of application of IFRS 9	**538**	**0**	**0**	**0**	**538**
Impairment allowances as at 1 January 2018	**1,020**	**0**	**0**	**0**	**1,020**
New/purchased/granted financial assets	5,926	0	0	0	5,926
Derecognition of financial assets	-5,316	0	0	0	-5,316
Changes in credit risk level (excluding transfers between stages)	-545	0	0	0	-545
Impairment allowances as at 31 December 2018	**1,085**	**0**	**0**	**0**	**1,085**

17. Financial assets and financial liabilities held for trading

Financial assets held for trading at carrying amount	31 Dec 2018	31 Dec 2017
Derivatives	978,863	1,341,019
Debt instruments	617	1,051
Total	**979,480**	**1,342,070**

Debt instruments by issuer	31 Dec 2018	31 Dec 2017
Issued by the State Treasury	617	1,051
treasury bonds	617	1,051
Total	**617**	**1,051**

(in PLN thousand)

Change in debt instruments held for trading	**2018**	**2017**
Balance at the beginning of the period	**1,051**	**49,527**
Increases	**102,739**	**2,586,778**
- purchase	102,739	2,586,778
Decreases	**103,173**	**2,635,254**
- sale	103,043	2,591,773
- fair value measurement*	130	43,481
Balance at the end of the period	**617**	**1,051**

* apart from price difference, it also comprises interest, the settlement of premium/discount and exchange differences

- The fair values of derivatives as at 31 December 2018 and 31 December 2017 are presented in the table below:

Derivative financial instruments – fair value				
Contract type	**31 Dec 2018**		**31 Dec 2017**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
FX Swap	28,378	10,793	81,595	16,432
Forward	3,246	22,073	752	10,086
Options	654	656	0	0
CIRS	882,509	867,192	1,210,382	1,191,629
IRS	64,076	676,281	48,290	66,471
Total	**978,863**	**1,576,995**	**1,341,019**	**1,284,618**

Derivative financial instruments – nominal value				
Contract type	**31 Dec 2018**		**31 Dec 2017**	
	Call	**Put**	**Call**	**Put**
FX Swap	207,293	11,598,320	838,099	4,131,589
Forward	445,733	575,995	409,916	88,952
Options	66,643	66,643	0	0
CIRS	14,151,194	14,323,194	13,650,035	13,733,453
IRS	28,511,255	6,042,315	5,370,255	5,303,211
Total	**43,382,118**	**32,606,467**	**20,268,305**	**23,257,205**

18. Financial assets at fair value through profit or loss (other than held for trading)

Financial assets at fair value through profit or loss		
At carrying amount	**31 Dec 2018**	**31 Dec 2017**
Obligatorily measured at fair value through profit or loss	523,347	x
Designated as at fair value through profit or loss	216,794	130,233
Total	**740,141**	**130,233**

Financial assets obligatorily measured at fair value through profit or loss		
At carrying amount	**31 Dec 2018**	**31 Dec 2017**
Debt instruments, including:	52,508	x
Issued by enterprises	52,508	x
Equity instruments (listed)	25,106	x
Other financial assets*	445,733	x
Total	**523,347**	**x**

* Investments in Marguerite funds and the Polish Growth Fund of Funds (PGFF)

Change in financial assets obligatorily measured at fair value through profit or loss	**2018**	**2017**
Carrying amount as at 31 December 2017	**0**	x
Effect of application of IFRS 9	**181,793**	**x**
Carrying amount as at 1 January 2018	**181,793**	**x**
Increases	**392,084**	x
- purchase	351,977	x
- fair value measurement	40,107	**x**
Decreases	**50,530**	x
- sale*	43,800	**x**
- fair value measurement, including:	6,730	x
- credit risk	6,730	x
Balance at the end of the period	**523,347**	**x**

* sale of shares in KFK S.A.

(in PLN thousand)

Financial assets designated as at fair value through profit or loss		
At carrying amount	**31 Dec 2018**	**31 Dec 2017**
Debt instruments	216,794	130,233
Total	**216,794**	**130,233**

Debt instruments	31 Dec 2018	31 Dec 2017
Debt instruments	**216,794**	**130,233**
Issued by the State Treasury, including:	88,211	86,404
treasury bonds	88,211	86,404
Issued by banks	86,364	0
Issued by local government units	42,219	43,829
Total	**216,794**	**130,233**

Change in financial assets designated as at fair value through profit or loss	2018	2017
Balance at the beginning of the period	**130,233**	**136,399**
Increases	**88,590**	**0**
- purchase	86,000	0
- fair value measurement	2,590	0
Decreases	**2,029**	**6,166**
- fair value measurement, including:	2,029	6,166
- credit risk	2,029	249
Balance at the end of the period	**216,794**	**130,233**

19. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income	31 Dec 2018	31 Dec 2017
Debt securities	**14,754,676**	**x**
issued by the State Treasury	9,370,263	x
- treasury bonds	9,370,263	x
issued by the National Bank of Poland (NBP)	1,412,281	x
- money bills	1,412,281	x
issued by banks	1,260,002	x
- corporate bonds	131,691	x
- subordinated bonds	718,602	x
- commercial bills	361,095	x
- covered bonds	48,614	x
issued by other financial entities	374,310	x
- corporate bonds	66,062	x
- subordinated bonds	308,248	x
issued by non-financial entities	895,292	x
- corporate bonds	895,292	x
issued by local government units	1,442,528	x
- municipal bonds	1,442,528	x
Total debt securities	**14,754,676**	**x**
Equity securities	**1,107,303**	x
- listed	1,043,411	x
- unlisted	63,892	x
Total equity securities	**1,107,303**	**x**
Total financial assets at fair value through other comprehensive income	**15,861,979**	**x**

(in PLN thousand)

- The table below presents the change in the value of receivables and impairment allowances on debt instruments at fair value through other comprehensive income.

Debt instruments at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	POCI	Total
Carrying amount as at 31 December 2017					**0**
Effect of application of IFRS 9	**0**	**0**	**0**	**0**	**35,699,238**
Carrying amount as at 1 January 2018	**35,699,238**	**0**	**0**	**0**	**35,699,238**
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	-33,176	33,176	0	0	0
Transfer to Stage 3	-2,389	0	2,389	0	0
New/purchased/granted financial assets	421,281,142	0	0	0	421,281,142
Derecognition of financial assets	-437,733,619	0	-1,176	0	-437,734,795
Other changes (including partial repayments and disbursements of further tranches)	-4,492,476	1,560	7	0	-4,490,909
Carrying amount as at 31 December 2018	**14,718,720**	**34,736**	**1,220**	**0**	**14,754,676**
Impairment allowance*					
Impairment allowances as at 31 December 2017					**0**
Effect of application of IFRS 9	**1,810**	**0**	**0**	**0**	**1,810**
Impairment allowances as at 1 January 2018	**1,810**	**0**	**0**	**0**	**1,810**
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	-434	434	0	0	0
Transfer to Stage 3	-214	0	214	0	0
New/purchased/granted financial assets	5,939	0	0	0	5,939
Derecognition of financial assets	-3,651	0	-205	0	-3,856
Changes in credit risk level (excluding transfers between stages)	554	-22	207	0	739
Impairment allowances as at 31 December 2018	**4,004**	**412**	**216**	**0**	**4,632**

* The impairment allowance on debt securities at fair value through other comprehensive income is recognised under "Revaluation reserve" and does not decrease the carrying amount of the securities.

- The table below presents the change in the value of equity instruments at fair value through other comprehensive income.

Financial assets at fair value through other comprehensive income	2018	2017
Carrying amount as at 31 December 2017	**0**	**x**
Effect of application of IFRS 9	**1,225,026**	**x**
Carrying amount as at 1 January 2018	**1,225,026**	**x**
Increases	**8,405**	**x**
- fair value measurement	7,034	x
- other changes	1,371	x
Decreases	**126,128**	**x**
- fair value measurement	126,128	x
Carrying amount as at 31 December 2018	**1,107,303**	**x**

19.1. Reclassification of securities

Similarly to 2017, in 2018 the Group did not reclassify any financial assets other than those arising from the application of IFRS 9.

(in PLN thousand)

20. Loans and advances to customers

Loans and advances to customers at amortised cost	31 Dec 2018			31 Dec 2017		
	Gross loans	Impairment allowances	Net loans	Gross loans	Impairment allowances	Net loans
Loans and advances to customers, including:	**26,730,069**	**937,376**	**25,792,693**	**27,981,956**	**758,203**	**27,223,753**
financial sector	**763,014**	**7,517**	**755,497**	**263,451**	**1,905**	**261,546**
loans and advances	652,376	7,499	644,877	183,119	1,905	181,214
used guarantees and sureties	56	18	38	0	0	0
debt securities	0	0	0	1	0	1
other receivables	110,582	0	110,582	80,331	0	80,331
non-financial sector	**19,013,925**	**825,706**	**18,188,219**	**21,668,971**	**665,196**	**21,003,775**
loans and advances	18,712,990	703,336	18,009,654	16,065,737	446,748	15,618,989
purchased debt	158,505	1,300	157,205	121,147	85	121,062
used guarantees and sureties	140,017	118,709	21,308	87,423	78,588	8,835
debt securities	0	0	0	5,394,651	139,775	5,254,876
other receivables	2,413	2,361	52	13	0	13
public sector	**6,953,130**	**104,153**	**6,848,977**	**6,049,534**	**91,102**	**5,958,432**
loans and advances	6,911,694	99,834	6,811,860	5,636,438	85,340	5,551,098
purchased debt	41,436	4,319	37,117	335,169	843	334,326
debt securities	0	0	0	77,927	4,919	73,008

(in PLN thousand)

- The table below presents the change in the value and impairment allowances on loans and advances to customers at amortised cost.

Loans and advances to customers at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31 December 2017					**27,981,956**
Effect of application of IFRS 9					**-5,671,898**
Gross carrying amount as at 1 January 2018	18,814,603	1,538,802	1,771,519	185,134	22,310,058
Transfer to Stage 1	2,340,884	-2,237,531	-103,353	0	0
Transfer to Stage 2	-3,762,585	3,779,395	-16,810	0	0
Transfer to Stage 3	-107,723	-30,371	138,094	0	0
New/purchased/granted financial assets	4,359,541	280,268	176,678	114,074	4,930,561
Derecognition of financial assets	-2,105,952	-68,361	-80,230	-84,062	-2,338,605
Financial assets that have been written off in the statement of financial position	-5	0	-360	0	-365
Other changes (including partial repayments and disbursements of further tranches)	1,932,288	-97,902	83,043	-89,009	1,828,420
Gross carrying amount as at 31 December 2018	**21,471,051**	**3,164,300**	**1,968,581**	**126,137**	**26,730,069**
Impairment allowance					
Impairment allowances as at 31 December 2017					**758,203**
Effect of application of IFRS 9					**74,829**
Impairment allowances as at 1 January 2018	**128,051**	**44,509**	**660,472**	**0**	**833,032**
Transfer to Stage 1	63,454	-53,442	-10,012	0	0
Transfer to Stage 2	-41,181	42,847	-1,666	0	0
Transfer to Stage 3	-1,558	-1,965	3,523	0	0
New/purchased/granted financial assets	26,758	5,611	10,380	0	42,749
Derecognition of financial assets	-28,110	-1,140	-16,227	0	-45,477
Financial assets that have been written off in the statement of financial position	0	0	-248	0	-248
Changes in credit risk level (excluding transfers between stages)	17,576	47,931	69,116	-27,322	107,301
Other changes	-1	0	20	0	19
Impairment allowances as at 31 December 2018	**164,989**	**84,351**	**715,358**	**-27,322**	**937,376**

Loans and advances to customers obligatorily measured at fair value through profit or loss	31 Dec 2018	31 Dec 2017
Loans and advances to customers (gross), including:	**146,088**	**x**
public sector	**146,088**	**x**
loans and advances	146,088	x

Change in loans and advances to customers obligatorily measured at fair value through profit or loss	2018	2017
Carrying amount as at 31 December 2017	**0**	**x**
Effect of application of IFRS 9	**164,916**	**x**
Carrying amount as at 1 January 2018	**164,916**	**x**
Decreases	**18,828**	**x**
repayments	16,602	x
changes in fair value	2,226	x
Carrying amount as at 31 December 2018	**146,088**	**x**

21. Debt instruments at amortised cost

Debt instruments by issuer	31 Dec 2018	31 Dec 2017
Debt instruments, including:	**6,881,770**	**x**
Issued by enterprises	5,855,297	x
Issued by local government units	1,026,473	x
Total	**6,881,770**	**x**

(in PLN thousand)

- The table below presents the change in the value and impairment allowances on debt instruments at amortised cost.

Debt instruments at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount as at 31 December 2017					**0**
Effect of application of IFRS 9					**5,686,149**
Gross carrying amount as at 1 January 2018	**4,704,539**	**32,393**	**949,217**	**0**	**5,686,149**
Transfer to Stage 1	339,158	-152,126	-187,032	0	0
Transfer to Stage 2	-1,362,891	1,362,891	0	0	0
New/purchased/granted financial assets	2,018,201	2,021	0	0	2,020,222
Derecognition of financial assets	-156,962	-210,625	-59,167	0	-426,754
Other changes (including partial repayments and disbursements of further tranches)	-228,191	-15,279	-21,629	0	-265,099
Gross carrying amount as at 31 December 2018	**5,313,854**	**1,019,275**	**681,389**	**0**	**7,014,518**
Impairment allowance					
Impairment allowances as at 31 December 2017					**0**
Effect of application of IFRS 9					**128,492**
Impairment allowances as at 1 January 2018	**23,636**	**432**	**104,424**	**0**	**128,492**
Transfer to Stage 1	22,698	-2,158	-20,540	0	0
Transfer to Stage 2	-7,622	7,622	0	0	0
New/purchased/granted financial assets	9,518	145	0	0	9,663
Derecognition of financial assets	-1,486	-9,449	-3,782	0	-14,717
Changes in credit risk level (excluding transfers between stages)	-35,339	18,955	24,781	0	8,397
Other changes	0	0	913	0	913
Impairment allowances as at 31 December 2018	**11,405**	**15,547**	**105,796**	**0**	**132,748**

22. Receivables and liabilities under reverse repurchase/repurchase agreements

Securities under repurchase agreements/reverse repurchase agreements	31 Dec 2018		31 Dec 2017	
	Receivables	Liabilities	Receivables	Liabilities
From banks	2,245,668	3,276,742	1,142,098	3,002,254
From customers	1,628,992	1,937,309	963,442	4,571,566
Total	**3,874,660**	**5,214,051**	**2,105,540**	**7,573,820**

23. Available-for-sale financial assets

Available-for-sale financial assets	31 Dec 2018	31 Dec 2017
Debt securities (gross)	x	35,699,238
issued by the State Treasury	x	9,232,632
- treasury bonds	x	9,232,632
issued by the National Bank of Poland (NBP)	x	21,526,556
- money bills	x	21,526,556
issued by banks	x	1,122,031
- corporate bonds	x	159,803
- subordinated bonds	x	600,333
- commercial bills	x	336,420
- covered bonds	x	25,475
issued by other financial entities	x	562,172
- corporate bonds	x	255,066
- subordinated bonds	x	307,106
issued by non-financial entities	x	2,201,386
- corporate bonds	x	2,201,386
issued by local government units	x	1,054,461
- municipal bonds	x	1,054,461
Total debt securities (net)	**x**	**35,699,238**
Equity securities (gross)	x	1,371,447
- listed	x	1,244,275
- unlisted	x	127,172
Impairment allowances on equity securities	x	-72,051
Total equity securities (net)	**x**	**1,299,396**
Other financial assets (gross)	x	62,618
Other financial assets (net)	**x**	**62,618**
Total available-for-sale financial assets (net)	**x**	**37,061,252**

(in PLN thousand)

Change in available-for-sale financial assets (gross)	2018	2017
Balance at the beginning of the period	**37,061,252**	**31,619,745**
Effect of application of IFRS 9	**-37,061,252**	**x**
Increases	**x**	**1,746,429,465**
- purchase	x	1,744,494,807
- fair value measurement	x	1,934,658
Decreases	**x**	**1,740,987,958**
- sale	x	298,909,899
- maturity	x	1,441,872,652
- interest payment	x	172,538
- fair value measurement	x	24,532
- impairment	x	7,873
- other changes	x	403
- changes in the structure of the Group	x	61
Balance at the end of the period	**x**	**37,061,252**

Change in impairment allowances on available-for-sale financial assets	2018		2017	
	debt	equity	debt	equity
Balance at the beginning of the period	**x**	**72,051**	**0**	**64,595**
Effect of application of IFRS 9	**x**	**-72,051**	**x**	**x**
Increases, including:	**x**	**x**	**0**	**7,873**
- recognition	x	x	0	7,873
Decreases, including:	**x**	**x**	**0**	**417**
- due to assets written off and settled	x	x	0	398
- changes in the structure of the Group	x	x	0	19
Balance at the end of the period	**x**	**x**	**0**	**72,051**

24. Held-to-maturity financial assets

Held-to-maturity financial assets	31 Dec 2018	31 Dec 2017
Debt securities (gross)	x	166
issued by non-financial entities	x	166
- commercial bills	x	166
Impairment allowances on debt securities	x	-166
Total investments in held-to-maturity financial assets (net)	**x**	**0**

Change in impairment allowances on financial assets held to maturity	2018	2017
Balance at the beginning of the period	**166**	**166**
Effect of application of IFRS 9	**-166**	**x**
Balance at the end of the period	**x**	**166**

25. Investments in associates

In the consolidated financial statements all associates are measured using the equity method.

Investments in associates	31 Dec 2018	31 Dec 2017
Value at cost	3,811,330	1,036,226
Measurement using the equity method	79,905	36,926
Impairment allowances	-7,671	-6,947
Carrying amount	**3,883,564**	**1,066,205**

(in PLN thousand)

Changes in investments in associates	**2018**	**2017**
Investments in associates at the beginning of the period	**1,066,205**	**645,437**
Increases, including:	**2,820,582**	**420,894**
Share of profit or loss	42,979	71,992
Purchased shares/investment certificates*	2,776,972	348,902
Other changes	631	0
Decreases, including:	**3,223**	**126**
Sale of shares	2,499	0
Other changes	0	126
Change in impairment allowances	724	0
Investments in associates at the end of the period	**3,883,564**	**1,066,205**

* The Group purchased investment certificates/shares (value at cost) of the following entities:		
– Fundusz Inwestycji Infrastrukturalnych – Kapitałowy Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	1,640,114	20,624
– Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	821,102	183,769
– Fundusz Inwestycji Samorządowych Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	278,009	7,459
– Fundusz Inwestycji Infrastrukturalnych – Dłużny Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	0	118,740
– UAB EMP Recycling	0	18,310
– ASM Germany GmbH	37,747	-

In 2018 and 2017, the Group entities did not receive dividends from the associates.

(in PLN thousand)

Condensed information about associates measured using the equity method as at 31 December 2018

Entity name	Current assets	Property, plant and equipment	Short-term liabilities	Long-term liabilities	Revenue	Net profit/loss	Net assets	% interest in capital	% interest in voting rights	Adjusted net assets	Carrying amount
KUKE S.A.	335,088	3,819	125,723	0	78,383	976	213,184	36.69	36.69	213,184	66,904
Śląski Regionalny Fundusz Poręczeniowy Sp. z o.o.	59,547	80	24,061	20,230	2,697	192	9,713	46.08	46.08	9,693	4,467
Fundusz Rozwoju i Promocji Województwa Wielkopolskiego S.A.	42,835	157	646	3,755	7,531	119	36,284	22.47	22.47	33,700	7,572
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	27,542	119	39	3,250	1,424	76	18,941	44.44	44.44	17,307	7,691
Kujawsko-Pomorski Fundusz Poręczeń Kredytowych Sp. z o.o.	46,948	13	40	11,780	2,859	60	31,376	49.38	24.64	30,001	14,814
Dolnośląski Fundusz Gospodarczy Sp. z o.o.	27,688	50	32	0	2,867	51	26,491	42.62	42.62	23,348	9,951
Opolski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o.	13,204	29	32	6,630	1,057	193	6,348	48.27	33.50	6,248	3,016
Bydgoski Fundusz Poręczeń Kredytowych Sp. z o.o.	5,179	827	12	2,996	828	90	1,812	31.09	22.64	1,808	562
Fundusz Poręczeń Kredytowych Sp. z o.o in Jelenia Góra	6,556	25	7	0	715	-110	6,289	44.60	44.60	6,289	2,805
Samorządowy Fundusz Poręczeń Kredytowych Sp. z o.o. of Gostyń	33,257	158	102	3,500	3,180	107	19,944	41.01	41.01	19,939	8,177
Fundusz Pomerania Sp. z o.o.	30,564	1,366	170	0	3,939	22	30,826	41.15	41.15	29,096	11,973
Warmińsko-Mazurski Fundusz "Poręczenia Kredytowe" Sp. z o.o.	53,634	3,005	17	39,182	1,661	21	16,967	36.19	23.49	15,791	5,715
Małopolski Fundusz Poręczeń Kredytowych Sp. z o.o. w likwidacji (in liquidation)	6,020	253	4,662	0	392	-75	-466	32.86	32.86	-466	0
Krajowa Grupa Poręczeniowa Sp. z o.o.	20	488	46	0	248	-117	457	39.29	39.29	457	180
Świętokrzyski Fundusz Poręczeniowy Sp. z o.o.	28,364	503	21,177	0	1,581	232	6,914	49.99	49.99	6,636	3,317
Małopolski Regionalny Fundusz Poręczeniowy Sp. z o.o.	71,591	6,182	52,298	0	2,002	-1,573	18,291	36.87	36.87	11,672	4,303
Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZ AN	856,885	0	5,685	0	15,383	46,743	2,241,401	86.45	86,45*	2,241,401	1,937,781
Fundusz Inwestycji Polskich Przedsiębiorstw FIZ AN	317,965	0	6,044	0	15,537	4,368	1,533,213	86.40	86,40*	1,527,169	1,319,474
Fundusz Inwestycji Samorządowych FIZ AN	371,440	0	1,935	0	1,490	481	612,775	50.00	50,00*	612,775	306,388
Fundusz Inwestycji Infrastrukturalnych – Dłużny FIZ AN	110,853	0	3,067	0	4,677	-2,380	139,118	86,45**	86,45**	138,913	120,094
Esotiq Germany GmbH	1,627	1,826	3,164	3,046	1,617	-1,747	-2,816	48.78	48.78	-2,816	0
UAB EMP Recycling	26,557	14,369	14,700	3,211	132,333	6,107	23,016	49.00	49.00	23,016	11,278
ASM Germany GmbH	12,166	87,096	7,240	17,529	0	-1,275	74,352	49.90	49.90	74,352	37,102
Total											**3,883,564**

* with the proviso that certain conditions may call for an unanimous decision of the Investors' Meeting
** target interest, with the provision that certain conditions may call for an unanimous decision of the Investors' Meeting

(in PLN thousand)

Condensed information about associates measured using the equity method as at 31 December 2017

Entity name	Current assets	Property, plant and equipment	Short-term liabilities	Long-term liabilities	Revenue	Net profit/loss	Net assets	% interest in capital	% interest in voting rights	Adjusted net assets	Carrying amount
KUKE S.A.	52,894	507	0	0	31,203	3,972	214,891	36.69	36.69	214,981	67,563
Śląski Regionalny Fundusz Poręczeniowy Sp. z o.o.	59,616	110	24,109	20,884	2,356	190	9,521	46.08	46.08	8,625	3,974
Fundusz Rozwoju i Promocji Województwa Wielkopolskiego S.A.	38,807	200	176	0	6,169	379	36,165	22.47	22.47	26,024	5,848
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	24,258	159	29	0	2,380	806	18,865	44.44	44.44	12,517	5,563
Kujawsko-Pomorski Fundusz Poręczeń Kredytowych Sp. z o.o.	45,323	34	68	11,208	3,031	52	31,316	49.38	24.64	30,414	15,019
Dolnośląski Fundusz Gospodarczy Sp. z o.o.	27,376	63	74	0	3,069	80	26,441	42.62	42.62	21,614	9,212
Opolski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o.	18,224	400	49	11,616	957	-135	6,552	48.27	33.50	6,192	2,989
Bydgoski Fundusz Poręczeń Kredytowych Sp. z o.o.	5,570	861	12	3,019	1,302	59	1,722	31.09	22.64	1,718	534
Fundusz Poręczeń Kredytowych Sp. z o.o in Jelenia Góra	6,817	38	7	0	1,239	-149	6,399	44.60	44.60	5,713	2,548
Samorządowy Fundusz Poręczeń Kredytowych Sp. z o.o. in Gostyń	28,064	154	2	0	2,656	50	19,637	41.65	41.65	12,016	5,005
Podkarpacki Fundusz Poręczeń Kredytowych Sp. z o.o.	9,343	54	138	7,226	4,595	-1,788	-2,741	49.99	49.99	-2,741	0
Fundusz Pomerania Sp. z o.o.	31,893	278	133	0	4,304	56	30,841	46.95	46.95	28,911	13,574
Warmińsko-Mazurski Fundusz “Poręczenia Kredytowe” Sp. z o.o.	46,257	5,455	63	34,329	1,651	21	16,945	36.19	23.49	15,207	5,503
Małopolski Fundusz Poręczeń Kredytowych Sp. z o.o. w likwidacji (in liquidation)	7,222	553	6,041	0	339	-643	-395	32.86	32.86	-395	0
Krajowa Grupa Poręczeniowa Sp. z o.o.	15	610	45	0	248	-128	574	39.29	39.29	574	226
Świętokrzyski Fundusz Poręczeniowy Sp. z o.o.	28,882	674	21,672	0	2,199	715	6,681	49.99	49.99	4,709	2,354
Małopolski Regionalny Fundusz Poręczeniowy Sp. z o.o.	83,612	196	54,725	0	2,696	178	22,941	36.87	36.87	17,114	6,310
Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZ AN	0	0	2,363	0	12	5,458	297,749	86,45*	86,45**	297,564	257,256
Fundusz Inwestycji Polskich Przedsiębiorstw FIZ AN	22	0	3,101	0	2,051	79,176	572,532	86,40*	86,40**	572,452	494,599
Fundusz Inwestycji Samorządowych FIZ AN	150	0	1,541	0	10	-3,050	49,335	75,00*	75,00**	49,285	27,665
Fundusz Inwestycji Infrastrukturalnych – Dłużny FIZ AN	142	0	2,369	0	2,262	3,265	141,498	86,45*	86,45**	141,293	122,153
Esotiq Germany GmbH	1,539	1,310	129	3,677	1,556	-1,574	-1,012	48.78	48.78	-1,012	0
UAB EMP Recycling	26,080	12,641	21,786	367	142,661	6,899	16,243	49.00	49.00	16,243	18,310
Total											**1,066,205**

* target interest
** target interest, with the proviso that certain conditions may call for an unanimous decision of the Investors’ Meeting

(in PLN thousand)

The adjustment of net assets in surety funds was made due to the unification of the accounting principles with regard to the establishment of impairment losses.

The adjustment of net assets once measured at the fair value of investment certificate FIZ AN that are held by BGK consists in decreasing such assets by the equivalent of the payment effected by PFR S.A. on account of certificates paid in initial value. The proceeds from those certificates are not directly related to investment projects generating financial benefits.

26. Intangible assets

Intangible assets	31 Dec 2018	31 Dec 2017
Licences, copyrights (including software)	34,190	22,931
Right of perpetual usufruct of land	3,464	3,520
Expenditure on intangible assets	11,427	16,723
Other intangible assets	1	2
Total	**49,082**	**43,176**

- Change in intangible assets from 1 January 2018 to 31 December 2018

Change in intangible assets in 2018	Licences, copyrights (including software)	Right of perpetual usufruct of land	Expenditure on intangible assets	Other intangible assets	Total
Gross carrying amount at the beginning of the period	105,958	3,664	16,723	3,280	**129,625**
Increases, including:	**20,067**	**0**	**27,685**	**0**	**47,752**
- purchase	142	0	27,685	0	**27,827**
- reclassification from expenditure	19,925	0	0	0	**19,925**
Decreases, including:	**1,076**	**0**	**20,076**	**0**	**21,152**
- liquidation	95	0	0	0	**95**
- reclassification from expenditure	0	0	19,925	0	**19,925**
- other	0	0	151	0	**151**
- changes in the structure of the Group	981	0	0	0	**981**
Gross carrying amount at the end of the period	**124,949**	**3,664**	**24,332**	**3,280**	**156,225**
Accumulated amortisation at the beginning of the period	**83,027**	**144**	**0**	**3,278**	**86,449**
Increases, including:	**7,908**	**56**	**0**	**1**	**7,965**
- amortisation for the period	7,848	56	0	1	**7,905**
- other	60	0	0	0	**60**
Decreases, including:	**176**	**0**	**0**	**0**	**176**
- liquidation	95	0	0	0	**95**
- changes in the structure of the Group	81	0	0	0	**81**
Accumulated amortisation at the end of the period	**90,759**	**200**	**0**	**3,279**	**94,238**
Impairment allowances at the beginning of the period	0	0	0	0	**0**
Increases, including:	**861**	**0**	**12,905**	**0**	**13,766**
- recognised in the period	861	0	12 905*	0	**13,766**
Decreases, including:	**861**	**0**	**0**	**0**	**861**
- changes in the structure of the Group	861	0	0	0	**861**
Impairment allowances at the end of the period	**0**	**0**	**12,905**	**0**	**12,905**
Net carrying amount at the beginning of the period	**22,931**	**3,520**	**16,723**	**2**	**43,176**
Net carrying amount at the end of the period	**34,190**	**3,464**	**11,427**	**1**	**49,082**

* As the parent entity identified a risk that the requirements specified in the Terms of Reference may be inconsistent with the changing business needs, it decided to suspend the implementation of the Bank's key IT system, terminate the agreement with the supplier and engage an independent company to carry out a comprehensive audit of the Bank's IT architecture. The results of the audit will determine the parent entity's further decisions in this matter. As a consequence, the Bank decided to recognise an impairment allowance on expenditure incurred on intangible assets and property, plant and equipment of PLN 14,272 thousand.

(in PLN thousand)

- Change in intangible assets from 1 January 2017 to 31 December 2017

Change in intangible assets in 2017	Licences, copyrights (including software)	Right of perpetual usufruct of land	Expenditure on intangible assets	Other intangible assets	Total
Gross carrying amount at the beginning of the period	**98,273**	**3,664**	**8,495**	**3,315**	**113,747**
Increases, including:	**8,003**	**0**	**15,462**	**0**	**23,465**
- purchase	781	0	15,462	0	16,243
- reclassification from expenditure	7,222	0	0	0	7,222
Decreases, including:	**318**	**0**	**7,234**	**35**	**7,587**
- liquidation	318	0	0	0	318
- reclassification from expenditure	0	0	7,222	0	7,222
- other	0	0	12	0	12
- changes in the structure of the Group	0	0	0	35	35
Gross carrying amount at the end of the period	**105,958**	**3,664**	**16,723**	**3,280**	**129,625**
Accumulated amortisation at the beginning of the period	**73,589**	**88**	**0**	**3,288**	**76,965**
Increases, including:	**9,756**	**56**	**0**	**16**	**9,828**
- amortisation for the period	9,677	56	0	16	9,749
- other	79	0	0	0	79
Decreases, including:	**318**	**0**	**0**	**26**	**344**
- liquidation	318	0	0	0	318
- changes in the structure of the Group	0	0	0	26	26
Accumulated amortisation at the end of the period	**83,027**	**144**	**0**	**3,278**	**86,449**
Impairment allowances at the beginning of the period	**0**	**0**	**0**	**0**	0
Impairment allowances at the end of the period	**0**	**0**	**0**	**0**	**0**
Net carrying amount at the beginning of the period	**24,684**	**3,576**	**8,495**	**27**	**36,782**
Net carrying amount at the end of the period	**22,931**	**3,520**	**16,723**	**2**	**43,176**

The value of intangible assets considered material for the financial statements of the Group

The Bank holds licences/copyrights for the use of:

- the DEF system (modifications) with a value of PLN 11,262 thousand (net). The expected useful life ends on 31 December 2025.
- the bgk24 system (core system + modifications) with a net value of PLN 7,625 thousand. The expected useful life ends on 30 November 2023.

As at 31 December 2018 and 31 December 2017, the Bank did not have any intangible assets whose legal title would be limited or which would have been provided as collateral securing the payment of liabilities.

The Group entered into agreements to purchase PLN 7,684 thousand in intangible assets in future periods.

27. Property, plant and equipment

Property, plant and equipment	31 Dec 2018	31 Dec 2017
Buildings and structures	91,947	92,625
Leasehold improvements	522	719
Plant and equipment	30,978	30,250
Vehicles	45	1,961
PPE under construction	13,980	17,070
Other property, plant and equipment	1,397	1,349
Total	**138,869**	**143,974**

(in PLN thousand)

- Change in property, plant and equipment from 1 January to 31 December 2018

Change in PPE in 2018	Buildings and structures	Leasehold improvements	Plant and equipment	Vehicles	PPE under construction	Other property, plant and equipment	Total
Gross carrying amount of PPE at the beginning of the period	**108,075**	**3,446**	**104,538**	**5,612**	**17,070**	**8,684**	**247,425**
Increases, including:	**2,557**	**61**	**9,723**	**43**	**10,910**	**762**	**24,056**
- purchase	0	0	501	0	10,910	75	**11,486**
- reclassification from expenditure	2,557	61	9,222	0	0	687	**12,527**
- other	0	0	0	43	0	0	**43**
Decreases, including:	**0**	**147**	**1,637**	**1,347**	**12,633**	**1,452**	**17,216**
- sale	0	18	5	40	0	0	**63**
- liquidation	0	129	721	0	0	1,309	**2,159**
- reclassification from expenditure	0	0	0	0	12,523	0	**12,523**
- other	0	0	0	0	110	0	**110**
- changes in the structure of the Group	0	0	911	1,307	0	143	**2,361**
Gross carrying amount of PPE at the end of the period	**110,632**	**3,360**	**112,624**	**4,308**	**15,347**	**7,994**	**254,265**
Accumulated depreciation at the beginning of the period	**15,450**	**2,727**	**74,288**	**3,651**	**0**	**7,335**	**103,451**
Increases, including:	**3,235**	**253**	**8,419**	**1,397**	**0**	**581**	**13,885**
- depreciation for the period	3,148	244	8,048	1,207	0	569	**13,216**
- other	87	9	371	190	0	12	**669**
Decreases, including:	**0**	**142**	**1,061**	**785**	**0**	**1,319**	**3,307**
- sale	0	13	5	40	0	0	**58**
- liquidation	0	129	717	0	0	1,295	**2,141**
- reclassification from expenditure	0	0	0	0	0	0	**0**
- other	0	0	0	0	0	0	**0**
- changes in the structure of the Group	0	0	339	745	0	24	**1,108**
Accumulated depreciation at the end of the period	**18,685**	**2,838**	**81,646**	**4,263**	**0**	**6,597**	**114,029**
Impairment allowances at the beginning of the period	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Increases, including:	**0**	**0**	**0**	**0**	**1,367**	**0**	**1,367**
- recognised in the period*	0	0	0	0	1,367	0	**1,367**
Impairment allowances at the end of the period	**0**	**0**	**0**	**0**	**1,367**	**0**	**1,367**
Net carrying amount at the beginning of the period	**92,625**	**719**	**30,250**	**1,961**	**17,070**	**1,349**	**143,974**
Net carrying amount at the end of the period	**91,947**	**522**	**30,978**	**45**	**13,980**	**1,397**	**138,869**

* As the parent entity identified a risk that the requirements specified in the Terms of Reference may be inconsistent with the changing business needs, it decided to suspend the implementation of the Bank's key IT system, terminate the agreement with the supplier and engage an independent company to carry out a comprehensive audit of the Bank's IT architecture. The results of the audit will determine the parent entity's further decisions in this matter. As a consequence, the Bank decided to recognise an impairment allowance on expenditure incurred on intangible assets and property, plant and equipment of PLN 14,272 thousand.

(in PLN thousand)

- Change in property, plant and equipment from 1 January to 31 December 2017

Change in PPE in 2017	Buildings and structures	Leasehold improvements	Plant and equipment	Vehicles	PPE under construction	Other property, plant and equipment	Total
Gross carrying amount of PPE at the beginning of the period	**108,009**	**3,648**	**103,718**	**5,448**	**9,572**	**8,827**	**239,222**
Increases, including:	**82**	**22**	**9,836**	**164**	**17,542**	**193**	**27,839**
- purchase	0	0	237	85	17,542	49	**17,913**
- reclassification from expenditure	82	22	9,595	79	0	144	**9,922**
- other	0	0	4	0	0	0	**4**
Decreases, including:	**16**	**224**	**9,016**	**0**	**10,044**	**336**	**19,636**
- sale	16	0	113	0	0	141	**270**
- liquidation	0	224	8,811	0	0	166	**9,201**
- reclassification from expenditure	0	0	0	0	9,918	0	**9,918**
- other	0	0	0	0	126	0	**126**
- changes in the structure of the Group	0	0	92	0	0	29	**121**
Gross carrying amount of PPE at the end of the period	**108,075**	**3,446**	**104,538**	**5,612**	**17,070**	**8,684**	**247,425**
Accumulated depreciation at the beginning of the period	**12,220**	**2,717**	**75,646**	**1,514**	**0**	**6,978**	**99,075**
Increases, including:	**3,234**	**234**	**7,594**	**2,137**	**0**	**684**	**13,883**
- depreciation for the period	3,150	220	7,257	1,982	0	666	**13,275**
- other	84	14	337	155	0	18	**608**
Decreases, including:	**4**	**224**	**8,952**	**0**	**0**	**327**	**9,507**
- sale	4	0	103	0	0	141	**248**
- liquidation	0	224	8,810	0	0	166	**9,200**
- changes in the structure of the Group	0	0	39	0	0	20	**59**
Accumulated depreciation at the end of the period	**15,450**	**2,727**	**74,288**	**3,651**	**0**	**7,335**	**103,451**
Impairment allowances at the beginning of the period	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Impairment allowances at the end of the period	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net carrying amount at the beginning of the period	**95,789**	**931**	**28,072**	**3,934**	**9,572**	**1,849**	**140,147**
Net carrying amount at the end of the period	**92,625**	**719**	**30,250**	**1,961**	**17,070**	**1,349**	**143,974**

As at 31 December 2018 and 31 December 2017, the Group did not have any property or equipment whose legal title would be limited or which would have been provided as collateral securing the payment of liabilities.

The Group signed agreements on future purchase of property, plant and equipment worth PLN 1,843 thousand.

(in PLN thousand)

28. Investment property

Change in investment property

Investment property	2018	2017
Gross carrying amount at the beginning of the period	834,428	587,771
Increases, including:	**388 305**	**259,608**
- purchase of investment property	358,321	224,428
- fair value measurement	19,576	34,470
- impairment allowance on investment property	8,625	0
- other	1 783	710
Decreases, including:	**43 747**	**12,951**
- sale/discontinuation of investment projects	11,900	1,300
- fair value measurement	16,213	2,547
- discontinued investments	692	0
- impairment allowance on investment property	237	9,104
- reclassification of advance payments to other assets	14,486	0
- other	219	0
Gross carrying amount at the end of the period	**1,178,986**	**834,428**

The Group adopted the fair value measurement model for identified investment property. The fair value of investment property is classified at Level 3 of the fair value measurement hierarchy.

The fair value of property investments is recognised in the valuation prepared by independent property appraisers.

The valuation was carried out based on a comparative method (pairwise comparison and average price adjustment method), income method (by investment), and mixed (residual method).

The best indicator of fair value is the applicable prices on an active market for similar assets. If no such information is available, the fair value is estimated. Various information are taken into account (including unobservable inputs) to carry out the valuation, including:

- the market price for property (transactions) of a similar nature, condition, and location (or provided for in a different agreement or contract), adjusted to consider the difference between the properties;
- discounted cash flow projections based on reliable estimations of future cash flows specified in the terms and conditions of present lease agreements and other contracts or in external sources, such as current market rental prices of similar property in the same location and condition, rental price growth rate, the time where flats are not inhabited, along with occupancy rate.

Fair value measurement was recognised in profit or loss as “Other operating expenses” and “Other operating income”.

The following items of revenue and expenses related to investment property were recognised in profit or loss:

	31 Dec 2018	31 Dec 2017
Rental income from investment property	23,135	7,351
Direct operating expenses (including the cost of repair and maintenance) which generated rental income in the period	14,310	4,589
Direct operating expenses (including the cost of repair and maintenance) which did not generate rental income in the period	286	292

As at 31 December 2018, contingent liabilities under executed investment agreements at Fundusz Sektora Mieszkań dla Rozwoju FIZ AN and Fundusz Ekspansji Zagranicznej FIZ AN totalled PLN 309,233 thousand and EUR 27,500 thousand, respectively.
Moreover, the Group entered into contracts for repair, maintenance or improvement of investment property with a value of PLN 166 thousand.

(in PLN thousand)

29. Other assets

Other assets	31 Dec 2018	31 Dec 2017
Accrued income, including:	17,972	19,430
- fees for asset management as part of European Union Perspective 2014–2020	13,597	12,927
Sundry debtors (net), including:	20,579	9,122
- impairment allowances	5,897	5,765
Public law settlements	278	319
Payment card settlements	1,339	3,703
Receivables from settlements with funds and programmes	0	11
Pre-paid costs, including:	7,934	8,068
- costs of telecommunication services	4,776	4,777
- costs of commissions on guarantees received	1,129	1,349
- management fees – EIF/PGFF	0	1,072
Prepayments for property	34,459	0
Other	2,715	6,491
Total	**85,276**	**47,144**

Change in impairment allowances on other assets	2018	2017
Impairment allowances on other assets at the beginning of the period	**5,765**	**5,471**
Effect of application of IFRS 9	**101**	**x**
Adjusted opening balance in accordance with IFRS 9	**5,866**	**5,471**
Recognition of impairment allowances	950	400
Reversal of impairment allowances	219	83
Utilisation	805	0
Other adjustments	105	-23
Impairment allowances on other assets at the end of the period	**5,897**	**5,765**

30. Liabilities to the Central Bank

Similarly to 2017, in 2018 the Group did not hold any liabilities to the Central Bank.

31. Liabilities to banks

Liabilities to banks	31 Dec 2018	31 Dec 2017
Current accounts	281,356	106
Bank deposits	468,242	302,051
Loans and advances received*	2,901,469	2,990,888
Other	228,154	301,095
Total	**3,879,221**	**3,594,140**

* Including loans received from:		
European Investment Bank	2,278,941	2,272,965
Council of Europe Development Bank	253,875	300,673
KfW (Kreditanstalt für Wiederaufbau)	368,653	417,250

32. Liabilities to customers

Liabilities to customers	31 Dec 2018	31 Dec 2017
Liabilities to financial sector	**2,463,462**	**1,626,187**
Current accounts and O/N deposits	977,968	928,108
Term deposits	1,478,587	684,573
Other liabilities	6,907	13,506
Liabilities to non-financial sector	**15,687,340**	**14,087,938**
Current accounts and O/N deposits	3,484,839	3,777,480
Term deposits	11,090,117	9,134,209
Other liabilities	1,112,384	1,176,249
Liabilities to the public sector	**29,486,496**	**17,978,195**
Current accounts and O/N deposits	21,958,997	13,750,062
Term deposits	7,362,290	4,079,105
Other liabilities	165,209	149,028
Total	**47,637,298**	**33,692,320**

(in PLN thousand)

33. Debt securities issued

Issue date	Nominal value	Currency	Maturity date	Interest rate	Carrying amount as at 31 December 2018
25 Jan 2018	500,000	PLN	25 Jan 2021	6M WIBOR + margin	504,425
3 Oct 2017	500,000	PLN	3 Oct 2021	6M WIBOR + margin	502,725
19 May 2017	1,200,000	PLN	19 May 2020	6M WIBOR + margin	1,203,144
27 Feb 2017	1,158,600	PLN	27 Feb 2020	6M WIBOR + margin	1,167,429
5 Oct 2016	500,000	PLN	5 Oct 2019	6M WIBOR + margin	502,630
19 Feb 2015	1,392,000	PLN	19 Feb 2019	6M WIBOR + margin	1,402,718
30 Sep 2014	500,000	PLN	30 Sep 2019	fixed	503,565
9 Nov 2017	572	PLN	9 Nov 2042	fixed	573
Total	**5,751,172**				**5,787,209**

Issue date	Nominal value	Currency	Maturity date	Interest rate	Carrying amount as at 31 December 2017
3 Oct 2017	500,000	PLN	3 Oct 2021	6M WIBOR + margin	502,750
19 May 2017	1,200,000	PLN	19 May 2020	6M WIBOR + margin	1,203,168
27 Feb 2017	1,158,600	PLN	27 Feb 2020	6M WIBOR + margin	1,167,510
5 Oct 2016	500,000	PLN	5 Oct 2019	6M WIBOR + margin	502,650
19 Feb 2015	1,392,000	PLN	19 Feb 2019	6M WIBOR + margin	1,402,871
30 Sep 2014	500,000	PLN	30 Sep 2019	fixed	503,565
20 Nov 2012	1,000,000	PLN	25 Jan 2018	6M WIBOR + margin	1,009,860
30 Dec 2016	500	PLN	31 Dec 2021	floating	505
25 Jan 2017	500	PLN	26 Jan 2022	floating	505
24 Feb 2017	1,000	PLN	25 Feb 2022	floating	1,012
21 Mar 2017	1,500	PLN	22 Mar 2022	floating	1,516
10 Aug 2017	500	PLN	10 Aug 2022	floating	505
6 Oct 2017	1,000	PLN	6 Oct 2022	floating	1,010
23 Mar 2017	1,313	PLN	23 Mar 2042	fixed	1,315
9 Nov 2017	572	PLN	9 Nov 2042	fixed	573
Total	**6,257,485**				**6,299,315**

34. Other liabilities

Other liabilities	31 Dec 2018	31 Dec 2017
Deferred costs	18,822	5,672
Deferred income	85,622	72,576
Provisions for annual holidays	8,455	6,959
Personnel costs – annual and jubilee awards, payments in lieu of leave, bonuses	62,363	43,641
Other liabilities (by basis):	**826,560**	**1,292,930**
- interbank settlements	35,758	99,925
- settlements with funds and programmes	181,010	590,833
- liabilities to suppliers of works and services	41,486	14,441
- employee settlements	237	182
- fuel charge liabilities	518,234	510,573
- payment card liabilities	55	701
- other	49,780	76,275
Total	**1,001,822**	**1,421,778**

As at 31 December 2018 and 31 December 2017, the Group had no delinquent contractual liabilities under concluded agreements.

35. Provisions

Provisions	31 Dec 2018	31 Dec 2017
Provisions for liabilities and guarantees	211,684	170,799
Provisions for litigation and claims	79,869	11,994
Provisions for defined benefit plans	13,320	13,643
Other provisions *	93,328	93,328
Total provisions	**398,201**	**289,764**

* Provision for off-balance-sheet liabilities of liquidated National Housing Fund (NHF)

(in PLN thousand)

Provisions for the year ending on 31 Dec 2018	Provisions for liabilities and guarantees	Provisions for litigation and claims	Provisions for defined benefit plans	Other provisions*	Total
Balance as at 31 December 2017	**170,799**	**11,994**	**13,643**	**93,328**	**289,764**
Effect of application of IFRS 9	**-8,655**	**0**	**0**	**0**	**-8,655**
Balance as at 1 January 2018 including:	**162,144**	**11,994**	**13,643**	**93,328**	**281,109**
Short-term provision	38,537	0	4,047	0	**42,584**
Long-term provision	123,607	11,994	9,596	93,328	**238,525**
Recognition/remeasurement of provisions	331,684	67,875	193	0	**399,752**
Reversal of provisions	282,144	0	0	0	**282,144**
Utilisation of provisions	0	0	373	0	**373**
Other changes and reclassifications	0	0	0	0	**0**
Changes in the structure of the Group	0	0	-143	0	**-143**
Balance at the end of the period, including:	**211,684**	**79,869**	**13,320**	**93,328**	**398,201**
Short-term provision	24,509	0	3,590	0	**28,099**
Long-term provision	187,175	79,869	9,730	93,328	**370,102**

* Provision for off-balance-sheet liabilities of liquidated National Housing Fund (NHF)

- The table below presents contingent liabilities and guarantees granted, together with relevant provisions, by stage, in accordance with IFRS 9

	Stage 1	Stage 2	Stage 3	Total
Contingent liabilities and guarantees				
Financial liabilities granted	39,150,292	360,521	193,947	39,704,760
Guarantee liabilities granted	13,052,661	441,237	1,146,510	14,640,408
As at 31 December 2018	**52,202,953**	**801,758**	**1,340,457**	**54,345,168**
Provision for contingent liabilities and guarantees granted				
Financial liabilities granted	52,693	2,814	37,132	92,639
Guarantee liabilities granted	87,060	9,871	22,114	119,045
As at 31 December 2018	**139,753**	**12,685**	**59,246**	**211,684**

Provisions for the year ending on 31 Dec 2017	Provisions for liabilities and guarantees	Provisions for litigation and claims	Provisions for defined benefit plans	Other provisions*	Total
Balance at the beginning of the period, including:	**135,667**	**14,187**	**6,029**	**96,891**	**252,774**
Short-term provision	0	0	37	0	**37**
Long-term provision	135,667	14,187	5,992	96,891	**252,737**
Recognition/remeasurement of provisions	295,057	230	8,010	0	**303,297**
Reversal of provisions	258,313	2,388	0	0	**260,701**
Utilisation of provisions	1,612	35	331	3,563	**5,541**
Change in the structure of the Group	0	0	-65	0	**-65**
Balance at the end of the period, including:	**170,799**	**11,994**	**13,643**	**93,328**	**289,764**
Short-term provision	47,192	0	4,047	0	**51,239**
Long-term provision	123,607	11,994	9,596	93,328	**238,525**

* Provision for off-balance-sheet liabilities of liquidated National Housing Fund (NHF)

Provisions for litigation and claims

In 2018, the Bank recognised a PLN 67,231 thousand provision for operational risk related to the distribution of funds as part of Regional Operational Programmes for 2014-2020 in connection with irregularities in performance of agreements with one of financial intermediaries and reported a suspected crime related to the case to the prosecutor's office.

Provisions for defined benefit plans

Provisions for defined benefit plans include: retirement, disability and survivor benefits. Provisions are estimated based on actuarial valuation using the discount rate: market yield of 10-year T-bonds of 3.0% and 3.0% assumed at the end of 2018 and at the end of 2017, respectively. The long-term annual wage growth rate of 2.0% has been assumed for calculation purposes. The provision for actuarial valuation is recognised and revalued annually.

(in PLN thousand)

Reconciliation of the present value of liabilities due to defined benefit plans

The table below presents the change in the present value of liabilities due to defined benefit plans.

Liabilities due to defined benefit plans	2018	2017
Balance at the beginning of the period	**13,643**	**6,029**
Current employment costs	1,025	490
Past employment costs	0	7,372
Interest expense	280	131
Revaluation of liabilities:	777	110
- actuarial gains and losses arising from changes in demographic assumptions	0	34
- actuarial gains and losses arising from changes in financial assumptions	0	396
- actuarial gains and losses arising from ex-post adjustments of assumptions	777	-320
Benefits paid	-2,263	-424
Changes in the structure of the Group	-142	-65
Balance at the end of the period	**13,320**	**13,643**

Employment costs comprise:

- present employment costs: an increase in the present value of liabilities due to defined benefit plans resulting from work carried out by employees in the current period;
- costs of former employment: a change in the present value of the liability due to defined benefits for work carried out by employees in the past and appearing in the present period as a result of change of the plan (introduction, cancellation or change of the conditions of defined benefit plan) or limitation of said plan (a significant decrease by the unit of the number of employees subject to the plan);
- any and all gains or losses resulting from settlement.

(in PLN thousand)

Sensitivity analysis

The impact of 1 p.p. changes in actuarial valuations on liabilities due to defined benefit plans is presented below.

Liabilities due to defined benefit plans as at 31 December 2018	Increase by 1 percentage point	Decrease by 1 percentage point
Discount rate	-790	916
Payroll growth rate	916	-805
Liabilities due to defined benefit plans as at 31 December 2017	**Increase by 1 percentage point**	**Decrease by 1 percentage point**
Discount rate	-765	882
Payroll growth rate	882	-779

Maturity of liabilities due to defined benefit plans

Maturity of liabilities due to defined benefit plans is presented in the table below.

	31 Dec 2018	31 Dec 2017
Weighted average period of liabilities due to defined benefit plans (years)	7.11	7.12

Other provisions

In 2009, in line with the Act of 2 April 2009 amending the Act on Sureties and Guarantees Granted by the State Treasury and Certain Legal Entities, the Act on Bank Gospodarstwa Krajowego and Certain Other Acts (Journal of Laws, No. 65, item 545), the National Housing Fund was liquidated as of 31 May 2009 and its net assets, whose value was determined based on the data from the financial statements drawn up at the liquidation date, increased the statutory capital of Bank Gospodarstwa Krajowego. Receivables of the National Housing Fund were measured at fair value. Fair value adjustment was applied to the Bank's receivables which were amortised in the statement of profit or loss under "Net interest income". Blocked funds concerning credit commitments were recognised by the Bank as "Provision". In the event of commitment drawdown, an adjustment is recognised in receivables and accounted for in line with the approach applied to adjustment of balance-sheet receivables. If the commitment expires unused or if it is used in an amount lower than originally committed, the statutory fund is adjusted pro rata from the provision.

36. Equity

Statutory capital

The statutory capital of the parent entity is recognised in the amount specified in the Articles of Association and the Act on Bank Gospodarstwa Krajowego and comprises:

- cash and other assets contributed by the State Treasury, including treasury securities provided by the minister competent for public finance;
- annual appropriations of the Bank's net profit in the amount of at least 10% of the profit.

Based on the Act of 24 November 2017 amending the Act on Sureties and Guarantees Granted by the State Treasury and Certain Legal Entities as well as Certain Legal Acts, (Journal of Laws, item 2433), in January 2018 the Bank established a National Guarantee Fund ("NGF") – a cash flow fund. Based on said Act, BGK injected into the NGF a total of PLN 900 million. The amount decreased the Bank's statutory capital.

In 2018, the parent entity transferred PLN 51,781 thousand to its statutory capital from distributed profit for 2017.

In view of investment activities and liquidity needs of the Bank, it received a total capital injection of PLN 6,290,400 thousand in 2017:

- T-bonds issued by the State Treasury and cash in Q4 2017. The Bank recognised the bonds and cash in the statutory capital in the amount of PLN 2,848,200 thousand and PLN 1,500,000 thousand respectively;
- In Q3 2017, the Bank recognised Treasury bonds in its statutory capital in the amount of PLN 1,942,200 thousand.

(in PLN thousand)

Supplementary capital

The parent entity's supplementary capital is recognised in line with the Articles of Association of the Bank and is used to cover its balance sheet losses.

Revaluation reserve

Revaluation reserve comprises: the effects of measurement of financial assets at fair value through other comprehensive income, effects of revaluation of property, plant and equipment and property upon their reclassification to investment property, actuarial gains and losses and the related deferred tax.

Other reserve capitals

Other reserve capitals comprise appropriations of net profit and are used for purposes specified in the Articles of Association or other provisions of law applicable to the Bank.

They also include the reserve for general banking risk established for unidentified risks arising from banking activity, which in line with the Bank's Articles of Association, is established from appropriations of the annual net profit of the Bank.

Detailed information on payments from capital to the Treasury is presented in Note 14.

36.1. Non-controlling interests

Name of subsidiary	Country of incorporation and place of business activity	Percentage non-controlling interest (in the entity's capital)		Net profit attributable to non-controlling interests		Total non-controlling interest	
		31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
MP Biała Podlaska Sp. z o.o.	Poland	-	17%	-	-70	-	1,556
MP Wałbrzych Sp. z o.o.	Poland	3%	28%	23	-43	595	529
Projekt Municypalny Jarocin 1 Sp. z o.o.	Poland	6%	7%	-16	-7	1,729	1,737
Projekt Municypalny Kępice 1 Sp. z o.o.	Poland	13%	2%	-9	-1	961	0
Projekt Municypalny Kępno 1 Sp. z o.o.	Poland	10%	16%	-3	-5	593	592
MDR Katowice Sp. z o.o. (previous name: MP Inwestycje 4 Sp. z o.o.)	Poland	24%	-	72	-	6,190	-
Projekt Municypalny Nysa 1 Sp. z o.o.	Poland	25%	-	-1	-	0	-
Projekt Municypalny Zgorzelec 1 Sp. z o.o.	Poland	25%	-	-1	-	0	-
MDR Toruń Sp. z o.o.	Poland	45%	-	-382	-	3,291	-
Projekt Municypalny Nidzica 1 Sp. z o.o.	Poland	25%	-	0	-	1	-
Total				**-317**	**-126**	**13,360**	**4,414**

(in PLN thousand)

Other notes

37. Contingent liabilities and guarantees

37.1. Liabilities granted

Financial liabilities granted	31 Dec 2018	31 Dec 2017
Credit lines and limits	**39,704,760**	**38,403,444**
- to financial institutions	1,153,567	1,529,735
- to non-financial institutions	7,806,727	6,029,481
- to public sector entities	30,744,466	30,844,228
Total	**39,704,760**	**38,403,444**

Guarantee liabilities granted	31 Dec 2018	31 Dec 2017
Sureties and guarantees	**14,625,948**	**14,541,564**
- to financial institutions	876,146	547,042
- to non-financial institutions	13,293,663	13,766,316
- to public sector entities	456,139	228,206
Letters of credit granted	**14,460**	**9,866**
- to financial institutions	14,460	9,866
Total	**14,640,408**	**14,551,430**

37.2. Off-balance-sheet liabilities received

At nominal value	31 Dec 2018	31 Dec 2017
Financial	14,632,300	11,227,709
Guarantee	26,805,684	25,349,960
Total	**41,437,984**	**36,577,669**

As at 31 December 2018, contingent liabilities under executed investment agreements at Fundusz Sektora Mieszkań dla Rozwoju FIZ AN and Fundusz Ekspansji Zagranicznej FIZ AN totalled PLN 309,233 thousand and EUR 27,500 thousand, respectively.

Right to sell or pledge a collateral established for the Group

As at 31 December 2018 and 31 December 2017, the Group held no collaterals which could be sold or pledged if the collateral owner met all of its obligations.

(in PLN thousand)

37.3. Securities underwriting (maximum underwriting amount committed by the Bank)

Issuer of securities underwritten as at 31 December 2018	Type of underwritten securities	Off-balance underwriting liabilities	Contract period	Transferability
Client 2	commercial bonds	104,738	30 Jun 2022	non-transferable
Client 3	commercial bonds	1,000,000	30 Sep 2024	transferable
Client 4	commercial bonds	2,000	31 Dec 2027	non-transferable
Client 5	commercial bonds	25,000	15 Jul 2028	non-transferable
Client 6	commercial bonds	134,200	31 Dec 2038	non-transferable
Client 6	commercial bonds	30,000	31 Dec 2021	non-transferable
Client 8	commercial bonds	255,000	4 Jul 2020	non-transferable
Client 9	commercial bonds	19,750	30 Jun 2034	non-transferable
Client 10	commercial bonds	5,403	31 Dec 2034	non-transferable
Client 10	commercial bonds	4,000	31 Dec 2020	non-transferable
Client 11	commercial bonds	3,426	20 Mar 2047	non-transferable
Client 12	municipal bonds	13,000	20 Nov 2029	transferable
Client 13	commercial bonds	400,000	30 Jun 2031	non-transferable
Client 14	municipal bonds	100,000	31 Dec 2029	transferable
Client 15	municipal bonds	3,000	20 Nov 2034	transferable
Client 17	municipal bonds	6,000	20 Nov 2044	transferable
Client 18	municipal bonds	7,500	31 Dec 2038	transferable
Client 20	municipal bonds	26,010	25 Nov 2037	transferable
Client 21	commercial bonds	2,850	20 Dec 2044	non-transferable
Client 22	municipal bonds	2,820	20 Nov 2025	transferable
Client 24	municipal bonds	4,557	25 Nov 2034	transferable
Client 25	municipal bonds	14,000	25 Nov 2032	transferable
Client 26	municipal bonds	50,000	25 Nov 2040	transferable
Client 27	municipal bonds	2,000	25 Nov 2038	transferable
Client 30	municipal bonds	9,800	25 Nov 2040	transferable
Client 31	municipal bonds	5,000	25 May 2040	transferable
Client 32	municipal bonds	4,000	20 Nov 2030	transferable
Client 33	municipal bonds	12,600	25 Nov 2040	transferable
Client 34	municipal bonds	5,000	25 Nov 2035	transferable
Client 35	commercial bonds	21,750	21 Dec 2030	non-transferable
Client 36	municipal bonds	3,000	25 Nov 2034	transferable
Client 40	municipal bonds	11,900	20 Nov 2035	transferable
Client 41	municipal bonds	5,680	20 Nov 2029	transferable
Client 44	municipal bonds	1,000	31 Dec 2024	transferable
Client 45	municipal bonds	20,000	28 Feb 2030	transferable
Client 46	municipal bonds	7,325	20 Nov 2033	transferable
Client 49	municipal bonds	5,000	20 Nov 2029	transferable
Client 51	municipal bonds	5,500	25 Nov 2033	transferable
Client 53	commercial bonds	4,910	31 Dec 2027	non-transferable
Client 54	commercial bonds	104,510	20 Dec 2042	non-transferable
Client 55	commercial bonds	4,040	20 Dec 2041	non-transferable
Total		**2,446,269**		

(in PLN thousand)

Issuer of securities underwritten - as at 31 December 2017	Type of underwritten securities	Off-balance underwriting liabilities	Contract period	Transferability
Client 1	commercial bonds	550,000	15 Sep 2027	non-transferable
Client 3	commercial bonds	1,000,000	30 Sep 2024	transferable
Client 4	commercial bonds	4,000	31 Dec 2027	non-transferable
Client 7	commercial bonds	9,752	31 Dec 2019	non-transferable
Client 10	commercial bonds	10,156	31 Dec 2034	non-transferable
Client 13	commercial bonds	400,000	30 Jun 2031	non-transferable
Client 16	commercial bonds	3,794	20 Dec 2044	non-transferable
Client 19	municipal bonds	20,000	31 Dec 2036	transferable
Client 21	commercial bonds	9,333	20 Mar 2047	non-transferable
Client 23	commercial bonds	2,850	20 Dec 2044	non-transferable
Client 28	commercial bonds	189,393	30 Dec 2020	transferable
Client 29	municipal bonds	10,000	31 Dec 2031	transferable
Client 35	commercial bonds	44,810	21 Dec 2025	non-transferable
Client 35	commercial bonds	5,034	30 Sep 2018	non-transferable
Client 39	municipal bonds	3,000	31 Dec 2024	transferable
Client 40	municipal bonds	11,900	20 Nov 2035	transferable
Client 41	municipal bonds	6,530	20 Nov 2029	transferable
Client 42	municipal bonds	13,000	1 Apr 2027	transferable
Client 43	municipal bonds	11,320	20 Nov 2024	transferable
Client 44	municipal bonds	5,000	31 Dec 2024	transferable
Client 45	municipal bonds	20,600	28 Feb 2030	transferable
Client 46	municipal bonds	17,825	20 Nov 2033	transferable
Client 47	municipal bonds	7,500	31 Dec 2026	transferable
Client 48	municipal bonds	3,300	20 Dec 2032	transferable
Client 49	municipal bonds	20,000	20 Nov 2024	transferable
Client 50	municipal bonds	19,500	31 Dec 2027	transferable
Client 51	municipal bonds	5,000	31 Dec 2026	transferable
Client 52	municipal bonds	36,300	31 Dec 2028	transferable
Client 53	commercial bonds	10,800	31 Dec 2027	non-transferable
Client 54	commercial bonds	30,000	30 Dec 2022	non-transferable
Client 54	commercial bonds	27,800	20 Jun 2035	non-transferable
Client 54	commercial bonds	21,800	20 Dec 2027	non-transferable
Client 54	commercial bonds	40,000	20 Dec 2042	non-transferable
Client 55	commercial bonds	13,240	20 Dec 2041	non-transferable
Client 56	commercial bonds	2,700	20 Mar 2038	non-transferable
Total		**2,586,237**		

38. Additional information to the consolidated statement of cash flows

Cash and cash equivalents include cash in hand and in the nostro account at the National Bank of Poland as well as cash in the current accounts in banks and other cash with a maturity period of up to 3 months.

Cash recognised in the statement of cash flows	31 Dec 2018	31 Dec 2017
Cash and balances with the Central Bank	16,668,895	988,581
Cash in other banks	7,435,750	2,231,857
Total	**24,104,645**	**3,220,438**

(in PLN thousand)

Difference between changes in individual items of the statement of financial position and the corresponding changes presented in the consolidated statement of cash flows	31 Dec 2018	31 Dec 2017
Interest and dividends	**162,993**	**188,724**
a) interest:	180,393	191,012
- interest expense on long-term loans	51,968	54,428
- interest expense on debt securities issued	128,425	136,584
b) dividends:	-17,400	-2,288
- PZU S.A.	-3,857	-2,160
- TFI Luksemburg	-52	-122
- VISA International	-23	-6
- PKO BP S.A.	-13,468	0
Change in receivables from banks	**85,859**	**-231,250**
a) change arising from the statement of financial position	-5,117,496	388,893
b) effect of application of IFRS 9	-538	x
c) assets included in change in cash	5,203,893	-620,143
Change in financial assets held for trading	**362,590**	**-857,096**
a) changes in the statement of financial position	362,590	-857,096
Change in loans and advances to customers	**1,292,365**	**-2,590,442**
a) changes in the statement of financial position	1,284,972	-2,592,229
b) effect of application of IFRS 9	7,393	x
c) measurement of debt securities reclassified from available-for-sale portfolio	0	1,787
Change in financial assets at fair value through profit or loss	**-621,224**	**0**
a) changes in the statement of financial position	-609,908	0
b) effect of application of IFRS 9	-11,316	x
Change in financial assets at fair value through other comprehensive income	**-15,986,570**	**x**
a) changes in the statement of financial position	-15,861,979	X
b) equity instruments recognised in investment activities	-46,962	X
c) measurement recognised in revaluation reserve	-77,629	x
Change in receivables under debt instruments measured at amortised cost	**-6,867,238**	**x**
a) changes in the statement of financial position	-6,881,770	x
b) effect of application of IFRS 9	14,532	x
Change in reverse repurchase agreements	**-1,769,120**	**1,841,347**
a) changes in the statement of financial position	-1,769,120	1,841,347
Change in investments in available-for-sale financial assets	**37,061,252**	**-107,049**
a) changes in the statement of financial position	37,061,252	-5,441,507
b) equity instruments recognised in investment activities	0	12,205
c) T-bonds shares transferred to increase statutory capital	0	4,790,400
d) measurement recognised in revaluation reserve	0	531,853
Change in other assets and assets held for sale	**-22,593**	**-13,151**
a) changes in the statement of financial position	-38,132	-14,921
b) effect of application of IFRS 9	-101	x
c) settlement of investment property	14,486	x
d) deconsolidation of TFI BGK S.A (currently PFR TFI S.A.)	0	1,770
e) deconsolidation of BGKN	1,154	x
Change in liabilities to banks	**374,499**	**-348,220**
a) changes in the statement of financial position	285,081	-384,689
b) loans included in financing activities	89,418	36,469
Change in financial liabilities held for trading	**292,377**	**676,613**
a) changes in the statement of financial position	292,377	676,613
Change in liabilities to customers	**13,944,978**	**-3,411,964**
a) changes in the statement of financial position	13,944,978	-3,416,932
b) loans included in financing activities	0	4,968
Change in liabilities due to repurchase agreements	**-2,359,769**	**1,821,636**
a) changes in the statement of financial position	-2,359,769	1,821,636
Changes in liabilities due to securities issued	**0**	**0**
a) changes in the statement of financial position	-512,106	497,912
b) issues included in financing activities	512,106	-497,912
Change in provisions	**116,244**	**37,065**
a) changes in the statement of financial position	108,437	36,990
b) effect of application of IFRS 9	8,655	x
c) adjustment of measurement of National Housing Fund liabilities recognised in BGK's statutory capital	0	186
d) remeasurement of defined benefit plan liabilities	-848	-111
Change in other liabilities	**-1,320,267**	**1,009,289**
a) changes in the statement of financial position	-419,956	1,010,587
b) appropriation of profit to funds exposed to credit risk	-311	-330
c) settlement of the acquisition of investment property	0	-968
d) establishment of the National Guarantee Fund	-900,000	0
Other adjustments	**857**	**879**
a) transfer of PPE and intangible assets to commissioned activities (cash flow funds)	857	816
b) transfer of PPE – changes in the structure of the Group	0	63

(in PLN thousand)

39. Transactions with the Treasury and government related entities

BGK is a state bank with the State Treasury as the sole shareholder. The Bank carries out activities commissioned by the State Treasury through the administration of funds and implementation of government programmes described in note 1 to these financial statements.

Revenue generated and expenses incurred by the Bank in relation to the commissioned activities comprise fee and commission income and bank's general administrative expenses.

The consolidated statement of financial position of the Group presents receivables, securities, and liabilities from transactions with the Treasury, the public sector and government related entities, with the Treasury as the shareholder.

Transactions of the BGK Group with the State Treasury								
Entity	31 Dec 2018				2018			
	Receivables	Including loans	Liabilities	Off-balance-sheet guarantee and financial liabilities granted	Total income	Including interest and fee	Total expenses	Including interest and fee
Entity 1 – the State Treasury	11,035,032	0	17,060,838	30,007,000	310,773	310,773	418,454	41,137
Other State Treasury entities	0	0	79,276	0	41	41	71	71

Transactions of the BGK Group with the State Treasury								
Entity	31 Dec 2017				2017			
	Receivables	Including loans	Liabilities	Off-balance-sheet guarantee and financial liabilities granted	Total income	Including interest and fee	Total expenses	Including interest and fee
Entity 1 – the State Treasury	9,808,257	0	5,089,428	30,004,000	276,591	276,591	388,203	2,818
Other State Treasury entities	0	0	0	0	0	0	0	0

(in PLN thousand)

BGK Group's transactions with entities associated with the State Treasury

Entity	31 Dec 2018			2018		
	Total receivables	Total liabilities	Off-balance-sheet guarantee and financial liabilities granted	Interest income	Commission income	Interest expense
Entity 1	7,538	0	0	221	0	0
Entity 2	47,874	31	0	1,138	217	119
Entity 3	0	3,275	0	0	1	15
Entity 4	1,573,458	347,448	0	31,090	887	15
Entity 5	0	30,392	127,500	843	203	0
Entity 6	3,915	269	600	156	11	7
Entity 7	0	86,004	0	0	51	0
Entity 8	7,642	0	0	209	0	0
Entity 9	0	2,737	600	1	10	2,789
Entity 10	0	57	0	0	4	0
Entity 11	0	2,281	6,500	12	71	0
Entity 12	0	165,985	0	0	1	0
Entity 13	433,667	115	614,217	5,923	1,333	0
Entity 14	0	36,111	0	0	2	0
Entity 15	0	200,906	0	0	1	9
Entity 16	0	135	0	15	27	207
Entity 17	0	98	3,524,529	0	3,691	2,328
Entity 18	0	0	67,520	0	139	1,672
Entity 19	0	56,043	0	0	22	0
Entity 20	0	1	0	0	2	34
Entity 21	0	0	9,800	0	16	2,751
Entity 22	55,694	6,049	10,672	2,025	90	611
Entity 23	1,010	0	0	0	0	15
Entity 24	0	7	0	0	1	423
Entity 25	0	55,694	85	0	21	0
Entity 26	851,858	1,578,230	0	35,274	1,498	32
Entity 27	204	129	196	2	8	2,192
Entity 28	548	0	0	6	0	0
Entity 29	11,494	65	0	482	30	1,861
Entity 30	0	756	2,000	10	21	1
Entity 32	0	145	520	3	11	1,414
Entity 33	1,919,848	0	725,214	44,143	734	10
Entity 34	1,700,799	293,649	1,593,500	54,864	1,579	611
Entity 35	76,696	3,647	0	2,875	54	1
Entity 36	1,457,841	245,566	60,000	40,596	532	0
Entity 37	45,000	7,012	342,849	2,257	972	0
Entity 38	876,528	331	862,303	22,874	3,222	530
Entity 39	0	0	0	0	0	1,048
Entity 40	37,000	145,240	0	18,784	697	81
Entity 41	2,869	96	0	114	10	0
Entity 42	135	272	1,365	1	5	0
Entity 44	16,927	14,880	2,000	661	61	119
Entity 45	25,645	966	0	1,277	27	0
Entity 46	0	0	5,000	0	10	0
Entity 47	7,494	3,622	0	204	1	1
Entity 48	0	18	1,000	1	12	0
Entity 49	0	4,008	0	0	1	4
Entity 51	1,839	85	2,161	59	53	0
Entity 53	0	1,492	394	0	4	0
Entity 54	0	288	0	0	2	0
Entity 55	0	93,120	0	0	83	192
Entity 56	0	25,952	0	0	5	470
Entity 57	0	4,805	1,000	0	16	32
Entity 58	3	502,538	0	0	1	6
Entity 59	0	212	0	0	2	0
Entity 60	0	3,471	0	0	0	1
Entity 62	0	352	0	0	0	3
Entity 63	27,507	10,164	0	1,043	117	0
Entity 65	0	0	578,508	0	1,682	0
Entity 66	0	35,826	0	787	5	6,532
Entity 67	44,121	300,439	0	1,771	513	3,759
Entity 68	0	1,415	0	0	6	173

(in PLN thousand)

BGK Group's transactions with entities associated with the State Treasury (part 2)						
Entity	31 Dec 2018			2018		
	Total receivables	Total liabilities	Off-balance-sheet guarantee and financial liabilities granted	Interest income	Commission income	Interest expense
Entity 69	21,577	12,095	0	957	59	119
Entity 70	0	3,002	0	0	1	47
Entity 71	0	10,453	0	0	5	59
Entity 72	0	149,171	0	0	1	41
Entity 73	0	132,742	0	0	2	119
Entity 74	0	69,328	0	0	2	725
Entity 78	0	2,248	0	0	0	9
Entity 79	234,341	157,330	0	3,393	205	17
Entity 80	0	0	62	0	0	0
Entity 81	0	10	0	1	9	0
Entity 82	0	4,881	7,000	0	70	68
Entity 83	0	0	0	0	2	0
Entity 85	35	20,569	0	0	2	0
Entity 87	0	346,777	1,588,740	0	10,639	817
Entity 88	0	16,756	0	0	7	23
Entity 91	0	16,384	0	0	108	0
Entity 92	0	11	1,200	2	11	0
Entity 93	1,219	330	28,581	8	3	0
Entity 94	779	834	611	17	51	1,265
Entity 95	0	15,613	14,364	0	81	660
Entity 96	0	4,117	9,637	0	98	40
Entity 97	0	66,481	0	0	11	3
Entity 98	165,280	408,010	0	832	11	2,328
Entity 99	160	3,089	1,325	4	14	2,375
Entity 100	0	1	0	0	0	8
Entity 101	69,808	159,227	48,218	39	226	0
Entity 102	154	14,336	17,496	86	133	0
Entity 103	6,981	1,193	6,000	76	10	865
Entity 104	0	9,710	1,500	0	25	108
Entity 105	21,060	2,065	0	995	85	283
Entity 106	1,597	0	1,000	66	18	2
Entity 107	39,670	144	0	1,502	80	1,093
Entity 108	0	110	1,000	5	12	0
Entity 109	0	1,948	0	0	1	10
Entity 110	0	4,862	0	0	0	0
Entity 111	0	21,917	10,000	8	98	0
Entity 112	0	679	0	0	1	66
Entity 113	5,143	1,315	3,500	179	145	2
Entity 115	1,076	1	0	38	4	510
Entity 116	4,391	1,830	19,173	51	15	4,600
Entity 117	1,450	81	50	28	25	0
Entity 118	0	57	2,000	0	21	3,399
Entity 119	1,520	0	0	60	2	423
Entity 120	0	2	0	0	3	0
Total	**9,811,395**	**5,932,138**	**10,301,490**	**278,068**	**31,071**	**50,152**

(in PLN thousand)

BGK Group's transactions with entities associated with the State Treasury						
Entity	31 Dec 2017			2017		
	Total receivables	Total liabilities	Off-balance-sheet guarantee and financial liabilities granted	Interest income	Commission income	Interest expense
Entity 2	59,863	32	0	1,150	216	0
Entity 4	1,119,416	665,515	550,000	31,776	1,178	0
Entity 5	33,052	45,605	70,000	1,062	99	9
Entity 7	0	1	0	4,208	2,159	0
Entity 13	215,098	100,168	234,940	5,501	951	1
Entity 14	0	35,415	0	0	2	5
Entity 17	0	23	2,932,408	0	3,308	0
Entity 19	0	67,788	0	0	25	5
Entity 20	0	528	0	0	4	3
Entity 22	53,665	5,309	20,000	2,275	94	26
Entity 26	1,703,717	200,283	0	54,864	1,499	293
Entity 31	14,938	32,020	0	570	95	184
Entity 33	1,949,590	100,030	0	42,900	632	1,019
Entity 34	1,793,858	200,381	495,682	55,334	1,832	0
Entity 35	90,799	4,368	0	3,400	59	87
Entity 36	1,499,451	163,519	0	40,943	438	2
Entity 37	112,130	157,264	113,615	6,855	1,210	0
Entity 38	801,052	807	635,337	13,904	1,642	32
Entity 40	230,645	0	0	34,767	614	0
Entity 43	0	1	0	2,363	543	30
Entity 47	8,565	3,724	0	233	1	0
Entity 50	3,286	50	0	140	8	0
Entity 54	0	290	0	0	2	0
Entity 55	0	63,097	0	0	71	2
Entity 56	0	33,059	0	0	6	46
Entity 58	0	301,438	0	0	1	0
Entity 59	0	216	0	0	2	0
Entity 60	0	1,120	0	0	0	3
Entity 61	0	3,783	0	0	0	5
Entity 62	0	814	0	0	0	1
Entity 63	31,542	5,902	15,000	1,193	89	1
Entity 64	32,518	10,008	1,044	1,384	129	10
Entity 65	250	0	0	0	0	6
Entity 66	0	50,825	0	0	6	38
Entity 67	54,203	0	0	1,480	607	0
Entity 68	0	1,728	0	0	5	0
Entity 69	25,860	7,570	0	1,097	71	8
Entity 70	0	3,155	0	0	1	0
Entity 71	0	25,300	0	0	3	0
Entity 72	0	120,428	0	0	1	0
Entity 73	0	200,693	0	0	1	0
Entity 74	0	100,304	0	0	1	0
Entity 76	0	441	0	0	0	1
Entity 77	0	1,488	0	0	0	2
Entity 78	0	2,143	0	0	0	6
Entity 79	0	64,316	0	0	4	823
Entity 80	0	0	129	0	0	0
Entity 81	172	11	226	4	3	0
Entity 82	0	6,486	7,000	3	51	4
Entity 83	0	0	0	66	189	0
Entity 84	0	0	0	0	1,015	0
Entity 85	0	4,016	0	0	1	19
Entity 86	22,913	227	0	1,052	66	1
Entity 87	0	399,209	1,588,740	0	6,869	598
Entity 88	0	5,867	0	0	1	1
Entity 89	0	104	0	0	2	0
Entity 90	0	308,402	330,536	0	180	2
Total	**9,856,583**	**3,505,271**	**6,994,657**	**308,524**	**25,986**	**3,273**

(in PLN thousand)

40. Related party transactions (capital or personal links)

All related party transactions were entered into on arm's length terms. Standard market transactions involving loans, current and term deposits (short-term), liabilities due to repurchase agreements with related interest are presented below.

Entity name	31 Dec 2018			2018			
	Receivables	Liabilities	Off-balance-sheet liabilities granted	Total income	Including interest and commissions	Total expenses	Including interest and commissions
Associates							
Bydgoski Fundusz Poręczeń Kredytowych Sp. z o.o.	0	0	0	1	1	0	0
Dolnośląski Fundusz Gospodarczy Sp. z o.o.	0	8,957	0	1	1	0	0
Fundusz Pomerania Sp. z o.o.	0	9,195	0	0	0	0	0
Fundusz Rozwoju i Promocji Województwa Wielkopolskiego S.A.	0	4,417	0	0	0	47	47
Kujawsko-Pomorski Fundusz Poręczeń Kredytowych Sp. z o.o.	0	16,838	0	0	0	0	0
KUKE S.A.	0	25,952	0	5	5	45	45
Małopolski Regionalny Fundusz Poręczeniowy Sp. z o.o.	0	10,118	0	1	1	4	4
Podkarpacki Fundusz Rozwoju Sp. z o.o.	0	0	0	4	4	1	1
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	0	3,830	0	0	0	42	42
Samorządowy Fundusz Poręczeń Kredytowych sp. z o.o.	0	9,363	0	0	0	45	45
Świętokrzyski Fundusz Poręczeniowy Sp. z o.o.	0	20,382	0	1	1	1	1
Warmińsko-Mazurski Fundusz "Poręczenia Kredytowe" Sp. z o.o.	0	5,065	0	1	1	8	8
Fundusz Inwestycji Infrastrukturalnych – Dłużny FIZ AN	0	0	2,746	0	0	0	0
Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZ AN	0	440,192	0	0	0	0	0
Other units							
Krajowy Fundusz Kapitałowy S.A. (KFK S.A.) *	0	0	0	1,403	23	545	545
Toruński Fundusz Poręczeń Kredytowych Sp. z o.o.	0	3,104	0	0	0	0	0
Lubuski Fundusz Poręczeń Kredytowych Sp. z o.o.	0	27,399	0	0	0	0	0
PFR TFI S.A.	0	25,413	0	4	4	64	64
Total	**0**	**610,225**	**2,746**	**1,421**	**41**	**802**	**802**

** On 3 August 2018, Bank Gospodarstwa Krajowego sold 100% shares in KFK S.A. to Polski Fundusz Rozwoju S.A.

(in PLN thousand)

Entity name	31 Dec 2017				2017			
	Receivables	Including loans	Liabilities	Off-balance-sheet liabilities granted	Total income	Including interest and commissions	Total expenses	Including interest and commissions
Associates								
Bydgoski Fundusz Poręczeń Kredytowych Sp. z o.o.	0	0	0	0	1	1	0	0
Dolnośląski Fundusz Gospodarczy Sp. z o.o.	0	0	4,828	0	1	1	124	124
Fundusz Pomerania Sp. z o.o.	0	0	8,460	0	0	0	131	131
Kujawsko-Pomorski Fundusz Poręczeń Kredytowych Sp. z o.o.	0	0	12,177	0	0	0	121	121
KUKE S.A.	0	0	33,059	0	6	6	46	46
Małopolski Regionalny Fundusz Poręczeniowy Sp. z o.o.	0	0	213	0	1	1	1	1
Opolski Regionalny Fundusz Poręczeń Kredytowych Sp. z o.o.	0	0	2,311	0	0	0	69	69
Podkarpacki Fundusz Poręczeń Kredytowych Sp. z o.o.	0	0	7,222	4,570	120	120	104	104
Samorządowy Fundusz Poręczeń Kredytowych sp. z o.o.	0	0	5,142	0	0	0	96	96
Świętokrzyski Fundusz Poręczeniowy Sp. z o.o.	0	0	9,804	0	1	1	145	145
Warmińsko-Mazurski Fundusz Poręczenia Kredytowe Sp. z o.o.	0	0	0	0	1	1	0	0
Fundusz Inwestycji Infrastrukturalnych – Dłużny FIZ AN	0	0	0	2,746	0	0	0	0
Fundusz Inwestycji Infrastrukturalnych – Kapitałowy FIZ AN	0	0	0	40,715	0	0	0	0
Fundusz Inwestycji Polskich Przedsiębiorstw FIZ AN	0	0	0	129,902	0	0	0	0
Fundusz Inwestycji Samorządowych FIZ AN	0	0	0	43,009	0	0	0	0
Other units								
Krajowy Fundusz Kapitałowy S.A. (KFK S.A.)	0	0	146,726	0	20	20	1,405	1,405
Lubuski Fundusz Poręczeń Kredytowych Sp. z o.o.	0	0	18,344	0	0	0	200	200
Mazowiecki Fundusz Poręczeń Kredytowych Sp. z o.o.	0	0	21,482	0	3	3	307	307
PFR TFI S.A. (previously TFI BGK S.A.)	0	0	31,148	0	688	5	1,058	1,058
Polski Fundusz Rozwoju S.A.(PFR S.A.)	78	0	815	0	3	0	2,059	0
Total	**78**	**0**	**301,731**	**220,942**	**845**	**159**	**5,866**	**3,807**

(in PLN thousand)

41. Remuneration of the top executives of the Group entities

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 2017, item 2190),
- the Declaration of the Minister of Development and Finance of 14 October 2016 on rules for specifying the remuneration of the Members of the Management Board of Bank Gospodarstwa Krajowego,
- Remuneration Regulations for Members of the Management Board of Bank Gospodarstwa Krajowego,
- the Policy governing variable remuneration components of employees identified to have a significant impact on the risk profile of Bank Gospodarstwa Krajowego.

The Bank's management staff – excluding the President and Members of the Management Board – are remunerated in accordance with:

- the Policy of remuneration for employees of Bank Gospodarstwa Krajowego,
- the Remuneration Regulations for employees of Bank Gospodarstwa Krajowego,
- the Policy governing variable remuneration components of employees identified to have a significant impact on the risk profile of Bank Gospodarstwa Krajowego.

41.1. Remuneration of Members of the Management Board and Supervisory Board

Remuneration of Members of the Supervisory Board of the Bank		
	2018	**2017**
Supervisory Board of the Bank	880	590

Remuneration paid or due to Members of the Management Board of the Bank

Employee benefits	2018					
	Short-term employee benefits		Benefits after the employment period	Other long-term benefits	Benefits	
	Salaries and wages	Other*			Paid in 2018	Paid at a later date
Management Board	3,912	30	none	none	none	none

* Second instalment of the deferred part of supplementary remuneration for 2016

Employee benefits	2017					
	Short-term employee benefits		Benefits after the employment period	Other long-term benefits	Benefits	
	Salaries and wages	Other*			Paid in 2017**	Paid at a later date
Management Board	4,393	30	none	none	283	none

* First instalment of the deferred part of supplementary remuneration for 2016
** benefits due to a post-employment non-competition clause for previous members of the Management Board

Remuneration of members of management boards and supervisory boards of the Group entities		
Short-term employee benefits	**2018**	**2017**
Management Board	1,626	2,975
Supervisory Board	89	216
Total	**1,715**	**3,191**

42. Principles of variable remuneration for top executives of the Group

To meet the regulatory requirements with respect to designing remuneration policies for employees having a significant impact on the Bank's risk profile, the Policy governing variable remuneration components of identified employees having a significant impact on the risk profile at Bank Gospodarstwa Krajowego (the "Policy") was updated.

The Policy sets out the principles of awarding and paying variable remuneration components to employees having a significant impact on the Bank's risk profile.

Under a resolution of 24 April 2017, the Management Board of the Bank approved the list of identified employees having a significant impact on the risk profile at Bank Gospodarstwa Krajowego.

The Bank established a Remuneration Committee at the Bank's Supervisory Board, composed of members appointed from the Supervisory Board. The competencies of the Committee have been defined in the Committee Regulations. Due to BGK's legal form (a state-owned bank) and the nature of its business, the Bank neutralises some requirements by way of, among other things, not paying the variable remuneration portion in shares and instruments other than shares.

As regards variable remuneration, the Bank applies the following principles:

- variable remuneration may not exceed 100% of the fixed remuneration component for a given year;
- where the variable remuneration base of an identified employee exceeds PLN 100 thousand (gross), the person acquires the right to receive undeferred variable remuneration in the amount of 60% of the variable remuneration base, and 40% of the variable remuneration base is deferred;
- 40% of deferred variable remuneration is paid in three equal parts in a period of 3 years from the end of assessment period for which the remuneration is due.

The Bank has developed and followed appropriate policy monitoring procedures, such as those on monitoring the limits of variable remuneration components awarded to persons covered by the Policy. As part of variable remuneration, employees receive a quarterly bonus, annual bonus and a bonus awarded by the President of the Management Board. In addition, payments related to termination of an employment contract with an employee may be treated as variable remuneration.

For 2018, no confirmed information is available as to the number of persons whose variable remuneration will be deferred due to the planned payment of annual bonus in the second quarter of 2019

Variable pay is awarded based on the degree to which the employee fulfilled their tasks as well as the evaluation of their work quality and performance. Variable pay also depends on whether the Bank has achieved a positive net financial result cumulatively from the beginning of the year.

43. Changes in Group entities

In 2018, the Bank made a payment of PLN 184,496 thousand for investment certificates of FEZ FIZ AN, PLN 498,635 thousand for investment certificates of FSMdR FIZ AN, PLN 65,588 thousand for investment certificates of FSMnW FIZ AN, and acquired shares in BGKN S.A. (currently PFRN S.A.) for PLN 23,000 thousand.

(in PLN thousand)

Below is presented a list of special purpose vehicles of Fundusz Sektora Mieszkań na Wynajem FIZ AN and Fundusz Sektora Mieszkań dla Rozwoju FIZ AN established in 2018 and 2017:

SPV	Articles of Association of:	Entity entered into the National Court Register on:
Fundusz Sektora Mieszkań na Wynajem FIZ AN		
FSMnW Warszawa 4 Sp. z o.o.	13 Mar 2018	4 Apr 2018
MP Inwestycje Sp. z o.o.	13 Mar 2017	12 May 2017
MP Wałbrzych Sp. z o.o.	13 Jun 2017	26 Jul 2017
MP Inwestycje 3 Sp. z o.o.	13 Jun 2017	22 Aug 2017
Fundusz Sektora Mieszkań dla Rozwoju FIZ AN		
MP Inwestycje 2 Sp. z o.o.	13 Mar 2017	24 Apr 2017
MDR Katowice Sp. z o.o. (previous name: MP Inwestycje 4 Sp. z o.o.)	13 Jun 2017	10 Aug 2017
MDR Inwestycje 5 Sp. z o.o.	10 Apr 2018	30 May 2018
MDR Inwestycje 6 Sp. z o.o.	21 Mar 2018	24 Apr 2018
MDR Inwestycje 7 Sp. z o.o.	27 Mar 2018	17 Apr 2018
MDR Inwestycje 8 Sp. z o.o.	8 Feb 2018	12 Mar 2018
MDR Inwestycje 9 Sp. z o.o.	5 Mar 2018	16 Mar 2018
MDR Radom Sp. z o.o.	5 Mar 2018	16 Mar 2018
MDR Inwestycje 10 Sp. z o.o.	10 Apr 2018	23 May 2018
MDR Inwestycje 12 Sp. z o.o.	10 Apr 2018	30 May 2018
MDR Inwestycje 13 Sp. z o.o.	10 Apr 2018	15 May 2018
MDR Inwestycje 14 Sp. z o.o.	10 Apr 2018	30 May 2018
MDR Inwestycje 15 Sp. z o.o.	10 Apr 2018	29 May 2018
MDR Inwestycje 16 Sp. z o.o.	10 Apr 2018	29 May 2018
MDR Warszawa Sp. z o.o.	10 Apr 2018	23 May 2018
MDR Katowice 2 Sp. z o.o.	10 Apr 2018	25 May 2018
MDR Szczecin Sp. z o.o.	10 Apr 2018	30 May 2018
MDR Toruń Sp. z o.o.	23 May 2018	7 Aug 2018
MDR Łowicz Sp. z o.o.	30 May 2018	8 Aug 2018
MDR Dębica Sp. z o.o.	12 Jun 2018	17 Aug 2018
MDR Świdnik Sp. z o.o.	15 Jun 2018	20 Aug 2018
MDR Zamość Sp. z o.o.	10 Aug 2018	26 Sep 2018
MDR Skawina Sp. z o.o.	14 Aug 2018	21 Sep 2018
Projekt Municypalny Kępice 1 Sp. z o.o.	23 May 2017	29 Aug 2017
Projekt Municypalny Kępno 1 Sp. z o.o.	27 Jul 2017	29 Sep 2017
Projekt Municypalny Sulęcin 1 Sp. z o.o.	10 Aug 2017	13 Oct 2017
Spółka Operacyjna Projektów Municypalnych Sp. z o.o.	3 Aug 2017	6 Sep 2017
Projekt Municypalny Nysa 1 Sp. z o.o.	7 Dec 2017	8 Feb 2018
Projekt Municypalny Zgorzelec 1 Sp. z o.o.	10 Apr 2018	18 Sep 2018
Projekt Municypalny Nidzica 1 Sp. z o.o.	23 Aug 2018	16 Oct 2018

In 2018, Fundusz Sektora Mieszkań na Wynajem FIZ AN sold the following SPVs to Fundusz Sektora dla Rozwoju FIZ AN: MP Inwestycje 2 Sp. z o.o., MP Inwestycje 4 Sp. z o.o., whose name was changed to MDR Katowice Sp. z o.o., and MP Biała Podlaska Sp. z o.o.

On 3 October 2018, the Bank sold 100% shares of BGK Nieruchomości S.A. (currently PFR Nieruchomości S.A.) to Polski Fundusz Rozwoju S.A.

On 28 September 2017, the Bank sold 100% shares of TFI BGK S.A. (currently PFR TFI S.A) to Polski Fundusz Rozwoju S.A.

44. Fair value of financial assets and financial liabilities

44.1. Categories of the measurement of the fair value of financial assets and financial liabilities measured at fair value in the consolidated statement of financial position

Based on fair value measurement methods, the Group has classified its financial assets and financial liabilities to the following levels:

- Level 1 prices quoted in active markets,
- Level 2 valuation techniques based on observable market inputs,
- Level 3 other valuation techniques.

Level 1 Prices quoted in active markets
Financial assets and liabilities, whose fair values are determined based on unadjusted, quoted prices for identical assets or liabilities in active markets. This category includes debt and equity instruments with an active market in place and the fair value determined based on the market value (prices on BondSpot, WSE, and NYSE):

- PLN-denominated treasury bonds held in the portfolio of assets at fair value through profit or loss and in the portfolio of financial assets measured through other comprehensive income,
- shares in listed companies in continuous trading on the Warsaw Stock Exchange and NYSE (shares in VISA) held in the portfolio of assets at fair value through profit or loss and in the portfolio of financial assets at fair value through other comprehensive income,
- debt securities issued by financial institutions held in the portfolio of financial assets measured through other comprehensive income.

Level 2 Valuation techniques on observable market inputs
Financial assets and liabilities, whose fair value is determined using valuation models in which all material inputs are observed in the market either directly (as prices indicated by Refinitiv (former Reuters)/Bloomberg information services) or indirectly (based on a model of discounted future cash flows using quotations of interest rates on deposits, OIS, IRS, FRA, basis swap, currency basis swap, swap points, Treasury bond yields). This category includes financial instruments with no active market:

- T-bonds denominated in EUR and USD, bonds issued by financial institutions in PLN and EUR, and NBP (money market) bills in the portfolio of financial assets measured through other comprehensive income,
- PLN-denominated municipal bonds held in the portfolio of financial assets at fair value, with the effects of the measurement recognised in profit or loss,
- derivative instruments.

Level 3 Other valuation techniques
Financial assets and liabilities, whose fair value is determined based on models using unobservable market inputs. In this category, the measurement based on a model of discounted future cash flows using quotations of interest rates on deposits, OIS, IRS, FRA, basis swap, currency basis swap, Treasury bond yields, is adjusted for the risk margin. The category includes:

- commercial and municipal bonds and debt securities issued by financial institutions in the portfolio of financial assets measured through other comprehensive income,
- investment certificates and other shares not held for trading and classified in the portfolio of financial assets measured through other comprehensive income and through profit or loss,
- loans that failed the SPPI test held in the portfolio of assets at fair value, with the effects of the measurement recognised in profit or loss.

Financial instruments are transferred between Level 1 and Level 2 based on the availability of quoted prices from the active market at the end of the reporting period. Compared with 2017, in 2018 PLN-denominated municipal bonds were transferred from Level 1 to Level 2 (carrying amount of the exposure – PLN 42.2 million). Reclassification from Levels 2 to Level 3 occurs if an observable input is replaced with an unobservable one or if a new unobservable risk is used in the valuation, which, at the same time, considerably affects the price of the instrument. Reclassification from Level 3 to Level 2 occurs if an unobservable input is replaced with an observable one or if the pricing effect of an unobservable input becomes negligible. Compared with 2017, in 2018 exposures to derivatives were transferred from Level 3 to Level 2 as the relevant credit risk component was deemed negligible. Transfers between individual measurement levels are recognised as at the end of the reporting period.

(in PLN thousand)

The carrying amounts of individual categories of financial assets and liabilities by measurement level as at 31 December 2018 are presented below.

Assets and liabilities at fair value as at 31 December 2018	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted in active markets	Valuation techniques based on observable market inputs	Other valuation techniques
Financial assets held for trading	**979,480**	**605**	978,875	0
- debt instruments	617	605	12	0
- derivative financial instruments	978,863	0	978,863	0
Financial assets at fair value through profit or loss	740,141	25,106	130,430	584,605
- debt instruments	269,302	0	130,430	138,872
- equity instruments	25,106	25,106	0	0
- other financial assets	445,733	0	0	445,733
Financial assets at fair value through other comprehensive income	15,861,979	9,273,653	2,644,059	3,944,267
- debt instruments	14,754,676	8,230,242	2,644,059	3,880,375
- equity instruments	1,107,303	1,043,411	0	63,892
Loans and advances to customers at fair value through profit or loss	146,088	0	0	146,088
Total assets at fair value	**17,727,688**	**9,299,364**	**3,753,364**	**4,674,960**
Derivative financial instruments	1,576,995	0	1,576,995	0
Total liabilities measured at fair value	**1,576,995**	**0**	**1,576,995**	**0**

Assets and liabilities at fair value as at 31 December 2017	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted in active markets	Valuation techniques based on observable market inputs	Other valuation techniques
Financial assets designated as at fair value through profit or loss at initial recognition	130,233	0	130,233	0
- debt instruments	130,233	0	130,233	0
Financial assets held for trading	1,342,070	0	1,051	1,341,019
- debt instruments	1,051	0	1,051	0
- equity instruments	0	0	0	0
- derivative financial instruments	1,341,019	0	0	1,341,019
Available-for-sale financial assets	37,061,252	8,782,364	24,691,348	3,587,540
- debt securities	35,699,238	7,562,502	24,691,348	3,445,388
- equity securities	1,299,396	1,219,862	0	79,534
- other financial assets	62,618	0	0	62,618
Total assets at fair value	**38,533,555**	**8,782,364**	**24,822,632**	**4,928,559**
Derivative financial instruments	1,284,618	0	0	1,284,618
Total liabilities measured at fair value	**1,284,618**	**0**	**0**	**1,284,618**

- Total Level 3 gains and losses recognised in profit or loss and in equity are presented below.

Instrument type	Gains and losses recognised in profit or loss		Gains and losses recognised in equity	
	2018	2017	2018	2017
Commercial bonds	42,444	74,255	-902	31,045
Municipal bonds	31,360	28,689	7,420	20,061
Shares	-70	2,288	4,459	47,320

- Acquisitions, sale, issues and settlements for Level 3 are presented below.

Instrument type	2018			
	Matured	New issues	Issued and maturing in the same year	Sale
Commercial bonds	639,394	1,090,026	2,486	184,091
Municipal bonds	91,276	1,164,944	0	13,600

(in PLN thousand)

2017				
Instrument type	Matured	New issues	Issued and maturing in the same year	Sale
Commercial bonds	943,181	189,394	2,320,075	184,091
Municipal bonds	111,677	209,018	0	13,600

44.2. Financial assets and financial liabilities in the statement of financial position not recognised at fair value

In the absence of expected considerable differences between the carrying amounts and the fair values of selected groups of financial instruments, resulting from the characteristics of such groups (such as short term, high correlation with market parameters) and low market interest rates, it was assumed that their carrying amounts correspond to the fair values. This pertains, in particular, to items such as: cash and balances with the Central Bank, deposits, interbank deposits, and liabilities to customers.

The fair value of credit exposures was measured using the discounted cash flow method at an interest rate appropriate for each credit transaction (taking into account the market risk margin). For irregular exposures, the value was estimated based on historical loss parameters for similar exposures.

The fair value of the Bank's assets related to debt securities at amortised cost was estimated using a valuation technique consisting in discounting future cash flows, where a curve based on WIBOR rates up to one year (inclusive), IRS rate over one year and FRA rate were used as the projection curve, while a curve based on the yield on T-bonds, shifted by the credit spread, was used as the discount curve.

The fair value of the Bank's liabilities due debt securities issued was determined on the basis of:

- quoted prices in the Catalyst system – for publicly traded bonds,
- a measurement technique of discounted future cash flows – for other securities – where a curve based on WIBOR rates up to one year (inclusive), IRS rate over one year and FRA rate were used as the projection curve, while a curve based on the yield on T-bonds, shifted by the credit spread, was used as the discount curve.

As regards other assets and liabilities which are not measured at fair value, the Bank assumed that there were no major differences between the fair value of an asset or liability and its carrying amount.

The fair values of financial assets and financial liabilities not presented at fair value in the statement of financial position are presented below.

	Fair value hierarchy	31 Dec 2018	
		Carrying amount	Fair value
Cash and balances with the Central Bank	3	16,668,895	16,668,895
Receivables from banks	3	8,364,968	8,365,956
Loans and advances to customers at amortised cost	3	25,792,693	25,794,013
Debt instruments at amortised cost	3	6,881,770	7,064,459
Reverse repurchase agreements	3	3,874,660	3,874,660
Liabilities to banks	3	3,879,221	3,879,221
Liabilities to customers	3	47,637,298	47,637,298
Liabilities due to repo and sell-buy-back transactions	3	5,214,051	5,214,051
Debt securities issued	1	1,397,038	1,407,034
Debt securities issued	3	4,390,171	4,421,576

(in PLN thousand)

	Fair value hierarchy	31 Dec 2017	
		Carrying amount	Fair value
Cash and balances with the Central Bank	3	988,581	988,581
Receivables from banks	3	3,247,473	3,247,473
Loans and advances to customers	3	27,223,753	27,506,769
Reverse repurchase agreements	3	2,105,540	2,105,540
Liabilities to the Central Bank	3	0	0
Liabilities to banks	3	3,594,140	3,594,140
Liabilities to customers	3	33,692,320	33,692,320
Liabilities due to repo and sell-buy-back transactions	3	7,573,820	7,573,820
Debt securities issued	1	2,407,405	2,420,673
Debt securities issued	3	3,891,910	3,912,695

The issuance of bonds issued by the Group was measured, apart from the projection curves based on WIBOR rate quotations, on the basis of market quotations of IRS and FRA rates and discount curves based on yield of treasury securities, along with credit spread shifting the discount curve. The credit spread for measurement based was based on bonds issue price. Due to the latter component of measurement, which is not an observable quotation, the measurement of these bonds is classified at Level 3.

45. Custody business

In 2018 and 2017, the parent entity maintained the following securities accounts (deposit accounts) with dematerialised securities.

Securities	31 Dec 2018	31 Dec 2017
National Depository for Securities (KDPW)	**232,455,202**	**240,102,623**
Bonds	86,940	89,490
Treasury bonds entity 1	232,368,262	240,013,133
National Bank of Poland (NBP)	**828,500**	**698,200**
Money bills	828,500	698,200
BGK	**417,115**	**371,459**
Municipal bonds	84,667	98,667
Other bonds	332,448	272,792
Total	**233,700,817**	**241,172,282**

These accounts do not comply with the definition of assets, hence they are not disclosed in the financial statements of Group.

In the financial years 2018 and 2017, the Bank maintained securities accounts only with dematerialised securities of its clients.

Risk management objectives and principles

46. Risk management at the Group

The internal objective of risk management at the Group is to maintain stability and security of banking operations as well as to maintain a high quality of assets and achieve anticipated financial result within an acceptable risk level.

The main risk management guidelines at BGK are defined in the Bank's risk management strategy as well as in policies for managing particular types of risks. Risk appetite is determined, inter alia, by the acceptable level of solvency, short-term liquidity ratio, and the acceptable level of individual risk types. In the allocation process, the required capital is distributed among individual risk types, with limits levels defined for individual risks at BGK. The limits account for the activities of the Bank's subsidiaries indirectly (transactions with subsidiaries included in utilisation of the limits) and directly (separate limits for subsidiaries).

The diagram below presents the general structure of the areas subject to the limits.

The risk management is based on:

- Strategy for Risk Management at BGK approved by the Supervisory Board of the Bank,
- Capital Management Policy and Internal Capital Assessment at BGK approved by the Supervisory Board of the Bank,
- risk management policies, principles, and procedures related to risk identification, measurement or assessment, monitoring, reporting, and control, developed in written form and approved by the Supervisory Board or the Management Board of the Bank,
- corporate governance principles, principles of selection, remuneration and monitoring of employees performing crucial functions for the Bank and Policies of variable pay of persons holding managerial positions approved by the Supervisory Board of the Bank or Management Board of the Bank,
- regulations on risk management at subsidiaries.

The risk management principles applied at the Bank's subsidiaries in the case of non-financial risks comply with the risk management principles applied by the Bank. However, with respect to financial risks, they reflect the nature of subsidiaries.

The regulations are reviewed systematically so that they can be adjusted to the changes in the risk profile, business environment and good professional practices.

The risk management system is designed to ensure a uniform and efficient process of identification, measurement/assessment, monitoring, reporting, and controlling of risks, and to enable active safety measures.

The risk identification process includes determination of risk types, their sources (factors), significance and relationships between individual types of risk.

The risk measurement/assessment process includes methods of risk quantification and performing stress tests.

The risk control process comprises the determination and enforcement of risk control mechanisms (i.e. limit systems, ensuring independence between first-level risk management from second-level risk management, insurance, risk transfer, financing plans).

The risk monitoring process includes supervision of the level of risk taken, reviews of relevance and accuracy of the applied methods of risk assessment and evaluation of efficiency of the tools used.

The risk reporting process includes information on the risk profile, identification of possible threats, and information on the measures adopted.

The risk management method at the Bank's subsidiaries, including the methods of risk identification, measurement and mitigation, stems from the Bank's strategy and reflects the types of activities pursued by those entities in line with the proportionality principle.

Organisation of risk management for the key risk types:

	Risk management supervision	Risk appetite	Strategic management	Tactical management	Risk monitoring
Credit risk	Supervisory Board	Supervisory Board Management Board	Management Board CC	CC	CRD CRMD DLD
Market risk	Supervisory Board	Supervisory Board Management Board	Management Board ALCO	TD FMSD	FRD
Liquidity risk	Supervisory Board	Supervisory Board Management Board	Management Board ALCO	TD	FRD
Operational risk	Supervisory Board	Supervisory Board Management Board	Management Board ORC	Each organizational unit	FRD
Compliance Risk	Supervisory Board	Supervisory Board Management Board	Management Board ORC	Each organizational unit	Compliance unit
Capital adequacy	Supervisory Board	Supervisory Board Management Board	Management Board ALCO	Each business unit	FRD

Presented below are the Bank's authorities involved in the Bank's risk management process.

Supervisory Board of the Bank

The Supervisory Board exercises supervision over the introduction of risk management system and evaluates its adequacy and efficiency in particular through approving acceptable risk level and monitoring its compliance.

Risk Committee

The Risk Committee supports operations of the Bank's Supervisory Board, supervising the management system for all risks identified in the Bank's operations, in particular by providing opinions as to the Bank's overall ongoing and future risk appetite. The Risk Committee includes persons appointed from among the members of the Bank's Supervisory Board.

Audit Committee

The Audit Committee supports the Bank's Supervisory Board, in particular through oversight over the internal audit area and monitoring the financial and management reporting process, as well as financial audit activities carried out at the Bank. The Audit Committee includes persons appointed from among the members of the Bank's Supervisory Board.

Management Board of the Bank

The Management Board of the Bank is responsible for organising and administering the risk management process and ensuring the efficiency of the risk management system. One of the Management Board members, who has obtained consent of the Polish Financial Supervision Authority to be appointed as a Management Board member, supervises the banking risk area that covers organisational units managing credit, financial, operating, and other risks.

Bank's Financial Committee (BFC)

The Committee has consultative functions and participates in the decision-making process. The primary objective of the Committee is to define the current, mid-, and long-term management policy for the Bank's assets and liabilities and equity, whose purpose is to optimise the Bank's performance and ensure efficient allocation of the Bank's capital, taking into account an appropriate level of risk exposure and the nature of tasks fulfilled by the Bank as part of management of funds created, entrusted or transferred to the Bank under separate legislation or other legal acts.

Bank's Operational Risk Committee (ORC)

The main objective of the Committee is to ensure efficient management of the operating and compliance risks. The Committee offers opinions and participates in the decision-making process. The Committee is responsible for reducing the operating and compliance risks, in particular through: initiation and coordination of activities aimed to identify, measure, and monitor the operating and compliance risks; providing opinions on the level of limits reducing the operating risk; and assessment of the risk reduction techniques applied for such risks. The Committee coordinates the activities aimed to identify, measure, and monitor the reputation risk and the related reporting.

Bank's Credit Committee (BCC)

The primary tasks of the Committee include: decision making on loan applications and applications for restructuring or enforcement. It also provides recommendations to the Bank's Management Board on matters reserved for the competence of the Board, performing reviews of the credit portfolio, annual reviews of business lines and deciding on their classification to relevant investment risk categories.

Bank's Change Committee

The Committee has a consultative function and participates in the decision-making process. The basic tasks of the Committee include managing the portfolio of undertakings within the authorisation limits granted to the Committee and accepting, in connection with the objectives provided for in the Bank's Strategy, basic rules for banking products and services, processes, applications, and IT infrastructure.

Expenditure Authorisation Committee

The Committee has a consultative function and participates in the decision-making process. The primary objective of the Committee is to ensure a high efficiency of expenditure, including those supporting Bank's strategic operations. Expenditures of high value are assessed by the Committee in terms of their business rationality, possibility of price and process optimisation, as well as adopted implementation method. The Committee issues recommendations in respect of the Bank's expenditure policy.

Data Quality Management Committee

The Committee has a consultative function and participates in the decision-making process. The primary tasks of the Committee is to define goals and activities related to data quality management as well as the management of and supervision over data quality control and quality monitoring.

47. Credit risk management

As of 1 January 2018 the Bank adopted International Financial Reporting Standard 9 "Financial Instruments" ("IFRS 9"). The Bank applied the option included in IFRS 9 which allowed it to be released from the obligation to restate comparative data for the previous periods with regard to changes resulting from classification and measurement (including impairment). IFRS 9 also significantly amended the requirements of IFRS 7 "Financial Instruments: Disclosure". Disclosures for the comparative period repeat the disclosures made in previous periods.

47.1. Credit risk management as of 1 January 2018

Credit risk constitutes one of the most important risk types to which the Bank is exposed in its operations and which is defined as a threat of a borrower's default on the payment of liability under an agreement, i.e. failure to repay receivables under credit exposure along with the Bank's remuneration within time limits defined in the agreement.

Main credit risk management purposes are as follows:
- identification of credit risk areas and its mitigation to a level accepted by the Bank,
- regular review of actions adopted in this risk area,
- composition of balance-sheet and off-balance-sheet items of the Bank to minimise the risk of negative deviation of the financial result from the Bank's financial plan.

Credit risk management at the Group

Credit risk management engages relevant units of the Bank's Risk Division and dedicated units of the Group's subsidiaries. Among other things they provide opinions about projects and internal regulations regarding subsidiaries and − at the same time − evaluation of credit risk and recommend actions of changes in the regulations.

The credit risk management process is carried out at the level of customer risk with individual credit exposure and credit portfolio risk taken into account, on the basis of:
- Risk management strategy at BGK,
- planned, targeted actions defined in the credit policy,
- internal regulations,
- available support systems and tools,
- recommendations and guidance for regional and other units of the Bank.

Credit risk management helps to identify, measure or estimate, monitor, report, and control the risk.

The Management Board of the Bank defines the credit policy taking into account the Bank's risk appetite and the Bank's Strategy as well as the existing level of credit risk borne by the Bank, the structure of credit portfolio, the structure of legal collaterals, repayments of the transactions bearing credit risk, and external macroeconomic factors. Among other elements, the credit policy indicates the acceptable level of risk for the credit portfolio, credit purposes and recommendations, credit profile for individual customer and product segments, risk management process, and the related best practices.

Pursuant to applicable regulations, the Bank performs - at least once a year - stress tests of credit exposure sensitivity to changes in the exchange rates, interest rate and the value of the existing mortgage collaterals.

Credit risk management and control mainly involve setting risk limits which are acceptable with respect to individual sectors and industries, counterparty and product segments, as well as in monitoring exposures relevant to such limits.

Active management of the evaluation of credit quality ensures fast identification of possible changes in the counterparties' credit worthiness and regular reviews of collateral.

The limits for counterparties are determined e.g. using the level of exposure with respect to the counterparty and system credit risk classification which assigns a risk grade to every counterparty.

The risk grades are subject to regular reviews. The objective of the evaluation of credit quality is to assess potential loss resulting from the risk and to take remedial measures.

The Bank prepares regular reports on credit risk and risk concentration:
- a monthly report for the Bank's Management Board and Credit Committee, which are also made available to the Bank's Financial Committee,
- a quarterly report for the Bank's Management Board, Credit Committee, and Risk Committee, and every six months also for the Bank's Supervisory Board, also made available to the Bank's Financial Committee,
- an annual report for the Bank's Management Board, Credit Committee, Risk Committee and the Bank's Supervisory Board, which are also made available to the Bank's Financial Committee,

and a range of other reports and analyses related to the fields of operation exposed to credit risk.

Model for impairment and recognition of impairment allowances

As of 1 January 2018 impairment allowances at the Bank are recognised in accordance with International Financial Reporting Standard 9 "Financial Instruments" ("IFRS 9"). IFRS 9 provides for calculation of impairment allowances based on expected credit losses and taking into account forecasts and expected future economic conditions in the light of credit risk exposure assessment.

The impairment model applies to financial assets classified, in line with IFRS 9, to financial assets measured at amortised cost (AC) or at fair value through other comprehensive income (FVOCI) and to off-balance-sheet credit exposures.

The new IFRS 9 introduced a material change in the measurement of impairment of financial assets, under which the concept of expected credit losses (ECL) replaced the previous concept of losses incurred. The change in approach resulted in a significant increase in the importance of estimates and assumptions for impairment measurement, in particular for identification of a significant increase in credit risk and the related measurement of lifetime expected credit losses of an exposure.

In the assessment of expected credit losses a broad range of information is taken into account, including historical and current data and information on expected future economic conditions.

A key change is the introduction of a new three-stage model (replacing the previous two-stage model) of impairment of credit exposures.

The impairment model compliant with IFRS 9 is based on a division of exposures into three stages depending on the changes in credit quality relative to the initial recognition in accounting records. The manner of calculation of an impairment loss depends on the stage:

Stage	Criterion for classification (stages)	Manner of calculation of an impairment loss
Stage 1	Exposures for which from the initial recognition until the reporting date no significant increase in credit risk was identified and with no impairment	12-month expected credit loss
Stage 2	Exposures for which from the initial recognition until the reporting date a significant increase in credit risk was identified and with no impairment	Lifetime expected credit losses
Stage 3	Impaired exposures	
POCI	Exposures impaired at initial recognition (POCI)	

As at the date of these financial statements, in its loan portfolio the Bank held financial assets classified as POCI at initial recognition (i.e. purchased or originated credit-impaired assets), which are treated as POCI in each subsequent period until their derecognition. This principle applies also when the asset is cured in the meantime. In other words, assets that have been recognised as POCI retain that status regardless of any future changes in estimates of cash flows to be generated by such assets. For POCI instruments credit losses are recognised at amounts of lifetime expected credit losses throughout the expected life of the instruments.

Impairment of credit exposures

The Bank regularly reviews credit exposures to identify credit exposures in respect of which the credit risk has increased significantly, or with impairment risk, to measure impairment of credit exposure and to recognise impairment allowances.

The process of recognising impairment allowances comprises the following stages:
- identification of significant increases in credit risk,
- identifying evidence of impairment and impairment triggers,
- registering impairment triggers for credit exposures in IT systems of the Bank,
- determining the method of impairment measurement,
- measuring impairment and determining the impairment allowance,
- reviewing and aggregating results of impairment measurement,
- reporting results of impairment measurement.

The method of determining amount of impairment allowance depends on the type of impairment objective evidence and an individual size of the credit exposure.

Individual impairment triggers include in particular:
- loan becomes past due more than 90 days,
- significant deterioration of the customer's financial condition,
- conclusion of a debt restructuring agreement or debt relief (evidence is recognised if these actions were required for business and legal reasons resulting from financial difficulties of the client).

When determining the delinquency period, the Bank accounts for overdue interest and principal amounts in excess of thresholds determined.

Impairment testing methods

There are two methods of impairment testing applicable at the Bank:

- individual testing − applied to exposures which are individually significant, for which an indication of impairment was identified,
- collective testing – applied to exposures:
  - for which no indication for impairment was identified and for which individual testing has not indicated an impairment,
  - which are individually insignificant, for which indication for impairment was identified.

When determining the impairment loss amount using the individual approach, expected future cash flows are estimated for each credit exposure individually.

The Bank tests the impairment amount on a collective basis using portfolio parameters estimated with statistical methods, based on historical data on exposures of the same nature.

Impairment loss on credit exposures tested on a collective basis is equal to the difference between the carrying amount of these exposures and the present value of future cash flows estimated using statistical methods based on historical data on exposures in homogeneous portfolios.

Impairment loss on off-balance-sheet credit exposures is determined as the difference between the expected value of the balance sheet exposure resulting from the off-balance-sheet liability granted (from the test date to the date of overdue debt constituting the objective evidence of impairment of individually significant exposures) and the present value of future cash flows from the balance sheet exposure resulting from the off-balance-sheet liability.

Calculation of expected credit losses

Calculation of lifetime expected credit losses requires the application of risk parameters for many years. For the purposes of calculation of a credit loss in accordance with IFRS 9, the Bank compares cash flows that it should collect under loan agreement with the cash flows that the Bank estimates to collect. The Bank discounts the difference with the original effective interest rate, and in the case of POCI assets – with the credit risk-adjusted original effective interest rate.

Method of calculation of collective parameters – PD, RR and EAD.

The PD parameters amount to an assessment of the probability of default in subsequent annual periods over the lifetime of an exposure. A PD curve concerning a given exposure is dependent on the current value of the 12-month PD parameter (and the relevant rating class) it's determined based on the Bank's internal PD models.

In the estimation process the Bank takes into account both existing and forecast macroeconomic conditions (IFRS 9, Section 5.5.17(c)).

The calculation of the expected recovery rates (RR) is based on the Roll Rates model, under which within homogenous groups average monthly recoveries are calculated conditionally against the month since default. Homogenous groups of exposures were defined based on the following features:

- customer segment,
- type of product,
- credit rating or assessment process in line with an adopted scale,
- stage of loan handling,
- delay in repayment.

Within the defined homogenous groups, average monthly recovery rates are calculated, covering repayments and recoveries weighted by the outstanding principal amount observed at the beginning of a given month since default.

As part of measurement of expected credit losses for exposures with a repayment schedule, the Bank determines a single amount of expected loss (allowance). The amount is first charged as an allowance against the credit exposure, up to the equivalent of the book value of the credit exposure. If the total allowance is greater than the book value of the credit exposure, the difference is charged to off-balance-sheet portion of the exposure.

For exposures for which no repayment schedule is available, the allowance is measured separately for the on-balance-sheet and off-balance-sheet portion of the credit exposure (based on calculated amounts of EAD for balance-sheet items and off-balance-sheet items).

For exposures for which it is not possible to determine risk parameters based on internal models, the Bank adopts an approach based on using parameters from other portfolios with similar characteristics or expert parameters, in particular where a portfolio for which a parameter is to be determined is small or treated as a low default portfolio.

The models and parameters used to calculate allowances are periodically validated.

Low credit risk criterion

In accordance with Section 5.5.10 of IFRS 9 exposures that are considered as low risk credit exposures at the reporting date may remain in Stage 1 if the quantitative criterion of a significant increase in credit risk since initial recognition is met. If a qualitative criterion is met or if exposures become past due by more than 30 days, the exposures are transferred to Stage 2. In accordance with Section B.5.5.22 of IFRS 9, the credit risk of a financial instrument is considered low if:

- the financial instrument has a low risk of default,
- the borrower has a strong capacity to meet its contractual obligations in the near term,
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual obligations.

The Bank does not consider that credit exposures have low credit risk when it regards them as having a low risk of loss simply because of the value of collateral and the credit exposure without that collateral would not be considered low credit risk. Also, the Bank does not consider that credit exposures have low credit risk simply because they have a lower risk of default than the borrower's other credit exposures or relative to the credit risk of the jurisdiction within which the borrower operates.

The Bank applies the low credit risk criterion to credit exposures with a low internal risk rating (first four classes), which do not meet the qualitative or past-due criteria as the criteria of a significant increase in credit risk.

Financial assets with an identified significant increase in credit risk

Financial assets for which at the reporting date the Bank identifies a significant increase in credit risk since initial recognition are classified in Stage 2. The Bank considers that for a given asset a significant increase in credit risk has been identified if a quantitative or qualitative criterion is met or if contractual payments are more than 30 days past due, whereas the occurrence of a given criterion is assessed at the exposure level.

Quantitative criteria of an increase in credit risk

A quantitative criterion is applied only to homogenous portfolios of credit exposures with assigned internal ratings. Assessment of a quantitative criterion consists in comparing the existing (at the reporting date) level of credit risk (risk of default) with the level of credit risk as at the date of initial recognition. The process is aimed at assessing the increase of credit risk based on a change in the credit risk over the expected life of the exposure. the quantitative measurement of an increase in credit risk is made by comparing the level of credit risk measured using the LtPD (Lifetime probability of default) or internal rating at the reporting date with the level of credit risk measured using the LtPD or internal rating as at the date of initial recognition.

The assessment of an increase in credit risk is based only on the risk of default. Changes in LGD do not result in transfers of exposures from Stage 1 to Stage 2.

Classification to Stage 2 is based on the limit of the materiality threshold, above which an exposure is classified to Stage 2, determined as a relative value by comparing the LtPD at the reporting date with the LtPD as at the date of initial recognition. For both curves, the comparison is made for identical period, i.e. from the reporting date until maturity.

For certain portfolios covered by rating models, reclassification of exposures to Stage 2 is based on classification to a specific rating class at the reporting date, above which the exposure is classified to Stage 2, or the credit exposure is ranked above a specific rating class as at the reporting date and there was a change in the rating class by a specific number of classes. A change in rating classes is determined based on comparison of a rating class as at the reporting date with the rating class as at the date of initial recognition.

Limit values of the relative change in credit risk that qualify exposures to be classified to Stage 2 are verified as part of a model review.

Qualitative criteria of an increase in credit risk

Indicative qualitative criteria of an increase in credit risk, which require confirmation, include selected criteria from the catalogue of Early Warning Signals (EWS) defined as “strong” in accordance with the classification applied at the Bank, whose occurrence is associated with a high likelihood of a default of an exposure.

In addition, a credit exposure which is overdue more than 30 days by is treated as a criterion of a significant increase in risk.

Financial assets with identified impairment

Financial assets for which at the reporting date the Bank has identified the occurrence of an impairment trigger are classified in Stage 3. The Bank analyses the occurrence of evidence of impairment at the level of an agreement/transaction and customer. If evidence of impairment is identified for a customer of any of its credit exposures, all other credit exposures of that customer are treated as exposures for which evidence of impairment exists. In the case of related parties, existence of evidence of impairment does not result in the treatment of exposures of other related parties as exposures for which evidence of impairment exists.

The Bank assesses all credit exposures (credit exposure groups) for existence of objective evidence of impairment using the most recent data available to the Bank as at the date of revaluation, based on a catalogue of impairment triggers defined in internal regulations governing the recognition and measurement of expected credit losses.

Taking into account expectations regarding future macroeconomic conditions

IFRS 9 requires the Bank to take into account expectations regarding the macroeconomic situation in the calculation of expected credit losses. As required by IFRS 9, Section 5.5.4, the Bank adjusts risk parameters to take into account forecast forward-looking macroeconomic information (such as: interest rate, foreign exchange rates), for portfolios for which it has identified a dependency. The source of information on the values of macroeconomic factors are forecasts prepared by the Bank’s economic analysts.

Derivative financial instruments

In the case of derivatives, the Bank is exposed to the risk of default by the counterparty to a transaction related to a given derivative. In the case of customers other than banks, settlements are usually made in net amounts which protects the Bank against a potential settlement risk. In justified cases, the Banks secure additional collaterals in the form of deposits from customers in order to limit the risk.

Credit risk resulting from granted liabilities

The Bank offers their customers guarantees whereby the Bank may be obliged to make a payment on their behalf and enter into obligations to extend granted loans to satisfy their liquidity needs. Under the terms of letters of credit and guarantees (including standby letters of credit), the Bank is obliged to make payments on behalf of its customers in specific cases, usually related to imports and exports of goods. Such obligations expose the Bank to a risk similar to the risk related to loans which is mitigated by the same control processes and policies.

(in PLN thousand)

Analysis of the maximum exposure to credit risk, risk related to collaterals, and other elements improving the lending terms and conditions

The table below presents the maximum exposure to credit risk, divided into financial assets classes.

Maximum exposure to credit risk excluding collaterals (by classes of financial instruments)	31 Dec 2018
Cash in Central Bank	16,668,286
Receivables from banks	8,364,968
Financial assets held for trading	979,480
Financial assets at fair value through profit or loss	740,141
Financial assets at fair value through other comprehensive income	15,861,979
Loans and advances to customers	25,938,781
Debt instruments at amortised cost	6,881,770
Reverse repurchase agreements	3,874,660
Other assets	3,968,840
Total	**83,278,905**

	31 Dec 2018
Maximum exposure to credit risk in connection with guarantees given by the Group	12,981,856

The Bank holds a significant portfolio of guarantees granted mostly to non-financial entities, including enterprises. Maximum exposure to credit risk in connection with guarantees given by the Bank as at the end of 2018 was PLN 12,981,856 thousand.

47.1.1. Portfolio structure by region

Concentration of exposures from the perspective of geographical areas is monitored based on the existing division into the Bank's field units (regional units) and by province. The Bank has regional units in all province capitals.

Since the geographical concentration is limited and does not lead to an increased credit risk, so far the Bank has had no need to set geographical limits. However, the Bank sets industry limits.

47.1.2. Portfolio structure by industry

The Bank uses tools and methods that support the monitoring of credit exposures and customers, allow to react quickly if the quality of the portfolio or individual credit exposures deteriorate, and take remedial measures.

Concentration of exposures from the perspective of economy sectors is monitored on a daily basis pursuant to the internal procedures for the internal industry limits.

Attribution of a given customer to an industry limit is based on customer classification into a given industry made and reviewed by the Bank's employee.

Concentration of exposures in national economy sectors (balance sheet exposure) as at 31 December 2018 *		
Branch of industry	**Amount exposure**	**Total share in exposure**
Public administration and defence, compulsory social security	8,414,538	**22.8%**
Construction	4,935,212	**13.4%**
Finance activities	1,058,888	**2.9%**
Professional, scientific, technical, and educational activities	2,584,111	**7.0%**
Mining and extraction	1,692,517	**4.6%**
Wholesale trade	438,367	**1.2%**
Hotels and restaurants	217,219	**0.6%**
Property management and administration	1,521,538	**4.1%**
Healthcare and social security	1,033,470	**2.8%**
Other services, sports, entertainment and recreation activities	114,437	**0.3%**
Other (natural persons, no Polish Classification of Activity (PKD) number)	1,922,925	**5.2%**
Industrial processing	4,041,659	**10.8%**
Transport, warehouse management and telecommunications	4,418,706	**12.0%**
Distribution of electricity, gas and water supply	4,538,209	**12.3%**
Total	**36,931,796**	**100.0%**

* The exposure accounts for the principal of loans and advances, purchased debts, promissory note discount, used guarantees, and debt securities.

(in PLN thousand)

The Bank applies industry limits to mitigate the risk related to financing customers operating in selected industries with a high level of credit risk and to avoid excessive levels of industry concentration.

The portfolio is dominated by public administration due to BGK's close cooperation with the government and local governments. Another relatively large groups of exposures are the construction, transportation, storage, and communication industries as well as electricity, gas and water supply industry, mainly due to the fact that the Bank engages in funding ventures which are strategic from the point of view of the State Treasury, including in the sectors of energy, fuel and chemistry, and transport. Such ventures are implemented in the form of large investment projects.

47.1.3. Qualitative structure and portfolio distribution

The Bank manages the credit quality of assets using a whole range of methods to mitigate credit risk, including internal credit ratings. For several years the Bank has applied internal ratings with respect to local government units, enterprises and healthcare entities conducting full financial reporting, housing cooperatives and social housing associations.

The Bank applies a master scale for the rating methods used for individual customer segments, from 1 to 20, where rating classes at or higher than Level 18 represent default classes. The structure presented in the tables below indicates risk classes grouped into three basic rating groups.

Pursuant to the adopted policy, the Bank applies risk rating to the majority of credit exposures in the loan portfolio. This helps appropriately manage the existing risk and compare the credit risk with reference to various customer and product segments. Customers without internal ratings mainly comprise new transactions that finance investment ventures in the form of special purpose vehicles.

The rating system uses various financial analytical tools and processed market information to obtain major input data for measuring the risk related to an individual customer. The rating models are monitored and validated on an ongoing basis.

When determining and monitoring customers' credit risk, the Bank also uses the ratings assigned to the customers by reputable rating agencies.

The tables below present portfolio allocation as at 31 December 2018.

- Loans and advances to customers and banks, liabilities under loans and guarantees granted, debt securities and derivatives by credit risk rating

Loans and advances to customers and banks at amortised cost as at 31 December 2018					
Internal rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Rating from 1 to 13	17,896,102	2,402,729	273,674	5,136	20,577,641
Rating from 14 to 17	328,060	474,086	174,680	110,576	1,087,402
Rating 18 and below	147,410	152,368	1,304,050	10,425	1,614,253
unrated	3,754,213	135,117	216,177	0	4,105,507
Total gross carrying amount	**22,125,785**	**3,164,300**	**1,968,581**	**126,137**	**27,384,803**
Impairment allowances	**165,379**	**84,351**	**715,358**	**-27,322**	**937,766**
Total net carrying amount	**21,960,406**	**3,079,949**	**1,253,223**	**153,459**	**26,447,037**

Contingent liabilities (guarantees, loan commitments) at amortised cost as at 31 December 2018					
Internal rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Rating from 1 to 13	46,855,101	617,591	1,171,070	0	48,643,762
Rating from 14 to 17	645,386	172,316	50,326	0	868,028
Rating 18 and below	43,685	7,585	14,128	0	65,398
unrated	4,658,780	4,266	104,933	0	4,767,979
Total	**52,202,952**	**801,758**	**1,340,457**	**0**	**54,345,167**
Impairment allowances	**139,754**	**12,684**	**59,246**	**0**	**211,684**

(in PLN thousand)

Loans and advances to customers obligatorily measured at fair value through profit or loss as at 31 December 2018					
Internal rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Rating from 1 to 13	78,851	67,237	0	0	146,088
Rating from 14 to 17	0	0	0	0	0
Rating 18 and below	0	0	0	0	0
unrated	0	0	0	0	0
Total carrying amount	**78,851**	**67,237**	**0**	**0**	**146,088**

- Exposures to banks under deposits, current accounts and other receivables by internal class of risk

Exposures to banks under deposits, current accounts and other receivables at amortised cost by internal class of banking risk as at 31 December 2018	
I	1,044,622
II	943,518
III	564,829
IV	281,995
VI	21,499
no risk class*	4,854,856
Total gross carrying amount	**7,711,319**
Impairment allowances	**695**
Total net carrying amount	**7,710,624**

* nostro current accounts, other

- Debt securities by external rating

Exposures under debt securities at amortised cost by external rating as at 31 December 2018					
External rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
A / AA	0	0	0	0	0
BBB	1,676,236	0	0	0	1,676,236
BB	0	0	0	0	0
B	0	0	0	0	0
CCC	0	0	0	0	0
unrated	3,637,618	1,019,275	681,389	0	5,338,282
Total gross carrying amount	**5,313,854**	**1,019,275**	**681,389**	**0**	**7,014,518**
Impairment allowances	**11,405**	**15,547**	**105,796**	**0**	**132,748**
Total net carrying amount	**5,302,449**	**1,003,728**	**575,593**	**0**	**6,881,770**

Debt securities purchased under reverse repurchase agreements by external rating as at 31 December 2018					
External rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
A / AA	938,888	0	0	0	938,888
BBB	695,103	0	0	0	695,103
BB	1,691,164	0	0	0	1,691,164
B	446,146	0	0	0	446,146
CCC	50,324	0	0	0	50,324
unrated	53,035	0	0	0	53,035
Total	**3,874,660**	**0**	**0**	**0**	**3,874,660**

Exposures under debt securities at fair value through other comprehensive income by external rating as at 31 December 2018					
External rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
A / AA	636,433	0	0	0	636,433
BBB	11,811,553	0	0	0	11,811,553
BB	207,170	0	0	0	207,170
B	0	0	0	0	0
CCC	0	0	0	0	0
unrated	2,063,564	34,736	1,220	0	2,099,520
Total carrying amount	**14,718,720**	**34,736**	**1,220**	**0**	**14,754,676**
Impairment allowances*	**4,004**	**412**	**216**	**0**	**4,632**

* The impairment allowance on debt securities at fair value through other comprehensive income is recognised under "Revaluation reserve" and does not decrease the relevant carrying amount.

(in PLN thousand)

Exposures under debt securities by external rating as at 31 December 2018	
Debt securities held for trading	
A / AA	0
BBB	617
BB	0
B	0
CCC	0
Total	**617**
Debt securities at fair value through profit or loss	
A / AA	42,219
BBB	174,575
BB	0
B	0
CCC	0
unrated	52,508
Total	**269,302**

Derivatives by external rating as at 31 December 2018			
External rating	**Banks**	**Other financial institutions**	**Non-financial entities**
A+	121,668	0	0
A	226,109	0	0
A-	40,054	477,508	0
BBB+	54,281	0	0
BB+	0	0	0
unrated	0	17,094	42,149
Total carrying amount	**442,112**	**494,602**	**42,149**

47.1.4. Concentration risk analysis

The risk of concentration of exposure is the risk resulting from exposure with respect to individual entity or entities with capital and organisational relations, entities operating in the same industry, economy sector, entities operating in the same geographical region, using the same type of collateral or collateral offered by the same provider, in the same currency, with respect to the entities referred to in Article 79.1 of the Banking Law, which may have a material impact on the stability and security of the Bank's operations in case of default by such individual entity, by entities with capital and organisational links or by groups of entities where the default probability of default depends on shared factors.

The Bank controls the level of credit risk exposure:

- jointly and broken down into own activities as well as related to the service of fund created, entrusted or transferred on the basis of separate acts,
- for exposure concentration to one entity and/or entities related by capital ororganization ,
- by large exposures,
- by individual industries,
- separately by mortgage-backed exposures,
- by selected segments and products,
- by currency or currency-indexed transactions,
- by off-balance-sheet liabilities granted by the Bank (guarantees, sureties, and letters of credit).

The Bank applies regulatory concentration limits for large exposures resulting from the CRR, Banking Law and specific regulations included in the Act on BGK. These limits are additionally reduced by the resolution of the Bank's Management Board on the maximum level of exposure to an individual customer or group of related customers as at the time of making a funding decision.

Utilisation of the concentration limit is assessed on a daily basis. Adopted by the Bank's safe level of exposure to a group of related entities or to a single customer was not exceeded as at the end of 2018.

(in PLN thousand)

Group's exposure to the 20 largest non-bank customers as at 31 December 2018		
	Exposure*	Share in the loan portfolio
1.	3,759,529	10.2%
2.	3,426,040	9.3%
3.	2,913,612	7.9%
4.	2,019,305	5.5%
5.	1,768,847	4.8%
6.	1,633,662	4.4%
7.	1,605,879	4.3%
8.	1,588,740	4.3%
9.	1,528,263	4.1%
10.	1,062,884	2.9%
11.	1,061,764	2.9%
12.	863,749	2.3%
13.	598,587	1.6%
14.	569,842	1.5%
15.	551,705	1.5%
16.	549,784	1.5%
17.	523,713	1.4%
18.	467,033	1.3%
19.	462,793	1.3%
20.	399,917	1.1%
Total	**27,355,648**	**74.1%**

*includes balance-sheet and off-balance-sheet credit exposure: loans, advances, purchased debts, promissory note discount, used guarantees, debt securities, and derivative transaction limits. The amount of exposure is calculated for the purposes of external limits (large exposure concentration limits) without deductions.

Group's exposure to five largest non-bank groups as at 31 December 2018		
No.	Exposure*	Share in the loan portfolio
1.	5,004,250	13.5%
2.	4,131,989	11.2%
3.	3,808,644	10.3%
4.	3,136,013	8.5%
5.	2,019,305	5.5%
Total	**18,100,201**	**49.0%**

*includes balance-sheet and off-balance-sheet credit exposure: loans, advances, purchased debts, promissory note discount, used guarantees, debt securities, and derivative transaction limits. The amount of exposure is calculated for the purposes of external limits (concentration limits) without deductions.

Credit risk concentration by currency as at 31 December 2018	
PLN	82.5%
Foreign currencies, including:	17.5%
- EUR	11.4%
- USD	5.0%
- CHF	0.1%
- other	1.0%
Total	**100.0%**

47.1.5. Collaterals and other forms of credit risk mitigation

The main instrument used to reduce the credit risk is legal protection of the Bank's receivables. The Bank applies an internal procedure for the establishment and evaluation of legal collaterals for receivables as at the inception of the transactions bearing credit risk and for monitoring the collateral during the transaction's life.

The Bank uses the following instruments and methods to limit or reduce the credit risk to acceptable levels:
- risk diversification,
- risk protection,
- risk sharing,
- risk compensation.

To mitigate the credit risk, when calculating the risk-weighted exposures in the Bank's portfolio, the Bank accounts for the credit protection, in line with the internal procedures on legal protection of the Bank's receivables.

The basis for calculating the recoverable amount of collaterals is the appraisal value verified by the Bank using the indicators adjusting the value of collaterals. In the case of unfunded collaterals , the economic and financial standing of the collateral issuer is additionaly examined. Moreover, before collateral acceptance the fulfilment of formal and legal conditions is verified each time, as well as whether it is funded and liquid, and also its correlation to the economic and financial standing of the debtor.

(in PLN thousand)

The Bank monitors the legal collaterals of lending transactions on a periodical basis.

Collaterals and other forms of credit risk mitigation as at 31 December 2018	Fair value of the collateral
Mortgages	35,976,822
Pledges	2,224,085
Guarantees and sureties, including:	8,493,415
- bank guarantees	613,806
- government guarantees	6,804,606
- other guarantees and sureties	1,075,003
Cash deposits	152,974
Other	14,346

Credit exposures are most often secured (at fair value) by mortgages, guarantees and sureties. Credit exposures hedged by guarantees provided by the State Treasury and local government units (designated as other guarantees and sureties) ensure the maximum risk reduction. Primarily, local government units offer sureties for exposures of affiliated Social Housing Associations, hospitals, and municipal companies.

47.1.6. Forbearance practices

The Bank applies the definition of forbearance to credit exposure which has been addressed with restructuring measures. The restructuring measures comprise facilities offered by the Bank to the borrower who experiences or will soon begin to experience difficulties with repayment of financial liabilities (financial distress).

Restructuring measures comprise the following:

- change in the terms and conditions of a contract underlying the credit exposures which have been classified as default before the change or which would have been classified as default, if it had not been changed,
- change in the terms and conditions of a contract underlying the credit exposure consisting in a full or partial write-off on the exposure,
- Bank's approval for the use of embedded restructuring clauses by a default customer or who would have been considered as default if such clauses had not been applied,
- repayment of the principal amount or interest on another credit exposure at the Bank by the customer, if the exposure was in default at the time or around the time when the Bank applied the facility in the form of additional funding or would have been classified as default if the facility had not been applied,
- change leading to payments resulting from utilisation of the collateral, if such change qualifies as a facility.

It is considered that the exposures are no longer forborne, if all the conditions presented below have been met:

- a credit exposure is no longer considered as default when it has been removed from the default category,
- following an analysis of the financial condition of the customer which revealed that the contract no longer qualifies as default
- after at least two-year follow-up period (24 months) of the date when the restructured exposure was classified as not default (24 months),
- regular payments of interest and principal amount were made for at least 12 out of 24 months of the follow-up period,
- as at the end of the quarantine period, none of the exposures with respect to the customer was overdue by more than 30 days.

(in PLN thousand)

Forborne exposures in the loan portfolio as at 31 December 2018					
Loans and advances to customers at amortised cost, including	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross forborne exposures	59,700	0	616,938	126,137	802,775
- non-financial sector	56,629	0	527,858	126,137	710,624
- public sector	3,071	0	89,080	0	92,151
Impairment allowances	341	0	174,254	-27,322	147,273
Net forborne exposures	59,359	0	442,684	153,459	655,502

Collateral policy

The amount and type of collateral depends on the evaluation of the credit risk related to an individual counterparty. The Bank follows specific guidelines on the acceptability and evaluation of each type of collateral.

Main types of collaterals:
- for securities lending and reverse repo – cash and securities;
- for commercial loans – collateral in the form of mortgages and registered pledges on movables.

The Bank monitors the market value of collateral for each lending transaction and, if necessary, it demands additional collateral in line with the master contract.

Pursuant to the adopted policy, the Bank manages the seized collateral in an orderly manner. Any proceeds are used to reduce or repay overdue receivables. The Bank does not use seized collateral for business purposes.

47.2. Credit risk management until 31 December 2017

Credit risk constitutes one of the most important risk types to which the Bank is exposed in its operations and which is defined as a threat of a borrower's default on the payment of liability under an agreement, i.e. failure to repay receivables under credit exposure along with the Bank's remuneration within time limits defined in the agreement.

Main credit risk management purposes are as follows:
- identification of credit risk areas and its mitigation to a level accepted by the Bank,
- regular review of actions adopted in this risk area,
- composition of balance-sheet and off-balance-sheet items of the Bank to minimise the risk of negative deviation of the financial result from the Bank's financial plan.

Credit risk management at the Group

Credit risk management engages relevant units of the Bank's Risk Division and dedicated units of the Group's subsidiaries. Among other things they provide opinions about projects and internal regulations regarding subsidiaries and – at the same time – evaluation of credit risk and recommend changes in the regulations. The Bank actively supports the Group's entities in this process.

The credit risk management process is carried out at the level of customer risk with individual credit exposure and credit portfolio risk taken into account, on the basis of:
- Risk management strategy at BGK,
- planned, targeted actions defined in the credit policy,
- internal regulations,
- available support systems and tools,
- recommendations and guidance for branches and other units of the Bank.

Credit risk management helps to identify, measure or estimate, monitor, report, and control the risk.

The Management Board of the Bank defines the credit policy taking into account the Bank's risk tolerance and Strategy, Risk Management Strategy of BGK, as well as the existing level of credit risk borne by the Bank, the structure of credit portfolio, the structure of legal collaterals, repayments of the transactions bearing credit risk, and external macroeconomic factors. Among other elements, the credit policy indicates the risk tolerance for the credit portfolio, credit purposes and recommendations, credit profile for individual customer and product segments, risk management process, and the related prudent practices.

Pursuant to applicable regulations, the Bank performs - at least once a year - stress tests of credit exposure sensitivity to changes in the exchange rates, interest rate and the value of the existing mortgage collaterals.

Credit risk management and control mainly involve setting risk limits which are acceptable with respect to individual sectors and industries, counterparty and product segments, as well as in monitoring exposures relevant to such limits.

Active management of the evaluation of credit quality ensures fast identification of possible changes in the counterparties' credit worthiness and regular reviews of collateral.

The limits for counterparties are determined e.g. using the level of exposure with respect to the counterparty and credit risk classification system which assigns a risk grade to every counterparty.

The risk grades are subject to regular reviews. The objective of the evaluation of credit quality is to assess potential loss resulting from the risk and to take remedial measures.

The Bank compiles regular reports on credit risk and risk concentration:

- a monthly report for the Bank's Management Board and Credit Committee, also made available to the Bank's Financial Committee,
- a quarterly report for the Bank's Management Board, Credit Committee and Risk Committee, and every six months also for the Bank's Supervisory Board, also made available to the Bank's Financial Committee,
- an annual report for the Bank's Management Board, Credit Committee and Risk Committee as well as for the Bank's Supervisory Board, also made available to the Bank's Financial Committee,

as well as a range of other reports and analyses related to the fields of operation exposed to credit risk.

Impairment

For accounting purposes the Bank recognises losses resulting from impaired financial assets using an impairment model. This means that the impairment may be recognised only when there is objective evidence that there have been events (impairment evidence) leading to impairment. Impairment evidence includes e.g.:

- granting of a concession by the Bank to counterparty, for economic or legal reasons relating to the counterparty's financial difficulty, that the Bank would not otherwise consider (restructuring of the loan agreement),
- significant financial difficulties of the counterparty,
- disappearance of an active market of a given credit exposure due to the counterparty's financial problems,
- micro- and macroparameters suggesting an identifiable decrease in future cash flows within a specific portfolio of credit exposures, despite the fact that it was not observed that the quality of individual items in the portfolio has deteriorated;
- termination of the agreement,
- questioning the balance-sheet credit exposure at court by the counterparty,
- Bank's motion for instigating enforcement proceedings against the counterparty,
- default on repayment of principal or interest exceeding 90 days.

Balance-sheet and off-balance-sheet credit exposures are regularly analysed to check for any evidence of impairment. If such evidence is identified, impairment needs to be calculated, and if impairment is identified, an impairment loss has to be recognised to account for the expected loss on the credit exposure due to the customer's failure to meet their obligation.

Impairment allowances are recognised for all balance-sheet credit exposures and portfolios of balance-sheet credit exposures which have been impaired.

There are three methods of impairment testing:

- individual testing – applied to exposures which are individually significant, for which an indication of impairment was identified,
- portfolio testing – applied to exposures which are individually insignificant with identified evidence of impairment,
- collective testing (IBNR) – applied to exposures for which no indication of impairment was identified, but it was determined that the occurrence of incurred but not reported losses is possible, as well as to exposure for which no impairment was identified based on individual testing.

The impairment loss on the carrying amount of credit exposure is the difference between the carrying amount of the exposure and the present value of estimated future cash flows from this exposure.

When determining the impairment loss amount using the individual approach, expected future cash flows are estimated for each credit exposure individually.

The Bank uses the scenario analysis to specify expected cash flows. The amounts of impairment are determined based on e.g. such data as the feasibility of the counterparty's business plan, the counterparty's ability to improve the results if its financial position is difficult, forecast proceeds, and expected payment in the case of bankruptcy, availability of other financial support, realisable value of the collateral and dates of expected cash flows.

Impairment allowances are measured as at the reporting date, unless they require more attention due to unexpected circumstances.

The impairment loss on credit exposures tested using the portfolio or IBNR approach equals the difference between the carrying amount of these exposures and the present value of estimated future cash flows estimated using statistical methods based on historical data on exposures in homogeneous portfolios. Impairment allowances for each portfolio are determined separately as at the reporting date.

Derivative financial instruments

In the case of derivatives, the Bank is exposed to the risk of default by the counterparty to a transaction related to a given derivative. In the case of customers other than banks, settlements are usually made in net amounts which protects the Bank against a potential settlement risk. In justified cases, the Banks applies additional collaterals in the form of margin deposits from customers in order to limit the risk.

Credit risk resulting from granted liabilities

The Bank offers their customers guarantees whereby the Bank may be obliged to make a payment on their behalf and enter into obligations to extend granted loans to satisfy their liquidity needs. Under the terms of letters of credit and guarantees (including standby letters of credit), the Bank is obliged to make payments on behalf of its customers in specific cases, usually related to imports and exports of goods. Such obligations expose the Bank to a risk similar to the risk related to loans which is mitigated by the same control processes and policies.

(in PLN thousand)

Analysis of the maximum exposure to credit risk, risk related to collaterals, and other elements improving the lending terms and conditions

The table below presents the maximum exposure to credit risk, broken down into financial assets classes.

Maximum exposure to credit risk excluding collaterals (by classes of financial instruments)	**31 Dec 2017**
Cash in Central Bank	**982,684**
Receivables from banks	**3,247,473**
Financial assets held for trading, including:	**1,342,070**
Measurement of derivative instruments	1,341,019
Debt instruments	1,051
Financial assets designated as at fair value through profit or loss at initial recognition	**130,233**
Available-for-sale investment securities	**37,061,252**
Debt instruments	35,699,238
Equity instruments	1,299,396
Other financial assets	62,618
Other assets	**1,113,349**
Loans and advances to customers, including:	**27,223,753**
financial sector	**261,546**
Loans	181,214
Debt securities	1
Other receivables	80,331
non-financial sector	**21,003,775**
Loans and advances, including:	15,618,989
- housing loans	4,184,606
- export loans	250,234
Purchased debt	121,062
Used guarantees and sureties	8,835
Debt securities	5,254,876
Other receivables	13
public sector	**5,958,432**
Loans	5,551,098
Debt securities	334,326
Purchased debt	73,008
Reverse repurchase agreements	**2,105,540**
Total	**73,206,354**

	31 Dec 2017
Maximum exposure to credit risk in connection with guarantees given by the Group	13,164,922

The amount and type of collateral depends on the evaluation of the credit risk related to an individual counterparty. The Bank follows specific guidelines on the acceptability and evaluation of each type of collateral.

Main types of collaterals:

- for securities lending and reverse repo – cash and securities;
- for commercial loans – collateral in the form of mortgages and registered pledges on movables.

The Bank monitors the market value of collateral for each lending transaction and, if necessary, it demands additional collateral in line with the master contract.

Pursuant to the adopted policy, the Bank tries to manage the seized collateral in an orderly manner. Any proceeds are used to reduce or repay overdue receivables. The Bank does not use seized collateral for business purposes.

The Bank manages the credit quality of assets using a whole range of methods to mitigate credit risk, including internal credit ratings. For several years the Bank has been using internal ratings with respect to local government units. In the years 2014 and 2015 the Bank introduced internal ratings with respect to enterprises, healthcare entities conducting full financial reporting, housing cooperatives and social housing associations.

Concentration of exposures from the perspective of geographical areas is monitored based on the regional division of branches. The Bank has regional branches in all province capitals.

Since the geographical concentration is limited and does not lead to an increased credit risk, so far the Bank has had no need to set geographical limits. However, the Bank sets industry limits.

(in PLN thousand)

47.2.1. Portfolio structure by region

Concentration of exposures from the perspective of geographical areas is monitored based on the regional division of branches. The Bank has regional branches in all province capitals.

Since the geographical concentration is limited and does not lead to an increased credit risk, so far the Bank has had no need to set geographical limits. However, the Bank sets industry limits.

47.2.2. Portfolio structure by industry

Concentration of exposures from the perspective of economy sectors is monitored on a daily basis pursuant to the internal procedures for the internal industry limits.

Concentration of exposures in national economy sectors (balance sheet exposure)* as at 31 December 2017		
Branch	**Amount exposure**	**Total share in exposure**
Public administration and defence, compulsory social security	6,037,173	19.4%
Construction	4,632,556	14.9%
Finance activities	879,644	2.8%
Professional, scientific, technical, and educational activities	295,563	1.0%
Mining and extraction	1,719,807	5.5%
Wholesale trade	304,121	1.0%
Hotels and restaurants	205,972	0.7%
Property management and administration	1,660,702	5.3%
Healthcare and social security	689,024	2.2%
Other services, sports, entertainment and recreation activities	99,867	0.3%
Other (natural persons, no Polish Classification of Activity (PKD) number)	870,151	2.8%
Industrial processing	2,694,027	8.7%
Transport, storage and communication	5,275,144	17.0%
Distribution of electricity, gas and water supply	5,746,422	18.4%
Total	**31,110,173**	**100.0%**

* the table accounts for the principal of loans and advances, purchased debts, promissory note discount, used guarantees given to customers, except banks

The Bank applies industry limits to mitigate the risk related to financing customers operating in selected industries with a high level of credit risk and to avoid excessive levels of industry concentration.

The portfolio is dominated by public administration due to BGK's close cooperation with the government and local governments. Another relatively large group of exposures is the transportation, storage, and communication industries as well as electricity, gas and water supply industry, mainly due to the fact that the Bank engages in funding ventures which are strategic from the point of view of the State Treasury, including in the sectors of energy, fuel and chemistry, and transport. Such ventures are implemented in the form of large investment projects.

(in PLN thousand)

47.2.3. Qualitative structure

The Bank uses tools and methods that support the monitoring of credit exposures and customers, help react swiftly if the quality of the portfolio or individual credit exposures deteriorate, and take remedial measures.

Financial assets other than past-due, without evidence of impairment, and their ratings*	
Loans and advances to customers	**31 Dec 2017**
with external rating	**4,909,397**
Rating 1	98,270
Rating 2	4,580,899
Rating 3	230,228
without external rating	**20,240,802**
with external rating – financial sector customers	**126,854**
Rating from 1 to 13	126,854
Rating from 14 to 17	0
Rating 18 and below	0
with external rating – non-financial sector customers	**17,271,320**
Rating from 1 to 13	16,897,908
Rating from 14 to 17	255,298
Rating 18 and below	118,114
with external rating – public sector customers	**5,428,592**
Rating from 1 to 13	5,220,673
Rating from 14 to 17	180,668
Rating 18 and below	27,251
without internal rating – financial, non-financial and public sector customers	**2,323,433**
Total	**25,150,199**

* the table accounts for loans and advances, purchased debts, promissory note discount, used guarantees given to customers in the financial, non-financial and public sectors

The Bank applies a master scale for the rating methods used for individual customer segments. Initially, the rating methods were applied to local government units, followed by the selection of groups of entities conducting full financial reporting, social housing associations and housing cooperatives.

Pursuant to the adopted policy, the Bank applies risk rating to the majority of credit exposures in the loan portfolio. This helps appropriately manage the existing risk and compare the credit risk with reference to various customer and product segments. Customers without internal ratings mainly comprise new transactions that finance investment ventures in the form of special purpose vehicles.

The rating system uses various financial analytical tools and processed market information to obtain major input data for measuring the risk related to an individual customer. The rating models are monitored and validated on an ongoing basis.

When determining and monitoring customers' credit risk, the Bank also used the ratings assigned to the customers by reputable rating agencies.

47.2.4. Concentration risk analysis

The risk of concentration of exposure is the risk resulting from exposure with respect to individual entity or entities with capital and organisational links, entities operating in the same industry, economy sector, entities operating in the same geographical region, using the same type of collateral or collateral offered by the same provider, in the same currency, with respect to the entities referred to in Article 79.1 of the Banking Law, which may have a material impact on the stability and security of the Bank's operations in case of default by such individual entity, by entities with capital and organisational links or by groups of entities where the default probability of default depends on shared factors.

The Bank controls the credit risk exposure level:

- jointly and by own activities as well as related to the service of funds created, entrusted or transferred under separate laws,
- for exposure concentration to one entity and/or entities associated by capital or management,
- for large exposures,
- in relation to individual industries,
- separately under mortgage-backed exposures,
- in relation to selected segments and products,
- under currency or currency-indexed transactions,
- under off-balance-sheet liabilities granted by the Bank (guarantees, sureties, and letters of credit).

(in PLN thousand)

The Bank applies regulatory concentration limits resulting from the CRR, Banking Law and specific regulations included in the Act on BGK. These limits are additionally reduced by the resolution of the Bank's Management Board on the maximum level of exposure to an individual customer or group of related customers as at the time of making a funding decision.

Utilisation of the concentration limit is assessed on a daily basis. The Bank's adopted safe level of exposure to a group of related entities and to a single customer was not exceeded as at the end of 2017.

Bank's exposure to the 20 largest non-bank customers as at 31 December 2017		
No.	**Exposure***	**Share in the loan portfolio**
1.	3,059,999	5.2%
2.	2,955,458	5.0%
3.	2,220,566	3.8%
4.	2,028,662	3.4%
5.	1,734,900	2.9%
6.	1,720,243	2.9%
7.	1,694,005	2.9%
8.	1,588,740	2.7%
9.	973,383	1.6%
10.	860,001	1.5%
11.	834,847	1.4%
12.	675,859	1.1%
13.	668,308	1.1%
14.	563,335	1.0%
15.	557,987	0.9%
16.	532,607	0.9%
17.	475,456	0.8%
18.	472,037	0.8%
19.	409,742	0.7%
20.	406,100	0.7%
Total	**24,432,235**	**41.3%**

* includes balance-sheet and off-balance-sheet credit exposure: loans, advances, purchased debts, promissory note discount, used guarantees, debt securities available for sale, and derivative transaction limits.

The amount of exposure is calculated for the purposes of external limits (concentration limits) without deductions.

Bank's exposure to five largest non-bank groups as at 31 December 2017		
No.	**Exposure***	**Share in the loan portfolio**
1.	3,654,448	6.2%
2.	3,605,944	6.1%
3.	3,230,353	5.5%
4.	2,741,450	4.6%
5.	2,220,566	3.8%
Total	**15,452,761**	**26.2%**

* includes balance-sheet and off-balance-sheet credit exposure: loans, advances, purchased debts, promissory note discount, used guarantees, debt securities available for sale, and derivative transaction limits.

The amount of exposure is calculated for the purposes of external limits (concentration limits) without deductions.

Credit risk concentration by currency as at 31 December 2017	
PLN	81.0%
Foreign currencies, including:	19.0%
- EUR	13.0%
- USD	5.0%
- CHF	0.1%
- other	0.9%
Total	**100.0%**

(in PLN thousand)

47.2.5. Collaterals and other forms of credit risk mitigation

The main instrument used to reduce the credit risk is legal protection of the Bank's receivables. The Bank applies an internal procedure for the establishment and evaluation of legal collaterals for receivables as at the conclusion of the transactions bearing credit risk and for monitoring the collateral during the transaction's life.

The Bank uses the following instruments and methods to limit or reduce the credit risk to acceptable levels:
- risk diversification,
- risk protection,
- risk sharing,
- risk compensation.

To mitigate the credit risk, when calculating the risk-weighted exposures in the Bank's portfolio, the Bank accounts for the credit protection, in line with the internal procedures on legal securities of the Bank's receivables.

The basis for calculating the recoverable amount of collaterals is the measurement value verified by the Bank using the indicators adjusting the value of collaterals. In the case of unfunded credit protection, the economic and financial standing of the collateral issuer is in addition examined. Moreover, the fulfilment of formal and legal conditions for collateral acceptance is verified each time, as well as whether it is funded and liquid, and also its correlation to the economic and financial standing of the debtor.

The Bank monitors the legal collaterals of lending transactions on a periodical basis.

Collaterals and other forms of credit risk mitigation as at 31 December 2017	Fair value of collateral
Mortgages	37,922,037
Pledges	2,172,003
Guarantees and sureties, including:	7,094,902
- bank guarantees	196,854
- government guarantees	5,090,479
- other guarantees and sureties	1,807,569
Cash deposits	713,349
Other	3,549,071

Credit exposures are most often secured (at fair value) by mortgages, guarantees and sureties. The maximum risk reduction is guaranteed for credit exposures hedged by guarantees provided by the State Treasury and local government units. Primarily, local government units offer sureties for exposures of affiliated Social Housing Associations, hospitals, and municipal companies.

47.2.6. Forbearance practices

The Bank applies the definition of restructured exposure understood as credit exposure which has been addressed with restructuring measures. The restructuring measures comprise facilities offered by the Bank to the borrower who experiences or will soon begin to experience difficulties with repayment of financial liabilities (financial distress).

Restructuring measures comprise the following:
- change in the terms and conditions of a contract underlying the credit exposure which has been classified as default before the change or which would have been classified as default, if it had not been changed,
- change in the terms and conditions of a contract underlying the credit exposure consisting in a full or partial write-off on the exposure,
- Bank's approval for the use of embedded restructuring clauses by a customer default or who would have been considered at default if such clauses had not been applied,
- repayment of the principal amount or interest on another credit exposure at the Bank by the customer, if the exposure was as default at the time or around the time when the Bank applied the facility in the form of additional funding or would have been classified as default if the facility had not been applied,
- change leading to payments resulting from of utilisation of the collateral, if such change qualify as a facility.

(in PLN thousand)

It is considered that the exposures are no longer foreborn, if all the conditions presented below have been met:

- a credit exposure is no longer considered as default when it has been removed from the default category of exposures,
- following an analysis of the financial condition of the borrower which revealed that the contract no longer qualifies as at-risk,
- after at least two-year follow-up period (24 months) of the date when the restructured exposure was classified as non-default (24 months),
- regular payments of interest and principal amount were made for at least 12 out of 24 months of the follow-up period,
- as at the end of the quarantine period, none of the exposures with respect to the borrower was overdue by more than 30 days.

Forbearance exposures – share in the loan portfolio of the Bank as at 31 December 2017	**Carrying amount**
Loans and advances to customers (gross), including:	27,981,956
- forborne exposures:	806,756
- non-financial sector	703,299
- public sector	103,457
Impairment allowances on loans and advances - forborne exposures:	171,991
Loans and advances to customers (net) – forborne exposures	**634,765**

Forborne loans and advances to customers as at 31 December 2017	**Exposure by gross carrying amount**	**Collateral value**
Impaired loans and advances	419,089	1,426,235
Non-impaired loans and advances	387,667	1,338,011
- current	376,228	1,273,057
- overdue	11,439	64,954
Total gross	**806,756**	**2,764,246**

47.2.7. Ageing structure of financial assets

Ageing structure of financial assets (no impairment)	**Delinquency structure of financial assets without evidence of impairment as at 31 December 2017**			
	up to 1 month	**over 1 month to 3 months**	**over 3 months**	**Total**
Loans and advances to customers (gross), including:	**21,004**	**8,375**	**0**	**29,379**
non-financial sector	**7,255**	**8,375**	**0**	**15,630**
loans and advances, including:	6,869	8,375	0	**15,244**
- housing loans	2,999	8,375	0	**11,374**
used guarantees and sureties	386	0	0	**386**
public sector	**13,749**	**0**	**0**	**13,749**
loans	12,739	0	0	**12,739**
purchased debt	1,010	0	0	**1,010**
Total	**21,004**	**8,375**	**0**	**29,379**

47.2.8. Financial assets measured individually, with individual impairment recognised at gross carrying amount

The Bank considers the following factors when determining impairment allowances on financial assets measured individually:

- delinquency period,
- loan acceleration,
- enforcement proceedings instigated against the debtor,
- debtor's declaration of bankruptcy or bankruptcy petition filed,
- debt questioned by the debtor,
- reorganisation proceedings instigated against the debtor,
- receivership over the debtor's activities or suspension of its activities,
- deterioration of the debtor's credit rating to the level indicating significant risk of default,
- debt restructuring or relief,
- expected cash flows from exposure and collaterals,
- future business and financial condition of the customer,
- projection performance by the customer.

(in PLN thousand)

Ageing structure of impaired financial assets tested individually	**Delinquency structure of financial assets tested individually as at 31 December 2017**			
	up to 1 month	**over 1 month to 3 months**	**over 3 months**	**Total**
Loans and advances to customers (gross), including:	**30,083**	**0**	**142,741**	**172,824**
non-financial sector	**30,083**	**0**	**142,741**	**172,824**
loans and advances, including:	30,083	0	142,741	172,824
- housing loans	0	0	101,561	101,561
- export loans	0	0	1,500	1,500
Total	**30,083**	**0**	**142,741**	**172,824**

Impairment of credit exposures

The Group regularly reviews credit exposures to identify credit exposures with impairment risk, measure impairment of credit exposure and recognise impairment allowances or provisions.

The process of recognising impairment allowances and provisions comprises the following stages:

- identifying evidence of impairment and impairment triggers,
- registering impairment triggers for credit exposures in IT systems of the Bank,
- determining the method of impairment measurement,
- measuring impairment and determining the impairment allowances or provision amount,
- reviewing and aggregating results of impairment measurement,
- reporting results of impairment measurement.

The method of determining amount of impairment allowances depends on the type of impairment objective evidence and an individual size of the credit exposure.

Individual impairment triggers include in particular:

- delinquency period of 3 months of more,
- significant deterioration of the customer’s financial condition,
- conclusion of a debt restructuring agreement or debt relief (evidence is recognised if these actions were required for business and legal reasons resulting from financial difficulties of the client).

When determining the delinquency period, the Bank accounts for overdue interest and principal amounts in excess of thresholds determined.

Impairment testing methods

The Group uses three methods of impairment testing:

- individual testing – applied to loans which are individually significant, for which an indication of impairment was identified,
- portfolio testing – applied to loans which are individually insignificant with identified evidence of impairment,
- collective testing (IBNR) – applied to loans for which no indication of impairment was identified, but it was determined that the occurrence of incurred but not reported losses is possible, as well as to exposure for which no impairment was identified based on individual testing.

Impairment loss on the carrying amount of credit exposure is the difference between the carrying amount of the exposure and the present value of estimated future cash flows from this exposure.

When determining the impairment loss amount using the individual approach, expected future cash flows are estimated for each credit exposure individually.

Impairment loss on credit exposures tested on a portfolio or collective basis is equal to the difference between the carrying amount of these exposures and the present value of estimated future cash flows estimated using statistical methods based on historical data on exposures in homogeneous portfolios.

Off-balance-sheet provisions

Provisions for off-balance-sheet credit exposures are determined as the difference between the expected value of the balance sheet exposure resulting from the off-balance-sheet liability granted (from the test date to the date of overdue debt constituting the objective evidence of impairment of individually significant exposures) and the present value of future cash flows from the balance sheet exposure resulting from the off-balance-sheet liability.

When determining the provision amount using the individual approach, expected future cash flows are estimated for each credit exposure individually.

The Bank test the provision on a portfolio or collective basis using portfolio parameters estimated with statistical methods, based on historical data on exposures of the same nature.

48. Liquidity risk management

Liquidity risk is a defined threat of losing the ability to pay liabilities in a timely manner as a result of unfavourable changes in assets and liabilities and equity, off-balance-sheet transactions, improper timing of current cash flows, and possible losses resulting from the foregoing.

The Group applies liquidity risk management procedures which define how the risk is monitored and managed. Liquidity risk exposure occurs mainly in the Bank, while in other Group entities such risk is assessed as immaterial. Still, these entities are also obliged to manage the liquidity risk and prepare regular reports on liquidity risk.

Liquidity risk management aims to:

- ensure and maintain the Bank's ability to meet obligations related to both current and planned future liabilities, including costs of liquidity and return on equity,
- prevent stress conditions,
- define solutions which will enable the Bank to survive a potential crisis (contingency planning).

The adopted Bank's liquidity risk measurement system includes the following methods:

- liquidity ratios, liquidity gap analysis, fund stability analyses, daily monitoring of the deposit base,
- stress tests covering scenario analyses, sensitivity analyses, and reversed tests.

In order to reduce risk and secure liquidity, the Bank applies the following measures:

- transactions on the money market, including deposit transactions, reverse repo, repo, NBP money market bills, Treasury bills, bonds, and other instruments,
- maintaining a portfolio of liquid securities,
- daily monitoring of the money balance and ensuring financing possibilities from the NBP,
- financing lines securing liquidity of the Bank,
- own bond issuances and deposit level management to optimise the structure of the sources of funding,
- emergency plans in case of emergency situations of reduced or endangered liquidity.

Additionally, in accordance with Article 3.3 of the Act on Bank Gospodarstwa Krajowego, the minister competent for public finance provides funds to meet liquidity standards.

A system of limits is an important liquidity risk management tool at BGK. The liquidity risk limits and thresholds are applied to appropriate liquidity ratios.

The risk monitoring process involves a cyclical review of the values of limited parameters and analysis of the limit usage. Additionally, the Bank analyzes the impact of a possible increase in security deposits on liquidity levels.

The Bank prepares current reports on liquidity risk presenting utilisation of regulatory liquidity limits and internal liquidity limits, balance of deposit at the Bank, external funds stability analysis, results of stress tests, and periodic simulations of liquidity measures and long-term liquidity analysis. Periodic reports also cover information on subsidiaries.

In 2018, supervisory liquidity measurements defined in the PFSA's resolution No. 386/2008 of 17 December 2008 on defining liquidity norms binding for banks (Official Journal of the PFSA No. 8, item 40, as amended) and in Commission Delegated Regulation No. 2015/61 (EU) 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, 17.01.2015, p. 1) and internal liquidity standards were not breached.

(in PLN thousand)

Supervisory liquidity measures are presented in the table below.

Item	Limit	Including cash flow funds		Additional information – excluding cash flow funds	
		31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
M1 – short-term liquidity gap	0,00*	n/a	17,524,409	n/a	16,468,759
M2 – short-term liquidity ratio	1,00*	n/a	1.58	n/a	1.66
M3 – own funds to non-liquid assets	1.00	2.55	5.38	2.54	5.38
M4 – own funds and stable external funds to non-liquid and limited-liquidity assets	1.00	1.27	1.27	1.56	1.70
LCR—liquidity coverage ratio)**	100%***	241%	207%	310%	272%

* In accordance with Article 94 sec. 2 of the Act on Macro-Prudential Supervision, the short-term liquidity standards applied until the commencement of application of the 100% LCR standard.

** The indicators are specified individually due to the lack of need to carry out prudential consolidation in line with the CRR.

*** the limit applicable as at 31 December 2017 was 80%, while as at 31 December 2018 it was 100%.

The change in the liquidity measures was mainly driven by the fact that long-term funding sources grew slower than the Bank's lending operations and equity investments.

The Bank's market-based liquidity gap is presented below. Key realigned items include deposits (based on estimated residue deposits), liquid securities (recognised in amounts recoverable in individual periods), and off-balance-sheet liabilities granted in the form of financing and guarantees (estimated amounts and schedules).

The Group's market-based liquidity gap							
		up to 1 m	1 m - 3 m	3 m - 6 m	6 months to 1 year	1 – 5 years	more than 5 years
31 Dec 2018	Gap	26,306,938	-4,062,053	-2,439,211	-2,845,753	-25,086,191	-3,007,088
	Aggregate gap	**26,306,938**	**22,244,885**	**19,805,674**	**16,959,921**	**-8,126,270**	**-11,133,358**
31 Dec 2017	Gap	19,560,005	-148,111	-949,932	-490,023	-10,106,095	-15,850,246
	Aggregate gap	**19,560,005**	**19,411,894**	**18,461,962**	**17,971,939**	**7,865,844**	**-7,984,402**

The Bank has diversified sources of funding, including deposits from customers, funds from issues of own bonds, and loans granted by international financial institutions.

Liabilities structure by contractual maturity is presented below. The amounts include cash flows from the principal amount and interest (if applicable) for the entire financing period. For off-balance-sheet liabilities, exposures are presented by contractual maturity.

Liabilities of the Group as at 31 December 2018								
		up to 1 m	1 m - 3 m	3 m - 6 m	6 months to 1 year	1 – 5 years	more than 5 years	Total
Balance sheet liabilities	Liabilities to banks	2,763,996	117,229	143,431	246,360	1,792,908	933,721	**5,997,645**
	Liabilities to customers	44,796 813	4,889,134	1,180,331	342,724	4,353	0	**51,213 355**
	Own issues*	5,090	1,419,393	24,157	1,056,157	3,424,472	573	**5,929,842**
	Total	**47,565 899**	**6,425,756**	**1,347,919**	**1,645,241**	**5,221,733**	**934,294**	**63,140 842**
Off-balance-sheet liabilities	Financing commitments	31 311,354	159,159	757,062	784,055	2,854,561	3,838,568	**39 704,759**
	Guarantee liabilities	3,915,744	1,149,438	132,965	2,743,492	5,079,552	1,619,217	**14,640,408**
	Total	**35 227,098**	**1,308,597**	**890,027**	**3,527,547**	**7,934,113**	**5,457,785**	**54,345,167**

* issues purchased before the maturity date following the reporting date are presented by their early purchase dates

(in PLN thousand)

Liabilities of the Group as at 31 December 2017		up to 1 m	1 m - 3 m	3 m - 6 m	6 months to 1 year	1 – 5 years	more than 5 years	Total
Balance sheet liabilities	Liabilities to banks	2,241,389	85,345	116,324	194,879	1,826,246	1,034,631	**5,498,814**
	Liabilities to customers	34,519,858	2,398,191	985,376	215,610	3,028	0	**38,122,063**
	Own issues	1,011,400	32,768	24,401	66,437	5,429,380	3,705	**6,568,091**
	Total	**37,772,647**	**2,516,304**	**1,126,101**	**476,926**	**7,258,654**	**1,038,336**	**50,188,968**
Off-balance-sheet liabilities	Financing commitments	31,496,291	78,108	653,320	774,683	3,037,684	2,363,358	**38,403,444**
	Guarantee liabilities	1,255,443	735,398	264,953	862,662	9,975,382	1,457,592	**14,551,430**
	Total	**32,751,734**	**813,506**	**918,273**	**1,637,345**	**13,013,066**	**3,820,950**	**52,954,874**

Cash flows from derivative financial instruments

Derivative financial instruments used by the Bank include IRSs, FRAs, FX Swaps, FX Forwards, CIRSs and options.

Undiscounted cash flows under derivative contracts as at 31 December 2018 and 31 December 2017 are presented below.

Cash flows from derivative financial instruments		up to 1 m	1 m - 3 m	3 m - 6 m	6 months to 1 year	1 – 5 years	more than 5 years	Total
31 Dec 2018	Inflows	12,557,181	2,959,686	465,746	4,228,311	10,282,443	17,855,142	**48,348,509**
	Outflows	-12,543,314	-2,965,365	-629,928	-4,647,008	-10,275,885	-17,857,498	**-48,918,998**
31 Dec 2017	Inflows	4,666,946	656,218	327,715	522,965	12,749,676	17,214,717	**36,138,237**
	Outflows	-4,605,972	-665,381	-327,179	-515,188	-12,737,547	-17,218,642	**-36,069,909**

49. Market risk

Market risk is defined as a threat of possible deterioration in the value of the Bank's financial instruments portfolio or Bank's financial result as a consequence of unfavourable changes in market parameters (exchange rates, interest rates, prices of debt instruments and capital instruments).

The Bank applies market risk management procedures which define how specific risk types are monitored and managed. Market risk in the operations of other entities of the Group is regarded as insignificant.

The management of specific market risk types focuses on:
- for interest rate risk (including the price risk of debt securities) — reducing the risk of losing a part of the interest income as a result of a change in market interest rates and the risk of an unfavourable change in the market value of the interest-bearing financial instruments held by the Bank,
- for currency risk – reducing the risk of losses as a result of changes in market exchange rates,
- for the equity price risk – reducing the risk of losses as a result of changes in equity prices.

Market risk assessment in BGK is based on the following approaches:
- measure of position volumes,
- sensitivity analysis (basis point value – BPV, duration, net interest income sensitivity to changes in interest rates, sensitivity of economic value),
- value at risk (VaR),
- stress tests.

(in PLN thousand)

An important element of market risk management is the system of limits applicable at the Bank. The following limits are used:
- for interest rate risk—limit of sensitivity measures (BPV for banking and trading book, interest income risk for the banking book), and loss limits,
- for foreign exchange risk—limits of the Bank's total position volume, limits of trading book positions, and loss limits.

Risk monitoring process involves, *inter alia*, cyclical review of risk measure levels and analysis of the limit usage.

Market risk reports cover in particular:
- interest rate risk: utilisation of internal interest rate risk limits, BPV, modified duration, VAR, gain/loss on interest rate changes, interest rate gap in individual repricing periods, sensitivity of interest income, sensitivity of the economic value, stress test results,
- foreign exchange risk: utilisation of internal foreign exchange risk limits, open foreign exchange positions, VaR, gain/loss on foreign exchange changes, stress test results,
- equity price risk: value of equity securities portfolio, VaR.

Key market risk measures have been presented below. The measures do not include cash flow funds. VaR is calculated for the assumed 99% confidence level and a one-year period. The model is back-tested by comparing the sensitivity values against remeasurement and actual results. The Bank also analyses the impact of worst-case scenarios on the change in revaluation reserve on debt securities.

Selected market risk measures of the Bank		31 Dec 2018	31 Dec 2017
Interest rate risk			
BPV	banking book	-1,382	-1,465
	trading book	-13	8
Interest income sensitivity to changes in interest rates by:	-2 p.p.	-152,901	-189,869
	+2 p.p.	142,995	179,414
Sensitivity of securities in the banking book to interest rate change by:	-2 p.p.	374,890	361,974
	+2 p.p.	-374,890	-361,974
Foreign exchange risk			
Total foreign currency position		85,319	131,056
Sensitivity of securities at FVTOCI to interest rate change by 20%		-274,922	-384,375

* results for AFS in 2017

VaR for market risk of the Bank	Date	As at	Average value*	Minimum value*	Maximum value*
VaR 1D – interest rate risk	31 Dec 2018	5,585	6,162	4,231	8,014
	31 Dec 2017	5,346	3,929	2,020	8,860
VaR 1D – foreign exchange risk	31 Dec 2018	922	827	461	1,123
	31 Dec 2017	700	1,831	700	2,861
VaR 1D – equity price risk	31 Dec 2018	46,849	40,913	36,594	49,749
	31 Dec 2017	37,728	37,053	30,706	47,994

* Average, minimum and maximum value in the reporting period ending at the date specified.

(in PLN thousand)

Repricing gap for the Bank		up to 1 m	1 m - 3 m	3 m - 6 m	6 months to 1 year	1 – 5 years	more than 5 years	Total
31 Dec 2018	Gap	5,817,541	-2,986,796	8,498,151	4,910,156	2,484,921	51,971	**18,775,944**
	Aggregate gap	**5,817,541**	**2,830,745**	**11,328,896**	**16,239,052**	**18,723,973**	**18,775,944**	
31 Dec 2017	Gap	4,409,181	2,753,373	5,876,080	119,839	7,195,461	-59,455	**20,294,479**
	Aggregate gap	**4,409,181**	**7,162,554**	**13,038,634**	**13,158,473**	**20,353,934**	**20,294,479**	

49.1. Currency structure

Currency structure of assets	Currency translation to PLN as at 31 December 2018					
	PLN	EUR	USD	CHF	Other	Total
Cash and balances with the Central Bank	16,664,538	4,242	50	34	31	**16,668,895**
Receivables from banks	2,411,698	5,097,111	782,009	1,703	72,447	**8,364,968**
Financial assets held for trading	966,534	8,295	3,013	0	1,638	**979,480**
Financial assets at fair value through profit or loss	119,833	620,308	0	0	0	**740,141**
Financial assets at fair value through other comprehensive income	14,447,733	1,061,908	324,566	0	27,772	**15,861,979**
Loans and advances to customers	21,389,706	2,960,149	1,306,056	33,561	249,309	**25,938,781**
Debt instruments at amortised cost	5,354,140	1,289,133	238,497	0	0	**6,881,770**
Reverse repurchase agreements	3,874,660	0	0	0	0	**3,874,660**
Investments in associates	3,824,789	58,775	0	0	0	**3,883,564**
Intangible assets	49,082	0	0	0	0	**49,082**
Property, plant and equipment	138,869	0	0	0	0	**138,869**
Investment property	1,178,986	0	0	0	0	**1,178,986**
Current tax receivables	103	0	0	0	0	**103**
Deferred tax assets	125,712	0	0	0	0	**125,712**
Other assets	84,503	763	9	1	0	**85,276**
Total assets	**70,630,886**	**11,100,684**	**2,654,200**	**35,299**	**351,197**	**84,772,266**

Currency structure of liabilities	Currency translation to PLN as at 31 December 2018					
	PLN	EUR	USD	CHF	Other	Total
Liabilities to banks	2,806,762	836,424	211,119	0	24,916	**3,879,221**
Financial liabilities held for trading	1,566,762	6,962	2,691	0	580	**1,576,995**
Liabilities to customers	43,466,411	3,922,567	198,085	5,254	44,981	**47,637,298**
Liabilities due to repurchase agreements	5,109,170	0	104,881	0	0	**5,214,051**
Debt securities issued	5,787,209	0	0	0	0	**5,787,209**
Other liabilities	998,041	2,856	797	0	128	**1,001,822**
Current tax liabilities	30,516	0	0	0	0	**30,516**
Deferred tax liabilities	13,278	0	0	0	0	**13,278**
Provisions	379,690	11,532	3,303	8	3,668	**398,201**
Total liabilities	**60,157,839**	**4,780,341**	**520,876**	**5,262**	**74,273**	**65,538,591**
Equity						**19,233,675**
Total liabilities and equity	**60,157,839**	**4,780,341**	**520,876**	**5,262**	**74,273**	**84,772,266**

(in PLN thousand)

Currency structure of assets	Currency translation to PLN as at 31 December 2017					
	PLN	EUR	USD	CHF	Other	Total
Cash and balances with the Central Bank	712,161	9,217	427	174	266,602	**988,581**
Receivables from banks	1,106,908	1,703,384	282,213	1,273	153,695	**3,247,473**
Financial assets held for trading	979,024	13,044	2,889	0	347,113	**1,342,070**
Financial assets at fair value through profit or loss	43,829	86,404	0	0	0	**130,233**
Loans and advances to customers	22,040,608	3,546,138	1,357,196	34,645	245,166	**27,223,753**
Reverse repurchase agreements	2,105,540	0	0	0	0	**2,105,540**
Available-for-sale financial assets	35,034,629	1,769,734	224,260	0	32,629	**37,061,252**
Investments in associates	1,045,661	20,544	0	0	0	**1,066,205**
Intangible assets	43,176	0	0	0	0	**43,176**
Property, plant and equipment	143,974	0	0	0	0	**143,974**
Investment property	834,428	0	0	0	0	**834,428**
Current tax receivables	1	0	0	0	0	**1**
Deferred tax assets	80,185	0	0	0	0	**80,185**
Other assets	45,421	1,718	4	1	0	**47,144**
Total assets	**64,215,545**	**7,150,183**	**1,866,989**	**36,093**	**1,045,205**	**74,314,015**

Currency structure of liabilities	Currency translation to PLN as at 31 December 2017					
	PLN	EUR	USD	CHF	Other	Total
Liabilities to banks	2,574,570	728,806	196,742	0	94,022	**3,594,140**
Financial liabilities held for trading	1,270,594	12,870	1,154	0	0	**1,284,618**
Liabilities to customers	30,477,709	3,122,226	70,655	4,611	17,119	**33,692,320**
Liabilities due to repurchase agreements	5,781,829	1,573,212	218,779	0	0	**7,573,820**
Debt securities issued	6,299,315	0	0	0	0	**6,299,315**
Other liabilities	889,089	532,291	310	0	88	**1,421,778**
Current tax liabilities	70,136	0	0	0	0	**70,136**
Deferred tax liabilities	7,090	0	0	0	0	**7,090**
Provisions	260,401	17,537	10,163	8	1,655	**289,764**
Total liabilities	**47,630,733**	**5,986,942**	**497,803**	**4,619**	**112,884**	**54,232,981**
Equity						**20,081,034**
Total liabilities and equity	**47,630,733**	**5,986,942**	**497,803**	**4,619**	**112,884**	**74,314,015**

50. Operating risk

The operating risk is defined as the risk of losses the Bank can incur as a result of misalignment or unreliability of internal processes, people, or systems or as a result of external events. This definition includes legal risk but excludes reputational risk understood as the risk of negative perception of the Bank's brand and strategic risk, defined as the risk related to disadvantageous or wrong strategic decisions, inadequate strategy implementation or a failure to carry out such strategy and changes in the external environment and inappropriate relation to such developments, although it applies to the relevant control processes.

Operational risk is inherent in all major areas of the Bank's operations, including any new, existing and modified products, processes and systems, and it takes into account of internal factors (such as the organisational structure, business profile, IT systems used, client profile, client complaints, HR quality, organisational changes and employee turnover) and external factors (external environment of the Bank).

The Bank manages operational risk through:
- the function of Operational Risk Coordinator;
- a process-based approach to the assessment of business lines, products with significant risk and risk generated by Regional Units and organisational units of the Bank's head office,
- operational risk ratios.

The operating risk management process covers all Regional Units and organisational units of the Bank's head office and subsidiaries supervised by relevant organisational units of the Bank's head office in line with the Head Office Organisational Regulations and their respective responsibilities.

The Bank follows operational risk management principles developed by appropriate organisational units or their designated employees.

Operational risk coordinators draw up reports with the assessment of processes, internal risk and KRIs for individual subsidiaries.

Operational risk is identified by collecting information on operational risk data sources, which can be either: internal (including operational events, incidents reported, customer complaints, surveys); or external (operational risk events databases of the Polish Banks Association and external analysis).

Potential risk is determined based on self-assessed of: internal risk generated by organisational units of the head office / Bank Regional Units and subsidiaries, processes in active business lines of the Bank and products with significant operational risk.

Actual risks are assessed using operational risk ratios and limits and through the analysis of operational events, including estimations of the probability of loss entailing the need to recognise provisions for future losses.

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.

The Bank regularly monitors the level of operational risk and efficiency as well as timeliness of activities aimed at reducing or transferring operational risk.

Information on operational risk for the Bank and its subsidiaries is reported on a regular basis.

To reduce the impact of operational events, the Bank applies risk mitigants and implements various kinds of preventive actions, such as:
- training for employees,
- BCP emergency plans,
- Risk transfer, including outsourcing and insurance coverage,
- other safeguards (legal, organisational and technical).

51. Other risks

51.1. Compliance risk management

Compliance risk includes the risk of negative effects resulting from non-compliance with the provisions of applicable law, internal regulations or market standards in the processes of the Bank or subordinates.

Compliance risk management includes risk identification, measurement, assessment, monitoring, and reporting and is carried out in line with written policies and procedures determining the code of conduct of the Bank and supporting compliance risk management in the subordinates. All subordinates follow uniform compliance risk principles developed by relevant organisational units of those subordinates.

The Bank's unit responsible for coordination of the compliance risk management process is the compliance unit which develops and implements compliance risk management principles and methods for investigation procedures and compliance tests. To reduce the compliance risk, a compliance risk coordinator was appointed in the Bank's organisational units and subsidiaries that supports the Compliance Unit.

Reporting information on compliance risk concerning the Bank and its subsidiaries is carried out on a regular basis.

51.2. Reputational risk management

Reputational risk is defined as the risk of negative perception of the Bank by its clients, counterparties, supervisors, regulators, opinion-makers, government institutions, public benefit organisations, associations, foundations and public opinion, which can adversely affect the performance of the Bank.

Reputational risk is managed to protect the Bank's brand image and reduce losses resulting from any damage to the Bank's reputation and the probability of occurrence of such a risk.

Reputational risk is managed through classification of reputational risk events with ex ante and ex post risk assessment carried out.

Reporting information on reputational risk covers the Bank and its subsidiaries and is carried out on a regular basis as part of compliance risk reporting.

51.3. Business risk management

Business risk is defined as the risk of failure to achieve key business goals, in particular financial result, due to changes in economic, social, legal, business and market environment or failure to achieve the business and social goals implemented by the Bank as part of missions and tasks defined by the owner. Business risk involves strategic risk.

The objective of business risk management is to mitigate a negative financial impact of adverse changes in business environment, inappropriate decisions, inadequate implementation of decisions or inadequate response to changes in the business environment.

Business risk measurement

Business risk identification consists in identifying and determining actual and potential risks related to the existing and planned activities of the Bank which can considerably affect its financial condition, originate or change its revenue and expenses. Business risk is identified based on the analysis of selected revenue and cost items of the statement of profit or loss and significant interest-bearing balance sheet and off-balance-sheet items. Business risk as regards financial result is carried out by the Bank through a prospective assessment of business risk to the implementation of the Bank's Strategy and the schedule of works for the next year, as well as through the analysis of deviations from the Bank's Strategy and the schedule of works of the Bank, including trends in the implementation of main items and expected results in the periods to follow. Key parameters of the schedule of works and expenditures of the Bank which are assessed and analysed include key items of statement of financial position, profitability, portfolio quality, margin, and solvency ratio.

The Bank, as part of periodical reporting process, in the event of occurrence of business risk factors resulting in failure to meet the Bank's annual net profit target of more than PLN 25 million, such factors are subject to an in-depth analysis and clarification. A report summarising a given financial year discusses key risks, risk mitigants and recommendations. These elements are also examined in the process of drawing up the schedule of works and expenditures for the year to follow.

Along with updating the Strategy, the Bank analyses Strategy performance and deviations from the financial projections. Performance of business and financial goals is assessed together with changes in the macroeconomic environment.

As part of risk management process, the Bank carries out stress tests based on the schedule of works and expenditures of the Bank and its Strategy to determine the impact of the assumptions made on the risk measures, in particular capital adequacy and liquidity ratios. Stress testing of risk measures is carried out in line with the applicable risk management principles.

Projecting and monitoring business risk

Business risk is monitored by way of a monthly analysis of the Bank's performance, a semi-annual profitability analysis of selected bank products presented at the BFC that includes a detailed list of product profitability factors, such as interest margin, net fee and commission income and liquidity margin as well as factors related to covering estimated cost of risk and operating expenses. The annual review is carried out for regulatory risk, market risk and business risk.

Apart from preparing annual and long-term plans in the process of the Bank's Strategy review, when the Management Board of the Bank is presented with key factors affecting the Bank's performance and financial condition and key risks for the schedule of works and expenditures, which are tantamount to its business risks, the Bank regularly reviews its performance and balance sheet projections. The projections are aimed at assessing the probability of meeting the objectives determined in the schedule and include action plans supporting achievement of such business and financial goals.

Business risk reporting

Business risk reports are prepared on a monthly, quarterly and annual basis. Monthly and quarterly reports cover key indicators of the Bank, statement of financial position, deposit, credit and performance data. Quarterly reports also contain information on the results of companies from the BGK Group. The annual report is prepared for the Management Board, Risk Committee, Audit Committee, and Supervisory Board. The report presents performance details of the schedule of works and expenditures, Strategy of the Bank and also contains information on the factors of risk from the business environment, such as macroeconomic risk factors, changes in legal regulations for banking activity, as well as market trends and changes in the banking sector, along with the domain of offered services and banking technologies.

51.4. Business risk reporting

Macroeconomic risk is defined as the risk of changes in macroeconomic environment, which may adversely affect the Group and minimum capital requirements in the future.

The objective of macroeconomic risk management is to identify macroeconomic factors that significantly affect the operations of the Group and to reduce the adverse impact of such macroeconomic changes on the financial condition of the Group.

Macroeconomic risk management process involves identifying those macroeconomic factors that significantly affect the operations of the Group and determining potential scenarios for individual factors.

When designing the Bank's Strategy, Schedule of works and expenditures, the Credit Policy, and other documents important for the activities of the Group, the Bank takes into account its macroeconomic environment and potential changes therein.

Macroeconomic risk is measured based on stress tests of macroeconomic factors (interest rates, exchange rates, changes in real estate prices, changes of prices of selected assets on goods markets, e.g. changes in energy commodity prices), and aggregate stress tests of capital adequacy analyzing the impact of given assumptions, including macroeconomic factors, on capital requirements and internal capital. Macroeconomic risk is also measured based on the Bank's exposure in individual industries, clients or products. Internal limits are determined in line with the expected sector risk.

Macroeconomic risk is reported in monthly, quarterly and annual credit risk reports which present the impact of macroeconomic environment on the Bank's lending activity and in individual stress test reports. The reports are drawn up for the Bank Credit Committee, the Bank Financial Committee, the Management Board, the Risk Committee, and the Supervisory Board.

51.5. Model risk management

Model risk means the potential loss the Bank may incur as a consequence of decisions that could be significantly based on the output of internal models used by the Bank, due to errors in the development, implementation or use of such models.

The process of model risk management involves:

1. Identifying (specifying models, their significance as well as risks).
2. Assessing/measuring (methods for assessment of model risk significant for a single model and aggregate risk for all models, specify acceptable risk level).
3. Monitoring and controlling (exercising supervision over the level of risk taken, reviews of relevance and accuracy of the applied methods of risk assessment, and evaluation of efficiency of the tools used).
4. Reporting (information on risk profile, the assessment of the level of risk based on the measurement methodology applied, identification of possible threats, and information on the measures adopted).
5. Undertaking activities aimed at risk mitigation (regulations, principles, methodologies, procedures, regulations, systems, and tools which support the planning of activities, including: validations, registers, logbooks, model documentation, preventive and remedial actions, recommendations and guidelines for organisational units).

All significant models subject to the process of independent periodical validation in line with the annual schedule of works approved by the Bank and prepared by an independent validation unit. An independent validation unit (independent in relation to the organisational units of the Bank that act as model owners or users) answers directly to the Member of the Management Board supervising the risk division. The results of model validation and recommendations are presented by an independent validation unit to relevant committees of the Bank.

A quarterly model report (submitted to the Bank's Finance Committee – BFC) and semi-annual model report (submitted to the Bank's Finance Committee and the Management Board) contains in particular information on: models register, models logbooks, changes in the number of models in use, the scope of their application and reasons for such changes, schedule of tasks for a given period with the evaluation of its implementation, reasons for delay (if any), and key findings of monitoring activities, model validation, and internal audits (if any), along with model risk level assessment.

As for the annual report presented to the Supervisory Board of the Bank, the Risk Committee, the Management Board of the Bank, and BFC contains information analogical to the quarterly and mid-year reports and in addition information on the system of model risk management with the list of scheduled activities associated with the management of models and their risks and efficiency assessment.

(in PLN thousand)

52. Capital adequacy

Capital adequacy is monitored with the use of capital adequacy ratios:

- capital ratios determined in accordance with CRR provisions[1]:
  – Common Equity Tier 1 ratio,
  – Tier 1 ratio,
  – solvency ratio.
- internal capital ratio referred to in Article 128.1 (2) of the Banking Law.

The above indicators are specified individually due to the lack of need to carry out prudential consolidation in line with the CRR.

In 2018, the Bank met the capital adequacy standards specified in the CRR and the Banking Law.

Capital adequacy management includes:
- setting and monitoring capital adequacy ratios,
- setting and monitoring the use of capital limits for individual activity areas, based on the amount of internal capital,
- aggregate stress testing,
- reporting capital adequacy levels,
- capital budgeting,
- developing a capital emergency plan.

As part of capital adequacy management process, the Bank prepares regular reports on capital adequacy ratios, total capital requirement, internal capital and own funds, utilisation of capital limits, and stress tests results.

Additionally, the Bank manages excessive leverage risk. Excessive leverage risk management is integrated with capital adequacy management and includes, inter alia, determining leverage ratio in line with Commission Delegated Regulation No. 2015/62 (EU) of 10 October 2014 to supplement Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regard to leverage ratio (OJ L 11, 17.1.2015, p. 37) as Tier 1 capital measure divided by total exposure measure.

Dynamics of capital adequacy ratios and their components are presented in the tables below.

Capital adequacy ratios in line with CRR - including cash flow funds			
No.	**Ratio**	**31 Dec 2018**	**31 Dec 2017**
I	CET1	31.50%	37.95%
II	Tier 1 ratio	31.50%	37.95%
III	Solvency ratio (total capital ratio)	31.50%	37.95%
IV	Internal capital ratio	31.90%	24.64%
V.	Own funds	18,275,914	18,864,232
V.1	Tier1	18,275,914	18,864,232
V.1.1	CET1	18,275,914	18,864,232
V.1.2	AT1	0	0
V.2	Tier2	0	0
VI	Total capital requirement	4,642,211	3,976,310
VII.	Internal capital	5,829,816	4,648,867

- Notes

Capital adequacy ratios - excluding cash flow funds			
No.	**Ratio**	**31 Dec 2018**	**31 Dec 2017**
I	CET1	32.09%	37.96%
II	Tier 1 ratio	32.09%	37.96%
III	Solvency ratio (total capital ratio)	32.09%	37.96%
IV	Internal capital ratio	31.42%	24.64%
V.	Own funds	18,275,914	18,864,232
V.1	Tier1	18,275,914	18,864,232
V.1.1	CET1	18,275,914	18,864,232
V.1.2	AT1	0	0
V.2	Tier2	0	0
VI	Total capital requirement	4,555,615	3,975,779
VII.	Internal capital	5,742,354	4,648,331

[1] 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)

Changes in the capital ratios and the internal capital ratio mainly resulted from:

- a decrease in own funds as a result of a drop in the BGK's statutory capital due to allocation of PLN 0.9 billion to the National Guarantee Fund (NGF) and an increase in the BGK's statutory capital attributable to accounting for PLN 0.4 billion of profit for 2017,
- an increase in the total capital requirement caused mainly by an increase in capital requirement under credit risk in connection with, inter alia, the purchase of investment certificates of Closed-Ended Investment Funds, higher risk weight in connection with the end of the transition period for preferential treatment of exposures to the State Treasury in currencies of EU Member States, and an increase in exposures to banks and enterprises.

52.1. Own funds for capital adequacy purposes

Own funds to solvency ratio are determined in accordance with 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.

For capital adequacy purposes, own funds are determined on a separate basis, as no prudential consolidation is required under the CRR.

BGK's own funds, determined in accordance with the CRR, include:

1) Tier 1:

- Tier 1 (CET1, Common Equity Tier 1 capital):

  – statutory fund that constitutes – pursuant to Article 3.3c of the Act on BGK – an equity instrument within the meaning of Articles 26(1)(a) and 28 of the CRR.

  The statutory capital is created from monies and other assets contributed by the State Treasury (including Treasury securities provided by the minister competent for public finance) as well as annual contributions from the Bank's net profit, in accordance with the principles specified in BGK's Articles of Association.

  – reserve capitals, including supplementary capital and reserve fund

  The supplementary capital and the reserve fund are established from the distribution of the annual net profit, in line with the principles defined in BGK's Articles of Association.

  – general banking risk reserve

  The general banking risk reserve is established from the distribution of the annual net profit, in line with the principles defined in BGK's Articles of Association.

  – accumulated other comprehensive income

  – deductions under intangible assets

  The amount deducted from Common Equity Tier 1 is decreased by the related deferred tax liabilities.

  – deductions of deferred tax assets depending on future profitability and not resulting from temporary differences.

  – Additional Valuation Adjustments AVA is a simplified approach pursuant to Commission Delegated Regulation (EU) No. 2016/101 of 26 October 2015 supplementing Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for prudent valuation under Article 105.14 (OJ L 21, 28.1.2016, p. 54).

  – Direct and indirect capital involvement of the Bank in financial sector entities, if the institution did not make a significant investment in those entities in the form of stock or shares held or of other instruments of the share capital or instruments of Tier 2 of those entities, as long as their aggregate amount exceeds 10% of Tier 1 share capital of the Bank.

If the amount of decreases lowers Tier 2 capital below zero, the surplus of those decreases over the Tier 2 capital shall be deducted from Tier 1 basic funds.

(in PLN thousand)

- AT1, i.e. Additional Tier 1 Capital – as at 31 December 2018, the Bank did not hold any positions in Additional Tier 1

Own funds*		
	31 Dec 2018	31 Dec 2017
Basic funds (Tier 1)	**18,275,914**	**18,864,232**
Statutory capital	17,102,410	17,950,629
Supplementary capital	1,032,822	671,393
Other reserve capitals	76,830	76,830
General banking risk reserve	155,500	155,500
Other comprehensive income	257,200	355,477
Tier 1 capital transition adjustments	0	-78,290
Intangible assets	-49,048	-42,399
Deferred tax liabilities related to intangible assets	2,723	1,887
Deferred tax assets depending on future profitability and not resulting from temporary differences	0	0
Tier 1 adjustments resulting from prudential filters	-17,287	-37,187
Capital involvement decreasing own funds	-285,236	-189,608
Supplementary funds (Tier 2)	**0**	**0**
Subordinated liabilities included in supplementary funds	0	0
Capital involvement	0	0
Total own funds	**18,275,914**	**18,864,232**

*excluding figures for Inland Waterways Fund.

Capital requirements (Pillar I)

In order to define minimum capital requirements under individual risk types (Pillar I), the Bank applies methods described in the table below.

Capital requirement under:	Method
credit risk and counterparty credit risk	– standardised method (Articles 111 to 141 of the CRR) – financial collateral comprehensive method (Articles 223 to 224 of the CRR) – balance sheet equivalent of derivative transactions in line with the mark-to-market method (Article 274 of the CRR) – alternative calculation of own funds requirement for exposures to a QCCP (Article 310 of the CRR)
foreign exchange risk	basic calculation (Article 351 of the CRR)
commodities risk	simplified approach (Article 360 of the CRR)
position risk related to:	
- specific risk of equity instruments in the trading book	pursuant to Article 342 of the CRR
- specific risk of equity instruments in the trading book	pursuant to Article 343 of the CRR
- specific risk of debt instruments in the trading book	pursuant to Article 336 of the CRR
- general risk of debt instruments in the trading book	maturity ladder approach (Article 339 of the CRR)
settlement risk	pursuant to Articles 378 to 380 of the CRR
large exposures in the trading book	pursuant to Article 397 of the CRR
operational risk	basic indicator approach (Articles 315 to 316 of the CRR)
credit valuation adjustment (CVA) risk	standardised method (Article 384 of the CRR)

Capital requirements structure in BGK – including cash flow funds

NO.	Capital requirement under:	31 Dec 2018	31 Dec 2017
I.	credit risk and counterparty credit risk	4,355,272	3,667,771
II.	foreign exchange risk	0	0
III.	commodities risk	0	0
IV.	trading portfolio risk, including:	106,144	119,498
1	- specific and general risk in the scope of equity instruments	0	0
2	- specific risk of debt instruments	0	11
3	- general risk of debt instruments	106,144	119,487
V.	credit valuation adjustment (CVA) risk	50,632	66,212
VI.	settlement risk	0	0
VII.	large exposures in the trading book	0	0
VIII.	operational risk	130,163	122,829
Total		**4 642 211**	**3,976,310**

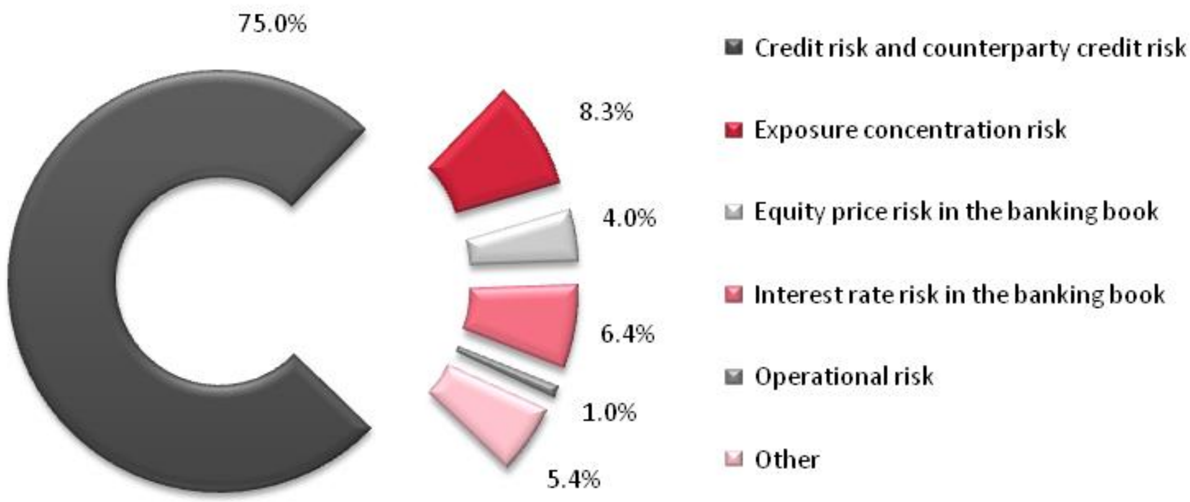
52.2. Internal capital (Pillar II)

Internal capital (Pillar II) is an amount estimated by the Bank which is necessary to cover all identified significant risk types occurring in the Bank's operation as well as changes in the economic environment, which takes account of the expected risk level. The amount of internal capital is estimated to cover unexpected losses.

The internal capital is estimated to cover risks identified as significant. For insignificant risks, the Bank does not establish internal capital to cover them. The total amount of internal capital is determined as the sum of internal capital under individual types of risk.

In order to estimate the internal capital under individual risk types, the Bank uses the methods applied to determine capital requirements or internal methods developed by the Bank.

As at 31 December 2018, internal capital totalled PLN 5,829,816 and the internal capital ratio – 31.90%. The percentage structure of internal capital (including cash flow funds) is presented below.



Other supplementary information

53. Information on the entity authorised to audit the financial statements

On 20 December 2018, the Bank entered into an agreement for the audit of the financial statements with Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. (until 19 March 2018: Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.) for a definite term of two years.

Fees paid or due for 2018:

- audit of the full-year financial statements – PLN 517 thousand gross,
- audit of the consolidated financial statements – PLN 271 thousand gross,

for 2017:

- audit of annual financial statements: PLN 449 thousand gross,
- other services: PLN 38 thousand gross,

54. Proposed distribution of profit of the parent entity

The Bank intends to distribute the net profit for 2018 in the following way:

Item	Proposed distribution of net profit for 2018
Profit distribution	**445,347**
Statutory capital (no less than 10%)	**409,279**
Supplementary fund (no less than 8%)	**35,628**
– own activities	35,590
– The Inland Waterways Fund (IWF),	38
Increase in the Inland Waterways Fund	**433**
Income tax (19%) on part of the profit of the Inland Waterways Fund allocated to the Bank's supplementary capital	**7**

The Management Board of the Bank recommends to allocate the profit from previous years resulting from changes in accounting policies (IFRS 9) to the supplementary capital.

55. Assets pledged as collateral for the payment of liabilities

The Group's assets include loans granted from the funds of the former National Housing Fund, which have been pledged as collateral for the repayment of a loan obtained from the Ministry of Finance (funds from the Council of Europe Development Bank) and for the State Treasury guarantees for loans obtained from International Financial Institutions (the European Investment Bank and the Council of Europe Development Bank).

The value of receivables transferred by BGK to the State Treasury in relation to loans granted and guaranteed by the Ministry of Finance to increase the National Housing Fund is presented below.

Lender	Loan amount	Loan amount guaranteed by the State Treasury	State Treasury guarantee amount	Loan amount transferred as collateral for the loan or guarantee	
				31 Dec 2018	31 Dec 2017
Ministry of Finance using a loan granted by the Council of Europe Development Bank	PLN 630,000	-	-	0	0
European Investment Bank (EIB) - Financial Contract No. 21.426	EUR 10,000	EUR 10,000	EUR 16,800	14,305	20,027
European Investment Bank (EIB) - Financial Contract No. 21.607	EUR 200,000	EUR 200,000	EUR 296,000	522,547	587,983
Council of Europe Development Bank	PLN 700,000	PLN 700,000	PLN 1,260,000	455,760	539,760

*all data in the table above are indicated in PLN '000

(in PLN thousand)

The liabilities of the Group have been secured with the following assets:

- As at 31 December 2018

Type of transaction	Collateral	Carrying amount of assets held as security against liabilities	Amount of liabilities secured
Reverse repo and buy-sell-back transactions	bonds	5,203,332	5,214,051
Other loans	loans	777,876	614,526
Derivative transactions	deposits	385,548	416,502

- As at 31 December 2017

Type of transaction	Collateral	Carrying amount of assets held as security against liabilities	Amount of liabilities secured
Reverse repo and buy-sell-back transactions	bonds	7,569,464	7,573,820
Other loans	loans	881,649	708,827
Derivative transactions	deposits	453,858	530,408

Basis for securities blocking:

- for repo and sell-buy-back transactions – under standard procedures applicable to a given type of transactions in the money market,
- for other loans, derivative transactions – under agreements concluded with the Bank.

Guaranteed Deposit Protection Fund

In line with the Act of 10 June 2016 on Bank Guarantee Fund, the system of deposit guarantee and mandatory restructuring, the Bank was excluded from the Act (Journal of Laws of 2017, item 1937) and, as a result, it does not contribute to the Guaranteed Deposit Protection Fund as of 1 January 2017.

56. Major events subsequent to the reporting date

1) The parent entity's major investments in Q1 2019:

- On 28 January 2019, a EUR 357,200.00 subsidy to 2020 European Fund for Energy, Climate Change and Infrastructure (Marguerite Fund) was made;
- On 29 January 2019, a disbursement from 2020 European Fund for Energy, Climate Change and Infrastructure (Marguerite Fund) of EUR 1,267,605.63 was made;
- On 29 January 2019, a EUR 3,900,000.00 subsidy to Marguerite II SCSp fund was made.

2) On 13 February 2019, on the domestic market the Bank completed a placement of four-year bonds with a total value of PLN 2 billion, with demand exceeding PLN 2.4 billion. The proceeds will be used to finance its day-to-day business operations.

3) As the building where the existing Head Office of BGK is located requires modernisation, on 6 February 2019 the Bank executed an agreement with CHM 1 Sp. z o.o. for the lease of new premises for the Bank's Head Office for a five-year term. The monthly rent specified in the agreement is EUR 271,053.58 (net).

Significant events at other Group entities

1) Share capital increase or issuance of bonds at SPVs:

- MP Wałbrzych – On 21 December 2018, a resolution was adopted to issue Series F bonds. On 8 January 2019, FSMnW FIZ AN paid PLN 4,275,000 for the issued Series G bonds.

- MDR Radom – As at 31 December 2018, the SPV reported reserve capital of PLN 1,612,000.00 (on 18 December 2018, 16,120 new shares were issued with a par value of PLN 100.00 per share in connection with a share capital increase), of which PLN 850,000 was paid on 18 December 2018 as a contribution in kind in the form of land and PLN 762,000 was paid by FSMdR FIZ AN in January 2019. As at 31 December, the share capital was not registered at the National Court Register.

- MDR Dębica – On 10 January 2019, the General Meeting of Shareholders passed a resolution to increase the share capital from PLN 150,000 to PLN 2,068,100. New shares were acquired by FSMdR FIZ AN. On 15 January 2019, the SPV received PLN 1,918,100 in connection with the increase of its share capital.

- FSMnW Poznań – On 18 January 2019, the entity's Management Board adopted a resolution to issue Series G bonds. On 31 January 2019, FSMnW FIZ AN paid PLN 2,300,000 for the issued Series G bonds.

- MP Biała Podlaska – On 1 February 2019, the entity's Management Board adopted a resolution to issue Series F bonds for PLN 531,700. On 1 February 2019, Series F bonds for PLN 531,700 were paid for. The bonds were acquired by MDR Inwestycje 16 Sp. z o.o.

- MDR Katowice – On 4 February 2019, the General Meeting of Shareholders passed a resolution to increase the share capital from PLN 25,414,500 to PLN 35,101,400. FSMdR FIZ AN paid PLN 9,686,900 as part of the share capital increase.

- MDR Warszawa – On 7 March 2019, the share capital was increased from PLN 150,000 to PLN 12,190,000 under a resolution of the General Meeting of Shareholders. On 13 March 2019, FSMdR FIZ AN paid PLN 12,040,000 as part of the share capital increase.

These consolidated financial statements of the Bank Gospodarstwa Krajowego Group for the financial year from 1 January to 31 December 2018 consist of 134 pages numbered consecutively.

Warsaw, 15 April 2019

Prepared by:

Managing Director at the Financial Department

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Rafał Szadurski

Signatures of the Members of the Management Board of Bank Gospodarstwa Krajowego:

President of the Management Board	First Vice-President of the Management Board	Vice-President of the Management Board
/-/	*/-/*	*/-/*
Beata Daszyńska-Muzyczka	**Paweł Nierada**	**Włodzimierz Kocon**
Member of the Management Board	Member of the Management Board	Member of the Management Board
/-/	*/-/*	*/-/*
Przemysław Cieszyński	**Wojciech Hann**	**Radosław Kwiecień**