BANK
BGŻ BNP Paribas S.A.

Separated financial statements

for the year ended 31 December 2018

BGŻ BNP PARIBAS

The bank for a changing world

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SELECTED SEPARATE FINANCIAL DATA

	in PLN '000		in EUR '000	
STATEMENT OF PROFIT OR LOSS	**31.12.2018 (YTD)**	31.12.2017 (YTD)	**31.12.2018 (YTD)**	31.12.2017 (YTD)
Net interest income	**2,076,518**	1,916,372	**486,657**	451,474
Net fee and commission income	**535,172**	452,955	**125,424**	106,711
Profit before tax	**472,678**	471,257	**110,778**	111,022
Profit after tax	**364,739**	298,389	**85,481**	70,297
Total comprehensive income	**363,961**	440,858	**85,299**	103,861
Total net cash flows	**(67,927)**	989,936	**(15,920)**	233,217
RATIOS	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017
Number of shares (items)	**147,418,918**	84,238,318	**147,418,918**	84,238,318
Earnings per share	**3.67**	3.54	**0.86**	0.83
STATEMENT OF FINANCIAL POSITION	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017
Total assets	**106,811,658**	71,804,124	**24,839,920**	17,215,499
Loans and advances to customers measured at amortised cost	**68,870,918**	52,195,203	**16,016,493**	12,514,134
Loans and advances to customers measured at fair value through profit or loss	**2,416,249**	-	**561,918**	-
Total liabilities	**96,240,096**	65,242,865	**22,381,418**	15,642,395
Liabilities due to customers	**89,506,557**	58,658,067	**20,815,478**	14,063,647
Share capital	**147,419**	84,238	**34,283**	20,197
Total equity	**10,571,562**	6,561,259	**2,458,503**	1,573,104
CAPITAL ADEQUACY	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017
Total own funds	**12,240,367**	7,699,319	**2,846,597**	1,845,961
Total risk exposure	**81,493,415**	55,307,981	**19,538,568**	13,260,443
Total capital ratio	**15.02%**	13.92%	**15.02%**	13.92%
Tier 1 capital ratio	**12.72%**	10.95%	**12.72%**	10.95%

For purposes of data translation into EUR, the following exchange rates are used by the Bank:

For items of the statement of financial position, rates of the National Bank of Poland are applied:

- as at 31.12.2018 - EUR 1 = PLN 4.3000
- as at 31.12.2017 - EUR 1 = PLN 4.1709

For items of the statement of profit or loss and the statement of cash flows, the EUR exchange rate is calculated as the arithmetic mean of the rates published by the National Bank of Poland as at the last day of each month in the period:

- for the period from 1.01.2018 to 31.12.2018 - EUR 1 = PLN 4.2669
- for the period from 1.01.2017 to 31.12.2017 - EUR 1 = PLN 4.2447

The calculation of profit (loss) per share is described in Note 17.

SEPARATE FINANCIAL STATEMENTS

Separate statement of profit or loss

	Note	12 months ended 31.12.2018	12 months ended 31.12.2017
Interest income	5	2,905,711	2,637,590
interest income calculated with the use of effective interest rate method		2,712,079	-
interest income on financial instruments measured at amortised cost		2,544,274	-
interest income on financial instruments measured at fair value through other comprehensive income		167,805	-
Income of a similar nature to interest on instruments measured at fair value through profit or loss		193,632	-
Interest expense	5	(829,193)	(721,218)
Net interest income		**2,076,518**	**1,916,372**
Fee and commission income	6	677,822	567,201
Fee and commission expenses	6	(142,650)	(114,246)
Net fee and commission income		**535,172**	**452,955**
Dividend income	7	10,505	38,177
Net trading income	8	330,619	251,455
Result on investment activities	9	47,405	28,398
Result on fair value hedge accounting	21	(9,997)	3,304
Net impairment losses on financial assets and contingent liabilities	10	(537,275)	(342,419)
General administrative expenses	11,12	(1,809,892)	(1,492,071)
Depreciation and amortization	13	(188,842)	(173,534)
Other operating income	14	393,193	133,374
Other operating expenses	15	(161,606)	(138,888)
Operating result		**685,800**	**677,123**
Tax on financial institutions		(213,122)	(205,866)
Profit before tax		**472,678**	**471,257**
Income tax expenses	16	(107,939)	(172,868)
Net profit		**364,739**	**298,389**
attributable to equity holders of the Bank		364,739	298,389
EARNINGS (LOSS) PER SHARE (IN PLN PER ONE SHARE)	17		
Basic		3.67	3.54
Diluted		3.67	3.54

Separate statement of other comprehensive income

	12 months ended 31.12.2018	12 months ended 31.12.2017
Net profit for the period	**364,739**	**298,389**
OTHER COMPREHENSIVE INCOME		
ITEMS THAT WILL BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS UPON FULFILMENT OF CERTAIN CONDITIONS	**122**	**141,486**
Measurement of financial assets available for sale	-	174,084
Measurement of financial assets measured at fair value through other comprehensive income	831	-
Deferred income tax	(709)	(32,598)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(900)**	**983**
Actuary valuation of employee benefits	(1,111)	1,857
Deferred income tax	211	(874)
OTHER COMPREHENSIVE INCOME (NET)	**(778)**	**142,469**
TOTAL COMPREHENSIVE INCOME	**363,961**	**440,858**
attributable to equity holders of the Bank	363,961	440,858

Separate statement of financial position

ASSETS	Note	31.12.2018	31.12.2017
Cash and balances at Central Bank	18	2,897,113	998,035
Amounts due from banks	19	791,071	2,515,457
Derivative financial instruments	20	715,671	474,421
Hedge accounting adjustments related to fair value of hedging items	21	130,405	32,730
Loans and advances to customers measured at amortised cost	22	68,870,918	52,195,203
Loans and advances to customers measured at fair value through profit or loss	24	2,416,249	-
Financial assets available for sale	25	-	13,921,889
Securities measured at amortised cost	26	11,939,238	-
Financial instruments measured at fair value through profit or loss	27	203,813	-
Securities measured at fair value through other comprehensive income	28	15,875,339	-
Investments in subsidiaries	29	142,258	63,404
Intangible assets	30	520,108	287,907
Property, plant and equipment	31	499,307	500,348
Deferred tax assets	39	920,286	468,617
Other assets	32	889,882	346,113
Total assets		**106,811,658**	**71,804,124**

LIABILITIES	Note	31.12.2018	31.12.2017
Amounts due to banks	33	1,589,935	2,926,396
Hedge accounting adjustments related to fair value of hedged and hedging items	21	123,600	(2,992)
Derivative financial instruments	20	783,818	427,710
Amounts due to customers	34	89,506,557	58,658,067
Debt securities issued	35	-	288,553
Subordinated liabilities	36	1,875,769	1,645,102
Other liabilities	37	1,801,154	1,111,097
Current tax liabilities		123,464	112,235
Provisions	38	435,799	76,697
Total liabilities		**96,240,096**	**65,242,865**

EQUITY	Note	31.12.2018	31.12.2017
Share capital	47	147,419	84,238
Supplementary capital	48	9,111,033	5,127,086
Other reserve capital	48	1,208,018	909,629
Revaluation reserve	48	141,139	141,917
Retained earnings		(36,047)	298,389
retained profit		(400,786)	-
net profit for the period		364,739	298,389
Total equity		**10,571,562**	**6,561,259**
Total liabilities and equity		**106,811,658**	**71,804,124**

Separate statement of changes in equity

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings: Retained profit	Retained earnings: Net profit for the period	Total
Balance as at 1 January 2018 (data approved)	**84,238**	**5,127,086**	**909,629**	**141,917**	**-**	**298,389**	**6,561,259**
Change related to the implementation of IFRS 9	-	-	-	-	(400,786)	-	(400,786)
Balance as at 1 January 2018 (data restated)	**84,238**	**5,127,086**	**909,629**	**141,917**	**(400,786)**	**298,389**	**6,160,473**
Total comprehensive income for the period	**-**	**-**	**-**	**(778)**	**-**	**364,739**	**363,961**
Net profit for the period	-	-	-	-	-	364,739	364,739
Other comprehensive income for the period	-	-	-	(778)	-	-	(778)
Distribution of retained earnings	**-**	**-**	**298,389**	**-**	**-**	**(298,389)**	**-**
Distribution of retained earnings intended for capital	-	-	298,389	-	-	(298,389)	-
Share issue	**63,181**	**3,983,947**	**-**	**-**	**-**	**-**	**4,047,128**
Issue	63,181	3,986,814	-	-	-	-	4,049,995
Costs of share issue	-	(2,867)	-	-	-	-	(2,867)
Balance as at 31 December 2018	**147,419**	**9,111,033**	**1,208,018**	**141,139**	**(400,786)**	**364,739**	**10,571,562**

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings: Net profit for the period	Total
Balance as at 1 January 2017	**84,238**	**5,127,899**	**860,241**	**(552)**	**49,388**	**6,121,214**
Total comprehensive income for the period	**-**	**-**	**-**	**142,469**	**298,389**	**440,858**
Net profit for the period	-	-	-	-	298,389	298,389
Other comprehensive income for the period	-	-	-	142,469	-	142,469
Distribution of retained earnings	**-**	**-**	**49,388**	**-**	**(49,388)**	**-**
Distribution of retained earnings intended for capital	-	-	49,388	-	(49,388)	-
Other	**-**	**(813)**	**-**	**-**	**-**	**(813)**
Balance as at 31 December 2017	**84,238**	**5,127,086**	**909,629**	**141,917**	**298,389**	**6,561,259**

Separate statement of cash flows

CASH FLOWS FROM OPERATING ACTIVITIES:	Note	12 months ended 31.12.2018	12 months ended 31.12.2017
Net profit (loss)		**364,739**	**298,389**
ADJUSTMENTS FOR:		**(8,864,596)**	**4,560,675**
Income tax expenses		107,939	172,868
Depreciation and amortization		188,842	173,534
Dividend income		(10,505)	(38,177)
Interest income		(2,905,711)	(2,637,590)
Interest expense		829,193	721,218
Change in provisions		163,956	(37,840)
Change in amounts due from banks		(13,373)	5,920
Change in assets due to derivative financial instruments		42,967	(150,416)
Change in loans and advances to customers measured at amortised cost		655,884	930,558
Change in loans and advances to customers measured at fair value through profit or loss		(2,419,182)	-
Change in amounts due to banks		(638,814)	(263,595)
Change of financial liabilities held for trading		59,268	-
Change in liabilities due to derivative financial instruments		43,813	155,953
Change in amounts due to customers		(2,699,856)	3,646,347
Change in other assets		(3,949,212)	31,563
Change in other liabilities and provisions due to deferred tax		(144,266)	(195,602)
Other adjustments	52	266,030	93,037
Interest received		2,424,424	2,653,593
Interest paid		(865,993)	(700,696)
Net cash flows from operating activities		**(8,499,857)**	**4,859,064**

CASH FLOWS FROM INVESTING ACTIVITIES:	Note	12 months ended 31.12.2018	12 months ended 31.12.2017
INVESTING ACTIVITIES INFLOWS		**27,789,820**	**22,600,784**
Sale of shares in subsidiaries		-	10,410
Sale of debt securities	25, 26	23,877,234	-
Sale of financial assets available for sale		-	22,519,282
Cash taken as a result of a merger of units		3,854,038	
Sale of intangible assets and property, plant and equipment		48,043	32,915
Dividends received and other inflows from investing activities		10,505	38,177
INVESTING ACTIVITIES OUTFLOWS		**(20,026,220)**	**(23,951,805)**
Purchase of financial assets available for sale		-	(23,746,923)
Purchase of shares in subsidiaries		(2,000)	-
Purchase of intangible assets and property, plant and equipment		(228,574)	(204,653)
Purchase of debt securities		(19,743,134)	-
Other investment expenses		(52,512)	(229)
Net cash flows from investing activities		**7,763,600**	**(1,351,021)**

CASH FLOWS FROM FINANCING ACTIVITIES:	Note	12 months ended 31.12.2018	12 months ended 31.12.2017
FINANCING ACTIVITIES INFLOWS		**4,219,127**	**105,805**
Long-term loans received		-	105,805
Increase in subordinated debt		172,000	-
Net proceeds from share issue and equity contributions		4,047,127	-
FINANCING ACTIVITIES OUTFLOWS		**(3,550,797)**	**(2,623,912)**
Repayment of long-term loans and advances received		(3,265,797)	(2,514,100)
Redemption of debt securities		(285,000)	(109,000)
Other financing expenses		-	(812)
Net cash flows from financing activities		**668,330**	**(2,518,107)**
TOTAL NET CASH AND CASH EQUIVALENTS		**(67,927)**	**989,936**
Cash and cash equivalents at the beginning of the period		**3,442,671**	**2,452,735**
Cash and cash equivalents at the end of the period, including:	**51**	**3,374,744**	**3,442,671**
effect of exchange rate fluctuations on cash and cash equivalents		6,314	(61,222)
restricted cash and cash equivalents		626	845

EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT THE BANK

Bank BGŻ BNP Paribas S.A. (the "Bank" or "BGŻ BNP Paribas") is the parent company in the Capital Group of Bank BGŻ BNP Paribas S.A. (the "Group").

The registered office of Bank BGŻ BNP Paribas S.A. is located at Kasprzaka 10/16 in Warsaw. The Bank is registered in Poland, by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, under number KRS 0000011571. The duration of the Bank is unlimited.

Since 27 May 2011, pursuant to the decision of the Management Board of Warsaw Stock Exchange (WSE), the Bank's shares have been listed on WSE and classified as finance - banking sector.

In 2018, the average headcount of the Bank was 10,853.60 FTEs, as compared to 7,385.63 FTEs in 2017.

BGŻ BNP Paribas is a universal commercial bank offering a wide range of banking services provided to individual and institutional clients in accordance with the scope of services specified in the Bank's Statute. The Bank operates both in Polish zlotys and in foreign currencies and actively participates in trading on domestic and foreign financial markets. In addition, through its subsidiaries, the Group conducts brokerage and leasing activities and provides other financial services.

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

FULL NAME	FUNCTION HELD IN THE MANAGEMENT BOARD OF THE BANK
Przemysław Gdański	President of the Management Board
Jean-Charles Aranda	Vice-President of the Management Board
Daniel Astraud	Vice-President of the Management Board
Philippe Paul Bézieau	Vice-President of the Management Board
André Boulanger	Vice-President of the Management Board
Przemysław Furlepa	Vice-President of the Management Board
Wojciech Kembłowski	Vice-President of the Management Board
Kazimierz Łabno	Vice-President of the Management Board
Jaromir Pelczarski	Vice-President of the Management Board
Jerzy Śledziewski	Vice-President of the Management Board

Changes in the Bank's Management Board in the period between 1 January and 31 December 2018:

- On 19 February 2018, Mr. Bartosz Urbaniak submitted a resignation from the position of the Member of the Management Board of the Bank, with the effect from 31 March 2018.
- On 10 April 2018, the Polish Financial Supervision Authority, pursuant to article 22b of the Banking Act of 29 August 1997, unanimously agreed to the appointment of Mr. Przemysław Gdański as the President of the Management Board of Bank BGŻ BNP Paribas S.A. In connection with the above, on 10 April 2018, the resolution of the Bank's Supervisory Board of 26 October 2017 on the appointment of Mr. Przemysław Gdański as the President of the Bank's Management Board came into force.
- On 16 May 2018 the Supervisory Board appointed the Bank's Management Board in the unchanged composition for a new three-year term. The function of Mr. Jean-Charles Aranda, who until then served as a Member of the Bank's Management Board, has been changed. The resolution of the Supervisory Board came into force on the

date of the General Meeting of Bank BGŻ BNP Paribas S.A. approving the financial statements for 2017, i.e. with the effect from 18 May 2018.

- On 26 September 2018, Mr. Blagoy Bochev submitted a resignation from the position of the Vice-President of the Management Board, with the effect from 31 October 2018. On the same day, the Supervisory Board appointed Mr. André Boulanger as the Vice-President of the Management Board with the effect from 1 November 2018 for the period until the end of the current three-year joint term of office of the Management Board members.
- On 8 November 2018, the Supervisory Board appointed Mr. Kazimierz Łabno as the Vice-President of the Bank's Management Board, with the effect from 8 November 2018 until the end of the current three-year joint term of office of the Bank's Management Board members.

Composition of the Bank's Supervisory Board as at 31 December 2018:

FULL NAME	FUNCTION HELD IN THE SUPERVISORY BOARD OF THE BANK
Józef Wancer	Chairman of the Supervisory Board
Jarosław Bauc	Vice-Chairman of the Supervisory Board Independent Member of the Supervisory Board
Jean-Paul Sabet	Vice-Chairman of the Supervisory Board
Francois Benaroya	Member of the Supervisory Board
Stefaan Decraene	Member of the Supervisory Board
Jacques d'Estais	Member of the Supervisory Board
Michel Falvert	Member of the Supervisory Board
Piotr Mietkowski	Member of the Supervisory Board
Monika Nachyła	Member of the Supervisory Board
Stéphane Vermeire	Member of the Supervisory Board
Mariusz Warych	Independent Member of the Supervisory Board

Changes in the Supervisory Board of the Bank in the period between 1 January and 31 December 2018:

- On 23 January 2018, the Extraordinary Meeting of the Bank appointed Mr Francois Benaroya as a Member of the Supervisory Board until the end of the current five-year joint term of office of the Supervisory Board members.
- On 25 May 2018, Mr Alain Van Groenendael, Member of the Supervisory Board, submitted a resignation from the position of the Member of the Supervisory Board of the Bank, with the effect from 25 May 2018.
- On 13 June 2018, Mr Yvan De Cock, Member of the Supervisory Board, submitted a resignation from the position of the Member of the Supervisory Board of the Bank, with the effect from 13 June 2018.
- On 24 August 2018, the Extraordinary General Meeting of the Bank appointed Mr Michela Falvert and Mr Stéphane Vermeire as members of the Supervisory Board until the end of the current five-year joint term of office of the Supervisory Board members.

Bank BGŻ BNP Paribas S.A. is an entity belonging to the BNP PARIBAS SA Capital Group with its registered office in Paris.

Approval of the financial statements

The present separate financial statements have been prepared as at 31 December 2018 and approved for publication by the Management Board of the Bank on 13 March 2019.

Consolidated financial statements of BGŻ BNP PARIBAS S.A. Capital Group have been prepared as at 31 December 2018 and approved for publication by the Management Board of the Bank on March 2019.

Data included in the above mentioned financial statements are presented for the financial year ended 31 December 2018 with comparative data for the financial year ended 31 December 2017.

2. ACCOUNTING PRINCIPLES APPLIED FOR THE PURPOSE OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS

2.1. Basis for preparation of the separate financial statements

The present separate financial statements have been prepared on the historical cost basis, with the exception of derivative contracts and financial instruments held for trading, financial assets not meeting the SPPI test, financial assets assigned to the business model, which does not entail holding them to obtain contractual cash flows, equity instruments measured at fair value through profit or loss, and except for financial instruments measured at fair value through other comprehensive income and equity instruments for which the fair value option has been applied for other comprehensive income.

Data for comparative periods have been prepared on the historical cost basis, taking into account the principles of valuation of available for sale financial assets, financial assets and liabilities at fair value through profit or loss and all derivative contracts.

2.2. Going concern

The present separate financial statements have been prepared assuming that the Bank will continue as a going concern in substantially the same scope, in the foreseeable future, i.e. within at least 12 months from the date of the reporting period end.

2.3. Statement of compliance with IFRS

The present separate financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (“IFRS EU”).

The present separate financial statements have been prepared in accordance with the requirements specified in International Accounting Standards (“IAS”) and International Financial Reporting Standards endorsed by the European Union (“IFRS EU”), as well as the related interpretations, except for the standards and interpretations listed below, which are awaiting endorsement by the European Union or have already been endorsed by the European Union but entered or will enter into force after the end of the reporting period.

In the period included in these separate financial statements, the Bank did not early apply standards and interpretations endorsed by the EU, which will enter into force after the balance sheet date.

New standards, interpretations and amendments to the existing standards published by the European Union and effective on or after 1 January 2018

- **IFRS 9 "Financial instruments"** - approved in the EU on 22 November 2016 (applicable for annual periods beginning on 1 January 2018 or after that date),
- **IFRS 15 "Revenue from Contracts with Customers"** with subsequent amendments „Effective date of IFRS 15" - approved in the EU on 22 September 2016 (applicable for annual periods beginning on 1 January 2018 or after that date),
- **Amendments to IFRS 2 „Share-based payments"** – Classification and measurement of share-based payment – approved in the EU on 27 February 2018 (applicable for annual periods beginning on 1 January 2018 or after that date),
- **Amendments to IFRS 4 „Insurance contracts"** – Application of IFRS 9 „Financial instruments" together with IFRS 4 „Insurance contracts" – approved in the EU on 3 November 2017 (applicable for annual periods beginning on 1 January 2018 or after that date or at the moment of initial application of IFRS 9 "Financial instruments"),
- **Amendments to IFRS 15 „Revenue from Contracts with Customers" –** Explanatory notes to IFRS 15 „Revenue from Contracts with Customers" – approved in the EU on 31 October 2017 (applicable for annual periods beginning on 1 January 2018 or after that date).
- **Amendments to IAS 40 „Investment properties"** – Transfer of investment properties – approved in the EU on 14 March 2018 (applicable for annual periods beginning on 1 January 2018 or after that date),
- **Amendments to IFRS 1 and IAS 28 resulting from „IFRS Improvements (2014 - 2016)"** – changes made as part of the annual procedure of implementing Improvements to IFRS (IFRS 1, IFRS 12 and IAS 28) primarily aimed at removing inconsistencies and clarifying wording – approved in the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are applicable for annual periods beginning on 1 January 2018 or after that date),
- **IFRIC 22 „Foreign currency transactions and advance consideration"** – approved in the EU on 28 March 2018 (applicable for annual periods beginning on 1 January 2018 or after that date).

New standards, interpretations and amendments to the existing ones, issued by the International Accounting Standards Board (IASB), approved by the European Union, but not yet effective until 31 December 2018

- **IFRS 16 „Leases"** – approved in the EU on 31 October 2017 (applicable for annual periods beginning on 1 January 2019 or after that date),
- **Amendments to IFRS 9 „Financial Instruments"** - Characteristics of the prepayment option with negative offset - approved in the EU on 22 March 2018 (applicable for annual periods beginning on 1 January 2019 or after that date),
- **IFRIC 23 „Uncertainty over Income Tax Treatments"** - approved in the EU on 23 October 2018 (applicable for annual periods beginning on 1 January 2019 or after that date).

New standards, interpretations and amendments to the existing ones, issued by the International Accounting Standards Board (IASB) but not yet endorsed by the EU

- **IFRS 14 „Regulatory Deferral Accounts"** (applicable for annual periods beginning on 1 January 2016 or after that date) – the European Commission has decided to postpone the procedure of approving the draft version of the Standard in EU territory until the issue of its final version,
- **IFRS 17 „Insurance contracts"** (applicable for annual periods beginning on 1 January 2021 or after that date),
- **Amendments to IFRS 3 „Business combinations"** – definition of business (applicable to mergers, whose acquisition date falls on the beginning of the first annual period beginning on 1 January 2020 or after that date, and with reference to the acquisition of assets that occurred on the first day of the above mentioned annual period or after that date),
- **Amendments to IFRS 10 „Consolidated Financial Statements" and IAS 28 „Investments in Associates and Joint Ventures"** – Sale or contribution of assets between an investor and its affiliate or joint venture and

subsequent changes (application date is postponed until the moment of completion of research on the equity method),

- **Amendments to IAS 1 „Presentation of financial statements" and IAS 8 „Accounting policies, changes in accounting estimates and errors"** – Definition of materiality (applicable for annual periods beginning on 1 January 2020 or after that date),
- **Amendments to IAS 19 „Employee Benefits"** - Plan amendment, curtailment or settlement (applicable for annual periods beginning on 1 January 2019 or after that date)**,**
- **Amendments to IAS 28 „Investments in Associates and Joint Ventures"** - Long-term shares in affiliates and joint ventures (applicable for annual periods beginning on 1 January 2019 or after that date),
- **Amendments to various standards „IFRS Improvements (2015-2017)"** – changes made as part of the annual procedure of implementing Improvements to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (applicable for annual periods beginning on 1 January 2019 or after that date),
- **Amendments to the references to conceptual assumptions included in IFRS** (applicable for annual periods beginning on 1 January 2020 or after that date).

In the Bank's opinion, the above mentioned standards did not impact significantly the financial statements in the period of their first application, except IFRS 9, IFRS 15 and IFRS 16.

The assessment of the impact of IFRS 9, IFRS 15 and IFRS 16 implementation on the Bank's financial statements is presented in Note 2.6 Changes to accounting principles (policy) and to presentation of financial data.

2.4. Recognition of jointly controlled operations

Business combinations under common control do not fall within the scope of IFRS regulations. In the absence of detailed IFRS regulations in this regard, in line with the guidelines specified in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, Bank BGŻ BNP Paribas S.A. adopted an accounting policy generally applied to any business combinations under common control within the Bank's Group, whereby such transactions are recognized at their book value.

In accordance with the adopted accounting principles, the acquirer recognizes the assets, liabilities and equity of the acquiree at their present book value adjusted only for purposes of harmonizing the accounting principles of the acquiree with those of the acquirer. Goodwill and negative goodwill are not recognized.

The difference between the book value of the acquired net assets and the fair value of the payment is recognized in the Bank's equity. A method based on book values is used, and therefore the comparative data are not restated.

If the business combination under common control involves acquisition of minority interests, the Bank recognizes them separately.

2.5. Business combinations

For the need of settling business combinations in which the Bank acts as the acquirer, the acquisition method is applied, in accordance with the requirements of IFRS 3 "Business combinations".

For each business combination, the acquiring entity and the acquisition date are determined, and the acquisition date is the date on which the entity acquired control over the acquired entity. In addition, the application of the acquisition method requires the recognition and measurement of identifiable assets and liabilities acquired, and any non-controlling interest in the acquired entity, as well as the recognition and measurement of goodwill or bargain purchase gain. The acquiring entity measures the identifiable assets and liabilities acquired at their fair values as at the acquisition date.

If the net amount of the fair values of identifiable acquired assets and liabilities exceeds the fair value of the consideration transferred, the Bank, as the acquiring entity, recognizes the gain from the bargain purchase in the profit or loss. Before recognizing the gain from a bargain purchase, the Bank reassess whether all acquired assets and liabilities have been correctly identified and all additional assets and liabilities have been included.

If the value of the consideration transferred, measured at fair value as at the acquisition date, exceeds the net value of fair values of identifiable acquired assets and liabilities as at the acquisition date, the goodwill is recognized. The established goodwill is not subject to amortization, but at the end of each financial year and, whenever there are indications that impairment may have occurred, it is tested in terms of their impairment.

In accordance with the requirements of IFRS 3, the Bank performs a final settlement of the acquisition within a maximum of one year from the date of control acquisition.

2.6. Changes to accounting principles (policy) and to presentation of financial data

The Bank has not changed any accounting principles (policy) in the present separate financial statements, except the changes resulting from IFRS 9 and IFRS 15 implementation.

2.6.1. IFRS 9 „Financial instruments"

IFRS 9 "Financial Instruments", published by the International Accounting Standards Board on 24 July 2014, approved by the European Union on 22 November 2016, is the final version of the standard replacing the earlier published versions of IFRS 9.
As a result of IFRS 9 implementation, the following areas were subject to change: classification and measurement of financial instruments and other exposures to credit risk, recognition and impairment calculation of financial instruments, loan commitments and financial guarantee contracts, as well as hedge accounting.
The Bank has not decided on early implementation of IFRS 9 and applied the requirements of IFRS 9 retrospectively for the periods beginning on and after 1 January 2018. According to the option allowed by the standard, the Bank resigned from restating comparative data. The Bank selected the accounting policy in the area of hedge accounting and decided to continue applying the hedge accounting principles in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" until the end of works of the International Reporting Standards Board on the guidelines for macro hedge accounting (Macro hedging).
The implementation of IFRS 9 affected the following accounting policies of the Bank:

Classification and measurement

In accordance with IFRS 9, financial assets are qualified to the following categories of measurement at the moment of their initial recognition:

- financial assets measured at amortised cost,
- financial assets measured at fair value through other comprehensive income,
- financial assets measured at fair value through profit or loss.

The classification of financial assets in accordance with IFRS 9 depends on:

- business model relating to financial asset management, and
- the characteristics of contractual cash flows, i.e., whether contractual cash flows represent solely payments of principal and interest ("SPPI").

Irrespective of the above, there is an irrevocable option at the moment of initial recognition of the financial asset to classify it as measured at fair value through profit or loss (if there was no such possibility, the asset would be classified as measured at amortised cost or at fair value through other comprehensive income), if such approach leads to the more relevant information eliminating or significantly reducing the inconsistency in the measurement or recognition of assets or liabilities or related gains and losses. The Bank did not designate any financial assets to be measured at fair value through profit or loss.

Equity instruments

Investments in equity instruments are measured at fair value through profit or loss. At initial recognition, an irrevocable option to recognize them in other comprehensive income may be made regarding the recognition of subsequent changes in the fair value of an investment in an equity instrument that is not held for trading or a contingent consideration recognized by the Bank as a business combination in accordance with IFRS 3. If the option to measure the instrument at fair value through other comprehensive income is exercised, only dividends resulting from this investment are recognized in the statement of profit or loss. Profit or loss resulting from the measurement in other comprehensive income are not reclassified to the statement of profit or loss.

In the case of equity investments, the Bank did not use the option at fair value measurement through other comprehensive income.

Business models

The Bank classifies its financial assets to three business models, taking into account the purpose of maintaining a financial instrument:

Model 1: Receiving contractual cash flows.

Under Model 1, the main business goal is to collect contractual cash flows from the acquired or originated financial assets.

Model 2: Receiving contractual cash flows and sale of financial assets.

Under Model 2, both receiving contractual cash flows and sale of the acquired or originated financial assets are integral elements of the portfolio's business objective.

Model 3: Other financial assets not classified to Model 1 nor Model 2

In a situation when specific groups of financial assets were not acquired or originated under Model 1 and Model 2, they should be classified as Model 3. Most often, Model 3 refers to a strategy that assumes the realization of cash flows from the sale of financial assets or portfolios that are managed based on their fair value.

SPPI test

For the purpose of classification and subsequent measurement of financial assets, the Bank verifies whether the cash flows from a given instrument constitute solely the payment of principal and interest calculated on the principal.
For the needs of the assessment of cash flow characteristics, the principal is defined as the fair value of the financial asset at the moment of initial recognition. Interests are defined as the reflection of the time value of money and credit risk related to the unpaid part of the principal and other risks and costs associated with the standard loan agreement (e.g. liquidity risk or administrative costs) and margin.
When assessing whether contractual cash flows constitute solely repayments of the principal and interest, the Bank analyses the cash flows of the instrument resulting from the contract, i.e. whether the contract contains any provisions that could change the date of contractual payments or their amount in such a way that, in economic terms, they will not constitute solely repayments of the principal and interest on the unpaid principal part.

A financial asset is measured at amortized cost if both of the following conditions are met:

- an asset is held by the Bank in accordance with the business model whose purpose is to maintain assets to collect contractual cash flows,
- the contractual terms of the financial asset represent contractual cash flows that are solely payment of principal and interest.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- an asset is held by the Bank in accordance with the business model, which aims to both receive contractual cash flows and sell assets,
- the contractual terms of the financial asset represent contractual cash flows that are solely payment of principal and interest.

Other financial assets are measured at fair value through profit or loss.

Summary of key changes

A summary of the most important changes introduced by IFRS 9 to financial assets is presented below:

- the categories of financial assets specified in IAS 39, i.e. "loans and receivables", „held to maturity" and „available for sale" financial assets have been removed,
- financial assets classified as "loans and receivables" under IAS 39, are measured at amortized cost, subject to the SPPI test requirement,
- debt instruments classified as "available for sale" under IAS 39 are divided into the portfolio measured at amortized cost and the portfolio measured at fair value through other comprehensive income,
- equity and hybrid instruments available for sale (convertible bonds), which were classified as "available for sale" under IAS 39, are measured at fair value through profit or loss; the Bank did not use the option of classifying equity instruments as measured at fair value through other comprehensive income,
- financial instruments previously measured at fair value through profit or loss will continue to be measured using this method.

The analyses performed by Bank BGŻ BNP Paribas, based on the results of SPPI tests and assessment of the business model, indicate that changes in the classification and measurement of assets mainly relate to the loan portfolios whose interest rate structure is based on financial leverage (change from measurement at amortized cost to measurement at fair value through profit or loss) and to the portfolio of Treasury bonds, in the part not used for current liquidity management, but for maintaining liquidity under stress conditions (change from measurement at fair value through other comprehensive income, i.e. from the portfolio of available for sale under IAS 39, to measurement at amortized cost) and debt instruments with a participatory clause (the Bank obtains the right to participate in the result of the debtor if the conditions specified in the contract are met).

Financial liabilities

Classification of financial liabilities of the Bank did not change. Financial liabilities as at the date of their acquisition or establishment are classified into the following categories:

- financial liabilities measured at fair value through profit or loss,
- other financial liabilities (measured at amortized cost).

Changes in impairment allowance calculation for financial assets

The requirements of IFRS 9 relating to impairment are based on the model of expected credit loss.

The Bank applies a three-step approach to the measurement of expected credit losses from financial instruments measured at amortized cost or at fair value through other comprehensive income, for which no impairment loss was recognized as at the moment of initial recognition. As a result of changes in the credit quality since the initial recognition, financial assets are transferred between the following three stages:

i) Stage 1: An allowance due to expected credit losses in 12-month horizon

If credit risk did not increase significantly from the date of the initial recognition, and the impairment of the loan was not identified from the moment of its granting, the Bank recognizes an allowance for the expected credit loss related to the probability of default within the next 12 months. Interest income on such assets is recognized based on the balance sheet amount (amortized cost before the adjustment for impairment allowance) using the effective interest rate.

ii) Stage 2: An allowance due to expected credit losses for the entire lifetime – significant increase in the credit risk since the moment of initial recognition and no impairment of a financial asset identified

In the case of an exposure for which credit risk has increased significantly since the moment of its initial recognition, but no impairment of the financial asset was identified, an impairment allowance is created for the expected credit loss for the entire financing period. Interest income on such assets is recognized based on the gross balance sheet amount (amortized cost before the adjustment for impairment allowance) using the effective interest rate.

iii) Stage 3: An allowance due to expected credit losses for the entire lifetime – impairment of a financial asset

Financial assets is subject to impairment due to the credit risk resulting from an event or events that occurred after the initial recognition of a given asset. For financial assets, for which an impairment was identified, an allowance is created for the expected credit loss for the entire financing period, while interest income is recognized based on the net balance sheet value (including the impairment allowance) using the effective interest rate.

At each balance sheet date, the Bank assesses whether there has been a significant increase in credit risk for financial assets since the moment of their initial recognition, by comparing the risk of loan default during the expected financing period as at the balance sheet date and the initial recognition date, using, among others, the internal credit risk assessment system, external credit ratings, information on delay in repayments and information from internal credit risk monitoring systems, such as warning letters and information about restructuring.

The Bank assesses whether the credit risk has increased to a significant extent on the basis of individual and group assessment. In order to perform an impairment calculation on a group basis, financial assets are divided into homogeneous product groups based on common credit risk characteristics, taking into account the type of instrument, credit risk rating, initial recognition date, remaining maturity, industry branch, geographical location of the borrower and other relevant factors.

The value of expected credit loss is measured as the current value of all cash flow shortages in the expected life of a financial asset weighted with probability, and discounted using the effective interest rate. The shortfall in cash flows is the difference between all contractual cash flows due to the Bank and all cash flows that the Bank expects to collect. The value of the expected credit loss is recognized in the profit or loss account in the impairment losses.

The Bank takes into account historical data on credit losses and adjusts them to current observable data. In addition, the Bank uses reasonable and justified forecasts of the future economic situation, including its own judgment based on experience, with the purpose of estimating the expected credit losses. IFRS 9 introduces an application of macroeconomic factors to the calculation of impairment losses on financial assets. These factors include: unemployment rate, interest rates, gross domestic product, inflation, commercial property prices, exchange rates, stock indices, and wage rates. IFRS 9 also requires an assessment of both the current and the forecasted direction of the economic cycles. The inclusion of forecast information in the calculation of impairment losses on financial assets increases the level of judgement to what extent these macroeconomic factors will affect the expected credit losses. The methodology and assumptions, including all forecasts of the future economic situation, are regularly monitored.

If in the subsequent period the allowance for expected credit losses decreases, and the decrease can be objectively related to an event occurring after the impairment was recognized, then the previously recognized impairment allowance is reversed by adjusting the allowance for expected credit losses. The amount of the reversed impairment allowance is recognized in the profit or loss account.

For debt instruments measured at fair value through other comprehensive income, the measurement of the expected credit loss is based on a three-step approach, as in the case of financial assets measured at amortized cost. The Bank recognizes the amount of the impairment loss in profit or loss account, including the corresponding value recognized in other comprehensive income, without reducing the balance sheet amount of assets (i.e. their fair value) in the statement of financial position.

Generally, the impairment allowance calculated in accordance with IFRS 9 results in earlier recognition of credit losses as compared to the requirements of IAS 39.

Assets acquired or originated with impairment identified (POCI assets)

In addition, the Bank distinguishes categories of assets acquired or granted with impairment. POCI assets are financial assets measured at amortized cost, which are impaired at the moment of initial recognition. At the moment of initial recognition, POCI assets are recognized at their fair value. After initial recognition, POCI assets are measured at amortized cost using the effective interest rate adjusted for credit risk to determine the amortized cost of the financial asset component and interest income generated by these assets - the CEIR rate. In the case of POCI exposures, the change in expected credit losses - over the entire lifetime - compared to those estimated at the date of their initial recognition is recognized as an impairment loss. Financial assets that were classified as POCI at the moment of initial recognition should be treated as POCI in every subsequent period until they are derecognized.

Modification of financial assets and liabilities

If the terms of a financial asset agreement change, the Bank assesses whether the cash flows generated by the modified asset differ significantly from those generated by this asset before the terms of its agreement are modified. If a significant difference is identified, the original financial asset is derecognized, and the modified financial asset is recognized as a "new" financial asset, which is recognized in its fair value and the new effective interest rate applied to the new asset is calculated.

If the cash flows generated by the modified asset do not differ significantly from the original cash flows, the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross balance sheet amount of the financial asset using the previous effective interest rate.

The assessment of whether a given modification of financial assets is significant depends on the fulfilment of qualitative and quantitative criteria.

If there is evidence that a modified financial asset is initially impaired due to credit risk, it is necessary to calculate the effective interest rate adjusted for the credit risk of that financial asset.

The below table summarizes the impact of IFRS 9 on the change in the classification and measurement of the Bank's financial assets and liabilities as at 1 January 2018.

FINANCIAL ASSETS IN ACCORDANCE WITH IAS 39	CLASSIFICATION IN ACCORDANCE WITH IAS 39	CLASSIFICATION IN ACCORDANCE WITH IFRS 9	BALANCE SHEET AMOUNT IN ACCORDANCE WITH IAS 39	BALANCE SHEET AMOUNT IN ACCORDANCE WITH IFRS 9
Cash and balances at Central Bank	Loans and receivables	Amortised cost	998,035	998,021
Amounts due from banks	Loans and receivables	Amortised cost	2,515,457	2,519,010
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss	474,421	474,421
Differences from hedge accounting regarding the fair value of hedged items	Hedging instruments	Hedging instruments	32,730	32,730
Loans and advances to customers	Loans and receivables	Amortised cost	52,195,203	48,290,136
Loans and advances to customers	Loans and receivables	Fair value through profit or loss	-	2,888,872
Financial assets available for sale .	Available for sale	Amortised cost	-	7,466,904
Financial assets available for sale	Available for sale	Fair value through profit or loss	-	104,984
Financial assets available for sale	Available for sale	Fair value through other comprehensive income	13,921,889	6,834,249
Deferred tax assets			468,617	621,870
Other assets			346 113	311 436
FINANCIAL LIABILITIES IN ACCORDANCE WITH IAS 39				
Provisions	Amortised cost	Amortised cost	76,697	120,767

a) Loans and advances, in which business model consists in holding assets to collect cash flows, but the characteristics of these cash flows do not meet the definition of principal and interest presented in IFRS 9. The Bank classified such exposures to the category of instruments measured at fair value through profit or loss. The indicated instruments are presented in the financial statements under "Loans and advances to customers measured at fair value through profit or loss".

b) Debt instruments that, in accordance with IAS 39, were classified as available for sale and measured at fair value through other comprehensive income, that failed the SPPI test, and therefore, in accordance with IFRS 9, were classified as measured at fair value through profit or loss account and presented in the financial statements under "Financial instruments measured at fair value through profit or loss".

c) Debt instruments that, in accordance with IAS 39, were classified as available for sale and measured at fair value through other comprehensive income, were assessed in terms of the business model as maintained to collect contractual cash flows and for sale (and the result of the SPPI test was positive), and therefore were classified as measured at fair value through other comprehensive income and presented in the financial statements under "Securities measured at fair value through other comprehensive income" in line with IFRS 9.

d) Debt instruments that, in accordance with IAS 39, were classified as available for sale and measured at fair value through other comprehensive income, were assessed in terms of the business model as maintained to collect contractual cash flows and the result of SPPI test was positive and were therefore classified as measured at amortized cost and presented in the financial statements under "Securities measured at amortized cost" in line with IFRS 9.

e) Equity instruments not held for trading and classified as available for sale in accordance with IAS 39, for which the Bank did not decide to measure them at fair value through other comprehensive income. Equity assets will be measured at fair value through profit or loss account. The indicated equity instruments are presented in the financial statements under "Financial instruments measured at fair value through profit or loss".

In addition to the above, no other changes in the classification and measurement of financial instruments occurred in the present financial statements due to the implementation of the requirements of IFRS 9.

Changes in the statement of profit or loss

In connection with the implementation of IFRS 9 and the new categories of the classification of financial instruments, revenues from financial instruments due to interests and changes in fair value are presented in the following items of the profit or loss account:

- In case of loans and advances granted to customers and measured at fair value through profit or loss, interest income is presented in the result on interest, while the change in fair value is presented in the result on investment activities.
- In case of debt instruments measured at fair value through other comprehensive income, interest income is presented in the result on interests.

The reconciliation of balance sheet amounts in the financial statements as at 1 January 2018, resulting from the implementation of IFRS 9, is presented below.

The value of other items of financial assets and liabilities presented in the statement of financial position is not changed significantly as a result of the implementation of IFRS 9.

The impact of the implementation of the new standard on the financial position and equity of the Bank recognised as at 1 January 2018 (opening balance) is as follows:

Item	Measurement category – IAS 39	Measurement category – IFRS 9	Balance sheet amount in accordance with IAS 39	Impact of IFRS 9* Classification and measurement – no impact on the results of previous years	Impact of IFRS 9* Classification and measurement – with impact on the results of previous years	Impact of IFRS 9* Impairment – with impact on the results of previous years	Balance sheet amount in accordance with IFRS 9
Cash and balances with Central Bank	Amortised cost	Amortised cost	998,035	-	-	(14)	998,021
Amounts due from banks	Amortised cost	Amortised cost	2,515,457	-	-	3,553	2,519,010
Loans and advances to customers	Amortised cost	Amortised cost	52,195,203	(3,407,194)	-	(497,873)	48,290,136
Loans and advances to customers	Amortised cost	Fair value through profit or loss	-	2,891,805	(2,933)	-	2,888,872
Financial assets available for sale	Fair value through other comprehensive income	Fair value through other comprehensive income	13,921,889	(7,087,621)	(19)	-	6,834,249
Financial assets available for sale	Fair value through other comprehensive income	Amortised cost	-	7,467,041	-	(137)	7,466,904
Financial assets available for sale	Fair value through other comprehensive income	Fair value through profit or loss	-	109,411	(4,427)	-	104,984
Other assets	Amortised cost	Amortised cost	346 113	(26,558)	-	(8,119)	311 436
Provisions	Amortised cost	Amortised cost	(76,697)	-	-	(44,070)	(120,767)
Revaluation reserve	Fair value through other comprehensive income	Amortised cost	141,917	(26,576)	-	-	115,341
					(7,379)	**(546,660)**	
Total impact of IFRS 9 implementation					**(554,039)**		

* excluding the impact of deferred tax

The total value of the impact of IFRS 9 implementation in the amount of PLN (554,039) thousand and the effect of deferred tax resulting from the implementation of IFRS 9 in the form of an increase in net deferred tax asset in the amount of PLN 153,243 thousand decreased the balance of retained earnings in the amount of PLN (400,786) thousand as at 1 January 2018.

	Impairment allowance in accordance with IAS 39	Change due to reclassification and remeasurement	Change due to impairment change	Impairment allowance in accordance with IFRS 9
Impairment allowance on funds at Central Bank	-	-	(14)	(14)
Impairment allowance on amounts due from banks	(4,477)	-	3,553	(924)
Impairment allowance on amounts due from customers	(2,771,900)	(299,383)	(497,873)	(3,569,156)
Impairment allowance on securities measured at amortised cost	(11,792)	(7,000)	(137)	(18,929)
Impairment allowance on other assets	(82,714)	-	(8,119)	(90,833)
Provision for financial liabilities and guarantees granted	(35,419)	-	(44,070)	(79,489)
Total impairment allowances	**(2,906,302)**	**(306,383)**	**(546,660)**	**(3,759,345)**

In the column " Change due to reclassification and remeasurement " a presentation change is presented consisting mainly in increasing the gross carrying amount by recognizing contract interest accrued in full amount from receivables in Stage 3 and, consequently, an analogous increase in the level of write-offs.

	Fair value at closing balance	Profit / loss due to changes in fair value that would have been recognized in the profit or loss account / revaluation reserve in the reporting period, if the financial asset / financial liability was not reclassified	Effective interest rate as at the moment of reclassification	Interest income / interest expense recognized in the reporting period
From measured at fair value through other comprehensive income to measured at amortised cost	7,032,343	26,576	n/a	n/a

In 4th quarter of 2018 Bank implemented rating based segmentation in farmer segment. This methodology was applied for PD parameter estimation and identification of significant increase of credit risk. Due to significance of this and change of methodology this approach was also applied for Opening Balance and was reflected in Amortized Cost and Fair Value numbers for exposures in this segment.

Impact of IFRS 9 on capital adequacy

On 12 December 2017, the European Parliament and the EU Council adopted the Regulation No. 2017/2395 amending the Regulation No. 575/2013 regarding transitional arrangements to mitigate the impact of implementing IFRS 9 on equity and the solutions regarding the fact of treating some exposures to public sector institutions, which are denominated in the national currency of any Member State, as large exposures. This Regulation entered into force on the day following its publication in the Official Journal of the European Union and has been applicable since 1 January 2018. The European Parliament and the Council (EU) considered that the application of IFRS 9 could lead to a sudden increase in allowances for expected credit losses, and therefore, the decrease in Tier 1 capital.

The Bank, after analysing the requirements of Regulation No. 2017/2395, decided to apply the transitional provisions provided for in this Regulation, which means that the full impact of the implementation of IFRS 9 will not be taken into account for the purpose of assessing capital adequacy of the Bank.

As a result of adjusting the calculation of regulatory capital requirements, which include transitional arrangements to mitigate the impact of IFRS 9 implementation, as set out in the Regulation of the European Parliament and the Council

(EU) No. 2017/2395 of 12 December 2017, the impact on Tier 1 ratio and on the total capital ratio of the Bank will be adjusted by 95% of the balance of retained earnings and revaluation reserve.

The provisions of IFRS 9 are not unambiguous and are subject to interpretations by both entities implementing the standard, as well as by the regulator or audit firms, and the position of all interested parties is not uniform in all aspects. The market practice of applying the standard's provisions is still under development and may change due to the ongoing discussions.

2.6.2. IFRS 15 ”Revenue from contracts with customers”

International Financial Reporting Standard 15 "Revenues from contracts with customers" (hereinafter “IFRS 15”) entered into force with reference to financial statements for periods beginning on 1 January 2018. The Bank did not decide on its earlier application and applied the so-called modified retrospective approach provided for in IFRS 15. This means that the Bank applied IFRS 15 retrospectively only to contracts that are not completed as at the first application date, i.e. 1 January 2018, including the total effect of the first application of IFRS 15, if it occurred, as an adjustment to the initial balance of retained earnings in the annual reporting period in which the date of first application occurs. The Bank has applied IFRS 15 to all contracts with customers, with the exception of leasing agreements within the scope of IAS 17 Leases, financial instruments and other contractual rights or obligations falling within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate financial statements and IAS 29 Investments in associates and joint ventures. The Bank will not use practical expedients allowed under IFRS 15 for a modified retrospective approach.

The scope of IFRS 15 does not include interest income, and therefore the changes introduced by IFRS 15 do not affect the majority of revenues and mainly affect the result on fees and commissions, other operating income and other operating expenses.

The main principle of IFRS 15 is recognizing revenue at the moment of transfer of goods and services to the customer, in the amount reflecting the price expected by the entity, in exchange for the transfer of these goods and services. New principles were applied with the use of five-step model.

a) the contract with a customer has been identified and therefore the Bank may have the right to recognize revenue,
b) the performance obligation resulting from a contract with the customer was identified,
c) the transaction price has been determined,
d) the transaction price was allocated to individual performance obligations,
e) revenue is recognized when the contractual performance obligation is fulfilled.

Revenues from the sale of goods or services offered to customers in packages should be separated and presented separately, unless the package of goods/services transferred to the customer was considered as one performance obligation.

In addition, all discounts and rebates, as well as refunds and payments to the customer, shall adjust the transaction price, and, thus, also adjust the amount of revenue recognized, unless the payment to the customer concerns remuneration for separate services from the customer. In the case of payments to the customer, the revenue should be recognized in the net value (adjusted by the amount to be returned to the customer).

In the case of variable revenue, in accordance with the new standard, variable amounts are recognized as revenue, provided that there is a high probability that the significant part of this amount will not be reversed in the future.

In addition, in accordance with IFRS 15, costs incurred in order to obtain and secure a contract with the customer should be capitalised and deferred through the entire period of consuming benefits from this contract if the Bank expects that these costs will be recovered.

The Bank may include additional costs of concluding a contract as costs at the time they are incurred, if the depreciation period of an asset that would otherwise have been recognized by the Bank is one year or of the period is shorter.

The Bank analysed the impact of IFRS 15 implementation in the context of revenue recognition. As a result of this analysis, the following types of revenues were identified, which should be recognized in accordance with IFRS 15:

- remuneration for contracts in which the Bank is an agent,
- additional remuneration paid by settlement organizations,
- loyalty programs and interchange fees, received from settlement organizations, "success fee" - contracts with a success fee remuneration are defined by the Bank as such contracts, in case of which the Bank does not have a guarantee that it would receive the remuneration, or when the remuneration is very minimal during the term of the contract until some condition occurs, when the Bank receives a remuneration of substantial value covering the activities comprising the performance of the contract in the long preceding time,
- revenue from asset management.

The Bank has analysed contracts with customers falling within the scope of IFRS 15 and did not identify significant changes with reference to the moment of recognition of revenues in annual periods – therefore, the application of IFRS 15 did not affect the opening balance of retained earnings as at 1 January 2018 (implementation of IFRS 15 did not result in an adjustment of retained earnings as at 1 January 2018). The Bank identified agreements in which, in the light of IFRS 15, it acts as an agent. If another entity is involved in providing goods or services to the customer, the Bank determines whether the nature of the Bank's performance obligation is an obligation to provide certain goods or services (in this case, the Bank is the principal) or to delegate to another entity to provide these goods or services (in this case, the Bank is an agent). Therefore, starting from 1 January 2018, some commissions paid and received, as well as other operating income and other operating costs due to the Bank's role as an agent, are presented in net value (margin value), which applies to, among others, selected contracts with car dealers, agreements with settlement organizations, loyalty programs, or revenues from management contracts. These changes will not affect the net financial result of the Bank, nor the result presented on fees and commissions and the result on operating activities.

The table below presents the impact of the application of IFRS 15 in the current period of 12 months ending on 31 December 2018 for individual items of the financial statements in comparison to the previously applied IAS 18 and IAS 11 and related interpretations that were in force prior to the amendment.

	12 months ended 31.12.2018 in accordance with IFRS 15	Change	12 months ended 31.12.2018 in accordance with IAS18
Fee and commission income	677,822	6,325	684,147
Fee and commission expenses	(142,650)	(6,325)	(148,975)
Net fee and commission	**535,172**	**-**	**535,172**
Other operating income	393,193	29,600	422,793
Other operating expenses	(161,606)	(29,600)	(191,206)
Other income and expenses net	**231,587**	**-**	**231,587**

2.6.3. IFRS 16 „Leases"

IFRS 16 "Leases" was published by the International Accounting Standards Board on 13 January 2016 and approved by the European Commission Regulation No. 2017/1986 of 31 October 2017 for use in European Union member states. The standard is obligatorily applicable to annual reporting periods beginning on 1 January 2019 or after that date.

IFRS 16 superseded, as at 1 January 2019, the following standards and interpretations:
· IAS 17 „Leases",
· IFRIC 4 „Determining whether an Arrangement contains a Lease",
· SIC-15 „Operating Leases—Incentives",
· SIC-27 „ Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

The new standard presents a comprehensive model of identification of lease agreements and their settlement in the financial statements of lessors and lessees.

IFRS 16 uses the model of right to control to identify leasing agreements. The standard contains detailed guidelines for assessing whether a given contract contains lease elements, services or both of these characteristics. An agreement is classified as a leasing agreement if it transfers the right to control the use of an identified asset for a given period of time in exchange for a payment. Significant changes were introduced as regards settlement for the lessee. As regards the leasing recognition model used by the lessees, the classification of the lease as operating or financial was rejected. In the scope of all leasing contracts and agreements containing the leasing element, the assets (the right to use the asset in a given period of time) and leasing liabilities are recognized. The standard does not introduce significant changes in the scope of requirements for lessors when compared to IAS 17. The lessor continues to classify the lease as operating lease or finance lease as two separate types of leasing.

As a general rule, as at the commencement date of the lease, the lessee will recognize the lease liability (liability to make lease payments) and the asset that constitutes the right to use the subject of the lease for the duration of the leasing contract (right to use an asset) for all leasing agreements. At the same time, IFRS 16 gives the opportunity to benefit from simplifications regarding short-term contracts and leasing of low-value items.

IFRS 16 allows lessees to apply the currently used methods of recognizing operating leases to recognize short-term lease contracts and lease of low-value items. Short-term leasing is characterized by the maximum possible duration of the contract of 12 months, including its renewal options. Determining whether the lease is a short-term lease is based only on the maximum possible duration of the contract, i.e. the period for which the enforceable rights and obligations arise. Lessees cannot benefit from the above-mentioned simplification in case of short-term contracts with the option to purchase the leased asset irrespective of the intention and expectations of the lessee as to the subject of the contract.

On the commencement date, the lessee measures the lease liability based on the current value of lease payments remaining to be paid as at that date. Lease payments are discounted using the interest rate of the lease, if such a rate can be easily determined. Otherwise, the lessee applies the marginal interest rate of the lessee. The following elements are included in the measurement of leasing liabilities:
- fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Floating fees, which do not depend on the index or rate and do not have a certain minimum level, are not included in the value of the lease liability. These fees are recognized in the profit or loss account in the period of the occurrence of the event that causes their maturity.

On the commencement date, the lessee measures an asset due to the right to use at its cost. The cost of an asset due to the right of use should include:

- the initial value of the lease liability,
- leasing payments made at the time or before the conclusion of the contract less any incentives received,
- all initial costs incurred by the lessee, and
- estimated costs of dismantling and removing the underlying asset, that must be incurred by the lessee in connection with the assets included in the agreement in order to restore the place in which it is located or the asset itself to the conditions required under the leasing contract.

After the initial recognition, the right to use is reduced by depreciation and total impairment losses and adjusted in connection with the revaluation of the lease liability due to changes in the lease, which do not require the recognition of a separate lease component.

Assets with to the right of use are amortized on a straight-line basis over the shorter of two periods: the leasing period or the useful life of the underlying asset, unless the Bank has sufficient certainty that it will obtain ownership before the end of the leasing period - then the right to use is depreciated from the day of commencement until the end of the asset's useful life.

The Bank applies the exemptions provided for in IFRS 16 and does not recognize the asset components due to the right of use in the case of short-term leases and leases covering components of low-value assets. Short-term leases are defined as leases which have a period of no longer than 12 months as at the beginning date (including periods for which the lease can be extended, if it can be assumed with reasonable assurance that the lessee will exercise that right) and do not include a call option. Low-value assets are those which have a value of no more than EUR 5,000.

First application of IFRS 16

In accordance with the requirements, as of 1 January 2019, the Bank applied IFRS 16 Leases for the first time.

The Bank implemented IFRS 16 using a retrospective approach modified with cumulative impact on 1 January 2019 (IFRS 16, C5 (b), C8 (b) (ii)), hence without retrospective changes in the presentation, according to which the recognized value of the lease liability is equal to the value of the right of use, adjusted by previously recognized pre-paid or accrued lease payments.

Lease definition

The Bank has previously used the definition of lease determined in accordance with IFRIC 4. In accordance with IFRS 16, the Bank assesses whether the contract constitutes or contains a lease based on the definition of leasing provided for in this Standard.

As at the date of initial application of IFRS 16, the Bank used the practical solution of not re-assessing the nature of contracts concluded before 1 January 2019. In connection with the above, the Bank applied the exclusion from IFRS 16 in relation to contracts that were not previously identified as leasing in accordance with IAS 17 or IFRIC 4.

Bank as a lessee

In accordance with the previously applied IAS 17 Leases, the Bank classified leasing contracts as a financial or operating lease based on an assessment of whether the entire risk and benefits resulting from ownership of the leased asset were transferred to the lessee. In accordance with IFRS 16, the Bank recognizes a component of assets due to the right of use and leasing liabilities for the majority of leases – i.e. those leasing contracts are recognized in the statement of financial position.

For leasing contracts, previously classified as operating leases, the Bank recognized assets due to the right of use and leasing liabilities as follows:

- the leasing liability was measured at the present value of the remaining lease payments, discounted using the marginal interest rate at the date of the initial application,
- the value of the right of use of the underlying asset components for individual lease agreements (separately for each contract) has been determined in a value reflecting the leasing liability, adjusted for previously recognized prepaid or accrued lease payments.

Using the modified retrospective method of implementing IFRS 16, the Bank used the following practical solutions for leases previously classified as operating leases in accordance with IAS 17:

- the Bank has applied the exclusion in the application with respect to leasing contracts, which period ends up to 12 months from the date of the first application of IFRS 16 or their value does not exceed the amount of EUR 5,000,
- the Bank excluded the initial direct lease costs from the valuation of the right to use the asset as of the initial application of IFRS 16,
- the Bank used its experience and knowledge while determining the leasing period, for contracts containing the option of extending or terminating the lease.

For leases that were previously classified as finance leases in accordance with IAS 17, the balance sheet amount of the right to use the asset and liability as at 1 January 2019 was determined as the balance sheet amount of the leased asset and leasing liabilities directly before that date, valued in accordance with IAS 17.

The weighted average value of the right of use, the marginal interest rate applied to the lease liabilities recognized in the financial statements on the date of the first application of IFRS 16, in contract currencies, was the following:

- for liabilities in EUR 0.817%,
- for liabilities in PLN 2.601%.

The impact of IFRS 16 implementation on the financial statements as at the date of initial application is as follows:

As at 1 January 2019, the Bank recognized PLN 596,492 thousand of assets due to the right of use and leasing liabilities in the amount of PLN 610,497 thousand. Difference in the amount of PLN 14,005 thousand refers to previously recognized prepaid or accrued lease payments and provisions for the restructuring of the branch network.

	1.01.2019
The amount of future non-discounted operating lease payments as at 31 December 2018 disclosed in the Bank's financial statements	694 923
Amount of future not discounted payments on short-term leases recognized on a straight-line basis as an expense at 1 January 2019	(13,788)
Other adjustments due to discount as at 1 January 2019	(70,638)
Leasing liabilities as at 1 January 2019	**610,497**

Bank as a lessor

With reference to contracts in which the Bank is a lessor, as at the moment of IFRS 16 implementation, the Bank did not make any adjustments.

2.7. Measurement of items denominated in foreign currencies

Functional and presentation currency

Items included in the financial statements are measured in the currency of the primary economic environment in which the Bank operates ("functional currency"). The separate financial statements are presented in PLN thousands, which is the functional currency of the Bank and the presentation currency of the Bank's financial statements.

Transactions and balances

Transactions expressed in foreign currencies are translated into the functional currency at the exchange rate applicable as at the transaction date.

At the end of the reporting period, monetary assets and liabilities expressed in currencies other than Polish zloty are translated into Polish zlotys using the average exchange rate for a given currency determined by the National Bank of Poland in force at the end of the reporting period. Foreign exchange differences resulting from the translation are recognized as a net trading income or in cases specified in the accounting principles (policy), capitalized in the value of assets. Non-monetary assets and liabilities recognized at historical cost expressed in a foreign currency are disclosed at the historical exchange rate as at the transaction date. Non-monetary assets and liabilities recognized at fair value expressed in a foreign currency are translated at the exchange rate effective at the date of fair value measurement.

Basic currency rates used in the preparation of the present financial statements as at 31 December 2018 and 31 December 2017 are presented in the below table:

	31.12.2018	31.12.2017
1 EUR	4.3000	4.1709
1 USD	3.7597	3.4813
1 GBP	4.7895	4.7001
1 CHF	3.8166	3.5672

2.8. Interest income and expenses

Recognition of interest income and expenses until 31 December 2017

All interest income and expenses related to financial instruments measured at amortized cost using the effective interest rate and debt financial assets available for sale and financial instruments measured at fair value are recognized in the statement of profit or loss.

The effective interest method is a method of determining the amortized gross value of financial assets or liabilities and allocating interest income or expenses to relevant periods. The effective interest rate is the rate for which discounted future payments or proceeds are equal to the current net balance sheet amount of a given financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows including all contractual terms of a given financial instrument excluding, though, possible future losses arising from default. The calculation takes into account all payments due and received and cash flows paid to or received by the Bank under a given contract, excluding any possible future credit losses.

Once an impairment loss is recognized for a financial asset or a group of similar assets, interest income is calculated with the use of the effective interest rate applicable as at the date of the observed impairment loss, with regard to the newly determined value of a given asset, calculated as a difference between the gross value of exposure and the impairment loss (net investment value).

Reporting period costs related to interest on customer accounts liabilities and issue of securities are recognized in the statement of profit or loss using the effective interest rate method.

Recognition of interest income and expenses on and after 1 January 2018

The profit or loss statement includes all interest income on financial instruments measured at amortized cost using the effective interest rate, financial assets measured at fair value through other comprehensive income and financial assets and liabilities measured at fair value through profit or loss using the effective interest rate and also income which character is approximated to interest from financial instruments.
The effective interest rate is the rate used to estimate future payments or incomes throughout the expected life of financial assets or financial liabilities, discounted to the gross balance sheet value of a financial asset or to the amortized cost of a financial liability. The calculation of the effective interest rate includes all commissions paid and received by the parties, transaction costs and any other bonuses and discounts that are an integral part of the effective interest rate.
Interest income is calculated using the effective interest rate based on the balance sheet amount of financial assets except for these that are impaired due to credit risk. At the moment of recognition of financial assets impairment (reclassification of a financial asset to Stage 3), interest income is accrued on the net value of the financial asset and is recognized at the interest rate used to discount future cash flows for the purposes of measuring impairment.

2.9. Net fee and commission income

Recognition of fee and commission income until 31 December 2017

Fees and commissions, which are not accounted for using the effective interest rate method but in accordance with the straight-line method or recognized on a one-off basis, are recognized in “Net fee and commission income”.

Income settled over time with straight-line method includes commissions on overdrafts, credit cards, revolving loans and commitments (guarantees and credit facilities).

Commission income recognized in the statement of profit or loss upon service performance includes fees for maintenance of current accounts, fees on settlement transactions, broker commissions and commissions for distribution of participation units.

Fees regarding Bank’s commitments to grant a loan or credit facility (commissions on promises issued) are deferred and settled upon occurrence of financial assets using the effective interest rate or straight-line method.

Net fee and commission income includes also the remuneration obtained for offering third-party’s insurance products.

Recognition of fee and commission income on and after 1 January 2018

Fees and commissions that are not accounted for using the effective interest rate method, but are settled over time using the straight-line method or recognized on a one-off basis, are recognized under the item Net fee and commission income.

Revenues settled over time using the straight-line method include, in particular, commissions received from current account loans, revolving loans, and liabilities granted (guarantees, credit lines).

Fees for the Bank's commitment to grant a loan or an advance (commissions from promises issued) are deferred and as soon as financial assets are created they are accounted for as an element of the effective interest rate or on a straight-line basis.

Revenues from contracts with customers include both fees and commissions, which are settled over time using the straight-line method (in the course of providing the service) as well as on a one-off basis. Revenues are measured based on the Bank's remuneration specified in the contracts with customers and do not include amounts collected on behalf of third parties. The Bank recognizes revenues when the performance obligation is met (or when it is being fulfilled) by transferring the promised good or service (i.e. an asset) to the customer.

Loans and advances
In respect of loan agreements, the Bank generates, in particular, revenues for readiness to give the funding under the granted credit limits, which are recognized in the profit or loss account on a straight-line basis over the period for which the limit was granted. For contracts without a specified repayment schedule, in the case of revolving loans, fees for each instalment of a loan tranche are recognized over the average expected repayment period. Under certain loan agreements, the Bank receives commissions for readiness or commitment, the amount of which is calculated on the basis of loan balances at the specified moment of the duration of the loan agreement. Despite the fact that they partially constitute remuneration for the provision of services, in case of which the customers derive benefits in a continuous manner, due to significant uncertainty about the credit balance at a specific point in the future, the Bank recognizes this type of income when the basis of its calculation is certain.

Debit and credit cards

Under debit card agreements with customers, the Bank recognizes revenues from various types of fees and commissions. In a majority of cases, these are activities in which the Bank executes its obligation to provide services at a given moment of time, in which the customer derives benefits from these services at once, the remuneration due is recognized by the Bank in revenues on a one-off basis. An example may be the fee for issuing a card, for checking the account balance at an ATM, for withdrawing cash at an ATM. In addition to one-off fees for banking operations, analogous to those described above for debit cards, the Bank receives annual fees for the use of credit cards sold by the Bank together with separate services, including card insurance. The Bank allocates remuneration to individual performance obligations and recognizes commissions during the service provision period.

Commitments to grant loans and advances

The Bank charges a commission for its readiness to grant a loan or advance, which constitutes a separate remuneration for commissions received from the loans at the moment of their commissioning, such as preparation commissions. Despite the provision of the service over time, the Bank recognizes the revenue on account of the commission for readiness at the moment of the decision regarding the commissioning of the loan, because it is not possible to estimate the period by which the due remuneration should be spread.

Intermediation in the sale of investment products and asset management

The Bank acts as an intermediary in the sale of participation units of investment funds for Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A. ("TFI"), and receives a part of the commission charged for sales from customers. The Bank recognizes revenue monthly based on the sales volume for a given month. In addition, the Bank receives variable remuneration from TFI as part of the commission for the management of assets created as a result of the sale of investment fund participation units, which TFI collects from clients. The Bank's remuneration depends on the valuation of assets in the portfolio under management. The Bank recognizes revenue at the end of the month based on its own estimates in the area of valuation of assets under management, which do not imply a potential significant reversal of revenue when settling revenues from TFI.

Intermediation in the sale of insurance agreements

The Bank, acting as an agent in the sale of insurance for an insurance company, is entitled to participate in the distribution of the company's profit for which it participates in the mediation. The Bank recognizes revenues on a quarterly basis based on the periodic results of the insurance company in an amount that will not be subject to significant reversal in the future.

Recognition of bancassurance income and expenses

Direct relation of a bancassurance product and financial instrument occurs in particular if at least one of the following conditions is met: the offered financial instrument is always accompanied by the bancassurance product, or the bancassurance product is offered only accompanied by the financial instrument, i.e. the Bank does not offer any bancassurance products with identical legal form, terms and economic contents without the accompanying financial instrument.

Recognition of bancassurance income for related transactions

For related transactions including bancassurance products and financial instruments, remuneration from sales of the bancassurance products constitute an integral part of the fee for the offered financial instruments.

Fee for bancassurance products offered in related transactions with financial instruments measured at amortized cost is accounted for using the effective interest rate method and recognized in interest income for one-off premium or on a monthly basis for a monthly premium.

Fee for the agency services, whose value is determined based on their economic contents, is recognized in commission income upon sale or renewal of a bancassurance product.

Recognition of bancassurance expenses for related transactions

Expenses directly related to the sale of bancassurance product are settled in accordance with the matching principle as an element of amortized cost of a financial instrument if the total income related to the sale of the product is settled with the effective interest rate method or, respectively, proportionally to the classification of the income as recognized within amortized cost calculation and that recognized on a one-off basis or over time as the fee for the agency services, if such classification has been introduced.

Recognition of bancassurance income and expenses for transactions not classified as related

If a financial instrument and a bancassurance product are sold in two separate transactions, the Bank's fee for the sale of the bancassurance product is recognized separately from the fee for the financial instrument.

Fee for the sale of bancassurance products that do not require the Bank to provide any post-sale services is recognized as income as at the effective/renewal date of the relevant insurance policy. The related income is recognized under commission income.

Fee for the services provided by the Bank over the whole life of a bancassurance product is deferred and recognized as income based on the percentage of completion of the provided services. Application of the percentage of completion method as at the balance sheet date is limited to cases when a result of a service transaction can be reliably estimated. If the Bank is unable to determine precisely the number of activities performed within a given time range or a level of returns, income from services or activities performed in relation to a bancassurance product offered by the Bank is recognized on a straight-line basis over the life cycle of the product.

2.10. Dividend income

Dividend income is recognized in the statement of profit or loss once the Bank's right to dividends has been determined.

2.11. Net trading income

Net trading income includes all income and expenses resulting from the change in the fair value of financial assets and liabilities classified as measured at fair value through profit or loss, and interest income and interest expenses on derivatives, except derivative instruments in hedge accounting.

The item includes also gains and losses on translation of assets and liabilities denominated in foreign currencies (revaluation).

2.12. Result on investment activities

The result on investment activities includes the income and expenses on financial assets classified as measured at fair value through other comprehensive income and income and expenses on loans and advances to customers measured at fair value through profit or loss, except for the interest.

2.13. Other operating income and expenses

Other operating income and expenses include items that are not directly related to the core operating activities of the entity.

They include mainly: result on sale and liquidation of fixed assets, revaluation of investment property, compensations received and paid, revenue and expenses arising from other services unrelated to the core business of the Bank.

2.14. Income tax expense

Charge on gross financial profit/loss includes current tax payable and debit/credit arising from a value change of the deferred tax asset/liability.

Current tax liabilities and receivables for the current and prior periods are measured at projected amounts payable to tax authorities (reimbursable) using tax rates and regulations valid in law or in fact as at the end of the reporting period.

Deferred income tax

Deferred tax liability is recognized in the full amount in line with the balance sheet method, on taxable temporary differences between tax value and balance sheet amount of assets and liabilities. Deferred tax assets are recognized with respect to all deductible temporary differences as well as unused tax reliefs and unused tax losses in the probable amount of taxable income that will allow the Bank to use the aforementioned differences, assets and losses. Deferred tax is determined using tax rates (and regulations) binding in law or in fact, as at the end of the reporting period, which are expected to be effective at the moment of realization of deferred tax asset and settlement of deferred tax liability.

If temporary differences result from recognizing an asset or liability upon a transaction not classified as business combination, which at the moment of concluding did not affect taxable or accounting profit, deferred tax is not recognized. Further, deferred tax liability is recognized for taxable temporary differences resulting from investments in subsidiaries or associates and interests in joint ventures – except for situations when the reversal dates of the temporary differences are controlled by the entity and when it is likely that the temporary differences will not be reversed in the foreseeable future; deferred tax asset is recognized for deductible temporary differences on investments in subsidiaries or associates and interests in joint ventures only to the extent in which the above mentioned differences are likely to reverse in the foreseeable future and a taxable income may be generated to allow deduction of these temporary deductible differences.

The balance sheet amount of the deferred tax asset is verified as at the end of each reporting period and is reduced as appropriate, provided that it is no longer probable that the taxable income will be sufficient for the realization of the deferred tax asset in part or in whole. An undisclosed deferred tax asset is re-measured as at the end of the reporting period and recognized up to the amount reflecting probable taxable income which will facilitate recovery of the asset. The Bank nets off the deferred tax asset and liability only when it holds an enforceable legal title to net off receivables with liabilities for current tax and the deferred tax relates to the same taxpayer and the same tax authority.

Income tax regarding items included directly in equity is recognized in equity and in the statement of comprehensive income.

In 2017 and 2018 the current income tax and deferred tax liability were calculated using 19 percent tax rate.

2.15. Classification and measurement of financial assets and liabilities

The Bank applied the requirements for the classification and measurement of financial instruments in accordance with IFRS 9 "Financial Instruments", for periods beginning on 1 January 2018 or after that date. The comparative data has not been restated and has been presented in accordance with the requirements of IAS 39 “Financial instruments: recognition and measurement”.

The main differences between IFRS 9 and IAS 39 relate to the classification of financial instruments and the methodology for calculating impairment of financial assets. A summary of the main changes introduced by IFRS 9 is presented in note 2.6. "Changes to accounting principles (policy) and to presentation of financial data".

Classification for the period ended 31 December 2017

In accordance with IAS 39, the Bank classified its financial assets to the following categories: financial assets measured at fair value through profit or loss, loans and receivables, investments held to maturity and financial assets available for sale.

The detailed rules for the classification and measurement of instruments classified into particular categories are presented below.

a) Initial recognition and derecognition of financial assets and liabilities in the statement on financial position

The Bank recognizes financial asset or financial liability in the statement of financial position after it is bound with the contractual provisions.

Standardized transactions of purchasing and selling financial assets measured at fair value through profit or loss, held to maturity and available for sale financial assets, as well as transactions on derivatives, are recognized as at the transaction settlement date. Loans are recognized once the funds are released to the debtor. Financial assets are initially recognized at fair value increased by transaction costs, except for the financial assets measured at fair value through profit or loss.

Classification of financial assets upon initial recognition depends on the purpose of acquisition and characteristics of a given asset.

Financial asset is derecognized when contractual rights to cash flows from a financial asset expire or when the Bank transfers rights to cash flows and this transfer meets the conditions for derecognition. In order to meet the conditions of derecognition, the transfer should include the transfer of substantially all the risks and rewards of the financial asset.

b) Financial assets and liabilities measured at fair value through profit or loss

The present class includes two sub-classes:

- Financial assets or liabilities held for trading (including derivatives) and
- Financial assets or liabilities classified as FVTPL upon initial recognition.

Financial assets and liabilities are recognized as “designated as FVTPL upon initial recognition” once the following criteria have been met: (i) such classification eliminates or significantly reduces the accounting mismatch when both measurement and principles of recognizing gains or losses are subject to separate regulations; or (ii) when these assets belong to a group of financial assets managed and evaluated in accordance with their fair value in line with documented risk management strategy; or (iii) when financial assets include embedded derivatives that should be recognized separately. As at 31 December 2017 and 31 December 2016, as well as in the years then ended, respectively, no financial assets were classified as measured at fair value through profit or loss upon initial recognition.

A financial asset "held for trading" is classified to "financial assets and liabilities measured at fair value through profit or loss" if it has been purchased to resell it in the short term or if it is included in this class by the Management Board upon meeting certain conditions. Derivatives are also classified as "held for trading".

At the end of the reporting period, financial assets and liabilities measured at fair value through profit or loss are measured at fair value from the transaction date. Gains and losses arising from fair value changes of FVTPL financial assets and liabilities are recognized in the statement of profit or loss under net trading income in the period of their occurrence. Interest along with the purchased discount or premium are recognized over time to net interest income using the effective interest method.

At the moment of initial recognition of a financial asset or financial liability, the Bank measures it at its fair value plus transaction costs, if material, in the case of a financial asset or financial liability not measured at fair value through profit or loss.

Following the initial recognition, fair value of a financial asset or liability is determined based on active market quotations of instruments. If a given financial asset (or unquoted security) is not listed in an active market, the Bank determines its fair value using measurement methods that include the use of recent transactions concluded on arms' length terms, reference to other basically identical instruments, analysis of discounted cash flows, option measurement models and other approaches commonly used by market participants.

Fair value of derivatives determined based on measurement methods includes credit risk. Changes in the fair value arising from changes in credit risk level related to derivatives are recognized in the statement of profit or loss.

c) Loans and receivables

Loans and receivables are defined as financial assets not classified as derivatives, with determined or determinable payments, not listed in an active market. This class of financial assets includes "Loans and advances to customers" and "Amounts due from banks".

They occur when the Bank transfers cash directly to a debtor, not planning to trade these receivables immediately or in the short term, and the receivables are not classified as "financial assets available for sale", or "financial assets measured at fair value through profit or loss".

Following initial recognition, loans and receivables are recognized at adjusted cost including impairment (amortized cost). Any differences between their fair value upon initial recognition (less transaction costs), usually corresponding to the transferred amount (less transaction costs), and the redemption value, are recognized in the statement of profit or loss for the term of the related agreements using the effective interest rate method.

d) Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity and in case of which the Bank has the positive intention and ability to hold to maturity. These assets do not include:

- assets measured at fair value through profit or loss on initial recognition;
- assets available for sale;
- assets meeting the definition of loans and receivables.

Should the Bank sell assets held to maturity, the value of which cannot be deemed immaterial, all assets from this class are reclassified to "available for sale" class.

Investments held to maturity are recognized at the adjusted (amortized) cost using the effective interest rate method.

e) Financial assets available for sale

Financial assets available for sale include non-derivative financial assets designated as available for sale or not included in any other asset class. Financial assets available for sale are recognized at fair value without deducing transaction costs and including their market value as at the end of the reporting period. Financial assets available for sale are measured at acquisition cost less impairment if they are not traded on an active market and their fair value cannot be reliably estimated using alternative methods. Positive and negative differences between the fair value (if there is a market price determined in an active market or if the fair value may be determined in a different reliable manner) and the cost, less deferred tax, are charged to other comprehensive income. If a given asset is impaired, any surplus on fair value re-measurement accounted for before reduces the "Revaluation reserve". If the amount of the surpluses is insufficient to absorb the impairment, the difference is recognized in the statement of profit or loss in "Net impairment losses on financial assets and contingent liabilities".

For interest-bearing assets, interest calculated with the effective interest rate method is recognized in the statement of profit or loss under interest income. Dividends on equity instruments available for sale are recognized in the statement of profit or loss under result on investment activities when the entity's right to receive dividend is established.

Classification for the periods beginning after 1 January 2018

In accordance with IFRS 9 the Bank classifies financial assets to one of the following categories:

- measured at amortised cost,
- measured at fair value through other comprehensive income or through profit or loss; and
- measured at fair value through profit or loss.

The classification depends on the Bank's business model adopted for financial assets management and the characteristics of contractual cash flows for the financial asset.

The accounting policy for the classification and measurement of financial instruments from 1 January 2018 has been presented in note 2.6. "Changes to accounting principles (policy) and to presentation of financial data".

The Bank classifies financial liabilities as measured at fair value through profit or loss or liabilities measured at amortized cost. In this area, the Bank did not note any significant changes compared to the classification principles in accordance with IAS 39.

Compensation of financial instruments

Financial assets and liabilities are compensated and presented in the statement of financial position at net amount, if a valid and exercisable netting-off right occurs and the Bank intends to settle a financial asset and a financial liability net or simultaneously settle the amount due.

Securitization of loan portfolio

In December 2017, the Bank performed a securitization transaction on the portfolio of cash and car loans. The transaction is a traditional and revolving securitization, involving the transfer of ownership of securitized receivables to SPV.

The company issued, based on securitized assets, bonds secured by a registered pledge on the assets of SPV.

The Bank performed a comprehensive analysis of the transaction, considering that in the light of the provisions of IAS 39 and IFRS 9, the contractual terms of the securitization do not fulfil the conditions for derecognition of the securitized assets. As at the date of the transaction, the Bank received the initial remuneration from the SPV irrevocably, corresponding to the total nominal value of the securitized loan portfolio. The transaction uses the mechanism of deferred remuneration payable to the Bank by SPV. Deferred remuneration corresponds to the SPV result after settling the financing costs and operating costs. Due to the applied deferred remuneration mechanism, the Bank retains substantially all the risks and rewards associated with the transferred loans. The deferred remuneration of the Bank, as expected, will absorb the entire volatility of cash flows from the portfolios of securitized loans. The Bank bears this volatility risk as the payment of the deferred remuneration by SPV to the Bank is entirely subordinated to the SPV's liabilities towards investors in respect of financing.

In connection with the above, the Bank recognizes a liability for cash flows from securitization that are measured with the use of effective interest rate calculated on the basis of future SPV payments due to liabilities resulting from bonds issued. The securitization transaction is described in Note 22 *Loans and advances to customers*.

Repo and sell buy back transactions

Securities sold under repo and sell buy back transactions are not excluded from the statement of financial position. Liabilities to counterparties are recognized as financial liabilities under "Liabilities arising from securities sold under repo and sell buy back transactions". Securities purchased under reverse repo and buy sell back transactions are recognized under "Receivables arising from securities purchased under reverse repo and buy sell back transactions". The difference between the sale and repurchase price is treated as interest and calculated using the effective interest method over the agreement term.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are measured at the acquisition price less impairment allowance in the separate financial statements.

Principles for recognition and derecognition of financial assets and liabilities

The Bank recognizes a financial asset or liability when it becomes a party to the contract of such an instrument. Standardized purchase and sale transactions of financial assets are recognized at the date of the transaction, which is the date when the Bank is required to purchase or sell a given financial asset. Standardized transactions for the purchase or sale of financial assets are transactions whose contractual terms require the delivery of an asset in the period resulting from the applicable regulations or conventions adopted on a given market. Standardized purchase or sale transactions refer in particular to FX spot FX transactions, the spot leg in FX swap transactions and securities purchase and sale transactions, where, normally, two business days pass between the transaction date and the settlement date, with the exception of repo transactions. The Bank derecognizes a financial asset when contractual rights to cash flows from a financial asset expire or when the Bank transfers contractual rights to receive cash flows from a financial asset in a transaction in which the Bank transfers substantially all risk and all benefits associated with the financial asset component.

2.16. Impairment of financial assets

Impairment calculation for the period ended 31 December 2017

a) Financial assets measured at amortised cost

As at the end of each reporting period, the Bank evaluates whether there is any impairment trigger of a financial asset or a group of financial assets. Impairment of a financial asset or a group of financial assets and any resulting losses occur when objective impairment triggers arise from event or events following initial recognition of these assets ("impairment triggers") and when such event (or events) impacts future cash flows related to the asset or asset group that can be reliably estimated. Objective evidence of impairment of a financial asset or a group of assets includes information obtained by the Bank about the following events that result in impairment:

a) late payment of the principal, interest or penalty interest exceeding 90 days;
b) facilities granted to a client by the Bank for economic or legal reasons, resulting from the client's financial difficulties, which would not be granted otherwise[1];
c) significant financial difficulties of the customer[2];
d) termination of a credit facility agreement by the Bank;
e) a bankruptcy petition filed or declared bankruptcy;
f) a statement that reorganization proceedings have been filed by the customer;
g) instigating enforcement proceedings against a client;
h) significant deterioration of rating or scoring analysis;
i) disappearance of an active market of a given credit exposure due to financial problems;
j) counterparty questioning the credit exposure at court;
k) unknown residence and undisclosed assets of a counterparty.

The list of triggers included in points *a* to *k* provides a basis to examine objective impairment triggers for each financial asset. Relevant employees of the Bank (credit inspectors and customer relationship managers) performing regular evaluation and classification of credit exposure are responsible for correct and full identification of impairment triggers. The governing principle is to treat each event that changes the value of future cash flows generated by a given credit exposure compared to contractual terms or latest evaluation as an impairment trigger (objective evidence of impairment) of the financial asset. Pursuant to IAS 39.59, when identifying objective impairment triggers, future events (i.e. events that occur after the reporting date as at which the impairment is calculated) are not considered regardless of probability of their occurrence.

[1] including debt restructuring resulting in economic losses for the Bank
[2] e.g. determined based on negative assessment of the client's financial condition (financial statements or other documents) or resulting from termination of employment, loss of income, increased debts, unpaid debt with other institutions.

Individually significant financial assets (ISFA) include:

a) exposures with the sum of: off-balance sheet exposure, balance sheet capital and interest pending on a given account higher than PLN 1 million as at the end of the reporting period for which the impairment is calculated (for foreign currency exposures, PLN equivalents are analysed with the use of interest rate as at the end of the reporting period);
b) restructured exposures with the sum of: off-balance sheet exposure, balance sheet capital and interest pending on a given account higher than PLN 100 thousand (for foreign currency exposures, PLN equivalents are analysed with the use of the interest rate as at the end of the reporting period);
c) exposures considered individually significant as at the end of the previous reporting period, with impairment trigger observed both at the end of the current and previous reporting periods; which means that an alternative approach, based on the threshold amount criterion, may be applied only when no impairment has been recognized for a given credit exposure;
d) debt securities (issued by the State Treasury, public sector entities and business entities) classified as held to maturity;
e) credit exposures related to banks and non-banking entities in the financial sector;
f) credit exposures related to central administrative bodies.

The Bank at first evaluates whether objective impairment triggers exist for individually significant financial assets or for groups of individually insignificant assets. If the analysis shows that there is no objective trigger that an individually evaluated financial asset may be impaired, irrespective of whether it is significant or not, the Bank includes the asset in the group of financial assets with similar credit risk characteristics and collectively tests them for impairment. Financial assets with impairment allowance recognized based on an individual evaluation (for the first time or subsequent) are not included in the collective impairment tests.

If there is objective evidence of impairment of loans and receivables or investments held to maturity measured at amortized cost, the amount of loss is calculated as the difference between the balance sheet amount of a given asset and the present value of the estimated future cash flows discounted at the effective interest rate valid as at the date of impairment recognition for a given financial asset. The carrying amount of an asset is reduced through the revaluation account and the amount of the impairment loss is recognised in the statement of profit or loss.

For the purpose of collective impairment testing, financial assets are grouped according to their credit risk characteristics. These characteristics affect the value of future cash flows estimated for certain asset groups, as they indicate debtors' ability to repay their entire liability in accordance with contractual terms regarding the evaluated assets.

Future cash flows generated by a group of assets collectively tested for impairment are estimated based on contractual cash flows and historical experience regarding losses incurred on assets with similar risk characteristics. If necessary, historical experience regarding losses is adjusted by data derived from current observation in order to include facts and circumstances which did not occur during the period included in the historical experience and to exclude facts and circumstances occurring then but not in the current period.

The Bank reviews the methodology and assumptions adopted to estimate future cash flows on a regular basis to reduce differences between estimated and actual impairment loss value. Additionally, the Bank performs regular back-testing of risks parameters used to estimate impairment on a collective basis.

Bad debts are fully written off to impairment allowances on loans. Should an amount previously written off be recovered, the amount of allowance on financial assets and the provision for contingent liabilities are reduced appropriately in the statement of profit or loss.

If, in the subsequent period, the value of impairment loss decreases as a result of an event that occurs after the impairment allowance recognition date (e.g. improvement of a debtor's creditworthiness), then the previously recognized impairment allowance is reversed by a relevant adjustment to the impairment account. The amount reversed is recognized in the statement of profit or loss.

b) Forborne receivables

In the case the forbearance granted does not significantly alter key terms and conditions or future projected cash flows of an existing financial asset, the projected future cash flows generated by the altered financial asset subject to the forbearance are included in the measurement of the existing financial asset based on the expected performance period and amounts discounted by the original effective interest rate for the existing financial asset.

If forbearance granted significantly alters key terms and conditions or future projected cash flows compared to the projected terms and conditions and future cash flows generated by an existing financial asset, the existing asset is derecognized and a new one is recognized instead at fair value as at the initial recognition date, while the difference between the existing and new asset is charged to the statement of profit or loss. The recognition is irrespective of a change or absence of change in the legal transaction form and is based on its economic contents.

c) Financial assets available for sale

As at the end of each reporting period, the Bank evaluates whether there is any impairment trigger of a financial asset or a group of financial assets. For capital instruments classified as available for sale, during impairment testing a significant or prolonged decline in the value of securities below their initial value is taken into account. If such triggers occur with regard to financial assets available for sale, the total loss, determined as a difference between the cost and current fair value, less impairment of a given asset previously recognized in the statement of profit or loss, is reclassified from equity to the statement of profit or loss. Impairment losses on equity instruments recognized in the statement of profit or loss are not reversed in the statement of profit or loss. If in the subsequent period the fair value of an available for sale debt instrument increases and the increase can be objectively linked to an event that occurred after the impairment allowance had been recognized in the statement of profit or loss, the impairment allowance is reversed through the statement of profit or loss.

Impairment calculation for the periods beginning after 1 January 2018

Accounting policies in terms of impairment calculation from 1 January 2018 are presented in Note 2.6 „Changes to accounting principles (policy) and to presentation of financial data".

2.17. Fixed assets available for sale

Fixed assets (or disposal groups) classified as available for sale are measured at the lower of the following values: carrying amount or fair value less costs to sell.

Fixed assets and groups of assets are classified as held for sale, if their balance sheet amount will be recovered as a result of the sale. This condition is regarded as met only when the sale is highly probable and the asset (or the disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

A discontinued operation is a component of the Bank that either has been disposed of, or is classified as available for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or (c) is a subsidiary acquired exclusively with a view to reselling.

Fixed assets held for sale include fixed assets repossessed for debt, meeting the requirements of IFRS 5 as described above.

2.18. Investment properties

Investment properties include properties treated as a source of revenue from lease and/or maintained due to a potential value increase.

Investment property is recognized in assets when and only when:

- obtaining economic benefits from this property is probable; and
- its cost can be reliably measured.

Upon initial recognition, investment properties are measured at the acquisition price including transaction costs.

The Bank adopted the principles of measuring investment properties at fair value as at subsequent balance sheet dates.

Gains resulting from changes in fair value of investment property are recognized in the statement of profit or loss as other operating income in the period in which the change has occurred, while losses are charged to other operating expenses in the period in which the change has occurred.

Real estate and land repossessed for debt are recognized as investment properties, unless they meet the criteria allowing their classification as fixed assets available for sale.

2.19. Intangible assets

Intangible assets acquired in a separate transaction are initially measured at acquisition or manufacturing cost.

The Bank determines whether the useful life of intangible assets is defined or indefinite. Intangible assets with defined useful life are amortized over their useful life and tested for impairment each time when an impairment trigger occurs, at least once a year. The period and method of amortization for intangible assets with defined useful life are verified at the end of each financial year. Changes in the expected useful life or the manner of consuming economic benefits arising from a given asset are recognized through a change in the amortization period or method, respectively, and treated as changes in estimates. Amortization charges on intangible assets with a defined useful life are recognized in the statement of profit or loss under "amortization".

Except for R&D works, internally generated intangible assets are not recognized as assets, and expenditures on their generation are charged to the statement of profit or loss for the year in which they have been incurred.

Intangible assets with indefinite useful life and those not used are annually tested for impairment individually or on the level of cash generating unit. Other intangible assets are subject to annual impairment tests.

Purchased software licenses are capitalized in the amount of costs incurred for the purchase of a given software and its adaptation for use. Capitalized costs are amortised over an estimated useful life of the software. Software development or maintenance costs are charged to expenses when incurred. Expenditure directly related to the production of identifiable and unique computer programs controlled by the Bank, which will probably bring economic benefits exceeding the expenditure within a period exceeding one year, is classified to intangible assets. Direct costs include personnel expenses related to software development and a corresponding portion of general expenses. Costs related to software development, included in the initial value of assets, are amortized over the estimated useful life of these assets.

Amortization of intangible assets is calculated using the straight-line method in order to spread out the initial asset value or its amount revalued over the useful life, different for each intangible asset group:

- licenses 14.0 – 50.0%
- copyrights 20.0 – 50.0%

The useful lives of intangible assets are verified at the end of each reporting period and adjusted if necessary.

Amortized intangible assets are tested for impairment in each case when events or circumstances indicate that their balance sheet amount may be irrecoverable. In such cases, the balance sheet amount is immediately reduced to the recoverable amount if the former exceeds the estimated level of the latter. The recoverable amount is equal to the fair value less the sell costs or the value in use, whichever is higher.

Gain or loss from disposal of intangible assets is determined by comparison of sales proceeds with their balance sheet amount and recognized in the statement of profit or loss under other operating income.

2.20. Property, plant and equipment

Property, plant and equipment are recognized at the acquisition price or manufacturing costs less depreciation charges and impairment allowance. The initial amount of fixed assets includes their acquisition price increased by all costs directly related to their purchase and adaptation for use. The cost includes also cost of replacement of parts of plant and machinery when incurred, if the recognition criteria are met. Costs incurred after the date the fixed asset is transferred for utilisation, such as costs of maintenance and repair, are charged to profit or loss when incurred.

Upon acquisition, property, plant and equipment items are divided into components of material value to which separate useful life may be assigned. Costs of overhauls are also a component.

Land is not depreciated. Depreciation of other fixed assets is calculated using the straight-line method in order to spread out the initial asset value or its revalued amount less residual value over the useful life, different for each asset group:

- buildings and leasehold improvements 1.5 – 10.0%
- machines and equipment 10.0 – 20.0%
- computer sets 20.0%

The residual value and useful lives of property, plant and equipment are verified at the end of each reporting period and adjusted if necessary.

Depreciated property, plant and equipment are tested for impairment at least annually, in each case when events or circumstances indicate that their balance sheet amount may be irrecoverable. In such cases, the balance sheet amount is immediately reduced to the recoverable amount if the former exceeds the estimated level of the latter. The recoverable amount is equal to the fair value less costs to sell or the value in use, whichever is higher.

If the recoverable amount is lower than the current balance sheet amount of an asset, an impairment allowance is charged to the statement of profit or loss.

Gain or loss from disposal of property, plant and equipment is determined by comparison of sales proceeds with their balance sheet amount and recognized in the statement of profit or loss under other operating income or expenses.

2.21. Hedge accounting

Hedge accounting includes the effects of offsetting in the fair value of the hedged item and the hedging instrument that both impact the statement of profit or loss. Pursuant to the adopted hedge accounting principles, the Bank designates certain derivatives as hedges of fair value and future cash flows of certain assets, provided the criteria determined in IAS 39 are met. Hedge accounting is used to account for hedging relationships if all of the following conditions are met:

- at the inception of the hedge there is a formal designation and documentation of the hedging relationship and the Bank's risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Bank will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
- the hedge is expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship;
- for cash flow hedges, a forecast transaction that will be hedged must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss;
- the effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured;
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Fair value hedge

Changes in the fair value measurement of financial instruments designated as hedged items are charged to the statement of profit or loss in the portion arising from the risk subject to hedge. The remaining portion of the change in the balance sheet amount is booked in accordance with general principles applicable to the particular class of financial instruments.

Changes in the fair value measurement of derivatives designated as hedging instruments under hedge accounting are entirely recognized in the statement of profit or loss under the same item as results of changes in the value of the hedged items, i.e. in the *Result on fair value hedge accounting*.

Cash flow hedge

The effective part of changes in the fair value of derivative instruments designated and qualified as cash flow hedges is recognized in other comprehensive income. The profit or loss relating to the ineffective part is presented in the profit or loss account for the current period.

Amounts recognized in other comprehensive income are included in revenues or costs of the same period in which the hedged item will affect the profit or loss account.

If the hedging instrument expired or was sold, or when the hedge no longer meets the hedge accounting criteria, any accumulated profits or losses recognized at this moment in other comprehensive income remain in other comprehensive income until the forecast transaction is recognized in the profit or loss account. If the forecasted transaction is no longer considered probable, total gains and losses recognized in other comprehensive income are immediately transferred to the profit or loss account.

2.22. Financial liabilities measured at amortised cost

After initial recognition, financial instruments other than liabilities measured at fair value through profit or loss are measured at amortized cost using the effective interest rate. If a cash flow schedule cannot be determined for a given financial liability and therefore the effective interest rate cannot be reliably estimated, such liability is measured at amount due.

2.23. Provisions

Provisions are created when the Bank is subject to an obligation (legal or constructive) resulting from past events and it is probable that the fulfilment of such obligation will create a liability. If the Bank expects reimbursement of the expenditure required to settle the provision (for example, through insurance contracts), the reimbursement is recognized as a separate asset, but only when it is virtually certain that reimbursement will be received. The costs relating to the provision are recognized in the statement of profit or loss less any reimbursement amount. If the impact of time value of money is material, the provision is determined by discounting projected future cash flows to the present value with a gross discount rate that reflects current market assessment of time value of money and a possible risk pertaining to a liability. An increase in provision over time is recognized as interest expense.

A provision for restructuring costs is recognized when general provision recognition criteria are met, as well as detailed ones regarding the occurrence of an obligation to recognize a provision for restructuring costs determined in IAS 37. In particular, the constructive obligation to perform a restructuring procedure occurs only when the Group has a detailed, formal restructuring plan and has raised justified expectations of parties involved in the plan that the restructuring would be performed in the form of initiating its implementation or announcing its key elements to these parties.

A detailed restructuring plan determines at least the operations involved or their part, the key locations to be included, the place of employment, positions and approximate number of employees to be compensated in exchange for termination of their employment, the amount of outlays to be incurred and the plan implementation deadline.

A restructuring provision includes only direct outlays arising from the restructuring, which a) are an indispensable effect of the restructuring procedure and b) at the same time are not related to current operations of the entity. A restructuring provision does not include future operating expenses.

2.24. Liabilities due to agreements with customers (deferred revenues)

The contractual obligation is the Bank's obligation to transfer goods or services to the customer in return for which the Bank receives remuneration (or the amount of remuneration is due) from the customer.

2.25. Finance leases

Bank as a lessor

Assets under lease agreements that transfer substantially all risks and rewards of ownership of the assets onto the lessee are derecognized. Instead, an amount of the receivable, equal to the current value of minimum lease payments, is recognized. Lease payments are split between financial revenue and decrease in the balance of lease receivables in a manner allowing obtaining a fixed return rate on the outstanding amount receivable.

Payments arising from leases that do not satisfy the conditions allowing classification as finance leases are recognized as revenue in the statement of profit or loss in accordance with the straight-line method over the lease period.

Bank as a lessee

Assets under lease agreements that transfer substantially all risks and rewards of ownership of the assets onto the Bank are recognized as fixed assets; at the same time, liabilities are recognized in the amount equal to the current value of minimum lease payments determined as at the lease commencement date. Lease payments are split between costs of lease payments and decrease in the balance of lease liabilities in order to obtain a fixed interest rate on the outstanding liability. Finance lease costs are recognized directly in the statement of profit or loss.

Fixed assets used under finance leases are depreciated in the same manner as own fixed assets. If the transfer of ownership of the right-of-use asset is uncertain, though, fixed assets used based on finance leases are depreciated over the expected useful life or the lease term, whichever is shorter.

Payments arising from leases that do not satisfy the conditions allowing classification as finance leases are recognized as expenses in the statement of profit or loss in accordance with the straight-line method over the lease period.

2.26. Operating leases

Assets under lease agreements in which the Bank is a lessor are recognized in the statement of financial situation since substantially all risks and rewards arising from ownership have not been transferred to the lessee.

Assets under lease agreements in which the Bank is a lessee are not recognized in the statement of financial situation.

Total payments arising from operating leases are recognized as revenue or expenses in the statement of profit or loss in accordance to the straight-line method over the lease period.

It is determined whether an arrangement contains a lease upon its conclusion, based on the essence of the agreement, which requires assessment whether:

- fulfilment of the contract depends on the use of a specific asset or assets;
- the contract conveys a right to use the asset.

Operating lease involves transfer of investment asset for use for a defined period. A lease is classified as an operating lease, if it does not involve transfer of substantially all risks and rewards arising from the asset to the lessee.

So far, the Bank has concluded operating lease agreements. All lease payments made under operating leases are charged to expenses based on the straight-line method over the term of the lease agreement. Should a lease be terminated before its contractual term, contractual penalty payments required by the lessor increase the costs in the period in which the lease has been terminated.

2.27. Financial guarantees

Financial guarantees are measured at the higher of the following values:
- the amount of the allowance for expected credit losses, or
- the amount initially recognized, less the accumulated amount of revenue recognized in accordance with IFRS 15.

2.28. Employee benefits

The Bank creates a provision for future liabilities due to retirement, disability and death benefits, unused annual holiday, restructuring, and for incentive and retention programs. Provisions for retirement, disability and death benefits are created using the actuarial method, as described in Note 34 hereof.

Employees of the Bank are entitled to the following benefits:

Retirement, disability and death benefits

Retirement benefits classified as post-employment defined benefit plans are available upon retirement (for pensioners or disability pensioners). The term of employment includes all previously completed periods of employment based on an employment contract.

Liabilities due to unused annual holiday

Provisions for unused holiday leave are calculated as the product of the daily basic salary and the number of outstanding leave days as at the end of the reporting period. Provisions for the unused holiday leave are presented in the separate financial statements under “Other liabilities”.

Benefits arising from the variable remuneration program

The Bank has implemented the variable remuneration program addressed to the individuals occupying managerial positions that exert a considerable influence on the Bank’s risk profile in line with the guidance included in Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital in banks.

Performance evaluation of individuals included in the program underlies the calculation of the variable remuneration.

Benefits provided under the program have two forms:

- cash payments accounted for in accordance with IAS 19 Employee Benefits, and
- phantom shares entitling to cash payments, whose final amount depends on the price of shares of Bank BGŻ BNP Paribas S.A. settled in accordance with IFRS 2 Phantom share-based payment.

The cash portion is paid:

- in the current portion – directly after completing a year in service subject to performance evaluation;
- in the deferred portion – after the deferral period.

With regard to the first form of benefits, during the deferral period, the variable remuneration is verified in accordance with the adopted program assumptions.
The cash payments under the program are recognized in line with the projected unit credit method and settled over the vesting period (i.e. both in the evaluation period understood as the year in service to which the benefit pertains and in the period of deferring relevant portions of the benefit). The benefit value is recognized as a liability to employees in correspondence with the statement of profit or loss.
For benefits granted in the form of phantom shares, the annual share retention term applies to both the portion granted following the annual performance evaluation and to the deferred portion on terms similar to the cash remuneration (i.e. one-year, two-year and three-year periods). During the retention period, employees granted with the benefit cannot exercise rights arising from the phantom shares.

The fair value of the phantom shares, determined in line with the adopted principles (i.e. based on estimates including the reduction factor) is allocated over the vesting period. The benefit value is recognized as a liability to employees in correspondence with the statement of profit or loss.

Liabilities due to restructuring

In connection with the planned process of group layoffs at Bank BGŻ BNP Paribas S.A., a provision was created to cover the costs related to severance pay for employees made redundant at the initiative of the employer and for employees covered by voluntary departure schemes.

Liabilities due to incentive – retention programs

The Bank implemented incentive-retention programs related to the acquisition of the demerged part of Raiffeisen Bank Polska S.A. by Bank BGŻ BNP Paribas S.A., which aims to reduce the risk of departing key employees of the Bank and the implementation of key tasks related to the merger of the Banks.

2.29. Capital

Share capital

Registered share capital is disclosed at its nominal value, in accordance with the statute and the entry in the court register.

Own shares

If the Bank purchases its own shares, the amount paid reduces equity as treasury shares until their cancellation. Should these shares be sold or re-allocated, the payment received is recognized in equity.

Supplementary capital from the sale of shares above their par value

The supplementary capital is created from the issue premium obtained from the issue of shares, reduced by the direct costs incurred with the issue.
The costs directly related to the issue of new shares, after deduction of income tax, reduce the proceeds from the issue included in the equity.

Other capital

Other capital: spare capital, reserve capital and general risk funds are created from profit allocations and are designated for purposes specified in the statute or other legal regulations.

Other capital items

Other equity items are created as a result of:
- valuation of financial assets at fair value through other comprehensive income,
- actuarial profits and losses related to post-employment benefits,
- valuation of derivatives as part of cash flow hedge accounting with reference to the effective part of the hedge.

2.30. Custody operations

Bank BGŻ BNP Paribas S.A. performs custody operations including maintaining securities accounts of its customers.

Assets managed under the custody services are not included in the present financial statements as they do not meet the definition of Bank's assets.

2.31. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include items that mature within three months from their acquisition date, including cash in hand and non-restricted cash at the Central Bank (current account), statutory reserve account and receivables from other banks (including nostro accounts).

2.32. A change in the presentation of financial data

In these separate financial statement, the Bank changed the presentation of the following data:

- in note 6 "Net fee and commission income", commission on account servicing, cash servicing and transfers and electronic banking services. These commissions have previously been presented jointly in the items "account servicing and settlement operations" and "other", while since 2018 these commissions are presented separately. The comparative data for 2017 have been adjusted accordingly.

- in note 5 "Net interest income", note 22 "Loans and advances to customers measured at amortized cost" and in Note 34 "Amounts due to customers" of the entity division in order to unify the presentation in all cross-sections. The comparative data for 2017 have been adjusted accordingly.

- in note 32 "Other assets" and in note 37 "Other liabilities", the settlement of mutual settlements with the brokerage house.

3. ESTIMATES

The Bank makes estimates and assumptions which affect the value of its assets and liabilities in the subsequent period. The estimates and assumptions, which are reviewed on an ongoing basis, are made based on prior experience and considering other factors, including expectations as to future events, which appear reasonable in specific circumstances.

a. Impairment of financial assets

The assessment of impairment of financial assets in accordance with IFRS 9 requires estimates and assumptions, especially in the areas of estimates of the value and timing of future cash flows, the value of collaterals established, or the assessment of a significant increase in credit risk.

The assessment of impairment in accordance with IFRS 9 covers financial assets of the Bank measured at amortized cost and financial assets measured at fair value through other comprehensive income. The recognition of expected credit losses depends on the change in the level of credit risk recorded since the moment of initial recognition of the financial asset. Financial assets are subject to the assessment as to whether there are any objective impairment triggers (events of default).

The requirements of IFRS 9 relating to impairment are based on the model of expected credit loss.

The Bank applies a three-step approach to the measurement of expected credit losses from debt instruments measured at amortized cost or at fair value through other comprehensive income, for which no impairment loss was recognized as at the moment of initial recognition. As a result of changes in the credit quality since the initial recognition, financial assets are transferred between the following three stages:

i) Stage 1: An allowance due to expected credit losses in 12-month horizon

If the credit risk did not increase significantly from the date of the initial recognition, and the event of default did not occur from the moment of granting the financial instrument, the Bank recognizes an allowance for the expected credit loss within the next 12-month horizon.

ii) Stage 2: An allowance due to expected credit losses for the entire lifetime – no event of default identified

In the case of financial instruments, whose credit risk has increased significantly since the moment of their initial recognition, but no event of default occurred, an impairment allowance is created for the entire remaining financing period, considering the probability of the occurrence of the event of default. One of the triggers of significant increase in the credit risk is 30 or more days past due.

If in the subsequent periods the credit quality of the financial instrument improves and the previous conclusions regarding a significant credit risk increase from the moment of initial recognition are reversed, the exposure is reclassified from Stage 2 to Stage 1, and impairment allowances for expected impairment losses of these financial instruments are calculated in the 12-month horizon.

iii) Stage 3: An allowance due to expected credit losses for the entire lifetime – event of default

In the case of financial instruments for which the event of default occurred, an allowance for the expected credit loss is created for the entire remaining financing period.

In order to assess whether there has been a significant increase in credit risk since the initial recognition of the financial instrument, the Bank compares the risk of default during the expected period of financing granted as at the balance sheet date and the date of initial recognition. For this purpose, the Bank applies an internal credit risk rating system, information on delay in repayments and information from internal credit risk monitoring systems, such as warning letters and information about restructuring.

The value of the allowance due to expected impairment losses is calculated using the probability of default, the value of the exposure expected at the moment of default and the estimation of loss in case of default. When calculating the probability of default, the Bank takes into account factors regarding the forecast of the future economic situation. The Bank uses three scenarios when forecasting the future economic situation: optimistic, pessimistic and the most probable. The considered macroeconomic factors include: GDP growth, the level of exchange rates and interest rates, and the unemployment rate. The final selection of the factor affecting the estimates and the form of quantification of the impact of the forecast of macroeconomic conditions on portfolio performance depends on the exposure to the particular sub-portfolio and the results of a number of statistical analyses.

As regards business entities which apply full accounting system, the Bank has compiled a list of events of default, such as considerable financial difficulties of the customer, substantial deterioration of the customer's rating or more than 90 days past due (or 30 days for forbearance exposures).

As regards retail customers and micro enterprises with simplified accounting system, more than 90 days past due (or more than 30 days for exposures with forbearance granted to debtors) is the key event of default. Other triggers include debt restructuring or a suspicion of fraud.

For exposures for which events of default occurred, individual or collective (group) tests are performed by the Bank. Individual assessment is performed for assets considered by the Bank to be individually significant and in all the cases in which the Bank has decided to perform an individual test of impairment for a given exposure.

Impairment assessment for individually significant assets

The individual test is performed by the Bank for individually significant financial assets, for which the event of default was identified. It consists in case-by-case verification of financial assets in terms of impairment. During the individual assessment, the Bank determines expected future cash flows and impairment is calculated as the difference between the present value (carrying amount) of a financial asset which is individually significant and the value of future cash flows generated by that asset, discounted using the effective interest method. Cash flows from collateral are taken into account for purposes of estimating future cash flows.

Collective (group) assessment

The following assets are tested collectively:

- classified as individually insignificant;
- classified as individually significant, for which the event of default was not identified.

The value of the allowance for the expected credit losses depends on the type of credit exposure, delinquency period and collateral type and value (for selected portfolios), on the probability of default (PD) parameters, loss given default (LGD) parameters and credit conversion factor (CCF).

The amount of collective impairment allowances is determined with the application of statistical methods for defined exposure portfolios which are homogenous from the perspective of credit risk. Homogeneous exposure portfolios are defined based on customer segment, type of credit products and exposure delinquency classes and, for institutional customers with a rating assigned by the Bank internally, the credit rating assigned to the customer. The criteria applied by the Bank to define homogeneous portfolios are aimed at grouping exposures so that the credit risk profile is reflected as accurately as practicable and, consequently, so as to estimate the level of allowances for the expected credit losses on financial assets as objectively and adequately as possible.

The PD parameters are updated periodically during the year, in line with the value estimation principles adopted by the Bank. The aforesaid parameters are determined based on statistical analyses of historical data as well as observable migration of credit exposures. LGD and CCF parameters are updated periodically during the year. As regards CCF, the Bank's analysis focuses on the percentage of off-balance sheet liabilities converted into on-balance sheet exposures. In selected portfolios, LGD is determined for each exposure individually, based on its type and collateral value. For the remaining exposures, it is determined at the level of a given homogenous portfolio.

While classifying the exposure to Stage 3, the Bank takes into account a quarantine period, in which a credit exposure with an objective impairment trigger identified may be reclassified to Stage 2 or 1 only if the Bank's receivables from the customer have been paid on time (no amounts overdue over 30 days) for a specific number of months. The required quarantine period differs depending on the customer type. Its length is determined by the Bank on the basis of historical observations which allow for determining the period after which the probability of default drops to the level comparable to that of other exposures classified to the portfolio with no indications of impairment.

Allowances for the expected credit losses on financial assets estimated in a collective impairment test are back-tested on a regular basis. The models of risk parameters used for purposes of estimating impairment allowances are covered by the model management process, which specifies the principles of their development, approval and monitoring (including model back-testing). Additionally, there is a validation unit in the Bank, which is independent of the owners and users of the models. The tasks of the unit include: annual validation of risk parameters considered to be significant. The process of validation covers both qualitative and quantitative approach. The process of estimating impairment allowances is subject to periodic functional control and verified independently by the Bank's internal audit.

b. Classification of financial instruments

When classifying financial instruments in accordance with IFRS 9, the Bank used the assessment of business models for maintaining financial assets and assessing whether the contractual terms related to a financial asset resulted in cash flows that were solely payment of principal and interest on the principal amount remaining to be repaid.

c. Fair value of derivative instruments

The fair value of derivative instruments which are not quoted on active markets is determined using measurement techniques (e.g. models). Such methods are evaluated and verified periodically by qualified independent employees who have not participated in their development. All models require approval before use as well as calibration to ensure that the results reflect actual data and comparable market prices. The models used at present rely on the data obtained from Reuters and/or Bloomberg information systems. Derivative instruments are measured on the basis of generally acceptable models. Linear instruments are measured using the discounted cash flow method while plain vanilla options using the Black-Scholes model. Other options included in structured deposits are measured either through decomposition into vanilla options or through Monte Carlo simulations.

CVA/DVA is estimated for all derivatives which are active at a specific date. The adjustment is determined based on the projected future exposure resulting from the instrument, counterparty rating and collateral provided/accepted.

d. Securities

Securities, for which no liquid market exists, are measured using the discounted cash flow model. As regards stage 3 securities, the credit risk margin is a non-observable parameter corresponding to the market margin for instruments with similar characteristics.

e. Impairment of fixed assets

At the end of each reporting period, the Bank verifies whether there is any objective impairment trigger concerning its fixed assets. If such triggers have been identified, the Bank estimates the recoverable amount. Determination of the value in use of a fixed asset requires the Bank to make assumptions as to the estimated amounts, dates of future cash flows that may be generated by the Bank on the fixed asset as well as other factors. When estimating the fair value less costs to sell, the Bank relies on available market data or valuations of independent appraisers, which generally are also based on estimates.

f. Provision for retirement benefits

Provisions for retirement benefits have been estimated by an independent actuary using actuarial methods. The underlying assumptions are revised at the end of each quarter.

g. Restructuring reserve

On 14 December 2018 the Bank finalized the negotiations with the Trade Unions operating at the Bank and entered into an agreement defining the method of proceeding on employee issues relating to group lay-offs. The group lay-offs are to be executed following the transfer of the core business of Raiffeisen Bank Polska S.A. to the Bank.

4. BUSINESS COMBINATIONS

4.1. Acquisition of Spółdzielcza Kasa Oszczędnościowo-Kredytowa „Rafineria" in Gdańsk by BGŻ BNP Paribas S.A.

On 18 May 2018, the Polish Financial Supervision Authority (KNF, PFSA) decided that Spółdzielcza Kasa Oszczędnościowo-Kredytowa Rafineria will be acquired by Bank BGŻ BNP Paribas S.A. The PFSA's decision was taken in accordance with article 74c paragraph 4 of the Act of 5 November 2009 on Cooperative Savings and Credit Unions, Journal of Laws of 2017, item 2065. Pursuant to this decision, as of 19 May 2018, the Management Board of BGŻ BNP Paribas S.A. acquired the assets of SKOK Rafineria. On 30 May 2018, BGŻ BNP Paribas S.A. acquired SKOK Rafineria and took control over the company in the meaning of IFRS 3 "Business combinations".

The Bank performed a provisional purchase price allocation. In accordance with IFRS 3.45, the entity has twelve months to determine the final measurement and settlement of the acquisition of SKOK Rafineria. The acquisition did not involve the transfer of payment by the Bank. As a result of the transaction settlement, there are no non-controlling interests in the acquired entity. The process of acquisition of SKOK Rafineria was performed with the financial support granted by BFG on the basis of article 28c of the Act of 19 October 2017 on the Bank Guarantee Fund. On 27 July, the Bank concluded a grant agreement with the BFG to cover the difference between the value of the acquired property rights and liabilities from guaranteed funds on depositors' accounts in the amount of PLN 41,082 thousand and a guarantee to cover losses resulting from the risk related to the acquired property rights of SKOK Rafineria.

The fair values of acquired assets and liabilities as at the acquisition date, i.e. 30 May 2018, in PLN thousand, are presented below:

ASSETS	Fair value of the acquired assets
Cash and balances with Central Bank	4,762
Loans and advances to customers measured at amortised cost	27,247
Loans and advances to customers measured at fair value through profit or loss	5,519
Tangible fixed assets	1,332
Other assets	644
TOTAL ASSETS	**39,504**

LIABILITIES	Fair value of the acquired liabilities
Amounts due to customers	78,097
Other liabilities	836
Deferred tax liability	586
Provisions	1,285
TOTAL LIABILITIES	**80,804**

Identifiable net assets, total	**(41,300)**
Amount of the grant	41,083
Goodwill	**(217)**

In the part not covered by the BFG support, goodwill in the amount of PLN 217 thousand was generated. The Bank made a one-off write-off of goodwill in the operating result, because it does not assume additional positive cash flows from the acquisition of SKOK Rafineria.

4.2. Acquisition of the core business of Raiffeisen Bank Polska S.A.

Description of the Transaction

On 10 April 2018, the Bank entered into a Transaction Agreement regarding the purchase of the core business of Raiffeisen Bank Polska S.A. ("RBPL") regarding the performance of a Transaction comprising:

(i) the acquisition of shares representing less than 50% of the share capital of RBPL from Raiffeisen Bank International ("RBI") performed by BNPP; and

(ii) the demerger of RBPL performed in accordance with article 124c of the Banking Law and article 529 §1 point 4 of the Code of Commercial Companies by transferring (demerger) of the Core Business of RBPL, excluding RBPL foreign currency mortgage loans, by demerger of RBPL and issuing new issue shares by the Bank for RBI and BNPP ("Demerger");

RBPL is the demerged entity, while BGŻ BNP is the acquiring entity in the Transaction.
On 31 October 2018, the District Court for the capital city of Warsaw, based in Warsaw, 12th Commercial Division of the National Court Register, entered into the Register of Entrepreneurs the fact of increasing the Bank's share capital from PLN 97,538,318.00 to PLN 147,418,918.00, by way of issue of 49,8808,600 ordinary registered series L shares with a nominal value of PLN 1.00 each, due to the demerger of RBPL in the mode of article 529 § 1 point 4 of the Code of Commercial Companies.
On the date of registration of the capital increase, i.e. on 31 October 2018, the Core Business of RBPL was demerged, in the form of an organized part of the RBPL, together with all assets and liabilities of RBPL related to this business, excluding assets and liabilities that will remain in RBPL after the Demerger, and transfer of the RBPL Core Business to the Bank. Thus, the demerger became effective and the Core Business of RBPL became formally a part of the Bank. Along with the registration of the capital increase, the changes to the Bank's Statute related to the Demerger were amended, including changes to the Bank's share capital and the Bank's business, so that the Bank would be formally entitled to continue the business of the RBPL to the extent that it was transferred to the Bank as a result of the Demerger.

Price

The acquisition price of the Core Business of RBPL was specified in the Transaction Agreement in the amount of PLN 3,250,000 thousand. The price included an advance payment of PLN 50,000 thousand towards the digitization investment projects that were to be implemented between the dates of signing of the Transaction Agreement and the closure of the Transaction.

The payment may be subject to changes resulting from the arrangements between BGŻ BNP and RBI and taking into account changes resulting from the actual implementation of digitization projects and other adjustments.

Currently, arrangements are underway between the parties to the Transaction as regards BGŻ BNP and RBI are confirming the book values of particular assets and liabilities of the Core Business of RBPL and the final settlement of the purchase price between the parties. Until the date of approval of these financial statements, the final settlement of the purchase price between the parties has not yet been agreed.

Acquisition of shares and the share swap parity determined for the needs of the Demerger

In accordance with the provisions set out in the Demerger Plan, BNP Paribas acquired from the RBI a minority share in the share capital of RBPL ("Demerged Bank") in the amount of 97,950,034 shares, which accounted for 43.40% of the share capital of RBPL. However, as a result of the Demerger, BNP Paribas ceased to be a shareholder of the Demerged Bank as a result of the cancellation of all shares of the Demerged Bank owned by BNP Paribas.

As a result of the Demerger, on 31 October 2018, the share capital of BGŻ BNP increased from PLN 97,538,318.00 to PLN 147,418,918.00 through the issue of 49,880,600 ordinary registered series L shares with a nominal value of PLN 1.00 PLN each ("Demerger Shares").

The Demerger Shares were allotted to BNP Paribas and RBI for shares held by them in the Demerged Bank (a total of 137,886,467 shares in the share capital of the Demerged Bank), using the share exchange parity.

Share swap parity was set in the Demerger Plan at the level of 0.360 (rounded amount), while in connection with the series J and series K shares issue as part of the BGŻ BNP share capital increase, the share capital was diluted and after adjusting for the dilution related to the share capital, it amounted to 0.362 (i.e. 0.362 of Demerger Share was granted for 1 Reference Share).

As a result of the Demerger, BNP Paribas acquired 35,433,546 newly issued shares, while RBI purchased 14,447,054 newly issued BGŻ BNP shares, constituting 9.8% of the total number of BGŻ BNP shares. Subsequently, on 5 November, the RBI disposed of all BGŻ BNP's shares in the amount of 14,447,054.

After the sale of shares, no shares of Bank BGŻ BNP are directly or indirectly held by RBI.

Strategic justification for the Transaction

Acquisition of the Core Business of RBPL is consistent with the development strategy implemented by the Bank's Management Board, which assumes dynamic growth ensuring the highest return on capital.
Because of the complementary scope of operations of both banks, the Transaction will allow the Bank to become one of the leading market participants with total assets of over PLN 100 billion, it will strengthen the Bank's position of the sixth bank on the market in Poland.
Many years of experience of the employees of the RBPL's Core Business, in particular in the SME, corporate banking and factoring segments, private banking, as well as the retail banking network, will strengthen the Acquiring Bank's role as one of the main participants in the Polish banking sector and the BNP Paribas Group's ability to contribute to the development of the Polish economy.

Provisional settlement of the Transaction

Settlement of the Transaction was performed with the use of acquisition method in accordance with the International Financial Reporting Standard 3 "Business combinations" ("IFRS"), which requires, among others, recognition and measurement of identifiable assets acquired and liabilities acquired measured at fair value as at the acquisition date, and any non-controlling interest in the Acquired Entity (if any) and, separately, recognition and measurement of goodwill or bargain purchase gain. In accordance with the requirements of IFRS 3, the Bank performs a final settlement of the acquisition within a maximum of one year from the date of control acquisition.
Considering the fact that the acquisition of control over RBPL occurred at the beginning of day on 31 October 2018, the Transaction was settled on the basis of data from the acquired entity as at that day, taking into account the adjustments required by IFRS 3.
The price for the acquisition of the Core Business of RBPL was specified in the Transaction Agreement in the amount of PLN 3,250,000 thousand and is a fixed price. The price includes an advance payment of PLN 50,000 thousand towards the digitalization investment projects to be executed between the dates of signing the Transaction Agreement and closing the Transaction.
Pursuant to the Transaction Agreement, as part of the settlement of the Transaction, the payment transferred will be adjusted for the differences resulting from the actual use of the PLN 50,000 thousand allowance on account of digitalization investment projects and on possible adjustments related to changes in the value of acquired net assets that may arise as a result of negotiation.

Transferred payment in the acquired entity

Price in accordance with the Agreement	3,250,000
Initial price adjustment	(5,500)
Transferred price after adjustment	3,244,500

The payment for the shares was a cash payment.

Measurement and recognition of identifiable assets acquired, liabilities acquired measured in accordance with IFRS

The following data regarding the fair value measurement of the acquired assets and liabilities were based on the identification performed from the point of view of BGŻ BNP and the adopted assumptions regarding the materiality threshold.

in PLN '000	Balance sheet as at 31 October 2018	Adjustments at fair value measurement and exclusions	Identifiable liabilities acquired measured at fair value as at 31 October 2018 after adjustment
Assets			
Cash and balances at Central Bank	3,308,790	-	3,308,790
Amounts due from banks	775,084	(4,300)	770,784
Financial assets held for trading	646,389	-	646,389
Derivative financial instruments	384,608	(808)	383,800
Investment securities	17,067,582	5,677	17,073,259
Loans and advances to customers	18,271,660	(42,302)	18,229,358
Investments in subsidiaries	38,992	(14,650)	24,342
Intangible assets	297,645	(125,905)	171,740
Property, plant and equipment	79,112	(12,954)	66,158
Deferred tax assets	180,494	105,153	285,647
Other assets	198,704	(2,337)	196,367
Total assets	**41,249,060**	**(92,426)**	**41,156,634**
Liabilities			
Amounts due to banks	1,201,752	-	1,201,752
Derivative financial instruments	440,795	-	440,795
Amounts due to customers	34,929,564	-	34,929,564
Other liabilities	728,601	6,250	734,851
Current tax liabilities	-	81,930	81,930
Provisions	228,628	2,908	231,536
Total liabilities	**37,529,340**	**91,088**	**37,620,428**

	RBPL	Adjustments at fair value measurements and exclusions	Identifiable assets and liabilities acquired measured at fair value
Fair value of identifiable of acquired assets and liabilities	3,719,720	(183,514)	3,536,206

As indicated above, negotiations are currently under way between the parties to the Transaction as regards BGŻ BNP and RBI are confirming the book values of particular assets and liabilities of the RBPL Core Business. Thus, both the balance sheet value of RBPL as of 31 October 2018, as well as the amount of adjustments to fair value and exclusions may change in the course of ongoing negotiations. Therefore, the value of identifiable assets and liabilities acquired measured at fair value may change, which could affect the calculation of gain on a bargain purchase.

Deferred tax was calculated on the basis of the adjustments to the fair value for temporary differences, which were indicated in the table (deferred tax amounted PLN 105,153 thousand). In addition, for POCI loans, for which the provision is a tax deductible cost, the current tax liability is recognized.

The portfolio of loans and advances to customers acquired as part of the transaction, measured at fair value at the acquisition date, was presented in the financial statements in net amount, i.e. the fair value adjustment was recognized.

Acquired receivables (in PLN '000)

	Identifiable acquired amounts due from banks measured at fair value
Amounts due from banks, book value	770,816
Value of capital flows resulting from the loan agreement	775,084
Allowance for the expected credit losses in 12-month horizon	994

	Identifiable acquired loan assets with no impairment identified measured at fair value
Loans and advances to customers with no impairment identified, book value	17,451,640
Value of capital flows resulting from the loan agreement increased by o accrued and due interest	17,658,614
Allowance for the expected credit losses in 12-month horizon	235,668

The allowance for the expected credit losses in the 12-month horizon was settled through the profit of 2018 (and not recognized at fair value as at the acquisition date).

The Bank also recognized a write-off due to expected credit losses in a 12-month horizon in relation to securities valued at amortized cost in the amount of PLN 2,235 thousand

	Identifiable acquired loan assets with impairment identified measured at fair value
Loans and advances to customers with impairment identified, book value	726,950
Exposure resulting from the loan agreement	1,966,051
Exposure for which no recoveries are expected	1,254,137

To calculate the amount of exposure for POCI loans, for which the Bank estimates no recoveries, the following assumptions were used: for individually assessed loans gross balance sheet amount with fair value adjustment as at the acquisition date was presented, while for the loans assessed collectively, the value was calculated as the product of gross balance sheet value and LGD for individual product groups.

Contingent payments

Contingent payments may refer to the results of negotiations between the parties to the Transaction, as described above, in terms of the acquired assets and liabilities as well as digitization projects.

Contingent liabilities

No contingent liabilities were identified within the scope of the Transaction.

Methods at fair value measurement

The determination of the fair value of the assets and liabilities acquired and the identification and recognition of intangible assets resulting from the acquisition were based on the available information and on the best estimates as at the date of preparing the financial statements.

Loans and advances to customers

The portfolio of loans and advances to customers acquired as part of the Transaction was measured at fair value as at the acquisition date in accordance with the requirements of IFRS 3 and IFRS 13. Fair value was determined applying the present value technique of discounting future cash flows resulting from the acquired assets, taking into account expectations regarding possible fluctuations in the amount and timing of cash flows, the time value of cash flows and other factors that market participants would consider in similar circumstances.

The measurement of portfolio components was based on the following assumptions:

1 For each asset, the parameterization of the valuation model was determined based on its individual characteristics. For assets included in Stage 1, contractual future cash flows were subject to the adjustment to include the effect of prepayments. In the case of absence of contractual cash flows, future capital flows were estimated based on the pace of debt repayment resulting from the statistical-behavioural model. For the exposures in Stage 1, the real capital and interest flows were subject to the adjustment including the impact of credit risk parameters; and for the POCI assets in the valuation model, future recoveries were included.
2 Future interest flows for the performing loans were determined based on the curve of forward rates for the components related to variable rate. Future values of the variable rate were determined on the basis of a yield curve constructed from financial instruments indexed to a given reference rate.
3 For the loans in Stage 1 with the payment schedule, contractual cash flows were subject to adjustment including prepayments in the valuation model.
4 For the loans in Stage 1 without a contractual maturity date, future cash flows were estimated in the behavioural life cycle of the product. This concerned the portfolio of credit cards and the portfolio of current account limits. As regards the factoring portfolio, a short, one-month horizon of repayment of receivables was adopted.
5 For loans in Stage 1, capital-interest cash flows, determined in the previous steps, were subject to the adjustment including PD and LGD parameter vectors throughout the lifetime of the exposure. The impact of credit risk on fair value was therefore taken into account in the valuation model for exposures included in Stage 1.
6 For POCI, the expected future cash flows were calculated on the basis of the future recoveries determined as a result of an individual assessment or in line with the group approach.
7 The fair value of the exposure was determined by discounting the expected future cash flows. The discount rate components were the following: zero-coupon rate derived from the appropriate yield curve, capital cost charge and margin component, representing all cost-revenue elements for a given product group, not included under other parameters of the valuation model, for example: liquidity margin, administrative costs, residual profit margin required on the market.
8 The zero-coupon rate, being an element of the discount rate, is derived from the swap curve appropriate for the currency of the contract.
9 The cost of capital was determined using the CAPM model and the risk weights assigned to individual asset components.
10 The margin component was determined based on newly granted loans with similar characteristics on the market. The margin was determined numerically for each exposure group, homogeneous in terms of factors identified as affecting the valuation value.

<u>IT systems</u>

The fair value of the IT systems acquired as part of the Transaction was determined as follows:

1. Assuming market depreciation rates (8 years for the main systems, and 5 years for other systems), the net value of systems was calculated. The calculation was based on the assumption that the market rates would be effective from the moment of acquisition of a given IT system.

2. For 20 largest net values as at the acquisition date, an individual valuation was performed from the perspective of the average market participant.
3. IT systems that were classified as intangible assets under construction at the acquisition date were measured from the market participant's perspective and their value was determined depending on the decision to continue individual projects. As regards the projects that the market participant would have continued in similar circumstances, the capitalized cost was assumed as it accurately reflects the current value and progress of the work. For IT systems that would not be continued, the fair value was set to 0.

Property, plant and equipment

Fair value of fixed assets was determined as follows: assets were divided by groups, then for all advertisements and Raiffeisen logo a fair value was set equal to 0. Assets classified as improvements in foreign fixed assets were valued to the net value assuming market depreciation rates from the moment of the acquisition of these assets for use, then the net value has been adjusted to the value of 6-month depreciation calculated according to the new rules.

Relations with clients in the area of deposits and loans

Relationships with clients holding a CDI (core deposit intangible) have been determined using the favourable source of funds method, as the current value of the difference between the lower cost of financing the acquired savings accounts and the higher alternative cost of financing operations (including interest costs and administrative costs) that the Bank would have to incur if it did not have a portfolio of such accounts. For each year of the cash flow forecast, taking into account the estimated rate of outflow of customers, the difference between the alternative cost of financing and the cost of the acquired accounts is calculated, which is then discounted applying an adequate discount rate.
Relationships with customers who have credit accounts have been estimated using the Multi-Period Excess Earning Method (MEEM). The value of the relationship is determined based on the current value of discounted future cash flows resulting from additional income generated for the Bank having a given intangible asset, after including the rate of customer departures, costs and encumbrances on capital assets.
The discount rate used to measure customer relationships includes the time value of money, the cost of equity and bonuses for specific risks identified within the relationship. The cost of the Bank's equity is determined in accordance with the CAMP model (Capital Asset Pricing Model).
In the case of the Bank, the value of CDI was considered insignificant, mainly due to the relatively high interest rate on the acquired savings accounts and the possibility of alternative financing of the Bank at a relatively low margin. Due to the above, CDI did not meet the disclosure criterion as a separate asset related to the acquisition. There were also no significant relationships with customers having loan products, mainly due to the relatively low level of additional revenues generated by these products, in relation to the corresponding costs of risk, administrative costs and capital charges.

Tenancy agreements

Agreements regard the rental of office space for the needs of branches and headquarters, the terms of the agreements were compared to the conditions of agreements currently being entered into on the market of contracts of similar size and in similar locations. The difference between the rental rate of the acquired branches and headquarters was calculated, as well as the rate of agreements possible to conclude for a similar office space available on the market. The amount of the difference was discounted with the appropriate discount rate for the period remaining until the completion of individual contracts.
The amount of the potential adjustment was deemed insignificant.

Calculation of gain on bargain purchase

As at the date of the present report, the Bank did not complete the process of calculating the gain from a bargain purchase as at 31 October 2018 due to the acquisition of the Core Business of RBPL. The Bank has performed a preliminary settlement of the accounting merger of units and calculation of gain from bargain purchase in connection with the acquisition of the Core Business of RBPL. In accordance with the requirements of IFRS 3, BGŻ BNP will finalize the acquisition within a maximum of one year from the date of acquiring control. During this time, the acquiring entity may retrospectively adjust the provisional fair values of assets and liabilities recognized as at the acquisition date to reflect any new information on facts and circumstances that existed at the acquisition date and, if the entity have had those information, would affect the measurement of those assets and liabilities. Such adjustments refer to the recognized goodwill or bargain purchase gain.

Price resulting from the Agreement	3,250,000
Initial price adjustment	(5,500)
Payment transferred after adjustment	3,244,500
Net fair value of the acquired assets	3,536,206
Gain on bargain purchase	291,706

The initial price adjustment results from changes and detailed arrangements made in accordance with the provisions of the Transaction Agreement.

This provisional purchase price allocation has been prepared by the Bank's Management Board based on calculations resulting from the concluded Transaction Agreement. The final settlement in accordance with the terms of the Transaction Agreement will, however, be subject to final agreements between BGŻ BNP and RBI - the seller of the demerged part of RBPL.

In connection with the above, the purchase price allocation performed on 31 October 2018 is preliminary and may be subject to changes, if the Bank acquires new information that will concern the state as of 31 October 2018, and which are not known at the date of preparation of the separate financial statements for 2018. In accordance with IFRS 3.45, the maximum period for making changes to the purchase price allocation expires after 12 months from the date of acquisition, i.e. on 31 October 2019. The changes (if any) will be made retrospectively (i.e. they will be settled through equity). The currently determined surplus of the fair value of acquired assets and liabilities at the acquisition date over the purchase price was recognized by the Bank in accordance with the provisions of IFRS 3.34 directly as a gain on a bargain purchase (presented in the profit or loss account under: "Other operating income").

The gain on bargain purchase is resulted from negotiation the advantageous price by the Bank's Management Board

The difference between the book value of the assets and liabilities acquired from the demerged part of the RBPL Bank, and the valuation of them at their fair value will be subject to settlement through the profit or loss account - in the economic life of the individual components of the assets and liabilities acquired.

Additional disclosures

Due to the fact that the Bank acquired only a demerged part of RBPL covering the Core Business of RBPL during the reporting year, it is not able to present revenue and profit or loss for the combined entity for the current period as at the beginning of the annual reporting period in a credible amount and without applying numerous simplifications and assumptions. In order to present such disclosure, the Bank would have to apply numerous simplifications and assumptions which could lead to an unreliable presentation.

Immediately after the transaction, the Bank operationally migrated some selected financial assets from the books of the Core Business of RBPL to the books of BGZ BNP, and from then on, revenues from these assets are calculated including other interest and other income on BGZ BNP assets, while other assets and liabilities as well as income and expenses resulting from the acquired Core Business of RBPL are included in the books of the demerged part of the RBPL and are combined for the purpose of financial statements preparation by the time of the operational merger. Additionally, the Bank centralized operationally the functions of liquidity management, which makes a fully reliable economic presentation of the result generated by the Core Business of RBPL and BGŻ BNP impossible. In practice, the fact of migrating the part of assets to the books of BGŻ BNP and centralization of liquidity management made it difficult to prepare separate information on the profit or loss account of the acquired entities, in particular for the Core Business of RBPL from the date of the transaction to 31 December 2018.

5. NET INTEREST INCOME

	12 months ended 31.12.2018	12 months ended 31.12.2017
INTEREST INCOME		
Amounts due from banks	17,371	29,342
Loans and advances to customers measured at amortised cost, including:	2,269,200	2,212,284
non-banking financial institutions	18,866	8,214
retail customers	989,500	924,898
economic operators	1,192,796	1,194,733
including retail farmers	429,895	493,192
public sector institutions	5,099	5,139
leasing receivables	62,939	79,299
Debt instruments measured at amortised cost	257,703	-
Loans and advances to customers measured at amortised cost through profit or loss	77,311	-
Debt instruments measured at fair value through profit or loss	1,064	-
Debt instruments measured at fair value through other comprehensive income	167,805	-
Derivative instruments as part of fair value hedge accounting	115,233	80,978
Debt securities available for sale	-	314,986
Purchased repo transactions	24	-
Total interest income	**2,905,711**	**2,637,590**
INTEREST EXPENSE		
Amounts due to banks	(71,660)	(61,199)
Debt securities issued	(795)	(11,630)
Amounts due to customers, including:	(653,690)	(573,895)
non-banking financial institutions	(129,511)	(47,469)
retail customers	(311,908)	(289,054)
economic operators	(192,271)	(215,738)
including retail farmers	(5,246)	(6,518)
public sector institutions	(20,000)	(21,634)
Derivative instruments as part of fair value hedge accounting	(93,592)	(73,377)
Repo transactions	(9,456)	(1,117)
Total interest expense	**(829,193)**	**(721,218)**
Net interest income	**2,076,518**	**1,916,372**

In 2018, the total value of interest income calculated using the effective interest rate in relation to financial assets that are measured at amortized cost, amounted to PLN 2,544,274 thousand (PLN 2,556,612 thousand for the 12 months ended 31 December 2017), while the value of interest expenses calculated using the effective interest rate in relation to financial liabilities, which are measured at amortized cost, amounted to PLN 735,601 thousand (PLN 647,841 thousand for the 12 months ended 31 December 2017).

In 2018, the total value of interest income calculated using the effective interest rate in relation to financial assets that are measured at fair value through other comprehensive income amounted to PLN 167,805 thousand.

Interest income includes interest on financial assets assessed individually and collectively, for which impairment was identified. The amount of the above mentioned interest, which was recognized in the interest income for 2018, amounted to PLN 72,635 thousand, as compared to PLN 109,246 thousand for 2017.

6. NET FEE AND COMMISSION INCOME

	12 months ended 31.12.2018	12 months ended 31.12.2017
FEE AND COMMISSION INCOME		
loans, advances and leases	211,415	193,237
account maintenance	107,296	106,097
cash service	22,440	19,475
cash transfers and e-banking	59,568	49,384
guarantees and documentary operations	38,512	29,430
asset management and brokerage operations	61,998	40,317
payment and credit cards	118,879	90,449
insurance mediation activity	33,761	21,050
product sale mediation and customer acquisition	13,431	5,748
other commissions	10,522	12,014
Total fee and commission income	**677,822**	**567,201**
FEE AND COMMISSION EXPENSE		
loans, advances and leases	(2,852)	(4,394)
account maintenance	(3,805)	(3,514)
cash service	(6,330)	(3,525)
cash transfers and e-banking	(1,959)	(1,266)
asset management and brokerage operations	(1,869)	(1,196)
payment and credit cards	(81,173)	(75,640)
insurance mediation activity	(11,592)	(9,764)
product sale mediation and customer acquisition	(24,075)	(8,075)
other commissions	(8,995)	(6,872)
Total fee and commission expense	**(142,650)**	**(114,246)**
Net fee and commission income	**535,172**	**452,955**

The commission income for 2018 includes revenues from custody activities in the amount of PLN 61,998 thousand (PLN 40,317 thousand in 2017) and the amount of costs from custody activities in the amount of PLN 1,869 thousand (PLN 1,196 thousand in 2017).

Net commission income includes commission income that relate to assets and liabilities that are not measured at fair value with the result of measurement recognized in the profit or loss account for 2018 in the amount of PLN 443,846 thousand, while for 2017 in the amount of PLN 394,991 thousand, and commission costs for 2018 in the amount of PLN 50,613 thousand, as compared to PLN 30,538 thousand for 2017.

7. DIVIDEND INCOME

	12 months ended 31.12.2018	12 months ended 31.12.2017
Available for sale securities	-	4,714
Equity instruments measured at fair value through profit or loss	4,4860	-
Shares in subsidiaries	5,645	33,463
Total dividend income	**10,505**	**38,177**

8. NET TRADING INCOME

	12 months ended 31.12.2018	12 months ended 31.12.2017
Equity instruments measured at fair value through profit or loss	7,483	-
Debt instruments measured at fair value through profit or loss	(324)	-
Derivative instruments and result on foreign exchange transactions	323,460	251,455
Total net trading income	**330,619**	**251,455**

9. RESULT ON INVESTMENT ACTIVITIES

During the year, the Bank has not reclassified any financial assets measured at amortized cost to financial assets measured at fair value.

	12 months ended 31.12.2018	12 months ended 31.12.2017
Financial assets available for sale	-	25,543
Loans and advances to customers measured at fair value through profit or loss	5,984	-
Debt instruments measured at fair value through profit or loss	41,244	-
Equity instruments	177	2,855
Total result on investment activities	**47,405**	**28,398**

10. NET IMPAIRMENT ALLOWANCES ON FINANCIAL ASSETS AND PROVISIONS ON CONTINGENT LIABILITIES

31.12.2018	Stage 1	Stage 2	Stage 3	Total
Amounts due from banks	39	-	-	39
Loans and advances to customers measured at amortised cost	(185,016)	(53,571)	(226,452)	(465,039)
Contingent commitments granted	(42,532)	(14,054)	(13,925)	(70,511)
Securities measured at amortised cost	(1,458)	(593)	-	(2,051)
Debt instruments measured at fair value through other comprehensive income	884	(1,215)	618	287
Total net impairment allowances on financial assets and contingent liabilities	**(228,083)**	**(69,433)**	**(239,759)**	**(537,275)**

	12 months ended 31.12.2018	12 months ended 31.12.2017
Amounts due from banks	39	(2,424)
Loans and advances to customers measured at amortised cost	(465,039)	(335,406)
Contingent commitments granted	(70,511)	7,203
Securities measured at amortised cost	(2,051)	-
Debt instruments measured at fair value through other comprehensive income	287	(11,792)
Total net impairment allowances on financial assets and contingent liabilities	**(537,275)**	**(342,419)**

11. GENERAL ADMINISTRATIVE COSTS

	12 months ended 31.12.2018	12 months ended 31.12.2017
Personnel expenses (Note 12)	(1,033,824)	(815,175)
Marketing	(107,213)	(92,140)
IT and telecom expenses	(150,435)	(130,149)
Rental expenses	(156,737)	(162,845)
Other non-personnel expenses	(214,195)	(157,781)
Business travels	(12,904)	(10,801)
ATM and cash handling expenses	(3,954)	(3,448)
Costs of outsourcing services related to leasing operations	(6,735)	(19,453)
Bank Guarantee Fund fee	(117,294)	(95,483)
Polish Financial Supervision Authority fee	(6,601)	(4,796)
Total general administrative expenses	**(1,809,892)**	**(1,492,071)**

12. PERSONNEL EXPENSES

	12 months ended 31.12.2018	12 months ended 31.12.2017
Payroll expenses	(729,307)	(663,905)
Payroll charges	(121,448)	(115,484)
Employee benefits	(34,182)	(16,265)
Costs of restructuring provision	(133,727)	(2,489)
Costs of provision for future liabilities arising from unused annual leave and retirement benefits	(3,180)	(6,876)
Appropriations to Social Benefits Fund	(8,808)	(8,850)
Other	(3,172)	(1,306)
Total personnel expenses	**(1,033,824)**	**(815,175)**

13. DEPRECIATION AND AMORTIZATION

	12 months ended 31.12.2018	12 months ended 31.12.2017
Property, plant and equipment	(90,478)	(87,301)
Intangible assets	(98,364)	(86,233)
Total depreciation and amortization	**(188,842)**	**(173,534)**

14. OTHER OPERATING INCOME

	12 months ended 31.12.2018	12 months ended 31.12.2017
Sale or liquidation of property, plant and equipment and intangible assets	13,631	25,083
Sale of goods and services	1,340	2,155
Release of provisions for litigation and claims and other liabilities	2,125	10,616
Recovery of debt collection costs	16,118	16,643
Recovered indemnities	13,192	2,520
Leasing operations	20,998	22,948
Gain on bargain purchase of RBPL	291,706	-
Other operating income	34,083	53,409
Total other operating income	**393,193**	**133,374**

15. OTHER OPERATING EXPENSES

	12 months ended 31.12.2018	12 months ended 31.12.2017
Loss on sale or liquidation of property, plant and equipment and intangible assets	(15,990)	(26,709)
Impairment allowances on other receivables	-	(10,244)
Provisions for litigation and claims and branches restructuring	(41,608)	(8,607)
Debt collection	(35,946)	(33,500)
Donations made	(3,342)	(2,686)
Costs of leasing operations	(20,966)	(23,039)
Costs of compensations, penalties and fines	(2,574)	-
Other operating expenses	(41,180)	(34,103)
Total other operating expenses	**(161,606)**	**(138,888)**

16. INCOME TAX EXPENSE

	12 months ended 31.12.2018	12 months ended 31.12.2017
Current income tax	(224,716)	(152,566)
Deferred income tax	116,777	(20,302)
Total income tax expense	**(107,939)**	**(172,868)**
Profit before income tax	472,678	471,257
Statutory tax rate	19%	19%
Income taxes on gross profit	**(89,809)**	**(89,539)**
Receivables written-off	(6,613)	(32,057)
Non-tax-deductible tangible costs/income	(906)	(647)
PFRON	(1,052)	(1,073)
Prudential fee to the Bank Guarantee Fund	(22,286)	(18,142)
Impairment allowance on receivables	(9,669)	(3,603)
Tax on financial institutions	(40,493)	(39,115)
Gain on bargain purchase of RBPL	55,424	-
Other differences	7,465	11,308
Total income tax expense	**(107,939)**	**(172,868)**

17. EARNINGS PER SHARE

BASIC:	12 months ended 31.12.2018	12 months ended 31.12.2017
Attributable to equity holders of the Bank	364,739	298,389
Weighted average number of ordinary shares (items)	99,342,968	84,238,318
Basic earnings per share (in PLN per share)	3.67	3.54
Diluted earnings per share (in PLN per share)	3.67	3.54

Diluted earnings are equal to the basic earnings per share, since there are no factors that cause dilution.

Basic earnings per share are calculated as a quotient of the earnings attributable to the Bank's equity holders and the weighted average number of ordinary shares during the year, except for ordinary shares acquired by the Bank and recognized as own shares.

18. CASH AND BALANCES AT CENTRAL BANK

CASH AND CASH EQUIVALENTS	31.12.2018	31.12.2017
Cash and other balances	2,253,130	918,927
Account in the National Bank of Poland	644,095	79,108
Gross cash and cash equivalents	**2,897,225**	**998,035**
Impairment allowances	**(112)**	**-**
Total net cash and cash equivalents	**2,897,113**	**998,035**

CHANGE IN IMPAIRMENT PROVISIONS	31.12.2018	31.12.2017
Balance as at 1.01.2018 in accordance with IAS 39	-	-
Change resulting from IFRS 9 implementation	(14)	-
Balance as at 1.01.2018 in accordance with IFRS 9	(14)	-
Increases due to acquisition or origination	(1)	-
Decreases due to derecognition	243	-
Other changes (including foreign exchange differences)	(340)	-
Balance as at 31.12.2018	(112)	-

During the day, the Bank may use cash on statutory reserve accounts for current cash settlements based on an order placed at the National Bank of Poland. The Bank has to ensure that the average monthly balance matches the declared statutory reserve amount.

The funds on the statutory reserve account bear interest. As at 31 December 2018 interest on statutory reserve accounts was 0.5% (1.58% as at 31 December 2017).

The balance of cash in hand and at Central Bank includes the statutory reserve maintained with the National Bank of Poland. The declared reserve level to be maintained since 31 December 2018 was PLN 3,043,961 thousand (as compared to PLN 1,905,544 thousand in December 2017).

The Bank has to maintain the average monthly balance of cash above the declared statutory reserve level.

19. AMOUNTS DUE FROM BANKS

	31.12.2018		31.12.2017	
	Gross balance sheet amount	Allowance	Gross balance sheet amount	Allowance
Current accounts	285,955	(170)	1,644,636	(4,477)
Interbank deposits	320,181	(109)	800,105	-
Loans and advances	33,339	(511)	23,053	-
Other receivables	152,857	(471)	52,140	-
Total amounts due from banks	**792,332**	**(1,261)**	**2,519,934**	**(4,477)**

CHANGE IN IMPAIRMENT ALLOWANCE	31.12.2018
Balance as at 1.01.2018 in accordance with IAS 39	(4,477)
Change resulting from IFRS 9 implementation	3,553
Balance as at 1.01.2018 in accordance with IFRS 9	(924)
Increases due to acquisition or origination	(854)
Decreases due to derecognition	1,262
Changes resulting from the change in credit risk (net)	1,645
Other changes (including foreign exchange differences)	(2,390)
Balance as at 31.12.2018	(1,261)

	12 months ended 31.12.2017
Opening balance of impairment allowances on amounts due from banks	**(2,053)**
Recognition of impairment allowances	(5,974)
Release of impairment allowances	3,550
Closing balance of impairment allowances on amounts due from banks	**(4,477)**

Gross amounts due from banks by their maturity

	31.12.2018	31.12.2017
Up to 1 month	363,527	2,444,789
From 1 month to 3 months	159,127	240
From 3 months to 1 year	33,719	15,027
From 1 year to 5 years	130,709	8,002
Over 5 years	105,060	51,876
Overdue loans	190	-
Total gross amounts due from banks by maturity	**792,332**	**2,519,934**

20. DERIVATIVE FINANCIAL INSTRUMENTS

Fair value of derivatives held by the Bank is presented in the below table:

		Fair value	
31.12.2018	Nominal value	Assets	Liabilities
TRADING DERIVATIVES			
CURRENCY DERIVATIVES:			
Foreign Exchange Forward (FX Forward + NDF)	7,829,117	37,571	84,454
Currency Swap (FX Swap)	21,914,055	211,822	223,383
Currency Interest Rate Swaps (CIRS)	8,909,095	93,281	137,825
OTC currency options	3,580,893	46,682	51,434
Total currency derivatives:	**42,233,160**	**389,356**	**497,096**
INTEREST RATE DERIVATIVES:			
Interest Rate Swap	37,357,838	318,561	279,136
Forward Rate Agreements (FRA)	6,660,000	250	-
OTC interest rate options	1,747,257	1,177	1,181
Total interest rate derivatives:	**45,765,095**	**319,988**	**280,317**
OTHER DERIVATIVES			
OTC options	54,091	2,125	2,135
OTC commodity swaps	295,763	3,813	3,767
Currency Spot (FX Spot)	1,827,788	389	503
Total other derivatives:	**2,177,642**	**6,327**	**6,405**
TOTAL TRADING DERIVATIVES:	**90,175,897**	**715,671**	**783,818**
including: valued using models	*90,175,897*	*715,671*	*783,818*

31.12.2017	Nominal value	Fair value Assets	Fair value Liabilities
TRADING DERIVATIVES			
CURRENCY DERIVATIVES:			
Foreign Exchange Forward (FX Forward + NDF)	3,447,179	34,264	65,128
Currency Swap (FX Swap)	6,655,454	108,078	68,971
Currency Interest Rate Swaps (CIRS)	5,841,300	131,149	101,365
OTC currency options	1,138,116	5,969	5,985
Total currency derivatives:	**17,082,049**	**279,460**	**241,449**
INTEREST RATE DERIVATIVES:			
Interest Rate Swap	29,873,473	173,999	166,172
Forward Rate Agreements (FRA)	1,450,000	97	63
OTC interest rate options	2,866,088	13,071	13,142
Total interest rate derivatives:	**34,189,561**	**187,167**	**179,377**
OTHER DERIVATIVES			
OTC options	226,962	4,010	4,004
OTC commodity swaps	110,646	2,858	2,880
Currency Spot (FX Spot)	1,365,326	295	-
Other options	3,500	631	-
Total other derivatives:	**1,706,434**	**7,794**	**6,884**
TOTAL TRADING DERIVATIVES:	**52,978,044**	**474,421**	**427,710**
including: valued using models	*52,978,044*	*474,421*	*427,710*

Fair value of derivatives by their maturity

31.12.2018	Fair value of asset						Fair value of liability					
	Total	<=1 month	>1 month <=3 months	>3 months <=12 months	>1 year <=5 years	>5 years	Total	<=1 month	>1 month <=3 months	>3 months <=12 months	>1 year <=5 years	>5 years
TRADING DERIVATIVES												
CURRENCY DERIVATIVES:												
Foreign Exchange Forward (FX Forward + NDF)	**37,571**	3,140	8,298	16,544	9,589	-	**84,454**	2,998	7,800	36,001	34,847	2,808
Currency Swap (FX Swap)	**211,822**	84,117	55,678	49,142	22,885	-	**223,383**	16,067	50,352	79,290	66,166	11,508
Currency Interest Rate Swaps (CIRS)	**93,281**	-	-	1,686	70,937	20,658	**137,825**	-	-	2,948	84,438	50,439
OTC currency options	**46,682**	2,207	4,510	8,100	23,416	8,449	**51,434**	2,279	5,081	9,744	25,573	8,757
Total currency derivatives:	**389,356**	**89,464**	**68,486**	**75,472**	**126,827**	**29,107**	**497,096**	**21,344**	**63,233**	**127,983**	**211,024**	**73,512**
INTEREST RATE DERIVATIVES:												
Interest Rate Swap	**318,561**	3,450	3,993	18,235	202,122	90,761	**279,136**	1,456	7,376	19,350	192,339	58,615
Forward Rate Agreements (FRA)	**250**	-	-	250	-	-	**-**	-	-	-	-	-
OTC interest rate options	**1,177**	-	-	16	653	508	**1,181**	-	-	16	654	511
Total interest rate derivatives:	**319,988**	**3,450**	**3,993**	**18,501**	**202,775**	**91,269**	**280,317**	**1,456**	**7,376**	**19,366**	**192,993**	**59,126**
OTHER DERIVATIVES												
OTC options	**2,125**	-	-	2,125	-	-	**2,135**	-	-	2,135	-	-
OTC commodity swaps	**3,813**	1,849	979	851	134	-	**3,767**	1,813	958	862	134	-
Currency Spot (FX Spot)	**389**	389	-	-	-	-	**503**	503	-	-	-	-
Total other derivatives:	**6,327**	**2,238**	**979**	**2,976**	**134**	**-**	**6,405**	**2,316**	**958**	**2,997**	**134**	**-**
TOTAL TRADING DERIVATIVES:	**715,671**	**95,152**	**73,458**	**96,949**	**329,736**	**120,376**	**783,818**	**25,116**	**71,567**	**150,346**	**404,151**	**132,638**

31.12.2017	Fair value of asset Total	<=1 month	>1 month <=3 months	>3 months <=12 months	>1 year <=5 years	>5 years	Fair value of liability Total	<=1 month	>1 month <=3 months	>3 months <=12 months	>1 year <=5 years	>5 years
TRADING DERIVATIVES												
CURRENCY DERIVATIVES:												
Foreign Exchange Forward (FX Forward + NDF)	**34,264**	10,404	7,485	14,928	1,447	-	**65,128**	7,753	8,648	23,516	25,211	-
Currency Swap (FX Swap)	**108,078**	42,670	41,740	17,443	6,225	-	**68,971**	21,777	35,153	12,041	-	-
Currency Interest Rate Swaps (CIRS)	**131,149**	-	24	4,694	96,903	29,528	**101,365**	-	-	-	84,986	16,379
OTC currency options	**5,969**	518	807	2,808	1,836	-	**5,985**	519	808	2,810	1,848	-
Total currency derivatives:	**279,460**	**53,592**	**50,056**	**39,873**	**106,411**	**29,528**	**241,449**	**30,049**	**44,609**	**38,367**	**112,045**	**16,379**
INTEREST RATE DERIVATIVES:												
Interest Rate Swap	**173,999**	698	6,911	3,900	106,719	55,771	**166,172**	5,620	5,411	7,790	100,035	47,316
Forward Rate Agreements (FRA)	**97**	-	-	97	-	-	**63**	-	-	63	-	-
OTC interest rate options	**13,071**	-	6,716	5,148	1,160	47	**13,142**	-	6,787	5,148	1,160	47
Total interest rate derivatives:	**187,167**	**698**	**13,627**	**9,145**	**107,879**	**55,818**	**179,377**	**5,620**	**12,198**	**13,001**	**101,195**	**47,363**
OTHER DERIVATIVES												
OTC options	**4,010**	-	-	685	3,325	-	**4,004**	-	-	1,316	2,688	-
OTC commodity swaps	**2,858**	1,227	75	1,556	-	-	**2,880**	1,236	72	1,572	-	-
Currency Spot (FX Spot)	**295**	295	-	-	-	-	**-**	-	-	-	-	-
Other options	**631**	-	-	631	-	-	**-**	-	-	-	-	-
Total other derivatives:	**7,794**	**1,522**	**75**	**2,872**	**3,325**	**-**	**6,884**	**1,236**	**72**	**2,888**	**2,688**	**-**
TOTAL TRADING DERIVATIVES:	**474,421**	**55,812**	**63,758**	**51,890**	**217,615**	**85,346**	**427,710**	**36,905**	**56,879**	**54,256**	**215,928**	**63,742**

Maturity dates:
- for NDF, FX forward, FX swap, currency options and indexes, IRS, CIRS calculated as a difference in days between the transaction maturity date and the balance sheet date
- for FX spot, FRA, securities to be issued/received calculated as a difference in days between the transaction currency date and the balance sheet date

21. HEDGE ACCOUNTING

As at 31 December 2018, the Bank used fair value hedge (**macro fair value hedge**).

Hedging relationship description	The hedges are used against interest rate risk, specifically changes in the fair value of fixed-rate assets and liabilities resulting from changes in a specific reference rate.
Hedged items	Fixed-rate PLN, EUR and USD current accounts are the hedged items.
Hedging instruments	Hedging instruments include standard IRS transactions, i.e. plain vanilla IRS in PLN, EUR and USD, in which the Bank receives a fixed interest rate and pays a floating rate based on WIBOR 6M, WIBOR 3M, EURIBOR 3M, EURIBOR 1M, USD LIBOR 1M, USD LIBOR 6M.
Presentation of result on the hedged and hedging transactions	The change at fair value of hedging instruments is recognized in the Result on hedge accounting. Interest on IRS transactions and current accounts is recognized in Interest income.

IRS	Nominal value	Fair value	
		Assets	Liabilities
31.12.2018	7,176,981	130,405	578
31.12.2017	5,308,397	32,730	6,331

The liabilities in the item "Differences from hedge accounting" include the adjustment of the value of hedged instruments (deposits) amounting to:

31.12.2018 PLN 96,472 thousand

31.12.2017 PLN (12,610) thousand

The below table presents derivative hedging instruments at their nominal value as at 31 December 2018 and 31 December 2017 by residual maturity dates:

	31.12.2018							
	Fair value		Nominal value					
Hedging derivatives	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	130,405	578	17,200	-	1,250,000	4,453,885	1,455,896	7,176,981
Hedging derivatives - total	**130,405**	**578**	**17,200**	**-**	**1,250,000**	**4,453,885**	**1,455,896**	**7,176,981**

	31.12.2017							
	Fair value		Nominal value					
Hedging derivatives	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	32,730	6,331	16,684	-	1,104,439	3,333,001	854,273	5,308,397
Hedging derivatives - total	**32,730**	**6,331**	**16,684**	**-**	**1,104,439**	**3,333,001**	**854,273**	**5,308,397**

Additionally, as at 31 December 2018, the Bank applies fair value hedge accounting (**micro fair value hedge).**

Hedging relationship description	The hedges are used against interest rate risk, specifically changes in the fair value of fixed-rate assets and liabilities resulting from changes in a specific reference rate.
Hedged items	Fixed rate bond PS0422 and the loan No. LD0536200061 are the hedged items.
Hedging instruments	Hedging instruments are the standard IRS transactions, i.e. plain vanilla IRS, denominated in PLN and EUR, in which the Bank receives a fixed interest rate and pays a floating rate based on WIBOR 6M and EURIBOR 1M.
Presentation of result on the hedged and hedging transactions	The change at fair value of hedging transactions is recognized in the Result on hedge accounting. Interest on IRS transactions and hedged items is recognized in Interest income.

IRS	Nominal value	Fair value: Assets	Fair value: Liabilities
31.12.2018	854,543	-	26,550
31.12.2017	750,000	-	3,287

The below tables present derivative hedging instruments at their nominal value as at 31 December 2018 and 31 December 2017 by residual maturity dates:

	31.12.2018							
	Fair value		Nominal value					
Hedging derivatives	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	-	26,550	-	-	-	854,543	-	854,543
Hedging derivatives - total	**-**	**26,550**	**-**	**-**	**-**	**854,543**	**-**	**854,543**

	31.12.2017							
	Fair value		Nominal value					
Hedging derivatives	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	-	3,287	-	-	-	750,000	-	750,000
Hedging derivatives - total	**-**	**3,287**	**-**	**-**	**-**	**750,000**	**-**	**750,000**

Amounts recognized in the profit or loss account under fair value hedge accounting:

	31.12.2018	31.12.2017
Net interest income on hedging derivative instruments	115,233	80,978
Net interest income on hedged instruments	(93,592)	(73,377)
Change at fair value of hedging transactions recognized in the Result on hedge accounting	(9,997)	3,304
including: change in fair value of hedging instruments	*(97,480)*	*(2,451)*
change in fair value of hedged instruments	*87,483*	*5,755*

22. LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST

	31.12.2018		31.12.2017	
	Gross balance sheet amount	Allowance	Gross balance sheet amount	Allowance
LOANS AND ADVANCES FOR:				
NON-BANKING FINANCIAL ENTITIES	**687,244**	**(14,641)**	**595,945**	**(2,481)**
current account loans	361,399	(1,837)	591,642	(1,183)
investment loans	96,596	(11,743)	-	-
other loans	229,249	(1,061)	4,303	(1,298)
RETAIL CUSTOMERS:	**27,000,114**	**(1,066,921)**	**20,939,056**	**(942,495)**
mortgage loans	16,054,648	(333,352)	13,628,114	(315,298)
other loans	10,945,466	(733,569)	7,310,942	(627,197)
CORPORATE CUSTOMERS:	**42,202,936**	**(1,845,925)**	**30,794,099**	**(1,744,887)**
current account loans	17,766,706	(984,066)	12,495,923	(921,987)
investment loans	15,161,760	(627,944)	14,907,068	(584,833)
other loans	9,274,470	(233,915)	3,391,108	(238,067)
INCLUDING RETAIL FARMERS:	**8,681,538**	**(379,402)**	**11,004,011**	**(338,821)**
current account loans	4,312,606	(160,364)	4,174,519	(108,931)
investment loans	4,360,251	(218,750)	6,822,060	(228,740)
other loans	8,681	(288)	7,432	(1,150)
PUBLIC SECTOR INSTITUTIONS:	**190,073**	**(1,961)**	**172,173**	**(190)**
current account loans	48,738	(550)	88,626	(98)
investment loans	36,056	(505)	44,862	(45)
other loans	105,279	(906)	38,685	(47)
LEASE RECEIVABLES	**1,805,600**	**(85,601)**	**2,465,830**	**(81,847)**
Total loans and advances to customers measured at amortised cost	**71,885,967**	**(3,015,049)**	**54,967,103**	**(2,771,900)**

Loans and advances to customers by Stages

31.12.2018	Stage 1	Stage 2	Stage 3
LOANS AND ADVANCES FOR:	**61,485,682**	**6,264,930**	**4,135,355**
Non-banking financial entities	659,186	325	27,733
Retail customers	23,845,029	1,932,146	1,222,939
Corporate customers:	35,458,398	3,980,658	2,763,880
including retail farmers	7,114,796	980,508	586,234
Public sector entities:	189,960	-	113
Lease receivables	1,333,109	351,801	120,690
IMPAIRMENT ALLOWANCE ON LOANS AND RECEIVABLES FOR:	**(492,558)**	**(495,154)**	**(2,027,337)**
Non-banking financial entities	(2,931)	(42)	(11,668)
Retail customers	(190,012)	(244,241)	(632,668)
Corporate customers:	(290,800)	(236,281)	(1,318,844)
including retail farmers	(78,708)	(85,095)	(215,599)
Public sector entities:	(1,887)	-	(74)
Lease receivables	(6,928)	(14,590)	(64,083)
Net loans and advances to customers measured at amortised cost	**60,993,124**	**5,769,776**	**2,108,018**

The portfolio of amounts due from customers includes assets purchased or originated with impaired value (POCI - purchased or originated credit-impaired asset), which are presented in Stage 2 or 3 depending on the credit risk level assessment, whose net balance sheet value as at 31 December 2018 is PLN 681,549 thousand.

CHANGE IN IMPAIRMENT ALLOWANCES	Stage 1	Stage 2	Stage 3	Total
Balance as at 1.01.2018 in accordance with IAS 39	-	-	-	(2,771,900)
Change resulting from IFRS 9 implementation	-	-	-	(797,256)
Balance as at 1.01.2018 in accordance with IFSR 9	(262,443)	(489,640)	(2,817,073)	(3,569,156)
Increase due to acquisition or origination	(330,223)	(56,775)	(51,632)	(438,630)
Decrease due to derecognition	19,873	8,090	56,583	84,546
Changes resulting from the change in credit risk (net)	83,623	(31,728)	(389,744)	(337,849)
Use of allowances	-	15	1,193,113	1,193,128
Other changes (including foreign exchange differences)	(3,388)	74,884	(18,584)	52,912
Balance as at 31.12.2018	**(492,558)**	**(495,154)**	**(2,027,337)**	**(3,015,049)**

	12 months ended 31.12.2017
Opening balance of impairment allowances	**(2,996,915)**
Recognition of impairment allowances	(1,008,280)
Release of impairment allowances	672,874
Use of allowances	548,116
Other changes (including foreign exchange differences)	12,305
Closing balance of impairment allowances	**(2,771,900)**

Loans and advances by maturity

	31.12.2018	31.12.2017
Up to 1 month	582,091	12,804,506
From 1 month to 3 months	1,474,844	253,124
From 3 months to 1 year	6,895,538	2,457,614
From 1 year to 5 years	20,054,882	12,155,099
Over 5 years	25,723,669	26,080,249
Overdue loans	17,154,943	1,216,511
Total loans and advances by maturity	**71,885,967**	**54,967,103**

Gross amount of foreign currency mortgage loans for retail customers (in PLN ‘000)

Loans by currency	31.12.2018	31.12.2017
CHF	5,166,681	5,350,126
EUR	56,277	65,037
PLN	10,828,584	8,209,418
USD	3,106	3,533
Total	**16,054,648**	**13,628,114**

Value of CHF loan portfolio

	31.12.2018				31.12.2017			
	Gross balance sheet amount	including CHF exposures	Allowance	including CHF exposures	Gross balance sheet amount	including CHF exposures	Allowance	including CHF exposures
LOANS AND ADVANCES FOR:								
NON-BANKING FINANCIAL ENTITIES	**687,244**	**-**	**(14,641)**	**-**	**595,945**	**-**	**(2,481)**	**-**
current account loans	361,399	-	(1,837)	-	591,642	-	(1,183)	-
investment loans	96,596	-	(11,743)	-	-	-	-	-
other loans	229,249	-	(1,061)	-	4,303	-	(1,298)	-
RETAIL CUSTOMERS:	**27,000,114**	**5,234,042**	**(1,066,921)**	**(199,108)**	**20,939,056**	**5,426,715**	**(942,495)**	**(217,465)**
mortgage loans	16,054,648	5,166,681	(333,352)	(190,402)	13,628,114	5,350,126	(315,298)	(206,799)
other loans	10,945,466	67,361	(733,569)	(8,706)	7,310,942	76,589	(627,197)	(10,666)
CORPORATE CUSTOMERS:	**42,202,936**	**102,654**	**(1,845,925)**	**(7,647)**	**30,794,099**	**95,926**	**(1,744,887)**	**(12,702)**
current account loans	17,766,706	49,814	(984,066)	(4,375)	12,495,923	64,221	(921,987)	(6,466)
investment loans	15,161,760	13,396	(627,944)	(3,264)	14,907,068	21,149	(584,833)	(3,300)
other loans	9,274,470	39,444	(233,915)	(8)	3,391,108	10,556	(238,067)	(2,936)
INCLUDING RETAIL FARMERS:	**8,681,538**	**-**	**(379,402)**	**-**	**11,004,011**	**6,306**	**(338,821)**	**(1,090)**
current account loans	4,312,606	-	(160,364)	-	4,174,519	4,490	(108,931)	(427)
investment loans	4,360,251	-	(218,750)	-	6,822,060	1,816	(228,740)	(663)
other loans	8,681	-	(288)	-	7,432	-	(1,150)	-
PUBLIC SECTOR INSTITUTIONS:	**190,073**	**-**	**(1,961)**	**-**	**172,173**	**-**	**(190)**	**-**
current account loans	48,738	-	(550)	-	88,626	-	(98)	-
investment loans	36,056	-	(505)	-	44,862	-	(45)	-
other loans	105,279	-	(906)	-	38,685	-	(47)	-
LEASE RECEIVABLES	**1,805,600**	**38,531**	**(85,601)**	**(14,519)**	**2,465,830**	**74,322**	**(81,847)**	**(14,708)**
Total loans and advances	**71,885,967**	**5,375,227**	**(3,015,049)**	**(221,274)**	**54,967,103**	**5,596,963**	**(2,771,900)**	**(244,875)**

In 2018, the Bank concluded agreements regarding the sale of retail and SME loan portfolio. The amount of receivables covered in a significant portion by impairment allowances, or derecognized sold under agreements amounted to PLN 1,072,097 thousand (including principal, interest and other side receivables). The contractual price for the sale of these portfolios has been set at PLN 126,152 thousand. The net effect on the Bank's results from the sale of portfolios which amounted to PLN 30,436 thousand and is presented in *Recognition and release of impairment allowances on loans and advances*.

Securitization

In 2017 the Bank concluded 9 agreements regarding the sale of loan portfolio.

In December 2017, the Bank performed a securitization transaction on the portfolio of cash and car loans. The transaction is a traditional securitization involving the transfer of ownership of the securitized receivables to SPV (BGŻ Poland ABS1 DAC based in Ireland). The revolving period is 24 months.

SPV issued bonds with a total value of PLN 2,180,850 thousand on the basis of securitized assets and received a loan of PLN 119,621 thousand, which was secured by a registered pledge on the rights to cash flows from securitized assets.

As a result of securitization, the Bank obtained financing in return for the transfer of rights to future cash flows resulting from the securitized loan portfolio in the amount of PLN 2,300,471 thousand as at 22 November 2017 (cut-off). The maximum deadline for full redemption of bonds and repayment of the loan is 27 April 2032.

The main benefit of the performed transaction is a positive impact on capital adequacy ratios and improvement of liquidity and diversification of financing sources.

In the light of the provisions of IAS 39 and IFRS 9, the contractual terms of the securitization do not fulfil the conditions for derecognition of securitized assets. In connection with the above, the Bank recognizes securitized assets in “Loans and advances to customers” as at 31 December 2018 at net value of PLN 2,150,316 thousand. At the same time, as at 31 December 2018 the Bank recognizes a liability due to cash flows from securitizations in "Liabilities due to customers" in the amount equal to PLN 2,178,530 thousand as at 31 December 2018. As at 31 December 2018, the Bank held receivables due to settlements with a securitization company in the amount of PLN 119,721 thousand. These receivables are presented in “Other assets”.

The Bank acts as a servicing entity in the transaction.

Balance sheet values and fair values of financial assets covered by securitization and related liabilities:

	Balance sheet amount		Fair value*	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Assets	2,150,316	2,194,397	2,106,646	2,194,397
Liabilities	2,298,995	2,303,210	2,298,995	2,303,210

**The fair value of assets and liabilities due to the securitization process in 2017 is equal to the balance sheet amount due to immaterial differences resulted from a short period from the date of concluding the securitization transaction*

23. FINANCE LEASE RECEIVABLES

Finance lease receivables

	31.12.2018	31.12.2017
Gross finance lease receivables	2,027,005	2,732,041
Unrealized financial income	(221,405)	(266,211)
Present value of minimum lease payments	**1,805,600**	**2,465,830**
Impairment allowances	(85,601)	(81,847)
Total finance lease receivables	**1,719,999**	**2,383,983**

Gross finance lease receivables by maturity

	31.12.2018	31.12.2017
Up to 1 year	651,805	812,664
From 1 year to 5 years	1,214,533	1,541,512
Over 5 years	160,667	377,865
Total gross finance lease receivables	**2,027,005**	**2,732,041**

Present value of minimum lease payments

	31.12.2018	31.12.2017
Up to 1 year	460,635	591,388
From 1 year to 5 years	1,167,940	1,533,843
Over 5 years	177,025	340,599
Present value of minimum lease payments	**1,805,600**	**2,465,830**

24. LOANS AND ADVANCES TO CUSTOMERS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2018	31.12.2017
Subsidised loans	2,416,249	-
Total loans and advances to customers measured at fair value through profit or loss	2,416,249	-

Below table presents a comparison at the fair value of subsidised loans with their gross balance sheet amount, which would have been recognized if the Bank - in accordance with the requirements of IFRS 9 - did not reclassify these portfolios to fair value through profit or loss.

	Fair value	Gross balance sheet value
31.12.2018	2,416,249	2,540,420

	Stage 1	Stage 2	Stage 3
Subsidised loans at fair value	**1,878,069**	**396,716**	**141,464**

25. FINANCIAL ASSETS AVAILABLE FOR SALE

	31.12.2018	31.12.2017
Debt securities available for sale:	-	13,870,298
issued by central banks – NBP bills	-	2,099,429
issued by governments – Treasury bonds	-	11,703,293
issued by non-financial entities – bonds	-	62,574
issued by local governments – municipal bonds	-	5,002
Equity securities available for sale (stock and shares)	-	51,591
Total financial assets available for sale	**-**	**13,921,889**
including:		
measured using the market quotation method	-	*11,703,293*
measured using models	-	*2,218,596*

Change in the balance of financial assets available for sale:

	12 months ended 31.12.2018	12 months ended 31.12.2017
Opening balance	**13,921,889**	**12,497,233**
Purchase of securities	-	23,746,923
Sales of securities	-	(22,519,282)
Changeat fair value through other comprehensive income measurement	-	174,084
Changeat fair value through profit or loss	-	(2,513)
Change at impairment allowances	-	(11,792)
Change in interest receivable due to foreign exchange differences, discounts and premiums	-	37,236
IFRS 9 implementation	(13,921,889)	-
Closing balance	**-**	**13,921,889**

Gross financial assets available for sale by maturity

	31.12.2018	31.12.2017
No maturity	-	51,591
Up to 1 month	-	2,099,429
From 3 months to 1 year	-	1,947,023
From 1 year to 5 years	-	4,453,985
Over 5 years	-	5,369,861
Total financial assets available for sale	**-**	**13,921,889**

26. SECURITIES MEASURED AT AMORTISED COST

	31.12.2018		31.12.2017	
	Gross balance sheet value	Allowance	Gross balance sheet value	Allowance
DEBT INSTRUMENTS:				
issued by central banks – covered bonds	6,006	(1)	-	-
issued by governments – Treasury bonds	11,269,967	(46)	-	-
issued by non-financial entities – bonds	618,641	(20,964)	-	-
issued by local governments – municipal bonds	65,767	(132)	-	-
Total debt instruments measured at amortised cost	11,960,381	(21,143)	-	-

	Stage 1	Stage 2	Stage 3
DEBT INSTRUMENTS	**11,709,065**	**31,479**	**219,837**
issued by central banks – covered bonds	6,006	-	-
issued by governments – Treasury bonds	11,269,967	-	-
issued by non-financial entities – bonds	367,325	31,479	219,837
issued by local governments – municipal bonds	65,767	-	-
IMPAIRMENT ALLOWANCES ON SECURITIES	**(1,734)**	**(2,359)**	**(17,050)**
issued by central banks – covered bonds	(1)	-	-
issued by governments – Treasury bonds	(46)	-	-
issued by non-financial entities – bonds	(1,555)	(2,359)	(17,050)
issued by local governments – municipal bonds	(132)	-	-
Total net debt instruments measured at amortised cost	**11,707,331**	**29,120**	**202,787**

In the portfolio of amounts due from customers, the Bank included assets purchased or originated with impairment (POCI - purchased or originated credit-impaired asset), which are presented in Stage 2 or 3 depending on the credit risk level assessment, whose net balance value as at 31 December 2018 is PLN 194,638 thousand.

In accordance with the Banking Guarantee Fund ("BFG") Act of 14 December 1994, as at 31 December 2018, Bank BGŻ BNP Paribas S.A. held Treasury bonds recognized in the statement of financial position in the amount of PLN 452,587 thousand (with the nominal value of PLN 470,000 thousand), securing the guaranteed funds under BFG (in 2017, in the amount of PLN 318,038 thousand, with the nominal value of PLN 320,000 thousand).

Change of debt instruments measured at amortised cost based on the balance sheet value:

	12 months ended 31.12.2018	12 months ended 31.12.2017
Opening balance	**-**	**-**
Change resulting from IFRS 9 implementation	7,466,904	-
Purchase of securities	6,363,495	-
Sale/repurchase of securities	(6,332,367)	-
Change in measurement at fair value through profit or loss	(342)	-
Change in impairment allowances	21	
Change in interest due, foreign exchange differences, discounts and bonuses	(31,831)	-
Debt instruments acquired as a result of merger	4,476,658	-
Other changes	(3,300)	-
Closing balance	**11,939,238**	**-**

Change in impairment allowances of debt instruments measured at amortised cost

	12 months ended 31.12.2018	12 months ended 31.12.2017
Opening balance	**11,792**	**-**
Change resulting from IFRS 9 implementation	7,137	-
Balance as at 1.01.2018	**18,929**	**-**
Increases due to acquisition or origination	11,274	
Decreases due to derecognition	(11,295)	-
Use of allowances	2,235	-
Closing balance	**21,143**	**-**

Debt instruments measured at amortised cost by maturity

	31.12.2018	31.12.2017
Up to 1 month	818	-
From 3 months to 1 year	473,913	-
From 1 year to 5 years	2,850,186	-
Over 5 years	8,635,464	-
Total debt instruments measured at amortised cost	**11,960,381**	**-**

27. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2018	31.12.2017
DEBT INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	Balance sheet value	
Bonds issued by central governments	11,941	-
Bonds issued by non-financial entities	53,612	-
Bonds convertible for non-financial entities bonds	58,201	-
Equity instruments	80,059	-
Total financial instruments measured at fair value through profit or loss	**203,813**	**-**

Change in financial instruments measured at fair value through profit or loss:

	12 months ended 31.12.2018	12 months ended 31.12.2017
Opening balance	**-**	**-**
Change resulting from IFRS 9 implementation	104,984	-
Purchase of securities	35,919	-
Sale of securities	(147)	-
Change in measurement at fair value through profit or loss	7,640	-
Change in interest due, foreign exchange differences, discounts and bonuses	4,799	-
Debt instruments acquired as a result of merger	47,318	-
Other changes	3,300	-
Closing balance	**203,813**	**-**

Financial instruments measured at fair value through profit or loss by maturity:

	31.12.2018	31.12.2017
No maturity	126,317	-
Up to 1 month	468	-
From 1 year to 5 years	13,232	-
Over 5 years	63,796	-
Total financial instruments measured at fair value through profit or loss	**203,813**	**-**

The table below presents the value of securities measured at fair value through profit or loss, divided into designated at fair value through profit or loss and obligatorily measured at fair value through profit and loss.

	12 months ended 31.12.2018	12 months ended 31.12.2017
Classified as obligatory measured at fair value through profit or loss as at the moment of initial recognition	77,496	-
Classified as measured at fair value through profit or loss as at the moment of initial recognition	126,317	-
Total financial instruments measured at fair value through profit or loss	**203,813**	**-**

28. SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31.12.2018	31.12.2017
DEBT SECURITIES		
Bonds issued by banks	516,084	-
Treasury bonds issued by central governments	15,359,255	-
Total securities measured at fair value through other comprehensive income	**15,875,339**	**-**

The measurement of debt securities measured at fair value through other comprehensive income is based on the discounted cash flow model using current market interest rates, taking into account the issuer's credit risk in the amount corresponding to the parameters observed on the market for transactions with similar credit risk parameters and similar time horizon. The measurement does not take into account assumptions that cannot be observed directly on the market.

Change of securities measured at fair value through other comprehensive income:

	12 months ended 31.12.2018	12 months ended 31.12.2017
Opening balance	**-**	**-**
Change resulting from IFRS 9 implementation	6,834,249	-
Purchase of securities	13,343,720	-
Sale of securities	(17,544,720)	-
Change in measurement at fair value through other comprehensive income	22,947	-
Change in measurement at fair value through profit or loss	11,275	-
Bonds acquired as a result of merger	13,193,469	-
Change in interest due, foreign exchange differences, discounts and bonuses	14,399	-
Closing balance	**15,875,339**	**-**

	31.12.2018	31.12.2017
From 3 months to 1 year	7,112,515	-
From 1 year to 5 years	6,264,867	-
Over 5 years	2,497,957	-
Total securities measured at fair value through other comprehensive income	**15,875,339**	**-**

The table below presents gains and losses related to securities measured at fair value through other comprehensive income, which in the given period were recognized directly in equity, and then were derecognised and recognized in profit or loss for a given period of 12 months until 31 December 2018.

SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	12 months ended 31.12.2018
Profits included directly in equity and then transferred from equity to the statement of profit or loss	39,507
Losses included directly in equity and then transferred from equity to the statement of profit or loss	(303)
Total	**39,204**

29. INVESTMENTS IN SUBSIDIARIES

	31.12.2018	31.12.2017
Financial sector entities	59,038	13,414
Non-financial sector entities	83,220	49,990
Total investments in subsidiaries	**142,258**	**63,404**

Shares in subsidiaries as at 31 December 2018 and 31 December 2017

Entity's name	Acquisition cost of shares	Carrying amount	Interest held by the Bank in the entity's equity
31.12.2018			
BANKOWY FUNDUSZ NIERUCHOMOŚCIOWY ACTUS SP. Z O.O.	57,434	39,008	100%
TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH BGŻ BNP PARIBAS S.A.	18,195	13,398	100%
BNP PARIBAS LEASING SERVICES SP. Z O.O.	134,800	39,996	100%
BNP PARIBAS GROUP SERVICE CENTER S.A.	11,000	11,000	100%
CAMPUS LESZNO SP. Z O.O.	12,514	12,514	100%
BNP PARIBAS FINANCIAL SERVICES SP. Z O.O.	20,698	20,698	100%
BNP PARIBAS SOLUTIONS SPÓŁKA Z O.O.	2,108	2,108	100%
RAIFFEISEN TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A.	3,536	3,536	100%
Total	**260,285**	**142,258**	**-**
31.12.2017			
BANKOWY FUNDUSZ NIERUCHOMOŚCIOWY ACTUS SP. Z O.O.	57,416	38,990	100%
BNP PARIBAS GROUP SERVICE CENTER S.A.	11,000	11,000	100%
TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH BGŻ BNP PARIBAS S.A.	18,196	13,398	100%
BNP PARIBAS LEASING SERVICES SP. Z O.O.	94,800	16	100%
Total	**181,412**	**63,404**	**-**

In December 2017, the Bank sold 100% of shares in BGŻ BNPP Faktoring (i.e. 20,820 shares with a total nominal value of PLN 10,410 thousand), representing 100% of share capital and 100% votes at the company's general meeting, for the total price of PLN 10,410 thousand for the benefit of BNP Paribas S.A., a French joint-stock company (Societe Anonyme), based in Paris, operating through the BNP Paribas S.A. Branch in Poland, with headquarters in Warsaw.

In June 2018, the Bank acquired 100% of shares in Campus Leszno Sp. z o.o.

In October 2018, in connection with the acquisition of the core business of Raiffeisen Bank Polska S.A., the Bank acquired 100% of shares in the following companies: BNP Paribas Financial Services Sp. z o.o., BNP Paribas Solutions Spółka z o.o., Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.

30. INTANGIBLE ASSETS

	31.12.2018	31.12.2017
Licenses	332,662	219,272
Other intangible assets	8,625	4,881
Expenditure on intangible assets	178,821	63,754
Total intangible assets	**520,108**	**287,907**

12 months ended 31.12.2018	Licenses	Other intangible assets	Expenditure on intangible assets	Total
GROSS BOOK VALUE				
As at 1 January	**493,669**	**11,872**	**64,897**	**570,438**
Increases:	*769,942*	*31,226*	*183,791*	*984,959*
reclassification from expenditure	57,436	6,284		63,720
purchase	11,611	302	151,765	163,678
acquisition as a result of merger	700,895	24,640	32,026	757,561
Decreases:	*(27,031)*	*(192)*	*(67,555)*	*(94,778)*
reclassification from expenditure	-	-	(63,720)	(63,720)
sale, liquidation, donation, shortage	(27,031)	(192)	(1,508)	(28,731)
other	-	-	(2,327)	(2,327)
As at 31 December	**1,236,580**	**42,906**	**181,133**	**1,460,619**
ACCUMULATED AMORTISATION (-)				
As at 1 January	**274,397**	**6,991**	**-**	**281,388**
Changes:	*629,521*	*27,290*	-	*656,811*
amortisation for the financial year	95,107	2,802	-	97,909
sale, liquidation, donation, shortage	(26,761)	(134)	-	(26,895)
acquisition as a result of merger	561,175	24,622	-	585,797
As at 31 December	**903,918**	**34,281**	**-**	**938,199**
IMPAIRMENT ALLOWANCES (-)				
As at 1 January	**-**	**-**	**1,143**	**1,143**
Balance changes:	-	-	*1,169*	*1,169*
impairment allowance recalculation	-	-	1,169	1,169
As at 31 December	**-**	**-**	**2,312**	**2,312**
NET BOOK VALUE				
As at 1 January	**219,272**	**4,881**	**63,754**	**287,907**
As at 31 December	**332,662**	**8,625**	**178,821**	**520,108**

12 months ended 31.12.2017	Licenses	Other intangible assets	Expenditure on intangible assets	Total
GROSS BOOK VALUE				
As at 1 January	**729,785**	**15,471**	**46,159**	**791,415**
Increases:	*108,851*	*2,694*	*118,666*	*230,211*
reclassification from expenditure	94,584	1,800	-	96,384
reclassification from property, plant and equipment	367	-	-	367
purchase	13,900	894	118,666	133,460
Decreases:	*(344,967)*	*(6,293)*	*(99,928)*	*(451,188)*
reclassification from expenditure	-	-	(96,384)	(96,384)
sale, liquidation, donation, shortage	(344,967)	(6,293)	(3,134)	(354,394)
other	-	-	(410)	(410)
As at 31 December	**493,669**	**11,872**	**64,897**	**570,438**
ACCUMULATED AAMORTISATION (-)				
As at 1 January	**534,076**	**11,074**	**-**	**545,150**
Balance changes:	*(259,679)*	*(4,083)*	-	*(263,762)*
amortisation for the financial year	84,023	1,934	-	85,957
sale, liquidation, donation, shortage	(343,702)	(6,017)	-	(349,719)
As at 31 December	**274,397**	**6,991**	**-**	**281,388**
IMPAIRMENT ALLOWANCES (-)				
As at 1 January	**-**	**-**	**1,694**	**1,694**
Balance changes:	-	-	*(551)*	*(551)*
impairment allowance recalculation	-	-	(551)	(551)
As at 31 December	**-**	**-**	**1,143**	**1,143**
NET BOOK VALUE				
As at 1 January	**195,709**	**4,397**	**44,465**	**244,571**
As at 31 December	**219,272**	**4,881**	**63,754**	**287,907**

The Bank identifies impairment triggers for intangible assets not transferred to utilisation yet, i.e. under development, on an ongoing basis.

As at 31 December 2018 and 31 December 2017, the Bank had no material contractual liabilities related to acquisition of intangible assets.

31. PROPERTY, PLANT AND EQUIPMENT

	31.12.2018	31.12.2017
Fixed assets, including:	462,601	488,183
land and buildings	181,701	225,119
IT equipment	124,016	122,693
office equipment	36,066	26,701
other, including leasehold improvements	120,818	113,670
Fixed assets under construction	36,706	12,165
Total property, plant and equipment	**499,307**	**500,348**

12 months ended 31.12.2018	Land and buildings	Property, plant and equipment	Fixed assets under construction	Total
GROSS BOOK VALUE				
As at 1 January	**430,113**	**917,733**	**12,165**	**1,360,011**
Increases:	*4,724*	*447,349*	*48,220*	*500,293*
reclassification from fixed assets under construction	3,155	20,166	-	23,321
purchase	-	16,186	43,473	59,659
acquisition as a result of merger	1,569	407,503	2,873	411,945
other	-	3,494	1,874	5,368
Decreases:	*(35,341)*	*(34,375)*	*(23,679)*	*(93,395)*
reclassification from fixed assets under construction	-	-	(23,321)	(23,321)
sale, liquidation, donation, shortage, theft	(35,341)	(34,375)	(333)	(70,049)
other	-	-	(25)	(25)
As at 31 December	**399,496**	**1,330,707**	**36,706**	**1,766,909**
ACCUMULATED DEPRECIATION (-)				
As at 1 January	**198,557**	**654,458**	**-**	**853,015**
Balance changes:	*(4,711)*	*393,486*	-	*388,775*
depreciation for the financial year	10,137	80,805	-	90,942
sale, liquidation, donation, shortage	(15,259)	(31,352)	-	(46,611)
acquisition as a result of merger	411	344,033	-	344,444
As at 31 December	**193,846**	**1,047,944**	**-**	**1,241,790**
IMPAIRMENT ALLOWANCES (-)				
As at 1 January	**6,437**	**211**	**-**	**6,648**
Balance changes:	*17,512*	*1,652*	-	*19,164*
impairment allowance recalculation	*17,512*	*1,652*	-	*19,164*
As at 31 December	**23,949**	**1,863**	**-**	**25,812**
NET BOOK VALUE				
As at 1 January	**225,119**	**263,064**	**12,165**	**500,348**
As at 31 December	**181,701**	**280,900**	**36,706**	**499,307**

12 months ended 31.12.2017	Land and buildings	Property, plant and equipment	Fixed assets under construction	Total
GROSS BOOK VALUE				
As at 1 January	**440,425**	**1,002,238**	**17,993**	**1,460,656**
Increases:	*4,269*	*84,916*	*31,572*	*120,757*
reclassification from fixed assets under construction	3,862	32,722	-	36,584
purchase	407	51,784	31,572	83,763
other	-	410	-	410
Decreases:	*(14,581)*	*(169,421)*	*(37,400)*	*(221,402)*
reclassification from fixed assets under construction	-	-	(36,584)	(36,584)
reclassification from fixed assets	(14,581)	(169,421)	-	(184,002)
other	-	-	(816)	(816)
As at 31 December	**430,113**	**917,733**	**12,165**	**1,360,011**
ACCUMULATED DEPRECIATION (-)				
As at 1 January	**193,298**	**717,372**	**-**	**910,670**
Balance changes:	*5,259*	*(62,914)*	-	*(57,655)*
depreciation for the financial year	10,529	77,115	-	87,644
sale, liquidation, donation, shortage	(5,270)	(140,029)	-	(145,299)
As at 31 December	**198,557**	**654,458**	**-**	**853,015**
IMPAIRMENT ALLOWANCES (-)				
As at 1 January	**3,998**	**508**	**-**	**4,506**
Balance changes:	*2,439*	*(297)*	-	*2,142*
impairment allowance recalculation	*2,439*	*(297)*	-	*2,142*
As at 31 December	**6,437**	**211**	**-**	**6,648**
NET BOOK VALUE				
As at 1 January	**243,129**	**284,358**	**17,993**	**545,480**
As at 31 December	**225,119**	**263,064**	**12,165**	**500,348**

As at 31 December 2018 and 31 December 2017, the Bank had no material contractual liabilities related to acquisition of property, plant and equipment.

32. OTHER ASSETS

OTHER ASSETS:	31.12.2018	31.12.2017
Receivables from contracts with customers:		
sundry debtors	257,612	150,943
accrued income	85,373	84,266
payment card settlements	141,009	1,460
social insurance settlements	6,876	5,604
Other:		
settlements with securitization company	119,721	87,699
interbank and intersystem settlements	222,222	460
deferred expenses	49,742	33,713
tax and other regulatory receivables	17,571	41,713
other lease receivables	16,114	17,060
other	63,586	5,909
Total other assets (gross)	**979,826**	**428,827**
Impairment allowances on other receivables from other debtors	(89,944)	(82,714)
Total other assets (net)	**889,882**	**346,113**

33. AMOUNTS DUE TO BANKS

	31.12.2018	31.12.2017
Current accounts	596,974	291,115
Interbank deposits	183,006	18,131
Loans and advances received	623,781	2,506,749
Other liabilities	186,174	110,401
Total amounts due to banks	**1,589,935**	**2,926,396**

There were no breaches of contractual provisions and conventions related to the financial situation of the Bank and disclosure obligations in 2018 and 2017.

Amounts due to banks by their maturity

	31.12.2018	31.12.2017
Up to 1 month	672,059	308,454
From 1 month to 3 months	125,832	13,511
From 3 months to 1 year	345,649	230,720
From 1 year to 5 years	195,422	1,154,990
Over 5 years	250,973	1,218,721
Total amounts due to banks	**1,589,935**	**2,926,396**

34. AMOUNTS DUE TO CUSTOMERS

	31.12.2018	31.12.2017
OTHER FINANCIAL INSTITUTIONS	**6,495,643**	**5,451,301**
Current accounts	1,293,705	481,589
Term deposits	2,890,516	1,190,211
Loans and advances received	-	1,475,684
Settlements of securitization transaction	2,298,995	2,303,210
Other liabilities	12,427	607
RETAIL CUSTOMERS	**44,681,053**	**27,637,843**
Current accounts	27,622,375	14,812,376
Term deposits	16,778,483	12,690,377
Other liabilities	280,195	135,090
CORPORATE CUSTOMERS	**37,283,001**	**24,662,821**
Current accounts	25,998,247	14,414,954
Term deposits	10,262,953	9,912,792
Other liabilities	1,021,801	335,075
INCLUDING FARMERS	**1,770,897**	**1,698,793**
Current accounts	1,590,618	1,540,706
Term deposits	168,781	142,209
Other liabilities	11,498	15,878
PUBLIC SECTOR CUSTOMERS	**1,046,860**	**906,102**
Current accounts	721,146	642,122
Term deposits	307,176	262,046
Other liabilities	18,538	1,934
Total amounts due to customers	**89,506,557**	**58,658,067**

Amounts due to customers by their maturity

	31.12.2018	31.12.2017
Up to 1 month	73,855,136	40,769,535
From 1 month to 3 months	6,381,725	6,504,661
From 3 months to 1 year	7,760,960	6,815,594
From 1 year to 5 years	1,505,530	801,570
Over 5 years	3,206	3,766,707
Total amounts due to customers	**89,506,557**	**58,658,067**

35. DEBT SECURITIES ISSUED

Changes in the balance of debt securities issued

	12 months ended 31.12.2018	12 months ended 31.12.2017
Opening balance	**288,553**	**397,909**
Redemption of certificates of deposit	(285,000)	(109,000)
Changes in discount, interests, commission and fees on certificates of deposit amortized using EIR, foreign currency exchange differences	(3,553)	(356)
Closing balance	**-**	**288,553**

In 2018, all certificates of deposits were repurchased and the balance as at 31 December 2018 is PLN 0, while as at 31 December 2017, it was PLN 285,000 thousand (nominal value).

36. SUBORDINATED LIABILITIES

As at 31 December 2018, the balance sheet amount of subordinated liabilities was PLN 1,875,769 thousand (PLN 1,645,102 thousand as at 31 December 2017).

Change in the balance of subordinated liabilities	12 months ended 31.12.2018	12 months ended 31.12.2017
Opening balance	**1,645,102**	**1,768,458**
Loans received	172,000	-
Change in the balance of interest	(601)	(345)
Exchange differences	59,268	(123,011)
Closing balance	**1,875,769**	**1,645,102**

37. OTHER LIABILITIES

	31.12.2018	31.12.2017
Liabilities due to contracts with customers		
Sundry creditors	191,427	76,091
Payment card settlements	180,442	35,898
Deferred income	167,037	73,947
Escrow account liabilities	70,778	138,871
Social insurance settlements	37,281	20,380
Other liabilities		
Interbank and intersystem settlements	459,759	342,148
Provisions for non-personnel expenses	263,068	155,956
Provisions for other employees-related liabilities	243,929	132,457
Provision for unused annual holidays	43,914	28,510
Other regulatory liabilities	68,043	54,292
Other lease liabilities	10,666	33,085
Other	64,810	19,462
Total other liabilities	**1,801,154**	**1,111,097**

38. PROVISIONS

	31.12.2018	31.12.2017
Provision for restructuring	171,862	10,479
Provision for retirement benefits and similar obligations	14,495	12,784
Provision for contingent financial liabilities and guarantees granted	149,530	35,419
Provisions for litigation and claims	62,073	7,109
Other provisions	37,839	10,906
Total provisions	**435,799**	**76,697**

Provisions for restructuring	12 months ended 31.12.2018	12 months ended 31.12.2017
Opening balance	**10,479**	**29,523**
Provisions recognition	157,613	1,602
Provisions utilization	(19,972)	(20,884)
Provision acquired as a result of merger	19,878	-
Other changes	3,864	238
Closing balance	**171,862**	**10,479**

Provision for retirement benefits and similar obligations	12 months ended 31.12.2018	12 months ended 31.12.2017
Opening balance	**12,784**	**13,237**
Provisions recognition	3,354	1,641
Provisions release	(5,511)	(2,094)
Provision acquired as a result of merger	3,868	-
Closing balance	**14,495**	**12,784**

Provisions for contingent financial liabilities and guarantees granted	12 months ended 31.12.2018	12 months ended 31.12.2017
Opening balance	**35,419**	**42,659**
IFRS 9 implementation effect	38,193	-
Provisions recognition	198,995	32,277
Provisions release	(191,705)	(40,383)
Provision acquired as a result of merger	63,221	-
Other changes	5,407	866
Closing balance	**149,530**	**35,419**

Provisions for litigation and claims	12 months ended 31.12.2018	12 months ended 31.12.2017
Opening balance	**7,109**	**26,687**
Provisions recognition	17,694	7,046
Provisions utilization	(1,466)	(23,894)
Provisions release	(145)	(2,060)
Provision acquired as a result of merger	38,947	-
Other changes	(66)	(670)
Closing balance	**62,073**	**7,109**

Other provisions	12 months ended 31.12.2018	12 months ended 31.12.2017
Opening balance	**10,906**	**4,288**
Provisions recognition	891	11,764
Provisions release	(4,632)	(5,440)
Provision acquired as a result of merger	34,571	-
Other changes	(3,897)	294
Closing balance	**37,839**	**10,906**

Legal risk

As at 31 December 2018, there were no proceedings in the court, arbitration tribunal or state administration authorities regarding liabilities or receivables of the Bank, the value of which would exceed 10% of the Bank's equity.

As at 31 December 2018, the total value of the subject of the dispute in court cases against the Bank, as well as the total value of the subject of litigation in court cases by the Bank, is less than 10% of the Bank's equity.

Court decision regarding calculation of the interchange fee

On 6 October 2015, the Court of Appeals issued a decision regarding calculation of the interchange fee by banks acting in agreement. Thus, the decision of the 1st instance (Regional) Court of 2013 was changed by dismissing the banks' appeals in whole, while upholding the appeal brought by the Office of Competition and Consumer Protection (UOKiK), which had questioned a considerable reduction in the fines by the 1st instance court. This denotes that the penalty imposed under the first decision of the President of UOKiK of 29 December 2006 was upheld. It involved a fine levied on 20 banks, including Bank BGŻ S.A. and Fortis Bank Polska S.A., for practices limiting competition by calculating interchange fees on Visa and MasterCard transactions in Poland in agreement.

The total fine levied on Bank BGŻ BNP Paribas amounted to PLN 12,544 thousand and included: i) a fine for the practice of Bank Gospodarki Żywnościowej in the amount of PLN 9,650 thousand; and ii) a fine for the practice of Fortis Bank Polska S.A. (FBP) in the amount of PLN 2,895 thousand. The penalty was paid by the Bank on 19 October 2015. The Bank prepared a last resort appeal against the aforesaid court decision and brought it on 25 April 2016. On 25 October 2017, the Supreme Court overruled the judgment of the Court of Appeal and remitted the case. Acquisition of the core business of RBPL did not change the situation of the Bank as RBPL was not a party to this claim.

Corporate claims against the Bank (interchange fee)

By 31 December 2018 the Bank received 26 requests for settlement from companies regarding interchange fee on using payment cards (the number of requests did not change since 31 December 2017). The total amount of these claims was PLN 986.06 million, including PLN 975.99 million where the Bank had joint and several responsibility with other banks.

Proceedings instigated by the Bank's customers being parties to CHF denominated loan agreements

As at 31 December 2018, the Bank was a respondent in a hundred (100) court cases in which the Bank's customers demand to declare the mortgage loan contract is invalid in terms of granting a foreign currency loan, denominated or indexed to CHF by determining that the Bank granted a loan in PLN without denomination to a foreign currency, or compensation for abuse of the entity's right by the Bank, including the principles of social coexistence and misleading the customer.

The total value of claims mentioned above is PLN 33.02 million.

Provisions for retirement, disability and death benefits

The Bank recognizes provisions for retirement, disability and death benefits (“benefits”) in accordance with IAS 19. The provision for retirement is calculated using the projected unit credit method by an independent actuary as the present value of the Bank’s future liabilities to employees based on the number of employees and their remuneration as at the valuation date. The provisions are calculated based on numerous assumptions concerning both macroeconomic conditions and employee turnover, the risk of mortality and others. The base for the provision for employee benefits is the estimated amount of the benefits which the Bank undertakes to pay under the Remuneration Policy in place at the Bank. The estimated amount of the benefits is a product of the following:

– the estimated benefit assessment basis, in accordance with the Collective Labour Agreement;
– the estimated rise in the benefit assessment basis between the valuation date and the payment date;
– a percentage ratio depending on the job tenure (in accordance with the Remuneration Policy);
– the degree to which the vesting conditions have been satisfied, determined separately for each employee and proportional to his/her length of service with the Bank.

The amount determined in line with the aforementioned methodology is discounted for actuarial purposes as at the end of the year. In compliance with the requirements of IAS 19, the financial discount rate for calculation of the present value of liabilities arising from employee benefits is determined by reference to market rates of return on treasury bonds whose currency and maturity correspond to the currency and estimated maturity of the liabilities arising from employee benefits. The actuarial discount is the product of the financial discount, the probability that an individual will be an employee of the Bank as at the benefit payment date and the probability of benefit payment (i.e. probability of disablement). The annual allowances and the probability are determined on the basis of models taking into account the following three risks:

– the risk of the employee leaving the job;
– the risk of permanent incapacity to work;
– the risk of mortality.

The risk of the employee leaving the job is estimated based on probability distribution, considering the statistical data of the Bank. It depends on the employee’s age and is fixed during each year. The risk of mortality and disablement has been estimated on the basis of an analysis of the latest statistical data from the Polish life expectancy tables for men and women as well as historical data published by the Central Statistical Office and the Social Insurance Institution (ZUS).

The provision recognized as a result of the actuarial valuation is updated on an annual basis based on an independent actuary’s valuation, and on a quarterly basis by reference to quarterly forecasts.

Sensitivity analysis

The following table presents the potential effect of changes in the relevant actuarial assumptions by 1 p.p. on the liabilities arising from retirement, disability ad death benefits as at 31 December 2018 and 31 December 2017.

	increase by 1 p.p.	decrease by 1 p.p.
31.12.2018		
discount rate	(1,457)	1,736
wage growth rate	1,724	(1,474)
31.12.2017		
discount rate	(1,208)	1,428
wage growth rate	1,424	(1,227)

Reconciliation of the present value of liabilities due to retirement, disability and death benefits

Reconciliation of the opening balance and the closing balance of the present value of liabilities due to retirement, disability and death benefits has been presented in the table below:

	31.12.2018	31.12.2017
Opening balance	**12,784**	**13,237**
current employment costs	1,263	1,220
net interest on net liability	407	420
actuarial gain or loss	1,118	(1,857)
past service costs	(4,073)	-
benefits paid	(789)	(236)
employee transfers (emigration)	(83)	-
employee transfers (immigration)	3,868	-
Closing balance	**14,495**	**12,784**

39. DEFERRED INCOME TAX

Changes in deferred income tax in the financial year:

Deferred tax assets	Deferred tax basis as at 31.12.2018	Opening balance - merger	Deferred tax basis as at 31.12.2017	Charge arising from changes in asset for 2018 r.	Tax in relation to equity in relation with IFRS 9* change
Outstanding interest accrued on liabilities, including CD interest and discount	415,219	286,350	209,082	(15,242)	-
Fair value measurement at derivative instruments and securities	438,881	87,221	259,184	15,612	1,634
Unrealized liabilities due to hedged items and hedging instruments	96,472	-	-	18,118	-
Impairment allowances on financial assets and provisions for contingent liabilities (non-deductible), which are probable to occur	3,783,098	630,148	1,799,307	36,241	214,720
Fair value adjustment due to credit risk of derivative instruments after maturity	-	-	17,250	-	3,278
Revenue collected in advance and accounted for based on amortized cost using the effective interest method	966,866	502,569	427,721	7,162	-
Provision for retirement benefits and provision for	156,722	23,183	32,155	19,278	(16)

restructuring					
Other provisions for personnel costs	277,382	119,069	144,302	2,665	(3)
Provisions for non-personnel expenses	328,532	73,645	183,644	13,536	-
Impairment allowance on fixed and intangible assets	31,124	1,536	7,844	4,132	-
Impairment allowance on shares in subsidiaries and associates	46,673	23,206	23,467	-	-
Tax on civil law transactions – acquisition of shares in subsidiaries	77	-	77	-	-
Impairment allowance on bonds and shares	-	-	11,792	(2,241)	-
Compensations paid	8,823	-	8,755	13	-
Impairment allowance on lease receivables	21,562	-	56,615	(5,858)	(802)
Impairment allowance on available for sale assets related to leasing operations	64,083	-	5,715	2,945	8,145
Surplus of the tax value of leased fixed assets over the book value of receivables	294,895	-	375,240	(15,265)	-
Lease down-payments	2,854	8,060	10,632	(3,009)	-
Deferred income from leasing operations	5,218	-	4,579	121	-
Impairment allowances on other assets	2,211	-	4,435	(417)	(6)
Valuation of securities available for sale securities	7,749	-	24,873	(3,254)	-
Other deductible temporary differences	5,908	(34,740)	14,922	4,888	-
Total:	**6,954,349**	**1,720,247**	**3,621,592**	**79,425**	**226,950**
Asset basis recognized in profit or loss (in the current and preceding years) and charge arising from changes in asset	6,946,600	1,720,247	3,596,719	82,679	-
Basis for assets recognized in correspondence with revaluation reserve and charge arising from changes in asset	7,749	-	24,873	(3,254)	-

* Excluding the amount of PLN 25 thousand included in the settlement of the sale of an organized part of the enterprise in the form of CSK Leszno

Unrecognized deferred tax asset is related to impairment allowances on loans and advances whose non-recoverability will not become probable in the future. The related unrecognized temporary differences amounted to PLN 44,875 thousand as at 31 December 2018 as compared to PLN 45,181 thousand as at 31 December 2016.

Deferred tax liability	Deferred tax basis as at 31.12.2018	Opening balance - merger	Deferred tax basis as at 31.12.2017	Charge arising from changes in asset for 2018 r.	Tax in relation to equity in relation with IFRS 9* change
Accrued revenue from interest on amounts due	(921,713)	(251,813)	(529,683)	67,321	93,963
Fair value measurement at derivative instruments and securities	(560,700)	(177,026)	(260,372)	(22,727)	701
Transaction costs of loans and advances	(154,637)	(150,629)	-	(761)	-
Valuation of securities available for sale	(181,995)	-	(196,497)	(2,755)	-
Difference between accounting and tax depreciation of the Bank's own fixed assets	(279,359)	(67,621)	(144,715)	(12,745)	(11)
Other accrued revenue	(265)	(187)	(1,353)	242	-
R&D expenses	(5,752)	-	(5,030)	(137)	-
Unrealized liabilities related to hedged items and hedging instruments	-	-	(12,610)	2,396	-
Deferred costs of leasing operations	(4,341)	(5)	(4,772)	83	-
Other taxable temporary differences	(1,980)	(4,054)	(157)	424	
Total:	**(2,110,742)**	**(651,335)**	**(1,155,189)**	**31,341**	**94,653**
Liability basis recognized in profit or loss (in the current and preceding years) and charge arising from changes in liability	(1,928,747)	(651,335)	(958,692)	34,096	
Basis for liability charged to revaluation reserve and charge arising from changes in liability	(181,995)	-	(196,497)	(2,755)	-

* Excluding the amount of PLN 11 thousand included in the settlement of the sale of an organized part of the enterprise in the form of CSK Leszno

PRESENTED AS

Deferred tax assets	**1,321,326**	**688,103**	-
Deferred tax liability	**(401,040)**	**(219,486)**	-
Total	**920,286**	**468,617**	-

40. DISCONTINUED OPERATIONS

The Bank did not discontinue any operations in 2018 or 2017.

41. SHARE-BASED PAYMENTS

The Bank has a Policy on remuneration for employees that exert a considerable influence on the risk profile of Bank BGŻ BNP Paribas S.A.

The principles and assumptions underlying the aforesaid Policy guarantee the existence of a reasonable, balanced and controllable remuneration policy, consistent with the acceptable risk level, the standards and values of Bank BGŻ BNP Paribas S.A. and the applicable laws and regulations, in particular the Ordinance of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital in banks and recommendations provided for in CRD4.

Variable remuneration granted to the Bank's employees that exert a considerable influence on the risk profile is divided into two portions, namely a financial instrument (phantom shares) and cash. Both these portions of remuneration are deferred for three years if the total amount of variable remuneration is higher than PLN 50 thousand.

Variable remuneration in the form of phantom shares is paid as a cash equivalent of the number of shares granted to the employee, following the expiry of the retention period.

The cash portion of variable remuneration is subject to IAS 19 and the one granted in phantom shares to IFRS 2.

Financial instruments – changes in the plan for 2018 and 2017

	2018		2017	
	Financial instrument		Financial instrument	
	number	value (PLN '000)	number	value (PLN '000)
Opening balance	**85,342**	**6,285**	**84,646**	**6,252**
granted in current period	36,943	2,389	34,573	1,656
Granted as part of merger with Raiffeisen Bank Polska	107,328	5,045	-	-
exercised in current period	(46,700)	(3,035)	(33,877)	(1,623)
Closing balance	**182,913**	**10,684**	**85,342**	**6,285**

In 2018 payments of PLN 3.035 million were made due to exercising rights to deferred phantom shares (under the program for 2014, 2015 and 2016).

The table below presents the terms of the Stock Purchase Plan for 2018

Transaction type in line with IFRS 2	Share-based payments settled in cash
Plan issued on	21 June 2012 - the Resolution of the Supervisory Board approving the Remuneration Policy
The first day of granting phantom shares	13 March 2018
The last day of granting phantom shares	15 March 2018
Plan settlement	On the settlement day of the deferred remuneration for 2014-2016, each participant will receive cash in the amount calculated as the product of the number of phantom shares and the median price of shares in Bank BGŻ BNP Paribas at the end of each working day (i.e. closing rate) from the year preceding the year of unit realization (January - December). The conversion of variable remuneration for 2017 into phantom shares was calculated based on the arithmetic mean of the volume-weighted average price of the Bank's

	shares each business day of the Initial Period, the length of which is 25 business days from 8 February 2018.
Median share price of Bank BGŻ BNP Paribas S.A.	PLN 65.00
Weighted average share prices of Bank BGŻ BNP Paribas S.A. to convert variable remuneration into phantom shares	PLN 64.98

42. CONTINGENT LIABILITIES

The following table presents the value of liabilities granted and received by the Bank.

	31.12.2018	31.12.2017
CONTINGENT COMMITMENTS GRANTED	**28,409,563**	**19,449,876**
financial commitments	21,614,561	15,110,019
guarantees	6,795,002	4,339,857
CONTINGENT COMMITMENTS RECEIVED	**18,164,389**	**12,009,299**
financial commitments	12,384,011	10,871,719
guarantees	5,780,378	1,137,580

Liabilities granted and received by the Bank – by their maturity

	31.12.2018	31.12.2017
Up to 1 month	8,806,863	9,381,216
From 1 month to 3 months	2,093,655	1,096,883
From 3 months to 1 year	7,936,311	3,803,102
From 1 year to 5 years	6,358,372	2,802,577
Over 5 years	3,214,362	2,366,098
Total commitments granted	**28,409,563**	**19,449,876**
Up to 1 month	549,684	55,546
From 1 month to 3 months	195,630	206,278
From 3 months to 1 year	1,188,486	929,132
From 1 year to 5 years	3,033,670	247,115
Over 5 years	13,196,919	10,571,228
Total commitments received	**18,164,389**	**12,009,299**

43. COLLATERALS

The Bank had the following assets pledged as collaterals for payment of its own and third-party liabilities:

Assets of the Bank pledged as collaterals

The table below presents the balance sheet value of financial assets that have been established as collateral for contracted liabilities or contingent liabilities.

Assets pledged as collaterals	31.12.2018	31.12.2017
GUARANTEED AMOUNT PROTECTION FUND – BANK GUARANTEE FUND (BFG)		
nominal value of collateral	470,000	320,000
type of collateral	Treasury bonds	Treasury bonds
maturity	25.04.2028	25.01.2024
balance sheet amount of collateral	452,587	318,038
COLLATERAL OF BM BGŻ BNP PARIBAS S.A. TRANSACTIONS IN SECURITIES DEPOSITED WITH THE NATIONAL DEPOSITORY FOR SECURITIES (KDPW) AS PART OF THE STOCK EXCHANGE GUARANTEE FUND		
cash	3,265	3,265
COLLATERAL FOR DERIVATIVE TRANSACTION SETTLEMENT		
nominal value of collateral	105,037	51,853
type of collateral	call deposits (amounts due from banks)	call deposits (amounts due from banks)
COLLATERAL OF SPV SETTLEMENTS FOR SECURITIZATION		
nominal value of collateral	2,178,530	2,211,208
type of collateral	receivables that are the subject of a securitization transaction	receivables that are the subject of a securitization transaction

Assets of the customer pledged as collaterals

The Bank has not established collateral on customer assets that may be sold or pledged.

44. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Based on the methods used to determine fair value, the Bank classifies particular assets and liabilities into the following categories:

Level 1

Assets and liabilities measured on the basis of market quotations available on active markets for identical instruments.

Level 2

Assets and liabilities measured using valuation techniques based on directly or indirectly observed market quotations or other information based on market quotations.

Level 3

Assets and liabilities measured using valuation techniques where input data is not based on observable market data.

The Bank periodically (at least quarterly) assigns individual assets and liabilities to particular levels of the fair value hierarchy. The basis for classification to particular levels of the valuation hierarchy is the input data used for the valuation, i.e. market quotes or other information. The lowest level of input data used for the valuation, having a significant impact on determining the fair value, determines the classification of an asset or liability to a particular hierarchy level.

If the input data is changed to data classified to another level, e.g. as a result of changes in the valuation methodology or changes in market data sources, the Bank transfers the asset or liability to the appropriate level of measurement in the reporting period in which the change occurred.

In 2018, the Bank did not make any changes in the method of fair value measurement that would result in the transfer of financial assets and liabilities between levels.

As at the end of 2018, particular instruments were included in the following valuation levels:

1. the first level: Treasury bonds (fair value is determined directly by reference to published active market quotations);
2. the second level: interest rate options in EUR and GBP, FX options, base interest rate and FX swaps maturing within 10 years, FRA maturing within 1 year, FX Forward, NDF and FX swaps maturing within 1 year, commodity swaps, interest rate swaps maturing within 10 years, structured instruments (fair value determined using measurement techniques which are based on available, verifiable market data), money bills, CATALYST-listed corporate bonds (fair value determined using measurement techniques which are based on available, verifiable market data or based on prices available on a limited-liquidity market);
3. the third level: interest rate options in PLN, FX options maturing over 1 year, FX Forward, NDF and FX swaps maturing over 1 year, base interest rate and FX swaps maturing over 10 years, interest rate swaps with residual maturity exceeding 10 years, structured instruments (fair value determined using measurement techniques (models) which are not based on available, verifiable market data), corporate bonds other than CATALYST-listed ones, shares which are not listed on the WSE, subsidised loans (fair value determined using measurement techniques (models) which are not based on available, verifiable market data, i.e. in cases other than those described in 1 and 2).

The table below presents classification of assets and liabilities re-measured at fair value in the separate financial statements into three categories:

31.12.2018	Level 1	Level 2	Level 3	Total
ASSETS MEASURED AT FAIR VALUE:	**15,887,437**	**711,224**	**2,742 ,816**	**19,341,477**
Derivative financial instruments	157	592,654	122,860	715,671
Hedging instruments	-	72 312	58 093	130 405
Financial instruments measured at fair value through other comprehensive income	15,875,339	-	-	15,875,339
Financial instruments measured at fair value through profit or loss	11,941	46,258	145,614	203,813
Loans and advances to customers measured at fair value through profit or loss	-	-	2,416,249	2,416,249
LIABILITIES MEASURED AT FAIR VALUE:	**18**	**613,869**	**197,058**	**810,945**
Derivatives	18	586,742	197,058	783,818
Hedging instruments		27,127		27,127

31.12.2017	Level 1	Level 2	Level 3	Total
ASSETS MEASURED AT FAIR VALUE:	**11,703,293**	**2,606,666**	**119,081**	**14,429,040**
Derivative financial instruments	-	429,190	45,231	474,421
Hedging instruments	-	32,730	-	32,730
Financial assets available for sale	11,703,293	2,144,746	73,850	13,921,889
LIABILITIES MEASURED AT FAIR VALUE:	**-**	**382,304**	**55,024**	**437,328**
Derivatives	-	382,304	45,406	427,710
Hedging instruments	-	-	9,618	9,618

The fair value of level 2 and 3 financial instruments is determined using the measurement techniques (e.g. models) is described in detail in Note 3.

The input data used for purposes of valuation of level 2 and 3 instruments include foreign exchange rates, yield curves, reference rates, changes in foreign exchange rates, reference rates, stock market indices and stock prices, swap points, basis spreads, stock market index values and futures prices.

In the case of derivative financial instruments classified to level 3, the unobservable parameters are correlations between stock exchange indices, correlations between exchange rates and stock exchange indices and implied volatilities of shares listed on the WSE and the WIG20 index.

As regards level 3 municipal bonds, the credit risk margin is a non-observable parameter corresponding to the market margin for instruments within similar characteristics. The effect of changes in the credit margin on changes in the fair value is considered immaterial.

Presented below are changes in the measurement of level 3 assets and liabilities as well as amounts charged to profit or loss and statement of comprehensive income.

	Derivative financial instruments – assets	Financial assets measured at fair value	Derivative financial instruments – liabilities	Hedging instruments - liabilities
Opening balance	**45,231**	**-**	**(45,406)**	**58,093**
Change resulting from IFRS 9 implementation	**-**	**104,984**	**-**	**-**
Total gains/losses recognized in:	34,741	13,201	(159,127)	58,093
statement of profit or loss	*34,741*	*13,201*	*(159,127)*	*58,093*
Acquired as a result of merger	382,523	-	439,518	-
Purchase	11,955	24,519	6,229	-
Sale	(124,854)	(147)	(95,314)	-
Transfer	-	3,300	-	-
Impairment allowance		(243)	-	-
Closing balance	**349,596**	**145,614**	**145,900**	**58,093**
Unrealized gains/losses recognized in profit or loss related to assets and liabilities at the end of the period	**(78,158)**	**13,288**	**(248,212)**	**58,093**

	Derivative financial instruments – assets	Financial assets measured at fair value	Derivative financial instruments – liabilities	Hedging instruments - liabilities
Opening balance	**23,252**	**56,166**	**(14,681)**	**-**
Total gains/losses recognized in:	21,979	4,237	(30,725)	*(9,618)*
statement of profit or loss	*21,979*	*34*	(30,725)	*(9,618)*
statement of other comprehensive income	-	*4,203*	-	-
Purchase	-	3,300	-	-
Sale	-	(137)	-	-
Transfer	-	22,076	-	-
Impairment allowance	-	(11,792)	-	-
Closing balance	**45,231**	**73,850**	**(45,406)**	**(9,618)**
Unrealized gains/losses recognized in profit or loss related to assets and liabilities at the end of the period	**21,979**	**34**	**(30,725)**	**(9,618)**

The Bank measures the fair value by discounting all contractual cash flows related to transactions, with the use of yield curves characteristic of each transaction group. Where no repayment schedule is agreed for a product, it is assumed that the fair value is equal to the carrying amount of the transaction.

The yield curve used for fair value measurement of liabilities (such as customer and interbank deposits) and receivables (such as loans to customers and interbank deposits) comprises:
- the credit risk free yield curve;
- the cost of obtaining financing above the credit risk free yield curve;
- the market margin that reflects credit risk for receivables.

The yield curve for fair value measurement of loans is constructed through classification of loans into sub-portfolios depending on the product type and currency as well as customer segmentation. A margin is determined for each sub-portfolio taking into account credit risk. The margin is determined by reference to margins used for each type of loan granted over the past six months. For foreign currency mortgage loans, the margin for the entire portfolio of a specific type of mortgage loans serves as the basis for determination of a margin reflecting credit risk as no new transactions are concluded. In the case of insufficient amount of loans, which makes it impossible to reliably determine the amount of margin, the average market margin for products of a given type was used.

The following table presents the book and fair values of those financial assets and liabilities which have not been presented in the Bank's statement of financial position at fair value, along with the measurement classification level. The current credit risk margin and the current liquidity margin, the values of which are not quoted on an active market, are the non-observable parameters for all the categories.

31.12.2018	Book value	Fair value	Level
FINANCIAL ASSETS			
Amounts due from banks	791,071	766,791	3
Loans and advances to customers measured at amortised cost	68,870,918	68,070,422	3
Debt instruments measured at amortised cost	11,939,238	12,040,963	1,2,3
FINANCIAL LIABILITIES			
Amounts due to banks	1,589,935	1,505,544	3
Amounts due to customers	89,506,557	89,575,137	3
Subordinated liabilities	1,875,769	2,034,352	3

31.12.2017	Book value	Fair value	Level
FINANCIAL ASSETS			
Amounts due from banks	2,515,457	2,511,823	3
Loans and advances to customers	52,195,203	45,167,624	3
FINANCIAL LIABILITIES			
Amounts due to banks	2,926,396	2,944,622	3
Amounts due to customers	58,658,067	58,761,839	3
Subordinated liabilities	1,645,102	1,802,804	3

a) Amounts due from banks and amounts due to banks

Amounts due from banks and amounts due to banks include interbank deposits and interbank settlements. The fair value of fixed and floating rate deposits/placements is based on discounted cash flows determined by reference to money market interest rates for items with similar credit risk and residual maturity.

b) Loans and advances to customers

The estimated fair value of loans and advances is the discounted value of future cash flows to be received, using the current market rates adjusted by actual or estimated margins earned over the past six months for each product group.

c) Investments in subsidiaries and associates

The fair value of investments in subsidiaries and associates is equal to their balance sheet amounts equal to PLN 55,686 thousand.

d) Liabilities due to subordinated loan

Liabilities include subordinated loans. The fair value of the floating rate loan is based on discounted cash flows determined by reference to money market interest rates for items with similar credit risk and residual maturity.

e) Amounts due to customers

The fair value of fixed and floating rate deposits is based on discounted cash flows determined by reference to money market interest rates adjusted by the actual cost of securing funds over the past three months. For demand deposits, it is assumed that the fair value is equal to their carrying amount.

f) Debt securities issued

The fair value of debt securities issued was estimated using a model discounting future cash flows from the investment, based on the market yield curves adjusted by the issuer's credit risk.

The following table presents information on offsetting financial instruments as at 31 December 2018 and 31 December 2017.

31.12.2018	Gross value presented in financial assets/liabilities	Net value presented in financial assets/liabilities	Offsetting value under concluded contracts	Cash collateral value	Net value
FINANCIAL ASSETS					
Trading derivatives	846,076	846,076	(404 885)	(133 270)	344,916
Total	**846,076**	**846,076**	**(404 885)**	**(133 270)**	**344,916**
FINANCIAL LIABILITIES					
Trading derivatives	810,945	810,945	(404 885)	350 619	66,749
Total	**810,945**	**810,945**	**(404 885)**	**(350 619)**	**66,749**

31.12.2017	Gross value presented in financial assets/liabilities	Net value presented in financial assets/liabilities	Offsetting value under concluded contracts	Cash collateral value	Net value
FINANCIAL ASSETS					
Trading derivatives	506,856	506,856	(260,256)	(18,399)	228,201
Total	**506,856**	**506,856**	**(260,256)**	**(18,399)**	**228,201**
FINANCIAL LIABILITIES					
Trading derivatives	437,328	437,328	(260,256)	(103,732)	73,340
Total	**437,328**	**437,328**	**(260,256)**	**(103,732)**	**73,340**

Receivables and liabilities which are not past due may be offset and the netting arrangement is possible for early contract settlement in accordance with the framework agreements / ISDA concluded with the contracting parties.

45. LEASES

Finance leases - liabilities

The Bank is a lessee under finance lease agreements related to branch equipment. The items leased under finance lease agreements are recognized by the Bank as fixed assets.

Finance lease liabilities	31.12.2018	31.12.2017
Total minimum lease payments	-	32
Unrealized financial expenses	-	(14)
Present value of minimum lease payments	**-**	**18**

Total minimum lease payments by maturity	31.12.2018	31.12.2017
up to 1 year	-	31
from 1 year to 5 years	-	1
Total	**-**	**32**

Present value of minimum lease payments by maturity	31.12.2018	31.12.2017
up to 1 year	-	17
from 1 year to 5 years	-	1
Total	**-**	**18**

Operating leases

Bank as a lessee

The Bank incurs expenses under passenger car and photocopier lease agreements. It also makes office rental lease payments. The aforesaid transactions are treated as operating leases. The agreements do not provide for any contingent payments on the part of the lessee or impose any restrictions. Under some agreements, the term may be extended, the assets purchased or the price changed.

Lease payments by maturity	31.12.2018	31.12.2017
up to 1 year	140,512	106,691
from 1 year to 5 years	424,558	248,435
over 5 years	129,853	3,353
Total	**694,923**	**358,479**

Bank as a lessor

The Bank receives revenues from office leases. The related agreements are treated as operating lease agreements. The agreements do not provide for any contingent payments on the part of the lessee or impose any restrictions. Under some agreements, the term may be extended or the price changed.

Lease payments by maturity	31.12.2018	31.12.2017
up to 1 year	12,115	8,130
from 1 year to 5 years	6,066	4,509
over 5 years	1,193	47
Total	**19,374**	**12,686**

46. CUSTODY OPERATIONS

The Bank conducts custody operations consisting in maintaining or locating assets on behalf of the clients. These assets and related revenues have not been disclosed in the separate financial statements as they do not belong to the Bank.

As at 31 December 2018, the Custody Services Office conducted 557 securities accounts for the clients. The fair value of the financial instruments of the customers of the Custody Services Office for this day was PLN 21,462,415 thousand.

In the reporting period, securities in public trading and securities in material form as well as securities traded abroad were stored. As part of providing custody services to the clients, the Bank cooperated with several brokerage offices. The Bank acts as a depository for clients and for its own portfolio and for derivative rights. The Bank is a representative of an entity that is not a participant of the National Depository for Securities and, at the same time, is a clearing participant.

47. THE SHAREHOLDER'S STRUCTURE OF BGŻ BNP PARIBAS S.A

As at 31 December 2018, the structure of the shareholders of BGŻ BNP Paribas S.A., including those holding at least 5% of the total number of votes at the General Shareholders' Meeting was as follows:

SHAREHOLDERS	NUMBER OF SHARES	PERCENTAGE INTEREST IN SHARE CAPITAL	NUMBER OF VOTES AT THE GENERAL SHAREHOLDERS' MEETING	PERCENTAGE SHARE IN THE TOTAL NUMBER OF VOTES AT THE GENERAL SHAREHOLDERS' MEETING
BNP Paribas, total:	130,850,464	88.76%	130,850,464	88.76%
BNP Paribas directly	*95,360,238*	*64.69%*	*95,360,238*	*64.69%*
BNP Paribas Fortis SA/NV directly	*35,490,226*	*24.07%*	*35,490,226*	*24.07%*
Other shareholders	16,568,454	11.24%	16,568,454	11.24%
Total	**147,418,918**	**100.00%**	**147,418,918**	**100.00%**

As at 31 December 2018, the Bank's share capital amounted to PLN 147,419 thousand.
The share capital is divided into 147,418,918 shares with the par value of PLN 1.00, including: 15,088,100 A series shares, 7,807,300 B series shares, 247,329 C series shares, 3,220,932 D series shares, 10,640,643 E series shares, 6,132,460 F series shares, 8,000,000 G series shares, 5,002,000 H series shares, 28,099,554 I series shares, 2,500,000 series J shares and 49,880,600 series L shares.
In 2018, the capital was increased by issuing series J, K and L shares.
On 3 July 2018, the increase in the Bank's share capital was registered by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register. The share capital was increased from PLN 84,238,318 up to PLN 97,538 318, i.e. by PLN 13,300,000 by way of issue:

- 2,500,000 series J ordinary bearer shares with an issue price of PLN 60.15 per share; and
- 10,800,000 ordinary registered series K shares acquired at an issue price of PLN 60.15 per share.

The share capital was increased on the basis of Resolution No. 37 of the Ordinary General Meeting of Bank BGŻ BNP Paribas S.A. of 18 May 2018.

On 31 October 2018, the increase in the Bank's share capital was registered by the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register. The capital was increased from PLN 97,538,318 to PLN 147,418,918 by way of issue:

- 49,880,600 ordinary registered series L shares with a nominal value of PLN 1.00 each in connection with the demerger of Raiffeisen Bank Polska S.A. (RBPL) in the mode of article 529 § 1 point 4 of the Code of Commercial Companies.

The share capital was increased on the basis of Resolution No. 3 of the Extraordinary General Meeting of Bank BGŻ BNP Paribas S.A. of 24 August 2018.

The Bank's shares are ordinary bearer and registered shares (as at 31 December 2018, there were 67,005,515 registered shares, including 4 shares from B series).
No special control rights are attached to the ordinary bearer shares.
Four B series registered shares in the Bank are preference shares with respect to payment of the full par value per share in the event of the Bank's liquidation, once the creditors' claims have been satisfied, with priority over payments per ordinary shares, which, after the rights attached to the preference shares have been exercised, may be insufficient to cover the total par value of those shares.

The Bank's Statute does not impose any limitations as to exercising the voting rights or set forth any provisions whereby the equity rights attached to securities would be separated from the holding itself. One right to vote at the General Shareholders' Meeting of the Bank is attached to each share. The Bank's Statute does not impose any limitations as to transferring the title to the securities issued by the Bank.
As at 31 December 2018, none of the members of the Management Board or Supervisory Board of the Bank declared holding any shares of Bank BGŻ BNP Paribas S.A., and there were no change in this respect from the date of presenting the report for three quarters of 2017, i.e. 15 November 2018.

Investor obligation of BNP Paribas concerning the liquidity of the Bank's shares

As declared by BNP Paribas SA to the Polish Financial Supervision Authority (PFSA) in September 2014, the number of the Bank's shares that are in free float should have been increased to at least 12.5% by 30 June 2016 and to at least 25% plus one share by the end of 2018 at the latest, provided that reaching the assumed percentage of free float shares within the declared deadline was unreasonable due to unforeseen or exceptional market conditions, or if it exposed the BNP Paribas Group to unjustified financial losses, BNP Paribas should immediately commence negotiations with PFSA to agree a modified schedule of reaching the assumed percentage of free float shares.

On 31 May 2016 the Management Board of Bank BGŻ BNP Paribas S.A. was informed that during a meeting held on 31 May 2016, PFSA unanimously accepted a change in the deadline to fulfil the investor obligation of BNP Paribas SA with the registered office in Paris regarding improvement in liquidity of the Bank's shares at Warsaw Stock Exchange. The change in the deadline to fulfil the investor obligation of BNP Paribas SA, justified with an unforeseen adverse change in market conditions compared to the date of accepting the above mentioned obligation, consists in PFSA considering the obligations fulfilled if liquidity of shares of Bank BGŻ BNP Paribas S.A. reaches at least 12.5% shares by the end of 2018 and 25% plus one share by the end of 2020.

On 14 September 2018, PFSA BNP Paribas SA adopted the obligations regarding prudent and stable management of the Bank. As part of the obligation, BNP Paribas SA committed to increase the liquidity of the Bank's shares on the Warsaw Stock Exchange up to at least 25% plus 1 share by the end of 2023 at the latest.

48. SUPPLEMENTARY CAPITAL AND OTHER CAPITALS

The following table presents changes in supplementary capital and other reserve capitals:

Supplementary capital	12 months ended 31.12.2018	12 months ended 31.12.2017
Opening balance	**5,127,086**	**5,127,899**
Issue of shares	3,986,814	-
Issue costs	(2,867)	-
Other	-	(813)
Closing balance	**9,111,033**	**5,127,086**

Other reserve capital	12 months ended 31.12.2018	12 months ended 31.12.2017
General banking risk fund	627,154	627,154
Revaluation reserve	141,139	141,917
Other reserve capital	580,864	282,475
Total	**1,349,157**	**1,051,546**

General banking risk fund created from net profit	12 months ended 31.12.2018	12 months ended 31.12.2017
Opening balance	**627,154**	**577,766**
Distribution of retained earnings	-	49,388
Closing balance	**627,154**	**627,154**

Revaluation reserve	12 months ended 31.12.2018	12 months ended 31.12.2017
Opening balance	**141,917**	**(552)**
Net gain/loss on changes in fair value of available for sale financial assets	-	174,084
Net gain/loss on changes in fair value of financial assets measured through other comprehensive income	831	-
Actuarial valuation of employee benefits	(1,111)	1,857
Deferred income tax	(498)	(33,472)
Closing balance	**141,139**	**141,917**

Other reserve capital	12 months ended 31.12.2018	12 months ended 31.12.2017
Opening balance	**282,475**	**282,475**
Distribution of retained earnings	298,389	-
Closing balance	**580,864**	**282,475**

Changes in revaluation reserve related to financial assets available for sale

	2018		2017	
	Gross value	Deferred income tax	Gross value	Deferred income tax
Opening balance	**166,118**	**(31,011)**	**(7,966)**	**1,587**
gains/losses on financial assets available for sale measurement at fair value through other comprehensive income, recognized in equity	(38,373)	6,740	148,541	(27,745)
reclassification due to sale of financial assets measured at fair value through other comprehensive income/available for sale, to profit or loss	39,204	(7,449)	25,543	(4,853)
Closing balance	**166,949**	**(31,720)**	**166,118**	**(31,011)**

49. DIVIDENDS PAID

The Bank did not pay any dividends for 2017. The Management Board of the Bank will not recommend dividend payment for 2018.

50. DISTRIBUTION OF RETAINED EARNINGS

Pursuant to the Resolution of the General Shareholders' Meeting of Bank BGŻ BNP Paribas of 18 May 2018, the net profit for 2017, in the amount of PLN 298,389 thousand, was allocated to the reserve capital.

51. CASH AND CASH EQUIVALENTS

For the purpose of preparation of the statement of cash flows, the balance of cash and cash equivalents comprises the following balances with maturity shorter than three months:

	31.12.2018	31.12.2017
Cash and balances at Central Bank (Note 18)	2,897,113	998,035
Current accounts of banks and other receivables	174,716	1,644,636
Interbank deposits	298,837	800,000
Loans and advances	4,078	-
Total cash and cash equivalents	**3,374,744**	**3,442,671**

52. ADDITIONAL INFORMATION REGARDING THE STATEMENT OF CASH FLOWS

Differences between balance sheet changes the value of items and changes in the balance of these items presented in operating activities.

Change in amounts due from banks	12 months ended 31.12.2018	12 months ended 31.12.2017
Change arising from the balance sheet	(1 724 386)	1,301,347
Acquisition of RBPL	(770 784)	-
Elimination of a change in cash and cash equivalents	2 481 797	(1,295,427)
Total change in amounts due from banks	**(13 373)**	**5,920**

Change in amounts due from customers measured at amortised cost	12 months ended 31.12.2018	12 months ended 31.12.2017
Change arising from the balance sheet	16 675 715	930,558
Implementation of IFRS 9	897 759	
Acquisition of RBPL	(18 229 358)	-
Total change in amounts due from customers measured at amortised cost	**(655 884)**	**930,558**

Change in amounts due to banks	12 months ended 31.12.2018	12 months ended 31.12.2017
Change arising from the balance sheet	1,336,516	1,853,698
Acquisition of RBPL	1,201,752	-
Repayment of long-term loans received	(1,899,454)	(2,223,098)
Long-term loans granted by other banks	-	105,805
Total change in amounts due to other banks	**638,814**	**(263,595)**

Change in amounts due to customers	12 months ended 31.12.2018	12 months ended 31.12.2017
Change arising from the balance sheet	30,863,365	3,937,349
Acquisition of RBPL	(34,929,564)	-
Repayment of long-term loans received	1,366,343	(291,002)
Total change in amounts due to customers	**(2,699,856)**	**3,646,347**

Cash flows from operating activities – other adjustments	12 months ended 31.12.2018	12 months ended 31.12.2017
FX differences from subordinated loans	59,268	(123,011)
Tax on financial institutions	221,796	205,866
Hedge accounting		(12,971)
Valuation of securities through profit or loss		2,513
Allowance for securities	(164)	11,792
Other adjustments	(14,870)	8,848
Cash flows from operating activities – total other adjustments	**266,030**	**93,037**

53. RELATED PARTY TRANSACTIONS

Bank BGŻ BNP Paribas S.A. operates within the BNP Paribas S.A. Group.

Bank BGŻ BNP Paribas S.A. is the parent in the Capital Group of Bank BGŻ BNP Paribas S.A.

As at 31 December 2018, the Group comprised Bank BGŻ BNP Paribas S.A., the parent, and its subsidiaries:

1. BANKOWY FUNDUSZ NIERUCHOMOŚCIOWY ACTUS SP. Z O.O. („ACTUS").
2. TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH BGŻ BNP PARIBAS S.A. („TFI")
3. BNP PARIBAS LEASING SERVICES SP. Z O.O. („LEASING").
4. BNP PARIBAS GROUP SERVICE CENTER S.A.(„GSC")
5. CAMPUS LESZNO SP. Z O.O.
6. BGZ POLAND ABS1 DAC („SPV").
7. BNP PARIBAS FINANCIAL SERVICES SP. Z O.O.
8. BNP PARIBAS SOLUTIONS SPÓŁKA Z O.O.
9. RAIFFEISEN TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A.

All transactions between the Bank and its related parties were entered into as part of its daily operations and included mainly loans, deposits, transactions in derivative instruments as well as income and expenses related to advisory and financial intermediation services.

Transactions with shareholders of BGŻ BNP Paribas S.A. and related parties

31.12.2018	BNP Paribas S.A.	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Subsidiaries	Total
ASSETS	**595,282**	**22,349**	**168,311**	**28**	**3,980**	**789,950**
Receivables on current accounts, loans and deposits	200,648	19,479	164,139	-	15	**384,281**
Derivative financial instruments	265,576	1,034	8	-	10	**266,628**
Hedging instruments	128,568	1,836	-	-	-	**130,404**
Other assets	490	-	4,164	28	3,955	**8,637**
LIABILITIES	**2,054,013**	**14,753**	**475,830**	**3,905**	**142,132**	**2,690,633**
Current accounts and deposits	183,846	14,747	216,535	3,904	141,357	**560,389**
Subordinated liabilities	1,621,433	-	258,589	-	-	**1,880,022**
Derivative financial instruments	228,530	-	-	-	-	**228,530**
Hedged items	18,912	-	-	-	-	**18,912**
Other liabilities	1,292	6	706	1	775	**2,780**
CONTINGENT LIABILITIES						
Financial commitments granted	-	-	121,984	64	36,035	**158,083**
Guarantees granted	140,757	180,131	346,431	-	1,000	**668,319**
Commitments received	147,640	122,649	517,510	-	-	**787,799**
Derivative financial instruments (nominal value)	38,122,093	249,054	-	-	-	**38,371,147**
Derivative hedging instruments (nominal value)	7,896,881	30,100	-	-	-	**7,926,981**
12 months ended 31.12.2018						
STATEMENT OF PROFIT OR LOSS	**1,784**	**3,703**	**(72,659)**	**(63)**	**13,062**	**(54,173)**
Interest income	1,889	750		-	12	**2,651**
Interest expense	(41,959)	(342)	(51,783)	(64)	(347)	**(94,495)**
Fee and commission income		155	173	1	96	**425**
Fee and commission expense	(804)	-	(81)	-	4,742	**3,857**
Net trading income	67,983	3,140	3	-	-	**71,126**
Other operating income	-	-	7	-	21,285	**21,292**
Other operating expenses	(25,325)	-	(20,978)	-	-	**(46,303)**
General administrative costs	-	-	-	-	(12,726)	**(12,726)**

31.12.2017	BNP Paribas S.A.	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Subsidiaries	Total
ASSETS	**1,730,525**	**32,927**	**913,668**	**38**	**8,068**	**2,685,226**
Receivables on current accounts, loans and deposits	1,466,676	16,861	902,976	3	-	**2,386,516**
Derivative financial instruments	263,483	16,066	-	-	-	**279,549**
Other assets	366	-	10,692	35	8,068	**19,161**
LIABILITIES	**2,901,637**	**33,249**	**2,465,476**	**4,113**	**41,725**	**5,446,200**
Loans and advances received	1,324,886	33,080	456,847	-	-	**1,814,813**
Current accounts and deposits	-	-	1,752,397	4,113	38,099	**1,794,609**
Subordinated liabilities	1,398,737	-	250,822	-	-	**1,649,559**
Derivative financial instruments	177,919	169	-	-	-	**178,088**
Other liabilities	95	-	5,410	-	3,626	**9,131**
CONTINGENT LIABILITIES						
Financial commitments granted	197	18	134	44	30,044	**30,437**
Guarantees granted	-	-	-	-	155	**155**
Commitments received	459	78	341	-	-	**878**
Derivative financial instruments (nominal value)	71,725	313	55	-	-	**72,093**

12 months ended 31.12.2017						
STATEMENT OF PROFIT OR LOSS	**13,655**	**(2,232)**	**(17,288)**	**(7)**	**47,245**	**41,373**
Interest income	335	882	1,289	-	8	**2,514**
Interest expense	(39,158)	(2,100)	(28,593)	(7)	(304)	**(70,162),**
Fee and commission income	-	356	6,865	-	15,083	**22,304**
Fee and commission expense	(510)	(28)	(455)	-	-	**(993)**
Dividend income			33,462			**33,462**
Net trading income	86,611	(1,342)	-	-	-	**85,269**
Other operating income	-	-	17,356	-	42,070	**59,426**
Other operating expenses	(33,623)	-	(47,212)	-	(9,612)	**(90,447)**

Remuneration of the Management Board and Supervisory Board

Management Board	31.12.2018	31.12.2017
Short-term employee benefits	15,199	14,563
Long-term benefits	6,546	5,907
Benefits due to termination of employment	90	3,698
Post-employment benefits	-	3,101
Share-based payments	2,099	1,279
TOTAL	**23,934**	**28,548**

Supervisory Board	31.12.2018	31.12.2017
Short-term employee benefits	1,861	2,011
TOTAL	**1,861**	**2,011**

54. OPERATING SEGMENTS

Segment reporting

The Bank has identified the following operating segments for reporting purposes and allocated income and expenses as well as assets and liabilities thereto: Retail and Business Banking, Small and Medium-Sized Enterprises (SME), Corporate Banking, Corporate and Institutional Banking (CIB) as well as Other Operations, including ALM Treasury and the Corporate Centre. Additionally, performance related to Agro customers, i.e. individual farmers and agro-food sector enterprises, as well as the Personal Finance segment has been presented. Although the aforesaid segment performance overlaps with that of the basic operating segments, it is additionally monitored separately for purposes of the Bank's management reporting. The abovementioned segmentation reflects the principles of customer classification to each segment in line with the business model adopted by the Bank, which are based on such criteria as the entity, finances and type of business activity. Enterprises are segmented on the basis of activity classification codes.

The Bank's management performance is monitored by considering all items of the statement of profit or loss of the particular segment, to the level of gross profit, i.e. for each segment revenue, expenses and net impairment losses are reported. Management revenue takes into account cash flows between customer segments and the asset liability management unit, measured by reference to internal transfer prices of funds based on market prices and liquidity margins for each maturity and currency. Management expenses of the segments include direct operating expenses and expenses allocated using the allocation model adopted by the Bank. Additionally, the management performance of the segments may take into account amounts due to each business line for services between such lines – such information is assigned to the Bank's customers.

The Bank's operations are conducted in Poland only. As no considerable differences in the risks, which might be affected by the geographical location of the Bank's branches, can be identified, no geographical disclosures have been presented.

The Bank applies consistent, detailed principles to all identified segments. As regards the revenue, in addition to standard items, components of the net interest income of the segments have been identified, to include external and internal revenue and expenses. As regards operating expenses, the Bank's indirect expenses are allocated to each segment in the Expense allocation (internal) item. Total costs of integration of banks BNP Paribas Bank Polska and Raiffeisen Bank Polska are presented in the Other Operations segment. Considering the profile of the Bank's business, no material seasonal or cyclical phenomena are identified. The Bank provides financial services, the demand for which is stable, and the effect of seasonality is immaterial.

Description of operating segments

The Retail and Business Banking Segment offers comprehensive services to retail customers, including private banking customers (*Wealth Management),* i.e. investing in the amount of minimum PLN 1 million through the Bank, as well as business clients (microenterprises), including:

- non-Agro entrepreneurs, not preparing full financial reporting, in accordance with the principles set out in the Accounting Act, meeting the criterion of annual net revenues for the previous financial year below EUR 2 million;
- Agro entrepreneurs not preparing full financial reporting and who meet the criterion of annual net income for the previous financial year below EUR 2 million, conducting activities classified according to selected PKD 2007 codes;
- professionals: entrepreneurs not preparing full financial reporting in accordance with the principles set out in the Accounting Act and performing professions defined in a separate document;
- individual farmers whose credit exposure is less than PLN 3 million;
- individual farmers whose credit exposure is in the range between PLN 3 million and PLN 4 million, if the collateral on arable lands covers at least 50% of credit exposure;
- non-profit organizations (e.g. foundations and associations);
- cooperatives and housing communities.

The scope of financial services offered by the Retail and Business Banking Segment includes maintenance of current and deposit accounts, acceptance of term deposits, granting mortgage loans, cash loans, mortgage advances, overdrafts, loans to microenterprises, issuing debit and credit cards, cross-border cash transfers, foreign exchange transactions, sale of insurance products as well as other services of lesser importance to the Bank's income. Additionally, the performance of the Retail and Business Banking Segment includes: balances and performance of direct banking (BGŻ Optima), performance of brokerage services and distribution of investment fund units.

The Retail and Business Banking customers are served by the Bank's Branches and alternative channels, i.e. online banking, mobile banking and telephone banking, direct banking channel (BGŻ Optima) and the Personal Banking channel. Selected products are also sold by financial intermediaries active at the country and local level.

Personal Finance is responsible for development of product offering and management of financial services provided to consumers, with three major products, i.e. cash loans, car loans and credit cards. The aforesaid products are distributed through the Retail and Business Banking branch network as well as external distribution channels.

Personal Finance provides strong support in acquisition of retail customers, generating income and increasing profitability.

SME Banking provides services to:

- individual farmers, whose credit exposure is in the range between PLN 3 million and PLN 4 million, and at the same time the collateral on arable lands covers less than 50% of credit exposure;
- individual farmers, whose credit exposure is between PLN 4 million and PLN 25 million;
- Agro-SME clients preparing full financial reporting in relation to net sales revenues for the previous financial year below PLN 60 million and credit exposure of up to PLN 25 million, as well as agricultural producer groups;
- non-Agro-SME clients including: (i) companies preparing full financial reporting, with net sales revenues for the previous financial year below PLN 60 million and loan exposures lower than PLN 25 million; (ii) public finance sector entities with a budget of up to PLN 60 million, which were included in the tender procedure or the request for proposals;
- small Agro-SME clients including: Agro entrepreneurs, preparing full financial reporting, with net revenues from sales for the previous financial year below PLN 10 million and with credit exposure below PLN 25 million;
- Small Agro-SME clients including: non-Agro entrepreneurs, preparing full financial reporting, with net sales revenues for the previous financial year below PLN 10 million and credit exposure below PLN 25 million.

The SME sales network has been divided into 7 SME Regions with 44 SME Business Centres dedicated solely to provision of services to Small and Medium-Sized Enterprises.

Corporate Banking offers a wide variety of financial services to large and medium-sized enterprises as well as local government entities with annual turnover exceeding PLN 60 million or with the credit exposure above PLN 25 million, in addition to entities operating in multinational capital groups.

Clients of Corporate Banking are divided into:

- Polish mid corporates (i.e. with annual revenues between PLN 60 and 600 million);
- international clients (companies belonging to international capital groups);

- large Polish corporations (with annual turnover over PLN 600 million, listed on the stock exchange and with potential in the area of investment banking services);
- currency exchange offices;
- public sector entities and financial institutions.

Within the above groups there are sub-segments of clients from the agro and non-agro areas.

Services are provided by 8 Business Centres located in large cities across Poland, which are separate from the Bank's branch network. Operating services are provided to all institutional segment customers by the Bank's Branches, via telephone and online. Selected products are also sold by financial intermediaries active both at the country and local level.

The basic products and services provided to Corporate Customers include cash management and global trade finance services – comprehensive services related to import and export LCs, bank guarantees and documentary collection, supply chain and exports financing, acceptance of deposits (from overnight to term deposits), corporate finance services which involve provision of overdraft facilities, revolving and investment loans as well as agro-business loans), financial market products, to include foreign exchange and derivative transactions for the account of customers, lease and factoring products as well as specialized services such as financing real estate, structured finance services to mid-caps and investment banking.

The Corporate and Institutional Banking (CIB) Segment supports sales of products of the BNP Paribas Group, an international institution, dedicated to the largest Polish enterprises. It offers world-class quality expertise to customers by combining the knowledge of the Polish market with experience gained on international markets as well as top-class industry experts' competence. It supports development of Polish enterprises and implementation of projects of strategic importance to Poland, to include construction of power plants, green energy or fuel sector funding or securing financing for cross-border acquisitions of listed companies. The Segment includes also financial institutions.

Other Banking Operations are performed mainly through the **ALM Treasury**, the main objective of which is ensuring an appropriate and stable level of funding to guarantee the security of the Bank's operations and compliance with the standards defined in the applicable laws.

The AML Treasury assumes responsibility for liquidity management at the Bank, setting internal and external reference prices, management of the interest rate risk inherent in the Bank's balance sheet as well as the operational and structural currency risk. The AML Treasury focuses on both prudential (compliance with external and internal regulations) and optimization aspects (financing cost management and generating profit on management of the Bank's items from the statement of financial position).

The **Other Operations** segment includes also direct costs of the support functions, which have been allocated to segments in the Expense allocation (internal) item, as well as results that may not be assigned to any of the aforementioned segments (to include equity investment, gains/losses on own accounts and customer accounts not allocated to a specific segment). The segment also includes significant non-recurring costs, including the acquisition of the core business of Raiffeisen Bank Polska by Bank BGŻ BNP Paribas.

31.12.2018 *	Retail and Business Banking	SME Banking	Corporate Banking	CIB	Other Operations	Total	including Agro customers	including Personal Finance
STATEMENT OF PROFIT OR LOSS								
Net interest income	1,285,705	254,836	323,556	15,219	197,202	**2,076,518**	399,541	478,554
external interest income	1,509,004	367,073	430,462	27,071	572,101	**2,905,711**	672,845	676,793
external interest expenses	(340,734)	(66,818)	(142,015)	(2,876)	(276,750)	**(829,193)**	(59,637)	-
internal interest income	794,131	158,664	280,440	4,965	(1,238,201)	**-**	138,455	-
internal interest expenses	(676,697)	(204,083)	(245,331)	(13,941)	1,140,051	**-**	(352,122)	(198,239)
Net fee and commission income	301,575	83,852	147,387	5,061	(2,702)	**535,172**	130,996	68,065
Dividend income	5,645	-	-	-	4,861	**10,505**	-	3,388
Net trading income	42,255	33,380	104,592	80,999	69,392	**330,619**	26,303	-
Result on investment activities	-	-	452	-	46,953	**47,405**	-	-
Result on hedge accounting	-	-	-	-	(9,997)	**(9,997)**	-	-
Other operating income and expenses	(4,708)	(5,636)	(1,834)	(841)	244,607	**231,587**	(6,414)	(10,892)
Net impairment losses on financial assets and contingent liabilities	(178,961)	(45,777)	(57,601)	(12,941)	(241,995)	**(537,275)**	(95,644)	(40,501)
Total operating expenses	(819,576)	(108,352)	(144,672)	(31,883)	(705,409)	**(1,809,892)**	(10,238)	(236,891)
Depreciation and amortization	(79,643)	(3,527)	(9,189),	(4,646)	(91,837)	**(188,842)**	(161)	(12,144)
Expense allocation (internal)	(358,383)	(84,802)	(63,946)	(8,583)	515,714	**-**	-	(87,815)
Operating result	**193,909**	**123,974**	**298,745**	**42,385**	**26,788**	**685,800**	**444,382**	**161,764**
Tax on financial institutions	(115,647)	(32,765)	(54,660)	(2,495)	(7,557)	(213,122)	-	(29,029)
Profit before income tax	**78,262**	**91,209**	**244,085**	**39,890**	**19,232**	**472,678**	**444,382**	**132,735**
Income tax expense	**-**	**-**	**-**	**-**		**(107,939)**	**-**	**-**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**364,739**	**-**	**-**
STATEMENT OF FINANCIAL POSITION AS AT 31.12.2018								
Segment assets	36,548,891	10,139,988	23,845,652	1,243,322	35,033,806	**106,811,658**	16,588,284	10,155,921
Segment liabilities	52,327,625	10,595,532	22,219,643	2,107,495	8,989,801	**96,240,096**	8,234,852	-

*As the figures have been rounded and presented in PLN ‘000, in some cases their total may not correspond to the exact grand total.

31.12.2017 *	Retail and	SME Banking	Corporate	CIB	Other	Total	including	including

	Business Banking		Banking		Operations		Agro customers	Personal Finance
STATEMENT OF PROFIT OR LOSS								
Net interest income	1,185,452	234,849	270,543	10,272	215,257	**1,916,372**	370,714	466,453
external interest income	1,401,253	415,991	376,244	21,652	422,450	**2,637,590**	661,349	653,961
external interest expenses	(340,896)	(66,471)	(154,610)	-	(159,241)	**(721,218)**	(57,916)	-
internal interest income	741,332	132,348	264,892	-	(1,138,572)	**-**	128,538	-
internal interest expenses	(616,238)	(247,018)	(215,983)	(11,381)	1,090,619	**-**	(361,256)	(187,507)
Net fee and commission income	254,166	83,969	116,259	3,322	(4,761)	**452,955**	138,114	30,752
Dividend income	27,870	1,336	4,257	-	4,714	**38,177**	-	27,817
Net trading income	38,217	22,081	81,606	75,064	34,487	**251,455**	23,188	-
Result on investment activities	98	-	1,930	-	26,369	**28,398**	-	-
Result on hedge accounting	-	-	-	-	3,304	**3,304**	-	-
Other operating income and expenses	(3,639)	(2,601)	1,134	186	(594)	**(5,514)**	(7,020)	(5,559)
Net impairment losses on financial assets and contingent liabilities	(228,855)	(74,984)	(36,145)	-	(2,436)	**(342,419)**	(97,235)	(79,584)
Total operating expenses	(750,187)	(98,912)	(121,243)	(29,917)	(491,812)	**(1,492,071)**	(10,659)	(228,940)
Depreciation and amortization	(59,772)	(996)	(5,605)	(2,738)	(104,422)	**(173,534)**	(176)	(5,656)
Expense allocation (internal)	(330,359)	(86,440)	(81,557)	(7,825)	506,183	**-**	-	(68,890)
Operating result	**132,990**	**78,301**	**231,179**	**48,364**	**186,290**	**677,123**	**416,928**	**136,393**
Tax on financial institutions	(108,972)	(40,612)	(45,203)	(1,194)	(9,884)	(205,866)	-	(27,425)
Profit before income tax	**24,017**	**37,689**	**185,976**	**47,170**	**176,406**	**471,257**	**-**	**108,968**
Income tax expense	**-**	**-**	**-**	**-**	**-**	**(172,868)**	**-**	**-**
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**298,389**	**-**	**-**
STATEMENT OF FINANCIAL POSITION AS AT 31.12.2017								
Segment assets	28,802,532	10,973,502	13,250,422	424,098	18,353,570	**71,804,124**	15,282,400	7,607,549
Segment liabilities	32,542,817	6,322,469	14,833,125	-	11,544,453	**65,242,865**	6,140,949	-

*As the figures have been rounded and presented in PLN ‘000, in some cases their total may not correspond to the exact grand total.

55. FINANCIAL RISK MANAGEMENT

55.1. Financial instrument strategy

The Bank's core business focuses on financial products offered to customers: retail customers, entrepreneurs and enterprises, public sector and budget institutions as well as non-bank financial institutions. Short-term fixed rate deposits as well as current and savings accounts are the key items of the Bank's liabilities. On the other hand, the Bank's assets comprise such credit products as mortgage loans, cash loans, credit cards, overdrafts, investment and revolving loans, subsidized loans, factoring facilities, leasing, guarantees, international trade finance transactions (e.g. letters of credit), the majority of which are medium- and long-term instruments bearing interest based on short-term market rates.

The Bank uses financial market instruments in the first place to manage the liquidity, interest rate and currency risk inherent in its core business, considering the internal risk appetite as well as market trends in the medium and long term.

Additionally, the Bank offers access to financial market instruments to its customers for purposes of hedging market (currency, interest rate or commodity) risk inherent with their core business.

55.2. Credit risk

Credit risk is inherent in the core financial operations of the Bank, the scope of which includes both lending and providing funding with the use of capital market products. Consequently, credit risk is identified as the risk with the highest potential to affect the present and future profits and equity of Bank BGŻ BNP Paribas. The materiality of credit risk is confirmed by 69% share in the total economic capital estimated by the Bank for purposes of covering major risks involved in the Bank's operations, in addition to its 91% share in the total value of regulatory capital.

Credit risk management is primarily aimed at implementation of the Bank's strategy through a harmonious increase in the loan portfolio, accompanied by maintenance of the credit risk appetite at an acceptable level.

Credit risk management principles adopted by the Bank include:

- each credit transaction requires comprehensive credit risk assessment expressed in internal rating or scoring;
- in-depth and careful financial analysis serves as the basis for regarding the customer's financial information and collateral-related data as reliable; prudential analyses performed by the Bank always take into account a safety margin;
- as a rule, financing is provided to the customer based on its ability to generate cash flows that ensure payment of its liabilities to the Bank;
- credit risk assessment is additionally verified by credit risk assessment personnel, independent of the business;
- pricing terms of a credit transaction have to take account of the risk involved in such a transaction;
- credit risk is diversified on such dimensions as geographical regions, industries, products and customers;
- credit decisions may only be taken by competent employees;
- the Bank enters into credit transactions only with customers it knows and long-term relationships are the basis for cooperation with customers;
- the customer and the transactions made with the customer are monitored transparently from the perspective of the customer, in a manner strengthening the relationship between the Bank and the customer.

Credit risk concentration

Concentration risk is the Bank's risk inherent to its statutory operations, which is appropriately defined and managed.

The Management Board assesses the concentration risk policy in terms of its application. In particular, it analyses the efficiency and adequacy of the principles applied in the context of the current and planned operations and risk management strategy. The adequacy of the concentration risk management is reviewed if any material changes are observed in the Bank's environment or if the risk management strategy is modified.

The appropriate assessment of the concentration risk of the Bank is highly dependent on correct identification of all key concentration risks. In justified cases, the Bank identifies concentration risk when planning its new activities involving the development and launch of new products, services, expansion to new markets, considerable alterations of products and services or market changes.

Credit portfolio diversification is one of the key credit risk management tools. The Banks avoids excessive credit concentration, as it increases the risk. Possible losses pose a considerable threat, and therefore the concentration level should be monitored, controlled and reported to the Bank's management. Key concentration risk mitigation tools include risk identification and measurement mechanisms and exposure limits in individual Bank portfolio segments and in subsidiaries. These tools enable internal differentiation of the loan portfolio and mitigation of negative effects of adverse changes in the economy.

A significant concentration area (aspect) is the one whose share in the Bank's balance sheet total is equal or higher than 10% or 5% of the net profit planned for a given year. In such cases, a given concentration area (aspect) is subject to analyses, reporting and management under the concentration risk management process.

High concentration of the Bank's credit exposures to each entity or group of entities with equity or organizational relationships is one of the potential sources of credit risk. For purposes of its reduction, the Regulation No. 575/2013 specifies the Bank's maximum exposure limit. Under Article 395 of the Regulation No. 575/2013: the institution does not assume any exposure to the client or related clients, the value of which, taking into account the effect of limiting credit risk in accordance with Articles 399-403, exceeds 25% of the value of its recognized capital. If a client is an institution or if a group of related clients include at least one institution, the value does not exceed 25% of its recognized capital or of the amount of EUR 150 million, depending on which one of these two amounts is higher, provided that the sum of the exposure to all related non-institutional customers, after taking into account the effect of credit risk mitigation under Articles 399-403, does not exceed 25% of the value of the institution's recognized capital.

The Bank's concentration limits are monitored in accordance with Article 387 of the Regulation No. 575/2013. The limits, defined in Article 395 of the Regulation No. 575/2013, had not been exceeded as at the end of 2018. As at the end of 2018, the Bank's exposure to customers/groups of customers with equity or organizational relationships had not exceeded the concentration limit. The total of exposures equal to or exceeding 10% of the Bank's equity was 16%.

Concentration risk tolerance in the Bank is determined by a system of internal limits, including both assumed development directions and speed of the Bank's business, an acceptable level of credit risk and liquidity, as well as external conditions, macroeconomic and sectoral perspective. Among others, internal limits for credit concentration risk are determined for:

- selected sectors / industries;
- exposures denominated in foreign currencies;
- customer segments (intra-bank customer segmentation);
- loans secured with a given type of collateral;
- geographical regions;
- average probability of default;
- exposures with a specified rating (the Bank's internal rating scale);
- exposures with a specified debt-to-income ratio;
- exposures with a specified loan-to-value ratio.

Activities that limit Bank's exposure to concentration risk may include systemic measures and one-off / specific decision and transactions. Systemic measures that limit concentration risk include:

- reduction of the scope of crediting of determined customer types through credit policy adjustment;
- reduction of limits charged with concentration risk;
- diversification of asset types on the level of the Bank's statement of financial position;
- change of business strategy to ensure prevention of excessive concentration;
- diversification of accepted collateral types.

Systemic measures that limit concentration risk include:

- reduction of further transactions with a given customer or a group of related customers;
- sale of selected assets/loan portfolios;
- securitization of assets;
- establishing of new collateral types (e.g. credit derivatives, guarantees, sub-participation, and insurance contracts) for existing or new credit exposures.

A concentration analysis by industry, conducted by the Bank, focuses on all credit exposures of the Bank to institutional customers, including bond loans. The Bank defines industries based on Polish statistical classification of economic activities (NACE/PKD 2007). The Bank's exposure to industries analysed at the end of 2018 (similarly as at the end of 2017) is concentrated in the following industries: *Agriculture, Forestry, Hunting and Fishing; Manufacture of Food Products, Beverages and Tobacco Products*. In 2017, they accounted for 43.4% of industrial exposure, while in 2017, the exposure to these three industries reached 32.0%.

In 2017, the largest share of non-performing loans in industry (76.1%) was due to *Coal and Peat Mining*, *Mining of crude oil and natural gas*; *Production of gas fuels*; *Production of coke and refined petroleum products, and (30.5%) Hotels and restaurants; Arts, entertainment and recreation, and (23.7%) Construction of civil or water engineering and specialized objects*

In 2018, the largest share of non-performing loans in industry (71.2%) was attributable to *Coal and Peat Mining*,; *Mining of crude oil and natural gas*; *Production of gas fuels*; *Production of coke and refined petroleum products* (20.3%) *Hotels and restaurants; Arts, entertainment and recreation,* (15.9%) *Editorial and printing activities; Media production.*

The table below presents a comparison of the share of impaired loans in 2017 and 2018.

*Share of non-performing loans ** in industry exposure (gross balance sheet amount) **

Industry	Exposure		Share of impaired loans	
	2018-12-31	2017-12-31	2018-12-31	2017-12-31
Agriculture, Forestry, Hunting and Fishing; Production of Food Products, Beverages and Tobacco Products.	15,143,590	14,488,197	6.1%	5.5%
Production of motor vehicles, motorcycles and tyres	686,657	414,469	1.3%	1.4%
Construction of civil engineering and specialist structures	2,276,558	1,136,076	13.2%	23.7%
Professional activities, including science and engineering; administration services and auxiliary services	2,295,995	1,168,022	5.1%	6.5%
Production of chemicals and chemical products	848,349	354,326	0.4%	0.6%
Telecommunications; Postal and courier services	686,021	441,707	0.2%	0.2%
Coal and peat mining; oil and gas extraction; production of gas fuels; production of coke and oil refining products.	367,771	398,615	71.2%	76.1%
Production of machinery and equipment (except for computers and electronic products)	2,233,661	1,405,887	9.3%	13.9%
Financial activities	884,574	663,936	4.0%	1.7%
Health care; production of basic pharmaceutical products and medicines	650,731	387,557	3.0%	4.3%
Hotels and restaurants; Culture, entertainment and recreation activities	394,361	266,371	20.3%	30.5%
Production of furniture and household appliances; Production of apparel, textiles and leather	880,913	543,720	6.5%	17.8%
Activities related to software and IT consultancy; information processing services; Production of computers, electronic and optical devices	363,992	192,505	7.4%	6.4%
Insurance	22,445	16,597	8.6%	14.9%
Extraction and production of other materials and ores	3,198,555	2,288,349	3.2%	4.9%
Editorial and printing activities; Media production	306,503	231,162	15.9%	3.9%
Education; Social assistance; Other services	265,559	132,896	7.7%	16.3%
Residential and non-residential construction; Services provided on real property market	4,522,719	2,435,932	8.6%	7.2%
Retail trade	3,330,836	1,783,111	4.9%	8.3%
Public administration; economic and social policy	231,626	154,643	0.0%	0.0%
Transport and warehousing	2,036,025	1,180,245	8.0%	4.9%
Generation and supply of electricity, gas, steam, hot water; Water supply, Sewage and waste management	478,840	457,760	4.6%	4.9%
Wholesale trade	5,167,026	2,843,329	6.9%	13.3%
Total	**47,273,306**	**33,385,414**	**6.9%**	**8.4%**

* Financial data have been rounded and presented in PLN '000, and therefore, in some cases, the totals may not correspond exactly to the total sum. The data includes bond loans, as opposed to other tables.

** Loans for which objective impairment triggers have been identified

The Bank also manages the risk of collateral concentration. For this purpose, the Bank introduced limits for the involvement of particular types of collateral, ensuring their appropriate diversification. As at the end of 2018, as well as at the end of 2017, the limits were not exceeded.

In the case of an individually assessed exposures, the Bank expects, as at 31 December 2018, to recover, due to established collateral, the amount of PLN 947 million, which is 48% of the total exposure assessed individually with an impairment recognized.

Maximum exposure on credit risk

The table below presents the Bank's maximum exposure to credit risk for financial instruments both recognized and not recognized in the financial statements. The maximum exposure was presented in its gross value, before considering the impact of collateral and other credit quality improvement instruments.

	31 December 2018	
ASSETS	Maximum exposure on credit risk – no collaterals included	Maximum exposure on credit risk – collaterals included
Cash and balances at Central Bank	2,897,225	2,897,113
Amounts due from banks	792,332	791,071
Financial instruments measured at fair value through other comprehensive income	15,875,339	15,875,339
Financial instruments measured at fair value through profit or loss	203,813	203,813
Derivative financial instruments	715,671	715,671
Hedging instruments	130,405	130,405
Loans and advances to customers measured at amortised cost	71,891,047	68,870,918
Other financial instruments measured at amortised cost	11,960,381	11,939,238
Deferred tax assets	920,286	920,286
Other assets	889,882	889,882
TOTAL ASSETS	**106,276,381**	**103,233,736**
TOTAL CONTINGENT LIABILITIES	**5,277,551**	**5,277,551**
TOTAL EXPOSURE ON CREDIT RISK	**111,553,932**	**108,511,287**

	31 December 2017	
ASSETS	Maximum exposure on credit risk – no collaterals included	Maximum exposure on credit risk – collaterals included
Cash and balances at Central Bank	998,035	998,035
Amounts due from banks	2,519,934	2,515,457
Financial assets available for sale	13,921,889	13,921,889
Derivative financial instruments	474,421	474,421
Hedging instruments	32,730	32,730
Loans and advances to customers measured at amortised cost	54,968,816	52,195,203
Deferred tax assets	468,617	468,617
Other assets	346,113	346,113
TOTAL ASSETS	**70,733,643**	**70,952,465**
TOTAL CONTINGENT LIABILITIES	**2,162,161**	**2,162,161**
TOTAL EXPOSURE ON CREDIT RISK	**72,895,804**	**73,114,626**

Exposure to credit risk by credit quality ratings

The table below presents significant credit risk exposures to which the expected credit loss model was applied. The breakdown was based on the rating scale presented below:

	31 December 2018					
	GROSS LOANS AND ADVANCES MEASURED AT AMORTISED COST, FOR WHICH IMPAIRMENT ALLOWANCE IS ESTIMATED AS*:					
Rating	12-month expected credit loss - exposures without impairment	Expected credit loss during the exposure period - exposures without impairment	Expected credit loss during the exposure period - exposures with impairment	Expected credit loss during the exposure period - POCI exposures	Gross portfolio value for a given rating category	Net portfolio value for a given rating category
1	383	-	-	-	384	383
2	4,076	-	-	1	4,077	4,076
3	294,651	-	23	141	294,815	294,577
4	1,911,589	318	4	967	1,912,877	1,910,976
5	3,160,276	160,084	911	1,085	3,322,356	3,298,494
6	11,963,076	429,369	3,101	9,092	12,404,638	12,337,522
7	13,330,275	741,035	16,664	153,135	14,241,109	14,110,205
8	3,218,061	1,144,173	31,790	40,327	4,434,351	4,313,033
9	131,875	509,712	20,108	15,940	677,635	636,531
10	408,137	344,553	59,080	193,018	1,004,788	888,608
11 to 12	62,699	46,939	1,820,955	139,749	2,070,341	872,589
Total	**34,485,096**	**3,376,184**	**1,952,636**	**553,455**	**40,367,371**	**38,666,996**

* Financial data have been rounded and presented in PLN ‘000, and therefore, in some cases, the totals may not correspond exactly to the total sum.

For large enterprises and clients from the SME segment that prepare full financial reporting, the Bank determines internal rating classes in accordance with the adopted credit policy. The rating classes are based on the risk model dedicated to this part of the loan portfolio and are the basis for estimating the amount of the provision in accordance with IFRS 9. The Bank's customers are assigned ratings from 1 (clients for whom the Bank identifies the lowest credit risk) to 12 (clients for whom the Bank identifies the highest credit risk). In order to assign ratings, the annual financial data provided by the client and the general quality assessment of its market situation are used. The structure of financial assets without an identified impairment trigger in the Bank's internal ratings is presented in the table below.

The structure of financial assets without an identified impairment trigger in the Bank's internal ratings is presented in the table below.

RATING	31.12.2017	
	value	share
1	-	0.0%
2	917	0.0%
3	27,078	0.1%
4	686,247	3.4%
5	982,493	4.9%
6	6,959,680	34.6%
7	7,858,838	39.0%
8	2,752,059	13.7%
9	541,362	2.7%
10	319,260	1.6%
11-12	1,739	0.0%

The structure of overdue receivables

The purpose of repayment overdue analysis is to indicate the level of potential credit loss (in respect of receivables without impairment). The higher delinquency in repayment, the more likely it is to identify an objective impairment trigger in the future. An increase in the delay in repayment above zero days increases the chance of identifying impairment trigger, but does not itself constitute grounds for giving this trigger. In the case of exposures overdue below 91 days, the impairment trigger may, however, be identified based on additional information about the economic and financial situation of the client.

The structure of the loan portfolio divided into impaired exposures and not impaired exposures along with the level of arrears in repayment are presented in the tables below. For the purposes of calculating the amount of the allowance, as well as for the presentation of data in the tables below, the loan is considered not due on the day on which the instalment payment expires, but on the next day.

Structure of loan portfolio in terms of impairment and DPD as at 31 December 2018

*(net balance sheet value)**

	not impaired					
31.12.2018	0 days	1-30 days	31-60 days	61-90 days	impaired	total
Mortgage loans and advances	15,887,582	335,068	34,152	8,857	373,176	16,638,834
Cash loans	7,784,509	155,780	30,614	13,217	257,248	8,241,368
Car loans	1,163,838	6,795	2,485	604	15,799	1,189,520
Credit cards	916,807	27,261	3,811	1,504	28,542	977,924
Investment loans	21,060,712	43,648	36,934	12,715	943,467	22,097,475
Limits in current accounts	11,648,742	42,368	26,314	9,585	364,122	12,091,131
Corporate revolving loans	6,010,634	23,042	4,834	8,695	167,710	6,214,916
Leases	1,585,153	69,955	7,685	598	56,607	1,719,999
Other	2,073,294	2,194	241	23	46,582	2,122,333
Total	**68,131,271**	**706,110**	**147,069**	**55 798**	**2,253,253**	**71,293,501**

* Financial data have been rounded and presented in PLN '000, and therefore, in some cases, the totals may not correspond exactly to the total sum.

*Structure of loan portfolio in terms of impairment and DPD as at 31 December 2017 (net balance sheet value)**

	not impaired					
31.12.2017	0 days	1-30 days	31-60 days	61-90 days	impaired	total
Mortgage loans and advances	12,881,054	229,463	20,850	3,413	325,311	13,460,091
Cash loans	4,566,286	300,272	25,250	11,815	163,240	5,066,863
Car loans	1,017,087	45,594	5,058	1,288	17,917	1,086,944
Credit cards	521,766	105,916	11,404	2,236	53,710	695,032
Investment loans	16,168,951	91,731	20,152	7,080	683,368	16,971,282
Limits in current accounts	8,025,209	43,427	7,843	3,768	213,322	8,293,569
Corporate revolving loans	3,695,971	22,072	3,620	4,028	174,341	3,900,032
Leases	2,062,741	237,393	12,744	4,607	40,952	2,358,437
Other	410,823	1,145	342	38	269,895	682,244
Total	**49,349,888**	**1,077,013**	**107,263**	**38,273**	**1,942,056**	**52,514,493**

* Financial data have been rounded and presented in PLN ‘000, and therefore, in some cases, the totals may not correspond exactly to the total sum.

Impairment allowances

Impairment allowances reflect the expected credit loss calculated using the three-step approach required by IFRS 9, as described in Note 2.6 Changes to accounting principles (policy) and to presentation of financial data (these changes are not comparable to changes in 2017, when IAS 39 was applicable).

The total result on impairment allowances in 2018 amounted to PLN -296 million. Apart from the growth and evolution of the portfolio resulting from the current operations of the bank, this result was influenced by the following factors:

- increase in the loan portfolio as a result of the acquisition of the organized part of Raiffeisen Polbank,
- positive impact of package sales of receivables,
- creation of additional impairment allowances in the amount of PLN 43 million for exposures of clients running agricultural holdings in areas affected by drought in 2018

Collaterals

Description of collateral held or other mechanisms that improve the credit quality

The Bank assesses the creditworthiness of each client on an individual basis. The value of collateral obtained, if it is deemed necessary by the Bank due to the granting of a loan, is subject to valuation by the Bank. The Bank accepts various forms of collateral for loans, while the main categories include:

- real estate mortgage;

- insurance of real estate being the subject of a mortgage;

- life insurance of the borrower;

- registered pledge;

Impact of collaterals on the valuation of exposure with impairment identified*:

31.12.2018	Gross value with impairment	Collateral value	Net value with impairment
OVERDRAFTS:	707,112	497,406	364,186
corporates	421,780	323,094	210,970
households:	285,332	174,312	153,215
retail customers	31,002	210	16,545
individual entrepreneurs	100,912	26,777	27,590
farmers	153,418	147,325	109,079
other entities	-	-	-
LOANS AND ADVANCES:	3,452,789	2,348,123	1,832,460
corporates:	1,628,364	1,332,491	861,506
investment loans	736,307	680,054	401,360
revolving loans	432,016	274,660	56,240
other	460,041	377,776	403,909
households:	1,824,424	1,015,633	970,951
retail customers, including:	1,202,323	548,273	575,868
mortgage loans	519,868	466,081	287,632
individual entrepreneurs	381,249	253,767	224,161
farmers	240,852	213,593	170,923
other entities	-	-	-
lease receivables	120,690	-	56,607
Total gross loans and advances	**4,280,591**	**2,845,530**	
Allowances (negative value)	(2,027,337)		
Total net loans and advances	**2,253,254**		

* Financial data have been rounded and presented in PLN '000, and therefore, in some cases, the totals may not correspond exactly to the total sum.

In the period covered by the present financial statements, there were no significant changes in the quality of collateral as a result of deterioration or changes in the Bank's collateral policy.

Loans and advances – credit quality

	31.12.2017
Gross loans and advances	
Not impaired and not overdue exposures	50,852,116
Impaired exposures	4,114,987

Loans and advances are classified in the overdue category, but in the case impairment is not identified and if the market current value of the collateral is sufficient to cover the value of principal, interest and other fees due to the Bank in relation to a given exposure.

Mortgage loans denominated in foreign currencies

Due to the significance of the portfolio of mortgage loans denominated in foreign currencies for retail customers, the Bank discloses a number of additional, diverse information regarding the portfolio's exposure.

Mortgage loans to retail customers account for ca. 25% of the entire loan portfolio of the Bank (gross carrying amount), with 39.7% being loans in foreign currencies the major part of which (98.8%) are denominated in CHF (the Swiss franc). The total gross carrying amount of mortgage loans in foreign currencies is slightly higher than PLN 5.4 billion.

The Bank performs revaluation of the residential property pledged as collateral for loans on an annual basis, on the following assumptions:

- where the original amount of the loan is up to PLN 2 million (inclusive) and the debt is below PLN 1 million at the revaluation date – the property is revalued using a statistical method;
- where the original amount of the loan exceeds PLN 2 million and/or the debt is more than PLN 1 million at the revaluation date – the property is revalued on a case-by-case basis.

The revalued amount is the basis for calculation of the current LTV for a single exposure and the average LTV for the entire portfolio as the average weighted by the gross carrying amount of individual LTVs.

The total on-balance sheet exposure and the average LTVs for mortgage loans in foreign currencies considering impairment and delinquency in days is presented below.

Exposure structure and average current LTV by impairment and delinquency

days past due	gross balance sheet value	average LTV weighted with gross balance sheet value
0-30 days	5,002,933	78.98%
31-60 days	20,609	88.77%
61-90 days	7,001	74.22%
over 90 days	195,202	105.33%
Total	**5,225,745**	**80.00%**

impairment identified	gross balance sheet value	average LTV weighted with gross balance sheet value
NO	4,902,935	78.74%
YES	322,810	99.05%
Total	**5,225,745**	**80.00%**

The average current LTV for the entire foreign currency mortgage loan portfolio exceeds the average current LTV for mortgage loans in the Polish currency (77%).

Exposure structure and average current LTV by loan granting year (mortgage loans in foreign currencies)

date of agreement	number of loans granted	gross balance sheet value	average LTV weighted with gross balance sheet value
2005 and before	3,095	367,067	40.57%
2006	5,518	1,206,207	57.57%
2007	4,730	1,608,395	87.29%
2008	6,028	1,774,078	97.60%
2009	654	145,122	64.23%
2010 and after	334	124,876	87.15%
Total	20,359	5,225,745	80.00%

**non-impaired loans*

date of agreement	gross balance sheet value*
2005 and before	351,323
2006	1,159,400
2007	1,519,167
2008	1,648,586
2009	136,881
2010 and after	87,578
Total	4,902,935

Forbearance practices

The Bank treats its exposures as forborne if the obligor is provided with a forbearance due to economic reasons (financial difficulties), including any forbearance granted for exposures with identified impairment triggers. In case the forbearance is granted for a customer with a material economic loss, the Bank classifies such a customer as default.

A facility is understood as the occurrence of at least one of the following events:

- a change to the repayment schedule, especially extending the loan maturity date;
- cancellation of overdue amounts (e.g. capitalization of an overdue amount, which can be repaid at a later date);
- redemption of principal, interest or fees;
- consolidation of loans into one new product, if the amounts of payments of the consolidated loan are lower than the sum of payments of these loans separately before the consolidation occurred;
- decrease of the base interest rate or margin;
- originating a new loan to repay the existing debt;

  Only in the period of customer's financial difficulties or, in the period when, due to changes on the market, such difficulties may occur, i.e.:

- the exposure is subject to debt collection; or
- the exposure is not subject to debt collection but there is evidence (provided by the customer or obtained in the decision-making process) that the customer is facing financial difficulties or may be facing them in the near future.

A material economic loss is defined by the Bank as the drop of present value of expected cash flows, resulting from forbearance granted, equal or higher than 5%. The drop of the present value is calculated in accordance with the below formula:

$$\frac{NPV_0 - NPV_1}{NPV_0}$$

where:

NPV0 – the present value of expected cash flows (including interest and fees / commissions) prior to the introduction of changes in loan terms, discounted with the original effective interest rate,

NPV1 – the present value of expected cash flows (including interest and fees / commissions), after the introduction of changes in the loan terms, discounted using the original effective interest rate. In the case of consolidation of many loans for the original interest rate for the purpose of assessing the significance of economic loss, the average EIR weighted with the gross balance sheet exposure at the moment of granting the facility is assumed.

The "forborne" status is no longer assigned if the following conditions have been satisfied:

- exposure reclassified to performing portfolio as a result of the analysis of financial situation (in case of corporate portfolio), which proved that the customer does not meet the criteria for being classified to the impaired portfolio;

- the exposure has not been considered impaired for 24 months in a row;
- none of the exposures to the customer are past due by more than 30 days;
- the obligor has been making regular and considerable payments for at least a half of the trial period.

Forborne exposures

	Portfolio	including forbearance exposures		
31.12.2018			including change of terms	including refinancing
LOANS AND ADVANCES FOR:	**71,885,967**	**964,935**	**682,508**	**282,427**
Non-banking financial institutions	687,244	-	-	-
Retail customers	27,000,114	397,729	290,021	107,708
Corporate customers	42,202,936	567,206	392,487	174,719
including retail farmers	8,681,538	128,344	95,900	32,444
Public sector institutions	190,073	-	-	-
Lease receivables	1,805,600		-	-
Impairment allowances on loans and advances	**(3,015,049)**	**(298,790)**	**(190,417)**	**(108,373)**
Non-banking financial institutions	(14,641)	-	-	-
Retail customers	(1,066,921)	(107,728)	(84,891)	(22,837)
Corporate customers	(1,845,925)	(191,062)	(105,526)	(85,536)
including retail farmers	(379,402)	(22,965)	(7,491)	(15,474)
Public sector institutions	(1,961)	-	-	-
Lease receivables	(85,601)	-	-	-
Total loans and advances (net)	**68,870,918**	**666,145**	**492,091**	**174,054**

31.12.2017	Portfolio	including forbearance exposures	including change of terms	including refinancing
LOANS AND ADVANCES FOR:	**54,967,103**	**818,737**	**589,021**	**229,716**
Non-banking financial institutions	595,945			
Retail customers	20,939,056	235,137	153,198	81,939
Corporate customers	30,794,099	583,600	435,823	147,777
including retail farmers	11,004,011	41,824	11,503	30,321
Public sector institutions	172,173			
Lease receivables	2,465,830			
Impairment allowances on loans and advances	**(2,771,900)**	**(300,826)**	**(171,220)**	**(129,606)**
Non-banking financial institutions	(2,481)	-	-	-
Retail customers	(942,495)	(100,661)	(60,627)	(40,034)
Corporate customers	(1,744,887)	(200,165)	(110,593)	(89,572)
including retail farmers	(338,821)	(15,933)	(1,748)	(14,185)
Public sector institutions	(190)	-	-	-
Lease receivables	(81,847)	-	-	-
Total loans and advances (net)	**52,195,203**	**517,911**	**417,801**	**100,110**

55.3. Market risk and ALM (Asset Liability Management)

Market risk management organization

The operations of Bank BGŻ BNP Paribas S.A. are recorded in the trading and in the banking book. Changes in market interest rates, foreign exchange rates, security prices and implied volatility of option instruments lead to changes in the net interest income and the result on measurement of the books' present value. The risk of adverse changes in the value, driven by the aforesaid factors, is recognized by the Bank as market risk. Due to differences in the characteristic features of those books, the risk is monitored and managed with the use of tools and measures appropriate for the nature of the risk in each book.

In order to reflect the characteristics of financial market transactions appropriately, i.e. the intentions of the parties entering into the transactions, the major risks and the accounting treatment, the Bank allocates all on- and off-balance sheet items to the banking or trading book. Detailed allocation criteria are established in the documents ("policies" and "methodologies") adopted by resolutions of the Management Board of the Bank and defining the purpose of keeping each book, the profile and types of risks assumed by the Bank, the measurement and mitigation methods as well as the authorizations and place of each organizational unit of the Bank in the risk generation, measurement, mitigation and reporting process.

The process of concluding transactions and their recording, as well as risk level supervision and adoption of risk limits is performed by independent units. In line with the long-term strategy adopted by the Bank, as well as with its financial plan, the Supervisory Board determines the Bank's risk tolerance, i.e. an acceptable risk level and profile, which is subsequently allocated, in the form of risk limits, to the books and portfolios by the Asset-Liability Committee (ALCO) and the Risk

Management Committee. The Financial Markets Division takes responsibility for daily operational management of the risk inherent in trading book in line with the defined market risk limits. The structural interest rate and currency risk in the banking book and the market risk of the short-term liquidity position is managed by ALM Treasury. Management of the current operational currency risk position of the Bank is centralized in the trading book. The Financial and Counterparty Risk Department and ALM Finance and Operations are in charge of measuring and reporting risk and limit overrides. Additionally, the Financial and Counterparty Risk Department ensures that financial instruments are measured properly. The management result is calculated by the Financial Market Transactions Monitoring Unit, while transactions are recorded and settled by the Financial Market Transactions Processing Department. The system of limit override acceptance is hierarchical. It depends on the period of such override and its scale, and is managed by the Department head or Members of the Bank's Management Board exercising supervision of the Risk Function and the function responsible for the risk override. Irrespective of the process, all limit overrides are reported immediately after they occur and discussed at monthly ALCO or Risk Management Committee meetings.

Interest rate risk in the banking book (ALM Treasury)

The banking book of Bank BGŻ BNP Paribas S.A. is composed of two parts: the first one is the ALM portfolio as part of which structural interest rate, currency and liquidity risks resulting from the structure of the statement of financial position determined by the core lending, deposit and investing operations of the Bank, are managed. On the other hand, the Treasury portfolio is subject to daily and short-term liquidity management. It is also used by the Bank for purposes of performing its investing activities as well as concluding hedging transactions on the financial market.

The ALM portfolio comprises accounts, deposits and loans, strategic items (long-term investments, own debt issues and long-term loans), financial market transactions hedging the portfolio (derivative instruments) and zero-interest items (to include equity, tangible assets, intangible assets, taxes and provisions and profit for the period), transferred under management of ALM Treasury through the Fund Transfer Pricing (FTP) system.

The Treasury portfolio includes liquid securities (liquidity buffer), interbank deposits and placements, nostro and loro accounts as well as financial market transactions hedging the market risk of the portfolio (derivative instruments).

The Bank's policy in respect of the banking book – ALM and Treasury portfolios managed collectively – is to earn additional, stable revenue in excess of the product margin, without any threat to the stability of funds deposited by customers, equity and profit. The above mentioned objective is accomplished by the Bank by maintaining or matching its natural exposure generated by the core lending and deposit operations, in line with the adopted risk limits which guarantee limited sensitivity of the Bank's profit to changes in market factors, in addition to bringing the exposure into line with financial market trends forecast in the medium and long term.

Competitive conditions of the local financial market and customer expectations are the main factors shaping the Bank's product policy, in particular the application of variable interest rates for medium- and long-term credit products, and financing of these assets with short deposits and interest-free accounts.

The real interest rate gap and net interest income sensitivity are the key measures of the market risk in the banking book, which comprises the ALM portfolio and the Treasury portfolio. The major assumptions adopted for realignment of the interest rate gap and used subsequently for purposes of determining net interest income sensitivity are as follows:

a) individual assets, liabilities and off-balance sheet transactions are analysed at their nominal value which is used as the basis for calculation of interest;
b) items and transactions based on floating reference rates, such as WIBOR, LIBOR, EURIBOR, NBP rediscount rate etc. are taken into account for purposes of determining the gap at the nearest repricing date for a given contract;
c) items based on floating reference rates scaled with a multiplier are taken into account for purposes of determining the gap at the nearest repricing date for a given contract at nominal value scaled with a multiplier and the nominal amount scaled with a value (1 – multiplier) is considered at the maturity date or proportionally at the principal payment dates;
d) fixed rate items and transactions are taken into account for purposes of determining the gap at the principal payment dates, at the amounts of the principal paid at a given date or at the full amount at the maturity date for items in case of which the principal is not repaid (e.g. term deposits);
e) items and transactions with unspecified maturity, repricing date or non-interest bearing are taken into account in line with the profile determined as a result of modelling, which is aimed to ensure the best possible reflection of the changes in interest and principal cash flows in response to external factors, in particular the market interest rates.

The following tables present the Bank's real interest rate gap as at 31 December 2018 and 31 December 2017 (PLN '000):

Interest rate gap as at 31.12.2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances at Central Bank	2,797,745	99,368	-	-	-	2,897,113
Amounts due from banks	594,927	269,151	28,034	-	-	892,112
Debt securities held for trading	-	-	-	-	-	-
Loans and advances to customers	16,822,802	34,084,244	16,971,513	4,384,739	499,787	72,763,085
Investment securities:						
- available for sale	2,292,360	2,292,360	7,575,361	5,956,000	8,665,000	26,781,082
- other debt securities	-	-	-	-	-	-
Other assets	784,699	74,250	214,206	1,142,433	583,117	2,798,705
Total assets:	**23,292,532**	**36,819,374**	**24,789,114**	**11,483,172**	**9,747,904**	**106,132,096**
Amounts due to banks	(1,134,740)	(1,501,265)	(828,699)	(1,000)	-	(3,465,704)
Amounts due to customers	(27,044,249)	(25,287,645)	(14,725,492)	(13,632,325)	(6,618,884)	(87,308,595)
Other amounts due	(168,947)	(284,651)	(566,477)	(1,061,970)	(62,177)	(2,144,224)
Other liabilities	(2,390,422)	(82,428)	-	-	-	(2,472,851)
Total liabilities:	**(30,738,358)**	**(27,155,990)**	**(16,120,668)**	**(14,695,295)**	**(6,681,062)**	**(95,391,373)**
Net off-balance sheet liabilities	(758,529)	(3,265,721)	(2,145,111)	4,661,450	1,499,236	(8,676)
Interest rate gap	**(8,204,354)**	**6,397,663**	**6,523,334**	**1,449,326**	**4,566,078**	

* Financial data have been rounded and presented in PLN '000, and therefore, in some cases, the totals may not correspond exactly to the total sum.

Interest rate gap as at 31.12.2017	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances at Central Bank	998,035	-	-	-	-	998,035
Amounts due from banks	2,495,273	23,287	0	0	-	2,518,560
Debt securities held for trading	-	-	-	-	-	-
Loans and advances to customers	19,987,893	19,792,979	8,268,185	4,296,292	103,627	52,448,976
Investment securities:						
- available for sale	2,600,000	-	1,940,000	4,100,000	5,033,000	13,673,000
- other debt securities	-	-	-	-	-	-
Other assets	436,610	76,555	333,383	889,021	-	1,735,569
Total assets:	**26,517,811**	**19,892,821**	**10,541,568**	**9,285,313**	**5,136,627**	**71,374,140**
Amounts due to banks	(3,082,892)	(1,484,311)	(1,399)	-	-	(4,568,602)
Amounts due to customers	(23,894,550)	(8,330,109)	(11,522,417)	(9,220,277)	(3,802,158)	(56,769,511)
Other amounts due	(732,720)	(932,751)	(412,867)	(2,835)	(2,546)	(2,083,719)
Other liabilities	(1,732,959)	-	-	-	-	(1,732,959)
Total liabilities:	**(29,443,121)**	**(10,747,171)**	**(11,936,683)**	**(9,223,112)**	**(3,804,704)**	**(65,154,791)**
Net off-balance sheet liabilities	(1,789,472)	(3,157,341)	271,032	3,723,542	996,301	44,061
Interest rate gap	**(4,714,782)**	**5,988,309**	**(1,124,083)**	**3,785,743**	**2,328,224**	

* Financial data have been rounded and presented in PLN '000, and therefore, in some cases, the totals may not correspond exactly to the total sum.

Estimated reductions or increases in the net interest income for the banking portfolio between 1 and 3 years, resulting from changes in market interest rates, are the measure of its sensitivity. For management and risk control purposes, the Bank calculates sensitivity to a number of different market parameter change scenarios: immediate shifts and shifts in time, parallel and non-parallel shifts, in normal and stress conditions, varying depending on the currency, market and instrument.

Annual net interest income sensitivity to an immediate shift of market rates by 50 bps (in PLN ’000) is presented in the below tables:

Immediate change in interest rates by 50 bps:	31.12.2018	31.12.2017
- up	68,347	30,441,
- down	(61,855)	(18,580)

Market risk in the trading book

The Bank’s trading activities are supplementary, as they support sales of financial products to corporate customers, non-bank financial customers (directly) and retail customers (through structured products, which are officially classified into the banking book). The Bank opens its own positions, thus generating income on short-term changes in price parameters (foreign currency rates or interest rates), while maintaining the exposure within the adopted risk limits. The Bank offers commodity instruments but does not maintain open position in commodity market.

As part of the interest rate risk exposure, which is the key exposure in the trading portfolio, the Bank could enter into IRS, OIS, CIRS, FRA and basis swap transactions and purchase and sale of foreign currency options on interest options. The interest rate risk was also determined by positions resulting from FX swap and FX Forward transactions. Since November 2018, as part of internal risk limits, the Bank maintained an open option position in order to optimize the result, i.e. generate additional benefits due to the lack of immediate closing of customer positions by reverse transactions on the interbank market. The priority of the Bank is to hedge the interest rate risk and currency risk.

Sensitivity of items to shifts in the yield curve and VaR are the key measures of the interest rate risk in the trading portfolio. Additionally, the Bank conducts sensitivity analyses, where the changes in interest rates are more considerable than those typically observed (stress tests).
In 2018, the interest rate risk for PLN items, measured by sensitivity to shifts in the yield curve in the trading portfolio, was higher (by PLN 43 thousand on average) than in 2017 (PLN 16 thousand). The following table presents the interest rate risk in the trading book based on BPV (*Basis Point Value*) in PLN ‘000:

	2018		2017	
BPV[1]	PLN	EUR	PLN	EUR
31.12	*64*	*(3)*	*(6)*	*(15)*
average	*43*	*1*	*(16)*	*(12)*
max	*125*	*49*	*58*	*46*
min	*(18)*	*(49)*	*(120)*	*(47)*

[1)] measure of sensitivity of instrument valuation to a shift in the yield curve by 1 b.p.

The Bank’s currency risk is measured using Value at Risk (VaR), which is a measure of the change in the market value of an asset or an asset portfolio with specific assumptions concerning the market parameters, at a specific time and with defined probability. For purposes of currency risk monitoring, it is assumed that VaR is determined with a 99% confidence level and that a position is maintained for one day. The VaR methodology is validated on a quarterly basis by means of an analysis which involves a comparison of the forecast figures and those determined on the basis of actual changes in foreign exchange rates, assuming that the currency position is maintained (back-testing). The comparative period covers the last 250 business days. The VaR model was back-tested in 2017 and the verification results indicate that there is no necessity to make any adjustments.

Foreign currency transactions used for management of the Bank's currency position were characterized by a stable exposure and a low risk. The risk resulting from foreign currency transactions with customers was offset immediately. Therefore, also the intraday foreign currency exposure remained at a low level. The following table presents currency risk of the Bank expressed as FX VaR (in PLN'000):

FX VAR[1]	31.12.2018	31.12.2017
average	*214*	*112*
max	*1,256*	*831*
min	*13*	*27*

[1)] The Bank uses a historical method which assumes that the confidence level is 99% and that positions are maintained for 1 day

The following table presents the currency structure of assets and liabilities at gross carrying amounts in PLN '000:

	31.12.2018		31.12.2017	
Currency position items	Assets	Liabilities	Assets	Liabilities
USD	1,870,533	4,098,906	179,327	976,871
GBP	576,763	796,599	91,282	169,533
CHF	5,453,862	1,037,177	5,365,818	3,264,284
EUR	12,329,088	13,727,747	7,036,600	6,504,049
Other convertible currencies	848,369	976,147	171,515	119,855
PLN	85,733,043	86,175,082	58,959,582	60,769,532
Total	**106,811,658**	**106,811,658**	**71,804,124**	**71,804,124**

55.4. Liquidity risk

Liquidity risk – risk management organization

The Bank's liquidity management system is comprehensive, i.e. it covers both immediate (intraday) and future (current, short-term as well as structural medium- and long-term) liquidity. Risk is managed by the Bank by building the structure of the statement of financial position, transactions and off-balance sheet liabilities to ensure liquidity at any time, taking into consideration the profile of the Bank's business, customer characteristics and behaviours as well as needs that may arise as a result of changes in the financial market. Additionally, the risk identification and measurement methods used by the Bank enable it to forecast future liquidity levels, also in stress conditions.

The Bank ensures separation and independence of its operations, risk management, control and reporting functions. In particular, transactions with contracting parties and customers are entered into by the business, confirmed and processed by Operations, immediate (intraday) and future liquidity is managed by ALM Treasury, daily supervision of the risk level and compliance with risk limits is the responsibility of the Risk Function, while supervisory liquidity measures are reported independently by the Finance Division.

The liquidity risk limits adopted by the Bank reduce its exposure to this type of risk. Risk is monitored and controlled based on documents adopted by resolutions of the Bank's Management Board (risk measurement and monitoring policy and methodologies), developed in compliance with the guidelines formulated in Recommendation P of the Polish Financial Supervision Authority, the provisions of PFSA's Resolution No. 386/2008 and Commission Delegated Regulation (EU) 2015/61. The Bank has an internal transfer pricing system in place, which reflects accurately the real financing cost for each operation type, and the transfer pricing structure stimulates optimization of the statement of financial position, including diversification of the sources of funding, from the perspective of liquidity risk. LTD limits for each business line are an important additional component of that system, as they facilitate maintenance of a secure level of assets relative to liabilities, which is appropriate considering the characteristics of each line.

The liquidity risk appetite is determined by the Supervisory Board of the Bank and the risk management policy based on that appetite, including definition of general liquidity risk measures, is approved by the Management Board, whereas specific risk limits and their monitoring are the responsibility of ALCO. The Bank's Management Board and Supervisory Board supervise the effectiveness of the liquidity risk management process based on periodic information and current reports.

In compliance with the requirements of PFSA's Recommendation P, the Bank conducts numerous analyses verifying its ability to maintain liquidity in crisis situations. Stress tests cover comprehensive scenarios considering internal and system factors and combining different variants with possible interactions. Stress test results are taken into account in determining liquidity limits. The Bank has a comprehensive emergency plan in place. It comprises various scenarios along with action plans for liquidity crisis situations in the Bank and in the banking system as a whole. Stress test results are correlated with the emergency plan and reaching defined warning levels triggers the emergency plan.

Risk measures

The Bank uses external and internal risk measures. The internal measures include, among others: an analysis of trends and volatility of each source of funding relative to the loan portfolio (LTD), the contractual liquidity gap and the liquidity gap realigned based on behavioural factors along with mismatch structure limits defined on its basis, an analysis of surplus liquidity and the available sources of funding, an analysis of stability and concentration of the deposit base as well as a review of the structure of funds placed with the Bank by the major depositors by volume and maturity. Additionally, sales plans (covering loans and deposits) are monitored, broken down by each business line, and simulation analyses are performed. Furthermore, the Bank analyses the costs of the deposit base with a view to optimizing the liquidity buffer and the use of such tools as the liquidity margin or pricing policy.

The external measures include supervisory short- and long-term liquidity ratios introduced by PFSA's Resolution No. 386/2008 as well as LCR, as defined in Commission Delegated Regulation (EU) 2015/61 and NSFR determined in the Regulation No. 575/2013 of the European Parliament and of the Council and developed in line with the Commission Implementing Regulation (EU) No. 680/2014 and Basel III introducing the new stable funding ratio requirement.

The on-going supervision includes early warning tools, such as monthly reviews of additional liquidity requirements defined in the Commission Implementing Regulation (EU) No. 2016/313.

Liquidity risk

In 2018, the Bank's financial liquidity was maintained at a safe level. The Bank's funds were sufficient for payment of all its liabilities upon maturity. The portfolio of the most liquid securities was maintained at a high level, which was sufficient to offset a potential outflow of funds placed with the Bank by the major depositors in whole.

As at the end of 2018, the Bank's surplus liquidity was at the level of PLN 22.19 billion.

	31.12.2018	31.12.2017
Cash at Central Bank (over the reserve requirement)	(2,327,327)	(1,837,228)
Cash at other banks up to 30 days	628	2,496,470
Highly-liquid securities	24,521,566	12,718,975
Surplus liquidity up to 30 days	**22,194,867**	**13,378,217**

The liquidity surplus increased significantly compared to the end of 2017, mainly due to the acquisition of the organized part of the Raiffeisen Bank Polska in October 2018.

Throughout 2018, in particular as at 31 December 2018, the Bank complied with the requirements applicable to the supervisory measures.

	31.12.2018	31.12.2017
M3	8.54	7.56
M4	1.25	1.16
limit	**1.00**	**1.00**

	31.12.2018	31.12.2017	limit
Liquidity Coverage Ratio	152%	152%	**100%**

In 2018, the Bank, while preparing to the acquisition of the organized part of Raiffeisen Bank Polska, continued to optimize its financing sources, which aims to reduce unnecessary, and at the same time costly and unstable, excess funding. Additionally, in December 2018, the Bank pre-paid a significant part of medium- and long-term loans to the BNPP Group and its subsidiaries. At the same time, medium-term and long-term currency exchange transactions were finalized, financing the mortgage loans portfolio denominated in CHF.

The Bank's sources of funding remained highly stable throughout 2018:

	31.12.2018		31.12.2017	
	balance	stable (%)	balance	stable (%)
long-term loans from the Group	1,872,491	100.0%	4,622,146	100.0%
other long-term loans	623,207	100.0%	1,003,362	100.0%
securitization liabilities	2,298,151	100%	2,300,471	100.0%
debt securities issued	-	-	285,000	100.0%
retail	51,876,788	90.0%	33,091,186	90.0%
corporate	34,597,993	81.4%	20,861,364	81.1%
financial entities	1,195,474	25%	1,464,590	76.2%
banks and other unstable sources	48,864	0.0%	881,815	0.0%
Total	**92,512,968**	**84.0%**	**64,509,934**	**86.9%**

Inflows and outflows – expected under the agreements concluded by the Bank is presented as contractual liquidity gap:

Contractual liquidity gap 31.12.2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
ASSETS					
Loans and advances to customers	17,266,916	2,418,630	9,013,358	23,232,182	19,050,101
Debt securities	11,001	-	7,364,532	8,593,788	11,061,000
Interbank deposits	148,837	150,000	21,000	-	-
Cash and balances at Central Bank	2,255,969	-	-	-	-
Fixed assets	-	-	-	-	1,019,415
Other assets	3,337,222	-	-	-	916,997
Off-balance sheet liabilities, including:	21,440,457	3,125,218	6,524,568	7,757,000	42,092
derivatives	7,847,899	3,125,218	6,524,568	7,757,000	42,092
LIABILITIES					
Retail deposits	39,122,276	4,994,791	6,726,616	1,302,292	2
Corporate deposits	32,641,164	1,431,801	979,267	194,351	166,836
Interbank deposits	34,112	-	-	-	-
Loans from financial institutions	127,114	199,652	1,067,866	1,464,291	59,154
Certificates of deposit	-	-	-	-	-
Equity and subordinated liabilities	-	-	364,739	-	12,095,734
Other equity and liabilities	3,001,043	-	-	-	-
Off-balance sheet liabilities, including:	38,715,006	3,162,669	6,587,521	7,803,947	43,031
derivatives	7,815,801	3,162,669	6,587,521	7,803,947	43,031
Total receivables	**44,460,401**	**5,693,847**	**22,923,459**	**39,582,970**	**32,089,605**
Total liabilities	**113,640,715**	**9,788,913**	**15,726,009**	**10,764,881**	**12,364,758**
Liquidity gap	**(69,180,314)**	**(4,095,066)**	**7,197,449**	**28,818,089**	**19,724,847**

* Financial data have been rounded and presented in PLN ‘000, and therefore, in some cases, the totals may not correspond exactly to the total sum.

Contractual liquidity gap 31.12.2017	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
ASSETS					
Loans and advances to customers	10,802,967	1,206,823	6,098,742	18,305,748	15,780,923
Debt securities	2,103,300		1,940,000	4,303,500	5,383,000
Interbank deposits	800,000	-	-	-	-
Cash and balances at Central Bank	998,035	-	-	-	-
Fixed assets	-	-	-	-	788,256
Other assets	2,218,741	-	-	-	468,617
Off-balance sheet liabilities, including:	12,033,249	7,810	4,385	24,407	1,242
derivatives	*25,650*	*7,810*	*4,385*	*24,407*	*1,242*
LIABILITIES					
Retail deposits	22,496,406	4,155,248	5,789,106	650,431	2
Corporate deposits	17,980,506	2,577,192	1,073,846	163,026	107,550
Interbank deposits	18,120	-	-	-	-
Loans from financial institutions	74,942	202,797	1,014,093	3,809,219	1,179,827
Certificates of deposit	205,000	80,000	-	-	
Equity and subordinated liabilities	-	-	298,389		7,907,972
Other equity and liabilities	1,593,217	-		-	-
Off-balance sheet liabilities, including:	18,943,133	69	458,104	-	-
derivatives	*(458,000)*	*69*	*458,104*	-	-
Total receivables	**28,956,292**	**1,214,633**	**8,043,127**	**22,633,655**	**22,422,038**
Total liabilities	**61,311,324**	**7,015,306**	**8,633,538**	**4,622,676**	**9,195,351**
Liquidity gap	**(32,355,032)**	**(5,800,673)**	**(590,411)**	**18,010,979**	**13,226,687**

* Financial data have been rounded and presented in PLN '000, and therefore, in some cases, the totals may not correspond exactly to the total sum.

55.5. Country and counterparty risk

Country risk

Country risk comprises all risks related to conclusion of financial agreements with foreign parties, assuming that it is possible that economic, social or political events will have an adverse effect on creditworthiness of the Bank's obligors in that country or where intervention of a foreign government could prevent the obligor (which could also be the government itself) from discharging his liabilities.

The Bank's policy concerning country risk has been conservative. Country limits have been reviewed periodically and the limit level modified to match precisely the anticipated business needs and risk appetite of the Bank.

As at 31 December 2018, treasury transactions (including deposits and derivatives) represented more than a quarter (27%) of the Bank's exposure towards countries, foreign lending operations of the Bank accounted for 42%, while the remaining part, i.e. 30%, was related to international trade transactions (letters of credit and guarantees). France accounted for 31%, the Netherlands for 13%, Austria for 11%, Luxembourg for 10%, Belgium for 7%, and Great Britain for 5%, of the exposure. The remaining exposure was related to Spain and Moldova.

Counterparty risk

Counterparty risk is the credit risk concerning the counterparty transactions in case of which the amount of liability may change in time depending on market parameters. Therefore, the counterparty risk is related to transactions on instruments whose value may change over time depending on such factors as interest rates or foreign exchange rates. The varying exposure may affect the customer's solvency and is of crucial importance to the customer's ability to discharge its liabilities when the transaction is settled. The Bank's customers may enter into financial market transactions. The exposure is determined by the Bank on the basis of the current measurement of contracts as well as the potential future changes in the exposure, depending on the transaction type, customer type and the settlement dates.

At the end of December 2018, the counterparty risk was calculated for the following types of transactions contained in the trading portfolio of the Bank: foreign exchange transactions, interest rate swap transactions, FX options, interest rate options and commodity derivatives.

Counterparty credit risk, for transactions which generate counterparty risk, is assessed using the same methodology as the one applied to loans. This denotes that in the credit process, these transactions are subject to limits, the value of which results directly from assessment of customer creditworthiness. However, the assessment also takes into account the specific nature of transactions, in particular their changing value in time or direct dependence on market parameters.

The principles applicable to foreign exchange transactions, derivative transactions as well as credit limit granting, use and monitoring for transactions subject to counterparty risk limits have been laid down in dedicated procedures. According to the policy in place at the Bank, all transactions are entered into considering individual limits and knowledge of the customer. The Bank diversifies availability of products, which are offered to customers depending on their knowledge and experience. The Bank has transparent rules applicable to hedging the counterparty credit risk exposure in place.

At the end of December 2018, the Bank's exposure to the counterparty risk due to concluded derivative transactions was PLN 1.63 billion. Corporate and financial clients constituted 60% of the exposure, while the remaining 40% were banks.

55.6. Operational risk

The Bank's operational risk is defined in accordance with the requirements of the Polish Financial Supervision Authority included in Recommendation M as the possibility of incurring a loss or an unreasonable cost through the fault of inappropriate or unreliable internal processes, people, technical systems or as a result of external factors. It comprises legal but not strategic risk. Operational risk as such is inherent in any banking operations.

Operational risk is managed with a view to reducing the losses and costs resulting from the aforesaid risk, ensuring top quality of the services provided by the Bank in addition to security and compliance of the Bank's operations with the applicable laws and standards.

Procedures

Operational risk management consists in employment of measures aimed at operational risk identification, analysis, monitoring, control, reporting and mitigating. Such measures take into account the structures, processes, resources and scopes of responsibilities for the said processes at various organizational levels. The operational risk management strategy has been described in the Operational Risk Management Strategy of Bank BGŻ BNP Paribas S.A., which was approved by the Management Board of the Bank and accepted by the Supervisory Board. The Operational Risk Policy of Bank BGŻ BNP Paribas S.A., adopted by the Management Board of the Bank, constitutes organizational framework and standards for operational risk management. It addresses all aspects of the Bank's operations in addition to defining the Bank's objectives and the methods of their achievement as regards the quality of operational risk management as well as compliance with legal requirements set out in the recommendations and resolutions issued by local banking supervision authorities. The Bank's operational risk management objectives include, in particular, compliance with high operational risk management that guarantee security of customer deposits, the Bank's equity, stability of its financial performance as well as maintenance of the operational risk level within the range of the operational risk appetite and tolerance defined by the Bank. When developing the operational risk management system, the Bank complies with the applicable legal requirements, in particular, with the recommendations and resolutions of the national financial supervision authorities and the standards adopted by the BNP Paribas Group.

In accordance with the Policy, the Bank's operational risk management instruments include:

- tools used for purposes of recording operational events, together with the principles of their recording, allocation and reporting;
- operational risk analysis, its monitoring and daily control;
- counteracting an elevated level of operational risk, to include risk transfer;

- calculation of the capital requirement related to the operational risk.

Compliance with the operational risk policy is verified by the Bank's Management Board periodically and, if necessary, the required adjustments are made in order to improve the system. To this end, the Management Board of the Bank is regularly provided with information concerning the scale and types of operational risk to which the Bank is exposed, its effects and management methods.

Internal environment

The Bank precisely defines the roles and responsibilities in the operational risk management process, considering its organizational structure. The Operational Risk Department is responsible for daily operational risk analysis in addition to development of appropriate risk control and mitigation techniques and their improvement. Development and implementation of the Bank's strategy with respect to insurance as a risk mitigation technique is the responsibility of the Real Estate and Administration Department, while the Security and Continuity of Business Department is in charge of business continuity management.

As part of the legal risk management process, the Legal Division monitors, identifies and performs analyses of changes to laws of general application and their effect on the Bank's operations, in addition to court and administrative proceedings which affect the Bank. The Compliance Monitoring Department is responsible for daily non-compliance risk analysis in addition to development of appropriate risk controls and their improvement.

Considering the elevated level of external and internal risks related to fraud and offense against the assets of the Bank and its customers, the Bank has extended the scope of and improved its processes aimed at counteracting, detecting and examining such cases, which is entrusted with the Fraud Prevention Department.

Risk management

The Bank places a strong focus on identification and assessment of the factors that trigger its present exposure to operational risk in relation to banking products. It is the Bank's objective to reduce the operational risk level through improvement of its internal processes as well as mitigating the risk inherent in the process of launching new products and services and outsourcing operations to third parties.

In accordance with the Operational Risk Management Policy of Bank BGŻ BNP Paribas S.A., the operational risk analysis is aimed at acquiring an understanding of the interdependence between the risk generating factors and operational event types, and it is performed primarily with the objective to define the operational risk profile.

The operational risk profile is an assessment of the level of significance of this risk, understood as the scale and structure of operational risk exposures, determining the exposure levels to this risk (i.e. operational losses), expressed in the structural dimensions selected by the Bank and the scale dimensions. Periodic assessment and review of the Bank's operational risk profile is based on an analysis of the Bank's current risk parameters, changes and risks occurring in the Bank's environment, implementation of the business strategy, as well as the adequacy of the organizational structure and the effectiveness of the risk management and internal control system.

Keeping a track record of operational events enables efficient operational risk analysis and monitoring. The process of operational event recording is overseen by the Operational Risk Department, which assumes responsibility for verification of the quality and completeness of data concerning operational events recorded in dedicated tools available to all organizational units of the Bank.

Internal control system

The purpose of internal control is effective risk control, including risk prevention or early detection. The role of the internal control system is to achieve general and specific objectives of the internal control system, which should be considered at the design phase of control mechanisms. The principles of the internal control system are described in the "Policy on internal control at BGŻ BNP Paribas S.A." document, approved by the Bank's Management Board. This document describes the main principles, organizational framework and standards for the functioning of the control environment at the Bank, complying with the PFSA requirements provided in Recommendation H and the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, the remuneration policy and the detailed method of estimating internal capital in banks. Detailed internal regulations concerning specific areas of the Bank's activity are adapted to the specifics of the Bank's operations. The appropriate organizational units of the Bank, in accordance with the scope of the tasks assigned to them, are responsible for developing detailed regulations relating to the area of internal control.

The internal control system at the Bank is based on the 3 defence lines model, which consists of:

- 1st defence line, which consists of organizational units from particular areas of banking and support areas,
- 2nd defence line, which consists of organizational units responsible for risk management, regardless of the risk management related to the first-line defence, and the compliance unit,
- 3rd defence line, which is independent and objective internal audit unit.

The Bank ensures internal control through independent monitoring of compliance with control mechanisms, including on-going verification and testing.

Monitoring and reporting

The Bank periodically monitors the efficiency of the operational risk management system and its appropriateness for its current risk profile. The organization of the operational risk management system is reviewed as part of periodic control exercised by the Internal Audit Division, which is not directly involved in the operational risk management process but provides professional and unbiased opinions supporting achievement of the Bank's objectives. The operational risk management system is overseen and its appropriateness and efficiency are assessed by the Supervisory Board.

Capital requirements due to operational risk

The Bank estimates its regulatory capital necessary to cover operational risk in accordance with the applicable regulations. The said calculation is performed using the standard approach (STA). Requirements regarding Bank's subsidiaries, to be disclosed in the consolidated financial statements, are determined in accordance with the base indicator method (BIA).

Subsidiaries

In accordance with supervisory regulations, the Bank supervises operational risk related to the operations of its subsidiaries. Operational risk management in subsidiaries is performed in dedicated units / persons appointed for this purpose. The method of operational risk management in subsidiaries is organized adequately to the scope of the particular entity's activity and the profile of its operations, in accordance with the rules applied in the Bank.

56. CAPITAL ADEQUACY MANAGEMENT

Capital adequacy management is aimed to ensure the Bank's compliance with macro-prudential regulations defining capital requirements related to the risks incurred by the Bank, quantified in the form of the capital ratio.

Since 1 January 2014, banks have been subject to new principles applicable to calculation of capital ratios, following the implementation of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on macro-prudential requirements for credit institutions and investment firms and amending Regulation No. 648/2012.

The capital ratios, capital requirements and equity have been calculated in accordance with the aforesaid Regulation with the use of national options in line with the assumptions adopted for purposes of temporary reporting by the Polish Financial Supervision Authority (PFSA).

The level of Common Equity Tier 1 (CET I), Tier 1 capital and total capital ratio (TCR), both on separate and consolidated levels, were above regulatory requirements in force in 2018.

On 15 October 2018, the Bank received from the Polish Financial Supervision Authority a recommendation to maintain own funds on the level appropriate to cover an additional capital requirement of 0.36 p.p. to hedge the risk resulting from FX mortgage loans for households. The additional capital requirement should consist at least in 75% of Tier 1 capital (which corresponds to 0.27 points).

On 8 August 2018, the Bank received a letter from the Polish Financial Supervision Authority with the information that the Commission conducted a review of the adequacy of the buffer ratio for another systemically important institution. As a result of the review, the Commission concluded that there are no reasons justifying the repeal or amendment of its previous decision of 4 October 2016, as amended by the Commission decision of 19 December 2017, concerning imposition of a buffer for another systemically important institution on the Bank (on a consolidated and separate basis) in the amount of 0.25% of the total risk exposure amount.

The level of Tier I capital ratio (Tier I), both on separate and consolidated levels, and the total capital ratio (TCR) on a consolidated level, were above the new requirements.

At the same time, the Bank meets the legal requirements under the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial sector.

The minimum consolidated capital adequacy ratios of the Group under the provisions of CRR law and administrative decisions issued by the Polish Financial Supervision Authority (PFSA) applicable to the Group as at 31 December 2018 are as follows:

CET I = 9.83%

Tier I =11.40%

Total Capital Ratio = 13.49%

As at 31.12.2018 the consolidated capital adequacy ratios of the Group were as follows:

CET I = 12.38%

Tier I = 12.38%

Total Capital Ratio = 14.63%

The minimum separate capital adequacy ratios of the Bank under the provisions of the CRR law and administrative decisions issued by the Polish Financial Supervision Authority (PFSA) applicable to the Bank as at 31 December 2018 are as follows:

CET I = 9.83%

Tier I =11.40%

Total Capital Ratio = 13.49%

As at 31.12.2018 the separate capital adequacy ratios of the Bank were as follows:

CET I = 12.72%

Tier I = 12.72%

Total Capital Ratio = 15.02%

As at 31 December 2018 the levels of Tier I (Tier I) both on separate and consolidated levels were above the regulatory requirements.

57. SUBSEQUENT EVENTS

28.01.2019 **Resolution of the Management Board regarding the implementation of assumptions in relation the demerger of factoring activities from the Bank and its transfer to BGŻ BNP Paribas Faktoring sp. z o.o.**

The factoring activity that will be subject to demerger, was acquired by the Bank following the transfer of the core business of Raiffeisen Bank Polska S.A. to the Bank. In 2017, the Bank sold the BGZ BNP Paribas Faktoring sp. z o.o. ("Company") to BNP Paribas ("Company Shareholder")

The detailed procedure and conditions for demerger of the factoring activities from the Bank to the Company will be the subject of further arrangements of the Bank with the Company and with the Company's Shareholder. The completion of works related to the demerger of factoring activities is scheduled until the end of the third quarter of 2019 and is subject to the receipt of consents required by law, including relevant corporate decisions.

As at 31 December 2018, the value of receivables due to factoring activities amounted to PLN 1.6 billion.

The Bank and the Company plan to continue the cooperation, using a strong factoring offer to support the Bank's clients.

13.03.2019	**Przemysław Gdański** *President of the Management Board*	*signed with the qualified electronic signature*
13.03.2019	**Jean-Charles Aranda** *Vice-President of the Management Board*	*signed with the qualified electronic signature*
13.03.2019	**Daniel Astraud** *Vice-President of the Management Board*	*signed with the qualified electronic signature*
13.03.2019	**Philippe Paul Bézieau** *Vice-President of the Management Board*	*signed with the qualified electronic signature*
13.03.2019	**Andre Boulanger** *Vice-President of the Management Board*	*signed with the qualified electronic signature*
13.03.2019	**Przemysław Furlepa** *Vice-President of the Management Board*	*signed with the qualified electronic signature*
13.03.2019	**Wojciech Kembłowski** *Vice-President of the Management Board*	*signed with the qualified electronic signature*
13.03.2019	**Kazimierz Łabno** *Vice-President of the Management Board*	*signed with the qualified electronic signature*
13.03.2019	**Jaromir Pelczarski** *Vice-President of the Management Board*	*signed with the qualified electronic signature*
13.03.2019	**Jerzy Śledziewski** *Vice-President of the Management Board*	*signed with the qualified electronic signature*

Warsaw, 13 March 2019