



BANK BGŻ BNP Paribas S.A.
GROUP

Management Board Report on the activities **in 2018**
(including report on the activities of Bank BGŻ BNP Paribas S.A.)

This document is a translation of a document originally issued in Polish. The only binding version is the original Polish version.



The bank for a changing world

TABLE OF CONTENTS

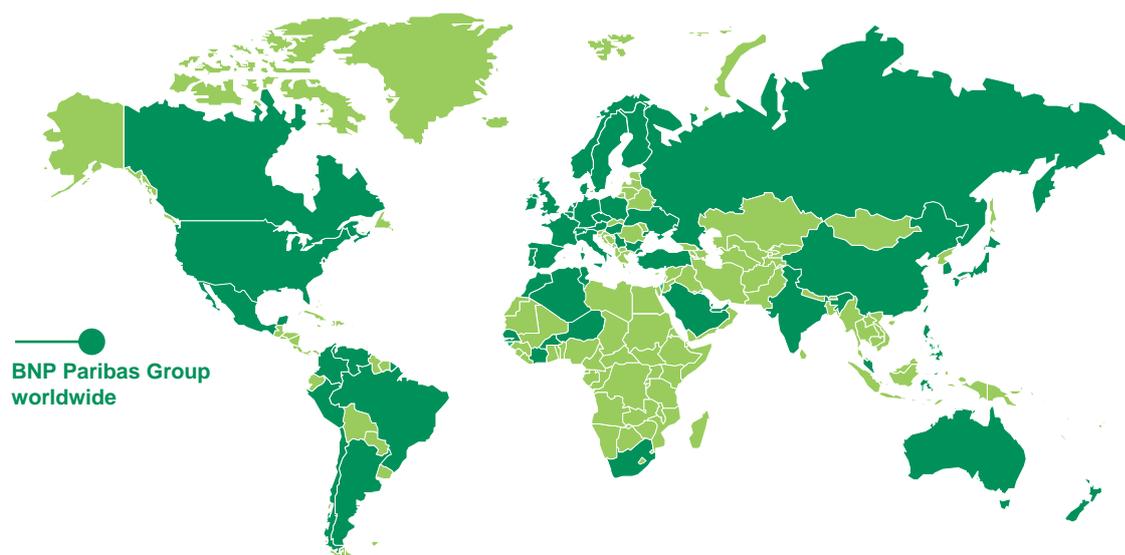
1. THE CAPITAL GROUP OF BANK BGŻ BNP PARIBAS S.A.	4
1.1. Structure of the Capital Group and consolidated entities	6
2. EXTERNAL FACTORS AFFECTING THE BANK'S OPERATIONS IN 2018	7
2.1. Macroeconomic conditions	7
2.2. Performance of the banking sector	9
2.3. Stock market and investment situation	13
3. MAJOR EVENTS IN CAPITAL GROUP OF BANK BGŻ BNP PARIBAS S.A. IN 2018.....	14
4. GOVERNING BODIES OF BANK BGŻ BNP PARIBAS	24
4.1. Composition of the Supervisory Board.....	24
4.2. Composition of the Management Board.....	24
4.3. Remuneration of the Supervisory Board and Management Board.....	25
5. RATINGS	28
6. AWARDS AND DISTINCTIONS.....	28
7. SHAREHOLDER STRUCTURE OF BANK BGŻ BNP PARIBAS S.A.	29
8. SHARE PRICE OF BANK BGŻ BNP PARIBAS S.A. ON WSE.....	31
9. FINANCIAL STANDING OF THE BGŻ BNP PARIBAS S.A. CAPITAL GROUP IN 2018.....	33
9.1. Consolidated statement of profit or loss.....	33
9.2. Statement of comprehensive income.....	42
9.3. Statement of financial position	43
9.4. Equity and capital ratios.....	48
9.5. Financial ratios.....	51
10.FINANCIAL STANDING OF BANK BGŻ BNP PARIBAS S.A. IN 2018	52
10.1. Stand-alone statement of profit or loss	52
10.2. Statement of comprehensive income.....	61
10.3. Statement of financial position	62
10.4. Equity and capital ratios.....	67
10.5. Financial ratios.....	70
10.6. Average interest rates used by the Bank	71
11.FACTORS WHICH, ACCORDING TO THE BANK, WILL AFFECT THE CAPITAL GROUP'S PERFORMANCE WITHIN AT LEAST THE NEXT QUARTER.....	72
12.OPERATIONS OF BANK BGŻ BNP PARIBAS S.A. CAPITAL GROUP IN 2018.....	74
12.1. Branches and ATM network.....	74
12.2. Alternative distribution channels	75
12.3. Retail and Business Banking	77
12.4. Personal Finance.....	84
12.5. Operations of the Brokerage Office of Bank BGŻ BNP Paribas S.A.	87
12.6. SME Banking.....	88
12.7. Corporate Banking.....	93
12.8. Corporate and Institutional Banking.....	97
12.9. Other banking activity	98
12.10. Cooperation with financial institutions	99
12.11. Digital Transformation Program	100
12.12. Human resources management.....	102
12.13. Information technology.....	104
12.14. Operations	108
12.15. Agreements with the central bank and supervisory authorities	108

13. DESCRIPTION OF THE ACTIVITIES OF BANK BGŻ BNP PARIBAS S.A. CAPITAL GROUP IN 2018	109
13.1. Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A.	109
13.2. Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A. (currently Riviera Towarzystwo Funduszy Inwestycyjnych S.A.)	110
13.3. Bankowy Fundusz Nieruchomościowy Actus Spółka z o.o.	111
13.4. BNP Paribas Leasing Services Spółka z o.o.	111
13.5. BNP Paribas Group Service Center S.A.	112
13.6. BNP Paribas Financial Services Spółka z o.o. (former Raiffeisen Financial Services Polska Sp. z o.o.)	113
13.7. BNP Paribas Solutions Spółka z o.o. (former Raiffeisen Solutions Sp. z o.o.)	114
13.8. Campus Leszno Spółka z o.o.	114
13.9. BGZ Poland ABS1 Designated Activity Company	114
14. KEY RISK MANAGEMENT	115
14.1. Credit risk	116
14.2. Liquidity, currency and interest rate risks	117
14.3. Counterparty risk	121
14.4. Country risk	122
14.5. Operational risk	122
14.6. Legal risk	124
15. REPORT ON BANK BGŻ BNP PARIBAS'S COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES	126
15.1. Statement of compliance with corporate governance principles in 2018.	126
15.2. Information concerning the Bank's compliance with the recommendations and principles of the Best practices for WSE listed companies 2016	133
16. INFORMATION ON CERTIFIED AUDITOR	135
17. CORPORATE SOCIAL RESPONSIBILITY (CSR)	136
17.1. Statement of non-financial information	144
18. SPONSORSHIP AND CHARITY	145
19. GROWTH PERSPECTIVES OF BANK BGŻ BNP PARIBAS S.A.	146
20. SUBSEQUENT EVENTS	147
21. STATEMENTS OF THE MANAGEMENT BOARD OF BANK BGŻ BNP PARIBAS S.A.	148
22. SIGNATURES OF MEMBERS OF MANAGEMENT BOARD OF BANK BGŻ BNP PARIBAS S.A.	149

1. THE CAPITAL GROUP OF BANK BGŻ BNP PARIBAS S.A.

The Bank BGŻ BNP Paribas S.A. Capital Group (hereinafter referred to as the “Group”) operates within BNP Paribas, a leading international financial group, operating in 73 countries, with approximately 200 thousand employees, of which more than 150 thousand in Europe. The BNP Paribas Group operates in two key areas:

- Retail Banking and Services, which includes Domestic Markets and International Financial Services; and
- Corporate and Institutional Banking.



The BNP Paribas Group supports its clients (retail customers, local authorities, entrepreneurs, SME, corporate customers and institutions) in the implementation of various projects, offering a broad range of financial, investment and savings products along with insurance.

BNP Paribas Group operates on four European domestic markets (Belgium, France, Italy, and Luxembourg) and is a leader as regards consumer loans (BNP Paribas Personal Finance). The BNP Paribas Group develops its model of integrated retail banking in Mediterranean countries, Turkey, Eastern Europe and through a well-developed branch network in western United States. In Corporate and Institutional Banking and International Financial Services, BNP Paribas is also among European leaders, holds a strong position in the Americas and has seen a fast growth in the Asia-Pacific region.

In Poland, the Bank Paribas Group operates in many areas of financial services, such as: banking, investment funds, custody services, factoring, leasing, insurance, real estate and car fleet management.

Mission of Bank BGŻ BNP Paribas S.A.

The Mission of the Bank is to responsibly deliver innovative financial solutions which enable our clients to change their world and which support local economy.

Vision of Bank BGŻ BNP Paribas S.A.

Bank BGŻ BNP Paribas is a universal bank with a full product offer, addressed to Polish and international corporations, SME, farmers and retail clients, present in local communities.

Strategy of Bank BGŻ BNP Paribas S.A.

The main assumption of the new Fast Forward strategy for 2018-2021, adopted by the Bank's Management Board and Supervisory Board in May 2018, is focus on the customer and digital transformation of products, services and processes aimed at accelerating development and increasing profitability. At the same time, the new strategy assumes the implementation of growth by acquiring an organized part of Raiffeisen Bank Polska's operations – the first stage of the process (concluding the transaction) was realized on 31 October 2018.

The Bank's strategic goals are to achieve:

- the growth rate of the result on banking operations higher than the market average growth,
- ROE above 10%,
- C/I ratio at around 50%.

The Bank intends to base its business development on the following five key pillars:

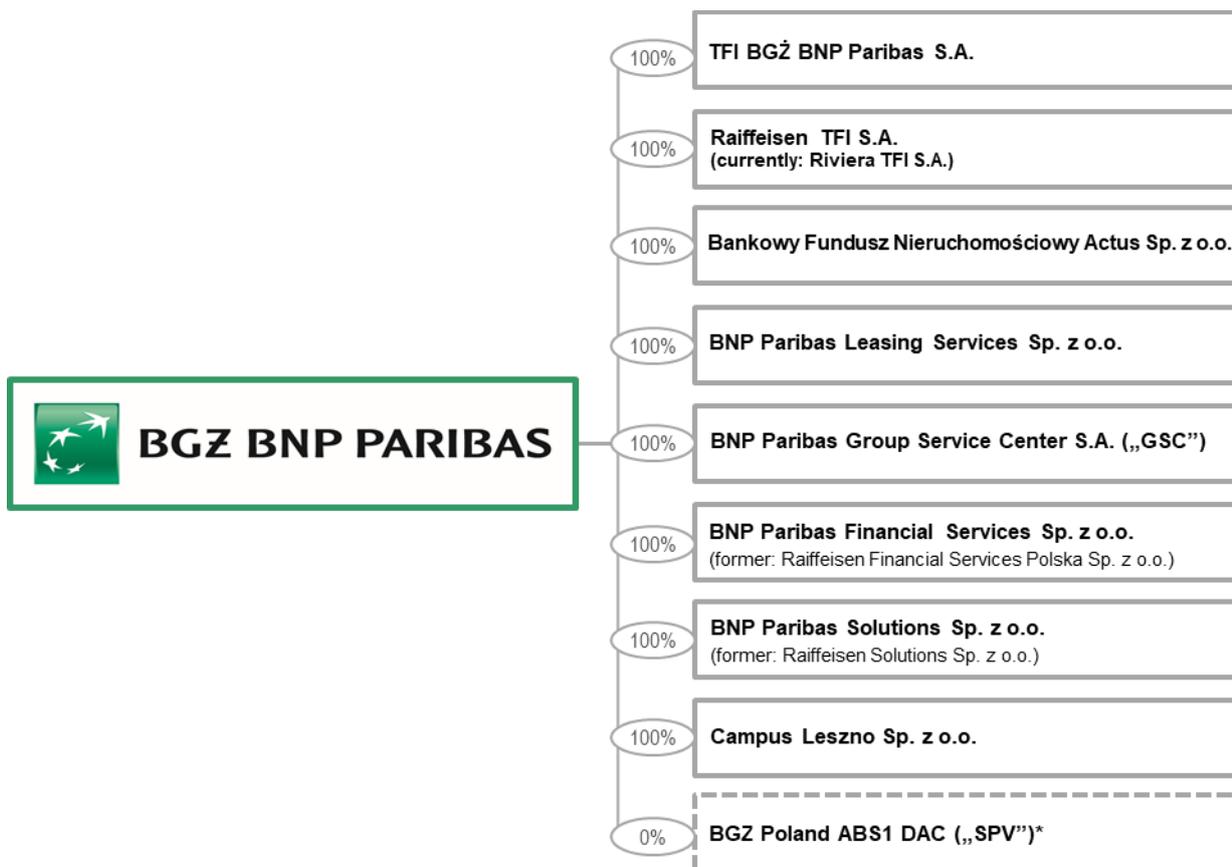
Pillar	Description
growth	concentration of resources: people, IT and capital on the most profitable products and segments in order to increase acquisition, sales and, as a result, increase of financial results
simplicity	simpler product offer - especially in the area of Retail Banking, as well as simplified and interactive communication with customers, simplified processes and focus on customer service, optimization of traditional distribution channels and migration of clients to digital channels, simplification of the organization to increase its effectiveness
quality	significant improvement in the quality of customer service and its satisfaction by changing the organization and streamlining service processes and focusing on the relationship with the client, recognition and appreciation of the loyalty of current customers and change of meaning and approach to measure of customer satisfaction
enthusiasm	increased employee involvement through participation in projects and increased cooperation, revitalization of organizational culture through rewarding for results, focus on talents, attracting the best on the market and care for the best employees
digitalization	building a competitive advantage based on technologies: digitization for cost optimization through automation of operations, digitalization enabling growth using a comprehensive, multi-channel sales and service model, and digitalization supporting identification of customer needs through the use of CRM and data analytics to improve the offer matching and personalization of communication with the client via coherent online and mobile platforms

1.1. Structure of the Capital Group and consolidated entities

Composition of the Group as of 31 December 2018:

- Bank BGŻ BNP Paribas S.A. („Bank”, „Bank BGŻ BNP Paribas”) – as the parent company; and
- Subsidiaries listed below:

Entity name	Bank's interest in share capital	Consolidation and measurement method
Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A.	100.0%	full method
Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A. (4.01.2019 change of the name: Riviera Towarzystwo Funduszy Inwestycyjnych S.A.)	100.0%	full method
Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o.	100.0%	full method
BNP Paribas Leasing Services Sp. z o.o.	100.0%	full method
BNP Paribas Group Service Center S.A. („GSC”)	100.0%	full method
BNP Paribas Financial Services Sp. z o.o. (former: Raiffeisen Financial Services Polska Sp. z o.o.)	100.0%	full method
BNP Paribas Solutions Sp. z o.o. (former: Raiffeisen Solutions Sp. z o.o.)	100.0%	full method
Campus Leszno Sp. z o.o.	100.0%	full method
BGZ Poland ABS1 DAC („SPV”)*	0.0%	full method



* BGŻ Poland ABS1 DAC („SPV”) registered in Ireland, 3RD Floor Kilmore House, Park Lane, Spencer Dock, Dublin. An SPV company with which the Bank performed a securitization transaction of a part of the loan portfolio. The Group has no equity contribution in this entity. The company is controlled by Bank BGŻ BNP Paribas S.A. due to the fulfilment of the control conditions only within the understanding of IFRS 10

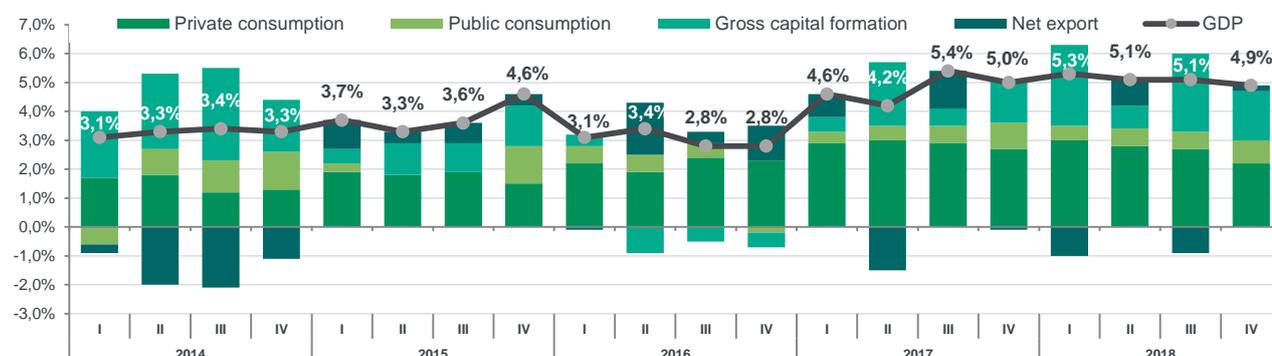
2. EXTERNAL FACTORS AFFECTING THE BANK'S OPERATIONS IN 2018

2.1. Macroeconomic conditions

GDP

Since mid-2017, GDP growth in Poland has remained at around 5% y/y. In the fourth quarter of 2018, it amounted to 4.9% y/y. According to the CSO (Polish Central Statistical Office) data, private consumption, which in the third quarter of 2018 increased by 4.5% y/y, has been the main driver of recent economic growth, adding 2.7 pp. to GDP growth. The rapid increase in consumption results mainly from a very good situation on the labour market, including high wage growth. The rate of investment growth accelerated to 9.9% y/y in the third quarter of 2018, which was the best result since the first quarter of 2015. The progressive improvement in the absorption of EU funds contributed to this. Investments, however, have increased much more in the government and local government sectors than in the corporate sector. In the third quarter of 2018, the contribution of change in inventories was significant and positive (1 pp.), and net exports subtracted 0.9 pp from GDP growth.

Chart 1. GDP growth (y/y)

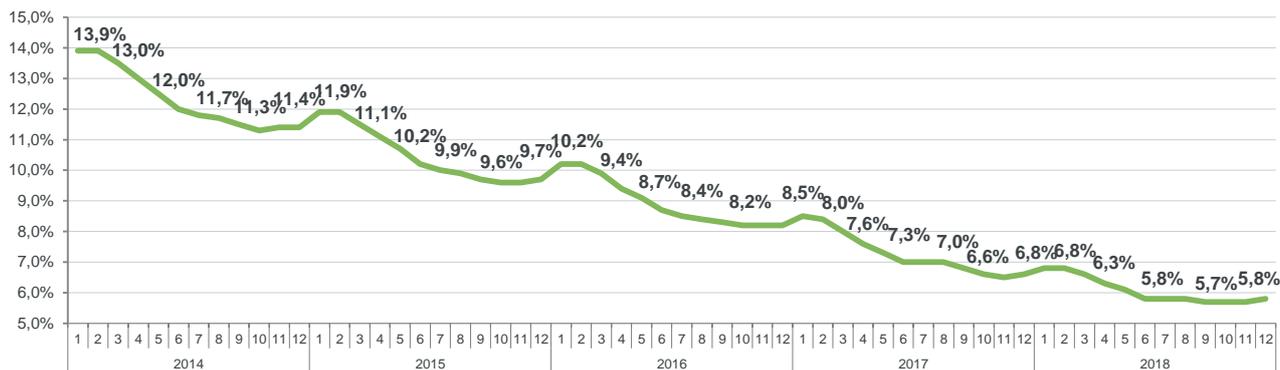


Source: CSO

Business activity

In the second half of 2018, the growth rate of industrial output remained at a high level, on average close to 5.0% y/y, as compared to 6.5% y/y on average over the previous 6 months. The dynamics of industrial production were supported by the boom in the domestic economy, which compensated for the weakening demand of Poland's main foreign partners. At the same time, the growth rate of construction and assembly production slowed down from 24.5% y/y, but remained at a high level, at ca. 19.0% y/y. The good situation in construction was supported by the rebound in investments (mainly infrastructure) of the public sector co-financed from the EU funds. A reflection of strong consumer demand was the maintenance of the growth rate of real retail sales at the level of approx. 8% y/y. The registered unemployment rate has remained close to the lowest levels since 1990.

Chart 2. Inflation and interest rates



Source: CSO

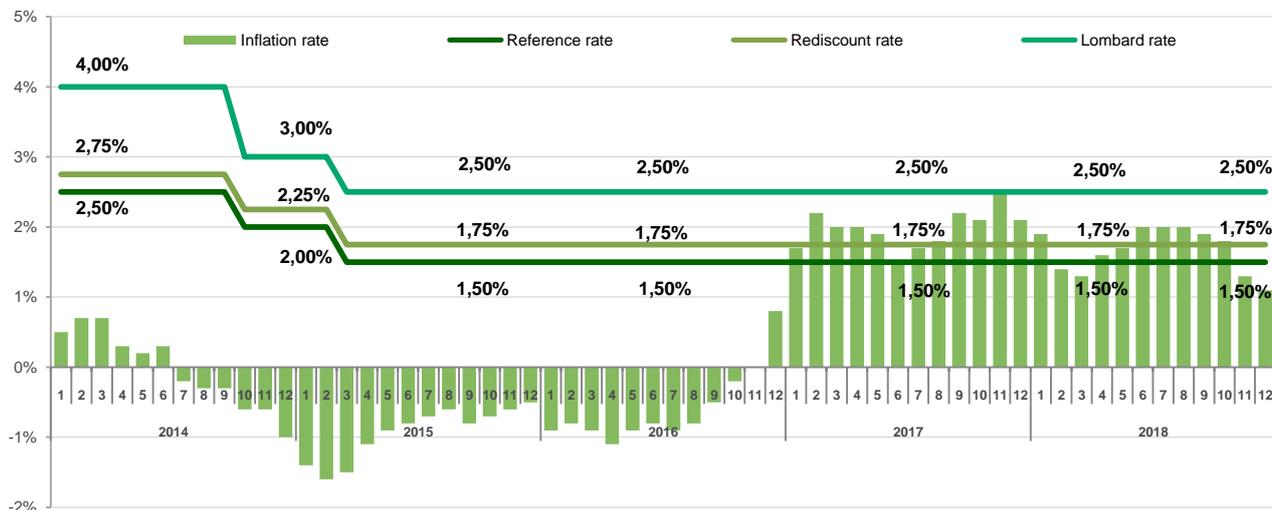
Inflation

In the fourth quarter of 2018, CPI inflation dropped to the lower limit of deviations from the NBP's (National Bank of Poland) inflation target of 1.5% y/y, as compared to 2.0% inflation in the previous quarter. The lower inflation was mainly driven by the decline of core inflation and the dynamics of food prices. Still, the very limited core inflation, as well as the disinflationary impact of a strong decline in oil prices on global markets in the fourth quarter should translate into the inflation in Poland, but below 2.5% of the inflation target.

Monetary policy

In the second half of 2018, the Monetary Policy Council (MPC) continued to maintain interest rates at unchanged levels. The stabilization of interest rates in Poland was favoured mainly by inflation remaining below the target, but also by the mild monetary policy of the ECB. After the first MPC meeting in 2019, the President of the NBP Adam Glapiński pointed out that in his opinion interest rates may remain unchanged even until the end of the Council's term in 2021. Considering the MPC rhetoric, as well as probably relatively low inflation in Poland in 2019, changing interest rates in the coming quarters seems unlikely.

Chart 3. Inflation and interest rates



Source: CSO, NBP

Bonds market

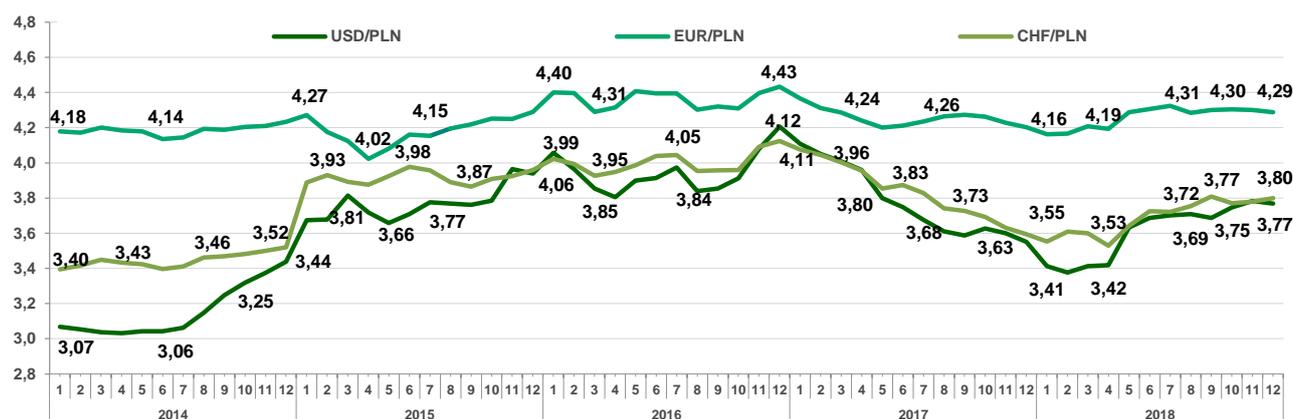
In second half of 2018 yields of government bonds in Poland remained under the influence of the situation on the core markets (US and Euro zone) and domestic data on inflation, public debt, as well as investors' expectations regarding the future monetary policy of the Monetary Policy Council. After a period of relative stability of yields in the third quarter (around 1.6% for 2-year bonds and 3.2% for 10-year bonds), in the fourth quarter of the profitability of Polish treasury securities, they recorded declines, to which among others decline in profitability in the Euro zone and lower inflation in Poland contributed. At the end of 2018, the profitability of 2-year government bonds was 1.4%, and 10-year 2.8%.

The risk premium for long-term Polish bonds (measured by the *spread* against 10-year German bonds) in the second half of 2018 remained in the range of 250-300 bp, as compared to around 350 bps at the end of 2017. This was favoured by the good budget situation, reflected in, amongst others, the fall in the public debt ratio, probably to around 50% at the end of 2018.

Currency market

After significant strengthening in 2017, in the first half of 2018 the Polish zloty depreciated against major currencies. The EUR / PLN exchange rate rose from 4.17 at the beginning of January to 4.36 at the end of June. At the same time, the USD / PLN exchange rate increased from 3.48 to 3.74, and the CHF / PLN exchange rate from 3.57 to 3.77. The second half of the year the performance of zloty was relatively stable. The EUR / PLN exchange rate in this period remained at the level of approx. 4.30, USD / PLN exchange rate - 3.75, while CHF / PLN - 3.80. The weakening of the zloty in 2018 was due to both global factors, such as a tightening of monetary policy in the US and an increase in global risk aversion related to, among others, a trade dispute, mainly between the United States and China, as well as domestic factors, including some slowdown in productivity growth in the industrial processing sector.

Chart 4. PLN exchange rate (monthly average)



Source: Macrobond

2.2. Performance of the banking sector

According to the data from the Polish Financial Supervision Authority (PFSA), the net financial result of the banking sector in Poland in 2018 amounted to PLN 14.7 billion, which was an increase of PLN 1,020 million, or 7.5% in relation to the previous year. Gross profit from continuing operations of the sector amounted to PLN 19.4 billion and was higher by PLN 988 million, i.e. 5.4% compared to 2017.

The financial result increased in 2018 due to an increase in operating income, with a slower increase in the sector's costs and a slight decrease in the impairment result. The dynamics of operating income amounted to 1.8% y/y and was lower than in the previous year mainly due to the decrease in net fee and commission income. The improvement in the operating result in annual terms was influenced by a significant increase in the net interest income of the sector (by PLN 2.2 billion, i.e. 5.2% y/y). The improvement of net interest income was due to an increase in net interest income by PLN 2.3 billion, with a slight increase in interest expenses by PLN 0.1 billion. The increase in the operating income was also significantly influenced by the increase in dividend income (by PLN 337 million, or 28.9%). Positive factors were partially offset by a decrease in net fee and commission income (by PLN 1.4 billion, or 10.5%), as a result of a decrease in commission income, with a simultaneous increase in costs.

In 2018, the total operating expenses increased (by PLN 0.5 billion, 1.4%), which resulted from the increase in the operating expenses of banks (by PLN 417 million, or 2.5%) and general administrative expenses (by 133 million PLN, i.e. 0.8%), with a slight reduction in depreciation and amortization costs. The net impairment result slightly improved as compared to the previous year (by PLN 417 million, or 2.5%).

The sector's net profit was positively affected by the surge (by over PLN 0.3 billion) of profit from investments in subsidiaries, joint ventures and associates.

Table 1. Selected profit and loss items of the banking sector

PLN million	12 months till 31.12.2018	12 months till 31.12.2017	Change y/y	
			PLN million	%
Net interest income	44,852	42,619	2,233	5.2%
Net fee and commission income	12,315	13,764	(1,449)	(10.5%)
Dividend income	1,506	1,168	337	28.9%
Other	6,473	6,462	11	0.2%
Total net operating income	65,146	64,014	1,132	1.8%
Operating expenses, personnel expenses	(17,060)	(16,643)	(417)	2.5%
General administrative expenses	(16,551)	(16,418)	(133)	0.8%
Depreciation and amortization	(2,905)	(2,949)	44	(1.5%)
Total expenses	(36,516)	(36,010)	(506)	1.4%
Result on modification	(47)	n/a	(47)	n/a
Provisions	(700)	(728)	29	(3.9%)
Impairment or its reversal	(8,824)	(8,860)	36	(0.4%)
Total net operating income	19,059	18,415	644	3.5%
Share in profit / loss on investments in subsidiaries, in joint enterprises and in affiliates	327	24	303	1,270.2%
Income on other operations	26	(16)	42	(262.2%)
Gross profit from continuing operations	19,412	18,423	988	5.4%
Net profit for the period	14,707	13,687	1,020	7.5%

Source: PFSA. The results for 2018 were presented taking into account changes in accounting principles (introduction of IFRS 9) and changes that took place in the obligatory reporting of banks (FINREP).

Note: As the figures have been rounded up, the totals in the table may not add up.

According to NBP data, bank receivables from loans to non-bank customers increased in 2018 by PLN 83 billion, or 7.2%, and the achieved dynamics was almost twice as high as in the previous year. This increase was similar in the category of loans to private customers (by PLN 42 billion) and loans to institutional customers (by PLN 41 billion).

A positive change compared to the previous year was a significant increase in the growth rate of private loans, which amounted to 7.5% y/y in 2018, as compared to 1.1% y/y in 2017. The decrease in negative dynamics in the mortgage loans category, caused by the depreciation of the zloty against CHF (weakening by 7.0% y/y in relation to strengthening by 13.4% y/y in the previous year), had an impact on this level of growth.

The growth engine of private loans, remained the similarly as in 2017, the mortgage loans in PLN, whose dynamics slightly improved and from a high level of 10.4% in 2017 increased to 11.6% in 2018. According to data from the Polish Bank Association, in 2018 the banks granted almost 209 thousand loans worth PLN 52.4 billion. The trends and factors supporting the demand for mortgage loans visible in 2017 followed into 2018, and they were: very good situation on the labour market confirmed by the registered unemployment rate maintained near the lowest levels since 1990; persistent, lowest in history, NBP interest rates and the boom on the real estate market.

A growing contribution to the growth in lending in the private sector in 2018 was attributable to consumer loans, the balance of which increased by PLN 15.6 billion as compared to the previous year, and the dynamics improved from 6.9% y/y in 2017 to 9.3% y/y in 2018. The increase in lending was supported by the very good situation on the labour market and the high level of consumer optimism supported by the strategy of some banks working towards an increase in the share of short-term retail loans as high-profit products.

Loans to institutional customers increased dynamically from 6.3% y/y in 2017 to 6.8% y/y in 2018, which was caused by the depreciation of the Polish zloty. The adjusted dynamics of nominal corporate debt weakened slightly and amounted to 6.2% y/y. The increase in lending was mainly observed in the area of loans to business entities whose balance increased by PLN 25.3 billion, i.e. 7.6%. The sustained increase in demand for corporate loans was caused by a good economic situation. The visible high rate of investment in the public sector can be observed also in the business sector, where the highest dynamics of loan growth is observed in the long-term receivables (over 5 years).

Table 2. Banking sector loans by value

PLN billion	31.12.2018	31.12.2017	change y/y	
			PLN in billion	%
Loans to private customers	604.2	562.1	42.1	7.5%
- mortgage loans	418.6	391.5	27.1	6.9%
in PLN	290.2	260.0	30.2	11.6%
In foreign currencies	128.4	131.5	(3.1)	(2.4%)
- consumer loans	183.3	167.7	15.6	9.3%
- other loans	2.3	2.9	(0.6)	(19.6%)
Loans to institutional customers	638.1	597.3	40.8	6.8%
- non-bank financial institutions	72.1	63.9	8.2	12.8%
- business entities	478.4	447.7	30.7	6.9%
corporate	358.6	333.3	25.3	7.6%
individual entrepreneurs	78.4	73.6	4.8	6.5%
farmers	34.1	33.8	0.2	0.7%
non-commercial institutions	7.3	6.9	0.4	5.0%
- public sector	87.6	85.7	1.9	2.2%
Total loans to non-bank customers	1,242.4	1,159.4	83.0	7.2%

Source: NBP, data for monetary financial institutions except for Central Bank and Credit Unions; residents only.

Note: As the figures have been rounded up, the totals in the table may not add up.

The growth rate of deposits of non-banking customers increased significantly in 2018 to 9.1% y/y with only 4.2% y/y in 2017. It was high among both private customers and institutional customers and amounted to 9.7%, y/y and 8.2% y/y respectively.

The increase in deposits from private customers was caused by a good situation on the labour market, an increase in the average level of remuneration and the withdrawal of assets from investment funds. The low level of interest rates and a good liquidity position of banks translated into record low interest rates offered to private customers, which affected the low (only 1.7%) dynamic of term deposits. The volume of current deposits of private customers increased significantly and the recorded dynamics of 15.6% y/y was higher than the last year's one, which amounted to 12.8%. This was due to the low premium offered by banks for investing savings for longer periods and the reluctance of private customers to freeze their savings.

The improvement of deposit activity was also recorded among institutional customers. It is visible in the corporate segment and individual entrepreneurs as well as in the public sector. The growth rate of deposits of the corporate segment increased from 2.4% y/y at the end of December 2017 to 4.3% y/y at the end of December 2018. The deposits of the individual entrepreneurs segment increased by 17.0% at the end of December 2018 as compared to the previous year. The increase in the volume of deposits in 2018 was due to a strong increase in the volume of PLN deposits of enterprises (by 7.4%) and a significant increase in current deposits in PLN of individual entrepreneurs (by 21.6%). The growth in the corporate and individual entrepreneurs segment was due to good profits achieved in 2018, and the very high growth rate of deposits of the public sector (25% y/y) was influenced by very good fiscal situation, low public finance deficit and moderate investment.

Table 3. Banking sector deposits by value

PLN billion	31.12.2018	31.12.2017	change	
			PLN billion	%
Private deposits	750.9	684.2	66.6	9.7%
- current	457.0	395.2	61.7	15.6%
- term	293.9	289.0	4.9	1.7%
Institutional deposits	526.1	486.4	39.7	8.2%
- non-bank financial institutions	60.2	57.2	3.0	5.2%
- business entities	382.3	360.1	22.2	6.2%
corporate	288.1	276.2	11.9	4.3%
individual entrepreneurs	52.1	44.5	7.6	17.0%
farmers	15.9	15.2	0.7	4.3%
non-commercial institutions	26.2	24.1	2.1	8.7%
- public sector	83.6	69.1	14.5	21.0%
Total non-bank deposits	1,277.0	1,170.6	106.3	9.1%

Source: NBP, data for monetary financial institutions except for Central Bank and Credit Unions; residents only.

Note: As the figures have been rounded up, the totals in the table may not add up.

2.3. Stock market and investment situation

The year 2018 brought a negative change to the WIG stock index, which represents all listed companies on the Warsaw Stock Exchange (WSE), and noted 9.5% drop as compared to the end of 2017. Despite the downward trend of all listed indices, the scale of declines differed for shares of large, medium and small companies. And so, the sWIG80 index representing the smallest companies turned out to be the leader of declines, losing 27.6%, the Warsaw mWIG40 index representing average companies lost 19.4%, and the WIG20 index grouping the largest entities ended the year with 7.5% decline. The weakness of the sWIG80 index was influenced by the outflows of capital from funds investing on the Polish stock market. In addition, in the period under discussion, the investors' perception of developing markets (including Poland) deteriorated, as a result of the dollar strengthening and interest rates in the United States.

Table 4. Key WSE indices

Index	31.12.2018	31.12.2017	31.12.2016	change in 2018	change in 2017
WIG	57,691	63,746	51,754	(9.5%)	23.2%
WIG20	2,277	2,461	1,948	(7.5%)	26.3%
mWIG40	3,909	4,847	4,216	(19.4%)	15.0%
sWIG80	10,571	14,596	14,259	(27.6%)	2.4%

Source: Bloomberg

The impact on the image of 2018 on the Warsaw Stock Exchange had, among others the following factors: (i) restrictive monetary policy in the United States, (ii) strengthening of the US dollar, (iii) expectations of the European Central Bank's policy, (iv) negative perception of developing markets, which was affected by the strengthening dollar and deterioration political and macroeconomic situation in Turkey, (v) increased risk aversion due to fears in the context of global trade war, (vi) political uncertainty (Italy, United Kingdom, France) and (vii) weaker macroeconomic data published in the monthly cycle for major economies euro zone, which translated into growing concerns about the scale of the slowdown in global economic growth in the coming periods.

On the Polish government bond market, 2018 was characterized by considerable volatility. After the increase in yields on domestic bonds in January and February of 2018, in the following months yields were in a downward trend. It was influenced by, among others global trends related to the flow of capital to safer assets, as well as a mild approach in the context of monetary policy presented by the Monetary Policy Council. In the second and third quarter, the yields on domestic 10-year Treasury bonds were in the side trend in the range of 3.10% -3.40%, while the last two months of 2018 brought a drop to 2.80% which was connected with the return of the larger risk aversion on financial markets.

Table 5. Number of companies, cap and trading volume on WSE

	31.12.2018	31.12.2017	31.12.2016	change in 2018	change in 2017
Number of companies	465	482	487	(3.7%)	(1.0%)
Cap of domestic companies (PLN million)	578,949	670,976	557,124	(13.7%)	20.4%
Share trading volume (PLN million)	211,850	260 979	202,293	(18.8%)	29.0%
Futures trading volume ('000)	7,871	7 319	7,598	7.5%	(3.7%)

Source: WSE

In 2018, 7 new companies appeared on the main market of the WSE (including: 2 due to the transfer of quotations from the New Connect market), and 25 entities left the trading floor. The number of companies listed on the WSE decreased from 482 at the end of 2017 to 465 at the end of 2018. In the New Connect organized market, in 2018, 15 issuers debuted, with the simultaneous withdrawal of 36 entities from listings. On the Catalyst bond market, a total of 575 series of bonds were listed, and the value of the issue exceeded PLN 777 billion.

3. MAJOR EVENTS IN CAPITAL GROUP OF BANK BGŻ BNP PARIBAS S.A. IN 2018

23.01.2018 Extraordinary General Meeting of the Bank

- Adoption of the Remuneration policy for the Members of the Supervisory Board of Bank BGŻ BNP Paribas S.A.;
- Approval of the changes in the Bank's Statute and adoption of the uniform text of the Statute.

6.02.2018 Capital adequacy ratios as at 1 January 2018

The Management Board of the Bank informed that on 6 February 2018, after preparing the opening balance as at 1 January 2018, including the impact of IFRS 9 implementation, it learned about the level of solvency ratios as at 1 January 2018. The opening balance will be subject to verification by the auditor.

The level of Common Equity Tier 1 (CET I) ratios, both in separate and consolidated terms, and the total capital ratio (TCR) in separate terms were above the regulatory levels resulting from the "PFSA position on minimum levels of capital ratios" for banks in 2018, published on 24 November 2017.

The level of Tier I capital ratios (Tier I), both in separate and consolidated terms, and the total capital ratio (TCR) in consolidated terms, were below the new requirements.

In view of the existing situation, the Management Board of the Bank informed that it immediately took additional measures (including: share capital increase via issuance of new shares) to meet the new regulatory requirements. The BNP Paribas Group provided the support to the Bank's Management Board in the implementation of the planned activities aimed at achieving the required capital ratios.

At the same time, the Bank fulfilled 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.

16.03.2018 PFSA recommendation to increase capital

On 16 March 2018, the Bank received a letter from the Polish Financial Supervision Authority regarding a recommendation to increase own funds by retaining the entire profit generated in the period from 1 January to 31 December 2017.

The Bank informed that on 23 November 2017 it received a decision of the Polish Financial Supervision Authority of 23 November 2017 approving the inclusion of net profit generated by the Bank in the period from 1 January 2017 to 30 June 2017, in the amount of PLN 130,029,336.35, to the Tier 1 capital of the Bank (current report no. 25/2017).

20.03.2018 Entering into the National Court Register information on changes made to the Bank's Statute

On 19 March 2018, the Bank was notified that the District Court for Warsaw, 12th Commercial Division of the National Court Register, amended the Bank's Statute, adopted by the Extraordinary General Meeting of the Bank on 23 January 2018.

10.04.2018 Disclosure of delayed confidential information about joining negotiations to acquire the Core Business of Raiffeisen Bank Polska S.A.

On 10 April 2018, the Bank's Management Board announced that on 26 March 2018 the Management Board of the Bank decided to join the negotiations conducted by BNP Paribas S.A., a majority shareholder of the Bank, with Raiffeisen Bank International AG ("RBI") regarding the acquisition of Core Business of Raiffeisen Bank Polska S.A. ("RBPL"), excluding RBPL's foreign currency mortgage loans, by demerger of RBPL ("Negotiations").

At the same time, the Management Board of the Bank announced that joining the Negotiations does not mean that the acquisition of the Core Business of RBPL will be realized. In addition, the Bank's authorities have not yet made binding decisions regarding the execution of the transaction. In addition, the Bank's authorities have not yet made binding decisions regarding the execution of the transaction.

10.04.2018 Conclusion of the Transaction Agreement regarding the purchase of the Core Business of Raiffeisen Bank Polska S.A.

Transaction

The Transaction anticipated in the Transaction Agreement includes:

- acquisition of shares representing less than 50% of the share capital of RBPL by BNPP from RBI; and
- the demerger of RBPL performed in accordance with article 124c of the Banking Law and article 529 § 1 point 4 of the Commercial Companies Code by transferring (separating) the RBPL's Core Business to the

Bank and issuing new issue shares by the Bank to RBI and BNPP (the "**Demerger**"); RBPL will be a demerged company and the Bank will be the acquiring company (collectively "**Transaction**").

Description of the Transaction

The Transaction will be performed as follows:

- (i) after all conditions precedent specified in the Transaction Agreement have been met or terminated, in order to facilitate the Demerger, BNPP will acquire a minority stake in the RBPL from the RBI, representing less than 50% of the share capital of RBPL, the value of which is estimated at approximately 45% of the share capital of RBPL,
- (ii) on the Demerger Date (as defined below), the Core Business of RBPL will be taken over by the Bank, and in exchange for the Core Business of RBPL, the Bank will issue ordinary new issue common shares ("**Demerger Shares**") for BNPP and RBI as shareholders of RBPL. RBPL shares that will be in possession of BNPP will cease to exist,
- (iii) the Demerger Shares allotted to RBI will represent 9.8% of the Bank's share capital as at the Demerger Date. Immediately after the Demerger Date, the Demerger Shares will be purchased from the RBI by the BNPP or by a third party or third parties designated by the BNPP.

As a result of the Transaction, on the day of registering the increase of the Bank's share capital in connection with the Demerger by the appropriate registry court ("**Demerger Date**"), the Bank will acquire the Core Business of RBPL ("**Core Business of RBPL**"), in the form of an organized part of the enterprise, including all assets and RBPL's liabilities connected with this activity, and excluding assets and liabilities that will remain in RBPL after Demerger ("**RBPL Mortgage Activity**"). RBPL's Mortgage Activity, which is to remain in RBPL after Demerger, will include foreign currency mortgage and non-mortgage loans granted by RBPL, other credit exposures as well as all legal relations between RBPL and six investment funds in liquidation, managed by November 2017 by FinCrea TFI S.A.

Price

The Transaction Agreement stipulates that the Bank will acquire the Core Business of RBPL with guaranteed Tier 1 capital amounting to PLN 3,400 million ("**Target Capital**") for an agreed price of PLN 3,250 million ("**Purchase Price**") including a prepaid allowance of PLN 50 million for digitalization investment projects to be implemented in the period from the date of signing of the Transaction Agreement to the Demerger Date. The above implies a P/TBV multiplier (price to the book value of tangible assets) in the amount of 0.95x based on the pro-forma basic RBPL financial data as at the end of 2017 and a P/BV multiplier (price to book value) of 0.87x based on the estimated pro-forma book value of the Core Business of RBPL as at the Demerger Date, taking into account the adopted value of intangible assets of the Core Business of RBPL.

In the event that the Tier 1 capital of the Core Business of RBPL transferred to the Bank was lower or higher than the Target Capital, the resulting difference will be settled between the Bank and RBPL after closing the books of the Core Business of RBPL after the Demerger Date so that the Tier 1 capital of the Core Business of RBPL is equal to the Target Capital.

The Purchase Price assumes the creation of certain intangible IT assets (in the amount of PLN 50 million) related to digitization of investment projects. If the value of intangible assets of the RBPL Core Business as at the Demerger Date differs from the assumed value of these assets, the difference will be settled between RBPL and the Bank in cash together with the settlement relating to the Target Capital referred to above.

The obligation to pay the Purchase Price to RBI will be met by payment of the Purchase Price by BNPP or by ordering BNPP to pay the Purchase Price for (i) RBPL shares that will be purchased by BNPP from RBI and (ii) the Demerger Shares to be issued by the Bank for RBI.

Execution of the Transaction

The Transaction is subject to the fulfilment of the conditions specified in the Transaction Agreement, which include:

- (i) conclusion of the cooperation agreement with RBL, RBI and BNPP before Demerger. The agreement shall specify the terms of cooperation between RBPL and the Bank in relation to the Demerger;
- (ii) performing an audit review of the pro-forma financial information of RBPL and considering this information and the results of the audit as satisfactory by the Bank;
- (iii) signing the Demerger Plan (as defined below) by RBPL and the Bank;
- (iv) obtaining the consent of the competent authority of competition and consumer protection;
- (v) obtaining consent and approval from the PFSA in relation to the Demerger;
- (vi) obtaining consent and approval from the PFSA and the European Central Bank in relation to the cross-border merger of RBPL and RBI; and
- (vii) obtaining consents from the Bank's and RBPL's general meetings for the Demerger.

Conducting the Transaction depends also on the fulfilment of other conditions, such as signing specific agreements regarding the Transaction by the Bank, RBPL, and, if applicable, RBI, as well as obtaining specific tax interpretations regarding the Demerger.

It is expected that the Demerger Date will take place in the fourth quarter of 2018.

The share exchange parity established for the purpose of Demerger

The Transaction Agreement stipulates that in the RBPL demerger plan to be agreed between the Bank and RBPL ("**Demerger Plan**"), the number of the Demerger Shares allocated to RBI and BNPP in return for each RBPL share held by these entities, will be 0.3595197657 ("**Share Exchange Parity**"). The Share Exchange Parity was calculated as the Purchase Price divided by PLN 65.56, constituting the arithmetic average of the average daily prices weighted by the trading volume of the Bank's shares listed on the Warsaw Stock Exchange S.A. from the period of 30 days beginning on 8 March 2018 and ending on 6 April 2018¹, divided by 137.886.467 representing the number of reference shares of RBPL. The resulting number of the Demerger Shares that will be issued by the Bank is 49,592,910, which accounts for 37.05% of the Bank's share capital after the shares have been issued (without taking into account the share capital increase referred to below).

The Share Exchange Parity and the number of the Demerger Shares to be issued by the Bank will be subject to a dilution adjustment, if applicable, in connection with the Bank's share capital increase to be performed prior to the Demerger, which the Bank reported in the Current Report No. 9/2018 of 6 February 2018. The Bank plans to increase the Bank's own funds (share capital and supplementary capital) by approximately PLN 800 million.

The number of RBPL reference shares attributable to BNPP (in the number equal to the number of RBPL shares that BNPP will acquire from RBI prior to the Demerger) and RBI will be determined in such a way that the RBI will be entitled to the Demerger Shares constituting 9.8% of the Bank's share capital on the Demerger Date.

The intention is that the Demerger Plan should be agreed by the Bank and RBPL until 27 April 2018, with the possibility of a possible extension of this period.

Other documents of the Transaction

In the course of the Transaction, RBI, BNPP, RBPL and the Bank will conclude certain accompanying agreements regarding the Transaction and services that will be provided in connection with the Transaction.

Strategic justification for the Transaction

Conclusion of the Transaction Agreement 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 and allow to enter the top five.

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 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.

10.04.2018 PFSA's consent to appoint Mr. Przemysław Gdański as the President of the Management Board

On 10 April 2018, PFSA, pursuant to article 22b of the Banking Act of 29 August 1997, unanimously agreed to appoint 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.

25.04.2018 Decision of the PFSA of 23 April 2018 on granting permission to classify net profit of the Bank for the second half of 2017, in the amount of PLN 168,360,062.58, as Tier 1 capital.

27.04.2018 Information on the amount determined by the Bank Guarantee Fund (BFG) for Bank BGŻ BNP Paribas S.A. regarding annual contribution to the bank's forced restructuring fund for 2018 in the amount of PLN 52,777,541.35

(considering the amount of the premium adjustment for 2017).

28.04.2018 Reconciliation of the demerger plan of Raiffeisen Bank Polska S.A. (RBPL). The first notification of the planned demerger. Fulfilment of the condition of a significant contract.

¹ Slightly higher than the average of the last three months of daily volume-weighted average prices (PLN 65.40) as at 6 April 2018 and daily volume-weighted average price as of 6 April 2018 (PLN 65.02) and higher than the spot closing price from 6 April 2018 (PLN 62.80).

On 28 April 2018, the Bank's Management Board and the Management Board of RBPL agreed and signed a plan for the demerger of RBPL prepared in accordance with article 534 § 1 and § 2 of the Act of 15 September 2000 - Code of Commercial Companies (Journal of Laws of 2017, item 1577, as amended) ("KSH") ("Demerger Plan").

The reconciliation and signing of the Demerger Plan is the fulfilment of one of the conditions of the Transaction Agreement (i.e. the acquisition of the core business of RBPL excluding RBPL currency mortgage loans by the Bank, by the demerger of RBPL) necessary for the purchase of a separate part of the RBPL by the Bank.

The Demerger Plan contains a description of assets and liabilities that will be transferred to the Bank after the demerger ("Core Business of RBPL"). It also contains information on assets and liabilities that will not be transferred to the Bank, including:

- the portfolio of foreign currency mortgage loans, as defined in Appendix 1 to the Demerger Plan;
- the portfolio of selected exposures, specified in Table 1A-a in Appendix 1 to the Demerger Plan;
- legal relations between RBPL and specific investment funds in liquidation, listed in Appendix 1 to the Demerger Plan.

Moreover, the Demerger Plan:

- determines the share exchange parity, according to which RBPL shareholders will receive shares issued by the Bank for holding certain RBPL reference shares; and
- contains a fairness opinion issued by mCorporate Finanse S.A. confirming that the adopted share exchange parity is fair and reliable from the financial point of view of the Bank's shareholders.

The selected financial data regarding the Core Business of RBPL is presented below, based on the unaudited pro forma financial statements of RBPL for the year 2017 ("Financial Information on the Core Business of RBPL") provided by the Management Board of RBPL.

Financial Information of the Core Business of RBPL

The Financial Information of the Core Business of RBPL was prepared on the basis of the demerger of RBPL assets and liabilities defined in the Demerger Plan solely for illustrative purposes, and, by their nature, they show indicatively the results of operations and financial situation of the Core Business of RBPL as at 31 December 2017.

At the end of 2017, the intangible assets of RBPL amounted to PLN 268 million, while property, plant and equipment amounted to PLN 88 million.

All RBPL deposits will be assigned to the Core Business of RBPL and transferred to the Bank, which will cause a significant excess of liquidity. In order to balance assets and liabilities, as well as to meet the requirements of the guaranteed Tier 1 capital, as explained below, the "theoretical" supplementary asset portfolio in the amount of PLN 5.4 billion, composed of Polish government bonds with an average interest rate of 1.71% was adopted. The bonds are exempt from the tax from financial institutions, which contributes PLN 93 million to "theoretical" interest income in pro forma profits and loss account for the financial year 2017.

The Transaction Agreement stipulates that on the Demerger Date (i.e. the date of the registration of the Bank's share capital increase due to the demerger by the competent registry court), the Bank will acquire the Core Business of RBPL with guaranteed Tier 1 basic capital amounting to PLN 3,400 million. Tier 1 core capital will take into account relevant adjustments and deductions from own funds in accordance with the EU Regulation on prudential requirements for credit institutions and investment firms (CRR), but will not take into account any transitional provisions resulting from the application of IFRS 9 to the RBPL Core Business, even if these provisions are currently applied in RBPL.

The amount of the adjustment for the adoption of IFRS 9 in the Core Business of RBPL (profit or loss account, result from previous years and provisions) was estimated at PLN 311 million before tax (deferred tax assets) as at 1 January 2018.

Statement of the financial position of Core Business of (in PLN million)

Balance sheet	Core Business of RBPL in 2017
Assets	39,847
Cash in hand and balances in Central Bank	1,316
Amounts due from banks	103
Loans and advances to customers	18,001
Derivative financial instruments	443
Financial assets held for trading	6,675
Investments in securities	12,648
Investments in subsidiaries	31
Tangible and intangible fixed assets	356
Other assets	230
Deferred tax assets	44
Liabilities	36,070
Amounts due to banks and other monetary financial institutions	635
Amounts due to customers	34,392
Provisions for liabilities and charges	142
Derivative financial instruments	406
Other liabilities	495
TOTAL equity	3,777

Statement of profit or loss pro forma (in PLN million)

Statement of profit or loss	Core Business of RBPL in 2017
Net interest income	883
Interest income	1,257
Interest expenses	-374
Non-interest income	596
Net fee and commission income	574
Result on financial instruments measured at fair value and from the exchange position	17
Dividend income	5
Operating result	1,479
Impairment allowances on financial assets	-116
Profit on operating activity	1,363
General administrative costs	-1,011
Result on other operating income and other operating expenses	-108
Other operating income	44
Other operating expenses	-152
Tax on financial institutions	-80
Gross profit/loss	164
Income tax	-81
Net profit/loss	83

The pro forma profit and loss account of the Core Business of RBPL includes the following one-off items:

- an allowance in the amount of PLN 114.0 million due to the Polbank brand (included in „Other operating expenses”);
- PLN 7.2 million of costs related to the initial public offer (included in „Other operating expenses”);
- restructuring costs in the amount of PLN 32.1 million and restructuring provisions in the amount of PLN 13.4 million (included in "General administrative expenses" and "Other operating expenses”);
- one-off costs in the amount of PLN 10.9 million due to retention bonuses (included in „Other operating expenses”).

The presented profit or loss pro forma account of the Core Business of RBPL is based on the assumption of using free funds in the amount of PLN 4.0 billion to calculate the costs of tax on financial institutions.

The presented profit or loss pro forma form of the Core Business of RBPL includes:

- PLN 6 million of revenue related to the service provision agreement, which will be concluded by the Bank

and RBPL in order to service RBPL after the transaction;

- PLN 2 million of costs related to IT services that will be provided by RBPL to the Core Business of RBPL.

These amounts are estimates and relate to future services that were not provided in 2017.

- PLN 93 million of "theoretical" interest income on the supplementary assets portfolio (PLN 5.4 billion), assuming an average interest rate on such portfolio on the level of 1.71% and no costs due to tax on financial institutions.

In total, risk-weighted assets assigned to the RBPL Core Business as at 31 December 2017 are estimated at PLN 20.9 billion.

The document of the Demerger Plan with appendices is placed on the Bank's website: www.bgzbnpparibas.pl in the "Investor Relations" tab.

17.05.2018 Announcement of the new Fast Forward strategy of Bank BGŻ BNP Paribas S.A. for 2018-2021, based on 5 key pillars: simplicity, digitalization, quality, growth and enthusiasm.

The Bank's strategic goals are to achieve:

- the growth rate on the result on banking operations faster than the market average growth,
- ROE above 10%,
- C/I ratio at around 50%.

18.05.2018 Ordinary General Meeting of Bank BGŻ BNP Paribas S.A.

- Review and approval of:
 - Financial statements for 2017 and Management Report on activities in 2017,
 - Report on the non-financial information of Bank BGŻ BNP Paribas S.A. and Bank BGŻ BNP Paribas S.A. Capital Group in 2017,
 - Supervisory Board Report on activities of Bank BGŻ BNP Paribas S.A. and its committees in 2017.
- Resolution on the distribution of retained earnings in Bank BGŻ BNP Paribas S.A. for 2017.
- Resolutions on granting members of the Bank's Management Board and Supervisory Board of Bank BGŻ BNP Paribas S.A. discharge for their duties in 2017.
- Resolution on the increase of share capital by issuance of ordinary bearer series J shares and ordinary registered series K shares in the private subscription mode, depriving existing shareholders of the entire pre-emptive rights to all series J shares and all series K shares, dematerialization and applying for admission and introduction of series J shares and rights to series J shares to trading on the regulated market operated by the Warsaw Stock Exchange S.A. and changes to the Bank's Statute.

Decision of PFSA of 18 May 2018 concerning the acquisition of Spółdzielcza Kasa Oszczędnościowo-Kredytowa Rafineria by Bank BGŻ BNP Paribas S.A.

Pursuant to the above mentioned decision, as of 19 May 2018, the Bank acquired the assets of SKOK Rafineria. On 30 May 2018, the Bank acquired SKOK Rafineria and took control over it in the meaning of IFRS 3 "Business combinations".

29.05.2018 The auditor's opinion on the Demerger Plan of Raiffeisen Bank Polska S.A. Supplementing the first notification of the planned demerger of Raiffeisen Bank Polska S.A.

11.06.2018 Subscription and offer of ordinary bearer shares of series J and ordinary registered shares of series K and conclusion of agreements on the placement of J series shares by Bank BGŻ BNP Paribas S.A.

14.06.2018 Determination of the issue price, number of series J ordinary bearer shares and ordinary registered series K shares by the Management Board; conclusion of the price amendment to the placement agreement.

18.06.2018 Adjustment of the share exchange parity and determination of the number of sub-shares issued by Bank BGŻ BNP Paribas S.A. for the needs of demerger of Raiffeisen Bank Polska S.A.

19.06.2018 Conclusion of contracts for the acquisition of ordinary bearer series J shares and ordinary registered series K shares.

25.06.2018 Termination of private subscription of ordinary series J bearer shares and ordinary registered series K shares.

4.07.2018 Entering into the National Court Register information on the increase of share capital of Bank BGŻ BNP Paribas S.A. on 3 July 2018

Increase of the share capital took place based on the Resolution No. 37 of the Ordinary General Meeting concerning the share capital increase from PLN 84,238,318 to PLN 97,538,318, i.e. by PLN 13,300,000 by issuance of:

- 2,500,000 series J ordinary bearer shares acquired at an issue price of PLN 60.15 per share, and

- 10,800,000 series K ordinary registered shares acquired at an issue price of PLN 60.15 per share.

5.07.2018 Notification of BNP PARIBAS S.A. about changing the share in the total number of votes

On 4 July 2018, the Bank received a notification prepared by BNP PARIBAS SA with its registered office in Paris, France, pursuant to article 69 paragraph 2 point 2 in connection with article 69a paragraph 1 point 3 of the Act of 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies (unified text: Journal of Laws of 2018, item 512, as amended) concerning changes to the share held in the total number of votes by at least 1% of the total number of votes.

Notification of BNP Paribas Fortis SA / NV about the change in the share in the total number of votes

On 5 July 2018, the Bank received a notification prepared by BNP Paribas Fortis SA/NV with its registered office in Brussels, Belgium, pursuant to article 69 paragraph 2 point 1 a) of the Act of 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies (unified text: Journal of Laws of 2018, item 512, as amended) concerning the change to the share held in the total number of votes by at least 2% of the total number of votes.

10.07.2018 Decision of the PFSA of 9 July 2018 on granting permission to classify J series ordinary bearer shares and ordinary registered K series shares issued by Bank BGŻ BNP Paribas S.A. as Common Equity Tier 1 instruments.

The second notification of the planned demerger of Raiffeisen Bank Polska S.A.

16.07.2018 Conditional registration of ordinary bearer series J of Bank BGŻ BNP Paribas S.A. in the securities depository kept by the National Depository of Securities [KDPW] – KDPW's statement no. 441/2018 of 13 July 2018.

17.07.2018 Information on the admission and introduction to the exchange trading of series J bearer ordinary shares of Bank BGŻ BNP Paribas S.A. on the WSE Main List – WSE's [GPW] Resolution No. 768/2018 of 16 July 2018.

Decision of the European Commission of 16 July 2018 on not raising objections to the notified concentration involving the acquisition of control on the Core Business of Raiffeisen Bank Polska S.A. by Bank BGŻ BNP Paribas S.A. and declaration that the notified concentration is compliant with the common market.

18.07.2018 Announcement of the National Depository for Securities S.A. from 17 July 2018 regarding the registration of series J ordinary bearer shares of Bank BGŻ BNP Paribas S.A. on 19 July 2018.

08.08.2018 Information from the Polish Financial Supervision Authority regarding the buffer rate of other systemically important institution imposed on Bank BGŻ BNP Paribas S.A.

As a result of the review, the Authority concluded that there are no triggers to repeal or amend the Authority's Decision of 4 October 2016, as set out in the Authority's Decision of 19 December 2017. This means that the Authority's Decision on imposing on the Bank (on a consolidated and separate basis) a buffer of other systemically important institution equivalent to 0.25% of the total risk exposure amount calculated in accordance with article 92 paragraph 3 of the EU CRR Regulation (No. 575/2013), of 19 December 2017, remains in force.

24.08.2018 Extraordinary General Meeting of the Bank

- Presentation of significant elements of the contents of the demerger plan of Raiffeisen Bank Polska S.A., report of the Management Board of 28 April 2018 justifying the demerger of Raiffeisen Bank Polska S.A., expert opinion and any significant changes in assets and liabilities that occurred between the date of the demerger plan preparation and the day of adoption of the resolution on the demerger of Raiffeisen Bank Polska S.A.
- Adoption of a resolution regarding the demerger of Raiffeisen Bank Polska S.A., establishing an increase in the share capital of Bank BGŻ BNP Paribas S.A. and amending the Bank's Statute.
- Adoption of resolutions regarding the adoption of a uniform text of the Bank's Statute.
- Adoption of a resolution regarding the establishment and adoption of the Remuneration Policy for members of the Supervisory Board of Bank BGŻ BNP Paribas S.A.

4.09.2018 On 3 September 2018, the Bank received the last missing individual interpretations of tax law related to the demerger of RBPL, specified in the Transaction Agreement.

6.09.2018 Application to the PFSA regarding the approval to include the net profit generated by the Bank in the first half of 2018, in the amount of PLN 194,073 thousand, into Tier 1 capital of the Bank.

14.09.2018 Decision of PFSA regarding the permit for the demerger of Raiffeisen Bank Polska S.A. and other

decisions related to the planned acquisition of the Core Business of Raiffeisen Bank Polska S.A. by Bank BGŻ BNP Paribas S.A.

26.09.2018 Decisions of PFSA of 25 September 2018 related to the permit for changes in the Statute of Bank BGŻ BNP Paribas S.A. in relation to the planned acquisition of the Core Business of Bank BGŻ BNP Paribas S.A. – fulfilment of all the terms of the Demerger specified in the Demerger Plan.

27.09.2018 Decision of PFSA regarding the permit to include the net profit generated by the Bank in the first half of 2018, in the amount of PLN 194,073 thousand, into Tier 1 capital of the Bank.

11.10.2018 Fulfilling or waiver of all terms precedent provided for in the transaction agreement regarding the acquisition of the Core Business of Raiffeisen Bank Polska S.A.

16.10.2018 Polish Financial Supervision Authority recommendation regarding additional capital requirement

On 16 October 2018, the Bank received a decision of PFSA regarding the coverage of additional capital requirement in order to hedge the risk resulting from foreign currency mortgage loans and advances for households, on the level of 0.36 p.p. over the value of the total capital ratio, specified in article 92 paragraph 1 of the Capital Requirements Regulation No. 575/2013.

Tier 1 capital shall account for at least 75% of the additional capital requirement (which complies with the capital requirement on the level of 0.27 p.p. over the value of Tier I capital ratio, specified in article 92 paragraph 1 b of the Regulation No. 575/2013). At the same time, the Common Equity Tier 1 shall account for at least 56% of the additional capital requirement (which complies with the capital requirement on the level of 0.20 p.p. over the value of Common Equity Tier I ratio, specified in article 92 paragraph 1 a of the Regulation No. 575/2013).

Simultaneously, the Management Board of the Bank informed that as at the date of receiving the PFSA's decision it maintains own capital on the level allowing to meet the recommended capital requirements both on separate and consolidated basis.

31.10.2018 Registration of the demerger of Raiffeisen Bank Polska S.A.

On 31 October 2018, the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register entered into the register of entrepreneurs an increase in the Bank's share capital from PLN 97,538,338.00 to PLN 147,418,128.00 through the issue of 49,880,600 ordinary registered series L shares with a nominal value of PLN 1.00 each (registration of the Capital Increase), due to the demerger of Raiffeisen Bank Polska S.A. (RBPL) in the mode of article 529 § 1 point 4 of the Code of Commercial Companies (Demerger).

According to article 530 § 2 of the Code of Commercial Companies, along with the Registration of Capital Increase, the core business of RBPL (Core Business of RBPL) were demerged, in the form of an organized part of the enterprise together with all assets and liabilities of RBPL related to this business, excluding assets and liabilities that will remain in RBPL after the Demerger, as well as the transfer of the Core Business of RBPL to the Bank. Thus, the Demerger became effective and the Core Business of RBPL became formally part of the Bank.

Along with the Registration of the Capital Increase, also the registration of changes to the Bank's Statute related to the Demerger was made, including changes to the provisions regarding the Bank's share capital and the Bank's business, so that the Bank would be formally entitled to continue the activities of RBPL to the extent that it was transferred to the Bank as a result of the demerger. Amendments to the Bank's Statute were made on the basis of Resolutions No. 3 and No. 4 of the Extraordinary General Meeting of the Bank dated 24 August 2018

31.10.2018 Notification from BNP Paribas SA concerning the change of share in total number of shares

On 31 October 2018, the Bank received a notification prepared by BNP Paribas SA with its registered office in Paris, France, pursuant to article 69 paragraph 2 point 2 in connection with article 87 paragraph 5 point 1 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 29 July 2005 (unified text: Journal of Laws of 2018, item 512, as amended) concerning changes of the share in the total number of votes by at least 1% of the total number of votes.

2.11.2018 Notification of Raiffeisen Bank International AG concerning the fact of reaching and exceeding a 5% share in the total number of votes.

On 2 November 2018, the Bank received a notification prepared by Raiffeisen Bank International AG with its registered office in Vienna, Austria and Parent Entities, pursuant to article 69 paragraph 1 point 1 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 29 July 2005 (unified text: Journal of Laws of 2018, item 512, as amended) concerning the fact of reaching and exceeding 5% of the total number of votes.

5.11.2018 Notification from Rabobank International Holding B.V. concerning the decrease of the share in share capital and decrease in the number of votes on the General Meeting of Bank BGŻ BNP Paribas S.A.

On 5 November 2018, the Bank received a notification prepared by Rabobank International Holding B.V., with its registered office in Utrecht, pursuant to article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 29 July 2005 (unified text: Journal of Laws of 2018, item 512, as amended) concerning the decrease of the share in share capital and decrease in the number of votes on the General Meeting of the Bank.

Notification from Raiffeisen Bank International AG concerning the sale of all of the shares of Bank BGŻ BNP Paribas S.A.

On 5 November 2018, the Bank received a notification prepared by Raiffeisen Bank International AG, with its registered office in Vienna, Austria and the Parent Undertakings (RBI), pursuant to article 69 paragraph 1 point 2 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 29 July 2005 (unified text: Journal of Laws of 2018, item 512, as amended) concerning the sale of all shares of the Bank held by RBI.

Notification from BNP PARIBAS SA concerning the change in total number of votes

On 5 November 2018, the Bank received a notification prepared by BNP Paribas SA with its registered office in Paris, France, pursuant to article 69 paragraph 2 point 2 in connection with article 87 paragraph 5 point 1 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 29 July 2005 (unified text: Journal of Laws of 2018, item 512, as amended) concerning changes of the share in the total number of votes by at least 1% of the total number of votes.

5.11.2018 Purchase of the shares of Bank BGŻ BNP Paribas by the European Bank for Reconstruction and Development (EBRD)

On 5 November 2018, the Management Board of the Bank was informed that on 5 November 2018, EBRD has acquired the share in the share capital and in the total number of votes of approximately 4.5%, via the investment of PLN 430 million.

7.11.2018 Notification of BNP Paribas Fortis SA/NV concerning the change in total number of votes

On 7 November 2018, the Bank received a notification prepared by BNP Paribas Fortis SA/NV, with its registered office in Brussels, Belgium, pursuant to article 69 paragraph 1 point 2 and article 69 paragraph 2 point 1 a) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 29 July 2005 (unified text: Journal of Laws of 2018, item 512, as amended) concerning the change in total number of votes and decrease in the share in total number of votes to the level below 25%.

15.11.2018 Application to PFSA for permission to recognize the net profit for the third quarter of 2018 in the amount of PLN 134,236,681.54 as the Tier 1 capital of the Bank.**21.11.2018 PFSA decision to grant permission to classify 49,880,600 series L shares issued by Bank BGŻ BNP Paribas S.A. with a nominal value of PLN 1.00 each, for the total issue price of PLN 3,250,000,000 as instruments in the common equity Tier 1.****23.11.2018 Notification from BNP PARIBAS SA concerning the change in total number of votes**

On 23 November 2018, the Bank received a notification prepared by BNP Paribas SA with its registered office in Paris, France, pursuant to article 69 paragraph 2 point 2 in connection with article 87 paragraph 5 point 1 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 29 July 2005 (unified text: Journal of Laws of 2018, item 512, as amended) concerning changes of the share in the total number of votes by at least 1% of the total number of votes.

26.11.2018 Notification from BNP Paribas Fortis SA/NV concerning the change in total number of votes

On 26 November 2018, the Bank received a notification prepared by BNP Paribas SA with its registered office in Paris, France, pursuant to article 69 paragraph 2 point 1 a) of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 29 July 2005 (unified text: Journal of Laws of 2018, item 512, as amended) concerning changes of the share in the total number of votes by at least 2% of the total number of votes.

30.11.2018 Recommendation of PFSA regarding an additional capital requirement for Bank BGŻ BNP Paribas S.A. Capital Group

On 30 November 2018, the Bank received a letter recommending maintaining lower than previously own funds, aimed at covering the additional capital requirement in order to hedge against the risk resulting from mortgage-secured loans and advances to households on a consolidated basis at the level of 0.36 p.p. over the value of the total capital ratio referred to in article 92 paragraph 1 c) of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and

investment firms ("Regulation No. 575/2013").

The additional capital requirement should consist at least in 75% of Tier 1 capital (which corresponds to the capital requirement of 0.27 p.p. above the Tier 1 capital ratio referred to in Article 92 (1) b of Regulation No. 575/2013) and at least 56% of Common Equity Tier 1 capital (which corresponds to a capital requirement of 0.20 p.p. above the value of Common Equity Tier 1 capital ratio referred to in Article 92 (1) (a) of Regulation No. 575/2013).

At the same time, the Management Board of the Bank informed that as at the date of receipt of this letter, the Bank maintained its own funds in the amount allowing for compliance with the recommended capital requirements both in individual and consolidated terms.

10.12.2018 Subordinated loan agreement

On 10 December 2018, the Bank and BNP Paribas SA, a French public limited company (societe anonyme), with its registered office in Paris, France, 16 Boulevard des Italiens - 75009, registered in the Commercial Companies Register kept by the Commercial Court in Paris at (SIREN) 662 042 449, concluded a non-revolving subordinated loan agreement in the amount of EUR 40 million, equivalent to PLN 171.6 million according to the average exchange rate of the National Bank of Poland of 10 December 2018 (EUR 1 = PLN 4.2911).

The subordinated loan was granted for a period of 10 years from the moment of launch. The interest rate on the subordinated loan was determined based on the 3-month EURIBOR rate, increased by the margin. Financial conditions of the above contracts do not differ from market conditions.

11.12.2018 Extraordinary General Meeting of the Bank

- Approval of changes in the Bank's Statute, including those concerning the change of the Bank's name to BNP Paribas Bank Polska S.A. (after obtaining the formal approval of the PFSA) and adoption of the uniform text.
- Adoption of a resolution regarding the determination of the maximum ratio of variable remuneration components to fixed remuneration components for the members of the Bank's Management Board and the Executive Director of the Human Resource Management Division.

12.12.2018 Conditional registration of 6,700,000 series L shares of Bank BGŻ BNP Paribas S.A. in the securities depository - KDPW statement no. 743/2018 dated 12 December 2018.

14.12.2018 The PFSA decision to approve the inclusion of the net profit for the third quarter of 2018 in the amount of PLN 134,236,681.54 in Tier 1 capital of the Bank.

Agreement with trade unions on employment restructuring

As a result of negotiations with trade union organizations operating at the Bank, an agreement was concluded on defining the rules of conduct in matters concerning employees in connection with the group layoffs process ("Agreement"). Group layoffs will be performed following the transfer of the Core Business of Raiffeisen Bank Polska S.A. to the Bank. The parties to the Agreement have agreed that collective redundancies will be conducted from 1 January 2019 to 31 December 2020 and will cover no more than 2,200 employees of the Bank.

The parties to the Agreement have also agreed selection criteria for employees whose employment contracts will be terminated as part of collective redundancies, employee participation conditions in voluntary departure schemes, conditions for severance pay and additional compensation for employees, and conditions for relocation (change of place of work) and the so-called outplacement program.

The Bank estimated the amount of the restructuring provision to cover the costs of employment reduction and the closure of branches for the amount of PLN 128.5 million and PLN 28.5 million, respectively. The provision charged the Bank's result in the fourth quarter of 2018.

18.12.2018 Information on the admission and introduction to exchange trading on the WSE Main Market of 6,700,000 ordinary bearer shares of the L series of Bank BGŻ BNP Paribas S.A. - resolution of the WSE Management Board no. 1277/2018.

19.12.2018 Statement of the National Depository for Securities S.A. of 19 December 2018 regarding the registration of 6,700,000 series L shares of Bank BGŻ BNP Paribas S.A. on 20 December 2018 The PFSA decision to approve a subordinated loan in the amount of EUR 40 million for the Bank's Tier II capital calculation.

Any changes made in regard to the composition of the Management Board or the Supervisory Board of the Bank in the first half of 2018 are presented in detail in chapter 4. *Governing bodies of Bank BGŻ BNP Paribas S.A.* (below).

4. GOVERNING BODIES OF BANK BGŻ BNP PARIBAS

4.1. Composition of the Supervisory Board

The composition of the Supervisory Board as of 31 December 2018 was the following:

Full name	Office held in the Supervisory Board of the Bank
Józef Wancer	Chairman of the Supervisory Board
Jarosław Bauc	Vice-Chairman, 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.

4.2. Composition of the Management Board

The composition of the Management Board as of 31 December 2018 was the following:

Full name	Office 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 Kemblowski	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 Law 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.

4.3. Remuneration of the Supervisory Board and Management Board

Individual data on remuneration paid in during the year for individual Management Board Members are as follows:

Table 6. Remuneration paid to Management Board Members in 2018¹

Full name	Period of service		Basic remuneration	Variable remuneration paid during the year	Phantom shares	Additional benefits	Total
	from	to					
Przemysław Gdański	01.01.2018	31.12.2018	1,920	63	-	72	2,055
Jean-Charles Aranda	01.01.2018	31.12.2018	809	136	-	214	1,159
Daniel Astraud	01.01.2018	31.12.2018	1,563	633	198	265	2,659
Philippe Paul Bézieau	01.01.2018	31.12.2018	912	36	8	130	1,086
Blagoy Bochev	01.01.2018	31.10.2018	719	280	72	378 ²	1,449
André Boulanger	01.11.2018	31.12.2018	170	-	-	56	226
Przemysław Furlepa	01.01.2018	31.12.2018	1,000	45	-	144	1,189
Wojciech Kembłowski	01.01.2018	31.12.2018	985	442	99	60	1,586
Kazimierz Łabno	08.11.2018	31.12.2018	126	390 ³	-	1	517
Jaromir Pelczarski	01.01.2018	31.12.2018	1,000	408	112	6	1,526
Jerzy Śledziewski	01.01.2018	31.12.2018	1,080	188	14	75	1,357
Bartosz Urbaniak	01.01.2018	31.03.2018	208	123	58 ⁴	1	390
Total			10,492	2,744	561	1,402	15,199

¹ – remuneration paid to the Management Board Members for the period of performing duties in the Management Board

² – includes equivalent paid for unused holiday leave

³ - variable remuneration due in the period preceding the appointment to the Management Board and paid after that fact

⁴ - the value of the deferred part of the variable remuneration paid after the termination of office in the Management Board

Table 7. Remuneration paid to Management Board Members in 2017¹

Full name	Period of service		Basic remuneration	Variable remuneration paid during the year	Phantom shares	Additional benefits	Total
	from	to					
Przemysław Gdański	01.11.2017	31.12.2017	320	-	-	1	321
Tomasz Bogus	01.01.2017	31.10.2017	1,400	280	279	1,816 ¹	3,775
Jean-Charles Aranda	05.04.2017	31.12.2017	574	22	-	170	766
Daniel Astraud	01.01.2017	31.12.2017	1,577	508	300	243	2,628
Francois Benaroya	01.01.2017	30.09.2017	864	580	304	213	1,961
Philippe Paul Béziau	01.01.2017	31.12.2017	915	50	26	126	1,117
Blagoy Bochev	01.01.2017	31.12.2017	840	222	167	218	1,447
Jan Bujak	01.01.2017	05.04.2017	317	126	107	1,874 ²	2,424
Przemysław Furlepa	01.10.2017	31.12.2017	250	-	-	95	345
Wojciech Kemblowski	01.01.2017	31.12.2017	979	237	163	6	1,385
Magdalena Legęć	01.01.2017	31.12.2017	800	182	156	72	1,210
Jaromir Pelczarski	01.01.2017	31.12.2017	1,000	324	201	71	1,596
Jerzy Śledziwski	01.01.2017	31.12.2017	1,080	48	48	72	1,248
Bartosz Urbaniak	01.01.2017	31.12.2017	825	132	122	6	1,085
Total			11,741	2,711	1,873	4,983	21,308

¹ – remuneration paid to the Management Board Members for the period of performing duties in the Management Board

² – the amount includes severance pay and compensation paid due to the termination of the employment contract and the equivalent for unused holiday leave

According to individual employment contracts, Management Board members have the right to life insurance and a medical care package as well as compensation bonuses.

In addition, the additional benefits due to members of the Management Board (based on individual employment contracts) include, among others:

- housing allowance specified in the employment contract,
- covering or reimbursement of costs incurred in connection with posting to work in Poland,
- covering the costs of private travel to the posting country for a Member of the Management Board and members of the family living in Poland (at a specific frequency),
- covering the costs of attending children to schools in Poland,
- one-time allowance related to a change of place of work.

Personal details of remuneration paid during the year for individual Supervisory Board members are presented in the tables below:

Table 8. Remuneration paid to Supervisory Board Members in 2018

PLN '000	Period of service		Remuneration due to the office held in the Supervisory Board	Remuneration due to the office previously held in the Management Board		
	Full name	from		to	Variable remuneration	Phantom shares
	Józef Wancer	01.01.2018	31.12.2018	600	218	223
	Jarosław Bauc	01.01.2018	31.12.2018	180	-	-
	Jean-Paul Sabet	01.01.2018	31.12.2018	132	-	-
	Francois Benaroya	23.01.2018	31.12.2018	89	593	202
	Yvan De Cock	01.01.2018	13.06.2018	80	-	-
	Stefaan Decraene	01.01.2018	31.12.2018	110	-	-
	Jacques d'Estais	01.01.2018	31.12.2018	110	-	-
	Michel Falvert	24.08.2018	31.12.2018	-	-	-
	Alain Van Groenendael	01.01.2018	25.05.2018	-	-	-
	Piotr Mietkowski	01.01.2018	31.12.2018	110	-	-
	Monika Nachyla	01.01.2018	31.12.2018	150	212	176
	Stéphane Vermeire	24.08.2018	31.12.2018	-	-	-
	Mariusz Warych	01.01.2018	31.12.2018	300	-	-
Total				1,861	1,023	601

Table 9. Remuneration paid to Supervisory Board Members in 2017

PLN '000	Period of service		Remuneration due to the office held in the Supervisory Board	Remuneration due to the office previously held in the Management Board		
	Full name	from		to	Variable remuneration	Phantom shares
	Józef Wancer	01.01.2017	31.12.2017	600	129	114
	Jarosław Bauc	01.01.2017	31.12.2017	180	-	-
	Jean-Paul Sabet	01.01.2017	31.12.2017	180	-	-
	Yvan De Cock	22.06.2017	31.12.2017	67	-	-
	Stefaan Decraene	01.01.2017	31.12.2017	150	-	-
	Jacques d'Estais	01.01.2017	31.12.2017	150	-	-
	Alain Van Groenendael	01.01.2017	31.12.2017	-	-	-
	Thomas Mennicken	01.01.2017	22.06.2017	84	-	-
	Piotr Mietkowski	01.01.2017	31.12.2017	150	-	-
	Monika Nachyla	01.01.2017	31.12.2017	150	142	96
	Mariusz Warych	01.01.2017	31.12.2017	300	-	-
Total				2,011	271	210

Information on the remuneration of the Management Board and the Supervisory Board Members can be found also in note 52 Related party transactions in the *Separate Financial Statements of Bank BGŻ BNP Paribas S.A. for the year ended 31 December 2018*.

On 24 August 2018, at the Extraordinary General Meeting, a resolution was adopted as a result of which a member of the Supervisory Board who is simultaneously employed in any entity within the BNP Paribas SA Capital Group or in any subsidiary of any entity being part of the BNP Paribas SA Capital Group, will not be entitled to remuneration for performing the function of a Member of the Supervisory Board of Bank BGŻ BNP Paribas S.A.

5. RATINGS

The Bank's ratings have been assigned by Moody's Investors Service Ltd. (the "Agency").

On 19 December 2017, the Agency has upgraded the ratings for the Bank's long-term deposits to level Baa1 from Baa2, with a stable perspective; at the same time the rating for the short-term deposits has been maintained at Prime-2 level.

At the same time, the following have been confirmed: the basic BCA (Baseline Credit Assessment) credit score at ba2 level and Adjusted Baseline Credit Assessment at baa3 level. Also, the Counterparty Risk Assessment has been maintained at level A3 (cr) / Prime-2 (cr).

In 2018, the Agency maintained the aforementioned levels.

The main factors supporting the maintenance of the ratings are:

- good macroeconomic situation in Poland,
- financing of the assets with the use of funds from the outside of the interbank market,
- adequate level of liquid assets.

Moody's Investors Service	Rating
Long-term deposit rating (<i>LT Bank Deposits</i>)	Baa1
Short-term deposit rating (<i>ST Bank Deposits</i>)	Prime-2
Individual assessment (<i>Baseline Credit Assessment, BCA</i>)	ba2
Adjusted individual assessment (<i>Adjusted Baseline Credit Assessment, Adjusted BCA</i>)	baa3
Counterparty risk assessment in long-term / short-term (<i>Counterparty Risk assessments, CRa</i>)	A3(cr)/Prime-2(cr)
Perspective	stable

6. AWARDS AND DISTINCTIONS

In 2018 the Bank received the following awards and distinctions:

February	the title of Top Employer Polska 2018 for the HR policy developed in line with best market practices
March	the title of Gwiazda Jakości Obsługi 2018 (Service Quality Star 2018) in the 11th edition of the Polish Service Quality Program
	distinction in the Diamenty Inwestycji (the Diamonds of Investments) competition in the "Financing bank of the year" category
May	Srebrny Listek CSR POLITYKI – as one of the organizations characterized by consistent activities in the field of sustainable development
	gold in the Power of Content Marketing Awards competition. Once again, the jury awarded the

	„AgroKurier - a modern farmer's magazine“ Bank project in the content marketing category
	first place (once again) in the third edition of the Best Farmer's Bank 2018 ranking, prepared by the Martin & Jacob research agency
June	first place in the banking, financial and insurance sectors and fourth place in the general classification of the 12th edition of the Responsible Business Ranking 2018
October	an award for the most innovative solution in the field of Data Governance in the banking sector during the Informatica Summit 2018
November	distinction for a number of initiatives in the field of corporate social responsibility in the Belgian Business Chamber Award 2018 contest in the Platinum category award in the Warsaw Investment without Barriers 2018 competition for the best-fitting service facility adapted to the needs of disabled people - an award for the Bank's flagship branch located in Warsaw, in the former "Sezam" premises
December	Business Award for Architects of Development for commitment to SDG11 Sustainable Cities program through, among others, financing energy efficiency and pro-ecological projects

7. SHAREHOLDER STRUCTURE OF BANK BGŻ BNP PARIBAS S.A.

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

Table 10. Shareholder structure as of 31.12.2018

Shareholder	number of shares	% interest in share capital	number of votes at the General Shareholders' Meeting	% share in the total number of votes at the General Shareholders' Meeting
BNP Paribas, in total:	130,850,464	88.76%	130,850,464	88.76%
<i>BNP Paribas directly</i>	95,360,238	64.69%	95,360,238	64.69%
<i>BNP Paribas Fortis SA/NV directly</i>	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 of 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 series K ordinary registered shares taken up 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:

- 9,880,600 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 Consolidated interim 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.

8. SHARE PRICE OF BANK BGŻ BNP PARIBAS S.A. ON WSE

The Bank's shares, to which ISIN code PLBGZ0000010 has been assigned, are listed on the Main Market of the Warsaw Stock Exchange (WSE).

The Bank's shares are traded under the abbreviated name of BGZBNPP, marked "BGZ" and classified to the 250 PLUS segment. As of 24 December 2018, the shares are included in the sWIG80 and sWIG80TR indices.

During the session on December 28, 2018, the share price amounted to PLN 48.50 and was lower by 28.56% as compared to December 29, 2017. In the same period, the WIG Banks index fell by 12.12%. The exchange rate reached its maximum on 5-6 March, 25-27 April and on 2, 4, 8, 14, 16 and 21 May 2018 (68.40 PLN).

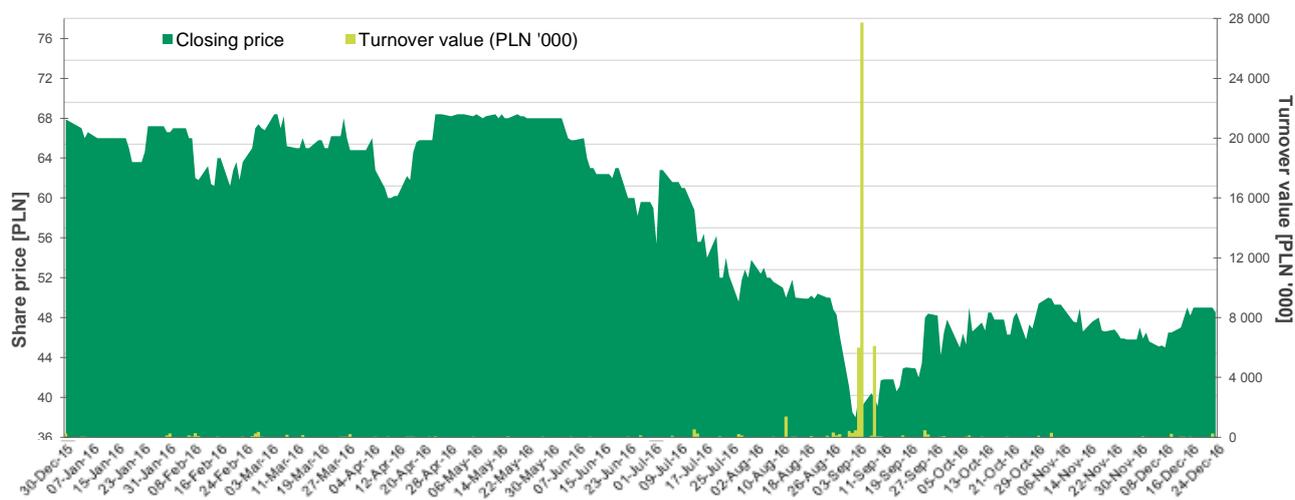
The average price of the Bank's shares in 2018 amounted to PLN 57.04 and was lower by 10.94% than the average in 2017 (PLN 64.05). The average volume of trading in the Bank's shares was 4,964.31 shares per session, and the average trading value in Bank shares for the session was PLN 205.40. PLN and they were definitely higher than in 2017 (respectively 1,516.98 shares and PLN 95.83 thousand).

The decrease in the average share price was caused by a significant drop in the price, which occurred in July and August 2018. The price recorded its annual minimum at the session on 5 September 2018 (PLN 38.00), which coincided with the problems on the capital market caused by declining trust and problems of some investment fund companies. Higher than usual supply of shares in combination with low free float led to decrease in the prices of shares of some small companies, including a lowering in the Bank's share price (despite positive events of fundamental nature, such as reporting results for the first half of 2018 above market consensus and the finalization of J and K series shares, which allowed an increase in the Bank's capital adequacy ratios and their stabilization at levels above regulatory requirements).

In the first and second quarter of 2018, the share price remained stable (the daily average was PLN 65.51 and PLN 65.21, respectively). The changes that took place in the period from July to September led to a reduction of the average price to PLN 50.21 in the third quarter of 2018.

The average daily trading volume in the first and second quarter amounted to 677.19 and 265.53 shares, respectively, while the average trading value per session was PLN 44.50 thousand and PLN 16.98 thousand respectively. The lowering of the price level has led to a significant increase in the scale of trade in the Bank's assets. The average daily trading volume in the third quarter of 2018 amounted to 17,608.08 items, and the average trading value per session was PLN 7050 thousand. The last quarter of the year brought a stabilization of the share price, which allowed to slow down the average price drop (PLN 47.27 thousand in the fourth quarter of 2018) and stabilize the average daily trading volume and average turnover on levels comparable to the first and second quarter of 2018 (591.84 shares and PLN 28.21 thousand).

Chart 5. The Bank's share price from 29 December 2017 to 28 December 2018



**Chart 6. Change in Bank's share price vs. WIG-Banks from 29 December 2017 to 28 December 2018
(29 December 2017 = 100%)**



9. FINANCIAL STANDING OF THE BGŻ BNP PARIBAS S.A. CAPITAL GROUP IN 2018

9.1. Consolidated statement of profit or loss

In 2018 the Bank BGŻ BNP Paribas SA Capital Group generated a net profit of PLN 360,378 thousand, i.e. by PLN 80,671 thousand (28.8%) higher than the one achieved in 2017.

The result on the banking activity of the Group in the analysed period amounted to PLN 3,289,086 thousand, and was higher y/y by PLN 593,106 thousand, i.e. by 22.0%.

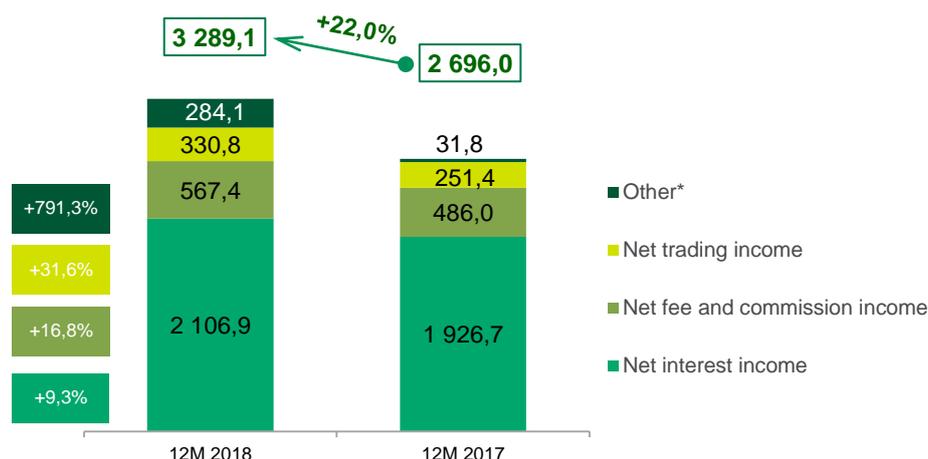
The most important event affecting the level of net profit in 2018 and the comparability of results from 2017 was the finalization on 31 October 2018 of the acquisition of the Core Business of Raiffeisen Bank Polska S.A. ("RBPL") described in more detail in Chapter 4.2. "Acquisition of the Core Business of Raiffeisen Bank Polska S.A." of the Consolidated Financial Statements of the Bank BGŻ BNP Paribas S.A. Capital Group for the year ended 31 December 2018.

As a consequence of the method used to perform and settle the transaction, the income and expenses of the Core Business of Raiffeisen Bank Polska S.A. for the last two months of 2018 are recognized in the profit or loss account of the Bank Capital Group for 2018 (implemented after 31 October 2018).

In addition, the following factors related to the aforementioned transaction have affected the comparability of results achieved in 2018 and 2017:

- the initial settlement of the merger of entities and calculating the gain on the bargain purchase of the Core Business of RBPL, as a result of which the amount of PLN 291,706 thousand was recognized in the category of other operating income.
- an allowance due to expected credit losses in the 12-month horizon for loans and advances to customers and amounts due from banks, without impairment as well as for debt securities, recognized in the result of 2018, in the total amount of PLN 238,897 thousand.
- integration costs in the amount of PLN 265,804 thousand recognized in the general administrative expenses and other operating expenses in 2018 (including PLN 9,100 thousand related to the acquisition of SKOK Rafineria) as compared to PLN 35,641 thousand of integration costs in 2017 (concerning earlier merger processes of BGŻ S.A., BNP Paribas Bank Polska S.A. and Sygma Bank Polska S.A.).

Chart 7. Structure of net income on banking activity in PLN million



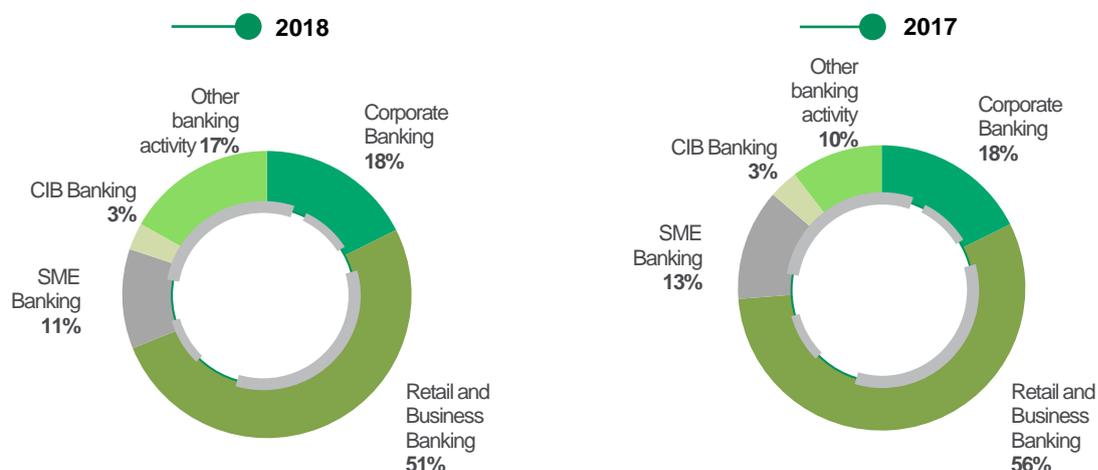
* The 'Other' category includes the result on investment activities, the result on hedge accounting, income on dividends and other operating income and expenses (in 2018 - the amount of PLN 291.7 million related to the bargain purchase of the Core Business of RBPL).

Table 11. Statement of profit or loss

PLN '000	12 months ended 31.12.2018	12 months ended 31.12.2017	Change y/y	
			PLN '000	%
Net interest income	2,106,851	1,926,744	180,107	9.3%
Net fee and commission income	567,390	485,979	81,411	16.8%
Dividend income	4,860	10,360	(5,500)	(53.1%)
Net trading income	330,773	251,408	79,365	31.6%
Net investment income	48,838	28,398	20,440	72.0%
Result on hedge accounting due to measurement at fair value	(9,997)	3,304	(13,301)	(402.6%)
Other operating income and expenses	240,371	(10,213)	250,584	(2,453.6%)
Net income on banking activity	3,289,086	2,695,980	593,106	22.0%
Net impairment allowance on financial assets and provisions for contingent liabilities	(557,682)	(355,299)	(202,383)	57.0%
General administrative expenses	(1,859,672)	(1,506,866)	(352,806)	23.4%
Depreciation and amortization	(189,714)	(174,064)	(15,650)	9.0%
Operating result	682,018	659,751	22,267	3.4%
Tax on financial institutions	(213,122)	(205,866)	(7,256)	3.5%
Profit (loss) before income tax	468,896	453,885	15,011	3.3%
Income tax expense	(108,518)	(174,178)	65,660	(37.7%)
Net profit (loss)	360,378	279,707	80,671	28.8%
Net profit (loss) *excluding one-off events	484,528	308,576	175,952	57.0%

* One-off events: integration costs (2018 – PLN 265,804 thousand, 2017 – PLN 35,641 thousand), allowance due to expected credit losses in the 12-month horizon (2018 – PLN 238,897 thousand) and gain on the bargain purchase of the Core Business of RBPL (2018 - PLN 291,706 thousand).

Note: As the figures have been rounded up, the totals in the tables and charts of this Report may not add up

Chart 8. Net income on banking activity by segments

The change in the structure of the net income on banking activity visible in the above charts, broken down into segments, is the result of the recognition of a gain on a bargain purchase of the Core Business of RBPL in the area of other banking activity. Excluding the amount of PLN 291,706 thousand from the net income on banking activity, the share of Retail and Business Banking and SMEs would remain at the level of 56%, SME Banking would slightly decrease to 12%, Corporate Banking would increase to 19%, CIB Banking would remain at the level of 3%, and other banking activity would decrease to 9% of the total net income on banking activity of the Group.

Net interest income

Net interest income, constituting the main source of the Group's income, for the 12 months of 2018 amounted to PLN 2,106,851 thousand, and increased y/y by PLN 180,107 thousand, i.e. by 9.3%.

Table 12. Net interest income

PLN '000	12 months	12 months	Change y/y	
	ended 31.12.2018	ended 31.12.2017	PLN '000	%
Loans and advances to banks	17,323	29,356	(12,033)	(41.0%)
Loans and advances to clients measured at amortized cost	2,347,366	2,239,898	107,468	4.8%
Loans and advances to clients measured at fair value through profit or loss	77,311	-	77,311	x
Debt instruments measured at amortized cost	257,703	-	257,703	x
Debt instruments measured at fair value through profit or loss	1,064	-	1,064	x
Debt instruments are measured at fair value through other comprehensive income	167,805	-	167,805	x
Derivative instruments under fair value hedge accounting	115,233	80,978	34,255	42.3%
Purchased repo transactions	24	-	24	x
Debt securities available for sale	-	314,986	(314,986)	(100.0%)
Interest income	2,983,829	2,665,218	318,611	12.0%
Amounts due to banks	(119,493)	(79,015)	(40,478)	51.2%
Debt securities issued	(76,167)	(14,043)	(62,124)	442.4%
Amounts due to customers	(578,270)	(570,922)	(7,348)	1.3%
Derivative instruments under fair value hedge accounting	(93,592)	(73,377)	(20,215)	27.5%
Repo transactions	(9,456)	(1,117)	(8,339)	746.6%
Interest expenses	(876,978)	(738,474)	(138,504)	18.8%
Net interest income	2,106,851	1,926,744	180,107	9.3%

In 2018, as compared to 2017, interest income increased by PLN 318,611 thousand, i.e. by 12.0% y/y with a simultaneous increase in interest expenses by PLN 138,504 thousand, i.e. by 18.8% y/y.

A factor positively influencing the level of net interest income in 2018, but at the same time disturbing comparability with 2017, was the fact that Bank BGŻ BNP Paribas S.A. Capital Group recognized the interest income and expenses of the acquired Core Business of Raiffeisen Bank Polska S.A. generated after 31 October 2018, i.e. for the last two months of 2018, in the profit or loss account for 2018.

Among external factors affecting the level of net interest income, NBP's policy regarding the development of basic interest rates and their stabilization at record low level (the reference rate as of March 2015 amounts to 1.5%) and market trends in determining interest rates on deposits should be mentioned.

The fact that the Group's liquidity position was significantly improved as a result of finalizing the acquisition of the Core Business of RBPL (net loans / deposits ratio fell from 104.9% at the end of September 2018 to 84.2% at the end of December 2018) enabled optimization of the pricing policy pursued and, consequently, the improvement of deposit margins both in the case of liabilities to business entities and to retail customers.

The factor negatively affecting the level of the result of net interest income was the fact of lowering the interest rate on funds held as a mandatory reserve at the NBP. It is estimated that for this reason the net interest income in 2018 was lower than the result of 2017 by approx. PLN 15,286 thousand.

At the end of December 2018, the Group applied fair value hedge accounting. The change in the fair value measurement of hedging transactions is recognized in the result on hedge accounting. Interest on IRS transactions and hedged items is recognized in net interest income. The net interest income on hedging relationships (the sum of interest income and interest expense from derivative instruments under fair value hedge accounting) for 2018 was positive and amounted to PLN 21,641 thousand against PLN 7,601 thousand in 2017.

Net fee and commission income

The net fee and commission income in 2018 amounted to PLN 567,390 thousand and was higher by PLN 81,411 thousand, i.e. by 16.8% y/y.

A factor positively affecting the level of net fee and commission income in 2018 but at the same time disturbing comparability with 2017 was the fact that Bank BGŻ BNP Paribas S.A. Capital Group in the statement of profit or loss for 2018 has recognized the fee and commission income and expenses of the Core Business of Raiffeisen Bank Polska S.A., realized in the last two months of 2018.

The fee and commission income increased in 2018 as compared to 2017 by PLN 123,233 thousand , i.e. by 20.5% y/y while commission costs increased by PLN 41,822 thousand PLN, i.e. by 36.2%.

The increase in fee and commission income was recorded primarily in terms of revenues from:

- asset management and brokerage operations by PLN 41,919 thousand PLN, i.e. by 85.0%,
- payment and credit cards by PLN 28,430 thousand, i.e. by 31.4%,
- lending and leasing activities by PLN 20,097 thousand, i.e. by 10.4%,
- execution of transfers and electronic banking services by PLN 10,184 thousand, i.e. by 20.6%,
- guarantee obligations and documentary operations by PLN 9,082 thousand, i.e. by 30.9%.

The increase in fee and commission expense was mainly caused by higher expenses related to:

- asset management and brokerage operations of PLN 17,778 thousand, i.e. 762.7%,
- intermediation in the sale of the Bank's products and acquisition of customers by PLN 16,000 thousand , i.e. by 198.1%,
- other commissions by PLN 3,177 thousand, i.e. by 46.1%,
- cash service by PLN 2,818 thousand, i.e. by 79.9%.

Table 13. Net and fee commission income

PLN'000	12 months ended 31.12.2018	12 months ended 31.12.2017	change y/y	
			PLN '000	%
Fee and commission income				
loans, advances and leases	214 180	194 083	20 097	10,4%
account maintenance	107,258	106,097	1,161	1.1%
cash service	22,440	19,475	2,965	15.2%
cash transfers and e-banking	59,568	49,384	10,184	20.6%
guarantees and documentary operations	38,512	29,430	9,082	30.9%
asset management and brokerage operations	91,249	49,330	41,919	85.0%
payment and credit cards	118 879	90 449	28 430	31,4%
insurance mediation activity	47,015	42,317	4,698	11.1%
product sale mediation and customer acquisition	13,431	5,748	7,683	133.7%
other commissions	12,182	15,168	(2,986)	(19.7%)
Fee and commission income	724,714	601,481	123,233	20.5%
Fee and commission expense				
loans, advances and leases	(2,803)	(4,501)	1,698	(37.7%)
account maintenance	(3,951)	(3,514)	(437)	12.4%
cash service	(6,343)	(3,525)	(2,818)	79.9%
cash transfers and e-banking	(1,959)	(1,266)	(693)	54.7%
asset management and brokerage operations	(20,109)	(2,331)	(17,778)	762.7%
payment and credit cards	(76,429)	(75,640)	(789)	1.0%
insurance mediation activity	(11,592)	(9,764)	(1,828)	18.7%
product sale mediation and customer acquisition	(24,075)	(8,075)	(16,000)	198.1%
other commissions	(10,063)	(6,886)	(3,177)	46.1%
Fee and commission expense	(157,324)	(115,502)	(41,822)	36.2%
Net fee and commission income	567,390	485,979	81,411	16.8%

Dividend income

Dividend income in 2018 was recognized from the profits of the companies for 2017, in which the Bank held minority interests, i.e.: Biuro Informacji Kredytowej S.A. (BIK, PLN 3,944.0 thousand), Krajowa Izba Rozliczeniowa S.A. (KIR, PLN 773.7 thousand) and VISA (PLN 132.4 thousand).

Dividend income in 2017 came from the profits of companies for 2016, in which the Bank had minority interests, i.e.: Krajowa Izba Rozliczeniowa S.A. (KIR, PLN 827.5 thousand), Biuro Informacji Kredytowej S.A. (BIK, PLN 3,881.0 thousand) and VISA (PLN 65.9 thousand) and a former subsidiary BGŻ BNP Paribas Faktoring Sp. z o.o. (PLN 5,645.6 thousand).

Net trading income and net investment income

The net trading income in 2018 amounted to PLN 330,773 thousand and was higher by PLN 79,365 thousand, i.e. by 31.6% y/y. The level and volatility of this result is mainly determined by the valuation of derivative instruments and the result on the exchange position. A factor positively influencing the result on trading activities in 2018 was the fact that in the Group's result for 2018, the results of the Core Business of RBPL for the last two months of 2018 were recognized.

The net investment income for 2018 amounted to PLN 48,838 thousand and was higher by PLN 20,440 thousand, i.e. by 72.0% as compared to the result achieved in 2017.

In 2018, the most important item was the gain on the sale of debt instruments in the amount of PLN 41,244 thousand (including PLN 30,228 thousand in the fourth quarter). The change in the valuation of the portfolio of loans and advances to customers measured at fair value through profit or loss as a result of the adjustment to IFRS 9 was positive and amounted to PLN 5,984 thousand.

The result of 2017 consists of gain on the sale of a portfolio of securities available for sale in the amount of PLN 25,433 thousand and gain on the sale of shares in the amount of PLN 2,855 thousand, including PLN 2,757 thousand which concerns the sale of shares in BGŻ BNP Paribas Faktoring Sp. z o.o., completed in the fourth quarter of 2017.

Other operating income

Other operating income in 2018 amounted to PLN 387,778 thousand, and was higher by PLN 256,496 thousand, i.e. by 195.4% as compared to the previous year.

The increase was primarily due to recognition under other operating income of PLN 291,706 thousand gain on a bargain purchase, which is the excess of the fair value of the acquired assets and liabilities at the acquisition date over the purchase price of the Core Business of RBPL.

Table 14. Other operating income

PLN '000	12 months	12 months	change y/y	
	ended 31.12.2018	ended 31.12.2017	PLN '000	%
Sale or liquidation of property, plant and equipment and intangible assets	13,738	25,083	(11,345)	(45.2%)
Sale of goods and services	15,064	4,102	10,962	267.2%
Release of provisions for litigation and claims and other liabilities	2,173	10,923	(8,750)	(80.1%)
Recovery of debt collection costs	16,466	16,710	(244)	(1.5%)
Recovered indemnities	13,192	2,520	10,672	423.5%
Leasing operations	26,626	26,520	106	0.4%
Gain on bargain purchase of RBPL	291,706	-	291,706	x
Other operating income	8,813	45,424	(36,611)	(80.6%)
Total other operating income	387,778	131,282	256,496	195.4%

In addition, the level of other operating income in 2018 was positively influenced by:

- increase in income from the sale of goods and services by PLN 10,962 thousand, i.e. by 267.2%,
- increase in income due to recovered indemnities by PLN 10,672 thousand, i.e. by 423.5%.

The amount of other operating income in 2018 was adversely affected by:

- decrease in other operating income by PLN 36,611 thousand, i.e. by 80.6% (the level of this category in 2017 was affected by higher incomes from re-invoicing and the release of provisions for legal risks, in addition, this item

includes the annual adjustment of VAT tax charged for 2016 - in 2017 in the amount of PLN 7.9 million as compared to the annual adjustment of the calculated tax for 2017 in the amount of PLN 2.9 million - recognized in 2018),

- decrease in gain on the sale or liquidation of fixed assets and intangible assets by PLN 11,345 thousand, i.e. by 45.2%,
- lower income from the release of provisions for litigation and claims by PLN 8,750 thousand, i.e. by 80.1%.

Other operating expenses

Other operating expenses in 2018 amounted to PLN 147,407 thousand, and were higher by PLN 5,912 thousand (i.e. by 4.2%) as compared with 2017. The following factors had impact on the current level of operating expenses:

- integration expenses in the amount of PLN 29.6 million (PLN 22.1 million - provision for branch restructuring, PLN 7.5 million - impairment write-off for property, plant and equipment). In 2017, the impact of this category was positive and amounted to PLN 126 thousand,
- reduction of losses on the sale or liquidation of fixed assets and intangible assets by PLN 10,707 thousand, i.e. by 40.1%,
- no expenses generated due to impairment allowance on other receivables, which in 2017 amounted to PLN 10,244 thousand (the largest impact on this item was the creation, in the first quarter of 2017, of provisions for unsettled balances of card transactions resulting from the migration of IT systems after the end of the operational merger),
- costs related to compensations, penalties and fines incurred in 2018 in the amount of PLN 2,576 thousand,
- higher costs of debt collection by PLN 2,727 thousand, i.e. by 8.1%.

Table 15. Other operating expenses

PLN '000	12 months ended 31.12.2018	12 months ended 31.12.2017	change y/y	
			PLN '000	%
Loss on sale or liquidation of property, plant and equipment and intangible assets	(16,002)	(26,709)	10,707	(40.1%)
Impairment allowances on other receivables	-	(10,244)	10,244	(100.0%)
Provisions for litigation and claims and branches restructuring	(41,608)	(8,607)	(33,001)	383.4%
Debt collection	(36,294)	(33,567)	(2,727)	8.1%
Donations made	(3,342)	(2,686)	(656)	24.4%
Costs of leasing operations	(22,229)	(23,233)	1,004	(4.3%)
Costs of compensations, penalties and fines	(2,576)	-	(2,576)	x
Other operating expenses	(25,356)	(36,449)	11,093	(30.4%)
Total other operating expenses	(147,407)	(141,495)	(5,912)	4.2%

Net impairment allowance on financial assets and provisions for contingent liabilities

The result of impairment allowances on financial assets and provisions for contingent liabilities in 2018 amounted to PLN 557,682 thousand, and its negative impact on the Group's results was higher by PLN 202,383 thousand, i.e. by 57.0% y/y.

As a result of the acquisition of the Core Business of Raiffeisen Bank Polska S.A. in 2018, an allowance due to expected credit losses in the 12-month horizon for loans and advances to customers and amounts due from banks, without impairment as well as for debt securities was recognized, in the total amount of PLN 238,897 thousand, which was the reason for the deterioration of the total balance of allowances as compared to 2017.

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

In 2017, the Bank concluded 9 agreements regarding the sale of the loan portfolio. The amount of receivables (covered by a significant amount of impairment allowances, or derecognized) sold under the agreements amounted to PLN 651,152 thousand (principal, interest and other side charges). The contractual price for the sale of these portfolios has been set at PLN 138,119 thousand. The net effect on the Bank's result from the sale of portfolios amounted to PLN 34,881 thousand and was presented in the result of impairment allowances on financial assets and provisions for contingent liabilities.

The cost of credit risk expressed as the ratio of net impairment allowances on loans and advances to customers, measured at amortized cost (calculated on the basis of balances at the end of the quarters) amounted to 0.96% in 2018 and deteriorated by 35 bps in comparison to 2017 (0.61%). Excluding an additional allowance due to expected credit losses in the 12-month horizon for loans and advances to customers and amounts due from banks, without impairment as well as for debt securities in the total amount of PLN 238,897 thousand recognized in connection with the purchase of the Core Business of RBPL the cost of credit risk in 2018 would amount to 0.55% and would improve by 6 bps.

Considering the key operating segments²:

- the Retail and Business Banking segment recorded an improvement in the balance of allowances by PLN 49,894 thousand y/y,
- SME Banking segment - improvement by PLN 29,207 thousand y/y,
- Corporate Banking segment (including CIB) - deterioration by PLN 34,397 thousand y/y.

General administrative expenses, depreciation and amortization

General administrative expenses (including depreciation and amortization) of the Bank BGŻ BNP Paribas Capital Group for 2018 amounted to PLN 2,049,386 thousand, and were higher by PLN 368,456 thousand, i.e. by 21.9% as compared to 2017.

The increase in the expenses was mainly due to the merger of the Bank with the Core Business of Raiffeisen Bank Polska S.A. (RBPL) on 31 October 2018 and the integration costs incurred thereby in 2018.

Table 16. General administrative expenses, depreciation and amortization

PLN '000	12 months ended 31.12.2018	12 months ended 31.12.2017	change y/y	
			PLN '000	%
Personnel expenses	(1,057,189)	(832,005)	(225,184)	27.1%
Marketing	(107,498)	(92,379)	(15,119)	16.4%
IT and telecom expenses	(152,399)	(131,450)	(20,949)	15.9%
Rental expenses	(158,268)	(163,294)	5,026	(3.1%)
Other non-personnel expenses	(235,954)	(153,445)	(82,509)	53.8%
Business travels	(13,599)	(11,073)	(2,526)	22.8%
ATM and cash handling expenses	(4,091)	(3,448)	(643)	18.6%
Outsourcing costs related to leasing operations	(6,735)	(19,453)	12,718	(65.4%)
Bank Guarantee Fund fee	(117,294)	(95,483)	(21,811)	22.8%
Polish Financial Supervision Authority fee	(6,645)	(4,836)	(1,809)	37.4%
Total general administrative expenses	(1,859,672)	(1,506,866)	(352,806)	23.4%
Depreciation and amortization	(189,714)	(174,064)	(15,650)	9.0%
Total expenses	(2,049,386)	(1,680,930)	(368,456)	21.9%

² Information based on the note on operational segments included in the Consolidated financial statements of the Bank BGŻ BNP Paribas S.A. Capital Group for the year ended 31 December 2018

The total amount of integration costs in 2018 amounted to PLN 265.8 million (including PLN 9.1 million related to the SKOK Rafineria acquisition) compared to PLN 35.6 million in 2017, including:

- PLN 236.2 million has been included in general administrative expenses,
- PLN 29.6 million - in other operating expenses (PLN 22.1 million - branch restructuring provision, PLN 7.5 million - impairment write-off for property, plant and equipment),

The integration costs booked in the overall administrative costs mainly include:

- creation of a provision for employment restructuring - PLN 128.5 million (RBPL) and PLN 2.0 million (SKOK),
- creation of a provision for retention programs - PLN 10.9 million (RBPL),
- costs of legal and consulting services – PLN 49.7 million (RBPL PLN 48.3 million, SKOK PLN 1.4 million),
- costs of accruing accelerated depreciation of systems in connection with the merger processes of banks - PLN 18.5 million.

Table 16a. Personnel expenses

PLN '000	12 months ended	12 months ended	change y/y	
	31.12.2018	31.12.2017	PLN '000	%
Payroll expenses	(747,229)	(678,136)	(69,093)	10.2%
Payroll charges	(124,769)	(117,442)	(7,327)	6.2%
Employee benefits	(34,441)	(16,419)	(18,022)	109.8%
Costs of restructuring provision	(133,727)	(2,489)	(131,238)	5 272.7%
Costs of provision for future liabilities arising from unused annual leave and retirement benefits	(3,818)	(7,338)	3,520	(48.0%)
Appropriations to Social Benefits Fund	(8,842)	(8,875)	33	(0.4%)
Other	(4,363)	(1,306)	(3,057)	234.1%
Total personnel expenses	(1,057,189)	(832,005)	(225,184)	27.1%

The largest increase in expenses by type y/y (by PLN 225.2 million) occurred in the item "personnel expenses", which is mainly due to the costs of provisions created for employment restructuring and employment growth due to the acquisition of RBPL employees (increase of costs by PLN 70.8 million) and inclusion in the Group's structure of employees of three companies previously owned by the RBPL Capital Group.

In addition, the level of expenses in 2018 was influenced by the increase of the following expenses:

- advisory and consulting expenses related to the preparation for the merger of the Bank with the Core Business of RBPL and the acquisition of SKOK "Rafineria" (included in the item other non-personnel costs) - PLN 49.7 million,
- IT and telecommunications expenses related to the increase in the Bank's operations after the merger with RBPL, the integration costs in this item in 2018 amounted to PLN 6.5 million,
- marketing expenses, which resulted from the expenses incurred in connection with the integration, more advertising campaigns (cash loan campaigns, personal account campaigns, campaigns for small businesses) and image-related activities (Szlachetna Paczka (Noble Gift), sponsoring of tennis events),
- contributions to BFG – total contributions included in the expenses of 2018 amounted to PLN 117.3 million and were by PLN 21.8 million higher than in the previous year, including:
 - the annual contribution to the banks' resolution fund for 2018 (settled in the first half of the year) was PLN 52.8 million and was PLN 2.2 million higher than in the corresponding period of the previous year,
 - the contribution to the Bank Guarantee Fund due for 12 months of 2018 amounted to PLN 64.5 million and was higher by PLN 19.6 million, which was influenced, inter alia, by merger of the Bank with the Core Business of Raiffeisen Bank Polska S.A. (estimated expenses on this account amounted to PLN 6.6 million).

At the same time, a decrease was recorded in rent expenses of PLN 5.0 million resulting from the optimization of office space (headquarters of the Bank's Head Office at Suwak Street in Warsaw) and sales network (market stands, business centres) as well as the restructuring of the Bank's branch network.

In 2018, the expenses of transformation projects conducted at the Bank amounted to PLN 25.0 million and were higher by PLN 9.6 million as compared to the costs incurred in 2017.

Depreciation and amortization expenses in 2018 amounted to PLN 189.7 million and were higher by PLN 15.7 million as compared to the previous year, which results mainly from the costs of accelerated depreciation and amortization (PLN 18.5 million), with a simultaneous decrease in depreciation and amortization expenses due to liquidation of assets after the merger of Bank BGŻ with BNP Paribas Bank Polska S.A. and Sygma Bank Polska S.A.

9.2. Statement of comprehensive income

The comprehensive income of the Capital Group in 2018 amounted to PLN 359,569 thousand, and was by PLN 62,623 thousand lower than in 2017.

The main reason for the observed decline was the lack of a positive change in the valuation of financial assets in 2018 comparable to that observed in 2017 (a positive impact on the total income of 2017 in the amount of PLN 174,113 thousand, as compared to PLN 789 thousand in 2018), partially offset by the increase in net profit generated in the periods compared.

Table 17. Statement of comprehensive income

PLN '000	12 months	12 months	change y/y	
	ended 31.12.2018	ended 31.12.2017	PLN '000	%
Net profit for the period	360,378	279,707	80,671	28.8%
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss upon fulfilment of certain conditions	88	141,509	(141,421)	(99.9%)
Net change in measurement of financial assets available for sale	-	174,113	(174,113)	(100.0%)
Net change in measurement of financial assets at fair value through other comprehensive income	789	-	789	x
Deferred tax	(701)	(32,604)	31,903	(97.8%)
Items that will not be reclassified subsequently to profit or loss	(897)	976	(1,873)	(191.9%)
Actuary valuation of employee benefits	(1,107)	1,849	(2,956)	(159.9%)
Deferred tax	210	(873)	1,083	(124.1%)
Other comprehensive income (net of tax)	(809)	142,485	(143,294)	(100.6%)
Total comprehensive income for the period	359,569	422,192	(62,623)	(14.8%)

9.3. Statement of financial position

Assets

The total assets of the Group as at the end of December 2018 amounted to PLN 109,022,519 thousand and were higher by PLN 36,367,028 thousand, i.e. by 50.1%, as compared to the end of December 2017. The change in the scale of the Group's activity resulted from the finalization, on 31 October 2018, of the acquisition of the Core Business of RBPL, described in detail in Chapter 4.2. "Acquisition of the Core Business of Raiffeisen Bank Polska S.A." of the Consolidated Financial Statements of the Bank BGŻ BNP Paribas S.A. Capital Group for the year ended 31 December 2018.

The most important changes in the structure of the Bank's assets that occurred as a result of the transaction are: a decrease in the share of loans and advances to customers (the sum of portfolios measured at amortized cost and fair value) with simultaneous increase in the share of securities and financial instruments (in 2017: financial assets available for sale).

The structure of assets is dominated by loans and advances to customers whose share accounted for 67.3% of all assets at the end of 2018 compared to 72.9% at the end of 2017. In terms of value, the volume of net loans and advances increased by PLN 20,446,382 thousand, i.e. by 38.6%.

The second largest asset were securities and financial instruments, which constituted 25.7% of the balance sheet total at the end of 2018 (at the end of 2017, financial assets available for sale: 19.2%). In 2018, their value increased by PLN 14,096,458 thousand, i.e. 101.2%, mainly as a result of an increase in the portfolio of bonds issued by central government institutions.

At the same time, the above changes were paralleled by a decrease from 3.6% to 0.9% in the share of amounts due from banks, which dropped by PLN 1,642,193 thousand, i.e. by 63.1%, mainly in the item of current accounts and interbank deposits.

Table 18. Assets

PLN '000	31.12.2018	31.12.2017	change	
			PLN '000	PLN '000
Cash and balances at Central Bank	2,897,123	998,035	1,899,088	190.3%
Amounts due from banks	961,496	2,603,689	(1,642,193)	(63.1%)
Derivative financial instruments	715,671	474,421	241,250	50.9%
Differences from hedge accounting	130,405	32,730	97,675	298.4%
Loans and advances to customers measured at amortised cost	70,997,701	52,967,568	18,030,133	34.0%
Loans and advances to customers measured at fair value through profit or loss	2,416,249	-	2,416,249	x
Financial assets available for sale	-	13,922,540	(13,922,540)	(100.0%)
Securities measured at amortised cost	11,939,238	-	11,939,238	x
Financial instruments measured at fair value through profit or loss	204,421	-	204,421	x
Securities measured at fair value through other comprehensive income	15,875,339	-	15,875,339	x
Investments in subsidiaries	55,868	54,435	1,433	2.6%
Intangible assets	520,767	288,340	232,427	80.6%
Property, plant and equipment	511,275	500,647	10,628	2.1%
Deferred tax assets	1,034,313	512,045	522,268	102.0%
Other assets	762,653	301,041	461,612	153.3%
Total assets	109,022,519	72,655,491	36,367,028	50.1%

Loan portfolio

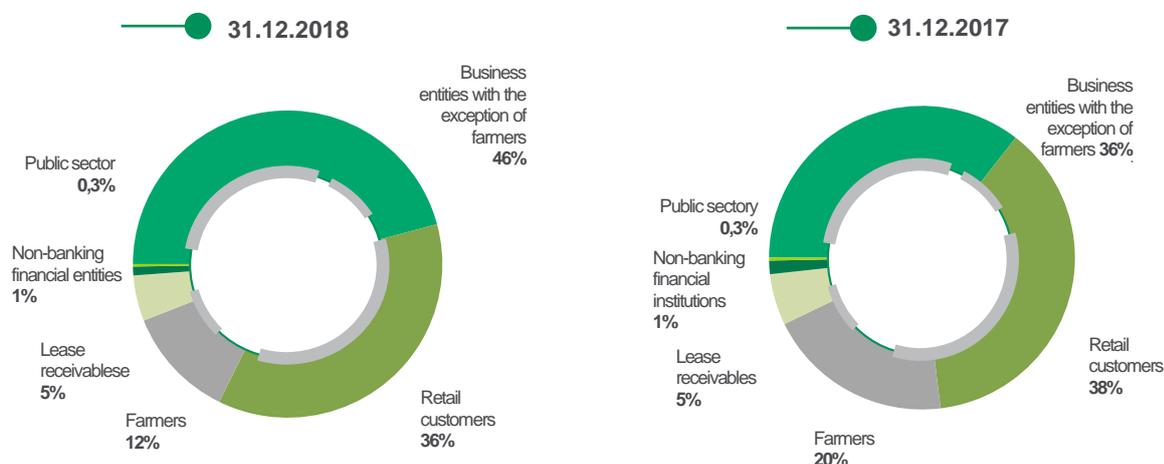
Structure and quality of the loan portfolio

At the end of December 2018, gross loans and advances to customers (the total of portfolios measured at amortized cost and at fair value) amounted to PLN 76,595,082 thousand, and increased by PLN 20,842,734 thousand, i.e. by 37.4% compared to the end of 2017.

Table 19. Structure of the loan portfolio measured at amortized cost

	31.12.2018		31.12.2017	
	PLN '000	share %	PLN '000	share %
Gross loans and advances	74,054,662	100.0%	55,752,348	100.0%
Business entities with the exception of farmers	33,932,209	45.8%	19,790,088	35.5%
Farmers	8,681,538	11.7%	11,004,011	19.7%
Retail customers	27,001,876	36.5%	20,939,056	37.6%
- mortgage loans	16,054,648	21.7%	13,628,114	24.4%
in PLN	10,828,584	14.6%	8,209,418	14.7%
in foreign currencies	5,226,064	7.1%	5,418,696	9.7%
- cash loans	7,150,386	9.7%	4,575,410	8.2%
- other retail loans	3,796,842	5.1%	2,735,532	4.9%
Lease receivables	3,561,739	4.8%	3,047,519	5.5%
Public sector	190,073	0.3%	172,173	0.3%
Other financial entities	687,227	0.9%	799,501	1.4%

Chart 9. Gross loans and advances valued at amortized cost - structure



As regards the portfolio measured at amortized cost, the share of loans and advances to business entities excluding farmers (PLN 33,932,209 thousand at the end of 2018) increased by 10.3 p.p. and was at the level of 45.8%. Loans for retail customers (PLN 27,001,876 thousand) account for 36.5%, with more than half of this portfolio being mortgage loans (PLN 16,054,468 thousand), which account for 21.7% of the entire portfolio measured at amortized cost (decrease by 2.7 p.p. compared to the end of 2017). Ranked third are loans for farmers (PLN 8,681,538 thousand) despite the decrease in their share in the entire portfolio by 8.0 p.p., to 11.7% at the end of 2018.

Table 20. The quality of the loan portfolio measured at amortized cost

PLN '000	31.12.2018			31.12.2017		
	Gross total	Including: impaired	share %	Gross total	Including: impaired	share %
Gross loans and advances	74,054,662	4,157,588	5.6%	55,752,348	4,122,924	7.4%
Institutional entrepreneurs, excluding farmers	34,809,509	2,216,156	6.4%	20,761,762	2,086,456	10.0%
Farmers	8,681,538	586,234	6.8%	11,004,011	616,591	5.6%
Retail customers	27,001,876	1,222,984	4.5%	20,939,056	1,310,412	6.3%
- mortgage loans	16,054,648	528,972	3.3%	13,628,114	612,001	4.5%
in PLN	10,828,584	206,162	1.9%	8,209,418	201,433	2.5%
in other currencies	5,226,064	322,810	6.2%	5,418,696	410,568	7.6%
- cash loans	7,150,386	421,097	5.9%	4,575,410	524,805	11.5%
- other retail loans	3,796,842	272,915	7.2%	2,735,532	173,606	6.3%
Lease receivables	3,561,739	132,214	3.7%	3,047,519	109,465	3.6%

The ratio of impaired exposures in total gross loans and advances to customers and measured at amortized cost improved to 5.6% at the end of 2018 as compared to 7.4% at the end of 2017.

Table 21. Quality ratios of the loan portfolio measured at amortized cost

PLN '000	31.12.2018	31.12.2017	change	
			PLN '000	%
Total gross loans and advances to customers	74,054,662	55,752,348	18,302,314	32.8%
Impairment allowances	(3,056,961)	(2,784,780)	(272,181)	9.8%
Total net loans and advances to customers	70,997,701	52,967,568	18,030,133	34.0%
Exposures without impairment triggers				
Gross balance sheet exposure	69,897,074	51,629,424	18,267,650	35.4%
Allowance	(1,019,649)	(290,118)	(729,531)	251.5%
Net balance sheet exposure	68,877,425	51,339,306	17,538,119	34.2%
Impaired exposures (phase 3)				
Gross balance sheet exposure	4,157,588	4,122,924	34,664	0.8%
Impairment allowance	(2,037,312)	(2,494,662)	457,350	(18.3%)
Net balance sheet exposure	2,120,276	1,628,262	492,014	30.2%
Ratios				
Share of impaired exposures in gross portfolio	5.6%	7.4%		(1.8 p.p.)
Coverage with impairment allowances	(49.0%)	(60.5%)		11.5 p.p.

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 were secured by a registered pledge on the rights to cash flows from securitized assets.

As a result of securitization, the Bank obtained financing in exchange for the transfer of rights to future cash flows resulting from the securitized loan portfolio in a value of PLN 2,300,471 thousand as of 22 November 2017 (the cut-off date). 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 "Amounts 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".

Liabilities and equity

As at the end of December 2018, the total value of the Group's liabilities amounted to PLN 98,462,706 thousand, and was by PLN 32,366,678 thousand, i.e. by 49.0% higher than at the end of 2017. The increase in the scale of the Bank's operations was the result of finalizing, on 31 October 2018, the acquisition of the Core Business of RBPL, described in detail in Chapter 4.2. "Acquisition of the Core Business of Raiffeisen Bank Polska S.A." in the Separate Financial Statements of Bank BGŻ BNP Paribas S.A. for the year ended 31 December 2018.

Table 22. Liabilities and equity

PLN '000	31.12.2018	31.12.2017	change	
			PLN '000	%
Amounts due to banks	3,976,469	3,891,235	85,234	2.2%
Differences from hedge accounting regarding the fair value of hedged items	123,600	(2,992)	126,592	(4,231.0%)
Derivative financial instruments	783,818	427,710	356,108	83.3%
Amounts due to customers	87,191,708	56,328,897	30,862,811	54.8%
Securities issued	2,179,424	2,471,966	(292,542)	(11.8%)
Subordinated liabilities	1,875,769	1,645,102	230,667	14.0%
Other liabilities	1,711,641	1,131,555	580,086	51.3%
Current income tax liabilities	174,589	117,699	56,890	48.3%
Deferred tax	8,276	8,003	273	3.4%
Provisions	437,412	76,853	360,559	469.2%
Total liabilities	98,462,706	66,096,028	32,366,678	49.0%
Share capital	147,419	84,238	63,181	75.0%
Supplementary capital	9,111,033	5,127,086	3,983,947	77.7%
Other reserve capital	1,208,018	909,629	298,389	32.8%
Revaluation reserve	141,179	141,988	(809)	(0.6%)
Retained earnings	(47,836)	296,522	(344,358)	(116.1%)
Retained profit	(408,214)	16,815	(425,029)	(2,527.7%)
Net profit for the period	360,378	279,707	80,671	28.8%
Total equity	10,559,813	6,559,463	4,000,350	61.0%
Total liabilities and equity	109,022,519	72,655,491	36,367,028	50.1%

In the analysed period, the share of liabilities in total liabilities and equity of the Group remained at a similar level and amounted to 90.3% at the end of December 2018.

The most significant change in the structure of the Group's liabilities at the end of 2018 as a result of the acquisition of the Core Business of RBPL was an increase in the share of amounts due to customers (by 3.3 p.p.) to the level of 88.6%. In terms of value, the volume of amounts due to customers at the end of December 2018 increased by PLN 30,862,811 thousand, i.e. by 54.8% compared to the end of 2017 and amounted to PLN 87,191,708 thousand.

The total value of amounts due to banks as of the end of December 2018 amounted to PLN 3,976,469 thousand, and was by PLN 85,234 thousand higher than at the end of 2017 (i.e. by 2.2%), with a decrease in loans and advances received from banks and an increase in the share of current accounts and interbank deposits.

The reduction in debt securities issued is related to the redemption of deposit certificates issued on the basis of contracts signed in March 2008 with a total nominal value of PLN 285,000 thousand, conducted in the first quarter of 2018. In addition, this item includes bonds for the total amount of PLN 2,180,850 thousand, with a maximum initial maturity date of 27 April 2032, issued in December 2017 by SPV, as a result of the transaction of securitization of the portfolio of consumer loans performed by the Bank. The repayment of bonds is secured by receivables from loans and advances subject to securitization.

Amounts due to customers

At the end of December 2018, amounts due to customers amounted to PLN 87,191,708 thousand, recording growth in almost all product groups and business segments as compared to the end of 2017, which is mainly due to the increase in the scale of the Bank's operations after finalizing the acquisition of the Core Business of RBPL.

The largest volume increase (by PLN 17,103,395 thousand) is related to individual customers' deposits, which accounted for 51.3% of all amounts due to customers at the end of December 2018 (share increase by 2.2 p.p. compared to the end of 2017).

The volume of business entities amounted to PLN 37,339,344 thousand, and increased by PLN 12,676,523 thousand, i.e. 51.4% (including: PLN 11,583,293 thousand related to current accounts). At the same time, their share in the total amounts due to customers decreased to the level of 42.8%, as compared to 43.8% at the end of December 2017.

Non-banking financial entities and the public sector institutions increased in total by PLN 1,082,893 thousand (increase by 27.0% y/y).

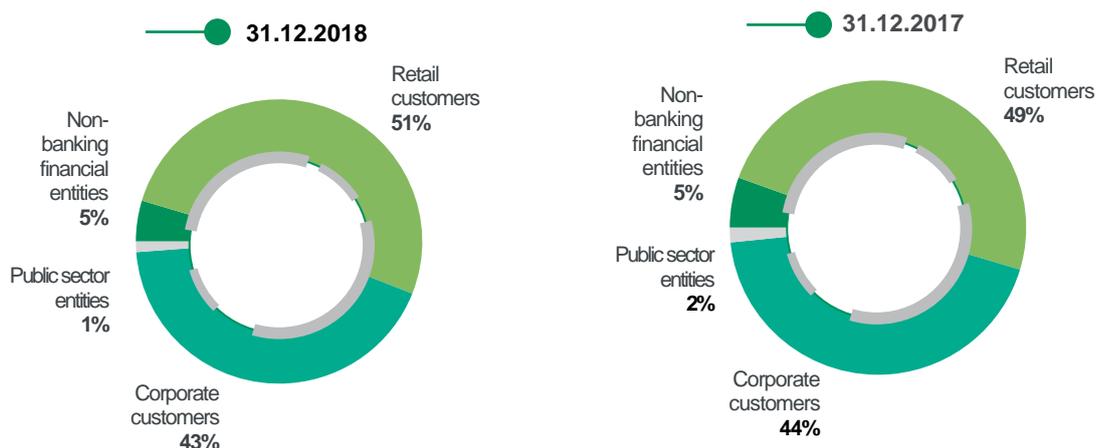
Table 23. Amounts due to customers by products

	31.12.2018		31.12.2017	
	PLN '000	share %	PLN '000	share %
Amounts due to customers	87,191,708	100.0%	56,328,897	100.0%
Current accounts	55,490,951	63.6%	30,334,883	53.8%
Term deposits	30,239,128	34.7%	24,033,484	42.7%
Loans and advances received	-	0.0%	1,475,684	2.6%
Other liabilities	1,461,629	1.7%	484,846	0.9%

The share of current accounts in the structure of amounts due to customers totalled 63.6% at the end of 2018, recording an increase of 9.8 p.p. in comparison to 2017. The funds deposited on current accounts amounted to PLN 55,490,951 thousand, and increased by PLN 25,156,068 thousand, i.e. 82.9%. This was the result of an increase in the volume in the segment of individual customers (by PLN 12,809,999 thousand, +86.5% y/y), and in the business entities segment (by PLN 11,583,293 thousand, + 80.4% y/y).

The share of term deposits in the structure of amounts due to customers in the analysed period amounted to 34.7% and decreased by 8.0 p.p. compared to the end of 2017. Value of term deposits increased by PLN 6,205,644 thousand, i.e. by 25.8% compared to December 2017 and reached the level of PLN 30,239,128 thousand. The increase mainly concerned the segment of individual customers (increase in volume by PLN 4,088,106 thousand).

The share of loans and advances received and other liabilities in the structure of amounts due to customers dropped by 1.8 p.p.

Chart 10. Structure of amounts due to customers

Equity

As of the end of December 2018, the Group's equity amounted to PLN 10,559,813 thousand, and was by PLN 4,000,350 thousand, i.e. by 61.0% higher than at the end of 2017. This increase was the result of:

- increase in share and reserve capital as a result of the J and K series shares issue (the issue value was PLN 799,995 thousand, including PLN 13,300 thousand of share capital, PLN 786,695 thousand of supplementary capital, PLN - 2,867 thousand of costs of issue reducing the reserve capital);
- increase in share and reserve capital as a result of the issue of L series shares (the issue value amounted to PLN 3,250,000 thousand, including PLN 49,881 thousand of share capital, PLN 3,200,119 thousand of reserve capital);
- allocating to the reserve capital the entire Bank's net profit for 2017 in the amount of PLN 298,389 thousand in accordance with the Resolution of the Ordinary General Shareholders' Meeting of Bank BGŻ BNP Paribas S.A. of 18 May 2018.

9.4. Equity and capital ratios

The total capital ratio of the Group as at 31 December 2018 amounted to 14.63% and increased as compared to December 2017 by 0.88 p.p. The consolidated Common Equity Tier 1 ratio (CET I) and consolidated Tier 1 ratio (Tier I) of the Group at the end of 2018 were the same and amounted to 12.38% (increase compared to the end of 2017 by 1.57 p.p.).

Total own funds as at 31 December 2018 increased by PLN 4,510,465 thousand as compared to 31 December 2017, which resulted mainly from the allocation to the own funds of the following items:

- the Bank's net profit for the first half of 2018, in the amount of PLN 194,073 thousand (consent of the Polish Financial Supervision Authority of 27 September 2018),
- the Bank's net profit for the third quarter of 2018, in the amount of PLN 134,237 thousand (consent of the Financial Supervision Authority of 13 December 2018),
- PLN 799,995 thousand in connection with the classification of issued series J and K shares as instruments in Common Equity Tier 1 (approval of the Polish Financial Supervision Authority of 10 July 2018),
- PLN 3,250,000 thousand in connection with the classification of issued series L shares (merger of Bank BGŻ BNP Paribas S.A. with Raiffeisen Bank Polska S.A.'s Core Business on 31 October 2018) as instruments in Common Equity Tier 1 (approval of the Polish Financial Supervision Authority of 21 November 2018).

In accordance with the Resolution of the Ordinary General Shareholders' Meeting of Bank BGŻ BNP Paribas S.A. of 18 May 2018, the Bank's entire profit for 2017, in the amount of PLN 298,389 thousand, was allocated to reserve capital.

As at 31 December 2018, the total risk exposure amounted to PLN 83,451,281 thousand and increased by PLN 27,526,151 thousand as compared to 31 December 2017, which resulted primarily from the merger of Bank BGŻ BNP Paribas S.A. with the Core Business of Raiffeisen Bank Polska S.A. on 31 October 2018.

In accordance with the Act of 5 August 2015 on macroprudential supervision of the financial system and crisis management in the financial sector and the Regulation of the Minister of Finance from 1 January 2018, the capital requirements applicable to banks in Poland increased through:

- introducing a systemic risk buffer of 3%;
- increase in the capital conservation buffer level from 1.25% to 1.875%.

Table 24. Equity and capital ratios of the Group

PLN '000	31.12.2018	31.12.2017	change	
			PLN '000	%
Tier I capital				
– share capital	147,419	84,238	63,181	75.0%
– supplementary capital	7,259,316	3,272,501	3,986,815	121.8%
– reserve capital	2,432,582	2,137,873	294,709	13.8%
– general banking risk fund	627,154	627,154	0	0.0%
– intangible assets	(520,621)	(288,040)	(232,581)	80.7%
– other items of equity included in Tier I capital	388,449	220,174	168,275	76.4%
Total Tier I capital	10,334,299	6,053,900	4,280,399	70.7%
Tier II capital				
– subordinated liabilities classified as own funds	1,872,490	1,642,424	230,066	14.0%
Total own funds	12,206,789	7,696,324	4,510,465	58.6%
Risk exposure due to:				
– credit risk	74,358,821	50,910,787	23,448,034	46.1%
– market risk	844,070	207,215	636,855	307.3%
– operational risk	7,908,064	4,594,169	3,313,895	72.1%
– credit valuation adjustment	340,326	212,959	127,367	59.8%
Total risk exposure	83,451,281	55,925,130	27,526,151	49.2%
Capital ratios of the Group				
Total capital requirement	31.12.2018	31.12.2017	change	
	14.63%	13.75%	0.88 p.p.	
Tier I ratio	12.38%	10.81%	1.57 p.p.	

On 8 August 2018, the Bank received a letter from the Polish Financial Supervision Authority (PFSA) informing about the PFSA's review of the adequacy of the buffer rate of other systemically important institution. As a result of the review, the PFSA concluded that there were no reasons to repeal or amend the PFSA's decision of 4 October 2016, as set out in the PFSA Decision of 19 December 2017 on the Bank (on a consolidated and stand-alone levels) of the buffer of other systemically important institutions equivalent to 0.25% of the total risk exposure amount.

On 15 October 2018, the Bank received a recommendation from the Polish Financial Supervision Authority to maintain equity of the Bank to cover an additional capital requirement of 0.36 p.p. in order to hedge the risk resulting from FX mortgage loans for households, which should consist at least in 75% of Tier 1 capital (corresponding to 0.27 p.p.) and at least in 56% of Common Equity Tier 1 capital (which corresponds to 0,20 p.p.). On 30 November 2018, these levels were confirmed by the PFSA as being applicable also on the consolidated level.

As a result of the above changes, the minimum levels of capital adequacy ratios resulting from legal regulations and administrative decisions issued by the PFSA as at 31 December 2018, are as follows:

- Common Equity Tier 1 ratio (CET I) = 9.83%;
- Tier I capital ratio = 11.40%;
- Total Capital Ratio = 13.49%.

On 12 December 2017, the European Parliament and the EU Council adopted Regulation No. 2017/2395 amending the Regulation (EU) No 575/2013 regarding transitional arrangements to mitigate the impact of the introduction of IFRS 9 on equity and on the treatment of large exposures to entities in the sector publicly denominated in the national currency of any Member State. 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) decided that the application of IFRS 9 could lead to a sudden increase in allowances for expected credit losses, and hence, the decrease in Tier 1 capital.

The Group, 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 assessment of capital adequacy of the Bank. As a result of adjusting the calculation of regulatory capital requirements, it was estimated that taking into account the full impact of the implementation of IFRS 9 on the total capital ratio of the Bank would reduce its value by 70 basis points.

9.5. Financial ratios

The Group's return on equity (ROE) calculated in a normalized approach (excluding the impact of integration costs, additional allowances due to expected credit losses in the 12-month horizon for the non-impaired loans and the gain on a bargain purchase of the Core Business of RBPL) amounted to 6.5% in 2018 and it was by 1.7 p.p. higher than in 2017. Return on assets (ROA) calculated in the same way amounted to 0.6% and increased as compared to 2017 by 0.2 p.p. The ratios calculated on the basis of the reported amounts amounted to 4.8% (ROE, up by 0.4 p.p. y/y) and 0.5% (ROA, up by 0.1 p.p. y/y).

The Cost/Income ratio (excluding the integration costs and gain on the bargain purchase of the Core Business of RBPL) is at the level of 59.9%, lower by 1.1 p.p. as compared to 2017. The ratio calculated on the basis of the reported amounts amounted to 62.3%, i.e. the same as in 2017.

Presentation of ratios calculated on the basis of the profit or loss categories excluding the costs of additional allowances due to expected credit losses in 12 month horizon, gain on a bargain purchase of RBPL Core Business and integration costs (understood as additional costs related to the merger processes) is aimed at providing additional information allowing the assessment of the current potential of the combined banks.

The net interest margin calculated in relation to average assets was 2.7% and did not change as compared to the level calculated for 2017.

The cost of credit risk decreased as compared to the level recorded in 2017 by 0.06 p.p. and amounted to 0.55%. Taking into account the costs of additional allowance for expected credit losses, the cost of credit risk amounted to 0.96% in 2018.

The ratio of the net loans and advances to deposits improved as compared to the end of 2017 due to the favourable liquidity-wise structure of the acquired assets and liabilities of the Core Business of RBPL.

Table 25. Financial ratios

	31.12.2018	31.12.2017	31.12.2016	change 2018/2017
Return on equity ⁽¹⁾	6.5%*	4.8%*	3.6%*	+1.7 p.p.
Return on assets ⁽²⁾	0.6%*	0.4%*	0.3%*	+0.2 p.p.
Net interest margin ⁽³⁾	2.7%	2.7%	2.7%	0.0 p.p.
Cost/Income ⁽⁴⁾	59.9%*	61.0%*	64.6%*	(1.1 p.p.)
Cost of credit risk ⁽⁵⁾	(0.55%)*	(0.61%)	(0.71%)	(0.06 p.p.)
Net loans and advances/Deposits ⁽⁶⁾	84.2%	96.6%	103.7%	(12.4 p.p.)
Gross loans and advances/Total source of funding ⁽⁷⁾	81.3%	87.2%	90.4%	(5.9 p.p.)

* Normalized values calculated excluding: integration costs (2018 – PLN 265,804 thousand, 2017 – PLN 35,641 thousand, 2016 – PLN 181,404 thousand), allowance due to expected credit losses created in connection with the acquisition of the Core Business of RBPL (2018: PLN 238,897 thousand) and the gain on the bargain purchase of the Core Business of RBPL (2018: PLN 291,706 thousand). The impact of integration costs was estimated using the standard 19% income tax rate. In the case of the "costs" category, the amount visible in the financial statements was reduced by the amount of integration costs recorded as general administrative expenses and depreciation. In the case of the "income" category, the amount of the income statement comprising the result from banking activities was adjusted for the integration costs recorded under other operating costs and the gain on bargain purchase of the Core Business of the RBPL.

(1) Net profit in relation to average equity, calculated based on quarter-end balances (annualized ratio).

(2) Net profit in relation to average assets, calculated based on quarter-end balances (annualized ratio).

(3) Net interest income in relation to average assets, calculated based on quarter-end balances (annualized ratio). Due to a significant increase in the balance sheet total as of 31 October 2018 and the prospective recognition of the interest result of the acquired Core Business of RBPL for the last two months of 2018 in the Bank's interest income - for the fourth quarter of 2018 the weighted average number of days was assumed.

(4) Total general administrative expenses, amortization and depreciation in relation to total net banking income, calculated as the total of net interest income, net fee and commission income, dividend income, net trading income, net investment income, result on hedge accounting and other operating income and expenses.

(5) Net impairment allowances on loans and advances in relation to the average balance of net loans and advances to customers, calculated based on quarter-end balances (annualized ratio).

(6) Net loans and advances to customers in relation to customer deposits, balance at the end of the period.

(7) Gross loans and advances to customers in relation to total liabilities to customers, debt securities issued, loans from other banks and subordinated liabilities, balance at the end of the period.

10. FINANCIAL STANDING OF BANK BGŻ BNP PARIBAS S.A. IN 2018

10.1. Stand-alone statement of profit or loss

Bank BGŻ BNP Paribas S.A. generated a net profit of PLN 364,739 thousand in 2018, that is PLN 66,350 thousand (22.2%) higher than the amount achieved in 2017.

The net banking income in the analysed period amounted to PLN 3,221,809 thousand and was higher by PLN 536,662 thousand, i.e. 20.0% y/y.

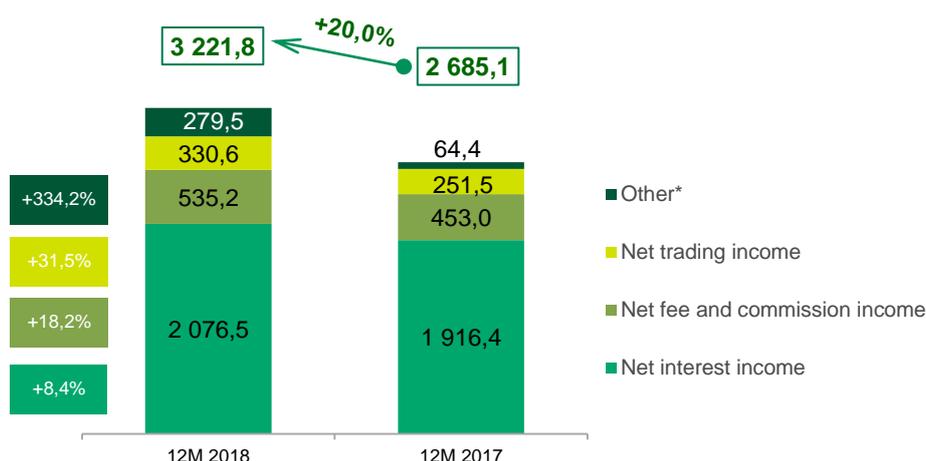
The most important event affecting the level of net profit in 2018 and the comparability of results from 2017 was the finalization (on 31 October 2018) of the acquisition of the Core Business of Raiffeisen Bank Polska S.A. ("RBPL") described in more detail in Chapter 4.2. "Acquisition of the Core Business of Raiffeisen Bank Polska S.A." of the Separate Financial Statement of Bank BGŻ BNP Paribas S.A. for the year ended on 31 December 2018.

As a consequence of the method used to perform and settle the transaction, in the statement of profit or loss of Bank BGŻ BNP Paribas S.A. for 2018, income and expenses of the Core Business of Raiffeisen Bank Polska S.A. generated after 31 October, 2018, i.e. for the last two months of 2018, have been included.

In addition, the following factors related to the aforementioned transaction have affected the comparability of results achieved in 2018 and 2017:

- the initial settlement of the merger of entities and calculating the gain on a bargain purchase of the Core Business of RBPL, as a result of which the amount of PLN 291,706 thousand was recognized in the category of other operating income;
- an allowance due to expected credit losses in the 12-month horizon for loans and advances to customers and amounts due from banks, without impairment as well as for debt securities recognized in the result of 2018, in the total amount of PLN 238,897 thousand;
- integration costs in the amount of PLN 265,804 thousand in the operating expenses and other operating expenses in 2018 (including PLN 9,100 thousand related to the acquisition of SKOK Rafineria) as compared to PLN 35,641 thousand of integration costs in 2017 (concerning earlier merger processes of BGŻ S.A., BNP Paribas Bank Polska S.A. and Sygma Bank Polska S.A.).

Chart 11. Structure of net income on banking activity in PLN million



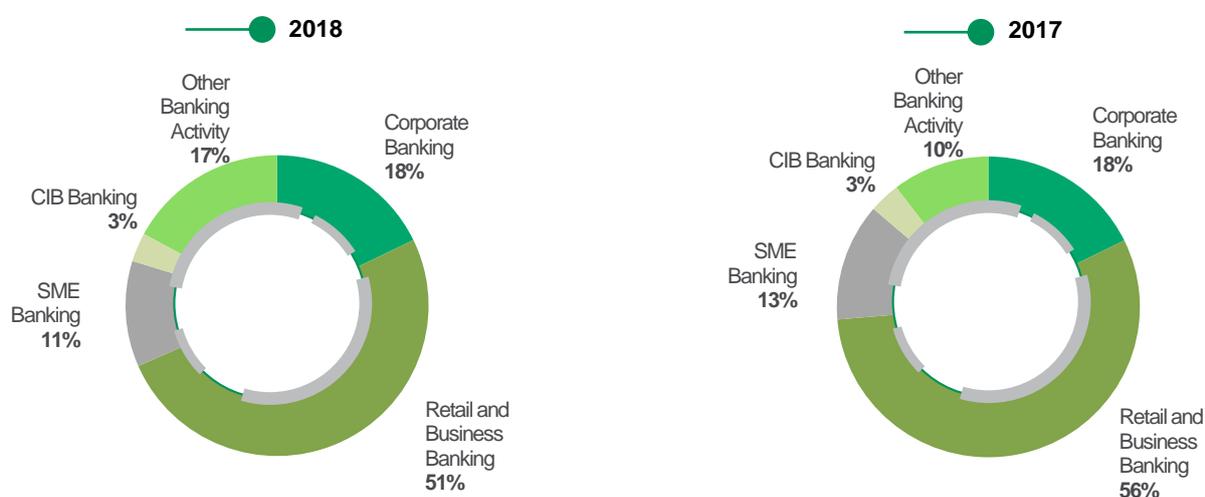
* The 'Other' category includes the result on investment activities, the result on hedge accounting, income on dividends and other operating incomes and expenses (in 2018 - the amount of PLN 291.7 million related to the bargain purchase of the Core Business of RBPL).

Table 26. Statement of profit or loss

PLN '000	12 months	12 months	change y/y	
	ended 31.12.2018	ended 31.12.2017	PLN '000	%
Net interest income	2,076,518	1,916,372	160,146	8.4%
Net fee and commission income	535,172	452,955	82,217	18.2%
Dividend income	10,505	38,177	(27,672)	(72.5%)
Net trading income	330,619	251,455	79,164	31.5%
Net investment income	47,405	28,398	19,007	66.9%
Result on hedge accounting	(9,997)	3,304	(13,301)	(402.6%)
Other operating income and expenses	231,587	(5,514)	237,101	(4 300.0%)
Net income on banking activity	3,221,809	2,685,147	536,662	20.0%
Net impairment allowances on financial assets and provisions for contingent liabilities	(537,275)	(342,419)	(194,856)	56.9%
General administrative expenses	(1,809,892)	(1,492,071)	(317,821)	21.3%
Depreciation and amortization	(188,842)	(173,534)	(15,308)	8.8%
Operating result	685,800	677,123	8,677	1.3%
Tax on financial institutions	(213,122)	(205,866)	(7,256)	3.5%
Profit (loss) before income tax	472,678	471,257	1,421	0.3%
Income tax expense	(107,939)	(172,868)	64,929	(37.6%)
Net profit (loss)	364,739	298,389	66,350	22.2%
Net profit (loss) *excluding one-off events	488,889	327,258	161,631	49.4%

* One-off events: integration costs (2018 – PLN 265,804 thousand, 2017 – PLN 35,641 thousand), allowance due to expected credit losses in the 12-month horizon (2018 – PLN 238,897 thousand) and profit from the bargain purchase of the Core Business of RBPL (2018 - PLN 291,706 thousand).

Note: As the figures have been rounded up, the totals in the tables and charts of this Report may not add up

Chart 12. Net income on banking activity by segments

The change in the structure of the net banking income visible in the above charts, broken down into segments, is the result of the recognition of gain on a bargain purchase of the Core Business of RBPL in the area of other banking activity. Excluding the amount of PLN 291,706 thousand from the result from net banking income, the share of Retail and Business Banking and SMEs would remain at the same level, 56% and 13% respectively, Corporate Banking would increase to 20%, CIB Banking would remain at 3%, and other banking activity would drop to 9% of the total result of banking activity.

Net interest income

Net interest income, constituting the main source of the Bank's income, for 12 months of 2018 amounted to PLN 2,076,518 thousand and was higher by PLN 160,146 i.e. by 8.4% y/y.

Table 27. Net interest income

PLN '000	12 months	12 months	change y/y	
	ended 31.12.2018	ended 31.12.2017	PLN '000	%
Amounts due from banks	17,371	29,342	(11,971)	(40.8%)
Loans and advances to customers measured at amortized cost	2,269,200	2,212,284	56,916	2.6%
Loans and advances to customers measured at fair value through statement of profit and loss	77,311	-	77,311	x
Debt instruments measured at amortized cost	257,703	-	257,703	x
Debt instruments measured at fair value through profit or loss	1,064	-	1,064	x
Debt instruments are measured at fair value through other comprehensive income	167,805	-	167,805	x
Derivative instruments under fair value hedge accounting	115,233	80,978	34,255	42.3%
Purchased repo transactions	24	-	24	x
Debt securities available for sale	-	314,986	(314,986)	(100,0%)
Total interest income	2,905,711	2,637,590	268,121	10.2%
Amounts due to banks	(71,660)	(61,199)	(10,461)	17.1%
Liabilities arising from the issue of debt securities	(795)	(11,630)	10,835	(93.2%)
Amounts due to customers	(653,690)	(573,895)	(79,795)	13.9%
Derivative instruments under fair value hedge accounting	(93,592)	(73,377)	(20,215)	27.5%
Repo transactions	(9,456)	(1,117)	(8,339)	746.6%
Total interest expenses	(829,193)	(721,218)	(107,975)	15.0%
Net interest income	2,076,518	1,916,372	160,146	8.4%

In 2018, as compared to 2017, net interest income increased by PLN 268,121 thousand, i.e. by 10.2% y/y with a simultaneous increase in interest expenses by PLN 107,975 thousand, i.e. by 15.0% y/y. A factor positively influencing the level of net interest income in 2018, but at the same time disturbing comparability with 2017, was the fact that the interest income and expenses generated by the acquired Core Business of Raiffeisen Bank Polska S.A. after 31 October 2018, i.e. for the last two months of 2018, were recognized in the profit or loss statement of Bank BGŻ BNP Paribas S.A. for 2018.

Among external factors affecting the level of net interest income, NBP's policy regarding the development of basic interest rates and their stabilization at a record low level (the reference rate as of March 2015 amounts to 1.5%) and market trends in determining interest rates on deposits should be mentioned.

The fact that the Bank's liquidity position was significantly improved as a result of finalizing the acquisition of the Core Business of RBPL (net loans / deposits ratio fell from 97.1% at the end of September 2018 to 79.6% at the end of December 2018) enabled optimization of the pricing policy pursued and, consequently, the improvement of deposit margins both in the case of liabilities to business entities and to retail customers.

The factor negatively affecting the level of the result of net interest income was the fact of lowering the interest rate on funds held as a mandatory reserve at the Central Bank (NBP). It is estimated that for this reason the net interest income in 2018 was lower than the result of 2017 by approx. PLN 15,286 thousand.

At the end of December 2018, the Bank applied fair value hedge accounting. The change in the fair value measurement of hedging transactions is recognized in the result on hedge accounting. Interest on IRS transactions and hedged items is recognized in net interest income. The net interest income on hedging relationships (the sum of interest income and interest expense from derivative instruments under fair value hedge accounting) for 2018 was positive and amounted to PLN 21,641 thousand against PLN 7,601 thousand in 2017.

Net fee and commission income

The net fee and commission income in 2018 amounted to PLN 535,172 thousand, and was higher by PLN 82,217 thousand, i.e. by 18.2% y/y.

A factor positively affecting the level of net fee and commission income in 2018 but at the same time disturbing comparability with 2017 was the fact that the fee and commission expenses generated by the acquired Core Business of Raiffeisen Bank Polska S.A. after 31 October 2018, i.e. for the last two months of 2018, were recognized in the profit or loss statement of Bank BGŻ BNP Paribas S.A. for 2018.

The fee and commission income increased in 2018 as compared to 2017 by PLN 110,621 thousand, i.e. by 19.5% y/y while fee and commission expenses increased by PLN 28,404 thousand i.e. by 24.9%.

The increase in fee and commission income was recorded primarily in terms of income from:

- payment and credit cards - by PLN 28,430 thousand, i.e. by 31.4%,
- asset management and brokerage operations by PLN 21,681 thousand, i.e. by 53.8%,
- lending and leasing activities by PLN 18,178 thousand i.e. by 9.4%,
- execution of transfers and electronic banking services by PLN 10,184 thousand, i.e. by 20.6%,
- guarantee obligations and documentary operations by PLN 9,082 thousand, i.e. by 30.9%.

The increase in fee and commission expense was mainly caused by higher expenses related to:

- intermediation in the sale of the Bank's products and acquiring customers by PLN 16,000 thousand, i.e. by 198.1%,
- handling payment and credit cards by PLN 5,533 thousand, i.e. by 7.3%,
- cash services by PLN 2,805 thousand i.e. by 79.6%,
- other commissions by PLN 2,123 thousand, i.e. by 30.9%.

Table 28. Net fee and commission income

PLN '000	12 months ended 31.12.2018	12 months ended 31.12.2017	change y/y	
			PLN '000	%
Fee and commission income				
loans, advances and leases	211,415	193,237	18,178	9.4%
account maintenance	107,296	106,097	1,199	1.1%
cash service	22,440	19,475	2,965	15.2%
cash transfers and e-banking	59,568	49,384	10,184	20.6%
guarantees and documentary operations	38,512	29,430	9,082	30.9%
asset management and brokerage operations	61,998	40,317	21,681	53.8%
payment and credit cards	118,879	90,449	28,430	31.4%
insurance mediation activity	33,761	21,050	12,711	60.4%
product sale mediation and customer acquisition	13,431	5,748	7,683	133.7%
other commissions	10,522	12,014	(1,492)	(12.4%)
Fee and commission income	677,822	567,201	110,621	19.5%
Fee and commission expense				
loans, advances and leases	(2,852)	(4,394)	1,542	(35.1%)
account maintenance	(3,805)	(3,514)	(291)	8.3%
cash service	(6,330)	(3,525)	(2,805)	79.6%
cash transfers and e-banking	(1,959)	(1,266)	(693)	54.7%
asset management and brokerage operations	(1,869)	(1,196)	(673)	56.3%
payment and credit cards	(81,173)	(75,640)	(5,533)	7.3%
insurance mediation activity	(11,592)	(9,764)	(1,828)	18.7%
product sale mediation and customer acquisition	(24,075)	(8,075)	(16,000)	198.1%
other commissions	(8,995)	(6,872)	(2,123)	30.9%
Fee and commission expense	(142,650)	(114,246)	(28,404)	24.9%
Net fee and commission income	535,172	452,955	82,217	18.2%

Dividend income

Dividend income in 2018 was derived from the profits of the companies for 2017, in which the Bank held minority interests, i.e.: Biuro Informacji Kredytowej S.A. (PLN 3,944.0 thousand), Krajowa Izba Rozliczeniowa S.A. (KIR, PLN 783.7 thousand) and VISA (PLN 132.4 thousand), as well as from the profits of subsidiaries: BNP Paribas Group Service Center S.A. (PLN 3,387.9 thousand), TFI BGŻ BNP Paribas S.A. (PLN 2,257.0 thousand).

Dividend income in 2017 came respectively from Krajowa Izba Rozliczeniowa S.A. (KIR, PLN 827.5 thousand), Biuro Informacji Kredytowej S.A. (BIK, PLN 3 881.0 thousand) and VISA organization (PLN 65.9 thousand) and from the profits of subsidiaries: BNP Paribas Group Service Center S.A. (PLN 14,899.6 thousand) and BGŻ BNP Paribas Faktoring Sp. z o.o. (PLN 5 645,6 thousand). In addition, the Bank received an advance dividend from the profit of BNP Paribas Group Service Center S.A. for 2017 in the amount of PLN 12,197.2 thousand.

Net trading income and net investment income

The net trading income in 2018 amounted to PLN 330,619 thousand, and was higher by PLN 79,164 thousand, i.e. by 31.5% y/y. The level and volatility of this result are mainly determined by the valuation of derivative instruments and the result on the exchange position. A factor positively influencing the result on trading activities in 2018 was the fact that the Bank recognized the results of the RBPL Core Business for the last two months of 2018.

The net investment income for 2018 amounted to PLN 47,405 thousand, and was higher by PLN 19,007 thousand, i.e. by 66.9% as compared to the result achieved in 2017.

In 2018, the most important item were the profits from the sale of debt instruments in the amount of PLN 41,244 thousand (including PLN 30,228 thousand in the fourth quarter). The change in the valuation of the portfolio of loans and advances to customers measured at fair value through profit and loss statement as a result of the adjustment to IFRS 9 was positive and amounted to PLN 5,984 thousand.

The result of 2017 consists of profits from the sale of a portfolio of securities available for sale in the amount of PLN 25,543 thousand, and profit from the sale of shares in the amount of PLN 2,855 thousand, including: PLN 2,757 thousand which concerns the sale of shares in BGŻ BNP Paribas Faktoring Sp. z o.o., completed in the fourth quarter of 2017.

Other operating income

Other operating income in 2018 amounted to PLN 393,193 thousand and was higher by PLN 259,819 thousand, i.e. by 194.8% as compared to the previous year.

The increase was primarily due to recognition of PLN 291,706 thousand gain on a bargain purchase, which is the excess of the fair value of the acquired assets and liabilities at the acquisition date over the purchase price of the Core Business of RBPL, under other operating income.

Table 29. Other operating income

PLN '000	12 months	12 months	change y/y	
	ended 31.12.2018	ended 31.12.2017	PLN '000	%
Sale or liquidation of property, plant and equipment and intangible assets	13,631	25,083	(11,452)	(45.7%)
Sale of goods and services	1,340	2,155	(815)	(37.8%)
Release of provisions for litigation and claims and other liabilities	2,125	10,616	(8,491)	(80.0%)
Recovery of debt collection costs	16,118	16,643	(525)	(3.2%)
Recovered indemnities	13,192	2,520	10,672	423.5%
Leasing operations	20,998	22,948	(1,950)	(8.5%)
Gain on bargain purchase of RBPL	291,706	-	291,706	x
Other operating income	34,083	53,409	(19,326)	(36.2%)
Total other operating income	393,193	133,374	259,819	194.8%

In addition, the level of other operating income in 2018 was positively affected by the increase in income from recovered indemnities by PLN 10,672 thousand, i.e. by 423.5%.

The amount of other operating income in 2018 was adversely affected by:

- a decrease in other operating income by PLN 19,326 thousand, i.e. by 36.2% (the level of this category in 2017 was affected by higher income from re-invoicing and the release of provisions for legal risks, in addition, this item includes the annual adjustment of VAT tax for 2016 - in 2017 in the amount of PLN 7.9 million as compared to the annual adjustment of the calculated tax for 2017 in the amount of PLN 2.9 million - recognized in 2018),
- a drop in profit on the sale or liquidation of fixed assets and intangible assets by PLN 11,452 thousand, i.e. by 45.7%,
- lower income from the release of provisions for litigation and claims by PLN 8,491 thousand, i.e. by 80.0%.

Other operating expenses

Other operating expenses in 2018 amounted to PLN 161,606 thousand and were higher by PLN 22,718 thousand (i.e. by 16.4%) as compared to 2017. The following factors had impact on the current level of operating expenses:

- integration expenses in the amount of PLN 29.6 million (PLN 22.1 million - provision for branch restructuring, PLN 7.5 million - impairment allowance on property, plant and equipment). In 2017, the impact of this category was positive and amounted to 126 thousand;
- reduction of losses on the sale or liquidation of fixed assets and intangible assets by PLN 10,719 thousand, i.e. by 40.1%,
- no impairment allowance on other receivables, which in 2017 amounted to PLN 10,244 thousand (the largest impact on this item was the creation, in the first quarter of 2017, of provisions for unsettled balances of card transactions resulting from the migration of IT systems after the end of the operational merger),
- costs related to compensations, penalties and fines incurred in 2018 in the amount of PLN 2,574 thousand,
- higher costs of debt collection by PLN 2,446 thousand, i.e. by 7.3%.

Table 30. Other operating expenses

PLN '000	12 months ended	12 months ended	change y/y	
	31.12.2018	31.12.2017	PLN '000	%
Loss on sale or liquidation of property, plant and equipment and intangible assets	(15,990)	(26,709)	10,719	(40.1%)
Impairment allowances on other receivables	-	(10,244)	10,244	(100.0%)
Provisions for litigation and claims and branches restructuring	(41,608)	(8,607)	(33,001)	383.4%
Debt collection	(35,946)	(33,500)	(2,446)	7.3%
Donations made	(3,342)	(2,686)	(656)	24.4%
Costs of leasing operations	(20,966)	(23,039)	2,073	(9.0%)
Costs of compensations, penalties and fines	(2,574)	-	(2,574)	x
Other operating expenses	(41,180)	(34,103)	(7,077)	20.8%
Total other operating expenses	(161,606)	(138,888)	(22,718)	16.4%

Net impairment losses on financial assets and provisions for contingent liabilities

The result of impairment losses on financial assets and provisions for contingent liabilities in 2018 amounted to PLN 537,275 thousand and its negative impact on the Bank's results was higher by PLN 194,856 thousand, i.e. by 56.9% y/y.

As a result of the acquisition of the Core Business of Raiffeisen Bank Polska S.A. in 2018, an allowance for expected credit losses in the 12-month horizon for loans and advances to customers and amounts due from banks, without impairment as well as for debt securities, in the total amount of PLN 238,897 thousand was recognized, which was the reason for the deterioration of the balance of allowances as compared to 2017.

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

In 2017, the Bank concluded 9 agreements regarding the sale of the loan portfolio. The amount of receivables (covered by a significant portion of impairment losses, orderecognized) sold under the agreements amounted to PLN 651,152 thousand (principal, interest and other side charges). The contractual price for the sale of these portfolios has been set at PLN 138,119 thousand. The net effect on the Bank's result from the sale of portfolios amounted to PLN 34,881 thousand and was presented in the net impairment losses on financial assets and provisions for contingent liabilities.

The cost of credit risk calculated as the ratio of gross impairment losses to loans and advances to customers measured at amortized cost (calculated on the basis of balances at the end of quarters) amounted to 0.95% in 2018 and deteriorated by 34 p.p. in comparison to 2017 (0.61%). Excluding an additional allowance due to expected credit losses in the 12-month horizon for loans and advances to customers and amounts due from banks, without impairment as well as for debt securities (incurred in connection with the finalization of the acquisition of the Core Business Raiffeisen Bank Polska S.A.), the cost of credit risk would amount to 0.53% and would be 8 bps lower than in 2017.

Considering the key operating segments:

- Retail and Business Banking segment recorded an improvement in the balance of allowances by PLN 49,894 thousand y/y,
- SME Banking segment - improvement by PLN 29,207 thousand y/y,
- Corporate Banking segment (including CIB) - deterioration by 34,397 thousand y/y.

General administrative expenses, depreciation and amortization

General administrative expenses (including depreciation and amortization) of Bank BGŻ BNP Paribas for 2018 amounted to PLN 1,988,734 thousand and were higher by PLN 333,129 thousand i.e. 20.0% as compared to 2017.

The increase in the expenses was mainly due to the merger of the Bank with the Core Business of Raiffeisen Bank Polska S.A. (RBPL) on 31 October 2018 and the integration costs incurred thereby in 2018.

Table 31. General administrative expenses, amortization and depreciation

PLN '000	12 months ended 31.12.2018	12 months ended 31.12.2017	change y/y	
			PLN '000	%
Personnel expenses	(1,033,824)	(815,175)	(218,649)	26.8%
Marketing	(107,213)	(92,140)	(15,073)	16.4%
IT and telecom expenses	(150,435)	(130,149)	(20,286)	15.6%
Rental expenses	(156,737)	(162,845)	6,108	(3.8%)
Other non-personnel expenses	(214,195)	(157,781)	(56,414)	35.8%
Business travels	(12,904)	(10,801)	(2,103)	19.5%
ATM and cash handling expenses	(3,954)	(3,448)	(506)	14.7%
Outsourcing costs related to leasing operations	(6,735)	(19,453)	12,718	(65.4%)
Bank Guarantee Fund fee	(117,294)	(95,483)	(21,811)	22.8%
Polish Financial Supervision Authority fee	(6,601)	(4,796)	(1,805)	37.6%
Total general administrative expenses	(1,809,892)	(1,492,071)	(317,821)	21.3%
Depreciation and amortization	(188,842)	(173,534)	(15,308)	8.8%
Total expenses	(1,998,734)	(1,665,605)	(333,129)	20.0%

The total amount of integration costs in 2018 amounted to PLN 265.8 million (including PLN 9.1 million related to the SKOK Rafineria acquisition) against PLN 35.6 million in 2017, out of which:

- PLN 236.2 million has been included in general administrative expenses,
- PLN 29.6 million - in other operating expenses (PLN 22.1 million - branch restructuring provision, PLN 7.5 million - impairment allowance for property, plant and equipment),

The integration costs booked in the overall administrative costs mainly include:

- creation of a provision for employment restructuring - PLN 128.5 million (RBPL) and PLN 2.0 million (SKOK),
- creation of a provision for retention programs - PLN 10.9 million (RBPL),
- costs of legal and consulting services - 49.7 million PLN (RBPL PLN 48.3 million, SKOK PLN 1.4 million),
- costs of accruing accelerated depreciation of systems in connection with the merger processes of banks - PLN 18.5 million.

Table 31a. Personnel expenses

PLN '000	12 months ended 31.12.2018	12 months ended 31.12.2017	change y/y	
			PLN '00	%
Payroll expenses	(729,307)	(663,905)	(65,402)	9.9%
Payroll charges	(121,448)	(115,484)	(5,964)	5.2%
Employee benefits	(34,182)	(16,265)	(17,917)	110.2%
Costs of restructuring provision	(133,727)	(2,489)	(131,238)	5,272.7%
Costs of provision for future liabilities arising from unused annual leave and retirement benefits	(3,180)	(6,876)	3,696	(53.8%)
Appropriations to Social Benefits Fund	(8,808)	(8,850)	42	(0.5%)
Other	(3,172)	(1,306)	(1,866)	142.9%
Total personnel expenses	(1,033,824)	(815,175)	(218,649)	26.8%

The largest increase in expenses by type y/y (by PLN 218.6 million) took place in the item "personnel expenses", including:

- PLN 156.2 million of the expenses resulting from the RBPL acquisition (PLN 128.5 million - costs of the provision related to employment restructuring, PLN 10.9 million - provision for local retention programs),
- PLN 70.8 million resulting from the increase in employment at the Bank due to the acquisition of RBPL employees.

In addition, the level of expenses in 2018 was influenced by higher:

- advisory and consulting expenses related to the preparation for the merger of the Bank with the Core Business of RBPL and the acquisition of SKOK "Rafineria" (included in the non-personnel expenses) - PLN 49.7 million,
- IT and telecommunications expenses related to the increase in the Bank's operations after the merger with RBPL, the integration costs in this item in 2018 amounted to PLN 6.5 million,
- marketing expenses, which resulted from the expenses incurred in connection with the integration, more advertising campaigns (cash loan campaigns, personal account campaigns, campaigns for small businesses) and image-related activities (Szlachetna Paczka (Noble Gift), sponsoring of tennis events),
- contributions to BFG - total contributions recognized in the expenses of 2018 amounted to PLN 117.3 million and were PLN 21.8 million higher than in the previous year, including:
 - the annual contribution to the banks' resolution fund for 2018 (recognized in the first half of the year) was PLN 52.8 million and was PLN 2.2 million higher than in the corresponding period of the previous year,
 - the contribution to the bank guarantee fund due for 12 months of 2018 amounted to PLN 64.5 million and was higher by PLN 19.6 million, which was influenced, inter alia, by merger of the Bank with the Core Business of Raiffeisen Bank Polska S.A. (estimated expenses on this account amount to PLN 6.6 million).

At the same time, a decrease in expenses was recorded in rent expenses by PLN 6.1 million resulting from the optimization of office space (headquarters of the Bank's Head Office at Suwak Street in Warsaw) and sales network (market stands, business centres) as well as the restructuring of the Bank's branch network.

In 2018, the expenses of transformation projects carried out at the Bank amounted to PLN 25.0 million and were higher by PLN 9.6 million as compared to the expenses incurred in 2017.

Depreciation and amortization expenses in 2018 amounted to PLN 188.8 million and were higher by PLN 15.3 million as compared to the previous year, which results mainly from the expenses of accrued accelerated depreciation and amortization (PLN 18.5 million), with simultaneous decrease of depreciation and amortization expenses due to liquidation of assets after the merger of Bank BGŻ with BNP Paribas Bank Polska SA and Sygma Bank Polska SA

10.2. Statement of comprehensive income

The Bank's comprehensive income in 2018 amounted to PLN 363,961 thousand and was by PLN 76,897 thousand lower than in 2017.

The main reason for the observed decline was the lack of a positive change in the valuation of financial assets in 2018 comparable to that observed in 2017 (a positive impact on the comprehensive income of 2017 in the amount of PLN 174,084 thousand, as compared to PLN 831 thousand in 2018), partially offset by the increase in net profit generated in the periods compared.

Table 32. Statement of comprehensive income

PLN '000	12 months ended	12 months ended	change y/y	
	31.12.2018	31.12.2017	PLN '000	%
Net profit for the period	364,739	298,389	66,350	22.2%
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss upon fulfilment of certain conditions	122	141,486	(141,364)	(99.9%)
Net change in measurement of financial assets available for sale	-	174,084	(174,084)	(100.0%)
Net change in measurement of financial assets at fair value through other comprehensive income	831	-	831	x
Deferred tax	(709)	(32,598)	31,889	(97.8%)
Items that will not be reclassified subsequently to profit or loss	(900)	983	(1,883)	(191.6%)
Actuary valuation of employee benefits	(1,111)	1,857	(2,968)	(159.8%)
Deferred tax	211	(874)	1 085	(124.1%)
Other comprehensive income (net of tax)	(778)	142,469	(143,247)	(100.5%)
Total comprehensive income for the period	363,961	440,858	(76,897)	(17.4%)

10.3. Statement of financial position

Assets

The total assets of the Bank as at the end of December 2018 amounted to PLN 106,811,658 thousand and was higher by PLN 35,007,534 thousand, i.e. by 48.8%, as compared to the end of December 2017. The change in the scale of the Bank's activity resulted from the finalization of the acquisition of Core Business of RBPL on 31 October 2018, described in detail in Chapter 4.2. "Acquisition of the Core Business of Raiffeisen Bank Polska S.A." of the Separate Financial Statement of Bank BGŻ BNP Paribas S.A. for the year ended on 31 December 2018.

The most important changes in the structure of the Bank's assets that took place as a result of the transaction are: a decrease in the share of loans and advances to customers (the total of portfolios measured at amortized cost and fair value) with simultaneous increase in the share of securities and financial instruments (in 2017, financial assets available for sale).

The structure of assets is dominated by loans and advances to customers whose share accounted for 66.7% of total assets at the end of 2018 as compared to 72.7% at the end of 2017. In terms of value, the volume of net loans and advances increased by PLN 19,091,964 thousand i.e. by 36.6%.

The second largest asset were securities and financial instruments, which accounted for 26.2% of the total assets at the end of 2018 (at the end of 2017, financial assets available for sale: 19.4%). In 2018, their value increased by PLN 14,096,501 thousand, i.e. 101.3%, mainly as a result of an increase in the portfolio of bonds issued by central level government institutions.

At the same time, the above changes saw a decrease from 3.5% to 0.7% in the share of net amounts due from banks, which dropped by PLN 1,724,386 thousand, i.e. by 68.6%, mainly in the position of current accounts and interbank deposits.

Table 33. Assets

PLN '000	31.12.2018	31.12.2017	change	
			PLN '000	%
Cash and balances at Central Bank	2,897,113	998,035	1,899,078	190.3%
Amounts due from banks	791,071	2,515,457	(1,724,386)	(68.6%)
Derivative financial instruments	715,671	474,421	241,250	50.9%
Differences from hedge accounting	130,405	32,730	97,675	298.4%
Loans and advances to customers measured at amortised cost	68,870,918	52,195,203	16,675,715	31.9%
Loans and advances to customers measured at fair value through profit or loss	2,416,249	-	2,416,249	x
Financial assets available for sale	-	13,921,889	(13,921,889)	(100.0%)
Securities measured at amortised cost	11,939,238	-	11,939,238	x
Financial instruments measured at fair value through profit or loss	203,813	-	203,813	x
Securities measured at fair value through other comprehensive income	15,875,339	-	15,875,339	x
Investments in subsidiaries	142,258	63,404	78,854	124.4%
Intangible assets	520,108	287,907	232,201	80.7%
Property, plant and equipment	499,307	500,348	(1,041)	(0.2%)
Deferred tax assets	920,286	468,617	451,669	96.4%
Other assets	889,882	346,113	543,769	157.1%
Total assets	106,811,658	71,804,124	35,007,534	48.8%

Loan portfolio

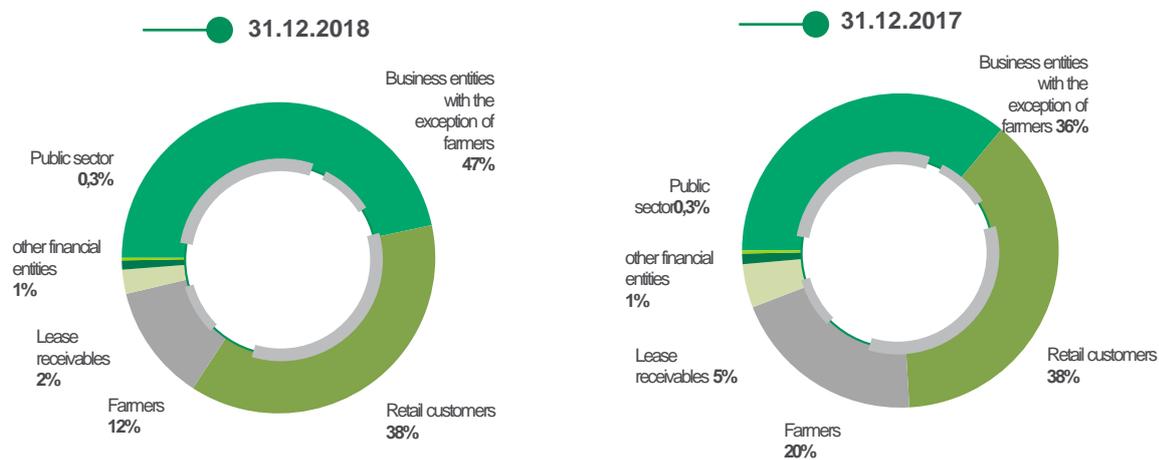
Structure and quality of the loan portfolio

At the end of December 2018, gross loans and advances to customers (the total of portfolios measured at amortized cost and at fair value) amounted to PLN 74,426,387 thousand and increased by 19,459,284 thousand, i.e. by 35.4% compared to the end of 2017.

Table 34. Structure of the loan portfolio measured at amortized cost

	31.12.2018		31.12.2017	
	PLN '000	share %	PLN '000	share %
Gross loans and advances	71,885,967	100.0%	54,967,103	100.0%
Business entities with the exception of farmers	33,521,398	46.6%	19,790,088	36.0%
Farmers	8,681,538	12.1%	11,004,011	20.0%
Retail customers	27,000,114	37.6%	20,939,056	38.1%
- mortgage loans	16,054,648	22.3%	13,628,114	24.8%
in PLN	10,828,584	15.1%	8,209,418	14.9%
in foreign currencies	5,226,064	7.3%	5,418,696	9.9%
- cash loans	7,150,386	9.9%	4,575,410	8.3%
- other retail loans	3,795,080	5.3%	2,735,532	5.0%
Lease receivables	1,805,600	2.5%	2,465,830	4.5%
Public sector	190,073	0.3%	172,173	0.3%
Other financial entities	687,244	1.0%	595,945	1.1%

Chart 13. Gross loans and advances valued at amortized cost – structure



As part of the portfolio valued at amortized cost, the share of loans and advances granted to business entities excluding farmers (PLN 33,521,398 thousand at the end of 2018) increased by 10.6 p.p. and was 46.6%. Loans to individual customers (PLN 27,000,114 thousand) account for 37.6%, with more than half of this portfolio being mortgage loans (PLN 16,054,468 thousand), which account for 22.3% of the entire portfolio measured at amortized cost (decrease by 2.5 p.p. compared to the end of 2017). In the third place are the loans to farmers (PLN 8,681,538 thousand), despite their decline in the entire portfolio by 7.9 p.p., to 12.1% at the end of 2018.

Table 35. The quality of the loan portfolio measured at amortized cost

PLN '000	31.12.2018			31.12.2017		
	Gross total	Including: impaired	share %	Gross total	Including: impaired	share %
Gross loans and advances	71,885,967	4,135,355	5.8%	54,967,103	4,114,988	7.5%
Institutional entrepreneurs, excluding farmers	34,398,715	2,205,492	6.4%	20,558,206	2,083,673	10.1%
Farmers	8,681,538	586,234	6.8%	11,004,011	616,591	5.6%
Retail customers	27,000,114	1,222,939	4.5%	20,939,056	1,310,412	6.3%
- mortgage loans	16,054,648	528,972	3.3%	13,628,114	596,147	4.4%
in PLN	10,828,584	206,162	1.9%	8,209,418	205,186	2.5%
in other currencies	5,226,064	322,810	6.2%	5,418,696	390,961	7.2%
- cash loans	7,150,386	515,816	7.2%	4,575,410	524,805	11.5%
- other retail loans	3,795,080	178,151	4.7%	2,735,532	189,460	6.9%
Lease receivables	1,805,600	120,690	6.7%	2,465,830	104,312	4.2%

The share of impaired exposures in gross loans and advances to customers and measured at amortized cost improved to 5.8% at the end of 2018 as compared to 7.5% at the end of 2017.

Table 36. Quality ratios of the loan portfolio measured at amortized cost

PLN '000	31.12.2018	31.12.2017	change	
			PLN '000	%
Total gross loans and advances to customers	71,885,967	54,967,103	16,918,864	30.8%
Impairment allowances	(3,015,049)	(2,771,900)	(243,149)	8.8%
Total net loans and advances to customers	68,870,918	52,195,203	16,675,715	31.9%
Exposures without impairment triggers				
Gross balance sheet exposure	67,750,612	50,852,116	16,898,496	33.2%
Allowance	(987,712)	(278,626)	(709,086)	254.5%
Net balance sheet exposure	66,762,900	50,573,490	16,189,410	32.0%
Impaired exposures (phase 3)				
Gross balance sheet exposure	4,135,355	4,114,987	20,368	0.5%
Impairment allowance	(2,027,337)	(2,493,274)	465,937	(18.7%)
Net balance sheet exposure	2,108,018	1,621,713	486,305	30.0%
Ratios				
Share of impaired exposures in gross portfolio	5.8%	7.5%		(1.7 p.p.)
Coverage with impairment allowances	(49.0%)	(60.6%)		11.6 p.p.

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 were secured by a registered pledge on the rights to cash flows from securitized assets.

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

The main benefit of the transaction is a positive impact on capital adequacy ratios as well as improved liquidity and diversification of funding sources.

In the light of the records of IAS 39 and IFRS 9, the contractual terms of a securitization do not fulfil the conditions to derecognize securitized assets. In connection with the above, the Bank recognizes securitized assets under the item Loans and advances granted to customers as at 31.12.2018 at net value of PLN 2,150,316 thousand. At the same time, the Bank recognizes a liability due to cash flows from securitisations in the item "Amounts due to customers" in the amount equal to PLN 2,178,530 thousand on 31.12.2018. As at 31.12.2018, the Bank was also in a possession of receivables due to settlements with a securitization company in the amount of PLN 119,721 thousand. These receivables are presented under Other assets.

Liabilities and equity

As of the end of December 2018, the total value of the Bank's liabilities amounted to PLN 96,240,096 thousand, and was by PLN 30,977,231 thousand or 47.5% higher than at the end of 2017. The increase in the scale of the Bank's operations was the result of finalizing on 31 October 2018 the purchase of Core Business of RBPL, described in detail in Chapter 4.2. "Acquisition of the Core Business of Raiffeisen Bank Polska S.A." Separate Financial Statements of Bank BGŻ BNP Paribas S.A. for the year ended on 31 December 2018.

Table 37. Liabilities and equity

PLN '000	31.12.2018	31.12.2017	change	
			PLN '000	%
Amounts due to banks	1,589,935	2,926,396	(1,336,461)	(45.7%)
Differences from hedge accounting regarding the fair value of hedged items	123,600	(2,992)	126,592	(4,231.0%)
Derivative financial instruments	783,818	427,710	356,108	83.3%
Amounts due to customers	89,506,557	58,658,067	30,848,490	52.6%
Securities issued	-	288,553	(288,553)	(100.0%)
Subordinated liabilities	1,875,769	1,645,102	230,667	14.0%
Other liabilities	1,801,154	1,111,097	690,057	62.1%
Current income tax liabilities	123,464	112,235	11,229	10.0%
Deferred tax	435,799	76,697	359,102	468.2%
Provisions	96,240,096	65,242,865	30,997,231	47.5%
Total liabilities	147,419	84,238	63,181	75.0%
Share capital	9,111,033	5,127,086	3,983,947	77.7%
Supplementary capital	1,208,018	909,629	298,389	32.8%
Other reserve capital	141,139	141,917	(778)	(0.5%)
Revaluation reserve	(36,047)	298,389	(334,436)	(112.1%)
Retained earnings	(400,786)	-	(400,786)	x
Retained profit	364,739	298,389	66,350	22.2%
Net profit for the period	10,571,562	6,561,259	4,010,303	61.1%
Total equity	106,811,658	71,804,124	35,007,534	48.8%

In the analysed period, the share of liabilities in total liabilities and equity of the Bank remained at a similar level and amounted to 90.1% at the end of December 2018.

The most significant change in the structure of the Bank's liabilities at the end of 2018 as a result of the acquisition of the Core Business of RBPL was an increase in the share of amounts due to customers (by 3.1 p.p.) with a simultaneous decrease in the share of liabilities to banks. In terms of value, the volume of amounts due to customers at the end of December 2018 increased by PLN 30,849,490 thousand, i.e. by 52.6% as compared to the end of 2017 and amounted to PLN 89,506,557 thousand.

The total value of liabilities to banks as of the end of December 2018 amounted to PLN 1,589,935 thousand and was by PLN 1,336,461 thousand lower than at the end of 2017 (i.e. by 45.7%), with a decrease in loans and advances received from banks and an increase in the share of current accounts and term deposits.

The reduction in debt securities issued is related to the redemption in the first quarter of 2018 of deposit certificates issued on the basis of contracts signed in March 2008 with a total nominal value of PLN 285,000 thousand. In addition, this item in 2017 includes bonds for the total amount of PLN 2,180,850 thousand with a maximum initial maturity date of 21 April 2032, issued in December 2017 by the SPV, as a result of the transaction of securitization of the portfolio of consumer loans carried out by the Bank. The repayment of bonds is secured by receivables from loans and advances subjected to securitization.

Amounts due to customers

At the end of December 2018, amounts due to customers amounted to PLN 89,506,557 thousand, recording growth in almost all product groups and business segments as compared to the end of 2017, which is mainly due to the increase in the scale of the Bank's operations after finalizing the acquisition of Core Business of RBPL.

The largest volume increase (by PLN 17,043,210 thousand) is related to individual customers' deposits, which accounted for 49.9% of all amounts due to customers at the end of December 2018 (increase in the share by 2.8 pp as compared to the end of 2017).

The volume of business entities amounted to PLN 37,283,001 thousand and increased by PLN 12,620,180 thousand, i.e. by 51.2% (of which PLN 11,583,293 thousand were related to current accounts). At the same time, their share in the total amounts due to customers decreased to 41.7% as compared to 42.0% at the end of December 2017.

Non-banking financial entities and institutions of the public sector increased in total by PLN 1,185,100 thousand (increase by 18.6% y/y).

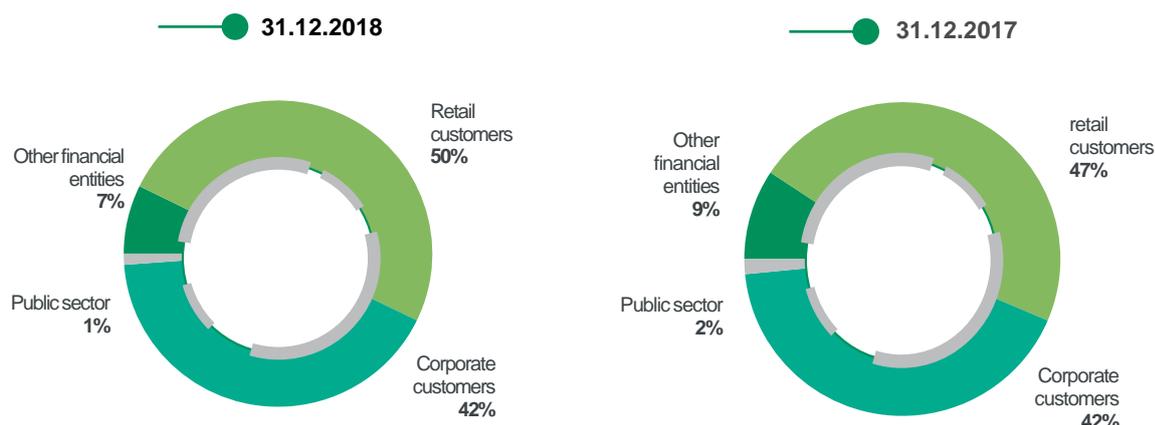
Table 38. Amounts due to customers by products

PLN '000	31.12.2018		31.12.2017	
	PLN '000	share %	PLN '000	share %
Amounts due to customers	89,506,557	100.0%	58,658,067	100.0%
Current accounts	55,635,473	62.2%	30,351,041	51.7%
Term deposits	30,239,128	33.8%	24,055,426	41.0%
Liabilities due to securitization transaction	2,298,995	2.6%	2,303,210	3.9%
Loans and advances received	-	0.0%	1,475,684	2.5%
Other liabilities	1,332,961	1.5%	472,706	0.8%

The share of current accounts in the structure of amounts due to customers in total amounted to 62.2% at the end of 2018, noting an increase by 10.5 p.p. as compared to 2017. The funds deposited on current accounts amounted to PLN 55,635,473 thousand and increased by PLN 25,284,432 thousand, i.e. by 83.3%. This was the result of an increase in the volume in the segment of individual customers (by PLN 12,809,999 thousand, +86.5% y/y), as well as funds deposited in current accounts by business entities (by PLN 11,583,293 thousand, +80.4% y/y).

The share of term deposits in the structure of amounts due to customers in the analysed period amounted to 33.8% and decreased by 7.2 p.p. as compared to the end of 2017. Value of term deposits increased by PLN 6,183,702 thousand, i.e. by 25.7% as compared to December 2017 and reached the level of PLN 30,239,128 thousand. The increase mainly concerned the segment of individual customers (increase in volume by PLN 4,088,106 thousand).

The share of loans and advances received and other liabilities in the structure of amounts due to customers totalled 1.5% and decreased by 1.8 p.p. as compared to December 2017.

Chart 14. Structure of amounts due to customers

Equity

As of the end of December 2018, the Bank's equity amounted to PLN 10,571,562 thousand and was PLN 4,010,303 thousand, i.e. by 61.1% higher than at the end of 2017. This increase was the result of:

- increase in share and reserve capital as a result of the J and K series shares issue (the issue value was PLN 799,995 thousand, of which PLN 13,300 thousand of share capital, supplementary capital PLN 786,695 thousand, costs of issue reducing the reserve capital of -PLN 2,867 thousand);
- increase in share and reserve capital as a result of the issue of L series shares (the issue value amounted to PLN 3,250,000 thousand, of which share capital was PLN 49,881 thousand, reserve capital PLN 3,200,119 thousand);
- allocating the entire Bank's net profit for 2017 in the amount of PLN 298,389 thousand to the reserve capital in accordance with the Resolution of the Ordinary General Shareholders' Meeting of Bank BGŻ BNP Paribas S.A. of 18 May 2018.

10.4. Equity and capital ratios

The total capital ratio of the Bank as at 31 December 2018 amounted to 15.02% and increased as compared to December 2017 by 1.10 p.p. The stand-alone Common Equity Tier 1 capital ratio (CET I) and the stand-alone Tier 1 capital ratio at the end of 2018 were the same and amounted to 12.72% (increase as compared to the end of 2017 by 1.77 p.p.).

Total own funds as at 31 December 2018 increased by PLN 4,541,048 thousand as compared to 31 December 2017, which resulted mainly from the inclusion in own funds of the following items:

- the Bank's net profit for the first half of 2018, in the amount of PLN 194,073 thousand (consent of the Polish Financial Supervision Authority of 27 September 2018),
- the Bank's net profit for the third quarter of 2018, in the amount of PLN 134,237 thousand PLN (consent of the Financial Supervision Authority of 13 December 2018),
- PLN 799,995 thousand connection with the classification of J and K series shares issued by Bank BGŻ BNP Paribas S.A. as instruments in Common Equity Tier 1 (approval of the Polish Financial Supervision Authority of 10 July 2018),
- PLN 3,250,000 thousand in connection with the classification of L series shares issued by Bank BGŻ BNP Paribas S.A. (merger of Bank BGŻ BNP Paribas S.A. with Core Business of Raiffeisen Bank Polska S.A. on 31 October 2018) as instruments in Common Equity Tier 1 (approval of the Polish Financial Supervision Authority of 21 November 2018).

In accordance with the Resolution of the Ordinary General Shareholders' Meeting of Bank BGŻ BNP Paribas S.A. of 18 May 2018, the Bank's entire profit for 2017 in the amount of PLN 298,389 thousand PLN was allocated to reserve capital.

The total risk exposure amount as of 31 December 2018 amounted to PLN 81,493,415 thousand and increased by PLN 26,185,434 thousand as compared to 31 December 2017, which resulted primarily from the merger of Bank BGŻ BNP Paribas S.A. with the Core Business of Raiffeisen Bank Polska S.A. on 31 October 2018.

In accordance with the Act of 5 August 2015 on macroprudential supervision of the financial system and crisis management in the financial sector and the Regulation of the Minister of Finance from 1 January 2018, the capital requirements applicable to banks in Poland increased through:

- introducing a systemic risk buffer of 3%;
- increase in the capital conservation buffer level from 1.25% to 1.875%.

Table 39. Equity and capital ratios of the Bank

PLN '000	31.12.2018	31.12.2017	change	
			PLN '000	%
Tier I capital				
– share capital	147,419	84,238	63,181	75.0%
– supplementary capital	7,259,316	3,272,502	3,986,814	121.8%
– reserve capital	2,432,582	2,137,060	295,522	13.8%
– general banking risk fund	627,154	627,154	0	0.0%
– intangible assets	(520,108)	(287,907)	(232,201)	80.7%
– other items of equity included in Tier I capital	421,514	223,848	197,666	88.3%
Total Tier I capital	10,367,877	6,056,895	4,310,982	71.2%
Tier II capital				
– subordinated liabilities classified as own funds	1,872,490	1,642,424	230,066	14.0%
Total own funds	12,240,367	7,699,319	4,541,048	59.0%
Risk exposure due to:				
– credit risk	72,501,287	50,303,478	22,197,809	44.1%
– market risk	844,070	270,215	573,855	212.4%
– operational risk	7,807,732	4,521,329	3,286,403	72.7%
– credit valuation adjustment	340,326	212,959	127,367	59.8%
Total risk exposure	81,493,415	55,307,981	26,185,434	47.3%
Capital ratios of the Bank				
Total capital requirement	31.12.2018	31.12.2017	change	
	15.02%	13.92%	1.10 p.p.	
Tier I ratio	12.72%	10.95%	1.77 p.p.	

On 8 August 2018, the Bank received a letter from the Polish Financial Supervision Authority (PFSA) informing about the PFSA's review of the adequacy of the buffer rate of other systemically important institution. As a result of the review, the PFSA concluded that there were no reasons to repeal or amend the PFSA's Decision of 4 October 2016, as set out in the PFSA Decision of 19 December 2017 on the Bank (on a consolidated and separate basis) of the buffer of other systemically important institutions equivalent to 0.25% of the total risk exposure amount.

On 15 October 2018, the Bank received a recommendation from the Polish Financial Supervision Authority to maintain own funds of the Bank to cover an additional capital requirement of 0.36 p.p. in order to hedge the risk resulting from FX mortgage loans for households, which should consist at least in 75% of Tier 1 capital (corresponding to 0.27 p.p.) and at least in 56% of Common Equity Tier 1 capital (which corresponds to 0.20 p.p.). On 30 November 2018, these levels were confirmed by the PFSA as being applicable also at the consolidated level.

As a result of the above changes, the minimum levels of capital adequacy ratios resulting from legal regulations and administrative decisions issued by the Polish Financial Supervision Authority ("PFSA") as of 31 December 2018, are as follows:

- Common Equity Tier 1 ratio (CET I) = 9.83%;
- Tier I capital ratio = 11.40%;
- Total capital ratio = 13.49%.

On 12 December 2017, the European Parliament and the EU Council adopted Regulation No. 2017/2395 amending the Regulation (EU) No 575/2013 regarding transitional arrangements to mitigate the impact of the introduction of IFRS 9 on equity and on the treatment of large exposures to entities in the sector publicly denominated in the national currency of any Member State. 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) decided that the application of IFRS 9 could lead to a sudden increase in allowances for expected credit losses, and hence, the fall in Tier 1 capital.

The Group, 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 assessment of capital adequacy of the Bank. As a result of adjusting the calculation of regulatory capital requirements, it was estimated that taking into account the full impact of the implementation of IFRS 9 on the total capital ratio of the Bank would reduce its value by 69 basis points.

10.5. Financial ratios

The Bank's return on equity (ROE) calculated in a normalized approach (excluding the impact of integration costs, additional allowance for expected credit losses for non-impaired loans and receivables and gain on a bargain purchase of the Core Business of RBPL) amounted to 6.6% in 2018 and it was 1.4 p.p. higher than in 2017. Return on assets (ROA) calculated in the same way amounted to 0.6% and increased as compared to 2017 by 0.1 p.p. The ratios calculated on the basis of reported amounts amounted to 4.9% (ROE, up by 0.2 p.p. y/y) and 0.5% (ROA, up by 0.1 p.p. y/y).

The Cost / Income ratio (excluding the integration costs and gain on a bargain purchase of the Core Business of RBPL) was at the level of 59.6%, lower by 1.1 p.p. as compared to 2017. The ratio calculated on the basis of the reported amounts amounted to 62.0%, i.e. unchanged as compared to 2017.

Presentation of ratios calculated on the basis of the profit and loss account category excluding the costs of additional allowances due to expected credit losses in 12 month horizon, gain on a bargain purchase of RBPL Core Business and integration costs (understood as additional costs related to the merger processes) is aimed at providing additional information allowing the assessment of the current potential of the combined banks.

The net interest margin calculated in relation to average assets was 2.7% and did not change as compared to the level calculated for 2017.

The cost of credit risk decreased as compared to the level recorded in 2017 by 0.08 p.p. and amounted to 0.53%. Taking into account the additional allowances for expected credit losses in 12-month horizon, the cost of credit risk amounted to 0.95% in 2018.

The ratio of net loans and advances to deposits improved as compared to the end of 2017 due to the favourable liquidity-wise structure of the acquired assets and liabilities of the Core Business of RBPL.

Table 40. Financial ratios

	31.12.2018	31.12.2017	31.12.2016	change 2018/2017
Return on equity ⁽¹⁾	6.6%*	5.2%*	3.0%*	1.4 p.p.
Return on assets ⁽²⁾	0.6%*	0.5%*	0.3%*	0.1 p.p.
Net interest margin ⁽³⁾	2.7%	2.7%	2.6%	0.0 p.p.
Cost/Income ⁽⁴⁾	59.6%*	60.7%*	65.0%*	(1.1 p.p.)
Cost of credit risk ⁽⁵⁾	(0.53%)*	(0.61%)	(0.70%)	0.08 p.p.
Net loans and advances/Deposits ⁽⁶⁾	79.6%	91.3%	99.8%	(11.7 p.p.)
Gross loans and advances/Total source of funding ⁽⁷⁾	80.9%	87.1%	90.0%	(6.2 p.p.)

* Normalized values calculated excluding: integration costs (2018 – PLN 265,804 thousand, 2017 – PLN 35,641 thousand, 2016 – PLN 173,453 thousand), allowance due to expected credit losses created in connection with the acquisition of the Core Business of RBPL (2018: PLN 238,897 thousand) and the gain on the bargain purchase of the Core Business of RBPL (2018: PLN 291,706 thousand). The impact of integration costs was estimated using the standard 19% income tax rate. In the case of the "costs" category, the amount visible in the financial statements was reduced by the amount of integration costs recorded as general administrative expenses and depreciation. In the case of the "income" category, the amount of the income statement comprising the result from banking activities was adjusted for the integration costs recorded under other operating costs and the gain on bargain purchase of the Core Business of the RBPL.

(1) Net profit in relation to average equity, calculated based on quarter-end balances (annualized ratio).

(2) Net profit in relation to average assets, calculated based on quarter-end balances (annualized ratio).

(3) Net interest income in relation to average assets, calculated based on quarter-end balances (annualized ratio). Due to a significant increase in the balance sheet total as of 31 October 2018 and the prospective recognition of the interest result of the acquired Core Business of RBPL for the last two months of 2018 in the Bank's interest result - for the fourth quarter of 2018 the weighted average number of days was assumed.

(4) Total general administrative expenses, amortization and depreciation in relation to total net banking income, calculated as the total of net interest income, net fee and commission income, dividend income, net trading income, net investment income, result on hedge accounting and other operating income and expenses.

(5) Net impairment losses on loans and advances in relation to the average balance of net loans and advances to customers, calculated based on quarter-end balances (annualized ratio).

(6) (Net) loans and advances to customers in relation to customer deposits, balance at the end of the period.

(7) Gross loans and advances to customers in relation to total liabilities to customers, debt securities issued, loans from other banks and subordinated liabilities, balance at the end of the period.

10.6. Average interest rates used by the Bank

Table 41. Average interest rates used by the Bank in 2018*

Product	PLN		EUR	
	2018	2017	2018	2017
Deposits	1.04%	1.16%		
Households and non-commercial institutions **	1.05%	1.15%		
Corporates	1.04%	1.16%		
Loans and advancements	4.50%	4.52%	1.29%	1.32%
Households and non-commercial institutions **	5.03%	4.97%	1.96%	1.48%
Corporates	3.41%	3.50%	1.27%	1.31%

* based on statutory reports filed with the Department of Statistics, National Bank of Poland

** including deposits and loans and advances of individual entrepreneurs and farmers

11. FACTORS WHICH, ACCORDING TO THE BANK, WILL AFFECT THE CAPITAL GROUP'S PERFORMANCE WITHIN AT LEAST THE NEXT QUARTER

The major factors which may affect the Capital Group's performance in the future are:

- **The economic situation in Poland.** The available economic activity data for the period from October to December are consistent with a GDP growth slightly exceeding 5.0% (y/y) in the fourth quarter of 2018. Thus, GDP growth probably slow down from 5.1% y/y in the previous quarter. In the third quarter of 2018, growth was based on domestic demand, solid consumption growth was maintained and investment growth was higher than in the second quarter. However, deteriorating OECD leading indicators, weaker Eurozone data and growing supply constraints suggest that GDP growth may continue to slow down in the coming quarters.
- **The situation on the domestic labour market.** The unemployment rate has reached another historical low. At the end of the 4th quarter of 2018, it was 5.8%. The influence of unfavourable demographic trends and of lowering the retirement age on the number of economically active citizens was limited in the previous quarters by a significant inflow of workers from the Ukraine. In the medium and long term, a reduction of labour supply may decrease the potential and real GDP growth. Wage pressure has weakened recently, although it remains elevated.
- **Changes in inflation.** In the 4th quarter of 2018, inflation decreased to 1.4% y/y. Lower core inflation as well as falling food prices were responsible for the decline. Therefore, the Monetary Policy Council kept interest rates unchanged. After the most recent meetings of the MPC, the President of the National Bank of Poland, Adam Glapiński, indicated that interest rates may remain unchanged until the end of the Council's term in 2021. In the context of the rising costs of electricity generation, the main upward risks for inflation appear to lie in administratively determined electricity prices for households. The planned compensation for the increase by the government, however, will probably largely reduce their pro-inflationary effect. On the other hand, a downward risk may stem from the possibility of a smaller transfer of wage growth to core inflation in conditions of increased productivity growth. Market interest rates in Poland were falling in the 4th quarter, following in the footsteps of their counterparts in the core markets (US and the euro zone). This was caused, i.a., by signals from the Federal Reserve, which suggest that the US central bank is likely to slow down interest rate increases or even suspend the current cycle of tightening its monetary policy.
- **Potential increase of imbalance in public finances.** High economic activity and more efficient tax collection favoured a further reduction of the general government deficit from 1.4% of GDP in 2017 to slightly below 0.5% of GDP in 2018. The structural deficit was maintained in 2018 and remained around 2.0%, or slightly below. The relatively high structural deficit, increased expenditures and decreased revenues of the public finance sector make them susceptible to a possible stronger slowdown in economic activity.
- **Potential weakening of Polish zloty exchange rate against key currencies,** in response to a possible increase in volatility and risk aversion on financial markets. Another risk would be the potential significant weakening of the zloty exchange rate against key currencies. BNP Paribas predicts that at the end of the first quarter of 2019, the EUR/PLN exchange rate will remain close to the current level (around 4.30), but at the end of the year it may reach 4.35.
- **Returning growth of market interest rates around the world** as a potential risk factor for Polish bonds and the exchange rate of the zloty, as well as for the rate of economic growth in the medium term.
- **Potential increase in volatility and risk aversion on the European financial markets,** resulting from slowing economic growth within the euro zone and the tightening of monetary policy parameters by the ECB, including the end of the asset purchase program in early 2019. Higher risk aversion on the European bond market may increase the risk premium for Polish assets and increase the profitability of Polish Treasury securities (especially at the long end of the yield curve).
- **The global trade war** seems to be the main external risk. Currently, the key trade dispute is between the US and China. The escalation of the dispute could contribute to the slowdown of economic growth in Poland.
- **Draft bill on support for people having problems with timely payment of mortgage loans.** The bill prepared by the Chancellery of the President assumes the creation of a new Restructuring Fund (Conversion Fund, after amendments). The fund will be financed from quarterly contributions paid by banks, depending on the volume of their own portfolios of denominated and indexed loans (maximum 0.5% of the balance sheet value of the loan portfolio). The Bill assumes that the maximum annual burden on the banking sector will amount to PLN 2.5-3.2 billion.

- **Implementation of the Payment Services Directive ("PSD II")** related to payment services within the EU internal market. Its provisions have been implemented to the Polish law through amendments to the Act on Payment Services. PSD II introduces, i.a., an online access service to customer account data and payment initiation service at the customer's request. The above-mentioned services may be provided by third parties (provided they are listed by the PFSA). The Directive imposes the following obligations on banks: to provide public application software interfaces (APIs) and to implement additional security requirements.

12. OPERATIONS OF BANK BGŻ BNP PARIBAS S.A. CAPITAL GROUP IN 2018

The operations of the Capital Group of Bank BGŻ BNP Paribas S.A. are carried out in the following key business areas:

- **Retail and Business Banking** providing comprehensive services to:
 - retail customers and
 - business customers (microenterprises), including:
 - ✓ entrepreneurs without full financial reporting (in accordance with the regulations of the Accounting Act) whose annual net income for the preceding financial year is below EUR 2 million;
 - ✓ housing cooperatives and homeowners' associations;
 - ✓ non-profit organisations;
 - ✓ individual farmers.
- **Personal Finance Banking**, which is responsible, in particular, for the development of the product offering and management of consumer credit distributed through the branch network of Retail and Business Banking as well as external distribution channels.
- **SME Banking** providing services to:
 - institutional customers (non-agro) with a net annual income for the preceding financial year below 60 million and the Bank's credit exposure not exceeding PLN 25 million;
 - farmers without full financial reporting, in the case of whom the Bank's credit exposure is between PLN 3 million and PLN 25 million;
 - Agro entrepreneurs and farmers with full financial reporting, a net income for the preceding financial year below PLN 60 million and the Bank's credit exposure below PLN 25 million, as well as agricultural producer groups (regardless of their income and the Bank's credit exposure).
- **Corporate Banking** providing services to institutional customers with a net annual income for the preceding financial year equal to or exceeding PLN 60 million or the Bank's credit exposure of PLN 25 million or more.
- **Corporate and Institutional Banking (CIB)** which supports the sales of products of the Capital Group of BNP Paribas dedicated to the largest Polish enterprises. It comprises services to strategic customers and the Financial Markets Division.
- **Other banking operations** carried out mainly through the ALM Treasury.

12.1. Branches and ATM network

Branches

As at 31 December 2018, the Bank had 674 retail and business banking branches (466 branches of Bank BGŻ BNP Paribas and 208 branches of exRBPL, including 48 franchise branches).

The branch network is supported by one external cash desk handling both cash and cashless transactions and 7 Private Banking Centres. The retail network is further supported by 105 Customer Service Points.

Banking products and services dedicated to corporate customers were sold by 44 SME Business Centres, operating within 6 SME Banking Regional Branches and by 8 Corporate Business Centres.

ATM and Cash Deposit Machine (CDM) Network

At the end of December 2018, the Bank had a network of 407 cash deposit machines (CDMs) - double-function devices (210 Bank BGŻ BNP Paribas ATMs and 197 exRBPL cash deposit machines) and a network of 331 Bank BGŻ BNP Paribas ATMs.

All devices located at Bank BGŻ BNP Paribas branches are owned by the IT Card company and are marked with the Bank BGŻ BNP Paribas logo. The Bank is the owner of the CDMs located at the exRBPL branches and these machines belong to the Euronet network.

12.2. Alternative distribution channels

E-banking and mobile banking

In 2018, the Bank recorded an increase in the number of clients with access to online and mobile banking services as well as customers actively using these service channels. After the acquisition of the Core banking operations of Raiffeisen Bank Polska S.A., the Bank took over transaction systems (R-Online and R-Online Biznes) and mobile applications (Mobile Portfolio and R-Mobile Biznes) previously utilised in RBPL.

Table 42. Retail customer data

Specification	Name of the system	31.12.2018	31.12.2017
	Total	2,289,126	1,131,751
Number of customers with access	PI@net	1,380,548	1,131,751
	R-Online	908,578	-
	Total	867,137	503,364
Number of active users	PI@net	507,137	503,364
	R-Online	360,000	-
	Total	2,950,076	2,011,233
Average monthly number of transactions	PI@net	1,917,832	2,011,233
	R-Online	1,032,244	-
	Total	279,793	82,000
Number of active Mobile users	Mobile PI@net/GOMobile	163,770	82,000
	Mobilny Portfel (Mobile Wallet)	116,023	-

Changes in online banking offer for retail customers introduced in 2018:

PI@net

- launch of a version dedicated to customers of the Carrefour network,
- functional changes in the card module related to the migration of cards to the Visiona system,
- adaptation of the PI@net system to GDP regulations,
- increased security: required authorisation of telephone number changes, SMS authorisation codes.

GOMobile

- new payment methods: Apple Pay,
- launch of the Carrefour Mobile application,
- new functions: ZUS transfer, card restriction, QR code transfer, account number sharing,
- New features for repeating transfers from operations history: Repeat and Reply,
- Ukrainian and Russian versions of the app,
- transfers from a credit card,
- quick logout, temporary card blocking and card restriction,
- 3DTouch / Longpress,
- new product list, transaction history and payment section,
- loan applications (including pre-approved).

R-Online

- launch of PayByNet,
- launch of PayByLink in Allegro,
- launch of online lending for private users and companies.

Mobilny Portfel (Mobile Wallet)

- launch of a new app: Mobile Wallet,
- new forms of payment: BLIK, Apple Pay and Google Pay,
- New app feature allowing the purchase and control of public transport tickets and city car park payments,
- Launch of click2call (direct connection with CallCenter from the application - without the need for identification),
- Launch of R-Dealer - currency exchange,
- online landing - pre-approved offer in the app.

Table 43. Corporate and SME customer data

Specification	Name of the system	31.12.2018	31.12.2017
	Total	228,208	154,134
Number of customers with access	BiznesPI@net	194,978	154,134
	R-Online Biznes	33,230	-
	Total	144,310	107,323
Number of active users	BiznesPI@net	116,835	107,323
	R-Online Biznes	27,475	-
	Total	5,627,066	2,890,928
Average monthly number of transactions	BiznesPI@net	3,178,126	2,890,928
	R-Online Biznes	2,448,940	-
	Total	7,815	3,325
Number of active Mobile users	Mobile BiznesPI@net	6,442	3,325
	Mobilny Portfel (Mobile Wallet)	1,373	-

In 2018, the following changes took place in the online banking offer for business customers:

BiznesPI@net

- launch of the User Management feature allowing customers to manage users and accounts as a "User Administrator". Addition of new functions in the "Manage User Permissions" panel and a new approval scheme for "Company management",
- functional changes in the Card module related to the migration of cards to the Visiona system and changed balance display;
- introduction of VAT account preview and the addition of a new type of transfer as part of the Split Payment Mechanism - Split Payment;
- balance display feature for Multi-purpose Premium Credit Line (MOL) accounts;
- addition of a new feature for bank statement export in the Export-XML Bank Statement module, in accordance with ISO 20022;
- introduction of a new type of notification about mass payment reports, available in the Shared Files module.
- extension of the messaging module to include the possibility of sending notifications/alerts with attachments to selected users/companies (based on a file with the customer's EQ numbers)
- change of the cost option in SEPA foreign orders addressed to countries of the European Economic Area (only for the SHA cost option) - a change resulting from the PSD II Directive,
- changed authorization certificate module (automatic signature e.g. for factoring),
- additionally, as part of the system's development, the server software has been upgraded, changes necessary for the further development of Turbo BiznesPI@net were made.

R-Online Biznes

In the second quarter of 2018, new functions were added to the R-Online Biznes system:

- R-Mobile Biznes - a new mobile application (for Android and iOS devices), which enables: signing payment orders, operations history preview and order history preview,
- support for multi-currency cards,

- adaptation of the system to PSD II requirements (cost options).

Bank cards

As regards the issuing and servicing of payment cards, Bank BGŻ BNP Paribas S.A. cooperates with organisations such as MasterCard and Visa. The card portfolio includes debit, credit and deferred payment cards. As at 31 December 2018, the number of cards issued amounted to 2,009.4 thousand, which was 637.4 thousand more than the year before. The reported significant increase is primarily due to the finalization (on 31 October 2018) of the purchase of Core banking activities of Raiffeisen Bank Polska S.A.

Table 44. Number of bank cards issued by Bank BGŻ BNP Paribas S.A.

thousand	31.12.2018	31.12.2017	change y/y	
			thousands of pieces	%
Debit cards – retail customers	1,240.4	722.9	517.5	71.6%
Credit cards – retail customers	579.3	545.8	33.5	6.1%
Debit cards – business	167.6	86.3	81.3	94.2%
Deferred payments cards – business	8.8	6.3	2.5	40.4%
Credit cards – business	6.8	1.1	5.7	520.9%
Prepaid cards	6.4	9.6	(3.2)	(33.3%)
Total number of cards issued	2,009.4	1,372.0	637.4	46.5%

Cooperation with intermediaries

At the end of 2018, the Bank actively cooperated with 26 nationwide intermediaries the basis of outsourcing contracts for the acquisition of banking products, 696 local intermediaries (based on marketing agreements). The latter informed potential customers about the Bank's product offer.

12.3. Retail and Business Banking

Retail and Business Banking provides financial services to individuals, private banking customers as well as businesses (micro-enterprises). Additionally, the Bank offers advisory services pertaining to day-to-day banking transactions, savings, investment and loan products. The following customer segments are the focus of Retail and Business Banking:

- Retail Customers:
 - Mass;
 - Premium: customers investing in the Bank, or through its services, assets of at least PLN 100 thousand or those whose monthly account receipts are at least PLN 7,500;
 - Private Banking (Wealth Management): customers investing assets of at least PLN 1 million through the Bank;
- Business Customers (micro-enterprises):
 - Entrepreneurs:
 - ✓ non-Agro, not preparing full financial reporting (in accordance with the principles specified in the Accounting Act) and an annual net income for the previous financial year below EUR 2 million;
 - ✓ Agro entrepreneurs not preparing full financial reporting, with an annual net income for the previous financial year below EUR 2 million, who conduct activities classified according to selected Polish Classification of Activities (PKD 2007) codes;
 - Professionals: entrepreneurs with limited financial reporting, in conformity with the principles specified in the Accounting Act, and following occupations defined in a separate document;
 - Individual farmers, in case of whom the Bank's credit exposure is below PLN 3 million;

- Individual farmers, in case of whom the Bank's credit exposure is between PLN 3 million and PLN 4 million and whose collateral in arable lands covers at least 50% of credit exposure;
- Non-profit organizations (e.g. foundations, associations);
- Homeowners associations.

On 31 October 2018, the Bank acquired ("Transfer", "Acquisition") the core banking activities of Raiffeisen Bank Polska S.A. ("RBPL Core Bank Business") in accordance with the Demerger Plan published on April 28, 2018 (Bank's current report No. 24/2018). The product offer as of the Transfer date maintained all products from the portfolio of the RBPL core banking activities. The products have been adjusted as regards the price parameters of both deposits and loans as well as the credit policy. After the Transfer, the Bank provided basic services to the clients of the acquired bank in all branches and provided full service in dedicated channels. At the time of the Transfer, the Bank provided all clients with free access to ATMs located in all branches. Work on the unification of segmentation and product offer is currently under way.

At the end of 2018, the number of Retail and Business Banking customers amounted to 3.7 million, which is an increase of 37.5% y/y, i.e. by 1,017.3 thousand. Of these, 810 thousand were clients transferred from RBPL.

Product offer for retail customers

The Bank provides services for retail customer, focusing primarily on the ROR account offer, term deposits and consumer finance products (i.e. cash loans, account limit, credit cards, insurance). The offer includes all forms of current banking services, savings, investments and loans. In 2018, the Bank continued to install CDMs at its branches. These were equipped with the function of deposits and withdrawals, they also enabled contactless transactions.

As at the end of 2018, **the Bank's retail client offer included three tariff plans for personal accounts: "Konto Optymalne" (Optimal Account), "Konto Maksymalne" (Maximum Account), "Konto Premium" (Premium Account)** for affluent clients who meet the criteria of the Premium segment.

In accordance with the Act on Payment Services, on 8 August 2018, the Bank introduced the Basic Payment Account. In the branches and remote channels of the Bank taken over as part of the RBPL core banking activities, the following products were offered to customers: "Wymarzone Konto Osobiste" (Dream Personal Account), "Konto Osobiste Premium" (Premium Personal Account), "Konto Aktywne" (Active Account) and the Friedrich Wilhelm Raiffeisen Account.

As concerns the management of the retail banking product offer in 2018, the Bank focused on improving the efficiency of operations and the profitability of products. Business processes underwent further standardization, as did regulations and price lists.

In 2018, the product offer was promoted in a number of ways:

- In the 1st quarter of 2018, the Bank promoted a personal account for new customers by emphasizing the functionality of GOMobile payments and promoting a debit card registered in Google Pay.
- From 11 May to 30 June 2018, the sale of personal accounts was supported by the advertising campaign "Shopping with an account" conducted on television, in cinemas and online.
- In June 2018 an offer for underage customers was launched to promote debit card payments.
- In September 2018, the Bank launched the "Aktywni z Bankiem BGŻ BNP Paribas" (Active with Bank BGŻ BNP Paribas) promotional campaign, addressed to customers under 26 years of age. The aim was to acquire new clients, mainly students and pupils. The promotion lasted until 31 October 2018;
- In October and November, the Bank conducted a nationwide marketing campaign promoting the loan offer for retail customers.

In 2018 the Bank continued to sell personal accounts as part of the **Program Partnerski** offer addressed to employees of the Bank's customers from the Corporate and SME segments. The Program also includes an overdraft loan with ROR, credit cards, cash loans and mortgages.

The above resulted in maintaining positive sales and customer acquisition trends, including a high rate of personal accounts sales: 204.1 thousand accounts were obtained in 2018, which meant an increase of 39% y/y.

In June 2018, the Bank provided the **Apple Pay** service for users with payment cards. The bank was among the first eight banks which introduced Apple Pay in Poland. The service includes all Mastercard debit, credit and charge cards

for both retail and business customers. Thanks to the Apple Pay service, you can pay by phone wherever contactless payments are accepted.

Simultaneously with the Apple Pay service, a promotion encouraging customers to use it was launched. The promotion lasted until 31 July 2018.

The **offer for Ukrainian customers**, launched in 2017, was one of the most important goals as regards the Bank's sales activity in 2018. The offer is supported by a series of tools which help Ukrainians set up an account and easily gain access to the Polish mobile network (cooperation with a telecommunications company). The Bank's website, advertising materials and manuals are available in Ukrainian. The fees for credit transfers from Bank BGŻ BNP Paribas to Ukrsibbank, a Ukrainian bank from the BNP Paribas Group, were reduced.

The Bank's deposit offer for retail customers included savings accounts ("Konto Dobrze Oszczędnościowe", "Rachunek Sejf", "Autooszczędzanie" Savings Account and products transferred from RBPL: "Konto Wymarzony Cel" and "Konto Lokacyjne Plus") and term deposits (deposits in PLN and foreign currencies, internet term deposits available via PI@net or R-Online internet banking, promotional deposits, progressive and special deposits available for selected segments of the Bank's clients).

2018, much like the years 2015-2017, saw the NBP interest rates at a very low level. Despite such demanding macroeconomic conditions, the Bank's deposit activity focused both on ensuring stability of the retail customer savings portfolio as well as on preparing offers aimed at acquiring new deposits. Special offers for retail customers were periodically introduced. These included: special offer term deposits, promotional interest rates on savings accounts, rewarding customers who deposited new funds in the Bank and retention offers.

The Bank regularly launched attractive special offers for its Premium and Private Banking customers for selected maturities of the *Premium Deposit* and a promotional interest rate for the "Autooszczędzanie" account.

Customers' interested in saving money for their retirement can take advantage of products offering tax benefits, such as the *Individual Retirement Account* ("Indywidualne Konto Emerytalne", IKE), offered as a savings account or a retirement fund. Also available to them is the *Retirement Security Account* in the form of an investment fund.

The offer taken over as part of the core banking activities of RBPL includes term deposits. The most popular were term deposits openable via online banking and mobile banking, i.e. "Lokata Internetowa" and "e-Lokata". The offer also included the "Lokata na Start" deposit (with a 2.00% interest rate for 3 months), the "Lokata Wideo" deposit (with an interest rate of 1.70% for 3 months), standard term deposits in PLN and foreign currency term deposits in EUR and USD.

Customers who expected profits higher than the interest on term deposits were offered a wide range of investment products in 2018, including:

- over 500 investment funds managed by 31 national and international investment fund management companies, available through PI@net and R-Online (open investment funds);
- 5 Portfolios: strategies based on BGŻ BNP Paribas FIO subfunds;
- 3 Portfolios: strategies based on TFI Raiffeisen SFIO Umbrella subfunds;
- Profit Plus term deposits linked to investment funds;
- investment deposit (applies to operations acquired as part of the RBPL core banking activities)
- life insurance with insurance capital funds (UFK) from TU Europa and Generali Życie TU (applies to operations acquired as part of the core banking activities of RBPL); and
- "Indywidualne Konto Emerytalne" and "Indywidualne Konto Zabezpieczenia Emerytalnego" in the form of an investment fund.

BGŻOptima

BGŻOptima is a brand of Bank BGŻ BNP Paribas under which savings and investment products are offered in the direct model. BGŻOptima offers the "Lokata Bezkarne" and "Lokata Bezkompromisowa" term deposits to new customers. All existing customers can benefit from periodic promotions for new funds on Smart savings accounts, as well as from standard and flexible term deposits for all funds accumulated on BGŻOptima accounts.

Additionally, the Bank operates a traditional Investment Centre which offers investment advice to customers in and around Warsaw under the BGŻOptima brand. Moreover, it is also involved in educational initiatives and information campaigns addressed to customers and aimed to inform them about methods of multiplying their savings and available investment products. Every year, BGŻOptima publishes a report on the approach of Polish customers to investments and savings.

The volume of BGŻOptima deposits at the end of 2018 totalled PLN 6.7 billion.

The retail customer loan offer in 2018 included:

- mortgage loans in PLN,
- mortgage advances in PLN,
- personal account loans (renewable loans).

The Bank also offered consumer finance products described in more detail in the Personal Finance section.

To address the needs of its customers, in 2018 the Bank continued to offer solutions proposed by the Polish Bank Association to help CHF loan borrowers (the so called "six pack"), including the application of negative LIBOR rates, reduction of the currency spread for CHF, conversion of loans from CHF to PLN at the request of customers at the NBP average exchange rate as well as waiving the request for additional collateral from customers.

As part of support for clients in financial difficulties and those with mortgage loans, the Bank continues the program of governmental support financed from the Borrowers Support Fund.

For customers who expect comprehensive solutions, the Bank continues the special offer for a mortgage loan combined with a personal account, which also includes life and job-loss insurance. In addition, as regards acquisition offers, customers were offered preferential terms for a mortgage loan combined with a personal account and a transfer of the customer's income. The effect of the above offers was an increase in the mortgage loan sales volume in 2018 by 157% y/y, which amounted to PLN 1,806 million.

With the aim of ensuring top quality service for its retail customers, the Bank continued to sell revolving overdrafts through the Rat@tu system. In order to make the offering of personal accounts more attractive, the Bank launched two editions of a widely available pricing offer which enabled customers to obtain revolving loans with a commitment fee of PLN 0. The offer lasted from 2 January till 30 March 2018 and from 24 April until 31 August 2018.

Private Banking: BNP Paribas Wealth Management

Customers with assets exceeding PLN 1 million are offered private banking services. A dedicated customer segment with assets over PLN 10 million is offered Family Fortunes services.

The launch of the private banking brand BNPP Wealth Management (BNPP WM) in November 2018 started the process of repositioning the Bank on the private banking market.

The transfer of the core banking activities of RBPL, including Friedrich Wilhelm Raiffeisen Private Banking (FWR), has caused a significant scale effect: the number of BNPP WM clients at the end of 2018 amounted to 8,000, and the market share in terms of the number of customers with assets over PLN 1 million is estimated at 13%, which gives the new brand a place among the leaders of private banking on the Polish market. It is also the result of many years' experience, of the market position of FWR and the best practices and strength of the BNP Paribas Group, which is number 1 in the field of Wealth Management in the Euro Area and the seventh largest Wealth Management player in the world.

Teams of highly qualified and experienced BNPP WM Consultants - EFA and EFP certified - are present in all major Polish cities.

BNP Paribas Wealth Management offers an innovative approach to entrepreneurs, including account management for special-purpose entities. As part of a comprehensive approach - "One Face to the Customer" - private banking consultants coordinate cooperation in the field of corporate solutions. Customers can take advantage of an extensive, comfortable offer, i.e.: investment products individually tailored to the needs of a given client and a flexible approach to credit needs, so-called credit engineering.

Business customer offer

As far as the offer addressed to Business Customers is concerned, the Bank provides products which satisfy various customer needs relating to the funding of their operations, transactional banking and depositing funds.

The Bank offers the following **transactional banking** services to business customers:

- for micro-enterprises not subject to the Accounting Act: the Biznes Lider Ekstra package;
- for customers with full financial reporting: the Biznes Lider Premium;
- for farmers: the Agro Lider package;
- for non-profit organisations: the Pakiet Społeczny Lider (Social Leader Package);
- for homeowners associations: the Lider Wspólnot package; and
- for companies that use POS terminals in their business operations: package with POS.

In the branches and remote channels taken over as part of the RBPL core banking activities, two business products were offered to business customers: “Wymarzone Konto Dla Biznesu” (Dream Business Account) and “Wymarzone Konto Dla Biznesu Non-Profit” (Dream Non-Profit Business Account).

The loans offered in the business segment to finance daily operations and investment needs are addressed to micro-enterprises, small enterprises (subject to simplified financial reporting requirements), companies with full financial reporting (and an annual revenue of up to PLN 10 million) as well as farmers and larger Agro sector customers.

The key loan products offered by the Bank are: overdraft facilities (secured and unsecured), revolving/non-revolving working capital loans, cash loans (fixed term), investment loans and consolidation loans.

Additionally, micro-enterprises were able to use EU loans, subsidised loans, guarantees and currency risk management products.

The Bank continued cooperation with the Arval company, thus offering entrepreneurs attractive long-term car rental opportunities, which constitutes an interesting alternative to leasing and car loans.

Another initiative implemented to make the loan offering dedicated to micro-enterprises more attractive was the extension of the Bank’s offer with regard to financing for beginner businesses, the “Good Start Loan”.

Ecosystem of services: offer for new entities. With new companies in mind, the Bank prepared a product offer tailored to the needs of running a company. On 12 March 2018 an ecosystem of services addressed to new companies was launched. Customers receive the Bank’s support already at the stage of starting a new company. The support continues in day-to-day issues related to the running of a business. Beginner entrepreneurs can benefit from tailor-made products which allow for the ongoing financing of investments from the very first day, keeping an account and online accounting, financing invoices and renting innovative office space. The offer includes:

- Good-Start Loan: financing for a new company from the first day of operations. Beginner entrepreneurs can get a loan of PLN 30 thousand without collateral.
- Good-Start Leader Package. The account is addressed to businesses created within the past 6 months, with limited financial reporting. Customers receive a current account, the possibility of making deposits in a selected branch of the Bank and internet transfers - all free of charge. Customers also have access to mobile payment terminals (mPOS) integrated with the bank account.
- Ecosystem for new businesses in cooperation with fintechs. Due to cooperation with cyberProductivity, a Polish company, the Bank provided its clients with a free platform for independent accounting and the issuing of invoices: eMikroksięgowość. Another service for entrepreneurs, introduced by the Bank in cooperation with the Finiata fintech, is the possibility of invoice financing - eMikro faktoring.

In August 2018, the Bank introduced the possibility of using long-term rental of vehicles for new companies.

In cooperation with BNP Paribas Real Estate, the Bank offers beginner entrepreneurs advice related to renting coworking space, instant office, and providing a virtual address, as well as assistance in price negotiations on behalf of the customer. The solution is tailored to the client’s capabilities and needs. The Bank’s customers can take advantage of rental opportunities in several Polish cities (Warsaw, Cracow, Katowice, Trójmiasto, Łódź, Wrocław, Poznań)

Alongside the extensive product offer, the Bank also offers assistance in starting a company. Beginner entrepreneurs can call a hotline which offers help when it comes to completing forms (including the Central Registration and Information on Business - CEIDG, and the Social Insurance Institution - ZUS) as well consultations as to the choice of a company’s scope of operations.

The offer for new companies was accompanied by an advertising campaign, which included radio, Internet, social media, VOD and BTL materials.

In April and May 2018, the third edition of the “Let’s Support Neighbourhood Business” nationwide campaign was launched. It is addressed mainly to SMEs and consumers. The campaign is a social initiative with the goal of encouraging customers to use the products and services offered by local enterprises and of emphasising the importance of “neighbourhood” businesses in local communities.

A special product offer was also prepared for small businesses this year: the Bank offered, i.a., an overdraft loan “Ekspres Linia” with a 0% commitment fee and a business account for new clients. The monthly fee for running a current account as part of the Biznes Lider Ekstra Package was PLN 0 for 12 months.

In 2018, nearly 4.6 thousand local businesses in more than 900 locations across Poland participated in the initiative. The “Neighbourhood Business Week” was the main point of the event and lasted from 28 May to 3 June. Once more, Robert Makłowicz was the ambassador of the campaign.

The “Let’s Support Neighbourhood Business” initiatives are an element of the Bank’s long-term strategy in the small enterprise segment, whereby the Bank partners with local enterprises and supports their business growth.

In 2018, the Bank joined the pilot program of Support for Non-Cash Transactions “Polska Bezgotówkowa” implemented by the Polska Bezgotówkowa Foundation. The initiative was addressed to micro- and small entrepreneurs who intend to start accepting card payments for their products and services. Enterprises which qualified for the “Polska Bezgotówkowa” program were exempted from all fees related to using the terminal for the first 12 months. If they applied for a terminal through, i.a., Bank BGŻ BNP Paribas they were also subject to preferential rates in the second year of the contract.

Customers transferred as part of the RBPL core banking activities were able to take advantage of the Revo card payment acceptance offer.

Amendments were introduced to the Act of 15 December 2017 on pertaining to the Act on tax on goods and services and certain other acts.

In connection with the changes, on 1 July 2018, **the Bank implemented the Split Payment Mechanism.**

The split payment mechanism is aimed at increasing the transparency of transactions related to payments for goods and services subject to VAT. In Split Payment, a VAT invoice payment is delivered to two separate bank accounts of the recipient: the net amount to the settlement account (current account), and the VAT amount to a special VAT account opened by the Bank for the holder.

Bank BGŻ BNP Paribas opens one VAT account for each of an entrepreneur’s PLN settlement accounts (at the customer’s request, the Bank may open more VAT accounts and combine them with the entrepreneur’s settlement accounts). The VAT account is a special bank account offered by the Bank free of charge. Funds accumulated on this account may be used exclusively for purposes related to VAT settlements. Using the split payment mechanism is voluntary - the payer (the buyer of the goods or services) decides about the payment method for the VAT invoice. Split Payments can only be carried out in PLN.

Products tailored to the needs of the Agro segment include i.a.: revolving, preferential, EU and investment loans. In August 2018, the Bank introduced a new, simplified investment loan, Agro Progres Premium, for customers in the manufacturing and agricultural segments. The product is intended for financing and/or refinancing the purchase of new and used machinery and equipment for agricultural production, including farm tractors. The maximum loan is adequate to the needs of farmers for the above-mentioned investments with a limited own contribution. The product security is the investment. In September 2018, the Bank streamlined the process of granting this loan so that contracts can be generated automatically.

The Bank also offers products that minimize risk for agricultural businesses: seasonal insurance of agricultural crops. With a crop insurance contract, the farmer gains insurance coverage and financial security. The insurance of at least 50% of the crop area is a condition for obtaining a low-interest disaster loan and full financial assistance in the event of a disaster. Last year’s autumn campaign which promoted this solution was the most successful to date and enjoyed great interest from individual farmers.

Bank guarantees and letters of credit

The Bank offers fast and comprehensive services related to guarantees and letters of credit, which are based on dedicated IT solutions.

In 2018, the Bank issued 65 bank guarantees at the request of business customers for a total value of PLN 4.8 million.

Commercial volumes

As at 31 December 2018, Retail and Business Banking Banking deposits on a consolidated level amounted to PLN 52,313 million and were PLN 20,423 million, i.e. 64% higher than at the end of 2017. This increase was the effect of finalizing, on 31 October 2018, the acquisition of the core banking activities of Raiffeisen Bank Polska S.A. The most important structural change was the increase in the share of current and savings accounts in total customer deposits. As a result, as at the end of 2018, the percentage share of each of the three basic product categories: current accounts, savings accounts, term deposits was similar and amounted to 32%, 34% and 33%, respectively.

Table 45. Deposits and loans: Retail and Business Banking³

PLN '000	31.12.2018	31.12.2017	Change y/y	
			PLN '000	%
Current accounts	16,826,610	8,574,492	8,252,118	96%
Savings accounts	17,685,789	9,722,356	7,963,433	82%
Term deposits	17,283,198	13,161,069	4,122,129	31%
Overnight deposits	517,352	431,939	85,413	20%
Accounts and Deposits	52,312,949	31,889,857	20,423,093	64%
Consumer loans	9,212,550	6,057,854	3,154,696	52%
Investment loans	6,546,910	5,323,214	1,223,696	23%
Overdrafts	3,803,926	3,172,353	631,572	20%
Mortgage loans	15,975,267	13,426,488	2,548,779	19%
Lease receivables	1,813,830	1,077,758	736,072	68%
Credit cards	991,183	658,410	332,773	51%
Short-term loans	404,042	331,562	72,480	22%
Other loans	30,052	41,455	(11,403)	(28%)
Factoring	976	-	976	x
Net loans and advances	38,778,736	30,089,095	8,689,641	29%

As at 31 December 2018 the value of the loan portfolio in the Retail and Business Banking segment on a consolidated level amounted to PLN 38,779 million, i.e. 29% (PLN +8,690 million) more than at the end of 2017. Much like in the case of the deposit portfolio, this result was the effect of the acquisition (on 31 October 2018) of the core banking activities of Raiffeisen Bank Polska SA. The increase concerned primarily consumer loans (+52%, PLN +3,155 million), mortgage loans (+19%, PLN +2,549 million) and investment loans for microenterprises (+23%, +PLN 1,224 million).

In the analysed period, the volume of FX mortgage loans (withdrawn from the offer in 2008-2009) amounted to PLN 5,226 million (as at the end of 2017 it was PLN 5,419 million), including loans in CHF which constituted 98.9% of this portfolio.

Gross income on banking activity: Retail and Business Banking

In 2018 the gross profit in the Retail and Business Banking segment was to PLN 93.6 million (compared to PLN 19.8 million in the previous year). The improvement was largely influenced by the finalization, on 31 October 2018, of the acquisition of the core banking activities of Raiffeisen Bank Polska S.A, which improved banking operation results and operating cost results for the last two months of 2018. The improved result was also the effect of a reduction of risk costs in 2018 and a better net impairment result.

The income on banking activity of Retail and Business Banking in 2018 amounted to PLN 1,688 million and was 12% higher compared to 2017. This result accounts for 51.3% of the total income on banking activity of the Group in 2018 (56.3% excluding profit from the purchase of the core banking activities of RBPL, reported in the Other Banking Activity segment). Personal Finance generated 34.5% of the income on banking activity in this segment.

³ The value of deposits and loans in selected segments is based on data from the management information systems as they provide more detailed product information. For the sake of comparability, the data as at 31 December 2017 were presented in accordance with the segmentation for 2018.

The value of deposits excludes balances of some credit institutions which are considered as interbank deposits in the management reporting, whereas in the financial reporting they are recognised as customer deposits. In addition, the balances exclude accrued interest before maturity.

Table 46. Gross income on banking activity⁴

PLN '000	12 months ended 31.12.2018	12 months ended 31.12.2017	change y/y	
			PLN '000	%
Interest income	1,309,474	1,195,143	114,331	10%
Fee and commission income	333,211	287,140	46,071	16%
Trading and other income	45,240	30,695	14,545	47%
Income on banking activity	1,687,925	1,512,978	174,947	12%
Net impairment losses	(178,961)	(228,855)	49,894	(22%)
Operating expenses and amortisation and depreciation	(941,371)	(825,007)	(116,364)	14%
Expense allocation	(358,383)	(330,359)	(28,024)	8%
Operating result	209,211	128,756	80,455	62%
Tax on financial institutions	(115,647)	(108,972)	(6,675)	6%
Gross profit of the segment	93,564	19,784	73,780	373%

12.4. Personal Finance

The Personal Finance Segment is responsible for the Bank's operations involving financial services provided to consumers. The Division offers the following major product groups:

- **cash loans:** distributed mainly through the branch network, the Contact Centre; Bank BGŻ BNP Paribas service points, service points operated by Carrefour and via the internet, including the Internet Banking System and the Mobile Banking System (the GoMobile smartphone app);
- **instalment purchase loans:** offered to retail customers in stores belonging to the Bank's commercial partners, with whom the Bank has cooperation agreements in place. This includes traditional stores, internet stores and stores on the Allegro e-commerce platform;
- **car loans:** for new and used vehicles, initiated primarily by second-hand car dealerships and authorised car dealerships;
- **operating and finance leases:** also in cooperation with BNP Paribas Leasing Services Sp. z o.o., sold mainly by second-hand car dealerships and authorised car dealerships;
- **lease advance** – offered in cooperation with BNP Paribas Leasing Services Sp. z o.o., mainly by second-hand car dealerships and authorised car dealerships;
- **long-term vehicle rental** in cooperation with Arval Service Lease Polska Sp. z o.o. offered by selected authorised car dealers;
- **credit cards:** offered to customers by the Bank's branch network as well as the Bank's credit card desks located in shopping centres and by retail chains with whom the Bank has cooperation agreements in place.

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

It also assumes responsibility for the following key processes:

- authorisation of consumer loan, mortgage loan and micro-enterprise loan applications, as well as loan approval based on specific criteria;
- debt collection (from retail customers and micro-enterprises);
- telephone customer service via the Contact Centre, including: CRM campaigns (cross-selling) and selling loans over the phone.

⁴ Information based on the segmentation note included in the Consolidated report of Bank BGŻ BNP Paribas S.A. Capital Group for the period of 12 months ended 31.12.2018

As a result of the acquisition of the core banking activities of Raiffeisen Bank Polska S.A. the sales network has been expanded to include the acquired RBPL branches.

Product offer

Cash loans

In 2018, the Bank launched the following products related to cash loans:

- new special offers, such as:
 - an attractive interest rate of 4.40% offered in connection with a tv advertising campaign and the “Final Year without Interest” campaign, concerning loans for a term of over 24 months, in each sales channel;
 - Black Friday offer: loan without commission fees.
- the possibility to apply for loans in Carrefour Finance Service Points,
- the possibility of completing a loan application process, started through the Contact Centre, online: via TeleOnline,
- increased automation of the loan approval processes and loan launching, which shortened the average process duration by more than 30%,
- the possibility of applying for and obtaining a cash loan in the GOMobile Mobile Banking System.

Instalment loans

Bank BGŻ BNP Paribas has been offering instalment loans since 31 May 2016, i.e. since its merger with Sygma Bank Polska. The loan is offered to retail customers for purchases of goods or services that are not connected to the customer’s business activity or profession. Instalment loans of PLN 50 to PLN 60 thousand are available for a term of 3 to 120 months. At present, the Bank offers instalment loans through more than 10,000 retail partners that provide funding for purchases made in both traditional and online stores. The terms of instalment loans are linked to the loan offer provided by the Bank’s commercial partners at a given time.

In 2018, the Bank successfully expanded the circle of its business partners to include:

- companies selling photovoltaic systems and other renewable energy sources to individual customers. The Bank established cooperation with Innogy Polska and several hundred other leading retail companies which sell RES,
- The telecommunications industry: in cooperation with Play, the Bank finances the purchases of individual customers.

A dedicated offer for Agro clients (individuals who finance purchases for the needs of their agricultural operations) was also introduced.

The Bank offered new special offers to its individual clients in selected retail chains:

- interest-free loan with first instalment postponed by up to 6 months;
- first two instalments free for the customer.

From July 2018, customers can sign *paperless* contracts: electronic loan agreements. This process is available in the Bank’s partner stores which offer purchase financing in cooperation with Bank BGŻ BNP Paribas.

Car loans

In 2018, the Bank introduced the following:

- new price offer for car loans in the following sales channels: used car dealership, agent, branch, authorised car dealership,
- automatic monitoring to secure the loan: transfer of rights to damages from the comprehensive car insurance.

Leasing advance

In 2018, the Bank introduced the following:

- new price offer for leasing advances in the following sales channels: used car dealership, agent, branch, authorised car dealership,
- automatic registration of a company’s data (from external databases) after entering the NIP number (tax identification number) on the credit application.

Leasing

In addition to car loans, the Bank offers operational and financial leasing (including financial VAT Margin) in the amount of PLN 15 thousand (from PLN 5 thousand for new motorcycle dealerships) to PLN 500 thousand for new and used vehicles. Leasing is offered through a leasing company - BNP Paribas Leasing Services - for passenger cars, lorries up to 8 tons, buses, agricultural tractors, scooters, motorcycles and quads.

In the first half of 2018 the following were introduced into the car leasing offer:

- 102% leasing offer for KIA (Sportage, Sorento, Optima), Hyundai (Santa Fe) and Mitsubishi (ASX),
- process automation for the transfer of leasing agreements.

A number of improvements were introduced to the Rat@tu application, including the automatic collection of data from CEIDG, REGON, KRS and NIP databases during the process of submitting a leasing application.

Long term vehicle rental

The product, offered in cooperation with Arval Service Lease Polska Sp. z o.o. is available to business customers through selected car dealerships (including Mitsubishi and KIA). The product is available for a term of 30 to 60 months, in the amount of PLN 20 thousand to PLN 500 thousand, for new passenger cars only.

Credit cards

The acquisition of the core banking activities of Raiffeisen Bank Polska S.A. on 31 October 2018, strengthened the Bank's position as one of the largest credit card issuers in Poland.

The Bank offers payment cards in all of its branches and 105 Customer Service Points located in shopping centres and retail chains cooperating with the Bank with respect to purchase financing. Another important element of the acquisition process is the cross selling of credit cards, whereby cards are sent to customers who have signed a cash loan agreement, a car loan agreement or an instalment loan agreement with the option of receiving a credit card. The available limits range from PLN 2 thousand to PLN 6 thousand.

In 2018, the Bank offered credit cards to customers from all segments, both individual and corporate, in addition to 6 co-branded partner cards issued in cooperation with leading retail shops and leading industry brands.

In January 2018, the Bank established cooperation with the Carrefour Polska retail chain in terms of consumer loans offered by the Bank, thus strengthening the competitiveness of the product offer in the Personal Finance segment. The leading product in the offer is the Carrefour co-brand card.

In June 2018, the Bank enabled credit card holders to use the Apple Pay service as one of the first institutions on the Polish market.

In October 2018, the Bank has started cooperation with the largest e-commerce platform in Poland: Allegro. Customers can finance purchases in instalments ("Raty od nowa") on the Allegro platform, based on a virtual credit limit. The solution is unique on the Polish market.

12.5. Operations of the Brokerage Office of Bank BGŻ BNP Paribas S.A.

The operations of the Brokerage Office of Bank BGŻ BNP Paribas focus on the provision of services to retail customers, thus filling an important gap in the area of investment products offered by the Bank. Additionally, the Brokerage Office provides services to selected institutional customers such as open-end investment funds, investment fund management companies and other asset managers.

Additional activities of the Brokerage Office include portfolio management and investment consulting. Investment consulting is provided to Premium Banking and Private Banking customers.

The Brokerage Office offers a wide range of investment funds managed by recognised Polish and foreign investment fund management companies. As the end of 2018, the Brokerage Office sold units in more than 400 funds managed by 21 investment fund management companies. As at the end of 2018, the value of investment fund management company assets sold through Bank BGŻ BNP Paribas was PLN 3.78 billion.

Fee and commission income on sales of units in investment fund management companies (through the Bank's branches) amounted to PLN 33.08 million in 2018, compared to PLN 27.68 million in 2017. Brokerage fee and commission income in 2018 totalled PLN 30.79 million, compared to PLN 14.98 million in 2017. An important part of the income generated by the Brokerage Office were primary market sales of investment certificates, based on the valuation of stock market indices or specific listed companies.

In the analysed period, the total fee and commission income of the Brokerage Office increased by PLN 21.22 million compared to the same period of 2017.

Table 47. Fee and commission income of the Bank's Brokerage Office

PLN '000	12 months ended	12 months ended	Change y/y	
	31.12.2018	31.12.2017	PLN '000	%
Brokerage fees and commissions	30,793	14,976	15,814	106%
Fees on sales of units in investment funds	33,080	27,682	5,398,	20%
Fee and commission income	63,873	42,658	21,215,	50%

Table 48. Share of the Bank's Brokerage Office in WSE trading volume

		31.12.2018		31.12.2017	
		volume	share	volume	share
Shares	PLN million	1,488.34	0.45%	1,651.15	0.35%
Bonds	PLN million	68.14	2.89%	29.78	1.06%
Contracts	number	96,723	2.07%	62,209	0.45%
Investment certificates	PLN million	1.64	1.13%	2.21	1.41%
Options	number	11,452,	2.56%	6,927	1.36%

12.6. SME Banking

The **SME Banking Segment** comprises customers with full financial reporting, prior year's net income under PLN 60 million and the Bank's credit exposure under PLN 25 million. Additionally, the SME segment includes individual farmers (with limited financial reporting), in the case of whom the Bank's exposure is between PLN 3 million and PLN 25 million.

The following subsegments constitute the SME segment:

- Individual farmers in the case of whom the Bank's exposure is between PLN 3 million and PLN 4 million and in whose case collateral in arable land covers less than 50% of credit exposure.
- Individual farmers in the case of whom the Bank's exposure is between PLN 4 million and PLN 25 million.
- The Agro SME sub-segment consists of customers with full financial reporting, prior year's net income not exceeding PLN 60 million and the Bank's credit exposure under PLN 25 million, including agricultural producer groups,.
- The non-Agro SME subsegment comprises: (i) customers with full financial reporting, prior year's net income not exceeding PLN 60 million and the Bank's credit exposure below PLN 25 million; (ii) public finance institutions with a budget of up to PLN 60 million, subject to tender procedures or tender requests are also included.
- The small Agro SME sub-segment consists of customers with full financial reporting, prior year's net income not exceeding PLN 10 million and the Bank's credit exposure under PLN 25 million.
- The small non-Agro SME sub-segment consists of customers with full financial reporting, prior year's net income not exceeding PLN 10 million and the Bank's credit exposure under PLN 25 million.

The acquisition of the core banking activities of Raiffeisen Bank Polska SA, which took place on 31 October 2018, entailed a takeover of former Raiffeisen Bank Polska customers from the Small Business segment (SE). These included customers with an annual income between PLN 4 million and PLN 25 million.

Distribution channels

A key element of service at Bank BGŻ BNP Paribas is the individual assistance of a consultant, responsible for the entirety of the client's relationship with the Bank. Furthermore, SME customers are served by dedicated teams of product specialists offering a high standard of sales support and product advice, based on knowledge and experience including cash management, treasury, leasing, factoring and trade finance. Agro experts support the services provided in the SME Farmer and SME Agro sub-segments. Additionally, customers may benefit from operation services provided by the retail branch network, as well as phone support offered by the Business Centre with regard to operations and information.

Until the end of October 2018, customer service for the SME segment was conducted through a distribution network comprising 7 SME regions and 44 SME Business Centers with the BGŻ BNP Paribas logo. These were evenly spread throughout the country and provided services to clients from the SME segment. From November 2018 as a result of the acquisition of the core banking activities of Raiffeisen Bank Polska S.A. the distribution network for the SME segment was expanded to include the distribution network with the Raiffeisen Polbank logo. The latter was grouped into three macroregions, comprising a total of 31 Business Centers providing services for small enterprises.

The Bank began developing a new sales structure and worked towards merging the distribution network. From January 2019 a new structure of the sales network for the SME segment began to operate. Eight SME Regional Banking Centers oversee 45 SME Business Centers with the BGŻ BNP Paribas logo as well as the Raiffeisen Polbank logo located in Polish cities. Until the rebranding process is completed, SME customers are offered services at Centers with the BGŻ BNP Paribas or Raiffeisen Polbank logos, depending on the client's choice of products. Customers who chose Bank BGŻ BNP Paribas products are served at SME Business Centers with the BGŻ BNP Paribas logo, via the SME Telephone Service Center and in the online banking system of Bank BGŻ BNP Paribas. Clients with Raiffeisen Polbank products are served in the SME Business Centers with the Raiffeisen Polbank logo as well as through a telephone service (Business Service Zone) and in remote channels with the Raiffeisen Polbank logo.

Product offer

The Bank offers a broad product range addressed to SME segment customers. The offer includes products such as:

- **transactional products** as part of the customer's account or package (cashless domestic and cross-border transactions, cash transactions, also closed ones, automatic fund transfers between accounts);
- **deposit products** for the customer's investment of surplus cash (e.g. standard deposits, negotiated deposits with maturity and interest rate agreed on an individual basis, deposits made through the online banking system as well as deposit accounts for flexible surplus cash management);

- **loan products** providing funding for the day-to-day running of a business as well as for the implementation of investment and development projects, refinancing expenditure that has already been incurred or loans granted by other banks (overdrafts, revolving and non-revolving working capital loans and investment loans);
- **trade finance products**, export and import documentary letters of credit, documentary collection, letter of credit discounts, as well as issuing guarantees and processing external guarantees. The Bank offers fast and comprehensive services based on dedicated IT solutions;
- **financial market transactions** for purposes of currency, interest rate and commodity price risk management (e.g. FX Spot, FX Forward, FX options, IRS, interest rate options, commodity swap, commodity options);
- **factoring services** dedicated to manufacturing, sales and service companies entering into deferred payment sales transactions offered by the Bank (the offer was added as a result of the acquisition of the core banking activities of Raiffeisen Bank Polska S.A.) and in cooperation with BGŻ BNP Paribas Faktoring Sp. z o.o.;
- **leasing services**, including: the lease of machines and equipment, process lines, vehicles, real property (offered in cooperation with BNP Paribas Leasing Solutions)

These products are very flexible, numerous parameters may be matched to individual customer needs.

Product offer for the Agro subsegment

The Bank has a comprehensive offer for the food and agro segment, including accounts, deposits, loans and farmer insurance (both voluntary and statutory).

As regards loans, the Bank offers a wide variety of working capital and investment loans to farmers and Agro enterprises. Such products as overdrafts collateralised with mortgage, Agro Ekspres, Agro Progres investment loan for financing agricultural holdings as well as subsidised loans are particularly popular among the Bank's customers.

Preferential loans are mostly utilised for the purchase of agricultural land, for the construction and modernisation of buildings, as well as the purchase of machinery and equipment and the establishment of perennial crops. This offer is dedicated not only to farmers, but also to companies from the agri-food processing sector.

Apart from its own offering, the Bank provides additional services addressed to farmers, developed in cooperation with third parties.

Changes in the offer

In 2018, in order to increase the competitiveness of the loan offer, simplifications were introduced to the commercial financing of agricultural machinery and equipment purchased by small farms.

The bank has also prepared an offer to finance the purchase and installation of photovoltaic installations for this group of farms.

The product offer for Agro clients has not changed after the merger of Bank BGŻ BNP Paribas with the core banking activities of Raiffeisen Bank Polska S.A. (RBPL), as RBPL did not have a dedicated offer for this group of clients.

Subsidised loans

In 2018 a number of changes were introduced to regulations pertaining to the extension of preferential loans for the recommencement of production in agricultural holdings and special departments of agricultural production which suffered losses caused by adverse weather phenomena (investment line K01, turnover line K02).

The first was introduced in February and changed the period in which it is possible to receive a loan:

„The loan may be extended within 12 months from the date on the assessment report issued by a committee appointed by the voivode” - before the change it was 12 months from the date of loss estimation.

Another modification - in August - introduced a change in the interest rate on disaster loans. Farmers who were affected by a disaster may now receive a loan with a fixed interest rate of 0.5%, provided that at the time when the damage occurred, at least half of their crops or animals were insured. The uninsured are offered loans with a variable interest rate calculated according to the provisions of the Preferential Lending Policy.

At the end of December, regulations regarding the insurance criterion changed, namely:

“If (in accordance with the loss assessment protocol drawn up by a commission appointed by the appropriate voivode) the date of occurrence of the damage is defined as covering more than one day, it is sufficient if the farmer has an insurance contract for the last day of the occurrence” - before the change, the insurance was to cover the entire time interval of the disaster.

In August 2018 the Bank introduced the possibility of suspending the repayment of all preferential loans, due to:

- a drought or flood in 2018,

- a ban on holding or the introduction of pigs to a farm, issued in connection with the occurrence of ASF on the basis of art. 44 par. 1 point 9, art. 45 par. 1 point 3a, art. 46 par. 3 point 3a, art. 47 par. 1 or art. 48b par. 1 point 2 or par. 3 of the Act of 11 March 2004 on the protection of animal health and combating infectious animal diseases (Journal of Laws of 2017, item 1855 and 2018, items 50 and 650).

The Bank may prolong the repayment of a loan up to two years, during this period the Agency for Restructuring and Modernization of Agriculture provide 100% of the interest rate payable to the Bank.

Special loan offer

The Bank's goal is to constantly strengthen its position within the segment of Agro farmers and companies. That is why, from the fourth quarter of 2017 until mid-May 2018, the Bank conducted a promotional campaign for products dedicated to this segment (including revolving, preferential, EU and investment loans). The Bank promoted products dedicated to the Agro sector in trade press, online, on posters and in brochures.

Process optimisation

One of the bank's important goals is to increase the automation of the loan process for companies and farmers. Throughout the first half of the year, the number of automatically generated contracts for various products increased and it became possible for them to be launched automatically.

Sales support

In 2018, members of Agro Expert Teams (Micro and SME/Corporate) engaged in a number of pro-sales tasks and tasks aimed to improve the quality of the existing portfolio. They held over 800 meetings with current and potential customers of the Bank, over 660 expert opinions were prepared, 363 of these for new transactions (verification of revenue and cost assumptions and production capabilities) and 304 as part of reviews of the functioning Agro portfolio (verification of the condition of farms and recommendations as to optimal paths of cooperation). During the period in question, Agro experts conducted over 70 group and individual training sessions for the Bank's employees, placing particular emphasis on newly hired staff. They also took part in more than 50 Agro events at the national and regional level, further improving the Bank's image in this segment.

Agro Hub

In April 2018 a new entity was created within the structure of the BNP Paribas Group in Poland: the Agro Hub. It is an agro competence center for banks and companies from the BNP Paribas Group in Central and Eastern Europe as well as in Africa.

The primary objective of the Agro Hub is to support the BNP Paribas Group in terms of its cooperation with agro clients, with the use of well-tested, good practices. The selection of our Bank was motivated by the Bank's years of tradition and experience in servicing the agri-food sector in Poland.

The Agro Hub's tasks encompass:

- strengthening/building the position of an Agro-business leader in accordance with the CSR policy;
- providing cross-segment support for all BNP Paribas Group members;
- providing an all-finance model for all business lines within the BNP Paribas Group;
- Agro promotion.

The Agro Hub's tasks supporting Bank BGŻ BNP Paribas in Poland include:

- providing analyses of the agri-food industry: regular analyses, internal and external publications available to all organizational units and/or to external customers;
- sales support and Agro consulting: specialist support, improving the Bank's image, building a networking platform, crisis management, etc.;
- cooperation with the Risk Department in the area of Risk and Collateral Policies as well assistance in the loan process;
- supporting and promoting Agro Innovations: cooperation with start-ups contributing to agricultural innovations;
- development of a product offer tailored to industry needs.

Business line development in 2018

In 2018 SME Banking underwent many changes aimed at improving the quality of customer service and adjusting the Bank's offer to the needs of customers in this segment.

The re-segmentation of customers with full financial reporting from the Micro-business line to SMEs and of individual farmers from SMEs to Micro, carried out in January 2018 allowed for:

- better customer service for clients with full financial reporting involving SME Advisors;

- better tailoring of the product offer to the specific needs of SME and Micro customers;
- easier access to the Bank for the individual farmers segment due to a larger number of retail branches.

As part of the operational transformation - one of the Bank's priorities within the SME segment - changes have been implemented, aimed at increasing operational efficiency and the quality of customer service, including the following:

- a Business Service Center was launched - a modern service channel for the SME segment (dedicated remote consultants, a wide range of support);
- new features of the BiznesPI@anet platform have been introduced (e.g. user and authorisation management made available to the customer);
- further improvements were introduced in the front-end application (OKL) in order to optimise the process of opening business accounts for SME clients;
- changes were made to the credit process and a fast path for short-term loans was launched;
- a new offer of product packages for SME customers was introduced (simplification and unification of packages).

At the same time, the Bank adapted operational processes to new regulations, including:

- split payment: introduction of VAT accounts;
- implementation of customers' rights in connection with the EU Regulation on Data Protection Act.

On 31 October 2018, Bank BGŻ BNP Paribas SA acquired the core banking activities of Raiffeisen Bank Polska S.A (the acquisition was listed in the National Court Register). The part of Raiffeisen Bank Polska S.A. purchased by Bank BGŻ BNP Paribas S.A. was incorporated into the latter's structure. The transaction has opened a new chapter in the development of Bank BGŻ BNP Paribas in Poland, the new goal is to further strengthen the Bank's position among the largest banks in Poland. This transaction also means a significant strengthening of the Bank's market position in the SME segment, the Bank aspires to become the leader of this segment in Poland. Specialist knowledge in the field of SMEs, the exchange of experiences between BGŻ BNP Paribas employees and employees of the acquired core banking activities of Raiffeisen Bank Polska SA, a complementary customer base, the enhanced geographical presence of the combined distribution network, the possibility of offering a wider range of products - all of the above will enable the Bank to respond to the needs of the SME segment even more effectively.

Currently, the Bank is working on the planned operational merger of both organizations.

Positive changes in business operations within the SME segment in 2018 include an increase in the number of new customers and cross-sell transactions. In addition, there was an increase in the volume of FX SPOT transactions, offsetting the effects of a decrease in the volume of rate table transactions.

In 2018 the Bank organized meetings as well as information, education and business workshops for SME customers:

- Business Academy "*Entrepreneur in a changing world*": a series of meetings devoted to macroeconomic trends which are important from the point of view of SME companies (with the participation of professor Marek Belka), and workshops on the financing of companies. The meetings took place in Poznań, Warsaw, Kraków, Gdańsk, Katowice and Lublin, nearly 250 customers participated.
- "*Split payment without secrets*" meetings: the purpose of these was to prepare customers for changing regulations regarding Split Payment, i.e. issues related to the split payment mechanism, which may result in significant difficulties with regard to taxpayers' financial liquidity. The meetings were conducted jointly with the Grant Thornton consulting company in 12 Polish cities. Over 700 people from nearly 450 companies participated.
- "*New directions*" meetings, organized as part of the autumn edition of the Foreign Trade Program, whose aim is to support domestic entrepreneurs in international expansion, by providing them with modern tools and reliable information. The program is addressed both to companies that are already exporters or importers and those which are planning foreign expansion. "The New directions" meetings for SME clients were held in 14 smaller cities across Poland, 610 companies participated.
- "*Customer Days*" meetings: organized in November and December in 10 largest Polish cities, primarily for customers of Raiffeisen Bank Polska S.A. The aim was to strengthen customer relations and provide customers with information about the merger. The meetings were attended by members of the Bank's Management Board and local managers of the acquired bank. The agenda included, i.a., a discussion panel and a question and answer session during which clients were able to receive information on issues related to the merger of the core banking activities of Raiffeisen Bank Polska S.A. with BGŻ BNP Paribas S.A.

Trade finance products for SME segment customers

The offer of trade financing products for SME customers includes export and import documentary letters of credit, documentary collection regarding import and export, discounting of letter of credit as well as nostro and loro guarantees.

Bank guarantees and letters of credit

The Bank offers fast and comprehensive services related to guarantees and letters of credit, which are based on dedicated IT solutions.

In 2018, at the request of SME customers, the Bank issued:

- 900 bank guarantees for a total value of PLN 156.2 million.
- 242 import letters of credit with a total value of PLN 58.8 million, and handled 133 export letters of credit with a total value of PLN 73.2 million issued by third-party banks.

Commercial volumes

As at 31 December 2018, SME Banking deposits on a consolidated level amounted to PLN 10,595 million and were PLN 3,209 million, i.e. 43% higher than at the end of 2017. This increase was the effect of finalizing, on 31 October 2018, the acquisition of the core banking activities of Raiffeisen Bank Polska S.A. The portfolio structure did not change significantly. Much like in the previous year, almost three quarters of the total deposits were current accounts.

As at 31 December 2018 the value of the loans and advances portfolio in the SME Banking on a consolidated level amounted to 10,254 million, and was higher by 9% than at the end of 2017. As in the case of the deposit portfolio, the increase was largely the effect of finalizing, on 31 October 2018, the acquisition of the core banking activities of Raiffeisen Bank Polska S.A.

As a consequence of the said transaction, the segment became self-sufficient in terms of its capability to finance the clients' loan needs.

Table 49. Deposits and loans – SME Banking⁵

PLN '000	31.12.2018	31.12.2017	Change y/y	
			PLN '000	%
Current accounts	7,583,916	5,315,720	2,268,196	43%
Savings accounts	355,924	300,225	55,699	19%
Term deposits	1,664,276	1,238,436	425,840	34%
Overnight deposits	991,315	532,467	458,848	86%
Accounts and Deposits	10,595,431	7,386,848	3,208,584	43%
Kredyty konsumpcyjne	845	738	106	14%
Kredyty inwestycyjne	5,895,575	5,961,768	(66,193)	(1%)
Kredyty w rachunku bieżącym	2,561,899	2,056,238	505,661	25%
Kredyty na finansowanie nieruchomości	13,866	-	13,866	x
Należności leasingowe	576,836	577,260	(424)	(0%)
Karty kredytowe	2,106	904	1,202	133%
Pożyczki krótkoterminowe	861,146	814,159	46,987	6%
Inne kredyty	1,461	-	1,461	x
Faktoring	340,443	-	340,443	x
Kredyty i pożyczki (netto)	10,254,178	9,411,068	843,109	9%

⁵ See footnote on p.83

Gross income: SME Banking segment

In 2018, the gross result of the SME segment was PLN 91.4 million, compared to PLN 37.7 million in the previous year. The improvement was due to the acquisition of the core banking activities of Raiffeisen Bank Polska S.A. and the merger of both organisations' results in the last two months of 2018.

Table 50. Gross income: SME Banking segment⁶

PLN '000	12 months ended 31.12.2018	12 months ended 31.12.2017	Change y/y	
			PLN '000	%
Interest income	257,471	235,234	22,237	9%
Fee and commission income	84,085	83,997	88	0%
Trading and other income	27,691	20,392	7,299	36%
Income on banking activity	369,247	339,623	29,624	9%
Impairment losses	(45,777)	(74,984)	29,207	(39%)
Operating expenses and amortisation and depreciation	(114,521)	(99,908)	(14,613)	15%
Expense allocation	(84,802)	(86,440)	1,638	(2%)
Operating result	124,147	78,290	45,857	59%
Tax on financial institutions	(32,765)	(40,612)	7,847	(19%)
Gross profit of the segment	91,383	37,678	53,705	143%

The income on SME banking activity in 2018 amounted to PLN 369.2 million and was higher by 9% than the in 2017. This result constitutes 11.2% of the Group's total income on banking activity (12.3% excluding profit from the purchase of the core banking activities of RBPL, described in the Other Banking Activity section).

12.7. Corporate Banking

Corporate Banking offers a wide variety of financial services to large and medium-sized enterprises as well as to local government entities with an annual turnover equal to or exceeding PLN 60 million, or in the case of whom the Bank's exposure is equal to or greater than PLN 25 million, as well as to entities operating as part of multinational capital groups.

Corporate Banking customers are classified into 4 key groups:

- Polish mid-caps (with annual income of PLN 60-600 million);
- international customers (companies operating in international capital groups);
- large Polish corporations (listed, with annual turnover of more than PLN 600 million and an investment banking potential);
- public sector and financial institutions.

Additionally, an agro sub-segment and a non-agro sub-segment function within the aforesaid groups.

Due to the Bank's acquisition of the core banking activities of Raiffeisen Bank Polska SA, which took place on 31 October 2018, customers of the former Raiffeisen Bank Polska S.A. also became a part of Corporate Banking and were classified into the following segments:

- Medium-sized companies (Mid): customers with an annual turnover between PLN 25 million and PLN 100/2007 million;
- Large Companies (Large): customers with an annual turnover exceeding PLN 25 100/2007 million.

⁶ See footnote on p. 84

⁷ From 1 March 2016, the criterion of segmentation of clients between mid and large enterprises in the form of annual turnover has been increased from PLN 100 million to PLN 200 million; the change applied to newly acquired customers.

Distribution channels

Corporate Banking conducts operations based on stable customer relations, special emphasis is placed on the high standard and quality of provided services, as well as on the competence of the sales network and product specialists.

In 2018 Corporate Banking services were provided by 8 Business Centres located in: Warsaw, Łódź, Gdańsk, Poznań, Wrocław, Katowice, Kraków and Lublin. In addition, services are provided to customers by dedicated relationship managers at 5 local service points: Białystok, Bydgoszcz, Olsztyn, Rzeszów and Szczecin. Additionally, from November 2018, as a result of the acquisition of the core banking activities of Raiffeisen Bank Polska S.A. the distribution network has been expanded to include a corporate banking distribution network with the Raiffeisen Polbank logo. It is composed of six macro regions, comprising a total of 25 locations - Corporate Banking Centers - providing services to corporate clients.

After the acquisition of the core banking activities of Raiffeisen Bank Polska S.A., the Bank strove to develop a new sales structure and to merge the distribution network. As a result, in January 2019 the sales network for Corporate Banking was restructured and includes branches with the BGŻ BNP Paribas logo as well as the Raiffeisen Polbank logo. They are strategically located in 14 cities - the largest industrial and service centers in Poland - thus providing a wide geographical and sectoral coverage. The network consists of 9 Regional Corporate Banking Centers located in Warsaw (two), Łódź, Gdańsk, Poznań, Wrocław, Katowice, Kraków and Lublin, and 6 additional units (Corporate Banking Centers) located in Bydgoszcz, Białystok, Radom, Szczecin, Zielona Góra and Rzeszów. Within this structure, customer consultants provide services to clients locally.

Until the rebranding process is complete, corporate customers are offered services at Centers with the BGŻ BNP Paribas or Raiffeisen Polbank logos, depending on the client's choice of products. Customers who chose Bank BGŻ BNP Paribas products are served at Corporate Banking Centers with the BGŻ BNP Paribas logo, via the Corporate Banking Telephone Service Center and in the online banking system of Bank BGŻ BNP Paribas. Clients with Raiffeisen Polbank products are served in Corporate Banking Centers with the Raiffeisen Polbank logo, as well as through a telephone service (Business Service Zone) and in remote channels with the Raiffeisen Polbank logo.

Product offer

Corporate customers may use numerous financing and transactional banking products relying on the expert support of the BNP Paribas Group.

The basic products and services offered to corporate customers are:

- **cash management** – current accounts, payroll accounts, custody accounts, escrow accounts, cash management, payments, Cash Pool, balance consolidation, micro-CDMs, cards: debit, charge, credit;
- **deposits** – placement accounts, progressive accounts, deposits: overnight, term, negotiated;
- **financing** – current operations, investments, financing for agro companies;
- **trade services and financing** – bank guarantees, documentary letters of credit, documentary collection, export financing; export/import letters of credit, discounting of letters of credit, debt financing, nostro and loro guarantees
- **online banking** – BiznesPI@net, Mobile BiznesPI@net, MultiCash, Connexis, FX PI@net, R-Online Biznes, R-Dealer;
- **mid-caps structured finance** – financing acquisitions, high capital expenditure as well as structured bilateral or syndicated loans of PLN 20-200 million;
- **real estate financing** – financing office, retail and warehouse space;
- **investment banking services** – provided by specialists, including merger and acquisition advisory support, project funding, capital markets and debt securities;
- **financial market products** – including spot and forward transactions made by the Bank's dealers or via the FX PI@net and R-Dealer electronic currency platforms;
- **factoring** – offered both by the Bank (the offer was taken over as a result of the acquisition of Raiffeisen Bank Polska S.A.), as well as in cooperation with BGŻ BNP Paribas Faktoring Sp. z o.o.;
- **leasing services** – i.a. leasing of machinery and equipment, technological lines, means of transport, real estate offered in cooperation with BNP Paribas Leasing Solutions;
- **public sector services** – organising the issue of municipal bonds, forfeiting and dedicated cash management solutions.

Business line development in 2018

In Corporate Banking, 2018 was another year of dynamic growth for the Bank and a year which strengthened the Bank's market position in this segment. The product offer and internal processes were further developed in order to improve the quality of services and to further improve customer experiences. A number of significant initiatives have been implemented in the past year, including:

- improved phone customer service as part of the Enterprise Service Center,
- Implementation of new cash management solutions: micro-CDMs, improved ATM offer, split payment,
- improved financial market processes: new currency pairs implemented in FX PI@net (RUB, JPY, HUF), product documentation was changed, customers were categorized and product adequacy assessed in accordance with MiFID requirements,
- new features have been introduced in the BiznesPI@net internet banking system, e.g. within the "Self service" zone, we introduced functions which enable the customer to manage users access directly and easily. The functionality of the VAT account has also been introduced.

On 31 October 2018, Bank BGŻ BNP Paribas SA acquired the core banking activities of Raiffeisen Bank Polska S.A. This transaction means a significant strengthening of the Bank's market position in the Corporate Banking Segment. It reduced the distance to market leaders and gave the opportunity to directly compete with the largest banks in Poland, thus confirming the Bank's aspirations to become a key player in the segment. This is an important step in the development of BGŻ BNP Paribas. The Bank will now be able to offer its corporate banking customers an even wider range of products and services and to provide the highest standard of customer service.

In 2018, in accordance with the adopted Corporate Banking strategy, the Bank focused on:

- acquisition and quick activation of new customers as a basis for further cooperation,
- development of customer transactions and increasing the number of products used by clients (cross-sell of individual product lines),
- Services for enterprises which conduct international operations,
- becoming a leading bank in the area of foreign trade and specialized finance services (trade finance / specialized finance, global trade solutions).

The above-mentioned activities have caused an increase in the number of corporate clients and in the volumes of loans and deposits, as well as an increase in the number of customer transactions and cross-sells which ultimately translated into higher revenues for the Bank.

In order to build long-term relationships with customers, in 2018 the Bank organized a number of meetings and workshops for Corporate Banking clients. They were devoted to the following issues

- "Split payment without secrets" meetings: the purpose of these was to prepare customers for changing regulations regarding Split Payment, i.e. issues related to the split payment mechanism, which may result in significant difficulties with regard to taxpayers' financial liquidity. The meetings were conducted jointly with the Grant Thornton consulting company in 12 Polish cities. Over 700 people from nearly 450 companies (representing the SME and Corporate Banking segments) participated.]
- "21st Century - Time for new markets?" meetings: organized as part of the autumn edition of the Foreign Trade Program, whose aim is to support domestic entrepreneurs in international expansion, by providing them with modern tools and reliable information. The program is addressed both to companies that are already exporters or importers and those which are planning foreign expansion. The meetings promoted trade expansion into African markets, took place in 8 major Polish cities and 842 companies participated.
- "Customer Days" meetings: organized in November and December in 10 of the largest Polish cities, primarily for customers of Raiffeisen Bank Polska S.A. The aim was to strengthen customer relations and provide customers with information about the merger. The meetings were attended by members of the Bank's Management Board and local managers of the acquired bank. The agenda included, i.a., a discussion panel and a question and answer session during which clients were able to receive information on issues related to the merger of the core banking activities of Raiffeisen Bank Polska S.A. with BGŻ BNP Paribas S.A.

Trade finance products for Corporate Banking customers

The trade finance products offered to Corporate Banking customers include: export/import documentary letters of credit, export and import documentary collection, discounting of letters of credit, debt financing as well as nostro and loro guarantees.

Bank guarantees and letters of credit

The Bank offers fast and comprehensive services related to guarantees and letters of credit, based on dedicated IT solutions.

In 2018, at the request of Corporate Banking customers, the Bank:

- issued 3,7 thousand bank guarantees, with a total value of PLN 2,438.7 million.
- opened 1.3 thousand import letters of credit with a total value of PLN 579.2 million and handled over 300 export letters of credit with a total value of PLN 1,281.7 million issued by other banks for those customers.

Commercial volumes

As at 31 December 2018, consolidated Corporate Banking deposits amounted to PLN 22,219 million and were PLN 6,625 million, i.e. 42% higher than at the end of 2017. This increase was the effect of finalizing the acquisition of the core banking activities of Raiffeisen Bank Polska S.A on 31 October 2018. The share of current accounts in the total segment deposits increased significantly.

As at 31 December 2018 the value of the loans and advances portfolio in the Corporate Banking segment amounted to PLN 24,280 million, i.e. 88% more than at the end of 2017. As in the case of the deposit portfolio, the increase was the effect of finalizing the acquisition of the core banking activities of Raiffeisen Bank Polska S.A. on 31 October 2018.

Table 51. Deposits and loans - Corporate Banking⁸

PLN '000	31.12.2018	31.12.2017	Change y/y	
			PLN '000	%
Current accounts	13,699,098	6,969,640	6,729,458	97%
Saving accounts	14,833	11,311	3,522	31%
Term deposits	4,908,941	6,825,903	(1,916,961)	(28%)
Overnight deposits	3,596,625	1,787,431	1,809,194	101%
Deposits	22,219,497	15,594,284	6,625,212	42%
Consumer loans	-	25	(25)	(100%)
Investment loans	11,459,532	6,145,369	5,314,163	86%
Overdrafts	5,688,882	3,007,400	2,681,482	89%
Mortgage loans	32,790	-	32,790	x
Lease receivables	1,445,002	1,489,447	(44,446)	(3%)
Credit cards	4,771	1,809	2,962	164%
Short-term loans	4,169,487	2,236,104	1,933,384	86%
Other loans	45,318	2,153	43,164	2,005%
Factoring	1,434,042	21,771	1,412,270	6,487%
Net loans and advances	24,279,823	12,904,077	11,375,746	88%

⁸ See: footnote on p.83

Gross income: Corporate Banking segment

In 2018, the gross result of Corporate Banking was PLN 244.3 million, and was PLN 58.4 million (i.e. 31%) higher than in 2017. The significant improvement was largely influenced by the finalization, on 31 October 2018, of the acquisition of the core banking activities of Raiffeisen Bank Polska S.A, and the merger of both entities' results for the last two months of 2018.

The banking income of Corporate Banking in 2018 was PLN 578.2 million, which is 22% more than at the end of 2017. It represented 17.6% of the total net income on the Group's banking activity (19.3% excluding the profit from purchase of the core banking activities of RBPL, described in the Other Banking Activity section).

Table 52. Gross income: Corporate Banking segment⁹

PLN '000	12 months ended 31.12.2018	12 months ended 31.12.2017	Change y/y	
			PLN '000	%
Interest income	327,363	270,807	56,556	21%
Fee and commission income	147,724	116,278	31,446	27%
Trading and other income	103,133	88,636	14,497	16%
Income on banking activity	578,220	475,721	102,499	22%
Impairment losses	(57,601)	(36,145)	(21,456)	59%
Operating expenses and amortisation and depreciation	(157,677)	(126,848)	(30,829)	24%
Expense allocation	(63,946)	(81,557)	17,611	(22%)
Operating result	298,996	231,171	67,825	29%
Tax on financial institutions	(54,660)	(45,203)	(9,457)	21%
Gross profit of the segment	244,336	185,968	58,368	31%

12.8. Corporate and Institutional Banking

Corporate and Institutional Banking (CIB) supports sales of products of the BNP Paribas Group dedicated to the largest Polish enterprises, including service of strategic customers, the Financial Markets Department, Custody Services Department and Financial Institutions Department, whose offer is addressed to banks, insurance companies, pension and investment funds, as well as the State Treasury.

CIB delivers the BNP Paribas Group's comprehensive financial and risk management solutions to its customers in Poland, including:

- financing daily operations and investments carried out by enterprises;
- advisory services related to mergers and acquisitions, privatization and restructuring, transactions on debt and equity capital markets and operations on the currency and money market;
- structured finance: financing acquisitions and investment projects;
- cash flow and liquidity management, working capital optimization;
- financial and commodity risk management (risk related to price fluctuation on commodity markets).

CIB 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. CIB supports the development of Polish enterprises and the implementation of projects of strategic importance to Poland, through the financing of industrial, commercial and technological infrastructure as well as strategic mergers and acquisitions.

⁹ Patrz: przypis s.84

Corporate and Institutional banking focuses on four key areas:

- transactions on the Polish and international FX and interest rate markets. This involves management of market risk in the trading book, quotations of FX market and interest rate market instruments (together with transactions on the derivatives market), setting the foreign exchange rates effective at the Bank as well as structuring and managing the risk involved in the structured products offered by the Bank;
- direct sales of financial market products enabling currency, interest rate and commodity price risk management, to customers;
- preparation of macroeconomic analyses and forecasts for purposes of the trading and treasury operations of the Bank and for external use, cooperation with external institutions and research centres focusing on analyses;
- arrangement of debt security issues for corporate customers.

The **Financial Markets Department's** main activity areas in 2018 were:

- joint position and risk management between the trading departments of the merged banks, resulting in the largest unit of its kind on the Polish market;
- addition of new FX options and interest rate options to the product offer, implementation of new products on the PI@net currency platform: NDF, FX Swap and Rollback;
- implementation of procedural and technical solutions ensuring compliance with the MiFID2 regulation.

The **Custody Services Department's** main activity areas in 2018 were:

- smooth implementation of custodial services and the depository into the Bank's structure with maintained high quality of service and business continuity;
- joining the Council of Deposit Banks at the Polish Bank Association;
- extending the Bank's participation in KDPW and KDPW_CCP with the functions of "participant clearing derivatives" and "Depository", as well as the PFSA: with the function: "Depository".

The **Financial Institutions Department's** main activity areas in 2018 were:

- inclusion of service for customers from the financial institutions segment to the CIB segment as a result of the acquisition of Raiffeisen Bank Polska's core banking activities;
- inclusion of funds for which the Bank acts as a depository into the CIB segment. This concerned over 300 investment funds and, as a result, the Bank has gained the position of market leader;
- development of customer relations in the field of treasury transactions;
- a significant increase in the number of clients actively using treasury transactions services;
- conducting correspondent banking activities within the CIB segment; taking over the servicing of loro accounts (Polish and foreign banks) of over 40 clients.

12.9. Other banking activity

Other Operations of the Group are carried out mainly through the ALM Treasury, the main objective of which is ensuring an appropriate and stable level of funding to guarantee security of the Bank's operations and compliance with the standards defined in the applicable laws, as well as reducing sensitivity of the Bank's net interest income to changes in market interest rates.

The ALM Treasury combines the features of a business line with those of a competency centre responsible for the management of interest rate risk, current and structural liquidity of the Bank, structural currency risk, determining and managing internal transfer prices for all products offered by the Bank. The ALM Treasury focuses on both prudential (compliance with external and internal regulations) and optimization aspects (financing cost management and generating profit through management of the Bank's balance sheet items).

Its operations are carried out through two profit centres, i.e. ALM Treasury and Corporate, which also manage the acquired part of Raiffeisen Bank Polska.

One of the key risk management mechanisms in place at the Bank is a systemic transfer of structural risks (liquidity, banking book interest rate and currency risk) from all business lines to the ALM line, which manages those risks centrally. Risk is transferred mainly through the transfer pricing system, which reflects the business financing strategy adopted by the Bank.

Key obligations entrusted with ALM Treasury comprise ensuring a balanced liquidity position accompanied with optimized costs of funding the Bank's operations and an appropriate structure of assets and liabilities, including sensitivity to interest rate changes. Other units within this function focus on management of an internal transfer pricing system, balance sheet analysis, modelling and measuring liquidity and interest rate risk for the Banking Book, managing issues of debts securities, arranging long-term credit facilities, coordinating the securitization of non-bank customer portfolio and organizing the work of Asset-Liability Committee (ALCO).

12.10. Cooperation with financial institutions

As at 31 December 2018, the Bank was a correspondent bank of ca. 1000 other banks, and held 92 nostro accounts for 32 major currencies in other banks.

In the discussed period, the Bank held 88 loro accounts denominated in 16 currencies for foreign and local banks. The loro accounts in the accounting records of Bank BGŻ BNP Paribas S.A. represent an external source of cost-free working capital used in the Bank's operations. These accounts are used mainly for purposes of customer and bank-to-bank transfers.

In 2018, the Bank continued its cooperation with other domestic and international financial institutions, including investment funds, insurance companies, pension fund companies, brokers and banks, which enabled the conclusion of a wide range of treasury and deposit transactions. A number of contracts were concluded with new and existing contractors from these segments and actions were taken towards the signing of new contracts, in line with ISDA and Polish Bank Association ("ZBP") recommendations.

12.11. Digital Transformation Program

The Digital Transformation Program was launched in 2017. Its goal is to focus on the needs of customers who expect that a modern bank should, above all, provide excellent service, not only in a traditional branches, but primarily via the Internet. Online services are available to customers at the time and place of their choosing, which naturally leads the bank towards the digitization of further services, the simplification and automation of processes and the reduction of documentation on paper.

Five major programs are a part of the Bank's Digital Transformation:

- 1) E-transformation – i.e. improving the efficiency of the operational model (completed in over 89%),
- 2) Digitization of solutions for the client (completed in over 51%),
- 3) Adaptation of IT systems (completed in over 71%),
- 4) Effective data management (completed in over 40%),
- 5) Inspiring workplace (completed in over 50%), 36 projects have been completed thus far.

The Bank's Digital Transformation Program will last until 2020.

The table below presents the key areas of the Bank's transformation and the most important achievements in 2018.

Area	Direction	Key achievements in 2018
<p style="text-align: center;">Digitization of customer experience</p>	<ul style="list-style-type: none"> ○ Building personalized, easy-to-use products, available to customers 24/7, regardless of the service channel chosen by the client. 	<ul style="list-style-type: none"> ○ New features of the GoMobile application, including: <ul style="list-style-type: none"> ● new language versions: Ukrainian and Russian; ● Improved functionality of daily payments (refund of payments, repetition of payments, Social Insurance Institution payments, credit card transfers, QR codes, BLIK); ● improvement of card management (permanent or temporary blocking / unblocking of cards); ● logging into the application via face recognition made available for iPhoneX. ○ Doubled number of active GOMobile users at the end of 2018 (164,000 total) and a threefold increase in the number of transactions to 4.4 million in 2018. ○ Apple Pay made available to customers. ○ Business PI@net: business accounts connected with accounting services provided by cyberProductivity. ○ An ecosystem for new micro-enterprises in cooperation with fintechs (+17% acquisition in comparison to the audited year): <ul style="list-style-type: none"> ● a free platform enabling clients to conduct independent bookkeeping and invoice issuance - eMikrosięgowość - in cooperation with the Polish start-up cyberProductivity; ● the possibility of invoice financing - eMikro faktoring - in cooperation with the Finiata fintec.

Area	Direction	Key achievements in 2018
E-transformation	<ul style="list-style-type: none"> ○ Simplification and automation of processes, efficient operation and reduction of paper documentation to a minimum, as well as modern tools and branches: <ul style="list-style-type: none"> ● automation and robotization: comprehensive automation of processes, reduction of manual work, simplification and improvement of our efficiency, automation of the complaint process - improving the quality of customer service; ● Sales network transformation: streamlining the work of branches through new tools (e.g. optimization of cash services), a better workplace and a friendly space to meet customer needs, (so as to set new standards as regards service quality and the banking offer in Poland). 	<ul style="list-style-type: none"> ○ Automation of manual processes at the Bank: 6 automated Personal Finance processes (including helpline and operations), 37 automated processes in operations (including bills, cards, complaints, loans, bailiff activities, trade financing). For example: robots handle over 1.5 thousand inquiries from branches per month. ○ Implementation of a new branch type: a change in the philosophy of customer service, including a new branch design (without traditional service stations). Branches in the new format are fully automated, so that employees can focus on customer needs and high quality service. Cash transactions are possible owing to machines located at branches (the machines combine ATM and CDM functionality and can perform contactless transactions as well as BLIK transactions), which customers can use 24/7. In 2018, 15 branches were redesigned as part of the program. ○ Introduction of electronic signatures, which facilitate the loan approval process, as part of the <i>paperless</i> project implemented in cooperation with Autenti. From August 2018 over 22 thousand contracts have been signed with the help of the new technology.
Inspiring workplace	<ul style="list-style-type: none"> ○ Creation of a friendly work environment for all employees, based on a culture of cooperation and equipped with modern digital tools; preparation for the introduction of agile work methods. 	<ul style="list-style-type: none"> ○ Introduction of solutions facilitating the day-to-day work of the Bank's employees, including: <ul style="list-style-type: none"> ● providing tools for remote work, i.e. a new version of Outlook, virtual room video conferences, Skype for Business (which enables employees to conduct video conferences with persons from outside the Bank); ● providing a mobile application for employees "Outside work" (holidays and days off). ○ Changes at the head office regarding, i.a., a new way of organizing space (fewer closed offices, a more comfortable open space adapted to the needs of individual teams).

12.12. Human resources management

Headcount

At the end of December 2018, the Capital Group of Bank BGŻ BNP Paribas had 11,265 FTEs (including employees on maternity leave, childcare leave and longer sick leave) as compared to 7,634 FTEs at the end of 2017 (increase by 3,631 FTEs). The increase in employment y/y was mainly due to the merger of Bank BGŻ BNP Paribas with the core banking activities of Raiffeisen Bank Polska on 31 October 2018 (the "Acquisition Day").

The table below presents the Capital Group's employment structure in FTEs.

Table 53. Headcount in the Capital Group of the Bank

in FTEs	31.12.2018	31.12.2017
Capital Group of the Bank	11,265	7,634
Total Bank, including:	10,854	7,386
Head Office	5,455	3,410
Branches	5,246	3,833
Mobile Relationship Managers	92	93
Brokerage Office	54	35
Training Centre	-	11
Trade Unions	7	4
Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A.	26	25
BNP Paribas Group Service Center S.A.	291	223
Campus Leszno Sp. z o.o.	8	0
BFN ACTUS Sp. z o.o.	0	0
BNP Paribas Leasing Services Sp. z o.o.*	0	0
BNP Paribas Financial Services Sp. z o.o.**	39	x
BNP Paribas Solutions Sp. z o.o.**	36	x
Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.**	11	x

* employment in the company is 0.25 of FTE

** the companies are subject to consolidation from the moment of the legal merger with the core banking activities of RBPL, i.e. 31.10.2018

Employment restructuring

The acquisition of the core banking activities of Raiffeisen Bank Polska required HR management changes. At the Date of Acquisition, the acquired employees became the employees of Bank BGŻ BNP Paribas. Ensuring effective customer service, which would meet the clients' needs, required the implementation of a new organizational structure and an adjustment of employment levels. The employment optimization process has begun. In December 2018, an agreement with the trade unions operating at the Bank was signed. It concerned regulations regarding collective redundancies. The dismissal process is planned for two years (2019-2020). In addition, the Parties to the Agreement have agreed that collective redundancies will cover no more than 2,200 employees.

In order to alleviate the social consequences of collective redundancies, the Bank introduced the Voluntary Leave Program and, in agreement with trade unions, decided to pay additional compensation and other elements of social protection, in addition to statutory bonuses for redundant employees.

Steps have also been taken to adapt processes, procedures and internal regulations that would enable effective and transparent HR management in the entire Bank.

Employee remuneration policy

The Bank has implemented a reasonable, balanced and controllable remuneration policy and ensures its compliance with the strategy, the acceptable risk level as well as the standards and key values of the Bank. The remuneration policy reflects the Bank's customer orientation in addition to the Bank's interest in the long term as well as socially acceptable remuneration practices. It is in conformity with the applicable laws and regulations.

The Bank has adopted a *Remuneration policy for individuals that exert a considerable influence on the risk profile of Bank BGŻ BNP Paribas S.A.*, which was developed in line with guidelines included in Resolution No. 258/2011 of the PFSA and the requirements of CDR IV and which was approved by the Supervisory Board on 9 September 2016. In December 2017, the provisions of the above mentioned Policy were updated in connection with the entry into force of the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital in banks (Journal of Laws of 2017, item 637).

The Bank has established an HR and Remuneration Committee, which supports the Supervisory Board in the fulfilment of its supervisory duties in the respect of human resource management, by monitoring and overseeing the key processes, specifically succession plans, professional development of employees and remuneration policies. The Committee prepares opinions and recommendations for the Supervisory Board, with respect to the terms of employment of Members of the Bank's Management Board, including the variable remuneration determined and granted to such Members.

Incentive schemes

The incentive schemes (bonus schemes) are designed to support the Bank's strategy by rewarding employees for achieving their objectives. The bonus schemes are based on the MbO (Management by Objectives) formula, which means that an employee's individual bonus depends on his/her goal achievement level, both quantitative and qualitative. Furthermore, a combination of individual and collective goals gives the employee a picture of his/her expected performance, considering the Bank's risk profile and actions in the interest of the customer.

The Bank has implemented:

- bonus schemes for direct sales staff, which were brought into line with the tasks assigned to each business line of the Bank: Retail and Corporate Banking, Private Banking, Personal Finance, SME Banking, Corporate Banking;
- bonus scheme defining the rules for granting and payment of variable remuneration, including bonuses, to managers exerting a considerable influence on the risk profile of the Bank;
- bonus schemes for specific employee groups, other than direct salesforce.

The bonus scheme rules do not apply to the employees' share in the share capital of the Bank

Training and development

In 2018, the training was carried out in close cooperation with the Bank's business lines.

The total number of training participants was 113 thousand, including 99.8 thousand e-learning participants.

Major training initiatives in 2018:

- courses dedicated to the new product offering and use of the operating systems in the new formula of induction training for employees of the Retail and Business Banking sales network;
- courses raising the level of product knowledge, dedicated to the sales network employees, including those focusing on investment funds and sales of insurance products;
- courses supporting the development of sales skills and enhancing the quality of customer service, addressed to the sales network employees of Retail and Business Banking and Corporate Banking;
- mandatory courses resulting from legal regulations which came into force in 2018 (GDPR, MiFID2);
- courses implementing post-audit recommendations of the Polish Financial Supervision Authority;
- courses increasing leadership competencies of managers and communication skills, including training on providing Feedback – Bank Manager Academy of Bank BGŻ BNP Paribas;
- courses supporting the implementation of the new organizational culture, including courses on providing Feedback;
- courses supporting the development of a risk culture at the Bank as well as pro-active employee attitudes and behaviours, especially in the areas of operational risk and compliance;
- courses on stress management skills – anti-stress trainings;
- courses supporting the process of merging the Bank with the core banking activities of Raiffeisen Bank Polska SA;
- soft skills courses for the Bank's organizational units;
- foreign language courses.

Development programs implemented in 2018:

- *“Prestiz”* Potential Development Program – the program is aimed at ensuring that managers have the key competencies necessary to realize the Bank’s strategy today and in the future. The program is dedicated to employees who are high achievers and display management potential. Courses have been devised for three Talent groups with different levels of professional experience and competencies. The courses are tailored to address the individual needs of the participants and to support the realization of the Bank’s strategy. The current edition of the program focuses on strengthening the leadership competences needed to manage change and the ability to provide feedback.
- *“Leaders for Tomorrow”* initiative – a development program of the Capital Group of BNP Paribas aimed at the development of leadership skills. Participants can make the most of development sessions conducted in different companies of the Group, get to know the companies’ mode of operations in other countries and share good practices.
- *The “Digital Ambassadors” Program* - the aim of the program is to build a Digital Culture in the Bank by equipping employees with digital competences. The key role in this process is performed by the Digital Ambassadors whose task is to: acquire knowledge and skills in the field of both functioning and newly implemented tools, promotion of social tools and digital solutions supporting remote work and business efficiency, transferring knowledge to colleagues, participation in testing and implementing new solutions, and (as part of a selected transformation project) promoting new work techniques, gathering and transferring information on the needs of employees to IT, as well as tracking market innovations in order to implement them at the Bank.
- *Development program for the highest managerial staff* – training workshops – focused on strengthening cooperation, breaking silos, strengthening entrepreneurship and client-centeredness.
- *Continuation of the Inner Labour Market initiative* initiated in 2014, which aims to strengthen the professional mobility of employees within the organization.
- *Occupational Mobility Days* – an initiative supporting the occupational mobility of employees, who can familiarize themselves with the nature of work in specific business areas of the Bank and other entities of the Capital Group of Bank BGŻ BNP Paribas or attend meetings (in classrooms and online) focusing on professional development. The Occupational Mobility Days include training courses and conference on providing feedback.
- *Feedback culture building program* - a number of initiatives promoting effective feedback as a factor in the development and growth of employee engagement, including workshops addressed to the managerial staff, aimed at preparing for the implementation of feedback culture in teams, workshops for all employees and for the talent group, webinars, knowledge database on the intranet
- *HR Library* – it is available for every employee and offers literature on: motivation, sales, personal development, management and leadership.

Internship and traineeship programs

The Bank offers traineeship and internship programs to students and university graduates:

- The „Postaw na rozwój” (*“Focus on Development”*) internship program, addressed to 4th and 5th year students, recruitment to the program lasts throughout the whole year. The purpose of this program is to transfer knowledge, prepare for the profession and strengthen the Bank’s image as a desirable employer.
- „Ambadorskie Duety” (*“Ambassador Duo”*) program, addressed to 2th and 3th year students. Bank representatives undertake activities at selected universities. The aim is to build the Bank’s image as an attractive employer.

12.13. Information technology

IT projects implemented in 2018 concerned activities related to the Bank’s transformation, the digitization of the customer experience, improvement of the operating model and the modernisation of the work environment. They were also closely related to the Bank’s business strategy and the BNP Group strategy.

IT projects carried out in 2018 focused mainly on three areas:

- 1) Projects for business lines - support for achieving their goals;
- 2) Projects related to the implementation of national and international requirements (including GDPR, Split Payment, STIR, SWIFT, KYC, MiFID, PSD II), optimization of the Bank’s day-to-day operations and adaptation to the dynamically changing Cyber Security conditions;
- 3) Projects aimed at finalising the legal merger with the core banking activities of Raiffeisen Bank Polska S.A.

Key IT projects within particular areas in 2018:**I. Business line projects****Retail Banking**

- Enabling customers to change ID data electronically (PI@net / Product Centre).
- QR code payments - quick payments in the GOMobile application carried out by scanning QR codes on invoices and bills.
- Face ID – features for customers with iPhone X smartphones that allow secure login to the application by scanning and recognizing the face of the client.
- Transfers from operations history - the ability to easily repeat and respond to received transfers, all necessary data for the transfer are automatically copied from operations history.
- Apple Pay payments from within the Apple Wallet application.
- New GoMobile features: Ukrainian and Russian language versions, credit card payments, temporary blocking and unblocking of payment cards, recipient list search engine.
- Enabling retail clients to open a brokerage account in PI@net/Product Center and log in to the Brokerage House system without using an additional password.
- Regulatory modifications: changed method of submitting applications for loan and card insurance in the Product Center.
- Implementation of a workflow platform for the automation of loan processes.
- Automation of renewal processes in Agro Express (mortgage for a farmer). Agro Lider product automation (cash loan secured with a mortgage).
- Sales of pre-defined loan offers in GOMobile.
- Internal Friends&Family tests of a new online banking system for retail clients (over 700 active users).
- Implementation of a social media monitoring system to improve the Bank's communication with social media users and to facilitate the analysis of comments.

Personal Finance Banking

- IT solution introducing a paperless loan processes and electronic signature for external sales points.
- Implementation of new functionalities for clients within the partnership with Carrefour (implementation of a cash loan and an electronic after-sales service, Carrefour mobile application - with some additional functions, such as credit card transfers or a sales offer display visible without logging in).
- Integration with RTV Euro AGD, and thus continued sale of the Bank's instalment loans in their stationary stores.
- New product for Allegro customers: a revolving limit on purchases; a back-office process for Allegro's partner.
- A number of improvements added to the Blue Prism platform for Personal Finance (blocking / unblocking of credit cards and loan cancellation process).

Corporate and SME Banking

- New, centralised back office service.
- Introduction of micro-CDMs, allowing stores to optimize cash management.
- Modifications to the communications module, implementation of the Split Payment Act requirements (split VAT payment), implementation of the STIR (Clearing Chamber's TeleInformation System) Act requirements in BiznesPI@net.
- Launch of a workflow platform for the automation of loan processes.
- Introduction of after sales services for loans in the Venus system - a single system for all branches.
- Introduction of forms for handling and reporting the status of mutual collateral for derivative contracts between the Bank and other banks in the country and abroad.
- Introduction of further modifications and functions of the escrow account.
- Implementation of a new scoring model for corporate clients.
- Implementation of a new Euronet cash processing model.

Corporate and Institutional Banking

- Introduction of new currencies (Egyptian pound EGP, Ukrainian hryvnia UAH, Serbian dinar RDS, Chilean peso CLP, South Korean won KRW) as part of the Non Deliverable Forwards, i.e. short-term interbank market instruments settled in cash.
- Introduction FX Options trading options.
- Replacement of the recording and archiving system of telephone conversations at the Dealing Room.
- Implementation of a mechanism for checking the validity of the identification number (Legal Entity Identifies) on the FX PI@net transaction platform applicable for the entities performing transactions on financial markets through the Bank.

II. Projects related to the Bank's daily operations**Cross-cutting projects for business lines and regulatory projects**

- Introduction of regulatory and systemic changes in connection with the implementation of the MiFID2 Directive (retail and corporate clients).
- Implementation of STIR reporting - Central Operational Monitoring.
- Card payment handling transferred to one system (Visiona); bank card processor service transferred from FTP to MPTS - card processing by one processor (Mastercard).
- Optimization and automation of the Visiona card system in order to improve the quality of customer service.
- Implementation of BIK for entrepreneurs and BIK Archive with the function of automatic loan report download and report archive management.
- Implementation of changes necessary for the Bank to comply with the protection of personal data regulations (RODO / GDPR).
- Improved quality money laundering prevention reports.
- Reporting of FATCA clients to the Ministry of Finance.
- Providing the Informatica development tool for creating data flows which automatically create data lineage.
- Implementation of the i-Legal platform for handling internal legal inquiries.
- Informing clients about changes in the Bank's regulations in compliance with the regulations of the PSD II Directive.
- Introduction of the first Big Data cluster (Hadoop) and centralization of data from the first 18 banking systems.
- Providing tools for creating modern management reports using Tableau for the Finance, Risk and CRM sectors.
- Introduction of NPS customer satisfaction survey: for the corporate segment, Wealth Management, BGŻOptima, Consumer Finance and clients using the Contact Center, GOMobile application and website.
- Implementation of an External Database with access to the Personal ID cards Register and the following databases: PESEL, CEiDG, KRS, REGON, VAT; with the function of downloading EKW content and CEiDG excerpts; with access to the Banking Register of Unreliable Customers and Graphical User Interface functions.
- Launch of the Poza pracą application which enables employees to report their absence using a business mobile phone.
- Safewatch implementation - solutions for sanctions lists.

Infrastructure projects

- Development of infrastructure for the needs of maintaining backup copies for databases.
- Introduction of new computer hardware based order to enhance security standards and facilitate management.
- Implementation of a new security solution against confidential data leaks through electronic correspondence.
- Optimization of license costs for Oracle databases.
- Decommissioning and archiving of exSagma Bank Polska systems.
- Implementation of a system for key IT processes management, ie: problem management, change management and implementation - knowledge base, test environment management processes.
- Expansion of Wifi infrastructure in the Head Office building: extension of coverage in Warsaw (Kasprzaka St. and Suwak St.) and Kraków (Armii Krajowej St.).
- Connection of 175 additional branches to the fiber-optic network and reorganization of the branches' teleinformation network.
- Introduction of a technological solution allowing employees to securely connect to the Bank's network.
- Implementation of a solution (Skype for Business) enabling convenient text, voice and video communication in the Head Office as well as in selected branches.
- Implementation of solutions and standards which constitute a foundation for Private Cloud.

- Implementation of a platform (Sharefile) for sending large attachments within the Bank's network.
- Introduction of a function allowing for offline group work and access to the Bank's network (Sharepoint off-line).
- Preparation of a software concept for the Bank's start-ups and business partners.

Cyber-security projects

- A comprehensive CIS20 audit, assessing the Bank's maturity in the area of cyber security. The obtained 80% result positions the Bank among the top units in the BNP Paribas Group.
- #Cyberstrong action raising the level of cyber security awareness among the Bank's employees.
- Implementation and development of systems that increase the level of the Bank's cyber-security, including:
 - DLP (Data Leakage Protection) - a system that protects e-mail communication, supports the security of workstations (including the monitoring of printouts) and protects the Web communication channel (including access to e-mail and dropbox services);
 - ArcSight - SIEM (Security Information and Event Management) system;
 - Nessus - a platform for detecting vulnerabilities in IT systems and enabling the assessment of their criticality;
 - DarkTrace AI Monitoring & Anti-Malware - a system for detecting cyber security threats using machine learning mechanisms and Artificial Intelligence algorithms;
 - Kaymera phone-call and transmission (voice/data) encryption system providing protection against network attacks and mobile phone malware;
 - The BotSense system used to detect malicious software on workstations of the Bank's online banking clients;
 - OneIDM system (Sailpoint) - an upgrade implementing a mobile version of the system.
- ICT environment security tests (Red Team approach).
- Verification of suppliers and the architecture of the "Kontootwieracz" solution intended for the automatic verification of a person's identity on the basis of an ID card and face recognition.
- Verification of new functions related to insurance purchase in a mobile application for retail banking customers.
- 12 phishing campaigns with over a dozen types of attacks.
- E-learning for all employees aimed at raising awareness in the field of business continuity management (BCM).

III. Projects related to the acquisition of the core banking activities of RBPL

- Adjusting systems to a change of the Bank's name and data.
- Joint system of internal regulations (migration of regulations from RBPL to the Bank) and common POA system.
- Integration of the main HR systems (including migration of basic employee data to the Bank systems).
- Contact Center - a single contact point (redirection to systems from both Banks).
- Implementation of the Help-Desk common contact point for employees of the branch network and Head Office units.
- Implementation of a common Customer Database containing basic information about customers and products. The database is used to identify clients in the combined network of branches and in Risk and Back-Office processes.
- Integration of domestic and foreign payment systems.
- Integration of AML (Anti-Money Laundering) systems and servicing bailiffs' activities.
- Upgrade of the GMK system used for the valuation of financial instruments and integration of selected Back-Office systems.
- Integration of liquidity, risk and ALMT management systems.
- Connection to the BNP Paribas Group systems in the CIB area.
- Integration of reporting to KIR, BFG, KDPW and the Ministry of Finance.
- Integration of risk systems, including IFRS9, RWA, capital adequacy, concentration limits, operational risk systems.
- Integrated financial reporting (local) and management reporting (local and group).
- Unification of Compliance processes (including KYC adapted to the requirements of the BNP Paribas Group).
- Merger of authorization management systems, enabling employees to cross-use IT systems to the extent necessary and approved for the functioning of processes after the legal merger.

12.14. Operations

In 2018, the Operational Transformation and OptiOPS programs were implemented. Thus the process management model (in accordance with the Lean methodology) as well as process optimization were implemented. The key projects performed in 2018 included:

- Introduction of the Blue Prism platform for robotization and robotization of key processes.
- Implementation of the Visual Management model.
- A series of automations for Operations in the Micro segment.

After the acquisition of the core banking activities of RBPL, Operations expanded to include the Operation Center in Ruda Śląska, where the 3rd stage of *nearshoring* was completed in 2018, i.e. all operational functions were centralized in one organizational unit.

After the merger with the core banking activities of RBPL in the area of Operations, the SpeedOPS program was launched, aimed at knowledge exchange and process analysis. On its basis, by the end of 2018, 46 process changes were initiated, which increased the efficiency of Operations.

In the field of Administration and Real Estate in 2018, key changes focused on the transformation of branches and the launch of their new service model.

12.15. Agreements with the central bank and supervisory authorities

Agreements with the National Bank of Poland

- Annex No. 9 of 27 February 2018 to the Agreement of 7 June 2013 regarding the terms and conditions of opening and maintaining a bank account in the SORBNET2 system.
- Annex No. 10 of 18 May 2018 to the Agreement of 7 June 2013 regarding the terms and conditions of opening and maintaining a bank account in the SORBNET2 system - changes to the content of the Agreement.
- Annex No. 11 of 23 May 2018 to the Agreement of 7 June 2013 regarding the terms of opening and maintaining a bank account in the SORBNET2 system - changes in the content of the Agreement.
- Annex No. 12 of 28 June 2018 to the Agreement of 7 June 2013 regarding the terms and conditions of opening and maintaining a bank account in the SORBNET2 system.
- 18 December 2018 - Agreement with the NBP regarding assuming the role of Money Market Dealer. Agreement concluded for the period from 1 January 2019 to 31 December 2019.
- 7 December 2018 - Agreement on the terms and conditions of opening and maintaining the account in euros in the TARGET2-NBP system, concluded between the National Bank of Poland and the TARGET2-NBP system Participant in Warsaw on 29 June 2016.

13. DESCRIPTION OF THE ACTIVITIES OF BANK BGŻ BNP PARIBAS S.A. CAPITAL GROUP IN 2018

13.1. Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A.

Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas (TFI BGŻ BNPP) has been carrying out business in the financial services industry since 1992. Before that date, it was active on the Polish capital market as a brokerage house.

TFI BGŻ BNPP operates based on the authorization of the Polish Financial Supervision Authority regarding:

- investment fund establishment and management;
- intermediation in sale and redemption of units and shares in foreign funds.

Currently, the following five funds are managed by the entity:

- **BGŻ BNP Paribas FIO**, which started its operations in March 2016. It comprises seven sub-funds with a diversified investment policy, which enable customers to invest in various classes of assets, both on the local and global market. BGŻ BNP Paribas FIO also offers an Individual Retirement Account - IKE BGŻ BNP Paribas FIO and an Individual Pension Insurance Account - IKZE BGŻ BNP Paribas FIO. As at the end of December 2018, assets under management totalled approx. PLN 1,562.2 million;
- **BGŻ SFIO**, the management of which was taken over by the entity from Ipopema TFI in January 2016, once a relevant authorization had been granted by the Office of Competition and Consumer Protection. It comprises four sub-funds. As at the end of December 2018, assets under management exceeded PLN 189.4 million;
- **BNP Paribas FIO**, which entered the Polish market in 2005. It comprises three sub-funds which invest mainly in the Polish market. As at the end of December 2018, assets under management totalled PLN 46.5 million;
- **Avantage FIZ** established in November 2015. It is the first in the above group of products, which is dedicated mainly to affluent customers, as the minimum investment amount is higher and the investment strategy complex. As at the end of December 2018, assets under management exceeded PLN 10.2 million;
- **BGŻ BNP Paribas Globalnej Alokacji FIZ**, established in June 2016. The fund fulfils its investment objectives by investing assets in the shares of THEAM QUANT - MULTI ASSET DIVERSIFIED - a sub-fund managed by a BNP Paribas Group Company. As at the end of December 2018, assets under management totalled PLN 3.1 million

TFI BGŻ BNPP has partnered with the Bank to distribute units in the funds that it offers under an agreement concluded with the Brokerage Office of the Bank.

Table 54. Basic financial data of TFI BGŻ BNP Paribas S.A.

PLN '000	31.12.2018	31.12.2017	31.12.2016
Balance sheet total	18,918	17,130	12,657
Long-term investments	608	650	622
Equity	12,887	12,592	9,755
including: net financial result	2,584	2,821	(3,595)

The share capital of TFI BGŻ BNPP amounts to PLN 9,048 thousand and is divided into 377,000 shares with the par value of PLN 24.00 each. As at 31 December 2018, its equity totalled PLN 12.9 million and was sufficient to ensure security of the entity's daily operations.

As at 31 December 2018, assets under management of TFI BGŻ BNPP totalled PLN 1,811 million (compared to PLN 1,855 million at the end of 2017). The decrease in the value of assets in 2018 was mainly influenced by two factors. On the one hand, declines in share prices in the country and abroad have reduced the value of assets, on the other, the accumulation of negative information from major global economies, such as the Brexit confusion, "trade wars" between the US and China, or the series of interest rate hikes in the US significantly increased investors' reluctance to take any risk.

In 2018, TFI has recorded a positive financial result in the amount of over PLN 2.5 million.

13.2. Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A. (currently Riviera Towarzystwo Funduszy Inwestycyjnych S.A.)

Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A. (the Company) was listed in the Register of Entrepreneurs on 30 November 2015. On 7 December 2015, the Company filed an application to the Polish Financial Supervision Authority for permission to perform activities related to the creation and management of investment funds, management of a collective portfolio of securities and mediation in the sale and redemption of participation units. On 30 May 2017, the Polish Financial Supervision Authority granted the Company the permission to carry out the specified activities, i.a., in art 45 par. 1 of the Act of 27 May 2004 on investment funds.

In accordance with the business model adopted by the Company, after obtaining the permit to perform operations, the Company took over management of the FWR Selective Closed-end Investment Fund from ALTUS Towarzystwo Funduszy Inwestycyjnych S.A. on 1 September 2017, and on 1 December 2017 the Company took over the management of the Raiffeisen Specialized Open-End Investment Fund, while entrusting management of the entire investment portfolios for both funds to ALTUS TFI S.A.

On 2 November 2018, Bank BGŻ BNP Paribas S.A. became the Company 100% shareholder, which resulted from the Plan for the distribution of the core banking activities of Raiffeisen Bank Polska SA. (RBPL) signed by the Bank and RBPL. At the same time, from 2 November 2018, the entity responsible for the management of TFI Raiffeisen funds is the Brokerage Office of Bank BGŻ BNP Paribas S.A.

On 30 November 2018, a Merger Plan was agreed on and prepared for Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A. and Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.

On 4 January 2019, the name of the Company changed from Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A. to Riviera Towarzystwo Funduszy Inwestycyjnych S.A. (due to the decision of the General Meeting of Shareholders of 11 October 2018)

Currently, the Company manages two funds:

- **Raiffeisen SFIO Parasolowy**, established on 9 July 2014, with four separate Sub-Funds:
 - **Subfundusz Raiffeisen Aktywnego Oszczędzania** – a financial sub-fund. The value of the sub-fund's assets at the end of December 2018 amounted to PLN 36.7 million
 - **Subfundusz Raiffeisen Aktywnych Strategii Dłużnych** – debt sub-fund. The value of the sub-fund's assets at the end of December 2018 amounted to PLN 73.9 million
 - **Subfundusz Raiffeisen Globalnych Możliwości** – sub-fund of absolute return. The value of the sub-fund's assets at the end of December 2018 amounted to PLN 29.9 million;
 - **Subfundusz Raiffeisen Aktywnego Inwestowania** – sub-fund of absolute return. The value of the sub-fund's assets at the end of December 2018 amounted to PLN 76.4 million
- **FWR Selektywny Fundusz Inwestycyjny Zamknięty** – a product created on 13 May 2014 and addressed only to Friedrich Wilhelm Raiffeisen private banking customers. FWR Selektywny FIZ is a portfolio of absolute return funds, including foreign funds, supported by investments in typical equity funds and by alternative asset funds (e.g. debts, real estate). The value of the fund's assets at the end of December 2018 amounted to PLN 9.46 million.

Table 55. Basic financial data of Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.

PLN '000	31.12.2018
Balance sheet total	3,761
Long-term investments	-
Equity	2,037
including: net financial result	(719)

Raiffeisen TFI cooperates with the Bank as regards the distribution of fund participation units offered by the Company based on an agreement concluded between the Company and the Bank.

As at 31 December 2018, Raiffeisen TFI had a share capital of PLN 4,000 thousand. The level of equity amounted to PLN 2,037 thousand. The significant decline in assets in the second half of 2018 affected the negative financial result of the Company.

Until the planned merger of the Company with TFI BGZ BNP Paribas S.A. in the first half of 2019, no significant changes are expected in the financial position of the Company.

13.3. Bankowy Fundusz Nieruchomościowy Actus Spółka z o.o.

The entity was established in 1999 to carry out the following:

- purchase and sale of real property as well as limited property rights;
- construction projects on own and third-party real property;
- intermediation services related to sales of real property and lease of space;
- lease and rental of real property as well as lease of space;
- property valuation, management and advisory services (real estate agency services).

As at 31 December 2018, the entity's investment portfolio comprised undeveloped land in Wrocław-Marszowice, with the area of 46.7977 ha. In accordance with the Local Development Plan, the real property will be used for residential building purposes.

It is the entity's objective to sell the property on favourable terms.

Table 56. Basic financial data of BFN Actus Spółka z o.o.

PLN '000	31.12.2018*	31.12.2017	31.12.2016
Balance sheet total	56,129	54,785	54,772
Long-term investments	55,868	54,435	54,466
Equity	47,688	46,557	46,557
including: net financial result	1,113	(229)	(895)

** - data not audited

13.4. BNP Paribas Leasing Services Spółka z o.o.

On 15 February 2014, under an agreement to transfer the enterprise and assume debt, which was entered into by Fortis Lease Polska Sp. z o.o. ("FLP") and BNP Paribas Bank Polska S.A., the enterprise of FLP was transferred to BNP Paribas Bank Polska S.A. in return for the redeemed FLP shares accounting for 99.98% of its share capital. Thus, the leasing operations of FLP were incorporated into the structure of BNP Paribas Bank Polska S.A.

Pursuant to a Resolution of the Extraordinary Shareholders' Meeting of FLP dated 30 June 2014, the liquidation procedure was opened for FLP on 1 July 2014. In the first half of 2016, the entity did not carry out any operations but only took measures aimed to close the liquidation procedure.

On 1 July 2016, the Extraordinary Shareholders' Meeting of FLP adopted a resolution concerning the entity's further existence and changing its name from FLP to BNP Paribas Leasing Services Sp. z o.o. (the "Company"). As of the date of the resolution, FLP has no longer been in liquidation and it is getting ready for resumption of its operations.

The change in the Company's name was recorded in the National Court Register on 13 September 2016 and since then the Company has been able to use it. Its operations were launched in October 2016.

Table 57. Basic financial data of BNP Paribas Leasing Services Spółka z o.o.

PLN '000	31.12.2018	31.12.2017	31.12.2016
Balance sheet total	2,413,330	869,606	148,479
Long-term investments*	1,833,087	547,249	78,601
Equity	7,244	(11,280)	724
including: net financial result	(14,490)	(12,005)	(1,446)

* receivables due to the granted financing

Currently, the Company has 58 branches (54 opened in 2016, 2 in 2017 and 2 in 2018).

In cooperation with the Bank, the company offers its clients a wide range of leasing products. In the first half of 2018 it offered products for clients from the Micro and Personal Finance segments. In the second half of the year, the Bank

also took over the offering of financial products for SME and corporate clients from the Bank, which increased the assets in the second half of the year by 100%.

In November 2018, the decision was made to recapitalize the Company by the Bank, i.e. increase the share capital from PLN 20 thousand to PLN 40,000 thousand, which was confirmed by an entry in the National Court Register of 11 December 2018.

Therefore, as at 31 December 2018, the Company's share capital comprised 4 thousand equal shares with the total par value of PLN 40,000 thousand. Total assets amounted to PLN 2,413,330 thousand.

13.5. BNP Paribas Group Service Center S.A.

On 1 December 2015, as declared on 28 July 2015 to the Polish Financial Supervision Authority by BNP Paribas S.A., Bank BGŻ BNP Paribas purchased 100% of shares in LaSer Services Polska S.A. from BNP Paribas S.A. Personal Finance. On 20 June 2016, the General Shareholders' Meeting of LaSer Services Polska S.A. amended the entity's articles of association. Additionally, the name of the entity was changed to BNP Paribas Group Service Center S.A. The changes were recorded in the National Court Register on 12 September 2016.

The scope of the entity's business activity includes:

- **financial intermediation services** for Bank BGŻ BNP Paribas S.A., consisting in:
 - providing of information regarding the terms of loan agreements to applicants;
 - supporting the Bank's customers in completion of loan applications;
 - accepting the documents required by the Bank and filed by customers, verifying them in terms of correctness and completeness and submitting them to the Bank;
 - registering documents in the Bank's operating system;
 - informing customers of the credit decisions issued by the Bank;
- **services auxiliary to insurance brokerage**, consisting in administration and performance of group insurance contracts made by the Bank;
- **agency services for insurance services**;
- **providing IT services** for the development of applications as well as for banking and financial systems for entities from the BNP Paribas Group;
- **leasing** the Avaya telecom platform to the Bank;
- comprehensive **management of loyalty programs** for parties connected with the Bank;
- Providing **marketing services** for employees of the Bank's partners.

Table 58. Basic financial data of BNP Paribas Group Service Center S.A.

PLN '000	31.12.2018*	31.12.2017	31.12.2016
Balance sheet total	29,354	19,072	25,594
Short-term investments	22,536,	10,298	20,420
Equity	23,701	14,467	23,879
including: net financial result	12,621	18,406	16,554

* - preliminary data

13.6. BNP Paribas Financial Services Spółka z o.o. (former Raiffeisen Financial Services Polska Sp. z o.o.)

The company has been operating since 18 September 2001 (date of entry into the National Court Register). It became a part of the Bank BGŻ BNP Paribas SA Capital Group as a result of the acquisition of the core banking activities of Raiffeisen Bank Polska S.A. on 31 October 2018.

BNP Paribas Financial Services Sp. z o.o. provides financial intermediation services, including the sale of banking products to the Bank's clients (according to the Polish Classification of Activities PKD, the scope of activities described under number 66.19 Z). An area of the Company's operations is also the insurance agent's activity related to post-sale agency activities in connection with group insurance contracts concluded by the former Raiffeisen Bank Polska S.A. with insurers (corresponding to the scope of activities described by PKD under number 66.22 Z). In particular, agents focus on the verification of accrued insurance premiums, verification of calculated insurance premiums, checking the timeliness of premium payments by the Policyholder and informing the insurer about irregularities.

Financial intermediation services provided by the company include:

- offering consumer loans, credit cards, deposit products, additional products related to customer activity or other activities coordinated with the Bank and performing other activities related to banking operations,
- handling the Bank's loyalty program,
- reaching target group customers indicated by the Bank and presenting them with the offer of products listed in the contract,
- providing customers with reliable information regarding a given product, as well as regarding procedures and financial conditions relevant to the Bank's products, consistent with the current fees and commissions as well as within limits resulting from the Agreement,
- collecting up-to-date customer documents required by the Bank in order to apply for the Bank's product,
- checking documents submitted by customers in terms of formal and substantive content, in particular their validity, reliability and correctness, readability and completeness,
- conducting negotiations with selected entities within the scope of banking services offered by the Bank,
- verifying the manner and scope of customer representation and verification of persons authorized to make declarations of will on behalf of customers, including signature patterns,
- providing the Bank with client documentation related to the performed activity and other documents that the Bank may request in order to consider the client's application,
- determining the identity of clients, stating the authenticity of signatures submitted on documents required by the Bank, and certifying compliance with original documents and signatures submitted by customers.

Table 59. Basic financial data of BNP Paribas Financial Services Sp. z o.o.

PLN '000	31.12.2018
Balance sheet total	22,802
Short-term investments	22,244,
Equity	22,198
including: net financial result	1,153

13.7. BNP Paribas Solutions Spółka z o.o. (former Raiffeisen Solutions Sp. z o.o.)

The company has been operating since 9 July 2014 (date of entry into the National Court Register). It became a Part of the Bank BGŻ BNP Paribas S.A. Capital Group as a result of the acquisition of the core banking activities of Raiffeisen Bank Polska S.A. on 31 October 2018.

The Company's primary area of operations, according to the Polish Classification of Activities (PKD), covers brokerage activities related to the securities and commodity exchanges market - currency exchange office activity (PKD 66.12.Z), other activities supporting financial services, excluding insurance and pension funds - processing and settlement of financial transactions (PKD 66.19.Z), activities related to software (PKD 62.01.Z), activities related to consulting in the field of IT (PKD 62.02.Z), data processing, website management (hosting) and similar activities (PKD 63.11.Z), as well as the activity of insurance agents and brokers (PKD 66.22).

Operations in areas requiring permits or concessions will commence after they have been obtained.

Currently, the primary goal of Raiffeisen Solutions Sp. z o.o. is to provide individual and institutional clients with the widest range of currency exchange and fund transfer products via the Rkantor.com internet platform. Emphasis is placed on maintaining the highest level of security and speed, combined with low transaction costs.

Table 60. Basic financial data of BNP Paribas Solutions Sp. z o.o.

PLN '000	31.12.2018
Balance sheet total	76,442
Short-term investments	74,211,
Equity	3,638
including: net financial result	(772)

13.8. Campus Leszno Spółka z o.o.

Campus Leszno Sp. z o.o. (the Company) was established on 28 June 2018 by a company agreement in the form of a notarial deed and entered into the Register of Entrepreneurs of the National Court Register kept by the District Court in Warsaw, 12th Commercial Division of the National Court Register, under KRS number 0000728558.

The Company was separated from the Bank's structures, where it formerly functioned as the Training and Conference Center (CSK Leszno). The Company's activity still consists in providing training and recreational services as well as providing a training, hotel and catering base. The Company's operations include entertainment and recreational activities, activities related to the organization of fairs, exhibitions and congresses, and other business services.

The Company was established for an indefinite period. The bodies of the Company are: the General Meeting of Shareholders, the Supervisory Board and the Management Board. The Management Board is composed of the President of the Management Board.

The company's goal is to create a friendly space for both corporate and family events (including weddings), weekend and outdoor events, as well as the construction of a new development strategy based on offering exceptional quality services at affordable prices.

13.9. BGZ Poland ABS1 Designated Activity Company

BGZ Poland ABS1 Designated Activity Company ("SPV") based in Ireland, 3rd Floor Kilmore House, Park Lane, Spencer Dock, Dublin. A special purpose company with which the Bank carried out a securitization transaction for a part of the loan portfolio. The Group has no equity involvement in this unit nor is it affiliated with it organizationally. The subject of the company's activities is limited in the manner described in Article 92a Paragraph 4 of the Banking Law. The sole activity of this entity is the acquisition of receivables and the issuance of securities.

Pursuant to the concluded agreements, the Bank transferred receivables from the portfolio of loans and cash advances and car loans granted in the Polish currency to SPV. Subsequently, SPV issued securities and took out a loan, secured with the above-mentioned receivables.

SPV is consolidated for the purpose of preparing the consolidated financial statements of the Group.

14. KEY RISK MANAGEMENT

The Bank identifies, measures, monitors and manages the risks involved in its business operations.

In particular, **the following risks are identified by the Bank** in the risk monitoring, control and management process:

- credit risk;
- counterparty risk;
- market risk;
- interest rate risk in the banking portfolio;
- liquidity risk;
- operational risk;
- compliance risk;
- business risk (break-even risk);
- reputation risk;
- strategic risk;
- leverage risk;
- model risk;
- insolvency risk.

Material risks identified at the Bank:

- credit risk;
- business risk;
- market risk;
- interest rate risk in the banking portfolio;
- liquidity risk;
- operational risk;

and, considering overlapping risk categories:

- concentration risk;
- contagion risk.

In order to ensure that the aforementioned risks have been identified, defined and are subject to appropriate control and management, the Bank monitors all of the above mentioned risks and they are subject to periodical reviews.

The Bank has developed detailed procedures applicable to particular risks, defining the level of risk appetite. The risk appetite, within the limits set by the risk tolerance, defines the manner in which the Bank uses its risk-taking capacity by specifying the degree of risk exposure that a given business area may take for each type of risk. For non-measurable risks, the procedures are analysed and monitored within the prescribed time limits based on various qualitative methods.

All methods and procedures are reviewed periodically in terms of their appropriateness and reliability and are subject to validation tests, stress tests as well as back testing.

The risk management system of the Bank comprises mainly the Supervisory Board, the Management Board, dedicated committees (Audit Committee and Risk Committee at the level of the Supervisory Board, ALCO, Risk Management Committee, Retail Banking Risk Committee, Personal Finance Risk Committee, Credit Committee, Problematic Loan Committee, Products Approval, Services, Transaction and Businesses Committee, as well as Internal Control Coordination Committee), Risk Area department, Compliance Division as well as Security and Continuity of Business Management Department.

The key role in the risk management system at the Bank is fulfilled by the Management Board, which defines the risk policy, risk appetite, and adopts the risk management principles in addition to the material risk limit policy and risk control procedures. The risk management principles are derived from the Risk Management Strategy defined by the Management Board and accepted by the Supervisory Board.

14.1. Credit risk

Credit risk is the risk of the Bank incurring a loss due to a failure to discharge obligations within the contractual time limits due to deterioration of the customer's creditworthiness or its loss.

The Bank's credit risk management system has been defined in the Credit Policy of Bank BGŻ BNP Paribas S.A. adopted by the Management Board. Detailed financing principles and criteria applicable to the product offering of each business line, types of available loans, objectives, financing terms and limits have been defined in the credit policies of each business line. It is the Bank's intention, in accordance with the criteria established in the credit policy, to cooperate with customers enjoying good reputation and a good economic and financial condition.

Additionally, the aforementioned credit policies specify detailed principles applicable to risk identification, measurement and acceptance, collateral securing repayment of the loan as well as customer monitoring during the term of the loan agreement.

The organization of the credit risk management process is brought into line with the business line structure at the Bank. A central role in the credit risk management system is performed by the Risk Division, which is an organizationally separate unit managed by a Member of the Management Board acting in the capacity of the Chief Risk Officer. Credit risk management activities are supported by the Risk Management Committee as well as the Retail Banking/Personal Finance Risk Committees.

The obligors' credit risk is assessed using rating and scoring classification systems in addition to the risk classification standards defined in IFRS.

Credit decisions are adopted in accordance with the decision-making model approved by the Management Board of the Bank and brought into line with the standards imposed by the BNP Paribas Capital Group. The decision-making model takes into account the structure of the business lines, determines the number of decision levels, the scope of their competence as well as the principles, criteria and conditions to be satisfied in the credit decision-making process. The value thresholds for the decision-making competence depend on such criteria as the customer segment, risk profile and the tenor. At each competence level, credit decisions are taken by two employees (two-man rule), namely a representative of the business line and a representative of the organizational unit responsible for customer and transaction risk assessment performed independently of the business line. For customers whose credit risk assessment is performed in accordance with simplified risk assessment principles or models, including scoring models approved by the Risk Management Committee or the Retail Banking/Personal Finance Risk Committees, credit decisions may be taken by one representative of the business line.

Credit risk management principles adopted by the Bank:

- 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 margin of safety,
- 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,
- the credit risk assessment is additionally verified by credit risk assessment personnel, independent of the business,
- the 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 customer and the transactions made with the customer are monitored transparently from the perspective of the customer, in a manner that strengthens the relationship between the Bank and the customer.

Subsidiaries of the Bank

The principles of the Bank's supervision over the credit risk generated by the activity of subsidiaries is specified in the "BGŻ BNP Paribas S.A. Credit Policy".

The Bank recommends, opines and accepts policies, principles and methodologies applied by its subsidiaries in terms of credit risk management.

In the Bank and its subsidiaries, credit risk management methods are applied in parallel, including:

- a rating system for Corporate Banking customers and Small and Medium Enterprises Banking;
- risk classification system according to IFRS standards;
- assessment of the creditworthiness of the Bank's joint clients and companies;
- a model for making credit decisions;

- the Bank's internal limits system for concentration risk, including limits on the portfolios of receivables of subsidiaries.

Debt restructuring and collection

In 2018, the Bank obtained a total of PLN 906.3 million of receivables, of which:

- PLN 519.2 million – as a result of debt collection activities (corporate entities and SME – PLN 322.6 million, micro enterprises – PLN 74.9 million, SME – PLN 15.7 million, Personal Finance – PLN 96.3 million, mortgages – PLN 25.4 million);
- PLN 169.2 million – as a result of portfolio restructuring;
- PLN 217.9 million – as a result of NPL portfolio sale.

14.2. Liquidity, currency and interest rate risks

Liquidity risk is defined as the risk of the Bank losing the ability to discharge its financial obligations, where liquidity is defined as the ability to:

- finance assets and meet the Bank's obligations on a timely basis in the course of its daily operations or in other conditions, without the necessity to incur a loss, whereas, as maintenance of liquidity is the Bank's top priority, optimization of liquidity costs is considered in the last place;
- obtain alternative funds and supplementary funds to those held at present if they are withdrawn early and/or not renewed, so as to meet the current or potential demand for funds from the current depositors, ensure sufficient resources for purposes of lending and discharging other potential obligations related to processing derivative transactions or collateral put up by the Bank;
- generate a positive balance of cash flows over a specified time horizon, regardless of macroeconomic developments, achievement of business plans and changes in the regulatory environment.

Interest rate risk is the risk of adverse changes in the Bank's financial performance or equity, driven by one of the following factors:

- changes in the repricing dates of the Bank's assets and the liabilities used for purposes of their financing (mismatch risk);
- changes in basis rates used for purposes of determining the interest rate for items with the same repricing dates (basis risk);
- changes in market rates of interest which affect the fair value of the Bank's open positions (interest rate risk); or
- customers exercising options embedded in banking products, which may be exercised as a result of changes in the market rates of interest (option risk).

Currency risk is the risk of adverse changes in the Bank's financial performance, driven by changes in market foreign exchange rates.

Liquidity, currency and interest rate risks are monitored using a formal system of limits and reports, implemented as part of dedicated risk management policies, accepted at the level of the Bank's Management Board. The system of limits comprises the majority of liquidity, currency and interest rate risk parameters analysed by the Bank.

The limits are defined with a view to ensuring that:

- the Bank satisfies the applicable supervisory requirements at a secure and optimum level;
- the desirable risk profile, as defined in the strategy adopted by the Bank, is maintained;
- they do not exceed the risk level acceptable to the BNP Paribas Group.

If a limit is exceeded, the unit responsible for maintaining the reported values below the limit is obliged to employ measures enabling reduction of the risk value in accordance with the procedures in place at the Bank. The information system used for purposes of risk management ensures collection of data concerning operations and transactions, along with their effect on the Bank's risk profile.

In its risk analyses, the Bank relies on scenario analyses and stress tests. These analyses are based both on theoretical changes in market and business parameters as well as customer behavior and actual market changes in the past.

The risk management policy of the Bank is aimed at ensuring that the employees in charge of risk management process supervision and handling have extensive practical experience and theoretical knowledge about the tasks performed, in addition to high morale. The procedures in place at the Bank enable control over correctness of realisation of their tasks .

The Bank's policy is based on the principle that the functions of business (direct entry into transactions), operations (transaction booking and clearing) and control functions (risk measurement and monitoring) forming part of the currency, interest rate and liquidity risk management process are fulfilled by separate, organizationally independent units. The scope of their responsibilities is clearly defined to determine their role and accountability in the risk management process. This enabled separation of business, control, risk reporting and operational functions in order to guarantee appropriate quality of risk control and operational processes in addition to ensuring that the results of control indicating that the risk level is too high generate appropriate response of the Bank's management.

The Bank has adopted risk control and management policies that determine the measures to be employed in crisis situations. The principles of crisis identification, the scope of measures to be employed as well as responsibilities necessary to mitigate the related risk and to implement corrective actions, were also defined.

Liquidity risk

The Bank operates in a free-market environment and is a participant in financial markets, specifically the retail, corporate and interbank markets, which offers a wide range of opportunities to control the liquidity level, but, at the same time, makes the Bank sensitive to crises in each of such environments.

The following types of liquidity are distinguished by the Bank:

- immediate liquidity (intraday) – present day,
- future liquidity – beyond the present day, additionally divided into:
 - current liquidity – within 7 days;
 - short-term liquidity – more than 7 days to 1 month;
 - medium- and long-term liquidity – over 1 month.

Liquidity risk is defined as the risk of the Bank losing its ability to:

- fulfil its payment obligations on a timely basis;
- secure alternative funds and supplementary funds to those held at present;
- generate a positive balance of cash flows within a defined time horizon.

The Bank's policy on liquidity risk management focuses on:

- sustainable, organic growth of the balance sheet (an increase in the value of assets has to be linked with a corresponding rise in the level of financing with the use of stable equity and liabilities) as well as off-balance sheet transactions and liabilities;
- limitation of the Bank's dependence on changes in external conditions and ensuring that in a local, global or Bank-affecting crisis the Bank will quickly be able to discharge its obligations without reducing the range of its services or initiating changes in its core business profile. If a crisis situation continues in the longer term, the Bank's policy focuses on maintenance of liquidity with possible changes in growth directions and introduction of costly business profile change processes;
- active limitation of the probability of adverse events which may have an effect on the Bank's liquidity. In particular, this concerns events which may affect reputation risk. In such case, the Bank will undertake actions aimed at restoring confidence of both customers and financial institutions as soon as practicable;
- ensuring high quality of liquidity management standards. Actions aimed at improving the quality of liquidity management at the Bank are its top priority.

Amounts due to customers, including medium- and long-term lines of credit and equity are the major sources of funding used by the Bank. Medium- and long-term lines of credit, including subordinated loans and the funds obtained in the process of loan portfolio securitization, are provided mainly by the BNP Paribas Group, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the Council of Europe Development (CED) Bank and other financial institutions.

The policy adopted by the Bank allows it also to use other sources of funding, to include own debt securities issue or structured transactions.

In order to limit the excess liquidity of the Bank, which was created after the acquisition of the Raiffeisen Bank Polska S.A. Core Business, in December 2018 part of the medium and long-term loans to the BNP Paribas Group in the

amount of PLN 2.9 billion was repaid. At the end of 2018, the Bank financed a portfolio of mortgage loans in CHF with funds in EUR and USD including medium- and long-term foreign exchange transactions.

Loan financing structure

The Bank limits the risk of financing, which is associated with the risk of having insufficient stable sources of financing in the medium and long term and with the need to incur an unacceptable level of losses.

The Bank's loans are financed mainly with the use of current and term deposits made by customers and it is the Bank's intention to maintain a stable relationship between these items and with the use of funds deposited in the accounts of non-banking institutions, which is presented in the below table:

Table 61. Structure of loan portfolio financing

in PLN million	31.12.2018
Net loans and advances	71,287
Total sources of funding	92,384
Customer deposits, including:	87,709
- retail customers	52,146
- corporate	35,413
- other financial institutions	31
Long-term lines of credit	2,615
Debt securities issued	2,179

The Bank's loans in foreign currencies are financed with the use of customer deposits and - in necessary – with the use of foreign currency exchange transactions. In case there is such a need, the Bank may use funds from medium- and long-term loans from the BNP Paribas Group, which provides stable funding to address shortages in EUR, USD and CHF.

As at 31 December 2018, the structure of open long-term lines of credit (including those obtained in the process of loan portfolio securitization) was as follows:

Table 62. Structure of loans from the BNP Paribas Group

in million	31.12.2018
CHF	150
EUR	200
PLN	560

Table 63. Structure of loans from the EBRD, EBI and EIB

in million	31.12.2018
EUR	80
PLN	2,458

Currency risk

The Bank's operations result in the occurrence of currency positions which are sensitive to changes in foreign exchange rates. At the same time, it is the Bank's intention to limit its exposure to currency risk resulting from the foreign currency products offered to customers. The Bank's activity on the foreign exchange market is limited and carried out with a view to generating a profit on short-term arbitrage positions.

The Bank's exposure to market currency risk is reduced through a system of limits. In accordance with the Bank's policy, the level of market currency risk is managed by the Financial Markets Division, which focuses on the intraday position and the end of day position. In order to ensure effective and precise currency position management, the Bank relies on an information system which provides up-to-date information concerning:

- the currency position;
- the global currency position;
- Value at Risk (VaR);
- daily gains/losses on currency position management.

The values of currency position in particular currencies, global currency position and VaR are limited and reported by the Financial and Counterparty Risk Division.

The Bank's currency risk is measured using Value at Risk (VaR), which denotes 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. VaR calculation for currency risk is based on the assumption that currency positions are held for one day. The quality of the VaR methodology is analyzed on a quarterly basis. The test 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.

Interest rate risk in the banking portfolio

The core business of the Bank, i.e. lending and accepting customer deposits, results in the occurrence of open interest rate risk positions, which are transferred from the business lines to a portfolio managed by ALM Treasury using a transfer pricing system.

For the purpose of interest rate risk management, the banking portfolio is divided in two sub-portfolios:

- standard portfolio, in which the interest rate risk arises from these instruments/items that do not generate uncertainty or variability, i.e. their exposure to the interest rate risk arises entirely from the parameters specified in the contract, e.g. a loan that cannot be prepaid;
- structural portfolio containing instruments/items:
 - whose parameters may vary depending on the client behaviour, economic environment, competition as well as items that may be only partially hedged, i.e. a loan that can be prepaid, savings accounts with interest that is not based on market rates, interest-bearing current accounts and deposits on demand;
 - non-interest bearing liabilities such as non-interest bearing current accounts and deposits on demand as well as equity;
 - capital investments and derivatives hedging the interest rate risk in this portfolio.

The following basic types of interest rate risk analyses are defined in the policy on interest rate risk adopted by the Bank:

- a mismatch between the repricing dates of assets and liabilities ("gapping"), collectively and by the main currencies for standard portfolio;
- a mismatch between the repricing dates of assets and liabilities ("gapping"), collectively and by the main currencies for total ALM Treasury portfolio;
- sensitivity of interest income to defined - expected and crisis - scenarios for shifting interest rate curves, assuming various interest rate curve scenario;
- sensitivity due to different reference rates (basic risk);
- average investment length of capital and non-interest bearing current accounts (structural elements);
- One Year Equivalent (OYE) – a measure of sensitivity of the fair value of the balance sheet, expressed as the nominal value of the annual transaction (item) with the same sensitivity.

The aforesaid analyses are the major component of the system used for purposes of mitigating the interest rate risk in the banking book. The analyses are performed for the relevant portfolios on a daily, monthly or quarterly basis,

depending on the type of analysis and the portfolio. Additionally, the Bank conducts sensitivity analyses for its banking portfolio, where the changes in interest rates are more considerable than those typically observed (stress tests).

The table below presents the cumulative interest rate gap for the banking portfolio as at 31 December 2018. Utilization of set limits is below the maximum values.

Table 64. Interest rate gap (in PLN million)

Term	Gap
1M	(9,353)
3M	166
6M	2,277
1Y	2,783
2Y	(541)
3Y	(1,421)
5Y	(2,180)
10Y	1,048

The average length of capital investment and non-interest bearing current accounts as at 31 December 2018 was 3.7 years.

The sensitivity of interest income at the offsets of interest rate curves by + 50bp as at 31 December 2018 is presented in the table below:

Table 65. Sensitivity of interest income (in PLN million)

1st year	2nd year	3rd year
38.3	65.2	77.1

14.3. Counterparty risk

Counterparty risk is the credit risk concerning the counterparty, with whom the transactions are concluded, and in case of which the amount of liability may change in time depending on market parameters. Thus, counterparty risk is related to transactions involving instruments the value of which may change in 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 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.

As 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 the assessment of customer creditworthiness performed in the same way as in the process of credit product offering. 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 regulated 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 has defined groups of products offered to customers depending on their expertise and experience. The Bank has transparent principles for securing the counterparty risk exposures.

14.4. Country risk

Country risk comprises all risks related to conclusion of financial agreements with foreign parties, where 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 its liabilities.

In 2018, the Bank continued its conservative policy concerning country risk. 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.

14.5. 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 management system

The Bank maintains and develops an operational risk management system that comprehensively integrates the management of individual types of operational risk in all areas of the Bank's operations. The objective of the operational risk management system is to ensure the safety of the Bank's operations by implementing effective mechanisms for identification, assessment and quantification, monitoring, control, reporting and taking actions aimed at reducing operational risk. Such measures take into account the structures, processes, resources and scopes of responsibilities for the said processes at various organizational levels within the Bank.

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, includes the organizational framework and standards for operational risk management. These documents address 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 standards 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 the recommendations and resolutions of the national financial supervision authorities and the standards adopted by the BNP Paribas Group.

In accordance with the Policy of operational risk management of Bank BGŻ BNP Paribas S.A., 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 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 that purpose, 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 day-to-day 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 Management (CoB) Department focuses on management of continuity of business.

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 Department is responsible for day-to-day compliance risk analysis as well as development of appropriate risk control techniques and their improvement.

Considering the elevated level of external and internal risks related to fraud and offence 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 the responsibility of the Fraud Management Department.

Risk identification and assessment

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 Policy of Bank BGŽ BNP Paribas S.A., 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 the assessment of materiality of the risk, which is understood as the scale and structure of the operational risk exposure, defining the degree of exposure to the operational risk (operational losses), where the structural dimensions selected by the Bank (key process areas) 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 stage of control mechanisms. The principles of the internal control system are described in the "Policy on internal control at BGŽ 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. 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 are organizational units from particular areas of banking and support areas,
- 2nd defence line, which are 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 i objective internal audit unit.

The Bank ensures internal control through independent monitoring of compliance with control mechanisms, including on-going verification and testing.

Control and monitoring

The Bank monitors periodically 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

In accordance with the applicable regulations, the Bank designates regulatory capital to cover the operational risk. The Bank uses the standard method (STA) for calculation. In the scope of subsidiaries of the Bank, on a consolidated basis, the requirements relating to these entities are determined according to the base indicator method (BIA).

Operational risk management in the Bank's subsidiaries

In accordance with supervisory regulations, the Bank supervises the operational risk related to the operations of its subsidiaries. Supervision is performed in the form of:

- the Bank's participation in developing and modifying operational risk management policies in its subsidiaries;
- providing with substantive support in the field of operational risk management methods by the Bank;
- participation of the Bank's representatives in selected activities in the field of operational risk management in subsidiaries;
- verification of compliance of operational risk management in subsidiaries with the strategy and policy of the Bank and the BNP Paribas Group.

As part of the implemented operational risk strategy and policy, subsidiaries of the Bank introduce, in particular, the principles of operational risk management and create organizational units (independent positions or functions) responsible for operational risk management. At the same time, they cooperate in this respect with the Operational Risk Department, ensuring the implementation of supervisory activities over the operational risk management processes in the Group. Moreover, the Bank's subsidiaries adopted the definitions of risks in line with the definitions in force at the Bank for the needs of operational risk management. In accordance with the requirements of supervisory regulations, the Bank records operational losses of its subsidiaries on the basis of information provided by these entities.

14.6. Legal risk

As at 31 December 2018, no proceedings had been instituted before courts, arbitration or public administration bodies with respect to the Bank's receivables or liabilities, the value of which would exceed 10% of the Bank's equity.

As at 31 December 2018 the total value of the litigation initiated against the Bank, as well as the total value of the litigation initiated 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 brought a last resort appeal against the aforesaid court decision on 25 April 2016. By a ruling issued on 25 October 2017, the Supreme Court quashed the verdict of the Warsaw Court of Appeal and referred the case for reconsideration. 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)

As at 31 December 2018 the Bank received 26 requests for settlement from companies (marchands), due to interchange fees paid due to the use of payment cards (the number of requests did not change since 31.12.2017 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 the defendant in (100) a hundred 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 or depriving the executory title of enforceability, as well as the return of the spread.

The total value of claims claimed in the abovementioned cases is PLN 33.02 million.

15. REPORT ON BANK BGŻ BNP PARIBAS'S COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

15.1. Statement of compliance with corporate governance principles in 2018

In accordance with § 70, par.6, point 5 of the Regulation of the Minister of Finance of 29 March 2018 concerning current and periodic information reported by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state (consolidated text: Journal of Laws of 2018, item 757), the Management Board of Bank BGŻ BNP Paribas S.A. presents the following information regarding compliance with corporate governance principles in 2018.

Corporate governance principles applicable to the Bank and the place where they are made available to the public

In 2018, the Bank has been bound by the "Principles of Corporate Governance for Supervised Institutions" of 22 July 2014, issued by the Polish Financial Supervision Authority (the "Principles of Corporate Governance"). The aforesaid principles were adopted by the Bank's Management Board and Supervisory Board in December 2014 and by the General Shareholders' Meeting in February 2015. They are available to the public on the website of the Polish Financial Supervision Authority at:

https://www.knf.gov.pl/dla_rynku/Zasady_ladu_korporacyjnego

The Bank's attitude with respect to the application of the Corporate Governance Principles was updated in 2018 and expressed in the Resolution of the Bank's Management Board dated 28 February 2018, subsequently confirmed by the Supervisory Board on 13 March 2018 and adopted by the General Shareholder's Meeting on 18 May 2018.

The Principles of Corporate Governance which were not applied by the issuer and the reasons for their non-application

The Bank has adopted the Principles of Corporate Governance with the following exceptions:

§ 8, point 4 – A supervised institution, when justified by the number of shareholders, should strive towards the participation of all shareholders in the General Shareholders' Meeting of the supervised institution, among others, through ensuring the possibility of active electronic participation in the General Shareholders' Meeting.

Justification:

The Bank's Statute does not provide for the possibility of a shareholder's active electronic participation in the General Shareholders' Meeting. As the majority of shares were and are held by the two shareholders (physically present at General Shareholders' Meetings), the Bank decided not to apply the principle that shareholders may participate in the General Shareholders' Meeting electronically.

As at 31 December 2018, 88.76% of the Bank's shares are held by two shareholders, who are physically present at the General Shareholders' Meetings. Therefore, the Bank will continue not to apply the aforementioned principle.

Information on principles applied by the Management Board and Supervisory Board and departures from the "Principles of Corporate Governance for Supervised Institutions" is available on the Bank's website:

<https://www.bgzbnpparibas.pl/relacje-inwestorskie/lad-korporacyjny/zasady-ladu-korporacyjnego-knf>

The Management Board of the Bank hereby declares that the Bank and its governing bodies complied with the adopted Principles of Corporate Governance in 2018. In the reporting period, the Principles of Corporate Governance adopted by the Bank were not violated.

Description of key characteristics of the internal control and risk management systems used by the issuer for purposes of preparation of financial statements and consolidated financial statements

The Bank's internal control system complies with the requirements imposed by the Polish supervisory authorities and is in compliance with the internal control policy in place at the BNP Paribas Group.

The Bank maintains and develops an internal control system appropriate for its organizational structure and comprising the Bank's organizational entities and the basic **organizational units, along with subsidiaries.**

The Bank applies an internal control management policy, approved by the Management Board of the Bank.

The objective of the Bank's internal control system is to support the decision-making processes to enable early risk identification, mitigation and control, to ensure:

- efficiency and effectiveness of the Bank's operations;
- reliability of the financial reporting process;
- adherence to risk management principles in the Bank,
- compliance of the Bank's operations with laws, internal regulations and market standards.

The internal control system is an element of the Bank's management system and consists of three lines of defence: control and risk control mechanisms, compliance control of the Bank's operations with legal and internal regulations as well as internal audit.

Internal control plays a key role in the risk management of processes taking place at the Bank. Individual units'/cells' risk management responsibility is a system of three independent lines of responsibility, known as "defence lines", namely:

- 1) the first line of defence: organizational units from particular areas of banking and support, responsible for implementing and supporting professional and honest behaviour in accordance with existing rules, standards and regulations. It is also responsible for the ongoing supervision, development and implementation of control mechanisms in operational processes, and for the detection, early warning and signalling of irregularities. The first line of defence is responsible for risk management in subordinate processes;
- 2) the second line of defence: organizational cells responsible for risk management, organizational units/cells independent from risk management on the first line of defence, and a compliance cell. These, taking into account the requirements set by supervisory authorities and business needs (including the risk appetite adopted by the Bank) create a framework and principles of risk management and control; the second line of defence monitors compliance with control mechanisms and is responsible for reports on performance, risk management and risk control;
- 3) the third line of defence is an independent and objective internal audit unit that verifies the proper functioning of the first and second lines of defence.

The control function consist of:

- 1) risk control mechanisms and control mechanisms;
- 2) independent monitoring of control mechanisms, mentioned in 1) above;
- 3) reporting within the control function.

The risk control mechanisms implemented within the first and second lines of defence are tailored to the Bank's specific needs and include, in particular, principles, limits and procedures of supervisory nature, functioning as part of the Bank's operations.

Functional control and permanent operational control is exercised in accordance with internal regulations adopted by the Bank and approved by the Management Board and the Supervisory Board. Permanent operational controls (*Fundamental Monitoring Points – FMP*) are obligatory aspects of the control system, which affect the process of management of the key risks previously identified through regular assessment.

The Bank has established an Internal Control Coordination Committee, which is an advisory body supporting the Management Board. The main task of the Internal Control Coordination Committee is to supervise the consistency, comprehensiveness and effectiveness of the internal control system and of the operational risk management processes. It also manages key risks related to the internal control system of the Bank and its subsidiaries, including the operational risk management, compliance risk and fraud prevention.

The Supervisory Board is supported by the Audit Committee in (among others) monitoring the effectiveness of the internal control system and by the Risk Committee in the field of risk management.

In addition to above-mentioned committees, the Bank has a Risk Management Committee, whose primary task is to monitor and supervise the main risks arising from the Bank's operations, including strategic aspects of credit risk, cross-sectional aspects of market risk and liquidity risk, counterparty risk and operational risk.

The objective of the risk management system is to identify, measure or estimate, monitor and manage the risks inherent in the Bank's operations. The key role in the risk management system at the Bank is fulfilled by the Management Board, which defines the risk policy and adopts the risk management principles in addition to the material

risk limit policy and risk control procedures. The risk management principles are derived from the Risk Management Strategy defined by the Management Board and accepted by the Supervisory Board.

The Bank has an Internal Audit Division which assumes responsibility for conducting internal audits. It is responsible for assessing, in an independent and unbiased manner, the appropriateness and effectiveness of the internal control system, as well as issuing opinions on the Bank's management system, including the effectiveness of the management of risks inherent in the Bank's operations. The Managing Director of the Internal Audit Division reports directly to the President of the Bank's Management Board. The Internal Audit Division regularly provides the Internal Audit Committee and the Supervisory Board with the findings of its internal audits, in particular, information on identified irregularities and issued recommendations.

The Bank has adopted an Accounting Policy developed in conformity with the International Financial Reporting Standards. Preparation of financial statements, periodic financial reports and management information is the responsibility of the Financial Accounting Division and the Management Accounting and Investor Relations Division, supervised by the Vice-President of the Management Board in charge of the Finance area. Financial statements are adopted by a resolution and approved for publication by the Management Board of the Bank.

A key role in the process of evaluation of the Bank's financial statements is played by the Internal Audit Committee, which monitors the financial reporting process, along with independence of the certified auditor and the entity authorized to audit financial statements, in addition to advising the Supervisory Board to accept or reject the annual financial statements. Once evaluated positively by the Internal Audit Committee and the Supervisory Board, the annual financial statements are presented to the General Shareholders' Meeting for approval.

Shareholders with a direct or indirect qualifying holding, along with the number of shares held, their percentage interest in the share capital, the resulting number of votes and their percentage share in the total number of votes at the General Shareholders' Meeting.

As at 31 December 2018, the following entities were the major shareholders of the Bank:

- BNP Paribas SA with its registered office in Paris (Boulevard des Italiens, 1675009 Paris, France) holding directly 95,360,238 shares of the Bank, representing 64.69% of the share capital of the Bank. The Core Business of BNP Paribas SA is carrying out banking activity and provision of banking services;
- BNP Paribas Fortis NV/SA with its registered office in Brussels (Rue Montagne du Parc 3, B-1000, Brussels, Belgium) holding directly 35,490,226 shares of the Bank, which represents 24.07% interest in the share capital of the Bank. The Core Business of BNP Paribas Fortis SA is carrying out banking activity and the provision of banking services.

Detailed information on the Bank's shareholders is available in Section 7. *Shareholder Structure*.

Shareholders with special control rights, including a description of such rights

The Bank's shares are ordinary bearer or registered shares (as at 31 December 2018, there were 67,005,515 registered shares, including four B-series shares). No special control rights are attached to the ordinary bearer shares.

On the other hand, registered B-series shares of the Bank (as at 31 December 2018: four shares) are preference shares with respect to payment of the full nominal 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, once the rights attached to the preference shares have been exercised, may be insufficient to cover the total nominal value of those shares.

Limitations with respect to exercising the voting rights, such as limitations with respect to exercising the voting rights by the holders of a specified portion or number of votes, time limitations with respect to exercising the voting rights or provisions pursuant to which (with the company's involvement) equity rights attached to securities are separated from the holding itself

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. Under Paragraph 10.4 of the Bank's Statute, one vote at the General Shareholders' Meeting is attached to each share.

Limitations on transferring the title to the issuer's securities

The Bank's Statute does not impose any limitations as to transferring the title to the securities issued by the Bank.

Principles applicable to appointment and removal of members of the management bodies as well as their powers, in particular the right to make decisions regarding the issue or buy-back of shares

Under Paragraph 21.1 of the Bank's Statute, the Management Board of the Bank is composed of four to twelve members and, effective from 1 January 2019, from four to ten members, and, effective from 1 January 2020, from four to nine members, appointed for a joint term of office which lasts for three years.

The Management Board is composed of the President, Vice-Presidents and/or Members of the Management Board, who are appointed, removed or suspended by the Supervisory Board. At least two members of the Management Board, including the President, should have expertise and experience enabling stable and prudential management of the Bank. At least half of the Management Board members need to possess in-depth knowledge of the banking market in Poland, i.e. need to be permanently residing in Poland, be fluent in Polish and have relevant experience on the Polish market, (Paragraph 21.2-21.4 of the Statute).

The Management Board manages the Bank's affairs and represents the Bank outside. The Bank's Statute does not confer any special rights in respect of the issue or buy-back of shares on the Management Board. A detailed description of the Management Board's procedures, including the scope of its powers, is provided in Paragraph 22.2 of the Bank's Statute.

Introduction of amendments to the issuer's statute

Any amendment to the Bank's Statute requires a resolution of the General Shareholders' Meeting and an entry in the Register of Entrepreneurs of the National Court Register. Amendments to the Statute in respect of the matters specified in Article 34.2 of the Banking Law of 29 August 1997 (consolidated text: Journal of Laws of 2016, item 1988, as amended) require consent of the Polish Financial Supervision Authority.

The Management Board's motions which aim to amend the Bank's Statute and those concerning other matters to be examined by the General Shareholders' Meeting, should be consulted upon with the Supervisory Board in advance.

Resolutions of the General Shareholders' Meeting to amend the Statute, in particular, change the Bank's name, registered office, business profile as referred to in Paragraph 5.2 of the Statute, increase or reduction its share capital, issue of convertible bond or bond with priority right to acquire shares of the Bank, subscribe warrants, liquidation or dissolution of the Bank, and the sale of all or part of the bank, require the majority of 3/4 of votes cast. A resolution regarding a merger of the Bank with another bank or another credit institution requires 2/3 of votes cast at the General Shareholders' Meeting (Paragraph 13.2 of the Statute).

In accordance with Paragraph 20.1.1m) of the Bank's Statute, immediately after the General Shareholders' Meeting adopting amendments to the Bank's Statute has been held, the Supervisory Board shall draft the consolidated text of the Statute and introduce other editorial changes **to the Statute, as specified in the relevant resolution of the General Shareholders' Meeting.**

Description of the procedures of the General Shareholders' Meeting and its key powers, including information on the shareholders' rights and the method of their exercising, in particular the principles set forth in the regulations of the General Shareholders' Meeting insofar as they do not result directly from the provisions of the law

In accordance with Paragraph 8.6 of the Bank's Statute, the General Shareholders' Meeting is convened by way of a notice published on the Bank's website and in the manner specified for reporting current information, in line with the regulations concerning public offering, conditions governing the introduction of financial instruments to organized trading and public companies, at least 26 days before the scheduled date of the General Shareholders' Meeting.

General Shareholders' Meetings are held in the Bank's registered office in Warsaw. General Shareholders' Meetings may be ordinary or extraordinary. The General Shareholders' Meeting is convened by the Management Board of the Bank. The Ordinary Shareholders' Meeting is held annually within six months of the end of each financial year (Paragraph 8.2 of the Bank's Statute).

The Extraordinary Shareholders' Meeting is convened when necessary by the Management Board at its own initiative, at the request of the Supervisory Board or a shareholder or shareholders representing in aggregate at least 1/20 of the share capital (Paragraph 8.3 of the Bank's Statute).

A shareholder or shareholders representing in aggregate at least 1/20 of the Bank's share capital may request that the Extraordinary Shareholders' Meeting be convened and particular items put on its agenda. The Extraordinary Shareholders' Meeting may be convened by shareholders representing at least a half of the Bank's share capital or at least half of the total number of votes at the Bank. The chairperson of the meeting is elected by the shareholders (Paragraph 8.5 of the Bank's Statute).

Under Paragraph 9 of the Bank's Statute, any matters raised by the Management Board to be discussed at the General Shareholders' Meeting need to be presented to the Supervisory Board in advance.

A shareholder or shareholders representing in aggregate at least 1/20 of the Bank's share capital may request that particular items be put on the agenda of the nearest General Shareholders' Meeting. Such items should be submitted in writing or in electronic form to the Management Board of the Bank, which subsequently presents them, together with its opinion, to the Supervisory Board. A shareholder's request including justification or a draft resolution concerning a proposed item on the agenda should be submitted to the Management Board of the Bank **at least 21 days before the scheduled date of the General Shareholders' Meeting (Paragraph 9.1, sentence 2, and Paragraph 9.2 of the Statute).**

Removal of an item from the agenda or non-consideration of an item placed on the agenda at the request of the Bank's shareholders requires a resolution of the General Shareholders' Meeting of the Bank, along with the consent of all the shareholders of the Bank who have submitted a request to place an item on the agenda of the General Shareholders' Meeting.

A General Shareholders' Meeting is valid regardless of the number of shares represented at such a meeting. In addition to the Code of Commercial Companies, the issues related to convening and functioning of a General Shareholders' Meeting are governed by the Bank's Statute, the Regulations of the General Shareholders' Meeting as well as the General Shareholders' Meeting notice.

The General Shareholders' Meeting should be held in compliance with the Code of Commercial Companies, the Banking Law, the Bank's Statute, Regulations and the Code of Best Practice. Under Paragraph 10 of the Regulations of the General Shareholders' Meeting, it is attended by Members of the Supervisory Board and Members of the Management Board who are able to provide answers to any questions asked during the General Shareholders' Meeting. If financial matters are to be discussed, the General Shareholders' Meeting should be attended by the certified auditor. The Rules of the General Shareholders' Meeting set forth detailed provisions applicable to election, including the election of the Supervisory Board, by way of voting in separate groups.

In accordance with the Code of Commercial Companies, the Banking Law and the Bank's Statute, the key powers of the General Shareholders' Meeting are:

- verification and approval of the Management Board's report on the activities of the Bank and the financial statements for the prior financial year;
- verification and approval of the Management Board's report on the activities of the Bank's Capital Group and the consolidated financial statements of the Bank's Capital Group for the prior financial year;
- adoption of resolutions to distribute profit or cover loss;
- acknowledgement of the fulfilment of duties by members of the Bank's governing bodies.

In addition, the General Shareholders' Meeting may adopt resolutions concerning:

- amendments to the Bank's Statute;
- appointment and dismissal of Members of the Supervisory Board;
- increases or reductions in the Bank's share capital;
- issue of convertible bonds and bonds with the pre-emptive right to take up the Bank's shares, and subscription warrants;
- redemption of shares and detailed terms of such redemption;
- merger or liquidation of the Bank, appointment of the liquidators and adoption of a liquidation procedure;
- development of the remuneration policy and determination of the amount of remuneration paid to the Members of the Supervisory Board;
- any issues proposed by the Supervisory Board or Management Board of the Bank;
- any issues proposed by the shareholders in accordance with the applicable laws and the Bank's Statute;
- other issues as provided for by the applicable laws and the Bank's Statute.

Composition and changes introduced during the last financial year, including a description of the procedures of the issuer's management, supervisory or administrative bodies as well as their committees

The composition of the Management Board and Supervisory Board of the Bank has been presented in Section 4 *Governing Bodies of Bank BGŻ BNP Paribas S.A.*

The Supervisory Board of Bank BGŻ BNP Paribas S.A. exercises permanent supervision concerning all the Bank's operations.

In addition to the powers and duties specified in the applicable laws and the Bank's Statute, the scope of the Supervisory Board's responsibilities includes i.a.: adoption of the annual financial plan of the Bank, appointment and removal of members of the Management Board, appointment of the certified auditor to audit the financial statements of the Bank and its Capital Group, development of the remuneration policy and determining the amount of remuneration paid to members of the Management Board, approval of the Bank's growth strategy developed by the Management Board, approval of transactions with related parties of the Bank which may not satisfy the arm's length conditions, drafting a consolidated text of the Statute immediately after the General Shareholders' Meeting adopting amendments thereto has been held as well as introduction of other editorial changes to the Statute, as specified in resolutions of the General Shareholders' Meeting.

The Supervisory Board exercises permanent supervision concerning the Bank's operations by evaluating the Management Board's reports on the activities of the Bank and its Capital Group as well as the financial statements of the Bank and its Capital Group for the prior financial year, as regards their compliance with accounting records and documents as well as facts, in addition to examining the Management Board's motions to distribute profits or cover losses.

The Supervisory Board of the Bank submits annual reports to the General Shareholders' Meetings, presenting the results of evaluation of the financial statements of the Bank and its Capital Group as well as the Management Board's reports on the activities of the Bank and its Capital Group for the prior financial year, along with the Management Board's requests regarding the distribution of profit. Additionally, the Supervisory Board assumes responsibility for oversight of internal control system implementation as well as assessment of the appropriateness and effectiveness of the internal control system in place at the Bank.

Furthermore, the Supervisory Board issues opinions on any motions and matters which require a resolution of the General Shareholders' Meeting.

Members of the Supervisory Board participate in the General Shareholders' Meeting.

In 2018, the Supervisory Board held 5 meetings and adopted 101 resolutions.

The Supervisory Board appoints internal committees out of its members:

- the Bank's Audit Committee;
- the HR and Remuneration Committee;
- the Nominations Committee;
- the Risk Committee.

The Bank's **Audit Committee** is responsible for supporting the Supervisory Board in monitoring of financial information reliability, monitoring of internal control system effectiveness, monitoring of external audit function as well as ensuring effectiveness of the Bank's internal audit function by supervising Internal Audit Department operations.

A detailed scope of duties and procedure of the Bank's Internal Audit Committee has been defined in its regulations adopted by the Supervisory Board.

In accordance with its powers, in 2018, the Committee analysed, i.a., financial statements of the Bank and the Group for 2017, 1st and 3rd quarter interim financial statements for 2018, the financial statement for the first half of 2018, operation plans of the Compliance Department, information on monitored recommendations and the implementation of the instructions of the Polish Financial Supervision Authority, reports on the activities of the Internal Audit Department, reports on audit function performance in the Brokerage Office, reports on Compliance Department operations and on compliance function performance in the Brokerage Office, the effectiveness assessment of internal control mechanisms and processes, changes introduced by IRFS 9 and IFRS 16. In addition, the Committee accepted audit and non-audit (i.e. tax and accounting advisory) services provided to the Bank by an entity authorized to audit financial statements, monitored compliance with the principle of independence and objectivity of the external auditor and the entity authorized to audit financial statements. It also supervised the work performed by external auditors.

The Committee is composed of at least three members of the Supervisory Board, including two independent members of the Supervisory Board.

Composition of the Bank's Audit Committee in 2018

- Mariusz Warych – Chairman
- Jarosław Bauc – Member
- Francois Benaroya – Member (from 13 March 2018)
- Jean-Paul Sabet – Member (until 13 March 2018, due to resignation)

The **HR and Remuneration Committee** supports the Supervisory Board in the fulfilment of its supervisory duties in the respect of human resource management by monitoring and overseeing key processes, specifically: succession plans, professional development of employees and remuneration policy.

A detailed scope of duties and procedures of the HR and Remuneration Committee has been defined in its regulations adopted by the Supervisory Board.

In fulfilment of its duties in 2018, the HR and Remuneration Committee, i.a., discussed changes in the Management Board composition, reviewed the degree of key objectives accomplishment by Members of the Management Board and determined the base amount of variable remuneration for 2017 for Management Board Members, determined the non-deferred part of variable remuneration and the percentage share of the financial instrument, became acquainted with the new terms and conditions for the employment of Management Board Members, discussed the principles and

amount of remuneration for new management board Members, employment and payroll information, information on the monitoring of variable remuneration for those holding managerial positions related to risk management and compliance with laws or internal regulations, analysed the variable components of remuneration for those responsible for internal control (i.e.: at the head of the internal audit unit, compliance unit, organizational units responsible for risk management at the second level), analysed issues regarding discretionary bonuses, implementation of objectives by Management Board Members in the previous year and setting goals for 2018, discussed matters of awards, remuneration policy of employees exerting a considerable influence on the risk profile of Bank BGŻ BNP Paribas S.A., the Regulations of assignment and payment of variable remuneration to Management Board Members, agreement changing employment contracts of Management Board Members. In addition, the Committee reviewed the remuneration policy, discussed the procedure for identifying employees with significant impact on the risk profile of Bank BGŻ BNP Paribas S.A.

The Committee is composed of at least two members of the Supervisory Board.

Composition of the HR and Remuneration Committee in 2018

- Jean-Paul Sabet – Chairman
- Francois Benaroya – Member (from 13 March 2018)
- Józef Wancer – Member
- Stefaan Decraene – Member (until 13 March 2018, due to resignation)

The task of the **Nominations Committee** is to support the Supervisory Board as regards assessing candidates' qualifications for members of the Bank's Management Board as well as the qualifications of candidates for members of the Supervisory Board, to define the scope of duties for candidates, as well as to define requirements as regards the candidates' knowledge, competences and anticipated commitment in terms of time necessary to perform the function; to prepare periodic reviews (at least once a year) as to the structure, size, composition and effectiveness of the Bank's Management Board, and to recommend changes in this respect to the Supervisory Board.

A detailed scope of duties and procedures of the Nominations Committee has been defined in its regulations adopted by the Supervisory Board.

The Committee is composed of at least three members of the Supervisory Board.

Composition of the Nominations in Committee 2018

- Jean-Paul Sabet – Chairman
- Józef Wancer – Member
- Francois Benaroya – Member

The Risk Committee's responsibility is to support the Supervisory Board in its fulfilment of supervisory duties in the risk management area, particularly including: giving opinion on the Bank's current and future ability to take risk, giving opinion on the risk management strategy in the Bank's operations prepared by the Management Board and on information from Management Board concerning execution of this strategy, supporting the Supervisory Board in supervision over implementation of risk management strategy in the Bank by executive employees, verifying whether prices of liabilities and assets offered to clients reflect in full the business model of the Bank and its risk strategy, and where these prices do not adequately reflect the risks in accordance the model and strategy - presenting to the Management Board recommendations on how to ensure the compatibility of prices of liabilities and assets with risk categories.

A detailed scope of duties and procedure of the Risk Committee has been defined in its regulations adopted by the Supervisory Board.

In fulfilment of its duties in 2018, the Committee discussed, i.a.: credit and operational risk dashboard, ALMT risk dashboard as well as market, liquidity, counterparty and capital requirements risk information, changes in the emergency liquidity plan and liquidity and stress tests in the Stress test procedure, changes to the Bank's Principles of capital management, updated list of Key Risk Indicators, information on the methodology for assessing the adequacy of liquidity resources and reviewing the ILAAP process at the Bank, information on legal risk,

update of Methodology of stress test analysis of interest rates, FX rates, liquidity and capital sensitivity, reports on the internal capital adequacy assessment process (ICAAP), updating the ICAAP methodology, information on outsourcing risks, information on the implementation of a retail credit exposure, risk management policy, risk management strategy in the Bank, updating the Bank's Emergency Capital Plan, Operational Risk Mapping Report. The Committee also approved the tolerance level for risk models.

The Committee is composed of at least three members of the Supervisory Board.

Composition of the Risk Committee in 2018

- Francois Benaroya – Chairman (from 13 March 2018)
- Jean-Paul Sabet – Chairman (until 13 March 2018, due to resignation)
- Monika Nachyła – Member
- Mariusz Warych – Member

Diversity policy for supervisory, managing and administrative bodies

The diversity policy is described in the chapter 3.3 *Diversity Management* of the CSR report presenting non-financial information of Bank BGŻ BNP Paribas S.A. and Bank BGŻ BNP Paribas S.A. Capital Group for the year 2018 as well as in chapter 17. *Corporate Social Responsibility (CSR)* of this Report.

15.2. Information concerning the Bank's compliance with the recommendations and principles of the Best practices for WSE listed companies 2016

Since 1 January 2016, the Bank has been bound by the “*Best Practices for WSE Listed Companies 2016*”, introduced by the Warsaw Stock Exchange under Resolution No. 26/1413/2015 of the Board of the Warsaw Stock Exchange, dated 13 October 2015.

The *Best Practices for WSE Listed Companies 2016* is available on the Warsaw Stock Exchange website at: https://static.gpw.pl/pub/files/PDF/RG/DPSN2016_GPW.pdf.

In its Resolution No. 7/BZ/3/2016 of 20 January 2016, the Bank's Management Board adopted the principles of corporate governance described in the “*Best Practices for WSE Listed Companies 2016*”, except for the recommendation IV.R.2. and principles I.Z.1.16., I.Z.1.20., IV.Z.2. and (in part) V.Z.5. Additionally, it was assumed that principle I.Z.1.10. and III.Z.6. and recommendation IV.R.3 do not apply to the Bank.

Under Paragraph 29.3 of the Regulations of the Warsaw Stock Exchange, on 26 January 2016, the Bank published a report on its non-application of some detailed principles described in the “*Best Practices for WSE Listed Companies 2016*”.

Based on information provided by the appropriate organisational units, an analysis of the application of “*Best practices for WSE listed companies 2016*” in the year 2018 was carried out.

The current status of applying “*Best practices for WSE listed companies 2016*” is that the Bank does not apply recommendations IV.R.2 and principles I.Z.1.16, I.Z.1.20, IV.Z.2, and (in part) V.Z.5. Additionally, principles I.Z.1.10, III.Z.6 and recommendation IV.R.3 do not apply to the Bank.

Information policy and communication with investors

[I.Z.1. A company should operate a corporate website and publish on it the following information, in a legible form and in a separate section, in addition to the information required under the legislation: (...)]

I.Z.1.10. *financial projections - if the company has decided to publish them at least in the last 5 years, including information about the stage of their implementation*

Principle I.Z.1.10. does not apply.

Comment: the Bank does not publish financial projections.

I.Z.1.16. *information about the planned transmission of a general shareholders' meeting, not later than 7 days before the date of the general shareholders' meeting*

Principle I.Z.1.16. is not applied by the Bank.

Comment: Neither the Statute nor the Regulations of the General Shareholders' Meeting provide for the transmission of General Shareholders' Meetings. Furthermore, the relatively low free float shares on the Warsaw Stock Exchange and low interest in them justify the Bank's non-application of the aforesaid principle.

I.Z.1.20. *an audio or video recording of a general shareholders' meeting*

The Bank does not apply principle I.Z.1.20.

Comment: see Principle I.Z.1.16. Additionally, transmitting and recording meetings necessitates the application of appropriate technical solutions, which translates into additional costs of organization of general shareholders' meetings.

Systems and internal functions

III.Z.6. *If an internal audit function was not established in the company, the audit committee (or supervisory board if it is fulfilling the audit committee function) makes an annual assessment of whether it is necessary to establish such a function.*

The principle III.Z.6. does not apply.

Comment: In the organizational structure of the Bank, the internal audit function was established and the Audit Committee was appointed at the Supervisory Board.

General shareholders' meeting and relations with shareholders

IV.R.2. *If justified by the structure of shareholders or expectations of shareholders notified to the company and, if the company is in a position to provide the technical infrastructure necessary for a general shareholders' meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general shareholders' meeting using such means, in particular through:*

- 1) *real-time broadcast of the general shareholders' meeting;*
- 2) *real-time bilateral communication whereby shareholders may take the floor during a general shareholders' meeting from a location other than the general shareholders' meeting;*
- 3) *exercise of the right to vote during a general shareholders' meeting either in person or through an attorney.*

Recommendation IV.R.2. is not applied by the Bank.

Comment: Neither the Statute nor the Regulations of the General Shareholders' Meeting provide for transmission of General Shareholders' Meetings. Furthermore, the relatively low free float shares on the Warsaw Stock Exchange and low interest justify the Bank's non-application of the aforesaid recommendation.

IV.R.3. *Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.*

Recommendation IV.R.3. does not apply.

Comment: The Bank's shares are listed on Warsaw Stock Exchange only.

IV.Z.2. *If justified by the structure of shareholders, company should ensure publicly available real-time broadcasts of general shareholders' meetings.*

Principle IV.Z.2. is not applied by the Bank.

Comment: Neither the Statute nor the Regulations of the General Shareholders' Meeting provide for transmission of General Shareholders' Meetings. Furthermore, the relatively low free float shares on the Warsaw Stock Exchange and low interest in them justify the Bank's non-application of the aforesaid principle.

Conflict of interest and related parties transactions

V.Z.5. *Before the company concludes a significant agreement with a shareholder who holds at least 5% of the total vote in the company or with a related party, the management board should request the supervisory board's approval of the transaction. Before giving its approval, the supervisory board should evaluate the impact of the transaction on the interest of the company. The foregoing obligation does not apply to typical transactions and transactions at arm's-length made as part of the company's operations between the company and members of its group. If the decision concerning the company's significant agreement with a related party is made by the general shareholders' meeting, the company should give all shareholders access to information necessary to assess the impact of the transaction on the interest of the company before the decision is made.*

Principle V.Z.5. is partially applied by the Bank with comment.

Comment: The principle is applied in part, insofar as specified in Paragraph 20.1.1k) of the Bank's Statute, whereby the Supervisory Board's consent for the entry into a transaction with the Bank's related party is required for transactions which cannot be classified, in aggregate, as typical transactions concluded on arm's length terms in the course of the Bank's daily operations. However, no such principle applies to significant agreements with a shareholder holding 5% of the total number of votes or a related party.

16. INFORMATION ON CERTIFIED AUDITOR

On 21 September 2017, acting pursuant to Paragraph 20.1.1g) of the Bank's Statute and in conformity with the applicable laws and professional standards, the Supervisory Board of the Bank prolonged, for the duration of two years, the existing agreement concluded on 12 June 2015 with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office at al. Jana Pawła II 22 in Warsaw 00-133 ("*Deloitte*") as the entity authorized to audit the separate financial statements of Bank BGŻ BNP Paribas S.A. and the consolidated financial statements of the Capital Group of Bank BGŻ BNP Paribas S.A.

Deloitte is listed by the National Council of Statutory Auditors, as an entity authorized to audit financial statements, under the number 73.

Deloitte is obliged to deliver the following services:

- auditing the annual financial statements of the Bank and the annual consolidated financial statements of the Capital Group of the Bank, in accordance with International Financial Reporting Standards and International Accounting Standards for the years 2018-2019;
- reviewing the interim (semi-annual) financial statements of the Bank and the Capital Group of the Bank, according to the rules and regulations for listed companies for the years 2018-2019.

The agreement with Deloitte will be concluded for the period necessary to carry out the above-mentioned works.

Table 66. Auditor's fees by service type

PLN '000 (including Vat)	12 months ended 31.12.2018			12 months ended 31.12.2017		
	Bank	Subsidiaries	Total	Bank	Subsidiaries	Total
Statutory audit of financial statements	1,310	148	1,458	584	60	644
Other assurance services	2,052	18	2,070	1,342	106	1,448
Tax advisory services	-	1	1	59	-	59
Other services	-	268	268	15	197	212
Total	3,362	435	3,797	2,000	363	2,363

The fees related to other assurance services include remuneration of the auditor for reviewing of the interim financial statements as well as reviewing and auditing of the reporting packages for consolidation purposes of BNP Paribas Group.

17. CORPORATE SOCIAL RESPONSIBILITY (CSR)

„In a changing world responsibility counts”

Responsibility is an indispensable element of the organisation’s development strategy. The Bank’s approach to the issue is very comprehensive and includes responsibility towards customers, shareholders, regulators, employees and everyone who could be influenced by the Bank’s decisions. Bank BGŻ BNP Paribas’ strategy of Corporate Social Responsibility (CSR) is consistent with the CSR Strategy of the BNP Paribas Group and consists of 12 commitments grouped into four major areas: economic responsibility, responsibility in the workplace, social responsibility and environmental responsibility.

The primary areas of the Bank’s responsibility are: long-term financing of the economy and building long-term relationships with clients in line with ethical principles; a responsible approach to employee development; increasing the availability of products and services; openness to customer needs and local community initiatives; limiting the negative impact of operations; pro-ecological products and services, and the promotion of eco-attitudes.

I. Economic responsibility

A sustainable approach entails the long-term financing of the economy and building long-term relationships with clients and other stakeholders in accordance with ethical principles. Thus, it is possible to maintain a balance between the quality of transactions and the expected short- and long-term profit.

Responsible financing for the economy

The Bank strives to ensure that the financing of economic development goes hand in hand with exerting a positive influence on stakeholders. Transactions are constantly monitored from the social, economic and environmental perspective. To this end, the following sensitive sectors were defined: power, coal, defence, forestry, nuclear energy and agri-food. Within these, transactions are examined in detail by a team of experts and assessed in terms of compliance with the principles of sustainable development.

In 2017, the BNP Paribas Group made a global decision to cease investing in the tobacco sector and to cease financing tobacco producers, growers and wholesalers. The new financing and investment rules result from BNP Paribas Group’s commitment to maintaining a positive impact on all stakeholders. As a result of the decision, in 2018 the Bank conducted the process of withdrawing from financing any entities within the tobacco sector.

Ethical responsibility

The Bank follows The BNP Paribas Group Code of Conduct. Employees’ ethical awareness is promoted and developed through various trainings. As a member of the Ethics Committee at the Polish Bank Association, the Bank pro-actively contributes to building sector responsibility. The Bank is also a partner and sponsor in the "Ethics in Finance" competition. Since 2016, the Bank has been supporting subsequent editions of the "Nienieodpowiedzialni" [Not Irresponsible] conference, dedicated to responsibility in the financial sector.

Responsible products and services

Social Leader Package

Responsible products and services are understood as those that meet the clients’ needs, and are available to everyone (including the excluded groups) and have a positive impact on the community. The flagship product in this sense, unique on the market, is the "Social Leader Package", a free of charge account for NGOs, which is widely recognized in the third sector. All necessary banking services are offered free of charge and the formalities are kept at a minimum (one agreement for all products). The package also provides the comprehensive assistance of a bank Relationship Manager and preferential conditions for services not included within the package. In the period from 2012 to the end of 2018, 16,434 accounts within the Social Leader Package were opened for non-profit organizations.

Financing for social enterprises

The BNP Paribas Group is a global leader in the financing of social enterprises. Bank BGŻ BNP Paribas was able to draw on the Group’s experiences and became the first bank in Poland to launch an offer for social enterprises. The arena for the activity of social enterprises in Poland is expanding at a fast pace. Therefore - together with NESsT, an international organization which invests in social enterprises - the Bank launched a pilot financing offer. The first project to receive financing was a social enterprise (listed in the NESsT Portfolio), "Siedlisko", from the Opolskie Voivodeship. "Siedlisko" provides a 24-hour care service for the elderly and chronically ill, and runs a catering company. The company’s professional staff conducts vocational education programs, creates jobs for young people with intellectual

disabilities, and provides work opportunities for those who suffer from long-term unemployment and who come from the local rural labour market.

This special offer is an expression of the Bank's appreciation for the activity of such enterprises and of support for these entities in the implementation of their social mission.

mamBONUS

Within the mamBONUS loyalty program, the Bank's clients may support the operations of the BGŻ BNP Paribas Foundation. In the process of financial transactions made with the use of credit cards, clients collect points which can be exchanged for various discounts/prizes or vouchers which support participants of the "Klasa" ("Class") scholarship program, implemented by the Foundation.

II. Responsibility in the workplace

Responsibility at the Bank is reflected mainly in creating an attractive work environment that supports professional development for the Bank's employees in addition to increasing their involvement. Their awareness of the benefits that stem from openness, respect for diversity and readiness for professional mobility is raised. The Bank puts great emphasis on the standards of the recruitment process, including recruitment through the Internal Labour Market that enables employees to develop their careers inside the organization. The Bank implements adequate procedures for: enabling employees to develop their career paths based on a diagnosis of their professional potential, analyses of the employees' development needs, competence development management as well as the development and implementation of the recruitment policy and succession plans.

Diversity

One of the key values at the Bank, included in Diversity Management Rules and CSR strategy, is to promote openness and respect for diversity. Diversity refers to many areas of the Bank's operations and concerns employees, shareholders, clients and local communities. It also encompasses cultural diversity. We believe that at an organization where diversity is respected and promoted, the risk of discrimination is minimized and a high level of cooperation is maintained. It has a positive effect on creativity, which translates into the level of achieved results. We promote diversity aspects within projects such as: Woman in Business (a program which supports future managers in assuming the role of a leader, exerting an increasing influence on the Bank's business strategy and readiness to advance), Professional Mobility Days, Standards of service for the disabled.

Management within this area is regulated in the Diversity Policy and Diversity Management Rules. A Diversity Officer is responsible for adherence to diversity management guidelines.

The Bank is a signatory of two important documents which regulate diversity management. The first of these is the Diversity Card: an international initiative supported by the European Commission which concerns, i.a., the prohibition of discrimination in the workplace and the involvement of all employees as well as business and social partners in positive activities. The second document is the ILO Global Business & Disability Network Charter, i.e. an agreement on the employment and working conditions of people with disabilities.

BEneFIT

In 2018, the Bank launched a well-being program called "BEneFIT", which aims to promote healthy nutrition and an active lifestyle as well as maintaining a proper balance between work and private life (work-life balance).

The program includes:

- The MyBenefit cafeteria platform,
- The Fitqbe well-being application,
- Additional free hours as part of the "Two hours for the family" program,
- A voluntary life insurance program,
- Accident insurance - paid entirely by the employer,
- Medical care for employees and their relatives,
- Vacation subsidies and additional vacation subsidies for children,
- Christmas gifts for children,
- MultiSport cards for employees, their children, partners and family seniors.

Retired employees may receive benefits for former employees and are invited to an annual Christmas party.

Building the image of the institution as a desirable employer (employer branding)

In 2018, the Bank continued its employer branding initiatives addressed to existing and prospective employees.

A Global People Survey (GPS) was conducted to assess the level of the employees' engagement and their perception of the employer. The survey was conducted for all business lines and support functions with a detailed analysis and discussion of results with executive directors and employees.

The results of the aforementioned surveys initiated numerous activities aimed to increase the level of involvement, satisfaction and motivation of employees. The Bank offers a wide range of internal and external training as well as development programs to its employees. These include: "Prestiż" Potential Development Program, Digital Ambassador Program, Leaders for Tomorrow Initiative.

In 2018, the Bank organised internships and apprenticeships dedicated to university students and graduates:

- "Postaw na rozwój" ("Focus on Development"): a 3-month paid internship program for second and higher year students, as well as university graduates;
- "Ambadorskie Duety" ("Ambassador Duo"): the aim of the program is to build the Bank's image of an attractive employer through close cooperation with universities.

The Bank's care for the highest quality of HR management has been recognized again: Bank BGŻ BNP Paribas received the Top Employer Polska 2018 title for its HR policy (consistent with the best market practices). The award is a confirmation of the Bank's positive role of an employer who, in a changing world, uses systematically collected knowledge to develop areas which require continuous improvement.

III. Social responsibility

The Bank's social responsibility encompasses steps to increase the availability of products and services, openness to the needs of clients and taking initiatives for local communities. The Bank focuses on activities supporting positive social changes, including counteracting social exclusion, as well as supporting education and culture. We are proud of the social involvement of our employees and of the numerous BGŻ BNP Paribas Foundation programs which offer educational support (and therefore strengthen the social capital).

Increasing the availability of products and services

Branch certification

A key aspect of accessibility from our perspective is enabling persons from vulnerable groups to use products and services independently and on an equal basis with other people. Our branches undergo an audit and certification process in terms of accessibility for people with physical disabilities, the visually impaired, hearing impaired, elderly, parents with children or people with special needs. In 2018 four branches of the Bank (three in Warsaw and one in Białystok) received the "Facility without barriers" certificates awarded by the Integration Foundation. In January 2019, a branch in Myślibórz received the same certificate.

Warsaw Investment without Barriers

The Bank's efforts to increase accessibility were recognised in 2018. The flagship branch of Bank BGŻ BNP Paribas, located in the capital, received the award for a service facility best adapted to the needs of the disabled in the "Warsaw Investment without Barriers 2018" Contest, organized by the Integration Foundation in cooperation with the City of Warsaw as part of the "Warsaw without barriers" project.

Accessibility initiatives

In order to best respond to the needs of vulnerable groups, as well as to teach and inspire, the Bank takes part in industry initiatives. In 2018, we joined the "Accessibility Partnership" - an initiative for the implementation of the "Accessibility Plus Program", launched by the Ministry of Investment and Development. We are also a partner of the "Accessible ATM" project which was implemented by a working group operating at the Polish Bank Association, dedicated to addressing the needs of people with disabilities.

Support for local initiatives

The Local Grants Program

The Local Grants Program, started in 2011, is a model of supporting socially responsible initiatives, performed by small local NGOs, with donations. The aim of the program is to increase the local society's quality of life through the involvement of Bank employees and enhancing the Bank's position of a trustworthy local partner. Frequently, such relationships turn into long-term cooperation between the Bank and a local organization. The Banks' employees give grants to selected organizations which are actively operating for real social change. Within 8 years of the program, grants worth over PLN 1 million have been donated. In 2018 the Bank gave 25 grants, each worth PLN 4 thousand.

Local Ambassador of the Bank

The Local Ambassador of the Bank (#LAB) is a new role and the first such program at Bank BGŻ BNP Paribas and the entire BNP Paribas Group. In September 2018, fifty employees of the Bank received the title of Local Bank Ambassador. Anyone who actively worked for the local community and was involved in its life could become one. The #LAB program encourages the Bank's employees to help others and to play an important social role. Local Ambassadors are provided with the support of experts from various fields. Since the beginning of the program, the Local Ambassadors have worked a total of 1,500 hours for local communities. They worked on socially important initiatives: at meetings with members of Third Age Universities they distributed 10,000 OK SENIOR passports, they conducted financial education lessons at schools, they mentored youth social projects. As part of this initiative, the Bank cooperates, i.a., with the Social Wolves organization, the creators of the "Exempt from theory" project, whose goal is to educate social leaders. The National Senior Research Institute is also our partner in this project and has created a Quality Book for the Quality Mark - OK SENIOR®.

“Szlachetna Paczka” (“Noble Gift”)

In 2018, appreciating the employees' previous involvement in the Noble Gift campaign, the Bank and the BGŻ BNP Paribas Foundation decided to support the initiative and to cooperate with the association. The Bank started a strategic partnership with Noble Gift for the period from November 2018 to December 2019.

A record number of ca. 2,000 volunteer employees became involved in the campaign and prepared packages for 106 families in need. The project was coordinated at the Bank by 100 leaders who were prepared for their role: they received support in areas such as training for the task, logistics, communication and finances (co-financing for packages).

The Bank prepared a social campaign "Helping is fun!". It showed the joy which comes from helping others in everyday life. Both volunteers and beneficiaries of the Noble Gift participated in the campaign.

The Bank was the main partner of the Noble Gift's Final Gala, which took place on 16 December 2018 and was broadcast live on TVN.

In addition, Bank BGŻ BNP Paribas supports the initiative financially. The Bank's clients contribute whenever they make non-cash payments. For each payment made by card or application, the Bank transfers 1 or 2 grosz to the Noble Gift. The details are described on the "Helping is fun!" campaign website: <https://www.pomaganiejestfajne.pl/>.

Employee social commitment and employee volunteering program

Bank BGŻ BNP Paribas offers many forms of social involvement to its employees. They are actively involved in volunteer work, but also participate in the implementation of the BGŻ BNP Paribas Foundation programs, such as the "I support all year-long" ("Wspieram cały rok") systematic philanthropy program, annual campaigns organized by the Foundation (e.g. "Krwinka" - "Blood Donation Day", "Dobre Kilometry" – "Good Kilometers") and various social activities undertaken by the CSR Department, the Foundation of the Bank and the employees themselves.

In 2018, a total of 3,220 employees were involved in these activities.

"You can count on me" (Możesz na mnie polegać) is the motto of an employee volunteer program at the Bank, coordinated by the CSR Department, with the support of the BGŻ BNP Paribas Foundation. The program is systemically being implemented and involves education, the creation of various operational options as well as substantive and financial support for employees' good ideas.

Each employee is entitled to two days of leave per year for volunteering activities. They may engage in individual volunteering (competence related activities, actions supporting a specific social organization, as well as participation in the BAKCYL project) and team volunteering (activities organized by a group of employees on their own or as part of the implementation of projects coordinated by the CSR Department and BGŻ BNP Paribas Foundation).

In 2018, 2,529 bank volunteers worked for 20,017 hours, including:

- 96 employees participated in individual volunteering and supported a social organisation of their own choosing;
- 60 volunteers conducted 187 classes for over 4,500 students as part of the BAKCYL project, an initiative launched by the Warsaw Institute of Banking, whereby bank employees act as volunteer trainers and teach finance classes addressed to primary, secondary and high school students;
- 128 employees participated in 26 volunteering projects addressed to 2,609 beneficiaries as part of the 6th edition of the Competition for Social Projects (a national grant Competition for Bank employees). The Competition winners receive funds for the implementation of their social assistance ideas, related to the environments in which they live and work, as well as the support of the CSR Department and the Foundation. Since 2011, over 600 employees have conducted 124 original volunteer projects in cooperation with local organizations.

- 160 employees (with their families and friends) planted flower meadows and renovated communal urban areas - (Blonia Mogilskie in Krakow and the Jazdów Estate in Warsaw) in May 2018, as part of the "Załączmy Nasze Miasta" ("Let's make meadows around us") social campaign. This project is a response to negative climate changes, air pollution and the low public awareness of these problems. The Bank's employees were involved in projects aimed at fighting air pollution and increasing the amount of green areas in cities. This volunteer project was coordinated by the Bank's CSR Bureau and the BGŻ BNP Paribas Foundation in partnership with the Łąka Foundation.

The BGŻ BNP Paribas Foundation

The Foundation's mission is to responsibly invest in people, ideas and projects. By conducting and supporting innovative initiatives in the fields of education, culture and social solidarity, we inspire and create a stimulating environment, thus contributing to the development of a civil society.

Since 2006, the Foundation has been involved in socially responsible projects in such fields as: education, culture, social solidarity. Those activities are social investments with the aim of solving important local problems and of supporting the development of a civil society. Within its statutory goals, the Foundation conducts its own programs and supports selected projects and organizations which play an important role in the building and maintaining of civil society. Furthermore, the Foundation coordinates initiatives which involve the Bank's employees and thus contributes to solving important social problems.

Class Scholarship Program

The Class ("Klasa") Scholarship Program is the most important initiative launched by the BGŻ BNP Paribas Foundation, the program has received numerous awards as one of the most effective educational and scholarship programs in Poland. The objective of the Program is to support talented teenagers from small towns/villages, who are in a difficult financial situation, by enabling them to attend prestigious high schools in five university cities, i.e. Warsaw, Wrocław, Krakow, Gdynia and Szczecin. In 2018 the Foundation launched the 16th edition of Class, accepting 42 new scholarship students to the Program. Since 2003, 700 junior high school graduates have received grants totalling over PLN 21 million.

Agritalents Scholarship Program

Since 2012 the Foundation has been conducting a second scholarship program, Agritalents. As part of the Program, the Foundation offers grants to the winners of the Agricultural Knowledge and Skills Contest in addition to a bridge scholarship awarded to best agriculture students. The objective of Agritalents is to improve the knowledge and skills possessed by young people, to prepare them for a future profession and thus, indirectly – to contribute to the development of the Polish countryside and stimulate innovation and the modernization of agriculture. Since 2012, over 300 young farmer talents have received support within the Agritalents program. In 2018 the Foundation awarded grants to 31 pupils and students as part of the 7th edition of the Program.

Dream Up Educational Program

Since 2015, the Foundation has been supporting the musical, personal and social development of children and teenagers from day-care centres located in the Praga district (Warsaw). The aim of the project is to create a long-term socio-cultural initiative in the district. In September 2018, a 2nd three-year edition of the project was launched in cooperation with the *Centre for Cultural Promotion - Southern Praga* ("Centrum Promocji Kultury Praga Południe"). Around 60 children and youth, aged 10-16, learn to play musical instruments and develop vocal skills under the watchful eye of instructors. The classes stimulate creativity, strengthen team work skills and teach the healthy expression of emotions. Among the participants are children from various backgrounds, including those at the greatest risk of exclusion. Such a formula favours social integration from an early age, including the integration of children belonging to national minorities (Belarus, Ukraine).

Dream Up is a program currently run by the BNP Paribas Group in 26 countries and initiated by the BNP Paribas Foundation in France. Solidarity with socially excluded groups and the idea of education through art, addressed to young people facing difficulties in their life, are the underlying assumptions of the Program.

"Wspieram cały rok" ("I support all year-long" program)

Voluntary salary deductions are a simple and convenient tool for individual philanthropy and a response to the needs of NGOs (systematic financial support). Since September 2017, every employee can declare a monthly deduction from their salary in order to contribute to a chosen objective: support for the Organization of the Year (chosen by employees through an annual vote) or additional support for scholarship holders of the BGŻ BNP Paribas

Foundation's Class Scholarship Program. The donor can transfer his payments to both causes or indicate a single one. The first Organization of the Year chosen by employees was the "Mali bracia Ubogich" Association, which cares for elderly people living alone. In 2018, close to 140 employees participated in the program.

Partnership Programs

"Wiedza do potęgi" ("Knowledge to the power")

In 2018, the BGŻ BNP Paribas Foundation in cooperation with the "Ocalenie" Foundation launched the *Knowledge to the power* program aimed at helping refugee youth to continue their education and find their way within the Polish education system. Program participants receive the support of volunteer tutors (trained by the "Ocalenie" Foundation), those who need it the most receive financial scholarships as well. The aim is to enable refugee youth to complete their current stage of education or to complete it with improved results. In 2018, 15 pupils aged 13-18 participated in the program, including pupils from Chechnya and the Ukraine.

English Club

The English Club project is the result of a multi-sector partnership between: JMP Flowers (a Bank BGŻ BNP Paribas client), a local social organization: "Towarzystwo Przyjaciół Stężycy" and the BGŻ BNP Paribas Foundation, which cooperate to support the clients' local development of education. In order to meet local society needs, English lessons were organized for junior secondary school pupils. The purpose of this initiative was to give equal educational opportunities to young people by enabling them to gain useful language skills. Since 2014 over 110 pupils have participated in e-learning classes, traditional classes and trips. Particular emphasis is put on developing practical language and communication skills. The most motivated participants get a chance to take part in a summer language camp.

„Spotkania z Muzyką" („Meetings with Music")

Since 2011, the BGŻ BNP Paribas Foundation has been supporting educational projects implemented by the National Philharmonic Orchestra as part of the Meetings with Music series. The Philharmony reaches children and teenagers in seven regions of Poland and presents outstanding musical performances with a detailed commentary explaining the art of sound to young audiences. This way, children from small towns, who have limited access to high culture on an everyday basis, are given the opportunity to experience classical music systematically. Thus, they are able to develop their own talent and new passions. In 2018 over 2,000 meetings were organised, which were attended by over 300,000 listeners.

Way to Harvard

In 2018, the Foundation was a strategic partner of the nationwide Way to Harvard project for the 2nd time. The goal of the initiative (launched by the Harvard Club of Poland) is to prepare young people for studies at Harvard and other prestigious foreign universities. The first stage is a competition during which the most talented and the most motivated candidates are selected. The winners go to Boston, visit Harvard University and participate in a monitoring program. During the latter, Harvard graduates share their experiences with them, help them understand the requirements, prepare an application and find the necessary financial support.

Cyclical social campaigns at Bank BGŻ BNP Paribas S.A.

"Dobre Kilometry" ("Good Kilometers")

The project has been organized annually by the Foundation since 2015. As part of the campaign, Bank employees and their relatives count the kilometres travelled during various sports activities (running, Nordic walking, cycling or rollerblading) for one month with the goal of reaching a certain distance together, as a group. Kilometres are then converted into financial resources and transferred to a noble cause chosen by employees. In the last 4 editions of the project, employees supported the "Our Children" Foundation (run by the Oncology Clinic at the Children's Memorial Health Institute), Ewa Błaszczuk's "Akogo?" Foundation, "We Give Children Strength" Foundation and the SOS Children's Villages Association, donating a total of PLN 40 thousand.

"Krwinka" ("Blood Donation Day")

The BGŻ BNP Paribas Foundation and the Bank have been supporting the campaign "Your blood - my life" ("Twoja krew – moje życie") since 2011 by organizing (in cooperation with Regional Blood Donation Centres), the annual "Krwinka" action. Employees from three Head Offices (Warsaw Kasprzaka, Warsaw Suwak and Kraków Awatar) can donate blood and register in the marrow donor database in specially adapted ambulances. In the past year 125

employees participated in the project and thus 38 litres of blood were collected. Since 2011, as many as 685 employees took part in nine editions of the project, collecting a total of 250 litres of blood.

Membership of BGŻ BNP Paribas Foundation in coalitions and partnerships

- **Membership in the Polish Donors Forum** (since 2009) - The Polish Donors Forum sees its role as an institution focusing on education and research involving financial and non-financial support to socially responsible initiatives. The Foundation's membership in the Forum is primarily the confirmation of the usefulness and transparency of its activities. It also creates the opportunity to participate actively in projects conducted by the Forum, and thus to create and develop the Polish NGO sector and its initiatives. In 2018, for the 2nd time, the Foundation became a partner of the nationwide Forum of Corporate Foundations, which was held on 17 October in Warsaw. Members of the foundation's board and employees actively participated. In addition, a representative of the Foundation participated in the international conference of the European Corporate Foundation Knowledge Exchange on 22-23 November, 2018 in Palermo.
- **The Foundation is a partner of the BAKCYL – Bankers for Financial Education of the Young** project (since 2013), coordinated by the Warsaw Institute of Banking.
- **Partnership at the Bridge Scholarship Program** (since 2013), the project is conducted by Fundacja Edukacyjna Przedsiębiorczości.
- **Annual partner of the Agricultural Knowledge and Skills Contest** (since 2012) organised by the top 8 agricultural universities.

IV. Environmental responsibility

The Bank strives to minimize its negative effect on the environment through the following three dimensions: limiting the negative impact of operations and promoting eco-attitudes among employees, providing responsible financing for the economy and customers, cooperation and involvement in cross-sectoral initiatives.

Minimizing the negative effect of operations

Carbon Reduction 2020

Since 2017 the Bank has been a participant of a BNP Paribas Group program, “*Carbon Reduction 2020*”, which aims to reduce CO₂ emissions per employee by 25% by the year 2020 (as compared to 2012). The program promotes energy efficiency through, i.a.: minimizing energy consumption and the number of business trips; the gradual introduction of a hybrid-car fleet; the plans for a new, eco-friendly Head Office; employees’ eco-initiatives. The project’s effectiveness is measured by the reduction of CO₂ emissions per employee.

Eco-Fleet

To minimize any negative impact on the environment, the Bank performs a number of Eco-Fleet projects. These include not only the replacement of cars with more ecological ones, but also a training project: Safe Driving Academy. Their goal is to raise awareness about road safety and improve driving techniques to reduce fuel consumption. In 2018, hybrid cars were introduced into the bank’s fleet, limiting the emission of harmful substances to the environment. They have been delegated to cities where air pollution is worst. In total, the Bank’s employees have 64 hybrid cars. The use of company cars is also reduced by using the car-sharing option, available in many provincial cities. The Bank also promotes the idea of car-pooling: traveling together to work to minimize traffic jams and reduce CO₂ emissions.

“Pasięka pod gwiazdami” (“Apiary under the stars”)

Since June 2017 three beehives have been located on the roof of Bank BGŻ BNP Paribas Head Office in Warsaw. The Apiary under the stars produces its own honey, in 2018 we managed to collect 90 kg. It is also the Bank’s contribution to a balanced urban ecosystem. The project is beneficial to plants on nearby plots, in parks and gardens. The creation of insect-friendly conditions translates into increased yields from nearby crops, affects the quality of fruit and plant seeds, and results in the increased biodiversity of our environment.

The apiary is taken care of by the Pszczelarium company in cooperation with Bank employees who have undergone specialised training.

Financing green investments

Renewable Energy Sources (RES)

Since 2008, the Bank has been financing small and medium renewable energy projects: wind farms and biogas plants, small hydropower plants and photovoltaic installations. The Bank specializes in financing the projects of small and medium Polish entities, including Polish farmers. The Bank’s team of renewable energy sources (RES) and

AGRO experts supports customers in the planning of eco-projects as well as the planning of projects which contribute to sustainable economy and the transformation of the Polish energy-policy.

Entities running or undertaking activities in the field of RES energy production may utilise the Green Energy Loan and, in the case of projects co-financed by EU subsidies or subsidised loans (e.g. The National Fund for Environmental Protection and Water Management), they may also use the "Unia+" Loan.

The Bank is actively involved in consultations and projects aimed at increasing energy efficiency and increasing the percentage of RES in Poland's energy balance. This includes support for prosumer renewable energy installations and a system of guaranteed tariffs for selected small installations (e.g. biogas plants and small hydro-electric power plants).

Eco-Leasing PoSEFF

In cooperation with the European Bank for Reconstruction and Development (EBRD), the Bank offers Eco Leasing PoSEFF to its customers. This product enables customers to introduce modern, energy-efficient solutions and technologies with the aid of leasing and to receive an environmental bonus that reduces the total cost of financing. Customers also receive free engineering support of PoSEFF experts and the leasing procedures are very simple.

Eco-Leasing provides financing for energy-saving technologies of up to EUR 250,000 for a period of 3 to 7 years. It can cover the costs of, i.a., investments in machinery and equipment which improve energy efficiency by at least 20%. This includes the purchase and replacement of machines for energy-saving ones, based on a fast analysis of energy savings or a free Energy Audit. Financing may also be provided for energy-efficient equipment selected from the List of Qualified Materials and Equipment available at www.polseff2-leasing.org. The product is available for small and medium enterprises, as recommended by the European Commission.

Photovoltaic installations

Since 2017 Bank BGŻ BNP Paribas has been offering an instalment loan to finance ecological energy sources. The product is addressed to retail customers and offers the financing of: photovoltaic panels, water heaters, heat pumps, recuperators, home-use wind farms. Borrowers are offered funding for a period of 3 to 120 months. The maximum loan amount is PLN 60,000. The offer is available through hundreds of the Bank's partners, including the leading market players involved in the sale and installation of high quality photovoltaic installations.

Thermo-modernization loans for housing communities

In January 2017, the Bank commenced cooperation with Bank Gospodarstwa Krajowego (BGK) regarding the Thermomodernization and Renovation Fund. The Fund offers thermomodernization loans to Homeowners' Association.

The Association Leader Package includes a free checking account, auxiliary accounts and a savings account, with access to electronic and telephone banking and online transfers in PLN, as well as two products with a bonus from BGK: the thermomodernization loan or the renovation loan.

An association whose application for a loan is accepted and which signs a contract with the Bank may obtain support from BGK: bonuses of up to 20% of the loan amount. BGK's decision is reached after verifying the scope of the investment, i.e. thermomodernization. BGK transfers the bonus to the Bank's account, paying off part of the capital. As part of an investment loan for the renovation or modernization of real estate, a homeowners' association (without its own contribution) may obtain financing of up to PLN 1 million. Those who receive a loan with a BGK bonus can obtain financing of up to PLN 1.2 million, for a financing period of up to 15 years. In 2018 the Bank granted financing to homeowners' associations for a total amount of approx. PLN 3.7 million.

Together for climate

In 2018, Bank BGŻ BNP Paribas became a partner of the Global Compact Network Poland and a partner of the anti-smog campaign "The first day without smog". The campaign aims to create a wide coalition and to spread awareness about the problem of smog and the available remedial actions. The campaign is a part of the Global Compact Network Poland Program: "SDG11 - Sustainable Cities".

During the UN climate summit - COP24, which took place in December 2018 in Katowice, five leading banks, including BNP Paribas, undertook a joint commitment to adjust their loan portfolios to global climate goals. The Banks want to minimize global warming by supporting the goal described in article 2.1.c of the Paris Agreement: "Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development".

The Bank among the leaders of the Polish CSR market

Awards and distinctions in the area of CSR received in 2018:

- BGŻ BNP Paribas as the most responsible bank in Poland. The Bank won 1st place in the "banking, finance and insurance" category and was listed 4th in the Responsible Companies Ranking.

- For the third time, the Bank received the “Srebrny Listek CRS Polityki”, awarded by the editors of the weekly magazine POLITYKA in cooperation with Deloitte (a consulting company), to the most responsible and socially involved companies.
- Once again, the Bank received the title of Top Employer Polska for an HR policy in line with best market practices.
- The Bank’s flagship branch, located in Marszałkowska Street Warsaw, received an award for the best adaptation to the needs of the disabled in the "Warsaw Investment without Barriers 2018" Competition.

CSR promotion and development initiatives

- Signatory of the Declaration of Sustainable Development Vision 2050 for Polish Business;
- Signatory of the Partnership for the Implementation of Sustainable Development Goals (SDGs) in Poland;
- Signatory of the Partnership for Accessibility - The Access Plus Program;
- Partner of the Global Compact Network Poland and the “Day without smog” campaign;
- Strategic partner of the “Wiosna” Association and the “Szlachetna Paczka” (Noble Gift) campaign;
- Partner of “Nienieodpowiedzialni” conference, raising the issue of ethics within the finance industry;
- Partner of „Etyka w finansach” contest organized by the Polish Bank Association;
- Partner of the Coalition for Polish Innovation;
- Partner of the Responsible Business Forum;
- Member of the Responsible Leadership Council;
- Member of the Male Champions of Change Club.

Non-financial reporting

Since 2010, the Bank has been collecting non-financial data and since 2011, the financial information contained in the Bank’s CSR reports has been presented in accordance with the GRI methodology.

17.1. Statement of non-financial information

Detailed CSR data and key non-financial information describing the Bank’s operations can be found in a separate document: "The CSR report presenting non-financial information of Bank BGŻ BNP Paribas S.A. and Bank BGŻ BNP Paribas S.A. Capital Group for the year 2018".

The report presents non-financial information regarding Bank BGŻ BNP Paribas S.A. and the Bank BGŻ BNP Paribas S.A. Capital Group, in accordance with the guidelines of the amended Accounting Act.

18. SPONSORSHIP AND CHARITY

Sponsorship policy

The primary and direct objective of the sponsorship policy adopted by Bank BGŻ BNP Paribas S.A. is to build and foster brand awareness and enhance a positive image of the Bank. Indirectly, sponsorship initiatives are aimed to strengthen the Bank's relationships with its customers. Due to its profile and growth strategy, the Bank is primarily searching for initiatives that enable it to communicate directly with customers representing its target groups. Thus, the Bank finds solutions which naturally link its products and services with potential customers.

Bank BGŻ BNP Paribas is part of the BNP Paribas Group which is the biggest sponsor of tennis in the world. Therefore offers regarding sponsorship of tennis events in Poland are given utmost priority by the Bank.

In 2018, the Bank organized the third edition of Dzieciaki Do Rakiety (Kids to Rackets) Project (the first edition took place in 2016 and the second one in 2017). The Project had two pillars: 1. – a cycle of outdoor events in holiday centres which were attended by more than 2,000 children, and 2. Tennis na WF (Tennis for PE) Program, in which over 600 schools participated.

The project aimed at development and popularization of tennis among children aged 5-12. An equally important goal for us was to change the way of tennis perception as an elite sports discipline available only to the chosen. We promoted tennis as an excellent alternative to virtual reality of tablets and computers. We also demonstrated values related to tennis, such as perseverance, independence, consistency and fair play. Thanks to conducting the cycle of unique events we managed to start relationships with local authorities and community.

Under the Project, we carried out events in seven popular Polish holiday locations: Świnoujście, Międzyzdroje, Władysławowo, Sopot, Karpacz and Zakopane. Additionally, 100 schools in Poland received equipment from us to introduce tennis elements to physical education (PE) classes while PE teachers received a specialist training in this respect.

In 2018 the Bank sponsored local tournaments, including:

- 3City Tennis Cup - amateur tennis tournament in the Tri-City, on the courts of Arka Gdynia,
- The Tennis Festival - a sport event for children in Poznań,
- The Tadeusz Sowiński Rotary Tennis Memorial organised by Rotary Club Olsztyn,
- 20th Tennis Tournament BGŻ BNP Paribas Zambrów Open,
- Tennis Tournament for the BGŻ BNP Paribas Cup in Wągrowiec,
- 2nd Santa Claus Tennis Tournament for children and youth in Starogard Gdanski,
- Tennis Day in Solec Kujawski,
- BGŻ BNP PARIBAS Second Open Tennis Championship of Białystok for the Cup of the President of the City,
- Tennis Tournament in Biskupiec Pomorski,
- Węgorzewo, Giżycko, Elbląg - local tennis tournaments.

For supporting Polish tennis, the Bank was awarded the title of "Gold Champ" during the 1st edition of The Champ Awards (a competition for Polish sport campaigns).

In addition, the Bank supports cultural events; in 2018, among others:

- The Bank co-founded the Wisława Szymborska Award: a competition organized by the Wisława Szymborska Foundation. The competition is international, every year a poetry volume published in the previous year is recognized. Poetry volumes originally published in Polish may be submitted for the Award, and candidates may be submitted by publishing houses, cultural institutions, literary media, chapter members and other persons.
- The Bank sponsored the inaugural concert of the 14th International Music Festival "Chopin and His Europe", a festival directed by Stanisław Leszczyński and organized since 2005 in Warsaw by the National Fryderyk Chopin Institute.

Charity policy

The Bank undertakes philanthropic activities and socially responsible initiatives, mainly through the BGŻ BNP Paribas Foundation. The Foundation's priorities include educational initiatives (e.g. supporting equal educational opportunities for young people running the risk of exclusion, as well as social solidarity), support for disadvantaged and vulnerable groups, building social capital in local communities, promoting volunteer work ("You can count on me" employee volunteer program) as well as developing the NGO sector (a grant program addressed to local and expert organizations). Philanthropic and social activity is a social investment, conducted in the form of long-term projects, which are subject to analyses regarding the social needs and periodic effectiveness assessments.

19. GROWTH PERSPECTIVES OF BANK BGŻ BNP PARIBAS S.A.

From the point of view of development perspectives for the Bank BGŻ BNP Paribas S.A. Capital Group in the coming years, the key event of 2018 was the conclusion of an agreement on 10 April by Bank BGŻ BNP Paribas S.A. with Raiffeisen Bank International AG and BNP Paribas SA regarding the acquisition of the Core Business of Raiffeisen Bank Polska S.A. (excluding activities in the area of mortgage loans for housing and non-housing purposes granted by RBPL, other credit exposures, as well as all legal relations between RBPL and six investment funds in liquidation, managed by FinCrea TFI S.A. until November 2017) by way of demerger of RBPL by separating its Core Business. The closing of the transaction took place on 31 October 2018. As a result, at the end of 2018, the Bank's market share in loans reached 6.0%, and in the deposit market 6.6%, and the Bank BGŻ BNP Paribas S.A. Capital Group was the sixth largest banking group in terms of assets in Poland, with a balance sheet total of PLN 109 billion.

The acquisition of Raiffeisen Bank Polska's Core Business is an important factor in the Bank's growth and thus is part of the "Fast Forward" strategy for 2018-2021. This acquisition strengthens the Bank's presence in large cities and in the affluent clients segment, and also enables the Bank to become one of the leaders in the Private Banking segment. In the area of SMEs, the acquired business with a strong distribution network, an innovative product platform and modern centralized customer service ensures that the Bank enters major players of the fast-growing and highly profitable segment.

Thanks to the acquisition, the position of Bank BGŻ BNP Paribas is strengthened among the largest banks in Poland, and active participation in the consolidation of the Polish banking sector enables the Bank to create a larger, more profitable and efficient bank that fully meets the growing needs of clients.

The assumptions related to the transaction provide for PLN 500 million gross of cost synergies between 2019-2021 (from 2021, PLN 350 million of recurring cost synergies per year) and gross restructuring costs in the amount of PLN 500 million in 2018-2019. Full implementation of the assumed cost synergies should allow reducing the level of the Cost / Income ratio to approximately 50% in 2021.

In 2019, the Bank will focus on the efficient operational merger of both institutions in order to take full advantage of the benefits of the acquisition. At the end of the first quarter, the rebranding of the Raiffeisen Polbank branch network is planned, combined with the change of the BGŻ BNP Paribas brand to BNP Paribas. In turn, an operational merger is planned for the fourth quarter of 2019.

Parallel to the ongoing integration program, the Bank will also continue activities aimed at achieving the objectives resulting from the "Fast Forward" strategy. The main assumption of the strategy is focus on the customer and digital transformation of products, services and processes, aimed at accelerating development and increasing profitability. In recent years, Bank BGŻ BNP Paribas has built a significant position on the market, but it still has the potential to grow in the main areas of activity:

- in the retail segment, the Bank implements a package of initiatives supporting further development of this area by redesigning the customer service process with a focus on comprehensive service in digital channels, optimization of network productivity, sales and remote service model and the use of advanced big data analytics to meet customer needs in a best possible way,
- in the microenterprise segment, the Bank aspires to be one of the first choice banks, focusing on creation of a new customer service path and Value Proposition for e-commerce and startup customers,
- in the corporate segment, the Bank strengthens its established position, focusing on the implementation of the new Value Proposition in the field of the e-banking system, investment banking and solutions supporting the international expansion of domestic companies.

The key priorities in 2019 will include:

- acquisition of new clients and increasing the number of bank accounts maintained, supported by the development of digital channels,
- increasing the number of products for customers, with emphasis on high-margin products and generating commission income,
- further improvement of the quality of services provided by the Bank,
- increasing employee satisfaction and involvement,
- increasing awareness of the BNP Paribas brand among potential customers.

The implementation of the above objectives will be supported by the transformation program implemented since 2017, aimed at changing the organization mainly from the technological side, both in relations with the client as well as in the sphere of organization of internal processes. One of the most important tasks of the program is to close the existing technological gap in relation to the main competitors.

Despite the challenges resulting from the adopted strategy, as well as existing and potential risk factors in the external environment, the Group positively assesses the prospects of business development in the coming years, expecting the increase in the scale of operations, improvement of results, profitability and efficiency.

20. SUBSEQUENT EVENTS

28.01.2019 Resolution of the Management Board regarding the implementation of assumptions in relation to 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.

21. STATEMENTS OF THE MANAGEMENT BOARD OF BANK BGŻ BNP PARIBAS S.A.

Fairness and reliability of the presented financial statements

The Management Board of Bank BGŻ BNP Paribas S.A. hereby declares that to the best of its knowledge:

- Separate financial statements of Bank BGŻ BNP Paribas S.A. for the period of 12 months ended 31 December 2018 and Consolidated financial statements of Bank BGŻ BNP Paribas S.A. for the period of 12 months ended 31 December 2018, while the comparative data was prepared in accordance with the applicable accounting principles, and they reflect in a true, reliable and clear way the financial position as well as the financial result of the Bank and the Bank's Capital Group.
- Management Board Report on the activities of Bank BGŻ BNP Paribas S.A. Capital Group in 2018 (including the Management Board Report on the activities of Bank BGŻ BNP Paribas S.A.) contains a true picture of the development and achievements and situation of the Bank's Capital Group, including a description of the basic risks and threats.

Information of the Management Board, prepared on the basis of a statement of the Supervisory Board or a supervising person, on the selection of the audit firm to audit the annual separate financial statements and the annual consolidated financial statements in accordance with the regulations

The Management Board of Bank BGŻ BNP Paribas S.A. declares that Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Warsaw ("Deloitte"), an entity authorized to audit financial statements, was selected pursuant to § 20 paragraph 1 point 1 g) of the Statute of Bank BGŻ BNP Paribas S.A. by the Supervisory Board of the Bank in accordance with the law, as an entity authorized to audit the consolidated financial statements of the Capital Group of Bank BGŻ BNP Paribas S.A. for 2018 and separate financial statements of Bank BGŻ BNP Paribas S.A. for 2018. Deloitte and the members of the audit team met the conditions for preparing an impartial and independent audit report on the annual financial statements and the audit report on the consolidated annual financial statements in accordance with applicable regulations, professional standards and professional ethics.

Relevant agreement for the review and audit of financial statements and review and audit of consolidation packages with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa was concluded on 12 June 2015.

On 21 September 2017, the Supervisory Board of the Bank prolonged, for the duration of two years, the existing agreement concluded on 12 June 2015 with Deloitte as the entity authorized to audit the separate financial statements of Bank BGŻ BNP Paribas S.A. and the consolidated financial statements of the Capital Group of Bank BGŻ BNP Paribas S.A. (information on the new contract is included in Chapter 14 *Information on certified auditor*). The extension of the contract is in line with the applicable regulations related to the rotation of the audit firm and the key statutory auditor and mandatory grace periods.

The Management Board of Bank BGŻ BNP Paribas declares that the Bank has a "Policy of selecting an audit firm at Bank BGŻ Paribas S.A." and "Policy of providing of permitted non-audit services in Bank BGŻ BNP Paribas S.A. by audit firm, by entities related to the audit firm and members of the audit firm network".

22. SIGNATURES OF MEMBERS OF MANAGEMENT BOARD OF BANK BGŻ BNP PARIBAS S.A.

13.03.2019	Przemysław Gdański <i>President of the Management Board</i>	<i>signed with the qualified electronic signature</i>
13.03.2019	Jean-Charles Aranda <i>Vice-President of the Management Board</i>	<i>signed with the qualified electronic signature</i>
13.03.2019	Daniel Astraud <i>Vice-President of the Management Board</i>	<i>signed with the qualified electronic signature</i>
13.03.2019	Philippe Paul Béziau <i>Vice-President of the Management Board</i>	<i>signed with the qualified electronic signature</i>
13.03.2019	André Boulanger <i>Vice-President of the Management Board</i>	<i>signed with the qualified electronic signature</i>
13.03.2019	Przemysław Furlepa <i>Vice-President of the Management Board</i>	<i>signed with the qualified electronic signature</i>
13.03.2019	Wojciech Kemblowski <i>Vice-President of the Management Board</i>	<i>signed with the qualified electronic signature</i>
13.03.2019	Kazimierz Łabno <i>Vice-President of the Management Board</i>	<i>signed with the qualified electronic signature</i>
13.03.2019	Jaromir Pelczarski <i>Vice-President of the Management Board</i>	<i>signed with the qualified electronic signature</i>
13.03.2019	Jerzy Śledziwski <i>Vice-President of the Management Board</i>	<i>signed with the qualified electronic signature</i>