CONSOLIDATED FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

Consolidated Group BNP Paribas Bank Polska S.A.

BNP PARIBAS

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SELECTED CONSOLIDATED FINANCIAL DATA

Selected consolidated financial data	in PLN '000		in EUR '000	
Statement of profit or loss	**12 months ended 31.12.2020**	12 months ended 31.12.2019	**12 months ended 31.12.2020**	12 months ended 31.12.2019
Net interest income	**3,060,070**	3,168,759	**683,937**	736,619
Net fee and commission income	**916,095**	819,937	**204,751**	190,605
Gross profit	**1,110,567**	872,955	**248,216**	202,930
Net profit	**733,095**	614,694	**163,849**	142,894
Total comprehensive income	**863,677**	598,766	**193,035**	139,195
Total net cash flows	**(1,127,889)**	1,407,756	**(252,087)**	327,251
Ratios	**31.12.2020**	31.12.2019	**31.12.2020**	31.12.2019
Number of shares (items)	**147,418,918**	147,418,918	**147,418,918**	147,418,918
Earnings (loss) per share	**4.97**	4.17	**1.11**	0.97
Statement of financial position	**31.12.2020**	31.12.2019	**31.12.2020**	31.12.2019
Total assets	**119,577,288**	109,954,142	**25,911,695**	25,819,923
Loans and advances to customers measured at amortised cost	**74,097,269**	71,836,643	**16,056,442**	16,869,002
Loans and advances to customers measured at fair value through profit or loss	**1,539,848**	1,974,396	**333,676**	463,636
Total liabilities	**107,546,761**	98,794,759	**23,304,750**	23,199,427
Liabilities due to customers	**90,051,004**	86,134,984	**19,513,523**	20,226,602
Share capital	**147,419**	147,419	**31,945**	34,618
Total equity	**12,030,527**	11,159,383	**2,606,944**	2,620,496
Capital adequacy	**31.12.2020**	31.12.2019	**31.12.2020**	31.12.2019
Total own funds	**15,748,450**	12,593,377	**3,412,596**	2,957,233
Total risk exposure	**84,447,701**	83,692,266	**18,299,320**	19,652,992
Total capital ratio	**18.65%**	15.05%	**18.65%**	15.05%
Tier 1 capital ratio	**13.55%**	12.80%	**13.55%**	12.80%

For purposes of data conversion into EUR, the following exchange rates are used by the Group:

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

- as at 31.12.2020 r. - 1 EUR = 4.6148 PLN
- as at 31.12.2019 r. - 1 EUR = 4.2585 PLN

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

- for the period from 1.01.2020 to 31.12.2020 - 1 EUR = 4.4742 PLN
- for the period from 1.01.2019 to 31.12.2019 - 1 EUR = 4.3018 PLN

Calculation of earnings (loss) per share was described in Note 16.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	12 months ended 31.12.2020	12 months ended 31.12.2019 (restated)
Interest income	4	3,602,796	4,188,083
Interest income calculated with the use of effective interest rate method		3,401,647	3,969,451
interest income on financial instruments measured at amortised cost		3,209,518	3,753,506
interest income on financial instruments measured at fair value through other comprehensive income		192,129	215,945
Income of a similar nature to interest on instruments measured at fair value through profit or loss		201,149	218,632
Interest expense	4	(542,726)	(1,019,324)
Net interest income		**3,060,070**	**3,168,759**
Fee and commission income	5	1,132,051	1,060,165
Fee and commission expenses	5	(215,956)	(240,228)
Net fee and commission income		**916,095**	**819,937**
Dividend income	6	9,669	6,007
Net trading income	7	748,390	682,415
Result on investment activities	8	29,081	(31,836)
Result on fair value hedge accounting	20	(11,077)	(4,385)
Net impairment losses on financial assets and contingent liabilities	9	(601,499)	(441,890)
Result on provisions for legal risk related to foreign currency loans	55	(168,156)	(32,113)
General administrative expenses	10	(2,137,605)	(2,467,937)
Depreciation and amortisation	12	(367,958)	(454,147)
Other operating income	13	323,586	182,705
Other operating expenses	14	(371,120)	(273,371)
Operating result		**1,429,476**	**1,154,144**
Tax on financial institutions		(318,909)	(281,189)
Profit before tax		**1,110,567**	**872,955**
Income tax expenses	15	(377,472)	(258,261)
Net profit		**733,095**	**614,694**
attributable to equity holders of the Group		733,095	614,694
Earnings (loss) per share (in PLN per one share)			
Basic	16	4.97	4.17
Diluted	16	4.96	4.17

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	12 months ended 31.12.2020	12 months ended 31.12.2019
Net profit for the period	**733,095**	**614,694**
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss upon fulfilment of certain conditions	**132,361**	**(15,183)**
Measurement of financial assets measured at fair value through other comprehensive income	163,408	(18,745)
Deferred income tax	(31,047)	3,562
Items that will not be reclassified to profit or loss	**(1,779)**	**(745)**
Actuary valuation of employee benefits	(2,196)	(924)
Deferred income tax	417	179
Other comprehensive income (net)	**130,582**	**(15,928)**
Total comprehensive income	**863,677**	**598,766**
attributable to equity holders of the Group	863,677	598,766

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	31.12.2020	31.12.2019
Cash and balances at Central Bank	17	3,421,877	4,658,171
Amounts due from banks	18	774,722	679,308
Derivative financial instruments	19	1,531,617	800,886
Differences from hedge accounting	20	531,793	228,120
Loans and advances to customers measured at amortised cost	21	74,097,269	71,836,643
Loans and advances to customers measured at fair value through profit or loss	22	1,539,848	1,974,396
Securities measured at amortised cost	23	23,361,022	17,916,645
Securities measured at fair value through profit or loss	23	371,900	241,754
Securities measured at fair value through other comprehensive income	25	10,228,560	7,953,358
Investments properties	26	-	56,577
Intangible assets	27	651,608	519,945
Property, plant and equipment	28	1,479,540	1,226,746
Deferred tax assets	38	745,606	976,748
Current tax assets		55,087	-
Other assets	30	786,839	884,845
Total assets		**119,577,288**	**109,954,142**
LIABILITIES	Note	31.12.2020	31.12.2019
Amounts due to the Central Bank	31	84,675	-
Amounts due to other banks	32	6,824,894	4,485,264
Derivative financial instruments	19	1,521,148	815,637
Differences from hedge accounting	20	542,719	224,218
Amounts due to customers	33	90,051,004	86,134,984
Debt securities issued	34	1,318,380	2,179,052
Subordinated liabilities	35	4,306,539	1,882,064
Leasing liabilities	29	968,749	602,192
Other liabilities	36	1,269,243	1,893,414
Deferred tax liabilities	38	-	8,535
Current tax liabilities		-	38,338
Provisions	37	659,410	531,061
Total liabilities		**107,546,761**	**98,794,759**
EQUITY			
Share capital	47	147,419	147,419
Supplementary capital	48	9,110,976	9,110,976
Other reserve capital	48	2,208,982	1,572,757
Revaluation reserve	48	255,833	125,251
Retained earnings		307,317	202,980
retained profit		(425,778)	(411,714)
net profit for the period		733,095	614,694
Total equity		**12,030,527**	**11,159,383**
Total liabilities and equity		**119,577,288**	**109,954,142**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

					Retained earnings		
	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained profit	Net profit for the period	Total
Balance as at 1 January 2020	**147,419**	**9,110,976**	**1,572,757**	**125,251**	**(411,714)**	**614,694**	**11,159,383**
Total comprehensive income for the period	**-**	**-**	**-**	**130,582**	**-**	**733,095**	**863,677**
Net profit for the period	-	-	-	-	-	733,095	733,095
Other comprehensive income for the period	-	-	-	130,582	-	-	130,582
Distribution of retained earnings	**-**	**-**	**628,696**	**-**	**(14,002)**	**(614,694)**	**-**
Distribution of retained earnings intended for capital	-	-	628,696	-	(14,002)	(614,694)	-
Management stock options*	-	-	**7,529**	-	-	-	**7,529**
Other adjustments	**-**	**-**	**-**	**-**	**(62)**	**-**	**(62)**
Balance as at 31 December 2020	**147,419**	**9,110,976**	**2,208,982**	**255,833**	**(425,778)**	**733,095**	**12,030,527**

* the management stock option programme is described in detail in Note 40

					Retained earnings		
	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained profit	Net profit for the period	Total
Balance as at 1 January 2019	**147,419**	**9,111,033**	**1,208,018**	**141,179**	**(408,214)**	**360,378**	**10,559,813**
Total comprehensive income for the period	**-**	**-**	**-**	**(15,928)**	**-**	**614,694**	**598,766**
Net profit for the period	-	-	-	-	-	614,694	614,694
Other comprehensive income for the period	-	-	-	(15,928)	-	-	(15,928)
Distribution of retained earnings	**-**	**-**	**364,739**	**-**	**(4,361)**	**(360,378)**	**-**
Distribution of retained earnings intended for capital	-	-	364,739	-	(4,361)	(360,378)	-
Costs of share issue	-	(57)	-	-	-	-	(57)
Capital resulting from the merger of entities	-	-	-	-	861	-	861
Balance as at 31 December 2019	**147,419**	**9,110,976**	**1,572,757**	**125,251**	**(411,714)**	**614,694**	**11,159,383**

CONSOLIDATED STATEMENT OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES:	Note	12 months ended 31.12.2020	12 months ended 31.12.2019
Net profit (loss)		**733,095**	**614,694**
Adjustments for:		**3,966,271**	**(288,932)**
Income tax expenses		377,472	258,261
Depreciation and amortisation		367,958	454,148
Dividend income		(9,669)	(6,007)
Interest income		(3,602,796)	(4,188,082)
Interest expenses		542,726	1,019,324
Change in provisions		126,450	106,771
Change in amounts due from banks	52	(105,680)	(53,350)
Change in assets due to derivative financial instruments		(1,034,404)	(182,930)
Change in loans and advances to customers measured at amortised cost	52	(1,954,634)	(867,648)
Change in loans and advances to customers measured at fair value through profit or loss		434,548	441,853
Change in amounts due to banks	52	2,108,035	911,940
Change in liabilities due to derivative financial instruments		1,024,012	132,437
Change in amounts due to customers	52	3,994,614	(966,098)
Change in receivables due to current income tax		89,970	(6,068)
Change in other liabilities and provisions due to deferred tax		(849,135)	(183,752)
Other adjustments	52	(9,540)	(65,576)
Interest received		3,053,982	3,924,615
Interest paid		(592,830)	(1,028,944)
Leasing fees for short-term leases not included in the valuation of the liability		5,192	10,174
Net cash flows from operating activities		**4,699,366**	**325,762**

CASH FLOWS FROM INVESTING ACTIVITIES:	Note	12 months ended 31.12.2020	12 months ended 31.12.2019
Inflows		**49,025,186**	**14,662,737**
Sale and redemption of debt securities	23,24,25	48,851,252	14,603,324
Sale of investment property		30,959	-
Sale of intangible assets and property, plant and equipment		133,289	53,406
Dividends received and other inflows from investing activities		9,686	6,007
Outflows		**(56,532,021)**	**(13,043,935)**
Purchase of debt securities	23,24,25	(56,160,854)	(12,539,134)
Purchase of intangible assets and property, plant and equipment		(371,167)	(504,801)
Net cash flows from investing activities		**(7,506,835)**	**1,618,802**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Inflows		**3,862,305**	**-**
Long-term loans received		3 862 305	-
Outflows		**(2,182,725)**	**(536,808)**
Repayment of long-term loans and subordinated debt		(1,193,888)	(403,043)
Repayment of leasing liabilities		(128,328)	(133,765)
Redemption of debt securities	34	(860,509)	-
Net cash flows from financing activities		**1,679,580**	**(536,808)**
TOTAL NET CASH AND CASH EQUIVALENTS		**(1,127,889)**	**1,407,756**
Cash and cash equivalents at the beginning of the period		**4,833,209**	**3,425,453**
Cash and cash equivalents at the end of the period	51	**3,705,320**	**4,833,209**
Effect of exchange rate fluctuations on cash and cash equivalents		57,021	1,667

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT BNP PARIBAS BANK POLSKA S.A. CAPITAL GROUP

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

The registered office of BNP Paribas Bank Polska S.A. is located at Kasprzaka 2, 01-211 Warsaw, Poland. The Bank is registered in Poland, by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register, under number KRS 0000011571. The duration of the parent company and other entities of the Group is unlimited.

In 2020, the name of the Bank did not change.

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

As at 31 December 2020, the headcount amounted to 8.844.90 FTEs in the Bank and 9.020.74 FTEs in the Group (as at 31 December 2019, the headcount amounted to 9.898.66 FTEs in the Bank and 11.255.30 FTEs in the Group).

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

The Bank operates mainly in Poland.

Composition of the Bank's Management Board as at 31 December 2020:

FULL NAME	FUNCTION HELD IN THE MANAGEMENT BOARD OF THE BANK
Przemysław Gdański	President of the Management Board
Jean-Charles Aranda	Vice-President of the Management Board
André Boulanger	Vice-President of the Management Board
Przemysław Furlepa	Vice-President of the Management Board
Wojciech Kembłowski	Vice-President of the Management Board
Kazimierz Łabno	Vice-President of the Management Board
Jaromir Pelczarski	Vice-President of the Management Board
Volodymyr Radin	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 2020:

- On 12 October 2020, Mr. Jaromir Pelczarski submitted a resignation from the position of the Vice-President of the Management Board of the Bank, with the effect from 31 December 2020.
- On 12 October 2020, the Supervisory Board appointed Mrs. Magdalena Nowicka as the Vice-President of the Bank's Management Board, with the effect from 1 January 2021 until the end of the current joint term of office of the Bank's Management Board members.

Composition of the Bank's Supervisory Board as at 31 December 2020:

FULL NAME	FUNCTION HELD IN THE SUPERVISORY BOARD OF THE BANK
Józef Wancer	Chairman of the Supervisory Board
Lucyna Stańczak-Wuczyńska	Vice-Chairman of the Supervisory Board Independent Member of the Supervisory Board
Jean-Paul Sabet	Vice-Chairman of the Supervisory Board
Jarosław Bauc	Independent Member of the Supervisory Board
Francois Benaroya	Member of the Supervisory Board
Stefaan Decraene	Member of the Supervisory Board
Magdalena Dziewguć	Independent Member of the Supervisory Board
Sofia Merlo	Member of the Supervisory Board
Vincent Metz	Member of the Supervisory Board
Piotr Mietkowski	Member of the Supervisory Board
Stéphane Vermeire	Member of the Supervisory Board
Mariusz Warych	Independent Member of the Supervisory Board

Changes in the Bank's Management Board in the period between 1 January and 31 December 2020:

- On 19 March 2020, Mr Michel Falvert, submitted a resignation from the position of the Member of the Supervisory Board of the Bank, with the effect from 19 March 2020.
- On 29 June 2020, the Ordinary Meeting of the Bank appointed Mr Vincent Metz 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 29 June 2020, the Ordinary Meeting of the Bank appointed Mrs Lucyna Stańczak-Wuczyńska as a Member of the Supervisory Board, with the effect from 1 December 2020 until the end of the current five-year joint term of office of the Supervisory Board members.
- On 29 June 2020, Mrs Monika Nachyła, submitted a resignation from the position of the Member of the Supervisory Board of the Bank, with the effect from 30 November 2020.

BNP Paribas is an entity belonging to the BNP Paribas Capital Group with its registered office in Paris.

As at 31 December 2020, the Capital Group of BNP Paribas Bank Polska S.A. comprised BNP Paribas Bank Polska S.A. as the parent company and its subsidiaries. The Bank's share in the capital of individual companies is shown in parentheses:

1. BANKOWY FUNDUSZ NIERUCHOMOŚCIOWY ACTUS SP. Z O.O. („ACTUS" 100%).
2. BNP PARIBAS TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A. („TFI" 100%).
3. BNP PARIBAS LEASING SERVICES SP. Z O.O. („LEASING" 100%).
4. BNP PARIBAS GROUP SERVICE CENTER S.A. („GSC" 100%).
5. CAMPUS LESZNO SP. Z O.O. (100%)
6. BNP PARIBAS SOLUTIONS SPÓŁKA Z O.O. (100%)
7. BGZ POLAND ABS1 DAC („SPV").

The Bank does not have any capital involvement in BGŻ Poland ABS1 DAC (SPV). The company is controlled by the Bank in connection with the control conditions contained in IFRS10.

In accordance with IFRS requirements, the consolidated financial statements include all subsidiaries as at 31 December 2020.

Approval of the financial statements

The present consolidated financial statements have been prepared as at 31 December 2020 and approved for publication by the Management Board of the Bank on 26 February 2021.

Separate financial statements of BNP Paribas Bank Polska S.A. have been prepared as at 31 December 2020 and approved for publication by the Management Board of the Bank on 26 February 2021.

Data included in the above-mentioned financial statements are presented for the financial year ended 31 December 2020 with comparative data for the financial year ended 31 December 2019.

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

2.1. Basis for preparation of the consolidated financial statements

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

2.2. Going concern

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

2.3. Statement of compliance with IFRS

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

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

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

New standards, interpretations and amendments to these standards that have already been issued by the International Accounting Standards Board (IASB) but not yet approved by the European Union

- **IFRS 17 Insurance Contracts, amendments to IFRS 17**, was published on 18 May 2017 with amendments issued on 25 June 2020 and planned effective date on 1 January 2023. IFRS 17 Insurance Contracts will replace IFRS 4 Insurance contracts, which allows insurance contracts to continue to be accounted for in accordance with the accounting principles in national standards and which, as a result, implies multiple different solutions. IFRS 17 requires consistent recognition of all insurance contracts. Liabilities arising from contracts will be recognised at present values instead of historical cost. The standard adoption is set to be conducted based on a full retrospective approach (if the entity would be unable to comply with full retrospective approach, an entity should use the modified retrospective approach or the fair value approach).

  The amendments are intended to:

  - reduce costs by simplifying requirements of the standard;

  - simplify the financial results explanation; and

  - ease the transition to the new standard by deferring the effective date of the standard to 2023 and introducing additional relief to ease the first-time adoption of IFRS 17.

- **Amendments to IAS 1 Presentation of Financial Statements** - classification of liabilities, was published on 23 January 2020 and on 15 July 2020 the effective date was postponed to 1 January 2023. The amendments relate to the presentation of liabilities in the statement of financial position. In particular, they provide clarification that the classification of liabilities as current or non-current should be based on the rights existing at the end of the reporting period. A prospective approach will apply to the amendments.
- **Amendments to IFRS 3 Business combinations** published on 14 May 2020 and are effective for annual periods beginning on or after 1 January 2022. The amendments update the reference in IFRS 3 to the Conceptual framework for financial reporting without changing the accounting requirements for business combinations.
- **Amendments to IAS 16 Property, plant and equipment,** published on 14 May 2020 and are effective for annual periods beginning on or after 1 January 2022. The amendments prohibit a company from deducting from the cost of acquisition or development of property, plant and equipment amounts received from the sale of items produced in preparation for the asset's intended use. Instead, the company should recognise income from the sales and the corresponding expenses in the income statement.
- **Amendments to IAS 37 Provisions, contingent liabilities and contingent assets,** published on 14 May 2020 and are effective for annual periods beginning on or after 1 January 2022. They specify which costs an entity should take into account in assessment whether a contract will result in a loss.

New standards, interpretations and amendments to the existing standards, that have already been issued by the International Accounting Standards Board (IASB) and approved by the European Union, but have not been effective yet and have not been implemented by the Group

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 15 - IBOR reform - Phase II,** published on 27 August 2020 and effective for annual periods beginning on 1 January 2021. The regulations published under Phase II of the IBOR reform relate to:

  - contractual cash flow modifications - the addition of a solution to IFRS 9 that will enable the recognition of contractual cash flow modifications due to the IBOR reform by updating the effective interest rate of the contract to reflect the transition to an alternative reference rate (there will be no requirement to derecognise or adjust the carrying amount of financial instruments); a similar solution applies to IFRS 16 for lessees' recognition of lease modifications;

  - hedge accounting - there will be no need to discontinue hedge accounting due to the changes required by the reform if the hedge meets the other criteria for hedge accounting; and

  - disclosures - entities will be required to disclose information about new risks arising from the reform and entity's management of the transition to alternative reference rates.
- **Amendments to IFRS 4 Insurance contracts - deferral of IFRS 9**, published on 25 June 2020 and are effective for annual periods beginning on or after 1 January 2021. The amendments provide two optional arrangements to reduce the impact of different effective dates for IFRS 9 and IFRS 17.

New standards, interpretations and amendments to the existing standards, that have been issued by the International Accounting Standards Board (IASB), approved by the European Union and are effective and have been implemented by the Group

- **Amendments to IFRS 9, IAS 39 and IFRS 17 - IBOR reform**, published on 26 September 2019 and are effective for annual periods beginning on or after 1 January 2020. The amendments provide temporary and specific exceptions from the hedge accounting requirements in IAS 39 and IFRS 9, which will allow companies to continue to comply with the existing requirements, assuming that existing benchmark interest rates do not change following the IBOR reform.
- **Amendments to IFRS 16 Leases - COVID-19 related rent concessions**, published on 28 May 2020 and are effective for annual periods beginning on or after 1 June 2020. The amendments provide for the option for lessees not to treat rent reductions as lease modifications if they are directly related to COVID-19 and meet certain conditions.
- **Amendments to IFRS 3 Business combinations,** published on 22 October 2018 and are effective for periods beginning on or after 1 January 2020. The amendments to IFRS 3 specify and clarify the definition of a business. They also allow for a simplified assessment whether a group of assets and activities constitutes an asset group rather than a business. A prospective approach will apply to the amendments.
- **Amendments to IAS 1 and IAS 8 - Definition of term 'material',** published on 31 October 2018 and are effective for annual periods beginning on or after 1 January 2020. The amendments to IAS 1 and IAS 8 unify and clarify the definition of term 'material' and provide guidance to improve consistency in the application of the concept across International Financial Reporting Standards.
- **Amendments to references to conceptual assumptions in IFRS,** published on 29 March 2018 and are effective for annual periods beginning on or after 1 January 2020. The purpose of the amendments is to replace references to previous assumptions existing in a number of standards and interpretations with references to revised conceptual assumptions.

The above-mentioned standards and amendments to existing standards, in the Group's opinion, will not have a material impact on its annual consolidated financial statements as at 31 December 2020.

2.4. Recognition of transactions under common control

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

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

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

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

2.5. Business combinations

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

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

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

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

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

2.6. Changes in presentation of financial data

Compared to the consolidated financial statements for the year ended 31 December 2019, the Group changed the presentation of:

- the provision for legal risk related to foreign currency loans by transferring the costs of creating a provision from the item Other operating expenses to the item Result on provisions for legal risk related to foreign currency loans.

	12 months ended 31.12.2019 (before change)	Change	12 months ended 31.12.2019 (after change)
Other operating expenses	(305,484)	32,113	(273,371)
Result on provisions for legal risk related to foreign currency loans	-	(32,113)	(32,113)

- the provision for unpaid commissions by transferring the particular items of commission income "from lending and leasing activities", "from account servicing", "from intermediation in the sale of insurance products" and "other commissions" to the item commission expense "other commissions"

	12 months ended 31.12.2019 (before change)	Change	12 months ended 31.12.2019 (after change)
Fee and commission income	1,042,700	17,465	1,060,165
Fee and commission expenses	(222,763)	(17,465)	(240,228)
Net fee and commission income	**819,937**	**-**	**819,937**

The Group considers the presentation changes presented above to better reflect the economic nature of the above items and therefore provide more useful information to the recipients of the financial statements.

2.7. Consolidation

Subsidiaries are defined as all entities over which the Group exercises control. The Group exercises control over an entity when it holds power over that entity, is exposed to or has the right to variable returns from its involvement in that entity and has the ability to influence those returns by exercising control over that entity. Subsidiaries are subject to full consolidation from the date of taking control over them by the Group. They cease to be consolidated on the day the control ceases.

Transactions, settlements and unrealised profits on transactions between companies within the Group are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of impairment of the transferred asset. The accounting principles applied by subsidiaries when preparing financial statements for the same reporting period as the parent company's financial data for the purposes of the consolidated financial statements are consistent with the accounting principles applied by the Group.

2.8. Measurement of items denominated in foreign currencies

Functional and presentation currency

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

Transactions and balances

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

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

Basic currency rates used in the preparation of the present consolidated financial statements as at 31 December 2020 and 31 December 2019 are presented in the below table:

	31.12.2020	31.12.2019
1 EUR	4.6148	4.2585
1 USD	3.7584	3.7977
1 GBP	5.1327	4.9971
1 CHF	4.2641	3.9213

2.9. Interest income and expenses

The profit or loss statement includes all interest income on financial instruments measured at amortised cost using the effective interest rate, financial assets measured at fair value through other comprehensive income but also income with its characteristics similar to interest income on financial assets and liabilities measured at fair value through profit or loss.

The effective interest rate is the rate used to estimate future payments or incomes throughout the expected life of financial assets or financial liabilities, discounted to the gross balance sheet value of a financial asset or to the amortised cost of a financial liability. The calculation of the effective interest rate includes all commissions paid and received by the parties, transaction costs and any other premiums and discounts that are an integral part of the effective interest rate.

Interest income is calculated using the effective interest rate based on the balance sheet amount of financial assets except for financial assets that are impaired due to credit risk or purchased or originated credit impaired financial assets ('POCI'). At the moment of recognition of financial assets impairment (reclassification of a financial asset to Stage 3), interest income is accrued on the net value of the financial asset and is recognised at the effective interest rate. In case of POCI, the Group uses the credit risk-adjusted effective interest rate to calculate interest income. Interest income is calculated based on net exposure (gross exposure less impairment allowance).

2.10. Net fee and commission income

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

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

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

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

Loans and advances

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

Debit and credit cards

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

Commitments to grant loans and advances

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

Investment brokerage and asset management

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

Insurance brokerage

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

Recognition of bancassurance income and expenses

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

Recognition of bancassurance income for related transactions

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

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

Fee for the brokerage services, whose value is determined based on their economic contents, is recognised in commission income upon sale or renewal (if the renewal is significant) of a bancassurance product.

Recognition of bancassurance expenses for related transactions

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

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

If a financial instrument and a bancassurance product are sold in two separate transactions, the Group's fee for the sale of the bancassurance product is recognised separately from the fee for the financial instrument.
Fee for the sale of bancassurance products that do not require the Group to provide any post-sale services is recognised as income as at the effective/renewal date of the relevant insurance policy. The related income is recognised under commission income.
Fee for the services provided by the Group over the whole life of a bancassurance product is deferred and recognised as income based on the percentage of completion of the provided services. Application of the percentage of completion method as at the balance sheet date is limited to cases when a result of a service transaction can be reliably estimated. If the Group is unable to determine precisely the number of activities performed within a given time range or a returns level, income from services or activities performed in relation to a bancassurance product offered by the Group is recognised on a straight-line basis over the lifetime of the product, unless there is evidence that another method would be more representative of the stage of completion.

2.11. Dividend income

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

2.12. Net trading income

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

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

2.13. Result on investment activities

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

2.14. Other operating income and expenses

In item Other operating income and expenses, the Group presents items that are not directly related to the core operating activities of the entity.

The Group includes in abovementioned item mainly: result on sale and liquidation of fixed assets, revaluation of investment property, compensations received and paid, revenue and expenses arising from other services not related to the core business of the Group.

As part of other operating income, the Group recognises revenues under contracts with customers with regard to intermediation in the sale of products and services offered by other entities (including companies belonging to the Group) or re-invoicing costs incurred by the Bank to other entities (in such a case the Bank acts as an agent and therefore presents net profit).

2.15. Income tax expense

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

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

2.16. Classification and measurement of financial assets and liabilities

Classification and measurement of financial assets

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

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

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

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

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

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

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

Business models

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

Model 1: Receiving contractual cash flows.

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

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

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

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

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

Assets acquired or originated with impairment identified (POCI assets)

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

SPPI test

For the purpose of classification and subsequent measurement of financial assets, the Group verifies whether the cash flows from a given instrument constitute solely the payment of principal and interest calculated on the principal.

For the needs of the assessment of cash flow characteristics, the principal is defined as the fair value of the financial asset at the moment of initial recognition. Interests are defined as the reflection of the time value of money and credit risk related to the unpaid part of the principal and other risks and costs associated with the standard loan agreement (e.g. liquidity risk or administrative costs) and margin.

When assessing whether contractual cash flows constitute solely repayments of the principal and interest, the Group analyses the cash flows of the instrument resulting from the contract, i.e. whether the contract contains any provisions that could change the date of contractual payments or their amount in such a way that, in economic terms, they will not constitute solely repayments of the principal and interest on the unpaid principal part.

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

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

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

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

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

Modification of financial assets

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

If the cash flows generated by the modified asset do not differ significantly from the original cash flows, the modification does not result in derecognition of the financial asset from the statement of financial position. In such case, the Group performs recalculation of the gross book value of the financial asset using modified contractual cashflows discounted using original effective interest rate.

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Classification and measurement of financial liabilities

Financial liabilities as at the date of their acquisition or establishment are classified into the following categories:

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

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

Compensation

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

Securitization

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

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

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

In connection with the above, the Group recognises a liability for cash flows from securitization that are measured with the use of effective interest rate calculated on the basis of future SPV payments due to liabilities resulting from bonds issued. The securitization transaction is described in Note 45 *Securitization*.

Repo and sell buy back transactions

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

Investments in subsidiaries and associates

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

Principles for recognition and derecognition of financial assets and liabilities from the statement of financial position

The Group recognises a financial asset or liability when it becomes a party to the contract of such an instrument. Standardised purchase and sale transactions of financial assets are recognised at the date of the transaction, which is the date when the Group is required to purchase or sell a given financial asset. Standardised transactions for the purchase or sale of financial assets are transactions whose contractual terms require the delivery of an asset in the period resulting from the applicable regulations or conventions adopted on a given market. Standardised purchase or sale transactions refer in particular to FX spot FX transactions, the spot leg in FX swap transactions and securities purchase and sale transactions, where, normally, two business days pass between the transaction date and the settlement date, except for repo transactions.

The Group derecognises a financial asset when:

- contractual rights to cash flows from a financial asset expire, or
- the Group transfers contractual rights to receive cash flows from a financial asset.

Transfer takes place:

- in a transaction in which the Group transfers substantially all risk and all benefits associated with the financial asset component, or
- when the Group keeps contractual rights to receive cash flows from a financial asset but takes contractual obligation to transfer cash flows from a financial asset to the entity outside the Group.

2.17. Fixed assets held for sale

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

Fixed assets and groups of assets are classified as held for sale, if their balance sheet amount will be recovered as a result of the sale. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The classification as an asset held for sale assumes that the Group’s Management intends to complete the sale, within one year from the date of reclassification.

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

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

2.18. Investment properties

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

Investment property is recognised in assets when and only when:

- obtaining economic benefits from this property is probable, and
- its cost of acquisition or development can be reliably measured.

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

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

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

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

2.19. Intangible assets

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

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

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

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

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

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

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

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

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

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

2.20. Property, plant and equipment

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

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

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

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

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

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

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

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

2.21. Hedge accounting

The Group selected the accounting policy in the area of hedge accounting and decided to continue applying the hedge accounting principles in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" until the end of works of the International Reporting Standards Board on the guidelines for macro hedge accounting (Macro hedging).

Hedge accounting recognises the compensation effects of changes in the fair value measurement of hedging and hedged items affecting the statement of profit or loss. Pursuant to the adopted hedge accounting principles, the Group designates certain derivatives as hedges of fair value and future cash flows of certain assets, provided the criteria determined in IAS 39 are met. Hedge accounting is used to account for hedging relationships if all of the following conditions are met:

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

Fair value hedge

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

Change in the fair value measurement of financial instruments designated as hedged items is presented in the statement of financial position as *Adjustment of fair value of hedging and hedged item* for macro fair value hedge or as adjustment of fair value of hedged item for micro fair value hedge.

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

Cash flow hedge

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

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

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

2.22. Provisions

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

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

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

A restructuring provision includes only direct outlays arising from the restructuring, which:

a) are an indispensable effect of the restructuring procedure and

b) at the same time are not related to current operations of the entity.

A restructuring provision does not include future operating expenses.

2.23. Leases

Group as a lessee

On the commencement date of the lease, the Group recognises the lease liability (liability to make lease payments) and the asset that constitutes the right to use the subject of the lease for the duration of the leasing contract (right to use an asset).

In determining the lease term, the Group considers all relevant facts and events creating economic incentives to exercise the option to renew or not to exercise an option to terminate. The Group reassesses the length of the lease term in case of a significant event or a significant change in circumstances that affects the assessment made previously.

For contracts with indefinite duration relating to the Bank's branch offices, the Group has adopted a lease term consistent with the period of depreciation of the unamortised investments made in these properties at the date of implementation of the standard, or in the absence of such investments, a 3-year period, taking into account the significant costs associated with changing the location of the branches during their operation.

The Group applies the exemptions provided for in IFRS 16 and does not recognise the asset components due to the right of use in the case of short-term leases and leases covering components of low-value assets. Short-term leases are defined as leases with a period of no longer than 12 months as at the beginning date (including periods for which the lease can be extended, if it can be assumed with reasonable assurance that the lessee will exercise that right) and do not include a call option. Low-value assets are those which have a value of no more than EUR 5.000.

On the commencement date, the lessee measures the lease liability based on the current value of lease payments remaining to be paid as at that date. Lease payments are discounted using the interest rate of the lease, if such a rate can be easily determined. Otherwise, the lessee applies the marginal interest rate of the lessee. The lessee's marginal interest rate is the interest rate that the lessee would have to pay to borrow the funds necessary to purchase a right-of-use asset of similar value for a similar term and with similar collateral in a similar economic environment. The Group determines the marginal interest rate for all contract types on the basis of the average funding rate in the currency concerned.

The following elements are included in the measurement of leasing liabilities:

- fixed payments, less any lease incentives receivable,
- variable lease payments that depend on an index or a rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option,
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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

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

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

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

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

Group as a lessor

Lease contracts under which substantially all of the risks and gains incidental to the ownership of the asset are transferred to the lessee are classified as financial lease agreements. In the statement of financial position the value of receivables in the amount equal to the net investment in the lease is recognised. The recognition of revenues from financial leasing contracts is performed in a manner reflecting the constant periodic rate of return on the net investment in the lease made by the Group under finance lease.

The Group does not offer operating lease products, i.e. such products in which all risks and rewards incidental to ownership of the assets are transferred to the lessee.

2.24. Financial guarantees

On initial recognition, a financial guarantee contract is measured at fair value.

Financial guarantees after initial recognition are measured at the higher value of:

1) the amount of the impairment loss determined in accordance with the principles applicable to impairment losses for assets measured at amortised cost in accordance with IFRS 9,

2) the amount initially recognised less the cumulative income recognised in accordance with the principles of IFRS 15.

For loan commitments and financial guarantee contracts, the date on which the Group becomes a party to the irrevocable commitment is considered as the date of initial recognition for the purpose of applying the impairment requirements.

2.25. Employee benefits

The Group creates a provision for future liabilities due to retirement, disability and post-mortem benefits, unused annual holiday, restructuring of employment and for incentive and retention programmes. Provisions for retirement, disability and post-mortem benefits are created using the actuarial method, as described in Note 34 hereof.

Employees of the Group are entitled to the following benefits:

Retirement, disability and post-mortem benefits

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

Liabilities due to unused annual holiday

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

Benefits arising from the variable remuneration programmes

On 31 January 2020, the Extraordinary General Meeting of the Bank adopted a resolution on the introduction of an Incentive Programme for individuals with significant influence on the Bank's risk profile (MRT).

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

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

Under the current remuneration scheme, the variable remuneration is divided into a non-deferred and deferred part and a part granted in the form of a financial instrument, which is the Bank's shares (settled in accordance with IFRS 2) and the remaining part granted in cash (settled in accordance with IAS 19 "Employee benefits").

The right to variable remuneration in the form of Bank shares is granted by issuing subscription warrants in a number corresponding to the number of shares granted, one warrant entitles to acquire one share. Payment of the variable remuneration expressed in the form of Bank shares, i.e. acquisition of Bank shares through exercise of rights from subscription warrants, takes place after the expiry of the retention period.

The retention period is at least 3 years. In case a variable remuneration is assigned in an amount higher than the amount considered as particularly high, the deferral period is a maximum of 5 years. The deferred part of the variable remuneration is divided into equal parts according to the number of years of the deferral period.

The cash payments under the programme are recognised in line with the projected unit credit method and settled over the vesting period (i.e. both in the evaluation period understood as the year in service to which the benefit pertains and in the period of deferring relevant portions of the benefit). The benefit value is recognised as a liability to employees in correspondence with the statement of profit or loss.

Liabilities due to restructuring of employment

In connection with the implemented process of group layoffs at BNP Paribas Bank Polska S.A., the Bank paid a severance pay for employees made redundant at the initiative of the employer and for employees covered by voluntary departure schemes.

Liabilities due to incentive – retention programmes

The programmes have been completed by the reporting date, except for the deferred parts concerning individuals with significant influence on the Bank's risk profile, in accordance with the Bank's policy in this respect.

2.26. Capital

Share capital

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

Own shares

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

Supplementary capital from the sale of shares above their par value

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

Other capital

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

Other capital items

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

2.27. Custody operations

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

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

2.28. Cash and cash equivalents

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

3. ESTIMATES

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

a. Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

In 2020 the impairment provision included additional write-off resulting mainly from the changes in macroeconomic scenarios as a result of COVID-19 (forward looking PDs and LGDs determined based on smoothed macroeconomic forecasts) and of the Group assessment regarding the expected future impact of the current economic situation on risk parameters for selected types of clients in the total amount of PLN 236,498 thousand on a consolidated basis.

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

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

In determining the materiality level of the past due credit commitment, the Bank applies the principles included in the 'Regulation of the Minister of Finance, Investment and Development of 3 October 2019 on the materiality level of past due credit commitment'. According to the new rules, additional conditions related to the calculation of the number of days past due have been introduced from 31 December 2020.

A past due credit commitment is considered material when both materiality thresholds are exceeded together:

1) the amount of past due liabilities exceeds PLN 400 for retail exposures or PLN 2000 for non-retail exposures, and
2) the share of past due liabilities in the total exposure of the obligor is greater than 1%.

Accordingly, the calculation of overdue days for the purpose of determining a default event starts once both of the aforementioned thresholds are exceeded.

At the level of the entire Bank, the cumulative impact of the introduction of the new rules is immaterial.

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

Impairment assessment for individually significant assets

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

Collective (group) assessment

The following assets are tested collectively:

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

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

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

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

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

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

In order to calculate the sensitivity to the level of write-offs, the Bank used the method of changing the weights of the pessimistic, baseline and optimistic scenarios in accordance with their application consistent with IFRS 9.

The impact of particular scenarios is presented in the table below:

Scenario	The percentage change in the amount of allowance
Extremely pessimistic – considering pessimistic and baseline scenarios only	+9%
Extremely optimistic – considering optimistic and baseline scenarios only	-1%
Baseline – uniform distribution of optimistic and pessimistic scenarios	+4%
Pessimistic –impact of the pessimistic scenario four times higher over the optimistic scenario	+7%

The high sensitivity of the amount of write-offs results directly from the counter-cyclical nature of the calculation of weights assigned to individual macroeconomic scenarios. Countercyclicality is expressed in reducing the weight for the pessimistic scenario as the recession deepens, and in reducing the impact of the optimistic scenario in the event of an "overheating" of the economy. The greatest impact was recorded for the segments preparing full financial reporting and micro entrepreneurs, which coincides with the currently observed situation of a significant deterioration in the situation of enterprises caused by the economy lockdown.

b. Classification of financial instruments

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

c. Fair value of derivative instruments

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

Credit Valuation Adjustment / Debit Value Adjustment (CVA/DVA) is estimated for all derivatives which are active at a specific date. The adjustment (counterparty credit risk exposure and default risk) is determined based on the projected future exposure resulting from the instrument, counterparty rating and collateral provided/accepted.

d. Securities

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

e. Impairment of fixed assets

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

f. Provisions for retirement, disability and post-mortem benefit obligations

The Group creates provisions for retirement, disability and post-mortem severance pay ("severance"), in accordance with IAS 19. The provisions are calculated for each employee separately, using the actuarial method of projected unit credit as at the date of valuation. The calculations take a number of factors into account, including macroeconomic conditions, employee turnover, risk of death and others. The basis for calculating the provision for employees is the anticipated value of severance pay which the Group is to pay pursuant from the Remuneration Regulations in force at the Group. The anticipated severance pay is calculated as the resultant of:

- the expected severance base, in accordance with the provisions of the Collective Bargaining Agreement,
- the expected increase in the severance base from the moment of valuation until the payment of severance,
- the recommended proportional dependence on seniority (in accordance with the provisions of the Collective Labour Agreement),
- gradual rights to services, unique for each team and proportional to their seniority at the Group.

The projected value is discounted actuarially at the end of each quarter. In accordance with the requirements of IAS 19, the financial discount rate for calculating the current value of liabilities related to employee benefits is determined on the basis of market yields on treasury bonds whose currency and maturity date are consistent with the currency and the estimated date of the benefit obligations. The actuarial discount is the product of the financial discount, the probability of a person's continued employment at the Group until the severance is required, and the probability of the need for a particular benefit (e.g. the probability of acquiring a disability). The value of annual write-offs and the probability are projected with the use of models which take the following three risks into account:

- possibility of dismissal from work,
- risk of inability to work,
- risk of death.

The possibility of dismissal from work is estimated trough a probability distribution, based on the Group's statistical data. The likelihood of dismissal depends on the age of the employee and is constant throughout each year of work. The risks of death and disability were estimated based on analyses of the latest statistical data on life expectancy in Poland (for men and women) as well as historical data published by the Central Statistical Office and the Social Security Office.

Provisions resulting from actuarial valuation are updated quarterly.

Sensitivity analysis

The table below presents the impact of a 1 p.p. change in the relevant actuarial assumptions on liabilities due to retirement, disability and post-mortem severance as at 31 December 2020 and 31 December 2019.

Sensitivity analysis	increase by 1 p.p.	decrease by 1 p.p.
31.12.2020		
discount rate	(2,020)	2,418
wage growth rate	2,378	(2 013)
31.12.2019		
discount rate	(1,753)	2,097
wage growth rate	2,052	(1,752)

Reconciliation of present value of retirement, disability and post-mortem benefit obligations

The table below presents the reconciliation from the beginning balances to the ending balances for present value liabilities due to retirement, disability and post-mortem benefit obligations:

Present value of retirement, disability and post-mortem benefit obligations	31.12.2020	31.12.2019
Opening balance	**16,209**	**14,703**
current employment costs	1,737	1,460
net interest on net liability	273	350
actuarial gai nor loss	2,195	952
past employment costs	(1,201)	(460)
benefits paid	(1,025)	(708)
employee transfers (emigration)	-	(88)
Closing balance	**18,188**	**16,209**

g. Restructuring provision

At the end of December, the Group finalised the process of collective redundancies scheduled for 2019-2020.

On 18 December 2020, the Group finalised negotiations with trade union organisations operating in the Group and concluded an agreement on defining the rules with reference to the matters concerning employees in connection with the collective redundancies process resulting from the adaptation of the Group's business model in relation to the change of business environment. In connection with the agreement concluded in December 2020, the Group created restructuring provision to cover the costs of employment reduction.

h. Assets and provision for deferred income tax

The provision for deferred income tax is recognised in the full amount using the balance sheet method, due to positive temporary differences between the tax value of assets and liabilities, and their balance sheet value in the financial statements. Deferred tax assets are recognised for all negative temporary differences, as well as unused tax credits and unused tax losses carried forward to the subsequent years, in the amount in which it is probable that taxable income will be generated that will allow the use of the above mentioned differences, assets and losses. Deferred income tax is determined using tax rates (and regulations) in force or at the end of the reporting period, which are expected to be effective at the time of realisation of the related assets due to deferred income tax or settlement of liabilities due to deferred income tax.

If the temporary differences arose as a result of the recognition of an asset or liability resulting from a transaction that is not a business combination and which at the time of the conclusion did not affect the tax or accounting result, the deferred tax is not recognised. In addition, a deferred tax provision is created for positive temporary differences arising from investments in subsidiaries or associates and investments in joint ventures - except the situations when the timing of temporary differences reversal is subject to control by the entity and when it is probable that in the foreseeable future, temporary differences will not be reversed Deferred tax assets in the event of negative temporary differences from investments in subsidiaries or associates and investments in joint ventures, only to the extent that it is probable that in the foreseeable future the abovementioned temporary differences will be reversed and taxable income allowing to offset any negative temporary differences will be generated.

The balance sheet amount of the deferred tax asset is reviewed at the end of each reporting period and is reduced accordingly, and so far as it is no longer probable that taxable income sufficient for partial or total realisation of the deferred tax asset will be realised. An unrecognised deferred tax asset is subject to reassessment at the end of each reporting period and is recognised up to an amount that reflects the probability of achieving future taxable income that will allow recovery of that asset. The Group offsets deferred tax assets with deferred tax provisions if and only if it has an enforceable legal title to compensate corresponding receivables and liabilities due to current tax and deferred income tax is related to the same taxpayer and the same tax authority.

Income tax related to the items recognised directly in equity is recognised in equity and in the statement of comprehensive income.

In 2020 and 2019, current income tax and deferred tax provision were calculated using the 19% rate.

i. Provision for the return of commission due to early repayment of the loan

On 11 September 2019, the CJEU issued a judgment in which it was stated that Article 16 paragraph 1 of the Directive No. 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on consumer loan agreements which repealed Council Directive No. 87/102/EEC should be interpreted in the following way: the consumer's right to reduce the total cost of a loan in the event of earlier repayment includes all costs that have been imposed on the consumer. The CJEU pointed out that a comparative analysis of the different language versions of Article 16 clause 1 of the Directive does not allow to clearly determine the exact scope of the reduction of the total cost of a loan envisaged by this provision, because some language versions of this provision suggest reducing the costs related to the remaining period of the contract, others suggest that the costs associated with this period constitute an indication for calculating the reduction, others still only refer to interest and costs due for the remaining period of the contract.

The judgment was issued following a question referred for a preliminary ruling by the Lublin-Wschód District Court based in Świdnik, which examined three disputes between the company Lexitor, which acquired the claims of three clients, and SKOK Stefczyka, Santander Consumer Bank and mBank, regarding the reduction of the total cost of consumer loans due to their earlier repayment. The Polish court had doubts about the interpretation of Article 16 paragraph 1 of Directive No. 2008/48/EC of the European Parliament and of the Council of 23 April 2008, and therefore asked the CJEU whether this provision concerns all costs or only those related to the duration of the contract.

As a result of the analysis concerning the impact of the judgment on the Group's revenues, in particular on relations expired before the judgment was issued, in 2019 the Group decided to create a provision for a proportional refund of commission in the event of early repayment of the loan in the amount of PLN 48,750 thousand as at 31 December 2020 the provision amounted to PLN 26,116 thousand (as at 31 December 2019 the provision amounted to PLN 48,466 thousand).

The provision was estimated based on the estimation of the total amount of the provision for the early repaid loans and the expected percentage of customers who will claim for a refund of the due part of the commission. Assuming that the percentage of customers would be 5 p.p. higher than the assumed level, the amount of the provision would be higher by PLN 12.5 million.

Additionally, the Group created in 2019 a provision of PLN 20,800 thousand to cover the partial reimbursements of loan commissions in the event of their early repayment, for loans repaid after 31 December 2019. The estimate of the provision is based on the difference between the value of commissions to be reimbursed and the balance of unsettled commissions as at the expected date of early loan repayment, as at 31 December 2020 the provision amounted to PLN 6,161 thousand.

In the third quarter of 2020, the Group decided to create an additional provision in the amount of PLN 1,500 thousand for loans granted and repaid from 2020 on account of the return of part of the commission charged in connection with granting the loan in the case of its early repayment and the estimation of the part of the commission being the difference between the amounts of commission to be returned to customers and the balance of unsettled commissions as of the expected date of early repayment. In the case of early repayment of the loan the provision will be released and for newly sold loans will be created on an ongoing basis.

For the newly launched loans, the provision is created as a percentage of the commission charged, which reflects the expected average difference between the above mentioned amounts. This percentage is calculated on the basis of the estimated level of early repayment and the expected moment of repayment. 5 p.p. increase in prepayments would result in an increase of the provision by 8%, to the level of 13% depending on the product.

The created provision level may be changed due to the fact that analyses are still ongoing in the banking sector as to the impact of this judgment on the financial situation and business activities of banks in Poland.

Simultaneously, the Group recognises its liability due to the proportional reimbursement of commissions in the event of their early repayment in the period from the date of the judgment of the CJEU on 11 September 2019 to 31 December 2019. As at 31 December 2020, this liability amounted to PLN 2,434 thousand (as at 31 December 2019 PLN 12,797 thousand).

j. Provision for potential claims arising from legal proceedings related to loans in CHF

Provision for potential claims resulting from proceedings related to CHF loan agreements and model used by the Group were presented in Note 55 Litigation and claims.

4. NET INTEREST INCOME

Interest income	12 months ended 31.12.2020	12 months ended 31.12.2019
Amounts due from banks	6,438	23,326
Loans and advances to customers measured at amortised cost, including:	2,667,402	3,284,550
non-banking financial institutions	12,715	19,692
retail customers	1,279,498	1,493,807
economic operators	1,246,206	1,624,670
including retail farmers	354,127	440,094
public sector institutions	4,915	6,958
leasing receivables	124,068	139,423
Debt instruments measured at fair value through profit or loss	20,161	63,924
Debt instruments measured at amortised cost	535,678	445,823
Debt instruments measured at fair value through profit or loss	4,311	931
Debt instruments measured at fair value through other comprehensive income	192,129	215,945
Derivative instruments as part of fair value hedge accounting	176,659	153,560
Purchased repo transactions	18	24
Total interest income	**3,602,796**	**4,188,083**

Interest expense	12 months ended 31.12.2020	12 months ended 31.12.2019
Amounts due to banks	(89,835)	(103,034)
Debt securities issue	(49,291)	(78,011)
Amounts due to customers, including:	(291,132)	(685,232)
non-banking financial institutions	(17,626)	(45,118)
retail customers	(179,273)	(419,923)
economic operators	(89,575)	(204,778)
including retail farmers	(1,429)	(4,298)
public sector institutions	(4,658)	(15,413)
Leasing liabilities	(6,694)	(8,704)
Derivative instruments as part of fair value hedge accounting	(99,538)	(118,763)
Repo transactions	(6,236)	(25,580)
Total interest expense	**(542,726)**	**(1,019,324)**
Net interest income	**3,060,070**	**3,168,759**

The value of interest expenses calculated using the effective interest rate in relation to financial liabilities, which are measured at amortised cost, amounted to PLN 443,188 thousand (PLN 900,561 thousand for the period of 12 months ended 31 December 2019).

In 2020, the total value of interest income calculated using the effective interest rate in relation to financial assets that are measured at fair value through other comprehensive income amounted to PLN 192,129 thousand PLN 215,945 thousand for the period of 12 months ended 31 December 2019).

Interest income includes interest on financial assets assessed individually and collectively, for which impairment was identified. The amount of the above mentioned interest, which was recognised in the interest income for 2020, amounted to PLN 65,978 thousand, as compared to PLN 94,913 thousand for 2019.

5. NET FEE AND COMMISSION INCOME

Fee and commission income	12 months ended 31.12.2020	12 months ended 31.12.2019 (restated)
loans, advances and leases	312,218	268,233
account maintenance	212,308	154,353
cash service	31,491	39,742
cash transfers and e-banking	75,425	101,877
guarantees and documentary operations	50,320	57,625
asset management and brokerage operations	111,488	117,935
payment and credit cards	201,104	216,707
insurance mediation activity	100,702	60,274
product sale mediation and customer acquisition	12,937	28,302
other commissions	24,058	15,117
Total fee and commission income	**1,132,051**	**1,060,165**

Fee and commission expense	12 months ended 31.12.2020	12 months ended 31.12.2019 (restated)
loans, advances and leases	(367)	(2,768)
account maintenance	(10,432)	(5,598)
cash service	(13,329)	(15,582)
cash transfers and e-banking	(2,316)	(4,565)
asset management and brokerage operations	(5,121)	(20,519)
payment and credit cards	(97,950)	(115,656)
insurance mediation activity	(20,007)	(14,972)
product sale mediation and customer acquisition	(27,099)	(29,044)
other commissions	(39,335)	(31,524)
Total fee and commission expense	**(215,956)**	**(240,228)**
Net fee and commission income	**916,095**	**819,937**

The commission income for 2020 includes revenues from custody activities in the amount of PLN 111,488 thousand (PLN 117,935 thousand in 2019) and the amount of costs from custody activities in the amount of PLN 5,121 thousand (PLN 20,519 thousand in 2019).

Net commission income includes commission income that relate to assets and liabilities that are not measured at fair value with the result of measurement recognised in the profit or loss account for 2020 in the amount of PLN 745,081 thousand, while for 2019 in the amount of PLN 652,781 thousand, and commission costs for 2020 in the amount of PLN 73,550 thousand, as compared to PLN 72,529 thousand for 2019.

6. DIVIDEND INCOME

Dividend income	12 months ended 31.12.2020	12 months ended 31.12.2019
Equity instruments measured at fair value through profit or loss	9,669	6,007
Total dividend income	**9,669**	**6,007**

7. NET TRADING INCOME

Net trading income	12 months ended 31.12.2020	12 months ended 31.12.2019
Equity instruments measured at fair value through profit or loss	102,340	18,120
Debt instruments measured at fair value through profit or loss	7,253	3,097
Derivative instruments and result on foreign exchange transactions	638,797	661,198
Result on financial instruments measured at fair value through profit or loss	**748,390**	**682,415**

In 2020, the Group recognised in Net trading income an increase in the valuation of shares in Krajowa Izba Rozliczeniowa S.A. and Biuro Informacji Kredytowej S.A. in the total amount of PLN 45 million. The amounts are classified as measured at fair value through profit or loss.

8. RESULT ON INVESTMENT ACTIVITIES

Result on investment activities	12 months ended 31.12.2020	12 months ended 31.12.2019
Debt instruments measured at fair value through other comprehensive income	77,411	3,818
Loans and advances to customers measured at fair value through profit or loss	(48,330)	(35,654)
Total result on investment activities	**29,081**	**(31,836)**

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

9. NET IMPAIRMENT ALLOWANCES ON FINANCIAL ASSETS AND PROVISION ON CONTINGENT LIABILITIES

Net impairment allowances on financial assets and provisions on contingent liabilities

12 months ended 31.12.2020	Stage 1	Stage 2	Stage 3	Total	Including POCI
Amounts due from other banks	(837)	-	-	(837)	-
Loans and advances to customers measured at amortised cost	(39,110)	(109,564)	(477,910)	(626,584)	18,218
Contingent commitments granted	(19,244)	27,483	14,186	22,425	-
Securities measured at amortised cost	325	3,172	-	3,497	(2,312)
Total net impairment allowances on financial assets and provisions on contingent liabilities	**(58,866)**	**(78,909)**	**(463,724)**	**(601,499)**	**15,906**

Net impairment allowances on financial assets and provisions on contingent liabilities

12 months ended 31.12.2019	Stage 1	Stage 2	Stage 3	Total	Including POCI
Amounts due from banks	(931)	-	-	(931)	-
Loans and advances to customers measured at amortised cost	54,458	21,532	(432,185)	(356,195)	76,845
Contingent commitments granted	(4,159)	(63,394)	(16,690)	(84,243)	-
Securities measured at amortised cost	(1,097)	392	184	(521)	-
Total net impairment allowances on financial assets and provisions on contingent liabilities	**48,271**	**(41,470)**	**(448,691)**	**(441,890)**	**76,845**

10. GENERAL ADMINISTRATIVE COSTS

General administrative costs	12 months ended 31.12.2020	12 months ended 31.12.2019
Personnel expenses	(1,183,050)	(1,368,777)
Marketing	(86,364)	(146,983)
IT and telecom expenses	(203,152)	(288,778)
Short-term leasing and operation	(75,182)	(97,414)
Other non-personnel expenses	(321,901)	(351,764)
Business travels	(8,565)	(21,934)
ATM and cash handling expenses	(25,410)	(7,016)
Costs of outsourcing services related to leasing operations	(3,402)	(4,604)
Borrower Support Fund Fee	(6,689)	-
Bank Guarantee Fund fee	(213,185)	(166,100)
Polish Financial Supervision Authority fee	(10,705)	(14,567)
Total general administrative expenses	**(2,137,605)**	**(2,467,937)**

11. PERSONNEL EXPENSES

Personnel expenses	12 months ended 31.12.2020	12 months ended 31.12.2019
Payroll expenses	(930,159)	(1,124,367)
Payroll charges	(171,333)	(185,938)
Employee benefits	(35,569)	(30,283)
Costs of restructuring provision	(22,502)	(2,609)
Costs of provision for future liabilities arising from unused annual leave and retirement benefits	(7,444)	(11,077)
Appropriations to Social Benefits Fund	(14,454)	(12,808)
Other	(1,589)	(1,695)
Total personnel expenses	**(1,183,050)**	**(1,368,777)**

12. DEPRECIATION AND AMORTISATION

Depreciation and amortisation	12 months ended 31.12.2020	12 months ended 31.12.2019
Property, plant and equipment	(235,126)	(226,258)
Intangible assets	(132,832)	(227,889)
Total depreciation and amortisation	**(367,958)**	**(454,147)**

13. OTHER OPERATING INCOME

Other operating income	12 months ended 31.12.2020	12 months ended 31.12.2019
Sale or liquidation of property, plant and equipment and intangible assets	165,330	20,957
Release of allowances on other receivables	10,908	-
Sale of goods and services	7,777	32,994
Release of provisions for litigation and claims and other liabilities	51,628	12,336
Recovery of debt collection costs	25,206	18,512
Recovered indemnities	1,027	2,644
Income from leasing operations	30,633	9,155
Other operating income*	31,077	86,107
Total other operating income	**323,586**	**182,705**

* The amount of PLN 86,107 thousand results from the sale of the Bank's organised part of enterprise dedicated to factoring activities in June 2019 to BGŻ BNP Paribas Faktoring Sp. z o.o. (the Factoring Entity) in the amount of PLN 42,435 thousand (the amount of PLN 45,000 thousand was recognised in the first half of 2019, whereas in July 2019 the Bank and Factoring Entity made a final verification of the transferred values of the transferred net factoring receivables, which were the basis for calculation of the sale price at the end of June 2019. The resulting difference of PLN 2,565 thousand was recognised in the third quarter of 2019).

The comparison of income realised in the analysed periods was primarily affected by the settlement and accounting treatment regarding the sale of the real estate, i.e. the Bank's Headquarters at Kasprzaka in Warsaw in the first quarter of this year. The total result on this operation amounted to PLN 43,564 thousand (gross value) and was presented under other operating income (under Sale or liquidation of property, plant and equipment and intangible assets, in the amount of PLN 110,848 thousand) and under other operating expenses (items: Loss on sale or liquidation of property, plant and equipment and intangible assets, in the amount of PLN 64,371 thousand and Other operating expenses, in the amount of PLN 2,914 thousand).

14. OTHER OPERATING EXPENSES

Other operating expenses	12 months ended 31.12.2020	12 months ended 31.12.2019 (restated)
Loss on sale or liquidation of property, plant and equipment and intangible assets	(91,702)	(63,305)
Impairment allowances on other receivables	(12,859)	-
Provisions for litigation and claims and other liabilities	(101,864)	(79,234)
Debt collection	(52,190)	(46,086)
Donations made	(6,542)	(6,007)
Costs of leasing operations	(20,522)	(20,476)
Costs of compensations, penalties and fines	(13,700)	(16,907)
Other operating expenses	(71,741)	(41,356)
Total other operating expenses	**(371,120)**	**(273,371)**

Other operating expenses for 12 months 2020 include:

- under Loss on sale or liquidation of property, plant and equipment and intangible assets in the amount of PLN 64,371 thousand, representing a portion of the settlement of the sale of the real estate of the Bank's Headquarters at Kasprzaka in Warsaw in the first quarter of 2020,
- under Other operating expenses part of the settlement of the sale of the real estate of the Bank's Headquarters at Kasprzaka in Warsaw in the amount of PLN 2,914 thousand.

15. INCOME TAX EXPENSE

	12 months ended 31.12.2020	12 months ended 31.12.2019
Current income tax	(185,611)	(197,397)
Deferred income tax	(191,861)	(60,864)
Total income tax expense	**(377,472)**	**(258,261)**
Profit before income tax	1,110,567	872,955
Statutory tax rate	19%	19%
Income taxes on gross profit	**(214,190)**	**(169,046)**
Receivables written-off	(18,369)	(18,043)
Representation expenses	(263)	(1,446)
PFRON	(1,696)	(1,950)
Prudential fee to the Bank Guarantee Fund	(40,505)	(31,559)
Tax on financial institutions	(60,593)	(53,426)
Research and development relief	10,320	20,863
Provision for claims related to CHF loans	(38,057)	-
Legal risk provisions	(8,267)	(2,763)
Other differences	(5,852)	(891)
Total income tax expense of the Group	**(377,472)**	**(258,261)**

16. EARNINGS PER SHARE

	12 months ended 31.12.2020	12 months ended 31.12.2019
Basic		
Net profit	733,095	614,694
Weighted average number of ordinary shares (units)	147,418,918	147,418,918
Basic earnings (loss) per share (in PLN per one share)	4.97	4.17
Diluted		
Net profit used in determining diluted earnings per share	733,095	614,694
Weighted average number of ordinary shares (units)	147,418,918	147,418,918
Adjustments for:		
- stock options	128,644	-
Weighted average number of ordinary shares for the diluted earnings per share (units)	147,547,562	147,418,918
Diluted earnings (loss) per share (in PLN per one share)	4.96	4.17

In accordance with IAS 33 the Bank prepares the calculation of diluted net profit per share, taking into account the shares issued conditionally under incentive schemes described in Note 40. The calculation does not take into account those elements of the incentive schemes which had antidilutive effect in the presented reporting periods, and which may potentially affect the dilution of profit per share in the future.

The basic earnings per share is calculated by dividing the net profit by the weighted average number of ordinary shares during the period.

The diluted earnings per share is calculated based on the ratio of net profit to the weighted average number of ordinary shares adjusted as if all potential dilutive ordinary shares had been converted to shares. The Bank has one category of dilutive potential ordinary shares: share options. Dilutive shares are calculated as the number of shares that would be issued if all share options were exercised at the market price determined as the average annual closing price of the Bank's shares.

17. CASH AND CASH BALANCES AT CENTRAL BANK

Cash and cash equivalents	31.12.2020	31.12.2019
Cash and other balances	3,403,704	2,566,518
Account in the National Bank of Poland	18,176	2,092,027
Gross cash and cash equivalents	**3,421,880**	**4,658,545**
Impairment allowances	(3)	(374)
Total cash and cash equivalents	**3,421,877**	**4,658,171**

Change of impairment allowances	31.12.2020	31.12.2019
Opening balance	**(374)**	**(112)**
Increases due to acquisition or origination	(1,576)	-
Decreases due to derecognition	1,491	500
Net changes in credit risk	456	(762)
Closing balance	**(3)**	**(374)**

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

The funds on the statutory reserve account bear interest. As at 31 December 2020 interest on statutory reserve accounts was 0.1% (0.5% as at 31 December 2019).

The balance of cash in hand and at Central Bank includes the statutory reserve maintained with the National Bank of Poland. The declared reserve level to be maintained since 31 December 2020 was PLN 484,302 thousand (since 31 December 2019 PLN 2,973,849 thousand).

18. AMOUNTS DUE FROM OTHER BANKS

Amounts due from other banks	31.12.2020			31.12.2019		
	Gross balance sheet value	Allowance	Net balance sheet value	Gross balance sheet value	Allowance	Net balance sheet value
Current accounts	153,690	(224)	153,466	262,329	(534)	261,795
Interbank deposits	123,000	-	123,000	296,479	(4)	296,475
Loans and advances	1,511	(2)	1,509	7,097	(27)	7,070
Other receivables	498,189	(1,442)	496,747	114,323	(355)	113,968
Total amounts due from other banks	**776,390**	**(1,668)**	**774,722**	**680,228**	**(920)**	**679,308**

The total balance of long-term amounts due from banks as at 31 December 2020 amounted to PLN 330,838 thousand (PLN 194,659 thousand as at 31 December 2019).

Change in impairment allowance on amounts due from other banks	31.12.2020	31.12.2019
Balance at the beginning of the period	**(920)**	**(1,261)**
Increases due to acquisition or origination	(7,760)	(475)
Decreases due to derecognition	5,874	2,211
Changes resulting from the change in credit risk (net)	217	(1,941)
Other changes (including foreign exchange differences)	921	546
Balance at the end of the period	**(1,668)**	**(920)**

As at 31 December 2020 and 31 December 2019, amounts due from other banks were classified as Stage 1.

19. DERIVATIVE FINANCIAL INSTRUMENTS

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

Trading derivatives	Nominal value	Fair value	
31.12.2020		Assets	Liabilities
Currency derivatives			
Foreign Exchange Forward (FX Forward + NDF)	14,782,276	184,587	113,239
Currency Swap (FX Swap)	18,367,382	178,217	213,453
Currency Interest Rate Swaps (CIRS)	13,428,351	167,205	268,192
OTC currency options	3,968,876	180,644	168,075
Total currency derivatives	**50,546,885**	**710,653**	**762,959**
Interest rate derivatives:			
Interest Rate Swap	45,872,723	810,474	743,456
Forward Rate Agreements (FRA)	3,300,000	-	7,451
OTC interest rate options	4,435,634	4,646	1,556
Total interest rate derivatives	**53,608,357**	**815,120**	**752,463**
Other derivatives			
OTC options	306,311	5,844	5,726
Currency Spot (FX Spot)	3,967,651	-	-
Total other derivatives	**4,273,962**	**5,844**	**5,726**
Total trading derivatives	**108,429,204**	**1,531,617**	**1,521,148**
including: measured using models	108,429,204	1,531,617	1,521,148

Trading derivatives	Nominal value	Fair value	
31.12.2019		Assets	Liabilities
Currency derivatives			
Foreign Exchange Forward (FX Forward + NDF)	12,776,533	90,807	174,184
Currency Swap (FX Swap)	18,483,784	189,130	115,288
Currency Interest Rate Swaps (CIRS)	12,004,222	133,287	164,022
OTC currency options	2,277,986	26,273	43,701
Total currency derivatives	**45,542,525**	**439,497**	**497,195**
Interest rate derivatives			
Interest Rate Swap	36,811,673	345,936	303,640
Forward Rate Agreements (FRA)	5,500,000	122	346
OTC interest rate options	4,569,927	10,332	9,479
Total interest rate derivatives	**46,881,600**	**356,390**	**313,465**
Other derivatives			
OTC commodity swaps	221,292	4,999	4,977
Currency Spot (FX Spot)	2,450,189	-	-
Total other derivatives	**2,671,481**	**4,999**	**4,977**
Total trading derivatives	**95,095,606**	**800,886**	**815,637**
including: measured using models	95,095,606	800,886	815,637

Fair value of derivatives by their maturity *

	Fair value of assets						Fair value of liabilities					
31 December 2020	Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	> 1 year <= 5 years	> 5 years	Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	> 1 year <= 5 years	> 5 years
Trading derivatives												
Currency derivatives:												
Foreign Exchange Forward (FX Forward + NDF)	**184,587**	19,727	22,467	74,380	38,019	29,994	**113,239**	18,358	28,513	22,341	41,130	2,897
Currency Swap (FX Swap)	**178,217**	39,832	67,993	17,441	48,078	4,871	**213,453**	74,540	28,773	48,158	48,701	13,281
Currency Interest Rate Swaps (CIRS)	**167,205**	2,401	-	1,389	90,912	72,502	**268,192**	-	3,603	-	84,832	179,757
OTC currency options	**180,644**	8,044	8,785	27,713	135,552	550	**168,075**	2,926	8,568	23,650	132,386	545
Total currency derivatives:	**710,653**	**70,004**	**99,245**	**120,924**	**312,562**	**107,917**	**762,959**	**95,824**	**69,457**	**94,149**	**307,049**	**196,480**
Interest rate derivatives:												
Interest Rate Swap	**810,474**	3,020	12,941	34,489	342,663	417,361	**743,456**	2,378	18,027	33,955	329,836	359,259
Forward Rate Agreements (FRA)	**-**	-	-	-	-	-	**7,451**	-	-	2,509	4,942	-
OTC interest rate options	**4,646**	-	-	279	212	4,155	**1,556**	-	-	156	212	1,188
Total interest rate derivatives:	**815,120**	**3,020**	**12,941**	**34,768**	**342,875**	**421,516**	**752,463**	**2,378**	**18,027**	**36,620**	**334,991**	**360,447**
Other derivatives												
OTC commodity swaps	**5,844**	1,520	891	3,432	-	-	5,726	1,504	874	3,349	-	-
Total other derivatives:	**5,844**	**1,520**	**891**	**3,432**	**-**	**-**	**5,726**	**1,504**	**874**	**3,349**	**-**	**-**
Total trading derivatives	**1,531,617**	**74,545**	**113,077**	**159,124**	**655,437**	**529,433**	**1,521,148**	**99,706**	**88,358**	**134,118**	**642,039**	**556,927**

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

	Fair value of assets						Fair value of liabilities					
31 December 2019	Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	> 1 year <= 5 years	> 5 years	Total	<= 1 month	> 1 month <= 3 months	> 3 months <= 12 months	> 1 year <= 5 years	> 5 years
Trading derivatives												
Currency derivatives:												
Foreign Exchange Forward (FX Forward + NDF)	**90,807**	15,480	16,620	41,568	17,139	-	**174,184**	11,543	15,641	61,610	85,390	-
Currency Swap (FX Swap)	**189,130**	32,931	33,149	58,528	64,522	-	**115,288**	43,958	53,381	11,855	6,079	14
Currency Interest Rate Swaps (CIRS)	**133,287**	65,906	-	1,770	14,319	51,293	**164,022**	67,375	-	6,411	25,571	64,665
OTC currency options	**26,273**	2,176	3,581	13,832	6,684	-	**43,701**	4,915	5,460	24,417	8,909	-
Total currency derivatives:	**439,497**	**116,492**	**53,350**	**115,698**	**102,664**	**51,293**	**497,195**	**127,792**	**74,482**	**104,293**	**125,948**	**64,679**
Interest rate derivatives:												
Interest Rate Swap	**345,936**	2,909	2,375	19,542	175,434	145,676	**303,640**	272	5,728	17,555	169,153	110,933
Forward Rate Agreements (FRA)	**122**	-	-	122	-	-	**346**	-	-	243	103	-
OTC interest rate options	**10,332**	52	60	4,983	4,401	836	**9,479**	52	60	4,877	3,605	885
Total interest rate derivatives:	**356,390**	**2,961**	**2,435**	**24,647**	**179,835**	**146,512**	**313,465**	**324**	**5,788**	**22,675**	**172,860**	**111,818**
Other derivatives												
OTC commodity swaps	**4,999**	3,807	97	846	249	-	**4,977**	3,773	91	843	270	-
Total other derivatives:	**4,999**	**3,807**	**97**	**846**	**249**	**-**	**4,977**	**3,773**	**91**	**843**	**270**	**-**
Total trading derivatives	**800,886**	**123,261**	**55,882**	**141,191**	**282,748**	**197,804**	**815,637**	**131,889**	**80,361**	**127,811**	**299,079**	**176,497**

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

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

20. HEDGE ACCOUNTING

As at 31 December 2020, the Group used fair value hedge **(macro fair value hedge).**

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

IRS	Nominal value	Fair value	
		Assets	Liabilities
31.12.2020	17,260,690	531,793	-
31.12.2019	6,506,139	224,532	1,626

Presentation of result on the hedged and hedging transactions	The change in fair value of hedging instruments is recognised in the Result on hedge accounting. Interest on IRS transactions and current accounts is recognised in Interest income.

The below table presents derivative hedging instruments at their nominal value by residual maturity dates:

31.12.2020

Hedging derivatives	Fair value		Nominal value					
	positive	negative	< 1 month	1-3 months	3 months-1 year	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	531,793	-	13,844	-	806,376	14,347,698	2,092,772	17,260,690
Hedging derivatives - total	**531,793**	**-**	**13,844**	**-**	**806,376**	**14,347,698**	**2,092,772**	**17,260,690**

31.12.2019

Hedging derivatives	Fair value		Nominal value					
	positive	negative	< 1 month	1-3 months	3 months-1 year	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	224,532	1,626	-	400,000	1,246,294	3,343,237	1,516,608	6,506,139
Hedging derivatives - total	**224,532**	**1,626**	**-**	**400,000**	**1,246,294**	**3,343,237**	**1,516,608**	**6,506,139**

Additionally, as at 31 December 2020, the Group applies fair value hedge accounting **(micro fair value hedge)**.

Hedging relationship description	The hedges are used against interest rate risk, specifically changes in the fair value of fixed-rate assets and liabilities resulting from changes in a specific reference rate.
Hedged items	The hedged *items* are: Fixed rate bond PS0422, DS1029, WS0428, FPC0427, PFR0925.
Hedging instruments	Hedging instruments are the standard IRS transactions, i.e. plain vanilla IRS, denominated in PLN, in which the Bank receives a fixed interest rate and pays a floating rate based on WIBOR 6M.
Presentation of result on the hedged and hedging transactions	The change in fair value of hedging transactions is recognised in the Result on hedge accounting. Interest on IRS transactions and hedged items is recognised in Interest income.

IRS	Nominal value	Fair value	
		Assets	Liabilities
31.12.2020	1,750,000	-	60,027
31.12.2019	846,800	-	23,007

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

31.12.2020 PLN 482 691 thousand

31.12.2019 PLN 199 584 thousand

The below table presents derivative hedging instruments at their nominal value by residual maturity dates:

Hedging derivatives	31.12.2020							
	Fair value		Nominal value					
	positive	negative	< 1 month	1-3 months	3 months-1 year	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	-	60,027	-	-	-	950,000	800,000	1,750,000
Hedging derivatives - total	**-**	**60,027**	**-**	**-**	**-**	**950,000**	**800,000**	**1,750,000**

Hedging derivatives	31.12.2019							
	Fair value		Nominal value					
	positive	negative	< 1 month	1-3 months	3 months-1 year	1-5 years	> 5 years	Total
Interest rate agreements								
Swap (IRS)	-	23,007	561	1,122	95,117	750,000	-	846,800
Hedging derivatives - total	**-**	**23,007**	**561**	**1,122**	**95,117**	**750,000**	**-**	**846,800**

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

Fair value	31.12.2020	31.12.2019
Net interest income on hedging derivative instruments	176,659	146,794
Net interest expense on derivative hedging instruments	(99,538)	(111,998)
Change in fair value of hedging transactions recognised in the Result on hedge accounting, including:	(11,077)	(4,386)
change in fair value of hedging instruments	(246,040)	99,330
change in fair value of hedged instruments	234,963	(103,716)

21. LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST

31.12.2020			
Loans and advances to customers measured at amortised cost	Gross balance sheet value	Allowance	Net balance sheet value
Loans and advances for:			
Non-banking financial entities	**595,102**	**(1,934)**	**593,168**
current account loans	492,335	(1,577)	490,758
investment loans	96,141	(259)	95,882
other loans	6,626	(98)	6,528
Retail customers:	**33,802,097**	**(1,172,830)**	**32,629,267**
mortgage loans	22,559,727	(363,664)	22,196,063
other loans	11,242,370	(809,166)	10,433,204
Corporate customers:	**38,673,033**	**(1,863,349)**	**36,809,684**
current account loans	17,823,636	(1,135,775)	16,687,861
investment loans	13,921,875	(512,585)	13,409,290
other loans	6,927,522	(214,989)	6,712,533
including retail farmers:	**8,118,713**	**(453,098)**	**7,665,615**
current account loans	3,979,679	(229,272)	3,750,407
investment loans	4,125,187	(222,105)	3,903,082
other loans	13,847	(1,721)	12,126
Public sector institutions:	**101,382**	**(2,268)**	**99,114**
current account loans	70,300	(1,649)	68,651
investment loans	30,448	(611)	29,837
other loans	634	(8)	626
Lease receivables	**4,112,460**	**(146,424)**	**3,966,036**
Total loans and advances to customers measured at amortised cost	**77,284,074**	**(3,186,805)**	**74,097,269**

31.12.2019			
Loans and advances to customers measured at amortised cost	Gross balance sheet value	Allowance	Net balance sheet value
Loans and advances for:			
Non-banking financial entities	**576,521**	**(2,314)**	**574,207**
current account loans	275,915	(1,191)	274,724
investment loans	195,443	(614)	194,829
other loans	105,163	(509)	104,654
Retail customers:	**29,997,525**	**(1,158,392)**	**28,839,133**
mortgage loans	18,526,757	(301,880)	18,224,877
other loans	11,470,768	(856,512)	10,614,256
Corporate customers:	**40,365,447**	**(1,939,521)**	**38,425,926**
current account loans	20,395,569	(1,163,590)	19,231,979
investment loans	14,066,034	(571,781)	13,494,253
other loans	5,903,844	(204,150)	5,699,694
including retail farmers:	**8,732,840**	**(408,748)**	**8,324,092**
current account loans	4,389,269	(206,874)	4,182,395
investment loans	4,328,560	(200,839)	4,127,721
other loans	15,011	(1,035)	13,976
Public sector institutions:	**129,915**	**(1,925)**	**127,990**
current account loans	93,583	(1,294)	92,289
investment loans	35,635	(623)	35,012
Lease receivables	**3,995,444**	**(126,057)**	**3,869,387**
Total loans and advances to customers measured at amortised cost	**75,064,852**	**(3,228,209)**	**71,836,643**

Loans and advances to customers by Stages is presented below:

31.12.2020	Stage 1	Stage 2	Stage 3	Total	POCI
Loans and advances for:	**65,969,373**	**7,165,450**	**4,149,251**	**77,284,074**	**324,756**
Non-banking financial entities	593,444	33	1,625	595,102	80
Retail customers	30,416,993	1,940,388	1,444,716	33,802,097	71,872
Corporate customers:	31,474,785	4,699,506	2,498,742	38,673,033	252,760
including retail farmers	6,069,509	1,259,809	789,395	8,118,713	2
Public sector entities:	98,992	2,346	44	101,382	44
Lease receivables	3,385,159	523,177	204,124	4,112,460	-
Impairment allowance on loans and receivables for:	**(505,527)**	**(594,339)**	**(2,086,939)**	**(3,186,805)**	**(47,810)**
Non-banking financial entities	(1,213)	(3)	(718)	(1,934)	(23)
Retail customers	(197,518)	(226,981)	(748,331)	(1,172,830)	(10,127)
Corporate customers:	(274,643)	(346,822)	(1,241,884)	(1,863,349)	(37,648)
including retail farmers	(48,403)	(116,224)	(288,471)	(453,098)	(1)
Public sector entities	(1,990)	(266)	(12)	(2,268)	(12)
Lease receivables	(30,163)	(20,267)	(95,994)	(146,424)	-
Net loans and advances to customers measured at amortised cost	**65,463,846**	**6,571,111**	**2,062,312**	**74,097,269**	**276,946**

31.12.2019	Stage 1	Stage 2	Stage 3	Total	POCI
Loans and advances for:	**63,874,173**	**6,910,703**	**4,279,976**	**75,064,852**	**442,061**
Non-banking financial entities	575,529	84	908	576,521	73
Retail customers	26,877,993	1,786,916	1,332,616	29,997,525	103,974
Corporate customers:	33,009,871	4,606,005	2,749,571	40,365,447	337,974
including retail farmers	6,997,926	966,263	768,651	8,732,840	17
Public sector entities:	127,419	2,362	134	129,915	40
Lease receivables	3,283,361	515,336	196,747	3,995,444	-
Impairment allowance on loans and receivables for:	**(462,118)**	**(481,781)**	**(2,284,310)**	**(3,228,209)**	**(52,253)**
Non-banking financial entities	(1,907)	(10)	(397)	(2,314)	(21)
Retail customers	(185,466)	(206,902)	(766,024)	(1,158,392)	(11,089)
Corporate customers:	(246,545)	(248,549)	(1,444,427)	(1,939,521)	(41,137)
including retail farmers	(34,731)	(77,123)	296,894)	(408,748)	(4)
Public sector entities	(1,756)	(82)	(87)	(1,925)	(6)
Lease receivables	(26,444)	(26,238)	(73,375)	(126,057)	-
Net loans and advances to customers measured at amortised cost	**63,412,055**	**6,428,922**	**1,995,666**	**71,836,643**	**389,808**

Impairment allowance of loans and advances to customers measured at amortised cost

Change in impairment allowances	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 1 January 2020	**(462,118)**	**(481,781)**	**(2,284,310)**	**(3,228,209)**
Increase due to acquisition or origination	(319,230)	(79,283)	(123,188)	(521,701)
Decrease due to derecognition	55,275	21,739	10,794	87,808
Changes resulting from the change in credit risk (net)	211,530	28,883	(552,009)	(311,596)
Use of allowances	-	27	910,989	911,016
Other changes (including foreign exchange differences)	9,016	(83,924)	(49,215)	(124,123)
Closing balance as at 31 December 2020	**(505,527)**	**(594,339)**	**(2,086,939)**	**(3,186,805)**

Change in impairment allowances	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 1 January 2019	**(513,974)**	**(505,675)**	**(2,037,312)**	**(3,056,961)**
Increase due to acquisition or origination	(199,492)	(98,756)	(106,446)	(404,694)
Decrease due to derecognition	31,927	11,549	75,258	118,734
Changes resulting from the change in credit risk (net)	216,288	99,516	(457,651)	(141,847)
Use of allowances	-	-	203,386	203,386
Other changes (including foreign exchange differences)	3,133	11,585	38,455	53,173
Closing balance as at 31 December 2019	**(462,118)**	**(481,781)**	**(2,284,310)**	**(3,228,209)**

The total balance of long-term loans and advances due to customers as at 31 December 2020 amounted to PLN 63,711,558 thousand (PLN 62,668,563 thousand as at 31 December 2019).

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

Loans by currency	31.12.2020	31.12.2019
CHF	4,822,478	4,839,915
EUR	47,606	49,088
PLN	17,687,284	13,634,997
USD	2,359	2,757
Total	**22,559,727**	**18,526,757**

	31.12.2020			
Value of CHF loan portfolio	Gross balance sheet value	including CHF exposures	Allowance	including CHF exposures
Loans and advances for:				
Non-banking financial entities	**595,102**	**-**	**(1,934)**	**-**
current account loans	492,335	-	(1,577)	-
investment loans	96,141	-	(259)	-
other loans	6,626	-	(98)	-
Retail customers:	**33,802,097**	**4,876,681**	**(1,172,830)**	**(235,754)**
mortgage loans	22,559,727	4,822,478	(363,664)	(223,878)
other loans	11,242,370	54,203	(809,166)	(11,876)
Corporate customers:	**38,673,033**	**148,909**	**(1,863,349)**	**(12,064)**
current account loans	17,823,636	137,511	(1,135,775)	(7,502)
investment loans	13,921,875	10,068	(512,585)	(4,560)
other loans	6,927,522	1,330	(214,989)	(2)
including retail farmers:	**8,118,713**	**3,094**	**(453,098)**	**(493)**
current account loans	3,979,679	2,998	(229,272)	(493)
investment loans	4,125,187	96	(222,105)	-
other loans	13,847	-	(1,721)	-
Public sector institutions:	**101,382**	-	**(2,268)**	-
current account loans	70,300	-	(1,649)	-
investment loans	30,448	-	(611)	-
other loans	634	-	(8)	-
Lease receivables	**4,112,460**	**38,940**	**(146,424)**	**(7,448)**
Total loans and advances	**77,284,074**	**5,064,530**	**(3,186,805)**	**(255,266)**

	31.12.2019			
Value of CHF loan portfolio	Gross balance sheet value	including CHF exposures	Allowance	including CHF exposures
Loans and advances for:				
Non-banking financial entities	**576,521**	**-**	**(2,314)**	**-**
current account loans	275,915	-	(1,191)	-
investment loans	195,443	-	(614)	-
other loans	105,163	-	(509)	-
Retail customers:	**29,997,525**	**4,898,041**	**(1,158,392)**	**(173,819)**
mortgage loans	18,526,757	4,839,915	(301,880)	(164,191)
other loans	11,470,768	58,126	(856,512)	(9,628)
Corporate customers:	**40,365,447**	**148,434**	**(1,939,521)**	**(8,532)**
current account loans	20,395,569	135,201	(1,163,590)	(5,542)
investment loans	14,066,034	11,096	(571,781)	(2,986)
other loans	5,903,844	2,137	(204,150)	(4)
including retail farmers:	**8,732,840**	**3,447**	**(408,748)**	**(261)**
current account loans	4,389,269	3,306	(206,874)	(261)
investment loans	4,328,560	141	(200,839)	-
other loans	15,011	-	(1,035)	-
Public sector institutions:	**129,915**	**-**	**(1,925)**	**-**
current account loans	93,583	-	(1,294)	-
investment loans	35,635	-	(623)	-
other loans	697	-	(8)	-
Lease receivables	**3,995,444**	**42,710**	**(126,057)**	**(7,558)**
Total loans and advances	**75,064,852**	**5,089,185**	**(3,228,209)**	**(189,909)**

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

	31.12.2020	31.12.2019
Subsidised loans	1,539,848	1,974,396
Total loans and advances to customers measured at fair value through profit a loss	**1,539,848**	**1,974,396**

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

	Gross balance sheet value	Fair value
31.12.2020	1,715,680	1,539,848
31.12.2019	2,116,564	1,974,396

Subsidised loans measured through fair value	Stage 1	Stage 2	Stage 3	Total
31.12.2020	1,106,270	311,307	122,271	1,539,848
31.12.2019	1,505,517	322,161	146,718	1,974,396

23. SECURITIES MEASURED AT AMORTISED COST

31.12.2020			
Securities	Gross balance sheet value	Allowance	Net balance sheet value
issued by local banks – mortgage bonds	5,581	(89)	5,492
issued by local banks	3,836,125	-	3,836,125
issued by other financial institutions	588,445	-	588,445
issued by governments – Treasury bonds	18,640,800	(96)	18,640,704
issued by non-financial entities – bonds	213,573	(11,818)	201,755
issued by local governments – municipal bonds	88,890	(389)	88,501
Total securities measured at amortised cost	**23,373,414**	**(12,392)**	**23,361,022**

31.12.2019			
Securities	Gross balance sheet value	Allowance	Net balance sheet value
issued by local banks – mortgage bonds	5,231	(64)	5,167
issued by local banks	28,194	(296)	27,898
issued by governments – Treasury bonds	17,427,475	(72)	17,427,403
issued by non-financial entities – bonds	380,660	(21,691)	358,969
issued by local governments – municipal bonds	97,611	(403)	97,208
Total securities measured at amortised cost	**17,939,171**	**(22,526)**	**17,916,645**

31.12.2020	Stage 1	Stage 2	Stage 3	Total	Including POCI
Securities	**23,180,310**	**4,021**	**189,083**	**23,373,414**	**184,928**
issued by local banks – mortgage bonds	5,581	-	-	5,581	-
issued by local banks	3,836,125	-	-	3,836,125	-
issued by other financial institutions	588,445	-	-	588,445	-
issued by governments – Treasury bonds	18,640,800	-	-	18,640,800	-
issued by non-financial entities – bonds	20,469	4,021	189,083	213,573	184,928
issued by local governments – municipal bonds	88,890	-	-	88,890	-
Impairment allowances on securities:	**(823)**	**(446)**	**(11,123)**	**(12,392)**	**(6,968)**
issued by local banks – mortgage bonds	(89)	-	-	(89)	-
issued by governments – Treasury bonds	(96)	-	-	(96)	-
issued by non-financial entities – bonds	(249)	(446)	(11,123)	(11,818)	(6,968)
issued by local governments – municipal bonds	(389)	-	-	(389)	-
Total net securities measured at amortised cost	**23,179,487**	**3,575**	**177,960**	**23,361,022**	**177,960**

31.12.2019	Stage 1	Stage 2	Stage 3	Total	Including POCI
Securities	**17,706,009**	**24,487**	**208,675**	**17,939,171**	**204,520**
issued by local banks – mortgage bonds	5,231	-	-	5,231	-
issued by local banks	28,194	-	-	28,194	-
issued by governments – Treasury bonds	17,427,475	-	-	17,427,475	-
issued by non-financial entities – bonds	147,498	24,487	208,675	380,660	204,520
issued by local governments – municipal bonds	97,611	-	-	97,611	-
Impairment allowances on securities:	**(1,193)**	**(3,619)**	**(17,714)**	**(22,526)**	**(13,559)**
issued by local banks – mortgage bonds	(64)	-	-	(64)	-
issued by local banks	(296)	-	-	(296)	-
issued by governments – Treasury bonds	(72)	-	-	(72)	-
issued by non-financial entities – bonds	(358)	(3,619)	(17,714)	(21,691)	(13,559)
issued by local governments – municipal bonds	(403)	-	-	(403)	-
Total net securities measured at amortised cost	**17,704,816**	**20,868**	**190,961**	**17,916,645**	**190,961**

In accordance with the Banking Guarantee Fund (“BFG”) Act of 14 December 1994, as at 31 December 2020, BNP Paribas held Treasury bonds recognised in the statement of financial position in the amount of PLN 364,531 thousand (with the nominal value of PLN 370,000 thousand), securing the guaranteed funds under BFG (in 2019, in the amount of PLN 433,649 thousand, with the nominal value of PLN 440,000 thousand).

Change of securities measured at amortised cost based on the balance sheet value:	12 months ended 31.12.2020	12 months ended do 31.12.2019
Opening balance	**17,916,645**	**11,939,238**
Purchase of securities	5,776,975	6,290,069
Sale/repurchase of securities	(507,612)	(579,620)
Change in impairment allowances	10,133	(1,383)
Change on the initial value adjustment	(6,576)	6,010
Change in interest due, foreign exchange differences, discounts and bonuses	171,457	267,812
Other changes	-	(5,481)
Closing balance	**23,361,022**	**17,916,645**

Change in impairment allowances of securities measured at amortised cost	12 months ended 31.12.2020	12 months ended do 31.12.2019
Opening balance	**22,526**	**21,143**
Increases due to acquisition or origination	3,867	8,220
Decreases due to derecognition	(14,001)	(6,837)
Closing balance	**12,392**	**22,526**

The gross amount of long-term securities measured at amortised cost as at 31 December 2020 was PLN 23,351,070 thousand (PLN 17,816,858 thousand as at 31 December 2019).

24. SECURITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Securities measured at fair value through profit or loss	31.12.2020	31.12.2019
	Balance sheet value	
Bonds issued by non-financial entities	54,228	53,902
Bonds convertible for non-financial entities bonds	57,292	24,191
Equity instruments	259,512	163,334
Units	44	327
Certificates issued by non-financial entities	824	-
Total securities measured at fair value through profit or loss	**371,900**	**241,754**

Change in securities measured at fair value through profit or loss	12 months ended 31.12.2020	12 months ended 31.12.2019
Opening balance	**241,754**	**204,421**
Purchase of securities	41,429	24,995
Sale of securities	(7,513)	(11,873)
Change in measurement at fair value through profit or loss	94,000	20,629
Change in interest due, foreign exchange differences, discounts and bonuses	2,230	582
Other changes	-	3,000
Closing balance	**371,900**	**241,754**

The gross amount of long-term securities measured at fair value through profit or loss as at 31 December 2020 was PLN 106,786 thousand (PLN 74,945 thousand as at 31 December 2019).

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

	12 months ended 31.12.2020	12 months ended 31.12.2019
Classified as obligatory measured at fair value through profit or loss as at the moment of initial recognition	112,343	78,093
Classified as measured at fair value through profit or loss as at the moment of initial recognition	259,557	163,661
Total securities measured at fair value through profit or loss	**371,900**	**241,754**

25. SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Debt securities	31.12.2020	31.12.2019
Bonds issued by banks	4,319,718	530,927
Treasury bonds issued by central governments	4,685,483	7,422,431
Bonds issued by other financial institutions	1,223,359	-
Securities measured at fair value through other comprehensive income	**10,228,560**	**7,953,358**

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

Change of securities measured at fair value through other comprehensive income	12 months ended 31.12.2020	12 months ended 31.12.2019
Opening balance	**7,953,358**	**15,875,339**
Purchase of securities	50,342,450	6,224,070
Sale of securities	(48,329,550)	(14,011,831)
Change in measurement at fair value through other comprehensive income	163,408	(18,747)
Change in measurement at fair value through profit or loss	36,601	1,035
Change in interest due, foreign exchange differences, discounts and bonuses	62,293	(116,508)
Closing balance	**10,228,560**	**7,953,358**

The gross amount of securities measured at fair value through other comprehensive income as at 31 December 2020 was PLN 10,072,024 thousand (PLN 6,838,136 thousand as at 31 December 2019).

The table below presents gains and losses related to securities measured at fair value through other comprehensive income, which in the given period were recognised directly in equity, and then were derecognised and recognised in profit or loss for a given period of 12 months until 31 December 2020 and 31 December 2019.

Securities measured at fair value through other comprehensive income	12 months ended 31.12.2020	12 months ended 31.12.2019
Profits included directly in equity and then transferred from equity to the statement of profit or loss	76,998	2,862
Losses included directly in equity and then transferred from equity to the statement of profit or loss	(1,229)	(2,147)
Total securities measured at fair value through other comprehensive income	**75,769**	**715**

26. INVESTMENT PROPERTIES

In 2020, the Group has sold the investment property in the form of an undeveloped land with an area of 46.85 ha in Wrocław Marszowice. The contractual acquisition price was determined at the level of PLN 46,200 thousand. Loss due to the sale of the investment property amounted to PLN 10,377 thousand.

	12 months ended 31.12.2020	12 months ended 31.12.2019
Opening balance	**56,577**	**55,868**
Valuation update	-	709
Sale	(56 577)	-
Closing balance, including	**-**	**56,577**
acquisition price	-	12,246
revaluation to fair value	-	44 331

27. INTANGIBLE ASSETS

Intangible assets	31.12.2020	31.12.2019
Licenses	420,429	279,675
Other intangible assets	7,951	8,299
Expenditure on intangible assets	223,228	231,971
Total intangible assets	**651,608**	**519,945**

Intangible assets

12 months ended 31.12.2020	Licenses	Other intangible assets	Expenditure on intangible assets	Total
Gross book value				
As at 1 January	**1,313,359**	**20,673**	**233,656**	**1,567,688**
Increases:	270,939	3,334	282,182	556,455
reclassification from expenditure	264,313	3,198	-	267,512
purchase	6,480	42	249,357	255,880
other	145	94	32,825	33,064
Decreases:	(102,484)	(575)	(292,609)	(395,668)
reclassification from expenditure	-	-	(267,512)	(267,512)
sale, liquidation, donation, shortage	(102,484)	(561)	(3,636)	(106,681)
other	-	(14)	(21,461)	(21,475)
As at 31 December	**1,481,814**	**23,432**	**223,228**	**1,728,474**
Accumulated amortisation (-)				
As at 1 January	**1,033,684**	**12,329**	**-**	**1,046,013**
Changes:	27,701	3,153	-	30,854
amortisation for the financial year	124,553	8,279	-	132,832
sale, liquidation, donation, shortage	(96,852)	(366)	-	(97,218)
other	-	(4,760)	-	(4,760)
As at 31 December	**1,061,385**	**15,482**	**-**	**1,076,867**
Impairment allowances (-)				
As at 1 January	**-**	**46**	**1,685**	**1,730**
Balance changes:	-	(46)	(1,685)	(1,731)
impairment allowance recalculation	-	(46)	(1,685)	(1,731)
As at 31 December	**-**	**-**	**-**	**-**
Net book value				
As at 1 January	**279,675**	**8,299**	**231,971**	**519,945**
As at 31 December	**420,429**	**7,951**	**223,228**	**651,608**

Intangible assets

12 months ended 31.12.2019	Licenses	Other intangible assets	Expenditure on intangible assets	Total
Gross book value				
As at 1 January	**1,237,539**	**43,669**	**181,430**	**1,462,638**
Increases:	193,361	3,206	249,587	446,154
reclassification from expenditure	183,422	2,556	-	185,978
purchase	9,908	472	249,587	259,967
reclassification from fixed assets	4	178	-	182
acquisition due to merger	27	-	-	27
Decreases:	(117,541)	(26,202)	(197,361)	(341,104)
reclassification from expenditure	-	-	(185,978)	(185,978)
sale, liquidation, donation, shortage	(117,541)	(26,194)	(1,455)	(145,190)
other	-	(8)	(9,928)	(9,936)
As at 31 December	**1,313,359**	**20,673**	**233,656**	**1,567,688**
Accumulated amortisation (-)				
As at 1 January	**904,726**	**34,833**	**-**	**939,559**
Changes:	128,958	(22,504)	-	106,454
amortisation for the financial year	224,295	3,112	-	227,407
sale, liquidation, donation, shortage	(95,364)	(25,616)	-	(120,980)
acquisition due to merger	27	-	-	27
As at 31 December	**1,033,684**	**12,329**	**-**	**1,046,013**
Impairment allowances (-)				
As at 1 January	**-**	**595**	**1,717**	**2,312**
Balance changes:	-	(549)	(32)	(582)
impairment allowance recalculation	-	(549)	(32)	(582)
As at 31 December	**-**	**46**	**1,685**	**1,730**
Net book value				
As at 1 January	**332,813**	**8,241**	**179,713**	**520,767**
As at 31 December	**279,675**	**8,299**	**231,971**	**519,945**

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

As at 31 December 2020, the Group had significant contractual obligations incurred in connection with the acquisition of intangible assets in the amount of PLN 1,394 thousand (no such significant obligations as at 31 December 2019).

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28. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	31.12.2020	31.12.2019
Fixed assets, including:	507,441	542,519
land and buildings	129,709	202,586
IT equipment	162,182	145,474
office equipment	51,526	41,593
other, including leasehold improvements	164,024	152,866
Fixed assets under construction	47,450	94,174
Right of use, including:	924,649	590,053
land and buildings	907,828	572,275
motor vehicles	16,728	13,487
IT equipment	-	4,104
other, including leasehold improvements	93	187
Total property, plant and equipment	**1,479,540**	**1,226,746**

The increase in the right-of-use asset in 2020 is largely due to the conclusion of the lease agreement for the Bank's new headquarters.

Changes in property, plant and equipment in 2020 and 2019 were presented below:

Property, plant and equipment and fixed assets under construction

12 months ended 31.12.2020	Land and buildings	Property, plant and equipment	Fixed assets under construction	Total
Gross book value				
As at 1 January	**412,810**	**1,259,850**	**94,250**	**1,766,910**
Increases:	9,827	167,068	108,128	285,023
reclassification from fixed assets under construction	9,750	135,991	-	145,741
purchase	-	20,920	94,262	115,182
other	77	10,157	13,866	24,100
Decreases:	(155,744)	(208,714)	(154,887)	(519,345)
reclassification from fixed assets under construction	-	-	(145,741)	(145,741)
sale, liquidation, donation, shortage, theft	(155,630)	(192,511)	-	(348,141)
other	(114)	(16,203)	(9,146)	(25,463)
As at 31 December	**266,893**	**1,218,204**	**47,491**	**1,532,588**
Accumulated depreciation (-)				
As at 1 January	**199,753**	**918,992**	**-**	**1,118,745**
Balance changes:	(75,735)	(79,885)	-	(155,620)
depreciation for the financial year	7,193	101,245	-	108,438
sale, liquidation, donation, shortage	(82,928)	(181,130)	-	(264,058)
As at 31 December	**124,018**	**839,107**	**-**	**963,125**
Impairment allowances (-)				
As at 1 January	**10,471**	**925**	**76**	**11,472**
Balance changes:	2,695	440	(35)	3,100
impairment allowance recalculation	2,695	440	(35)	3,100
As at 31 December	**13,166**	**1,365**	**41**	**14,572**
Net book value				
As at 1 January	**202,586**	**339,933**	**94,174**	**636,693**
As at 31 December	**129,709**	**377,732**	**47,450**	**554,891**

Property, plant and equipment and fixed assets under construction				
12 months ended 31.12.2019	Land and buildings	Property, plant and equipment	Fixed assets under construction	Total
Gross book value				
As at 1 January	**410,931**	**1,335,821**	**36,707**	**1,783,459**
Increases:	10,992	188,231	209,325	408,548
reclassification from fixed assets under construction	10,751	139,499	-	150,250
purchase	-	31,090	201,202	232,292
other	241	17,642	8,123	26,006
Decreases:	(9,113)	(264,202)	(151,782)	(425,097)
reclassification from fixed assets under construction	-	-	(150,250)	(150,250)
sale, liquidation, donation, shortage, theft	(8,271)	(251,116)	-	(259,387)
other	(842)	(13,086)	(1,532)	(15,460)
As at 31 December	**412,810**	**1,259,850**	**94,250**	**1,766,910**
Accumulated depreciation (-)				
As at 1 January	**194,087**	**1,052,285**	**-**	**1,246,372**
Balance changes:	5,666	(133,293)	-	(127,627)
depreciation for the financial year	9,672	91,540	-	101,212
sale, liquidation, donation, shortage	(4,006)	(224,855)	-	(228,861)
acquisition as a result of merger	-	22	-	22
As at 31 December	**199,753**	**918,992**	**-**	**1,118,745**
Impairment allowances (-)				
As at 1 January	**11,672**	**14,089**	**51**	**25,812**
Balance changes:	(1,201)	(13,164)	25	(14,340)
impairment allowance recalculation	(1,201)	(13,164)	25	(14,340)
As at 31 December	**10,471**	**925**	**76**	**11,472**
Net book value				
As at 1 January	**205,172**	**269,447**	**36,656**	**511,275**
As at 31 December	**202,586**	**339,933**	**94,174**	**636,693**

As at 31 December 2020, the Group had significant contractual obligations incurred in connection with the acquisition of property, plant and equipment in the amount of PLN 1,165 thousand (no such significant obligations as at 31 December 2019).

Right of use					
12 months ended 31.12.2020	Land and buildings	Motor vehicles	IT equipment	Other, including leasehold improvements	Total
Gross book value					
As at 1 January	**690,351**	**18,630**	**6,556**	**280**	**715,817**
Increases:	503,318	11,569	-	-	514,887
Decreases:	(77,548)	(2,591)	(6,556)	-	(86,695)
As at 31 December	**1,116,121**	**27,608**	**-**	**280**	**1,144,009**
Accumulated depreciation (-)					
As at 1 January	**110,891**	**5,143**	**2,452**	**93**	**118,579**
Balance changes:	91,487	5,737	(2,452)	94	94,866
depreciation for the financial year	118,001	7,886	707	94	126,688
other	(26,514)	(2,075)	(3,159)	-	(31,748)
sale, liquidation, donation, shortage	-	(74)	-	-	(74)
As at 31 December	**202,378**	**10,880**	**-**	**187**	**213,445**
Impairment allowances (-)					
As at 1 January	**7,185**	**-**	**-**	**-**	**7,185**
Balance changes:	(1,271)	-	-	-	(1,271)
recognition of impairment allowance	2,731	-	-	-	2,731
reversal of impairment allowance	(4,002)	-	-	-	(4,002)
As at 31 December	**5,914**	**-**	**-**	**-**	**5,914**
Net book value					
As at 1 January	**572,275**	**13,487**	**4,104**	**187**	**590,053**
As at 31 December	**907,828**	**16,728**	**-**	**93**	**924,649**

Right of use					
12 months ended 31.12.2019	Land and buildings	Motor vehicles	IT equipment	Other, including leasehold improvements	Total
Gross book value					
As at 1 January	**580,570**	**20,783**	**6,540**	**279**	**608,172**
Increases:	142,925	5,706	16	1	148,648
Decreases:	(33,144)	(7,859)	-	-	(41,003)
As at 31 December	**690,351**	**18,630**	**6,556**	**280**	**715,817**
Accumulated depreciation (-)					
As at 1 January	**-**	**-**	**-**	**-**	**-**
Balance changes:	110,891	5,143	2,452	93	118,579
depreciation for the financial year	115,612	6,696	2,452	93	124,853
other	(4,721)	(1,503)	-	-	(6,224)
sale, liquidation, donation, shortage	-	(50)	-	-	(50)
As at 31 December	**110,891**	**5,143**	**2,452**	**93**	**118,579**
Impairment allowances (-)					
As at 1 January	**10,503**	**-**	**-**	**-**	**10,503**
Balance changes:	(3,318)	-	-	-	(3,318)
recognition of impairment loss	6,530	-	-	-	6,530
reversal of impairment loss	(9,848)	-	-	-	(9,848)
As at 31 December	**7,185**	**-**	**-**	**-**	**7,185**
Net book value					
As at 1 January	**570,067**	**20,783**	**6,540**	**279**	**597,669**
As at 31 December	**572,275**	**13,487**	**4,104**	**187**	**590,053**

29. LEASES

Bank as a lessee

Bank is a contractual party of leasing agreements related to such base assets as:

- property,
- vehicles,
- land, including perpetual usufruct right to land,
- cash deposit machines,
- equipment,
- IT equipment.

The leasing period of vehicles equals 1 to 5 years. Leasing agreements contain extension options. In respect of vehicles, the Bank concludes also leaseback agreements.

The Bank is also a party to real estate leasing agreements. The contracts are concluded for both a definite period of 1 to 30 years and indefinite period. In the case of contracts concluded for an indefinite period, the Bank determines the leasing period based on the notice period. The agreements provide for variable leasing fees depending on the index (e.g. CSO, HICP).

The Bank has also land lease agreements concluded for an indefinite period, and perpetual usufruct rights for land received for the period of 40 to 100 years. Lease payments are indexed in accordance with the land management act.

	31.12.2020	31.12.2019
Costs of leasing recognised in profit and loss account	**(137,899)**	**(143,417)**
- cost of interest from leasing liabilities	(6,694)	(8,704)
- cost of amortisation of assets due to the right of use	(126,688)	(124,853)
- costs related to short-term leases (recognised as administrative costs)	(5,577)	(9,860)

Undiscounted lease payments by maturity	31.12.2020	31.12.2019
up to 1 year	126,132	118,827
from 1 year to 5 years	493,225	350,628
over 5 years	397,542	198,954
Total	**1,016,899**	**668,409**

	31.12.2020	31.12.2019
Book value of liabilities due to discounted lease	**968,749**	**602,192**

Bank as a lessor

Lease contracts under which substantially all the risk and rewards of ownership are transferred to the lessee are classified as finance leases. The statement of financial position includes the value of receivables equal to the net leasing investment. The revenue recognition from finance lease agreements reflects the constant periodic rate of return on the net leasing investment made by the Bank under finance leases.

The Bank does not offer operational leasing products, i.e. those in which substantially all the risks and rewards of ownership are not transferred to the lessee.

Finance lease receivables	31.12.2020	31.12.2019
Gross receivables due to finance lease	4,266,524	4,212,586
Unrealised financial income	(154,064)	(217,142)
Present value of minimum lease payments	**4,112,460**	**3,995,444**
Impairment allowance	(146,424)	(126,057)
Total finance lease receivables	**3,966,036**	**3,869,387**

Gross finance lease receivables by maturity	31.12.2020	31.12.2019
up to 1 year	1,527,068	1,749,770
from 1 year to 5 years	2,543,841	2,270,297
over 5 years	195,615	192,519
Total gross finance lease receivables	**4,266,524**	**4,212,586**

30. OTHER ASSETS

Other assets:	31.12.2020	31.12.2019
Receivables from contracts with customers:		
sundry debtors	192,405	332,647
accrued income	97,405	116,651
payment card settlements	31,254	30,566
social insurance settlements	5,562	6,387
Other:		
interbank and intersystem settlements	293,842	288,740
deferred expenses	32,842	41,617
tax and other regulatory receivables	50,653	74,232
other lease receivables	9,506	34,738
other	109,861	68,344
Total other assets (gross)	**823,330**	**993,922**
Impairment allowances on other receivables from other debtors	(36,491)	(109,077)
Total other assets (net)	**786,839**	**884,845**

31. AMOUNTS DUE TO CENTRAL BANK

Amounts due to Central Bank	31.12.2020	31.12.2019
Current account overdraft	84,675	-

32. AMOUNTS DUE TO OTHER BANKS

Amounts due to other banks	31.12.2020	31.12.2019
Current accounts	806,438	593,160
Interbank deposits	1,615,771	-
Loans and advances received	4,081,845	3,682,321
Other liabilities	320,840	209,783
Total amounts due to other banks	**6,824,894**	**4,485,264**

There were no breaches of contractual provisions and covenants related to the financial situation of the Group and disclosure obligations in 2020 and 2019.

The amount of long-term liabilities due to other banks as at 31 December 2020 equals PLN 2,950,936 thousand (PLN 2,762,825 thousand as at 31 December 2019).

33. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers	31.12.2020	31.12.2019
OTHER FINANCIAL INSTITUTIONS	**1,528,698**	**2,443,792**
Current accounts	1,335,032	375,256
Term deposits	184,356	2,068,517
Other liabilities	9,310	19
RETAIL CUSTOMERS	**43,578,829**	**42,350,458**
Current accounts	35,826,600	27,275,384
Term deposits	7,327,267	14,753,587
Other liabilities	424,962	321,487
CORPORATE CUSTOMERS	**43,677,506**	**40,338,786**
Current accounts	40,222,097	29,239,743
Term deposits	2,723,760	10,336,908
Other liabilities	731,649	762,135
including RETAIL FARMERS	**2,464,474**	**1,942,191**
Current accounts	2,388,764	1,827,333
Term deposits	60,296	105,709
Other liabilities	15,414	9,149
PUBLIC SECTOR INSTITUTIONS	**1,265,971**	**1,001,948**
Current accounts	1,111,576	788,034
Term deposits	148,718	212,777
Other liabilities	5,677	1,137
Total amounts due to customers	**90,051,004**	**86,134,984**

The amount of long-term amounts due to customers as at 31 December 2020 equals PLN 378,908 thousand (PLN 873,204 thousand as at 31 December 2019).

34. DEBT SECURITIES ISSUED

	31.12.2020	31.12.2019
Debt securities	**1,318,380**	**2,179,052**

Changes in the balance of debt securities issued	12 months ended 31.12.2020	12 months ended 31.12.2019
Opening balance	**2,179,052**	**2,179,424**
Redemption of certificates of deposit	(860,509)	-
Changes in discount, interests, commission and fees on certificates of deposit amortised using EIR, foreign currency exchange differences	(163)	(372)
Closing balance	**1,318,380**	**2,179,052**

35. SUBORDINATED LIABILITIES

	31.12.2020	31.12.2019
Subordinated liabilities	**4,306,539**	**1,882,064**

Change in the balance of subordinated liabilities	12 months ended 31.12.2020	12 months ended 31.12.2019
Opening balance	**1,882,064**	**1,875,769**
Loans received	2,300,000	-
Change in the balance of interest	1,795	(1,110)
Exchange differences	122,680	7,405
Closing balance	**4,306,539**	**1,882,064**

36. OTHER LIABILITIES

Other liabilities	31.12.2020	31.12.2019
Liabilities due to contracts with customers		
Sundry creditors	221,943	214,377
Payment card settlements	128,516	104,886
Deferred income	91,687	114,931
Escrow account liabilities	3,431	9,830
Social insurance settlements	30,625	27,440
Other liabilities		
Interbank and intersystem settlements	30,265	480,839
Provisions for non-personnel expenses	342,771	341,305
Provisions for other employees-related liabilities	215,090	336,827
Provision for unused annual holidays	42,481	44,570
Other regulatory liabilities	49,345	64,183
Other lease liabilities	18,100	39,511
Other	94,989	114,715
Total other liabilities	**1,269,243**	**1,893,414**

37. PROVISIONS

	31.12.2020	31.12.2019
Provision for restructuring	82,918	113,076
Provision for retirement benefits and similar obligations	18,188	16,209
Provision for contingent financial liabilities and guarantees granted	214,443	233,179
Provisions for litigation and claims	335,629	166,073
Other provisions	8,232	2,524
Total provisions	**659,410**	**531,061**

Provisions for restructuring	12 months ended 31.12.2020	12 months ended 31.12.2019
Opening balance	**113,076**	**171,889**
Provisions recognition	48,590	6,929
Provisions utilisation	(59,882)	(54,267)
Provisions release	(18,839)	(687)
Other changes	(27)	(10,788)
Closing balance	**82,918**	**113,076**

Provision for retirement benefits and similar obligations	12 months ended 31.12.2020	12 months ended 31.12.2019
Opening balance	**16,209**	**14,703**
Provisions recognition	4,514	3,286
Provisions utilisation	(1,025)	-
Provisions release	(1,510)	(1,780)
Closing balance	**18,188**	**16,209**

Provisions for financial liabilities and guarantees granted	12 months ended 31.12.2020	12 months ended 31.12.2019
Opening balance	**233,179**	**149,530**
Provisions recognition	96 415	491,420
Provisions release	(82,951)	(392,438)
Change of credit risk	(35,887)	(15,105)
Other changes	3,687	(228)
Closing balance	**214,443**	**233,179**

Provisions for litigation and claims	12 months ended 31.12.2020	12 months ended 31.12.2019
Opening balance	**166,073**	**62,156**
Provisions recognition	218,936	136,719
Provisions utilisation	(38,092)	(19,758)
Provisions release	(11,288)	(19,850)
Other changes	-	6,806
Closing balance	**335,629**	**166,073**

Other provisions	12 months ended 31.12.2020	12 months ended 31.12.2019
Opening balance	**2,524**	**39,134**
Provisions recognition	4,644	8,318
Provisions utilisation	(25)	-
Provisions release	(738)	(35,136)
Other changes	1,827	(9,792)
Closing balance	**8,232**	**2,524**

38. DEFERRED INCOME TAX

Changes in deferred income tax in the financial year:

Deferred tax assets	Deferred tax basis as at 31 December 2020	Deferred tax basis as at 31 December 2019	Charge arising from changes in asset in 2020
Outstanding interest accrued on liabilities, including CD interest and discount	347,885	386,586	(7,353)
Fair value measurement of derivative instruments and securities*	1,069,542	514,985	105,366
Unrealised liabilities due to hedged items and hedging instruments	482,691	201,332	53,458
Impairment allowances on financial assets and provisions for contingent liabilities (non-deductible), which are probable to occur	3,397,655	3,765,364	(69,865)
Revenue collected in advance and measured at amortised cost including the effective interest rate	347,625	587,767	(45,627)
Provision for retirement benefits and provision for restructuring	93,482	121,399	(5,304)
Other provisions for personnel costs	254,917	272,559	(3,352)
Provisions for non-personnel expenses	337,319	530,701	(36,742)
Impairment allowance on fixed and intangible assets	14,669	13,529	217
Impairment allowance on shares in subsidiaries and associates*	61,375	47,671	2,604
Tax on civil law transactions – acquisition of shares in subsidiaries	-	77	(15)
Compensations paid	3,051	8,812	(1,095)
Impairment allowance on lease receivables	105,391	90,477	2,834
Impairment allowance on available for sale assets related to leasing operations	70,620	58,110	2,377
Surplus of the tax value of leased fixed assets over the book value of receivables	619,332	776,281	(29,820)
Lease down-payments	37,121	28,137	1,706
Deferred income from leasing operations	21,712	19,750	372
Lease liabilities	958,280	608,343	66,488
Impairment allowances on other assets	8,451	5,509	559
Valuation of securities measured through other comprehensive income	41,612	8,971	6,202
Other deductible temporary differences	130,177	72,640	10,414
Total:	**8,402,907**	**8,119,000**	**53,424**
Asset basis recognised in profit or loss (in the current and preceding years) and charge arising from changes in asset*	8,361,294	8,110,014	47,225
Basis for assets recognised in correspondence with revaluation reserve and charge arising from changes in asset	41,613	8,986	6,199

*the amount of OB in the amount of PLN 15,603 thousand in item: Impairment allowance of shares and interests in subsidiaries and associates was transferred to the item Fair value measurement of derivative instruments and securities

Unrecognised deferred tax asset is related to impairment allowances on loans and advances whose non-recoverability will not become probable in the future. The related unrecognised temporary differences amounted to PLN 33,219 thousand as at 31 December 2020 as compared to PLN 40,586 thousand as at 31 December 2019.

Deferred tax liability	Deferred tax basis as at 31 December 2020	Deferred tax basis as at 31 December 2019	Charge arising from changes in asset in 2020
Accrued revenue from interest on amounts due	(1,098,424)	(1,214,838)	(22,119)
Fair value measurement of derivative instruments and securities**	(1,713,544)	(716,101)	189,514
Valuation of securities measured through other comprehensive income***	(353,222)	(157,173)	37,249
Difference between accounting and tax depreciation of the Bank's own fixed assets	(301,636)	(231,583)	13,310
Accrued income – other	(33)	(652)	(118)
Net value of right of use (RoU)	(930,406)	(596,251)	63,489
R&D expenses	(4,178)	(5,604)	(271)
Unrealised liabilities related to hedged items and hedging instruments**	-	(1,748)	(332)
Deferred costs of leasing operations	(48,836)	(45,670)	601
Other taxable temporary differences***	(26,907)	(56,829)	(5,684)
Total:	**(4,477,186)**	**(3,026,449)**	**275,640**
Basis for the provision recognised in profit or loss (in the current and preceding years) and chargé arising from changes in the provision	(4,119,663)	(2,862,849)	238,796
Basis for the provision charged to revaluation reserve and chargé arising from changes in the provision	(357,523)	(163,600)	36,844

** - the amount of OB in the amount of PLN 3 587 thousand in item: Unrealised liabilities related to hedged items and hedging instruments was transferred to the item Fair value measurement of derivative instruments and securities

*** - a transfer of the pension provision for retirement benefits from the item Valuation of securities measured through other comprehensive income to the item Other taxable temporary differences

Deferred tax assets	**1,596,551**	**1,543,129**
Deferred tax liability	**(850,945)**	**(574,708)**
Net deferred tax assets	**745,606**	**968,420**

39. DISCONTINUED OPERATIONS

The Group did not discontinue any operations in 2020 or 2019.

40. SHARE-BASED PAYMENTS

The Bank has adopted the "Remuneration policy for individuals with a material impact on the risk profile of BNP Paribas S.A.".

The principles and assumptions contained in the Policy guarantee the existence of a rational, balanced and controllable remuneration policy, consistent with the accepted risk level, standards and values of BNP Paribas S.A. and relevant laws and regulations, in particular the Minister of Development and Finance Regulation dated 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimating internal capital in banks and recommendations included in the CRD4 Directive.

Pursuant to *the Remuneration policy for Individuals with a significant impact on the Bank's risk profile* as amended on 31 December 2019 and regulations adopted on its basis, i.e. *the Rules of assigning and paying variable remuneration components to members of the Board of BNP Paribas Bank Polska S.A.* and *the Rules of assigning and paying variable remuneration components to individuals with a significant impact on the risk profile other than the members of the Board of BNP Paribas Bank Polska S.A.*, the form of a financial instrument in which a part of the variable remuneration is paid has been changed from phantom shares to ordinary shares (the change does not apply to persons who have terminated their cooperation with the Bank).

On 31 January 2020, the Extraordinary General Meeting of the Bank adopted a resolution on the introduction of *the Incentive Scheme for persons significantly Impacting the Bank's risk profile (MRT)*.

The 2019 variable remuneration convertible into a financial instrument was granted in actual shares of the Bank, excluding those employees who left the Bank (phantom shares granted).

Phantom share-based programme

As at 31 December 2019, there was a variable remuneration scheme in force, granted in the form of a financial instrument - phantom shares, which will be settled in subsequent periods.

The variable remuneration granted in form of phantom shares is paid as cash equivalent with a value corresponding to the number of shares granted. The payment shall be made after the expiry of the retention period.

Financial instruments (phantom shares) - programme amendments in 2020 and 2019.

	31.12.2020		31.12.2019	
	Financial instrument		Financial instrument	
	units	value (PLN '000)	units	value (PLN '000)
Opening balance	**294,738**	**15,628**	**182,913**	**10,684**
granted in the period	13,586	928	170,853	8,440
executed during the period	(88,026)	(5,101)	(59,028)	(3,496)
Closing balance	**220,298**	**11,455**	**294,738**	**15,628**

In 2020, payments in the amount of PLN 5.101 thousand were made due to exercising rights to deferred phantom shares (under the programme for 2015, 2016 and 2017). In 2020, in connection with the award of variable remuneration for 2019, 13.586 phantom shares were awarded.

The table below presents the terms of the Stock Purchase Plan in 2020

Transaction type in line with IFRS 2	Share-based payments settled in cash
Plan issued on	21 June 2012 - the Resolution of the Supervisory Board approving the Remuneration Policy
The commencement date for granting phantom shares	11 March 2020
The end date for granting phantom shares	18 March 2020

Programme based on the Bank's shares

There is currently a new variable remuneration scheme in place for the Bank's employees with a significant impact on risk profile. The variable remuneration is divided into a part granted in the form of a financial instrument (Bank shares) and the remaining part granted in cash.

The right to variable remuneration expressed in the form of the Bank's shares is granted by issuing subscription warrants in a number corresponding to the number of shares granted, one warrant entitles to acquire one share. The payment of the variable remuneration expressed in the form of the Bank's shares, i.e. taking up the Bank's shares through the exercise of rights from subscription warrants, takes place after the expiry of the retention period.

The Bank will grant the participants of the Incentive Scheme subscription warrants, which will result in the right to acquire a new Series M shares issued by the Bank under the conditional share capital increase. The number of Series M shares shall not exceed 576.000. The rights to acquire Series M shares shall be granted taking into account the principles of dividing the variable remuneration into the non-deferred and deferred portions, as defined in the Remuneration Policy and the regulations adopted on its basis. Series M shares will constitute a component of variable remuneration for persons having a significant impact on the Bank's risk profile within the meaning of the Regulation of the Minister of Finance dated 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 2017, item 637, as amended).

In order to implement the Incentive Programme, the Extraordinary General Meeting of the Bank also adopted resolutions on the issue of subscription warrants and conditional increase of the share capital through the issue of Series M shares, depriving the existing shareholders of the subscription right to warrants and to Series M shares, amending the Bank's Articles of Association and dematerialising and applying for the admission of Series M shares to trading on a regulated market.

Warrants and shares will be issued to eligible persons in 2021-2026, on dates specified in the aforementioned resolutions. The first subscription warrants of Series A1 and A2 shall be issued by 31 March 2021, and the rights resulting from Series A1 warrants may be exercised from 1 April 2021 to 30 September 2021.

On 24 April 2020, the Bank obtained a decision of the Polish Financial Supervision Authority on the amendments to the Articles of Association resulting from this Resolution, and on 14 May 2020 the conditional share capital increase was registered by the Court.

The amount and the division into the non-deferred and deferred portions of variable remuneration for employees identified as MRT is determined in accordance with the Bank's Remuneration Policy and regulations adopted on its basis. The regulations contain information on the annual bonus levels assigned to particular appraisals:

1. the part constituting at least 50% is assigned in the form of the Bank's shares (which will be acquired by exercising rights from subscription warrants);
2. the part of variable remuneration not less than 40% of that remuneration is deferred. The deferral period is at least 3 years. In the case of assignment of variable remuneration in an amount higher than the amount considered as particularly high, the deferral period is a maximum of 5 years. The deferred portion of the variable remuneration shall be divided into equal portions according to the number of years of the deferral period.

In order to ensure uniform and lawful conditions for the acquisition of the right to remuneration and its payment, remuneration shall be paid to persons having a material impact on the risk profile of the Bank taking into account the principles of suitability, proportionality and non-discrimination.

The Bank's rules include the possibility to withhold or limit the payment of variable remuneration where the Bank does not meet the combined buffer requirement:

1. The Bank shall be prohibited from paying assigned variable remuneration in excess of the maximum amount to be paid (the so-called MDA) in a situation where the Bank does not meet the combined buffer requirement within the meaning and under the rules set out in Articles 55 and 56 of the Act on macro-prudential supervision.
2. In the event when the Bank does not meet the combined buffer requirement, then before the MDA is calculated, the Bank:

- does not undertake commitments to pay variable remuneration or discretionary pension benefits;
- does not make variable remuneration payments if the obligation to pay them arose during the period in which the Bank did not meet the combined buffer requirement.

If the legal relationship between the Bank and a given person having a material impact on the Bank's risk profile ceases to exist or if the position is excluded from the list, the remuneration is paid provided that the requirements specified in the Remuneration Policy for persons having a material impact on the risk profile of BNP Paribas Bank Polska S.A. are met.

A person is entitled to variable remuneration, provided that he/she has not been charged and is not subject to criminal or disciplinary sanctions.

The number of warrants granted for 2019 under the non-deferred portion of variable remuneration to be issued in 2021 is maximum 94.108 pieces.

In the period up to 31 December 2020, in connection with the variable remuneration granted for 2019 and estimated for 2020, the Bank recognised the amount of PLN 7.528 thousand in costs and equity, with the bonus for 2020 (the so-called grant date) to be granted in 2021.

Financial instruments (shares - deferred portion) as at 31 December 2020 determined in relation to the deferred part of the variable remuneration for 2019.

	31.12.2020	
	Financial instruments	
	units	value (PLN ‘000)
Opening balance	-	-
granted in the period	68,910	4,638
Closing balance	**68,910**	**4,638**

The table below presents the terms and conditions of the Share/Warrants Purchase Plan for 2020

Type of transaction under IFRS 2	Share-based payments
Programme announcement date	31 January 2020 – the Resolution of the Supervisory Board approving the Remuneration Policy.
The commencement date for granting of shares	11 March 2020
The end date for granting shares	18 March 2020

41. CONTINGENT LIABILITIES

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

Contingent liabilities	31.12.2020	31.12.2019
Contingent commitments granted	**38,053,674**	**31,087,503**
Financial commitments	30,220,021	24,293,205
Guarantees	7,833,653	6,794,298
Contingent commitments received	**21 911,007**	**21,443,112**
Financial commitments	13,037,589	12,127,379
Guarantees	8,873,418	9,315,733

The amount of contingent liabilities granted as at 31 December 2020 equals PLN 15,903,598 thousand (PLN 14,049,630 thousand as at 31 December 2019), while the amount of contingent liabilities received by the Bank as at 31 December 2020 equals PLN 20,249,636 thousand (PLN 18,515,956 thousand as at 31 December 2019).

42. COLLATERALS

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

Assets of the Group pledged as collaterals

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

Assets pledged as collaterals	31.12.2020	31.12.2019
Guaranteed amount protection fund – Bank Guarantee Fund (BFG)		
nominal value of collateral	370,000	440,000
type of collateral	Treasury bonds	
maturity	2028-04-25	2028-04-25
balance sheet value of collateral	364,531	433,649
Collateral of BM BNP Paribas S.A. transactions in securities deposited with the national depository for securities (KDPW) as part of the stock exchange guarantee fund		
cash	3,265	3,265
Collateral for derivative transaction settlement		
nominal value of collateral	344,005	62,795
type of collateral	call deposits (amounts due from other banks)	
Collateral of SPV settlements for securitization		
nominal value of collateral	1,318,022	2,178,530
type of collateral	receivables that are the subject to a securitization transaction	

Assets of the customer pledged as collaterals

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

43. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1
Assets and liabilities measured on the basis of market quotations available on active markets for identical instruments.

Level 2
Assets and liabilities measured using valuation techniques based on directly or indirectly observed market quotations or other information based on market quotations.

Level 3
Assets and liabilities measured using valuation techniques where input data is not based on observable market data.

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

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

In 2020, the Group did not make any changes in the method of fair value measurement that would result in the transfer of financial assets and liabilities between levels.

On 31 December 2020, particular instruments were included in the following valuation levels:

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

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

31.12.2020	Level 1	Level 2	Level 3	Total
Assets measured at fair value:	**10,228,604**	**1,681,443**	**2,293,671**	**14,203,718**
Derivative financial instruments	-	1,244,523	287,094	1,531,617
Hedging instruments	-	436,920	94,873	531,793
Securities measured at fair value through other comprehensive income	10,228,560	-	-	10,228,560
Securities measured at fair value through profit or loss	44	-	371,856	371,900
Loans and advances to customers measured at fair value through profit or loss	-	-	1,539,848	1,539,848
Liabilities measured at fair value:	**-**	**1,233,070**	**348,105**	**1,581,175**
Derivative financial instruments	-	1,173,043	348,105	1,521,148
Hedging instruments	-	60,027	-	60,027

31.12.2019	Level 1	Level 2	Level 3	Total
Assets measured at fair value:	**7,953,400**	**633,897**	**2,664,206**	**11,251,503**
Derivative financial instruments	-	500,072	300,814	800,886
Hedging instruments	-	133,540	90,992	224,532
Securities measured at fair value through other comprehensive income	7,953,358	-	-	7,953,358
Securities measured at fair value through profit or loss	42	285	241,427	241,754
Loans and advances to customers measured at fair value through profit or loss	-	-	1,974,396	1,974,396
Investment properties	-	-	56,577	56,577
Liabilities measured at fair value:	**-**	**532,589**	**307,681**	**840,270**
Derivative financial instruments	-	509,582	306,055	815,637
Hedging instruments	-	23,007	1,626	24,633

In the case of some derivatives there was a change of valuation level from 3 to 2 due to reduction of time to maturity. Two of the transactions migrated from valuation level 2 to level 3 due to applied fair value adjustment for credit risk.

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

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

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

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

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

31.12.2020	Derivative financial instruments – assets	Hedging instruments - assets	Financial assets measured at fair value	Investment properties	Derivative financial instruments – liabilities	Hedging instruments - liabilities
Opening balance	**300,814**	**90,992**	**2,215,823**	**56,577**	**(306,055)**	**(1,626)**
Total gains/losses recognised in:	(13,720)	3,881	60,332	-	(42,050)	1,626
statement of profit or loss	(13,720)	3,881	60,332	-	(42,050)	1,626
Purchase	-	-	35,306	-	-	-
Sale	-	-	(4,368)	(56,577)	-	-
Settlement / Expiry	-	-	(400,385)	-	-	-
Transfer	-	-	4,996	-	-	-
Closing balance	**287,094**	**94,873**	**1,911,704**	**-**	**(348,105)**	**-**
Unrealised gains/losses recognised in profit or loss related to assets and liabilities at the end of the period						
	(13,720)	**3,881**	**(60,332)**	**-**	**(42,050)**	**1,626**

31.12.2019	Derivative financial instruments – assets	Hedging instruments - assets	Financial assets measured at fair value	Investment properties	Derivative financial instruments – liabilities	Hedging instruments - liabilities
Opening balance	**122,860**	**58,093**	**2,561,863**	**55,868**	**(197,058)**	**-**
Total gains/losses recognised in:	177,954	32,899	(17,997)	709	(108,997)	(1,626)
statement of profit or loss	177,954	32,899	(17,997)	709	(108,997)	(1,626)
Purchase	-	-	19,995	-	-	-
Sale	-	-	(11,873)	-	-	-
Settlement / Expiry	-	-	(339,165)	-	-	-
Transfer	-	-	3,000	-	-	-
Closing balance	**300,814**	**90,992**	**2,215,823**	**56,577**	**(306,055)**	**(1,626)**
Unrealised gains/losses recognised in profit or loss related to assets and liabilities at the end of the period						
	(48,782)	**32,899**	**(17,997)**	**709**	**187,813**	**1,626**

The Group measures the fair value by discounting all contractual cash flows related to transactions, with the use of yield curves characteristic of each transaction group. Where no repayment schedule is agreed for a product, it is assumed that the fair value is equal to the carrying amount of the transaction, or, in case of revolving products, the curves derived from the liquidity profile of these products and the expected behavioural duration of these exposures are used.

The yield curve used for fair value measurement of liabilities (such as customer and interbank deposits) and receivables (such as loans to customers and interbank deposits) comprises:

- the credit risk free yield curve;
- the cost of obtaining financing above the credit risk free yield curve;
- the market margin that reflects credit risk for receivables.

The yield curve for fair value measurement of loans is constructed through classification of loans into sub-portfolios depending on the product type and currency as well as customer segmentation. A margin is determined for each sub-portfolio taking into account credit risk. The margin may be determined in two ways: by reference to margins used for each type of loan granted over the past six months or with the use of credit risk parameters of a given customer determined in the process of calculating the impairment of financial instruments.

When using the first approach for foreign currency mortgage loans, the margin for the entire portfolio of a specific type of mortgage loans serves as the basis for determination of a margin reflecting credit risk as no new transactions are concluded. In the case of insufficient amount of loans, which makes it impossible to reliably determine the amount of margin, the average market margin for products of a given type is used.

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

31.12.2020	Book value	Fair value	Level
Financial assets			
Cash and balances at Central Bank	3,421,877	3,421,877	3
Amounts due from other banks	774,722	744,238	3
Loans and advances to customers measured at amortised cost	74,097,269	72,806,516	3
Securities measured at amortised cost	23,361,022	25,276,195	1,3
Other financial assets	496,078	496,078	3
Financial liabilities			
Amounts due to the Central Bank	84,675	84,675	3
Amounts due to other banks	6,824,894	6,821,688	3
Amounts due to customers	90,051,004	90,063,849	3
Subordinated liabilities	4,306,539	4,847,359	3
Lease liabilities	968,749	968,749	3
Other financial liabilities	432,881	432,881	3
Debt securities issued	1,318,380	1 318,380	3

31.12.2019	Book value	Fair value	Level
Financial assets			
Cash and balances at Central Bank	4,658,171	4,658,171	3
Amounts due from other banks	679,308	669,149	3
Loans and advances to customers measured at amortised cost	71,836,643	71,336,848	3
Securities measured at amortised cost	17,916,645	18,771,310	1,3
Other financial assets	584,001	584,001	3
Financial liabilities			
Amounts due to other banks	4,485,264	4,483,168	3
Amounts due to customers	86,134,984	86,175,042	3
Subordinated liabilities	1,882,064	2,119,516	3
Lease liabilities	602,192	602,192	3
Other financial liabilities	876,883	876,883	3
Debt securities issued	2,179,052	2,179,052	3

a) Amounts due from banks and amounts due to banks

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

b) Loans and advances to customers

The estimated fair value of loans and advances is the discounted value of future cash flows to be received, using the current market rates adjusted by financing cost and by actual or estimated credit risk margins.

c) Securities measured at amortised cost

The fair value of securities measured at amortised cost was determined by reference to the published quoted prices in an active market for quoted securities (first level of measurement). However, for unquoted securities, fair value was determined using valuation techniques not based on available market data (third level of measurement).

d) Liabilities due to subordinated loan

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

e) Liabilities due to customers

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

f) Lease liabilities

The fair value of lease liabilities was determined as equal to their balance sheet value.

g) Debt securities issued

The fair value of the securities issue was estimated using a model that discounts the future cash flows of the investment based on market interest rate curves adjusted for issuer credit risk.

Compensation of financial assets and liabilities

31.12.2020	Gross value presented in financial assets/liabilities	Net value presented in financial assets/liabilities	Offsetting value under concluded contracts	Cash collateral value	Net value
Financial assets					
Trading and hedging derivatives	2,063,410	2,063,410	(1,244,829)	(342,436)	476,146
Total	**2,063,410**	**2,063,410**	**(1,244,829)**	**(342,436)**	**476,146**
Financial liabilities					
Trading and hedging derivatives	1,581,175	1,581,175	(1,244,829)	(260,442)	75,905
Total	**1,581,175**	**1,581,175**	**(1,244,829)**	**(260,442)**	**75,905**

31.12.2019	Gross value presented in financial assets/liabilities	Net value presented in financial assets/liabilities	Offsetting value under concluded contracts	Cash collateral value	Net value
Financial assets					
Trading and hedging derivatives	1,025,418	1,025,418	(554,412)	(62,532)	408,474
Total	**1,025,418**	**1,025,418**	**(554,412)**	**(62,532)**	**408,474**
Financial liabilities					
Trading and hedging derivatives	840,270	840,270	(554,412)	(225,998)	59,860
Total	**840,270**	**840,270**	**(554,412)**	**(225,998)**	**59,860**

The possibility to compensate receivables and liabilities which are not due as well as settlement in the net amount in case of early settlement of the contract, result from the provisions of framework agreements / ISDA concluded with the customers.

44. LOAN PORTFOLIO SALE

Loan portfolio sale

In 2020, the Group concluded agreements regarding the sale of retail, SME and corporate loan portfolio.

The gross book value of the portfolio amounted to PLN 855,998 thousand, the value of impairment allowances amounted to PLN 772,442 thousand.

The contractual price for the sale of these portfolios has been set at PLN 125,924 thousand. The net effect on the Group's results from the sale of portfolios which amounted to PLN 42,368 thousand and is presented in Net impairment losses on financial assets and contingent liabilities.

45. SECURITIZATION

Securitization

In December 2017, the Group performed a securitization transaction on the portfolio of cash and car loans. using BGZ Poland ABS1 DAC (SPV) subsidiary. 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 was 24 months and ended in December 2019. From January 2020, the transaction is amortised.
As a result of the securitization the Group obtained financing for its operations in exchange for giving away rights to future flows resulting from the securitized loan portfolio in the amount of PLN 2,300,471 thousand as at 22 November 2017 (the so-called cut-off date). The maximum term of the full redemption of bonds and loan repayment is 27 April 2032.

SPV issued bonds with a total value of PLN 2,180,850 thousand on the basis of securitized assets and received a loan of PLN 119,621 thousand, which was secured by a registered pledge on the rights to cash flows from securitized assets. At the end of December 2020, the value of bonds and loan amounted to PLN 1,390,318 thousand.

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 IFRS 9, the contractual terms of the securitization do not fulfil the conditions for derecognition of securitized assets. In connection with the above, the Group recognises securitized assets in “Loans and advances to customers” as at 31 December 2020 at net value of PLN 1,393,049 thousand.

The Group acts as a servicing entity in the transaction.

In 2020, the transaction was affected by factors related to the effects of the coronavirus pandemic. On one hand, the value of current and future cash flows in the transaction was affected by the deferrals of loan payments granted by the Group since 19 March 2020 in order to mitigate possible negative effects related to the coronavirus pandemic, and currently, those resulting from the Act of 19 June 2020 on interest rate subsidies for bank loans granted to entrepreneurs affected by COVID-19 and on simplified proceedings for approval of the arrangement in connection with COVID-19.

On the other hand, the Bank was also affected by the decisions of the Monetary Policy Council to reduce the NBP base interest rates, in particular the reference rate to 0.10% on 29 May 2020, which resulted in a reduction of the maximum interest rate on loans and borrowings as well as a decrease in market WIBOR rates.

At the moment, it is not possible for the Group to precisely estimate the consequences of the coronavirus pandemic on this transaction, in particular those related to a possible long-term of borrowers’ financial situation.

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

	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	Balance sheet value		Fair value	
Assets	1,393,049	2,247,024	1,293,509	2,130,777
Liabilities	1,390,318	2,298,573	1,390,318	2,298,573

46. CUSTODY OPERATIONS

The Group conducts custody operations consisting in maintaining assets or client transactions settlement. These assets have not been disclosed in the financial statements as they do not belong to the Group.

As at 31 December 2020, the Custody Services Office conducted 430 securities accounts for the clients. The fair value of the financial instruments of the customers of the Custody Services Office for this date was PLN 24,995,965 thousand.

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

47. THE SHAREHOLDER'S STRUCTURE OF BNP PARIBAS BANK POLSKA S.A

As at 31 December 2020, the structure of the shareholders of BNP Paribas Bank Polska S.A., including those holding at least 5% of the total number of votes at the General Shareholders' Meeting was as follows:

Shareholders	Number of shares	Percentage interest in share capital	Number of votes at the General Shareholders' Meeting	Percentage share in the total number of votes at the General Shareholders' Meeting
BNP Paribas, in total:	130,850,464	88.76%	130,850,464	88.76%
BNP Paribas directly	95,360,238	64.69%	95,360,238	64.69%
BNP Paribas Fortis SA/NV directly	35,490,226	24.07%	35,490,226	24.07%
Other shareholders	16,568,454	11.24%	16,568,454	11.24%
Total	**147,418,918**	**100.00%**	**147,418,918**	**100.00%**

The Bank shareholders' structure did not change in 2020.
The Bank's share capital as at 31 December 2020 was PLN 147,419 thousand.
The share capital as at 31 December 2020 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, 10 800 000 K series shares and 49,880,600 series L shares.

The Bank's shares are ordinary bearer and registered shares (as at 31 December 2020, 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.

BNP Paribas Bank Polska shares held by the members of the Supervisory Board and Management Board

As at 31 December 2020 and as of the date of the publication of the present financial statements, i.e. 26 February 2021:
- Mr Przemysław Gdański – President of the Management Board - held 500 shares of BNP Paribas Bank Polska, and the number of shares held did not change since the date of publication of the Financial Report for the period of 9 months of 2020., i.e. 10 November 2020,
- other members of the Management Board and of the Supervisory Board of the Bank did not declare holding any shares of BNP Paribas Bank Polska S.A., and the declarations did not change since the date of publication of the Financial Report for the period of 9 months of 2020., i.e. 10 November 2020.

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 14 September 2018 the number of the Bank's shares that are in free float should have been increased to at least 25% plus one share by the end of 2023 at the latest.

48. SUPPLEMENTARY CAPITAL AND OTHER CAPITALS

The following tables present changes in supplementary capital and other reserve capitals:

Supplementary capital	12 months ended 31.12.2020	12 months ended 31.12.2019
Opening balance	**9,110,976**	**9,111,033**
Issue costs	-	(57)
Closing balance	**9,110,976**	**9,110,976**

Other reserve capital	12 months ended 31.12.2020	12 months ended 31.12.2019
General banking risk fund	627,154	627,154
Revaluation reserve	255,833	125,251
Other reserve capital	1,581,828	945,603
Total	**2,464,815**	**1,698,008**

General banking risk fund created from net profit	12 months ended 31.12.2020	12 months ended 31.12.2019
Opening balance	**627,154**	**627,154**
Distribution of retained earnings	-	-
Closing balance	**627,154**	**627,154**

Revaluation reserve	12 months ended 31.12.2020	12 months ended 31.12.2019
Opening balance	**125,251**	**141,179**
Net gain/loss on changes in fair value of financial assets measured through other comprehensive income	163,327	(18,745)
Actuarial valuation of employee benefits	(2,114)	(924)
Deferred income tax	(30,631)	3,741
Closing balance	**255,833**	**125,251**

Other reserve capital	12 months ended 31.12.2020	12 months ended 31.12.2019
Opening balance	**945,603**	**580,864**
Distribution of retained earnings	628,696	364,739
Management stock options	7,528	-
Closing balance	**1,581,828**	**945,603**

Retained earnings	12 months ended 31.12.2020	12 months ended 31.12.2019
Opening balance	**(411,714)**	**(408,214)**
Distribution of the current period profit	(14,003)	(4,361)
Other	(61)	861
Closing balance	**(425,778)**	**(411,714)**

Changes in revaluation reserve of financial assets measured through other comprehensive income	2020		2019	
	Gross value	Deferred tax	Gross value	Deferred tax
Opening balance	**148,177**	**(28,154)**	**166,922**	**(31,715)**
gains/losses on financial assets measured at fair value through other comprehensive income recognised in equity	87 639	(16 651)	(19,460)	3,697
reclassification to financial result due to sale of financial assets measured at fair value through other comprehensive income	75 769	(14 396)	715	(136)
Closing balance	**311 585**	**(59 201)**	**148,177**	**(28,154)**

49. DIVIDENDS PAID

The Group did not pay any dividends for 2019. The Management Board of the Bank will not recommend dividend payment for 2020.

50. DISTRIBUTION OF RETAINED EARNINGS

Pursuant to the Resolution No. 6 of the General Shareholders' Meeting of BNP Paribas Bank Polska S.A. of 29 June 2020 the net profit for 2019, in the amount of PLN 628,696 thousand, was allocated to the reserve capital.

51. CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents	31.12.2020	31.12.2019
Cash and balances at Central Bank (Note 19)	3,421,880	4,658,171
Current accounts of banks and other receivables	276,691	173,524
Loans and advances	6,749	1,514
Total cash and cash equivalents	**3,705 320**	**4,833,209**

52. ADDITIONAL INFORMATION REGARDING THE STATEMENT OF CASH FLOWS

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

Change in amounts due from other banks	31.12.2020	31.12.2019
Change arising from the balance sheet	(214,082)	(264,234)
Elimination of a change in cash and cash equivalents	108,402	317,584
Total change in amounts due from banks	**(105,680)**	**53,350**

Change in amounts due from customers measured at amortised cost	31.12.2020	31.12.2019
Change arising from the balance sheet	(1,954,634)	(867,648)
Total change in amounts due from customers measured at amortised cost	**(1,954,634)**	**(867,648)**

Change in amounts due to other banks	31.12.2020	31.12.2019
Change arising from the balance sheet	(560,381)	508,897
Repayment of long-term loans granted by other banks	(1,193,889)	403,043
Long-term loans granted by other banks	3,862,305	-
Total change in amounts due to other banks	**2,108,035**	**911,940**

Change in amounts due to customers	31.12.2020	31.12.2019
Change arising from the balance sheet	3,994,614	(966,098)
Total change in amounts due to customers	**3,994,614**	**(966,098)**

Cash flows from operating activities – other adjustments	31.12.2020	31.12.2019
FX differences from subordinated loans	122,680	(7,405)
Change in valuation of subsidiary	-	4,746
Impact of IFRS 16 on assets	-	(596,492)
Impact of IFRS 16 on liabilities	-	610,497
Valuation of securities through profit or loss	(150,881)	(21,664)
Allowance for securities	10,133	(3,864)
Other adjustments	8,528	(51,394)
Cash flows from operating activities – total other adjustments	**(9,540)**	**(65,576)**

53. RELATED PARTY TRANSACTIONS

BNP Paribas Bank Polska S.A. operates within the BNP Paribas Bank Polska S.A. Capital Group.

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

The ultimate parent company is BNP Paribas S.A. located in Paris.

As at 31 December 2020, the Capital Group of BNP Paribas Bank Polska S.A. comprised BNP Paribas Bank Polska S.A., the parent, and its subsidiaries:

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

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

Transactions with shareholders of BNP Paribas Bank Polska S.A. and related parties:

31.12.2020	BNP Paribas S.A. located in Paris	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Total
Assets	**1,368,942**	**3,326**	**38,681**	**4**	**1,410,953**
Receivables on current accounts, loans and deposits	201,866	2,859	31,592	-	**236,317**
Derivative financial instruments	635,475	-	-	-	**635,475**
Derivative hedging instruments	531,326	467	-	-	**531,793**
Other assets	275	-	7,089	4	**7,368**
Liabilities	**10,511,640**	**32,066**	**1 364,764**	**6,409**	**11,914,879**
Loans received	3,506,745	-	414,294	-	**3,921,039**
Current accounts and deposits	1,964,027	32,066	670,210	6,409	**2,672,712**
Subordinated liabilities	4,029,098	-	277,441	-	**4,306,539**
Derivative financial instruments	951,742	-	-	-	**951,742**
Derivative hedging instruments	60,027	-	-	-	**60,027**
Lease liabilities	-	-	2,552	-	**2,552**
Other liabilities	-	-	267	-	**267**
Contingent liabilities					
Financial commitments granted	-	-	765,987	105	**766,092**
Guarantees granted	114,658	198,268	778,875	-	**1,091,801**
Commitments received	990,111	130,455	938,840	-	**2,059,406**
Derivative instruments (nominal value)	63,199,300	-	-	-	**63,199,300**
Derivative hedging instruments (nominal value)	18,996,846	13,844	-	-	**19,010,690**
Statement of profit or loss	**43,133**	**6,914**	**(51,543)**	**(25)**	**(1,521)**
12 months ended 31.12.2020					
Interest income	44	200	1,144	-	**1,388**
Interest expense	(143,586)	(65)	(14,890)	(25)	**(158,566)**
Fee and commission income	450	203	30,214	-	**30,867**
Fee and commission expense	-	-	(6,256)	-	**(6,256)**
Net trading income	240,889	6,576	9	-	**247,474**
Other operating income	-	-	3,819	-	**3,819**
Other operating expense	-	-	(327)	-	**(327)**
General administrative costs	(54,664)	-	(65,256)	-	**(119,920)**

31.12.2019	BNP Paribas S.A. located in Paris	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Total
Assets	**696,243**	**5,646**	**375,015**	**33**	**1,076,937**
Receivables on current accounts, loans and deposits	120,910	4,650	270,198	3	**395,761**
Derivative financial instruments	351,629	100	11	-	**351,740**
Derivative hedging instruments	223,640	893	-	-	**224,533**
Other assets	64	3	104,806	30	**104,903**
Liabilities	**4,243,670**	**10,846**	**2,445,000**	**5,738**	**6,705,254**
Loans received	1,921,054	-	1,421,191	-	**3,342,245**
Current accounts and deposits	291,720	10,846	752,601	5,733	**1,060,900**
Subordinated liabilities	1,630,349	-	256,066	-	**1,886,415**
Derivative financial instruments	375,204	-	-	-	**375,204**
Derivative hedging instruments	24,633	-	-	-	**24,633**
Other liabilities	710	-	15,142	5	**15,857**
Contingent liabilities					
Financial commitments granted	-	-	227,588	57	**227,645**
Guarantees granted	72,215	187,480	600,158	-	**859,853**
Commitments received	2,152,316	123,415	1,132,726	-	**3,408,457**
Derivative financial instruments (nominal value)	50,735,912	227,067	132,014	-	**51,094,993**
Derivative hedging instruments (nominal value)	7,340,164	12,776	-	-	**7,352,940**
Statement of profit or loss	**(142,727)**	**(452)**	**(53,035)**	**(62)**	**(196,276)**
12 months ended 31.12.2019					
Interest income	-	519	2,388	-	**2,907**
Interest expense	(80,926)	(290)	(24,287)	(63)	**(105,566)**
Fee and commission income	204	257	15,743	1	**16,205**
Fee and commission expense	(347)	-	(284)	-	**(631)**
Net trading income	(41,448)	(937)	(132)	-	**(42,517)**
Other operating income	-	-	5,801	-	**5,801**
Other operating expenses	-	(1)	(82)	-	**(83)**
General administrative costs	(20,210)	-	(52,182)	-	**(72,392)**

Remuneration of the Management Board and Supervisory Board

Remuneration of the Management Board	31.12.2020	31.12.2019
Short-term employee benefits	17,419	16,867
Long-term benefits	4,561	12,637
Benefits due to termination of employment	1,846	33
Post-employment benefits	522	-
Share-based payments	3,983	2,830
Total	**28,331**	**32,367**

Remuneration of the Supervisory Board	31.12.2020	31.12.2019
Short-term employee benefits	1,380	1,294
Total	**1,380**	**1,294**

54. OPERATING SEGMENTS

Segment reporting

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

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

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

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

Description of operating segments

The Retail and Business Banking Segment offers comprehensive services to retail customers, including private banking customers as well as business clients (microenterprises), including:

- entrepreneurs whose annual net income for the preceding financial year is below PLN 4 million, conducting full financial reporting,
- entrepreneurs conducting simplified financial reporting,
- cooperatives and housing communities as well as property managers,
- non-profit organisations,
- individual farmers whose credit exposure does not exceed PLN 4 million and farmers whose credit exposure is in the range between PLN 3 million and PLN 4 million, if the collateral on arable lands covers less than 50% of credit exposure.

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

The Retail and Business Banking customers are served by the Bank's Branches and alternative channels, i.e. online banking, mobile banking and telephone banking, direct banking channel Optima and Premium Banking Channel as well as Wealth Management (respectively investing assets above PLN 100 thousand and in the amount of minimum PLN 1 million). Selected products are also sold by financial intermediaries active at the country and local level.

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

SME Banking provides services to:

- Agro clients preparing full financial reporting in relation to net sales revenue for the previous financial year in the range between PLN 4 million and PLN 40 million and credit exposure below 12 million, as well as - irrespective of the level of the Bank's revenues and the level of involvement of the Bank - groups of agricultural producers and organisational units of the State Forests National Forest Holding,

- non-Agro clients - a sub-segment to which entities preparing full financial reporting are qualified, with net sales revenues for the previous financial year from PLN 4 million to PLN 40 million and with the credit exposure below PLN 12 million, as well as public finance units with a budget of up to PLN 100 million,
- farmers (i.e. business entities conducting agricultural activity) preparing full financial reporting, with net revenues for the previous financial year in the range from PLN 0 to PLN 60 million and credit exposure below PLN 25 million, as well as individual farmers, if their credit exposure is in the range from PLN 4 million to PLN 25 million and between PLN 3 million and PLN 4 million, if the collateral on arable lands covers less than 50% of the credit exposure.

The SME sales network is based on SME Business Centres dedicated exclusively to serving customers from the Small and Medium Enterprises segment.

Corporate Banking offers a wide variety of financial services to large and medium-sized enterprises as well as local government entities with annual turnover exceeding PLN 40 million or with the credit exposure above PLN 12 million or equal to PLN 12 million, in addition to entities operating in multinational capital groups.

Clients of Corporate Banking are divided into:

- international clients (an entity belonging to international groups through capital or personal ties),
- Polish corporations, i.e. Polish entities (or groups of Polish related entities) with annual sales revenues between PLN 40 million and PLN 600 million (or between PLN 60 million and PLN 600 million in the case of business entities conducting agricultural activity) or with a credit exposure greater than or equal to 12 PLN million (or PLN 25 million for economic entities operating in agriculture),
- large Polish corporations (with annual turnover over PLN 600 million, listed on the stock exchange and with potential in the area of investment banking services),
- public sector entities, financial and insurance institutions, international non-profit organisations.

The sales network for the Corporate Banking area consists of Regional Corporate Banking Centers located in Warsaw, Łódź, Gdańsk, Poznań, Wrocław, Katowice, Kraków and Lublin. Within the Regional Corporate Banking Centers, there are Corporate Banking Centers located in the largest business centers in Poland, thus ensuring a wide geographic and sectoral coverage. After-sales service for the Corporate Banking segment customers is also provided via the telephone Business Service Center and in the internet banking system.

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

The Corporate and Institutional Banking (CIB) Segment supports the sale of the Group's products to the largest Polish enterprises and provides services to strategic clients.

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

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

The Other Operations segment includes also direct costs of the support functions, which have been allocated to segments in the Expense allocation (internal) item, as well as results that may not be assigned to any of the aforementioned segments (to include equity investment, gains/losses on own accounts and customer accounts not allocated to a specific segment).

	Retail and Business Banking	SME Banking	Corporate Banking	CIB	Other Operations	Total	including Agro customers	including Personal Finance
Statement of profit or loss 12 months ended 31.12.2020*								
Net interest income	1,714,399	264,110	569,678	38,187	473,696	**3,060,070**	421,477	619,532
external interest income	1,795,722	245,992	555,460	69,642	935,980	**3,602,796**	529,327	829,128
external interest expenses	(240,277)	(24,775)	(61,312)	(81)	(216,281)	**(542,726)**	(24,859)	(44,204)
internal interest income	817,698	146,211	302,089	(204)	(1,265,795)	**-**	112,355	-
internal interest expenses	(658,744)	(103,319)	(226,559)	(31,170)	1,019,791	**-**	(195,346)	(165,392)
Net fee and commission income	468,236	112,460	285,997	64,158	(14,756)	**916,095**	150,441	112,712
Dividend income	-	-	3,140	-	6,530	**9,669**	160	(316)
Net trading income	89,061	70,387	240,494	204,072	144,376	**748,390**	51,710	352
Result on investment activities	3,697	579	1,188	-	23,616	**29,081**	391	3,180
Result on hedge accounting	-	-	-	-	(11,077)	**(11,077)**	-	-
Other operating income and expenses	(34,718)	(3,452)	(7,942)	(3,475)	2,055	**(47,534)**	(5,070)	(18,666)
Net impairment allowances on financial assets and contingent liabilities	(512,572)	(15,875)	(68,331)	(1,773)	(2,947)	**(601,499)**	(128,144)	(208,462)
Result on provisions for legal risk related to foreign currency loans	(168,156)	-	-	-	-	**(168,156)**	-	-
General administrative expenses	(1,122,899)	(132,844)	(242,713)	(69,628)	(569,522)	**(2,137,605)**	(15,586)	(287,152)
Depreciation and amortisation	(101,100)	(3,287)	(18,872)	(6,277)	(238,424)	**(367,958)**	(468)	(15,642)
Expense allocation (internal)	(483,811)	(150,494)	(124,395)	(10,484)	769,184	**-**	-	(101,927)
Operating result	**(147,863)**	**141,584**	**638,244**	**214,780**	**582,731**	**1,429,476**	**474,911**	**103,611**
Tax on financial institutions	(165,753)	(35,574)	(95,832)	(7,442)	(14,308)	**(318,909)**	-	(44,560)
Gross profit	**(313,616)**	**106,010**	**542,412**	**207,338**	**568,423**	**1,110,567**	**474,911**	**59,051**
Income tax expenses						**(377,472)**		
Net profit						**733,095**		
Statement of financial position								
Segment assets	46,089,094	6,673,999	20,824,777	2,614,541	43,374,878	**119,577,288**	13,824,047	10,445,193
Segment liabilities	58,368,129	12,278,212	23,255,675	-	13,644,746	**107,546,761**	7,881,453	-

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

	Retail and Business Banking	SME Banking	Corporate Banking	CIB	Other Operations	Total	including Agro customers	including Personal Finance
Statement of profit or loss 12 months ended 31.12.2019*								
Net interest income	1,812,522	303,548	593,204	35,729	423,756	**3,168,759**	446,425	673,028
external interest income	2,086,840	376,468	748,970	58,702	917,103	**4,188,083**	709,246	974,158
external interest expenses	(508,971)	(70,577)	(154,040)	(7,292)	(278,444)	**(1,019,324)**	(60,488)	(41,158)
internal interest income	1,094,742	190,434	386,784	13,918	(1,685,878)	**-**	150,288	2
internal interest expenses	(860,089)	(192,777)	(388,510)	(29,599)	1,470,975	**-**	(352,621)	(259,974)
Net fee and commission income	418,889	121,395	253,248	33,563	(7,158)	**819,937**	147,333	108,039
Dividend income	-	-	230	-	5,778	**6,007**	-	8,192
Net trading income	89,531	64,849	231,278	183,904	112,854	**682,415**	48,352	571
Result on investment activities	14	-	2,468	-	(34,319)	**(31,836)**	5	-
Result on hedge accounting	-	-	-	-	(4,385)	**(4,385)**	-	-
Other operating income and expenses	(63,158)	(4,541)	(1,684)	903	(22,184)	**(90,666)**	(6,885)	(79,678)
Net impairment allowances on financial assets and contingent liabilities	(321,477)	(75,005)	(51,986)	10,081	(3,503)	**(441,890)**	(115,199)	(157,596)
Result on provisions for legal risk related to foreign currency loans	(32,113)	-	-	-	-	**(32,113)**	-	-
General administrative expenses	(1,131,058)	(146,594)	(258,488)	(66,701)	(865,096)	**(2,467,937)**	(15,272)	(313,200)
Depreciation and amortisation	(80,760)	(3,101)	(12,943)	(5,829)	(351,515)	**(454,147)**	(617)	(13,020)
Expense allocation (internal)	(573,069)	(141,920)	(77,858)	(3,617)	796,464	**-**	-	(114,280)
Operating result	**119,321**	**118,631**	**677,469**	**188,033**	**50,692**	**1,154,144**	**504,142**	**112,056**
Tax on financial institutions	(141,437)	(35,122)	(89,731)	(10,681)	(4,218)	**(281,189)**	-	(39)
Gross profit	**(22,116)**	**83,509**	**587,738**	**177,352**	**46,474**	**872,955**	**504,142**	**112,017**
Income tax expenses						**(258,261)**		
Net profit						**614,694**		
Statement of financial position								
Segment assets	40,123,368	8,741,944	23,057,600	1,774,768	36,256,463	**109,954,142**	16,202,431	11,791,620
Segment liabilities	50,751,268	10,594,643	24,650,077	1,109,955	11,688,816	**98,794,760**	8,447,870	-

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

55. LITIGATION AND CLAIMS

Legal risk

As at 31 December 2020, there were no proceedings in the court, arbitration tribunal or state administration authorities regarding liabilities or receivables of the Bank, the value of which would exceed 10% of the Bank's equity.

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 (presently BNP Paribas Bank Polska) amounted to PLN 12.54 million and included: i) a fine for the practice of Bank Gospodarki Żywnościowej in the amount of PLN 9.65 million; and ii) a fine for the practice of Fortis Bank Polska S.A. (FBP) in the amount of PLN 2.89 million. The penalty was paid by the Bank on 19 October 2015. The Bank prepared a last resort appeal against the aforesaid court decision and brought it on 25 April 2016. On 25 October 2017, the Supreme Court overruled the judgment of the Court of Appeal and remitted the case. Acquisition of the core business of RBPL did not change the situation of the Bank as RBPL was not a party to this claim.

On 23 November 2020, the Court of Appeal quashed the judgment of the first instance court and remitted the case for re-examination.

Corporate claims against the Bank (interchange fee)

As at 31 December 2020 the Bank received:

- 32 requests for amicable settlement from companies (marchands), due to interchange fees paid in relation to the use of payment cards, (three from companies which submitted their requests twice and one from a company which submitted two requests for different payment methods). The total amount of these claims was PLN 1,028.96 million, including PLN 1,018.05 million where the Bank had joint responsibility with other banks.
- 4 requests for mediation before Arbitration Court at the PFSA. The requests were sent to the Bank by the same entrepreneurs who had previously submitted requests for a settlement attempt. The total value of claims arising from the above applications amounts to PLN 40.29 million, of which PLN 37.79 million relates to joint liability with other banks.

Proceedings regarding recognising a standard contract as prohibited

On 22 September 2020, the Bank received a decision of the President of the Office of Competition and Consumer Protection (UOKiK) No. DZOIK 14/2020, in which the President of UOKiK:

- found certain provisions of the standard contract (the so-called anti-spreading annex) concerning the principles of determining currency exchange rates illegal and prohibited their application;
- obligated the Bank to inform all customers who are parties to the annex about the decision and its consequences and to post information about the decision and its content on its website;
- imposed a fine on the Bank in the amount of PLN 26,626 thousand payable to the Financial Education Fund.

The Bank appealed against the decision within the statutory deadline. The Bank has established a provision for the above penalty in full amount.

Court proceedings concerning loan agreements in CHF in the banking sector

More than a year after the judgment of the Court of Justice of the European Union in the case of the CHF indexed mortgage loan (C-260/18), the number of claims related to CHF mortgage loans against banks has been growing steadily. According to the data published by the Polish Bank Association (ZBP), the number of pending court proceedings regarding loan agreements in CHF at the end of 2020 amounted to almost 39 thousand (while 16 thousands at the end of 2019). The result of that was, inter alia, significant increase in the provisions for these proceedings created in 2020 by banks with CHF mortgage loan portfolios. The total amount of these provisions created by listed banks in the first three quarters of 2020 amounted to approximately PLN 1.5 billion. According to the data published by listed banks, available at the time of publication of this Report, the total value of provisions created by banks in the fourth quarter of 2020 alone amounted to PLN 2.4 billion.

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

The balance sheet value of mortgage and housing loans granted to individual customers in CHF as at 31 December 2020 amounted to PLN 4,82 billion, compared to PLN 4,84 billion at the end of 2019.
As at 31 December 2020, the Bank was the defendant in 644 (461 new cases in 2020, including 156 in the fourth quarter of 2020) pending court proceedings (including validly closed cases, clients brought a total of 668 actions against the Bank), in which the Bank's customers demanded the annulment of mortgage loan agreements regarding foreign currency loans denominated in CHF, by determining that the Bank granted a loan in PLN without denomination to foreign currency, or settlement of the loan due to the invalidity of the loan agreement or revocation of enforceability, as well as the repayment of the spread. The Bank is not a party to any collective claim regarding these loans. The total value of claims pursued in the currently pending cases as at 31 December 2020 was PLN 217.82 million, and in legally binding cases PLN 34.96 million.

The following final and non–revisable judgments have been issued in 24 proceedings: in 14 cases the claims against the Bank were dismissed, in 2 cases the proceedings were discontinued; in 1 case the court rejected the claim; in 6 cases despite the dismissal of the claim, the court justified the invalidity of the contract, in 1 case only the claim for an insured low contribution was awarded, in the remaining scope the court dismissed the claim.

The Bank continually creates provisions for pending court proceedings related to denominated or foreign currency loans, taking into account the current state of judgments in cases against the Bank and the emerging line of case law. In the fourth quarter of 2020, the Bank created the provision in the amount of PLN 101.7 million for the risk related to the CHF loan portfolio. Increase in the provision in the fourth quarter of 2020 was due to the increase of the number of new lawsuits and an update of the assumptions and parameters of the model used by the Bank. The total value of provisions for CHF loans risk created in 2020 amounted to PLN 168.2 million. The increase in the provision was caused by the increasing number of new cases related to foreign currency loans or loans denominated in CHF, as well as the observed development of the jurisprudence negatively affecting the Bank. As at 31 December 2020, the total value of provisions created for proceedings relating to loans in CHF was PLN 200.3 million.

The provision is created in accordance with IAS 37 'Provisions, contingent liabilities and contingent assets'. Provision for pending cases is calculated on an individual basis, for future cases using the portfolio method. While calculating the provision, the Bank takes into account, inter alia, the number of certificates requested by clients for trial purposes, the estimated probability of clients filing claims, the estimated number of future claims, the number of claims filed, the probability of losing the case, and the Bank's expected loss in the event of an unfavourable judgment. In estimating the number of future cases, the Bank adopted a 4-year forecast period assuming that less than 10% of borrowers with active CHF loans have filed or will file a lawsuit against the Bank.

The Bank estimates the probability of losing a case based on historical judgments separately for the foreign currency and denominated loan portfolios. Due to the observed volatility in case law, the Bank, when estimating the probability of an unfavourable judgment, takes into account judgments made after the CJEU judgment of 3 October 2019.

In estimating the loss in the event of a judgment declaring the loan invalid, the Bank assumes that the customer is obliged to return the principal paid without taking into account the remuneration for the use of the capital, the Bank is obliged to return the sum of the principal and interest instalments paid by the client using the historical rate and the Bank writes down the loan exposure.

Should the assumed average loss change by +/- 5 percentage points, with all other significant assumptions unchanged, the amount of the provision would change by +/- PLN 9 million.

The average loss assumed in the calculation as at 31 December 2020 increased by 9.3% compared to 31 December 2019.
The Bank conducted a sensitivity analysis of the model used to estimate of the number of lawsuits lost. A change in this estimate would have the following impact on the estimated loss due to legal risk related to CHF loans.

Parameter	Scenario	Impact on Bank's loss due to legal risk
Percentage of lawsuits lost	+5 p.p.	+ PLN 13.7 million
	-5 p.p.	- PLN 13.7 million

The Bank conducted a sensitivity analysis of the model used to estimate the number of future lawsuits. A change in the number of future lawsuits would have the following impact on the estimated loss due to legal risk related to CHF loans.

Parameter	Scenario	Impact on Bank's loss due to legal risk
Number of lawsuits	+20%	+ PLN 15.5 million
	-20%	- PLN 15.5 million

Additionally, if 1% of customers with CHF loans filed a lawsuit against the Bank, the loss due to legal risk would increase by approx. PLN 25 million.

When calculating the expected loss on legal risk related to CHF loans, the Bank used simplifications resulting from the short horizon of available historical data and a relatively small number of cases ended with courts' rulings. The Bank will monitor the number of requests for documents and the changing number of lawsuits, and will update the provision estimate accordingly.

At the same time, the Bank points to the fact that there is a significant discrepancy in both facts (in particular different contractual provisions and scope of information provided to the clients) as well as rulings passed in Poland regarding indexed, denominated and currency loans, which significantly impedes a precise estimation of risk. The Bank monitors the courts' rulings on an ongoing basis and will adjust the level of provision to the emerging case-law.

Resolution of the Supreme Court on loans in CHF

On 29 January 2021, the First President of the Supreme Court requested a resolution of the Civil Chamber on the following issues:

1. If it is concluded that a provision in an indexed or denominated loan agreement, which relates to the method of determining the exchange rate of the foreign currency, constitutes an unlawful contractual term and is not binding on the consumer, may it be assumed that that provision is replaced by another method of determining the exchange rate of the foreign currency which results from legal or customary rules?

If the answer to the above question is negative

2. If it is not possible to establish a foreign currency exchange rate binding on the parties in a loan agreement indexed to such a currency, can the agreement be binding on the parties in its remaining scope?

3. If it is not possible to establish a foreign currency exchange rate in a loan agreement denominated in a foreign currency, can the parties remain bound by the agreement?

Irrespective of the answers to questions 1 to 3:

4. If a loan agreement is invalid or ineffective, and as a result of such agreement the bank has disbursed to the borrower the whole or part of the amount of the loan and the borrower has made repayments on the loan, do separate claims for wrongful performance arise in favour of each of the parties, or does only one claim arise, equal to the difference in performance, in favour of the party whose total performance was higher?

5. If a loan agreement is invalid or ineffective as a result of the unlawful nature of certain of its terms, does the limitation period for the bank's claim for repayment of the amount paid under the loan start to run from the moment at which those sums were paid?
6. If, in the case of the invalidity or ineffectiveness of a loan agreement, either party has a claim for repayment of the performance made under such agreement, may that party also claim remuneration for the use of its funds by the other party?

A session of the Civil Chamber of the Supreme Court is scheduled for 25 March 2021. The Bank will analyse the content of the resolution after its publication, in particular its anticipated impact on further case law and the value of the parameters used to determine the value of legal risk provisions. At the moment, the essence of the resolution and its impact on the estimation of provisions cannot be predicted. When determining the value of the provision, the Bank bases on all information available as at the date of signing the Report.

Proposal by the Chairman of the PFSA

As a consequence of the growing number of lawsuits and the value of provisions created by banks, in December 2020, the Chairman of the Polish Financial Supervision Authority - Jacek Jastrzębski - presented a proposal for a sectoral solution to the CHF loans problem. In simple terms, the Bank would treat a loan in CHF as if it had been granted in PLN and bears interest at the appropriate WIBOR rate plus a margin, which would be historically applied to this type of a loan. Considering the above assumptions, the Bank shall perform an appropriate recalculation. Adopting such an approach would impose a very heavy burden on the sector, although its scale is difficult to estimate precisely at the moment. The costs would depend on a number of variables, such as the date the loan is granted, the exchange rate table of the specific bank, or the fee and commission policy, as well as the detailed assumptions of the proposal, including legal and tax issues or the types of loans to be converted, which are undefined at the time of publication of the present Report.

The proposal was commented by the Management Board of the National Bank of Poland, which stated in its communication of 9 February 2021 that it welcomes banks' initiatives aimed at mitigating the legal risk of foreign-currency housing loans through agreements with borrowers and may consider possible involvement in the process of conversion of residential foreign-currency loans into PLN, on market terms and at market rates, provided that banks meet certain boundary conditions.

At the beginning of 2021 the Bank has joined a working group that is analysing the solution proposed by the Chairman of the PFSA. The preliminary cost estimate of a potential conversion in line with the assumptions of the PFSA Chairman's proposal, available at the time of publication of the Report, is PLN 0,7 billion, assuming that the currency conversion proposal is addressed only to borrowers with denominated loans, or PLN 1,3 billion assuming that the proposal covers the whole CHF loan portfolio (denominated and foreign currency loans). The potential cost was estimated as the difference between the current balance sheet value of foreign currency or CHF-denominated loans and the balance sheet value of hypothetical PLN loans. At the time of publication of the present Report, the

Bank has not decided whether to launch a settlement programme for the Bank's customers and is at an early stage of analyses. The program criteria and implementation plans are not specified, therefore the Bank does not recognise a provision for the effects of offering settlements.

56. FINANCIAL RISK MANAGEMENT

56.1. Financial instrument strategy

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

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

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

56.2. Credit risk

Credit risk is inherent in the core financial operations of the Group, the scope of which includes both lending and providing funding with the use of capital market products. Consequently, credit risk is identified as the risk with the highest potential to affect the present and future profits and equity of BNP Paribas. Proof of the key nature of credit risk is its 71% share in the total economic capital estimated by the Group for purposes of covering major risks involved in the Group's operations, in addition to its 89% share in the total value of regulatory capital.

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

Credit risk management principles adopted by the Group include:

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

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

The Management Board assesses the concentration risk policy in terms of its application. In particular, it analyses the efficiency and adequacy of the principles applied in the context of the current and planned operations and risk management strategy. The adequacy of the concentration risk management is reviewed if any material changes are observed in the Group's environment or if the risk management strategy is modified. The appropriate assessment of the concentration risk of the Group is highly dependent on correct identification of all key concentration risks. In justified cases, the Group identifies concentration risk when planning its new activities involving the development and launch of new products, services, expansion to new markets, considerable alterations of products and services or market changes.

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

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

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

The Group's concentration limits are monitored in accordance with Article 387 of the Regulation No. 575/2013. The limits, defined in Article 395 of the Regulation No. 575/2013, had not been exceeded as at the end of 2020. As at the end of 2020, the Group's exposure to customers/groups of customers with equity or organisational relationships had not exceeded the concentration limit. The total of exposures equal to or exceeding 10% of the Bank's equity was 16%.

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

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

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

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

Systemic measures that limit concentration risk include:

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

A concentration analysis by industry, conducted by the Group, focuses on all credit exposures of the Group to institutional customers. The Group defines industries based on Polish statistical classification of economic activities (NACE/PKD 2007). The Group's exposure to industries analysed at the end of 2020 (presented based on the classification of industries in NACE/PKD), similarly as at the end of December 2019, is concentrated in the following industries: Agriculture, Forestry, Hunting and Fishing. As at the end of December 2020, they accounted for 26% of industrial exposure, while at the end of December 2019, the exposure to these industries reached 27%.

The table below presents a comparison of the share of impaired loans in industries (gross balance sheet value) as at 31 December 2020 and 2019.

	Exposure*		Share of impaired loans	
Industry	31.12.2020	31.12.2019	31.12.2020	31.12.2019
AGRICULTURE, FORESTRY AND FISHING	10,756,142	12,373,340	9.2%	8.1%
MINING AND QUARRYING	36,341	53,548	9.5%	7.2%
MANUFACTURING	8,772,763	10,166,548	5.5%	5.0%
ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	648,737	446,764	0.8%	2.8%
WATER SUPPLY; SEWERAGE, WASTE MANAGEMENT AND REMEDIATION ACTIVITIES	166,344	313,287	6.6%	3.4%
CONSTRUCTION	2,540,629	3,003,321	8.5%	12.7%
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	5,725,092	7,683,605	7.5%	6.4%
TRANSPORTATION AND STORAGE	1,216,516	1,579,139	6.9%	8.4%
ACCOMMODATION AND FOOD SERVICE ACTIVITIES	273,257	318,433	20.5%	22.8%
INFORMATION AND COMMUNICATION ACTIVITIES	1,439,082	1,045,644	3.4%	4.9%
FINANCIAL AND INSURANCE ACTIVITIES	891,461	777,841	11.5%	2.9%
REAL ESTATE ACTIVITIES	4,657,921	3,853,066	3.0%	4.6%
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	2,368,361	1,848,429	2.4%	3.9%
ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	767,882	803,433	9.7%	9.4%
PUBLIC ADMINISTRATION AND DEFENCE, COMPULSORY SOCIAL SECURITY	96,875	118,349	0.0%	0.0%
EDUCATION	87,763	100,269	12.0%	11.8%
HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	652,849	557,161	3.5%	4.0%
ARTS, ENTERTAINMENT AND RECREATION ACTIVITIES	16,257	22,524	21.0%	14.1%
OTHER ACTIVITIES	88,598	195,229	7.6%	4.2%
Total	**41,202,870**	**45,259,930**	**6.7%**	**6.8%**
including:				
Industry (BCDE sections)	9,624,185	10,980,147	5.20%	4.88%

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

The Group manages the risk of collateral concentration. For this purpose, the Group introduced limits for the involvement of particular types of collateral, ensuring their appropriate diversification. As at the end of 2020, as well as at the end of 2019, the limits were not exceeded.

In the case of an individually assessed exposures, the Group expects to recover, due to established collateral, the amount of PLN 446 million, which is 30% of the total exposure assessed individually with an impairment recognised as at 31 December 2020 (PLN 879 million and 49% as at 31 December 2019).

Maximum exposure on credit risk

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

	31.12.2020	
Assets	Maximum exposure on credit risk – no collaterals included	Maximum exposure on credit risk – collaterals included
Cash and balances at Central Bank	3,421,877	3,421,877
Amounts due from other banks	776,390	774,722
Derivative financial instruments	1,531,617	1,531,617
Adjustment of the hedged item fair value	531,793	531,793
Loans and advances to customers measured at amortised cost	77,284,074	74,097,269
Loans and advances to customers measured at fair value through profit or loss	1,539,848	1,539,848
Securities measured at amortised cost	23,373,414	23,361,022
Securities measured at fair value through profit or loss	371,900	371,900
Securities measured at fair value through other comprehensive income	10,228,560	10,228,560
Deferred tax assets	745,606	745,606
Other assets	786,839	786,839
Total assets	**120,591,918**	**117,391,053**
Total contingent liabilities	**4,889,575**	**4,889,575**
Total exposure on credit risk	**125,481,493**	**122,280,628**

	31.12.2019	
Assets	Maximum exposure on credit risk – no collaterals included	Maximum exposure on credit risk – collaterals included
Cash and balances at Central Bank	4,658,545	4,658,171
Amounts due from other banks	680,227	679,308
Derivative financial instruments	800,886	800,886
Adjustment of the hedging item fair value	228,120	228,120
Loans and advances to customers measured at amortised cost	75,064,852	71,836,643
Loans and advances to customers measured at fair value through profit or loss	1,974,396	1,974,396
Securities measured at amortised cost	17,939,171	17,916,645
Securities measured at fair value through profit or loss	241,754	241,754
Securities measured at fair value through other comprehensive income	7,953,358	7,953,358
Deferred tax assets	976,748	976,748
Other assets	884,845	884,845
Total assets	**111,402,902**	**108,150,874**
Total contingent liabilities	**3,528,537**	**3,528,537**
Total exposure on credit risk	**114,931,439**	**111,679,411**

Exposure to credit risk by credit quality ratings

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

31.12.2020

Gross loans and advances measured at amortised cost, for which impairment allowance is estimated as*:

Rating	12-month expected credit loss - exposures without impairment	Expected credit loss during the exposure period - exposures without impairment	Expected credit loss during the exposure period - exposures with impairment	Expected credit loss during the exposure period - POCI exposures	Gross portfolio value for a given rating category	Net portfolio value for a given rating category
1	289	-	-	-	289	279
2	110,426	-	-	-	110,426	110,417
3	329,527	1	-	-	329,528	329,507
4	1,494,647	1,903	-	-	1,496,550	1,496,122
5	5,191,773	120,809	3,615	62	5,316,259	5,300,019
6	12,078,510	432,815	21,329	2,089	12,534,744	12,402,994
7	12,155,128	1,571,548	34,668	20,144	13,781,487	13,507,505
8	2,501,199	1,404,451	44,648	2,300	3,952,598	3,832,457
9	100,811	775,060	64,280	4,803	944,954	860,858
10	36,627	651,220	691,922	15,440	1,395,208	1,004,431
11 to 12	5,878	7,395	1,531,945	205,669	1,750,887	824,001
Total	**34,004,815**	**4,965,202**	**2,392,407**	**250,507**	**41,612,930**	**39,668,590**

31.12.2019

Gross loans and advances measured at amortised cost, for which impairment allowance is estimated as*:

Rating	12-month expected credit loss - exposures without impairment	Expected credit loss during the exposure period - exposures without impairment	Expected credit loss during the exposure period - exposures with impairment	Expected credit loss during the exposure period - POCI exposures	Gross portfolio value for a given rating category	Net portfolio value for a given rating category
1	1,208	33	-	-	1,241	1,205
2	123,452	-	-	-	123,452	123,443
3	414,505	39	-	-	414,544	414,507
4	1,713,892	5,798	93	-	1,719,783	1,719,238
5	5,529,123	234,995	6,275	-	5,770,393	5,760,068
6	12,987,709	394,335	50,568	3,116	13,435,729	13,353,709
7	13,252,635	1,367,739	24,636	4,275	14,649,285	14,498,755
8	2,953,267	1,976,620	40,473	29,534	4,999,895	4,850,953
9	51,087	769,144	31,782	3,279	855,291	801,372
10	48,814	511,048	738,557	26,117	1,324,537	930,023
11 to 12	5,441	5,714	1,878,912	267,146	2,157,212	989,548
Total	**37,081,133**	**5,265,465**	**2,771,296**	**333,467**	**45,451,362**	**43,442,821**

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

For large enterprises and clients from the SME segment that prepare full financial reporting, the Group determines internal rating classes in accordance with the adopted credit policy. The rating classes are based on the risk model dedicated to this part of the loan portfolio and are the basis for estimating the amount of the provision in accordance with IFRS 9. The Group’s customers are assigned ratings from 1 (clients for whom the Group identifies the lowest credit risk) to 12 (clients for whom the Group identifies the highest credit risk). In order to assign ratings, the annual financial data provided by the client and the general quality assessment of its market situation are used.

The structure of overdue receivables

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

The structure of the loan portfolio (measured at amortised cost and measured at fair value through profit or loss) divided into impaired exposures and not impaired exposures along with the level of arrears in repayment are presented in the tables below. For the purposes of calculating the amount of the allowance, as well as for the presentation of data in the tables below, the loan is considered not due on the day on which the instalment payment expires, but on the next day.

	31.12.2020					
Structure of overdue loan portfolio (net balance sheet value)*	not impaired				impaired	Total
	0 days	1-30 days	31-60 days	61-90 days		
Mortgage loans and advances	21,967,159	7,477	3,829	4,382	448,995	22,431,842
Cash loans	7,413,543	49,281	16,476	5,322	206,064	7,690,686
Car loans	1,569,276	4,343	1,598	511	14,699	1,590,427
Credit cards	1,124,625	7,942	1,737	1,007	30,137	1,165,448
Investment loans	19,864,473	40,268	17,491	1,191	684,423	20,607,846
Limits in current accounts	7,941,707	31,014	6,878	1,642	259,558	8,240,799
Corporate revolving loans	8,087,622	51,799	6,654	2,017	398,504	8,546,596
Leases	3,822,553	15,958	3,799	1,439	108,131	3,951,880
Other	1,375,712	1,345	338	126	34,072	1,411,593
Total	**73,166,670**	**209,427**	**58,800**	**17,637**	**2,184,583**	**75,637,117**

	31.12.2019					
Structure of overdue loan portfolio (net balance sheet value)*	not impaired				impaired	Total
	0 days	1-30 days	31-60 days	61-90 days		
Mortgage loans and advances	17,851,522	272,210	28,903	8,732	342,371	18,503,738
Cash loans	7,342,714	123,147	24,211	7,413	187,339	7,684,824
Car loans	1,507,568	8,540	2,607	540	14,692	1,533,947
Credit cards	1,228,027	52,010	12,723	1,444	26,155	1,320,359
Investment loans	19,696,537	306,585	9,648	7,631	782,977	20,803,378
Limits in current accounts	10,851,918	38,440	5,703	10,091	341,984	11,248,136
Corporate revolving loans	7,436,518	106,063	5,876	3,676	292,293	7,844,426
Leases	3,624,307	98,241	9,457	5,493	123,372	3,860,870
Other	971,146	7,734	1,024	256	31,201	1,011,361
Total	**70,510,257**	**1,012,970**	**100,152**	**45,276**	**2,142,384**	**73,811,039**

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

Impairment allowances

Impairment allowances reflect the expected credit loss calculated using the three-step approach required by IFRS 9, as described in Note 3.

Collaterals

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

The Group assesses the creditworthiness of each client on an individual basis. The value of collateral obtained, if it is deemed necessary by the Group due to the granting of a loan, is subject to valuation by the Group. The Group accepts various forms of collateral for loans, while the main categories include:
- real estate mortgage;
- insurance of real estate being the subject of a mortgage;
- life insurance of the borrower;
- registered pledge.

Impact of collaterals on the valuation of exposure with impairment identified (loans measured at amortised cost and measured at fair value through profit or loss)*:

31.12.2020	Gross value with impairment	Collateral value	Net value with impairment
Loans and advances to:			
Other financial institutions	1,625	4	907
Retail customers	1,444,716	762,882	696,385
Corporates:	2,621,013	1,886,370	1,384,433
including retail farmers	898,771	805,607	610,300
Public sector entities	44	-	32
Lease receivables	204,124	-	102,825
Total gross loans and advances	**4,271,522**	**2,649,256**	**2,184,584**
Allowances (negative value)	(2,086 939)		
Total net loans and advances	**2,184,583**		

31.12.2019	Gross value with impairment	Collateral value	Net value with impairment
Loans and advances to:			
Other financial institutions	908	6	511
Retail customers	1,332,616	577,300	566,593
Corporates:	2,896,289	2,096,194	1,453,870
including retail farmers	896,537	828,523	599,644
Public sector entities	134	-	47
Lease receivables	196,747	-	121,363
Total gross loans and advances	**4,426,694**	**2,673,500**	**2,142,384**
Allowances (negative value)	(2,284 310)		
Total net loans and advances	**2,142,384**		

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

In the period covered by the present financial statements, there were no significant changes in the quality of collateral as a result of deterioration or changes in the Group’s collateral policy.

Loans and advances – credit quality

Loans and advances are classified in the overdue category, but in the case impairment is not identified and if the market current value of the collateral is sufficient to cover the value of principal, interest and other fees due to the Group in relation to a given exposure.

Mortgage loans denominated in foreign currencies

Mortgage loans to individual customers account for ca. 29% of the loan portfolio of non-financial sector of the Group (gross carrying amount), with (22%) being loans in foreign currencies the major part of which (99%) are denominated in CHF (the Swiss franc). The total gross carrying amount of mortgage loans in foreign currencies is PLN 4,872,443 thousand.

The Group performs revaluation of the residential property pledged as collateral for loans on an annual basis, on the following assumptions:

- where the debt is below PLN 12 million at the revaluation date – the property is revalued using a statistical method;
- where the debt is more than PLN 12 million at the revaluation date – the property is revalued on a case-by-case basis.

The revalued amount is the basis for calculation of the current LTV for a single exposure and the average LTV for the entire portfolio as the average weighted by the gross carrying amount of individual LTVs.

The total on-balance sheet exposure and the average LTVs for mortgage loans in foreign currencies considering impairment and delinquency in days is presented below.

Exposure structure and average current LTV by impairment and delinquency

days past due	gross balance sheet value	average LTV weighted with gross balance sheet value
0-30 days	4,653,532	81.84%
31-60 days	4,871	77.89%
61-90 days	9,930	72.71%
over 90 days	204,110	112.50%
Total	**4,872,443**	**83.10%**

impairment identified	gross balance sheet value	average LTV weighted with gross balance sheet value
NO	4,475,953	81.29%
YES	396,490	103.45%
Total	**4,872,443**	**83.10%**

The average current LTV for the entire foreign currency mortgage loan portfolio exceeds the average current LTV for mortgage loans in the Polish currency (73%).

Exposure structure and average current LTV by loan granting year (mortgage loans in foreign currencies) are presented in the table below:

date of agreement	number of loans granted	gross balance sheet value	average LTV weighted with gross balance sheet value	gross balance sheet value*
2005 and before	2,445	320,813	0.00%	304,684
2006	5,094	1,104,030	59.25%	1,044,927
2007	4,565	1,504,480	89.48%	1,390,720
2008	5,603	1,683,832	101.18%	1,526,258
2009	635	138,168	67.74%	127,847
2010 and after	314	121,120	93.93%	81,517
Total	**18,656**	**4,872,443**	**83.10%**	**4,475,953**

*non-impaired loans

Forbearance practices

The Group treats its exposures as forborne if the obligor is provided with a forbearance due to economic reasons (financial difficulties), including any forbearance granted for exposures with identified impairment triggers. In case the forbearance is granted for a customer with a material economic loss, the Bank classifies such a customer as default.

A facility is understood as the occurrence of at least one of the following events:

- a change to the repayment schedule, especially extending the loan maturity date;
- cancellation of overdue amounts (e.g. capitalisation of an overdue amount, which can be repaid at a later date);
- redemption of principal, interest or fees;
- consolidation of loans into one new product, if the amounts of payments of the consolidated loan are lower than the sum of payments of these loans separately before the consolidation occurred;
- decrease of the base interest rate or margin;
- originating a new loan to repay the existing debt;

Only in the period of customer's financial difficulties or, in the period when, due to changes on the market, such difficulties may occur, i.e.:

- the exposure is subject to debt collection; or
- the exposure is not subject to debt collection but there is evidence (provided by the customer or obtained in the decision-making process) that the customer is facing financial difficulties or may be facing them in the near future.

A material economic loss is defined by the Bank as the drop of present value of expected cash flows, resulting from forbearance granted, equal or higher than 5%. The drop of the present value is calculated in accordance with the below formula:

$$\frac{NPV_0 - NPV_1}{NPV_0}$$

where:

NPV0 – the present value of expected cash flows (including interest and fees / commissions) prior to the introduction of changes in loan terms, discounted with the original effective interest rate ,

NPV1 – the present value of expected cash flows (including interest and fees / commissions), after the introduction of changes in the loan terms, discounted using the original effective interest rate. In the case of consolidation of many loans for the original interest rate for the purpose of assessing the significance of economic loss, the average EIR weighted with the gross balance sheet exposure at the moment of granting the facility is assumed.

The "forborne" status is no longer assigned if the following conditions have been satisfied:

- exposure reclassified to performing portfolio as a result of the analysis of financial situation (in case of corporate portfolio), which proved that the customer does not meet the criteria for being classified to the impaired portfolio;
- the exposure has not been considered impaired for 24 months in a row;
- none of the exposures to the customer are past due by more than 30 days;
- the obligor has been making regular and considerable payments for at least a half of the trial period.

	31.12.2020			
Forborne exposures	Total portfolio	including forbearance exposures	including change of terms	including refinancing
Loans and advances for:	**78,823,922**	**1,448,966**	**1,380,968**	**67,998**
Non-banking financial institutions	595,102	-	-	-
Retail customers	33,802,097	414,718	387,464	27,254
Corporate customers	40,212,881	999,526	958,782	40,744
including retail farmers	9,462,022	401,262	394,387	6,875
Public sector institutions	101,382	-	-	-
Lease receivables	4,112,460	34,722	34,722	-
Impairment allowances on loans and advances	**(3,186,805)**	**(396,096)**	**(377,340)**	**(18,756)**
Non-banking financial institutions	(1,934)	-	-	-
Retail customers	(1,172,830)	(145,977)	(139,637)	(6,340)
Corporate customers	(1,863,349)	(237,774)	(225,358)	(12,416)
including retail farmers	(453,098)	(50,380)	(49,648)	(732)
Public sector institutions	(2,268)	-	-	-
Lease receivables	(146,424)	(12,345)	(12,345)	-
Total loans and advances (net)	**75,637,117**	**1,052,870**	**1,003,628**	**49,242**

	31.12.2019			
Forborne exposures	Total portfolio	including forbearance exposures	including change of terms	including refinancing
Forborne exposures	**77,039,248**	**1,383,336**	**961,070**	**422,266**
Loans and advances for:	576,521	-	-	-
Non-banking financial institutions	29,997,525	415,075	317,032	98,043
Retail customers	42,339,843	968,261	644,038	324,223
including retail farmers	10,456,551	290,659	259,831	30,828
Public sector institutions	129,915	-	-	-
Lease receivables	3,995,444	-	-	-
Impairment allowances on loans and advances	**(3,228,209)**	**(395,411)**	**(271,968)**	**(123,443)**
Non-banking financial institutions	(2,314)	-	-	-
Retail customers	(1,158,392)	(131,026)	(101,783)	(29,243)
Corporate customers	(1,939,521)	(264,385)	(170,185)	(94,200)
including retail farmers	(408,748)	(37,971)	(25,426)	(12,545)
Public sector institutions	(1,925)	-	-	-
Lease receivables	(126,057)	-	-	-
Total loans and advances (net)	**73,811,039**	**987,925**	**689,102**	**298,823**

In connection with the outbreak of the COVID-19 pandemic, the Group undertook a number of actions regarding, among others:

- the possibility to request temporary postponement of principal and interest instalments on loans by clients,
- review of the loan portfolio with focus on industries, particularly those affected by and sensitive to the consequences of the COVID-19 pandemic;

The Group also actively participated in the works of the banking sector, regulators and organizers of government assistance addressed to entrepreneurs, has launched a number of solutions allowing customers to submit application to the Bank electronically and online as well as to use assistance programmes related to the effects of a pandemic and has been conducting ongoing monitoring of the number of clients and credit exposures affected by the pandemic, including ongoing decisions on individual clients regarding the type and structure of client financing adequate to his current situation and government support programmes.

The Group started cooperation with BGK in relation to PLG-FGP liquidity guarantees offered to the Group's clients, other liquidity guarantees and loan interest rate subsidy programmes.

An electronic and simplified process of applying for postponement of principal and interest instalments on investment loans was introduced.

As a partner of the PFR programme, the Bank provided its clients with technical possibilities to apply for funding from these programmes using electronic banking.

Before 30 September 2020, the Group was focusing on the use of available assistance programmes for clients, including temporary postponement of instalments, examining clients' applications in this respect on an ongoing basis.

After 30 September 2020, until the end of 2020, clients' applications to postpone loan instalments could have been submitted and examined in a mode analogous to the situation before the COVID-19 pandemic was announced.

The data in the tables below are based on balance sheet value and present the amounts recognised in the Group's books as at 31 December 2020.

31.12.2020

Loans and advances to customers subject to a moratorium	Number of clients granted with moratoriums	Value of loans and advances covered by ongoing and expired moratoriums	including regulatory moratorium	including ongoing moratorium	
				not impaired	impaired
Gross balance sheet value	**43,309**	**7,251,102**	**135,935**	**171,565**	**129,760**
Non-banking financial institutions	1	33	-	-	-
Retail customers	33,257	3,374,952	135,848	45,132	94,051
Corporate clients:	7,460	3,095,593	87	120,067	35,625
including retail farmers:	1,492	523,060	87	40,981	4,465
Public sector institutions	2	1,121	-	886	-
Lease receivables	2,589	779,403	-	5,480	84
Allowance	x	**(375,835)**	**(32,988)**	**(5,206)**	**(32,835)**
Non-banking financial institutions	x	(3)	-	-	-
Retail customers	x	(201,320)	(32,987)	(2,136)	(26,281)
Corporate clients:	x	(137,439)	(1)	(2,780)	(6,532)
including retail farmers:	x	(39,932)	(1)	(696)	(1,011)
Public sector institutions	x	(238)	-	(233)	-
Lease receivables	x	(36,835)	-	(57)	(22)
Loans and advances to customers subject to the moratorium together	**43,309**	**6,875,267**	**102,947**	**166,359**	**96,925**

31.12.2020	Residual term for moratoriums		
Gross balance sheet value	Total	up to 3 months	from 3 to 6 months
Retail customers	139,183	136,262	2,921
Corporate clients:	155,692	139,303	16,389
including retail farmers:	45,446	39,401	6,045
Public sector institutions:	886	886	-
Lease receivables	5,564	419	5,145
Loans and advances to customers subject to the moratorium together	**301,325**	**276,870**	**24,455**

31.12.2020

Newly granted loans and advances to customers covered by public guarantee programmes	Number of clients who received the public guarantee	Value	Residual maturity of the public guarantee				
			up to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	Value
Gross balance sheet value	**3,034**	**1,298,960**	**20,314**	**334,725**	**693,771**	**234,531**	**15,619**
Corporate clients:	3,034	1,298,960	20,314	334,725	693,771	234,531	15,619
including retail farmers:	103	23,631	-	600	6,437	16,594	-
Allowance	x	**(9,931)**	**(147)**	**(1,825)**	**(3,644)**	**(3,933)**	**(382)**
Corporate clients:	x	(9,931)	(147)	(1,825)	(3,644)	(3,933)	(382)
including retail farmers:	x	(75)	-	-	(3)	(72)	-
Total newly granted loans and advances to customers covered by public guarantee programmes	**3,034**	**1,289,029**	**20,167**	**332,900**	**690,127**	**230,598**	**15,237**

As at 31 December 2020 the value of expired moratoriums amounted to PLN 6,949,777 thousand.

As part of its response to the situation related to COVID-19 pandemic, the Group has introduced changes to the process of recognition of material increases in risk. The Group monitors the behaviour of exposures subject to moratorium. In 2020, the Bank offered statutory moratoria from 19.06.2020 to the present moment and non-statutory moratoria from 08.06.2020 to 30.09.2020. Exposures covered by statutory credit vacations are transferred to Stage 3. In case of exposures covered by non-statutory credit vacations, the Group applies stricter criteria and these are classified to Stage 2. For these exposures, more than 30 days overdue within 3 months after the end of moratorium is an indication of a significant increase of credit risk (Stage 2), which results in calculation of allowances within the exposure life horizon.

Country risk

Within credit risk, the Group additionally distinguishes **country risk**, which covers all risks related to conclusion of financial agreements with foreign parties, assuming that it is possible that economic, social or political events will have an adverse effect on creditworthiness of the Bank's obligors in that country or where intervention of a foreign government could prevent the obligor (which could also be the government itself) from discharging his liabilities.

The Group's policy concerning country risk has been conservative. Country limits have been reviewed periodically and the limit level modified to match precisely the anticipated business needs and risk appetite of the Group.

As at the end of 2020, 54% of the Group's exposure to countries other than Poland were transactions related to the Group's foreign lending activities, treasury transactions (including placement and derivative transactions) accounted for 14% while the remaining part, i.e. 32% was related to foreign trade transactions (letters of credit and guarantees). France accounted for 33%, the Netherlands and Luxembourg for 11% each, the Czech Republic for 8% and Switzerland for 7% of the exposure. The remaining exposure was concentrated in Belgium, Germany, Turkey and Austria.

56.3. Counterparty risk

Counterparty risk is the credit risk concerning the counterparty transactions in case of which the amount of liability may change in time depending on market parameters. Therefore, the counterparty risk is related to transactions on instruments whose value may change over time depending on such factors as interest rates or foreign exchange rates. The varying exposure may affect the customer's solvency and is of crucial importance to the customer's ability to discharge its liabilities when the transaction is settled. The Bank's customers may enter into financial market transactions. The exposure is determined by the Bank on the basis of the current measurement of contracts as well as the potential future changes in the exposure, depending on the transaction type, customer type and the settlement dates.

At the end of December 2020, the counterparty risk was calculated for the following types of transactions contained in the trading portfolio of the Bank: foreign exchange transactions, interest rate swap transactions, FX options, interest rate options and commodity derivatives.

Counterparty credit risk, for transactions which generate counterparty risk, is assessed using the same methodology as the one applied to loans. This denotes that in the credit process, these transactions are subject to limits, the value of which results directly from assessment of customer creditworthiness. However, the assessment also takes into account the specific nature of transactions, in particular their changing value in time or direct dependence on market parameters.

The principles applicable to foreign exchange transactions, derivative transactions as well as credit limit granting, use and monitoring for transactions subject to counterparty risk limits have been laid down in dedicated procedures. According to the policy in place at the Bank, all transactions are entered into considering individual limits and knowledge of the customer. The Bank diversifies availability of products, which are offered to customers depending on their knowledge and experience. The Bank has transparent rules applicable to hedging the counterparty credit risk exposure in place.

At the end of December 2020, the Bank's exposure to the counterparty risk due to concluded derivative transactions was PLN 2.16 billion. Corporate and financial clients constituted 78% of the exposure, while the remaining 22% were banks.

In connection with COVID-19 pandemic, the Bank observes increased volatility in market risk parameters, which translates into fluctuations in counterparty risk exposure. The Bank assesses counterparty risk on an ongoing basis by conducting more frequent reviews of the portfolio of clients in case of whom this risk exists.

The Bank maintains the application of its basic principle of "Know Your Customer". Due to the non-standard situation, some clients were asked for additional information related to the change in business conditions in the context of the COVID-19 pandemic situation. The Bank also takes into account the higher volatility of the above parameters in risk assessment when entering into new transactions.

The Bank currently does not observe significant changes in the materialisation of counterparty risk.

56.4. Market risk (interest rate risk in the trading book and currency risk)

Market risk management organisation

The operations of BNP Paribas Bank Polska S.A. are recorded in the trading and in the banking book. In relation to market risk, covering interest risk in the trading book and the currency risk, the Bank is sensitive for changes in market interest rates, foreign exchange rates, security prices and implied volatility of option instruments leading to changes in the result on measurement of the financial instruments present value. The risk of adverse changes in the value, driven by the aforesaid factors, is recognised by the Bank as market risk. The risk is monitored and managed with the use of the defined and specially designed tools and measures.

In order to reflect the characteristics of financial market transactions appropriately, i.e. the intentions of the parties entering into the transactions, the major risks and the accounting treatment, the Bank allocates all on- and off-balance sheet items to the banking or trading book. Detailed allocation criteria are established in the documents (“policies” and “methodologies”) adopted by resolutions of the Management Board of the Bank and defining the purpose of keeping each book, the profile and types of risks assumed by the Bank, the measurement and mitigation methods as well as the authorizations and place of each organisational unit of the Bank in the risk generation, measurement, mitigation and reporting process.

The process of concluding transactions and their recording, as well as risk level supervision and adoption of risk limits is performed by independent units. In line with the long-term strategy adopted by the Bank, as well as with its financial plan, the Supervisory Board determines the Bank’s risk tolerance, i.e. an acceptable risk level and profile, which is subsequently allocated by the Risk Management Committee. The Financial Markets Division takes responsibility for daily operational management of the risk inherent in trading book in line with the defined market risk limits, including limits related to interest rate in the trading book and the currency risk, which is managed at a centralised level for the entire Bank. The Financial and Counterparty Risk Department are in charge of measuring and reporting risk and limit overrides. Additionally, the Financial and Counterparty Risk Department ensures that financial instruments are measured properly. The management result is calculated by the Financial Market Transactions Monitoring Unit, while transactions are recorded and settled by the Financial Market Transactions Processing Department. The system of limit override acceptance is hierarchical. It depends on the period of such override and its scale, and is managed by the Division head or Members of the Bank’s Management Board exercising supervision of the Risk Function and the function responsible for the risk override. Irrespective of the process, all limit overrides are reported immediately after they occur and discussed at monthly Risk Management Committee meetings.

Interest rate risk in the trading book

The Bank’s trading activities are supplementary, as they support sales of financial products to corporate customers, non-banking financial customers (directly) and retail customers (through structured products, which are officially classified into the banking book). The Bank opens its own positions, thus generating income on short-term changes in price parameters (foreign currency rates or interest rates), while maintaining the exposure within the adopted risk limits. The Bank offers commodity instruments but does not maintain open position in commodity market.

As part of the interest rate risk exposure, which is the key exposure in the trading portfolio, the Bank could enter into IRS, OIS, CIRS, FRA and basis swap transactions and purchase and sale of foreign currency options on interest options. The interest rate risk was also determined by positions resulting from FX swap and FX Forward transactions. In 2020, as part of internal risk limits, the Bank maintained an open option position in order to optimise the result, i.e. generate additional benefits due to the lack of immediate closing of customer positions by reverse transactions on the interbank market. The priority of the Bank is to hedge the interest rate risk and currency risk.

Sensitivity of items to shifts in the yield curve and VaR are the key measures of the interest rate risk in the trading portfolio. Additionally, the Bank conducts sensitivity analyses, where the changes in interest rates are more considerable than those typically observed (stress tests).
In 2020, the interest rate risk for PLN items, measured by sensitivity to shifts in the yield curve in the trading portfolio, was higher (PLN 54 thousand on average) than in 2019 (PLN 35 thousand).

The following table presents the interest rate risk in the trading book based on BPV (*Basis Point Value*, in PLN '000):

	31.12.2020		31.12.2019	
BPV*	**PLN**	**EUR**	**PLN**	**EUR**
31.12.	89	(42)	(20)	7
average	54	(32)	(35)	3
max	110	24	107	48
min	(20)	(84)	(109)	(60)

* a measure of the sensitivity of instrument measurement to a shift in interest rate curves by 1 basis point

Market risk exposure in the trading book measured by sensitivity to a 1 basis point movement in interest rate curves and currency risk in the fourth quarter of 2020 was maintained at a relatively low level as a result of the post-crisis situation triggered by COVID-19 pandemic and increasing uncertainty about future market behaviour. In contrast, VaR-measured exposure decreased slightly compared to the previous quarter and averaged 25% of the VaR limit (compared to 26% a quarter earlier). The risk was mainly due to the open interest rate position, with an average utilisation of the VaR IR limit at the level of 25%. Currency risk was kept at a low level, i.e. around 14% of the available limits utilisation and, similarly as in the previous quarter, did not contribute significantly to the overall risk level. The Bank maintained a slight open position in FX options to ensure servicing of customer transactions.

Currency risk

The Bank's currency risk is measured using Value at Risk (VaR), which is a measure of the change in the market value of an asset or an asset portfolio with specific assumptions concerning the market parameters, at a specific time and with defined probability. For purposes of currency risk monitoring, it is assumed that VaR is determined with a 99% confidence level and that a position is maintained for one day. The VaR methodology is validated on a quarterly basis by means of an analysis which involves a comparison of the forecast figures and those determined on the basis of actual changes in foreign exchange rates, assuming that the currency position is maintained (back-testing). The comparative period covers the last 250 business days. The VaR model was back-tested in 2020 and the verification results indicate that there is no necessity to make any adjustments.

Foreign currency transactions used for management of the Bank's currency position were characterised by a stable exposure and a low risk. The risk resulting from foreign currency transactions with customers was offset immediately. Therefore, also the intraday foreign currency exposure remained at a low level.

The following table presents currency risk of the Bank expressed as FX VaR (in PLN '000):

	31.12.2020	31.12.2019
FX VaR*		
average	276	399
max	3,916	2,957
min	71	33

* The Bank uses a historical exponential method which assumes that the confidence level is 99% and that positions are maintained for 1 day

The table below presents the currency structure of assets and liabilities in their balance sheet value expressed in PLN '000:

	31.12.2020		31.12.2019	
Currency position items	**Assets**	**Liabilities**	**Assets**	**Liabilities**
USD	752,899	4,060,837	543,362	3,210,574
GBP	116,988	345,801	293,134	288,211
CHF	4,852,886	859,008	4,938,357	780,450
EUR	12,713,450	15,425,756	11,071,940	13,699,159
Other convertible currencies	135,302	254,236	232,927	338,235
PLN	101,005,763	98,631,650	92,874,422	91,637,513
Total	**119,577,288**	**119,577,288**	**109,954,142**	**109,954,142**

56.5. Interest rate risk in the banking portfolio (ALM Treasury)

The banking book of BNP Paribas Bank Polska S.A. is composed of two parts: the first one is the ALM portfolio as part of which structural interest rate, currency and liquidity risks resulting from the structure of the statement of financial position determined by the core lending, deposit and investing operations of the Bank, are managed. On the other hand, the Treasury portfolio is subject to daily and short-term liquidity management. It is also used by the Bank for purposes of performing its investing activities as well as concluding hedging transactions on the financial market.

The ALM portfolio comprises accounts, deposits and loans, strategic items (long-term investments, own debt issues and long-term loans), financial market transactions hedging the portfolio (derivative instruments) and zero-interest items (to include equity, tangible assets, intangible assets, taxes and provisions and profit for the period), transferred under management of ALM Treasury through the Fund Transfer Pricing (FTP) system.

The Treasury portfolio includes liquid securities (liquidity buffer), interbank deposits and placements, nostro and loro accounts as well as financial market transactions hedging the market risk of the portfolio (derivative instruments).

The Bank's policy in respect of the banking book – ALM and Treasury portfolios managed collectively – is to earn additional, stable revenue in excess of the product margin, without any threat to the stability of funds deposited by customers, equity and profit. The above mentioned objective is accomplished by the Bank by maintaining or matching its natural exposure generated by the core lending and deposit operations, in line with the adopted risk limits which guarantee limited sensitivity of the Bank's profit to changes in market factors, in addition to bringing the exposure into line with financial market trends forecast in the medium and long term.

Competitive conditions of the local financial market and customer expectations are the main factors shaping the Bank's product policy, in particular the application of variable interest rates for medium- and long-term credit products, and financing of these assets with short deposits and interest-free accounts.

The real interest rate gap, net interest income sensitivity and economic capital sensitivity are the key measures of the market risk in the banking book, which comprises the ALM portfolio and the Treasury portfolio. The major assumptions adopted for measurement of interest rate risk in banking book are as follows:

a) individual assets, liabilities and off-balance sheet transactions are analysed at their nominal value which is used as the basis for calculation of interest;

b) items and transactions based on floating reference rates, such as WIBOR, LIBOR, EURIBOR, NBP rediscount rate etc. are taken into account for purposes of determining the gap at the nearest repricing date for a given contract;

c) items based on floating reference rates scaled with a multiplier are taken into account for purposes of determining the gap at the nearest repricing date for a given contract at nominal value scaled with a multiplier and the nominal amount scaled with a value (1 – multiplier) is considered at the maturity date or proportionally at the principal payment dates;

d) fixed rate items and transactions are taken into account for purposes of determining the gap at the principal payment dates, at the amounts of the principal paid at a given date or at the full amount at the maturity date for items in case of which the principal is not repaid (e.g. term deposits). Items and transactions with unspecified maturity, repricing date or non-interest bearing are taken into account in line with the profile determined as a result of modelling, which is aimed to ensure the best possible reflection of the changes in interest and principal cash flows resulting from customer behaviours and in response to external factors, in particular the market interest rates.

e) for the portfolio of impaired loans - for net values (decreased by the created reserves) - the average contractual maturity for unimpaired exposures (IFRS stage 1 and 2) increased by two years is applied,

f) economic capital is calculated based on positions at internal prices.

For interest rate risk models, the Bank uses the provisions of the 'W' recommendation regarding verification of the model's operation, qualitative criteria, minimum model acceptance criteria and ongoing control of the model's accuracy.
Replication portfolio models for accounts with no specific maturity dates are behavioural models built on the basis of the historical variability of deposit account balances and the analysis of the closing ratios for the modelled position. As part of modelling, the portfolio is divided into structural parts and a variable part, which is assigned the symbol ON in interest rate analyses.
As regards loans with a fixed interest rate, prepayment ratios determined in accordance with the applicable models at the Bank are used. Prepayments are analysed separately for individual types of loans (cash, car), due to the different characteristics of these products. Factors included in the prepayment analysis: loan age, seasonality, financial incentive for the customer to prepay the loan.

The following tables present the Bank’s real interest rate gap as at 31 December 2020 and 31 December 2019 (PLN ‘000) on a consolidated basis:

			31.12.2020			
Interest rate gap	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances at Central Bank	3,421,866	-	-	-	-	3,421,866
Amounts due from other banks	555,289	-	-	-	-	555,289
Loans and advances to customers	22,490,586	34,486,774	9,255,341	5,273,317	985,311	72,491,329
Investment securities	1,550,400	40,300	358,900	9,258,791	21,355,807	32,564,198
Other assets	1,821,370	63,037	232,955	1,129,398	564,699	3,811,459
Total assets	**29,839,511**	**34,590,111**	**9,847,196**	**15,661,506**	**22,905,817**	**112,844,141**
Amounts due to banks	(3,356,032)	(3,398,269)	(383,769)	-	-	(7,138,070)
Amounts due to customers	(23,448,977)	(7,363,264)	(16,071,703)	(31,384,257)	(11,719,149)	(89,987,350)
Other amounts due	(408,337)	(317,896)	(395,421)	(131,562)	(137,103)	(1,390,319)
Other liabilities	(2,924,499)	(45,441)	(6,650)	(16,192)	(1,246)	(2,994,028)
Total liabilities:	**(30,137,845)**	**(11,124,870)**	**(16,857,543)**	**(31,532,011)**	**(11,857,498)**	**(101,509,767)**
Net off-balance sheet liabilities	(6,269,225)	(3,089,479)	(6,286,176)	13,976,760	1,579,875	(88,245)
Interest rate gap	**(6,567,559)**	**20,375,762**	**(13,296,523)**	**(1,893,745)**	**12,628,194**	**11,246,129**

			31.12.2019			
Interest rate gap	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances at Central Bank	4,658,142	-	-	-	-	4,658,142
Amounts due from other banks	513,142	2,491	34,589	-	-	550,222
Loans and advances to customers	32,313,528	28,865,051	8,416,106	5,089,256	769,747	75,453,688
Investment securities	2,798,325	-	1,538,425	6,407,425	14,341,455	25,085,630
Other assets	1,359,799	53,072	218,033	1,044,726	487,057	3,162,687
Total assets	**41,642,936**	**28,920,614**	**10,207,153**	**12,541,407**	**15,598,259**	**108,910,369**
Amounts due to banks	(4,149,617)	(1,421,562)	(435,004)	(223,178)	(21,733)	(6,251,094)
Amounts due to customers	(41,466,126)	(7,586,175)	(14,388,460)	(15,042,232)	(7,899,429)	(86,382,422)
Other amounts due	(299,230)	(150,020)	(554,565)	(1,024,683)	(34,407)	(2,062,905)
Other liabilities	(3,039,100)	(34,244)	(7,236)	(21,002)	(1,539)	(3,103,121)
Total liabilities:	**(48,954,073)**	**(9,192,001)**	**(15,385,265)**	**(16,311,095)**	**(7,957,108)**	**(97,799,542)**
Net off-balance sheet liabilities	(1,710,137)	(2,307,413)	(1,229,503)	3,612,351	1,546,281	(88,422)
Interest rate gap	**(9,021,274)**	**17,421,200**	**(6,407,615)**	**(157,337)**	**9,187,432**	**11 022,405**

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

Estimated reductions or increases in the net interest income for the banking portfolio between 1 and 3 years, resulting from changes in market interest rates, are the measure of its sensitivity. For management and risk control purposes, the Bank calculates sensitivity to a number of different market parameter change scenarios: immediate shifts and shifts in time, parallel and non-parallel shifts, in normal and stress conditions, varying depending on the currency, market and instrument.

Annual net interest income sensitivity to an immediate shift of market rates by 50 bps (in PLN ’000) is presented in the below tables:

Immediate shift in market rates by 50 bps:	31.12.2020	31.12.2019
- increase	117,456	81,905
- decrease	(170 565)	(80,817)

Sensitivity of interest result by currency:

Immediate shift in market rates by 50 bps:	PLN	EUR	USD	CHF
- increase	85,101	8,381	8,180	15,794
- decrease	(139 379)	(10,222)	(9,082)	(11,882)

The potential decrease in net interest income in the event of further interest rate cuts has been hedged with fee income from current accounts of corporate clients resulting from negative interest rates in both foreign currencies and PLN. In the scenario of a 50 bps rate decrease, the estimated additional income from current account fees amounts to PLN 144 million.

The economic sensitivity of capital to a sudden parallel shift of market rates by +/- 200 basis points in PLN ‘000 and as percentage of own funds:

Immediate shift in interest rates:	PLN ‘000	%
increase by 200 bps	(591,232)	-3.77%
decrease by 200 bps	253,724	1.62%

In terms of base risk, the Bank analyses positions based on different types of rates with the same interest rate repricing date. The largest potential change in the Bank's net interest income may result from a change in the spread between Wibor 1M rates and the NBP reference rate.

If the market rate changes by 50 bps compared to the reference rate, the change in the result will be PLN 6,477 thousand.

As part of interest rate risk management in the banking portfolio, the Bank distinguishes structural elements consisting of interest-free current accounts and the Bank's capital as well as other commercial items. In terms of structural elements, the Bank secures a significant portion of long-term positions (bonds, interest rate exchange transactions). Regarding other commercial items, the Bank plans to reduce interest rate risk.

The utilisation of interest rate limits in 2020 was increasing due to the increase of balances of interest-free current accounts as a result of the decrease in interest rates to the level close to zero and the effects of anti-crisis shields. The decrease of interest rates increased the asymmetry in the sensitivity of the Bank's interest income under various scenarios of changes in interest rates (increase in sensitivity in the event of a decrease and no significant change in the event of an increase in interest rates). The larger decrease in net interest income in the case of interest rate cuts is largely offset by the fee income from corporate customers' current accounts resulting from negative interest rates. Another effect of the decline in interest rates, compounded by the anti-crisis and financial shields, were significant shifts of balances between products, causing a change in the interest rate risk profile and the need to conclude new transactions in order to secure a new risk profile of interest rate in the banking book.
The COVID-19 pandemic did not fundamentally affect the method of managing the interest rate risk in the banking portfolio.

56.6. Liquidity risk

Risk management organisation

The Bank’s comprehensive liquidity management system covers both immediate (intraday) and future (current, short-term as well as structural medium- and long-term) liquidity. Risk is managed by the Bank by building the statement of financial position and the financing structure reflected in the Bank’s financial statements including both balance and off-balance sheet items to ensure liquidity at any time, taking into consideration the profile of the Bank’s business, customer characteristics and behaviours as well as needs that may arise as a result of changes in the financial market. Additionally, the risk identification and measurement methods used by the Bank enable it to forecast future liquidity levels, also in stress conditions.

The Bank ensures separation and independence of its operations, risk management, control and reporting functions. In particular, transactions with contracting parties and customers are entered into by the business, confirmed and processed by Operations, immediate (intraday) and future liquidity is managed by ALM Treasury, daily supervision of the risk level and compliance with risk limits is the responsibility of the Risk Function, while supervisory liquidity measures are reported independently by the Finance Division.

The liquidity risk limits adopted by the Bank reduce its exposure to this type of risk. Risk is monitored and controlled based on documents adopted by resolutions of the Bank's Management Board (risk measurement and monitoring policy and methodologies), developed in compliance with the guidelines formulated in Recommendation P of the Polish Financial Supervision Authority, the provisions of PFSA's Resolution No. 386/2008 and Commission Delegated Regulation (EU) 2015/61. The Bank has an internal transfer pricing system in place, which reflects accurately the real financing cost for each asset and liability type, and the transfer pricing structure stimulates optimisation of the statement of financial position, including diversification of the sources of funding, from the perspective of liquidity risk. LTD limits for each business line are an important additional component of that system, as they facilitate maintenance of a secure level of assets relative to liabilities, which is appropriate considering the characteristics of each line.

The level of liquidity risk appetite is determined by the Supervisory Board of the Bank and the risk management policy based on that appetite, including definition of general liquidity risk measures, is approved by the Management Board, whereas specific risk limits and their monitoring are the responsibility of ALCO. The Bank's Management Board and Supervisory Board supervise the effectiveness of the liquidity risk management process based on periodic information and current reports.

In compliance with the requirements of PFSA's Recommendation P, the Bank conducts numerous analyses verifying its ability to maintain liquidity in crisis situations. Stress tests cover comprehensive scenarios considering internal and system factors and combining different variants with possible interactions. Stress test results are taken into account in determining liquidity limits. The Bank has a comprehensive emergency plan in place. It comprises various scenarios along with action plans for liquidity crisis situations in the Bank and in the banking system as a whole. Stress test results are correlated with the emergency plan and reaching defined warning levels triggers the emergency plan.

Risk measures

The Bank uses external and internal risk measures. The internal measures include, among others: an analysis of trends and volatility of each source of funding relative to the loan portfolio (LTD), the contractual liquidity gap and the liquidity gap realigned based on behavioural factors along with mismatch structure limits defined on its basis, an analysis of surplus liquidity and the available sources of funding, an analysis of stability and concentration of the deposit base as well as a review of the structure of funds placed with the Bank by the major depositors by volume and maturity. Additionally, sales plans (covering loans and deposits) are monitored, broken down by each business line, and simulation analyses are performed. Furthermore, the Bank analyses the costs of the deposit base with a view to optimising the liquidity buffer and the use of such tools as the liquidity margin or pricing policy.

The external measures include supervisory long-term liquidity ratios introduced by PFSA's Resolution No. 386/2008 as well as LCR, as defined in Commission Delegated Regulation (EU) 2015/61 and NSFR determined in the Regulation No. 575/2013 of the European Parliament and of the Council and developed in line with the Commission Implementing Regulation (EU) No. 680/2014 and Basel III introducing the new stable funding ratio requirement.

The on-going supervision includes early warning tools, such as monthly reviews of additional liquidity requirements defined in the Commission Implementing Regulation (EU) No. 2016/313. In addition, the Bank conducts daily analyses of various liquidity indicators with warning levels defined in the Emergency Liquidity Plan. Theses allow, when warning levels are reached, to introduce remedial actions and restore the Bank's safety in terms of liquidity.

Liquidity risk profile

In 2020, the Bank's financial liquidity was maintained at a safe level. The Bank's funds were sufficient for payment of all its liabilities upon maturity. The portfolio of the most liquid securities was maintained at a level, which was sufficient to offset a potential outflow of funds placed with the Bank by the major depositors in whole.

2020 was a special year due to the COVID-19 pandemic situation. The activities of the ALMT Division were additionally focused on special monitoring of the Bank's liquidity situation and ensuring smooth management of settlements, clients' access to cash and increasing the frequency and scope of reporting on the liquidity situation to the management. The Bank participated in activities supporting the fight against the pandemic by purchasing additional issues of government bonds and bonds issued by Bank Gospodarstwa Krajowego. Internal models and internal transfer prices were adjusted on an ongoing basis to reflect both changes in market interest rates and changes in the product structure of the balance sheet. The ALMT Division coordinated the activities with business lines through regularly held meetings and consultations discussing the liquidity situation and customer behaviour.
As at the end of 2020, the Bank's surplus liquidity was at the level of PLN 34.092 billion:

	31.12.2020	31.12.2019
Cash at Central Bank (over the reserve requirement)	(424,506)	(784,667)
Cash at other banks	555,289	526,595
Highly-liquid securities	33,961,438	26,111,430
Surplus liquidity up to 30 days	**34,092,221**	**25,853,358**

The liquidity surplus increased compared to the end of 2019, mainly due to the higher accumulation of deposits from non-banking clients.

Throughout 2020, in particular as at 31 December 2020, the Bank complied with the requirements applicable to the supervisory measures.

	31.12.2020	31.12.2019
M3	7.86	6.88
M4	1.26	1.28
limit	**1.00**	**1.00**

	31.12.2020	31.12.2019	limit
Liquidity Coverage Ratio	181%	162%	**100%**

In 2020, the Bank continued to optimise its financing sources, which aims to reduce unnecessary, and at the same time costly and unstable, excess funding. In 2020, the Bank maintained highly lowered level of medium- and long-term loans from the BNPP Group and its subsidiaries. As at the end of 2020, the Bank was granted a subordinated loan from BNP Group in order to meet the MREL requirement.

The Bank's sources of funding remained highly stable throughout 2020 at a similar level as in the previous year:

	31.12.2020		31.12.2019	
	balance	stable (%)	balance	stable (%)
long-term loans from the Group	4,306,539	100%	1,882,064	100%
other long-term loans	160,736	100%	219,971	100%
securitization liabilities	1,390,318	100%	2,298,151	100%
retail	53,982,138	87%	50,449,843	90%
corporate	35,634,383	83%	35,972,682	81%
financial entities	2,702,679	25%	2,456,769	25%
banks and other unstable sources	2,715,259	0.00%	567,689	0.00%
Total	**100,892,052**	**82.2%**	**93,847,169**	**84.8%**

Inflows and outflows – expected under the agreements concluded by the Bank is presented as contractual liquidity gap*:

	31.12.2020				
Contractual liquidity gap	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Assets					
Loans and advances to customers	12,188,841	2,279,148	9,858,407	26,497,990	22,865,167
Debt securities	24,334	-	343,950	10,637,606	21,556,807
Interbank deposits	401,261	-	-	-	-
Cash and balances at Central Bank	2,997,364	-	-	-	484,302
Fixed assets	-	-	-	-	2,553,563
Other assets	735,117	-	-	-	303,741
Off-balance sheet liabilities, including:	30,341,239	6,676,789	15,729,727	66,734,306	11,848,411
derivatives	12,802,413	6,676,789	15,729,727	66,734,306	11,848,411
Liabilities					
Retail deposits	48,840,356	2,464,997	2,548,526	128,054	204
Corporate deposits	34,283,223	811,015	453,448	79,318	201
Interbank deposits	2,715,259	-	-	-	-
Loans from financial institutions	146,318	129,463	479,318	791,279	-
Equity and subordinated liabilities	659,391	-	-	-	15,616,904
Other equity and liabilities	3,388,669	-	-	-	-
Off-balance sheet liabilities, including:	52,729,877	6,657,014	15,744,740	69,383,577	11,951,839
derivatives	12,866,220	6,657,014	15,744,740	69,381,077	11,951,839
Total receivables	**46,688,156**	**8,955,937**	**25,932,084**	**103,869,902**	**59,611,991**
Total liabilities	**142,763,093**	**10,062,489**	**19,226,032**	**70,382,228**	**27,569,148**
Liquidity gap	**(96,074,937)**	**(1,106,552)**	**6,706,052**	**33,487,674**	**32,042,843**

Compared to 2019, the contractual gap up to 1m has increased significantly due to the triple interest rate cuts in 2020, which has affected the product structure of amounts due from customers - significant funds have been shifted from deposits to current and savings accounts. The Bank determines the maturity profile of funds located in current accounts in accordance with the Bank's models. The stability of these funds is very high (84%-88% of the total balance) with an average maturity of the stable parts of more than five years.

	31.12.2019				
Contractual liquidity gap	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Assets					
Loans and advances to customers	15,870,759	2,020,209	9,038,362	24,224,886	20,476,488
Debt securities	29,015	-	1,149,709	9,058,649	14,884,030
Interbank deposits	468,878	-	-	-	-
Cash and balances at Central Bank	1,790,822	-	-	-	2,973,849
Fixed assets	-	-	-	-	1,214,434
Other assets	1,091,428	-	1	-	1,317,567
Off-balance sheet liabilities, including:	27,653,488	7,954,445	19,354,548	38,112,901	10,082,169
derivatives	11,464,813	7,954,445	19,354,548	38,112,901	9,982,169
Liabilities					
Retail deposits	39,202,363	3,897,030	6,703,537	646,911	2
Corporate deposits	33,632,979	1,289,615	708,535	125,251	216,302
Interbank deposits	567,689	-	-	-	-
Loans from financial institutions	145,851	196,211	727,049	1,411,911	1,916,995
Equity and subordinated liabilities	-	-	-	-	11,189,814
Other equity and liabilities	3,031,040	-	-	-	-
Off-balance sheet liabilities, including:	42,953,453	7,962,496	19,340,793	38,205,091	9,983,303
derivatives	11,474,207	7,962,496	19,336,493	38,202,591	9,983,303
Total receivables	**46,904,390**	**9,974,654**	**29,542,620**	**71,396,436**	**50,948,537**
Total liabilities	**119,533,375**	**13,345,352**	**27,479,914**	**40,389,164**	**23,306,416**
Liquidity gap	**(72,628,985)**	**(3,370,698)**	**2,062,706**	**31,007,272**	**27,642,121**

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

The Bank's liquidity situation improved throughout the year. Due to the COVID-19 pandemic, the clients' interest in loan facilities waned - reluctance to incur liabilities in such a situation caused practically no lending in the corporate segment and growth in the retail segment mainly in mortgage loans. Additionally, subsidies received by corporate entities allowed for partial or total repayment of some companies' liabilities. The increase in customer funds received under the assistance programmes in connection with COVID-19 continued. Other financial entities' funds continue to be the primary source of funding.

56.7. Operational risk

The Bank's operational risk is defined in accordance with the requirements of the Polish Financial Supervision Authority included in Recommendation M as the possibility of incurring a loss or an unreasonable cost through the fault of inappropriate or unreliable internal processes, people, technical systems or as a result of external factors. It comprises legal but not strategic risk. Operational risk as such is inherent in any banking operations.

Operational risk is managed with a view to reducing the losses and costs resulting from the aforesaid risk, ensuring top quality of the services provided by the Group in addition to security and compliance of the Group's operations with the applicable laws and standards.

Procedures

Operational risk management consists in employment of measures aimed at operational risk identification, analysis, monitoring, control, reporting and mitigating. Such measures take into account the structures, processes, resources and scopes of responsibilities for the said processes at various organisational levels. The operational risk management strategy has been described in the Operational Risk Management Strategy of BNP Paribas Bank Polska S.A., which was approved by the Management Board of the Bank and accepted by the Supervisory Board. The Operational Risk Policy of BNP Paribas Bank Polska S.A., adopted by the Management Board of the Bank, constitutes organisational framework and standards for operational risk management. It addresses all aspects of the Bank's operations in addition to defining the Bank's objectives and the methods of their achievement as regards the quality of operational risk management as well as compliance with legal requirements set out in the recommendations and resolutions issued by national financial supervision authorities. The Bank's operational risk management objectives include, in particular, compliance with high operational risk management that guarantee security of customer deposits, the Bank's equity, stability of its financial performance as well as maintenance of the operational risk level within the range of the operational risk appetite and tolerance defined by the Bank. When developing the operational risk management system, the Bank complies with the applicable legal requirements, in particular, with the recommendations and resolutions of the national financial supervision authorities and the standards adopted by the BNP Paribas Group.

In accordance with the Policy, the Bank's operational risk management instruments include:

- tools used for purposes of recording operational events, together with the principles of their recording, allocation and reporting;
- operational risk analysis, its monitoring and daily control;
- counteracting an elevated level of operational risk, to include risk transfer;
- calculation of the capital requirement related to the operational risk.

Compliance with the operational risk policy is verified by the Bank's Management Board periodically and, if necessary, the required adjustments are made in order to improve the system. To this end, the Management Board of the Bank is regularly provided with information concerning the scale and types of operational risk to which the Bank is exposed, its effects and management methods.

Internal environment

The Bank precisely defines the roles and responsibilities in the operational risk management process, considering its organisational structure. The Operational Risk Department is responsible for daily operational risk analysis in addition to development of appropriate risk control and mitigation techniques and their improvement. Development and implementation of the Bank's strategy with respect to insurance as a risk mitigation technique is the responsibility of the Real Estate and Administration Department, while the Security and Management of Business Continuity Department is in charge of business continuity management.

As part of the legal risk management process, the Legal Division monitors, identifies and performs analyses of changes to laws of general application and their effect on the Group's operations, in addition to court and administrative proceedings which affect the Group. The Compliance Monitoring Department is responsible for daily non-compliance risk analysis in addition to development of appropriate risk controls and their improvement.

Considering the elevated level of external and internal risks related to fraud and offense against the assets of the Bank and its customers, the Bank has extended the scope of and improved its processes aimed at counteracting, detecting and examining such cases, which is entrusted with the Fraud Prevention Department.

Risk management

The Bank places a strong focus on identification and assessment of the factors that trigger its present exposure to operational risk in relation to banking products. It is the Bank's objective to reduce the operational risk level through improvement of its internal processes as well as mitigating the risk inherent in the process of launching new products and services and outsourcing operations to third parties.

In accordance with the Operational Risk Management Policy of BNP Paribas Bank Polska S.A., the operational risk analysis is aimed at acquiring an understanding of the interdependence between the risk generating factors and operational event types, and it is performed primarily with the objective to define the operational risk profile.

The operational risk profile is an assessment of the level of significance of this risk, understood as the scale and structure of operational risk exposures, determining the exposure levels to this risk (i.e. operational losses), expressed in the structural dimensions selected by the Bank and the scale dimensions. Periodic assessment and review of the Bank's operational risk profile is based on an analysis of the Bank's current risk parameters, changes and risks occurring in the Bank's environment, implementation of the business strategy, as well as the adequacy of the organisational 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 organisational 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 BNP Paribas Bank Polska S.A." document, approved by the Bank's Management Board. This document describes the main principles, organisational framework and standards for the functioning of the control environment at the Bank, complying with the PFSA requirements provided in Recommendation H and the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and the internal control system, the remuneration policy and the detailed method of estimating internal capital in banks. Detailed internal regulations concerning specific areas of the Bank's activity are adapted to the specifics of the Bank's operations. The appropriate organisational units of the Bank, in accordance with the scope of the tasks assigned to them, are responsible for developing detailed regulations relating to the area of internal control.

The internal control system at the Bank is based on the 3 defence lines model, which consists of:

- 1st defence line, which consists of organisational units from particular areas of banking and support areas,
- 2nd defence line, which consists of organisational units responsible for risk management, regardless of the risk management related to the first line defence, and the compliance unit,
- 3rd defence line, which is independent and objective internal audit unit.

The Bank ensures internal control through independent monitoring of compliance with control mechanisms, including on-going verification and testing.

Monitoring and reporting

The Bank periodically monitors the efficiency of the operational risk management system and its appropriateness for its current risk profile. The organisation of the operational risk management system is reviewed as part of periodic control exercised by the Internal Audit Division, which is not directly involved in the operational risk management process but provides professional and unbiased opinions supporting achievement of the Bank's objectives. The operational risk management system is overseen, and its appropriateness and efficiency are assessed by the Supervisory Board.

Capital requirements due to operational risk

The Bank estimates its regulatory capital necessary to cover operational risk in accordance with the applicable regulations. The said calculation is performed using the standard approach (STA). Requirements regarding Bank's subsidiaries, to be disclosed in the consolidated financial statements, are determined in accordance with the base indicator method (BIA).

Subsidiaries

In accordance with supervisory regulations, the Bank supervises operational risk related to the operations of its subsidiaries. Operational risk management in subsidiaries is performed in dedicated units / persons appointed for this purpose. The method of operational risk management in subsidiaries is organised adequately to the scope of the particular entity's activity and the profile of its operations, in accordance with the rules applied in the Bank.

As part of operational risk management, the Bank conducts activities in the area of ongoing risk analysis related to the pandemic of the COVID-19 pandemic, and undertakes appropriate measures to ensure the safety of employees and clients of the Bank and to ensure uninterrupted implementation of processes related to the conducted business activities.

57. CAPITAL ADEQUACY MANAGEMENT

Capital adequacy management is aimed to ensure the Bank's compliance with macro-prudential regulations defining capital requirements related to the risks incurred by the Bank, quantified in the form of the capital ratio.

Since 1 January 2014, banks have been subject to new principles applicable to calculation of capital ratios, following the implementation of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on macro-prudential requirements for credit institutions and investment firms and amending Regulation No. 648/2012.

The capital ratios, capital requirements and equity have been calculated in accordance with the aforesaid Regulation with the use of national options.

On 8 August 2018, the Bank received a letter from the Polish Financial Supervision Authority with the information that the Commission conducted a review of the adequacy of the buffer ratio for another systemically important institution. As a result of the review, the Commission concluded that there are no reasons justifying the repeal or amendment of its previous decision of 4 October 2016, as amended by the Commission decision of 19 December 2017, concerning imposition of a buffer for another systemically important institution on the Bank (on a consolidated and separate basis) in the amount of 0.25% of the total risk exposure amount.

On 9 July 2019, the Bank received a letter from the Polish Financial Supervision Authority stating the expiry of the PFSA's decision of 15 October 2018, on the basis of which PFSA recommended that the Group should maintain its own funds to cover the additional capital requirement in order to hedge the risk arising from mortgage-secured foreign currency loans and loans to households at the level of 0.36 p.p. over the value of the total capital ratio, 0.27 p.p. over the value of Tier 1 capital ratio and 0.20 p.p. over the value of Common Equity Tier 1 capital ratio referred to in article 92 paragraph 1 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").

On 19 March 2020, the Regulation of the Minister of Finance (Journal of Laws of 2020, item 473) of 18 March 2020 repealing the regulation on the systemic risk buffer came into force. The regulation repealed the Regulation of the Minister of Development and Finance of 1 September 2017 regarding the systemic risk buffer (Journal of Laws of 2017, item 1776), which pursuant to art. 1 paragraph 1 introduced the systemic risk buffer rate of 3% of the total risk exposure calculated in accordance with art. 92 paragraph 3 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on macro-prudential requirements for credit institutions and investment firms and amending Regulation No. 648/2012. (Official Journal of the EU L 176 of 27 June 2013, p. 1, as amended 2)), on a separate and consolidated basis.

On 27 June 2020, Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020, amending Regulations (EU) No 272/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic entered into force.

On 28 December 2020, the Bank received a decision of the Polish Financial Supervision Authority ("PFSA") regarding the consent to recognise the funds under the subordinated loan in the amount of PLN 2,300,000,000 (two billion three hundred million) as an instrument in the Bank's Tier II supplementary funds.

The level of Tier I capital ratio (Tier I), both on separate and consolidated levels, and the total capital ratio (TCR) on a consolidated level, were above the requirements for the Bank in 12 months of 2020.

At the same time, the Group meets the legal requirements under the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial sector.

31.12.2020	The minimum supervisory consolidated solvency ratios of the Group	Consolidated capital adequacy ratios of the Group
CET I	7.25%	13.55%
Tier I	8.75%	13.55%
Total Capital Ratio	10.75%	18.65%
31.12.2019		
CET I	10.25%	12.80%
Tier I	11.75%	12.80%
Total Capital Ratio	13.75%	15.05%

As at 31 December 2020 the levels of Tier I on a consolidated level exceeded the regulatory requirements.

On 16 March 2020 the Bank received an announcement from the Bank Guarantee Fund ("BFG") regarding the joint decision of the resolution authorities, i.e. the Single Resolution Board ("SRB"), Central Bank of Hungary, Finanstilsynet, Bank of England and BFG, on the minimum level of own funds and eligible liabilities ("MREL"). The decision is based on the Single Point of Entry (SPE) strategy applied to the BNP Paribas Group.

The MREL requirement for the Bank was set at the sub-consolidated level at 16.001% of the total liabilities and own funds (TLOF), which corresponds to 20.866% of total risk exposure amount (TRE). This requirement should be met by 31 December 2022. Additionally, the BFG set mid-term MREL goals at the sub-consolidated level, which: - in relation to TLOF are: 12.363% at the end of 2020 and 14.182% at the end of 2021, and - in relation to TRE are: 16.122% at the end of 2020 and 18.494% at the end of 2021.

The MREL requirement was determined based on consolidated balance sheet data as at 31 December 2018 and the value of required buffers as at 1 January 2019 and additional capital requirement of the PFSA as at 9 July 2019 (on 9 July 2019, the Bank was released from the obligation to maintain this requirement).

According to the BFG statement of 26 March 2020, as a consequence of the abolition of the systemic risk buffer, the MREL requirements will be significantly reduced and the target deadline will be extended to 1 January 2024 (instead of 1 January 2023), as well as the deadline of the first binding mid-term goal until 1 January 2022 (instead of 1 January 2021). The Bank informs that the binding decisions regarding MREL requirements for the Bank are issued at the SRB level in consultation with BFG and as at the date of publication of the present report, they have not changed.

The Group meets the defined MREL requirements at the end of 2020.

58. MAJOR EVENTS IN BNP PARIBAS BANK POLSKA S.A. IN 2020

31.01.2020	**Extraordinary General Shareholders Meeting** • Adoption of a resolution on the introduction of an incentive program for persons having a material impact on the Bank's risk profile. • Adoption of a resolution authorizing the Management Board to purchase by the Bank its own shares and to create a reserve capital intended entirely for the purchase of own shares. • Adoption of a resolution on the issue of subscription warrants, a conditional increase in the share capital by issuing M series shares, depriving existing shareholders of the pre-emptive right to subscription warrants and pre-emptive rights to M series shares, amendments to the Statute and dematerialisation and applying for admission of M series shares to trading on the regulated market. • Resolution on the adoption of the consolidated text of the uniform text of the Statute of BNP Paribas Bank Polska S.A.
6.02.2020	**Decision of PFSA regarding the consent to include the Bank's net profit for the third quarter of 2019 in the Common Equity Tier 1 capital** - unitary in the amount of PLN 114,075,064.24 and consolidated (prudential consolidation) in the amount of PLN 110,903,651.00
16.03.2020	**The minimum requirements for own funds and eligible liabilities (MREL) for BNP Paribas Bank Polska S.A.** The MREL requirement for the Bank was set at the sub-consolidated level at 16.001% of the sum of own funds and total liabilities (TLOF), which corresponds to 20.866% of the total risk exposure (TRE). This requirement should be achieved by 31 December 2022. In addition, the Bank Guarantee Fund (BFG) set mid-term MREL targets at the sub-consolidated level, which: - in relation to the TLOF are: 12.363% at the end of 2020 and 14.182% at the end of 2021, - in relation to TRE, they are: 16.122% at the end of 2020 and 18.494% at the end of 2021. The MREL requirement was determined on the basis of the consolidated balance sheet data as at 31 December 2018 and the values of the required buffers as at 1 January 2019 and the additional capital requirement of the Polish Financial Supervision Authority as at 9 July 2019 (on 9 July 2019 the bank was released from the obligation to maintain this requirement). According to the BFG announcement of 26 March 2020, as a result of the lifting of the systemic risk buffer, the MREL requirements will be significantly reduced and the target compliance date will be extended to 1 January 2024 (instead of 1 January 2023), as well as the date of fulfilment of the first binding mid-term target will be extended to 1 January 2022 (instead of 1 January 2021). The Bank informs that the binding decisions regarding MREL requirements for the Bank are issued at the SRB (Single Resolution Board) level in agreement with the BGF and have not changed as at the date of publication of this Report. The bank intends to meet the defined MREL requirements at the end of 2020.
14.04.2020	**Information on the amount of annual contribution for BNP Paribas Bank Polska S.A., determined by the Bank Guarantee Fund ("BFG") in relation to the bank restructuring fund for 2020 in the amount of PLN 125.96 million**
5.05.2020	**Decision of PFSA regarding the consent to include the Bank's net profit for the fourth quarter of 2019 in the Tier 1 capital in the amount of PLN 107,290,717.58 on the separate level and in the amount of PLN 113,242,422.00 on the consolidated level (prudential consolidation).**
5.05.2020	**Confirmation of the Bank's ratings and change of the rating outlook to stable by Moody's Investors Service**
13.05.2020	**Entering into the National Court Register amendments to the Articles of Association of BNP Paribas Bank Polska S.A.** adopted by the Extraordinary General Meeting of the Bank on 15 November 2019.
14.05.2020	**Entering into the National Court Register amendments to the Articles of Association of BNP Paribas Bank Polska S.A.** adopted by the Extraordinary General Meeting of the Bank on 31 January 2020.
29.06.2020	**Ordinary General Meeting of BNP Paribas Bank Polska S.A.** • Consideration and approval of the following: *- Financial statements for 2019 and the Management Board report on activities in 2019* *- Report on non-financial information of the Bank and the Bank's Capital Group in 2019* *- Report on the activities of the Bank's Supervisory Board and its committees in 2019*

	• Adoption of a resolution regarding the distribution of the Bank's profit for the financial year 2019. • Adoption of resolutions on acknowledgment of the fulfilment of duties by the members of the Management Board and Supervisory Board of the Bank in 2019.
29.09.2020	**Decisions of the Polish Financial Supervision Authority on the consent for recognition of the 2Q 2020 net profit as part of the Common Equity Tier 1 capital on stand-alone (in the amount of PLN 329,799,009.75) and consolidated (in the amount of PLN 334,127,286.63) levels.**
25.11.2020	**Intention to carry out collective redundancies at BNP Paribas Bank Polska S.A.** The resolution adopted by the Management Board of the Bank on 25 November 2020 provides for the process of collective redundancies in the years 2021-2023 which will cover not more than 800 employees of the Bank employed at the headquarters and sales network.
7.12.2020	**Conclusion of the Subordinated Loan Agreement** The non-revolving subordinated loan agreement in the amount of PLN 2,300,000,000 was concluded by the Bank with BNP Paribas SA, a French joint stock company (société anonyme), based in Paris, France, 16 Boulevard des Italiens - 75009, registered in the Commercial Companies Register kept by the Commercial Court in Paris under the number (SIREN) 662 042 449. The loan was granted for a period of 10 years from its disbursement, and its interest rate was determined based on the 3-month WIBOR rate, increased by a margin. The financial terms of the Agreement do not differ from the market terms.
18.12.2020	**Agreement with trade unions on rules of collective redundancies** On 18 December 2020, negotiations with trade unions operating at the Bank were finalised and an agreement was concluded on the rules for implementing collective redundancies (the "Agreement"). The parties to the Agreement agreed that the group layoffs will be carried out in the period from 1 January 2021 to 31 December 2023 and will cover no more than 800 employees of the Bank. The parties to the Agreement also agreed, inter alia, criteria for selecting employees whose employment contracts will be terminated as part of collective redundancies, terms of employee participation in the voluntary redundancy programme and benefits that will be granted to employees covered by collective redundancies, including: severance pay, additional compensation, medical care and the outplacement programme. The Bank estimated the amount of the restructuring provision to cover the costs related to the group layoffs at approximately PLN 41.4 million. This provision was charged to the Bank's results in the fourth quarter of 2020.
28.12.2020	**Decision of the Polish Financial Supervision Authority to consent to the recognition of funds from a subordinated loan in the amount of PLN 2,300,000,000 as an instrument in the Bank's supplementary Tier II funds**

59. SUBSEQUENT EVENTS

7.01.2021

Provision for legal risk of CHF housing loans

On 7 January 2021, the Management Board of the Bank approved the amount of the estimate of the provision for mortgage loan agreements in CHF at the end of 2020 in the total amount of PLN 200.3 million. This means an increase in the value of the provision compared to the balance sheet value of 30 September 2020 by PLN 101.7 million. This amount will be charged to the Bank's results in the fourth quarter of 2020.

19.01.2021

PFSA recommendation regarding the suspension of the payment of dividends by the Bank in the first half of 2021

Adaptation to the requirements concerning the new definition of default under the EBA Guidelines

The Bank applied a two-stage approach to adjust its operations to the requirements regarding the new definition of default under the EBA Guidelines on the application of the default definition described in Article 178 of the Regulation (EU) No 575/2013. In the first stage, i.e. as at 31 December 2020, the Bank introduced the relative and absolute thresholds resulting from the Regulation of the Minister of Finance, Investment and Development of 3 October 2019 on the materiality level of a past due credit obligation for the purposes of identifying material past due. A past due credit obligation is considered material when both materiality thresholds are exceeded in aggregate:

• the amount of past due liabilities exceeds PLN 400 for retail exposures or PLN 2,000 for non-retail exposures, and

• the share of past due liabilities in the total exposure of the obligor is greater than 1%.

Accordingly, the calculation of overdue days for the purpose of determining a default event starts once both of the aforementioned thresholds are exceeded.

In the second phase, i.e. as of 1 January 2021, the Bank has aligned its activities with the remaining requirements of the EBA Guidelines. Significant changes introduced in connection with the implementation of the new definition of default include:

• establishing the level of recognition of default and calculation of overdue liabilities (customer or exposure level depending on the portfolio),

• changing the calculation of the number of days past due to a mechanism of continuous material past due (only repayment decreasing the past due liability below one of the two materiality thresholds will result in discontinuation of the calculation of past due days)

• the introduction of a new default trigger based on NPV loss, and

• the introduction of the concept of technical past due (not resulting in classification into default status).

The impact of adjusting to the new definition of default recognised after the reporting date, i.e. related to the second stage of NDoD implementation, amounted to PLN 20,984 thousand on a separate basis. The impact of the first stage of implementation of the new rules is immaterial.

Proposal by the Chairman of the PFSA concerning the problem related to CHF loans is presented in Note 55.

26.02.2021	**Przemysław Gdański** *President of the Management Board*	*qualified electronic signature*
26.02.2021	**Jean-Charles Aranda** *Vice-President of the Management Board*	*qualified electronic signature*
26.02.2021	**Andre Boulanger** *Vice-President of the Management Board*	*qualified electronic signature*
26.02.2021	**Przemysław Furlepa** *Vice-President of the Management Board*	*qualified electronic signature*
26.02.2021	**Wojciech Kembłowski** *Vice-President of the Management Board*	*qualified electronic signature*
26.02.2021	**Kazimierz Łabno** *Vice-President of the Management Board*	*qualified electronic signature*
26.02.2021	**Magdalena Nowicka** *Vice-President of the Management Board*	*qualified electronic signature*
26.02.2021	**Volodymyr Radin** *Vice-President of the Management Board*	*qualified electronic signature*
26.02.2021	**Jerzy Śledziewski** *Vice-President of the Management Board*	*qualified electronic signature*

Warsaw, 26 February 2021