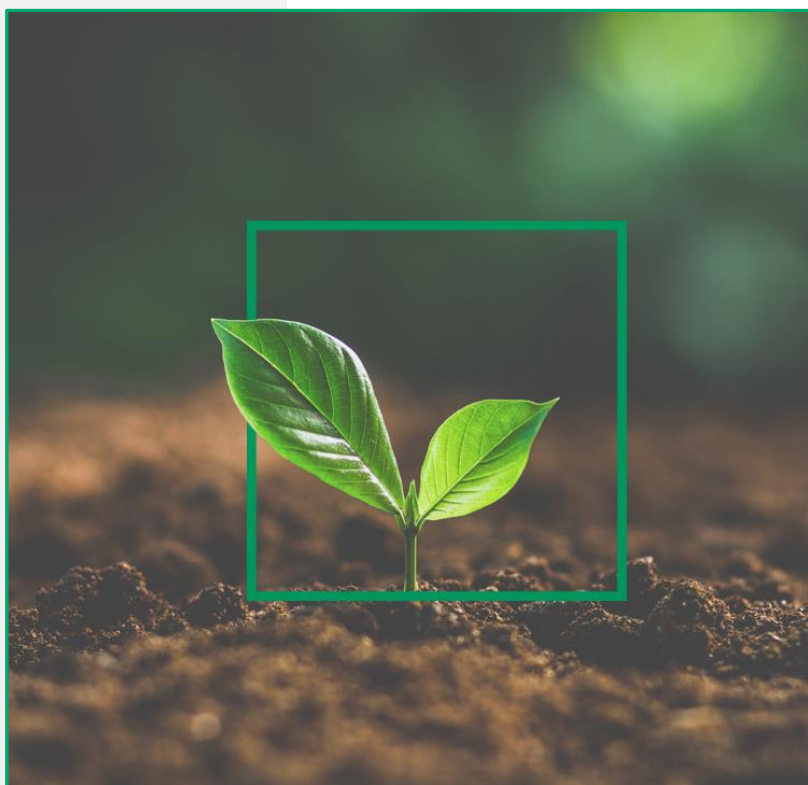


MANAGEMENT BOARD REPORT ON THE ACTIVITIES IN 2019

(BNP Paribas Bank Polska Group SA including
Report on activities of BNP Paribas Bank Polska SA)

This document is a translation of a document originally issued in Polish.

The only binding version is the original Polish version.



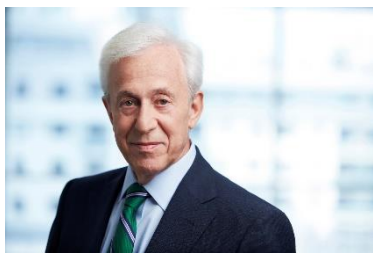
BNP PARIBAS

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LETTER FROM THE CHAIRMAN OF THE BNP PARIBAS BANK POLSKA SUPERVISORY BOARD



Dear Stakeholders,

Last year crowns a sequence of changes that ultimately led to the creation of BNP Paribas Bank Polska – a new organization building on the best potential of the combined institutions. Personally, I have been associated with this Bank for many years. I participated in its growth already as the President of the Bank BGŻ Management Board and earlier as the President of the Management Board of Raiffeisen Centrobank in Warsaw. Having the opportunity to look at our Bank from a larger perspective, I welcome with particular joy and satisfaction the new phases of its growth. I extend my congratulations to all employees who contributed to the Bank's successful completion of a series of mergers, integrations and acquisitions. You made those challenges possible to conquer without losing sight of the most important objective: keeping the trust of our clients and acting in their best interests, working towards the Bank's constant development in order to be able to offer our clients modern services of the highest quality.

2019 was a breakthrough year for the growth of our organization. The Bank's name was changed to highlight its membership in the BNP Paribas family – one of the largest financial groups in the world. Our successful merger with Raiffeisen Bank Polska's core business has also turned our Bank into one of the leading players in the Polish market. I keep noticing changes in our business environment and competition. In my opinion, the strategy adopted by the Bank is taking us in the right direction. Membership in a strong international financial group will permit us to combine the group's global experience with our strong position and in-depth knowledge of the local market. The new scale of our business has provided us with the potential to compete effectively with other financial institutions operating in Poland.

We have opened a new chapter in our history. Today, BNP Paribas Bank Polska is a new organization with a new identity and new culture, open to changes and ready to support its clients and employees as it develops. We are a universal Bank focused on serving our clients as best we can by providing them with top quality products and services. At the same time, our institution is aware of how significant employees are for its success. Our staff are offered opportunities for personal and professional development through training, workshops and webinars as well as benefits consistent with their actual needs. A team of competent and committed employees is a significant competitive advantage of our Bank.

We all contribute to the creation of a financial institution that can be proud of its responsible approach to running a business, its involvement in initiatives important to clients and its sensitivity to socially important matters. An example of this is the Bank's participation in activities aimed at protecting the natural environment. In addition to employee volunteering and participation in a variety of initiatives, including for instance forest cleaning endeavors, activities of a strictly business nature should also be mentioned in this context. As the Bank of Green Changes, we are consistently developing our funding for energy transformation and supporting clients in building a low-emission economy. In 2019, the Bank established cooperation with the European Investment Bank, which has enabled us to increase the volume of financing provided for investments in this area. The Bank has also joined the Biznesmax Guarantee program established to support small and medium-sized enterprises seeking to invest in energy efficiency, renewable energy sources and other environmentally friendly initiatives.

We are entering the year 2020 as a Bank with impressive growth potential in all areas of its business. Currently, as a single institution, we are focusing on building the best achievable position in the Polish market based on our business competences and values that are significant both to us and our clients.

Respectfully yours,

Józef Wancer

Chairman of the BNP Paribas Bank Polska Supervisory Board

LETTER FROM THE CEO OF BNP PARIBAS BANK POLSKA S.A.



Dear Shareholders, Clients and Employees of BNP Paribas Bank Polska Group,

Last year, we completed a significant phase in the development of our Bank. Undoubtedly, it was one of the most significant milestones in the history of our organization. We changed our name and underwent a rebranding. This effort has enabled us to achieve consistency with the global brand of the eurozone's largest bank, having turned us into a full and equal member of the BNP Paribas family. We successfully completed the acquisition of Raiffeisen Bank Polska's core business and the integration process. We went through the complex operational merger smoothly, without losing the originally assumed efficiency of our business. Last year, the Bank's Group posted record-breaking performance, having generated a net profit of PLN 614.7 million, up 70.6% compared to the previous year.

2019 was a breakthrough year for our clients also in terms of their relations with the Bank. Our flagship product is now "Konto Otwarte na Ciebie" [Account Opened to You], which allows retail clients to select a card tailor-made to their individual needs. Major changes were also implemented in digital channels designed for accessing our services. GOMobile and GOonline exceeded the threshold of one million active users. We remain responsive to their expectations and continue to improve these solutions. The digitization process is changing the Bank not only from the outside but also from the inside. Last year, 27 new robots were added to the automated ranks of BNP Paribas, improving the efficiency of the Bank's operations on a daily basis. This is a component of our internal digital revolution. State-of-the-art solutions are employed to accelerate an increasing number of processes, relieve our staff of unnecessary burdens and permit them to focus on the most demanding tasks. This is because we view technological changes through the lens of suitability for our clients and employees.

We are the bank for a changing world. Sustainable and ethical development is a necessity. Because we operate within a community and are an inseparable component of it, we feel responsible for its present and future. In our business and communication endeavors, we are expressing this approach to an increasing extent. We are the Bank of Green Changes, which we demonstrate in our internal activities, for instance by giving up plastic and encouraging carsharing among our employees, and in external activities, for example by supporting sustainable development, funding energy transformation, promoting environmentally friendly attitudes and refraining from the provision of financing to coal-related projects. We strive to always emphasize the significance of mutual respect, equal opportunities and openness. We are involved in campaigns aimed at promoting the appreciation of family members, emphasizing the role of women in society and encouraging equal treatment of everyone, regardless of any differences. We believe in and operate according to these values. And they are appreciated by others: we came first in the Ranking of Responsible Companies and received tens of international awards for the campaign the Last "Your Weekend", by which we and our partners sought to fight against sexism.

Drawing on the huge potential that we have created through our rebranding and merger, keeping an eye on technological progress and growing our business based on ideas we strongly believe in – these are our route markers for future development. Sustainable development, equal treatment and social inclusiveness are among the issues that will not cease to be of key significance for us. Based on these values and attention to the expectations of our clients and employees, we will continue to improve our processes and services. We intend to grow in an organic manner, which would be impossible without the dedication and professional ethics of BNP Paribas employees. For this reason, we will be even more attentive than ever in supporting our employees in the pursuit of their assignments, developing their strengths and seeking a balance between work and home. The Bank's strength and potential depend on our employees. I am confident that by adopting a flexible approach to the needs of our staff, offering them a broad range of training opportunities, workshops and employee benefits, we are turning not only into a more attractive employer but also into a better, more dynamic and more efficient institution.

I am sure that our efforts and enormous amount of work put into the changes will pay off. In 2019, we managed to build a very solid foundation for this. We can now focus all our commitment and dedication into our Bank's continued development and the search for the best solutions for our clients.

Respectfully yours,

Przemek Gdański

President of the BNP Paribas Bank Polska Management Board



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

1.1. Brief overview of the Capital Group

BNP Paribas Bank Polska S.A. (hereinafter referred to as the "Bank") is a universal bank with a comprehensive product offer for Polish and international corporations, SME segment, farmers and retail clients. It is present in local communities, but has global reach. The Bank has a leading position in the agri-food and consumer segments, as well as in the sector of large companies and international corporations.

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

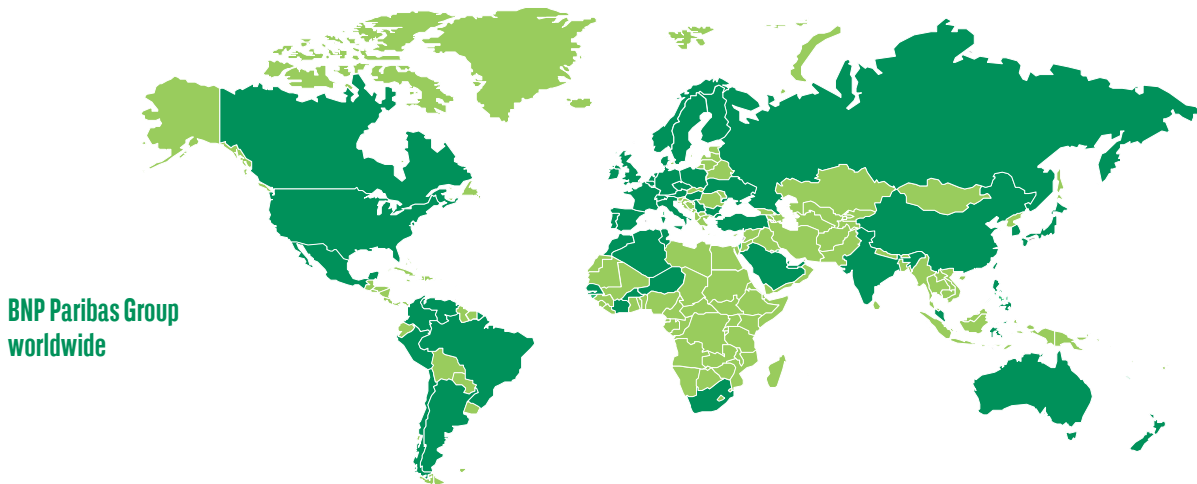
The Bank and its subsidiaries form the BNP Paribas Bank Polska SA Group. (hereinafter referred to as the "Group"), which is the sixth largest group in Poland in terms of the balance sheet total. The Group employs over 10 thousand people.

The Group provides services through a nationwide branch network and alternative distribution channels, including online and mobile banking for individual and corporate customers

The Bank's shares are listed on the Main Market of Warsaw Stock Exchange

The Bank operates within the leading international banking group BNP Paribas, which is present in 72 countries and employs over 200 thousand people, of which almost 155 thousand in Europe.

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



BNP Paribas Bank Polska Group in figures



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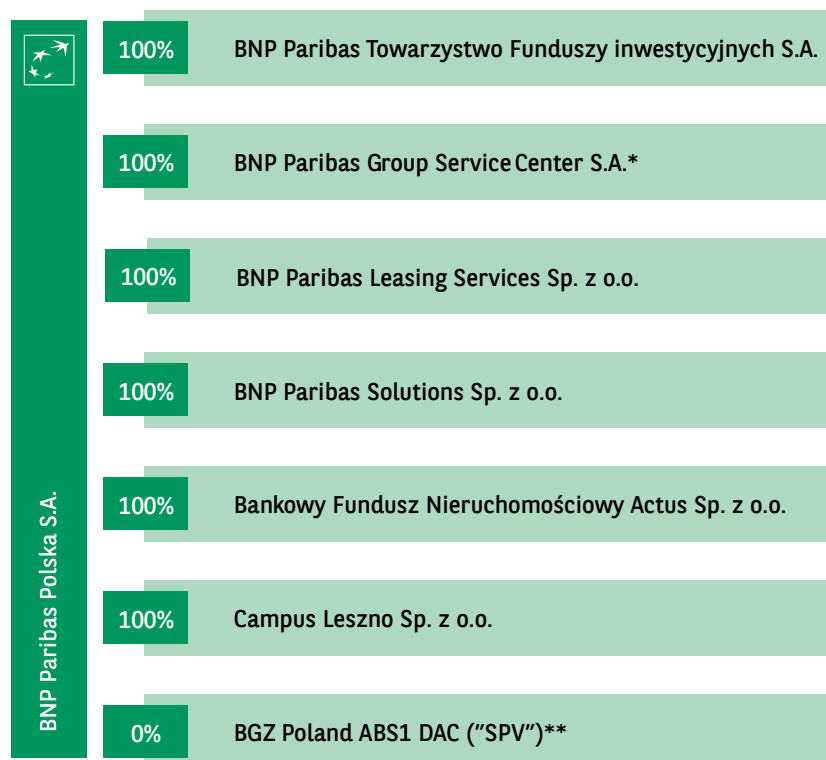
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1.2. Structure of the Capital Group and consolidated entities

As at 31 December 2019, the Group comprised the following entities:

- BNP Paribas Bank Polska S.A. – as the parent entity; and
- the following fully consolidated subsidiaries:

Capital Group Structure



* on 31.12.2019 BNP Paribas Group Service Center S.A. (Acquiring Company) was merged) with BNP Paribas Financial Services Sp. z o.o. (the acquired company).

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

1.3. Business model

The BNP Paribas Bank Polska Group runs its business based on the following operating segments:

- **The Retail and Business Banking** with the largest share in the Group's banking activity (49% in 2019) encompasses comprehensive services for individual clients, including private banking clients (Wealth Management) and business clients (microenterprises);
- **Corporate Banking**, with its share in the Group's banking activity amounting to 24% in 2019, offers a wide range of financial services provided to large and medium-sized enterprises, local government units and entities belonging to international capital groups;
- **The Small and Medium Enterprises Banking** with 11% share in the Group's banking activity in 2019 includes services for agro and non-agro customers;
- **Corporate and Institutional Banking (CIB)**, which accounted for 6% of the Group's banking activity in 2019, supports the sale of the Group's products to the largest Polish enterprises and provides services to strategic customers;
- **Other activities** including the Asset and Liability Management Division and Corporate Centre (10% share in the Group's banking activity in 2019).

The foundations of BNP Paribas Bank Polska Group activity are:

• **A local bank with global reach:**

We are a bank with over 100 years of tradition/history on the Polish market. Being a member of the BNP Paribas global financial enables us to use the best international practices to meet the needs of the local market and expectations of the Bank's customers.

• **Comprehensive and accessible offer:**

The Group offers its customers a full range of financial products and services provided by the Bank and the Group companies (including investment funds, leasing). We also provide customers with direct access to the offer of BNP Paribas Group entities operating in Poland (e.g. factoring, leasing, insurance).

As the Bank close to the customer, we provide services through a network of bank branches. We are constantly developing and transforming our branches, paying particular attention to accessibility and openness to the needs of various groups of customers, including the elderly and people with disabilities.

Our credit products are also available through points in affiliated stores as well as through selected car dealer networks.

Considering technological challenges, we are constantly developing our products and digital service channels: mobile and online banking and new forms of communication using technology.

• **Responding to civilisation challenges:**

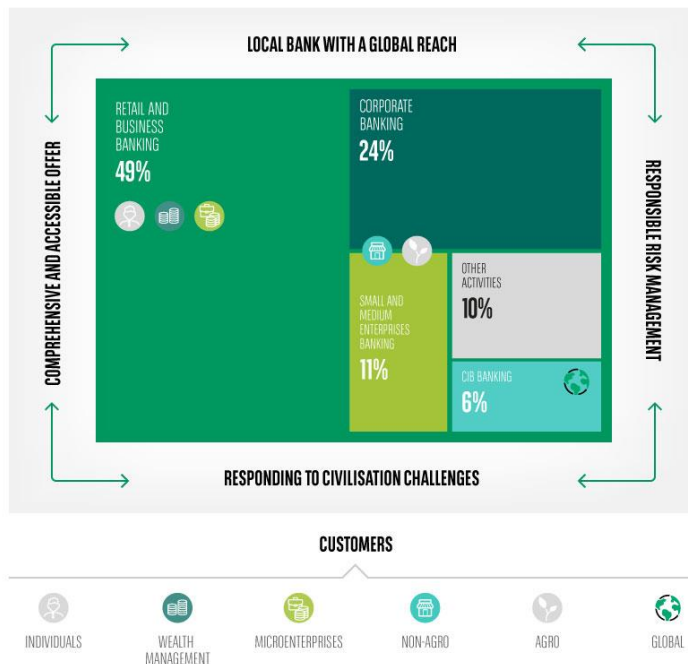
We constantly analyse and take into account regulatory and economic aspects, as well as the dynamic development of digitalisation and social and climate changes, which affect the national and global economies. We respond to civilisation challenges by developing and adapting our offer to the changing environment and needs of our clients.

• **Responsible risk management:**

Culture of compliance and careful risk management is the pillar of our business activity in order to provide top quality services to our customers is a. The Group has implemented and applies appropriate policies and procedures to manage and monitor the risks to which the Group is or might be exposed.

One element of the risk management system is the integration of ESG criteria into the overall risk assessment.

In a changing world - by taking care of securing financial needs, providing professional services and innovative solutions - we support customers in sustainable development, we build professional development and employee engagement, we generate increased shareholder value and benefits for the economy and local communities.



1.4. Awards and distinctions

AWARDS AND DISTINCTIONS RECEIVED IN 2019

January 2019

the title of **Top Employer Polska** for the HR policy developed in line with the best market practices (for the second consecutive time)

March 2019

In the fourth edition of the Institution of the Year ranking managed by the Mojebankowanie.pl portal, the Bank was honoured with statuettes in two categories: **The best quality of service in the branch** - retail client, **the Best helpline for companies** and received a distinction in the category of **Socially Responsible Bank** for its strategic partnership with the Noble Gift

the **Institution of the Year 2018** distinction awarded by Mojebankowanie.pl portal

the **Gwiazda Jakości Obsługi 2019** (Service Quality Star 2019) distinction, an award granted once again in a consumer survey of the Polish Service Quality Program; The Star Emblem confirms that the Bank represents the highest service standards and puts customer needs first

distinction in the category of Socially Responsible Bank for strategic partnership with the Noble Gift

May 2019

Accessibility Leader 2019 - an award in the branch network category, in the 4th edition of the competition; BNP Paribas Bank Polska is the only bank that has received such an award

The Bank was the first financial institution on the Polish market to receive the **OK SENIOR® quality certificate** for the implementation of the process of adjusting branches to the needs of people over 60 in the Bank's branches

Konto Otwarte na Ciebie (An Account Open to You) – ranked as the best personal account in the Money.pl personal accounts ranking for simplicity and personalisation of banking services. The fact that the account is unconditionally free was also appreciated, which distinguishes it from the competition

February 2019

distinction for **BNP Paribas Wealth Management in Poland for the best quality of private banking services provided in Poland**, in the prestigious annual competition of the global financial Euromoney magazine

April 2019

Złoty Bankier (the Golden Banker) statuette in the Mortgage Credit category and an award in the **Fin-Tech Innovation category** for the implementation of electronic signature improving credit processes

Srebrny Listek CSR POLITYKI (award received for the fifth time) and an award for supporting the implementation of Sustainable Development Goals and increasing the accessibility of financial products supporting low-carbon economy

June 2019

first place in the Gwiazda Wzrostu (Growth Star) category in the 5th edition of the "Banking Stars" competition, organised jointly by "Dziennik Gazeta Prawna" and PwC

first place in the general classification and first place in the banking, financial and insurance sector in the 13th edition of the Responsible Business Ranking

first place in the ranking of accounts for travelers organised by Money.pl

July 2019

Best Private Bank 2019 award in the ranking of the World Finance Banking Awards 2019 magazine for **BNP Paribas Wealth Management Poland**

September 2019

2nd place in the main category of the Neesweek's Friendly Bank ranking - "Bank for Kowalski", and 3rd place in the category "Banks in the Internet"

October 2019

Second place in the main competition **The Best Annual Report 2018** in the category of banks and financial institutions and a distinction for the best financial statement

leader of Diversity&Inclusion Rating the first Polish rating for leaders in managing diversity and promoting an inclusive organisational culture, developed by the Responsible Business Forum and Deloitte

November 2019

distinction for implementation of the partnership mission, educational activities and implementation of eco-improvements within the Green Changes Bank programme

Sustainable Economy Awards statuette in the Sustainable Finance Leader category for **initiating and implementing Sustainable Finance solutions**

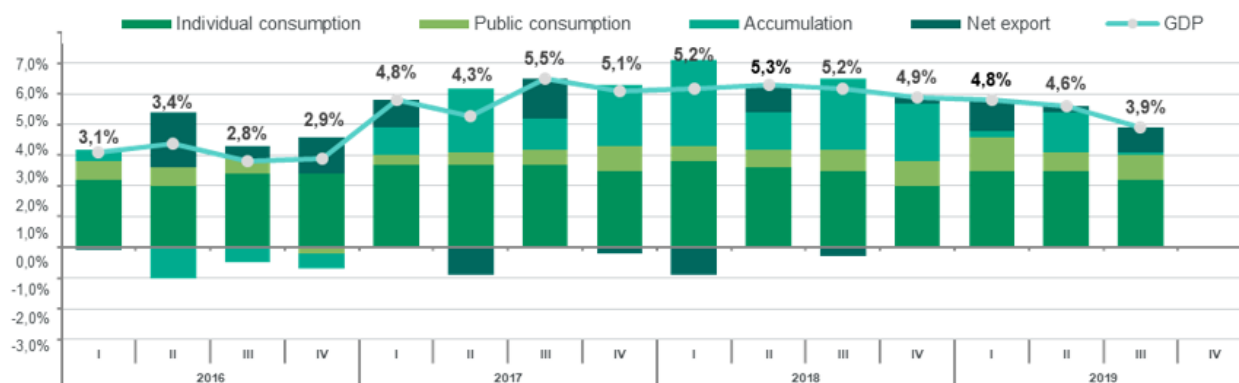
2. EXTERNAL FACTORS AFFECTING THE BANK'S OPERATIONS IN 2019

2.1. Macroeconomic conditions

GDP

In 2019 GDP growth in Poland remained at a high level. It is expected that within the last year GDP increased by approx. 4.2%. According to the recent available data, GDP in Poland in the third quarter increased by 3.9% YoY, slowing down from 4.6% YoY in the previous quarter. According to the CSO (Polish Central Statistical Office) data the main driver of recent economic growth is still domestic demand which increased in the third quarter of 2019 by 3.3 % YoY, adding 3.1p.p. to GDP growth. Gradual slowdown was observed also in private consumption, to 3.9% YoY. Increased social expenditure (*inter alia* development of the Family 500+ programme, the thirteenth pension) increasingly impact households' spending. Additionally, decrease in investments to 4.7% YoY from 9.1% YoY may contribute to the weaker growth of domestic demand. Investments, however, have increased much more in the corporate sector than in the in the government and local government sectors, which was reflected in lower public spending, particularly made by local governments as their revenue decreased after reduction of the personal income tax rate (PIT). In the third quarter of 2019 contribution of net export was positive adding 0,8 p.p. to GDP.

Chart 1. GDP growth (y/y)



Source: CSO; * flash prognosis

Business activity

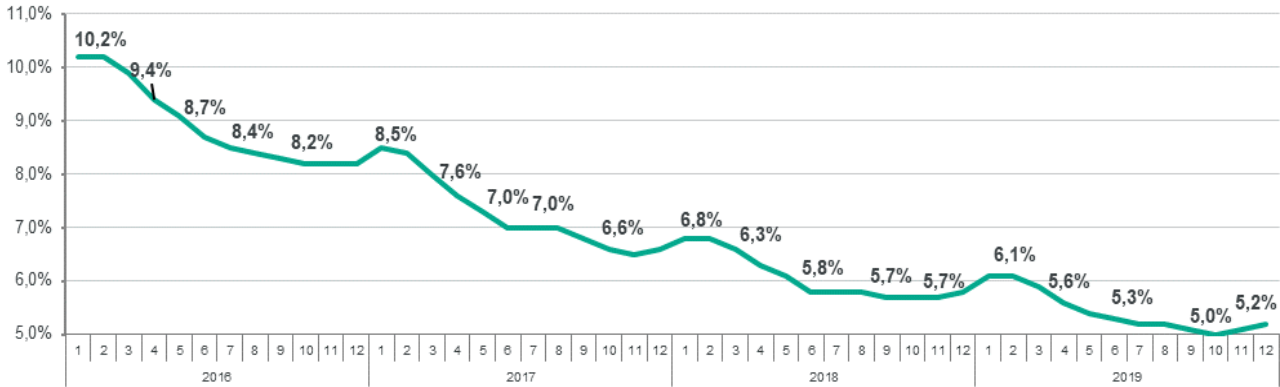
In the first half of 2019, the growth rate of industrial output remained at a high level, on average close to 6.0% YoY, as compared to 5% YoY on average over the previous 6 months. The dynamics of industrial production was supported by the boom in the domestic economy, which compensated for the weakening demand of Poland's main foreign partners. In the second half of 2019 the industrial output fluctuated, mainly as a result of the calendar effect, i.e. fewer working days in comparison to the previous year. Construction and assembly production in 2019 gradually slowed down, mostly due to weakening inflow of EU structural funds and investments. In the third quarter of 2019 the growth rate of construction and assembly production amounted to 7.6% YoY compared to 16.5% YoY. A reflection of strong consumer demand was the maintenance of the growth rate of real retail sales at the level of approx. 4.3% YoY in the third quarter of 2019. The registered unemployment rate remained close to the lowest levels since 1990 and amounted to 5.1% as at the end of November 2019.

Inflation

On average, in 2019 CPI inflation in Poland gradually increased by 2.3%. Since June 2019 inflation in Poland has remained close to the upper NBP (National Bank of Poland) inflation target, i.e. 2.5-3.5%. December data indicating that inflation amounted to 3.4% YoY was deemed highly surprising. The increase of inflation is driven mainly by rising food prices and core inflation. Furthermore, we expect that introduced in 2020 record growth of minimum wage coupled with demand

pressure will continue to support acceleration of core inflation, which at the beginning of 2020 is likely to rise to approx. 3.4%. We expect CPI inflation to rise above 3.5% in the first half of 2020.

Chart 2. Registered unemployment rate

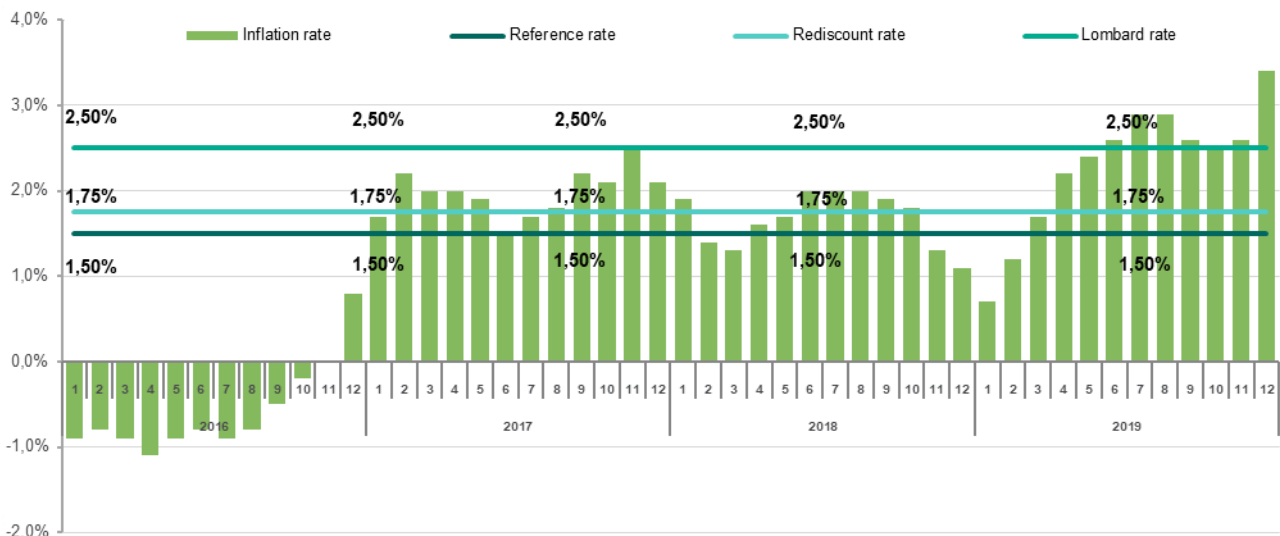


Source: COS

Monetary policy

Considering CPI inflation remaining close to the target in 2019, the Monetary Policy Council (MPC) continued to maintain interest rates at unchanged levels. After the first MPC meeting in 2020, the President of the NBP Adam Glapiński pointed out that in his opinion interest rates may remain unchanged even until the end of the Council's term in 2021. Nevertheless, we expect that the National Bank of Poland will revise its projection in March 2020, when the release of an update is planned, in such a way that the latest unexpected growth of CPI inflation will be reflected. However, at the same time considering the MPC members' and the President Glapinski's rhetoric we assume that MPC will tolerate inflation at the level exceeding the NBP target and will not raise interest rates. We maintain our predictions regarding unchanged levels of interest rates for this year. Nevertheless, we believe that the revision of the current MCM rhetoric is more likely, particularly in light of assumed improvement of economic situation of Poland's main trading partners, including primarily Germany in the second half of 2020.

Chart 3. Inflation and interest rates



Source: CSO, NBP

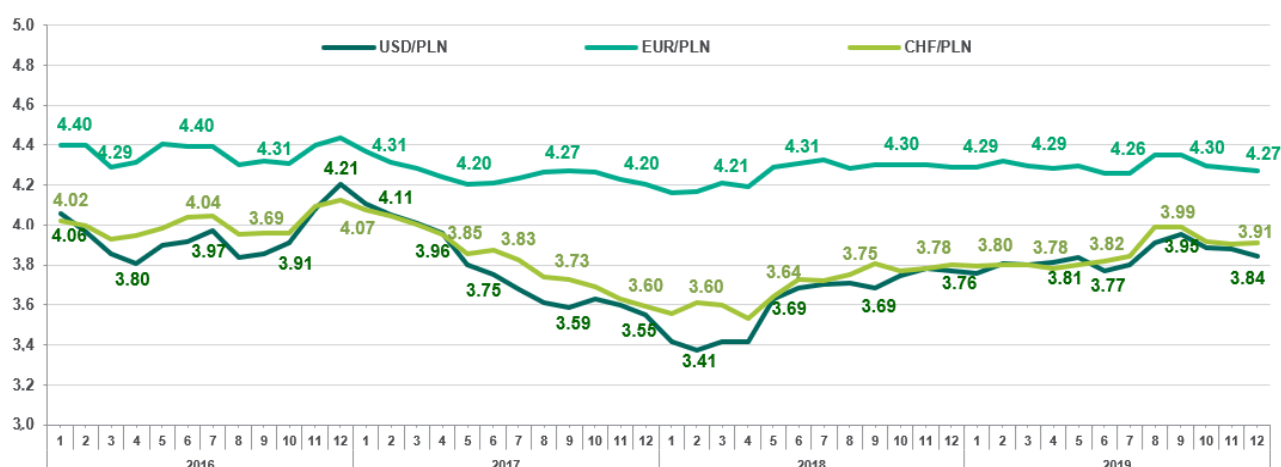
Bonds market

In first half of 2019 yields of government bonds in Poland remained under the influence of the situation on the core markets (US and Euro zone) and domestic data on inflation, public debt, as well as investors' expectations regarding the future monetary policy of the Monetary Policy Council. After a period of decrease in yield in the third quarter to 1.75% in the fourth quarter of 2019, yield on 10-year bond slightly increased and remained relative stable at the level of approx. 2%. The risk premium for long-term Polish bonds (measured by the *spread* against 10-year German bonds) in the fourth quarter of 2019 remained in the range of 225-239 bp, as compared to around 262-257 bps in the third quarter. This was favored by a sound budget situation, reflected in, amongst others, a fall in the public debt ratio to around 50% at the end of 2019.

Currency market

For most of 2019, the EUR/PLN exchange rate fluctuated around 4.30. The Polish zloty was largely influenced by external factors. The fourth quarter of 2019, however, was relatively good for the Polish zloty. At the end of the fourth quarter of 2019, the EUR/PLN exchange rate decreased from 4.38 at the beginning of October to 4.24 at the end of December. At the same time, the USD/PLN exchange rate fell from almost 4.00 to 3.80 and the CHF/PLN exchange rate from 4.05 to 3.90. The strengthening of the zloty at the end of 2019 was caused by global factors, such as the announced easing of the monetary policy of major central banks and the weakening of global risk aversion, related to the conclusion of an agreement between the United States and China

Chart 4. PLN exchange rate (monthly average)



Source: Macrobond

2.2. Performance of the banking sector

Basic categories of the banking sector profit and loss account

According to preliminary data of the Polish Financial Supervision Authority, the net financial result of the banking sector in Poland in 2019 accounted to PLN 14.7 billion and was by PLN 1.6 billion, i.e. 12.5%, higher YoY.

The growth of the banking sector's net result was determined by the increase in total net operating income by PLN 6.3 billion, i.e. 9.8% YoY. The increase resulted mainly from the improvement of interest income (by PLN 4.4 billion, i.e. also by 9.8% YoY), which was a consequence of a much higher growth of interest income than interest expenses. Increase in commission income by PLN 1.0 billion (8.3% YoY), dividend income by PLN 0.6 billion (i.e. 41.4%) and other operating income by PLN 0.3 billion (i.e. 4.6% YoY) also positively influenced the revenue of the sector.

On the other hand, a significant negative contribution to the change in the net result of the sector YoY had an increase by PLN 2.9 billion, i.e. 8.0% YoY of the sector's cost base, resulting mainly from a twofold increase in the contribution to the BFG banks' compulsory restructuring fund (which resulted in the increase in BFG total costs by over ¼ YoY), and from the growth of salaries in the banking sector.

In addition, the increase in the sector's cost base was accompanied by a major deterioration in the result on impairment of financial assets (an increase by PLN 1.2 billion, i.e. by 11.8% YoY), which resulted mainly from the creation of significant provisions for legal risk related to FX mortgage contracts.

Chart 5. Selected profit or loss items of the banking sector (in PLN billion)

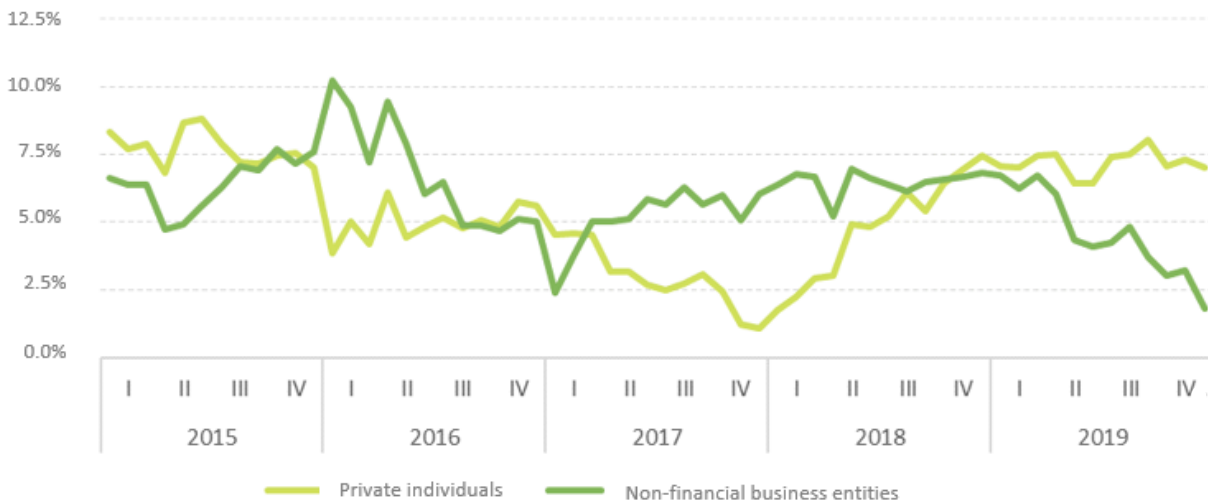


The condition of the banking sector in 2019 remained stable. Generated financial results, despite the occurrence of negative, mainly regulatory factors proved to be satisfactory

The main positions of the balance sheet of the banking sector

The value of loans granted to non-banking customers reached PLN 1,303 billion and was by PLN 62 billion higher than last year, with dynamics of 5.0% YoY. This increase was lower than noted in 2018 (7.1%) which was caused by a decrease in the dynamics of loans to non-financial business entities.

Chart 6. Loans for clients from non-financial sector (y/y)



The increase in loans to non-financial business entities significantly slowed down to 1.8% compared to 6.8% in 2018, it was the lowest growth rate in the analyzed period since 2015. The decrease in growth rate in the second half of 2019 was caused by the growing fear of an economic slowdown.

Chart 7. Loans for individuals (y/y)



The increase in loans to individual customers was slightly lower compared to 2018 (7.0% YoY to 7.5% YoY), which was caused by a faster decrease in the balance of FX mortgages in 2019 than in 2018. Excluding the impact of FX mortgage loans, the nominal growth of loans to individual clients amounted to PLN 50 billion and was PLN 5 billion higher than in the previous year, with comparable percentage dynamics (10.6% in 2019 against 10.5% in 2018). The dynamics of loans to individual customers was affected by mortgage loans denominated in PLN, which increased nominally by PLN 35 billion reaching the level of PLN 326 billion and increasing the dynamics YoY from 11.6% in 2018 to 12.2% in 2019. According to BIK (a credit information bureau) data, the value of newly granted mortgage loans increased by 14.9% compared to the previous year and amounted to PLN 65 billion. Factors contributing to such high sales were: raising household incomes, record low unemployment, persistently low interest rates and rising prices of real estates. In 2019 the nominal increase in consumer loans was maintained at the level comparable with 2018, i.e. PLN 15 billion, but the dynamics fell from 9.3% in 2018 to 8.4% in 2019. According to BIK, in 2019 the new sales of cash loans alone amounted to as much as PLN 72 billion, but almost half of them constituted consolidation loans, therefore the increase in a total consumer debt in the sector was limited. As in the case of mortgage loans denominated in PLN the factors that positively influenced the sale of consumer loans were the increase in wages and low unemployment. Additionally, of key importance was the aforementioned growing process of debt consolidation by households affecting, among others the average amount of a newly-granted consumer loan.

Chart 8. Deposits of clients from non-financial sector (y/y)



Stable economic situation and risk aversion translated into an 8.2% increase in non-bank customer deposits in 2019. The growth rate of individual customer deposits accounted to 9.3% YoY and was slightly lower compared to the previous year (9.7% YoY). This increase was noticeable only in the category of current deposits, which increased by 15.5%, with the decline in the category of term deposits by 0.4%. The structure of growth in individual customer deposits were affected by persistently low interest rates and good liquidity condition of banks, which translated into record low offered interest rates. Deposits of non-financial business entities increased nominally by PLN 39 billion with increasing dynamics from 6.2% in 2018 to 10.3% in 2019.

Accumulation of savings of non-financial business entities was associated with a favorable economic situation and at the same time with a prudent approach to new investments, observed especially in the second half of the year.

Chart 9. Deposits of individual clients (y/y)



In 2019, BNP Paribas Bank Polska S.A. Capital Group was the sixth largest banking group in Poland in terms of assets. In the category of loans to non-banking customers, the Bank's share in the sector at the end of 2019 accounted to 5.6%. The Bank's position on the credit market was stronger in the sector of non-financial business entities, (despite the absence of a factoring company in the consolidated result of the Group) where the market share was 8.7% with 4.7% share in the market of loans to individual customers). The Group's share in the Bank of deposits for non-banking clients accounted to 6.1%, with 9.3% in the non-financial corporate segment and 5.0% in the retail deposit segment.

Table 1. Market share of BNP Paribas Bank Polska

	2019	2018
Loans for non-banking clients	5.6%	6.0%
Loans for individual clients	4.7%	4.6%
Loans for non-financial business entities	8.7%	9.6%
Deposits of non-banking clients	6.1%	6.6%
Deposits of individual clients	5.0%	5.8%
Non-financial business entities	9.3%	9.6%

2.3. Stock market and investment situation

In 2019 the WIG stock index, which represents all listed companies on the Warsaw Stock Exchange (WSE) were in a sideways trend. As opposed to downward trend of all listed indices in 2018, the year 2019 was characterized by a higher fluctuation of rates of return. Between 31.12.2018 and 31.12.2019 WIG noted a slightly positive rate of return (+0,2%). For WIG20 index grouping the largest entities on WSE the rate of return was negative (-0,56%). The Warsaw mWIG40 index representing average companies ended the period nearly with the same results as year ago. The reversal of trends regarded the WIG80 index representing the smallest companies, which despite proceeding outflow of funds from domestic share funds noted double-digit rate of return accounted to almost 14% and it were the highest rates of return since 2013 and 2012 respectively.

Compared with the boom on foreign share markets, indices of the Warsaw Stock Exchange noted significantly lower results, for example US S&P 500 index gained in 2019 almost 29% while German DAX increased by 25,5%.

Table 2. Key WSE indices

Index	31.12.2019	31.12.2018	31.12.2017	change in 2019	change in 2018
WIG	57,833	57,691	63,746	0.2%	(9.5%)
WIG20	2,150	2,277	2,461	(5.6%)	(7.5%)
mWIG40	3,908	3,909	4,847	0.0%	(19.4%)
sWIG80	12,044	10,571	14,596	13.9%	(27.6%)

Source: Bloomberg

The following factors, among other, had an impact on the outlook of the Warsaw Stock Exchange in 2019: (i) changes in monetary policy in the United States and lowering interest rates, (ii) progress in US-China trade agreement, (iii) expectations of the European Central Bank to further ease its policy, (iv) relative weakening of developing markets stock exchanges quotations due to economic slowdown and political risk factors. (v) weaker macroeconomic data compared to 2018, (vi) judgments of the Court of Justice of the European Union on FX mortgage loans and refund of fees and commissions on customer credits, (vii) frequent changes in legal regulations on energy sector and political risk factors regarding fuel and raw material sector.

On the Polish government bond market, the beginning of 2019 was characterized by moderate growth driven by investors' concerns regarding impact of election promises made by the ruling party (among other development of Family 500+ programme and the thirteenth pension) on public finances. Nevertheless, since the beginning of May to the end of August a considerable decrease (historical minimum) in yield on government bond was noted, following yield on bonds on base markets. The main reason was investors' valuation of changes in US monetary policy and lowering interest rate by FED. Decline in yields was favoured also by the commitment of ECB to begin purchasing assets and to lower interest rate. As a result, in the second and third quarter yield on 10-year government bonds decreased from 3,0% to 1,75%. In the fourth quarter growth adjustment of yields on government bonds was observed due to global capital flows to higher-risk assets. Additionally, investors found data indicating increase in CPI inflation in Poland concerning.

Table 3. Number of companies, cap and trading volume on WSE

	31.12.2019	31.12.2018	31.12.2017	change in 2019	change in 2018
Number of companies	449	465	482	(3.4%)	(3.5%)
Cap of domestic companies (PLN million)	550,242	578,949	670,976	(4.9%)	(13.7%)
Share trading volume (PLN million)	195,215	211,850	260,979	(7.8%)	(18.8%)
Futures trading volume (PLN '000)	6,728	7,871	7,319	(14.5%)	7.5%

Source: WSE

In 2019, 7 new companies appeared on the main market of the WSE (including: 5 due to the transfer of quotations from the New Connect market), and 22 entities left the trading floor. On the New Connect organized market, in 2019, 15 issuers debuted, with the simultaneous withdrawal of 27 entities from listings. On the Catalyst bond market, a total of 562 series of bonds were listed, and the value of the issue exceeded PLN 796 billion.

3. STRATEGY AND PERSPECTIVES

3.1. Strategy of BNP Paribas Bank Polska S.A.

The main assumption of the new Fast Forward strategy for 2018-2021, adopted by the Bank's Management Board and Supervisory Board in May 2018, is focus on the customer and digital transformation of products, services and processes aimed at accelerating development and increasing profitability.

The Bank's strategic goals are:



Business development is based on five key pillars: growth, simplicity, digitisation, quality and enthusiasm.

- **Growth** – The primary driver of development is retail banking. Within this area, the Bank has prepared a new offer for individual customers, together with the modernisation of digital tools (Internet and mobile banking). The range of products and services will be constantly adjusted to promote greater simplification of customers. The new acquisition will be supported by expanding cooperation with B2B customers. The Bank's ambition is to become one of the leaders in corporate and SME banking, to become the first-choice bank for micro-enterprises and to strengthen its position among leaders in private banking.
- **Simplicity** – On the customer side, the Bank will strive to simplify products and communication methods along with the improvement of processes, especially those related to the so-called customer journey. On the business organization side, the Bank will review its internal structures and optimize the sales network.
- **Quality** – Achieving a high level of satisfaction and thus customer loyalty will be a priority. On a synthetic level, the Bank aims at doubling the NPS ratio in the horizon of the current strategy. The level of satisfaction is constantly monitored at various levels, enabling improvement of internal processes. Additional support will be provided by systemic promotion of quality parameters in areas related to customer service.
- **Enthusiasm** – In order to achieve its strategic goals, the Bank will take care of high retention of the best employees and support cooperation and information exchange between business units. The priority will also be to run business in a socially responsible manner, which is at the same time an element of the brand identity.
- **Digitisation** – In order to enhance cost efficiency, the Bank introduces process automation by means of artificial intelligence. A great deal of effort is put into cyber security and modernisation of IT architecture. Customers will experience better integrated sales and service channels, and will receive better-suited product and service proposals.

3.2. Implementation of the strategy in 2019

2019 was the second year of the "Fast Forward" strategy. In addition to organic growth, the strategy assumed the implementation of growth also thanks to the acquisition of the core business of Raiffeisen Bank Polska S.A. ("RBPL") by the Bank. The process of integration of both institutions was completed in 2019 according to the planned schedule. The key elements in this process were: the rebranding in April combined with the change of Bank BGŻ BNP Paribas S.A. brand into BNP Paribas Bank Polska S.A. and the operational merger in November

Further actions within the strategy are described in the table below:

PILLAR	STRATEGIC ASSUMPTIONS	ACHIEVEMENTS IN 2019
GROWTH	concentration of resources: people, IT and capital on the most profitable products and segments in order to increase acquisition, sales and, as a result, increase of financial results	<ul style="list-style-type: none"> • Implementation of a new offer of accounts and cards for retail customers in the second quarter 2019, 184 thousand accounts sold in 2019. Winning in two categories of the Money.pl ranking (Ranking of personal accounts – May 2019, Account for travellers – June 2019). • The new GOonline retail internet platform for individual customers launched in the third quarter of 2019. Migration of Core RBPL customers, completed in November. • Increase in popularity of the GOMobile application - the number of active users exceeded 425.7 thousand. • Further development of the GOMobile application: new functionalities include the possibility to purchase public transport tickets and pay for parking. The latest version also includes mobile authorisation, deferred transfers and the option to enable recurring transfers. • Development of online shopping financing on the Allegro platform. Over 260 thousand credit limits granted since the implementation of the service in November 2018, of which 180 thousand are new customers of the Bank. The amount of granted financing over PLN 500 million. • Implementation of a new offer for micro-entrepreneurs including a package of additional services (e.g. GOaccounting, eMicrofactoring, debt collection). • Increasing credit volumes: the highest growth rates in the case of mortgage loans (139% y/y growth in sales volume). • The development of pro-ecological projects that are in line with the idea of the "Bank of Green Changes" programme. In December, the Bank granted financing for a 10,000th household photovoltaic installation.
SIMPLICITY	simpler product offer - especially in the area of Retail Banking, as well as simplified and interactive communication with customers, simplified processes and focus on customer service, optimization of traditional distribution channels and migration of clients to digital channels, simplification of the organisation to increase its effectiveness	<ul style="list-style-type: none"> • Completion of the integration process after the merger with Core RBPL. Successful operational merger in November 2019. • Optimisation of the distribution network (180 closed retail and business banking branches between the merger and the end of 2019). • Increasing the level of automation of credit decisions for micro-entrepreneurs and customers in the Food&Agro segment, which resulted in a significant reduction in the time of decision granting. • Further improvement of the Bank's debt collection processes, i. a. thanks to the use of the Lleida.net register communication services. • Improving onboarding processes for retail customers and micro-entrepreneurs by reducing paperwork. It is estimated that more than 10 million pages of paper will be saved annually.



PILLAR	STRATEGIC ASSUMPTIONS	ACHIEVEMENTS IN 2019
		<ul style="list-style-type: none"> • Improvement of the consumer loans sales, i. a. by simplifying credit applications and accelerating the credit-granting process. Reduction of the time to funds disbursement by a quarter. • Introduction of chatbot as a means of supporting recruitment processes in the Bank.
QUALITY	<p>significant improvement in the quality of customer service and its satisfaction by changing the organisation and streamlining service processes and focusing on the relationship with the client, recognition and appreciation of the loyalty of current customers and change of meaning and approach to measure of customer satisfaction</p>	<ul style="list-style-type: none"> • Focus on improving the quality of customer service, confirmed by a number of awards received, such as: • 3rd place in the Newsweek's Friendly Bank 2019 ranking in the "Bank for Kowalski" category (advancement from 9th position). • Service Quality Star ("Gwiazda Jakości Obsługi") 2019 in the 12th edition of the Polish Service Quality Programme. • The Golden Banker ("Złoty Bankier") Award for the Best Mortgage Credit. • The "Accessibility Leader 2019" award in the category of branch network. The Chapter appreciated both the architectural solutions applied in five of the branches submitted to the Competition and the gradual modernisation of the remaining branches, as well as the standards of service for people with disabilities developed and implemented by the Bank. • Use of blockchain technology as a durable medium of communication with customers. • Consistent improvement of customer service quality standards, e.g. using robots to automate the complaint process.
ENTHUSIASM	<p>increased employee involvement through participation in projects and increased cooperation, revitalization of organizational culture through rewarding for results, focus on talents, attracting the best on the market and care for the best employees</p>	<ul style="list-style-type: none"> • Further increase of BNP Paribas brand awareness. As at the end of 2019, brand awareness rose by 7 p.p. compared to Q1 2019 (before rebranding) and by 10 p.p. compared to 2018. • The title of Marketer of the Year 2019 during the MIXX Awards. The campaigns were awarded: "Why aren't there women on banknotes?", "Appreciate, don't judge", "Your Last Weekend". • Great Oxygen Gardens, or tree plantations to help combat carbon dioxide emissions. For each new loan or account opened, the Bank will plant one oxygen tree. • Leader of the 13th Ranking of Responsible Companies. First place in the general classification and first place in the banking, financial and insurance sector. • CSR Days at the Bank - events for employees on health and ecological issues, as well as those related to safety. • Further extension of non-payroll benefits for employees: e.g. life insurance, free access to a foreign language online learning platform.
DIGITALISATION	<p>building a competitive advantage based on technologies: digitization for cost optimization through automation of operations, digitalization enabling growth using a comprehensive, multi-channel sales and</p>	<ul style="list-style-type: none"> • Continuation of robotisation and automation of processes: launch of 27 robots supporting the handling of 61 processes, in various areas of the Bank's operational activity. • Development of cooperation with Autenti, a company offering software for signing documents in electronic form. Joint investment with PKO BP and Alior Bank with a total value of PLN 17 million. • Distinction in the Golden Banker ("Złoty Bankier") contest for implementation of electronic signature in the process of signing credit agreements.

PILLAR	STRATEGIC ASSUMPTIONS	ACHIEVEMENTS IN 2019
	service model, and digitalization supporting identification of customer needs through the use of CRM and data analytics to improve the offer matching and personalization of communication with the client via coherent online and mobile platforms	<ul style="list-style-type: none"> • Internet platform for business customers: modernisation of the graphic design and extension of the system functionality, including the implementation of the possibility of remote management of existing users and signing contracts and filling in applications without the need to visit the branch. Over 2.2 thousand processed credit e-applications in 2019. • Launch of a new foreign currency platform – FX PI@net – for corporate clients and SMEs. • 4th place in the Newsweek's Friendly Bank 2019 ranking in the category "Banks in the Internet" (advancement from 13th position). • PSD2 readiness – making the API commercially available as the first bank on the market. Access to the test environment was granted to several entities. • PSD2 Academy – support for the Fin Techs in obtaining licenses and implementing solutions, possibility to establish long-term cooperation with the Bank. • Agronomist.pl portal – an innovative platform connecting farmers, processors and the financial sector. 2.5 thousand registered users and over 50 thousand site entries. • Continuation of branches transformation to a new, technologically advanced format: 126 branches in the new format in 2019.

Realisation of financial targets in 2019:

MEASURE	STRATEGIC TARGET 2021	REALISATION IN 2019	COMMENTS
increase in the result on banking activity	Faster than the market	+37.4% y/y	<ul style="list-style-type: none"> • Increase in net operating income of the banking sector: +9.8% y/y • Increase in the Group's result significantly above the sector's dynamics due to the acquisition of RBPL in 2018
ROE	>10%	8.7%*	<ul style="list-style-type: none"> • Improvement in the Bank's profitability (up from 6.5%* ROE in 2018) • The ratio for the banking sector in 2019 was 7.1%
C/I	c.a. 50%	55.7%*	<ul style="list-style-type: none"> • Improvement in the Bank's cost effectiveness (decrease in the C/I ratio from 59.9%* in 2018) • The ratio for the banking sector (including banking tax) in 2019 was 55.4%

* Normalised values calculated excluding: integration costs (2019 - PLN 414 537 thousand). The impact of integration costs on net profit was estimated using the standard 19% income tax rate. In the case of the "costs" category, the amount visible in the financial statements was reduced by the integration costs recorded under general administrative costs and depreciation. In the case of the 'income' category, the profit and loss account figures for the banking result were adjusted by integration costs recorded under other operating costs and profit from the acquisition of the RBPL Core Business.

3.3. Factors which may affect the performance of the Bank's Capital Group

The most important external factors, which in the Bank's opinion may affect the Group's results in the subsequent periods, include the following:

- The economic situation in Poland.** According to the latest available data, Poland's GDP increased by 3.9% y/y in the third quarter, slowing down from 4.6% y/y in the previous quarter. We expect that in the entire year, GDP grew by about 4.2%. In the last quarter, GDP growth continued to be mainly based on domestic demand and private consumption. Nevertheless, increased social spending (e.g. extension of the 500+ programme, additional pension) has had less and less impact on household spending, as indicated by the slowdown in domestic demand growth to 3.3% y/y from 4.6% y/y in the second quarter. In first half of 2020, we expect GDP growth to slow down further to about 3.3% y/y. Slower economic growth is likely to be influenced by lower investment growth, especially in the local government sector, whose revenues fell after PIT rate cuts.
- The situation on the domestic labour market.** The unemployment rate continues to be at historically low levels. In the third quarter of 2019 it oscillated around 5.2%. The persistence of the labour market combined with low labour supply is likely to continue to reduce the unemployment rate. In the medium and long term, a reduction in labour supply could lower potential and real GDP growth. Wage pressure has recently continued to increase, further increased by raising the minimum wage by 15.6% to PLN 2 600.
- Changes in inflation.** Since June 2019, inflation in Poland has remained within the upper range of the NBP's inflation target of 2.5-3.5%. The December preliminary data, according to which the inflation amounted to 3.4% y/y, came as a big surprise. The inflation acceleration is to a large extent related to the increase in food prices and core inflation. Moreover, we expect that the record-breaking minimum wage increase introduced in 2020, combined with demand pressures, will continue to accelerate core inflation, which will be around 3.4% at least in early 2020. CPI inflation is expected to remain above 3.5% in the first half of 2020. A downside risk is the possibility of a lower transfer of wage growth to core inflation in a context of increased productivity growth. Due to the continued CPI inflation within the permissible range of the NBP inflation target, the Monetary Policy Council (MPC) kept interest rates unchanged. After the first MPC meeting in 2020, NBP President Adam Glapiński indicated that in his opinion, interest rates may remain unchanged even until the end of the Council's term in 2021. Nevertheless, we expect the central bank to revise its projection in the next update, scheduled for March, which will also reflect the recent surprising growth of the CPI. At the same time, however, given the attitude of the MPC members headed by President Glapiński, we assume that the Council will tolerate higher-than-target inflation and will not raise interest rates. We maintain our forecast for unchanged interest rates this year. However, we believe that the MPC's current rhetoric is more likely to change, especially if - as we assume - the economic situation in Poland's main trading partners, including Germany, were to improve in the second half.
- Potential increase of imbalance in public finances.** Further tightening of the tax system and a good macroeconomic situation contributed to the reduction of the general government deficit in 2018 to a record 0.4% of GDP. In 2019, the public deficit continued to decline despite increased social spending. In the following year, the draft budget for 2020 assumes a balanced budget. However, it should be taken into account that in case of an economic slowdown, with a higher share of fixed expenditures, it will be difficult for the government to adjust the budget, which may result in a deficit in the state budget.
- Global trade war.** On 15th January the first phase agreement was signed between the USA and China. Following the signature of the agreement, the risk factor of the situation in world trade and its effects on the economic slowdown has decreased. The temporarily achieved de-escalation of the conflict is likely to improve sentiment in the markets, which may translate into a global economy boost later this year. Despite the signing of the agreement, the US has maintained the tariffs already imposed, so there is a risk that the promised increase in China's imports from the US is too large and may be difficult to deliver. Works on a second-phase agreement are likely to continue during the course of this year, but the chances of signing it seem rather limited. The US presidential elections and the rhetoric of individual candidates on China will also be important for the development of the situation between the US and China over the coming year, which may become more intense as the electoral struggle intensifies.
- Potential further decline in risk aversion in European financial markets.** It stems from the ECB's efforts to loosen monetary policy in the euro area, which in turn stimulates risk appetite in European financial markets. Also, mitigating trade conflict can further contribute to improving sentiment on stock exchanges and thus channeling capital towards more risky assets, including, i. a. emerging markets.
- Potential strengthening of the PLN exchange rate against key currencies,** in response to a possible increase in risk appetite in financial markets. If the external environment remains stable, BNP Paribas forecasts the EUR/PLN exchange rate to be around 4.25 in the first half 2020.

- Foreign currency mortgage loans.** The October judgment of the Court of Justice of the European Union, although significant, has dispelled only part of the doubts as to the correctness of the rulings. Polish courts, although taking this stance into account, consider each case individually, and thus differ significantly in the assessment of individual cases. Particularly controversial, from the economic point of view, were several rulings which ordered the loan to be converted into zloty, while leaving the interest rate based on the LIBOR rate. On a wider scale, according to the summary prepared by the Polish Bank Association, last year as many as 70% of disputes were legally settled in favour of banks. In the first instance, this percentage was 60%. There is no doubt, however, that the scale of losses for individual banks may be greater than assumed in the already recognised provisions. Hence the decisions of some institutions to increase the provisions for this purpose. It should be stressed that the number of court cases remains relatively small in relation to the size of the portfolio. According to the Polish Bank Association, they account for 1.7% of all foreign currency loans granted and 3.6% of active contracts.
- CJEU judgment on the reimbursement of consumer credit costs.** On 11th September 2019, The Court of Justice of the European Union took a stance on the reimbursement of consumer credit costs in the case of early repayment. According to the judgment, the bank is obliged to reimburse non-interest costs in proportion to the period in which the client has actually been using the consumer credit. This applies primarily to the loan origination fee and other additional commissions. This position is consistent with the opinion already expressed in 2016 by the Competition and Consumer Protection Office and the Financial Ombudsman. The results of the largest stock exchange banks after the third quarter were burdened with additional provisions exceeding PLN 300 million. The Polish Bank Association estimates that the total value of claims may increase to PLN 1 billion.
- The Act on Employee Capital Plans (Pracownicze Plany Kapitałowe - PPK),** effective from 1 July 2019 In the first stage, the largest employers, employing over 250 employees, joined PPK. All employees were automatically enrolled in the programme, with the possibility to resign at any given moment. The first contributions were deducted from the salaries for November 2019 and the programme effectively began to operate from that moment. According to the first published statistics, 39% of employees remained in the programme, which was 1.1 million people.
- Anti-usury Act.** At the beginning of July, the Parliament received a bill limiting the cost of loans, which is mainly targeted at companies offering so-called "Chwilówki." The European Commission did not agree to the proceeding under urgent procedure. Nevertheless, this did not block further work, but it did not allow the Parliament of the previous term to vote on the law. At the moment, there are no further declarations as to whether the newly formed Parliament will resume the project. The last known project assumed a drastic reduction of the non-interest cost limits. A law in this form would, with a high degree of probability, strongly limit the possibilities of further activity of the lending companies, which would push some borrowers into unregulated areas. Moreover, a possible insolvency of the lending companies would mean that they would not redeem the bonds they issued, serving them as the primary source of financing.
- Development of the offer of banking services by external entities,** among others, thanks to the entry into force of the Payment Services Directive (PSD2) regarding payment services within the EU internal market from 14 September 2019. PSD2 introduces, among others, online access to data on the customer's invoice and payment initiation service at the customer's request. The above-mentioned services may be provided by third parties (entered in the registers kept by the Polish Financial Supervision Authority). The directive also imposes obligations on banks to provide public application software interfaces (so-called APIs) and to implement additional security requirements. First Polish financial institutions have already started to benefit from new possibilities. The clients of these banks were given the opportunity to view their transactions in other banks, within one system. These opportunities will certainly be further developed. The popularity of such solutions among clients and their impact on inter-bank competition will be difficult to predict.
- Further increase in contributions to the Bank Guarantee Fund.** According to the BFG Council the total contributions to in 2020 will increase to PLN 3.1 billion. This is a 14% increase, following a 27% increase in 2019. The increase in 2020 is mainly due to the dynamics of guaranteed funds, which at the end of 2019 amounted to 9.1%, thus being above the long-term average. The increase in premiums is also influenced by activities carried out in the field of to the mandatory bank resolution fund.

3.4. Growth perspectives for the BNP Paribas Bank Polska S.A. Group

The year 2019 was dominated by activities related to the integration of the core business of Raiffeisen Bank Polska S.A. acquired by the Bank. One of the most important milestones in this process is the rebranding carried out on 1 April 2019 and the finalisation of the entire operation, the November operational merger. All key objectives of the integration were achieved in accordance with the schedule and the assumed scope. Apart from strengthening the market position, the acquisition was justified by potential synergies. The assumptions envisaged PLN 500 million gross cost synergies in 2019-2021 (from 2021 onwards PLN 350 million repetitive cost synergies per year) and gross restructuring costs of PLN 500 million in 2018-2019. The realization to date confirms these assumptions as a good forecast for the following years.

In 2020, the Bank's objective is to enter a path of intensive organic growth. A dynamic but balanced growth of lending is planned, allowing to maintain both adequate margin and risk costs. This growth will be possible thanks to more effective acquisition of new customers and improved customer activity. Sales effectiveness will be supported by more intensive use of mobile channels and better data management, improving the matching of the offer to the customer. Combined with other initiatives to improve customer service quality, this will be reflected in the growing NPS ratio.

In order to improve market competitiveness, the Bank will continue its extensive investments, coordinated under the second wave of the transformation programme. In line with the market trend, the Bank notes the need for continuous and dynamic development of digital competences. Internal processes will be modernised, improving the speed and efficiency of operations and supporting the institution's flexibility in response to external changes. The success will also be measured by reliable, fully digital sales and service processes for customers and partners offering the Bank's products.

In 2020, works will also be continued on building the BNP Paribas brand recognition and the values behind it. As an institution after many mergers and a relatively recent rebranding, the Bank sees a potential for further improvement of its position in the customer awareness in Poland. The Bank's objective is to build the image of a socially responsible company, caring for the future and open to diversity.

Ambitious development plans require increased employee involvement. For this purpose, the Bank is implementing a new strategy in the area of human resources management. The strategy focuses, among other things, on broadly understood improvement of working conditions, enhancement of benefit programmes, and placing greater emphasis on supporting talent development.

The Group positively assesses the prospects for business development in the coming years, despite the presence of both materialising and potential risk factors. These are attributable, for example, to the accelerating pace of events related to the problem of foreign currency loans or the regulatory burden which has been increasing for a long time. In the coming years, the Group expects a considerable increase in the scale of operations and an improvement in profitability, in accordance with the adopted strategic objectives.

4. MAJOR EVENTS IN CAPITAL GROUP OF BNP PARIBAS BANK POLSKA S.A. IN 2019

January 2019

Resolution of the Bank Management Board regarding the separation of factoring activities (acquired by the Bank as a result of acquisition of RBPL's Core Activities on 31 October 2018) from the Bank and its transfer to BGŻ BNP Faktoring Sp. z o.o. (a company of the BNP Paribas group, currently BNP Faktoring Sp. z o.o.)

April 2019

The Bank Guarantee Fund determines **the amount of the BNP Paribas Bank Polska S.A. annual contribution to the mandatory bank resolution fund for 2019** (PLN 116.1 million)

PFSA's decision to approve the inclusion of the Bank's net profit for the fourth quarter of 2018 in Common Equity Tier 1 capital (PLN 36.4 million)

July 2019

PFSA's decision on the expiry of a decision regarding the Bank's maintenance of own funds for the additional capital requirement in order to cover the risk arising from foreign currency mortgage loans for households

March 2019

Change of the Bank's company name from BGŻ BNP Paribas S.A. to **BNP Paribas Bank Polska S.A.**

Merger of the Bank's subsidiaries: TFI BGŻ BNP Paribas S.A. (currently BNP Paribas TFI S.A.) and Riviera Towarzystwo Funduszy Inwestycyjnych S.A. (former Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.)

June 2019

PFSA's decisions related to consent to include in the Common Equity Tier 1 capital net profit for the first quarter of 2019 - standalone (PLN 163.4 million) and prudentially consolidated (PLN 161.6 million)

General Shareholders' Meeting Conclusion of an agreement on the sale of an organised part of the Bank's enterprise intended for factoring activities to BGŻ BNP Paribas Faktoring Sp. z o.o. (currently BNP Faktoring Sp. z o.o.)

October 2019

Moody's Investors Service Agency rating increased the Bank's individual assessment (Baseline Credit Assessment) from Ba2 to Ba1 and changed the rating outlook from "Stable" to "Positive"

Recognition of a provision in the amount of PLN 48.8 million regarding the proportional refund of commission in the event of early repayment of credit following the judgment of the Court of Justice of the European Union – charging the results of the third quarter of 2019.

September 2019

Conclusion of an annex to the non-revolving subordinated loan agreement concluded by the Bank with BNP Paribas on 12.09.2014 in the amount of CHF 90 million, extending the repayment date to 30.01.2029.

PFSA's decisions related to consent to include in the Common Equity Tier 1 capital net profit for the second quarter of 2019 - standalone (PLN 244.0 million) and prudentially consolidated (PLN 217.1 million)

November 2019

Operational merger – IT systems integration

Extraordinary General Meeting of Shareholders – adopting a resolution regarding changes to the Bank's Statute

PFSA's consent to include the subordinated loan agreement in the calculation of the Bank's Tier 2 capital (CHF 90 million - approx. PLN 352 million at the average NBP exchange rate as at 19 November 2019, 1 CHF = PLN 3.9113)

Recognition of a provision – in the amount of PLN 20,8 million – regarding the proportional refund of commission in the event of early repayment – for credit agreements repaid after the judgment of the Court of Justice of the European Union of 11.09.2019 in case C-383/18

Any changes in the composition of the Bank's Management Board and the Supervisory Board of the Bank that took place in 2019 are described in Chapter 11.3. of the herein Report – *Governing Bodies of the Bank*.



5. FINANCIAL STANDING OF THE BNP PARIBAS BANK POLSKA S.A. CAPITAL GROUP IN 2019

5.1. Consolidated statement of profit and loss

In 2019 the BNP Paribas Bank Polska S.A. Capital Group generated a net profit of PLN 614,694 thousand, i.e. by PLN 254,316 thousand (70.6%) higher than the one achieved in 2018.

The result on the banking activity of the Group in the analysed period amounted to PLN 4,518,118 thousand, and was higher y/y by PLN 1,229,032 thousand, i.e. by 37.4%.

The most important event affecting the level of net profit in 2019 and the comparability with results from 2018 was the finalization on 31 October 2018 of the acquisition of the Core Business of Raiffeisen Bank Polska S.A. ("RBPL"). As a consequence of the method used to perform and settle the transaction, only the income and expenses of the Core Business of Raiffeisen Bank Polska S.A. for the last two months of 2018 are recognized in the profit or loss of the Bank Capital Group for 2018 (i.e. made after 31 October 2018).

In addition, the following factors related to the aforementioned transaction have affected the comparability of results reported in 2019 and 2018:

- integration costs in the amount of PLN 414,537 thousand recognized in the general administrative expenses and other operating expenses in 2019, in comparison to PLN 265,804 thousand of integration costs recognized in 2018 (concerning the initiated process of merging the Bank with RBPL and previous merger processes of BGŻ S.A. and BNP Paribas Bank Polska S.A. and acquisition of SKOK Rafineria);
- the initial settlement of the merger of entities and calculating the gain on the bargain purchase of the Core Business of RBPL, as a result of which the amount of PLN 291,706 thousand was recognized in the category of other operating income;
- an allowance due to expected credit losses (ECL) in the 12-month horizon for loans and advances to customers and amounts due from banks, without impairment as well as for debt securities measured at amortised cost, recognized in the result of 2018, in the total amount of PLN 238,897 thousand.

It is estimated that after excluding integration costs the net profit in 2019 would amount to PLN 950,469 thousand and would be by PLN 465,941 thousand (i.e. by 96.2%) higher than the net profit that would be reported in 2018 after excluding integration costs, gain on the bargain purchase of RBPL and ECL allowance (PLN 484,528 thousand).

In addition, the comparability of results reported in 2019 and 2018 is influenced by the following factors:

- the Group incurred higher costs for the Bank Guarantee Fund in 2019 as a result of the increased total amount of contributions to the Bank Resolution Fund by the BFG Board compared to 2018. In 2019, the total costs of the BFG incurred by the Group amounted to PLN 166,100 thousand and were by PLN 48,806 thousand (i.e. by 41.6%) higher than in 2018;
- recognition (charging the results of second half of 2019) of provisions for the proportional return of commissions in the case of early repayment of the loan by the customer in the total amount of PLN 69.6 million. The recognition of provisions was a result of the judgment of the Court of Justice of the European Union of 11 September 2019 in Case C-383/18 concerning the consumer's right to reduce the total cost of credit in the case of early repayment;
- recognition (charging the results of fourth quarter of 2019) of provisions for portfolio risk relating to proceedings on CHF mortgage loans in the amount of PLN 29.5 million (judgment of the Court of Justice of the European Union of 3 October 2019 in case C-260/18),
- execution on 28 June 2019 of the transaction of sale of the organised part of the Bank's enterprise conducting the factoring activity to BGŻ BNP Paribas Faktoring Sp. z o.o. and recognition in the Group's gross financial result in 2019 the amount of PLN 42,435 thousand.

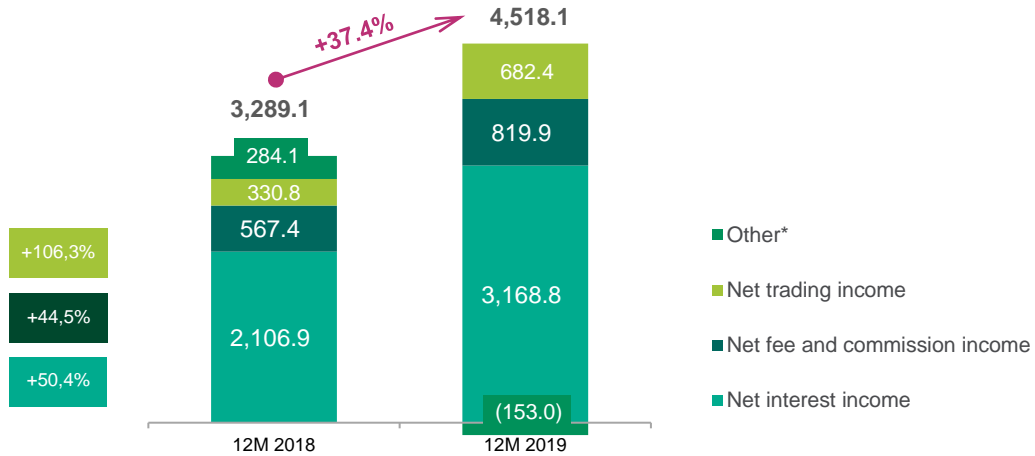
Table 4. Statement of profit or loss

PLN'000	12 months ended 31.12.2019	12 months ended 31.12.2018	Change y/y	
			PLN'000	%
Net interest income	3,168,759	2,106,851	1,061,908	50.4%
Net fee and commission income	819,937	567,390	252,547	44.5%
Dividend income	6,007	4,860	1,147	23.6%
Net trading income	682,415	330,773	351,642	106.3%
Net investment income	(31,836)	48,838	(80,674)	(165.2%)
Result on fair value hedge accounting	(4,385)	(9,997)	5,612	(56.1%)
Other operating income and expenses	(122,779)	240,371	(363,150)	(151.1%)
Net income on banking activity	4,518,118	3,289,086	1,229,032	37.4%
Net impairment allowance on financial assets and provisions for contingent liabilities	(441,890)	(557,682)	115,792	(20.8%)
General administrative expenses	(2,467,937)	(1,859,672)	(608,265)	32.7%
Depreciation and amortization	(454,147)	(189,714)	(264,433)	139.4%
Operating result	1,154,144	682,018	472,126	69.2%
Tax on financial institutions	(281,189)	(213,122)	(68,067)	31.9%
Profit (loss) before income tax	872,955	468,896	404,059	86.2%
Income tax expense	(258,261)	(108,518)	(149,743)	138.0%
Net profit (loss)	614,694	360,378	254,316	70.6%
Net profit (loss) excluding one-off events*	950,469	484,528	465,941	96.2%

* One-off events: integrations costs (2019 – PLN 414,537 thousand, 2018 – PLN 265,804 thousand), allowance due to ECL related to the acquisition of the Core Business of RBPL (2018 – PLN 238,897 thousand) and gain on the bargain purchase of the Core Business of RBPL (2018 – PLN 291,706 thousand).

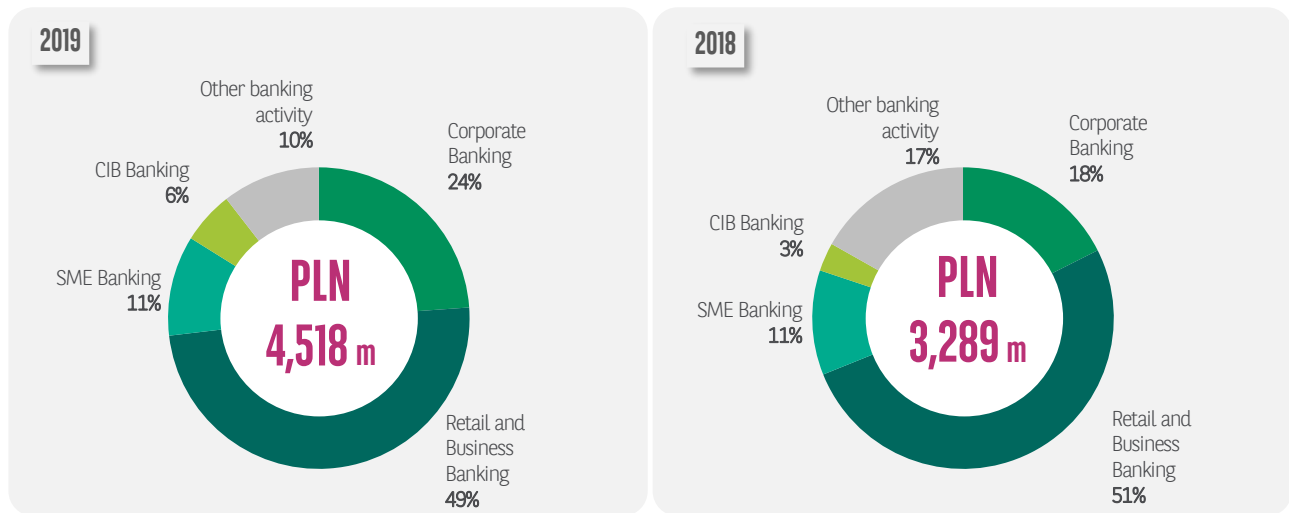
Note: As the figures have been rounded up, the totals in the tables and charts of this Report may not add up

Chart 6. Structure of net income on banking activity in PLN million



* The 'Other' category includes the result on investment activities, result on hedge accounting, dividends income and other operating income and expenses (in 2018 includes PLN 291.7 million related to bargain purchase of Core RBPL, in 2019 – PLN 42.4 million income on sale of the organised part of the Bank's enterprise conducting the factoring activity to BGZ BNP Paribas Faktoring Sp. z o.o. and additional costs related to CJUE judgements in the amount of PLN 99.1 million)

Chart 7. Net income on banking activity by segments



The changes in the structure of the net income on banking activity by segments visible in the charts above are primarily the result of the acquisition of the Core Business of RBPL and a higher share of corporate customers in the structure of the balance sheet and net income on banking activity, which is characteristic for RBPL.

Net interest income

Net interest income, constituting the main source of the Group's income, in 2019 amounted to PLN 3,168,759 thousand, and increased y/y by PLN 1,061,908 thousand, i.e. by 50.4%.

In 2019, as compared to 2018, interest income increased by PLN 1,204,254 thousand, i.e. by 40.4% y/y with a simultaneous increase in interest expenses by PLN 142,346 thousand, i.e. by 16.2% y/y.

A factor positively influencing the level of net interest income in 2019, but at the same time disturbing comparability with 2018, was the fact that the Bank's Capital Group recognized in the profit or loss for 2018 only the interest income and expenses of the acquired Core Business of Raiffeisen Bank Polska S.A. realized after 31 October 2018, i.e. for the last two months of 2018.

The net interest income in 2019 was higher than that earned in 2018, due to, among other things, the recognition in the income statement of the fair value adjustment for the Phase I credit portfolio acquired under the Core Business of RBPL (positive impact + PLN 78,927 thousand). In 2019, the amount of PLN 96,885 thousand was recognised in interest income (of which: in Q4: PLN 14,247 thousand, in Q3: PLN 21,980 thousand, in Q2: PLN 28,370 thousand and in Q1: PLN 32,288 thousand). In the net interest income in Q4 of 2018, the amount of 17,958 thousand PLN was recognised.

Table 5. Net interest income

PLN'000	12 months ended 31.12.2019	12 months ended 31.12.2018	change y/y	
			PLN'000	%
Loans and advances to banks	23,326	17,323	6,003	34.7%
Loans and advances to clients measured at amortized cost	3,284,550	2,347,366	937,184	39.9%
Loans and advances to clients measured at fair value through profit or loss	63,924	77,311	(13,387)	(17.3%)
Debt instruments measured at amortized cost	445,823	257,703	188,120	73.0%
Debt instruments measured at fair value through profit or loss	931	1,064	(133)	(12.5%)
Debt instruments are measured at fair value through other comprehensive income	215,945	167,805	48,140	28.7%
Derivative instruments in fair value hedge accounting	153,560	115,233	38,327	33.3%
Buy-sell-back securities	24	24	0	0.0%
Interest income	4,188,083	2,983,829	1,204,254	40.4%
Amounts due to banks	(103,034)	(104,505)	1,471	(1.4%)
Debt securities issued	(78,011)	(76,167)	(1,844)	2.4%
Amounts due to customers	(685,232)	(593,258)	(91,974)	15.5%
Lease liabilities	(8,704)	0	(8,704)	x
Derivative instruments in fair value hedge accounting	(118,763)	(93,592)	(25,171)	26.9%
Sell-buy-back securities	(25,581)	(9,456)	(16,125)	170.5%
Interest expenses	(1,019,324)	(876,978)	(142,346)	16.2%
Net interest income	3,168,759	2,106,851	1,061,908	50.4%

Important external factor affecting the level of net interest income in 2019 was the continuation of the NBP's policy regarding the development of basic interest rates, i.e. their stabilization at low level (the reference rate since March 2015 amounts to 1.5%). As a result of this policy, a downward trend in deposit interest rates is observed on the market, which has a positive impact on the margins realised by banks.

In addition, the fact that the Bank's liquidity position was significantly improved as a result of finalizing the acquisition of the Core Business of RBPL (net loans / deposits ratio fell from 104.9% at the end of September 2018 to 84.2% at the end of December 2018) enabled optimization of the pricing policy and, consequently, the improvement of deposit margins.

At the end of December 2019, the Bank applied fair value hedge accounting. The change in the fair value measurement of hedging transactions is recognized in the result on hedge accounting. Interest on IRS transactions and hedged items is recognized in net interest income.

The net interest income on hedging relationships (the sum of interest income and interest expense from derivative instruments in fair value hedge accounting) was positive in 2019 and amounted to PLN 34,796 thousand as compared to PLN 21,641 thousand in 2018 (increase by PLN 13,155 thousand, i.e. by 60.8%).

Net fee and commission income

The Group's net fee and commission income in 2019 amounted to PLN 819,937 thousand and was higher by PLN 252,547 thousand, i.e. by 44.5% y/y.

A factor positively affecting the level of net fee and commission income in 2019 but at the same time disturbing comparability with 2018 was the fact that the Bank's Capital Group has recognized in the profit or loss for 2018 only the fee and commission income and expenses of the acquired Core Business of Raiffeisen Bank Polska S.A. realized after 31 October 2018, i.e. for the last two months of 2018.

The fee and commission income increased in 2019 as compared to 2018 by PLN 317,986 thousand, i.e. by 43.9% y/y while commission expenses increased by PLN 65,439 thousand, i.e. by 41.6%.

The increase in fee and commission income was recorded in all categories. The largest increases concerned income from:

- handling payment and credit cards by PLN 97,828 thousand, i.e. by 82.3%,
- lending and leasing activities by PLN 53,865 thousand, i.e. by 25.1%,
- execution of transfers and electronic banking services by PLN 42,309 thousand, i.e. by 71.0%,
- account maintenance by PLN 31,075 thousand, i.e. by 29.0%,
- asset management and brokerage operations by PLN 26,686 thousand, i.e. by 29.2%,

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

- handling payment and credit cards by PLN 41,224 thousand, i.e. 55.4%,
- cash service by PLN 9,239 thousand, i.e. by 145.7%.
- intermediation in the sale of the Bank's products and acquisition of customers by PLN 4,969 thousand, i.e. by 20.6%,
- other commissions by PLN 3,222 thousand, i.e. by 26.7%,

Table 6. Net fee and commission income

PLN'000	12 months ended 31.12.2019	12 months ended 31.12.2018	change y/y	
			PLN'000	%
Fee and commission income				
loans, advances and leases	268,045	214,180	53,865	25.1%
account maintenance	138,333	107,258	31,075	29.0%
cash service	39,742	22,440	17,302	77.1%
cash transfers and e-banking	101,877	59,568	42,309	71.0%
guarantees and documentary operations	57,625	38,512	19,113	49.6%
asset management	117,935	91,249	26,686	29.2%
payment and credit cards	216,707	118,879	97,828	82.3%
intermediation in the sale of insurance products	60,249	47,015	13,234	28.1%
intermediation in the sale of Bank's products and acquisition of customers	28,302	13,431	14,871	110.7%
other commissions	13,884	12,182	1,702	14.0%
Fee and commission income	1,042,700	724,714	317,986	43.9%
Fee and commission expense				
loans, advances and leases	(2,768)	(2,803)	35	(1.3%)
Account maintenance	(5,598)	(3,951)	(1,647)	41.7%
Cash service	(15,582)	(6,343)	(9,239)	145.7%
Cash transfers and e-banking	(4,565)	(1,959)	(2,606)	133.0%
Asset management and brokerage operations	(19,295)	(20,109)	814	(4.0%)
Payment and credit cards	(119,233)	(74,432)	(44,801)	60.2%
intermediation in the sale of insurance products	(11,395)	(11,592)	197	(1.7%)
intermediation in the sale of Bank's products and acquisition of customers	(29,044)	(24,075)	(4,969)	20.6%
other commissions	(15,282)	(12,060)	(3,222)	26.7%
Fee and commission expense	(222,763)	(157,324)	(65,439)	41.6%
Net fee and commission income	819,937	567,390	252,547	44.5%

Dividend income

Dividend income in 2019 amounted to PLN 6,007 thousand was derived from the profits of the companies for 2018, in which the Bank held minority interests, i.e.: Biuro Informacji Kredytowej S.A. (BIK, PLN 4,221.0 thousand), Krajowa Izba Rozliczeniowa S.A. (KIR, PLN 1,179.4 thousand), VISA (PLN 377.2 thousand) and CCIG Group Sp. z o.o. (PLN 229.8 thousand).

Dividend income in 2018 was derived from the profits of the companies for 2017, i.e.: Biuro Informacji Kredytowej S.A. (BIK, PLN 3,944.0 thousand), Krajowa Izba Rozliczeniowa S.A. (KIR, PLN 783.7 thousand) and VISA (PLN 132.4 thousand).

Net trading income and net investment income

The net trading income in 2019 amounted to PLN 682,415 thousand and was higher by PLN 351,642 thousand, i.e. by 106.3% y/y. The level and volatility of this result is mainly determined by the valuation of derivative instruments and the result on the exchange position. A factor positively influencing the result on trading activities in 2019 but at the same time disturbing comparability with 2018 was the fact that in the Group's result for 2018, only the results of the Core Business of RBPL for the last two months of 2018 were recognized.

The net investment income for 2019 was negative and amounted to PLN -31,836 thousand and was by PLN 80,674 thousand lower in comparison to net investment income for 2018 (profit in the amount of PLN 48,838 thousand).

In 2019, the most important item was the change in the valuation of the portfolio of loans and advances to customers measured at fair value through profit or loss, which was negative and amounted to PLN -35,654 thousand (in 2018 PLN 5,984 thousand).

In 2018, the most important item was the profit from the sale of debt instruments in the amount of PLN 41,244 thousand (the majority of profit has been realized in the 4th quarter of 2018).

Other operating income

Other operating income in 2019 amounted to PLN 182,705 thousand, and was lower by PLN 205,073 thousand, i.e. by 52.9% as compared to the previous year.

Table 7. Other operating income

PLN'000	12 months ended	12 months ended	change y/y	
	31.12.2019	31.12.2018	PLN'000	%
Sale or liquidation of property, plant and equipment and intangible assets	20,957	13,738	7,219	52.6%
Sale of goods and services	32,994	15,064	17,930	119.0%
Release of provisions for litigation and claims and other liabilities	12,336	2,173	10,163	467.7%
Recovery of debt collection costs	18,512	16,466	2,046	12.4%
Recovered indemnities	2,644	13,192	(10,548)	(80.0%)
Leasing operations	9,155	26,626	(17,471)	(65.6%)
Gain on bargain purchase of RBPL	0	291,706	(291,706)	(100.0%)
Other operating income	86,107	8,813	77,294	877.0%
Total other operating income	182,705	387,778	(205,073)	(52.9%)

The level of income realised in the analysed periods was mainly influenced by the following:

- preliminary accounting settlement of the merger of the companies and calculation of profit from the bargain purchase of RBPL, as a result of which in 2018, the amount of PLN 291,706 thousand was recognised in other operating income,
- recognition in other operating income the amount of PLN 42,435 thousand due to concluded in June 2019 transaction of sale of the organised part of the Bank's enterprise conducting the factoring activity to BGŻ BNP Paribas Faktoring Sp. z o.o. (Factoring Company). The amount of PLN 45,000 thousand was recognized in the first half of 2019, and then in July 2019 the Bank and the Factoring Company have made the final verification of the transferred net factoring receivables, which were the basis for calculating the sales price at the end of June 2019. The resulting difference of PLN 2,565 thousand was recognized in the third quarter of 2019.

In addition, the level of other operating income in 2019 was positively influenced by:

- increase in income from the sale of goods and services by PLN 17,930 thousand, i.e. by 119.0%;
- increase in income due to release of provisions for litigation and claims and other liabilities by PLN 10,163 thousand, i.e. by 467.7%;
- increase in income on sale or liquidation of property, plant and equipment and intangible assets by PLN 7,219 thousand, i.e. by 52.6%.

The amount of other operating income in 2019 was adversely affected by:

- decrease in income on leasing operations by PLN 17,471 thousand, i.e. by 65.6%;
- decrease in income on recovered indemnities by PLN 10,548 thousand, i.e. by 80.0%.

Other operating expenses

Other operating expenses in 2019 amounted to PLN 305,482 thousand and were higher by PLN 158,075 thousand (i.e. by 107.2%) as compared with 2018 mainly due to:

- recognition of provisions for the proportional return of commissions in the case of early repayment of the loan by the customer in the total amount of PLN 69.6 million as a result of the judgment of the Court of Justice of the European Union of 11 September 2019 in Case C-383/18 concerning the consumer's right to reduce the total cost of credit in the case of early repayment;
- recognition (charging the results of fourth quarter of 2019) of provisions for portfolio risk relating to proceedings on CHF mortgage loans in the amount of PLN 29.5 million (judgment of the Court of Justice of the European Union of 3 October 2019 in case C-260/18);
- recognition in the third quarter of 2019 of a provision in the amount of PLN 11.3 million for a court judgement unfavourable for the Bank regarding a corporate client option case and PLN 6.4 million for operating loss related to incorrect execution of a tax seizure in 2017.

Table 8. Other operating expenses

PLN'000	12 months ended 31.12.2019	12 months ended 31.12.2018	change y/y	
			PLN'000	%
Loss on sale or liquidation of property, plant and equipment and intangible assets	(63,305)	(16,002)	(47,303)	295.6%
Provisions for litigation and claims and other liabilities	(111,347)	(41,608)	(69,739)	167.6%
Debt collection	(46,086)	(36,294)	(9,792)	27.0%
Donations made	(6,007)	(3,342)	(2,665)	79.7%
Costs of leasing operations	(20,476)	(22,229)	1,753	(7.9%)
Costs of compensations, penalties and fines	(16,907)	(2,576)	(14,331)	556.3%
Other operating expenses	(41,356)	(25,356)	(16,000)	63.1%
Total other operating expenses	(305,484)	(147,407)	(158,077)	107.2%

In addition, the level of other operating expenses in 2019 was influenced by:

- higher losses (by PLN 47,303 thousand, i.e. by 295.6%) on sale or liquidation of property, plant and equipment and intangible assets;
- higher other operating expenses (by PLN 16,000 thousand, i.e. by 63.1%).

Net impairment allowance on financial assets and provisions for contingent liabilities

The result of impairment allowances on financial assets and provisions for contingent liabilities amounted to PLN -441,890 thousand in 2019, and its negative impact on the Group's results was lower by PLN 115,792 thousand, i.e. by 20.8% y/y.

The factor negatively influencing the net impairment allowance on financial assets and provisions for contingent liabilities in 2019 and at the same time disturbing comparability with 2018 was the fact that loan portfolio significantly increased and the Group in 2018 recognized in profit or loss only two months of result on net impairment allowance on financial assets related to Core Business of RBPL acquired on 31 October 2018.

As a result of the acquisition of the Core Business of RBPL in 2018, an allowance due to expected credit losses (ECL) in the 12-month horizon for loans and advances to customers and amounts due from banks, with no impairment, was recognized in the total amount of PLN 238,897 thousand. Excluding ECL allowance, the net impairment allowance on financial assets and provisions for contingent liabilities would amount to PLN -318,785 thousand in 2018, and would be lower by PLN 123,105 as compared to 2019.

Considering the key operating segments¹:

- the Retail and Business Banking segment recorded an increase in the negative balance of allowances by PLN 142,516 thousand y/y,
- SME Banking – increase by PLN 29,228 thousand y/y,
- Corporate Banking segment (including CIB) – decrease by PLN 28,637 thousand y/y.

In 2019, the Group concluded agreements regarding the sale of retail, SME and corporate loan portfolio. The gross book value of the portfolio amounted to PLN 447,953 thousand, the value of impairment allowances amounted to PLN 358,972 thousand. The contractual price for the sale of these portfolios has been set at PLN 114,396 thousand. The net effect on the Bank's results from the sale of portfolios which amounted to PLN 25,414 thousand and is presented in Recognition and release of impairment allowances on loans and advances.

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

The cost of gross credit risk expressed as the ratio of net impairment allowances to average gross balance of loans and advances to customers, measured at amortized cost (calculated on the basis of balances at the end of the quarters) amounted to 0.59% in 2019 and improved by 37 bps in comparison to 2018 (0.96%). Excluding an additional allowance in 2018 due to expected credit losses in the 12-month horizon, the cost of gross credit risk would be amount to 0.55%, i.e. on the level comparable to 2019. The ratio without taking into account the impact of portfolio sales would be 0.62% for 2019 and 0.60% for 2018 (without ECL).

General administrative expenses, depreciation and amortization

General administrative expenses (including depreciation and amortization) of the BNP Paribas Bank Polska Capital Group for 2019 amounted to PLN 2,922,084 thousand, and were higher by PLN 872,698 thousand, i.e. by 42.6% as compared to 2018.

The increase in the expenses was mainly due to the merger of the Bank with the Core Business of Raiffeisen Bank Polska S.A. (RBPL) and related integration costs, as well as the increase in the contribution to Bank Guarantee Fund.

¹ Information based on the note on operational segments included in the Consolidated financial statements of the BNP Paribas Bank Polska S.A. Capital Group for the year ended 31 December 2019

Table 9. General administrative expenses, depreciation and amortization

PLN'000	12 months ended 31.12.2019	12 months ended 31.12.2018	change y/y	
			PLN'000	%
Personnel expenses	(1,368,777)	(1,057,189)	(311,588)	29.5%
Marketing	(146,983)	(107,498)	(39,485)	36.7%
IT and telecomm expenses	(288,778)	(152,399)	(136,379)	89.5%
Rental expenses	0	(158,268)	158,268	(100.0%)
Short-term lease and operating costs	(97,414)	0	(97,414)	x
Other non-personnel expenses	(351,764)	(235,954)	(115,810)	49.1%
Business travels	(21,934)	(13,599)	(8,335)	61.3%
ATM and cash handling expenses	(7,016)	(4,091)	(2,925)	71.5%
Outsourcing costs related to leasing operations	(4,604)	(6,735)	2,131	(31.6%)
Contributions to Bank Guarantee Fund	(166,100)	(117,294)	(48,806)	41.6%
Polish Financial Supervision Authority fee	(14,567)	(6,645)	(7,922)	119.2%
Total general administrative expenses	(2,467,937)	(1,859,672)	(608,265)	32.7%
Depreciation and amortization	(454,147)	(189,714)	(264,433)	139.4%
Total expenses	(2,922,084)	(2,049,386)	(872,698)	42.6%

The total amount of integration costs in 2019 amounted to PLN 414.5 million (including PLN 4.1 million related to acquisition of SKOK Rafineria) compared to PLN 265.8 million in 2018, of which:

- PLN 389.9 million has been included in general administrative expenses,
- PLN 24.6 million – in other operating expenses and relates mainly to the cost of liquidation of property, plant and equipment (PLN 29.6 million), impairment allowance update (PLN 6.0 million) and provision for branch restructuring (decrease of costs by PLN 10.5 million).

Integration costs recognized in general administrative costs and depreciation are related mainly to integration with RBPL and include i.a.:

- IT costs related to infrastructure and system migration as well as outsourcing services – PLN 110.5 million,
- costs of accruing accelerated depreciation of systems in connection with the merger processes of banks – PLN 105.1 million,
- personnel expenses – PLN 89.6 million,
- costs of consulting services – PLN 29.8 million,
- rebranding costs related to the change of the Bank's name from 1 April 2019 – PLN 25.2 million.
- costs related to branches reorganization (excluding IT costs) – PLN 12.0 million,
- other integration costs (administrative, business trips) – PLN 9.8 million.

The largest increase in expenses by type y/y (by PLN 311.6 million) occurred in the item "personnel expenses", which is mainly due to employment growth after the acquisition of RBPL, the costs of provisions created for retention programs and inclusion in the Group's structure of employees of three companies previously owned by the RBPL Capital Group.

In 2018 the Bank created a provision for employment restructuring in the amount of PLN 130.5 million.

Table 9a. Personnel expenses

PLN'000	12 months ended	12 months ended	change y/y	
	31.12.2019	31.12.2018	PLN'000	%
Payroll expenses	(1,124,367)	(747,229)	(377,138)	50.5%
Payroll charges	(185,938)	(124,769)	(61,169)	49.0%
Employee benefits	(30,282)	(34,441)	4,159	(12.1%)
Costs of restructuring provisions	(2,609)	(133,727)	131,118	(98.0%)
Costs of provision for future liabilities arising from unused annual leave and retirement benefits	(11,077)	(3,818)	(7,259)	190.1%
Appropriations to Social Benefits Fund	(12,808)	(8,842)	(3,966)	44.9%
Other	(1,695)	(4,363)	2,668	(61.1%)
Total personnel expenses	(1,368,777)	(1,057,189)	(311,588)	29.5%

In addition, the level of expenses in 2019 was influenced by the increase of the following expenses:

- IT and telecommunications costs (an increase of PLN 136.4 million) - related mainly to the costs of maintenance of the systems of the merged Bank (software and hardware) and costs related to integration of IT infrastructure and systems in connection with the operational merger;
- other tangible costs (increase by PLN 115.8 million, including in companies by PLN 13.1 million) - mainly related to administrative costs - in connection with the increase in employment and the number of bank branches after the merger with RBPL - including: telecommunication services (by PLN 10.6 million), security (by PLN 8.6 million), office supplies (by PLN 7.5 million), postal fees and outsourcing and distribution of mass correspondence (by PLN 7.4 million), VAT on real estate contracts (increase by PLN 20.2 million as a result of change in cost accounting according to IFRS 16 standards);
- outsourcing costs (increase by PLN 63.3 million) – related mainly to operational merge;
- increase of BFG contributions due to the increase of contributions rate. Total contributions included in the Bank's expenses for 2019 amounted to PLN 166.1 million and were PLN 48.8 million higher than in the previous year:
 - annual contribution to the mandatory bank resolution fund for 2019 (fully settled in the first quarter of 2019) amounted to PLN 116.1 million, compared to PLN 52.8 million of expenses (booked in the first half of 2018),
 - contribution to the bank guarantee fund due for 2019 amounted to PLN 50.0 million and was lower by PLN 14.5 million than in 2018.

In 2019 there was an increase in the total amount of contributions to the BFG for the banking sector determined by the Council of the Bank Guarantee Fund (PLN 2 billion of contributions to the bank resolution fund for 2019 against PLN 960 million for 2018 and PLN 791 million of contributions to the bank guarantee fund for 2019 against PLN 1.24 billion in the previous year).

In 2019 the costs of advisory and consulting decreased by PLN 27.3 million.

In consequence of implementation from 1 January 2019 of IFRS 16 "Leasing", which defines a single model for the valuation of leasing, there has been a change in the cost accounting. Rental costs of the Bank for 2019 were presented: within depreciation costs as depreciation of the right to use property (PLN 115.0 million), within interest costs as interest on the lease liability (PLN 7.5 million), as a separate item of administrative costs "Costs of short-term leasing and operation" (PLN 96.4 million) and in other tangible costs as costs of VAT on real estate contracts (PLN 20.2 million).

Depreciation and amortization expenses of the BNP Paribas Bank Polska Group in 2019 amounted to PLN 454.1 million and were higher by PLN 264.4 million (including PLN 0.8 million in subsidiaries) as compared to the previous year, which resulted mainly from the implementation of IFRS 16 "Leasing" standard from 1 January 2019 - shifting the costs of rents, car lease and IT equipment to depreciation - increase in the Bank by PLN 124.4 million, costs of calculation of accelerated depreciation of systems in connection with bank merger processes - increase by PLN 105.1 million.

5.2. Statement of comprehensive income

The comprehensive income of the Group in 2019 amounted to PLN 598,765 thousand and was by PLN 239,196 thousand (i.e. 66.5%) higher than in 2018. The recorded increase was influenced by the improvement of net profit generated in the compared periods.

The direct reason for the observed increase was the improvement of the net profit generated by 70.6% y/y, partially neutralized by the negative valuation of financial assets (negative impact on the total comprehensive income in 2019 in the amount of PLN 18,747 thousand, as compared to PLN 789 thousand of positive impact in 2018).

Table 10. Statement of comprehensive income

PLN'000	12 months ended	12 months ended	change y/y	
	31.12.2019	31.12.2018	PLN'000	%
Net profit for the period	614,694	360,378	254,316	70.6%
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss upon fulfilment of certain conditions	(15,183)	88	(15,271)	x
Mark-to-market of assets measured at fair value through other comprehensive income	(18,745)	789	(19,534)	x
Deferred tax	3,562	(701)	4,263	x
Items that will not be reclassified subsequently to profit or loss	(745)	(897)	152	(16.9%)
Actuary valuation of employee benefits	(924)	(1,107)	183	(16.5%)
Deferred tax	179	210	(31)	(14.8%)
Other comprehensive income (net of tax)	(15,928)	(809)	(15,119)	x
Total comprehensive income	598,766	359,569	239,197	66.5%

5.3. Statement of financial position

Assets

The total assets of the Group as at the end of December 2019 amounted to PLN 109,954,142 thousand and were higher by PLN 931,623 thousand, i.e. by 0.9% as compared to the end of December 2018.

The scale of change in the total assets was influenced i.a. by the conclusion on 28 June 2019 of the transaction of sale of the organised part of the Bank's enterprise conducting the factoring activity to BGŻ BNP Paribas Faktoring Sp. z o.o. (Factoring Company), in consequence of which the Bank transferred to the Factoring Company assets in the amount of PLN 1,658,174 thousand (detailed description of the transactions in Chapter 2.7. Sale of the organised part of enterprise pf Consolidated financial statements of the BNP Paribas Bank Polska S.A. Capital Group for the year ended 31 December 2019).

The second factor influencing the size of the Group's assets is the balance sheet optimization process related to, among others, a significant change (improvement) in the liquidity position as a result of the acquisition of the Core Business of Raiffeisen Bank Polska S.A. on 31 October 2018. The optimisation of the Bank's deposit base allows for the improvement of the realised interest margin.

Table II. Assets

PLN'000	31.12.2019	31.12.2018	change	
			PLN'000	%
Cash and balances at Central Bank	4,658,171	2,897,123	1,761,048	60.8%
Amounts due from banks	679,308	961,496	(282,188)	(29.3%)
Derivative financial instruments	800,886	715,671	85,215	11.9%
Fair value adjustment of hedged item	228,120	130,405	97,715	74.9%
Loans and advances to customers measured at amortised cost	71,836,643	70,997,701	838,942	1.2%
Loans and advances to customers measured at fair value through profit or loss	1,974,396	2,416,249	(441,853)	(18.3%)
Debt securities measured at amortised cost	17,916,645	11,939,238	5,977,407	50.1%
Financial instruments measured at fair value through profit or loss	241,754	204,421	37,333	18.3%
Debt securities measured at fair value through other comprehensive income	7,953,358	15,875,339	(7,921,981)	(49.9%)
Investment real estate	56,577	55,868	709	1.3%
Intangible assets	519,945	520,767	(822)	(0.2%)
Property, plant and equipment	1,226,746	511,275	715,471	139.9%
Deferred tax assets	976,748	1,034,313	(57,565)	(5.6%)
Other assets	884,845	762,653	122,192	16.0%
Total assets	109,954,142	109,022,519	931,623	0.9%

The structure of the Group's assets has changed slightly compared to the end of 2018. The share of debt securities and financial instruments decreased slightly (by 2.0 p.p.). The decrease in the share concerned mainly the portfolio of securities measured at fair value through other comprehensive income (-7.3 p.p.) with a simultaneous increase in the share of securities measured at amortised cost (+5.3 p.p.).

The structure of assets is dominated by loans and advances to customers (sum of portfolios measured at amortised cost and at fair value), the value of which accounted for 67.1% of all assets at the end of 2019 as compared to 67.3% at the end of 2018. In value terms, the volume of net loans and advances increased by PLN 397,088 thousand, i.e. by 0.5% (without taking into account the above-mentioned sales of factoring activities, the dynamics would be +2.6%).

The second largest asset item was securities and financial instruments, which accounted for 23.7% of the balance sheet total at the end of 2019 (at the end of 2018: 25.7%). In 2019, their value decreased by PLN 1,907,240 thousand, i.e. by 6.8%, mainly as a result of a decrease in the portfolio of treasury bonds issued by central government institutions classified as securities at fair value through other comprehensive income.

At the same time, there was an increase from 2.7% to 4.2% of the cash and balances in the Central Bank, which increased in value by PLN 1,761,048 thousand, i.e. by 60.8%, mainly in the item NBP account.

Loan portfolio

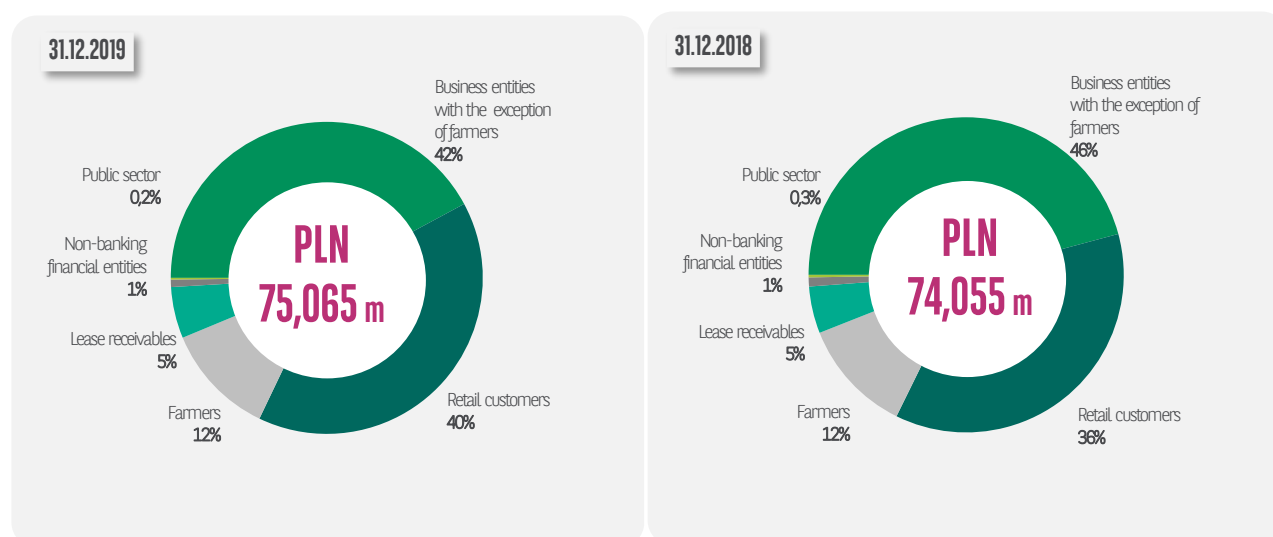
Structure and quality of the loan portfolio

As at the end of 2019 gross value of loans and advances to customers (sum of portfolios measured at amortised cost and at fair value through profit or loss) amounted to PLN 77,181,416 thousand and was higher by PLN 586,334 thousand, i.e. by 0.8% as compared to the end of 2018, despite concluding on 28 June 2019 of the transaction of sale of the organised part of the Bank's enterprise conducting the factoring activity to BGŻ BNP Paribas Faktoring Sp. z o.o. (Factoring Company), in consequence of which the Bank transferred to the Factoring Company loans and advances in the gross amount of PLN 1,468,232 thousand (excluding factoring receivables as at December 2018, the dynamics would amount to +2.7%).

Table 12. Structure of the loan portfolio measured at amortised cost

PLN'000	31.12.2019		31.12.2018	
	PLN'000	share %	PLN'000	share %
Business entities with the exception of farmers	31,632,607	42.1%	33,932,209	45.8%
Farmers	8,732,840	11.6%	8,681,538	11.7%
Retail customers	29,997,525	40.0%	27,001,876	36.5%
- mortgage loans	18,526,757	24.7%	16,054,648	21.7%
in PLN	13,634,997	18.2%	10,828,584	14.6%
in foreign currencies	4,891,760	6.5%	5,226,064	7.1%
- cash loans	7,404,864	9.9%	7,150,386	9.7%
- other retail loans	4,065,904	5.4%	3,796,842	5.1%
Lease receivables	3,995,444	5.3%	3,561,739	4.8%
Public sector	129,915	0.2%	190,073	0.3%
Other financial entities	576,521	0.8%	687,227	0.9%
Gross loans and advances	75,064,852	100.0%	74,054,662	100.0%

Chart 8. Gross loans and advances measured at amortised cost - structure



As regards the portfolio measured at amortized cost, the share of loans and advances to business entities excluding farmers (PLN 31,632,607 thousand at the end of 2019) decreased by 3.7 p.p. and is at the level of 42.1%. Loans for retail customers (PLN 29,997,525 thousand) account for 40.0%, with more than half (61.8%) of this portfolio being mortgage loans (PLN 18,526,757 thousand), which account for 24.7% of the entire portfolio measured at amortized cost (share increase by 3.0 p.p. compared to the end of 2018). Ranked third are loans for farmers (PLN 8,732,840 thousand) that recorded slight decrease in the share in the entire portfolio by 0.1 p.p., to 11.6% at the end of 2019.

Table 13. The quality of the loan portfolio measured at amortized cost

PLN'000	31.12.2019			31.12.2018		
	gross total	of which: impaired	share %	gross total	of which: impaired	share %
Institutional entrepreneurs, excluding farmers	32,339,043	1,981,962	6.1%	34,809,509	2,216,156	6.4%
Farmers	8,732,840	768,651	8.8%	8,681,538	586,234	6.8%
Retail customers	29,997,525	1,332,616	4.4%	27,001,876	1,222,984	4.5%
- mortgage loans	18,526,757	523,852	2.8%	16,054,648	528,972	3.3%
in PLN	13,634,997	218,053	1.6%	10,828,584	206,162	1.9%
in other currencies	4,891,760	305,799	6.3%	5,226,064	322,810	6.2%
- cash loans	7,404,864	607,222	8.2%	7,150,386	515,816	7.2%
- other retail loans	4,065,904	201,542	5.0%	3,796,842	178,196	4.7%
Lease receivables	3,995,444	196,747	4.9%	3,561,739	132,214	3.7%
Gross loans and advances	75,064,852	4,279,976	5.7%	74,054,662	4,157,588	5.6%

The ratio of impaired exposures in gross loans and advances to customers measured at amortized cost amounted to 5.7% at the end of 2019 as compared to 5.6% at the end of 2018.

Table 14. Quality ratios of the loan portfolio measured at amortized cost

PLN'000	31.12.2019	31.12.2018	change	
			PLN'000	%
Total gross loans and advances to customers	75,064,852	74,054,662	1,010,190	1.4%
Impairment allowances	(3,228,209)	(3,056,961)	(171,248)	5.6%
Total net loans and advances to customers	71,836,643	70,997,701	838,942	1.2%
Exposures without impairment triggers				
Gross balance sheet exposure	70,784,875	69,897,074	887,801	1.3%
Allowance	(943,899)	(1,019,649)	75,750	(7.4%)
Net balance sheet exposure	69,840,976	68,877,425	963,551	1.4%
Impaired exposures (stage 3)				
Gross balance sheet exposure	4,279,976	4,157,588	122,388	2.9%
Impairment allowance	(2,284,310)	(2,037,312)	(246,998)	12.1%
Net balance sheet exposure	1,995,666	2,120,276	(124,610)	(5.9%)
Ratios				
Share of impaired exposures in gross portfolio	5.7%	5.6%		0.1 p.p.
Coverage with impairment allowances	(53.4%)	(49.0%)		(4.4 p.p.)

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

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

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

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

In the light of the provisions of IFRS 9, the contractual terms of the securitization do not fulfil the conditions for derecognition of securitized assets. In connection with the above, the Bank recognizes securitized assets in "Loans and advances to customers" as at 31 December 2019 at net value of PLN 2,247,024 thousand.

Liabilities and equity

As at the end of December 2019, the total value of the Group's liabilities amounted to PLN 98,794,759 thousand and was higher by PLN 332,053 thousand, i.e. by 0.3% as compared to the value at the end of 2018.

The share of liabilities in total liabilities and equity of the Group amounted to 89.9% in the analysed period as compared to 90.3% at the end of the previous year.

The most significant change in the structure of liabilities in 2019 was a decrease in the share of amounts due to customers with a simultaneous increase in the share of amounts due to banks and separating lease liabilities in accordance with IFRS 16.

The most significant item in the structure of liabilities are amounts due to customers. As at the end of 2019, their share in total liabilities was 87.2% which constituted a decrease by 1.4 p.p. compared to the end of 2018. In terms of value, the volume of these liabilities decreased by PLN 1,056,724 thousand, i.e. by 1.2% compared to December 2018 and amounted to PLN 86,134,984 thousand. The decrease is a result of an optimization policy with reference to the liquidity position of the Group.

Amounts due to banks increased in the analysed period, which resulted in the increase of their share in total liabilities by 0.5 p.p. to the level of 4.5%. Amounts due to banks totalled PLN 4,485,264 thousand and were higher by PLN 508,795 thousand (i.e. by 12.8%) than at the end of 2018.

Total equity as at 31 December 2019 amounted to PLN 11,159,383 thousand and increased as compared to 31 December 2018 by 5.7%, i.e. by PLN 599,570 thousand. The share of total equity in total liabilities and equity of the Group at the end of December 2019 was at the level of 10.1% (as compared to 9.7% at the end of 2018).

Table 15. Liabilities and equity

PLN'000	31.12.2019	31.12.2018	change	
			PLN'000	%
Amounts due to banks	4,485,264	3,976,469	508,795	12.8%
Fair value adjustment of hedging instruments and hedged items	224,218	123,600	100,618	81.4%
Derivative financial instruments	815,637	783,818	31,819	4.1%
Amounts due to customers	86,134,984	87,191,708	(1,056,724)	(1.2%)
Securities issued	2,179,052	2,179,424	(372)	(0.0%)
Subordinated liabilities	1,882,064	1,875,769	6,295	0.3%
Lease liabilities	602,192	0	602,192	x
Other liabilities	1,893,414	1,711,641	181,773	10.6%
Current income tax liabilities	38,338	174,589	(136,251)	(78.0%)
Deferred tax	8,533	8,276	257	3.1%
Provisions	531,061	437,412	93,649	21.4%
Total liabilities	98,794,759	98,462,706	332,053	0.3%
Share capital	147,419	147,419	0	0,0%
Supplementary capital	9,110,976	9,111,033	(57)	(0.0%)
Other reserve capital	1,572,757	1,208,018	364,739	30.2%
Revaluation reserve	125,251	141,179	(15,928)	(11.3%)
Retained earnings	202,980	(47,836)	250,816	(524.3%)
- previous years result	(411,714)	(408,214)	(3,500)	0.9%
- net profit for the period	614,694	360,378	254,316	70.6%
Total equity	11,159,383	10,559,813	599,570	5.7%
Total liabilities and equity	109,954,142	109,022,519	931,623	0.9%



Amounts due to customers

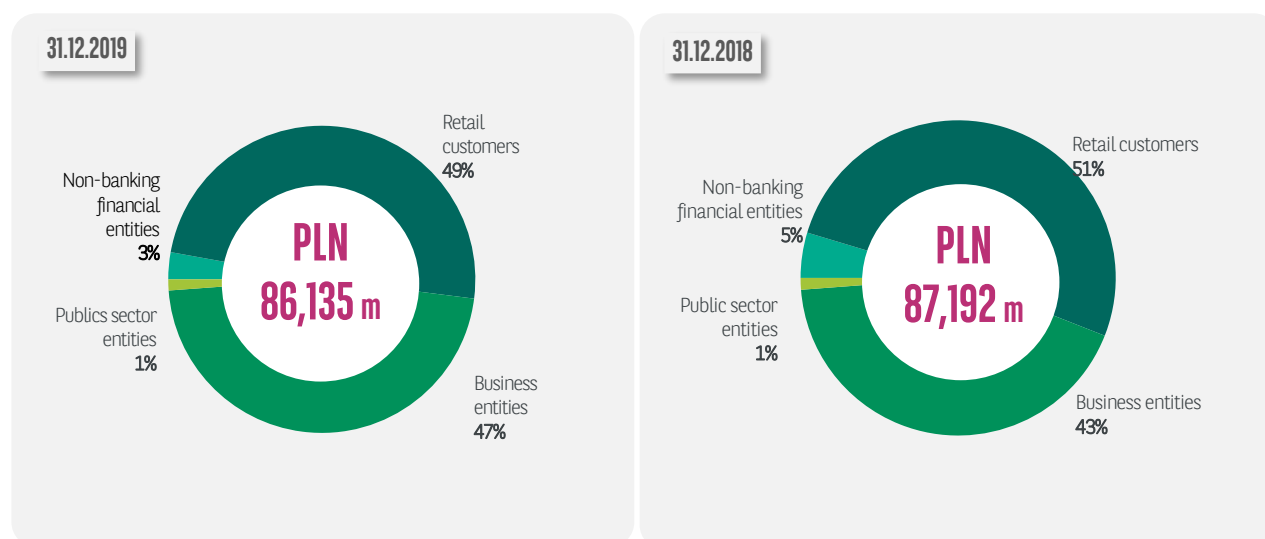
At the end of December 2019, amounts due to customers amounted to PLN 86,134,984 thousand and were lower by PLN 1,056,724 thousand, i.e. by 1.2% compared to the end of 2018, which is the result of the policy of optimization of the Group's deposit base.

The decrease was noted mainly in the volume of deposits of retail customers (balance at the end of 2019: PLN 42,350,458 thousand), that decreased by PLN 2,402,920 thousand, i.e. by 5.4% y/y (mainly term deposits). Share of this segment in the total amounts due to customers decreased to 49.2% as compared to 51.3% as at the end of December 2018.

The decrease has been recorded also in the volume of deposits of non-banking financial entities by PLN 1,608,334 thousand (i.e. by 39.7% to the level of PLN 2,443,792 thousand) and volume of public sector entities by PLN 44,912 thousand (decrease by 4.3% to the level of PLN 1,001,948 thousand).

The volume of deposits of business entities amounted to PLN 40,338,786 thousand and increased by PLN 2,999,442 thousand, i.e. by 8.0%. Simultaneously, the share of this segment in the structure of total amounts due to customers increased to 46.8% vs. 42.8% as at the end of December 2018.

Chart 9. Structure of amounts due to customers



The share of current accounts in the structure of amounts due to customers in total amounted to 67.0% at the end of December 2019, recording an increase by 3.4 p.p. as compared to the end of 2018. The funds deposited on current accounts amounted to PLN 57,678,417 thousand and increased by PLN 2,187,466 thousand, i.e. by 3.9%. This was a result of an increase in the volume of the business entities segment (by PLN 3,241,496 thousand, i.e. 12.5% compared to the end of 2018). This increase covered the decreased volume of funds deposited in retail customer accounts (by PLN 346,991 thousand) and deposits of non-banking financial entities (by PLN 773,927 thousand)

The share of term deposits in the structure of amounts due to customers in the analysed period amounted to 31.8% and decreased by 2.9 p.p. as compared to the end of 2018. Value of term deposits decreased by PLN 2,867,339 thousand, i.e. by 9.5% as compared to December 2018 and reached PLN 27,371,789 thousand. This decrease was mainly related to the segments of retail customers and non-banking financial entities (decrease in volume by PLN 2,024,896 thousand and PLN 821,999 thousand respectively).

The share of other liabilities in the structure of amounts due to customers amounted to 1.2% (decrease by 0.5 p.p. as compared to December 2018). Their volume amounted to PLN 1,084,778 thousand.

Table 16. Amounts due to customers by products

PLN'000	31.12.2019		31.12.2018	
	PLN'000	share %	PLN'000	share %
Current accounts	57,678,417	67.0%	55,490,951	63.6%
Term deposits	27,371,789	31.8%	30,239,128	34.7%
Other liabilities	1,084,778	1.2%	1,461,629	1.7%
Amounts due to customers	86,134,984	100.0%	87,191,708	100.0%

Equity

As of the end of December 2019, the Group's equity amounted to PLN 11,159,384 thousand, and was by PLN 599,571 thousand, i.e. by 5.7% higher than at the end of 2018.

In accordance with the Resolution of the Ordinary General Shareholders' Meeting of BNP Paribas Bank Polska S.A. of 27 June 2019, the entire Bank's net profit for 2018, in the amount of PLN 364,739 thousand was allocated to reserve capital.

5.4. Own funds and capital ratios

The total capital ratio of the Group as at 31 December 2019 amounted to 15.03% and increased as compared to December 2018 by 0.40 p.p. The consolidated Common Equity Tier 1 ratio (CET I) and consolidated Tier 1 ratio (Tier I) of the Group as at 31 December 2019 were identical and amounted to 12.78% (increase compared to the end of 2018 by 0.40 p.p.).

Total own funds as at 31 December 2019 increased by PLN 372,334 thousand as compared to 31 December 2018, which resulted mainly from the inclusion in own funds of:

- the consolidated net profit for the first quarter of 2019 in the amount of PLN 161,601 thousand (consent of the Polish Financial Supervision Authority of 10 June 2019),
- the consolidated net profit for the second quarter of 2019 in the amount of PLN 217,059 thousand (consent of the Polish Financial Supervision Authority of 25 September 2019),

In accordance with the Resolution of the Ordinary General Shareholders' Meeting of BNP Paribas Bank Polska S.A. of 27 June 2019, the Bank's entire profit for 2018, in the amount of PLN 364,739 thousand, was allocated to reserve capital.

The total risk exposure amount as at 31 December 2019 amounted to PLN 83,762,992 and increased by PLN 311,711 thousand as compared to the end of 2018.

In accordance with the Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial sector and Regulation of the Minister of Finance, since 1 January 2019 the capital requirements binding for Polish banks increased due to:

- introduction of the systemic risk buffer at the level of 3%,
- increase of the capital conservation buffer from 1.875% to 2.5%.

Table 17. Own funds and capital ratios of the Group

PLN'000	31.12.2019	31.12.2018	change	
			PLN'000	%
Tier I capital				
– share capital	147,419	147,419	0	0.0%
– supplementary capital	7,259,316	7,259,316	0	0.0%
– reserve capital	2,797,264	2,432,582	364,682	15.0%
– funds for general banking risk	627,154	627,154	0	0.0%
– intangible assets	(519,504)	(520,621)	1,117	(0.2%)
– other components of equity included in Tier I capital	394,984	388,449	6,535	1.7%
Total Tier I capital	10,706,633	10,334,299	372,334	3.6%
Tier II Capital				
– subordinated liabilities classified as Tier II capital	1,879,895	1,872,490	7,405	0.4%
Total own funds	12,586,528	12,206,789	379,739	3.1%
Risk exposure due to:				
– credit risk	74,668,829	74,358,821	310,008	0.4%
– market risk	876,152	844,070	32,082	3.8%
– operational risk	7,941,509	7,908,064	33,445	0.4%
– credit valuation adjustment	276,502	340,326	(63,824)	(18.8%)
Total risk exposure	83,762,992	83,451,281	311,711	0.4%
Group's capital ratios				
Total Capital Ratio (TCR)	15.03%	14.63%	0.40 p.p.	
Tier I Capital Ratio	12.78%	12.38%	0.40 p.p.	

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

On 10 July 2019, the Bank received a decision of the Polish Financial Supervision Authority, dated 9 July 2019, confirming the expiry of the PFSA decision of 15 October 2018, on the basis of which the PFSA recommended that the Bank should maintain own funds to cover an additional capital requirement of 0.36 p.p. in order to hedge the risk resulting from FX mortgage loans for households which should consist at least in 75% of Tier 1 capital (corresponding to 0.27 p.p.) and at least in 56% of Common Equity Tier 1 capital (which corresponds to 0.20 p.p.) as stated in art. 92 paragraph 1 of the EU Parliament and EU Council Regulation No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms ("Regulation No 575/2013").

- As a result of the above changes, the minimum levels of capital adequacy ratios resulting from legal regulations and administrative decisions issued by the Polish Financial Supervision Authority ("PFSA") as of 31 December 2019, are as follows:
- Common Equity Tier 1 ratio (CET I) = 10.25%;
- Tier I capital ratio = 11.75%;
- Total Capital Ratio = 13.75%

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

The Group, after analysing the requirements of Regulation No. 2017/2395, decided to apply the transitional provisions provided for in this Regulation, which means that the full impact of the implementation of IFRS 9 will not be taken into account for the assessment of capital adequacy of the Bank. As a result of adjusting the calculation of regulatory capital requirements, it was estimated that taking into account the full impact of the implementation of IFRS 9 on the total capital ratio of the Bank would reduce its value by 70 basis points.

5.5. Financial ratios

The Group's return on equity (ROE) calculated in a normalized approach (in 2019: excluding the impact of integration costs, and in 2018: excluding also additional ECL allowances for loans without impairment and gain on the bargain purchase of the Core Business of RBPL) amounted to 8.7% in 2019 and it was by 2.2 p.p. higher than in 2018. Return on assets (ROA) calculated in the same way amounted to 0.9% and increased as compared to 2018 by 0.3 p.p. The ratios calculated on the basis of the reported amounts amounted to 5.7% and 0.6%, respectively (increase by 0.8 p.p. and 0.1 p.p. y/y).

The Cost/Income ratio (in 2019: excluding the costs of integration and in 2018: excluding gain on the bargain purchase of the Core Business of RBPL) is at the level of 55.7%, lower by 4.2 p.p. as compared to 2018. The ratio calculated on the basis of the reported amounts amounted to 64.7% (level higher by 2.4 p.p. as compared to 2018 due to integration costs in 2019).

The improvement of performance ratios calculated on a comparable basis was possible as a result of the acquisition of the RBPL Core Business and the realisation of the first cost and income synergies in 2019.

Presentation of ratios calculated on the basis of the profit or loss account categories excluding the costs of additional ECL allowances for loans without impairment, gain on the bargain purchase of the Core Business of RBPL and costs of integration (understood as additional costs related to the merger processes) is aimed at providing additional information allowing the assessment of the current potential of the merged banks.

The net interest margin calculated in relation to average assets was 2.9% and increased by 0.3 p.p. compared to 2018.

The cost-of-risk ratio was minimally higher (by 0.04 p.p.) compared to the purified level recorded in 2018 and amounted to 0.59%. Taking into account the costs of additional ECL allowances due to the acquisition of the Core Business of RBPL, the cost of credit risk amounted to 0.96% in 2018.

The value of the ratio constituting the ratio of net and gross loans and advances to deposits and financing sources slightly improved as compared to 2018 due to the faster grow of the scale of operations of the leasing company and deposit base optimization processes realised due to favourable liquidity structure of the acquired assets and liabilities of the Core Business of RBPL.

Table 18. Financial ratios

	31.12.2019	31.12.2018	31.12.2017	change 2019/2018
Return on equity ⁽¹⁾	8.7%*	6.5%*	4.8%*	+2.2 p.p.
Return on assets ⁽²⁾	0.9%*	0.6%*	0.4%*	+0.3 p.p.
Net interest margin ⁽³⁾	2.9%	2.7%	2.7%	+0.2 p.p.
Cost / Income ⁽⁴⁾	55.7%*	59.9%*	61.0%*	(4.2 p.p.)
Cost of credit risk ⁽⁵⁾	(0.59%)	(0.55%)*	(0.61%)	+0.04 p.p.
Net loans and advances / Deposits ⁽⁶⁾	85.7%	84.2%	96.6%	+1.5 p.p.
Gross loans and advances/Total sources of funding ⁽⁷⁾	82.2%	81.3%	87.2%	+0.9 p.p.

* Normalized values calculated excluding: integration costs (2019 – PLN -414,537 thousand, 2018 – PLN -265,804 thousand, 2017 – PLN -35,641 thousand), allowance due to expected credit losses in connection with the acquisition of the Core Business of RBPL (2018: PLN -238,897 thousand) and the gain on the bargain purchase of the Core Business of RBPL (2018: PLN +291,706 thousand). The impact of integration costs and the cost of the allowance due to expected credit losses on the net profit was estimated using the standard 19% income tax rate. In the case of the "costs" category, the amount visible in the financial statements was reduced by the amount of integration costs recorded as general administrative expenses and depreciation. In the case of the "income" category, the amount of the income statement comprising the result from banking activities was adjusted for the integration costs recorded under other operating costs and the gain on bargain purchase of the Core Business of the RBPL.

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

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

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

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

(5) Net impairment allowances on loans and advances and provisions for contingent liabilities in relation to the average balance of net loans and advances to customers measured at amortised cost, calculated based on quarter-end balances.

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

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

6. FINANCIAL STANDING OF BNP PARIBAS BANK POLSKA S.A. IN 2019

6.1. Separate statement of profit or loss

In 2019 the BNP Paribas Bank Polska S.A. generated a net profit of PLN 628,696 thousand, i.e. by PLN 263,957 thousand (72.4%) higher than the one achieved in 2018.

The result on the banking activity of the Bank in the analysed period amounted to PLN 4,418,690 thousand, and was higher y/y by PLN 1,196,881 thousand, i.e. by 37.1%.

The most important event affecting the level of net profit in 2019 and the comparability with results from 2018 was the finalization on 31 October 2018 of the acquisition of the Core Business of Raiffeisen Bank Polska S.A. ("RBPL"). As a consequence of the method used to perform and settle the transaction, only the income and expenses of the Core Business of Raiffeisen Bank Polska S.A. for the last two months of 2018 are recognized in the profit or loss of the Bank for 2018 (i.e. made after 31 October 2018).

In addition, the following factors related to the aforementioned transaction have affected the comparability of results reported in 2019 and 2018:

- integration costs in the amount of PLN 414,537 thousand recognized in the general administrative expenses and other operating expenses in 2019, in comparison to PLN 265,804 thousand of integration costs recognized in 2018 (concerning the initiated process of merging the Bank with RBPL and previous merger processes of BGŻ S.A. and BNP Paribas Bank Polska S.A. and acquisition of SKOK Rafineria);
- the initial settlement of the merger of entities and calculating the gain on the bargain purchase of the Core Business of RBPL, as a result of which the amount of PLN 291,706 thousand was recognized in the category of other operating income;
- an allowance due to expected credit losses (ECL) in the 12-month horizon for loans and advances to customers and amounts due from banks, without impairment as well as for debt securities measured at amortised cost, recognized in the result of 2018, in the total amount of PLN 238,897 thousand.

It is estimated that after excluding integration costs the net profit in 2019 would amount to PLN 964,471 thousand and would be by PLN 475,582 thousand (i.e. by 97.3%) higher than the net profit that would be reported in 2018 after excluding integration costs, gain on the bargain purchase of RBPL and ECL allowance (PLN 488,889 thousand).

In addition, the comparability of results reported in 2019 and 2018 is influenced by the following factors:

- the Bank incurred higher costs for the Bank Guarantee Fund in 2019 as a result of the increased total amount of contributions to the Bank Resolution Fund by the BFG Board compared to 2018. In 2019, the total costs of the BFG incurred by the Bank amounted to PLN 166,100 thousand and were by PLN 48,806 thousand (i.e. by 41.6%) higher than in 2018;
- recognition (charging the results of second half of 2019) of provisions for the proportional return of commissions in the case of early repayment of the loan by the customer in the total amount of PLN 69.6 million. The recognition of provisions was a result of the judgment of the Court of Justice of the European Union of 11 September 2019 in Case C-383/18 concerning the consumer's right to reduce the total cost of credit in the case of early repayment;
- recognition (charging the results of fourth quarter of 2019) of provisions for portfolio risk relating to proceedings on CHF mortgage loans in the amount of PLN 29.5 million (judgment of the Court of Justice of the European Union of 3 October 2019 in case C-260/18),
- execution on 28 June 2019 of the transaction of sale of the organised part of the Bank's enterprise conducting the factoring activity to BGŻ BNP Paribas Faktoring Sp. z o.o. and recognition in the Group's gross financial result in 2019 the amount of PLN 42,435 thousand.

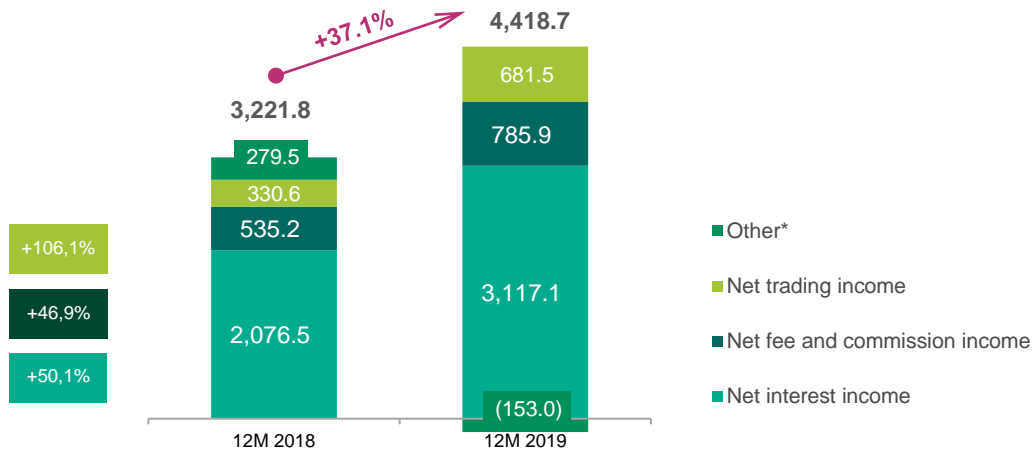
Table 19. Statement of profit or loss

PLN'000	12 months ended 31.12.2019	12 months ended 31.12.2018	change y/y	
			PLN'000	%
Net interest income	3,117,110	2,076,518	1,040,592	50.1%
Net fee and commission income	785,924	535,172	250,752	46.9%
Dividend income	25,988	10,505	15,483	147.4%
Net trading income	681,469	330,619	350,850	106.1%
Net investment income	(36,592)	47,405	(83,997)	(177.2%)
Result on fair value hedge accounting	(4,385)	(9,997)	5,612	(56.1%)
Other operating income and expenses	(150,824)	231,587	(382,411)	(165.1%)
Net income on banking activity	4,418,690	3,221,809	1,196,881	37.1%
Net impairment allowance on financial assets and provisions for contingent liabilities	(409,298)	(537,275)	127,977	(23.8%)
General administrative expenses	(2,389,958)	(1,809,892)	(580,066)	32.0%
Depreciation and amortization	(452,403)	(188,842)	(263,561)	139.6%
Operating result	1,167,031	685,800	481,231	70.2%
Tax on financial institutions	(281,189)	(213,122)	(68,067)	31.9%
Profit (loss) before income tax	885,842	472,678	413,164	87.4%
Income tax expense	(257,146)	(107,939)	(149,207)	138.2%
Net profit (loss)	628,696	364,739	263,957	72.4%
Net profit (loss) excluding one-off events*	964,471	488,889	475,582	97.3%

* One-off events: integrations costs (2019 – PLN 414,537 thousand, 2018 – PLN 265,804 thousand), allowance due to ECL related to the acquisition of the Core Business of RBPL (2018 – PLN 238,897 thousand) and gain on the bargain purchase of the Core Business of RBPL (2018 – PLN 291,706 thousand).

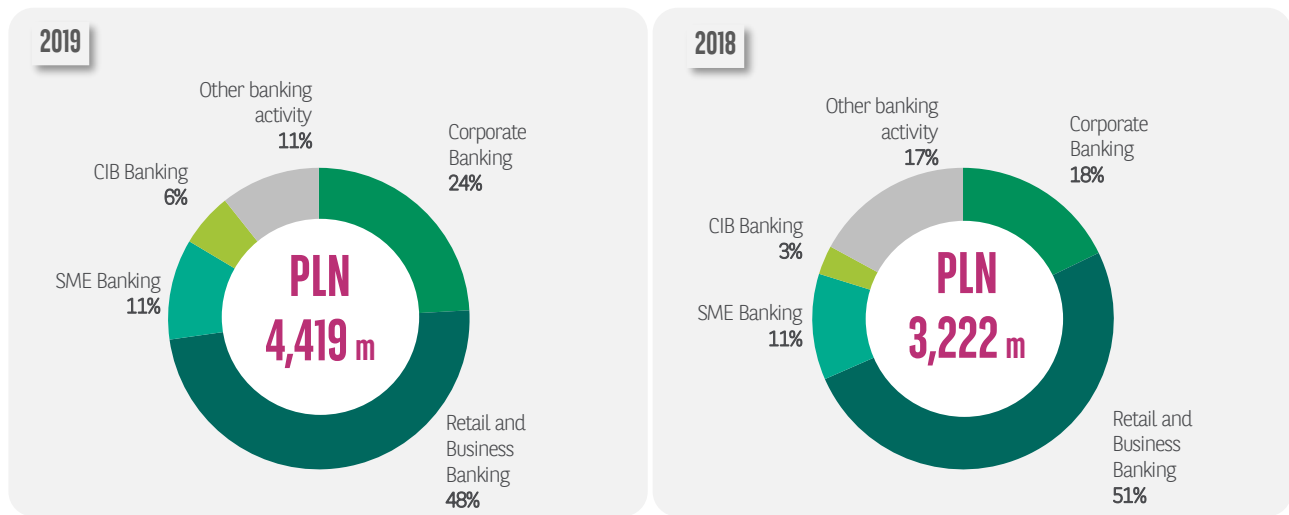
Note: As the figures have been rounded up, the totals in the tables and charts of this Report may not add up

Chart 10. Structure of net income on banking activity in PLN million



* The 'Other' category includes the result on investment activities, result on hedge accounting, dividends income and other operating income and expenses (in 2018 includes PLN 291.7 million related to bargain purchase of Core RBPL, in 2019 – PLN 42.4 million income on sale of the organised part of the Bank's enterprise conducting the factoring activity to BGŻ BNP Paribas Faktoring Sp. z o.o. and additional costs related to CJUE judgements in the amount of PLN 99.1 million)

Chart 11. Net income on banking activity by segments



The changes in the structure of the net income on banking activity by segments visible in the charts is slightly distorted by the presentation in "Other banking activity" segment in 2018 gain on the bargain purchase of the Core Business of RBPL. Excluding the amount of PLN 291,706 thousand in the result on banking activity in 2018, the share of Retail and Business Banking would be 56%, SME 13%, Corporate Banking 20%, CIB Banking 3%, and Other Activity 9%. This means an increase in the share of Corporate Banking and CIB with a simultaneous decrease in the share of Retail and Business Banking.

Net interest income

Net interest income, constituting the main source of the Bank's income, in 2019 amounted to PLN 3,117,110 thousand, and increased y/y by PLN 1,040,592 thousand, i.e. by 50.1%.

Table 20. Net interest income

PLN'000	12 months ended 31.12.2019	12 months ended 31.12.2018	change r/r	
			PLN'000	%
Loans and advances to banks	23,105	17,371	5,734	33.0%
Loans and advances to clients measured at amortized cost	3,150,532	2,269,200	881,332	38.8%
Loans and advances to clients measured at fair value through profit or loss	63,924	77,311	(13,387)	(17.3%)
Debt instruments measured at amortized cost	445,823	257,703	188,120	73.0%
Debt instruments measured at fair value through profit or loss	931	1,064	(133)	(12.5%)
Debt instruments are measured at fair value through other comprehensive income	215,945	167,805	48,140	28.7%
Derivative instruments in fair value hedge accounting	153,560	115,233	38,327	33.3%
Buy-sell-back securities	24	24	0	0.0%
Interest income	4,053,844	2,905,711	1 148 133	39.5%
Amounts due to banks	(43,902)	(71,660)	27,758	(38.7%)
Debt securities issued	0	(795)	795	(100.0%)
Amounts due to customers	(739,838)	(653,690)	(86,148)	13.2%
Lease liabilities	(8,651)	0	(8,651)	x
Derivative instruments in fair value hedge accounting	(118,763)	(93,592)	(25,171)	26.9%
Sell-buy-back securities	(25,580)	(9,456)	(16,124)	170.5%
Interest expenses	(936,734)	(829,193)	(107,541)	13.0%
Net interest income	3,117,110	2,076,518	1,040,592	50.1%

A factor positively influencing the level of net interest income in 2019, but at the same time disturbing comparability with 2018, was the fact that the Bank recognized in the profit or loss for 2018 only the interest income and expenses of the acquired Core Business of Raiffeisen Bank Polska S.A. realized after 31 October 2018, i.e. for the last two months of 2018. The net interest income in 2019 was higher than that earned in 2018, due to, among other things, the recognition in the income statement of the fair value adjustment for the Phase I credit portfolio acquired under the Core Business of RBPL (positive impact + PLN 78,927 thousand). In 2019, the amount of PLN 96,885 thousand was recognised in interest income (of which: in Q4: PLN 14,247 thousand, in Q3: PLN 21,980 thousand, in Q2: PLN 28,370 thousand and in Q1: PLN 32,288 thousand). In the net interest income in Q4 of 2018, the amount of 17,958 thousand PLN was recognised.

Important external factor affecting the level of net interest income in 2019 was the continuation of the NBP's policy regarding the development of basic interest rates, i.e. their stabilization at low level (the reference rate since March 2015 amounts to 1.5%). As a result of this policy, a downward trend in deposit interest rates is observed on the market, which has a positive impact on the margins realised by banks.

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

At the end of December 2019, the Bank applied fair value hedge accounting. The change in the fair value measurement of hedging transactions is recognized in the result on hedge accounting. Interest on IRS transactions and hedged items is recognized in net interest income.

The net interest income on hedging relationships (the sum of interest income and interest expense from derivative instruments in fair value hedge accounting) was positive in 2019 and amounted to PLN 34,796 thousand as compared to PLN 21,641 thousand in 2018 (increase by PLN 13,156 thousand, i.e. by 60.8%).

Fee and commission income

The Bank's net fee and commission income in 2019 amounted to PLN 785,924 thousand and was higher by PLN 250,752 thousand, i.e. by 46.9% y/y.

A factor positively affecting the level of net fee and commission income in 2019 but at the same time disturbing comparability with 2018 was the fact that the Bank has recognized in the profit or loss for 2018 only the fee and commission income and expenses of the acquired Core Business of Raiffeisen Bank Polska S.A. realized after 31 October 2018, i.e. for the last two months of 2018.

The fee and commission income increased in 2019 as compared to 2018 by PLN 318,779 thousand, i.e. by 47.0% y/y while commission expenses increased by PLN 68,027 thousand, i.e. by 47.7%.

The increase in fee and commission income was recorded in all categories. The largest increases concerned income from:

- handling payment and credit cards by PLN 97,828 thousand, i.e. by 82.3%,
- lending and leasing activities by PLN 49,722 thousand, i.e. by 23.5%,
- execution of transfers and electronic banking services by PLN 42,309 thousand, i.e. by 71.0%,
- account maintenance by PLN 31,320 thousand, i.e. by 29.2%,
- asset management and brokerage operations by PLN 26,221 thousand, i.e. by 42.3%,
- The increase in fee and commission expense was mainly caused by higher expenses due to:
 - handling payment and credit cards by PLN 38,060 thousand, i.e. 46.9%,
 - cash service by PLN 9,252 thousand, i.e. by 146.2%,
 - intermediation in the sale of the Bank's products and acquisition of customers by PLN 4,969 thousand, i.e. by 20.6%,
 - other commissions by PLN 6,269 thousand, i.e. by 69.7%.

Table 21. Net fee and commission income

PLN'000	12 months ended 31.12.2019	12 months ended 31.12.2018	change y/y	
			PLN'000	%
Fee and commission income				
loans, advances and leases	261,137	211,415	49,722	23.5%
account maintenance	138,616	107,296	31,320	29.2%
cash service	39,742	22,440	17,302	77.1%
cash transfers and e-banking	101,877	59,568	42,309	71.0%
guarantees and documentary operations	57,625	38,512	19,113	49.6%
asset management	88,219	61,998	26,221	42.3%
payment and credit cards	216,707	118,879	97,828	82.3%
intermediation in the sale of insurance products	50,490	33,761	16,729	49.6%
intermediation in the sale of Bank's products and acquisition of customers	28,302	13,431	14,871	110.7%
other commissions	13,886	10,522	3,364	32.0%
Fee and commission income	996,601	677,822	318,779	47.0%
Fee and commission expense				
loans, advances and leases	(2,647)	(2,852)	205	(7.2%)
Account maintenance	(4,828)	(3,805)	(1,023)	26.9%
Cash service	(15,582)	(6,330)	(9,252)	146.2%
Cash transfers and e-banking	(4,565)	(1,959)	(2,606)	133.0%
Asset management and brokerage operations	(4,542)	(1,869)	(2,673)	143.0%
Payment and credit cards	(119,233)	(81,173)	(38,060)	46.9%
intermediation in the sale of insurance products	(14,972)	(11,592)	(3,380)	29.2%
intermediation in the sale of Bank's products and acquisition of customers	(29,044)	(24,075)	(4,969)	20.6%
other commissions	(15,264)	(8,995)	(6,269)	69.7%
Fee and commission expense	(210,677)	(142,650)	(68,027)	47.7%
Net fee and commission income	785,924	535,172	250,752	46.9%

Dividend income

Dividend income in 2019 amounted to PLN 6,007 thousand was derived from the profits of the companies for 2018, in which the Bank held minority interests, i.e.: Biuro Informacji Kredytowej S.A. (BIK, PLN 4,221.0 thousand), Krajowa Izba Rozliczeniowa S.A. (KIR, PLN 1,179.4 thousand), VISA (PLN 377.2 thousand) and CCIG Group Sp. z o.o. (PLN 229.8 thousand), as well as profits of subsidiaries: BNP Paribas Group Service Center S.A. (PLN 19,980.7 thousand).

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

Net trading income and net investment income

The net trading income in 2019 amounted to PLN 681,469 thousand and was higher by PLN 350,850 thousand, i.e. by 106.1% y/y. The level and volatility of this result is mainly determined by the valuation of derivative instruments and the result on the exchange position. A factor positively influencing the result on trading activities in 2019 but at the same time disturbing comparability with 2018 was the fact that in the Bank's result for 2018, only the results of the Core Business of RBPL for the last two months of 2018 were recognized.

The net investment income for 2019 was negative and amounted to PLN -36,592 thousand and was by PLN 83,997 thousand lower in comparison to net investment income for 2018 (profit in the amount of PLN 47,405 thousand).

In 2019, the most important item was the change in the valuation of the portfolio of loans and advances to customers measured at fair value through profit or loss, which was negative and amounted to PLN -35,654 thousand (in 2018 PLN 5,984 thousand).

In 2018, the most important item was the profit from the sale of debt instruments in the amount of PLN 41,244 thousand (the majority of profit has been realized in the 4th quarter of 2018).

Other operating income

Other operating income in 2019 amounted to PLN 158,917 thousand, and was lower by PLN 234,276 thousand, i.e. by 59.6% as compared to the previous year.

Table 22. Other operating income

PLN'000	12 months ended	12 months ended	change y/y	
	31.12.2019	31.12.2018	PLN'000	%
Sale or liquidation of property, plant and equipment and intangible assets	20 954	13 631	7 323	53,7%
Sale of goods and services	533	1 340	(807)	(60,2%)
Release of provisions for litigation and claims and other liabilities	12 277	2 125	10 152	477,7%
Recovery of debt collection costs	17 797	16 118	1 679	10,4%
Recovered indemnities	2 642	13 192	(10 550)	(80,0%)
Leasing operations	16 915	20 998	(4 083)	(19,4%)
Gain on bargain purchase of RBPL	0	291 706	(291 706)	(100,0%)
Other operating income	87 799	34 083	53 716	157,6%
Total other operating income	158 917	393 193	(234 276)	(59,6%)

The level of income realised in the analysed periods was mainly influenced by the following:

- preliminary accounting settlement of the merger of the companies and calculation of profit from the bargain purchase of RBPL, as a result of which in 2018, the amount of PLN 291,706 thousand was recognised in other operating income,
- recognition in other operating income the amount of PLN 42,435 thousand due to concluded in June 2019 transaction of sale of the organised part of the Bank's enterprise conducting the factoring activity to BGŻ BNP Paribas Faktoring Sp. z o.o. (Factoring Company). The amount of PLN 45,000 thousand was recognized in the first half of 2019, and then in July 2019 the Bank and the Factoring Company have made the final verification of the transferred net factoring receivables, which were the basis for calculating the sales price at the end of June 2019. The resulting difference of PLN 2,565 thousand was recognized in the third quarter of 2019.

In addition, the level of other operating income in 2019 was positively influenced by:

- increase in income due to release of provisions for litigation and claims and other liabilities by PLN 10,152 thousand, i.e. by 477.7%.
- increase in income on sale or liquidation of property, plant and equipment and intangible assets by PLN 7,323 thousand, i.e. by 53.7%.

The amount of other operating income in 2019 was adversely affected by:

- decrease in income on recovered indemnities by PLN 10,550 thousand, i.e. by 80.0%;
- decrease in income on leasing operations by PLN 4,083 thousand, i.e. by 19.4%.

Other operating expenses

Other operating expenses of the Bank in 2019 amounted to PLN 309,741 thousand and were higher by PLN 148,135 thousand (i.e. by 91.7%) as compared with 2018 mainly due to:

- recognition of provisions for the proportional return of commissions in the case of early repayment of the loan by the customer in the total amount of PLN 69.6 million as a result of the judgment of the Court of Justice of the European Union of 11 September 2019 in Case C-383/18 concerning the consumer's right to reduce the total cost of credit in the case of early repayment;
- recognition (charging the results of fourth quarter of 2019) of provisions for portfolio risk relating to proceedings on CHF mortgage loans in the amount of PLN 29.5 million (judgment of the Court of Justice of the European Union of 3 October 2019 in case C-260/18),
- recognition in the third quarter of 2019 of a provision in the amount of PLN 11.3 million for a court judgement unfavourable for the Bank regarding a corporate client option case and PLN 6.4 million for operating loss related to incorrect execution of a tax seizure in 2017.

Table 23. Other operating expenses

PLN'000	12 months ended 31.12.2019	12 months ended 31.12.2018	change y/y	
			PLN'000	%
Loss on sale or liquidation of property, plant and equipment and intangible assets	(63,305)	(15,990)	(47,315)	295.9%
Provisions for litigation and claims and other liabilities	(111,347)	(41,608)	(69,739)	167.6%
Debt collection	(45,371)	(35,946)	(9,425)	26.2%
Donations made	(5,861)	(3,342)	(2,519)	75.4%
Costs of leasing operations	(16,977)	(20,966)	3,989	(19.0%)
Costs of compensations, penalties and fines	(16,898)	(2,574)	(14,324)	556.5%
Other operating expenses	(49,982)	(41,180)	(8,802)	21.4%
Total other operating expenses	(309,741)	(161,606)	(148,135)	91.7%

In addition, the level of other operating expenses in 2019 was influenced by:

- higher losses (by PLN 47,315 thousand, i.e. by 295.9%) on sale or liquidation of property, plant and equipment and intangible assets;
- higher other operating expenses (by PLN 8,802 thousand, i.e. by 21.4%).

Net impairment allowance on financial assets and provisions for contingent liabilities

The result of impairment allowances on financial assets and provisions for contingent liabilities amounted to PLN -409,298 thousand in 2019, and its negative impact on the Bank's results was lower by PLN 127,977 thousand, i.e. by 23.8% y/y.

The factor negatively influencing the net impairment allowance on financial assets and provisions for contingent liabilities in 2019 and at the same time disturbing comparability with 2018 was the fact that loan portfolio significantly increased and the Group in 2018 recognized in profit or loss only two months of result on net impairment allowance on financial assets related to Core Business of RBPL acquired on 31 October 2018.

As a result of the acquisition of the Core Business of RBPL in 2018, an allowance due to expected credit losses (ECL) in the 12-month horizon for loans and advances to customers and amounts due from banks, with no impairment, was recognized in the total amount of PLN 238,897 thousand. Excluding ECL allowance, the net impairment allowance on financial assets and provisions for contingent liabilities would amount to PLN -298,378 thousand in 2018, and would be lower by PLN 110,920 as compared to 2019.

Considering the key operating segments²:

- the Retail and Business Banking segment recorded an increase in the negative balance of allowances by PLN 136,489 thousand y/y,
- SME Banking – increase by PLN 11,806 thousand y/y,
- Corporate Banking segment (including CIB) – decrease by PLN 38,009 thousand y/y.

In 2019, the Bank concluded agreements regarding the sale of retail, SME and corporate loan portfolio. The gross book value of the portfolio amounted to PLN 447,953 thousand, the value of impairment allowances amounted to PLN 358,972 thousand. The contractual price for the sale of these portfolios has been set at PLN 114,396 thousand. The net effect on the Bank's results from the sale of portfolios which amounted to PLN 25,414 thousand and is presented in Recognition and release of impairment allowances on loans and advances.

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

The cost of gross credit risk expressed as the ratio of net impairment allowances to average gross balance of loans and advances to customers, measured at amortized cost (calculated on the basis of balances at the end of the quarters) amounted to 0.57% in 2019 and improved by 38 bps in comparison to 2018 (0.95%). Excluding an additional allowance in 2018 due to expected credit losses in the 12-month horizon, the cost of gross credit risk would amount to 0.53%, i.e. on the level comparable to 2019. The ratio without taking into account the impact of portfolio sales would be 0.60% for 2019 and 0.58% for 2018 (without ECL).

General administrative expenses, depreciation and amortization

General administrative expenses (including depreciation and amortization) of the BNP Paribas Bank Polska S.A. for 2019 amounted to PLN 2,842,361 thousand, and were higher by PLN 843,627 thousand, i.e. by 42.2% as compared to 2018.

The increase in the expenses was mainly due to the merger of the Bank with the Core Business of Raiffeisen Bank Polska S.A. (RBPL) and related integration costs, as well as the increase in the contribution to Bank Guarantee Fund.

² Information based on the note on operational segments included in the Separate financial statements of the BNP Paribas Bank Polska S.A. for the year ended 31 December 2019

Table 24. General administrative expenses, depreciation and amortization

PLN'000	12 months ended 31.12.2019	12 months ended 31.12.2018	change y/y	
			PLN'000	%
Personnel expenses	(1,329,986)	(1,033,824)	(296,162)	28.6%
Marketing	(146,615)	(107,213)	(39,402)	36.8%
IT and telecomm expenses	(286,343)	(150,435)	(135,908)	90.3%
Short-term lease and operating costs	(96,443)	0	(96,443)	x
Rental expenses	0	(156,737)	156,737	(100.0%)
Other non-personnel expenses	(316,910)	(214,195)	(102,715)	48.0%
Business travels	(21,461)	(12,904)	(8,557)	66.3%
ATM and cash handling expenses	(7,016)	(3,954)	(3,062)	77.4%
Outsourcing costs related to leasing operations	(4,604)	(6,735)	2,131	(31.6%)
Contributions to Bank Guarantee Fund	(166,100)	(117,294)	(48,806)	41.6%
Polish Financial Supervision Authority fee	(14,480)	(6,601)	(7,879)	119.4%
Total general administrative expenses	(2,389,958)	(1,809,892)	(580,066)	32.0%
Depreciation and amortization	(452,403)	(188,842)	(263,561)	139.6%
Total expenses	(2,842,361)	(1,998,734)	(843,627)	42.2%

The total amount of integration costs in 2019 amounted to PLN 414.5 million (including PLN 4.1 million related to acquisition of SKOK Rafineria) compared to PLN 265.8 million in 2018, of which:

- PLN 389.9 million has been included in general administrative expenses,
- PLN 24.6 million – in other operating expenses and relates mainly to the cost of liquidation of property, plant and equipment (PLN 29.6 million), impairment allowance update (PLN 6.0 million) and provision for branch restructuring (decrease of costs by PLN 10.5 million).

Integration costs recognized in general administrative costs and depreciation are related mainly to integration with RBPL and include i.a.:

- IT costs related to infrastructure and system migration as well as outsourcing services – PLN 110.5 million,
- costs of accruing accelerated depreciation of systems in connection with the merger processes of banks – PLN 105.1 million,
- personnel expenses – PLN 89.6 million,
- costs of consulting services – PLN 29.8 million,
- rebranding costs related to the change of the Bank's name from 1 April 2019 – PLN 25.2 million.
- costs related to branches reorganization (excluding IT costs) – PLN 12.0 million,
- other integration costs (administrative, business trips) – PLN 9.8 million.

The largest increase in expenses by type y/y (by PLN 296.2 million) occurred in the item "personnel expenses", which is mainly due to employment growth after the acquisition of RBPL, the costs of provisions created for retention programs and inclusion in the Group's structure of employees of three companies previously owned by the RBPL Capital Group. In 2018 the Bank created a provision for employment restructuring in the amount of PLN 130.5 million.

Table 24a. Personnel expenses

PLN'000	12 months ended	12 months ended	change y/y	
	31.12.2019	31.12.2018	PLN'000	%
Payroll expenses	(1,093,439)	(729,307)	(364,132)	49.9%
Payroll charges	(180,961)	(121,448)	(59,513)	49.0%
Employee benefits	(29,552)	(34,182)	4,630	(13.5%)
Costs of restructuring provisions	(1,760)	(133,727)	131,967	(98.7%)
Costs of provision for future liabilities arising from unused annual leave and retirement benefits	(10,135)	(3,180)	(6,955)	218.7%
Appropriations to Social Benefits Fund	(12,746)	(8,808)	(3,938)	44.7%
Other	(1,393)	(3,172)	1,779	(56.1%)
Total personnel expenses	(1,329,986)	(1,033,824)	(296,162)	28.6%

In addition, the level of expenses in 2019 was influenced by the increase of the following expenses:

- IT and telecommunications costs (an increase of PLN 135.9 million) - related mainly to the costs of maintenance of the systems of the merged Bank (software and hardware) and costs related to integration of IT infrastructure and systems in connection with the operational merger;
- other tangible costs (increase by PLN 102.7 million) - mainly related to administrative costs - in connection with the increase in employment and the number of bank branches after the merger with RBPL - including: telecommunication services (by PLN 10.6 million), security (by PLN 8.6 million), office supplies (by PLN 7.5 million), postal fees and outsourcing and distribution of mass correspondence (by PLN 7.4 million), VAT on real estate contracts (increase by PLN 20.2 million as a result of change in cost accounting according to IFRS 16 standards);
- outsourcing costs (increase by PLN 63.3 million) – related mainly to operational merge;
- increase of BFG contributions due to the increase of contributions rate. Total contributions included in the Bank's expenses for 2019 amounted to PLN 166.1 million and were PLN 48.8 million higher than in the previous year:
 - annual contribution to the mandatory bank resolution fund for 2019 (fully settled in the first quarter of 2019) amounted to PLN 116.1 million, compared to PLN 52.8 million of expenses (booked in the first half of 2018),
 - contribution to the bank guarantee fund due for 2019 amounted to PLN 50.0 million and was lower by PLN 14.5 million than in 2018.

In 2019 there was an increase in the total amount of contributions to the BFG for the banking sector determined by the Council of the Bank Guarantee Fund (PLN 2 billion of contributions to the bank resolution fund for 2019 against PLN 960 million for 2018 and PLN 791 million of contributions to the bank guarantee fund for 2019 against PLN 1.24 billion in the previous year).

In 2019 the costs of advisory and consulting decreased by PLN 27.3 million.

In consequence of implementation from 1 January 2019 of IFRS 16 "Leasing", which defines a single model for the valuation of leasing, there has been a change in the cost accounting. Rental costs of the Bank for 2019 were presented: within depreciation costs as depreciation of the right to use property (PLN 115.0 million), within interest costs as interest on the lease liability (PLN 7.5 million), as a separate item of administrative costs "Costs of short-term leasing and operation" (PLN 96.4 million) and in other tangible costs as costs of VAT on real estate contracts (PLN 20.2 million).

Depreciation and amortization expenses of the BNP Paribas Bank Polska S.A. in 2019 amounted to PLN 452.4 million and were higher by PLN 263.6 million as compared to the previous year, which resulted mainly from the implementation of IFRS 16 "Leasing" standard from 1 January 2019 - shifting the costs of rents, car lease and IT equipment to depreciation - increase in the Bank by PLN 124.4 million, costs of calculation of accelerated depreciation of systems in connection with bank merger processes - increase by PLN 105.1 million.

6.2. Statement of comprehensive income

The comprehensive income of the Bank in 2019 amounted to PLN 612,797 thousand and was by PLN 248,836 thousand higher than in 2018.

The direct reason for the observed increase was the improvement of the net profit generated by 72.4% y/y, partially neutralized by the negative valuation of financial assets (negative impact on the total comprehensive income in 2019 in the amount of PLN 18,747 thousand, as compared to PLN 831 thousand of positive impact in 2018).

Table 25. Statement of comprehensive income

PLN'000	12 months ended 31.12.2019	12 months ended 31.12.2018	change y/y	
			PLN'000	%
Net profit for the period	628,696	364,739	263,957	72.4%
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss upon fulfilment of certain conditions				
Mark-to-market of assets measured at fair value through other comprehensive income	(18,745)	831	(19,576)	x
Deferred tax	3,562	(709)	4,271	x
Items that will not be reclassified subsequently to profit or loss	(716)	(900)	184	(20.4%)
Actuary valuation of employee benefits	(882)	(1,111)	229	(20.6%)
Deferred tax	166	211	(45)	(21.3%)
Other comprehensive income (net of tax)	(15,899)	(778)	(15,121)	1,943.6%
Total comprehensive income	612,797	363,961	248,836	68.4%

6.3. Statement of financial position

Assets

The total assets of the Bank as at the end of December 2019 amounted to PLN 106,592,130 thousand and were lower by PLN 219,528 thousand, i.e. by 0.2% as compared to the end of December 2018.

The scale of change in the total assets was influenced i.a. by the conclusion on 28 June 2019 of the transaction of sale of the organised part of the Bank's enterprise conducting the factoring activity to BGŻ BNP Paribas Faktoring Sp. z o.o. (Factoring Company), in consequence of which the Bank transferred to the Factoring Company assets in the amount of PLN 1,658,174 thousand (detailed description of the transactions in Chapter 2.7. Sale of the organised part of enterprise pf Separate financial statements of the BNP Paribas Bank Polska S.A. for the year ended 31 December 2019).

The second factor influencing the size of the Bank's assets is the balance sheet optimization process related to, among others, a significant change (improvement) in the liquidity position as a result of the acquisition of the Core Business of Raiffeisen Bank Polska S.A. on 31 October 2018. The optimisation of the Bank's deposit base allows for the improvement of the realised interest margin.

Table 26. Assets

PLN'000	31.12.2019	31.12.2018	change	
			PLN'000	%
Cash and balances at Central Bank	4,658,142	2,897,113	1,761,029	60.8%
Amounts due from banks	526,595	791,071	(264,476)	(33.4%)
Derivative financial instruments	800,886	715,671	85,215	11.9%
Fair value adjustment of hedged item	228,120	130,405	97,715	74.9%
Loans and advances to customers measured at amortised cost	68,651,562	68,870,918	(219,356)	(0.3%)
Loans and advances to customers measured at fair value through profit or loss	1,974,396	2,416,249	(441,853)	(18.3%)
Debt securities measured at amortised cost	17,916,645	11,939,238	5,977,407	50.1%
Financial instruments measured at fair value through profit or loss	241,427	203,813	37,614	18.5%
Debt securities measured at fair value through other comprehensive income	7,953,358	15,875,339	(7,921,981)	(49.9%)
Investments in subsidiaries	152,512	142,258	10,254	7.2%
Intangible assets	519,124	520,108	(984)	(0.2%)
Property, plant and equipment	1,214,434	499,307	715,127	143.2%
Deferred tax assets	844,049	920,286	(76,237)	(8.3%)
Other assets	910,880	889,882	20,998	2.4%
Total assets	106,592,130	106,811,658	(219,528)	(0.2%)

The structure of the Bank's assets has changed slightly compared to the end of 2018. The most important is decrease in the share of loans and advances to customers (sum of portfolios measured at amortised cost and measured at fair value through profit or loss) by -0.5 p.p. and decrease in share of debt securities and financial instruments by -1.7 p.p. The decrease in the share concerned mainly the portfolio of securities measured at fair value through other comprehensive income (-7.4 p.p.) with a simultaneous increase in the share of securities measured at amortised cost (+5.6 p.p.).

The structure of assets is dominated by loans and advances to customers, the value of which accounted for 66.3% of all assets at the end of 2019 as compared to 66.7% at the end of 2018. In value terms, the volume of net loans and advances decreased by PLN 661,209 thousand, i.e. by 0.9% (without taking into account the above-mentioned sales of factoring activities, the dynamics would be +1.1%).

The second largest asset item was securities and financial instruments, which accounted for 24.5% of the balance sheet total at the end of 2019 (at the end of 2018: 26.7%). In 2019, their value decreased by PLN 1,906,960 thousand, i.e. by 6.8%, mainly as a result of a decrease in the portfolio of treasury bonds issued by central government institutions classified as securities at fair value through other comprehensive income.

At the same time, there was an increase from 2.7% to 4.4% of the cash and balances in the Central Bank, which increased in value by PLN 1,761,048 thousand, i.e. by 60.8%, mainly in the item NBP account.

Loan portfolio

Structure and the quality of the loan portfolio

As at the end of 2019 gross value of loans and advances to customers (sum of portfolios measured at amortised cost and at fair value through profit or loss) amounted to PLN 73,921,953 thousand and was higher by PLN 504,434 thousand, i.e. by 0.7% as compared to the end of 2018.

Table 27. Structure of the loan portfolio measured at amortised cost

PLN'000	31.12.2019		31.12.2018	
	PLN'000	share %	PLN'000	share %
Business entities with the exception of farmers	31,117,618	43.3%	33,521,398	46.6%
Farmers	8,732,840	12.2%	8,681,538	12.1%
Retail customers	29,997,525	41.8%	27,000,114	37.6%
- mortgage loans	18,526,757	25.8%	16,054,648	22.3%
in PLN	13,634,997	19.0%	10,828,584	15.1%
in foreign currencies	4,891,760	6.8%	5,226,064	7.3%
- cash loans	7,404,864	10.3%	7,150,386	9.9%
- other retail loans	4,065,904	5.7%	3,795,080	5.3%
Lease receivables	1,250,960	1.7%	1,805,600	2.5%
Public sector	129,915	0.2%	190,073	0.3%
Other financial entities	576,531	0.8%	687,244	1.0%
Gross loans and advances	71,805,389	100.0%	71,885,967	100.0%

As regards the portfolio measured at amortized cost, the share of loans and advances to business entities excluding farmers (PLN 31,117,618 thousand at the end of 2019) decreased by 3.3 p.p. and is at the level of 43.3%. Loans for retail customers (PLN 29,997,525 thousand) account for 41.8%, with more than half of this portfolio being mortgage loans (PLN 18,526,757 thousand), which account for 25.8% of the entire portfolio measured at amortized cost (share increase by 3.5 p.p. compared to the end of 2018). Ranked third are loans for farmers (PLN 8,732,840 thousand) with the share in the entire portfolio (12.1%) comparable to the end of 2018 (12.1%).

Chart 12. Gross loans and advances measured at amortised cost - structure

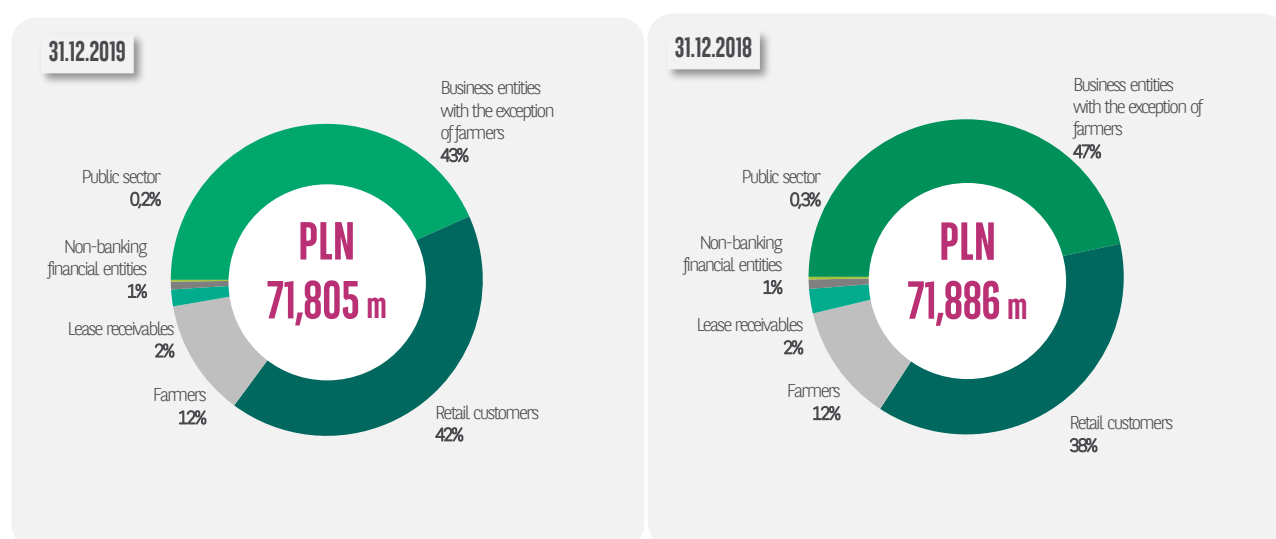


Table 28. The quality of the loan portfolio measured at amortized cost

PLN'000	31.12.2019			31.12.2018		
	gross total	of which: impaired	share %	gross total	of which: impaired	share %
Institutional entrepreneurs, excluding farmers	31,824,064	1,960,187	6.2%	34,398,715	2,205,492	6.4%
Farmers	8,732,840	768,651	8.8%	8,681,538	586,234	6.8%
Retail customers	29,997,525	1,332,616	4.4%	27,000,114	1,222,939	4.5%
- mortgage loans	18,526,757	523,852	2.8%	16,054,648	528,972	3.3%
in PLN	13,634,997	218,053	1.6%	10,828,584	206,162	1.9%
in other currencies	4,891,760	305,799	6.3%	5,226,064	322,810	6.2%
- cash loans	7,404,864	607,222	8.2%	7,150,386	515,816	7.2%
- other retail loans	4,065,904	201,542	5.0%	3,795,080	178,151	4.7%
Lease receivables	1,250,960	169,340	13.5%	1,805,600	120,690	6.7%
Gross loans and advances	71,805,389	4,230,794	5.9%	71,885,967	4,135,355	5.8%

The ratio of impaired exposures in gross loans and advances to customers measured at amortized cost amounted to 5.9% at the end of 2019 as compared to 5.8% at the end of 2018.

Table 29. Quality ratios of the loan portfolio measured at amortized cost

PLN'000	31.12.2019	31.12.2018	change	
			PLN'000	%
Total gross loans and advances to customers	71,805,389	71,885,967	(80,578)	(0.1%)
Impairment allowances	(3,153,827)	(3,015,049)	(138,778)	4.6%
Total net loans and advances to customers	68,651,562	68,870,918	(219,356)	(0.3%)
Exposures without impairment triggers				
Gross balance sheet exposure	67,574,595	50,852,116	16,722,479	32.9%
Allowance	(896,674)	(278,626)	(618,048)	221.8%
Net balance sheet exposure	66,677,921	50,573,490	16 104,431	31.8%
Impaired exposures (stage 3)				
Gross balance sheet exposure	4,230,794	4,135,355	95,439	2.3%
Impairment allowance	(2,257,153)	(2,027,337)	(229,816)	11.3%
Net balance sheet exposure	1,973,641	2,108,018	(134,377)	(6.4%)
Ratios				
Share of impaired exposures in gross portfolio	5.9%	5.8%		0.1 p.p.
Coverage with impairment allowances	(53.4%)	(49.0%)		(4.3 p.p.)

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

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

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

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

In the light of the provisions of IFRS 9, the contractual terms of the securitization do not fulfil the conditions for derecognition of securitized assets. In connection with the above, the Bank recognizes securitized assets in "Loans and advances to customers" as at 31 December 2019 at net value of PLN 2,247,024 thousand.

Liabilities and equity

As at the end of December 2019, the total value of the Bank's liabilities amounted to PLN 95,407,828 thousand and was lower by PLN 832,268 thousand, i.e. by 0.9% as compared to the value at the end of 2018.

The share of liabilities in total liabilities and equity of the Group amounted to 89.5% in the analysed period and decreased by 0.6 p.p. as compared to the end of the previous year.

The most significant change in the structure of liabilities in 2019 was a decrease in the share of amounts due to customers with a simultaneous increase in the share of amounts due to banks and separating lease liabilities in accordance with IFRS 16.

The most significant item in the structure of liabilities are amounts due to customers. As at the end of 2019, their share in total liabilities was 92.7% which constituted a decrease by 0.3 p.p. compared to the end of 2018. In terms of value, the volume of these liabilities decreased by PLN 1,061,230 thousand, i.e. by 1.2% compared to December 2018 and amounted to PLN 88,445,327 thousand. The decrease is a result of an optimization policy with reference to the liquidity position of the Group.

Amounts due to banks also decreased in the analysed period, which resulted in the decrease of their share in total liabilities by 0.6 p.p. to the level of 1.1%. Amounts due to banks totalled PLN 1,018,776 thousand and were lower by PLN 571,159 thousand (i.e. by 35.9%) than at the end of 2018, mainly due to the decrease of loans and advances received from banks and withdraw of bank deposits.

Total equity as at 31 December 2019 amounted to PLN 11,184,302 thousand and increased as compared to 31 December 2018 by 5.8%, i.e. by PLN 612,770 thousand. The share of total equity in total liabilities and equity of the Group at the end of December 2019 was at the level of 10.5% (as compared to 9.9% at the end of 2018).

Table 30. Liabilities and equity

PLN'000	31.12.2019	31.12.2018	change	
			PLN'000	%
Amounts due to banks	1,018,776	1,589,935	(571,159)	(35.9%)
Fair value adjustment of hedging instruments and hedged items	224,218	123,600	100,618	81.4%
Derivative financial instruments	815,637	783,818	31,819	4.1%
Amounts due to customers	88,445,327	89,506,557	(1,061,230)	(1.2%)
Securities issued	1,882,064	1 875,769	6,295	0.3%
Subordinated liabilities	1,852,051	1 801,154	50,897	2.8%
Other liabilities	601,157	0	601,157	x
Current income tax liabilities	38,061	123,464	(85,403)	(69.2%)
Provisions	530,537	435,799	94,738	21.7%
Total liabilities	95,407,828	96,240,096	(832,268)	(0.9%)
Share capital	147,419	147,419	0	0.0%
Supplementary capital	9,110,976	9,111,033	(57)	(0.0%)
Other reserve capital	1,572,757	1,208,018	364,740	30.2%
Revaluation reserve	125,240	141,139	(15,899)	(11.3%)
Retained earnings	227,910	(36,047)	263,957	(732.3%)
- previous years result	(400,786)	(400,786)	0	0.0%
- net profit for the period	628,696	364,739	263,957	72.4%
Total equity	11,184,302	10,571,562	612,740	5.8%
Total liabilities and equity	106,592,130	106,811,658	(219,528)	(0.2%)

Amounts due to customers

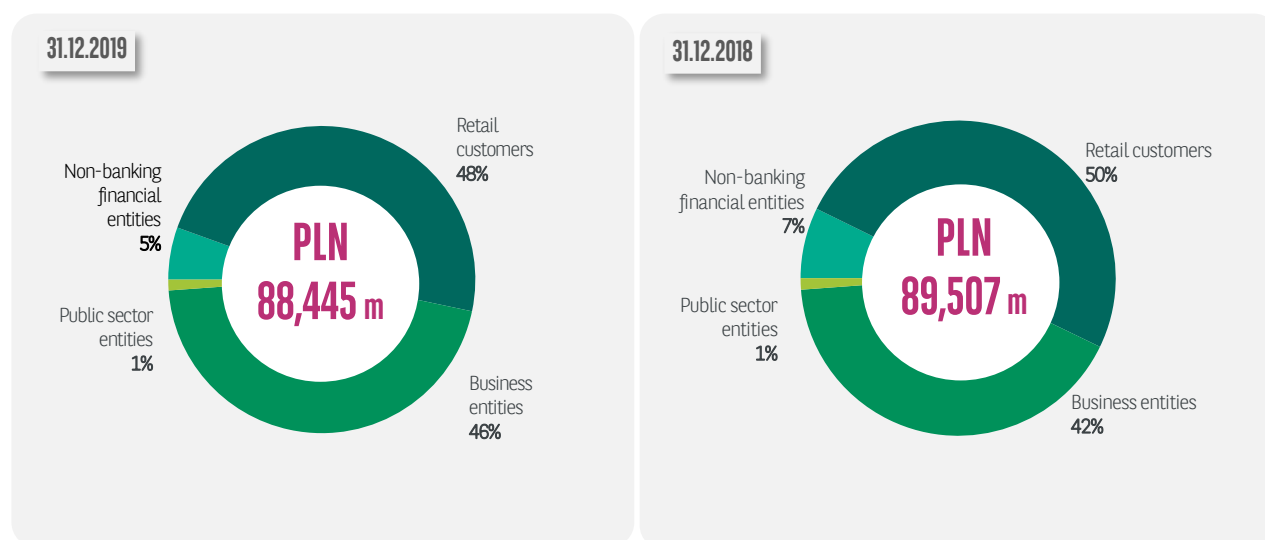
At the end of December 2019, amounts due to customers amounted to PLN 88,445,327 thousand and were lower by PLN 1,061,230 thousand, i.e. by 1.2% compared to the end of 2018, which is the result of the policy of optimization of the Bank's deposit base.

The decrease was noted mainly in the volume of deposits of retail customers that decreased by PLN 2,399,464 thousand, i.e. by 5.4% y/y (mainly term deposits). Share of this segment in the total amounts due to customers decreased to 47.8% as compared to 49.9% as at the end of December 2018.

The decrease has been recorded also in the volume of deposits of non-banking financial entities by PLN 1,626,143 thousand (i.e. by 25%) and volume of public sector entities by PLN 44,912 thousand (decrease by 4.3%).

The volume of deposits of business entities amounted to PLN 40,291,290 thousand and increased by PLN 3,008,289 thousand, i.e. by 8.1%. Simultaneously, the share of this segment in the structure of total amounts due to customers increased to 45.6% vs. 41.7% as at the end of December 2018.

Chart 13. Structure of amounts due to customers



The share of current accounts in the structure of amounts due to customers in total amounted to 65.3% at the end of December 2019, recording an increase by 3.1 p.p. as compared to the end of 2018. The funds deposited on current accounts amounted to PLN 57,776,140 thousand and increased by PLN 2,140,667 thousand, i.e. by 3.8%. This was a result of an increase in the volume of the business entities segment (by PLN 3,241,496 thousand, i.e. 12.5% compared to the end of 2018). This increase covered the decreased volume of funds deposited in retail customer accounts (by PLN 346,991 thousand) and deposits of non-banking financial entities (by PLN 820,726 thousand).

The share of term deposits in the structure of amounts due to customers in the analysed period amounted to 31.0% and decreased by 2.8 p.p. as compared to the end of 2018. Value of term deposits decreased by PLN 2,836,927 thousand, i.e. by 9.4% as compared to December 2018 and reached PLN 27,402,201 thousand. This decrease was mainly related to the segments of retail customers and non-banking financial entities (decrease in volume by PLN 2,024,896 thousand and PLN 791,587 thousand respectively).

The share of other liabilities in the structure of amounts due to customers amounted to 1.1% (decrease by 0.4 p.p. as compared to December 2018). Their volume amounted to PLN 968,413 thousand.

Table 31. Amounts due to customers by products

	31.12.2019		31.12.2018	
	PLN'000	share %	PLN'000	share %
Current accounts	57,776,140	65.3%	55,635,473	62.1%
Term deposits	27,402,201	31.0%	30,239,128	33.8%
Loans and advances received	2,298,573	2.6%	2,298,995	2.6%
Other liabilities	968,413	1.1%	1,332,961	1.5%
Amounts due to customers	88,445,327	100.0%	89,506,557	100.0%

Equity

As of the end of December 2019, the Bank's equity amounted to PLN 11,184,302 thousand, and was by PLN 612,740 thousand, i.e. by 5.8% higher than at the end of 2018.

In accordance with the Resolution of the Ordinary General Shareholders' Meeting of BNP Paribas Bank Polska S.A. of 27 June 2019, the entire Bank's net profit for 2018, in the amount of PLN 364,739 thousand was allocated to reserve capital.

6.4. Own funds and capital ratios

The total capital ratio of the Bank as at 31 December 2019 amounted to 15.65% and increased as compared to December 2018 by 0.63 p.p. The Common Equity Tier 1 ratio (CET I) and Tier 1 ratio (Tier I) of the Bank as at 31 December 2019 were identical and amounted to 13.32% (increase compared to the end of 2018 by 0.60 p.p.).

Total own funds as at 31 December 2019 increased by PLN 404,216 thousand as compared to 31 December 2018, which resulted mainly from the inclusion in own funds of:

- the Bank's net profit for the first quarter of 2019 in the amount of PLN 163,358 thousand (consent of the Polish Financial Supervision Authority of 10 June 2019),
- the Bank's net profit for the second quarter of 2019 in the amount of PLN 243,972 thousand (consent of the Polish Financial Supervision Authority of 25 September 2019),

In accordance with the Resolution of the Ordinary General Shareholders' Meeting of BNP Paribas Bank Polska S.A. of 27 June 2019, the Bank's entire profit for 2018, in the amount of PLN 364,739 thousand, was allocated to reserve capital.

The total risk exposure amount as at 31 December 2019 amounted to PLN 80,852,563 and decreased by PLN 411,621 thousand as compared to the end of 2018.

In accordance with the Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial sector and Regulation of the Minister of Finance, since 1 January 2019 the capital requirements binding for Polish banks increased due to:

- introduction of the systemic risk buffer at the level of 3%,
- increase of the capital conservation buffer from 1.875% to 2.5%.

Table 32. Own funds and capital ratios of the Bank

PLN'000	31.12.2019	31.12.2018	change	
			PLN'000	%
Tier I capital				
– share capital	147,419	147,419	0	0.0%
– supplementary capital	7,259,316	7 259,316	0	0.0%
– reserve capital	2,797,264	2,432,582	364,682	15.0%
– funds for general banking risk	627,154	627,154	0	0.0%
– intangible assets	(519,124)	(520,108)	984	(0.2%)
– other components of equity included in Tier I capital	460,064	421,514	38,550	9.1%
Total Tier I capital	10,772,093	10,367,877	404,216	3.9%
Tier II Capital				
– subordinated liabilities classified as Tier II capital	1,879,895	1,872,490	7,405	0.4%
Total own funds	12,651,988	12,240,367	411,621	3.4%
Risk exposure due to:				
– credit risk	71,910,197	72,501,287	(591,090)	(0.8%)
– market risk	876,152	844,070	32,082	3.8%
– operational risk	7,789,712	7,807,732	(18,020)	(0.2%)
– credit valuation adjustment	276,502	340,326	(63,824)	(18.8%)
Total risk exposure	80,852,563	81,493,415	(640,852)	(0.8%)
Bank's capital ratios				
Total Capital Ratio (TCR)	31.12.2019	31.12.2018	change	
	15.65%	15.02%	0.63 p.p.	
Tier I Capital Ratio	13.32%	12.72%	0.60 p.p.	

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

On 10 July 2019, the Bank received a decision of the Polish Financial Supervision Authority, dated 9 July 2019, confirming the expiry of the PFSA decision of 15 October 2018, on the basis of which the PFSA recommended that the Bank should maintain own funds to cover an additional capital requirement of 0.36 p.p. in order to hedge the risk resulting from FX mortgage loans for households which should consist at least in 75% of Tier 1 capital (corresponding to 0.27 p.p.) and at least in 56% of Common Equity Tier 1 capital (which corresponds to 0.20 p.p.) as stated in art. 92 paragraph 1 of the EU Parliament and EU Council Regulation No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms ("Regulation No 575/2013").

As a result of the above changes, the minimum levels of capital adequacy ratios resulting from legal regulations and administrative decisions issued by the Polish Financial Supervision Authority ("PFSA") as of 31 December 2019, are as follows:

- Common Equity Tier 1 ratio (CET I) = 10.25%;
- Tier I capital ratio = 11.75%;
- Total Capital Ratio = 13.75%

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

The Group, after analysing the requirements of Regulation No. 2017/2395, decided to apply the transitional provisions provided for in this Regulation, which means that the full impact of the implementation of IFRS 9 will not be taken into account for the assessment of capital adequacy of the Bank. As a result of adjusting the calculation of regulatory capital requirements, it was estimated that taking into account the full impact of the implementation of IFRS 9 on the total capital ratio of the Bank would reduce its value by 69 basis points.

6.5. Financial ratios

The Bank's return on equity (ROE) calculated in a normalized approach (in 2019: excluding the impact of integration costs, and in 2018: excluding also additional ECL allowances for loans without impairment and gain on the bargain purchase of the Core Business of RBPL) amounted to 8.8% in 2019 and it was by 2.2 p.p. higher than in 2018. Return on assets (ROA) calculated in the same way amounted to 0.9% and increased as compared to 2018 by 0.3 p.p. The ratios calculated on the basis of the reported amounts amounted to 5.8% and 0.6%, respectively (increase by 0.9 p.p. and 0.1 p.p. y/y).

The Cost/Income ratio (in 2019: excluding the costs of integration and in 2018: excluding gain on the bargain purchase of the Core Business of RBPL) is at the level of 55.2%, lower by 4.4 p.p. as compared to 2018. The ratio calculated on the basis of the reported amounts amounted to 64.3% (level higher by 2.3 p.p. as compared to 2018 due to integration costs in 2019).

The improvement of performance ratios calculated on a comparable basis was possible as a result of the acquisition of the RBPL Core Business and the realisation of the first cost and income synergies in 2019.

Presentation of ratios calculated on the basis of the profit or loss account categories excluding the costs of additional ECL allowances for loans without impairment, gain on the bargain purchase of the Core Business of RBPL and costs of integration (understood as additional costs related to the merger processes) is aimed at providing additional information allowing the assessment of the current potential of the merged banks.

The net interest margin calculated in relation to average assets was 3.0% and increased by 0.3 p.p. compared to 2018.

The cost-of-risk ratio was minimally higher (by 0.04 p.p.) compared to the purified level recorded in 2018 and amounted to 0.57%. Taking into account the costs of additional ECL allowances due to the acquisition of the Core Business of RBPL, the cost of credit risk amounted to 0.95% in 2018.

The value of the ratio constituting the ratio of net and gross loans and advances to deposits and financing sources slightly improved as compared to 2018 due to deposit base optimization processes realised due to favourable liquidity structure of the acquired assets and liabilities of the Core Business of RBPL.

Table 33. Financial ratios

	31.12.2019	31.12.2018	31.12.2017	change 2019/2018
Return on equity ⁽¹⁾	8,8%*	6,6%*	5,2%*	2,2 p.p.
Return on assets ⁽²⁾	0,9%*	0,6%*	0,5%*	0,3 p.p.
Net interest margin ⁽³⁾	3,0%	2,7%	2,7%	0,3 p.p.
Cost/Income ⁽⁴⁾	55,2%*	59,6%*	60,7%*	(4,4 p.p.)
Cost of credit risk ⁽⁵⁾	(0,57%)	(0,53%)*	(0,61%)	(0,04) p.p.
Net loans and advances/Deposits ⁽⁶⁾	79,9%	79,6%	91,3%	0,3 p.p.
Gross loans and advances/Total source of funding ⁽⁷⁾	81,6%	80,9%	87,1%	0,7 p.p.

* Normalized values calculated excluding: integration costs (2019 – PLN -414,537 thousand, 2018 – PLN -265,804 thousand, 2017 – PLN -35,641 thousand), allowance due to expected credit losses in connection with the acquisition of the Core Business of RBPL (2018: PLN -238,897 thousand) and the gain on the bargain purchase of the Core Business of RBPL (2018: PLN +291,706 thousand). The impact of integration costs and the cost of the allowance due to expected credit losses on the net profit was estimated using the standard 19% income tax rate. In the case of the "costs" category, the amount visible in the financial statements was reduced by the amount of integration costs recorded as general administrative expenses and depreciation. In the case of the "income" category, the amount of the income statement comprising the result from banking activities was adjusted for the integration costs recorded under other operating costs and the gain on bargain purchase of the Core Business of the RBPL.

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

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

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

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

(5) Net impairment allowances on loans and advances and provisions for contingent liabilities in relation to the average balance of net loans and advances to customers measured at amortised cost, calculated based on quarter-end balances.

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

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

6.6. Average interest rates used by the Bank

Table 34. Average interest rate used by the Bank in 2019*

Product	PLN		EUR	
	2019	2018	2019	2018
Deposits	0.77%	1.04%		
Households and non-commercial institutions **	0.81%	1.05%		
Corporates	0.71%	1.04%		
Loans	4.48%	4.50%	1.37%	1.29%
Households and non-commercial institutions **	5.17%	5.03%	1.92%	1.96%
Corporates	3.29%	3.41%	1.35%	1.27%

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

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

7. OPERATIONS OF BNP PARIBAS BANK POLSKA S.A. CAPITAL GROUP IN 2019

7.1. Branches and ATM network

Branches

As at 31 December 2019, the Bank had 514 retail and business banking branches, including 20 partner branches.

The branch network is supported by 18 Wealth Management Centres and the retail network is supported by 67 Customer Service Points.

As part of a network optimization project, 180 retail and business banking branches were closed from 31 October 2018 to the end of 2019.

In 2019 transformation of the branch network, which begun in 2017 was continued. A new branch design was introduced, and a new customer service model based on moving basic everyday transactions to self-service channels was further developed. In 2019 120 facilities of the new type were opened. In total, the Bank has 142 branches operating in the new format and 14 branches operating in the current format. In 33 of these, cash services are provided only in self-service devices.

As at 31 December 2019, the Bank had 28 branches with the "Facility without barriers" Certificate, issued by the Integration Foundation for good practices in providing services for the disabled.

In addition, from 1 April 2019, all Bank branches obtained the **OK SENIOR®** Certificate, which confirms that senior (60+) customers are served in a safe, easily comprehensible and accessible manner.

The sales network for Corporate Banking consists of 9 Regional Corporate Business Centres, within which there are 25 Corporate Business Centres located in the largest business centres in Poland.

For the SME segment, the sales network includes 8 SME Banking Regions comprising 51 SME Business Centres, located on 37 local markets

ATM and Cash Deposit Machine (CDM) Network

As at 31 December 2019, in the Bank's branches there were 416 cash deposit machines (CDMs) allowing for cash deposits, contactless deposits and withdrawals with the Bank's cards or a BLIK code, cash withdrawals with Google Pay and Apple Pay.

At the same time in the branch network remained 233 ATMs supporting only standard withdrawals and VISA or MasterCard transactions.

7.2. Alternative distribution channels

E-banking and mobile banking

In 2019, the Bank recorded an increase in the number of clients with access to online and mobile banking services as well as customers actively using these service channels. After the acquisition of the core banking operations of Raiffeisen Bank Polska S.A., the Bank took over transaction systems (R-Online and R-Online Biznes) and mobile applications (Mobile Portfolio and R-Mobile Biznes).

As part of the operational merger implemented in the fourth quarter of 2019, these systems have been replaced by new systems: *GOonline* - online banking for retail clients and *GOMobile* - mobile banking for retail clients. In the case of business clients, all of the Bank's clients have been migrated to *BiznesPI@net* online banking systems and *GOMobile Biznes*, the new mobile banking system.

CHANGES IN SYSTEMS FOR RETAIL CUSTOMERS INTRODUCED IN 2019

GOonline:

- implementation of the new GOonline online banking system - built on the basis of three basic pillars: simplicity, modernity and intuitiveness of use, characterized by:
 - new, omnichannel platform integrated with the sales process engine,
 - access to all products on one screen,
 - access to shortcuts to the most important functions on the first screen
 - possibility to update the version without interrupting the system availability,
 - Responsive Web Design technology providing the highest comfort of work, regardless of the screen resolution,
 - interface constructed in accordance with the WCAG 2.1 standard
 - possibility to contact customer support via text chat
- migration of customers being a consequence the acquisition of the Core Business of Raiffeisen Bank Polska S.A., which enabled the unification of systems,
- implementation of a mechanism used for sending documents to the customer (in cooperation with the National Clearing House), based on blockchain technology and meeting regulatory requirements in the field of durable medium,
- confirmation of the authenticity and validity of documents with a unique Hash code, access to documents also after the client's relationship with the Bank has ended,
- implemented in sales:
 - a new process engine and mechanisms for segmenting offer recipients
 - credit card repayment process (schedule for payments into instalments)
 - application for a cash loan
- development of the card management module: temporary blocking, activation of contactless payments, changing the billing period, configuring automatic repayment,
- possibility to set the transfer limits in online and mobile banking,
- the functionality of a trusted browser, eliminating the necessity of a customer to provide the login each time,
- possibility to open a broker order service system (SidomaWeb) directly via *GOonline*, with no need for an additional login,
- optimization of processes and views in terms of their accessibility for people with various disabilities,
- development of customer experience - introducing numerous improvements based on customer feedback, including default account, product names, context prompts, copying account number.

GO mobile

- providing a new version of *GOmobile 2.0* integrated with the omnichannel platform,
- implementation of the mobile authorization mechanism - confirmation of operations ordered in *GOonline* online banking system by use the *GOmobile* application,
- possibility to activate, temporary block and change the PIN code for a debit card,
- possibility to add a card to the Apple Pay wallet through the *GOmobile* application,
- management of payment templates and transfers with a future date,
- purchase of public transport tickets and payment for parking spaces,
- *GOtravel* travel insurance, providing quick insurance before a journey,
- implementation of push notifications (the function was activated by 87% of active *GOmobile* users),
- launch of a Pre-Approved credit service for a full base of users with a loan offer (up to PLN 30 thousand),
- added option of ATM deposits with a BLIK code (without a card),
- development of customer experience – implementation of numerous improvements based on customer feedback, including card graphics, prompting transfer recipients from the history, added option of Retry/Reply to transfer.

Table 35. Retail customer data

Specification	Name of the system	31.12.2019	31.12.2018
	Total	2,512,687	2,289,126
Number of customers with access	GOonline & PI@net	2,512,687	1,380,548
	R-Online	-	908,578
	Total	754,806	867,137
Number of active users	GOonline & PI@net	754,806	507,137
	R-Online	-	360,000
	Total	3,988,788	2,950,076
Average monthly number of transactions	GOonline & PI@net	3,988,788	1,917,832
	R-Online*	-	1,032,244
	Total	425,743	279,793
Number of active Mobile users	GOMobile	425,743	163,770
	Mobilny Portfel	-	116,023

* transactions realized before the operational merger recorded in GOonline & PI@net

CHANGES IN SYSTEMS FOR BUSINESS CUSTOMERS INTRODUCED IN 2019

BiznesPI@net

- preparation and implementation of changes in the BiznesPI@net system for the purpose of migration of data of clients using the R-Online Biznes system
- migration to the BiznesPI@net system during the migration weekend (November 8-11, 2019), a total number of over 32.5 thousand companies and 111 thousand users were migrated,
- changes in the system and additional functionalities implemented into the system during data migration:
 - new loan module
 - management of import and export collection,
 - introduction of GOMobile Biznes, a new mobile banking application
 - changes in the deposit module – possibility to check interests, select of the account for capital and interest settlement, possibility to export a detailed deposit list to a file
 - changes in SEPA payment service (adding additional payment details), SEPA D0, Target 2,
 - providing the functionality of adding a single transfer to a package,
 - changes in payment processing for clients using the mass payment module,
- implementation of an intermediary application enabling the connection of client systems with the Bank using the BNP Paribas Connect Plus service,
 - implementation of regulatory changes, resulting from:
 - the Payment Services Directive 2 (PSD2), i.a. enabling launch of the API production environment for selected third parties (TPP) for testing purposes,
 - amendments to the Tax Ordinance in the area of preventing the use of the financial sector for scams (Journal of Laws of 2017, item 2491) in the scope of STIR (System Teleinformatyczny Izby Rozliczeniowej - Teleinformation System of the Clearing House) - they relate to blocking entrepreneurs' accounts in accordance with the decisions of the National Tax Administration in the mode provided for in the Act.
 - introduction of the obligation to use the Split Payment Mechanism for settlements of, among other: domestic payments to the Social Insurance Institution (ZUS) account and payments to tax micro-accounts (for the settlement of VAT / CIT / PIT taxes).

Table 36. Corporate and SME customer data

Specification	Name of the system	31.12.2019	31.12.2018
	Total	287,596	228,208
Number of customers with access	BiznesPI@net	287,596	194,978
	R-Online Biznes	-	33,230
	Total	162,224	145,960
Number of active users	BiznesPI@net	162,224	116,835
	R-Online Biznes	-	29,125
	Total	5,606,342	5,627,066
Average monthly number of transactions	BiznesPI@net	5,606,342	3,178,126
	R-Online Biznes	-	2,448,940
	Total	18,522	8,641
Number of active Mobile users	Mobile BiznesPI@net	18,522	6,442
	R-Mobile Biznes	-	2,199

Bank cards

As regards the issuing and servicing of payment cards, BNP Paribas Bank Polska S.A. cooperates with MasterCard and Visa. The card portfolio includes debit, credit and deferred payment cards.

As at 31 December 2019, the number of cards issued amounted to 2,333 thousand, which was 323.7 thousand more than the year before. The reported significant increase is primarily due to the acquisition of customers under the new personal account *Konto Otwarte na Ciebie* - the Bank's offer launched after the rebranding in April 2019 - and the possibility of issuing three new debit cards (*Karta Otwarta na Dzisiaj*, *Karta Otwarta na eŚwiat*, *Karta Otwarta na Świat*).

Table 37. Number of bank cards issued by BNP Paribas Bank Polska S.A.

thousand	31.12.2019	31.12.2018	change y/y	
			thousand. pcs.	%
Debit cards – retail customers	1,304.7	1 240.4	64.3	5.2%
Credit cards – retail customers	832.9	579.3	253.6	43.8%
Debit cards – business	181.0	167.6	13.4	8.0%
Deferred payments cards – business	7.7	8.8	(1.1)	(13.0%)
Credit cards – business	6.7	6.8	(0.1)	(1.9%)
Prepaid cards	0.0	6.4	(6.4)	(100.0%)
Total number of cards issued	2 333.0	2 009.3	323.7	16.1%

Cooperation with intermediaries

At the end of 2019, as regards Retail and Business Banking, the Bank actively cooperated with 16 nationwide intermediaries on the basis of outsourcing contracts for the acquisition of banking products, as well as 246 local intermediaries (based on marketing agreements). The latter informed potential customers about the Bank's product offer.

As regards Personal Finance, the Bank cooperated with 15 nationwide intermediaries and 1 online intermediary, on the basis of outsourcing contracts for the acquisition of the cash loan product.

7.3. Retail and Business Banking

Segmentation

Retail and Business Banking provides financial services to individuals, private banking customers as well as businesses (micro-enterprises). The following customer segments are the focus of Retail and Business Banking:

- Retail Customers:
 - Mass;
 - Premium: customers investing in the Bank, or through its services, assets of at least PLN 100 thousand or those whose monthly account receipts are at least PLN 7.5 thousand; since 2020 the segmentation threshold regarding monthly account receipts has increased to the amount of PLN10 thousand, the level of assets remains unchanged
 - Private Banking (Wealth Management): customers investing assets in the amount of at least PLN 1 million through the Bank; in June 2019 a "Family Fortunes" sub-segment was created as part of Private Banking: clients who invest assets via the Bank in the amount of at least PLN 10 million.
- Business Customers (micro-enterprises):
- Entrepreneurs:
 - non-Agro, not preparing full financial reporting (in accordance with the principles specified in the Accounting Act) and with an annual net income for the previous financial year below EUR 2 million;
 - non-Agro, preparing full financial reporting, with an annual net income for the previous financial year below PLN 4 million and credit exposure not exceeding PLN 1.2 million;
- Agro entrepreneurs not preparing full financial reporting, with an annual net income for the previous financial year below EUR 2 million, who conduct activities classified according to selected Polish Classification of Activities (PKD 2007) codes;
- Professionals: entrepreneurs with limited financial reporting, in conformity with the principles specified in the Accounting Act, and following occupations defined in a separate document;
- Individual farmers, with credit exposure below PLN 3 million;
- Individual farmers, with credit exposure is between PLN 3 million and PLN 4 million and whose collateral in arable lands covers at least 50% of credit exposure;
- Non-profit organizations (e.g. foundations, associations, workers unions);
- Housing communities, property managers.

Main achievements in 2019 r.

STRATEGIC PILLAR	MAIN ACHIEVEMENTS
GROWTH	<ul style="list-style-type: none"> • A new offer of personal accounts „Konto Otwarte na Ciebie” introduced in April 2019: 184,000 accounts sold as part of the new offer with high penetration by debit card (95%) along with the continuation of the increase in current account deposits with the balance at the end of 2019 at the level of PLN 18.9 billion (an increase of 2.1 billion, i.e. by 13% YoY) • Growth in sales of mortgage loans - the total sales volume in 2019 amounted to a record PLN 4.3 billion, compared to 2018 it was a 139% increase. At the same time, Cardif's life insurance penetration into mortgage loans increased to 71% in 2019 (compared to an average of 31% in 2018) • A significant increase in sales of investment products (investment funds + investment certificates) to PLN 4.3 billion in 2019, i.e. by 33% YoY
SIMPLICITY	<p>Improvements in credit processes, including:</p> <ul style="list-style-type: none"> • electronic application and automatic OCR (Optical Character Recognition) • simplification, reduction in time and partial automation of the cash loan application process • reduction of time needed for issuance of a credit decision from 40 to 14 days

STRATEGIC PILLAR	MAIN ACHIEVEMENTS
	<ul style="list-style-type: none"> • automation of retention processes, shortening the process from 14 to 2 days, achieving a stable level of success rate (approx. 30%) as a result of changes in retention processes
QUALITY	<p>Numerous awards and distinctions granted in 2019, described in detail in chapter 1.4 of this Report.</p> <p>Inauguration of the Declaration of Responsible Sale, i.e. self-regulation of the financial industry initiated by financial institutions, i.a. BNP Paribas Bank Polska together with Federation of Consumers (Federacja Konsumentów) as the host of the declaration. The project was initiated to raise and promote ethical standards in relations with customers, educate business and consumers, build trust in the financial industry and counteract unfair practices.</p>
DIGITALISATION	<ul style="list-style-type: none"> • Implementation of GOonline and GOMobile 2.0 • Implementation of GOone, modern platform designed for the Bank's employees for customer service purposes in branches and Call Center • Implementation of FX PI@net, currency exchange platform for individual clients • Implementation of the mobile application for the brokerage account

Product offer for retail customers

The Bank provides services for retail customer, focusing primarily on the personal account offer, term deposits and consumer finance products (i.e. cash loans, account limit, credit cards, insurance). The offer includes all forms of current banking services, savings, investments and loans.

At the end of December 2019 there were 2 tariff plans within the Bank's offer of **personal accounts for retail customers**: *Konto Otwarte na Ciebie* - a new current account, which replaced the previously offered *Konto Optymalne* and *Konto Maksymalne* and *Konto Bankowość Prywatna* for clients within the private banking segment. In the May ranking of personal accounts by Money.pl, the new Bank account was recognized as the best personal account.

In the branches and remote channels of the Bank acquired by the date of the operational merger, as part of the RBPL core banking activities, the following products were offered to customers: *Wymarzone Konto Osobiste*, *Konto Osobiste Premium*, *Konto Aktywne* and *Konto Friedrich Wilhelm Raiffeisen*.

As concerns the management of the retail banking product offer in 2019, the Bank focused on improving the efficiency of operations and the profitability of products. Business processes underwent further standardization, as did regulations and price lists.

As part of the new personal account *Konto Otwarte na Ciebie* (introduced to the Bank's offer on 8 April 2019), three types of debit cards are issued: *Karta Otwarta na Dzisiaj* - dedicated to people with lower incomes, looking for inexpensive and transparent financial solutions; *Karta Otwarta na eŚwiat* - dedicated to frequent online buyers who use remote channels of access to the Bank and are concerned about security in cyberspace; the card has free Cyber Assistance Insurance; *Karta Otwarta na Świat* - dedicated to frequent travellers, who value convenience and lower costs of foreign currency transactions. The card won 1st place in the Ranking of Travel Accounts conducted in June 2019 by the financial portal Money.pl.

184,000 personal accounts have been opened since the introduction of the new offer - *Konto Otwarte na Ciebie*, of which only 4% did not choose one of the cards offered for the account. The Bank's branches were the main sales channel for the *Konto Otwarte na Ciebie* (approx. 80% share in sales), the remaining part include customers who opened an account via online applications on the Bank's website.

The Bank's deposit offer for retail customers included savings accounts (*Konto Dobrze Oszczędnościowe*, *Rachunek Sejf*, *Autooszczędzanie* Savings Account and products transferred from RBPL – until the day of operational merger: *Konto Wymarzony Cel* and *Konto Lokacyjne Plus*) and term deposits (deposits in PLN and foreign currencies, internet term deposits available via online internet banking, promotional deposits, progressive and special deposits available for selected segments of the Bank's clients).

In 2019, the Bank focused on standardization and full unification of the offer of deposit products throughout the Bank. This process included among others equalization of interest rates on deposits, their availability in individual channels and for selected customer groups, ended in November 2019 together with the operational merger. In addition, the Bank focused on stabilization of the savings portfolio of retail clients and continuation of optimization of the interest margin in light of the low level of NBP interest rates maintained since 2015.

The margin optimization included also the portfolio of BGŻOptima - a brand that is part of the Bank, specializing in offering savings and investment products in the direct model. In 2019, the average nominal interest rate on the deposit portfolio in this segment was reduced to 1.07%. The volume of deposits accumulated by BGŻOptima at the end of 2019 accounted to PLN 4.05 billion, which, compared to the end of 2018, constituted a decrease of PLN 1.55 billion, i.e. 27.7% y/y.

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

Along with providing clients with new mobile and internet banking services - GOMobile and GOonline respectively, the Bank has prepared a dedicated offer of term deposits, available from the fourth quarter of 2019 exclusively in these channels. Customers could take advantage of the entire family of GOonline online deposits and *Lokaty Mobilnej*, which is a particularly popular deposit (with an attractive interest rate of 1.50% for 3 months).

In 2019, for customers expecting profits higher than interest on term deposits, the Bank offered a wide range of investment products, including: over 500 investment funds of 25 domestic and foreign investment fund management companies, available on PI@net platform and online (open investment funds); 5 investment portfolios – strategies based on FIO BNP Paribas subfunds, structured certificates issued by BNP Paribas Issuance B.V located in the Netherlands and the Individual Retirement Account (in the version of a savings account or in the form of a pension fund) and the Individual Retirement Protection Account in the form of an investment fund.

Furthermore, in 2019 the Bank:

- continued the Bank at Work Partner Program, intended, i.a. for employees the Bank's Corporate and SME Banking customers, employees of public and private universities, employees of entities providing financial intermediation, employees of financial institutions, employees of uniformed services, employees of Local Government Units.
- In cooperation with Arval Service Lease Polska Sp. z o.o. (a company from the BNP Paribas group) offered long-term car rental for retail and business customers;
- in cooperation with Financial Intermediaries and Employment Agencies in the area of retail product acquisitions (personal accounts and cash loans). On this basis, the Bank developed a product offer addressed to clients from the Ukraine. The service is facilitated by a website, the GOMobile application, a Contact Center and advertising materials in Ukrainian. In addition, the Bank charges lower fees for foreign transfers made via online banking from BNP Paribas Bank Polska to banks in the BNP Paribas Group, including Ukrsibbank.

The retail customer loan offer in 2019 included mortgage loans in PLN, personal account loans (renewable loans), consumer finance products (described in more detail in Chapter 7.4. Personal Finance).

In 2019, the Bank noted record results in the sale of mortgage loans. The volume of concluded contracts amounted to almost PLN 4.3 billion. In the last months of the year, penetration reached 99%. Such a good result was the effect of numerous system and process improvements (e.g. launch of so-called Virtual Branch. During a telephone conversation with a video expert, the client can make a preliminary assessment of his creditworthiness, receive a personalized list of required documents and arrange to submit an application at a branch of his choice), attractive product offer together with favorable, high demand for mortgage on the market.

In order to support customers in financial difficulties and those with mortgage loans, the Bank continued its government support program financed from the Borrowers Support Fund.

Private Banking: BNP Paribas Wealth Management

Private Banking provides services to customers with assets exceeding PLN 1 million and to a dedicated customer segment with assets over PLN 10 million: Family Fortunes. BNP Paribas Wealth Management offers an individual approach to each customer and additionally a relational approach, i.e. "family approach".

BNP Paribas Wealth Management benefits from the over 100-year experience, market position and best practices of the BNP Paribas group - number 1 in the field of Wealth Management in the Euro Zone and the seventh largest global player in Wealth Management.

In February 2019, BNP Paribas Wealth Management in Poland received a distinction in the prestigious annual competition of the "Euromoney" British financial magazine for the best quality of private banking services in our country. In addition, the brand received an award in the "Private Banking Services Overall" category, i.e. for overall operations.

BNP Paribas Wealth Management was also recognized as the best private bank in Poland in the following four categories:

- succession Planning Advice and Trusts – the best private bank in the field of wealth management,
- high Net Worth Clients (USD 5 million - USD 30 million) – best private bank for a HNWI (HighNetWorth Individuals) customer,
- super Affluent Clients (USD 1 million -USD 5 million) – best private bank for Super Affluent customers,
- philanthropic Advice – the best private bank in philanthropic consultancy.

In the prestigious Forbes ranking of credit cards, the MasterCard World Elite BNP Paribas Wealth Management credit card took 3rd place, which meant a rise of nine positions compared to the last ranking published by this magazine.

In the eighth edition of the prestigious Forbes rating of private banking services BNP Private Banking received a 4.5 star rating which is mainly due to the open architecture of products, as well as the focus on innovative solutions both in the sphere of investment, and in the field of tax and succession planning. The Forbes rating also appreciates real estate brokerage and access to global markets.

In July 2019, BNP Paribas Wealth Management in Poland was awarded the title of Best Private Bank 2019 in the prestigious World Finance Banking Awards 2019 ranking. The award is granted by the British World Finance magazine dedicated to the financial industry, business and key issues of the global economy. An international jury selected winners on selected markets - based on market analyzes, analysts and managers' opinions and indications of the Customers themselves. BNP Paribas Wealth Management in Poland has been recognized in particular for the best quality of services rendered, as well as for an innovative approach to banking and a high level of service. The World Finance Banking Awards distinction is of particular importance because the choice of winners was influenced not only by experts, but also by readers - clients, the most important reviewers of BNP Paribas Wealth Management.

Business customer offer

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

From 1 April 2019, three new product packages were introduced to the Bank's offer as part of **transactional banking for business customers**: *Konto Otwarte na Biznes* - intended for customers with simplified financial reporting, as well as full financial reporting, if their net sales revenue for the previous financial year did not exceed PLN 4 million; *Konto Otwarte na Biznes Non-profit* - offer addressed to non-profit organizations, e.g. foundations, home owners' associations, property managers and housing cooperatives; *Konto Otwarte na Agrobiznes* - offer addressed to individual farmers.

Depending on the offer, new accounts charge fees in a dynamic way, depending on the amount of inflows to the client's accounts and the average balance maintained on the current account. Since the introduction of a completed offer, these products have differentiated charging for deposits, withdrawals and electronic transfers, and the level of commission charged will depend on the number of transactions and the threshold of the amount of inflows to the client's accounts.

The deposit offer for business customers in 2019 was standardized as part of integration completed in November 2019. The offer includes both savings accounts - *Rachunek pomocniczy lokacyjny w PLN oraz walutach obcych*, as well as term deposits, available in many deposit periods and sales channels, including especially popular Overnights.

The loans offered in the business segment to finance daily operations and investment needs are addressed to micro-enterprises, small enterprises (subject to simplified financial reporting requirements), as well as individual farmers and home owners' associations.

The key loan products offered by the Bank are: overdraft facilities (secured and unsecured), revolving/non-revolving working capital loans, cash loans (fixed term), investment loans and consolidation loans. Additionally, business clients (micro-enterprises and individual farmers) were able to use EU loans, subsidised loans, guarantees and currency risk management products.

The Bank also offers products that minimize the risk of agricultural activity: seasonal insurance of agricultural crops. Through a crop insurance contract, the farmer gains insurance protection and financial security. Insurance of at least 50% of arable land is also a condition for obtaining a low-interest disaster loan and full financial assistance in the event of a natural disaster.

In order to improve the efficiency of the crediting process for micro-enterprises and individual farmers, the Bank undertook a number of initiatives aimed at its significant improvement. Due to the optimization and automation of the credit process, the time needed for credit decisions was reduced for simple, uncomplicated and unsecured credit transactions, and a simplified procedure was implemented for clients with good credit history (currently used for nearly 40% of applications submitted in the Micro-enterprises segment). In addition, quick loans were introduced in branches.

At the end of February 2019 factoring products offered in cooperation with BNP Paribas Faktoring Sp. z o.o. (an entity of the BNP Paribas group) were added to the Business Banking segment product offer. The factoring sales model was based on the path of transferring customers to a factoring company. A Business Consultant and a factoring specialist cooperate in the process of granting factoring limits.

In the second quarter of 2019, the Bank introduced the ELENA program of the European Investment Bank to the offer for home owners' associations. The funds obtained through this initiative will allow the Bank to create an energy efficiency financing program whose beneficiaries will receive comprehensive technical support and consultancy for thermomodernization as well as preferential financing. Additionally, the beneficiaries will receive 90% refinancing of energy audit, renovation and construction projects costs. The ELENA project as a grant from EU funds is combined with national funding in the form of a 20% bonus from Bank Gospodarstwa Krajowego.

The offer for home owners' associations in the second quarter of 2019 was expanded to include financing under the non-renewable FTL loan - loan up to PLN 200,000 PLN with a shortened list of documents required for analysis. As part of financing, the bank does not control the client's investment and launches funds into the current account.

In the first half of 2019, the Bank expanded its long-term car rental offer for micro-enterprises. In June 2019 the Bank launched access to a tool intended for the entire sales network. The tool streamlines the process of transferring customers to Arval Service Lease Polska Sp. z o.o. - an entity of the BNP Paribas Group.

In the first half of 2019, the Bank conducted marketing campaigns: Biznes Ofensywa ('Business Offensive'), Agro Ofensywa ('Agro Offensive') and Wspierajmy Sąsiedzki Biznes ('We support Neighbourly Business'). The last one, apart from business aspects it was also a social campaign, encouraging the use of products and services of local companies, and promoting the importance of neighbourly business in local communities.

In the second half of 2019 the bank introduced a special offer for unsecured instalment loan in the amount of up to PLN 250 „Mikro Kredyt". Special pricing conditions include zero margin and commission for granting a loan of 2.99%.

Bank guarantees

In 2019, the Bank issued 43 bank guarantees at the request of business customers for a total value of PLN 2.4 million.

Commercial volumes

As at 31 December 2019, Retail and Business Banking deposits on a consolidated level amounted to PLN 50,585 million and were PLN 1,728 million, i.e. 3% lower than at the end of 2018. The largest decrease was recorded in terms of deposits: by PLN 2,318 million. The percentage share of each of the three basic product categories has changed: share of current accounts increased (by 5 p.p. to 38%) while savings accounts and term deposits decreased (by 2 p.p. to 32% and 3 p.p. to 30% respectively).

Table 38. Deposits and loans: Retail and Business Banking³

PLN'000	31.12.2019	31.12.2018	change y/y	
			PLN'000	%
Current accounts	19,04,485	16,826,610	2,219,875	13%
Savings accounts	16,086,729	17,685,789	(1,599,060)	(9%)
Term deposits	14,964,718	17,283,198	(2,318,480)	(13%)
Overnight deposits	486,622	517,352	(30,730)	(6%)
Accounts and Deposits	50,584,554	52,312,949	(1,728,396)	(3%)
Consumer loans	9,115,130	9,022,759	92,371	1%
Investment loans	5,512,568	6,295,539	(782,971)	(12%)
Overdrafts	3,427,136	3,697,798	(270,661)	(7%)
Mortgage loans	18,455,414	15,887,973	2,567,441	16%
Lease receivables	1,307,607	1,813,830	(506,223)	(28%)
Credit cards	1,104,413	971,628	132,785	14%
Other loans	1,162,355	521,460	640,895	123%
Net loans and advances	40,084,624	38,210,987	1,873,637	5%

As at 31 December 2019 the value of the loan portfolio in the Retail and Business Banking segment on a consolidated level amounted to PLN 40,085 million, i.e. 5% (PLN +1,874 million) more than at the end of 2018. The increase concerned primarily mortgage loans (+16%, PLN +2,567 million).

In the analysed period, the volume of FX mortgage loans (withdrawn from the offer in 2008-2009) amounted to PLN 4,892 million (as at the end of 2018 it was PLN 5,226 million), including loans in CHF which constituted almost 99% of this portfolio.

Gross income on banking activity: Retail and Business Banking

In 2019 the gross profit in the Retail and Business Banking segment was negative and amounted to PLN 22.1 million (compared to positive PLN 93.6 million in the previous year). The negative result was a consequence, among other, of: creation of provisions in the total amount of PLN 69.6 million for a proportional refund of commission in the case of an early repayment of the loan by the customer, creation of provisions for portfolio risk related to proceedings on CHF mortgage loans in the amount of PLN 29.5 million (CJEU judgement) as well as of increase of costs of bank guarantee fund caused by an increase of the total amount of contributions paid for the bank restructuring fund - compared to 2018.

³ The value of deposits and loans in selected segments is based on data from the management information systems as they provide more detailed product information. For the sake of comparability, the data as at 31 December 2018 were presented in accordance with the segmentation for 2019.

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

The comparability of results with 2018 was affected by the finalization, on 31 October 2018, of the acquisition of the core banking activities of Raiffeisen Bank Polska S.A. The profit and loss account of the Bank's Capital Group in 2018 included RBPL's revenues and costs generated within two months.

The income on banking activity of Retail and Business Banking in the 2019 amounted to PLN 2,226 million and was 32% higher compared to the previous year. This result accounts for 49.3% of the total income on banking activity of the Group in the analysed period. Personal Finance generated 31.9% of the income on banking activity in this segment.

Table 39. Gross income on banking activity⁴

PLN'000	12 months ended 31.12.2019	12 months ended 31.12.2018	change y/y	
			PLN'000	%
Interest income	1,812,522	1,309,474	503,047	38%
Fee and commission income	418,889	333,211	85,678	26%
Trading and other income	(5,726)	45,240	(50,966)	(113%)
Income on banking activity	2,225,684	1,687,925	537,759	32%
Net impairment losses	(321,477)	(178,961)	(142,516)	80%
Operating expenses and amortisation and depreciation	(1,211,818)	(941,371)	(270,447)	29%
Expense allocation	(573,069)	(358,383)	(214,686)	60%
Operating result	119,320	209,211	(89,891)	(43%)
Tax on financial institutions	(141,437)	(115,647)	(25,791)	22%
Gross profit of the segment	(22,118)	93,564	(115,682)	(124%)

⁴ Information based on the segmentation note included in the Consolidated report of BNP Paribas Bank Polska S.A. Capital Group for 2019

7.4. Personal Finance

The **Personal Finance Segment** is responsible, in particular, for preparing the product offer and managing consumer loans distributed through the Retail and Business Banking branch network and external distribution channels. Its offer includes the following major product groups:

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

The Personal Finance area provides the Bank with strong support in attracting individual customers, generating income and increasing profitability.

It also assumes responsibility for the following key processes:

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

Key achievements in 2019

- Implementation of the cooperation program with Opel: offer for retail and corporate clients
- Implementation of a remote car loan application process
- Implementation of a new, simplified and faster sales process for cash and consolidation loans
- Implementation of a new target credit card offer
- Successfully completed migration to the bank's target systems for cards and loans (November 2019)
- Implementation of a „paperless” process of card agreements conclusion

Product offer

Cash loans

In 2019, the Bank launched the following products related to cash loans:

- a new, simplified and shortened process of submitting an application for a cash loan and a consolidation loan
- new special offers, such as:
 - an attractive interest rate of 4.40% offered in connection with a TV advertising campaign and the “Final Year without Interest” campaign, concerning loans for a term of over 24 months;
 - Happy Days offer - commission-free loan,
 - consolidation loan offer with reduced financing costs,
 - dedicated offer with attractive financing costs within the campaign „Let’s Support Neighbourhood Business”,
 - Black Friday offer,
- the possibility of completing a loan application process (started through the Contact Centre) online: via TeleOnline,
- further automation of the loan approval processes which shortened the average process duration by 20%,
- wider availability of cash loans in the GOMobile mobile banking system,
- successfully completed migration to the Bank’s target systems for cards and loans (November 2019)
- a new simplified and shortened loan application process.

Instalment loans

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

From July 2018, customers can sign paperless contracts: electronic loan agreements. It is available in all of the Bank’s partner stores which offer purchase financing in cooperation with the Bank and is currently the leading form of concluding agreements by individual clients.

This process, implemented in cooperation with the Autenti company, was awarded the 'Golden Banker' award in the Fin-Tech Innovation category in 2019.

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

- free loan for up to 60 months,
- first instalment postponed by up to 6 months;

In 2019, the Bank, continuing the diversification strategy successfully expanded the circle of its business partners to include: companies selling photovoltaic systems and other renewable energy sources to individual customers (over 350 new cooperation agreements). The Bank established cooperation with innogy Polska and other leading retail companies and financed 3.3 thousand installations,

The Bank cooperates also with the telecommunications industry: in cooperation with Play, the Bank finances purchases made by individual customers. In the second half of 2019, the loan application and agreement finalization processes were improved.

Car loans, leasing advances

In the second half of 2019, the Bank continued cooperation with Opel and extended cooperation with importers of Kia and Hyundai cars. At the same time, in December the agreement was signed with the Ford brand importer, under which from 3 February 2020 the Bank will be the sole supplier of retail products to the Ford dealership network under the Ford Credit brand.

In the second half of 2019, the Bank introduced a new, remote process of applying for a car loan, which makes it possible to submit a loan application over the phone during a recorded telephone conversation. Additionally, in cooperation with BNP Paribas Group Service Center, a platform for managing competitions for trading partners was introduced.

Leases

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

In the second half of 2019 the following were introduced into the car leasing offer:

- new promotional offer including importer's subsidy for Hyundai and KIA dealers - leasing 102%,
- register of trusted authorized new car dealers - the possibility to automatically change suppliers,
- an application to monitor the car registration process
- atomization of the UBO process

Long term vehicle rental

In the second half of 2019 the Bank continued cooperation with Arval Service Lease Polska Sp. z o.o. as part of TCM product sales (long-term rental). The Arval sales platform has been modified and adapted to fulfill the needs regarding cooperation with car dealers.

Credit cards

The Bank offers payment cards in all of its branches and 67 Customer Service Points located in shopping centres and retail chains cooperating with the Bank with respect to purchase financing. Another important element of the acquisition process is the cross selling of credit cards, whereby cards are sent to customers who have signed a cash loan agreement, a car loan agreement or an instalment loan agreement with the option of receiving a credit card. The available limits range from PLN 2 thousand to PLN 10 thousand.

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

Furthermore, in 2019 the Bank developed its cooperation with the largest e-commerce platform in Poland - Allegro. Customers can finance purchases in instalments ("Raty od nowa"), based on a revolving credit limit. The solution is unique on the Polish market.

Considering customer satisfaction and easy access to information, Allegro customers have been provided with convenient access to the GOMobile bank mobile application. Over 50,000 customers have already used this option by downloading the application and then registering as users.

In 2019, consistently implementing the digitization strategy, the Bank using the solution previously created for installment loans offered the possibility of concluding a credit card agreement in the process without paper documents, so-called "Paperless".

In addition as part of the operational merger, the product offer in the field of credit cards for the customers of the merged bank was unified and new functionalities for card holders will be made available. At the same time, with the launch of the new GOonline online banking, customers have gained the possibility of convenient card management without the necessity to contact the Bank.

7.5. Operations of the Brokerage Office of BNP Paribas Bank Polska S.A.

The operations of the Brokerage Office of Bank BNP Paribas Bank Polska focus on the provision of services to retail customers, thus complements the offer of investment products provided by the Bank. Additionally, the Brokerage Office provides services to selected institutional customers such as open pension funds, investment fund management companies and other asset managers.

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

The Brokerage Office offers a wide range of investment funds managed by recognised Polish and foreign investment fund management companies. As at the end of 2019, the Brokerage Office sold units in almost 700 funds managed by 22 investment fund management companies. As at the end of 2019, the value of investment fund management company assets distributed by BNP Paribas Bank Polska amounted to PLN 4.7 billion.

Total fee and commission income of the Brokerage Office in the analysed period amounted to PLN 65.22 million compared to PLN 63,87 million in 2018 (2.1% YoY increase). An important part of the income generated by the Brokerage Office were primary market sales of investment certificates, based on the valuation of stock market indices or specific listed companies.

Table 40. Share of the Bank's Brokerage Office in WSE trading volume

		31.12.2019		31.12.2018	
		volume	share	volume	share
Shares	PLN million	1,581.6	0.42%	1,488.3	0.45%
Bonds	PLN million	82.8	2.73%	68.1	2.89%
Contracts	number	186,901	1.45%	96,723	2.07%
Investment certificates	PLN million	1.1	1.06%	1.6	1.13%
Options	number	9,978	2.12%	11,452	2.56%
Structured products	PLN million	376.4	14.36%	9.1	0.51%

7.6. SME Banking

Segmentation

The **Small and Medium Enterprises Banking Area (SME)** comprises three main customer sub-segments:

- **Agro Customers** with full financial reporting, with prior year's net income between PLN 4 and PLN 40 million and credit exposure not exceeding PLN 12 million. This segment also includes agricultural producer groups and organizational units of the State Forests, regardless of income and credit exposure;
- **Non-Agro Customers** - a sub-segment for entities with full financial reporting, with prior year's net income between PLN 4 and PLN 40 million and credit exposure not exceeding PLN 12 million, as well as public finance entities with a budget of up to PLN 100 million,
- **Farmers** (i.e. economic entities devoted to agricultural production) with full financial reporting, prior year's net income between PLN 0 and PLN 60 million, and credit exposure not exceeding PLN 25 million; as well as individual farmers in the case of whom the Bank's exposure is between PLN 4 million and PLN 25 million or between PLN 3 million and PLN 4 million if the collateral in arable land covers less than 50% of credit exposure.

Distribution channels

In 2019, as part of integration with Core RBPL, the target sales network for the SME segment was implemented, including 8 SME Banking Regions with 51 SME Business Centers located in 37 local markets with the greatest potential

The SME customer service model at the Bank is a relational model. A key element of service at BNP is the individual assistance of a consultant, responsible for the entirety of the client's relationship with the Bank. Furthermore, SME customers are served by dedicated teams of product specialists offering a high standard of sales support and product advice, based on knowledge and experience including cash management, treasury, leasing, factoring and trade finance.

SME customers benefit from ongoing operational service in the network of retail branches, electronic banking channels offered by the Bank, and can also count on telephone operational and information support from the Business Service Zone.

Main achievements in 2019

STRATEGIC PILLAR	MAIN ACHIEVEMENTS IN 2019
GROWTH	<ul style="list-style-type: none"> • Expanding business scale as a result of the acquisition of Core RBPL • Growth of x-selling: increase in cash management fees and revenues on FX transactions
SIMPLICITY	<ul style="list-style-type: none"> • New sales network structure for the SME segment • SME Business Centers in 37 cities in Poland • Agro specialists offering dedicated solutions for the agri-food sector • Unification of the product offer
QUALITY	<ul style="list-style-type: none"> • A coherent customer service model - availability of local product specialists • Reconstruction and improvement of SME customer service processes in Customer Service: establishment of the Business Service Zone unit - dedicated, professional advisors, a wide range of customer after-sales support and service
DIGITALISATION	<ul style="list-style-type: none"> • A wide package of changes in BiznesPI@net electronic banking: a number of new functionalities in the field of cash management, development of the self-service zone - electronic product application module, after-sales instructions, new functionalities as part of system integration, changes regarding PSD2 and STIR • Automation of the process of opening a customer file in the bank / onboarding: implementation of a fully automated process of opening a customer relationship based on an electronic

STRATEGIC PILLAR	MAIN ACHIEVEMENTS IN 2019
	<p>application, automatic downloading of data from external databases and integration with the bank's field systems;</p> <ul style="list-style-type: none"> • Implementation of the electronic Loan Application (eWniosek) - a new, customer-friendly electronic "face" of the bank at the beginning of the credit process • Implementation of the printout generator - shortening the time of preparing new contracts

Product offer

The Bank has a rich and flexible product offer addressed to clients from the SME segment, which allows for the adjustment of many parameters to the individual needs of the client.

The offer includes products such as:

- **transactional products** as part of the customer's account or package, including: cashless domestic and cross-border transactions, cash transactions (including closed ones), cash transactions - deposits and withdrawals in Bank branches, payments at Poczta Polska, deposits and withdrawals at counters and in deposit machines, domestic transfers (including transfers in the Elixir, Sorbnet and Express Elixir systems), foreign transfers (including SEPA transfers, SEPA D0, TARGET), debit cards (PLN, EUR, multi-currency), credit, charge, identification of incoming payments, Host 2 Host - integration of the financial and accounting system with the internet banking system, automatic transfers of funds between various accounts, product packages - Turbo Box, FX Box, Open Box and Multi Box;
- **deposit products** for the customer's investment of surplus cash (e.g. standard deposits, negotiated deposits with maturity and interest rate agreed on an individual basis, deposits made through the online banking system as well as deposit accounts for flexible surplus cash management);
- **loan products** providing funding for the day-to-day running of a business as well as for the implementation of investment and development projects, refinancing expenditure that has already been incurred or loans granted by other banks (overdrafts, revolving and non-revolving working capital loans and investment loans);
- **trade finance products**, export and import documentary letters of credit, documentary collection, letter of credit discounts, as well as issuing guarantees and processing external guarantees. The Bank offers fast and comprehensive services based on dedicated IT solutions;
- **financial market transactions for purposes of currency, interest rate and commodity price risk management** (e.g. FX Spot, FX Forward, FX options, IRS, interest rate options, commodity swap, commodity options);
- **factoring services** dedicated to manufacturing, sales and service companies entering into deferred payment sales transactions offered in cooperation with BNP Paribas Faktoring Sp. z o.o.;
- **leasing services**, including: the lease of machines and equipment, process lines, vehicles, real property (offered in cooperation with BNP Paribas Leasing Solutions Sp. z o.o.)

Business line development in 2019

The year 2019 was devoted to the Bank's integration, the final stage of which was a full system and process merger. The merger took place on 11th November and included migration of Core RBPL customers to target systems, including the Bank's main system and the Biznes PI@net electronic banking system. All stages of integration have been completed as planned. As part of the merger, a number of activities were finalized, particularly important from the perspective of customers, among others:

- a new customer segmentation was introduced based on the best experiences from the two banks,
- the target sales network structure for the SME segment has been implemented,
- a standard customer portfolio model was developed for SME consultants,
- operational and information services have been integrated to form a Business Service Zone (BSZ) dedicated to the after-sales service of customers from the SME segment. BSZ is a modern service channel, within which tele-advisors support customers in the most important product and service areas, such as: bills, electronic banking, bank cards,

- key processes were optimized and standardized (with processes for the Corporate Banking Area),
- new, simplified and standardized (with the Corporate Banking Area) sales and after-sales documentation was introduced, including, inter alia, requests for services and standard letters templates,
- the product offer was expanded by introducing, i.a., new products in the area of trade financing and by establishing a dedicated Deposit Team supporting clients in the field of investing funds,
- the visual identification of IT systems and electronic documents was changed in connection with the change of the Bank's name,
- the product offer for customers was unified.

In addition to work related to the Bank's integration, 2019 also was also devoted to efforts aimed at improving the quality and convenience of customer service, including the digitization of the most important areas of customer service and implementation of new IT tools. The key achievements in this area are:

- automation of the crediting process by introducing a new loan application tool – eWniosek (an online tool to help the customer apply for a loan) and the use of the OCR (Optical Character Recognition) system in the process of analysing financial data. eWniosek application gives the client and the advisor a possibility to cooperate while working on the credit application, which improves the process of preparing necessary information and documents by the client, thus reducing the necessity to exchange e-mails
- introduction of a loan agreement generator,
- implementation of a new on-boarding process for customers. The new tools ensured that the process of opening a new customer's file, their accounts and related products is digital, fully secure and integrated.
- further development of the BiznesPI@net electronic banking system, including the launch of a product application module and after-sales instructions, digital signing of contracts as well as the addition of new functions used previously by exRBPL customers in the Online Biznes system.
- as regards operational services, the second stage of improvements for the Business Service Zone operational process management system has been implemented, enabling automatic categorization of customer requests received by phone or email and providing reporting in this regard.

Bank guarantees and letters of credit

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

In 2019, at the request of SME customers, the Bank issued:

- 818 bank guarantees for a total value of PLN 176 million.
- 205 import letters of credit with a total value of PLN 46.6 million, and handled 241 export letters of credit with a total value of PLN 139.6 million issued by third-party banks.

Commercial volumes

As at 31 December 2019, SME Banking deposits on a consolidated level amounted to PLN 10,134 million and were PLN 323 million, i.e. 3% lower than at the end of 2018. The main reason for this was the optimisation of deposit margins, which was possible due to the Group's favourable liquidity situation after the completion of the merger with RBPL in 2019. The portfolio structure did not change significantly compared to 2018. Similar to the previous year, almost three quarters of the total deposits were current accounts (74%, increase by 3 p.p., with a decrease in the share of term deposits).

Table 41. Deposits and loans – SME Banking⁵

PLN '000	31.12.2019	31.12.2018	change y/y	
			PLN '000	%
Current accounts	7,499,453	7,430,178	69,275	1%
Savings accounts	306,629	334,459	(27,830)	(8%)
Term deposits	1,318,447	1,651,452	(333,005)	(20%)
Overnight deposits	1,009,506	1,040,655	(31,149)	(3%)
Accounts and Deposits	10,134,035	10,456,744	(322,709)	(3%)
Investment loans	4,910,290	5,388,038	(477,747)	(9%)
Overdrafts	2,251,938	2,310,750	(58,812)	(3%)
Mortgage loans	-	15,494	(15,494)	(100%)
Lease receivables	606,722	524,902	81,820	16%
Short-term loans	803,183	716,947	86,236	12%
Factoring	1,095	375,179	(374,084)	(100%)
Other loans	1,289	5,104	(3,815)	(75%)
Net loans and advances	8,574,517	9,336,415	(761,898)	(8%)

As at 31 December 2019 the value of the loans and advances portfolio in the SME Banking on a consolidated level amounted to 8,575 million, and was lower by 8% than at the end of 2018. The decrease was largely the effect of the sale agreement regarding an organised part of the Bank's enterprise earmarked for conducting factoring activities to BGŻ BNP Paribas Faktoring sp. z o.o. (decrease in the volume of factoring receivables by PLN 374 million).

Gross income: SME Banking segment

In 2019 the gross result of the SME segment was PLN 83.5 million, compared to PLN 91.4 million in the previous year.

The comparability of the results for 2018 was affected by the execution on 31 October 2018 of the transaction of acquisition of the Core Business of Raiffeisen Bank Polska S.A. by the Bank ("RBPL"). The profit and loss account of the Bank's Capital Group for 2018 includes only two months of RBPL revenues and costs.

The income on SME banking activity in 2019 amounted to PLN 485.3 million and was higher by 31% compared to the previous year. This result constitutes 10.7% of the Group's total income on banking activity in the analysed period.

⁵ See: footnote on p.81

Table 42. Gross income: SME Banking segment⁶

PLN '000	12 months ended 31.12.2019	12 months ended 31.12.2018	change y/y	
			PLN '000	%
Interest income	303,549	257,471	46,078	18%
Fee and commission income	121,395	84,085	37,310	44%
Trading and other income	60,308	27,691	32	118%
Income on banking activity	485,252	369,247	116,005	31%
Impairment losses	(75,005)	(45,777)	(29,228)	64%
Operating expenses and amortisation and depreciation	(149,695)	(114,521)	(35,174)	31%
Expense allocation	(141,920)	(84,802)	(57,118)	67%
Operating result	118,633	124,147	(5,514)	(4%)
Tax on financial institutions	(35,122)	(32,765)	(2,357)	7%
Gross profit of the segment	83,511	91,383	(7,871)	(9%)

⁶ See footnote on p.82

7.7. Corporate Banking

Segmentation

Corporate Banking offers a wide variety of financial services to large and medium-sized enterprises as well as to local government entities with an annual turnover equal to or exceeding PLN 40 million, or in the case of whom the Bank's exposure is equal to or greater than PLN 12 million, as well as to entities operating as part of multinational capital groups.

Corporate Banking customers are classified into 4 key groups:

- Polish corporations with an annual income between PLN 40 million and PLN 600 million (or between PLN 60 million and PLN 600 million in the case of business entities related to agricultural production) or with a credit exposure greater than or equal to PLN 12 million (or PLN 25 million for business entities related to agricultural production);
- international customers (companies operating in international capital groups);
- large Polish corporations (listed, with annual turnover of more than PLN 600 million and an investment banking potential);
- public sector and financial institutions.

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

Distribution channels

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

Corporate Banking services are provided by 9 Regional Corporate Banking Centres located in: Warsaw (two), Łódź, Gdańsk, Poznań, Wrocław, Katowice, Kraków and Lublin. As part of the Regional Corporate Banking Centres, there are 25 Corporate Banking Centres located in the largest business centres in Poland, thus ensuring a wide geographical and sector coverage. Within these branches, consultants provide services to corporate clients locally. After-sales services for the clients of the Corporate Banking segment are also carried out via the Enterprise Service Telephone Center and online banking system.

Main achievements in 2019

STRATEGIC PILLAR	MAIN ACHIEVEMENTS
GROWTH	<ul style="list-style-type: none"> • Continuation of business strategy based on transactional development and growth of product cross-selling; • Increase in total income, in particular cash management commissions and income from foreign exchange transactions, • Increased acquisition of new customers, • Increase in leasing sales; • Development of the offer in the areas of Trade Finance, DCM, M&A transactional consulting, Global Markets (new derivative products).
SIMPLICITY	<ul style="list-style-type: none"> • Fully implemented new integrated sales network structure: 25 Corporate Banking centres in the largest industrial and service centres in Poland • Unification of the product offer; • Migration of customers to unified target systems and processes.
QUALITY	<ul style="list-style-type: none"> • Consistent customer service model - availability of local product specialists; • Rebuilding and improving customer service processes: creating a Business Service Centre unit - dedicated, professional advisors, a wide range of customer support and after-sales service; • Launch of the Trade Finance Business Desk - a dedicated trade finance team and expansion of the trade finance products offer.

STRATEGIC PILLAR	MAIN ACHIEVEMENTS
DIGITALISATION	<ul style="list-style-type: none"> • Wide package of changes in BiznesPI@net electronic banking: new functionalities in the area of cash management, development of the self-service zone - module of electronic product applications, after-sales instructions, new functionalities within the framework of system integration, changes in PSD2 and STIR; • Automation of the process of opening a customer file in the bank (onboarding): implementation of a fully automated process of opening a customer relationship based on an electronic application, automatic collection of data from external databases and integration with the Bank's field systems; • Launch of the new FX PI@net currency platform: 24h/5 days a week availability for basic transactions and many modern solutions.

Product offer

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

The basic products and services offered to corporate customers are:

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

Business line development in 2019

The Bank's activities in the area of Corporate Banking in 2019 focused on further integration with RBPL Core and business-operational transformation. The transformation applies to all aspects of customer service, including the implementation of new organizational structures in operations, optimization and digitization of processes, and the development of new IT tools increasing customer convenience in using the products and services offered by the Bank. The final stage of the Bank's integration was the migration of IT systems and the cohesion of the Bank's operations. This operation took place as planned on 11 November.

As part of the above-mentioned transformation and integration processes, a number of initiatives and improvements were implemented in 2019, including:

- the creation of a Business Service Center (BSC) which will be the unit dedicated for after-sales services offered to clients from the area of Corporate Banking in the centralized model;
- optimization and standardization (with processes used in the SME segment) of key processes, including new, simplified sales and after-sales documentation;
- the visual identification of IT systems and electronic documents was changed in connection with the change of the Bank's name,
- the product offer for customers was unified.

From a business perspective, 2019 was a continuation of the Bank's strategy, which in the area of Corporate Banking assumes:

- acquisition and rapid activation of new customers, as a basis for further development of cooperation,
- development of customer transnationality and increasing the number of products used by customers (cross-sell of individual product lines),
- acquiring and providing services for international companies,
- building the position of a leading bank in foreign trade and specialized finance (trade finance / specialized finance, global trade solutions)

An important step in the Bank's development in 2019 was further development of online banking system for BiznesPI@net customers through changes on several levels:

- further development of the self-service zone: the modules of electronic product applications and after-sales instructions were launched;
- new functions previously used by RBPL Core clients in the Online Biznes system have been added, thus preparing the BiznesPI@net system for the migration of exRBPL clients. These include: the addition of predefined templates for exporting MT940 statements, changes to the statement generation module, changes to the account operations history, the addition of a function for adding a single transfer to a package, changes to the card module;
- changes related to PSD2 were introduced, i.a. enabling the launch of the API production environment for selected third parties (TPP) for testing purposes;
- changes related to the IT System of the Clearing House, resulting from the amendment to the Tax Code in the scope of preventing the use of the financial sector for fraud (Journal of Laws of 2017, item 2491). The changes concern the blocking of entrepreneurs' accounts in accordance with the decisions of the National Tax Administration in the mode provided for by the Act.

The final stage of the Bank's integration was the transfer of customer data to a single system, the integration of IT systems, and the cohesion of the Bank's operations. This operation took place as planned on 11 November.

In 2019 the Bank continued a series of meetings and information, education and business workshops which supported small and medium enterprises and corporations in the international expansion of the so-called Foreign Trade Program (FTP). The main aim of FTP is sharing knowledge about foreign markets, supporting Polish entrepreneurs and showing positive examples of foreign expansion into new markets. Last year, the Foreign Trade Program focused on the markets of Africa and the Far East. This year's edition of the program was dedicated to European markets: France, Italy and Belgium and the markets of the Arabian Peninsula. In total, 31 meetings with 3.5 thousand Corporate Banking and SME clients were organized in 2019.

Bank guarantees and letters of credit

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

In 2019, at the request of Corporate Banking customers, the Bank:

- issued 6.943 bank guarantees, with a total value of PLN 2,419.6 million.

- opened 2,547 import letters of credit with a total value of PLN 1,248.8 million and handled 820 export letters of credit with a total value of PLN 2,642.6 million issued by other banks for those customers.

Commercial volumes

As at 31 December 2019, Corporate Banking deposits amounted to PLN 23,955 million and were PLN 799 million, i.e. 3% higher than at the end of 2018. The share of overnight deposits in the portfolio increased by 4 p.p., while the volume of term deposits dropped by 4 p.p. compared to December 2018.

As at 31 December 2019 the value of consolidated loans and advances portfolio in the Corporate Banking segment amounted to PLN 23,040 million, i.e. 7% less than at the end of 2018, primarily as a result of the sale of an organised part of the Bank's enterprise earmarked for conducting factoring activities to BGŻ BNP Paribas Faktoring sp. z o.o. (decrease in the volume of factoring receivables by PLN 1,152 million).

Table 43. Deposits and loans – Corporate Banking⁷

PLN '000	31.12.2019	31.12.2018	change y/y	
			PLN '000	%
Current accounts	14,544,903	14,101,937	442,965	3%
Saving accounts	36,930	36,402	528	1%
Term deposits	4,407,624	5,236,718	(829,094)	(16%)
Overnight deposits	4,965,424	3,780,452	1,184,973	31%
Deposits and Accounts	23,954,880	23,155,509	799,372	3%
Investment loans	10,155,649	11 872,733	(1 717,084)	(14%)
Overdrafts	5,722,052	5 855,790	(133,738)	(2%)
Mortgage loans	-	30,820	(30,820)	(100%)
Lease receivables	2,435,493	1,496,936	938,557	63%
Short-term loans	4,524,075	4,235,141	288,934	7%
Factoring	189,394	1,341,083	(1,151,689)	(86%)
Other loans	12,908	29,244	(16,337)	(56%)
Net loans and advances	23 039 570	24 861 747	(1 822 177)	(7%)

Gross income: Corporate Banking segment

In 2019 the gross result of Corporate Banking accounted to PLN 587.7 million and was 141% higher than in the previous year (PLN 244.3 million in 2018).

The comparability of results was affected by the finalization, on 31 October 2018, of the acquisition of the core business of Raiffeisen Bank Polska S.A. The profit or loss of the Bank's Capital Group for 2018 does include RBPL's income and expenses only for two months.

The banking income of Corporate Banking in 2019 was PLN 1,079 million, which is 87% more than in the corresponding period of 2018. It represented 23.9% of the total net income on the Group's banking activity in the analysed period.

⁷ See footnote on p.81

Table 44. Gross income: Corporate Banking segment⁸

PLN '000	12 months ended	12 months ended	change y/y	
	31.12.2019	31.12.2018	PLN '000	%
Interest income	593,204	327,363	265,840	81%
Fee and commission income	253,248	147,724	105,524	71%
Trading and other income	232,292	103,133	129,159	125%
Income on banking activity	1,078,744	578,220	500,524	87%
Impairment losses	(51,986)	(57,601)	5,615	(10%)
Operating expenses and amortisation and depreciation	(271,432)	(157,677)	(113,755)	72%
Expense allocation	(77,858)	(63,946)	(13,912)	22%
Operating result	677,468	298,996	378,472	127%
Tax on financial institutions	(89,731)	(54,660)	(35,071)	64%
Gross profit of the segment	587,737	244,336	343,401	141%

7.8. Agro

Product offer for the Agro subsegment

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

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

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

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

Preferential loans

In March of this year there was a change in the *Rules for granting preferential loans*, consisting in increasing the *de minimis* aid limit for entities using loans for the purchase of agricultural land and disaster loans with a level of loss not exceeding 30% - from EUR 15,000 to EUR 20,000

Insurance

In order to promote the *Życie i Zdrowie* insurance, new functions have been introduced in the sales service system to copy the insuring party's data from the policies regarding Agricultural Equipment, Crop and Agro Concordia directly to the *Życie i Zdrowie* policy. In addition, leaflets about this product were added to other types of policies.

⁸ See: footnote on p.82

Loans with Rural Development Plan (RDP) 2014-2020

In 2019, an increase in the number of applications for funding as part of the Rural Development Plan 2014-2020 (RDP) could be observed. Due to the fact that these projects are financed from public sources, great emphasis is placed on the transparency of the choice of service providers and goods suppliers. RDP 2014-2020 beneficiaries are obliged to make public inquiries on the portal of Agency for Restructuring and Modernization of Agriculture whenever the value of an offer is above EUR 30 thousand. Thus, the Bank has access to a list of potential customers who carry out investments in the area of operations of a given Branch or Business Center.

In September 2019 the Agency for Restructuring and Modernisation of Agriculture launched a new aid RDP program 2014-2020 watering systems for farmers. The program offers refund of 50% (or 60% in case of young farmers) of investment expenditure on construction of water intakes, purchase of new machinery, equipment or installation, in particular used for the purpose of collection, measurement of collected water as well as storage, purification, restoration and distribution of water.

For investments co-financed by EU as a part of 2014-2020 RDP the Bank offers Unia+ Loan and European leasing loan.

For investment undertaken without subsidies: Preferential loan (RR line) with low interest rate, Agro Progress Loan or Leasing Loan granted for the purpose of financing purchase of machinery and equipment, the ownership of which is transferred to a borrower within simplified leasing procedure, with promptly issued decision to grant funding.

In the period between 1 September and 31 December 2019 the Bank organized campaign promoting loans for watering systems throughout lowering commission to 0% for insured loans.

Guarantee line portfolio agreement with Agricultural Guarantee Fund (AGF)

On 5th of November 2019 BNP Paribas Bank Polska entered into Guarantee line portfolio agreement AGF with Bank Gospodarstwa Krajowego (BGK). The Agricultural Guarantee Fund is the first BGK guarantee fund on the market available for the whole agricultural sector, i.e. both for agri-food processing sector and, for the first time for producers of primary production (farmers). The fund mitigates consequences of lack of adequate (from the banks' point of view) collaterals, among others associated with limitations of enforcement against farmers' property. Guarantee enables the Bank to apply more favorable loan terms. For agri-food processing entities AGF offers more favorable loan terms than de minimis guarantee i.e. guarantee up to 80% of a loan amount and with a guarantee amount up to PLN 10 million. The guarantee will be implemented to the Bank's offer in the first quarter of 2020.

Agreement with European Investment Bank

On 12th December 2019 the Bank concluded an agreement with the European Investment Bank introducing Private Finance for Energy Efficiency (PF4EE) instrument. The purpose of the instrument is to increase the availability of debt financing to eligible energy efficiency investments and to improve conditions of investment financing, among others through lower prices, longer maturity and less stringent requirements regarding collaterals.

Based on the agreement the Bank will offer farmers from micro-enterprises segment financing of purchase and installation of photovoltaic system on favorable terms. Implementation of the product is planned for the first quarter of 2020.

Agro Offensive

From 15 January to 31 May 2019, the annual Agro Offensive campaign dedicated to Agro farmers and entrepreneurs was conducted. The campaign was dedicated to both Micro-enterprises and SME customers.

The goal of the campaign was to attract new customers and increase the sales of loan and leasing products in the segment. The special offer concerned the following loans: Agro Ekspres, Rzeczówka (revolving renewable and non-renewable credit account), Agro Progres, Unia+ and preferential loans. In addition, attractive pricing for leasing and leasing loans was offered in cooperation with BNP Paribas Leasing Solutions.

This year's Agro Offensive was supported by dedicated marketing materials, a campaign in traditional media (e.g. newspapers, ATMs) as well as online and in social media. Agro Offensive was also present at industry fairs (AgroTech Kielce) and business meetings with clients.

Sales support

In 2019, members of Agro Expert Teams (Micro and SME/Corporate) engaged in a number of pro-sales tasks and tasks aimed to improve the quality of the existing portfolio. They held close to 1000 meetings with current and potential customers of the Bank, over 600 expert opinions were prepared, mostly for new transactions (verification of revenue and cost assumptions and production capabilities) and approx. 250 as part of reviews of the functioning Agro portfolio (verification of the condition of farms and recommendations as to optimal paths of cooperation).

During the period in question, Agro experts conducted over 350 training sessions for the Bank's employees. They participated in approx. 100 Agro events at the national and regional level, further improving the Bank's image in this segment.

In addition, Agro Experts supported initiatives and projects such as: the Agronomist.pl portal or the Agro Safe Financing campaign - targeted at both clients and employees of the Bank.

Agro Academy

In March 2019 the 4th cycle of the Bank's unique educational meetings commenced. Seven conferences took place in the first half of 2019, during which agricultural market analysts and experts who cooperate with the Bank shared their knowledge on current topics related to Polish agriculture. This year's edition covered topics such as: prospects and challenges for agriculture after 2020, farm energy costs, the new nitrates directive, and the situation on primary agricultural markets.

Additionally, in November 2019 as a part of Agro Academy a meeting dedicated to women was held, where topics such as: selected agricultural markets in relation to the Common Agricultural Policy after 2020., women succession aspects, impact of organic food on human health, report on the most comprehensive study on women in Poland – 5 segments of modern Polish Women - were covered.

Agro-conference

Agro-conference is a significant annual meeting of the Bank and clients from agri-food sector. In 2019 the event was organized by BNP Paribas Bank Polska for the 14th time. Agro-conference is appreciated by participants as an important platform for exchanging views, a great opportunity for substantive discussion and discussion of current topics and relevant to producers, processors, suppliers and distributors operating in agribusiness. In 2019, Agro-conference was devoted to the subject "Evolution or revolution in the ecosystem between supplier – distributor – customer?".

Sub-brand BNP Paribas Food&Agro

In connection with the Bank's rebranding and the need to highlight the offer addressed to the agribusiness segment, a dedicated BNP Paribas Food & Agro sub-brand was introduced in April 2019. It is used in marketing materials (letters, product cards, product presentations, business cards, stationery, advertising materials, etc.).

100 years of Agro

In 2019, the Bank celebrates 100 years of activity on the Agro market, as the heir to Bank Rolny, which was established by a decree of Marshal Piłsudski in 1919. In the jubilee year, we emphasize our long-standing tradition of providing services within the Agro segment and we have launched the "We have been looking into the future for 100 years" campaign, which, in addition to standard campaign activities, involves:

- a series of 7 meetings dedicated to Agro clients from the Micro-enterprises and SME segments (over 1.2 thousand participants);
- competition for a bachelor's or master's thesis on topics related to the development of agribusiness, for graduates of Polish universities;
- competitions in the press and social media dedicated to farmers

Agronomist.pl

Agronomist.pl is the Bank's online platform launched in April 2019, which was created for farmers and processors of the food sector.

Users have access to:

- information about the weather at a given location with a meteorologists' commentary,
- to a farm management system,

- satellite field mapping, access to professional application using satellite photos to optimize fertilisation,
- Experts searching tool and asking questions module,
- Professional and free prices and market trends data,
- Professional credit calculators used for simulation of repayment schedule timetable and costs of a credit
- Calendar of industry events with a possibility of registration

Some of the platform's function, such as satellite field mapping and a farm management system are available only to the Bank's clients.

Since the launching, the portal had over 51,000 visitors, and 2.5 thousand registered users.

7.9. Corporate and Institutional Banking

Corporate and Institutional Banking (CIB) supports sales of products of the BNP Paribas Group dedicated to the largest Polish enterprises, including service of strategic customers, the Financial Markets Line and Custody Services Department, whose offer is addressed to banks, insurance companies, pension and investment funds, as well as the State Treasury. CIB delivers the BNP Paribas Group's comprehensive financial and risk management solutions to its customers in Poland, including:

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

CIB offers world-class quality expertise to customers by combining the knowledge of the Polish market with experience gained on international markets as well as top-class industry experts' competence. CIB supports the development of Polish enterprises and the implementation of projects of strategic importance to Poland, through the financing of industrial, commercial and technological infrastructure as well as strategic mergers and acquisitions.

Corporate and Institutional banking focuses on four key areas:

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

The **Financial Market Line** main activity areas in 2019 were:

- finalisation of operational integration in November along with integration of transaction systems;
- implementation of a new sales platform with a wider range of offered products

The **Custody Services Department's** main activity areas in 2019 were:

- further improvements regarding the quality of service, in accordance with the changing supervisory requirements and market situation;
- preparation of a product offer for new clients from the open investment funds segment (implementation planned for the fourth quarter of 2019);
- Temporary representation of investment funds previously managed by investment fund management company, whose license was withdrawn by the PFSA.

7.10. Other banking activity

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

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

Its operations are carried out through two profit centres, i.e. ALM Treasury and Corporate Center.

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

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

7.11. Cooperation with financial institutions and agreements with the central bank

As at 31 December 2019, the Bank was a correspondent bank of ca. 1000 other banks, and held 56 nostro accounts for 25 major currencies in other banks.

In the discussed period, the Bank held 24 loro accounts denominated in PLN for foreign and local banks. The loro accounts in the Bank's accounting records represent an external source of cost-free working capital used in the Bank's operations. These accounts are used mainly for purposes of customer and bank-to-bank transfers.

In 2019, the Bank continued its cooperation with other domestic and international financial institutions, including investment funds, insurance companies, pension fund companies, brokers and banks, which enabled the conclusion of a wide range of treasury and deposit transactions. A number of contracts were concluded with new and existing contractors from these segments and actions were taken towards the signing of new contracts, in line with ISDA and Polish Bank Association recommendations.

Agreements with the central bank

- Annex No. 13 of 24.05.2019 to the Agreement regarding the terms and conditions of opening and maintaining a bank account in the SORBNET2 system.
- Annex No. 14 of 15.11.2019 to the Agreement regarding the terms and conditions of opening and maintaining a bank account in the SORBNET2 system.
- Termination on 30.08.2019 the Agreement on indirect participation in the STEP2 SEPA Credit Transfer system via the National Bank of Poland, concluded on 10.10.2016.
- Termination on 5.09.2019 the Agreement regarding the terms and conditions of opening and maintaining a bank account in EUR in the TARGET2 system, concluded on 29.06.2016.

7.12. HR management

Headcount

At the end of December 2019, the Capital Group of BNP Paribas Bank Polska S.A. had 10,219 FTEs (including employees on maternity leave, childcare leave and longer sick leave) as compared to 11 265 FTEs at the end of 2018 (decrease by 1,046 FTEs). The decrease in employment YoY was mainly due to the optimization performed after merger of the Bank with the core banking activities of Raiffeisen Bank Polska on 31 October 2018.

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

Table 45. Headcount in the Capital Group of the Bank

FTEs	31.12.2019	31.12.2018
Capital Group of the Bank	10,219	11,265
Total Bank, including:	9,899	10,854
Head Office	5,101	5,455
Branches	4,654	5,246
Mobile Relationship Managers	87	92
Brokerage Office	50	54
Trade Unions	7	7
TFI BGŻ BNPP	29	26
BNP Paribas Group Service Center S.A.	228	291
Campus Leszno Sp. z o.o.	8	8
BFN ACTUS Sp. z o.o.	-	-
BNP Paribas Leasing Services Sp. z o.o.*	6	0
BNP Paribas Financial Services Sp. z o.o.**	-	39
BNP Paribas Solutions Sp. z o.o.	49	36
Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.***	-	11

* employment in the company as at 31.12.2018 was 0.25 FTEs; leasing activity is conducted on the basis of a cooperation agreement (SLA)

** 31.12.2019 – merger of subsidiaries of the Bank, i.e. BNP Paribas Group Service Center S.A. oraz BNP Paribas Financial Services Sp. z o.o.

*** 29.03.2019 r. merger of subsidiaries of the Bank, i.e.: BNP Paribas Towarzystwo Funduszy Inwestycyjnych S.A. and Riviera Towarzystwo Funduszy Inwestycyjnych S.A. (Raiffeisen Towarzystwo Funduszy Inwestycyjnych).

Employment restructuring

In 2019, the process of HR management changes at the Bank in connection with the acquisition of Core RBPL was established. Ensuring effective customer service, which would meet the clients' needs, required the implementation of a new organizational structure and an adjustment of employment levels. The employment optimization process was launched. In accordance with an agreement signed with the trade unions operating at the Bank collective redundancies are in progress. The dismissal process is planned for two years (2019-2020). In addition, the Parties to the Agreement have agreed that collective redundancies will cover no more than 2,200 employees.

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

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

Employee remuneration policy

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

The Bank has adopted a Remuneration Policy for persons having material impact on the risk profile of BGŻ BNP Paribas S.A. which was developed in line with guidelines included in Resolution No. 258/2011 of the PFSA and the requirements of CRD IV and which was approved by the Supervisory Board on 9 September 2016. In December 2017, the provisions of the abovementioned Policy were updated in connection with the entry into force of the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed conditions for estimation of internal capital in banks (Journal of Laws of 2017, item 637).

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

Incentive schemes

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

The Bank has implemented:

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

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

Training and development

In 2019, training was carried out in close cooperation with the Bank's business lines.

The total number of training participants was over 140,8 thousand, including 15,5 thousand participants of traditional, stationary training.

Major training initiatives in 2019:

- courses dedicated to the new product offering and use of the operating systems for employees of the sales network;
- courses raising the level of product knowledge, dedicated to the sales network employees, including those focusing on investment funds and sales of insurance products;
- Introductory training for the newly employed;
- courses supporting the change management skills in the process of merging the Bank with the core banking activities of Core RBPL;

- courses for managers increasing their team-leadership competencies and skills related to providing feedback;
- soft skills courses for the Bank's employees;
- mandatory courses resulting from legal regulations – ex. MiFID2, act on insurance distribution,
- courses implementing post-audit recommendations of the Polish Financial Supervision Authority;
- courses supporting the development of a risk culture at the Bank, especially in the areas of operational risk and compliance;
- introduction of an online English learning platform and a platform with courses supporting managerial skills;
- professional trainings dedicated for Head Office employees;
- Digital Academy for employees, promoting NetExplo group platform raising the level of digital transformation knowledge, launch of first UX trainings for employees, purchase and distribution of tickets for digital conferences for employees, among others Masters&Robots, Women in Tech Summit.

Development programs implemented in 2019:

- *Prestige Development Program* – the program organized in a current concept was ended in the first quarter of 2019. Currently, work is underway on a new concept for the program. It will take into account the needs of employees, the Bank's strategy, as well as competences necessary for the future. The launch of the new version is planned for the second half of 2020.
- *Leaders for Tomorrow* initiative – a development program of the Capital Group of BNP Paribas aimed at the development of leadership skills. Participants can make the most of development sessions conducted in different companies of the Group, get to know the companies' mode of operations in other countries and share good practices.
- *Digital Ambassadors Program* - the aim of the program is to build a digital culture at the Bank by equipping employees with digital competences. The key role in this process is performed by the Digital Ambassadors whose task is to: acquire knowledge and skills in the field of both functioning and newly implemented tools, promotion of social tools and digital solutions supporting remote work and business efficiency, transferring knowledge to colleagues, participation in testing and implementing new solutions, promoting new work techniques, gathering and transferring information on the needs of employees to IT, as well as tracking market innovations in order to implement them at the Bank.
- *Stronger Together* – meetings of top level managerial staff focused on strengthening cooperation, strengthening entrepreneurship and breaking silos.
- *Inner Labour Market* – continuation of the initiative launched in 2014, which aims to strengthen the professional mobility of employees within the organization.
- *Mobility Center* - a project aimed at actively supporting employees affected by the process of collective redundancies in navigating the labour market, with particular emphasis on the internal market.
- *Occupational Mobility Days* – local edition of International Mobility Days, an annual program taking place simultaneously in several dozen countries of the BNP Paribas group. The program includes inspirational lectures, workshops and webinars on the subject of personal and professional development, as well as meetings with Managers, HR Business Partners and recruiters.
- *Feedback culture building program* - two key aspects from amongst the seven foundations of the Bank's organizational culture were selected: cooperation and trust (pulse check). The program aims at developing values based on mutual respect for D&I (diversity and inclusion), as well as care for open, transparent communication and regular feedback.

Internship and partnership programs – cooperation with universities

- *Ambadorskie Duety* (“Ambassador Duo”) is a program directed at students. Participation in the program lasts one year and involves the implementation of various initiatives promoting the Bank at a university. Participation in the program provides students with an opportunity to gain experience in the implementation of their ventures and to acquire specialist knowledge from the Bank's experts. It also provides additional training, scholarships and a prize for the best Duo. The program is directed to those who show energy, a willingness to act and who have many ideas for promoting the Bank in their university environment. The bank acquaints its ambassadors with the secrets of the Bank's operations, employer branding, as well as recruitment, social media policy, or personal branding. Ambassadors represent BNP Paribas at their universities. In 2019 ended the second edition of Ambassador Duo program, the next extended edition is planned to be launched in September. Uniwersytet Ekonomiczny w Katowicach, Uniwersytet Ekonomiczny we Wrocławiu, Uniwersytet im. Mikołaja Kopernika w Toruniu oraz Uniwersytet Warmińsko-Mazurski w Olsztynie joined current participants - Szkoła

Główna Handlowa w Warszawie, Uniwersytet Warszawski, Akademia Górniczo-Hutnicza im. Stanisława Staszica w Krakowie, Uniwersytet Ekonomiczny w Krakowie, Uniwersytet Ekonomiczny w Poznaniu oraz w Uniwersytet Gdański.

- *Green Zones* were created at 10 Polish universities. In these zones, which were prepared from ecological materials and filled with greenery, students could meet our Ambassadors Duos as well as representatives of the HR department and learn more about internships and jobs at the Bank, business area, where students could get acquainted with the product offer and open an account, café area, where they could find eco-snacks and an energy-brewer, where they could squeeze out their own vegetable-fruit juice and a relaxation area with sitting pouffes and eco-games. Attractive competitions were organised for visitors.
- *Library for Owls* - on January 21-25, 2019, a promotional stand of the BNP Paribas Bank appeared at the University of Warsaw Library. It was connected with the University of Warsaw Library (BUW) initiative, which allows students who are preparing for exams to use the library's collections until five in the morning. Students who visited the stand could meet the Ambassador Duo and learn more about internships and jobs at the Bank, as well as rest in the relaxation area and enjoy coffee, puzzles or table football.
- *Focus on Development - Summer Program* - a summer internship program with remuneration, addressed to students of the 2nd and higher years. It lasts 2 months, during which trainees have the opportunity to gain knowledge in the field of banking through active participation in tasks and projects of a selected department, under the guidance of a dedicated supervisor. Such internships are organized in all departments of the bank, throughout the country. In 2019, the Program began with an introductory meeting. Participants had the opportunity to learn more about Bank BNP Paribas and got to know each other better. During 2 days of workshops, students learned about the history, organizational culture and operations of selected Bank units, took part in design thinking training and met with Katarzyna Wągrowaska, the author of "Zero Waste Life". At the end of the program, students had the opportunity to take part in additional training related to creating a personal brand. 80 students took part in the program.
- *Talent Academy* - a series of monthly workshops with experts devoted to exploring the world of banking from the inside. It is a great opportunity for students to broaden their knowledge of economics, banking and financial markets. At the end participants receive a certificate. In 2019, Talent Academies were held at the Poznań and Krakow Universities of Economics. In the 2018/2019 academic year 30 people participated in the Krakow Talent Academy. In the 2019/2020 academic year, 32 students participated. At the Poznań University of Economics the 6th edition of the Academy was held in 2019 and 17 participants took part in it.
- *Dual Studies* - dual studies in Financial Risk Management are offered at the University of Economics in Poznań. This is the first project of its kind in Poland, were launched on October 1, 2018. These are two-year MA studies run by both Bank experts and lecturers from the University. 27 students enrolled in the first edition. On October 1, 2019, the second edition began, 18 students are enrolled.

7.13. Information technology and cyber security

The biggest challenge in the area of IT and cybersecurity in 2019 was the operational integration performed simultaneously with transformation of the Bank and regulatory projects. Completed migration enables the Bank providing customer services in unified IT and operational architecture and in consequence it affects speed and quality of customer service. They have access to the highest class technological facilities and an exceptional product offer.

IT projects carried out focused mainly on three areas:

- 1) Projects for business lines - support for achieving their sales goals;
- 2) Projects related to day-to-day operations and the implementation of national and international regulatory requirements (including GDPR, Split Payment, PSD II), optimization of the Bank's day-to-day operations and adaptation to the dynamically changing Cyber Security and infrastructure conditions;
- 3) Projects aimed at finalising the integration of the banks (rebranding, standardization of the offer, operational fusion).

Key IT projects within particular areas in 2019

I. Business lines projects

Retail Banking and Personal Finance

Further development of the GOMobile mobile application, addition of the following features: travel insurance, transaction notifications, pre-Approved offer, BLIK ATM, availability of Google Pay i Apple Pay, access to GOMobile for Allegro customers and proxies; management of standing orders – review or deletion, card management – activation, password setting, change of a daily limit, transfers with future execution date, possibility to set transfers templates, purchase of public communication tickets or payment of parking fee – directly in application, mobile authorization – transfers approval in GOonline through mobile application.

Corporate and SME Banking

- Digitization and standardization of the onboarding process for corporate and SME customers in the Capsel sales application and via the eApplication platform;
- Standardization of the eApplication platform for corporate and SME customers;
- Introduction of the improvements in credit process – quick loan application Formula 1 product;
- Improved handling of split payments in the scope of: direct debit orders - adding split payment to direct debit, automatic VAT payment (for own economy) and a report of unclosed VAT accounts (Reporting Portal);
- Rapid search of applications for business teams due to the implementation of an application management module in Turbo Planet;
- Implementation of a new application for customers which enables data exchange between the bank and a company by means of messages in the XML file format using web service technology;
- Rebranding of front-end systems in corporate and SME banking;
- Digitalization and standardization of the online post-sales platform for corporate and SME customers.

Corporate and Institutional Banking

- Implementation of FX PI@net, a new platform for currency exchange;
- Adjustment of reporting to MIFID requirements from UK to EU in connection with Brexit;
- Addition of the ISIN code required by MIFID2 to commodity swap transaction reports to the Central Securities Depository of Poland;
- Implementation of new functions as part of the Vista program: structured products, Flexiterm Forward, Cap with Instalments (interest rate option with the customer paying the premium in instalments).

II. Projects related to the Bank's daily operations

Cross-cutting projects for business lines and regulatory projects

- Providing access to the API interface for PSD2 as the first Bank in Poland and adjustment of online channels and internal processes to the directive;
- Implementation of significant optimization improvements for KYC process, including possibility to scan clients' documentation using mobile devices;
- Implementation of a GDPR platform and implementation of mechanisms for anonymizing personal data after a retention period;
- Migration of SKOK Rafineria customers;
- Automation of opening new client relation process through automation of data forms filling on a basis of OCR analysis and client's documentation;
- Implementation of blockchain technology and durable medium solution used to provide clients with documents and general tables of commissions and fees as well as terms and condition in accordance with the Office of Competition and Consumer Protection's (UOKIK) regulations.

Infrastructure projects

- Increased functionality of the Contact Center platform due to migration to the standardised target for the combined Bank;
- Improvements for business consultants in the Contact Center owing to the expansion of the IVR system;
- Increased ability to monitor the quality of conversations with clients (new, integrated Verint system);
- Launch of the SIM system for downloading, archiving and managing recorded GSM calls in accordance with MIFID II guidelines.

Cyber-security projects

- Participation in the national cybersecurity exercises for the banking sector - CyberEXE, the Bank was the first to restore 100% availability of services;
- Implementation of standards and certification of compliance with ISO 27001 regarding data protection;
- Organization of #Cyberstrong event raising awareness of cybersecurity among the Bank's employees (including: educational videos, interactive comixes, Live Webinars);
- Implementation of 802.1x – NAC (Network Access Control), system providing unified control over access to wired and wireless networks;
- Disaster Recovery Plan test conducted for the most of critical systems of the Bank. The Bank's ability to restore operational capability within less than 2 hours has been confirmed;
- Implementation of FireEye AI Powered Email Security system protecting against advanced threats such as phishing, spam, identity theft;
- Act on the national cybersecurity system – implementation domestic requirements of national framework of identification, protection and minimization of consequences of attacks violating the security of cyberspace in Poland;
- Implementation and testing of Business Recovery Site for offices located in Krakow and Ruda Śląska;
- Antigena, DarkTrace Monitoring & Anti-Malware - implementation of the system for detecting cybersecurity threats in real time, using machine learning mechanisms and artificial intelligence algorithms;
- The Bank joined Cynet Product Advisory Board as part of a joint project to build the best platform for security breach protection on the market.

III. Integration - key projects in 2019Rebranding (D2.5) and migration of factoring operations

- As part of the rebranding, a new offer of accounts and cards for individual clients and packages for the micro-enterprise segment was introduced, the online customer service process was standardized, the work environment was standardized and changes in branches, back office and documentation were introduced;
- New segmentation of corporate and SME clients;
- Migration of factoring operations to the BNPP Faktor system.

Operational merger

- Migration of customer data to target banking systems;
- Providing customers with a uniform product and service offer:
 - Unification of the deposit, credit and debit cards offer for the merged Bank clients (offer parameters, process improvements, documentation);
 - Unification of the offer and systems of the Brokerage Office;
- Adaptation of GOonline and GOMobile systems to support users using discontinued systems;
- Preparation of infrastructure for the merged Bank, including, among others: conducting performance tests of banking systems before the operational merger, preparation and development of infrastructure for the central system, development of infrastructure for banking systems to ensure adequate performance.

7.14. Operations and business support

THE MOST IMPORTANT PROJECTS IN THE AREA OF OPERATIONS AND BUSINESS SUPPORT IMPLEMENTED IN 2019

Operational merger	Participation in 9 migration domains (bills, cards, loans, archiving, trade financing, cash management, customer files, financial markets and administration) that have been successfully completed
Operation Transformation Project	<p>Migration and centralization of functions and operational processes in one Head Office located in Ruda Śląska (while leaving some specialized functions in Warsaw and Krakow), as well as optimization and increase of work efficiency</p> <p>By the end of 2019, the processes of operations on corporate accounts and loans, retail accounts, preparation of credit documentation in the retail area, handling of execution, cash management, handling of mass correspondence and inquiries from external bodies, as well as settlements of partners (insurance part) investment account settlements, warranty service were moved from Warsaw and Krakow. In the area of Registry Offices and Archives, the process was optimized and outsourced to an external company. The next steps are in the process of migration (complaints, retail loans, payments, KYC). Completion of all works is scheduled for the end of the second half of 2020</p>
Branch transformation project	Since the beginning of the transformation 180 branches have been closed (in 2019 - 157 branches), and 156 branches have been transformed into a new format using modern and automated customer service
Optimization projects	27 robots (RPA) were implemented to support employees in 61 processes (SpeedOPS project). A project was also performed to transfer all documents from branches to the outsourcer, and work began on automation and creation of a new model for handling KYC processes, complaints, as well as an accounting tool for cost accounting in the area of own economy

7.15. Transformation Program

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

Five major programs are a part of the Bank's Transformation, 72 out of 88 planned have been completed:

- 1) E-transformation – i.e. improving the efficiency of the operational model (completed in over 95%)
- 2) Digitization of solutions for the client (completed in over 95%)
- 3) Adaptation of IT systems (completed in over 87%),
- 4) Effective data management (completed in over 80%)
- 5) Inspiring workplace (completed in over 78%).

Key areas of the Bank's transformation and the most important achievements in of 2019.

Area	Direction	Key achievements
<p>Digitization of customer experience</p>	<ul style="list-style-type: none"> • Building personalized, easy-to-use products, available to customers 24/7, regardless of the service channel chosen by the client. 	<ul style="list-style-type: none"> • Development of the GOmobile application for retail clients, i.a.: <ul style="list-style-type: none"> ○ new functionalities implemented during the year: GOtravel insurance, Allegro Renewable limit for owners of the <i>Raty Od.nowa</i> product, proxy support, payments with BLIK codes. ○ new version of the application integrated in the omni-channel platform launched in the fourth quarter of 2019; ○ increase in the number of users actively using the applications and transactions made by users ○ application is appreciated by users - reviews of Google Play stores: 4.2, iTunes: 4.5 (in Q4 2019). • GOonline - new online banking for retail customers launched in July 2019. <ul style="list-style-type: none"> ○ new omni-channel platform integrated with the sales process engine; ○ migration of Core RBPL retail customers to GOonline - almost 230 thousand Core RBPL customers who have logged into the new system since the day of the operational merger. • Agronomist.pl - a comprehensive and modern portal of the BNP Paribas, which was launched in the first quarter of 2019 in response to the needs of farmers and processors. The platform, including functionality and appearance or arrangement of specific tools, was created together with representatives of these groups. Currently, the platform is used by over 2 thousand users.

Area	Direction	Key achievements
E-transformation	<ul style="list-style-type: none"> • Simplification and automation of processes, efficient operation and reduction of paper documentation to a minimum, as well as modern tools and branches: • automation and robotization: comprehensive automation of processes, reduction of manual work, simplification and improvement of our efficiency, automation of the complaint process - improving the quality of customer service; • sales network transformation: streamlining the work of branches through new tools (e.g. optimization of cash services), a better workplace and a friendly space to meet customer needs, (so as to set new standards as regards service quality and the banking offer in Poland). 	<ul style="list-style-type: none"> • Development of business process robotization - implementation of new robots that implement processes mainly for the areas of Operations and Personal Finance. Currently in the Bank 27 robots perform tasks, supporting employees in 61 processes. • Improvements in credit processes, e.g. within the paperless project carried out in cooperation with Autenti - fully electronic credit process (performed in cooperation with Autenti startup) for customers using installment loans and from Q2 2019 also for credit cards. • Further implementation of a new type of branches - a change in the philosophy of customer service, including a completely new design of branches, without traditional service desks. Branches in the new format are fully automated, allowing employees to focus on customer needs and the high quality of service. Cash transactions are carried out with the use of recyclers located in branches.
Inspiring workplace	<ul style="list-style-type: none"> • Creation of a friendly work environment for all employees, based on a culture of cooperation and equipped with modern digital tools; preparation for the introduction of agile work methods. 	<ul style="list-style-type: none"> • New mobile applications for employees, e.g. for employee leave management and settlement of business trips. • Implementation of virtual security access cards to the head office buildings. • Construction of the Bank's new headquarters at Kasprzaka Street.

The Bank's Digital Transformation Programme will continue in the period 2020-2022 and will focus mainly on activities in following areas:

- Data management: improving data architecture, updating CRM solutions, increasing the use of artificial intelligence and advanced analytical methods, extending the use of API in cooperation with partners
- Customer Interface: changes in Internet banking for corporates, improvement of solutions supporting individual customer service in many distribution channels.
- Operational model: implementation of the Autenti electronic signature to support the reduction of paper use (depapieryzacja) within the bank's processes, implementation of the Enterprise Workload Management system, increasing the number of robots used to automate tasks, growth based on cloud solutions.
- New working methods: a progressively more agile way of working throughout the organization

8. DESCRIPTION OF THE ACTIVITIES OF BNP PARIBAS BANK POLSKA S.A. CAPITAL GROUP IN 2019

8.1. BNP Paribas Towarzystwo Funduszy Inwestycyjnych S.A.

BNP Paribas Towarzystwo Funduszy Inwestycyjnych S.A. ("BNPP TFI") has been carrying out business in the financial services industry since 1992. Before that date, it was active on the Polish capital market as a brokerage house.

BNPP TFI operates based on the authorisation of the Polish Financial Supervision Authority in the field of creation and management of investment funds, as well as intermediation in the sale and redemption of units and shares in foreign funds.

In 2019, the following significant corporate events took place:

- merger of companies: Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A. and Riviera Towarzystwo Funduszy Inwestycyjnych S.A., consisting in the acquisition of Riviera TFI S.A. by TFI BGŻ BNP Paribas S.A. (as the acquiring company) pursuant to Art. 492 § 1 item 1 of the Code of Commercial Companies, as a result of the registration of the merger by the Registration Court, pursuant to the decision of 29 March 2019, in the National Court Register;
- deciding to participate in the Employee Capital Plans (PPK) Programme. For this purpose, a new fund was established - BNP Paribas PPK SFIO. At the same time, in accordance with legal requirements, the Company equity capital was increased to over PLN 25 million. In the first stage of the sales activities, covering entities with over 250 employees, the Company enrolled 96 firms;
- registration of the company's name change from Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas SA to BNP Paribas Towarzystwo Funduszy Inwestycyjnych SA on 20 May 2019;
- due to low interest of customers, the Company decided to liquidate BGŻ BNP Paribas Global Allocation FIZ fund, which was removed from the fund register on 17 December 2019.

As at 31 December 2019 the entity managed the following funds:

- **BNP Paribas FIO** (until 15.01.2020 the fund operated under the name of *BGŻ BNP Paribas FIO*) – it started operating in March 2016. The fund consists of 7 sub-funds with diversified investment policies, which enable customers to invest in different asset classes both on the local and global markets. BNP Paribas FIO also offers an Individual Retirement Account BNP Paribas - IKE as well as Individual Pension Insurance Account: BNP Paribas - IKZE. As at the end of 2019, the fund's assets amounted to PLN 2,594.1 million.
- **BNP Paribas Parasol SFIO** (until 29.09.2019 the fund operated under the name of *BGŻ SFIO*) – it was acquired from Ipopema TFI in January 2016, after obtaining the relevant consent of the Competition and Consumer Protection Office. The fund consists of 4 sub-funds. The fund's assets at the end of 2019 amounted to PLN 426.9 million.
- **BNPP FIO** (until 29 September 2019, the fund operated under the name of *BNP Paribas FIO*) – established in 2005; the fund comprises 3 sub-funds investing mainly on the Polish market. As at the end of 2019, the fund's assets amounted to PLN 44.3 million.
- **Avantage FIZ in liquidation** – created in November 2015; the offer is addressed primarily to wealthy clients due to the higher minimum investment amount and complex investment strategy. The fund's liquidation started on 27 December 2019. The value of the fund's assets was equal to PLN 6.9 million as at the end of 2019.
- **BNP Paribas Premium SFIO** (until 03.02.2020 the fund operated under the name of *Spectrum SFIO*) – established in July 2014, with 4 separated sub-funds. The management of the fund was taken over following the merger with Riviera TFI. The value of assets at the end of December 2019 was equal to PLN 106.1 million.
- **FWR Selektyny FIZ** – established in May 2014, the management of the fund was taken over following the merger with Riviera TFI. FWR Selective FIZ is a portfolio of absolute rate of return funds, including foreign funds, supported by investments in equity funds and alternative assets funds (e.g. debt, real estate). The value of the fund's assets amounted to PLN 4.5 million as at the end of 2019.
- **BNP Paribas PPK SFIO** with 8 separated sub-funds (the so-called target date funds, TDF), created to offer Employee Capital Plans (PPK) to clients. At the end of 2019, the fund's assets amounted to PLN 2.3 million.

BNPP TFI has partnered with the Bank to distribute units of the funds that it offers under an agreement concluded with the Brokerage Office of the Bank.

Table 46. Basic financial data of BNP Paribas TFI S.A.

PLN '000	31.12.2019	31.12.2018	31.12.2017
Balance sheet total	38,718	18,918	17,130
Long-term investments	327	608	650
Equity	29,114	12,887	12,592
including: net financial result	102	2,584	2,821

BNPP TFI has a share capital of PLN 16,692.9 thousand divided into 695,538 shares with par value of PLN 24 each. As at 31 December 2019, the its equity amounted to PLN 29.1 million and is sufficient to ensure security of the entity's daily operations.

As at 31 December 2019, the Company managed assets of the total value of over PLN 3,185 million (compared to PLN 1,811 million at the end of 2018), an increase in assets by 76% y/y – one of the highest on the investment funds market. The increase in value of assets under management was influenced mainly by two factors: positive net sales of participation units (over PLN 1.143 million) and inclusion of Riviera TFI funds.

Despite incurring one-off costs related to the merger with Riviera TFI, as well as costs of the PPK project, the Company recorded a positive financial result in 2019 in the amount of PLN 0.1 million.

8.2. BNP Paribas Leasing Services Spółka z o.o.

BNP Paribas Leasing Services Sp. z o.o. (the "Company") offers its customers a full range of leasing products in cooperation with the Bank. In 2019, the Company provided services to customers from the segments of micro-enterprises, Personal Finance, SME and corporate customers. As a result of the acquisition of customer financing of the above segments from the Bank in 2018, the dynamic growth of working assets continued in 2019.

In 2019, the Company concluded almost 20 thousand new agreements for the amount of 2,316,545 thousand PLN, which constituted an increase by 11% y/y.

As at 31 December 2019, the Company's share capital consisted of 4,000 equal shares with a total par value of 40,000,000 PLN. The total assets amounted to 3,439,131 thousand PLN.

The Company currently has 59 branches.

Table 47. Basic financial data of BNP Paribas Leasing Services Spółka z o.o.

PLN '000	31.12.2019	31.12.2018	31.12.2017
Balance sheet total	3,439,131	2,413,330	869,606
Long-term investments*	3,139,626	1,833,087	547,249
Equity	(2,752)	7,244	(11,280)
including: net financial result	(9,996)	(14,490)	(12,005)

*receivables from granted financing

As a result of the recognition of costs incurred in connection with expenditures necessary to adapt the Company to the planned considerable scale of operations and in relation to the effect of recognition of prudential allowances for credit risk on the dynamically growing portfolio of long-term investments, the Company continues to record a net financial loss. However, this is an expected and temporary situation, which should change in the 2020 perspective as the balance sheet scale of the Company's operations stabilises.

The Company is not subject to prudential regulations on capital adequacy standards and is not required to comply with minimum capital ratios. In December 2018, the Company's share capital was increased to the value of PLN 40,000 thousand, thus restoring the positive balance of the Company's own equity.

The net loss for 2019 resulted again in negative equity value. In the current situation, the Group does not intend to increase the Company's, because no significant risk of not realizing the budget for 2020 and not achieving the expected improvement of the Company's capital situation is identified. Possible decisions in this respect are planned for the first half of 2021.

8.3. BNP Paribas Group Service Center S.A.

The scope of the business activity of BNP Paribas Group Service Center S.A. ("BNPP GSC") includes:

- providing financial intermediation services to the Bank, consisting in:
 - providing information regarding the terms of loan agreements to applicants,
 - supporting the Bank's customers in completion of loan applications,
 - accepting the documents required by the Bank and filed by customers, verifying them in terms of correctness and completeness and submitting them to the Bank,
 - registration of documents in the Bank's sales system,
 - informing customers of the credit decisions issued by the Bank,
- **services auxiliary to insurance brokerage**, consisting in administration and performance of group insurance agreements concluded by the Bank,
- **agency services** for insurance services,,
- **providing IT services** related to the development of banking and financial applications and systems to the BNP Paribas Group entities,
- **leasing** the AVAYA telecommunication platform to the Bank,
- comprehensive **management of loyalty programs** for parties connected to the Bank,
- providing **marketing services** for employees of the Bank's partners on the Bank's request.

As part of the implementation of the integration process and due to the similar nature of the action, on 31.12.2019 (date of entry in the National Court Register) BNP Paribas Group Service Center S.A. was merged with BNP Paribas Financial Services Sp. z o.o. where BNPP GSC acted as the acquirer.

Table 48. Basic financial data of BNP Paribas Group Service Center S.A.

PLN '000	31.12.2019*	31.12.2018	31.12.2017
Balance sheet total	45,400**	29,354	19,072
Short-term investments	35,644**	22,536	10,298
Equity	38,925**	23,701	14,467
including: net financial result	9,785	12,621	18,406

* - preliminary data

** - including effects of the merger with BNP Paribas Financial Services Sp. z o.o.

8.4. BNP Paribas Solutions Spółka z o.o.

BNP Paribas Solutions Sp. z o.o. (the "Company") has been operating since 9 July 2014 (date of entry into the National Court Register). As a result of the acquisition of the Core Business of Raiffeisen Bank Polska S.A. on 31 October 2018, it became a part of BNP Paribas Bank Polska S.A. Group. The Company is the owner of the internet currency exchange platform - Rkantor, which is one of the main sources of income. The client is able to exchange currencies and make money transfers, by logging into his register. All activities are performed by the client in the system.

BNP Paribas Solutions Sp. z o.o. has the status of a National Payment Institution (based on a permit issued by the Polish Financial Supervision Authority (KNF) on 22 September 2015), which authorizes it to keep payment registers and carry out interbank transfers by customers.

The subject of the Company's activity is mainly brokerage activities related to the securities market and commodity exchanges, including currency exchange. In addition, the Company conducts activities related to software, IT consulting, data processing, website management (hosting) and activities supporting financial services (excluding insurance and pension funds), as well as activities of insurance agents and brokers.

Currently, the primary objective of BNP Paribas Solutions Sp. z o.o. is to provide individual and institutional customers with the widest possible range of currency exchange and funds transfer products via Rkantor.com online platform with the highest level of security and speed, combined with low transaction costs.

In addition, the Company carries out the following projects for the Bank:

- building an Internet trading platform for currency exchange (New FX PI@net),
- support for the "#Korzystaj" (#Use) shopping program available in the Bank's electronic access channels,
- application for the Treasury sales network supporting the sale of foreign currency products and financial instruments (Kalejdoskop Walut – Currency Kaleidoscope),
- MIFID questionnaire for customers of all the Bank's business lines (SONDA).

Table 49. Basic financial data of BNP Paribas Solutions Sp. z o.o.

PLN '000	31.12.2019	31.12.2018
Balance sheet total	74,419	76,442
Short-term investments	69,701	74,211
Equity	2,989	3,638
including: net financial result	(660)	(772)

8.5. Bankowy Fundusz Nieruchomościowy Actus Spółka z o.o.

Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o. („the Entity”) was established in 1999 to carry out the following:

- purchase and sale of real property as well as limited property rights;
- construction projects on own and third-party real property;
- lease and rental of real property as well as lease of space.

As at 31 December 2019, the entity's investment portfolio comprised undeveloped land in Wrocław-Marszowice, with the area of 46.7977 ha. In accordance with the Local Development Plan, the real property will be used for residential building purposes.

It is the entity's objective to sell the property on favourable terms.

Table 50. Basic financial data of BFN Actus Spółka z o.o.

PLN '000	31.12.2019*	31.12.2018	31.12.2017
Balance sheet total	56,827	56,129	54,785
Long-term investments	56,577	55,868	54,435
Equity	48,252	47,688	46,557
Including: net financial result	564	1,113	(229)

* - unaudited data

8.6. Campus Leszno Spółka z o.o.

Campus Leszno Sp. z o.o. ("the Company") was established on 28 June 2018 by means of a company agreement in the form of a notarial deed and entered into the Register of Entrepreneurs of the National Court Register.

The Company was separated from the Bank's structures, where the Training and Conference Centre (CSK Leszno) operated as a Training Centre. The Company's activity still consists in the providing training and leisure services as well as providing training, hotel and catering facilities. The scope of the Company's activity also includes: entertainment and recreation activities, activities related to the organization of fairs, exhibitions and congresses and other business services.

8.7. BGZ Poland ABS1 Designated Activity Company

BGZ Poland ABS1 Designated Activity Company ("SPV") based in Ireland, 3rd Floor Kilmore House, Park Lane, Spencer Dock, Dublin. A special purpose company with which the Bank carried out a securitisation transaction for a part of the loan portfolio. The Group has no equity involvement in this unit nor is it affiliated with it organizationally. The subject of the company's activities is limited in the manner described in Article 92a Paragraph 4 of the Banking Law. The sole activity of this entity is the acquisition of receivables and the issuance of securities.

Pursuant to the agreements concluded on 11 December 2017 (as amended), the Bank transferred receivables from the portfolio of loans and cash advances and car loans granted in the Polish currency to SPV. Subsequently, SPV issued securities and took out a loan, secured with the above-mentioned receivables.

SPV is consolidated for the purpose of preparing the consolidated financial statements of the Group

9. KEY RISKS MANAGEMENT

Risk management is an integral part of the Bank's overall management system. The Bank designs comprehensive rules of risk identification and assessment in response to the requirements of the supervisory review and assessment process. Taking into account regulatory requirements, best practices and use of the existing risk management processes tried and tested by the Bank, the rules are aimed at identification and assessment of all risks to which the Bank is or may be exposed. The Bank takes into account the specific nature, scale and complexity of business activity and related risk, ensuring that all material risks are measured and mitigated.

The Bank strives to identify and assess threats arising from the internal and external environment that could have a significant impact on the financial stability of the Bank. The risk identification process is performed annually in the Bank.

In the risk identification process carried out in 2019 The Bank distinguished the following types of risks in its business activity, which were assessed as material:

- credit risk (including concentration risk);
- counterparty risk;
- market risk;
- interest rate risk in the banking book;
- liquidity risk;
- operational risk (including compliance risk, business continuity risk and IT risk);
- business risk (break-even risk);
- reputation risk;
- strategic risk;
- model risk;
- insolvency risk (including leverage risk).

In order to ensure that the aforementioned risks have been identified, defined and are subject to appropriate control and management, the Bank monitors all of the above-mentioned risks and subjects them to periodical reviews.

The Bank has developed detailed procedures for specific risks, defining for measurable risks, i. a. the level of risk appetite. The risk appetite, within the limits set by the risk tolerance, defines the manner in which the Bank uses its risk-taking capacity by specifying the degree of risk exposure that a given business area may take for each type of risk. For non-measurable risks, analysis and monitoring is carried out periodically based on qualitative or hybrid methods.

All methods and procedures are reviewed periodically in terms of their appropriateness and reliability and are subject to validation tests, stress tests as well as back testing, based on both theoretical changes in market parameters, business parameters and customer behaviour, as well as changes that have actually taken place on the market in the past.

The Bank monitors specific types of risks by means of a formal system of limits and reports, implemented on the basis of dedicated risk management policies, accepted at the level of the Bank's Management Board. The system of limits is set in such a way as to ensure that:

- the Bank satisfies the applicable supervisory requirements at a secure and optimum level;
- the desirable risk profile, as defined in the strategy adopted by the Bank, is maintained;
- they do not exceed the risk level acceptable to the BNP Paribas Group.

If a limit is exceeded, the unit responsible for maintaining the reported values below the limit is obliged to employ measures enabling reduction of the risk value in accordance with the procedures in place at the Bank. The information system used for purposes of risk management ensures collection of data concerning operations and transactions, along with their effect on the Bank's risk profile.

The risk management policy of the Bank is aimed at ensuring that the employees in charge of risk management process supervision and handling have extensive practical experience and theoretical knowledge about the tasks performed, in addition to high morale. The procedures in place at the Bank enable control over correctness of realisation of their tasks

The Bank's policy is based on the principle that the functions of business (direct entry into transactions), operations (transaction booking and clearing) and control functions (risk measurement and monitoring) forming part of the currency,

interest rate and liquidity risk management process are fulfilled by separate, organisationally independent units. The scope of their responsibilities is clearly defined to determine their role and accountability in the risk management process. This enabled separation of business, control, risk reporting and operational functions in order to guarantee appropriate quality of risk control and operational processes in addition to ensuring that the results of control indicating that the risk level is too high generate appropriate response of the Bank's management.

The Bank has adopted risk control and management policies that determine the measures to be employed in crisis situations. The principles of crisis identification, the scope of measures to be employed as well as responsibilities necessary to mitigate the related risk and to implement corrective actions, were also defined.

The risk management system of the Bank comprises mainly the Supervisory Board, the Management Board, dedicated committees (Audit Committee and Risk Committee at the level of the Supervisory Board, ALCO, Risk Management Committee, Retail Banking Risk Committee, Personal Finance Risk Committee, Credit Committee, Problematic Loan Committee, Products Approval, Services, Transaction and Businesses Committee, as well as Internal Control Coordination Committee), Risk Area department, Compliance Division as well as Security and Continuity of Business Management Department.

The key role in the risk management system at the Bank is fulfilled by the Management Board, which defines the risk management strategy, risk appetite, and adopts the risk management policies as well as defines material risk limit policy and risk control procedures. The risk management principles are derived from the document *Risk Management Strategy in BNP Paribas Bank Polska S.A.* defined by the Management Board and approved by the Supervisory Board.

9.1. Credit Risk

Credit risk is the risk of the Bank incurring a loss on account of a failure to meet its obligations by the deadline specified in the agreement as a result of deterioration or loss of creditworthiness by the customer.

The Bank's credit risk management system has been defined in the *Credit Policy of BNP Paribas Bank Polska S.A.* adopted by the Management Board. Detailed financing principles and criteria applicable to the product offering of each business line, types of available loans, objectives, financing terms and limits have been defined in the credit policies of each business line. It is the Bank's intention, in accordance with the criteria established in the credit policy, to cooperate with customers enjoying good reputation and a good economic and financial condition.

Additionally, the aforementioned credit policies specify detailed principles applicable to risk identification, measurement and acceptance, collateral securing repayment of the loan as well as customer monitoring during the term of the loan agreement.

The organisation of the credit risk management process aligned with the business line structure in the Bank. A central role in the credit risk management system is performed by the Risk Division, which is an organisationally separate unit managed by a Member of the Management Board acting in the capacity of the Chief Risk Officer. Credit risk management activities are supported by the Risk Management Committee as well as the Retail Banking/Personal Finance Risk Committees.

The credit risk of the customers is assessed using rating and scoring classification systems in addition to the risk classification standards defined in IFRS.

Credit decisions are made in accordance with the decision-making model approved by the Management Board of the Bank and aligned with the standards imposed by the BNP Paribas Group. The decision-making model takes into account the structure of the business lines, determines the number of decision levels, the scope of their competence as well as the principles, criteria and conditions to be satisfied in the credit decision-making process. The value thresholds for the decision-making competence depend on such criteria as the customer segment, risk profile and the borrowing period. At each competence level, credit decisions are taken by two employees (four-eye principle), namely a representative of the business line and a representative of the organisational unit responsible for customer and transaction risk assessment performed independently of the business line. For customers whose credit risk assessment is performed in accordance with simplified risk assessment principles or models, including scoring models approved by the Risk Management Committee or the Retail Banking/Personal Finance Risk Committees, credit decisions may be taken by one representative of the business line.

The Bank follows the following credit risk management principles:

- each credit transaction requires comprehensive credit risk assessment expressed in internal rating or scoring,
- thorough and diligent 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 necessary margin of safety,

- as a rule, financing is provided to the customers based on their ability to generate cash flows that ensure repayment the liabilities to the Bank,
- the credit risk assessment is additionally verified by credit risk assessment personnel, independent of the business personnel,
- the pricing terms of a credit transaction cover the risk involved in such a transaction,
- credit risk is diversified in such dimensions as geographical regions, industries, products and customers,
- credit decisions may only be taken by authorised employees,
- the customer and the transactions made with the customer are monitored transparently from the perspective of the customer, in a manner that strengthens the relationship between the Bank and the customer.

Credit risk management in the Bank's subsidiaries

The principles of the Bank's supervision over the credit risk generated by the activity of subsidiaries is specified in the Credit Policy of BNP Paribas Bank Polska S.A.

The Bank recommends, reviews and accepts policies, principles and methodologies applied by its subsidiaries in terms of credit risk management.

In the Bank and its subsidiaries, parallel credit risk management methods are applied, including:

- a rating system for Corporate Banking customers and Small and Medium Enterprises Banking;
- risk classification system according to IFRS standards;
- assessment of the creditworthiness of the Bank's joint clients and companies;
- a model for making credit decisions;
- the Bank's internal limits system for concentration risk, including limits on the subsidiaries' portfolios of receivables.

Restructuring and debt collection

In 2019, the Bank recovered a total of PLN 1,143.8 million of receivables, of which:

- PLN 292.1 million – as a result of debt collection activities (corporate entities – PLN 43.3 million, micro-enterprises – PLN 82.0 million, SME – PLN 30.8million, Personal Finance – PLN 103.0 million, mortgages – PLN 33.0 million);
- PLN 738.8 million – as a result of portfolio restructuring;
- PLN 112.9 million – as a result of NPL portfolio sale.

Concentration risk and country risk – additionally distinguished within the Bank's credit risk

Concentration risk is an inherent risk taken by the Bank within the framework of its statutory activity and is subject to a specific management process and rules.

The Management Board assesses the adopted concentration risk management policy in terms of the way it is applied, in particular as regards its effectiveness and adequacy of rules implementation in the context of current and planned activities and taking into account the risk management strategy. In the event of significant changes in the Bank's operating environment or risk management strategy, the review of the adequacy of the concentration risk management process is carried out immediately after the occurrence of such circumstances. Proper assessment of the concentration risk incurred by the Bank significantly depends on correct and complete identification of key risk factors that affect the concentration risk level. In justified cases, the Bank identifies the concentration risk in the process of planning a new business, including the introduction and development of new products, services and presence on the markets, and significant changes to the existing products, services and changes on the markets.

Diversification of the credit portfolio is one of the most important tools for credit risk management. Excessive credit concentration is undesirable for the Bank, as it increases risk. Potential losses related to a significant threat – thus, the degree of concentration should be monitored, controlled and reported to the Bank's management. The basic tools of concentration risk mitigation are mechanisms of identification and measurement of concentration risk and limits of exposures in particular segments of the Bank's portfolio and in subsidiaries. These tools enable diversification of the credit portfolio and reduction of negative effects related to unfavourable changes in particular areas of the economy.

The Bank considers a situation in which the share of a given concentration area (dimension) in the Bank's total assets is equal to or exceeds 10% or 5% of the Bank's planned net financial result for a given financial year. In such a situation, a given area (dimension) of concentration is subject to analysis, reporting and management within the concentration risk management process

One of the potential sources of credit risk is a high concentration of the Bank's credit exposures in particular entities or groups of entities related by capital and organisation. In order to limit it, Regulation (EU) No. 575/2013 defines the maximum exposure limit for the Bank. Pursuant to Article 395 of Regulation (EU) No. 575/2013: An institution shall not incur an exposure, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403, to a client or group of connected clients the value of which exceeds 25% of its eligible capital. Where that client is an institution or where a group of connected clients includes one or more institutions, that value shall not exceed 25% of the institution's eligible capital or EUR 150 million, whichever is higher, provided that the sum of exposure values, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403, to all connected clients that are not institutions does not exceed 25% of the institution's eligible capital.

The Bank monitors concentration limits in accordance with Article 387 of the EU Regulation No. 575/2013. As at the end of 2019, the limits specified in Article 395 of the EU Regulation No. 575/2013 were not exceeded. As at the end of 2019, the Bank's exposure to financing customers / groups of customers with capital or organisational links does not exceed the exposure concentration limit. The total of exposures equal to or exceeding 10% of the Bank's own funds represented 17%.

The concentration risk tolerance is defined in the Bank through a system of internal limits, which take into account both the directions and dynamics of business development assumed by the Bank, the acceptable level of credit risk and liquidity, as well as external macroeconomic and sectoral conditions and prospects. Internal limits for credit concentration risk are set for, i.a.:

- selected economic sectors/ industries,
- exposures denominated in foreign currency,
- customer segment (the Bank's internal segmentation),
- loans secured by a given type of collateral,
- geographical regions,
- the average probability of default,
- exposures with a specific rating (the Bank's internal rating scale),
- exposure with a specific debt-to-income ratio,

Actions reducing the Bank's exposure to concentration risk may include systemic actions and case-by-case actions related to a single / specific decision or transaction. Systemic actions limiting the concentration risk include:

- limiting the scope of lending to specific types of customers by modifying the credit policy,
- reducing the concentration risk limits,
- diversification of asset types at the level of the Bank's statement of financial position,
- changing the business strategy in such a way that it prevents excessive concentration,
- diversification in the types of collateral received.

Case-by-case actions (related to a single / specific decision or transaction) limiting the concentration risk include:

- limiting new transactions with a given customer or group of connected customers,
- sale of selected assets / loan portfolios,
- securitisation of assets,
- establishment of new collateral (e.g. credit derivatives, guarantees, subparticipation, insurance contracts) for existing or new credit exposures.

The Bank's industry concentration analysis covers all the Bank's credit exposures to institutional customers. The Bank defines industries based on the Polish Classification of Activities (PKD 2007 code). The structure of the Bank's exposure to industries analysed at the end of 2019, similarly as at the end of 2018, is characterised by concentration towards such industries as: Agriculture, Forestry, Hunting and Fishing; Production of Groceries, Beverages and Tobacco Products. In 2018, they accounted for 32% of the Bank's exposure towards institutional clients, while in 2019 they constituted 34% of the Bank's exposure.

In 2019, the largest share of non-performing loans was observed in the following industries: (22.1%) Hotels and Restaurants, Entertainment and Recreation activities; (18.3%) Civil and Water Engineering Objects and Specialised construction, and (12.9%) Publishing and printing; Media production.

In 2018, the largest share of non-performing loans was observed in the following industries (excluding issued bonds): (20.3%) Hotels and Restaurants, Entertainment and Recreation activities; (15.9%) Publishing and printing; Media production and (13.2%) Civil and Water Engineering Objects and Specialised construction.

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

In 2019, the Bank continued its conservative policy concerning country risk. Country limits have been reviewed periodically and the limit level modified to match precisely the anticipated business needs and risk appetite of the Bank.

As at the end of December 2019, transactions related to foreign credit activity of the Bank represented 46% of the Bank's exposure toward countries, treasury transactions (including deposits and derivatives) represented 19%, while the remaining part, i.e. 35%, was related to international trade transactions (letters of credit and guarantees). France accounted for 31% of the exposure, the Netherlands for 12%, Luxembourg for 10%, Belgium for 9%, Switzerland for 7%, Austria and the UK for 6% each. The remaining exposures were concentrated in Belarus, Czech Republic and Turkey.

9.2. Counterparty risk

Counterparty risk is the credit risk concerning the counterparty, with whom the transactions are concluded, and in case of which the amount of liability may change in time depending on market parameters. Thus, counterparty risk is related to transactions involving instruments the value of which may change in time depending on such factors as interest rates or foreign exchange rates. The varying exposure may affect the customer's solvency and is of crucial importance to the customer's ability to settle liabilities when the transaction matures. The exposure is determined by the Bank on the basis of the current contract valuation as well as the potential future changes in the exposure, depending on the transaction type, customer type and settlement dates.

As at the end of 2019, the counterparty risk was calculated for the following types of transactions in the Bank's trading book: 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 means that in the credit process these transactions are subject to limits, the value of which results directly from the assessment of customer creditworthiness performed in the same way as in the process of credit product offering. However, the assessment also takes into account the specific nature of transactions, in particular their varying value in time or direct dependence on market parameters.

The principles applicable to foreign exchange transactions, derivative transactions as well as credit limit granting, use and monitoring for transactions subject to counterparty risk limits have been regulated in dedicated procedures. According to the policy adopted by the Bank, all transactions are entered into considering individual limits and knowledge of the customer. The Bank has defined groups of products offered to customers depending on their knowledge and experience. The Bank has transparent principles for collateralising the counterparty risk exposures.

9.3. Market risk (including: interest rate risk in the trading book and currency risk)

Interest rate risk in the trading book is the risk of adverse changes in the Bank's financial result or equity, driven by any of the following factors:

- differences in the repricing dates of the Bank's assets and the liabilities used for purposes of their financing (mismatch risk);
- difference in reference rates used for purposes of determining the interest rate for items with the same repricing dates (basis risk);
- changes in market interest rates which affect the fair value of the Bank's open positions (interest rate volatility risk); or
- customers exercising options embedded in banking products, which may be exercised as a result of changes in the market interest rates (customer's option risk).

Currency risk is the risk of adverse changes in the Bank's financial result, driven by changes in market foreign exchange rates.

The Bank engages in activities resulting in the creation of foreign currency positions sensitive to exchange rate fluctuations. At the same time, it strives to limit its exposure to foreign currency risk related to offering its customers products in foreign currencies. The Bank undertakes limited activity on the foreign exchange market in order to generate financial results from short-term arbitrage positions.

The Bank's exposure to market currency risk is limited by a system of limits. In accordance with the Bank's policy, the level of market currency risk is managed by the Financial Markets Line by managing the intraday and end-of-day currency position. In order to manage the currency position in an effective and precise manner, an information system is used, providing up-to-date information about:

- currency position,
- the global currency position,
- Value at Risk (VaR) levels,
- the daily result on currency position management.

The values of the currency position in specific currencies, global currency position and VaR are limited and reported by the Financial Risk and Counterparty Risk Division.

For measuring foreign exchange risk, the Bank uses the Value at Risk (VaR) method. It represents a change in the market value of an asset or portfolio of assets with specific assumptions regarding market parameters, over a specified period of time and with a specified probability. It is assumed that VaR for the purpose of currency risk monitoring is determined with 99% confidence level. The calculation of VaR for currency risk takes into account the one-day holding period of currency positions. The VaR methodology is subject to quarterly quality assessment by conducting a test involving comparison of the forecast values and values determined on the basis of actual foreign exchange rate changes, assuming that a given currency position is maintained (historical verification or so-called "back testing"). The comparison period is the last 250 business days.

9.4. Interest rate risk in the banking book

The core business of the Bank, i.e. lending and deposit-taking, results in the occurrence of open interest rate risk positions, which are transferred from the business lines to a portfolio managed by ALM Treasury using a transfer pricing system.

When determining the interest rate risk profile, the Bank takes into account not only contractual parameters, but also the actual characteristics of the products resulting from customer behaviour and built-in options, applying models e.g. for current accounts, savings accounts, fixed rate loans, credit cards.

Modelling the behaviour of products divided into business lines allows to select their stable and unstable part, reacting in different ways to changes in interest rates.

The following basic types of interest rate risk analyses (for the overall portfolio and divided by currencies) are defined in the policy on interest rate risk adopted by the Bank:

- a mismatch between the repricing dates of assets and liabilities ("gapping"), for the banking book;
- sensitivity of interest income to defined – expected and crisis (stressed) – scenarios for shifting interest rate curves, assuming various interest rate curve scenario (EaR);
- the amount of interest income under defined scenarios for the change of interest rate curves (NII);
- sensitivity due to different reference rates (basic risk);
- average investment length of capital and non-interest bearing current accounts (structural elements);
- sensitivity of fair value to a parallel shift of interest rate curves by 1 basis point, and to a shift of interest rate curves by 1 basis point at a selected nodal point of the curve;
- sensitivity of fair value measured as the nominal value of the annual transaction (item) with identical sensitivity -One Year Equivalent (OYE);
- change in fair value of capital with defined scenarios for changing interest rate curves.

The aforementioned analyses are the essential component of the system used for mitigating the interest rate risk in the banking book. The analyses are performed for the relevant portfolios on a daily, monthly or quarterly basis, depending on the type of analysis and the portfolio. Additionally, the Bank conducts sensitivity analyses for its banking book, where the changes in interest rates are more considerable than those typically observed (stress tests).

The table below presents the cumulative interest rate gap for the banking portfolio as at 31 December 2019. Utilisation of set limits is below the maximum values.

Table 51. Interest rate gap (in PLN million)

Term	Gap
1M	(9,614)
3M	7,584
6M	3,663
1Y	(65)
2Y	(4,907)
3Y	(4,874)
5Y	(6,167)
10Y	1,854

The average length of capital investment and non-interest bearing current accounts as at 31 December 2019 was 4.5 years. The sensitivity of interest income at interest rate curves shifts by + 50bp as at 30 June 2019 is presented in the table below:

Table 52. Sensitivity of interest income (in PLN million)

1st year	2nd year	3rd year
38.1	44.4	59.8

The supervisory test of the Bank's equity economic sensitivity (change in the fair value of the Bank's assets and liabilities, excluding own funds, under the assumed changes in interest rate curves) is presented in the table below (in terms of amounts and percentages):

Table 53. Supervisory test of the Bank's equity economic sensitivity

Scenario	PLN million	% of own funds
+200bp	-261.8	-3.10%
-200bp	+51.9	+0.61%

9.5. Liquidity risk

Liquidity risk is defined as the risk of the Bank losing the ability to meet its financial obligations, where liquidity is defined as the ability to:

- finance assets and meet the Bank's obligations on a timely basis in the course of its daily operations or in other conditions, without the necessity to incur loss, whereas, as maintenance of liquidity is the Bank's top priority, optimization of liquidity costs is considered in the last place;
- obtain alternative funds and supplementary funds to those held at present if they are withdrawn early and/or not renewed, so as to meet the current or potential demand for funds from the current depositors, ensure sufficient resources for purposes of lending and discharging other potential obligations related to processing derivative transactions or collateral put up by the Bank;
- generate a positive balance of cash flows over a specified time horizon, regardless of macroeconomic developments, achievement of business plans and changes in the regulatory environment.

The Bank operates in a free-market environment and is a financial markets participant, specifically in the retail, corporate and interbank markets, which offers a wide range of opportunities to control the liquidity level, but, at the same time, makes the Bank sensitive to crises in each of these environments. The Bank has a uniform risk monitoring system covering the core business of Raiffeisen Bank Polska S.A. acquired in 2018, which ensures up-to-date information on the level of the Bank's liquidity risk.

The following types of liquidity are distinguished by the Bank:

- immediate liquidity (intraday) – during the present day,
- future liquidity – beyond the present day, additionally divided into:
 - current liquidity – within 7 days;
 - short-term liquidity – more than 7 days to 1 month;
 - medium- and long-term liquidity – over 1 month.

Liquidity risk is defined as the risk of the Bank losing its ability to:

- meet its payment obligations on a timely basis;
- secure alternative funds and supplementary funds to those currently held;
- generate a positive balance of cash flows within a defined time horizon.

The Bank's policy on liquidity risk management focuses on:

- sustainable, organic growth of the balance sheet (an increase in the value of assets has to be linked with a corresponding rise in the level of financing with the use of stable equity and liabilities) as well as off-balance sheet transactions and liabilities;

- limitation of the Bank's dependence on changes in external conditions and ensuring that in a local crisis, global crisis or a crisis directly affecting the Bank, the Bank will be able to quickly meet its obligations without reducing the range of its services or initiating changes in its core business profile. If a crisis situation lasts longer, the Bank's policy focuses on maintenance of liquidity with possible changes in growth directions and introduction of costly business profile change processes;
- active limitation of the probability of adverse events which may affect the Bank's liquidity. In particular, this concerns events which may affect reputation risk. In such case, the Bank will undertake actions aimed at restoring confidence of both customers and financial institutions as soon as possible;
- ensuring high quality of liquidity management standards. Actions aimed at improving the quality of liquidity management at the Bank are its top priority.

Customers' deposits supplemented by medium- and long-term lines of credit and equity are the major sources of funding used by the Bank. Medium- and long-term lines of credit, including subordinated loans and the funds obtained in the process of loan portfolio securitization, are provided mainly by the BNP Paribas Group, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB) Bank and other financial institutions. The policy adopted by the Bank allows the use of other funding sources, such as: issuing own debt securities or entering structured transactions.

At the end of 2019, the Bank financed a portfolio of mortgage loans in CHF with funds in EUR and USD by concluding medium- and long-term foreign exchange transactions.

Loan financing structure

The Bank limits the risk of financing, which is associated with the risk of having insufficient stable sources of financing in the medium- and long-term and with the necessity to incur an unacceptable level of losses.

The Bank's loans are financed mainly with the use of customers' current and term deposits and it is the Bank's intention to maintain a stable relationship between these items and the funds deposited in the accounts of non-banking institutions, which is presented in the table below:

Table 54. Structure of loan portfolio financing

in PLN million	31.12.2019
Net loans and advances	70,625
Total sources of funding	89,464
Customer deposits, including:	86,266
- retail customers	42,282
- corporate	40,291
- non-banking financial institutions	2,691
- public sector institutions	1,002
Liabilities to banks	1,019
Debt securities issued	2,179

At the end of December 2019, compared to the end of 2018, the amount of wholesale funding received from the BNP Paribas Group remained at the same level. The Bank finances its foreign currency loans with deposits accepted from customers using, if necessary, foreign exchange transactions. If necessary, the Bank may use funds from medium and long-term loans from the BNP Paribas Group, which provides stable financing to cover currency shortages in EUR, USD or CHF.

As at 31 December 2019, the structure of open long-term lines of credit was as follows:

Table 55. Structure of loans from the BNP Paribas Group

in million	31.12.2019
CHF	150
EUR	200
PLN	560

Table 56. Structure of loans from the EBRD, EIB and CEB

in million	31.12.2019
PLN	220

The net liquidity coverage ratio (LCR) at the end of 2019 equaled 162%, and increase by 10 p.p. as compared to the end of 2018 (152%).

In addition, in the process of securitisation of the loan portfolio, the Bank received financing of the total amount of PLN 2,179 million.

9.6. Operational risk

The Bank defines operational risk in accordance with the requirements of the Polish Financial Supervision Authority included in Recommendation M as the possibility of incurring a loss or an unjustified cost through the fault of inappropriate or unreliable internal processes, people, technical systems or as a result of external factors. It incorporates legal risk, but does not include strategic risk. Operational risk is inherent in any type of banking operations.

Operational risk management system

The Bank maintains and develops an operational risk management system that comprehensively integrates the management of individual types of operational risk in all areas of the Bank's operations. The objective of the operational risk management system is to ensure the safety of the Bank's operations by implementing effective mechanisms for identification, assessment and quantification, monitoring, control, reporting and taking actions aimed at reducing operational risk. Such measures take into account the structures, processes, resources and scopes of responsibilities for the aforementioned processes at various organisational levels within the Bank.

The operational risk management strategy is described in the "Operational Risk Management Strategy of BNP Paribas Bank Polska S.A.", approved by the Management Board of the Bank and endorsed by the Supervisory Board. "The Operational Risk Policy BNP Paribas Bank Polska S.A.", adopted by the Management Board of the Bank, includes the organisational framework and standards for operational risk management. These documents address all areas of the Bank's operations as well as define the Bank's objectives and methods achieving them with regard to the quality of operational risk management and compliance with legal requirements set out in the recommendations and resolutions issued by local banking supervision authorities.

The Bank's operational risk management objectives include, in particular, compliance with high operational risk management standards that guarantee security of customer deposits, the Bank's equity, stability of its financial result as well as maintenance of the operational risk level within the range of the operational risk appetite and tolerance defined by the Bank. While developing the operational risk management system, the Bank complies with the applicable legal requirements, in particular the recommendations and resolutions of the national financial supervision authorities and the standards adopted by the BNP Paribas Group.

In accordance with the *“The Operational Risk Policy BNP Paribas Bank Polska S.A.”*, the Bank’s operational risk management instruments include:

- tools used to record operational events, together with the principles of their recording, allocation and reporting;
- operational risk analysis, its monitoring and ongoing control;
- counteracting elevated operational risk levels, including risk transfer;
- calculation of the capital requirement related to operational risk.

Compliance with the operational risk policy is verified by the Bank’s Management Board periodically and, if necessary, the required adjustments are made in order to improve the system. To that purpose, the Management Board of the Bank is regularly provided with information concerning the scale and types of operational risk to which the Bank is exposed, its effects and management methods.

Internal environment

The Bank precisely defines the roles and responsibilities in the operational risk management process, considering its organisational structure. The Operational Risk Department is responsible for day-to-day operational risk analysis in addition to development of appropriate risk control and mitigation techniques and their improvement. Development and implementation of the Bank’s strategy with respect to insurance as a risk mitigation technique is the responsibility of the Real Estate and Administration Department, while the Security and Continuity of Business Management (CoB) Department focuses on management of continuity of business.

As part of the legal risk management process, the Legal Division monitors, identifies and performs analyses of changes to laws of general application and their effect on the Bank’s operations, in addition to court and administrative proceedings which affect the Bank. The Compliance Department is responsible for day-to-day compliance risk analysis as well as development of appropriate risk control techniques and their improvement.

Considering the elevated level of external and internal risks related to fraud and offence against the assets of the Bank and its customers, the Bank has extended the scope of and improved its processes aimed at counteracting, detecting and examining such cases, which is the responsibility of the Fraud Management Department.

Risk identification and assessment

The Bank places a strong focus on identification and assessment of the factors that trigger its present exposure to operational risk in relation to banking products. It is the Bank’s objective to reduce the operational risk level through improvement of its internal processes as well as mitigating the risk inherent in the process of launching new products and services and outsourcing operations to third parties.

In accordance with the *“The Operational Risk Policy BNP Paribas Bank Polska S.A.”*, operational risk analysis is aimed at acquiring an understanding of the interdependence between the risk generating factors and operational event types, and it is performed primarily with the objective to define the operational risk profile.

The operational risk profile is the assessment of materiality of the risk, which is understood as the scale and structure of the operational risk exposure, defining the degree of exposure to the operational risk (operational losses), within the structural dimensions selected by the Bank (key process areas) and the scale dimensions. Periodic assessment and review of the Bank’s operational risk profile is based on an analysis of the Bank’s current risk parameters, changes and risks occurring in the Bank’s environment, implementation of the business strategy, as well as the adequacy of the 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 is responsible 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.”*, approved by the Bank’s Management Board. This document describes the main principles, organisational framework and standards for the functioning of the control environment in the Bank, complying with

the PFSA requirements provided in Recommendation H. Detailed internal regulations concerning specific areas of the Bank's activity are adapted to the specifics of the Bank's operations. The appropriate 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 in the Bank is based on the 3 lines of defence model, which consists of:

- 1st line of defence, which are organisational units from particular areas of banking and support areas,
- 2nd line of defence, which are organisational units responsible for risk management, regardless of the risk management related to the first line of defence, and the compliance unit,
- 3rd line of defence, which is the independent and impartial internal audit unit.

The Bank ensures internal control through independent monitoring of compliance with control mechanisms, including ongoing verification and testing.

Control and monitoring

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 independent opinions supporting achievement of the Bank's objectives. The Supervisory Board oversees the control of the operational risk management system and assesses its adequacy and effectiveness.

Operational risk capital requirements

In accordance with the applicable regulations, the Bank determines regulatory capital to cover the operational risk. The Bank uses the standardised approach (STA) for calculation of the capital requirement. Subsidiaries of the Bank, on a consolidated basis, determine the capital requirements according to the basic indicator approach (BIA).

Operational risk management in the Bank's subsidiaries

In accordance with supervisory regulations, the Bank supervises the operational risk related to the operations of its subsidiaries. Supervision is performed in the form of:

- the Bank's participation in developing and modifying operational risk management policies in its subsidiaries;
- providing substantive support in the field of operational risk management methods;
- participation of the Bank's representatives in selected activities in the field of operational risk management in subsidiaries;
- verification of compliance of operational risk management in subsidiaries with the strategy and policy of the Bank and the BNP Paribas Group.

As part of the implemented operational risk strategy and policy, subsidiaries of the Bank introduce, in particular, the principles of operational risk management and create organisational units (independent positions or functions) responsible for operational risk management. At the same time, they cooperate in this respect with the Operational Risk Department, which ensures the implementation of supervisory activities over the operational risk management processes in the Group. Moreover, the Bank's subsidiaries adopted the definitions of risks in line with the definitions applied by the Bank for the needs of operational risk management. In accordance with the requirements of supervisory regulations, the Bank records operational losses of its subsidiaries on the basis of information provided by these entities.

10. BANK ON THE STOCK EXCHANGE

10.1. Shareholders' structure and share price of BNP Paribas Bank Polska SA

Shareholder structure

As at 31 December 2019, there were two shareholders with at least 5% of the total number of votes at the General Shareholders' Meeting: BNP Paribas and BNP Paribas Fortis SA/NV, jointly holding 88.76% of votes. The remaining part of the Bank's shares (11.24%) is in free float.

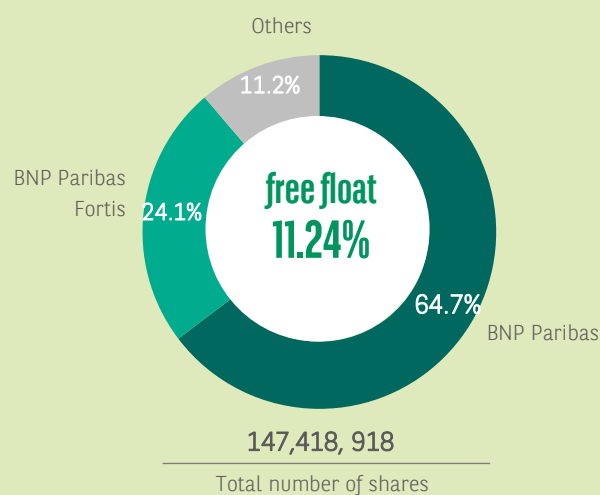
In 2019, there were no changes in the Bank's shareholder structure.

The Bank's shares have been listed on the Warsaw Stock Exchange since 27 May 2011. (IPO of Bank Gospodarki Żywnościowej S.A.).

The Bank's shares to which ISIN code PLBGZ000010 has been assigned are listed on the Main Market of Warsaw Stock Exchange (WSE) under the abbreviated name of BNPPPL, marked BNP.

Since 23 September 2019, the shares are included in mWIG40 and mWIG40TR indices.

Chart 14. Shareholder structure as at 31.12.2019



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 in on 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.

Share price of BNP Paribas Bank Polska SA

During the session on 30 December 2019, the share closing price amounted to PLN 68.00 and was 40.21% higher than on 28 December 2018. In the same period, the WIG Banks index fell by 9.19%.

The average share price of the Bank's shares in 2019, as compared to the previous year, increased by 3.26% to PLN 58.90 (PLN 57.04 in 2018). The average volume of trading in the Bank's shares was 1,860.55 shares per session and the average trading value was PLN 118.26 thousand per session (4,964.31 shares and 205.40 thousand in 2018 respectively). The price reached its maximum on 22 July 2019 (PLN 73.80).

After a significant price decrease in July and August 2018 (the price recorded its annual minimum of PLN 38.00 during the session on 5 September 2018, which coincided with the problems in the capital market caused by a drop in confidence and problems of some investment fund companies) in 2019, the Bank's share price recovered and reached levels higher than those recorded in 2018. The share price was positively influenced by consistent implementation of the strategy and an increase in the scale of operations and financial results as a consequence of the finalisation of the acquisition of the Core Business of Raiffeisen Bank Polska S.A.

The increased interest in the Bank's shares is best reflected by the increase in average daily trading volume, which from 399.5 shares in the first quarter of 2019, through 940.95 shares in the next quarter and 2,973.35 shares in the third quarter, reached 3,042.31 shares in the last quarter of 2019. This was reflected in an increase in the average daily trading value, which in the following quarters of 2019 amounted to: PLN 20.01 thousand, PLN 49.91 thousand, PLN 205.59 thousand and PLN 191.00 thousand in the fourth quarter.

In the first and second quarter of 2019, the share price remained low (the daily average was PLN 50.01 and PLN 53.03 respectively) with a relatively low average daily trading volume and the average value of trading per session. The third quarter of 2019 brought a significant improvement of the Bank's share price. The average price increased to PLN 68.75 with a noticeable boost in the average daily trading volume and value.

Eventually, the fourth quarter brought stabilization of the scale of trading with a slight decrease in the average share price (to PLN 58.90). The price drop was related, among other things, to a deterioration in sentiment to bank shares as a result of unfavorable judgments of Court of Justice of the European Union (CJEU) in cases concerning mortgage loans indexed to the Swiss franc (CHF) and a partial refund of commissions on consumer loans repaid early

Chart 15. The Bank's share price from 28.12.2018 to 30.12.2019

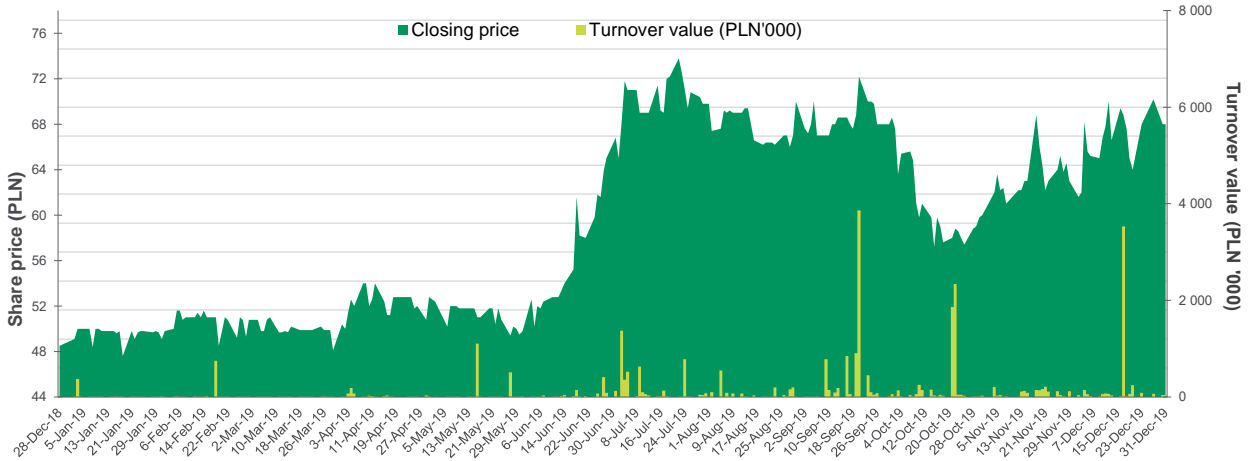
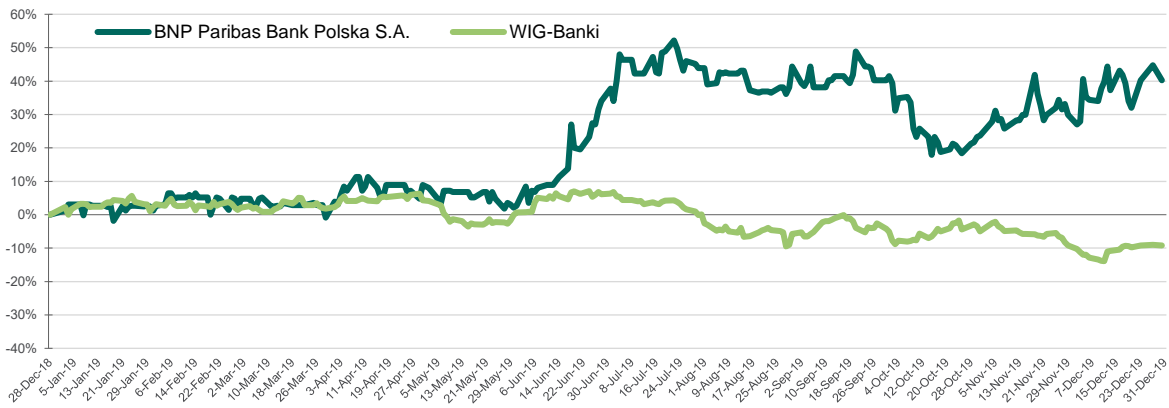


Chart 16. Change in Bank's share price vs. WIG-Banks from 28.12.2018 to 30.12.2019 (28.12.2018 = 100%)



10.2. Ratings of BNP Paribas Bank Polska S.A.

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

On 17 October 2019 The Agency made an updated assessment of the Bank as a result of which it maintained the long-term deposit rating of the Bank at Baa1 while changing the outlook from stable to positive. The short-term deposit rating was maintained at Prime-2.

Due to the improvement of the Bank's financial standing after the acquisition of the Core Business of Raiffeisen Bank Polska S.A., the basic BCA (Baseline Credit Assessment) was raised from ba2 to ba1. The Adjusted Baseline Credit Assessment and Counterparty Risk Assessments were maintained at their current levels (baa3 and A3(cr)/Prime-2(cr) respectively).

A good assessment of the Bank's financial standing results from:

- improving profitability and operations efficiency,
- moderate level of credit risk and strengthening of the equity situation,
- financing assets with funds from the outside of the interbank market,
- the adequate level of liquid assets.

The macroeconomic situation in Poland has a positive impact on the Bank's current and projected assessment.

Moody's Investors Service	Rating
Long-term deposit ratings (<i>LT Bank Deposits</i>)	Baa1
Short-term deposit ratings (<i>ST Bank Deposits</i>)	Prime-2
Individual assessment (<i>Baseline Credit Assessment, BCA</i>)	ba1
Adjusted individual assessment (<i>Adjusted Baseline Credit Assessment, Adjusted BCA</i>)	Baa3
Counterparty risk assessment in long-term / short-term (<i>Counterparty Risk assessments, CRa</i>)	A3(cr)/Prime-2(cr)
Perspective	positive

10.3. Investor relations

BNP Paribas Bank Polska SA pursues a transparent information policy to ensure high communication standards taking into account information needs of capital market participants.

When providing information, the Bank, as a public company and a supervised institution, follows the corporate governance rules, in compliance with the binding provisions of law, and provides capital market participants with equal access to information about the current activity of the company, its activities or its financial results, fulfilling information obligations in a manner that enables a reliable valuation of the Bank's shares.

A dedicated organisational unit in the Bank - the Investor Relations Bureau – is responsible for relations with shareholders, investors and other capital market participants.

In 2019, as part of communication with capital market participants:

- The Investor Relations Bureau maintained ongoing contacts with sell-side analysts and investors, answering telephone and e-mail questions about the Bank's activity and financial performance,
- after each quarter the published financial results of the Bank and the Bank's Capital Group were presented by the Bank's Management Board at meetings with investors, capital market analysts and the media,
- Representatives of the Bank's Management Board and the Investor Relations held a number of individual and group meetings with investors, including domestic investor conferences,
- The Bank maintained a dedicated Investor Relations website <https://www.bnpparibas.pl/investor-relations>, containing relevant information for investors, Bank shareholders and analysts.

In 2019, recommendations for BNP Paribas Bank Polska shares were issued by 5 domestic financial institutions. At the end of 2019, the Bank had 4 up-to-date recommendations, including 3 "Buy" and 1 "Keep". The median of target prices from the up-to-date recommendations as at the end of 2019 amounted to PLN 74, i.e. it was higher than the share price as at 30 December 2019 (PLN 68) by 8.8%.

11. STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

11.1. Compliance with corporate governance principles in 2019

Legal and regulatory basis for the corporate governance

Corporate governance in BNP Paribas Bank Polska S.A. results from legal acts (in particular Code of Commercial Companies, Banking Law and laws regulating capital market) and recommendations included in the documents: "Best Practices for WSE Listed Companies" and "Principles of Corporate Governance for Supervised Institutions"

In accordance with § 70, par. 6, point 5 of the Regulation of the Minister of Finance of 29 March 2018 concerning current and periodic information reported by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state (consolidated text: Journal of Laws of 2018, item 757), the Management Board of BNP Paribas Bank Polska S.A. presents the following information regarding compliance with corporate governance principles in 2018.

Corporate governance principles applicable to the Bank

Principles of Corporate Governance for Supervised Institutions

The Bank is subject to "Principles of Corporate Governance for Supervised Institutions" of 22 July 2014, issued by the Polish Financial Supervision Authority (the "Principles of Corporate Governance"). The Principles are a collection of rules defining internal and external relations of supervised institutions, including relations with the shareholders and customers, their organisation, functioning of internal control, and key systems and internal functions, and also statutory bodies and the principles of their cooperation. The Principles are available on the website of the Polish Financial Supervision Authority on: https://www.knf.gov.pl/dla_rynku/Zasady_ladu_korporacyjnego.

The Principles of Corporate Governance were adopted by the Bank's Management Board and Supervisory Board in December 2014 and by the General Shareholders' Meeting in February 2015.

The Bank's position with respect to the application of the Corporate Governance Principles was updated in 2017 and expressed in the Resolution of the Bank's Management Board dated 26 April 2017, subsequently confirmed by the Supervisory Board on 11 May 2017 and adopted by the General Shareholders' Meeting on 22 June 2017. The aforementioned position is published on the Bank's website: <https://www.bnpparibas.pl/relacje-inwestorskie/lad-korporacyjny/zasady-ladu-korporacyjnego-knf>

Best Practices for WSE Listed Companies

Since 1 January 2016, the Bank is subject to the "Best Practices for WSE Listed Companies 2016", as adopted by the Warsaw Stock Exchange Supervisory Board Resolution No. 26/1413/2015, dated 13 October 2015.

The document of *Best Practices for WSE Listed Companies 2016* is available on the Warsaw Stock Exchange website at: <https://www.gpw.pl/dobre-praktyki>.

In its Resolution No. 7/BZ/3/2016 of 20 January 2016, the Bank's Management Board adopted the principles of corporate governance described in the "Best Practices for WSE Listed Companies 2016", with individual exceptions.

Pursuant to § 29 par. 3 of the Warsaw Stock Exchange Rules, on 26 January 2016, the Bank published a report on its non-application of some detailed principles described in the "Best Practices for WSE Listed Companies 2016".

Statement of compliance with corporate governance principles in 2019

Principles of Corporate Governance for Supervised Institutions

BNP Paribas Bank Polska S.A. in 2019 follows the Principles of Corporate Governance for Supervised Institutions" with exemption regarding application of § 8 item 4 of the Principles:

„supervised institution should, if this is justified by the number of shareholders, drive at facilitating participation of all the shareholders in the meetings of the statutory body of the supervised institution, though, i.a., ensuring that active participation in a meeting of the statutory body is possible via electronic means of communication”.

Bank's commentary:

Due to the current structure of the shareholders, and also due to lack of ability to fully eliminate legal and organizational-technical risks that may negatively affect the course of the General Shareholders' Meetings, the Bank has decided not to use the possibility of shareholders' participation in the General Shareholders' Meetings via electronic means of communication.

Nevertheless, in order to ensure better communication with the capital market participants, the Bank intends to start broadcasting the General Meeting of Shareholders starting from the next ordinary general meeting in 2020.

Best Practices for WSE Listed Companies

The Bank applies the recommendations and principles described in the "Best Practices for WSE Listed Companies 2016" with the exceptions listed below:

- the current status is that the Bank does not apply recommendation IV.R.2 and principles: I.Z.1.16, I.Z.1.20, IV.Z.2 regarding transmission of the General Shareholders' Meetings and possibility to participate and vote in the General Shareholders' Meetings remotely via electronic means of communication. Neither the Bank's Statute nor the Regulations of the General Meeting currently provide shareholders with such facilities which is justified in particular by the current structure of shareholders and no such expectations reported to the Bank by minority shareholders. Aforementioned facilities do not have practical mean for the efficient course of the General Shareholders' Meeting. Nevertheless, in order to ensure better communication with the capital market participants, the Bank intends to start broadcasting the General Meeting of Shareholders starting from the next ordinary general meeting in 2020,
- the Bank partially applies principle V.Z.5. – Supervisory Board's approval before the company concludes a significant agreement with a shareholder who holds at least 5% of the total vote in the company or with a related party. The Bank applies the principle that the Supervisory Board approval is required to conclude a significant agreement with a related party (currently all shareholders with at least 5% of the total vote are related parties),
- the following principles and recommendations do not apply to the Bank: I.Z.1.10 (the Bank does not publish financial projections), III.Z.6. (the internal audit function and the Audit Committee of the Supervisory Board are established in the organizational structure of the Bank) and IV.R.3. (All securities issued by the Bank are listed only on the Warsaw Stock Exchange).

The Management Board of the Bank hereby declares that the Bank and its governing bodies complied with the corporate governance principles determined in the "Principles of Corporate Governance for Supervised Institutions" and the "Best Practices for WSE Listed Companies 2016" in the scope adopted by the Bank. In the reporting period, the corporate governance principles adopted by the Bank were not violated.

11.2. Shares and shareholders

As at 31 December 2019, the structure of the shareholders of BNP Paribas Bank Polska S.A., specifying those holding at least 5% of the total number of votes at the General Shareholders' Meeting (GSM), was as follows:

Table 57. Shareholder structure as at 31.12.2019

Shareholder	number of shares	% interest in share capital	number of votes at the GSM	% share in the total number of votes at the GSM
BNP Paribas, in total:	130,850,464	88.76%	130,850,464	88.76%
<i>BNP Paribas directly</i>	95,360,238	64.69%	95,360,238	64.69%
<i>BNP Paribas Fortis SA/NV directly</i>	35,490,226	24.07%	35,490,226	24.07%
Other shareholders	16,568,454	11.24%	16,568,454	11.24%
Total	147,418,918	100.00%	147,418,918	100.00%

In 2019 there were no changes in the shareholder structure.

As at 31 December 2018, the Bank's share capital amounted to PLN 147,419 thousand.

The share capital is divided into 147,418,918 shares with the par value of PLN 1.00, including: 15,088,100 A series shares, 7,807,300 B series shares, 247,329 C series shares, 3,220,932 D series shares, 10,640,643 E series shares, 6,132,460 F series shares, 8,000,000 G series shares, 5,002,000 H series shares, 28,099,554 I series shares, 2,500,000 series shares, 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 2018, there were 67,005,515 registered shares, including 4 shares from B series).

No special control rights are attached to the ordinary bearer shares.

Four B series registered shares in the Bank are preference shares with respect to payment of the full par value per share in the event of the Bank's liquidation, once the creditors' claims have been satisfied, with priority over payments per ordinary shares, which, after the rights attached to the preference shares have been exercised, may be insufficient to cover the total par value of those shares.

The Bank's Statute does not impose any limitations as to exercising the voting rights or set forth any provisions whereby the equity rights attached to securities would be separated from the holding itself. One right to vote at the General Shareholders' Meeting of the Bank is attached to each share. The Bank's Statute does not impose any limitations as to transferring the title to the securities issued by the Bank.

As at 31 December 2019, none of the members of the Management Board or Supervisory Board of the Bank declared holding any shares of BNP Paribas Bank Polska S.A., and there were no change in this respect from the date of presenting the Consolidated interim report for three quarters of 2019, i.e. 7 November 2019.

BNP Paribas Group

Key shareholder of the Bank is leading international banking group BNP Paribas, which operates in two key areas:

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

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

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

11.3. Governing bodies of the Bank

General Shareholders' Meeting

Procedures of the General Shareholders' Meeting and its key powers

General Shareholders' Meeting of BNP Paribas Bank Polska S.A. is held in accordance with the provisions of the Code of Commercial Companies Code, Banking Law, Act on public offerings and conditions governing the introduction of financial instruments to organized trading and on public companies, Bank's Statute, Regulation of the General Meeting of BNP Paribas Bank Polska S.A., including the "Best Practices for WSE Listed Companies".

General Meetings are convened as ordinary or extraordinary general meetings. General Meeting is convened, in a manner defined in the Bank's Statute, by the Bank's Management Board or - in cases defined in the Statute - by the Supervisory Board or by a shareholder or shareholders representing jointly at least 1/20 of share capital. General Meeting is convened by an announcement published on the Bank's website.

In 2019 two General Meetings of BNP Paribas Bank Polska S.A. were held; Ordinary General Meeting on 27 June 2019 and Extraordinary General Meeting on 15 November 2019.

The announcement of the convention of the General Meeting with draft resolutions is published on the Bank's website: <https://www.bnpparibas.pl/relacje-inwestorskie/walne-zgromadzenie>.

General Meeting adopts resolutions on matters reserved to its competence, in particular those arising from the abovementioned laws and internal regulations. Draft resolutions are submitted to the General Meeting by the Bank's Management Board, after opinion of the Supervisory Board.

Votings at the General Meeting are held via electronic vote counting device which ensure that the number of votes cast corresponds with the number of shares held and, in cases of secret voting, eliminates the possibility to identify the manner of voting by the individual shareholder. One vote is attached to each share.

Shareholders' rights and the method of their execution

Rights of the BNP Paribas Bank Polska S.A. shareholders and method of their execution are set forth in Regulation of the General Meeting of the Bank and stem from the provisions of the Code of Commercial Companies.

Shareholders' participation in the General Meeting is connected in particular with the following rights:

- each shareholder may request that a list of shareholders should be sent to him via electronic mail to the indicated electronic mail address. A shareholder has the right to inspect a list of shareholders in the Bank's registered office and request copy of a list,
- a shareholder may demand that copy of motions regarding matters being on the agenda of the General Meeting should be released to him within one week prior to the date of the General Meeting and request information from the Bank's Management Board regarding matters being on the agenda of the General Meeting in cases and with exceptions set forth in the Code of Commercial Companies,
- a shareholder shall have the right to attend the General Meeting and exercise voting rights in person or by a proxy,
- a shareholders may review the book of minutes from the General Meeting and also demand that copies of resolutions certified by the Management Board be released to him,
- a shareholder may demand secret voting and appeal against resolutions of the General Meeting in cases set forth in the Code of Commercial Companies.

In addition, a shareholder or shareholders representing in total at least 1/20 of the share capital of the Bank may request the convening of an Extraordinary General Shareholders' Meeting, as well as placing specific matters on the agenda of this General Shareholders' Meeting.

Introduction of amendments to the Statute

Any amendment to the Bank's Statute requires a resolution of the General Shareholders' Meeting and an entry in the Register of Entrepreneurs of the National Court Register. Amendments to the Statute in respect of the matters specified in article 34.2 of the Banking Law of 29 August 1997 (consolidated text: Journal of Laws of 2016, item 1988, as amended) require consent of the Polish Financial Supervision Authority.

The Management Board's motions which aim to amend the Bank's Statute and those concerning other matters to be examined by the General Shareholders' Meeting, should be submitted in advance to the Supervisory Board to provide the opinion.

Resolutions of the General Shareholders' Meeting to amend the Statute, in particular, change the Bank's name, registered office, business profile as referred to in § 5 par. 2 of the Statute, increase or reduction of the Bank's share capital, issue of convertible bond or bond with priority right to acquire shares of the Bank, as well as subscribe warrants, liquidation or dissolution of the Bank, and the sale of all or part of the bank, require the majority of 3/4 of votes cast. A resolution regarding a merger of the Bank with another bank or another credit institution requires 2/3 of votes cast at the General Shareholders' Meeting (§ 13 par. 2 of the Statute).

In accordance with § 20 par. 1, point 1m) of the Bank's Statute, immediately after the General Shareholders' Meeting adopting amendments to the Bank's Statute has been held, the Supervisory Board shall draft the consolidated text of the Statute and introduce other editorial changes to the Statute, as specified in the relevant resolution of the General Shareholders' Meeting.

Supervisory Board

The Supervisory Board of BNP Paribas Bank Polska S.A. acts according to the provisions of the Banking Law, Code of Commercial Companies, Bank's Statute and By-Laws of the Supervisory Board, text available on the Bank's website.

The Bank Supervisory Board shall be composed of five to twelve members appointed for a joint five-year term of office by the General Meeting. At least half of the members of the Bank Supervisory Board should have good knowledge of the banking market in Poland. According to the Bank's Statute, at least two members of the Supervisory Board should be independent members.

Table 58. Composition of the Supervisory Board and Supervisory Board Committees as at 31.12.2019

Supervisory Board Committees					
Full name	Office held in the Supervisory Board	Audit Committee	Risk Committee	HR and Remuneration Committee	Nominations Committee
Józef Wancer	Chairman			Member	Member
Jarosław Bauc	Vice-Chairman, Independent Member	Member			
Jean-Paul Sabet	Vice-Chairman			Chairman	Chairman
Francois Benaroya	Member	Member	Chairman	Member	Member
Stefaan Decraene	Member				
Magdalena Dziejguć	Independent Member				
Michel Falvert	Member				
Sofia Merlo	Member				
Piotr Mietkowski	Member				
Monika Nachyła	Member		Member		
Stéphane Vermeire	Member				
Mariusz Warych	Independent Member	Chairman	Member		

Changes in the Supervisory Board of the Bank in the period between 1 January and 31 December 2019:

- On 27 June 2019, the Ordinary General Meeting of the Bank appointed Ms Magdalena Dziejguć 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 8 November 2019, Mr Jacques d'Estais submitted a resignation from the position of the Member of the Supervisory Board of the Bank
- On 15 November 2019, the Extraordinary General Meeting of the Bank appointed Ms Sofia Merlo as a Member of the Supervisory Board of the Bank until the end of the current five-year joint term of office of the Supervisory Board members.

The Supervisory Board exercises constant supervision over all aspects of the Bank's operations, in particular by evaluating the Management Board's reports on the activities of the Bank and Bank's Group as well as the financial statements of the Bank and Bank's Group for the previous financial year, as regards their compliance with accounting books and documents as well as facts, and evaluation of the Management Board's motions to distribute profits or cover losses. Additionally, the Supervisory Board is responsible for oversight of internal control system implementation as well as assessment of the appropriateness and effectiveness of the internal control system in place at the Bank.

In addition to the above specified powers and duties, the Supervisory Board adopts resolutions on matters specified in the Bank's Statute and provides opinions on any motions and matters which require a resolution of the General Shareholders' Meeting.

The Supervisory Board adopts resolutions by simple majority of votes in the open voting (secret voting is applied to resolutions on matters specified by law or regarding personnel decisions) and when the number of votes cast in favour of a given resolution is equal to the sum of votes against, then the Chairman of the Supervisory Board has the decisive vote.

In order to make the resolution of the Supervisory Board effective, it is required that all of the members of the Supervisory Board are notified about the meeting and at least a half of the Supervisory Board members is present at the meeting, including the Chairman or Vice-Chairman.

The Supervisory Board may adopt resolutions in writing, without convening a meeting or using means of direct remote communication, in particular through the telephone, audiovisual and electronic means of communication. Detailed principles of functioning of the Supervisory Board are stipulated in the Bank's Statute and By-Laws of the Supervisory Board passed by the Board itself.

In 2019, the Supervisory Board held 5 meetings and made 7 votings by circulation / in writing using means of direct remote communication and adopted 87 resolutions.

Supervisory Board Committees

The Supervisory Board appoints internal committees composed of members of the Supervisory Board. The Committees activity is aimed at supporting the Supervisory Board through preparation in a working mode of opinions, recommendations and draft decisions concerning motions submitted for the Supervisory Board decision.

BNP Paribas Bank Polska S.A. established the following Supervisory Board Committees:

- the Audit Committee
- the Risk Committee
- the HR and Remuneration Committee
- the Nominations Committee

Scope and operating mode of the abovementioned committees are determined in their regulations set forth by the respective resolutions of the Supervisory Board.

Annual reports on activities of the Supervisory Board and its internal committees are approved by the Ordinary General Meeting of BNP Paribas Bank Polska S.A. and published on the Bank's website.

Audit Committee

The Bank's Audit Committee is responsible for supporting the Supervisory Board in monitoring of financial information reliability, monitoring of internal control system effectiveness, monitoring of external audit function as well as ensuring effectiveness of the Bank's internal audit function by supervising activities of the Internal Audit Line, ensuring flow of information and efficient cooperation between external auditor (certified auditor), internal audit and the Supervisory Board and preparing annual reports on activities of the Committee, including assessment of risk in areas being subject to Committee's supervision, undertaken actions and their results.

The Committee's meetings are held depending on the needs arising from the performed tasks, including each time prior to the publication of the Bank's financial results and reports, at least four times a year. In 2019, the Committee held 6 meetings and made 5 votings by circulation / in writing.

The Audit Committee is composed of at least three Supervisory Board members, including two independent members of the Supervisory Board.

In accordance with its powers, in 2019, the Committee analysed, i.a., financial statements of the Bank and the Group for 2018, 1st and 3rd quarter interim financial statements for 2019, the financial statement for the first half of 2019, operation plans of the Internal Audit Line and Compliance Line, information on monitored recommendations and the implementation of the instructions of the Polish Financial Supervision Authority, reports on the activities of the Internal Audit Line and Compliance Line, reports on performance of audit and compliance functions in the Brokerage Office, report on performance of compliance function in Custody Services and reports regarding the effectiveness assessment of internal control mechanisms and processes. The Committee approved *Rules of conduct regarding disclosure and exchange of information*

between PFSA, audit company, certified auditor and compliance unit and other units responsible for the control mechanisms within internal control system in BNP Paribas Bank Polska S.A.

In addition, the Committee approved audit and non-audit (i.e. tax and accounting advisory) services provided to the Bank by an entity authorized to audit financial statements, monitored compliance with the principle of independence and objectivity of the external auditor and the entity authorized to audit financial statements. It also supervised the work performed by external auditors.

In 2019 the Audit Committee, acting on the basis of provisions of the Policy of selecting an audit firm performed oversight on the selection of the certified auditor to audit the annual separate and consolidated financial statements for years 2020-2021.

Risk Committee

The Risk Committee's responsibility is to support the Supervisory Board in its fulfilment of supervisory duties in the risk management area, particularly including: providing opinion on the Bank's current and future ability to take risk, providing opinion on the risk management strategy in the Bank's operations prepared by the Management Board and on information from the Management Board concerning execution of this strategy, supporting the Supervisory Board in supervision over implementation of risk management strategy in the Bank by executive employees, verifying whether prices of liabilities and assets offered to clients reflect in full the business model of the Bank and its risk strategy, and where these prices do not adequately reflect the risks in accordance with the model and strategy - presenting to the Management Board recommendations on how to ensure the adequacy of prices of liabilities and assets with these risk categories.

The Committee is composed of at least three members of the Supervisory Board.

The Committee's meetings are held with the frequency necessary to effectively fulfil its mission, at least semi-annually, on dates determined beforehand by the Chairman. In 2019, the Committee held 4 meetings.

In fulfilment of its duties in 2019, the Committee discussed, i.a.: credit and operational risk dashboard, ALMT risk dashboard as well as market, liquidity and counterparty risks and capital requirements information, changes to the Risk Management Strategy of the Bank and Operational Risk Strategy, update of the Bank's Capital Contingency Plan and risk appetite, changes to the Methodology of the internal capital adequacy assessment process. The Committee discussed also Operational Risk Mapping report and approved tolerance level for the model risk, performed review of the ICAAP and ILAAP processes, discussed Legal Risk reports, Bank's NPL Strategy and issues regarding "country envelope" and outsourcing risk.

HR and Remuneration Committee

The HR and Remuneration Committee supports the Supervisory Board in the fulfilment of its supervisory duties in the respect of human resource management by monitoring and overseeing key processes, in particular: succession plans, professional development of employees and remuneration policy.

The Committee is composed of at least three members of the Supervisory Board. The Committee's meetings are held with the frequency necessary to effectively fulfil its mission, at least semi-annually.

In fulfilment of its duties in 2018, the HR and Remuneration Committee held 4 meetings, during which, i.a. discussed changes in the Management Board composition and changes in the remuneration conditions of the Management Board Members, as well as changes in the Regulation of allocation and payment of variable remuneration components to members of the Management Board of BNP Paribas Bank Polska S.A. The Committee performed the assessment of the level of goals realization by the Management Board Members in the previous year and discussed proposed goals for 2019. In addition, the Committee discussed matters related to the determination of the base amount of variable remuneration of the Management Board members in 2018, confirmation of payment of deferred parts of remuneration for previous years, granting long-term motivational bonus and settlement of Success Fee program related to the tasks performed within the transformation process in 2018.

Nominations Committee

The task of the Nominations Committee is to support the Supervisory Board in the fulfilment of its duties with respect to assessing qualifications of candidates for members of the Bank's Management Board as well as the qualifications of candidates for members of the Supervisory Board, defining the scope of duties for candidates, as well as defining requirements as regards the candidates' knowledge, competences and anticipated commitment in terms of time necessary

to perform the function; preparing periodic reviews (at least once a year) as to the structure, size, composition and effectiveness of the Bank's Management Board, and recommending changes in this respect to the Supervisory Board.

The Committee is composed of at least three members of the Supervisory Board with the appropriate knowledge as well as appropriate competences and experience in the scope of the Bank's activity in order to be able to properly assess the composition of the Management Board / Supervisory Board, including recommended candidates for vacant positions in the Management Board / Supervisory Board.

The Committee's meetings are held with the frequency necessary to effectively fulfil its mission, on dates determined beforehand by the Chairman. In 2019 the Committee held 4 meetings, during which i.a. changes to the Policy on the assessment of the suitability of members of the Supervisory Board, Management Board and key function holders in BNP Paribas Bank Polska S.A. have been discussed. In addition, the Committee performed the assessment of the candidates for the Supervisory Board Member and for the Vice-President of the Management Board and performed the periodic assessment of the individual and collective suitability of the Supervisory Board Members and the Management Board Members.

Management Board of the Bank

In accordance with § 21 par. 1 of the Bank's Statute, the Bank's Management Board consists of four to twelve members, and from January 1, 2019 – of four to ten members, and from January 1, 2020 – of four to nine members.

The members of the Management Board are appointed for a common term of three years. The members of the Management Board are: President, Vice Presidents and/or Members of the Management Board, who are appointed, recalled and suspended in their activities by the Supervisory Board. At least two members of the Bank's Management Board, including the President of the Management Board, should have knowledge and experience necessary to enable them to manage the Bank in a stable and cautious way. At least half of the members of the Bank Management Board should have good knowledge of the banking market in Poland, i.e. they should permanently reside in Poland, have a good command of Polish and have gained the required experience on the Polish market.

The Bank's Management Board runs the Bank's affairs and represents the Bank against third parties. Details regarding activities, including competencies of the Management Board, is set forth in § 22 par. 2 of the Bank's Statute and By-Laws of the Management Board (approved by the Supervisory Board of the Bank). The competence of the Management Board includes all matters not reserved by law or the Statute for the competence of other Bank's bodies. Decisions of the Management Board are made in the form of resolutions adopted by an absolute majority of votes cast.

The Bank's Statute did not grant any special rights to the Management Board with respect to the issue or redemption of shares.

Meetings of the Management Board shall be convened as necessary. They take the form of simultaneous meeting of the Management Board members in one place or communication of the Management Board members by means of direct remote communication.

The manner of representation of the Bank is determined by the Statute, according to which declarations of will on behalf of the Bank are submitted by:

- a) two members of the Management Board acting jointly or one member of the Management Board together with the commercial representative,
- b) proxies acting within the power of attorney granted, commercial representatives – acting within the competencies resulting from the provisions on commercial representation, and in the case of the establishment of a joint commercial representation, two commercial representatives acting jointly.

Table 59. Composition of the Bank's Management Board as at 31.12.2019 and division of functional responsibilities of particular Board members

Full name	Office held in the Management Board of the Bank	Supervised areas
Przemysław Gdański	President of the Management Board	Bank Management, Strategy & Agro Markets Area, including supervising the Internal Audit Line, Compliance Line, Marketing, Communication and Social Involvement Line, Legal Line, Strategy and Market Analysis Line, Agro-business Line, HR Area
Jean-Charles Aranda	Vice-President of the Management Board	Finance Area, including supervising the accounting, financial reporting and accounting control departments
Daniel Astraud	Vice-President of the Management Board	Transformation and Integration Area
André Boulanger	Vice-President of the Management Board	Corporate and Institutional Banking (CIB) Area, including supervising the Custody activities
Przemysław Furlepa	Vice-President of the Management Board	Retail and Business Banking Area and Brokerage House
Wojciech Kembłowski	Vice-President of the Management Board	Risk Area, including supervising the risk that is of material importance for the Bank's activity
Kazimierz Łabno	Vice-President of the Management Board	Operations & Business Support Area
Jaromir Pelczarski	Vice-President of the Management Board	New Technologies and Cybersecurity Area
Volodymyr Radin	Vice-President of the Management Board	Personal Finance Banking Area
Jerzy Śledziwski	Vice-President of the Management Board	SME & Corporate Banking Area

Changes in the Bank's Management Board in the period between 1 January and 31 December 2019:

- On 15 May 2019, Mr. Philippe Paul Bézieau submitted a resignation from the position of the Vice-President of the Management Board of the Bank, with the effect from 30 September 2019,
- On 15 May 2019, the Supervisory Board appointed Mr. Volodymyr Radin as the Vice-President of the Bank's Management Board, with the effect from 1 October 2019 until the end of the current three-year joint term of office of the Bank's Management Board members,
- On 12 December 2019, Mr. Daniel Astraud submitted a resignation from the position of the Vice-President of the Management Board of the Bank, with the effect from 31 December 2019.

11.4. Remuneration of the Supervisory Board and Management Board

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

Table 60. Remuneration paid to Management Board Members in 2019¹

PLN '000	Period of service		Basic remuneration	Variable remuneration paid during the year	Phantom shares	Additional benefits	Total	
	Full name	from						to
	Przemysław Gdański	01.01.2019	31.12.2019	1,920	346	52	77	2,395
	Jean-Charles Aranda	01.01.2019	31.12.2019	854	171	78	222	1,325
	Daniel Astraud	01.01.2019	31.12.2019	1,566	755	423	274	3,018
	Philippe Paul Bezieau	01.01.2019	30.09.2019	687	114	32	144 ²	977
	Andre Boulanger	01.11.2019	31.12.2019	1,021	34	-	123	1,178
	Przemysław Furlepa	01.01.2019	31.12.2019	1,000	142	37	186	1,365
	Wojciech Kemblowski	01.01.2019	31.12.2019	1,014	351	301	85	1,751
	Kazimierz Łabno	01.01.2019	31.12.2019	780	565	-	73	1,418
	Jaromir Pelczarski	01.01.2019	31.12.2019	999	291	277	138	1,705
	Volodymyr Radin	01.10.2019	31.12.2019	161	-	-	61	222
	Jerzy Śledziewski	01.01.2019	31.12.2019	1,107	200	160	78	1,545
Total				11,109	2,969	1,360	1,461	16,899

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

² includes equivalent paid for unused holiday leave

Table 61. Remuneration paid to Management Board Members in 2018¹

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

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

² includes equivalent paid for unused holiday leave

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

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

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

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

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

Individual data on remuneration paid during the year for individual Supervisory Board Members are presented in the tables below:

Table 62. Remuneration paid to Supervisory Board Members in 2019

Full name	Period of service		Remuneration due to the office held in the Supervisory Board ¹	Remuneration due to the office previously held in the Management Board	
	from	to		Variable remuneration	Phantom shares
Józef Wancer	01.01.2019	31.12.2019	600	101	120
Jarosław Bauc	01.01.2019	31.12.2019	180	-	-
Jean-Paul Sabet	01.01.2019	31.12.2019	-	-	-
Francois Benaroya	01.01.2019	31.12.2019	-	344	315
Stefaan Decraene	01.01.2019	31.12.2019	-	-	-
Jacques d'Estais	01.01.2019	08.11.2019	-	-	-
Magdalena Dziewguć	27.06.2019	31.12.2019	64	-	-
Michel Falvert	01.01.2019	31.12.2019	-	-	-
Sofia Merlo	15.11.2019	31.12.2019	-	-	-
Piotr Mietkowski	01.01.2019	31.12.2019	-	-	-
Monika Nachyła	01.01.2019	31.12.2019	150	15	17
Stephane Vermeire	01.01.2019	31.12.2019	-	-	-
Mariusz Warych	01.01.2019	31.12.2019	300	-	-
Total			1,294	460	452

¹ relates only to remuneration for work in the Supervisory Board

Table 63. Remuneration paid to Supervisory Board Members in 2018

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

¹ relates only to remuneration for work in the Supervisory Board

Information on the remuneration of the Management Board and the Supervisory Board Members can be found also in note 51 Related party transactions in the Separate Financial Statements of BNP Paribas Bank Polska S.A. for the year ended 31 December 2019.

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

11.5. Diversity Policy

Promoting diversity is an integral part of the Bank's management model and BNP Paribas Group management principles. The management of this area is regulated in the Policy on the assessment of the suitability of members of the Supervisory Board, Management Board and key function holders in BNP Paribas Bank Polska S.A. and Diversity Management Policy in BNP Paribas Bank Polska S.A.

Diversity Management Policy in BNP Paribas Bank Polska S.A.

The Policy sets out the rules of conduct at BNP Paribas Bank Polska S.A. as regards counteracting discrimination in terms of respect for diversity, taking into account the BNP Paribas Group principles. It applies to all employees in the aspect of every process in the area of human resources management, including the process of recruitment, career planning and development and training of employees. In the Bank the discrimination in employment is unacceptable, whether direct or indirect, in particular due to gender, age, disability, race, religion, nationality, political beliefs, trade union membership, ethnicity, religion, sexual orientation, and also due to employment type (definite/indefinite period, full-time/part-time).

The Bank promotes diversity aspects within projects like i.a. Women in Business – programme to support future managers in assuming the role of a leader, exerting an increasing influence on the Bank's business strategy and readiness for vertical promotions.

The Bank has externally verified and evaluated its diversity activities and was included in the first edition of Diversity & Inclusion Rating among leaders in managing diversity and promoting an inclusive organizational culture. The rating developed by the Responsible Business Forum and Deloitte was based on the assessment of four areas of an organisation's maturity in terms of D&I: management basics, programmes and activities, commitment building and performance indicators.

The Bank is also a signatory to two important documents regulating diversity management:

- the Diversity Charter - an international initiative supported by the European Commission, which concerns i.a. the prohibition of discrimination in the workplace and the involvement of all employees and business and social partners in these activities and
- the ILO Global Business & Disability Network Charter, an agreement on the employment and working conditions of people with disabilities.

The Bank also pays particular attention to promoting diversity as a service provider. It works in cooperation with the Integration Foundation (Fundacja Integracja) to eliminate barriers for its customers with disabilities. In May 2019, the Bank was awarded the "2019 Accessibility Leader Award" in the branch network category for its commitment to the principles of universal design and a policy that focuses not on procedures but on the customer and his needs - regardless of age or level of disability.

Diversity policy with regard to supervisory, governing and administrative bodies

Detailed principles are stipulated in the document "Policy on the assessment of the suitability of members of the Supervisory Board, Management Board and key function holders in BNP Paribas Bank Polska S.A.".

Diversity policy with regard to members of the Management Board, Supervisory Board and key function holders in BNP Paribas Polska S.A. aims to reach out to a wide range of characteristics and competences when appointing the members of the Supervisory Board and the Management Board, in order to acquire different points of view and experiences and to enable independent opinions and sound decisions to be issued within the body, thus ensuring the high quality of performance of the tasks of the management and supervisory bodies.

As far as the substantive criteria are concerned, the diversity strategy ensures the selection of persons with diverse knowledge, skills and experience, appropriate to their functions and responsibilities, which are complementary at the level of the entire Management Board and Supervisory Board. The criteria are verified in the suitability assessment process described in the Policy on the assessment of the suitability of members of the Supervisory Board, Management Board and key function holders in BNP Paribas Bank Polska S.A. Moreover, the Diversity Policy covers and uses to achieve the best results differences that, apart from knowledge, competence and professional experience, result from gender, age and geographical origin.

The Bank sets a quantitative target and a timeframe for gender diversity and monitors its implementation.

The table and chart below present the current diversity with respect to gender, age and experience of the Supervisory Board and Management Board members and key managers.

Table 64. Employment structure by gender, age and experience

Gender		Women		Men		Total
Supervisory Board		3		9		12
Management Board		0		10		10
Key Managers		25		50		75

Age	30-40	40-50	50-60	>60	Total
Supervisory Board	0	4	5	3	12
Management Board	1	1	8	0	10
Key Managers	10	53	11	1	75

Experience (years in the Bank)	<5	5-10	10-15	15-20	20-25	>25	Total
Management Board	5	2	1	0	0	2	10
Key Managers	23	16	11	13	10	2	75

11.6. System of control and risk management in the process of preparing financial statements

The Bank's internal control system complies with the requirements of Polish supervisory authorities and is aligned with the internal control rules applied in the BNP Paribas Group. The Bank maintains and develops an internal control system adjusted to the organizational structure, which includes organizational units and basic organizational units of the Bank and its subsidiaries.

The Bank has adopted the Policy on internal control, approved by the Bank's Management Board and Supervisory Board - with respect to the assessment of adequacy and effectiveness of the internal control system and categorisation of irregularities detected by the internal control system.

The objective of internal control is the effective control of risk, including the prevention or early detection of risks in order to ensure:

- effectiveness and efficiency of the Bank's operations,
- the reliability of financial reporting,
- compliance with the Bank's risk management principles,
- compliance of the Bank's operations with legal regulations, internal regulations and market standards.

The internal control system is an element of the management system at the Bank, consisting of three lines of defence, which includes: control mechanisms and risk control mechanisms, verification of compliance of the Bank's operations with the law and internal regulations as well as internal audit.

The internal control system supports risk management in the processes carried out in the Bank. The scope of responsibility for risk management by specific organizational units/departments of the Bank is defined within three mutually independent lines of responsibility, called "lines of defence", namely:

- 1) the first line of defence consists of organisational units from particular banking and support areas, responsible for the implementation and support of professional and fair behaviour in accordance with applicable rules, standards and regulations, as well as for day-to-day supervision, development and implementation as well as the application of control mechanisms in operational processes, and also for detecting, early warning and whistle-

blowing of irregularities. The first line of defence is responsible for managing the risks in the subordinate processes,

- 2) the second line of defence consists of organisational units responsible for risk management, organisational units independent of risk management within the first line of defence and the compliance function, which, taking into account the requirements set by supervisory authorities, business needs, including the risk appetite adopted by the Bank, form the framework and principles of risk management and control; the second line of defence monitors compliance with control mechanisms and is responsible for reporting on risk management and control,
- 3) the third line of defence is an independent and objective internal audit unit which verifies the proper functioning of the first and second lines of defence.

The control function consists of

- 1) risk and control mechanisms,
- 2) independent monitoring of the mechanisms referred to in point 1),
- 3) reporting within the control function.

Risk control mechanisms implemented within the first and second line of defence are adjusted to the Bank's specificity and include in particular principles, limits and procedures related to the Bank's activity.

Horizontal and vertical testing are conducted in accordance with the internal regulations in force in the Bank, approved by the Management Board and Supervisory Board.

The Bank has an Internal Control Coordination Committee as an advisory unit supporting the Bank's Management Board. The main task of the Internal Control Coordination Committee is to supervise the integrity, completeness and effectiveness of the internal control system and the Bank's operational risk management processes, as well as to manage the main risks related to the internal control system of the Bank and its subsidiaries, including the system supporting the operational risk management process, compliance risk and fraud prevention.

In addition, the Supervisory Board is supported by the Audit Committee, inter alia, in monitoring the effectiveness of the internal control system and the Risk Committee in the area of risk management.

In addition to the above mentioned committees, the Bank has a Risk Management Committee whose primary task is to monitor and supervise the main risks resulting from the Bank's activities, including strategic aspects of credit risk, cross-sectoral aspects of market and liquidity risk, counterparty risk and operational risk.

The purpose of the risk management system is to identify, measure or estimate, monitor and manage risks occurring in the Bank's activities. The main role in the Bank's risk management system is performed by the Management Board, which defines the risk policy and adopts rules of risk management, as well as sets the policy of setting limits for significant risks and risk control procedures. The risk management rules have their source in the Risk Management Strategy defined by the Management Board and approved by the Supervisory Board.

The Bank has an Internal Audit Line responsible for conducting internal audits, whose task is to review and assess, in an independent and objective manner, the adequacy and effectiveness of the internal control system and to provide opinions on the Bank's management system, including the effectiveness of risk management related to the Bank's activities. The Internal Audit Line is supervised by the Audit Committee and within the Bank's organizational structure it is located in the Bank Management Area. The Managing Director of the Internal Audit Line is organisationally subordinated to the President of the Bank's Management Board. The Internal Audit Line regularly submits to the Audit Committee and the Supervisory Board conclusions resulting from the performed internal audits, in particular information on the irregularities found as well as information on the recommendations issued.

The Bank adopted an Accounting Policy consistent with the International Financial Reporting Standards. The Financial Accounting Line and the Management Accounting and Investor Relations Line, supervised by the Vice-President of the Management Board responsible for Finance are responsible for the preparation of financial statements, periodic financial reporting and providing management information. The financial statements are adopted by resolution and approved for publication by the Bank's Management Board.

A key role in the process of assessment of the Bank's financial statements is performed by the Audit Committee, which monitors the financial reporting process and independence of the statutory auditor and the entity authorized to audit financial statements, and recommends that the Supervisory Board approve or reject the annual financial statements. The annual financial statements, upon a positive recommendation of the Audit Committee and the Supervisory Board, are presented to the General Meeting for approval.

12. CORPORATE SOCIAL RESPONSIBILITY (CSR)

„We are the Bank of Green Changes”

Responsibility is an inherent element of an organisation’s development strategy. BNP Paribas Bank Polska perceives it in a very broad manner: as responsibility towards customers, shareholders, regulators, employees as well as towards the natural environment and all of the stakeholders who the Bank influences as an institution. Bank BNP Paribas’ strategy of Corporate Social Responsibility (CSR) is consistent with the CSR Strategy of the BNP Paribas Group and consists of 12 commitments grouped into four major areas: (i) economic responsibility, (ii) responsibility in the workplace, (iii) social responsibility and (iv) environmental responsibility.)

Through the actions undertaken within the CSR Strategy, the Banks supports achieving the Sustainable Development Goals (SDGs) – global challenges for the world announced by UN in 2015.

The Bank’s responsibility is primarily: long-term financing of the economy, supporting transition to low-carbon economy, building lasting relations with customers in compliance with ethical standards, responsible approach to employee development and engagement, increasing products and services accessibility, openness for the customers’ needs and initiatives for local communities. In 2019, key areas of the Bank’s activity was preventing climate change, including: limiting the negative impact of the operational activity on the environment, developing pro-ecological products and services as well as popularisation of eco-attitudes.

I. ECONOMIC RESPONSIBILITY

A sustainable approach entails the long-term financing of the economy and building long-term relationships with clients and other stakeholders in accordance with ethical principles. Thus, it is possible to maintain a balance between the quality of transactions and the expected short- and long-term profit.

Responsible financing of the economy

Monitoring and CSR Policies in sensitive sectors

The Bank strives to ensure that the financing of economic development goes hand in hand with exerting a positive influence on stakeholders.

Economic responsibility of BNP Paribas Bank Polska means long-term support for the economy development through financing projects of individual customers and enterprises, while monitoring CSR risks of all of the Bank’s clients. The Bank is particularly mindful about financing sectors deemed as sensitive from the perspective of ESG risks (environmental, social and governance risks). Decisions about granting financing are preceded by multi-faceted analyses of the social, economic and environmental impact of the firm and its business.

The Bank has identified nine sensitive sectors based on environmental, social or corporate governance risk:

coal energy	forest - wood pulp	agri-food
mining	forest - palm oil	fuel - unconventional oil and gas resources
defence and security	nuclear	tobacco

In each of these sectors, the Bank implements CSR Policies towards clients operating in them. Customers are thoroughly analysed by the Bank’s experts for compliance with the principles of sustainable development. In 2019, the so-called second line of CSR control in the Corporate Clients Risk Department has been established, which pays special attention to possible ESG risks in the activities of current and potential clients, including this aspect in the entire risk analysis in the client’s or prospectus’ business.

Moreover, all of the Bank’s clients, current and prospective, which are active in the aforementioned sectors are informed about the CSR Policies and they are provided with explanations regarding the analysis process. In 2019, 218 CSR analyses were conducted in the Bank.

In 2017, the BNP Paribas Group made a global decision to discontinue financing and investing in the tobacco industry, including manufacturers, planters and wholesalers whose main operations are tobacco-related.

The new financing and investing regulations result from the BNP Paribas Group's commitment to financing the economy while maintaining a positive impact on all stakeholders. Since 2018, in line with the decision of the Group, the Bank has been implementing the exit process from financing the tobacco sector.

In addition, since 2020, Bank BNP Paribas has ceased funding for the fur farming sector, thus implementing restrictions which had been gradually introduced since 2017.

Highest ethical standards

The Bank follows The BNP Paribas Group Code of Conduct. Employees' ethical awareness is promoted and developed through various trainings. As a member of the Ethics Committee at the Polish Bank Association, the Bank pro-actively contributes to building sector responsibility. The Bank is also a partner and sponsor in the "Ethics in Finance" competition. Since 2016, the Bank has been supporting subsequent editions of the "Nienieodpowiedzialni" [Not Irresponsible] conference, dedicated to responsibility in the financial sector.

Declaration of Responsible Selling

In 2019, the Bank – together with partners from financial sector – inaugurated the Declaration of Responsible Selling, an initiative which aims at improving and popularising responsibility standards in customer relations as well as giving them a sense of security.

Signatories of the declaration:

- collectively attempt to counteract wrongdoing in the financial sector,
- bet on honest dialogue with stakeholders,
- undertake activities broader than it is required by law,
- strive for continuous self-improvement.

Signing the declaration is a confirmation for the consumers that the institution which they decided to trust, sells its products and services in a responsible way, which has been attested by an independent audit.

Responsible products and services

Responsible products and services should meet the needs of customers, be available to vulnerable groups and have a positive impact on the environment.

Account open to non-profit business (former Social Leader Package)

Responsible products and services are understood as those that meet the clients' needs and are available to everyone (including the excluded groups) and have a positive impact on the community. The Bank offers an account with a free package of basic services for non-governmental organisations – addressed to social organisations and micro non-profit institutions. Based on one agreement with the Bank an organisation obtains: a current account (in PLN), a placement account, deposit accounts, access to mobile and internet banking systems, comprehensive assistance of a bank Relationship Manager and preferential conditions for services not included within the package.

As at the end of 2019, the Bank held 24,245 accounts for non-governmental organisations.

This product is very popular among the Bank's clients. The Bank has received a number of awards for its implementation, such as: the title of the Leader of Responsible and Sustainable Development in the SMART CSR Project category awarded by the "Rzeczpospolita" daily newspaper.

Offer for social economy enterprises

In 2018, Bank BNP Paribas was the first financial institution in Poland to launch a banking offer addressed specifically to social economy enterprises. Thus, we support entities that, in addition to generating profit, set social and/or environmental goals for themselves and reinvest profit in the implementation of their social mission.

Offer for the citizens of Ukraine

Bank BNP Paribas analyses the needs of various social groups, including foreigners. In response to the growing number of Ukrainian citizens living in Poland, the Bank has prepared a suitable product offer.

As at the end of December 2019, the Bank held almost 120 thousand accounts for Ukrainian passport holders, which places the Bank at the forefront of banks with offers for Ukrainian citizens in Poland

mamBONUS

Within the mamBONUS loyalty program, the Bank's clients may support the operations of the BGŻ BNP Paribas Foundation. In the process of financial transactions made with the use of credit cards, clients collect points which can be exchanged for various discounts/prizes or vouchers which support participants of the "Klasa" ("Class") scholarship program, implemented by the Foundation.

Innovation

"Elephant whisperers, or about cooperation between a start-up and a bank"

Bank, together with partners - Kancelaria Domański Zakrzewski Palinka and firms: Impact and Fintek - has prepared a special guide on cooperation of a fintech start-up with the Bank. The publication touches on, among others, a number of legal issues and on the areas of IT architecture and IT Security.

Successive editions of Office Hours

During the so-called Office Hours (the Bank's own approach to cooperation with young technology companies), Bank experts meet with promising start-ups that can provide cutting-edge technological solutions.

In 2019, 6 editions took place (a total of 17 editions since 2017), devoted to:

- UX (user experience) services for digital products,
- management of scoring models,
- tools for building online forms,
- VAS (value-added services) for family banking,
- chatbots
- artificial intelligence (AI) to optimise paper transfer processes.

Supporting client development

Foreign Trade Program

More and more Polish companies have international ambitions and plans. Our organisation wants to support and stimulate the expansion of domestic enterprises to foreign markets. The Foreign Trade Program is the joint initiative of the Corporate Banking and SME Departments of the Bank and its partners: the Polish Investment and Trade Agency, Bisnode Polska, the Export Credit Insurance Corporation and "Rzeczpospolita" daily. As part of the Program, conferences dedicated to specific foreign markets are organized throughout Poland. Meeting participants have the opportunity to learn about the most important financial, legal and cultural issues that should be taken into account when planning development on a foreign market.

In 2019, 2 editions of meetings took place as part of the Program: a spring one – dedicated to French, Italian and Belgian markets with 1.5 thousand representatives of SME and corporate segments; and an autumn one – dedicated to French, Italian and Arabic markets (within preparation of entrepreneurs for the EXPO 2020 in Dubai) with 2 thousand entrepreneurs participating.

Business Breakfasts – Employee Capital Plans

Each year, the Corporate Banking and SME Department organises a series of Business Breakfasts where changes in legal provisions relevant to entrepreneurs are discussed. In 2019, a significant change was caused by the introduction of Employee Capital Plans. Therefore, we organised meetings in 8 Polish cities with the participation of the Investment Funds Association and a labour law office, which were aimed at supporting our clients' everyday business by providing up-to-date expert knowledge.

Agronomist

Agronomist.pl is the Bank's free-of-charge platform, created in April 2019 for farmers and processors of the food sector. Platform users have access to the latest Food&Agro analyses, price forecasts and information on weather at a given location, farm management system, and even satellite field mapping. Agronomist.pl is a first portal gathering in one place such a wide set of tools for farmers and processing companies. Some of the functionalities, including satellite field mapping and farm management systems are only available to the Bank's customers. The Bank plans to further expand the platform in cooperation with clients from the agri-food sector and business partners.

II. RESPONSIBILITY IN THE WORKPLACE

Responsibility at the Bank is reflected mainly in creating an attractive work environment that supports professional development for the Bank's employees in addition to increasing their involvement. Their awareness of the benefits that stem from openness, respect for diversity and readiness for professional mobility is raised. The Bank puts great emphasis on the standards of the recruitment process, including recruitment through the Internal Labour Market that enables employees to develop their careers inside the organization. The Bank implements adequate procedures for: enabling employees to develop their career paths based on a diagnosis of their professional potential, analyses of the employees' development needs, competence development management as well as the development and implementation of the recruitment policy and succession plans.

Diversity

One of the key values at the Bank, included in Diversity Management Rules and CSR strategy, is to promote openness and respect for diversity. Diversity refers to many areas of the Bank's operations and concerns employees, shareholders, clients and local communities. It also encompasses cultural diversity. We believe that at an organization where diversity is respected and promoted, the risk of discrimination is minimized and a high level of cooperation is maintained. It has a positive effect on creativity, which translates into the level of achieved results.

Management within this area is regulated in the Diversity Policy and Diversity Management Policy. A Diversity Officer is responsible for adherence to diversity management guidelines.

"Equal Space" workshops

The Bank's organizational culture is built on the basis of respect for diversity. This year, on 14 June and 10 July, "Equal Space" workshops on non-discriminatory treatment in services were organized in cooperation with the Polish Society of Anti-Discrimination Law. The workshop was attended by 35 people responsible for managing diversity in various areas of the organization.

"Relationship culture at work" webinars

In May and June this year, the HR team carried out webinars on actions which could promote culture and respect in relations between the Bank's employees. 750 people employed at the Bank participate in webinars.

Supporting employee development

Professional Development Days

In April 2019 in Warsaw, Krakow, Ruda Śląska, Olsztyn, Poznań and Szczecin, the Professional Development Days (Dni Rozwoju Zawodowego - DRZ) took place - the local edition of International Mobility Days, the annual program taking place simultaneously in several dozen countries of the BNP Paribas Group. The DRZ's offer included, among others, inspirational lectures, workshops, webinars and individual meetings with Managers, HR Business Partners and Recruiters. The trainers encouraged employees to develop the following areas: personal brand, recruitment savoir vivre, positive psychology, competencies of the future and mutual knowledge. 750 people participated in the Professional Development Days.

II edition of the Digital Ambassadors program

The goal of the program is to build a digital culture at the Bank. The key role in this process is played by Digital Ambassadors, whose task is to acquire knowledge and skills in the field of functioning and implemented new tools, supporting remote work and business efficiency, transferring knowledge to colleagues, participating in testing and implementing new solutions, promoting new work techniques, collecting and providing IT with information about the needs of employees, as well as tracking market news in order to implement them in the Bank.

Introduction of the About Me platform

About Me is the BNP Paribas Group platform for managing work results as well as employees' careers and development, which has been implemented in the Bank in 2019. It allows to enter the employee's professional experience, strengths (competences), professional development preferences, set goals, record regular feedback from a supervisor and plan personal development.

Building the image of the institution as a desirable employer (employer branding)

In 2019, the Bank continued its employer branding initiatives addressed to existing and prospective employees.

A Global People Survey (GPS) was conducted to assess the level of the employees' engagement and their perception of the employer. The survey was conducted for all business lines and support functions with a detailed analysis and discussion of results with executive directors and employees.

The results of the aforementioned surveys initiated numerous activities aimed to increase the level of involvement, satisfaction and motivation of employees, through i.a.: a wide range of internal and external training as well as development programs to its employees.

In 2019, the Bank continued the "Ambadorskie Duety" ("Ambassador Duo") Program – the aim of the program is to build the Bank's image of an attractive employer through close cooperation with universities.

The Bank's care for the highest quality of HR management has been recognized again: BNP Paribas Bank Polska once again received the Top Employer Polska 2019 title for its HR policy (consistent with the best market practices). The award is a confirmation of the Bank's positive role of an employer who, in a changing world, uses systematically collected knowledge to develop areas which require continuous improvement.

III. SOCIAL RESPONSIBILITY

Responsibility in this dimension means undertaking active actions for the environment within which the Bank operates. It focuses on areas in which the Bank can contribute to a positive social change in the most adequate way, i.e. combating social exclusion and supporting education and culture, especially in small communities.

Social activities are implemented by the CSR Office in cooperation with the BNP Paribas Foundation.

Increasing the availability of products and services

Branch certification

From the Bank's perspective, accessibility means enabling persons from vulnerable groups to use products and services independently and on an equal basis with other people. Our branches undergo an audit and certification process in terms of accessibility for people with physical disabilities, the visually impaired, hearing impaired, elderly, parents with children or people with special needs. As at the end of 2019, 28 branches of the Bank received the "Facility without barriers" certificates awarded by the Integration Foundation.

Accessibility initiatives

The Bank undertakes the following actions in order to assure accessibility of its products and services:

- considering needs of people with disabilities, elderly as well as stemming from groups vulnerable to exclusion in the prospective and current activities of the Bank,
- adjusting the Bank's digital channels to the accessibility standards,
- removing barriers in access to the Bank's offices as well as preventing barriers creation by designing new branches with consideration for the needs of people with limited movement abilities (confirmed by the "Facility without barriers" certificate)
- publishing the information about the Bank's activity, products and services in a way accessible to people with disabilities and reception difficulties,
- assuring access to products and services for people from groups vulnerable to exclusion – e.g. the elderly and Ukrainian citizens.

On 20 November 2019 – in order to provide people with special needs the access to banking services on an equal basis with other people – the Bank enabled its customers to analyse the documentation templates in the form of an audio recording, a visual recording prepared in the Polish sign language, an enlarged print-out and a print-out of documents translated into the Braille alphabet (this service has been offered by the Bank since 1 January 2019).

Therefore, the Bank is compliant with the requirements of the Act of 19 July 2019 on assuring accessibility for people with special needs. Currently, works on implementing additional facilities for deaf people and people with impaired hearing are in progress.

Local Ambassadors of the Bank

Local Ambassadors of the Bank is the program created in 2018 by BNP Paribas Bank Polska in order to launch initiatives which are interesting and meaningful for local communities, simultaneously building the Bank's brand. The title is awarded to people who are the most engaged in helping. As at the end of 2019, there were 90 active Local Ambassadors of the Bank who altogether worked 5 thousand hours for the local communities.

The Project is very dynamically developing in the Bank, even though the role of an Ambassador requires proactiveness, advanced interpersonal skills, sensitivity to problems and willingness to cooperate with local communities and organisations. New Ambassadors – people who are already engaged in developing their surroundings and active as volunteers – undergo a training which helps them become social leaders and gives them tools enabling working with the youngsters as well as skills helpful in solving problems of local communities.

Important social subjects featured in marketing campaigns

Through marketing communication, the Bank touches important subjects, promotes positive attitudes, encourages people to change. Advertising campaigns include valuable messages – to react to problems of the changing world and make it better. After the 2018 campaign “Nothing happens without women... and money?” which featured questions about the absence of women on the banknotes, more questions are being asked and they will be answered with new campaigns and actions.

In 2019, the Bank realized marketing campaigns with important social messages: “#Doceniaj, nie oceniaj” (“#Appreciate, don't judge”), rebranding campaign “You are the change and we are the Bank of the changing world”, “Climate change costs” and the campaign promoting our strategic partnership with the Project “The most important gives are the ones which you don't unpack” with Noble Gift of the Spring Association.

Additionally, the following large communication projects were organised: “YOUR last WEEKEND”, charity relay “Pass the change”, “Attraction to changes” (“Pociąg do zmian”), “Green change zones” in the universities and the BNP Paribas Talks project in the branches of the Bank's sales network.

Promoting responsible attitudes

CSR Days 2019

As part of the European Sustainable Development Week, on 3-7 June 2019, the Bank hosted the CSR Days 2019. The employees had the opportunity to learn about the Bank's activities for business responsibility and participate in numerous events: 80 people took part in CPR training, over 150 people participated in meetings promoting safe and ecological driving, over 1,600 people benefited from the consultation “Żyj zdrowo!” (“Live healthy!”). In addition, employees had the opportunity to test hybrid and electric cars, learn about VR (Virtual Reality) technology in medicine, curiosities about urban beekeeping and take part in meetings with representatives of partner organizations of the Bank and the BNP Paribas Foundation. During the CSR Days 2019, 140 people joined the bone marrow donor database of the DKMS Foundation.

Children's Day with the Coalition for Polish Innovations

The Bank is a partner of the Coalition for Polish Innovations Foundation (Koalicja na Rzecz Polskich Innowacji - KPI). Together they have organized a celebration of Children's Day for children of employees of KPI partners and children from the Orphanage. In the Bank's head office at Grzybowska in Warsaw on 8 June 2019, the children participated in three workshops: DIY, MUSICION, and DIGIKIDS.

Strategic partnership – Noble Gift (Szlachetna Paczka)

In 2019, the Bank and BNP Paribas Foundation – as an expression of support and appreciation of the employees' involvement in the Noble Gift action – decided to continue the strategic cooperation with the Spring Association.

In 2019, 3,317 employees-volunteers engaged in the action, they prepared gifts for over 100 poor families. The action was coordinated in the Bank by 100 leaders (specially trained for their role) – i.e. employees who obtained substantive support (wise helping workshop), communication support and financial support (subsidies for the gifts).

Moreover, financial support for the initiative is also an element of the Bank's partnership with the Noble Gift. During the strategic partnership from November 2018 to the end of 2019 the Bank donated PLN 2.1 million for the Noble Gift. Detailed information regarding the aforementioned support are described on the internet site of the “Pomaganie jest fajne” (“Helping is cool”) campaign: <https://www.pomaganiejestfajne.pl/>.

Employees' social engagement and the employee volunteering work

BNP Paribas Bank Polska offers many forms of social engagement to its employees. Employees actively engage in the employee voluntary work and they also engage in realising the BNP Paribas Foundation programs, they participate in the systematic philanthropy program „Wspieram cały rok” (“I support all year-long”), annual actions organised by the Foundation (e.g. “Krwinka - Blood Donation Day”, “Good Kilometres”) as well as miscellaneous social action initiated by the Business Social Responsibility Bureau, BNP Paribas Foundation and by employees themselves.

“You can count on me” is the motto of the employee voluntary actions program in the Bank, coordinated by Business Social Responsibility Bureau supported by the BNP Paribas Foundation. The program is realised systemically – it embraces education, creation of various opportunities to take action as well as substantive and financial support of the employees' good ideas.

For each employee, there are 2 days off available which can be used to engage in volunteering actions. An employee may engage in an individual volunteering action (such as competence and / or action driven support for a chosen social organisation or participating in the BAKCYL project) or in a team volunteering action (activities organised by a group of employees from their own initiative as well as a part of projects coordinated by Business Social Responsibility Bureau and the BNP Paribas Foundation).

In 2019, 4,872 Bank's volunteers worked 31 126 hours, including:

- 95 volunteers provided 209 lessons for over 5 thousand pupils as part of the BAKCYL project, which is a sector initiative of the Warsaw Banking Institute, in which banks' employees take on the role of volunteers-trainers and conduct lessons on the subject of finance for the youth of elementary schools and high schools.
- 174 employees realised 34 own projects addressed to 3.3 thousand beneficiaries during the 7th edition of the Volunteering Projects Competition (a grant competition for the Bank's employees from all over Poland). The competition winners receive grants in order to realise their ideas for social help in the environments they live and work in as well as they receive the substantive support of the Bank's Foundation and the Business Social Responsibility Bureau. Since 2011, 740 employees realised 158 own-initiative volunteering projects in cooperation with local organisations.
- 400 employees together with their families, in cooperation with the Our Earth Foundation and under the patronage of the General Director of State Forests took part in the #TrashChallenge eco-volunteering campaign, simultaneously joining the 26th National Clean Up of the World. During this action, Bank employees cleaned 8 forest locations, including areas in the vicinity of Warsaw, Kraków, Ruda Śląska, Olsztyn, Lublin, Wrocław, Poznań and Gdańsk. In addition, they could broaden their knowledge of ecology and forest ecosystem.
- 20 employees of the Operations Centre in Ruda Śląska continued their last year's “Let's make meadows around us” (“Załączmy nasze miasta”) campaign, which was carried out in Warsaw and Krakow in 2018. Eco-volunteers and the Meadow Foundation planted an ecological flower meadow around their workplace. This initiative was implemented as part of the Bank of Green Changes educational program with the support of the BNP Paribas Foundation.

BNP Paribas Foundation

The Foundation's mission is to invest responsibly in people, ideas and projects. By conducting and supporting innovative initiatives in the field of education, culture and social solidarity - we inspire and create stimulating conditions for development to jointly build a civil society.

The Foundation has been conducting socially useful activities in the field of education, social solidarity and culture since 2006. These activities are social investments that solve important local problems and support the development of civil society. As part of its statutory objectives, the Foundation runs own-initiative programs and supports selected projects and organizations that play an important role in building and maintaining civil society. The Foundation also coordinates initiatives and actions involving Bank employees in solving important social problems.

Class Scholarship Program

The Class (“Klasa”) Scholarship Program is the most important initiative launched by the BNP Paribas Foundation, the program has received numerous awards as one of the most effective educational and scholarship programs in Poland. The objective of the Program is to support talented teenagers from small towns/villages, who are in a difficult financial situation, by enabling them to attend prestigious high schools in five university cities, i.e. Warsaw, Wrocław, Krakow, Gdynia and Szczecin. In 2019, the Foundation launched the 17th edition of Class, accepting 33 new scholarship students to the Program. Since 2003, 770 junior high school graduates have received grants totalling over PLN 22 million.

Agritalents Scholarship Program

Since 2012 the Foundation has been conducting a second scholarship program, Agritalents. As part of the Program, the Foundation offers grants to the winners of the Agricultural Knowledge and Skills Contest in addition to a bridge scholarship awarded to best agriculture students. The objective of Agritalents is to improve the knowledge and skills possessed by young people, to prepare them for a future profession and thus, indirectly – to contribute to the development of the Polish countryside and stimulate innovation and the modernization of agriculture. Since 2012, over 300 young farmer talents have received support within the Agritalents program. In 2019, the Foundation awarded grants to 38 pupils and students as part of the 8th edition of the Program.

Dream Up Educational Program

Since 2015, the Foundation has been supporting the musical, personal and social development of children and teenagers from day-care centres located in the Praga district (Warsaw). The aim of the project is to create a long-term socio-cultural initiative in the district. In September 2018, a 2nd three-year edition of the project was launched in cooperation with the Centre for Cultural Promotion - Southern Praga ("Centrum Promocji Kultury Praga Południe"). Around 60 children and youth, aged 10-16, learn to play musical instruments and develop vocal skills under the watchful eye of instructors. The classes stimulate creativity, strengthen teamwork skills and teach the healthy expression of emotions. Among the participants are children from various backgrounds, including those at the greatest risk of exclusion.

Dream Up is a program currently run by the BNP Paribas Group in 29 countries and initiated by the BNP Paribas Foundation in France. Solidarity with socially excluded groups and the idea of education through art, addressed to young people facing difficulties in their life, are the underlying assumptions of the Program.

"Wspieram cały rok" ("I support all year-long" program)

Voluntary salary deductions are a simple and convenient tool for individual philanthropy and a response to the needs of NGOs (systematic financial support). Since September 2017, every employee can declare a monthly deduction from their salary in order to contribute to a chosen objective: support for the Organization of the Year (chosen by employees through an annual vote) or additional support for scholarship holders of the BNP Paribas Foundation's Class Scholarship Program. The donor can transfer his payments to both causes or indicate a single one. In 2018 and 2019 the Bank's employees decided to support the Alivia Oncological Foundation.

In 2019, over 180 employees participated in the program.

Partnership Programs of the Foundation

"Wiedza do potęgi" ("Knowledge to the power")

In 2018, the BGŻ BNP Paribas Foundation in cooperation with the "Ocalenie" Foundation launched the Knowledge to the power program aimed at helping refugee youth to continue their education and find their way within the Polish education system. Program participants receive the support of volunteer tutors (trained by the "Ocalenie" Foundation), those who need it the most receive financial scholarships as well. The aim is to enable refugee youth to complete their current stage of education or to complete it with improved results.

In 2019, 45 participants aged 13-18 took part in the program, including persons from Chechnya and the Ukraine.

English Club

The English Club project is the result of a multi-sector partnership between: JMP Flowers (a Bank BNP Paribas client), a local social organization: "Towarzystwo Przyjaciół Stężycy" and the BNP Paribas Foundation, which cooperate to support the clients' local development of education. In order to meet local society needs, English lessons were organized for junior secondary school pupils. The purpose of this initiative was to give equal educational opportunities to young people by enabling them to gain useful language skills. Particular emphasis is put on developing practical language and communication skills. The most motivated participants get a chance to take part in a summer language camp.

20 persons participated in the program in 2019.

„Spotkania z Muzyką” („Meetings with Music”)

Since 2011, the BNP Paribas Foundation has been supporting educational projects implemented by the National Philharmonic Orchestra as part of the Meetings with Music series. The Philharmony reaches children and teenagers in seven voivodships of Poland and presents outstanding musical performances with a detailed commentary explaining the art of sound to young audiences. This way, children from small towns, who have limited access to high culture on an everyday basis, are given the opportunity to experience classical music systematically. Thus, they are able to develop their own talent and new passions.

In 2019 over 2,000 meetings were organised, which were attended by over 300,000 listeners.

Way to Harvard

In 2019, the Foundation was a strategic partner of the nationwide Way to Harvard project for the 3rd time. The goal of the initiative (launched by the Harvard Club of Poland) is to prepare young people for studies at Harvard and other prestigious foreign universities. The first stage is a competition during which the most talented and the most motivated candidates are selected. The winners go to Boston, visit Harvard University and participate in a monitoring program. During the latter, Harvard graduates share their experiences with them, help them understand the requirements, prepare an application and find the necessary financial support.

How to differ beautifully (“Jak pięknie się różnić”)

Since 2018, BNP Paribas Foundation has cooperated with Museum of the History of Polish Jews POLIN, supporting the educational offer of the institution, particularly in the field of diversity. In 2019, for the second time, the Bank’s employees with their children participated in workshops How to differ beautifully (“Jak pięknie się różnić”). During the workshops nearly 50 participants learnt that the differences may be a source of welfare.

Let's meet (Poznajmy się)

In 2019, the BNP Paribas Foundation became a partner of the nationwide “Let’s meet” competition, organized by the FLOW Open Imagination Foundation and a coalition of NGOs under the patronage of the Commissioner of Human Rights, Adam Bodnar. Schoolchildren were asked to learn the stories of their peers representing national and cultural minorities and to prepare joint projects showing their traditions and culture. Students from all over Poland submitted 46 projects. The most interesting ones received awards during the Multicultural Final Gala. The BNP Paribas Foundation donated PLN 20,000 for one of the main prizes.

Cyclical social campaigns

“Dobre Kilometry” (“Good Kilometres”)

The project has been organized annually by the Foundation since 2015. As part of the campaign, BNP Paribas Bank employees and their relatives count the kilometres travelled during various sports activities (running, Nordic walking, cycling or rollerblading) for one month with the goal of reaching a certain distance together, as a group. Kilometres are then converted into financial resources and transferred to a noble cause chosen by employees. In the last 4 editions of the project, employees supported the "Our Children" Foundation (run by the Oncology Clinic at the Children's Memorial Health Institute), Ewa Błaszczyk's "Akogo?" Foundation, "We Give Children Strength" Foundation and the SOS Children's Villages Association.

In 2019, participants of the action collected PLN 14 thousand due to their physical activity – PLN 12 thousand was donated to little brothers of the Poor Association and PLN 2 thousand was donated to the Oncological Hospice of Saint Christopher. As a result of all the editions of the action, the Foundation has transferred PLN 54 thousand in total to social organisations.

“Krwinka” (“Blood Donation Day”)

The BNP Paribas Foundation and the Bank have been supporting the campaign "Your blood - my life" (“Twoja krew – moje życie”) since 2011 by organizing (in cooperation with Regional Blood Donation Centres), the annual “Krwinka” action. Employees from 5 offices of the Bank (Warsaw Kasprzaka, Warsaw Suwak, Warsaw Inflancka, Cracow Armii Krajowej Street and Operations Centre in Ruda Śląska) can donate blood and register in the marrow donor database in specially adapted ambulances. In 2019, 233 employees participated in the project and 142 persons donated their blood. As a result, 63 litres of blood were collected. Since 2011, as many as 918 employees took part in ten editions of the project, collecting a total of over 300 litres of blood.

Membership of BNP Paribas Foundation in coalitions and partnerships

- **Membership in the Polish Donors Forum** (since 2009) - The Polish Donors Forum sees its role as an institution focusing on education and research involving financial and non-financial support to socially responsible initiatives. The Foundation’s membership in the Forum is primarily the confirmation of the usefulness and transparency of its activities. It also creates the opportunity to participate actively in projects conducted by the Forum, and thus to create and develop the Polish NGO sector and its initiatives. In 2019, for the 3rd time, the Foundation became a partner of the nationwide Forum of Corporate Foundations, which was held on 15 October in Warsaw. Members of the Foundation's board and employees actively participated.
- **The Foundation is a partner of the BAKCYL** – Bankers for Financial Education of Youth project (since 2013), coordinated by the Warsaw Institute of Banking.
- **Partnership at the Bridge Educational Scholarship Program** (since 2013), the project is conducted by Fundacja Edukacyjna Przedsiębiorczości.

- Annual partner of the Agricultural Knowledge and Skills Olympiad (since 2012) organised by the top 8 agricultural universities.

IV. ENVIRONMENTAL RESPONSIBILITY

The Bank strives to minimize its negative effect on the environment through the following three dimensions: limiting the negative impact of operations and promoting eco-attitudes among employees, providing responsible financing for the economy and customers, cooperation and involvement in cross-sectoral initiatives.

Carbon Reduction 2020

Since 2017 the Bank has been a participant of a BNP Paribas Group program, “Carbon Reduction 2020”, which aims to reduce CO₂ emissions per employee by 25% by the year 2020 (as compared to 2012). In order to achieve that goal, the Bank promotes energy efficiency through, i.a.: minimizing energy consumption and the number of business trips, the gradual introduction of a hybrid-car fleet, the plans for a new, eco-friendly Head Office and eco-initiatives for employees.

In 2017, the BNP Paribas Group has achieved emission neutrality globally.

Green Changes Bank Program

In April 2019, the Green Changes Bank Program was launched – it aggregates all of the up-to-date actions of the organisations aimed at supporting pro-climate activities. The Program comprises of an internal educational campaign for the employees of the whole Bank, real changes in the organisation’s functioning (so called eco-improvements) and developing pro-ecological offer of products and services.

As part of the Green Changes Bank program, the Bank implemented a number of initiatives affecting the minimization of the harmfulness of the organization's functioning against nature. BNP Paribas Bank Polska has started the fight against plastic: the purchase platforms have withdrawn from ordering disposable plastic cups, cutlery, plates, etc., and water in plastic bottles, and the offices have been equipped with water dispensers, decanters and glasses. At the same time, the process of minimising the consumption of plastic in canteens located in the Bank’s headquarters is underway - the organization promotes bringing your own container and replaces plastic cutlery and packaging with ecological and compostable ones, to finally reach the plastic-free state. A pilot waste composting program was also started in the canteen at the Bank’s head office in Warsaw at Kasprzaka Street. The produced compost fertilises the lawns nearby. Employees may also take it home in order to fertilise their plants.

The Bank promotes and produces sustainable gadgets: reusable lunchboxes, bidons and eco-bags. The large-format bags from the “Be the Change” campaign were recycled into re-usable backpacks and bags. Unused campaign materials are given a “second life” or are given to social organisations.

The Bank responsibly approaches the planning of marketing gadgets and leaflets. Since September 2019, new leaflets and other advertising materials are produced from ecological and certified materials, so that they can later be recycled.

Educational actions

On 23 April 2019, the Bank launched an educational campaign targeted at all of the Bank’s employees and their relatives. In the first edition of the program, discussions concerned renewable and non-renewable resources which are segregated daily within the 5 fractions of waste. Under the auspices of the program, numerous inspirational meetings and workshops take place, i.a. with Franck Courchamp – the creator of the “Separate species” – and Marcin Popkowicz – nuclear physicist, climatologist, author of the book “The Climate Science”.

Moreover, as a result of the campaign, the Bank created a separate intranet site dedicated to ecology.

Ecological volunteering actions

In 2018, during the action “Załączmy Nasze Miasta” (“Let’s make meadows around us”), employees-volunteers of the Bank in cooperation with the Meadow Foundation planted flower meadows in Jazdów, Warsaw and in Błonia Mogilskie, Cracow. In October 2019, they planted a meadow in the neighbourhood of the Bank’s Operations Centre in Ruda Śląska.

In September 2019, the Bank in cooperation with the Our Earth Foundation and under the auspices of the General Director of the State Forests organised the #TrashChallenge action. Employees and their relatives took part in educational picnics and they cleaned polluted areas in 8 locations in Poland, thus becoming the ambassadors of change.

“Pasięka pod gwiazdami” (“Apiary under the stars”)

Since June 2017 three beehives have been located on the roof of Bank BNP Paribas Head Office in Warsaw, Kasprzaka Street. In 2019, a new apiary of 6 beehives was created in Ruda Śląska. The apiaries are the Bank’s contribution to a balanced urban ecosystem. The project is beneficial to plants on nearby plots, in parks and gardens.

Promoting eco-transport

For several years, the Bank has been introducing hybrid cars into the Bank's car fleet which enable reducing the emission of harmful substances. The Safe Driving Academy – organised since 2017 – is training program regarding safe and ecological driving for all of the users of the Bank's car fleet. For employees who do not use staff cars, the Bank organises monthly contests regarding safe driving and the traffic rules – the main prize of the contest is participation in the Safe Driving Academy.

In the Carpooling program, the employees may commute to work together. Employees using this form of transport influence the reduction of environment pollution, save money (as the fuel costs are divided between the commuters) and save time (they are granted a free parking spot).

Since 2018, the Bank's employees have access to the carsharing program – renting cars for a number of hours, or even minutes. The Bank also promotes cycling to work. In the Bank's Head Offices, the employees have access to guarded bicycle parking lots and showers as well as the customers and employees have access to bicycle stands in front of the majority of Bank's branches.

Additionally, the Bank promotes responsible planning of work travels, access to tele- and videoconferences as well as reducing training travels by introducing e-learnings.

Supporting energy transformation

BNP Paribas Bank Polska continues to develop the "green" products and services offer, supporting customers in transition to low-carbon economy. In 2018, the Bank established a Bureau for International Financial Institutions and Sustainable Development Programs – which constitutes the Bank's centre of competence for the development of sustainable financing. The purpose of the entity is, i.a., to analyse and design programs which are going to optimally support investments realised by the Banks clients of various market sectors.

In 2019, the Bank's centre of competence for the development of sustainable financing concluded the following agreements:

- an agreement with the European Investment Bank (EIB), based on which the Bank has obtained financial resources from EIB from the ELENA program (European Local Energy Assistance), under the auspices of the Horizon 2020 initiative for technical support of:
 - housing associations: in initiating and realising investments regarding the energy efficiency of residential buildings, and
 - SME and MidCAP enterprises: in initiating and realising investments regarding the energy efficiency of commercial buildings.

Project ELENA was awarded in Kiev by the United Nations Global Compact Ukraine.

- an agreement with EIB regarding a risk-sharing instrument within a UE Private Finance for Energy Efficiency (PF4EE) Program based on the LIFE Program (a program for environment and climate actions, 2014-2020). As a result of the agreement, the investors (individuals, housing associations, farmers) are going to have broader access to financing (higher loan volumes, longer financing periods) investments in the energy efficiency and renewable energy sources micro-installations.

Additionally, in 2019 the Bank became a partner of the 7th edition of the Eco-city project, the purpose of which is to promote energy efficiency in multi-family housing buildings and popularisation of best practices in this field.

Fotowoltaika (Photovoltaic) for prosumers program

Since 2016, BNP Paribas Bank Polska finances photovoltaic installations for individual customers. The offer is available in nearly 1,200 sales points of our partners, all over the country. In 2019, the Bank introduced an improvement in the Photovoltaic for prosumers program – i.e. popularisation of paperless process as the dominant form of concluding an agreement with an individual customer as well as the possibility to postpone the payment of the first instalment by 1 month as compared to the standard repayment schedule.

Dynamic development of the loan offer for renewable energy sources installations for individual customers allowed the Bank to reach 10 thousand financed installations in households in December 2019 and the position of the leader of this market segment.

Photovoltaic loan for micro-farmers

Due to positive changes in the Renewable Energy Sources Support System in Poland, the Bank continues to increase its activity in financing the renewable energy sources. One of the initiatives realised in the first half of 2019 was the promotional price offer of an investment loans for the purchase and fitting of photovoltaic installations for micro-farmers.

BANK'S COOPERATION AND COMMITMENT IN CLIMATE INITIATIVES

6-7 May 2019	SDGs Summit organized by CSR Europe in Brussels - presentation of the Bank's actions for climate
9 May 2019	meeting from the cycle of Rendezvous Business of the French-Polish Chamber of Commerce (CCIFP) entitled "Bank of green changes - climate, responsibility, cooperation" - presentation of the Bank's activities in the field of development of "green" pro-climate financing and product for individual consumers: Photovoltaics for prosumers
13-15 May 2019	XI European Economic Congress in Katowice - participation in the debate on sustainable development in corporate strategies
3-5 June 2019	IX European Financial Congress in Sopot - the Bank hosted the debate "Green finance - principles, standards and reporting in the financial sector"
3-5 September 2019	XXIX Economic Forum in Krynica – the Bank hosted „Sustainable financing – new business models” debates
September-October 2019	Campaign „Great Oxygen Gardens” – educational campaign of the Bank, regarding climate change, 50 thousand oxytrees are going to be planted in wastelands

CSR PARTNERSHIPS ESTABLISHED IN 2019

CEO Call to action	during the SDGs Summit 2019, CSR Europe announced the "Call to action" initiative joining CEOs of companies declaring support for the implementation of SDGs actions taken by organizations, through which they will manage to build a new order for Europe. The need to build social and climate justice and sustainable development was supported by the President of BNP Paribas Bank Polska as the only CEO from Poland.
Program „SDG11 Sustainable cities” United Nation Global Compact Network Poland	The Bank supports the „A day without air pollution” campaign and other actions of Global Compact Network Poland aiming at promoting ecological attitudes. The CEO of the Bank is a member of the UNGC Policy Council and he took part in the annual publication Yearbook 2019 in which he encouraged consumers, enterprises and institutions to engaging in initiatives for Sustainable Development Goal 13 – actions for the climate.
Partnership for the climate	The Bank joined the campaign for the capital city of Warsaw

Full list available at <https://www.bnpparibas.pl/csr/partnerstwa>

THE BANK'S INVOLVEMENT IN CSR DEVELOPMENT AND PROMOTION AND SUSTAINABLE DEVELOPMENT

- Signatory of the Partnership "Together for the environment" for realisation of the environmental sustainable development goals
- Signatory of the Partnership for climate of the capital city of Warsaw
- Partner UNEP/GRID-Warsaw
- Partner of the Global Compact Network Poland and „SDG-11 Sustainable cities” program as wells the „A day without air pollution” camapaign
- Sygnatory of the Declaration of Vision of the Sustainable Development 2050 for Polish Business
- Sygnatory of the Agenda 2030 – Partnership for realisation of Sustainable Development Goals (SDG's) in Poland
- Partner of the Responsible Business Forum
- Member of the Responsible Leadership Council
- Signatory of the Diversity Card
- Member of the Male Champions of Change Club
- Signatory of the Partnership for Accessibility – The Accessibility Plus Program
- Strategic Partner of the Spring (Wiosna) Association and the Noble Gift (Szlachetna Paczka)
- Partner of the “Not irresponsible” conference regarding ethics in the financial sector
- Partner of the „Ethics in Finance” competition organised by the Polish Banking Association
- Initiator of the Declaration of Responsible Selling
- Partner of the Coalition for Polish Innovation

12.1. Statement of non-financial information

Detailed CSR data and key non-financial information describing the Bank's operations can be found in a separate document: "The CSR and Sustainable Development report of BNP Paribas Bank Polska S.A. for the year 2019".

The report presents non-financial information regarding BNP Paribas Bank Polska S.A. and the BNP Paribas Bank Polska S.A. Capital Group, in accordance with the guidelines of the amended Accounting Act as well as in accordance with the guidance provided in the international GRI Standard.

Since 2010, the Bank collects non-financial data and since 2011 the Bank publishes yearly reports in this respect.

13. OTHER INFORMATION

13.1. Information on certified auditor

On 21 September 2017, acting pursuant to § 20.1.1g) of the Bank's Statute and in conformity with the applicable laws and professional standards, the Supervisory Board of the Bank prolonged, for the duration of two years, the existing agreement concluded on 12 June 2015 with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office at al. Jana Pawła II 22 in Warsaw 00-133 ("Deloitte") as the entity authorised to audit the standalone financial statements of BNP Paribas Bank Polska S.A. and the consolidated financial statements of the Capital Group of BNP Paribas Bank Polska S.A.

Deloitte is listed by the National Council of Statutory Auditors, as an entity authorised to audit financial statements, under the number 73.

Deloitte is obliged to deliver the following services:

- auditing the annual financial statements of the Bank and the annual consolidated financial statements of the Capital Group of the Bank, in accordance with International Financial Reporting Standards and International Accounting Standards for the years 2018-2019;
- reviewing the interim (semi-annual) financial statements of the Bank and the Capital Group of the Bank, according to the rules and regulations for listed companies for the years 2018-2019.

The agreement with Deloitte was concluded for the period necessary to carry out the above-mentioned works.

Table 65. Auditor's fee by service type

PLN '000 (including Vat)	12 months ended 31.12.2019			12 months ended 31.12.2018		
	Bank	Subsidiaries	Total	Bank	Subsidiaries	Total
Statutory audit of financial statements	1,175	167	1,342	1,310	148	1,458
Other assurance services	2,168	36	2,204	2,052	18	2,070
Tax advisory services	-	-	-	-	1	1
Other services	43	317	360	-	268	268
Total	3,386	520	3,906	3,362	435	3,797

* The fees related to other assurance services include remuneration of the auditor for reviewing of the interim financial statements as well as reviewing and auditing of the reporting packages for consolidation purposes of BNP Paribas Group.

Moreover, in accordance with the Bank's Statute and the regulations in force, on 12 December 2019 The Supervisory Board of BNP Paribas Bank Polska S.A. adopted a resolution according to which it chose Mazars Audyt Sp. z o.o. as an auditing firm authorised to audit and review standalone financial statements of BNP Paribas Bank Polska S.A. and consolidated financial statements of the Capital Group of BNP Paribas Bank Polska S.A. including reporting packages for 2020-2021. Mazars Audyt Sp. z o.o., with its seat in Warsaw, ul. Piękna 18, is listed by the National Council of Statutory Auditors, as an entity authorised to audit financial statements, under the number 186.

13.2. Legal cases

As at 31 December 2019, no proceedings had been instituted before courts, arbitration or public administration bodies with respect to the Bank's receivables or liabilities, the value of which would exceed 10% of the Bank's equity.

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 (currently BNP Paribas Bank Polska S.A.) amounted to PLN 12,54 thousand 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 brought a last resort appeal against the aforesaid court decision on 25 April 2016. By a ruling issued on 25 October 2017, the Supreme Court overturned the verdict of the Warsaw Court of Appeal and referred the case for reconsideration. Acquisition of the core business of RBPL did not change the situation of the Bank as RBPL was not a party to this claim.

Corporate claims against the Bank (interchange fee)

As at 31 December 2019. The Bank received:

1. 31 requests for settlement from companies (marchands), associated with interchange fees paid due to the use of payment cards (of which three businesses applied twice and one applied twice for different payment schemes). The total amount of these claims was PLN 1,020.96 million, including PLN 1,010.99 million where the Bank had joint and several liability with other banks.
2. 4 applications for mediation before the arbitration court of the Polish Financial Supervision Authority. The applications were addressed to the Bank by the same entrepreneurs who had previously requested to call for a settlement attempt. The total value of claims resulting from the above-mentioned motions amounts to PLN 40.29 million, PLN 37.79 million of which concerns joint and several liability of the Bank with other banks.

Judgment of the Court of Justice of the European Union in Case C-260/18

On 3 October 2019 the Court of Justice of the European Union (CJEU) ruled that:

1) unfair terms and conditions of contract concerning foreign exchange rate differences cannot be replaced by general provisions of Polish civil law; 2) if, after the removal of the unfair terms, the nature and main subject-matter of those contracts can be altered to the extent that they would no longer be index-linked to a foreign currency while at the same time being subject to an interest rate based on the rate applicable to that currency, European Union law does not preclude the annulment of those contracts. However, the Court has not examined the abusive nature of the indexation clauses at all and allows the national court to fill in the gaps in the contract caused by the removal of a provision of national law which has been found to be abusive. It should be noted that the CJEU judgment concerns indexed loans, while the Bank's portfolio does not include such loans; the Bank and its legal predecessors concluded only denominated loan agreements and foreign currency loan agreements. Therefore, the CJEU judgment is not automatically applicable to disputes brought by the Bank's clients, however, it cannot be ruled out that it will affect the line of the case-law also in the case of other loans, as a consequence of which a full assessment of the effects of the CJEU judgment will be possible only after the line of case-law of Polish courts has been formed. The change of the line of the case-law may potentially have a negative impact on the Bank, however the scale, due to many uncertainties, is currently impossible to estimate precisely.

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

As at 31 December 2019, the Bank was a defendant in 192 pending court proceedings (a total of 207 actions against the Bank was brought by the customers, including legitimately concluded cases), in which the Bank's customers demand to declare the mortgage loan contract is invalid in terms of granting a foreign currency loan or denominated to CHF by determining that the Bank granted a loan in PLN without denomination to a foreign currency or compensation for abuse of the subjective law by the Bank, including the principles of social coexistence and misleading the customer or depriving the executory title of enforceability, as well as the spread reimbursement. The Bank is not a party to any collective action that would involve such loan agreements. As at 31 December 2019, the total value of claims pursued in currently pending cases was PLN 49.37 million, and PLN 30.66 million in legitimately concluded and binding cases.

The following judgements were made in 15 proceedings that have been legitimately concluded so far: claims against the Bank were dismissed in 9 proceedings, 3 proceedings were discontinued; in one proceeding the court dismissed the claim; in one, despite the dismissal of the claim, the court stated in its justification that the agreement shall be annulled, in one, only the claim for low own contribution insurance was awarded, in the remaining proceedings the court dismissed the claim.

The Bank recognises provisions on an ongoing basis for pending court proceedings concerning denominated or foreign currency loans, taking into account the current status of legitimate judgements in cases against the Bank and the line of the case-law. The Bank also decided to recognise a provision of PLN 29.49 million for portfolio risk related to CHF proceedings in the fourth quarter of 2019. As at 31 December 2019, the total value of created provisions for CHF proceedings amounted to PLN 32.1 million.

At the same time, the Bank points to a significant discrepancy between the facts (in particular different terms of the agreements and the scope of information for the customer) and the rulings in Poland in matters relating to indexed, denominated and foreign currency loans, which significantly hinders precise estimation of the risk scale. The Bank monitors the published judgements on an ongoing basis and is going to adjust the level of provisions to the observed direction of the case-law.

13.3. Sponsorship

The primary and direct objective of the sponsorship policy adopted by BNP Paribas Bank Polska is to build and foster brand awareness and enhance a positive image of the Bank. Indirectly, sponsorship initiatives are aimed to strengthen the Bank's relationships with its customers. Due to its profile and growth strategy, the Bank is primarily searching for initiatives that enable it to communicate directly with customers representing its target groups. Thus, the Bank finds solutions which naturally link its products and services with potential customers.

Tennis events

BNP Paribas Bank Polska is part of the BNP Paribas Group which is the biggest sponsor of tennis in the world. Therefore, offers regarding sponsorship of tennis events in Poland are given utmost priority by the Bank.

In 2019, the Bank sponsored the following events:

- Federation Cup in Zielona Góra, the largest and most prestigious world tournament of female tennis representations,
- Poznań Open – a male tournament of the ATP Challenger rank,
- BNP Paribas Sopot Open – a male tournament qualified for ATP Challenger Tour cycle.

Supporting tennis is more than cooperation for the largest tennis events. BNP Paribas Bank Polska, similarly to the whole BNP Paribas Group, supports tennis on each of its levels. The BNP Paribas Group motto is #WeAreTennis, because the sponsorship strategy in this area consists of 360° cooperation.

In 2019, the Bank organised the 4th edition of the Dzieciaki Do Rakiet (Kids to Rackets) Project, which included two pillars: (i) cycle of outdoor events held in 5 city centres (Warsaw, Sopot, Giżycko, Krynica Morska, Zakopane), and (ii) Tennis in PE Lessons Program, in which over 300 schools participated. Additionally, 60 schools in Poland were provided with the equipment enabling introduction of tennis playing elements into PE lessons and the teachers were provided with specialised trainings in that field.

Realisation of the project aimed at development and popularisation of tennis amongst children aged 5-12. However, departure from perceiving tennis as an elite discipline (available only for few chosen people) was equally important. Playing tennis was promoted as a perfect alternative for virtual reality of tablets and computers, also enabling strengthening such values as – endurance, self-reliance, consequence, fair-play attitude. Due to realisation of the cycle of unique events, we managed to enter into relations with local authorities and communities.

Moreover, the Bank cooperated in organising tournaments for amateurs – Baba Cup (a tournament for women) and a cycle of tournaments for businessmen – Business Cup.

For the employees, the Bank organises team tennis tournaments called WeAreTennis Cup. Winners take part in the worldwide tournaments of the BNP Paribas Group, which take place during the Grand Slam tournament Roland Garros.

Movie events

Cinema – next to tennis – is one of the most important pillars of the BNP Paribas Group’s sponsorship strategy, which is realised under the #WeLoveCinema slogan.

In 2019, the Bank was the strategic partner of the International Independent Cinema Festival Mastercard Off Camera – the largest independent cinema festival in this part of Europe. 12th edition of this event took place in Cracow between 26 April and 5 May 2019. In the program of the event, there were 250 projections in the studio cinemas, in the roofs of tenement houses, in the cinema on the river barge and in the Vistula Boulevards.

Moreover, the Bank sponsored the 9th edition of the International Film Festival Hommage à Kieślowski 2019. The festival took place in Sokołowsk, on 13-15 September 2019. The wife of the late director – Maria Kieślowska – took patronage of the festival.

Cultural events

Additionally, the Bank – within its sponsorship activities – supports unique cultural events. In 2019, the Bank was, i.a. a co-founder of the Wisława Szymborska Award – a competition organised by the Wisława Szymborska Foundation. The competition is international, every year a poetry volume published in the previous year is recognized. Poetry volumes originally published in Polish may be submitted for the Award, and candidates may be submitted by publishing houses, cultural institutions, literary media, chapter members and other persons.

13.4. Subsequent events

January 2020

Extraordinary General Meeting of Shareholders

Adopting resolutions on:

- introducing an incentive program for people having a material impact on the Bank’s risk profile
- authorizing the Management Board to purchase the Company’s own shares by the Bank and to create a reserve capital intended entirely for the purchase of own shares
- issue of subscription warrants, conditional increase of the share capital through the issue of series M shares, depriving existing shareholders of the pre-emptive right to subscription warrants and pre-emptive rights to series M shares, amendments to the Statute, dematerialisation and applying for admission of M series shares to trading on the regulated market



February 2020

PFSA’s decisions related to consent to include in the Common Equity Tier 1 capital net profit for the third quarter of 2019 - standalone (PLN 114.1 million) and prudentially consolidated (PLN 110.9 million)



13.5. Statements of the Management Board of BNP Paribas Bank Polska S.A

Fairness and reliability of the presented financial statements

The Management Board of BNP Paribas Bank Polska S.A. hereby declares that to the best of its knowledge:

- Standalone financial statements of BNP Paribas Bank Polska S.A. for the period of 12 months ended 31 December 2019 and Consolidated financial statements of Bank BNP Paribas Bank Polska S.A. for the period of 12 months ended 31 December 2019 and the comparative data was prepared in accordance with the applicable accounting principles, and they reflect in a true, reliable and clear way the financial position as well as the financial result of the Bank and the Bank's Capital Group.
- Management Board Report on the activities of the Capital Group of BNP Paribas Bank Polska S.A. in 2019 (including the Management Board Report on the activities of BNP Paribas Bank Polska S.A.) contains a true picture of the development and achievements and situation of the Bank's Capital Group, including a description of the basic risks and threats.

Information of the Management Board, prepared on the basis of a statement of the Supervisory Board or a supervising person, on the selection of the audit firm to audit the annual separate financial statements and the annual consolidated financial statements in accordance with the regulations

The Management Board of BNP Paribas Bank Polska S.A. declares that Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Warsaw ("Deloitte"), an entity authorised to audit financial statements, was selected pursuant to § 20 paragraph 1 point 1 g) of the Statute of BNP Paribas Bank Polska S.A. by the Supervisory Board of the Bank in accordance with the law, as an entity authorised to audit the consolidated financial statements of the Capital Group of BNP Paribas Bank Polska S.A. for 2019 and the standalone financial statement of BNP Paribas Bank Polska S.A. for 2019. Deloitte and the members of the audit team met the conditions for preparing an impartial and independent audit report on the annual financial statements and the audit report on the consolidated annual financial statements in accordance with applicable regulations, professional standards and professional ethics.

Relevant agreement for the review and audit of financial statements and review and audit of consolidation packages with Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa was concluded on 12 June 2015.

On 21 September 2017, the Supervisory Board of the Bank prolonged, for the duration of two years, the existing agreement concluded on 12 June 2015 with Deloitte as the entity authorized to audit the separate financial statements of Bank and the consolidated financial statements of the Capital Group (information on the new contract is included in Chapter 13.1 *Information on certified auditor*). The extension of the contract is in line with the applicable regulations related to the rotation of the audit firm and the key statutory auditor and mandatory grace periods. Furthermore, the Bank's Management Board informs that in accordance with the Bank's Statute and the regulations in force, on 12 December 2019 the Supervisory Board of BNP Paribas Bank Polska S.A. adopted a resolution according to which it selected Mazars Audyt Sp. z o.o. as an audit firm authorised to audit and review the standalone financial statements of BNP Paribas Bank Polska S.A. and consolidated financial statements of the Capital Group of BNP Paribas Bank Polska S.A. including the reporting packages for 2020-2021. The Management Board of BNP Paribas Bank Polska S.A. declares that the Bank has a "Policy of selecting an audit firm at BNP Paribas Bank Polska S.A." and "Policy of providing of permitted non-audit services in BNP Paribas Bank Polska S.A. by the audit firm, by entities related to the audit firm and members of the audit firm network".

Position of the Bank's Board of Executives on the possibility of meeting previously published forecasts for a given year

The Bank did not publish financial forecasts for 2019.

SIGNATURES OF BNP PARIBAS BANK POLSKA S.A. BOARD MEMBERS

02.03.2020	Przemysław Gdański President of the Management Board	<i>signed with a qualified electronic signature</i>
02.03.2020	Jean-Charles Aranda Vice-President of the Management Board	<i>signed with a qualified electronic signature</i>
02.03.2020	André Boulanger Vice-President of the Management Board	<i>signed with a qualified electronic signature</i>
02.03.2020	Przemysław Furlępa Vice-President of the Management Board	<i>signed with a qualified electronic signature</i>
02.03.2020	Wojciech Kemblowski Vice-President of the Management Board	<i>signed with a qualified electronic signature</i>
02.03.2020	Kazimierz Łabno Vice-President of the Management Board	<i>signed with a qualified electronic signature</i>
02.03.2020	Jaromir Pelczarski Vice-President of the Management Board	<i>signed with a qualified electronic signature</i>
02.03.2020	Volodymyr Radin Vice-President of the Management Board	<i>signed with a qualified electronic signature</i>
02.03.2020	Jerzy Śledziewski Vice-President of the Management Board	<i>signed with a qualified electronic signature</i>