

INTERIM CONSOLIDATED REPORT

FOR THE PERIOD OF 6 MONTHS
ENDED 30 JUNE 2020

BNP Paribas Bank Polska S.A. Capital Group



BNP PARIBAS

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SELECTED FINANCIAL DATA

Selected consolidated financial data	in PLN '000		in EUR '000	
	30.06.2020 (YTD)	30.06.2019 (YTD)	30.06.2020 (YTD)	30.06.2019 (YTD)
Statement of profit or loss				
Net interest income	1,573,773	1,565,139	354,354	365,004
Net fee and commission income	407,059	407,087	91,654	94,936
Profit before tax	513,297	520,973	115,575	121,496
Profit after tax	334,127	378,661	75,233	88,307
Total comprehensive income	396,175	363,245	89,203	84,712
Total net cash flows	648,348	(871,996)	145,983	(203,357)
Ratios	30.06.2020	30.06.2019	30.06.2020	30.06.2019
Number of shares (items)	147,418,918	147,418,918	147,418,918	147,418,918
Earnings per share	2.27	2.57	0.51	0.60
Statement of financial position	30.06.2020	31.12.2019	30.06.2020	31.12.2019
Total assets	118,707,148	109,954,142	26,580,194	25,819,923
Loans and advances to customers measured at amortised cost	74,339,859	71,836,643	16,645,736	16,869,002
Loans and advances to customers measured at fair value through profit or loss	1,714,418	1,974,396	383,882	463,636
Total liabilities	107,146,548	98,794,759	23,991,614	23,199,427
Amounts due to customers	93,742,118	86,134,984	20,990,174	20,226,602
Share capital	147,419	147,419	33,009	34,618
Total equity	11,560,600	11,159,383	2,588,580	2,620,496
Capital adequacy	30.06.2020	31.12.2019	30.06.2020	31.12.2019
Total own funds	12,900,804	12,586,528	2,888,671	2,955,625
Total risk exposure	84,827,952	83,762,992	18,994,167	19,669,600
Total capital ratio	15.21%	15.03%	15.21%	15.03%
Tier 1 capital ratio	12.90%	12.78%	12.90%	12.78%

Selected separate financial data	in PLN '000		in EUR '000	
	30.06.2020 (YTD)	30.06.2019 (YTD)	30.06.2020 (YTD)	30.06.2019 (YTD)
Statement of profit or loss				
Net interest income	1,544,080	1,541,729	347,668	359,545
Net fee and commission income	388,068	392,366	87,378	91,503
Profit before tax	506,916	551,406	114,138	128,593
Profit after tax	329,799	407,331	74,258	94,993
Total comprehensive income	391,847	391,892	88,229	91,393
Total net cash flows	545 626	(865 399)	122 854	(201 819)
Ratios	30.06.2020	30.06.2019	30.06.2020	30.06.2019
Number of shares (items)	147,418,918	147,418,918	147,418,918	147,418,918
Earnings per share	2.23	2.76	0.50	0.64
Statement of financial position	30.06.2020	31.12.2019	30.06.2020	31.12.2019
Total assets	115,202,109	106,592,130	25,795,367	25,030,440
Loans and advances to customers measured at amortised cost	71,013,331	68,651,562	15,900,880	16,121,067
Loans and advances to customers measured at fair value through profit or loss	1,714,418	1,974,396	383,882	463,636
Total liabilities	103,620,856	95,407,828	23,202,162	22,404,093
Amounts due to customers	95,514,743	88,445,327	21,387,090	20,769,127
Share capital	147,419	147,419	33,009	34,618
Total equity	11,581,253	11,184,302	2,593,205	2,626,348
Capital adequacy	30.06.2020	31.12.2019	30.06.2020	31.12.2019
Total own funds	12,945,777	12,651,988	2,898,741	2,970,996
Total risk exposure	81,480,057	80,852,563	18,244,527	18,986,160
Total capital ratio	15.89%	15.65%	15.89%	15.65%
Tier 1 capital ratio	13.49%	13.32%	13.49%	13.32%

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

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

- as at 30.06.2020 - 1 EUR = 4.4660 PLN
- as at 31.12.2019 - 1 EUR = 4.2585 PLN

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

- for the period from 1.01.2020 r. to 30.06.2020 r. - 1 EUR = 4.4413 PLN
- for the period from 1.01.2019 r. to 30.06.2019 r. - 1 EUR = 4.2880 PLN

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Note	2Q 2020 from 01.04.2020 to 30.06.2020	HY 2020 from 01.01.2020 to 30.06.2020	2Q 2019 from 01.04.2019 to 30.06.2019	HY 2019 from 01.01.2019 to 30.06.2019
Interest income	8	919,168	1,946,868	1,059,509	2,094,595
Interest income calculated with the use of effective interest rate method		870,471	1,842,326	1,002,432	1,981,551
interest income on financial instruments measured at amortised cost		823,073	1,745,366	949,976	1,864,527
interest income on financial instruments measured at fair value through other comprehensive income		47,398	96,960	52,456	117,024
Income of a similar nature to interest on instruments measured at fair value through profit or loss		48,697	104,542	57,077	113,044
Interest expense	8	(155,887)	(373,095)	(264,812)	(529,456)
Net interest income		763,281	1,573,773	794,697	1,565,139
Fee and commission income	9	248,670	509,042	256,554	508,407
Fee and commission expenses	9	(48,371)	(101,983)	(55,350)	(101,320)
Net fee and commission income		200,299	407,059	201,204	407,087
Dividend income		460	2,439	1,348	1,556
Net trading income	10	189,619	376,805	158,035	326,032
Result on investment activities	11	41,439	17,870	(12,361)	(19,998)
Result on hedge accounting	22	(869)	(9,697)	(3,009)	(1,083)
Net impairment losses on financial assets and contingent liabilities		(199,912)	(398,233)	(112,353)	(205,534)
General administrative expenses	13	(480,881)	(1,130,427)	(594,822)	(1,232,900)
Depreciation and amortization	14	(89,960)	(179,552)	(115,755)	(221,227)
Other operating income	15	49,372	195,467	71,632	108,851
Other operating expenses	16	(69,222)	(191,384)	(34,400)	(65,623)
Operating result		403,626	664,120	354,216	662,300
Tax on financial institutions		(80,182)	(150,823)	(70,982)	(141,327)
Profit before tax		323,444	513,297	283,234	520,973
Income tax expenses	17	(104,398)	(179,170)	(66,174)	(142,312)
Net profit		219,046	334,127	217,060	378,661
attributable to equity holders of the Bank		219,046	334,127	217,060	378,661
Earnings (loss) per share (in PLN per one share)					
Basic		1.49	2.27	1.47	2.57
Diluted		1.48	2.26	1.47	2.57

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2Q 2020 from 01.04.2020 to 30.06.2020	HY 2020 from 01.01.2020 to 30.06.2020	2Q 2019 from 01.04.2019 to 30.06.2019	HY 2019 from 01.01.2019 to 30.06.2019
Net profit for the period	219,046	334,127	217,060	378,661
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss upon fulfilment of certain conditions	55,126	62,830	20,239	(15,728)
Measurement of financial assets measured through other comprehensive income	68,057	77,568	23,187	(19,423)
Deferred income tax	(12,931)	(14,738)	(2,948)	3,695
Items that will not be reclassified to profit or loss	(1,032)	(782)	424	312
Actuary valuation of employee benefits	(1,274)	(966)	523	386
Deferred income tax	243	184	(99)	(74)
Other comprehensive income (net)	54,094	62,048	20,663	(15,416)
Total comprehensive income for the period	273,140	396,175	237,723	363,245
attributable to equity holders of the Group	273,140	396,175	237,723	363,245

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Note	30.06.2020	31.12.2019
Cash and balances at Central Bank	19	4,524,539	4,658,171
Amounts due from banks	20	1,834,807	679,308
Derivative financial instruments	21	1,322,060	800,886
Adjustment of fair value of hedging item	22	563,865	228,120
Loans and advances to customers measured at amortised cost	23	74,339,859	71,836,643
Loans and advances to customers measured at fair value through profit or loss	24	1,714,418	1,974,396
Securities measured at amortised cost	25	19,905,356	17,916,645
Financial instruments measured at fair value through profit or loss	26	340,468	241,754
Securities measured at fair value through other comprehensive income	27	10,677,194	7,953,358
Investment properties		56,577	56,577
Intangible assets	28	525,717	519,945
Property, plant and equipment	29	1,149,393	1,226,746
Deferred tax assets		904,821	976,748
Current tax assets		43,195	-
Other assets	31	804,879	884,845
Total assets		118,707,148	109,954,142
LIABILITIES	Note	30.06.2020	31.12.2019
Amounts due to banks	32	4,891,630	4,485,264
Derivative financial instruments	21	1,333,735	815,637
Adjustment of fair value of hedging and hedged item	22	597,961	224,218
Amounts due to customers	33	93,742,118	86,134,984
Debt securities issued	34	1,704,302	2,179,052
Subordinated liabilities	35	1,962,317	1,882,064
Lease liabilities	30	637,185	602,192
Other liabilities	36	1,715,669	1,893,414
Deferred tax liabilities		8,410	8,535
Current tax liabilities		31,192	38,338
Provisions	37	522,029	531,061
Total liabilities		107,146,548	98,794,759
EQUITY			
Share capital		147,419	147,419
Supplementary capital		9,110,976	9,110,976
Other reserve capital		2,206,558	1,572,757
Revaluation reserve		187,298	125,251
Retained earnings		(91,650)	202,980
Retained profit		(425,778)	(411,714)
net profit for the period		334,127	614,694
Total equity		11,560,600	11,159,383
Total liabilities and equity		118,707,148	109,954,142

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings		Total
					Retained profit	Net profit for the period	
Balance as at 1 January 2020 (data approved)	147,419	9,110,976	1,572,757	125,251	(411,714)	614,694	11,159,383
Total comprehensive income for the period	-	-	-	62,048	(14,003)	334,127	396,175
Net profit for the period	-	-	-	-	-	334,127	334,127
Other comprehensive income for the period	-	-	-	62,048	-	-	62,048
Distribution of retained earnings	-	-	628,696	-	(14,003)	(614,693)	-
Distribution of retained earnings intended for capital	-	-	628,696	-	(14,003)	(614,693)	-
Managerial options*	-	-	5,104	-	-	-	5,104
Other adjustments	-	-	-	-	(61)	-	(61)
Balance as at 30 June 2019	147,419	9,110,976	2,206,558	187,298	(425,778)	334,127	11,560,600

* the managerial option program is described in detail in Note 39

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

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings		Total
					Retained profit	Net profit for the period	
Balance as at 1 January 2019 (data approved)	147,419	9,111,033	1,208,018	141,179	(408,214)	360,378	10,559,813
Total comprehensive income for the period	-	-	-	(15,416)	-	378,661	363,245
Net profit for the period	-	-	-	-	-	378,661	378,661
Other comprehensive income for the period	-	-	-	(15,416)	-	-	(15,416)
Distribution of retained earnings	-	-	364,739	-	(4,361)	(360,378)	-
Distribution of retained earnings intended for capital	-	-	364,739	-	(4,361)	(360,378)	-
Share issue	-	(57)	-	-	-	-	(57)
Costs of share issue	-	(57)	-	-	-	-	(57)
Other (subsidiaries' equity)	-	-	-	-	685	-	685
Balance as at 30 June 2019	147,419	9,110,976	1,572,757	125,763	(411,890)	378,661	10,923,686

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Note	HY 2020 from 01.01.2020 to 30.06.2020	HY 2019 from 01.01.2019 to 30.06.2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net profit (loss)		334,127	378,661
Adjustments for:		5,266,000	(2,697,819)
Income tax expenses		179,170	142,312
Depreciation and amortization		179,552	221,227
Dividend income		(2,439)	(1,556)
Interest income		(1,946,868)	(2,094,595)
Interest expense		373,095	529,456
Change in provisions		(9,673)	(23,663)
Change in amounts due from banks		(492,525)	104,894
Change in assets due to derivative financial instruments		(856,920)	(117,226)
Change in loans and advances to customers measured at amortised cost		(1,984,930)	1,034,646
Change in loans and advances to customers measured at fair value through profit or loss		259,978	233,766
Change in amounts due to banks		407,107	(174,487)
Change in liabilities due to derivative financial instruments		891,841	100,893
Change in amounts due to customers		7,546,995	(4,552,146)
Change in other assets and receivables due to current income tax		(26,775)	43,719
Change in other liabilities and provisions due to deferred tax		(179,753)	319,074
Other adjustments	40	82,671	48,312
Interest received		1,174,208	1,933,745
Interest paid		(332,275)	(454,783)
Lease payments for short-term leases not included in the lease liability measurement		3,542	8,593
Net cash flows from operating activities		5,600,127	(2,319,158)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investing activities inflows		9,455,509	8,305,955
Sale and maturity of financial assets		9,335,876	8,301,078
Sale of intangible assets and property, plant and equipment		117,194	3,321
Dividends received and other inflows from investing activities		2,439	1,556
Investing activities outflows		(13,901,051)	(6,604,567)
Purchase of debt securities		(13,763,909)	(6,363,119)
Purchase of intangible assets and property, plant and equipment		(137,142)	(241,448)
Net cash flows from investing activities		(4,445,542)	1,701,388
CASH FLOWS FROM FINANCING ACTIVITIES:			
Financing activities inflows		629,179	-
Long-term loans received		629,179	-
Financing activities outflows		(1,135,417)	(254,226)
Repayment of long-term loans and advances received		(598,640)	(242,218)
Repayment of lease liability		(62,122)	(12,008)
Redemption of debt securities		(474,654)	-
Net cash flows from financing activities		(506,238)	(254,226)
TOTAL NET CASH AND CASH EQUIVALENTS		648,348	(871,996)
Cash and cash equivalents at the beginning of the period		4,833,209	3,425,453
Cash and cash equivalents at the end of the period, including:	38	5,481,557	2,553,457
effect of exchange rate fluctuations on cash and cash equivalents		24,900	175

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. IDENTIFICATION DATA

BNP Paribas Bank Polska S.A. („Bank” or „BNP Paribas”) is the parent company in the Capital Group OF BNP Paribas Bank Polska S.A. („Group”).

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

2. DESCRIPTION OF THE CAPITAL GROUP

BNP Paribas operates within the BNP Paribas Capital Group with its registered office in Paris.

As at 30 June 2020, the Group comprised BNP Paribas Bank Polska S.A. as the parent and its subsidiaries:

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

The Bank does not have any capital involvement in BGŻ Poland ABS1 DAC (SPV). The company is controlled by the Bank in connection with the control conditions contained in IFRS 10.

In accordance with the principles of International Financial Reporting Standards, the interim condensed consolidated financial statements cover all subsidiaries as at 30 June 2020.

3. ACCOUNTING PRINCIPLES APPLIED FOR THE PURPOSE OF PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the first half of 2020 ended 30 June 2020 were prepared in accordance with the International Financial Reporting Standards, as adopted by the European Union („IFRS EU”). The accounting principles applied in the first half of 2020 do not differ from the principles applicable in 2019, which are described in detail in the Consolidated financial statements of Bank BNP Paribas Polska S.A. Capital Group for the year ended 31 December 2019.

The interim condensed consolidated financial statements do not include all information and disclosures required in annual consolidated financial statements, and, therefore, should be read in conjunction with the Consolidated financial statements of Bank BNP Paribas Polska S.A. Capital Group for the year ended 31 December 2019.

The present interim condensed consolidated financial statements include the requirements of all International Accounting Standards approved by the European Union (“IAS”), International Financial Reporting Standards (“EU IFRS”) and interpretations related to these standards, except for the standards and interpretations listed below that are awaiting approval by the European Union or have been approved, but entered into or will enter into force only after the balance sheet date.

In the period covered by the consolidated financial statements, the Group did not use the option of earlier application of standards and interpretations, which were approved by the European Union, but will enter into force only after the balance sheet date.

3.1. New standards and amendments to the existing standards published by IASB but not yet effective

- **IFRS 17, Insurance contracts**, published by the International Accounting Standards Board (“IASB”) on 18 May 2017, binding for annual periods starting on or after 1 January 2023. IFRS 17 defines a new approach to the recognition, valuation, presentation and disclosure of insurance contracts. The main purpose of IFRS 17 is to guarantee the transparency and comparability of insurers’ financial statements. In order to meet this requirement the entity will disclose a lot of quantitative and qualitative information enabling the users of financial statements to assess the effect that insurance contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of the entity. IFRS 17 introduces a number of significant changes in relation to the existing requirements of IFRS 4. They concern, among others: aggregation levels at which the calculations are made, methods for the valuation of insurance liabilities, recognition a profit or loss over the period the entity provides insurance coverage, reinsurance recognition, separation of the investment component and presentation of particular items of the balance sheet and profit and loss account of reporting units including the separate presentation.
- **Amendments to IFRS 17**, published by International Accounting Standards Board on 25 June 2020, binding for annuals periods starting on or after 1 June 2023. Amendments to IFRS 17 include a two-year deferral of the effective date and the fixed expiry date of the temporary exemption from applying IFRS 9 granted to insurers meeting certain criteria. Preparers of financial statements are no longer required to apply IFRS 17 to certain credit cards and similar arrangements, and loans that provide insurance coverage. The profit recognition pattern for insurance contracts under IFRS 17 has been amended to reflect insurance coverage and any investment services provided. Insurance contracts are now required to be presented on the balance sheet at the portfolio level. The amendments addresses also accounting mismatches that arise when an entity reinsures onerous contracts and recognizes losses on the underlying contracts on initial recognition.
- **Amendments to IFRS 16 COVID-19-Related Rent Concessions**, published by International Accounting Standards Board on 28 May 2020, binding for annuals periods starting on or after 1 June 2020. Amendments to IFRS 16 provides practical expedient that permits lessees not to assess whether rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications.
- **Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use**, published by International Accounting Standards Board on 14 May 2020, binding for annuals periods starting on or after 1 January 2022. Amendments to IAS 16 prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
- **Annual Improvements to IFRS Standards 2018-2020**, published by International Accounting Standards Board on 14 May 2020, binding for annuals periods starting on or after 1 January 2022. Annual Improvements include changes to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, Illustrative Examples accompanying IFRS 16 Leases and IAS 41 Agriculture. The amendment to IFRS 1 permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent’s date of transition to IFRSs. The amendment to IFRS 9 clarifies which fees the entity includes when it applies the ‘10 per cent test’ in assessing whether to derecognize a financial liability. A entity includes only the fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or lender on the other’s behalf. The amendment to IFRS 16 removes the illustration of payments from the lessor relating to leasehold improvements in order to resolve any potential confusion regarding the treatment of lease incentives. The amendment to IAS 41 removes the requirement to exclude cash flows for taxation when measuring fair value of a biological asset using a parent value technique. This will ensure consistency with the requirements in IFRS 13 Fair Value Measurement.
- **Amendments to IAS 37 Onerous contracts – Cost of Fulfilling the Contract**, published by International Accounting Standards Board on 14 May 2020, binding for annuals periods starting on or after 1 January 2022. Amendments to IAS 37 specifies which costs to include in estimating the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.
- **Amendments to IFRS 3 Reference to the Conceptual Framework**, published by International Accounting Standards Board on 14 May 2020, binding for annuals periods starting on or after 1 January 2022. Amendments to IFRS 3 replaced references to the Framework with references to the 2018 Conceptual Framework. They also added a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of conceptual framework) to identify the liabilities it has assumed in business combination. Moreover, the standard added an explicit statement that an acquirer does not recognize contingent asset acquired in a business combination.
- **Amendments to IFRS 4 Extension of the Temporary Exemption from Applying IFRS 9**, published by International Accounting Standards Board on 25 June 2020, binding for annuals periods starting on or after 1 June 2023. Amendments to IFRS 4 provides a temporary exemption that permits the insurer to apply IAS 39 rather than IFRS 9 Financial Instruments. The extension maintains the alignment between the expiry date of the temporary exemption and the effective date of IFRS 17, which replaces IFRS 4.

- **Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture** (issued on 11 September 2014) - the endorsement process of these Amendments has been postponed by EU - the effective date was deferred indefinitely by IASB.
- **Amendments to IAS 1, Classification of liabilities as current or non-current**, published by IASB on 23 January 2020, binding for annuals periods starting on or after 1 January 2022. Amendments to IAS 1 affect the requirements for the presentation of liabilities in the financial statements. In particular, they explain one of the criteria for classifying liabilities as non-current.
- **Amendment to IAS 1 Classification of Liabilities as Current or Non-Current- Deferral of Effective Date**, published by IASB on 15 July 2020, binding for annuals periods starting on or after 1 January 2023. Amendment to IAS 1 provides entities an operational relief by deferring the effective date of the amendments to the Standard by one year to annual reporting periods beginning on or after 1 January 2023.

In the Group's opinion, the aforementioned standards and amendments to the existing standards will not have a significant impact on its interim condensed financial statements for the first half of 2020.

3.2. Changes in presentation of financial data

In the present interim condensed consolidated financial statements, the Group has not changed the presentation of financial data.

4. GOING CONCERN

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

5. APPROVAL OF THE FINANCIAL STATEMENTS

The interim consolidated report of the BNP Paribas Bank Polska S.A. Capital Group for the first half of 2020 ended 30 June 2020 was approved for publication by the Management Board on 14 August 2020.

6. SEASONAL AND CYCLICAL NATURE OF BUSINESS

There are no significant seasonal or cyclical phenomena in the Group's operations.

7. ESTIMATES

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

a. Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

In the first half of 2020, the impairment losses included impairment resulting mainly from changes in macroeconomic scenarios as a result of COVID-19 (forward looking PD and LGDs determined based on smoothed macro forecasts) and the Bank's assessment of the expected future impact of the current economic situation on risk parameters for selected types of clients in the total amount of PLN 156,479 thousand on a consolidated basis (PLN 151,070 thousand on a stand-alone basis).

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

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

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

Impairment assessment for individually significant assets

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

Collective (group) assessment

The following assets are tested collectively:

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

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

The amount of collective impairment allowances is determined with the application of statistical methods for defined exposure portfolios which are homogenous from the perspective of credit risk. Homogeneous exposure portfolios are defined based on customer segment, type of credit products and exposure delinquency classes and, for institutional customers with a rating assigned by the Bank internally, the credit rating assigned to the customer. The criteria applied by the Bank to define homogeneous portfolios

are aimed at grouping exposures so that the credit risk profile is reflected as accurately as practicable and, consequently, so as to estimate the level of allowances for the expected credit losses on financial assets as objectively and adequately as possible.

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

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

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

b. Classification of financial instruments

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

c. Fair value of derivative instruments

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

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

d. Securities

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

e. Impairment of fixed assets

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

f. Provision for retirement benefits

The Group creates provisions for retirement, disability and post-mortem severance pay ("severance"), in accordance with IAS 19. The severance provision is calculated individually for each employee using the actuarial method of projected unit credit as at the date of valuation, by an independent actuary as the present value of the Group's future liabilities to employees based on employment and remuneration as at the calculation update date. The calculations take into account a number of factors, including macroeconomic

conditions, employee turnover, risk of death and others. The basis for calculating of the provision for employees is the anticipated value of severance pay which the Group is to pay pursuant from the Remuneration Regulations in force at the Group. The anticipated severance pay is calculated as the resultant of the following factors:

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

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

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

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

Provisions resulting from actuarial valuation are updated quarterly.

g. Restructuring provision

On 14 December 2018, the Bank finalized negotiations with trade union organizations operating in the Bank and concluded an agreement on defining the rules with reference to the matters concerning employees in connection with the group layoffs process. In connection with the agreement concluded in December 2018 the Bank created restructuring provision to cover the costs of employment reduction and closure of branches.

The group layoffs are currently being carried out and severance payments are financed from the created restructuring provision.

h. Provision for deferred income tax

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

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

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

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

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

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

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

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

As a result of the analysis concerning the impact of the judgment on the Group's revenues, in particular on relations expired before the judgment was issued, in 2019 the Group decided to create a provision for a proportional refund of commission in the event of early repayment of the loan in the amount of PLN 48,800 thousand. As at 30 June 2020 the provision amounted to PLN 36,573 thousand (as at 31 December 2019 the provision amounted to PLN 48,466 thousand).

Additionally, the Group created in 2019 a provision of PLN 20,800 thousand to cover the partial reimbursements of loan commissions in the event of their early repayment, for loans repaid after 31 December 2019. The estimate of the provision is based on the difference between the value of commissions to be reimbursed and the balance of unsettled commissions as at the expected date of early loan repayment, as at 30 June 2020 the provision amounted to 19,220 thousand.

The above estimates include an assumption about the expected percentage of customers who will use the option to claim a commission refund, which may result in their inaccuracy. The Bank monitors the level of returns on ongoing basis, and in the future it will verify the adequacy of the provision level in relation to the assumptions.

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

Simultaneously, the Group recognizes its liability due to the proportional reimbursement of commissions in the event of their early repayment in the period from the date of the judgment of the CJEU on 11 September 2019 to 31 December 2019. As at 30 June 2020, this liability amounted to PLN 2,500 thousand (as at 31 December 2019 PLN 12,797 thousand).

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

Provision for potential claims resulting from proceedings related to CHF loan agreements and model used by the Group were presented in Note 49 Litigation and claims.

8. NET INTEREST INCOME

Interest income	2Q 2020 from 01.04.2020 to 30.06.2020	HY 2020 from 01.01.2020 to 30.06.2020	2Q 2019 from 01.04.2019 to 30.06.2019	HY 2019 from 01.01.2019 to 30.06.2019
Amounts due from banks	1,525	6,451	5,618	11,756
Loans and advances to customers measured at amortised cost, including:	695,663	1,489,133	831,515	1,642,728
non-banking financial institutions	2,667	5,724	6,825	12,793
retail customers	328,344	694,259	381,426	738,095
economic operators	331,284	717,692	407,220	821,022
including retail farmers	97,203	204,151	109,906	215,878
public sector institutions	1,434	2,722	1,737	3,511
leasing receivables	31,934	68,736	34,307	67,307
Loans and advances to customers measured at amortised cost through profit or loss	4,036	17,424	16,352	33,284
Debt instruments measured at amortised cost	125,885	249,782	112,843	210,043
Debt instruments measured at fair value through profit or loss	1,386	1,886	277	280
Debt instruments measured at fair value through other comprehensive income	47,398	96,960	52,456	117,024
Derivative instruments as part of fair value hedge accounting	43,275	85,232	40,448	79,461
Purchased repo transactions	-	-	-	19
Total interest income	919,168	1,946,868	1,059,509	2,094,595

Interest expense	2Q 2020 from 01.04.2020 to 30.06.2020	HY 2020 from 01.01.2020 to 30.06.2020	2Q 2019 from 01.04.2019 to 30.06.2019	HY 2019 from 01.01.2019 to 30.06.2019
Amounts due to banks	(20,376)	(48,541)	(25,975)	(48,992)
Debt securities issued	(15,616)	(33,928)	(19,440)	(38,925)
Amounts due to customers, including:	(88,430)	(219,119)	(176,754)	(360,345)
non-banking financial institutions	(3,453)	(9,716)	(11,719)	(24,253)
retail customers	(61,639)	(136,150)	(110,207)	(222,621)
economic operators	(22,287)	(68,868)	(50,951)	(106,360)
including retail farmers	(472)	(1,271)	(1,129)	(2,377)
public sector institutions	(1,049)	(4,383)	(3,877)	(7,111)
Lease liabilities	(1,541)	(3,605)	(2,005)	(4,267)
Derivative instruments as part of fair value hedge	(28,859)	(61,661)	(31,653)	(62,211)
Repo transactions	(1,065)	(6,241)	(8,985)	(14,716)
Total interest expense	(155,887)	(373,095)	(264,812)	(529,456)
Net interest income	763,281	1,573,773	794,697	1 565,139

9. FEE AND COMMISSION INCOME

Fee and commission income	2Q 2020 from 01.04.2020 to 30.06.2020	HY 2020 from 01.01.2020 to 30.06.2020	2Q 2019 from 01.04.2019 to 30.06.2019	HY 2019 from 01.01.2019 to 30.06.2019
loans, advances and leases	69,943	141,239	63,126	134,293
account maintenance	40,149	78,280	33,473	67,596
cash service	6,117	14,267	9,545	19,716
cash transfers and e-banking	17,632	36,748	26,328	52,959
guarantees and documentary operations	13,210	26,874	14,680	29,302
asset management and brokerage operations	24,491	53,303	31,525	57,500
payment and credit cards	46,893	95,158	53,137	101,511
insurance mediation activity	24,350	42,975	13,953	26,776
product sale mediation and customer	2,744	6,524	7,239	11,135
other commissions	3,140	13,673	3,548	7,619
Total fee and commission income	248,670	509,042	256,554	508,407

Fee and commission expense	2Q 2020 from 01.04.2020 to 30.06.2020	HY 2020 from 01.01.2020 to 30.06.2020	2Q 2019 from 01.04.2019 to 30.06.2019	HY 2019 from 01.01.2019 to 30.06.2019
loans, advances and leases	(128)	(280)	(838)	(1,509)
account maintenance	(2,872)	(5,680)	(1,188)	(2,518)
cash service	(2,533)	(3,858)	(3,346)	(5,797)
cash transfers and e-banking	(568)	(1,149)	(1,061)	(2,527)
asset management and brokerage operations	(1,299)	(2,152)	(7,077)	(8,124)
payment and credit cards	(21,106)	(51,583)	(27,503)	(52,733)
insurance mediation activity	(6,245)	(11,513)	(3,640)	(7,165)
product sale mediation and customer	(5,713)	(12,312)	(7,837)	(15,460)
other commissions	(7,907)	(13,456)	(2,860)	(5,487)
Total fee and commission expense	(48,371)	(101,983)	(55,350)	(101,320)
Net fee and commission income	200,299	407,059	201,204	407,087

10. NET TRADING INCOME

Net trading income	2Q 2020 from 01.04.2020 to 30.06.2020	HY 2020 from 01.01.2020 to 30.06.2020	2Q 2019 from 01.04.2019 to 30.06.2019	HY 2019 from 01.01.2019 to 30.06.2019
Equity instruments measured at fair value through profit or loss	56,915	61,784	4,897	8,913
Debt instruments measured at fair value through profit or loss	1,374	4,030	1,230	1,297
Derivative instruments and result on foreign exchange transactions	131,330	310,991	151,908	315,822
Result on financial instruments measured at fair value through profit or loss, total	189,619	376,805	158,035	326,032

The Bank recognized an increase in the valuation of shares of Krajowa Izba Rozliczeniowa S.A. and Biuro Informacji Kredytowej S.A. as a result of trading activities in the total amount of PLN 45 million which are classified as measured at fair value through profit or loss.

11. RESULT ON INVESTMENT ACTIVITIES

During the first half of 2020, the Group did not change the classification of any financial assets measured at amortized cost to be measured at fair value through other comprehensive income.

Result on investment activities	2Q 2020 from 01.04.2020 to 30.06.2020	HY 2020 from 01.01.2020 to 30.06.2020	2Q 2019 from 01.04.2019 to 30.06.2019	HY 2019 from 01.01.2019 to 30.06.2019
Equity instruments measured at fair value through other comprehensive income	30	2	-	-
Debt instruments measured at fair value through other comprehensive income	47,813	74,433	112	(585)
Loans and advances to customers measured at fair value through profit or loss	(6,404)	(56,565)	(12,473)	(19,413)
Total result on financial instruments measured at fair value through other comprehensive income	41,439	17,870	(12,361)	(19,998)

12. NET IMPAIRMENT ALLOWANCES ON FINANCIAL ASSETS AND CONTINGENT LIABILITIES

Impairment allowances on financial assets and contingent liabilities

HY 2020 from 01.01.2020 to 30.06.2020	Stage 1	Stage 2	Stage 3	Total	including POCI
Amounts due from banks	(598)	-	-	(598)	-
Loans and advances to customers measured at amortised cost	(115,701)	9,972	(291,243)	(396,972)	19,761
Contingent commitments granted	(12,637)	12,965	(2,543)	(2,215)	-
Securities measured at amortised cost	70	1,482	-	1,552	(2,008)
Total net impairment allowances on financial assets and contingent liabilities	(128,866)	24,419	(293,786)	(398,233)	17,753

IMPAIRMENT ALLOWANCES ON FINANCIAL ASSETS AND CONTINGENT LIABILITIES

HY 2019 from 01.01.2019 to 30.06.2019	Stage 1	Stage 2	Stage 3	Total	including POCI
Amounts due from banks	153	-	-	153	-
Loans and advances to customers measured at amortised cost	(51,055)	25,157	(170,219)	(196,117)	3,815
Contingent commitments granted	(10,004)	(740)	5,052	(5,692)	-
Securities measured at amortised cost	(3,363)	(698)	183	(3,878)	-
Total net impairment allowances on financial assets and contingent liabilities	(64,269)	23,719	(164,984)	(205,534)	3,815

In the first half of 2020, the Bank did not conclude any agreements for the sale of credit receivables.

13. GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses	2Q 2020 from 01.04.2020 to 30.06.2020	HY 2020 from 01.01.2020 to 30.06.2020	2Q 2019 from 01.04.2019 to 30.06.2019	HY 2019 from 01.01.2019 to 30.06.2019
Personnel expenses	(292,197)	(606,764)	(335,721)	(674,306)
Marketing expenses	(19,530)	(49,377)	(52,156)	(76,547)
IT and telecom expenses	(32,502)	(76,712)	(71,463)	(119,036)
Short-term lease and operating costs	(16,791)	(38,395)	(20,915)	(48,392)
Other non-personnel expenses	(82,186)	(158,189)	(89,912)	(148,125)
Business travels	(2,028)	(5,582)	(5,298)	(11,079)
ATM and cash handling expenses	(7,113)	(12,677)	(1,995)	(4,203)
Costs of outsourcing services related to leasing operations	(747)	(1,695)	(1,112)	(2,169)
Fee for the Borrowers Support Fund	(3,222)	(6,222)	-	-
Bank Guarantee Fund fee	(21,927)	(169,553)	(12,578)	(141,720)
Polish Financial Supervision Authority fee	(2,639)	(5,261)	(3,672)	(7,323)
Total general administrative expenses	(480,881)	(1,130,427)	(594,822)	(1,232,900)

14. DEPRECIATION AND AMORTIZATION

Depreciation and amortization	2Q 2020 from 01.04.2020 to 30.06.2020	HY 2020 from 01.01.2020 to 30.06.2020	2Q 2019 from 01.04.2019 to 30.06.2019	HY 2019 from 01.01.2019 to 30.06.2019
Property, plant and equipment	(61,435)	(119,294)	(54,298)	(108,536)
Intangible assets	(28,525)	(60,258)	(61,457)	(112,691)
Total depreciation and amortization	(89,960)	(179,552)	(115,755)	(221,227)

15. OTHER OPERATING INCOME

Other operating income	2Q 2020 from 01.04.2020 to 30.06.2020	HY 2020 from 01.01.2020 to 30.06.2020	2Q 2019 from 01.04.2019 to 30.06.2019	HY 2019 from 01.01.2019 to 30.06.2019
Revenues from sale or liquidation of property, plant and equipment and intangible assets	3,022	120,215	1,385	8,796
Release of write-offs on other receivables	2,875	4,099	-	-
Sale of goods and services	1,234	4,472	4,399	10,521
Release of provisions for litigation and claims and other liabilities	20,670	20,676	8,882	9,862
Recovery of debt collection costs	6,374	11,698	5,117	7,815
Recovered indemnities	181	870	(550)	408
Income from leasing operations	3,986	14,261	1,320	4,754
Revenue from the bargain purchase of RBPL	-	-	-	-
Other operating income	11,030	19,176	51,079	66,695
Total other operating income	49,372	195,467	71,632	108,851

In the first half of 2020, other operating income and expenses included the result on the sale of the real estate of the Bank's Head Office on Kasprzaka Street in Warsaw, which totaled PLN 43,564 thousand (gross) and was presented under the following items: Revenues from sale or liquidation of tangible and intangible assets, amounting to PLN 110,848 thousand) and under other operating expenses (under the following lines: Costs from sale or liquidation of tangible and intangible assets, amounting to PLN 64,371 thousand, and Other costs, amounting to PLN 2,914 thousand).

16. OTHER OPERATING EXPENSES

Other operating expenses	2Q 2020 from 01.04.2020 to 30.06.2020	HY 2020 from 01.01.2020 to 30.06.2020	2Q 2019 from 01.04.2019 to 30.06.2019	HY 2019 from 01.01.2019 to 30.06.2019
Costs from sale or liquidation of property, plant and equipment and intangible assets	(6,963)	(76,531)	(5,372)	(13,215)
Impairment allowance on other receivables	(3,171)	(9,269)	-	-
Provisions for restructuring of assets, litigation and claim and other liabilities	(40,347)	(57,373)	(9,579)	(10,682)
Debt collection	(12,765)	(23,613)	(12,092)	(21,478)
Donations granted	(2,391)	(3,227)	(1,643)	(2,970)
Costs of leasing operations	(1,647)	(8,508)	(3,756)	(11,035)
Indemnities, penalties and fines	(610)	(2,173)	(2,447)	(2,609)
Other operating income	(1,328)	(10,690)	489	(3,634)
Total other operating income	(69,222)	(191,384)	(34,400)	(65,623)

In the first half of 2020, other operating expenses included a part of the settlement of the sale of the real estate of the Bank's Head Office on Kasprzaka Street in Warsaw in the amount of PLN 64,371 thousand as costs from the sale or liquidation of tangible and intangible assets and PLN 2,914 thousand as other expenses.

17. INCOME TAX EXPENSE

	2Q 2020 from 01.04.2020 to 30.06.2020	HY 2020 from 01.01.2020 to 30.06.2020	2Q 2019 from 01.04.2019 to 30.06.2019	HY 2019 from 01.01.2019 to 30.06.2019
Current income tax	(78,517)	(123,279)	(64,998)	(95,424)
Deferred income tax	(25,881)	(55,891)	(1,176)	(46,888)
Total income tax expense	(104,398)	(179,170)	(66,174)	(142,312)
Profit before income tax	323,444	513,297	283,234	520,973
Statutory tax rate	19%	19%	19%	19%
Income taxes on gross profit	(60,792)	(98,927)	(53,814)	(98,985)
Receivables written-off	(1,667)	(2,383)	(1,019)	(1,252)
Representation costs	(183)	168	(853)	(127)
PFRON	(458)	(881)	(479)	(961)
Prudential fee to the Bank Guarantee Fund	(4,166)	(32,215)	(2,389)	(26,926)
Impairment allowance on receivables	(1,923)	(2,808)	(784)	605
Tax on financial institutions	(15,234)	(28,656)	(13,547)	(26,913)
Other differences*	(19,976)	(13,469)	6,711	12,247
Total income / tax expense of the Group	(104,398)	(179,171)	(66,174)	(142,312)

* The item "other differences" in the first half of 2020 includes, i.a., costs of the provision for potential claims arising from proceedings regarding loans in CHF in the amount of PLN (10,601) thousand and the benefit from the tax relief for research and development for 2019 in the amount of PLN 1,816 thousand, while the item "other differences" in the first half of 2019 includes, among others the amount of the tax benefit resulting from the R&D tax relief for 2018 in the amount of PLN 12,863 thousand PLN.

18. EARNINGS PER SHARE

	6 months ended 30.06.2020	6 months ended 30.06.2019
Basic		
Net profit	334,127	378,661
Weighted average number of ordinary shares (units)	147,418,918	147,418,918
Basic earnings (loss) per share (in PLN per one share)	2.27	2.57
Diluted		
Net profit used in determining diluted earnings per share	334,127	378,661
Weighted average number of ordinary shares (units)	147,418,918	147,418,918
Adjustments for:		
- stock options	98,983	-
Weighted average number of ordinary shares for the diluted earnings per share (units)	147,517,901	147,418,918
Diluted earnings (loss) per share (in PLN per one share)	2.26	2.57

Pursuant to IAS 33, the Bank calculates diluted net profit per share, taking into account shares issued conditionally under incentive schemes described in Note 39. The calculation does not take into account those elements of incentive schemes which had antidilutive effect in the presented reporting periods and which may potentially affect the dilution of earnings per share in the future.

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

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

19. CASH AND CASH BALANCES AT CENTRAL BANK

	30.06.2020	31.12.2019
Cash and cash equivalents		
Cash and other balances	3,126,349	2,566,518
Account in the National Bank of Poland	1,398,440	2,092,027
Gross cash and cash equivalents	4,524,789	4,658,545
Impairment allowances	(250)	(374)
Total cash and balances at Central Bank	4,524,539	4,658,171
Change of impairment allowances		
	6 months to 30.06.2020	6 months to 30.06.2019
Opening balance	(374)	(112)
Increases due to acquisition or origination	(504)	-
Decreases due to derecognition	293	109
Net changes in credit risk	335	-
Other changes (including foreign exchange differences)	-	-
Closing balance	(250)	(3)

20. AMOUNTS DUE FROM BANKS

Amounts due from banks	30.06.2020			31.12.2019		
	Gross balance sheet value	Impairment allowance	Net balance sheet value	Gross balance sheet value	Impairment allowance	Net balance sheet value
Current accounts	246,024	(515)	245,509	262,329	(534)	261,795
Interbank deposits	1,215,878	(181)	1,215,697	296,479	(4)	296,475
Loans and advances	4,158	(12)	4,146	7,097	(27)	7,070
Other receivables	370,380	(925)	369,455	114,323	(355)	113,968
Total amounts due from banks	1,836,440	(1,633)	1,834,807	680,227	(920)	679,307

Change of impairment allowances on amounts due from banks	6 months to 30.06.2020	6 months to 30.06.2019
Opening balance	(920)	(1,261)
Increases due to acquisition or origination	(9,788)	(491)
Decreases due to derecognition	8,230	1,032
Changes resulting from the change in credit risk (net)	898	(854)
Other changes (including foreign exchange differences)	(53)	95
Closing balance	(1,633)	(1,479)

As at 30.06.2020 and 31.12.2019 all amounts due from banks were included in Stage 1.

21. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments	Nominal value	Fair value	
		Assets	Liabilities
30.06.2020			
Currency derivatives			
Foreign Exchange Forward (FX Forward + NDF)	11,750,589	59,010	130,812
Currency Swap (FX Swap)	14,684,802	150,546	84,591
Currency Interest Rate Swaps (CIRS)	13,119,414	237,676	280,370
OTC currency options	3,577,396	131,486	127,997
Total currency derivatives:	43,132,201	578,718	623,770
Interest rate derivatives			
Interest Rate Swap	33,753,248	736,864	692,517
Forward Rate Agreements (FRA)	8,850,000	370	14,576
OTC interest rate options	5,072,434	4,566	1,343
Total interest rate derivatives:	47,675,682	741,800	708,436
Other derivatives			
OTC commodity swaps	143,556	1,543	1,529
Currency Spot (FX Spot)	951,574	-	-
Total other derivatives:	1,095,130	1,543	1,529
Total trading derivatives:	91,903,013	1,322,060	1,333,735
including: measured using models	91,903,013	1,322,060	1,333,735

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

22. HEDGE ACCOUNTING

As at 30 June 2020, the Group used fair value hedge (**macro fair value hedge**).

Hedging relationship description	The hedges are used against interest rate risk, specifically changes in the fair value of fixed-rate assets and liabilities resulting from changes in a specific reference rate.														
Hedged items	Fixed-rate PLN, EUR and USD current accounts are the hedged items.														
Hedging instruments	Hedging instruments include standard IRS transactions, i.e. plain vanilla IRS in PLN, EUR and USD, in which the Group receives a fixed interest rate and pays a floating rate based on WIBOR 6M, WIBOR 3M, EURIBOR 3M, EURIBOR 1M, USD LIBOR 1M, USD LIBOR 6M.														
IRS	<table border="1"> <thead> <tr> <th rowspan="2"></th> <th rowspan="2">Nominal value</th> <th colspan="2">Fair value</th> </tr> <tr> <th>Assets</th> <th>Liabilities</th> </tr> </thead> <tbody> <tr> <td>30.06.2020</td> <td>10,036,087</td> <td>563,865</td> <td>315</td> </tr> <tr> <td>31.12.2019</td> <td>6,506,139</td> <td>224,532</td> <td>1,626</td> </tr> </tbody> </table>		Nominal value	Fair value		Assets	Liabilities	30.06.2020	10,036,087	563,865	315	31.12.2019	6,506,139	224,532	1,626
	Nominal value			Fair value											
		Assets	Liabilities												
30.06.2020	10,036,087	563,865	315												
31.12.2019	6,506,139	224,532	1,626												
Presentation of result on the hedged and hedging transactions	The change in fair value of hedging instruments is recognized in the Result on hedge accounting. Interest on IRS transactions and current accounts is recognized in Interest income.														

The liabilities in the item "Adjustment of the fair value of hedged and hedging item" include the adjustment of the value of hedged instruments (deposits) amounting to:

30.06.2020 PLN 536,027 thousand

31.12.2019 PLN 199,584 thousand

The below table presents derivative hedging instruments at their nominal value as at 30 June 2020 and 31 December 2019 by residual maturity dates:

		30.06.2020							
Hedging derivatives	Fair value				Nominal value			Total	
	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years		
Interest rate agreements									
Swap (IRS)	563,865	315	-	79,612	1,251,747	6,875,725	1,829,003	10,036,087	
Hedging derivatives - total	563,865	315	-	79,612	1,251,747	6,875,725	1,829,003	10,036,087	

		31.12.2019							
Hedging derivatives	Fair value				Nominal value			Total	
	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years		
Interest rate agreements									
Swap (IRS)	224,532	1,626	-	400,000	1,246,294	3,343,237	1,516,608	6,506,139	
Hedging derivatives - total	224,532	1,626	-	400,000	1,246,294	3,343,237	1,516,608	6,506,139	

Additionally, as at 30 June 2020, the Group applies fair value hedge accounting (**micro fair value hedge**).

Hedging relationship description	The hedges are used against interest rate risk, specifically changes in the fair value of fixed-rate assets and liabilities resulting from changes in a specific reference rate.
Hedged items	Fixed rate bonds PS0422, DS1029, WS0428, FPC0427, PFR0925 and fixed rate EUR loan are the hedged items.
Hedging instruments	Hedging instruments are the standard IRS transactions, i.e. plain vanilla IRS, denominated in PLN and EUR, in which the Group receives a fixed interest rate and pays a floating rate based on WIBOR 6M and EURIBOR 1M.
IRS	
	Nominal value
	Fair value
	Assets
	Liabilities
30.06.2020	1,847,987
31.12.2019	846,800
	-
	61,619
	-
	23,007
Presentation of result on the hedged and hedging transactions	The change in fair value of hedging transactions is recognized in the Result on hedge accounting. Interest on IRS transactions and hedged items is recognized in interest income.

The below tables present derivative hedging instruments at their nominal value as at 30 June 2020 and 31 December 2019 by residual maturity dates:

		30.06.2020							
Hedging derivatives	Fair value				Nominal value			Total	
	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years		
Interest rate agreements									
Swap (IRS)	-	61,619	589	1,177	96,221	750,000	1,000,000	1,847,987	
Hedging derivatives - total	-	61,619	589	1,177	96,221	750,000	1,000,000	1,847,987	

		31.12.2019							
Hedging derivatives	Fair value				Nominal value			Total	
	positive	negative	< 1 month	1-3 months	3-12 months	1-5 years	> 5 years		
Interest rate agreements									
Swap (IRS)	-	23,007	561	1,122	95,117	750,000	-	846,800	
Hedging derivatives - total	-	23,007	561	1,122	95,117	750,000	-	846,800	

23. LOANS AND ADVANCES TO CUSTOMERS MEASURED AT AMORTISED COST

Loans and advances to customers measured at amortised cost	30.06.2020			31.12.2019		
	Gross balance sheet amount	Allowance	Net balance sheet amount	Gross balance sheet amount	Allowance	Net balance sheet amount
Loans and advances for:						
Non-banking financial entities	572,409	(1,968)	570,441	576,521	(2,314)	574,207
current account loans	307,555	(969)	306,586	275,915	(1,191)	274,724
investment loans	145,601	(463)	145,138	195,443	(614)	194,829
other loans	119,253	(536)	118,717	105,163	(509)	104,654
Retail customers:	31,953,087	(1,364,671)	30,588,416	29,997,525	(1,158,392)	28,839,133
mortgage loans	20,727,570	(364,634)	20,362,936	18,526,757	(301,880)	18,224,877
other loans	11,225,517	(1,000,037)	10,225,480	11,470,768	(856,512)	10,614,256
Corporate customers:	41,468,270	(2,208,556)	39,259,714	40,365,447	(1,939,521)	38,425,926
current account loans	20,292,158	(1,358,450)	18,933,708	20,395,569	(1,163,590)	19,231,979
investment loans	14,369,658	(618,789)	13,750,869	14,066,034	(571,781)	13,494,253
other loans	6,806,454	(231,317)	6,575,137	5,903,844	(204,150)	5,699,694
including retail farmers:	8,700,545	(493,092)	8,207,453	8,732,840	(408,748)	8,324,092
current account loans	4,439,778	(257,265)	4,182,513	4,389,269	(206,874)	4,182,395
investment loans	4,230,866	(232,254)	3,998,612	4,328,560	(200,839)	4,127,721
other loans	29,901	(3,573)	26,328	15,011	(1,035)	13,976
Public sector institutions:	119,393	(2,093)	117,300	129,915	(1,925)	127,990
current account loans	88,580	(1,561)	87,019	93,583	(1,294)	92,289
investment loans	30,139	(524)	29,615	35,635	(623)	35,012
other loans	674	(8)	666	697	(8)	689
Lease receivables	3,917,424	(113,435)	3,803,989	3,995,444	(126,057)	3,869,387
Total loans and advances to customers measured at amortised cost	78,030,582	(3,690,723)	74,339,859	75,064,852	(3,228,209)	71,836,643

Net loans and advances to customers by stage are as follows:

30.06.2020	Stage 1	Stage 2	Stage 3	Total	including POCI
Loans and advances for:	66,318,847	6,991,948	4,719,787	78,030,582	415,891
Non-banking financial entities	571,562	-	847	572,409	76
Retail customers	28,656,339	1,724,143	1,572,605	31,953,087	92,674
Corporate customers:	33,664,448	4,824,698	2,979,124	41,468,270	323,099
including retail farmers	6,849,941	978,061	872,543	8,700,545	17
Public sector entities	117,418	1,840	135	119,393	42
Lease receivables	3,309,081	441,267	167,076	3,917,424	-
Impairment allowance on loans and receivables for	(580,256)	(473,857)	(2,636,610)	(3,690,723)	(66,459)
Non-banking financial entities	(1,600)	-	(368)	(1,968)	(21)
Retail customers	(223,107)	(222,535)	(919,029)	(1,364,671)	(13,450)
Corporate customers:	(330,676)	(235,174)	(1,642,706)	(2,208,556)	(52,977)
including retail farmers	(36,088)	(77,218)	(379,786)	(493,092)	(5)
Public sector entities	(1,943)	(54)	(96)	(2,093)	(11)
Lease receivables	(22,930)	(16,094)	(74,411)	(113,435)	-
Net loans and advances to customers measured at amortised cost	65,738,591	6,518,091	2,083,177	74,339,859	349,432

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

Impairment allowance for loans and advances measured at amortized cost:

Change in impairment allowances	Stage 1	Stage 2	Stage 3	Total
Opening balance (01.01.2020)	(462,118)	(481,781)	(2,284,310)	(3,228,209)
Increase due to acquisition or origination	(154,822)	(46,480)	(78,629)	(279,931)
Decrease due to derecognition	22,414	10,904	58,095	91,413
Changes resulting from the change in credit risk (net)	16,308	45,510	(338,234)	(276,416)
Use of allowances	-	-	20,354	20,354
Other changes (including foreign exchange differences)	(2,038)	(2,010)	(13,886)	(17,934)
Closing balance (30.06.2020)	(580,256)	(473,857)	(2,636,610)	(3,690,723)

Change in impairment allowances	Stage 1	Stage 2	Stage 3	Total
Opening balance (01.01.2019)	(509,733)	(505,571)	(2,035,857)	(3,051,161)
Increase due to acquisition or origination	(102,104)	(39,925)	(21,774)	(163,803)
Decrease due to derecognition	52,961	12,405	53,335	118,701
Changes resulting from the change in credit risk (net)	116,167	(9,574)	(247,602)	(141,009)
Use of allowances	-	12	140,715	140,727
Other changes (including foreign exchange differences)	(37,091)	14,810	(14,729)	(37,010)
Closing balance (30.06.2019)	(479,800)	(527,843)	(2,125,912)	(3,133,555)

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

Loans by currency	30.06.2020	31.12.2019
CHF	4,956,621	4,839,915
EUR	48,467	49,088
PLN	15,719,814	13,634,997
USD	2,668	2,757
Total	20,727,570	18,526,757

Value of CHF loan portfolio

	30.06.2020			
Value of CHF loan portfolio	Gross balance sheet amount	including CHF exposures	Allowance	including CHF exposures
Loans and advances for:				
Non-banking financial entities	572,409	-	(1,968)	-
current account loans	307,555	-	(969)	-
investment loans	145,601	-	(463)	-
other loans	119,253	-	(536)	-
Retail customers:	31,953,087	5,015,034	(1,364,671)	(209,115)
mortgage loans	20,727,570	4,956,621	(364,634)	(198,577)
other loans	11,225,517	58,413	(1,000,037)	(10,538)
Corporate customers:	41,468,270	158,097	(2,208,556)	(8,936)
current account loans	20,292,158	145,322	(1,358,450)	(6,394)
investment loans	14,369,658	10,954	(618,789)	(2,539)
other loans	6,806,454	1,821	(231,317)	(3)
including retail farmers:	8,700,545	3,356	(493,092)	(506)
current account loans	4,439,778	3,236	(257,265)	(506)
investment loans	4,230,866	120	(232,254)	-
other loans	29,901	-	(3,573)	-
Public sector institutions:	119,393	-	(2,093)	-
current account loans	88,580	-	(1,561)	-
investment loans	30,139	-	(524)	-
other loans	674	-	(8)	-
Lease receivables	3,917,424	43,016	(113,435)	(7,517)
Total loans and advances	78,030,582	5,216,147	(3,690,723)	(225,568)

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

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

	30.06.2020	31.12.2019
Subsidized loans	1,714,418	1,974,396
Total loans and advances to customers measured at fair value through profit or loss	1,714,418	1,974,396

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

	Gross balance sheet value	Fair value
30.06.2020	1,912,738	1,714,418
31.12.2019	2,116,564	1,974,396

Subsidised loans at fair value	Stage 1	Stage 2	Stage 3	Total
30.06.2020	1,310,499	270,389	133,530	1,714,418
31.12.2019	1,505,517	322,161	146,718	1,974,396

25. SECURITIES MEASURED AT AMORTISED COST

Securities	30.06.2020			31.12.2019		
	Gross balance sheet value	Impairment allowance	Net balance sheet value	Gross balance sheet value	Impairment allowance	Net balance sheet value
issued by domestic banks – covered bonds	5,773	(91)	5,682	5,231	(64)	5,167
issued by domestic banks	928,265	(153)	928,112	28,194	(296)	27,898
issued by other financial entities	299,313	-	299,313	-	-	-
issued by central governments – treasury bonds	18,245,928	(81)	18,245,847	17,427,475	(72)	17,427,403
issued by non-financial entities – bonds	342,198	(13,807)	328,391	380,660	(21,691)	358,969
issued by local governments – municipal bonds	98,390	(379)	98,011	97,611	(403)	97,208
Total securities measured at amortised cost	19,919,867	(14,511)	19,905,356	17,939,171	(22,526)	17,916,645

30.06.2020	Stage 1	Stage 2	Stage 3	Total	including POCI
Securities	19,704,598	14,577	200,692	19,919,867	196,537
issued by domestic banks – covered bonds	5,773	-	-	5,773	-
issued by domestic banks	928,265	-	-	928,265	-
issued by other financial entities	299,313	-	-	299,313	-
issued by central governments – treasury bonds	18,245,928	-	-	18,245,928	-
issued by non-financial entities – bonds	126,929	14,577	200,692	342,198	196,537
issued by local governments – municipal bonds	98,390	-	-	98,390	-
Impairment allowances on securities	(1,143)	(2,136)	(11,232)	(14,511)	(7,078)
issued by domestic banks – covered bonds	(91)	-	-	(91)	-
issued by domestic banks	(153)	-	-	(153)	-
issued by other financial entities	-	-	-	-	-
issued by central governments – treasury bonds	(81)	-	-	(81)	-
issued by non-financial entities – bonds	(439)	(2,136)	(11,232)	(13,807)	(7,078)
issued by local governments – municipal bonds	(379)	-	-	(379)	-
Total net securities measured at amortised cost	19,703,455	12,441	189,460	19,905,356	189,459

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

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

Financial instruments measured at fair value through profit or loss	30.06.2020	31.12.2019
	Balance sheet value	
Bonds issued by non-financial entities	54,402	53,902
Bonds convertible for non-financial entities bonds	49,619	24,191
Equity instruments	236,406	163,334
Units	41	327
Total financial instruments measured at fair value through profit or loss	340,468	241,754

27. SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Debt securities	30.06.2020	31.12.2019
Bonds issued by banks	2,915,465	530,927
Treasury bonds issued by central governments	5,540,510	7,422,431
Bonds issued by other financial institutions	2,221,219	-
Securities measured at fair value through other comprehensive income	10,677,194	7,953,358

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

28. INTANGIBLE ASSETS

Intangible assets	30.06.2020	31.12.2019
Licenses	356,411	279,675
Other intangible assets	8,823	8,299
Expenditure on intangible assets	160,483	231,971
Total intangible assets	525,717	519,945

In the first half of 2020, the net balance sheet amount of intangible assets acquired by the Group was PLN 89,612 thousand (in the first half of 2019 it amounted to PLN 91,168 thousand), while the net balance sheet value of sold and liquidated components amounted to PLN 2,930 thousand (in the first half of 2019 - PLN 1,591 thousand).

With regard to intangible assets that are not yet available for use, i.e. in progress, the Group identifies evidence of impairment on an ongoing basis. As at 30.06.2020 and 31.12.2019, the Group did not have any significant contractual obligations incurred in connection with the acquisition of intangible assets.

29. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	30.06.2020	31.12.2019
Fixed assets, including:	517,137	542,519
land and buildings	141,524	202,586
IT equipment	173,813	145,474
office equipment	46,481	41,593
other, including leasehold improvements	155,319	152,866
Fixed assets under construction	23,410	94,174
Right of use, including:	608,846	590,053
land and buildings	590,543	572,275
cars	17,958	13,487
IT equipment	205	4,104
other, including leasehold improvements	140	187
Total property, plant and equipment	1,149,393	1,226,746

In the first half of 2020, the net balance sheet amount of the components included in property, plant and equipment acquired by the Group was PLN 47,041 thousand (in the first half of 2019 it amounted to PLN 150,280 thousand), while the net balance sheet value of sold and liquidated components amounted to PLN 70,580 thousand (in the first half of 2019 it amounted to PLN 1,730 thousand).

As at 30.06.2020 and 31.12.2019, the Group did not have any significant contractual liabilities incurred in connection with the acquisition of property, plant and equipment.

30. LEASES

Group as a lessee

The Group is a party to lease agreements with respect to underlying asset components such as:

- real estate,
- motor vehicles,
- land, including the right of perpetual usufruct of land,
- CDMs,
- equipment items,
- IT equipment.

The lease period of motor vehicles ranges from 1 to 5 years. The contracts contain extension options. The Group also concludes leaseback agreements for motor vehicles.

The Group is a party to real estate lease agreements. The contracts are concluded for a definite period from 1 to 30 years and for an indefinite period. In the case of contracts for an indefinite period, the Group determines the lease period based on the notice period. The agreements provide for variable lease fees depending on the index [e.g. GUS, HICP].

The Group is a party to land lease agreements for an indefinite period, and the right of perpetual usufruct of land received for a period of 40 to 100 years. Lease payments are valorized in accordance with the Land Management Act.

	30.06.2020	30.06.2019
Lease expenses recognized in the statement of profit or loss	(68,269)	(73,274)
- interest on lease liabilities	(3,605)	(4,293)
- depreciation of right of use assets	(61,416)	(60,576)
- expenses related to short-term lease (recognized in general administrative expenses)	(3,247)	(8,405)

Undiscounted lease payments by maturity	30.06.2020	31.12.2019
< 1 year	120,411	118,827
1-5 years	374,127	350,628
> 5 years	190,968	198,954
Total	685,506	668,409

	30.06.2020	31.12.2019
Book value of liabilities due to discounted lease payments	637,185	602,192

31. OTHER ASSETS

Other assets:	30.06.2020	31.12.2019
Receivables from contracts with customers:		
sundry debtors	277,176	332,647
accrued income	115,435	116,651
payment card settlements	25,257	30,566
social insurance settlements	9,447	6,387
Other:		
interbank and intersystem settlements	338,052	288,740
deferred expenses	48,481	41,617
tax and other regulatory receivables	29,070	74,232
other lease receivables	20,232	34,738
other	53,817	68,344
Total other assets (gross)	916,967	993,922
Impairment allowances on other receivables from sundry debtors	(112,088)	(109,077)
Total other assets (net)	804,879	884,845

32. AMOUNTS DUE TO BANKS

Amounts due to banks	30.06.2020	31.12.2019
Current accounts	849,357	593,160
Interbank deposits	39,000	-
Loans and advances received	3,648,589	3,682,321
Other liabilities	354,683	209,783
Total amounts due to banks	4,891,630	4,485,264

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

33. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers	30.06.2020	31.12.2019
NON-BANKING FINANCIAL INSTITUTIONS	2,168,471	2,443,792
Current accounts	1,581,656	375,256
Term deposits	586,007	2,068,517
Other liabilities	809	19
RETAIL CUSTOMERS	42,714,502	42,350,458
Current accounts	30,969,028	27,275,384
Term deposits	11,316,249	14,753,587
Other liabilities	429,225	321,487
CORPORATE CUSTOMERS	47,663,810	40,338,786
Current accounts	42,295,212	29,239,743
Term deposits	5,171,945	10,336,908
Other liabilities	196,653	762,135
INCLUDING RETAIL FARMERS	1,990,216	1,942,191
Current accounts	1,908,611	1,827,333
Term deposits	71,008	105,709
Other liabilities	10,597	9,149
PUBLIC SECTOR CUSTOMERS	1,195,335	1,001,948
Current accounts	955,380	788,034
Term deposits	238,507	212,777
Other liabilities	1,448	1,137
Total amounts due to customers	93,742,118	86,134,984

34. DEBT SECURITIES ISSUED

	30.06.2020	31.12.2019
Debt securities issued	1,704,302	2,179,052
Debt securities issued	6 months ended 30.06.2020	6 months ended 30.06.2019
Opening balance	2,179,052	2,179,424
Redemption of certificates of deposit	(474,654)	-
Changes in discount, interests, commission and fees on certificates of deposit amortized using EIR, foreign currency exchange differences	(96)	-
Closing balance of debt securities issued	1,704,302	2,179,424

In December 2017, SPV issued bonds for the total amount of PLN 2,180,850 thousand with the maximum original maturity by 27.04.2032. Collateral for the repayment of bonds are receivables from loans and borrowings subject to securitization. The transaction of securitization of the cash and car loan portfolio is described in Note 43.

35. SUBORDINATED LIABILITIES

Subordinated liabilities	30.06.2020	31.12.2019
	1,962,317	1,882,064
Change in the balance of subordinated liabilities	6 months ended 30.06.2020	6 months ended 30.06.2019
Opening balance	1,882,064	1,875,769
Change in the balance of interest	(322)	537
Foreign exchange differences	80,575	(8,334)
Closing balance	1,962,317	1,867,972

36. OTHER LIABILITIES

Other liabilities	30.06.2020	31.12.2019
Liabilities due to contracts with customers		
Sundry creditors	185,532	214,377
Payment card settlements	90,469	104,886
Deferred income	99,948	114,931
Escrow account liabilities	9,958	9,830
Social insurance settlements	40,538	27,440
Other liabilities		
Interbank and intersystem settlements	442,475	480,839
Provisions for non-personnel expenses	365,963	341,305
Provisions for other employees-related liabilities	166,618	336,827
Provision for unused annual holidays	44,828	44,570
Other regulatory liabilities	52,542	64,183
Other lease liabilities	24,201	39,511
Other	192,597	114,715
Total other liabilities	1,715,669	1,893,414

37. PROVISIONS

	30.06.2020	31.12.2019
Provision for restructuring	73,533	113,076
Provision for retirement benefits and similar obligations	17,627	16,209
Provision for contingent financial liabilities and guarantees granted	237,486	233,179
Provisions for litigation and claims	182,629	166,073
Other provisions	10,753	2,524
Total provisions	522,029	531,061

Provisions for restructuring	6 months ended 30.06.2020	6 months ended 30.06.2019
Opening balance	113,076	171,889
Provisions recognition	4,757	3,313
Provisions utilization	(44,273)	(26,193)
Provisions released	-	(687)
Other changes	(27)	(10,789)
Closing balance	73,533	137,533

Provision for retirement benefits and similar obligations	6 months ended 30.06.2020	6 months ended 30.06.2019
Opening balance	16,209	14,703
Provisions recognition	2,225	1,020
Provisions utilization	(499)	-
Provisions released	(308)	(1,264)
Closing balance	17,627	14,459
Provisions for contingent financial liabilities and guarantees granted	6 months ended 30.06.2020	6 months ended 30.06.2019
Opening balance	233,179	149,530
Provisions recognition	369,184	178,670
Provisions released	(366,968)	(174,767)
Other changes	2,092	1,605
Closing balance	237,486	155,038
Provisions for litigation and claims	6 months ended 30.06.2020	6 months ended 30.06.2019
Opening balance	166,073	62,156
Provisions recognition	39,232	2,282
Provisions utilization	(13,971)	(9,968)
Provisions released	(8,705)	(8,384)
Other changes	-	(1,163)
Closing balance	182,629	44,923
Other provisions	6 months ended 30.06.2020	6 months ended 30.06.2019
Opening balance	2,524	39,134
Provisions recognition	8	8,204
Provisions utilization	(25)	-
Provisions released	-	(545)
Other changes	8,246	(1,824)
Closing balance	10,753	44,969

38. CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents	30.06.2020	31.12.2019
Cash and balances at Central Bank (Note 19)	4,524,528	4,658,171
Current accounts of banks and other receivables	246,024	173,524
Interbank deposits	711,000	-
Loans and advances	4	1,514
Total cash and cash equivalents	5,481,556	4,833,209

39. SHARE-BASED PAYMENTS

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

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

Pursuant to the *Remuneration Policy for Individuals with a Significant Impact on the Bank's Risk Profile*, as amended on 31 December 2019 and regulations adopted on its basis, i.e. the *Regulations on Assigning and Paying Variable Compensation Components to Members of the Management Board of BNP Paribas Bank Polska S.A.* and the *Regulations on Assigning and Paying Variable Compensation Components to Individuals with a Significant Impact on the Risk Profile Other than Members of the Management Board of BNP Paribas Bank Polska S.A.*, the form of a financial instrument in which a part of the variable remuneration is paid has been changed from phantom shares to ordinary shares (the change does not apply to individuals, who terminated their cooperation with the Bank).

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

A program based on phantom shares

As at 31 December 2019, the scheme for the payment of variable remuneration in the form of a financial instrument - phantom shares – applied and will be settled in subsequent periods.

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

Financial instruments – changes in the plan for first half of 2020 and 2019.

	30.06.2020		31.12.2019	
	Financial instrument		Financial instrument	
	units	value (PLN '000)	units	value (PLN '000)
Opening balance	294,738	15,628	182,913	10,684
granted in a given period	13,586	928	170,853	8,440
executed during the period	(28,581)	(1,969)	(59,028)	(3,496)
Closing balance	279,743	14,587	294,738	15,628

In the first half of 2020 payments of PLN 1.969 thousand were made due to exercising rights to deferred phantom shares (under the program for 2015, 2016 and 2017).

The table below presents the terms of the Stock Purchase Plan for 2020.

Type of transaction under IFRS 2	Cash-settled share-based payment transactions
Program announcement date	21 June 2012 - entry into force of the Supervisory Board Resolution approving the Remuneration Policy.
The commencement date for granting of phantom shares	11 March 2020
End date for granting phantom shares	18 March 2020

A program based on the Bank's shares

Currently, there is a new scheme of variable remuneration payment granted to the Bank's employees who have a significant impact on the risk profile. The variable remuneration is divided into a part awarded in the form of a financial instrument (Bank shares) and the remaining part granted in cash.

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

The Bank will grant the participants of the Incentive Scheme subscription warrants, which will result in the right to acquire new Bank Series M shares issued by the Bank under the conditional share capital increase. The number of Series M shares will not exceed 576,000. The rights to subscribe for Series M shares will be granted taking into account the principles of dividing the variable remuneration into a non-deferred part and a deferred part, as specified in the Remuneration Policy and the regulations adopted on its basis. Series M Shares will constitute a variable remuneration component for individuals having a significant impact on the Bank's risk profile within the meaning of the Regulation of the Minister of Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and the detailed method of estimating internal capital in banks (Journal of Laws 2017, item 637, as amended).

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

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

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

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

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

In order to ensure uniform and lawful conditions for the acquisition of the right to remuneration and its payment, remuneration is paid to individuals having a significant impact on the Bank's risk profile, taking into account the principles of adequacy, proportionality and non-discrimination.

The rules applied in the Bank take into account the possibility of withholding or limiting the payment of variable remuneration in case the Bank does not meet the combined buffer requirement:

1. It is forbidden to pay the assigned variable remuneration above the maximum limit established to be paid (the so-called MDA) in a situation where the Bank fails to meet the requirement of the combined buffer within the meaning and under the rules set out in Art. 55 and 56 of the *Act on Macroprudential Supervision*.
2. In case the Bank does not meet the combined buffer requirement, the Bank prior to calculation of the MDA:
 - should not undertake obligations to pay variable remuneration or discretionary pension benefits;
 - should not make variable remuneration payments, if the obligation to pay them arose in a period when the Bank did not meet the combined buffer requirement.

In the event of termination of the legal relationship between the Bank and a given individual having a significant impact on the Bank's risk profile or the position is excluded from the list, the remuneration is paid provided that the requirements specified in the Remuneration Policy for individuals having a significant impact on the risk profile of BNP Paribas Bank Polska S.A. are met.

An individual is entitled to variable remuneration provided that he or she has not been charged and was not subject to criminal or disciplinary sanctions.

The maximum number of warrants granted for 2019 as part of the non-deferred part of the variable remuneration to be issued in 2021 is 94,108.

In the first half of 2020, in relation to the bonus granted for 2019 and estimated for 2020, the Bank recognized the amount of PLN 5,104 thousand in costs and equity, while the bonus for 2020 (the so-called grant date) will be granted in 2021.

Financial instruments (shares - deferred part) in the first half of 2020.

	30.06.2020	
	Financial instrument	
	units	value (PLN '000)
Opening balance	-	-
granted in a given period	68,910	4,638
Closing balance	68,910	4,638

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

Type of transaction under IFRS 2	Share-based payment transactions
Program announcement date	31 January 2020 – entry into force of the Supervisory Board Resolution approving the Remuneration Policy.
The commencement date for granting of phantom shares	11 March 2020
End date for granting phantom shares	18 March 2020

40. ADDITIONAL INFORMATION REGARDING THE STATEMENT OF CASH FLOWS

Cash flows from operating activities – other adjustments	6 months ended 30.06.2020	6 months ended 30.06.2019
FX differences from subordinated loans	80,575	(7,260)
IFRS 16 impact on liabilities	-	610,497
IFRS 16 impact on assets	-	(596,492)
Securities measurement through profit or loss	(16,030)	5,005
Allowance for securities	8,015	(1,799)
Other adjustments	10,111	38,361
Cash flows from operating activities – total other adjustments	82,671	48,312

41. CONTINGENT LIABILITIES

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

Contingent liabilities	30.06.2020	31.12.2019
Contingent commitments granted	33,791,758	31,087,503
financial commitments	26,712,613	24,293,205
guarantees	7,079,145	6,794,298
Contingent commitments received	20,239,283	21,443,112
financial commitments	12,685,961	12,127,379
guarantees	7,553,322	9,315,733

42. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1

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

Level 2

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

Level 3

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

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

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

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

As at 30 June 2020, particular instruments were included in the following valuation levels:

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

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

30.06.2020	Level 1	Level 2	Level 3	Total
Assets measured at fair value:	10,677,234	1,413,134	2,584,213	14,674,581
Derivative financial instruments	-	1,070,630	251,430	1,322,060
Hedging instruments	-	342,504	221,361	563,865
Financial instruments measured at fair value through other comprehensive income	10,677,194	-	-	10,677,194
Financial instruments measured at fair value through profit or loss	41	-	340,427	340,468
Loans and advances to customers measured at fair value through profit or loss	-	-	1,714,418	1,714,418
Investment property	-	-	56,577	56,577
Liabilities measured at fair value:	-	1,052,245	343,424	1,395,669
Derivative financial instruments	-	995,629	338,106	1,333,735
Hedging instruments	-	56,616	5,318	61,934

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

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

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

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

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

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

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

30.06.2020	Derivative financial instruments – assets	Hedging instruments - assets	Financial assets measured at fair value	Investment properties	Derivative financial instruments – liabilities	Hedging instruments - liabilities
Opening balance	300,814	90,992	2,215,823	56,577	(306,055)	(1,626)
Total gains/losses recognized in:	(49,384)	130,369	10,739	-	(32,051)	(3,692)
statement of profit or loss	(49,384)	130,369	10,739	-	(32,051)	(3,692)
Purchase	-	-	24,484	-	-	-
Sell	-	-	(524)	-	-	-
Settlement	-	-	(200,672)	-	-	-
Transfer	-	-	4,995	-	-	-
Closing balance	251,430	221,361	2,054,845	56,577	(338,106)	(5,318)
Unrealized gains/losses recognized in profit or loss related to assets and liabilities at the end of the period	(49,384)	130,369	10,739	-	(32,051)	(3,692)

30.06.2019	Derivative financial instruments – assets	Hedging instruments - assets	Financial assets measured at fair value	Investment properties	Derivative financial instruments – liabilities
Opening balance	349,596	58,093	2,561,863	55,868	(493,868)
Total gains/losses recognized in:	54,085	54,635	1,297	-	(23,601)
statement of profit or loss	54,085	54,635	1,297	-	(23,601)
Purchase	6,511	-	5,000	-	(3,600)
Sell	-	-	-	-	183,856
Settlement	(108,299)	-	(232,153)	-	-
Transfer	(76,335)	-	3,000	-	63,432
Closing balance	225,558	112,728	2,339,007	55,868	(273,781)
Unrealized gains/losses recognized in profit or loss related to assets and liabilities at the end of the period					
	54,085	54,635	1,297	-	(23,601)

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

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

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

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

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

30.06.2020	Book value	Fair value	Level
Financial assets			
Cash and cash balances at Central Bank	4,524,539	4,524,539	3
Amounts due from banks	1,834,807	2,098,214	3
Loans and advances to customers measured at amortised cost	74,339,859	73,712,300	3
Securities measured at amortised cost	19,905,356	21,768,111	1,3
Other financial assets	558,076	558,076	3
Financial liabilities			
Amounts due to banks	4,891,630	4,884,989	3
Amounts due to customers	93,742,118	93,810,777	3
Subordinated liabilities	1,962,317	2,252,910	3
Leasing liabilities	637,185	637,185	3
Other financial liabilities	793,173	793,173	3
Debt securities issued	1,704,302	1,704,302	3

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

a) Amounts due from banks and amounts due to banks

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

b) Loans and advances to customers

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

c) Liabilities due to subordinated loan

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

d) Liabilities due to customers

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

e) Debt securities issued

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

43. SECURITIZATION

Securitization

In December 2017, the Group performed a securitization transaction on the portfolio of cash and car loans. The transaction is a traditional securitization involving the transfer of ownership of the securitized receivables to SPV (BGŻ Poland ABS1 DAC based in Ireland). The revolving period was 24 months and ended in December 2019. From January 2020, the transaction is amortized.

As a result of the securitization the Bank obtained financing for its operations in exchange for giving away rights to future flows resulting from the securitized loan portfolio in the amount of PLN 2,300,471 thousand as at 22 November 2017 (the so-called cut-off date). The maximum term of the full redemption of bonds and loan repayment is 27 April 2032.

SPV issued bonds with a total value of PLN 2,180,850 thousand on the basis of securitized assets and received a loan of PLN 119,621 thousand, which was secured by a registered pledge on the rights to cash flows from securitized assets. At the end of June 2020, the value of bonds and loan amounted to PLN 1,797,338 thousand.

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

In the light of the provisions of IFRS 9, the contractual terms of the securitization do not fulfil the conditions for derecognition of securitized assets. In connection with the above, the Bank recognizes securitized assets in "Loans and advances to customers" as at 30 June 2020 at net value of PLN 1,783,254 thousand.

The Bank acts as a servicing entity in the transaction.

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

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

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

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

Balance sheet values and fair values of financial assets covered by securitization and related liabilities	Balance sheet amount		Fair value	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019
Assets	1,783,254	2,247,024	1,676,194	2,130,777
Liabilities	1,797,645	2,298,573	1,797,645	2,298,573

44. RELATED PARTY TRANSACTIONS

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

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

As at 30 June 2020, the Capital Group of BNP Paribas Bank Polska S.A. comprised BNP Paribas Bank Polska S.A. as the parent company, and its subsidiaries:

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

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

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

30.06.2020	BNP Paribas Paris	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Total
Assets	1,687,258	1,742	937,066	17	2,626,083
Receivables on current accounts, loans and deposits	554,485	1,270	931,087	10	1,486,852
Derivative financial instruments	569,380	-	-	-	569,380
Derivative hedging instruments	563,394	472	-	-	563,865
Other assets	-	-	5,979	7	5,986
Liabilities	4,891,996	66,937	2,666,328	6,000	7,631,261
Loans and advances received	1,724,184	-	1,733,887	-	3,458,071
Current accounts and deposits	556,840	66,937	660,929	6,000	1,290,706
Subordinated liabilities	1,693,723	-	268,594	-	1,962,317
Derivative financial instruments	855,630	-	-	-	855,630
Derivative hedging instruments	61,619	-	-	-	61,619
Other liabilities	-	-	2,918	-	2,918
Contingent liabilities					
Financial commitments granted	-	-	889,668	50	889,718
Guarantee commitments	57,421	190,038	519,133	-	766,592
Commitments received	792,002	123,393	1,078,362	-	1,993,757
Derivative instruments (nominal value)	52,710,114	-	7,154	-	52,717,269
Hedging derivative instruments (nominal value)	11,870,676	13,398	-	-	11,884,074
Statement of profit or loss	144,316	303	(45,812)	(13)	98,794
6 months ended 30.06.2020					
Interest income	937	186	660	-	1,783
Interest expense	(40,681)	(65)	(8,652)	(14)	(49,412)
Fee and commission income	629	81	7,365	1	8,076
Fee and commission expense	-	-	(2,553)	-	(2,553)
Net trading income	193,103	101	11	-	193,215
Other operating income	-	-	2,588	-	2,588
Other operating expenses	-	-	(7,371)	-	(7,371)
General administrative expenses	(9,672)	-	(37,860)	-	(47,532)

31.12.2019	BNP Paribas Paris	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Total
Assets	696,243	5,646	375,015	33	1,076,937
Receivables on current accounts, loans and deposits	120,910	4,650	270,198	3	395,761
Derivative financial instruments	351,629	100	11	-	351,740
Derivative hedging instruments	223,640	893	-	-	224,533
Other assets	64	3	104,806	30	104,903
Liabilities	4,243,670	10,846	2,445,000	5,738	6,705,254
Loans and advances received	1,921,054	-	1,421,191	-	3,342,245
Current accounts and deposits	291,720	10,846	752,601	5,733	1,060,900
Subordinated liabilities	1,630,349	-	256,066	-	1,886,415
Derivative financial instruments	375,204	-	-	-	375,204
Derivative hedging instruments	24,633	-	-	-	24,633
Other liabilities	710	-	15,142	5	15,857
Contingent liabilities					
Financial commitments granted	-	-	227,588	57	227,645
Commitments received	2,152,316	123,415	1,132,726	-	3,408,457
Derivative instruments (nominal value)	50,735,912	227,067	132,014	-	51,094,993
Derivative hedging instruments (nominal value)	7,340,164	12,776	-	-	7,352,940
Statement of profit or loss	(122,905)	30,028	(12,228)	(18)	(105,123)
6 months ended 30.06.2019					
Interest income	245	270	1,773	-	2,288
Interest expense	(42,985)	(73)	(3,515)	(19)	(46,592)
Fee and commission income	105	81	1,027	1	1,214
Fee and commission expense	(103)	-	(152)	-	(255)
Net trading income	(74,914)	29,750	(432)	-	(45,596)
Other operating income	9,566	-	5	-	9,571
Other operating expenses	(14,094)	-	(10,934)	-	(25,028)
General administrative expenses	(725)	-	-	-	(725)

Remuneration of the Management Board and Supervisory Board

	HY 2020 from 01.01.2020 to 30.06.2020	HY 2019 from 01.01.2019 to 30.06.2019
Management Board		
Short-term employee benefits	10,906	10,135
Long-term benefits	4,051	7,659
Share-based payments	3,114	1,660
Total	18,071	19,454
Supervisory Board		
Short-term employee benefits	690	615
Total	690	615

45. OPERATING SEGMENTS

Segment reporting

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

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

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

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

Description of operating segments

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

- entrepreneurs whose annual net income for the preceding financial year is below PLN 4 million, conducting full financial reporting,
- entrepreneurs conducting simplified financial reporting,
- housing communities and property managers,
- non-profit organizations,
- individual farmers whose credit exposure is less than PLN 4 or is in the range between PLN 3 million and PLN 4 million, if the collateral on arable lands covers at least 50% of credit exposure;

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

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

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

SME Banking provides services to:

Agro-SME clients preparing full financial reporting in relation to net sales revenues for the previous financial year from PLN 4 million to PLN 40 million and credit exposure below PLN 12 million, as well as, regardless of the amount of revenues and the level of the Group's exposure, agricultural producer groups and organizational units of the National Forest Holding "The State Forests".

Non-Agro-SME clients including: (i) companies preparing full financial reporting, with net sales revenues for the previous financial year from PLN 4 million to PLN 40 million and loan exposures lower than PLN 12 million; (ii) public finance sector entities with a budget of up to PLN 100 million;

Agro entrepreneurs (i.e. companies conducting production activities in agriculture) preparing full financial reporting, with net sales revenues for the previous financial year from PLN 0 million to PLN 60 million and loan exposures lower than PLN 25 million, as well as individual farmers if their loan exposure is in the range of PLN 4 million to PLN 25 million or in the range of 3 PLN million to 4 PLN million if the collateral on arable lands covers less than 50% of credit exposure;

The SME sales network has been divided into 8 SME Regions with 51 SME Business Centres dedicated solely to provision of services to Small and Medium-Sized Enterprises.

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

Clients of Corporate Banking are divided into:

- international clients (companies belonging to international capital groups through capital or personal connections);
- Polish corporations (or group of Polish related entities) with annual sales revenue between PLN 40 million and PLN 600 million (or between PLN 60 million and PLN 600 million in the case of business entities conducting agricultural activity) or with credit exposure greater or equal to PLN 12 million (or PLN 25 million for corporations operating in agriculture);
- large Polish corporations (with annual turnover over PLN 600 million, or listed on the stock exchange with potential in the area of investment banking services);
- public sector entities as well as financial and insurance institutions and international non-profit organizations.

Distribution network for Corporate Banking includes 9 Regional Corporate Banking Centres located in Warsaw (two), Łódź, Gdańsk, Poznań, Wrocław, Katowice, Kraków and Lublin. As part of the Regional Corporate Banking Centers, there are 25 Corporate Banking Centers located in the largest business centers in Poland, ensuring a wide geographical and sector coverage. After-sales service for the clients of the Corporate Banking segment is also carried out by the Telephone Business Service Center and in the online banking system.

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

The Corporate and Institutional Banking (CIB) Segment supports sales of products of the Group, dedicated to the largest Polish enterprises including services provided to key clients.

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

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

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

	Retail and Business Banking	SME Banking	Corporate Banking	CIB	Other Operations	Total	including Agro customers	including Personal Finance
Statement of profit or loss as at 30.06.2020*								
Net interest income	883,049	139,784	284,318	17,988	248,633	1,573,773	218,904	309,077
external interest income	988,299	152,951	318,085	35,898	451,633	1,946,868	313,885	448,889
external interest expenses	(174,284)	(20,149)	(49,623)	(53)	(128,987)	(373,095)	(19,235)	(21,301)
internal interest income	471,311	80,300	169,444	(126)	(720,929)	-	61,581	-
internal interest expenses	(402,277)	(73,318)	(153,589)	(17,731)	646,916	-	(137,327)	(118,512)
Net fee and commission income	213,972	50,744	128,711	22,418	(8,785)	407,059	72,658	54,008
Dividend income	-	-	2,439	-	-	2,439	-	(316)
Net trading income	45,714	37,478	112,391	90,011	91,211	376,805	22,334	261
Result on investment activities	3,727	592	1,143	-	12,407	17,870	720	2,681
Result on hedge accounting	-	-	-	-	(9,697)	(9,697)	-	-
Other operating income and expenses	(27,452)	(1,848)	(4,593)	525	37,452	4,083	(3,773)	(1,198)
Net impairment losses on financial assets and contingent liabilities	(337,476)	(28,447)	(30,816)	(736)	(758)	(398,233)	(37,186)	(153,883)
Total operating expenses	(603,676)	(78,481)	(147,742)	(33,888)	(266,639)	(1,130,427)	(10,570)	(153,191)
Depreciation and amortization	(47,901)	(1,653)	(8,523)	(2,357)	(119,118)	(179,552)	(237)	(6,738)
Expense allocation (internal)	(236,533)	(74,145)	(60,700)	(3,982)	375,360	-	-	(48,787)
Operating result	(106,576)	44,024	276,628	89,979	360,066	664,120	262,850	1,915
Tax on financial institutions	(77,995)	(17,002)	(45,582)	(3,442)	(6,803)	(150,823)	-	(21,171)
Profit before income tax	(184,571)	27,022	231,046	86,537	353,263	513,297	262,850	(21,256)
Income tax expense						(179,170)		
Net profit for the period						334,127		
Statement of financial position as at 30.06.2020*								
Segment assets	44,097,230	7,340,950	22,911,074	2,187,732	42,170,163	118,707,148	14,924,791	10,236,298
Segment liabilities	55,606,368	12,855,694	28,625,934	-	10,058,552	107,146,548	9,250,227	-

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

	Retail and Business Banking	SME Banking	Corporate Banking	CIB	Other Operations	Total	including Agro customers	including Personal Finance
Statement of profit or loss as at 30.06.2019*								
Net interest income	885,675	153,201	292,555	17,312	216,395	1,565,139	219,870	338,799
external interest income	1,023,680	193,461	383,369	27,558	466,528	2,094,596	353,736	495,189
external interest expenses	(266,790)	(37,137)	(79,197)	(3,969)	(142,365)	(529,457)	(31,520)	(26,756)
internal interest income	548,397	95,365	192,320	7,637	(843,719)	-	74,316	-
internal interest expenses	(419,612)	(98,488)	(203,937)	(13,914)	735,951	-	(176,662)	(129,635)
Net fee and commission income	203,021	63,918	124,340	14,597	1,210	407,087	74,476	54,696
Dividend income	-	-	-	-	1,556	1,556	-	8,192
Net trading income	42,967	29,692	102,816	80,969	69,588	326,032	22,101	654
Result on investment activities	8	-	234	-	(20,240)	(19,998)	-	-
Result on hedge accounting	-	-	-	-	(1,083)	(1,083)	-	-
Other operating income and expenses	2,436	(2,331)	(394)	534	42,983	43,228	(3,197)	(6,704)
Net impairment losses on financial assets and contingent liabilities	(132,251)	(48,759)	(35,207)	10,509	174	(205,534)	(70,707)	(55,223)
Total operating expenses	(592,982)	(81,407)	(148,517)	(32,872)	(377,122)	(1,232,900)	(7,783)	(161,219)
Depreciation and amortization	(36,005)	(1,570)	(5,024)	(2,703)	(175,925)	(221,227)	(310)	(5,860)
Expense allocation (internal)	(267,178)	(69,331)	(35,951)	(1,088)	373,547	-	-	(52,759)
Operating result	105,691	43,415	294,851	87,259	131,084	662,300	234,450	120,577
Tax on financial institutions	(70,595)	(23,621)	(40,611)	(4,381)	(2,120)	(141,327)	-	(19,504)
Profit before income tax	35,096	19,794	254,241	82,878	128,964	520,973	234,451	101,074
Income tax expense	-	-	-	-	-	(142 312)	-	-
Net profit for the period	-	-	-	-	-	378,661	-	-
Statement of financial position as at 31.12.2019*								
Segment assets	40,123,368	8,741,944	23,057,600	1,774,768	36,256,463	109,954,142	16,202,431	11,791,620
Segment liabilities	50,751,268	10,594,643	24,650,077	1,109,955	11,688,816	98,794,760	8,447,870	-

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

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

As at 30 June 2020 the structure of the shareholders of BNP Paribas Bank Polska S.A., including those holding at least 5% of the total number of votes at the General Shareholders' Meeting was as follows:

Shareholder	Number of shares	Percentage interest in share capital	Number of votes at the general shareholders' meeting	Percentage share in the total number of votes at the general shareholders' meeting
BNP Paribas, total:	130,850,464	88.76%	130,850,464	88.76%
BNP Paribas directly	95,360,238	64.69%	95,360,238	64.69%
BNP Paribas Fortis SA/NV indirectly	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 the first half of 2020, there were no changes in the shareholding structure of the Bank.

As at 30 June 2020, 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 J series shares and 49,880,600 L series shares.

The Bank's shares are ordinary bearer and registered shares (as at 30 June 2019, 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.

Shareholding of BNP Paribas Bank Polska shares by members of the Bank's Supervisory Board and members of the Bank's Management Board

As at 30 June 2020 and at the date of publication of this interim report, i.e. 13 August 2020:

- Mr. Przemysław Gdański - President of the Management Board - owned 500 shares of BNP Paribas Bank Polska, which has not changed from the date of presenting the Interim consolidated report for the first quarter of 2020, i.e. 13 May 2020,
- other members of the Bank's Management Board and members of the Bank's Supervisory Board did not declare holding any shares of BNP Paribas Bank Polska S.A., and there was no change in this respect from the date of presenting the Interim consolidated report of the Bank for the first quarter of 2020, i.e. 13 May 2020.

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

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

47. DIVIDEND PAID

The Group did not pay any dividends for 2019.

48. DISTRIBUTION OF RETAINED EARNINGS

In accordance with the Resolution No. 6 of the Ordinary General Meeting of the Bank of 29 June 2020, the profit of the Bank after tax (net profit) for 2019 in the amount of PLN 628,696 thousand, was fully allocated to the reserve capital.

49. LITIGATION AND CLAIMS

Legal risk

As at 30 June 2019, there were no proceedings in the court, arbitration tribunal or state administration authorities regarding liabilities or receivables of the Bank, the value of which would exceed 10% of the Bank's equity.

Judgment on the method of calculating the interchange fee

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

The total fine levied on Bank BGŻ BNP Paribas (presently BNP Paribas Bank Polska) amounted to PLN 12,54 million and included: i) a fine for the practice of Bank Gospodarki Żywnościowej in the amount of PLN 9,65 million; and ii) a fine for the practice of Fortis Bank Polska S.A. (FBP) in the amount of PLN 2,89 million. The penalty was paid by the Bank on 19 October 2015. The Bank prepared a last resort appeal against the aforesaid court decision and brought it on 25 April 2016. On 25 October 2017, the Supreme Court overruled the judgment of the Court of Appeal and remitted the case. Acquisition of the core business of RBPL did not change the situation of the Bank as RBPL was not a party to this claim.

Corporate claims against the Bank (interchange fee)

As at 30 June 2020 the Bank received:

- 32 requests for settlement from companies (merchants), due to interchange fees paid in relation to the use of payment cards, (three from companies which submitted their requests twice and one from a company which submitted two requests for different payment methods). The total amount of these claims was PLN 1,028.02 million, including PLN 1,018.05 million where the Bank had joint responsibility with other banks.
- 4 requests for mediation before the PFSA. The requests were sent to the Bank by the same entrepreneurs who had previously submitted requests for a settlement attempt. The total value of claims arising from the above applications amounts to PLN 40.29 million, of which PLN 37.79 million relates to joint liability with other banks.

Judgment of the Court of Justice of the European Union in case C-260/18.

On October 3, 2019, the Court of Justice of the European Union (CJEU) issued a ruling in which it stated that 1) unfair contractual terms regarding exchange differences cannot be replaced by general provisions of Polish civil law; 2) if, after removing unfair terms, the nature and main subject of these contracts may change to the extent that they would no longer be indexed to a foreign currency while being subject to an interest rate based on the rate applicable to that currency, European Union law shall not prevent annulling these contracts. However, the Court of Justice did not examine the issue of abusiveness of index clauses and allowed the national court to supplement gaps in the contract caused by the removal of a provision found abusive by a provision of domestic law of a dispositional nature. It should be emphasized that the CJEU judgment concerns indexed loans, while the Bank's portfolio does not contain such loans. The Bank and its legal predecessors only concluded denominated loan agreements and currency contracts. Therefore, the judgment of the CJEU does not automatically apply to disputes brought by the Bank's clients, but it cannot be ruled out that it will affect the jurisprudence line also regarding other loans, as a consequence of which a full assessment of the effects of the CJEU judgment will be possible only after the jurisprudence of Polish courts has developed. Changing the case-law may have a potentially negative impact on the Bank, but the scale, due to many unknowns, is currently not possible to estimate reliably.

Proceedings initiated by the Bank's customers who concluded currency loan agreements and agreements denominated in CHF

As at 30 June 2020, the Bank was a defendant in 363 court cases (120 new cases in the second quarter of 2020) including legally binding cases, clients brought a total of 382 actions against the Bank in which the Bank's clients demanded the annulment of mortgage loan agreements regarding foreign currency loans denominated in CHF, by determining that the Bank granted a loan in PLN without denomination to foreign currency, or settlement of the loan due to the invalidity of the loan agreement, discontinuation of enforcement of the decision, as well as repayment of the spread. The Bank is not a party to any collective claim regarding these loans. The total value of claims pursued in the above cases as at 30 June 2020 amounts to PLN 120.02 million and for legally binding proceedings: PLN 30.83 million.

In 17 legally binding cases: 10 claims against the Bank have been dismissed; in 2 cases the proceedings were discontinued; in 1 case the court rejected the claim; in 3 case, despite the dismissal of the claim, the court's justification annulled the contract, in 1 case only the claim for an insured low contribution was awarded (in the remaining scope the court dismissed the claim).

The Bank continually creates provisions for pending court proceedings related to denominated or foreign currency loans, taking into account the current state of legally binding judgments in cases against the Bank and the emerging line of case law. In the first half of 2020, the Bank decided to create a reserve in the amount of PLN 26.57 million for the risk related to the CHF loan portfolio. The total value of provisions for proceedings related to CHF loans as at 30 June 2020 was PLN 58.68 million. The provision for pending cases is calculated on an individual basis, for future cases using the portfolio method. With the portfolio method, the Bank estimates the number of future lawsuits based on the number of certificates downloaded from the Bank by clients for trial purposes as well as the observed changes in new proceedings.

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

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

Parameter	Scenario	Impact on the Bank's loss due to legal risk
Number of claims	+20%	+4,7 million PLN
	-20%	-4,7 million PLN

Additionally, if 1% of customers with CHF loans filed a lawsuit against the Bank, the loss due to legal risk would increase by approx. PLN 9 million.

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

Parameter	Scenario	Impact on the Bank's loss due to legal risk
Percentage of lost cases	+5 p.p.	+10 million PLN
	-5 p.p.	-10 million PLN

The Bank reestimated also the amount of provisions for legal risk due to the appreciation of the CHF against PLN. As a result of the reestimation the amount of the provision increased by approximately PLN 3 million compared to the amount at 31 December 2019.

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

50. RISK MANAGEMENT

The most important changes in the approach to credit risk management, basic measures of market risk, liquidity risk, country and counterparty risk as well as changes in the approach to operational risk management introduced as at the end of June 2020 are described below.

CREDIT RISK

Credit risk is inherent in the core financial operations of the Bank, the scope of which includes both lending and providing funding with the use of capital market products. Consequently, credit risk is identified as the risk with the highest potential to affect the present and future profits and equity of BNP Paribas Bank Polska S.A. The materiality of credit risk is confirmed by 65% share in the total economic capital estimated by the Bank for purposes of covering major risks involved in the Bank's operations, in addition to its 89% share in the total value of regulatory capital.

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

Credit risk management principles adopted by the Bank include:

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

Forbearance practices

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

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

- a change to the repayment schedule, especially extending the loan maturity date,
- cancellation of overdue amounts (e.g. capitalization of an overdue amount, which can be repaid at a later date),
- redemption of principal, interest or fees,
- consolidation of loans into one new product, if the amounts of payments of the consolidated loan are lower than the sum of payments of these loans separately before the consolidation occurred,
- decrease of the base interest rate or margin,
- originating a new loan to repay the existing debt,
- amendment or withdrawal from essential contractual provisions (e.g. a contract term that has been breached as a result of financial difficulties).

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

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

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

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

where:

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

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

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

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

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

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

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

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

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

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

The Bank is currently focusing on the use of available assistance programs for clients, on an ongoing basis examining clients' applications in this respect.

	30.06.2020			
Loans and advances to customers subject to a moratorium	Gross balance sheet value	Allowance	Net balance sheet value	Number
Loans and advances for:				
Non-bank financial institutions	45	(4)	41	1
Retail customers	3,358,951	(100,619)	3,258,331	33,112
Corporate clients:	3,094,256	(82,559)	3,011,697	6,233
including retail farmers:	367,998	(14,610)	353,388	1,016
Public sector institutions:	246	(5)	241	1
Leasing receivables	334,849	(5,242)	329,607	200
Loans and advances to customers subject to the moratorium together	6,788,347	(188,429)	6,599,917	39,547

	30.06.2020			
Loans and advances to customers covered by public guarantee programs	Gross balance sheet value	Allowance	Net balance sheet value	Number
Loans and advances for:				
Non-bank financial institutions	-	-	-	-
Retail customers	-	-	-	-
Corporate clients:	157,047	(885)	156,162	423
including retail farmers:	-	-	-	-
Public sector institutions:	-	-	-	-
Leasing receivables	-	-	-	-
Total loans and advances to customers covered by public guarantee programs	157,047	(885)	156,162	423

The situation related to the COVID-19 pandemic did not change the principles of recognition of a significant increase in risk by the Bank. In particular, exceeding the 30-day delay is still considered as a significant risk increase, the recognition of which results in the calculation of write-downs over the lifetime horizon of credit exposition.

The postponement of repayment of principal and interest or just principal instalments proposed to customers over a period of three or six months is analysed by the Bank with respect to the application of paragraph 5.4.3 of IFRS 9 on recognition of the result on modifications to financial assets. The Bank estimated the result on modification of financial contracts as the difference between the modified cash flows discounted with the original effective interest rate and the current gross carrying amount. The result on modifications would be presented in the interest income, however, in the Bank's opinion, its amount is immaterial.

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 the 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 the first half of 2020, the limits specified in Article 395 of the EU Regulation No. 575/2013 were not exceeded. As at the end of the first half of 2020, 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 20%.

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
- exposure with a specific loan-to-value.

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 June 2020, similarly as at the end of June 2019, is characterised by concentration towards such industries as: Agriculture, Forestry, Hunting and Fishing; Production of Groceries, Beverages and Tobacco Products. As at June 2020, they accounted for 32% of the Bank's exposure towards institutional clients, while in previous year they constituted 35% of the Bank's exposure.

Sector	Exposure		Share of non-performing loans	
	2020-06-30	2019-06-30	2020-06-30	2019-06-30
Agriculture, Forestry, Hunting and Fishing; Production of Food, Beverages and Tobacco Products	13,961,065	14,954,992	8.9%	6.8%
Manufacture of motor vehicles, motorcycles, tires	923,127	647,115	0.5%	1.2%
Construction of civil engineering structures and specialized construction	1,999,551	1,097,374	18.3%	27.5%
Professional, scientific and technical activities; Business administration and support activities	3,252,089	2,512,734	4.9%	4.1%
Manufacture of chemicals and chemical products	563,039	633,122	0.4%	0.5%
Telecommunication; Postal and courier activities	1,088,828	659,363	0.1%	0.2%
Mining of coal, peat; Mining of crude oil and natural gas; Manufacture of gas fuels; Production of coke and refined petroleum products	158,786	205,109	0.1%	0.1%
Manufacture of machinery and equipment (except computers and electronic products)	1,879,080	2,120,579	9.2%	8.4%
Financial activities	509,808	526,869	4.1%	3.7%
Healthcare; Production of basic pharmaceutical substances and drugs	997,257	455,356	2.7%	3.3%
Hotels and restaurants; Activities related to culture, entertainment and recreation	335,879	364,456	24.7%	20.4%
Manufacture of furniture, household goods; Manufacture of clothing, textiles, leather	727,930	953,743	13.7%	9.6%
Activities relating to computer programming and consultancy; Information service activities; Manufacture of computers, electronic and optical products	330,861	316,295	4.9%	8.4%
Insurance activities	23,040	21,250	12.1%	9.8%
Extraction and production of other materials and ores	2,558,163	2,067,887	3.2%	3.6%
Publishing and printing activities; Activities related to media production	445,744	210,734	16.3%	25.1%
Education; Social assistance; Other service activities	181,617	114,244	12.6%	12.9%
Residential and non-residential construction; Real estate activities	5,333,153	5,323,068	3.5%	6.3%
Retail trade	2,877,891	3,121,548	5.3%	4.2%
Public administration and economic and social policy	109,197	64,244	0.0%	0.0%
Transport and warehouse management	1,437,629	1,339,221	8.9%	9.1%
Production and supply of electricity, gas, steam and hot water; Water supply; Sewage and waste management	566,575	392,882	3.3%	5.2%
Wholesale trade	3,855,884	4,448,298	9.1%	7.8%
Total	44,116,194	42,550,484	7.3%	6.9%

Country risk

As at 30 June 2020, foreign lending operations of the Bank represented 41% of the Bank's exposure towards countries, treasury transactions (including deposits and derivatives) accounted for 36%, while the remaining part, i.e. 23%, was related to international trade transactions (letters of credit and guarantees). Clients from France accounted for 43%, from Netherlands for 9%, Belgium and Czech Republic for 7% each, Switzerland and Luxembourg for 6% of the exposure. The remaining exposure was related to clients from Great Britain, Germany, Austria and Turkey.

COUNTERPARTY RISK

Counterparty risk is the credit risk concerning the counterparty transactions in case of which the amount of liability may change in time depending on market parameters.

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

In connection with the COVID-19 pandemic, the Bank is observing increased volatility in market risk parameters, which results in a fluctuation of counterparty risk exposure. The Bank assesses the counterparty risk on an on-going basis by reviewing the credit portfolio of customers with such risk more often.

The Bank maintains the application of its basic principle "Know your customer". Due to the unique situation, some customers were requested to provide additional information related to the change in business conditions in the context of the COVID-19 situation. In risk assessment, the Bank also takes into account the higher volatility of the abovementioned parameters concluding new transactions.

So far, the Bank has not observed any significant changes in the counterparty risk materialization.

INTEREST RATE RISK IN BANKING PORTFOLIO

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

The utilization of interest rate limits in the first half of 2020 was increasing due to the decrease in interest rates to the level close to zero. The decrease increased the asymmetry in the sensitivity of the Bank's interest income under various scenarios of changes in interest rates (increase in sensitivity in the event of a decrease and no significant change in the event of an increase in interest rates). Another effect of the decline in interest rates, compounded by the anti-crisis and financial shields, were significant shifts of balances between products, causing a change in the interest rate risk profile and the need to conclude new transactions in order to secure a new risk profile of interest rate in the banking book.

According to the Bank's estimates, published in the current report 20/2020 of June 2, 2020 a decrease in the reference interest rate from 1.5% to 0.1% will have a negative impact on the Bank's and the Group's net interest income for 2020 in the forecasted range from PLN 195 to PLN 230 million. The actual impact will depend on the yield curve and the ability to achieve business goals.

The outbreak of the COVID-19 epidemic did not fundamentally affect the method of managing the interest rate risk in the banking book.

MARKET RISK

The market risk exposure in the trading book measured by sensitivity to the movement of interest rate curves by 1 basis point and to currency risk in the second quarter of 2020 was reduced as a result of actions following the turbulences observed in the market caused by the crisis associated with COVID-19. On the other hand, the exposure measured with VaR increased compared to the previous quarter and amounted to 27% of the VaR limit on average. The increase was due to the fact that the shock values related to the interest rate cuts by the Monetary Policy Council were included in the historical series which are the basis for the calculation. The market risk mainly resulted from open interest rate position, with the average utilization of the VaR IR limit at 43%. In the case of currency risk, the risk was limited as compared to the previous quarter and its impact on the Bank's position decreased. Additionally, the Bank maintained a small open position in currency options

As a result of closing the position following the observed market turbulence, there were no further excesses and no losses, as it was in the previous quarter.

LIQUIDITY RISK

In the period between January and June 2020, the Group maintained the supervisory liquidity measures for the short and long term above regulatory limits and internal limits. LCR increased from 130-140% to over 180% at the end of June 2020. Such a large change of the LCR level resulted mainly from the reduction in the amount of the required minimum reserve maintained on the NBP account from the level of 3.5% of the liabilities required for maintenance of the required minimum reserve up to 0.5% from 30 April 2020.

The main sources of financing are liabilities to customers and equity. The medium and long-term credit lines received, including subordinated loans were less significant source of financing and come mainly from the BNP Paribas group.

After the outbreak of the COVID-19 epidemic, the Bank improves its liquidity situation. In the first half of 2020, especially in the second quarter, the increase in deposits was higher than the increase in loans by PLN 7,28 billion. The main source of financing remains funds obtained from non-banking customers and the balance of these funds is increasing, in largely on the accounts of small and medium-sized enterprises that benefit from government assistance under the anti-crisis shield.

OPERATIONAL RISK

The Bank's operational risk is defined in accordance with the requirements of the Polish Financial Supervision Authority specified in Recommendation M of the PFSA as the possibility of incurring a loss or an unreasonable cost through the fault of inappropriate or unreliable internal processes, people, technical systems or as a result of external factors. It comprises legal but not strategic risk. Operational risk as such is inherent in any banking operations.

Operational risk is managed with a view to reducing the losses and costs resulting from the aforesaid risk, ensuring top quality of the services provided by the Group in addition to security and compliance of the Group operations with the applicable laws and standards.

Procedures

Operational risk management consists in employment of measures aimed at operational risk identification, analysis, monitoring, control, reporting and mitigating. Such measures take into account the structures, processes, resources and scopes of responsibilities for the said processes at various organizational levels. The operational risk management strategy has been described in the Operational Risk Management Strategy of BNP Paribas Bank Polska S.A., which was approved by the Management Board of the Bank and accepted by the Supervisory Board. The Operational Risk Policy of BNP Paribas Bank Polska S.A., adopted by the Management Board of the Bank, constitutes organizational framework and standards for operational risk management. It addresses all aspects of the Bank's operations in addition to defining the Bank's objectives and the methods of their achievement as regards

the quality of operational risk management as well as compliance with legal requirements set out in the recommendations and resolutions issued by national financial supervision authorities. The Bank's operational risk management objectives include, in particular, compliance with high operational risk management that guarantee security of customer deposits, the Bank's equity, stability of its financial performance as well as maintenance of the operational risk level within the range of the operational risk appetite and tolerance defined by the Bank. When developing the operational risk management system, the Bank complies with the applicable legal requirements, in particular, with the recommendations and resolutions of the national financial supervision authorities and the standards adopted by the BNP Paribas Group.

In accordance with the Policy, the Bank's operational risk management instruments include:

- tools used for purposes of recording operational events, together with the principles of their recording, allocation and reporting;
- operational risk analysis, its monitoring and daily control;
- counteracting an elevated level of operational risk, to include risk transfer;
- calculation of the capital requirement related to the operational risk.

Compliance with the operational risk policy is verified by the Bank's Management Board periodically and, if necessary, the required adjustments are made in order to improve the system. To this end, the Management Board of the Bank is regularly provided with information concerning the scale and types of operational risk to which the Bank is exposed, its effects and management methods.

Internal environment

The Bank precisely defines the roles and responsibilities in the operational risk management process, considering its organizational structure. The Operational Risk Department is responsible for daily operational risk analysis in addition to development of appropriate risk control and mitigation techniques and their improvement. Development and implementation of the Bank's strategy with respect to insurance as a risk mitigation technique is the responsibility of the Real Estate and Administration Department, while the Security and Business Continuity Management Department is in charge of business continuity management.

As part of the legal risk management process, the Legal Division monitors, identifies and performs analyses of changes to laws of general application and their effect on the Group's operations, in addition to court and administrative proceedings which affect the Group. The Compliance Monitoring Department is responsible for daily non-compliance risk analysis in addition to development of appropriate risk controls and their improvement.

Considering the elevated level of external and internal risks related to fraud and offense against the assets of the Bank and its customers, the Bank has extended the scope of and improved its processes aimed at counteracting, detecting and examining such cases, which is entrusted with the Fraud Prevention Department.

Risk management

The Bank places a strong focus on identification and assessment of the factors that trigger its present exposure to operational risk in relation to banking products. It is the Bank's objective to reduce the operational risk level through improvement of its internal processes as well as mitigating the risk inherent in the process of launching new products and services and outsourcing operations to third parties.

In accordance with the Operational Risk Management Policy of BNP Paribas Bank Polska S.A., the operational risk analysis is aimed at acquiring an understanding of the interdependence between the risk generating factors and operational event types, and it is performed primarily with the objective to define the operational risk profile.

The operational risk profile is an assessment of the level of significance of this risk, understood as the scale and structure of operational risk exposures, determining the exposure levels to this risk (i.e. operational losses), expressed in the structural dimensions selected by the Bank and the scale dimensions. Periodic assessment and review of the Bank's operational risk profile is based on an analysis of the Bank's current risk parameters, changes and risks occurring in the Bank's environment, implementation of the business strategy, as well as the adequacy of the organizational structure and the effectiveness of the risk management and internal control system.

Keeping a track record of operational events enables efficient operational risk analysis and monitoring. The process of operational event recording is overseen by the Operational Risk Department, which assumes responsibility for verification of the quality and completeness of data concerning operational events recorded in dedicated tool available to all organizational units of the Bank.

Internal control system

The purpose of internal control is effective risk control, including risk prevention or early detection. The role of the internal control system is to achieve general and specific objectives of the internal control system, which should be considered at the design stage of control mechanisms. The principles of the internal control system are described in the "Policy on internal control at BNP Paribas Bank Polska S.A." document, approved by the Bank's Management Board. This document describes the main principles, organizational framework and standards for the functioning of the control environment at the Bank, complying with the PFSA requirements provided in Recommendation H and the Regulation of the Minister of Development and Finance of 6 March 2017 on

the risk management system and the internal control system, the remuneration policy and the detailed method of estimating internal capital in banks. Detailed internal regulations concerning specific areas of the Bank's activity are adapted to the specifics of the Bank's operations. The appropriate organizational units of the Bank, in accordance with the scope of the tasks assigned to them, are responsible for developing detailed regulations relating to the area of internal control.

The internal control system at the Bank is based on the 3 defense lines model, which consists of:

- 1st defense line, which consists of organizational units from particular areas of banking and support areas,
- 2nd defense line, which consists of organizational units responsible for risk management, regardless of the risk management related to the first line defense, and the compliance unit,
- 3rd defense line, which is independent and objective internal audit unit.

The Bank ensures internal control through independent monitoring of compliance with control mechanisms, including on-going verification and testing.

Monitoring and reporting

The Bank periodically monitors the efficiency of the operational risk management system and its appropriateness for its current risk profile. The organization of the operational risk management system is reviewed as part of periodic control exercised by the Internal Audit Division, which is not directly involved in the operational risk management process but provides professional and unbiased opinions supporting achievement of the Bank's objectives. The operational risk management system is overseen, and its appropriateness and efficiency are assessed by the Supervisory Board.

Capital requirements due to operational risk

The Bank estimates its regulatory capital necessary to cover operational risk in accordance with the applicable regulations. The said calculation is performed using the standard approach (STA). Requirements regarding Bank's subsidiaries, to be disclosed in the consolidated financial statements, are determined in accordance with the base indicator method (BIA).

Subsidiaries

In accordance with supervisory regulations, the Group supervises operational risk related to the operations of its subsidiaries. Operational risk management in subsidiaries is performed in dedicated units / persons appointed for this purpose. The method of operational risk management in subsidiaries is organized adequately to the scope of the particular entity's activity and the profile of its operations, in accordance with the rules applied in the Group.

As part of operational risk management, the Bank conducts activities in the area of ongoing risk analysis related to the pandemic of the COVID-19 virus, and undertakes appropriate measures to ensure the safety of employees and clients of the Bank and to ensure uninterrupted implementation of processes related to the conducted business activities..

CAPITAL ADEQUACY

Capital adequacy management is aimed to ensure the Group's compliance with macro-prudential regulations defining capital requirements related to the risks incurred by the Bank, quantified in the form of the capital ratio.

Since 1 January 2014, banks have been subject to new principles applicable to calculation of capital ratios, following the implementation of Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on macro-prudential requirements for credit institutions and investment firms and amending Regulation No. 648/2012.

The capital ratios, capital requirements and equity have been calculated in accordance with the aforesaid Regulation with the use of national options.

On 8 August 2018, the Bank received a letter from the Polish Financial Supervision Authority with the information that the Commission conducted a review of the adequacy of the buffer ratio for another systemically important institution. As a result of the review, the Commission concluded that there are no reasons justifying the repeal or amendment of its previous decision of 4 October 2016, as amended by the Commission decision of 19 December 2017, concerning imposition of a buffer for another systemically important institution on the Bank (on a consolidated and separate basis) in the amount of 0.25% of the total risk exposure amount.

On July 9, 2019, the Bank received a letter from the Polish Financial Supervision Authority stating the expiry of the PFSA's decision of 15 October 2018, on the basis of which PFSA recommended that the Bank should maintain its own funds to cover the additional capital requirement in order to hedge the risk arising from mortgage-secured foreign currency loans and loans to households at the level of 0.36 p.p. over the value of the total capital ratio, 0.27 p.p. over the value of Tier 1 capital ratio and 0.20 p.p. over the value of Common Equity Tier 1 capital ratio referred to in article 92 paragraph 1 of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms ("Regulation No 575/2013").

On 19 March 2020, the Regulation of the Minister of Finance (Journal of Laws of 2020, item 473) of 18 March 2020 repealing the regulation on the systemic risk buffer came into force. The regulation repealed the Regulation of the Minister of Development and

Finance of 1 September 2017 regarding the systemic risk buffer (Journal of Laws of 2017, item 1776), which pursuant to art. 1 paragraph 1 introduced the systemic risk buffer rate of 3% of the total risk exposure calculated in accordance with art. 92 paragraph 3 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on macro-prudential requirements for credit institutions and investment firms and amending Regulation No. 648/2012. (Official Journal of the EU L 176 of 27 June 2013, p. 1, as amended 2)), on a separate and consolidated basis.

On 27 June 2020, Regulation (EU) 2020/873 of the European Parliament and of the Council of 24 June 2020, amending Regulations (EU) No 272/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic entered into force.

The level of Tier I capital ratio (Tier I), both on separate and consolidated levels, and the total capital ratio (TCR) on a consolidated level, were above the requirements for the Bank in the first half of financial year 2020.

At the same time, the Bank meets the legal requirements under the Act of 5 August 2015 on macro-prudential supervision of the financial system and crisis management in the financial sector.

30.06.2020	The minimum consolidated capital adequacy ratios of the Group	The consolidated capital adequacy ratios of the Group
CET I	7.25%	12.90%
Tier I	8.75%	12.90%
Total Capital Ratio	10.75%	15.21%

30.06.2019		
CET I	10.45%	12.78%
Tier I	12.02%	12.78%
Total Capital Ratio	14.11%	15.03%

30.06.2020	The minimum separate capital adequacy ratios of the Bank	The separate capital adequacy ratios of the Bank
CET I	7.25%	13.49%
Tier I	8.75%	13.49%
Total Capital Ratio	10.75%	15.89%

30.06.2019		
CET I	10.45%	13.32%
Tier I	12.02%	13.32%
Total Capital Ratio	14.11%	15.65%

As at 30 June 2020 the levels of Tier I both on separate and consolidated levels exceeded the regulatory requirements.

On 16 March 2020 the Bank received an announcement from the Bank Guarantee Fund ("BFG") regarding the joint decision of the resolution authorities, i.e. the Single Resolution Board ("SRB"), Central Bank of Hungary, Finanstilsynet, Bank of England and BFG, on the minimum level of own funds and eligible liabilities ("MREL"). The decision is based on the Single Point of Entry (SPE) strategy applied to the BNP Paribas Group.

The MREL requirement for the Bank was set at the sub-consolidated level at 16.001% of the total liabilities and own funds (TLOF), which corresponds to 20.866% of total risk exposure amount (TRE). This requirement should be met by 31 December 2022. Additionally, the BFG set mid-term MREL goals at the sub-consolidated level, which: - in relation to TLOF are: 12.363% at the end of 2020 and 14.182% at the end of 2021, and - in relation to TRE are: 16.122% at the end of 2020 and 18.494% at the end of 2021.

The MREL requirement was determined based on consolidated balance sheet data as at 31 December 2018 and the value of required buffers as at 1 January 2019 and additional capital requirement of the PFSA as at 9 July 2019 (on 9 July 2019, the Bank was released from the obligation to maintain this requirement).

According to the BFG statement of 26 March 2020, as a consequence of the abolition of the systemic risk buffer, the MREL requirements will be significantly reduced and the target deadline will be extended to 1 January 2024 (instead of 1 January 2023), as well as the deadline of the first binding mid-term goal until 1 January 2022 (instead of 1 January 2021). The Bank informs that the binding decisions regarding MREL requirements for the Bank are issued at the SRB level in consultation with BFG and as at the date of publication of this Report, they have not changed.

The bank intends to meet the defined MREL requirements at the end of 2020.

51. MANAGEMENT OF BNP PARIBAS BANK POLSKA S.A.

Composition of the Bank's Supervisory Board as at 30 June 2020:

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

Changes in the composition of the Supervisory Board in the period from 1 January to 30 June 2020:

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

Composition of the Bank's Management Board as at 30 June 2020:

FULL NAME	OFFICE HELD IN THE MANAGEMENT BOARD OF THE BANK
Przemysław Gdański	President of the Management Board
Jean-Charles Aranda	Vice-President of the Management Board
André Boulanger	Vice-President of the Management Board
Przemysław Furlepa	Vice-President of the Management Board
Wojciech Kemblowski	Vice-President of the Management Board
Kazimierz Łabno	Vice-President of the Management Board
Jaromir Pelczarski	Vice-President of the Management Board
Volodymyr Radin	Vice-President of the Management Board
Jerzy Śledziwski	Vice-President of the Management Board

52. MAJOR EVENTS IN BNP PARIBAS BANK POLSKA S.A. IN THE FIRST HALF OF 2020

31.01.2020	Extraordinary General Shareholders Meeting <ul style="list-style-type: none">• Adoption of a resolution on the introduction of an incentive program for persons having a material impact on the Bank's risk profile.• Adoption of a resolution authorizing the Management Board to purchase by the Bank its own shares and to create a reserve capital intended entirely for the purchase of own shares.• Adoption of a resolution on the issue of subscription warrants, a conditional increase in the share capital by issuing M series shares, depriving existing shareholders of the pre-emptive right to subscription warrants and pre-emptive rights to M series shares, amendments to the Statute and dematerialization and applying for admission of M series shares to trading on the regulated market.• Adoption of a resolution on the adoption of the uniform text of the Statute of BNP Paribas Bank Polska S.A.
6.02.2020	PFSA approval of the inclusion of net profit for the third quarter of 2019 in the Common Equity Tier 1 capital - unitary in the amount of PLN 114,075,064.24 and consolidated (prudential consolidation) in the amount of PLN 110,903,651.00
16.03.2020	Minimum requirement for own funds and eligible liabilities (MREL) set for BNP Paribas Bank Polska S.A. <p>MREL requirement for the Bank was set at the sub-consolidated level at 16.001% of the total liabilities and own funds (TLOF), which corresponds to 20.866% of total risk exposure amount (TRE). This requirement should be met by 31 December 2022.</p> <p>Additionally, the BFG set mid-term MREL goals at the sub-consolidated level, which:</p> <ul style="list-style-type: none">- in relation to TLOF are: 12.363% at the end of 2020 and 14.182% at the end of 2021, and- in relation to TRE are: 16.122% at the end of 2020 and 18.494% at the end of 2021. <p>The MREL requirement was determined based on consolidated balance sheet data as at 31 December 2018 and the value of required buffers as at 1 January 2019 and additional capital requirement of the PFSA as at 9 July 2019 (on 9 July 2019, the Bank was released from the obligation to maintain this requirement). According to the BFG statement of 26 March 2020, as a consequence of the abolition of the systemic risk buffer, the MREL requirements will be significantly reduced and the target deadline will be extended to 1 January 2024 (instead of 1 January 2023), as well as the deadline of the first binding mid-term goal until 1 January 2022 (instead of 1 January 2021). Until the date of publication of this Report, the Bank has not received information on updated individual MREL requirements.</p>
14.04.2020	Determination by the Bank Guarantee Fund for BNP Paribas Bank Polska S.A. the amount of the annual contribution to the bank restructuring fund for 2020 (PLN 125.96 million)
5.05.2020	PFSA approval of the inclusion of net profit for the fourth quarter of 2019 in the Common Equity Tier 1 capital - unitary in the amount of PLN 107,290,717.58 and consolidated (prudential consolidation) in the amount of PLN 113,242,422.00.
5.05.2020	Confirmation of the Bank's ratings and change of the rating outlook to stable by Moody's Investors Service
13.05.2020	Entry into the National Court Register of amendments to the Articles of Association of BNP Paribas Bank Polska S.A. adopted by the Extraordinary General Meeting of the Bank on 15 November 2019.
14.05.2020	Entry into the National Court Register of amendments to the Articles of Association of BNP Paribas Bank Polska S.A. adopted by the Extraordinary General Meeting of the Bank on 31 January 2020.
29.06.2020	Ordinary General Meeting of BNP Paribas Bank Polska S.A. <ul style="list-style-type: none">• Consideration and approval, i.a.:<ul style="list-style-type: none">- Financial statements for 2019 and the Management Board's Report on activities in 2019.- Reports on non-financial information of the Bank and the Bank's Capital Group in 2019.- Reports on the activities of the Bank's Supervisory Board and its committees in 2019• Adoption of a resolution on the distribution of the Bank's profit for the financial year 2019.• Adoption of resolutions on acknowledging the fulfilment of their duties by members of the Bank's Management Board and Supervisory Board in 2019.

Any changes in the composition of the Bank's Management Board and the Bank's Supervisory Board that took place in the first half of 2020 are described in Chapter 50. Management of BNP Paribas Bank Polska S.A. of this Report.

53. SUBSEQUENT EVENTS

The Group has not identified any significant subsequent events after the balance sheet date.

II INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

Interim condensed separate statement of profit or loss

	2Q 2020 from 01.04.2020 to 30.06.2020	HY 2020 from 01.01.2020 to 30.06.2020	2Q 2019 from 01.04.2019 to 30.06.2019	HY 2019 from 01.01.2019 to 30.06.2019
Interest income	884,801	1,873,620	1,027,612	2,033,493
Interest income calculated with the use of effective interest rate method	836,104	1,769,078	970,535	1,920,449
interest income on financial instruments measured at amortised cost	788,706	1,672,118	918,079	1,803,425
interest income on financial instruments measured at fair value through other comprehensive income	47,398	96,960	52,456	117,024
Income of a similar nature to interest on instruments measured at fair value through profit or loss	48,697	104,542	57,077	113,044
Interest expense	(136,827)	(329,540)	(244,700)	(491,764)
Net interest income	747,975	1,544,080	782,912	1,541,729
Fee and commission income	240,872	492,157	243,886	489,136
Fee and commission expense	(49,543)	(104,089)	(50,136)	(96,770)
Net fee and commission income	191,329	388,068	193,750	392,366
Dividend income	460	15,469	21,329	21,537
Net trading income	189,727	376,552	157,722	325,278
Result on investment activities	35,957	8,339	(12,363)	(20,001)
Result on fair value hedge accounting	(869)	(9,697)	(3,009)	(1,083)
Net impairment losses on financial assets and contingent liabilities	(197,136)	(393,933)	(98,174)	(184,556)
General administrative expenses	(459,919)	(1,088,408)	(575,995)	(1,194,607)
Depreciation and amortization	(89,549)	(178,668)	(115,358)	(220,393)
Other operating income	44,305	186,236	68,653	102,811
Other operating expenses	(68,097)	(190,299)	(36,489)	(70,348)
Operating result	394,183	657,739	382,978	692,733
Tax on financial institutions	(80,182)	(150,823)	(70,982)	(141,327)
Profit before tax	314,001	506,916	311,996	551,406
Income tax expenses	(102,322)	(177,117)	(68,024)	(144,075)
Net profit	211,679	329,799	243,972	407,331
attributable to equity holders of the Group	211,679	329,799	243,972	407,331
Earnings (loss) per share (in PLN per one share)				
Basic	1.44	2.24	1.66	2.76
Diluted	1.43	2.23	1.66	2.76

Interim condensed separate statement on comprehensive income

	2Q 2020 from 01.04.2020 to 30.06.2020	HY 2020 from 01.01.2020 to 30.06.2020	2Q 2019 from 01.04.2019 to 30.06.2019	HY 2019 from 01.01.2019 to 30.06.2019
Net profit for the period	211,679	329,799	243,972	407,331
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss upon fulfilment of certain conditions	55,126	62,830	20,239	(15,751)
Measurement of financial assets through other comprehensive income	68,057	77,568	23,187	(19,446)
Deferred income tax	(12,931)	(14,738)	(2,948)	3,695
Items that will not be reclassified to profit or loss	(1,032)	(782)	424	312
Actuary valuation of employee benefits	(1,274)	(966)	523	386
Deferred income tax	243	184	(99)	(74)
Other comprehensive income (net)	54,094	62,048	20,663	(15,439)
Total comprehensive income	265,773	391,847	264,635	391,892
attributable to equity holders of the group	265,773	391,847	264,635	391,892

Interim condensed separate statement on financial position

ASSETS	30.06.2020	31.12.2019
Cash and balances at Central Bank	4,524,528	4,658,142
Amounts due from banks	1,699,353	526,595
Derivative financial instruments	1,322,060	800,886
Adjustment of hedging item fair value	563,865	228,120
Loans and advances to customers measured at amortised cost	71,013,331	68,651,562
Loans and advances to customers measured at fair value through profit or loss	1,714,418	1,974,396
Securities measured at amortised cost	19,905,356	17,916,645
Financial instruments measured at fair value through profit or loss	340,427	241,427
Securities measured at fair value through other comprehensive income	10,677,194	7,953,358
Investments in subsidiaries	144,483	152,512
Intangible assets	524,899	519,124
Property, plant and equipment	1,138,130	1,214,434
Deferred tax assets	772,771	844,049
Other assets	861,294	910,880
Total assets	115,202,109	106,592,130
LIABILITIES	30.06.2020	31.12.2019
Amounts due to banks	1,340,071	1,018,776
Derivative financial instruments	1,333,735	815,637
Adjustment of hedging and hedged item fair value	597,961	224,218
Amounts due to customers	95,514,743	88,445,327
Subordinated liabilities	1,962,317	1,882,064
Lease liabilities	637,034	601,157
Other liabilities	1,682,347	1,852,051
Current tax liabilities	31,192	38,061
Provisions	521,456	530,537
Total liabilities	103,620,856	95,407,828
EQUITY	30.06.2020	31.12.2019
Share capital	147,419	147,419
Supplementary capital	9,110,976	9,110,976
Other reserve capital	2,206,558	1,572,757
Revaluation reserve	187,287	125,240
Retained earnings	(70,987)	227,910
retained profit	(400,786)	(400,786)
net profit for the period	329,799	628,696
Total equity	11,581,253	11,184,302
Total liabilities and equity	115,202,109	106,592,130

Interim condensed separate statement of changes in equity

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings		Total
					Retained profit	Net profit for the period	
Balance as at 1 January 2020 (data approved)	147,419	9,110,976	1,572,757	125,240	(400,786)	628,696	11,184,302
Total comprehensive income for the period	-	-	-	62,048	-	329,799	391,847
Net profit for the period	-	-	-	-	-	329,799	329,799
Other comprehensive income for the period	-	-	-	62,048	-	-	62,048
Distribution of retained earnings	-	-	628,696	-	-	(628,696)	-
Distribution of retained earnings intended for capital	-	-	628,696	-	-	(628,696)	-
Managerial options*	-	-	5,104	-	-	-	5,104
Balance as at 30 June 2020	147,419	9,110,976	2,206,558	187,287	(400,786)	329,799	11,581,253

* the managerial option program is described in detail in Note 39

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings		Total
					Retained profit	Net profit for the period	
Balance as at 1 January 2019 (data approved)	147,419	9,111,033	1,208,018	141,139	(400,786)	364,739	10,571,562
Total comprehensive income for the period	-	-	-	(15,899)	-	628,696	612,797
Net profit for the period	-	-	-	-	-	628,696	628,696
Other comprehensive income for the period	-	-	-	(15,899)	-	-	(15,899)
Distribution of retained earnings	-	-	364,739	-	-	(364,739)	-
Distribution of retained earnings intended for capital	-	-	364,739	-	-	(364,739)	-
Share issue costs	-	(57)	-	-	-	-	(57)
Balance as at 31 December 2019	147,419	9,110,976	1,572,757	125,240	(400,786)	628,696	11,184,302

	Share capital	Supplementary capital	Other reserve capital	Revaluation reserve	Retained earnings		Total
					Retained profit	Net profit for the period	
Balance as at 1 January 2019 (data approved)	147,419	9,111,033	1,208,018	141,139	(400,786)	364,739	10,571,562
Total comprehensive income for the period	-	-	-	(15,439)	-	407,331	391,892
Net profit for the period	-	-	-	-	-	407,331	407,331
Other comprehensive income for the period	-	-	-	(15,439)	-	-	(15,439)
Distribution of retained earnings	-	-	364,739	-	-	(364,739)	-
Distribution of retained earnings intended for capital	-	-	364,739	-	-	(364,739)	-
Share issue	-	(57)	-	-	-	-	(57)
Share issue costs	-	(57)	-	-	-	-	(57)
Balance as at 30 June 2019	147,419	9,110,976	1,572,757	125,700	(400,786)	407,331	10,963,397

Interim condensed separate statement on cash flows

	HY 2020 from 01.01.2020 to 30.06.2020	HY 2019 from 01.01.2019 to 30.06.2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit (loss)	329 799	407,331
Adjustments for:	4 711 527	(2,739,873)
Income tax expenses	177 117	144,075
Depreciation and amortization	178 668	220,393
Dividend income	(15 469)	(21,537)
Interest income	(1 873 620)	(2,033,493)
Interest expense	329 540	491,764
Change in provisions	(10 048)	(24,881)
Change in amounts due from banks	(492 525)	109,559
Change in assets due to derivative financial instruments	(856 920)	(117,226)
Change in loans and advances to customers measured at amortised cost	(1 843 311)	486,688
Change in loans and advances to customers measured at fair value through profit or loss	259 978	233,766
Change in amounts due to banks	321 644	447,353
Change in liabilities related to derivative financial instruments	891 841	100,893
Change in amounts due to customers	7 075 701	(4,565,919)
Change in other assets and receivables due to current income tax	(42 740)	23,282
Change in other liabilities and provisions due to deferred tax	(168 636)	285,347
Other adjustments	(65 076)	4,133
Interest received	1 174 116	1,904,540
Interest paid	(332 274)	(437,203)
Lease payments with reference to short-term leases not included in the lease liability measurement	3 542	8,593
Net cash flows from operating activities	5 041 326	(2,332,542)
CASH FLOWS FROM INVESTING ACTIVITIES:		
	HY 2020 from 01.01.2020 to 30.06.2020	HY 2019 from 01.01.2019 to 30.06.2019
Investing activities inflows	9,468,251	8,325,936
Sale and maturity of financial assets	9,335,588	8,301,078
Sale of intangible assets and property, plant and equipment	117,194	3,321
Dividends received and other inflows from investing activities	15,469	21,537
Investing activities outflows	(13,902,062)	(6,604,567)
Purchase of shares in subsidiaries	(1,500)	-
Purchase of financial assets	(13,763,909)	(6,363,119)
Purchase of intangible assets and property, plant and equipment	(136,653)	(241,448)
Net cash flows from investing activities	(4,433,811)	1,721,369
CASH FLOWS FROM FINANCING ACTIVITIES:		
Financing activities inflows	-	-
Financing activities outflows	(61,889)	(254,226)
Repayment of long-term loans and advances received	-	(242,218)
Lease liability repayment	(61,889)	(12,008)
Net cash flows from financing activities	(61,889)	(254,226)
TOTAL NET CASH AND CASH EQUIVALENTS	545 626	(865,399)
Cash and cash equivalents at the beginning of the period	4 800 477	3,374,744
Cash and cash equivalents at the end of the period, including:	5 346 103	2,509,345
effect of exchange rate fluctuations on cash and cash equivalents	24 900	175

EXPLANATORY NOTES TO THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

1 ACCOUNTING PRINCIPLES APPLIED FOR THE PURPOSE OF PREPARATION OF THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS

The interim condensed separate financial statements for the first half ended 30 June 2020 were prepared in accordance with the requirements of International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"), as adopted by the European Union as well as in accordance with other applicable regulations.

The interim condensed separate financial statements do not include all information and disclosures required for the annual financial statements, and therefore should be read in conjunction with the Interim condensed consolidated financial statements for the first half of 2020 and with the Separate financial statements of the Bank BGŻ BNP Paribas S.A. for the year ended 31 December 2019, which was approved by the Management Board of the Bank on 2 March 2020.

The accounting principles and methods of performing accounting estimates adopted in the preparation of the interim condensed separate financial statements of the Bank are consistent with the accounting principles adopted for the Group's interim condensed consolidated financial statements, which are described in sections 3 and 7.

The following significant events regarding the Interim condensed separate financial statements for the first half of 2020 were described in the Interim condensed consolidated financial statements for the first half of 2020:

- Major events in the BNP Paribas Bank Polska S.A. Capital Group in the first half of 2020 in note 52,
- Significant event after the balance sheet date in Note 53.

2. RELATED PARTY TRANSACTIONS

BNP Paribas Bank Polska S.A. is a member of the BNP Paribas Bank Polska S.A. Capital Group

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

As at 30 June 2020 the Capital Group of BNP Paribas Bank Polska S.A. comprised BNP Paribas Bank Polska S.A. as the parent company and its subsidiaries:

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

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

Transactions with entities that are shareholders of BNP Paribas Bank Polska S.A. and related entities

30.06.2020	BNP Paribas Paris	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Subsidiaries	Total
Assets	1,687,258	1,742	927,958	17	10,977	2,627,952
Receivables on current accounts, loans and deposits	554,485	1,270	925,538	10	8,685	1,489,988
Derivative financial instruments	569,380	-	-	-	-	569,380
Hedging derivative instruments	563,394	472	-	-	-	563,865
Other assets	-	-	2,420	7	2,292	4,719
Liabilities	3,167,812	66,937	924,544	6,000	94,317	4,259,610
Loans received	-	-	-	-	-	-
Current accounts and deposits	556,840	66,937	655,087	6,000	94,014	1,378,878
Subordinated liabilities	1,693,723	-	268,594	-	-	1,962,317
Derivative financial instruments	855,630	-	-	-	-	855,630
Hedging derivative instruments	61,619	-	-	-	-	61,619
Other liabilities	-	-	863	-	303	1,166
Contingent liabilities						
Financial commitments granted	-	-	889,668	50	37,949	927,667
Guarantees granted	57,421	190,038	519,133	-	-	766,592
Commitments received	792,002	123,393	1,078,362	-	-	1,993,757
Derivative financial instruments (nominal value)	52,710,114	-	7,154	-	-	52,717,269
Derivative hedging financial instruments (nominal value)	11,870,676	13,398	-	-	-	11,884,074
Statement of profit or loss	167,643	303	(16,851)	(13)	(192)	150,890
6 months ended 30.06.2020						
Interest income	937	186	660	-	24	1,807
Interest expense	(17,354)	(65)	(3,000)	(14)	(144)	(20,577)
Fee and commission income	629	81	4,340	1	169	5,220
Fee and commission expense	-	-	(2,517)	-	(2,499)	(5,016)
Net trading income	193,103	101	11	-	-	193,215
Other operating income	-	-	-	-	7,371	7,371
General administrative expenses	(9,672)	-	(16,345)	-	(5,113)	(31,130)

31.12.2019	BNP Paribas Paris	BNP Paribas Fortis S.A.	Other entities from the capital group of BNP Paribas S.A.	Key personnel	Subsidiaries	Total
Assets	696,243	5,646	370,931	33	9,480	1,082,333
Receivables on current accounts, loans and deposits	120,910	4,650	270,198	3	8,513	404,274
Derivative financial instruments	351,629	100	11	-	-	351,740
Hedging derivative instruments	223,640	893	-	-	-	224,533
Other assets	64	3	100,722	30	967	101,786
Liabilities	2,322,616	10,846	1,023,066	5,738	130,404	3,492,670
Current accounts and deposits	291,720	10,846	752,601	5,733	128,198	1,189,098
Subordinated liabilities	1,630,349	-	256,066	-	-	1,886,415
Derivative financial instruments	375,204	-	-	-	-	375,204
Hedging derivative instruments	24,633	-	-	-	-	24,633
Other liabilities	710	-	14,399	5	2,206	17,320
Contingent liabilities						
Financial commitments granted	-	-	227,588	57	31,541	259,186
Guarantees granted	72,215	187,480	600,158	-	-	859,853
Commitments received	2,152,316	123,415	1,132,726	-	-	3,408,457
Derivative financial instruments (nominal value)	50,735,912	227,067	132,014	-	-	51,094,993
Derivative hedging financial instruments (nominal value)	7,340,164	12,776	-	-	-	7,352,940
Statement of profit or loss	(101,646)	(452)	(14,487)	(62)	(19,089)	(135,736)
12 months ended 31.12.2019						
Interest income	-	519	2,388	-	44	2,951
Interest expense	(40,879)	(290)	(8,225)	(63)	(439)	(49,896)
Fee and commission income	204	257	7,307	1	132	7,901
Fee and commission expense	(347)	-	(284)	-	(3,575)	(4,206)
Net trading income	(40,414)	(937)	(132)	-	-	(41,483)
Other operating income	-	(1)	(82)	-	(2,996)	(3,079)
General administrative expenses	(20,210)	-	(15,459)	-	(12,255)	(47,924)

Remuneration of the Management Board and Supervisory Board

Management Board	30.06.2020	30.06.2019
Short-term employee benefits	10,225	10,135
Long-term benefits	4,051	7,659
Share-based payments	3,114	1,660
Total	17,420	19,454
Supervisory Board	30.06.2020	30.06.2019
Short-term employee benefits	690	615
Total	690	615

3. SEASONAL OR CYCLICAL NATURE OF BUSINESS

There are no significant seasonal or cyclical phenomena in the Bank's operations.

4. DIVIDEND PAID

In 2019, no dividend was paid out in the Bank.

5. DISTRIBUTION OF RETAINED EARNINGS

In accordance with the Resolution No. 6 of the Ordinary General Meeting of the Bank of 29 June 2020, the profit of the Bank after tax (net profit) for 2019 in the amount of PLN 628,696 thousand, was fully allocated to the reserve capital.

6. CONTINGENT LIABILITIES

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

Contingent liabilities	30.06.2020	31.12.2019
Contingent commitments granted	33,503,756	31,087,503
financial commitments	26,424,611	24,293,205
guarantees	7,079,145	6,794,298
Contingent commitments received	20,201,335	21,443,112
financial commitments	12,648,013	12,127,379
guarantees	7,553,322	9,315,733

7. SUBSEQUENT EVENTS

Subsequent events are described in Note 53 of the Interim consolidated financial statements for the first half of 2020.

SIGNATURES OF MEMBERS OF THE MANAGEMENT BOARD OF BNP PARIBAS BANK POLSKA S.A.

14.08.2020	Przemysław Gdański <i>President of the Management Board</i>	<i>qualified electronic signature</i>
14.08.2020	Jean-Charles Aranda <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
14.08.2020	Andre Boulanger <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
14.08.2020	Przemysław Furlepa <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
14.08.2020	Wojciech Kemblowski <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
14.08.2020	Kazimierz Łabno <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
14.08.2020	Jaromir Pelczarski <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
14..08.2020	Volodymyr Radin <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
14.08.2020	Jerzy Śledziewski <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>

Warsaw, 14 August 2020